



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

Annual Report and Accounts 2018-2019



Noddir gan
Lywodraeth Cymru
Sponsored by
Welsh Government

Contents

Chair's foreword	3
Performance Report.....	4
Overview	4
Performance Summary	15
Accountability Report.....	42
Corporate Governance Report	42
Directors' Report	42
Statement of Accounting Officer's Responsibilities.....	48
Governance Statement	49
Remuneration and Staff Report (audited)	58
Parliamentary and Audit Report (audited)	69
Certificate and Independent Auditor's Report of the Auditor.....	70
General for Wales to the National Assembly for Wales	
Financial Statements.....	80
Annex 1 Corporate Environmental Report	119

Chair's foreword

Since joining NRW in November last year, I have been incredibly impressed by the expertise, commitment and passion shown by my colleagues – and equally by the sheer scale of the work that NRW does across Wales. It has been a difficult time for many with often quite unfair criticism of remarkable work that is done across all our responsibilities. So I would like to thank them all for everything they do.

We are in the middle of significant change designed to improve how we operate, work closer with communities and be more responsive to all our customers. The programme is going well, there is a lot more to do, but we have made considerable progress.

I want us to grow our impact and to fully realise our full potential – we need to be seen as a trusted and indispensable partner of choice in making a positive difference to the people and environment of Wales.

I'm not blind to the challenges, but neither do I want us to lose a sense of perspective. We are already making a significant contribution to the environment, economy and culture of Wales. But I believe that with stronger leadership, a clearer sense of direction and a resetting of relationships based on trust and openness with a whole range of partners and stakeholders, we can grow that contribution even more.

Sir David Henshaw
Interim Chair



Performance Report

Overview

Over the following pages our Chief Executive, Clare Pillman, offers her perspective of our performance this year and we outline the purpose of our organisation, our main roles and responsibilities, our changing legislative context as well as explaining how we have managed delivery of our objectives this year.



Chief Executive's statement

Following my first full twelve months as Chief Executive of NRW I am proud to present our latest Annual Report and Accounts. When I started as Chief Executive, I was hugely energised and stimulated by the opportunity before me, to lead an organisation with enormous potential at a time when the environment has never been so important. Since then I have learnt an incredible amount and I still feel very privileged to be doing a job that is so challenging, inspiring and rewarding.

We have had our share of challenges, all of which I take very seriously and don't shy away from. We are making good progress in improving overall

governance in the organisation and implementing the recommendations of the Grant Thornton review into timber sales. However, it will take some time to rid ourselves completely of what are deep-rooted and long-standing issues that in some cases pre-date NRW.

We are implementing new terms and conditions for our timber sales, have developed new internal processes and trained our staff and invested significant time in re-setting and improving our relationship with our timber customers. And we have developed a new structure for this area of the business, with new heads of commercial and land stewardship that



will strengthen the team and support our staff, creating a culture within which they can thrive.

NRW's remit is broad and deep and I do not want these issues to detract from some of the excellent work we do and the benefits we are delivering for the environment and people of Wales.

I've loved seeing the innovative work we've done on historic metal mine pollution, improving water quality and habitats for wildlife. I have been proud seeing the value our staff add when regulating large industry such as Tata Steel - improving local air quality. We've done great work on habitat restoration on projects such as Anglesey fens and raised peat bogs - helping rare wildlife and improving carbon storage. We have also improved flood protection for the residents of Crindau, Pontarddulais and Roath and have begun to engage communities around Llyn Tegid on necessary reservoir improvements.

The weather played its part during the year, from the wild fires caused by the dry summer to the flooding caused by Storm Callum in October. Our teams worked 24/7 during these events with our partners in local authorities and emergency services to limit the impact on communities and in the case of the fires try to limit the devastating impact on our woodland estate and wildlife. Without our work, the impacts could have been even more serious.

We work at the sharp end, often having to make unpopular and difficult decisions within strict legislative parameters. This year we have secured enforcement undertakings for the

'I was proud and delighted by our first ever NRW Team Day in October 2018, when we gathered to celebrate what we do and our shared vision and values.'



Valero oil spill in Nantycaws, ensuring that £150,000 goes direct from Valero to Afonydd Cymru to improve river habitats, avoiding costly court action where the fines would go direct to the UK Treasury. We have also taken action against waste sites that were not complying with their environmental permits, such as Porthmadog Skips and Clwyd Breakers, clearing sites and ensuring no further damage and environmental risk to local communities.

We recognise that decisions such as the marine licence for disposal of dredge sediment from Hinkley C construction in Cardiff Grounds and an environmental permit for Biomass UK No.2 Limited in Barry are unpopular with some in the community. We recognise that we can and should do more to engage with affected communities and we are working to improve this important aspect of our work.

Internally, we are starting to build a new culture in NRW. I was proud and delighted by our first ever NRW Team Day in October 2018, when we gathered over 600 of our team in Aberystwyth to celebrate what we do, who we are, and to connect with each other around our shared vision and values.

Our Organisational Design programme has meant significant change and concern for many staff and I'm hugely proud of how they have continued to give their utmost to the day job despite the uncertainty they may have felt. The new structure is designed to deliver locally, ensure consistently high standards across the whole of Wales. It is designed to be flexible and resilient

in the face of future challenges. And it is designed to support staff in having interesting and fulfilling careers within NRW. I'm pleased this programme is now in its latter stages and in the next twelve months we can focus on creating the organisation I know NRW can be and delivering more for the environment and people of Wales.

We can't achieve all our ambitions for the Welsh environment on our own, so building better relationships with the organisations we work with is vital. Whether it's talking birds with the RSPB in the snow at Lake Vyrnwy, agreeing to work closer to improve rivers with Afonydd Cymru, seeing the potential of wind energy at Pen-y-Cymoedd with Vattenfall or meeting practically every partner organisation in four-days at the Royal Welsh Show, I'm pleased to say that we are now better connected with our partners than we were this time last year. This is essential as we maintain and focus our relationships with each of the Public Services Boards and rebuild our relationship with the timber industry.

Team NRW delivers every day for the environment - helping wildlife, protecting people and communities and helping the economy. I am certain that with a new structure, better direction, renewed values and an improving culture, we can make NRW the great organisation we need it to be. One that can play a crucial role in Wales' response on key climate and environmental crises and make the difference we all want to Wales' environment, its wildlife and its people.

Clare Pillman
Chief Executive and Accounting Officer

10 July 2019

Introducing Natural Resources Wales...

We are a Welsh Government Sponsored Body. Our core purpose is to pursue the Sustainable Management of Natural Resources (SMNR) and apply the SMNR principles as set out in the Environment (Wales) Act 2016. Wales is the first country in the world to create a single organisation that brings together many of the tools needed to help manage our natural resources coherently and in an integrated way.

Natural resources in Wales are fantastic - rugged mountains and woodlands, beautiful landscapes and coastlines, and amazing wildlife. They are vital for our survival and provide us with the basic things we need to live: clean air, clean water and food. They create jobs for thousands of people like farmers, foresters, and tourist operators, creating wealth and prosperity.

Our roles and responsibilities include:

Adviser
to the Welsh Government and to industry, land owners/managers, the wider public and voluntary sector

Regulator of industry and waste sites, and marine, forest and Designated Sites for example, protecting people and the natural environment

Designator for Sites of Special Scientific Interest (SSSIs), Areas of Outstanding Natural Beauty (AONBs) and National Parks and declaring National Nature Reserves (NNRs)

Responder to about 9,000 reported environmental incidents a year as a Category 1 emergency responder

Statutory consultee on almost 7,000 planning applications a year

Manager of 7% of Wales' land area, including the Welsh Government Woodland Estate, National Nature Reserves and flood defences and running recreation facilities and a laboratory

Partner, educator and enabler supporting and facilitating other organisations' work and helping people learn in and about the natural environment

Evidence gatherer monitoring the environment, commissioning and undertaking research, developing and sharing knowledge and holding public records

Employer of approximately 1,900 staff as well as contractors and volunteers

NRW in numbers 2018/19

Champion the Welsh environment and the sustainable management of natural resources

 **1,400** staff trained in SMNR

Member of all **19** Public Services Boards in Wales

Ensure land and water in Wales is managed sustainably and in an integrated way

 Processed **4,189** environmental permits

UK Woodland Assurance Standard accredited

Manage **7%** land in Wales

Improve resilience and quality of our ecosystems

Responsible for the 12 nautical miles from the coastline

Issued **1,292** species licences

Manage over **70** National Nature Reserves



Reduce the risk to people and communities from environmental hazards such as flooding and pollution

Maintain **319** miles of flood risk defences

119,723 properties are registered to receive our flood warnings



Received reports of **9,225** environmental incidents

Help people live healthier and more fulfilled lives



Manage **42** mountain bike trails



Manage **3** visitor centres including Coed y Brenin Forest Park

Coed y Brenin Forest Park gets around **140,000** visitors a year, with 80,000 riding the trails.

Promote successful and responsible business, using natural resources without damaging them

Responded to **6,841** planning consultations

£26.3million timber income



63 prosecutions for environmental offences

Develop NRW into an excellent organisation delivering first class customer service

Silver Corporate Health Standard achieved
19th place Stonewall Workplace Equality Index Wales

ISO14001: 2015 certified

4.8% Gender Pay Gap

Our changing legislative landscape

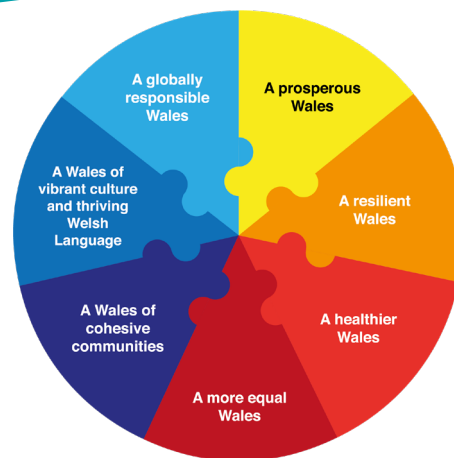
In recent years two key pieces of legislation in Wales have had a significant impact on what we do and more significantly how we do it. The increasingly joined up nature of these Acts and our work will also enable us to adapt and integrate our reporting in coming years.

Introduction of the Environment (Wales) Act 2016 changed our core purpose and committed us to applying the nine principles of SMNR in all our work. It also strengthened our duty to take action for nature, instructing us to seek to maintain and enhance biodiversity wherever possible when carrying out all our work and putting in place a timetable of planning, reporting and reviewing requirements to demonstrate our compliance with this duty.

The earlier Well-being of Future Generations (Wales) Act 2015 changed the focus of our planning, governance and delivery to ensure we maximise our contribution to its seven Well-being Goals for Wales and implement its five ways of working when undertaking our duties.

Ongoing development of both Acts has resulted in statutory guidance for public sector bodies including NRW, which have clarified additional products and expectations. We introduced our initial Well-being Statement and well-being objectives in 2017; which have been reviewed as we involved our staff and stakeholders to produce

‘The Well-being of Future Generations (Wales) Act 2015 changed the focus of our planning, governance and delivery.’



our Corporate Plan to 2022. These documents outline our highest level, long-term organisational objectives to deliver our purpose and maximise our contribution to Wales’ Well-being Goals. We will review our objectives again next year following the first set of Area Statements and Well-being Plans from Public Services Boards to ensure our objectives are still fit for purpose.

This year, new statutory guidance to implement the Environment (Wales) Act included a clear framework for embedding the objective and principles

of SMNR in our work and shows that Sustainable Development (as defined in the Well-being of Future Generations (Wales) Act 2015) is in practice implemented at the same time. To demonstrate how we are embedding the objective and principles of SMNR, we will be using future annual reports to:

- evidence how we are achieving our purpose through our role and functions;
- demonstrate any conflict between our purpose and functions and
- show how we are amending our operational practices to embed the sustainable management of natural resources.

To take this forward we have set up a programme to meet this commitment, recognising that embedding our new purpose across all our duties and functions will take time. We have prioritised the following areas to start the process: Environmental Permitting Regulations; Forestry Environmental Impact Assessment Regulations and Glastir decision making; Marine Licensing and Flood Risk Management.



Reporting on our Biodiversity and Resilience of Ecosystems Duty



We are one of over 200 public authorities defined in Section 6 of the Environment (Wales) Act, 2016, which must seek to maintain and enhance biodiversity wherever possible when carrying out our functions in relation to Wales. In doing so we must also seek to promote the resilience of ecosystems.

The Section 6 duty has been declared by Welsh Government as a key legislative driver to maximise the contribution from the public sector towards achieving the objectives of the Nature Recovery Action Plan (NRAP) – Wales’ national commitment to halting and reversing biodiversity decline under the International Convention on Biological Diversity.

What have we done to comply?

Consideration of biodiversity at corporate level

We have integrated our plan for complying with the Section 6 biodiversity duty into our organisational plans, with the high-level commitments in our Corporate Plan to 2022 forming the basis of our Section 6 plan.

Building on this high level plan during 2017 we sought the views of our Board, staff members and stakeholders to create Vital Nature, NRW’s strategic steer for biodiversity to 2022. Published in 2018 and launched publicly by our Chief Executive, Vital Nature sets out our aspirations, priorities and ways of working to reverse the decline in biodiversity. It

is an additional layer of organisational commitment, embedding and planning which sits alongside the Corporate Plan. It is intended to steer our work across the full range of NRW functions as we strive to maximise the positive impacts of our decisions and those of others on biodiversity and ecosystems.

Action for biodiversity and ecosystem resilience

We have a wide range of duties and powers that relate to biodiversity, including statutory functions whose primary purpose is the conservation of habitats, species and geodiversity. We are the statutory nature conservation



body for Wales and an evidence-based expert independent advisor to government and others. We are Wales' champion for biodiversity and the environment, and we take a leading role in terms of innovation and informing Government policy on nature conservation and biodiversity.

NRW's role for nature does not stop there. The work we carry out across the range of our statutory functions is vital to securing improvements in biodiversity and ecosystem resilience, including flood risk management, forestry and woodland management, regulation of industrial processes, agriculture, waste management, water resources, fisheries and recreation.

The huge amount of work which has taken place across NRW in recent years to embed SMNR, and develop better organisational understanding, awareness and application of the attributes of resilience throughout all our functions, has also made a significant contribution towards our Section 6 biodiversity duty.

To demonstrate the depth and breadth of NRW's commitment to maintaining and enhancing biodiversity, and promoting the resilience of ecosystems, we have case studies in this document. Supplementary material further illustrating our contribution to the Section 6 biodiversity duty will be available on the Vital Nature webpage later this year.

Auditing and reviewing our work

In our 2019/20 Business Plan we have committed to conduct an audit of NRW staff awareness, consideration and action for biodiversity in decision-making and planning. The audit seeks to generate an evidence-base from which we can assess our current contribution to biodiversity.

Our Section 6 annual report findings, in this document and on our website, will feed into the audit and the evidence base generated as a result. The recommendations we produce based on this evidence will inform future development and delivery of training, guidance and information across the organisation to further embed and improve our work on biodiversity.

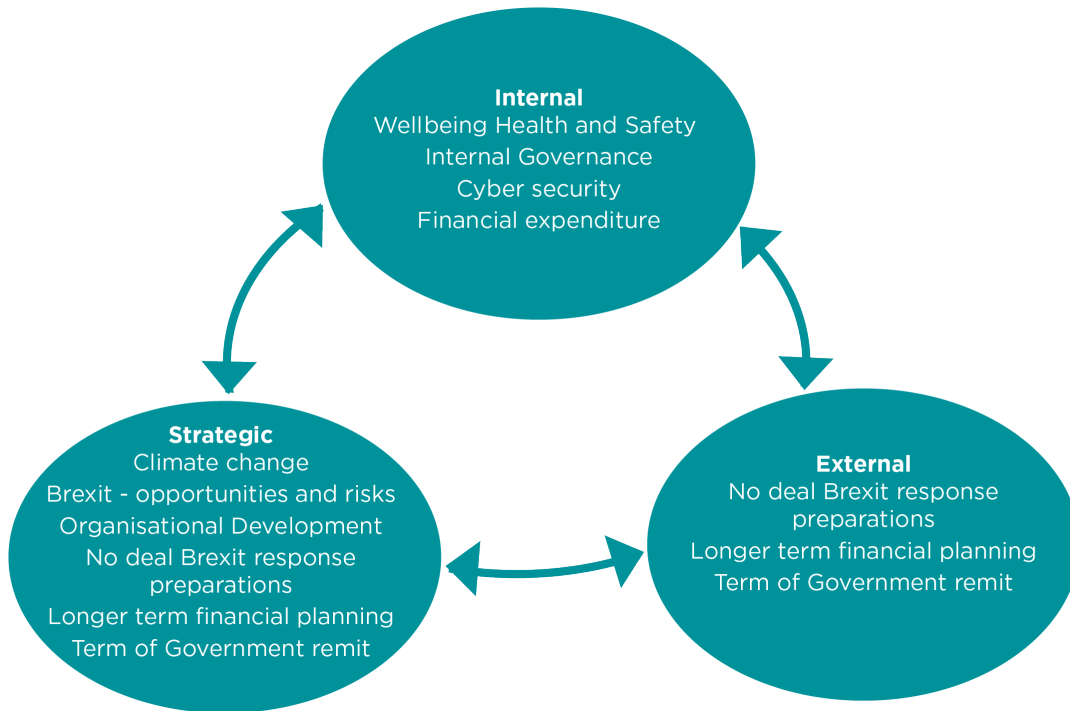


Common spotted orchids, Maes y Ffynnon office

Managing our risks and issues

As an organisation with diverse roles and responsibilities, there are several key areas that we recognise as risks and issues to manage to mitigate their impact on the delivery of our work. As outlined later in our Governance

Statement, risks to delivering our objectives are identified, assessed, managed, reviewed and recorded through risk registers. However, our key risks can be identified through the following categories: internal, external and strategic risks.



The following key risks are highlighted on our corporate risk register as significant to meeting the following corporate objectives:

- Develop NRW into an excellent organisation
- Reduce the risk to people and communities of environmental hazards
- Improve resilience and quality of our ecosystems

- **Wellbeing, health and safety of our staff:**

due to the varied and complex nature of our operational work, the wellbeing, health and safety of our staff and others who work for us and on land we manage is of paramount importance to us. Our forestry work carries significant health and safety risks, particularly during harvesting works. Tragically this

has in the past resulted in serious injury and harm. Reducing the potential for any accidents in the workplace is an absolute priority for us, due to the specific risks that our forestry works present we have a dedicated Forest Safety Action Plan to focus delivering improvements in this area. We provide training and support for staff which needs to be continually improved. We know that low staff morale and the desire for a period of stability are important issues we need to address.

Following the near completion of Organisational Design, we will be implementing a programme to support our new structure and boost the #TeamNRW feel. Routine operational work is supported by a suite of risk assessments and clear operational guidance notes.

- **Internal governance:** compliance with internal policies and ways of working has been significantly scrutinised since our appearance at the Public Accounts Committee and the publication of the Grant Thornton Review of Timber Sales Governance. As a result, there is renewed focus on governance and compliance across all areas of NRW's work not just within timber sales. This has included the redirecting of our internal audit function to target improvements to our internal governance arrangements across the organisation. We are aware that poor compliance and limited assurance in some business areas exposes the organisation to greater risk of fraud. We have responded by developing an all organisational development programme to be completed during 2019/20 that considers improving governance and compliance in relation to wider cultural as well as process issues.
- **Future qualification of financial accounts:** we have sought further assurances of the accuracy and regularity of our timber operations relating to historic decision and have made improvements to our policies, processes and procedures. However, there remains the risk of future qualification of our Annual Report and Accounts.
- **Withdrawal from the European Union:** much of our work is governed by legislation from the European Union therefore any changes could affect our funding as well as the requirements of our work. We are working with Welsh Government and partners to prepare for changes to legislation at a Welsh and UK level. Alongside having an impact on our own work, we recognise that potential changes could change how others operate e.g. within waste management practices etc. and therefore we are preparing for an increase in the number of environmental incidents in Wales which we will need to respond to as part of our own role.



Performance summary

It's our job in Natural Resources Wales to look after Wales' natural resources and what they provide for us: to help reduce the risk to people and properties from flooding and pollution; to look after special places for well-being, wildlife and timber; and to work with others to help us all to manage them sustainably.

2018/19 has not been without its challenges. Previous Annual Reports and Accounts have received a qualified opinion from Auditor General Wales relating to our commercial operations which has led to intense public scrutiny of our organisation, while a complete organisational redesign has meant an unsettling time for our staff who want to deliver their best for Wales' natural environment.

We have left no stone unturned in getting to the bottom of the issues in our commercial forest operations. We commissioned Grant Thornton to carry out a thorough independent review. We fully accept the findings and recommendations of the review that outlined improvements needed to our contract governance, financial reporting, organisational governance and organisational culture and we have set up a stand-alone project reporting to the Board to implement the actions at pace.

Internally our Organisational Design programme has seen the approval of a complete new structure and the development of new policies, processes and systems to support it including the process of staff being matched to or applying for roles within the new structure. In order to create an organisation that can adapt and work at a local level applying the SMNR principles, changes to roles and teams have brought a great deal of uncertainty for staff on top of continuing to deliver the day job.

Another area of work that has seen strong challenge this year has been our public engagement. Much of our work draws a significant level of interest, and sometimes concern on local issues. Our issuing of a marine licence to operators building Hinkley 'C' Nuclear Power Station: an environmental permit to developers of a biomass plant in Barry and our flood risk management plans in Roath, Cardiff drew heavy criticism from politicians as well as local communities. We recognise we need to do more in future. We are developing a new communications strategy in 2019/20 and responding to a Ministerial Direction to review our community engagement activities. We will apply the lessons we learn to future public engagement.

However, we have maintained our core activities to ensure progress towards the aims in our corporate plan continue to be delivered:

- **responding** to flooding and pollution incidents;
- **building and maintaining** flood alleviation schemes and supporting communities through flood awareness work;
- **protecting and promoting** the resilience of ecosystems;
- **managing** forests and nature reserves;
- **providing advice and guidance** to developers and land managers;
- **issuing** permits, licences and consents and ensuring compliance with their conditions,
- **encouraging** businesses to operate sustainably;
- **developing** renewable energy schemes; and
- **providing and collating** scientific evidence.

This year we also

- reaffirmed our commitment to nature conservation we launched Vital Nature, our strategic steer to ensure biodiversity is at the heart of our work;
- published a report on the purpose and role of the Welsh Government Woodland Estate (WGWE) over the next 25 years
- responded to Storm Callum and other environmental incidents, helping to reduce the impact these events can have on people, properties and businesses;
- held our first #TeamNRW day bringing together over 600 of our staff and
- achieved a Silver Corporate Health Standard

We know there is still much to do. Next year, we will need to continue to develop our organisation, supporting staff and the implementation of our new structure. We will have a keen focus on responding to the UK withdrawal from the European Union addressing the needs of Wales' natural environment; and publish our first Area Statements and interim State of Natural Resources Report II.

Performance Analysis

Our performance analysis describes how we design and scrutinise our performance framework; provides information on our key measures and targets, and more detailed examples of how we are working towards achieving our Well-being Objectives.

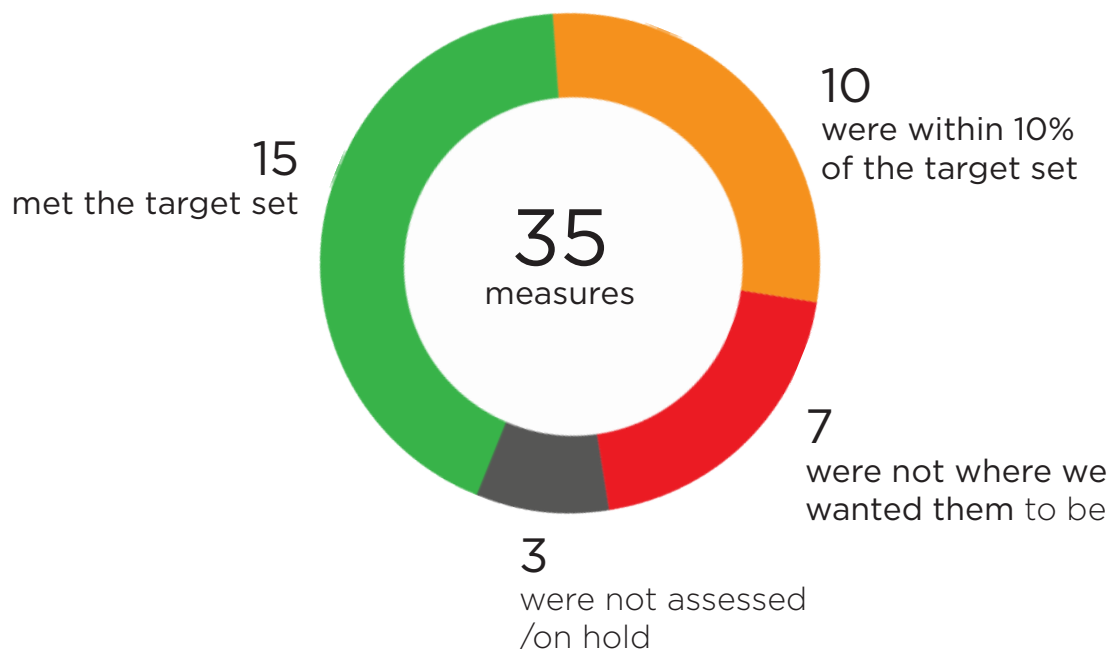
As a Welsh Government Sponsored Body, our primary role is to fulfil our statutory responsibilities and to meet the aims established for us by the Welsh Ministers. Our key duties are set through both a long-term outcome approach (our Well-being Objectives) and an annual Remit Letter to determine areas of our work that require a particular focus. These are incorporated into our Corporate Plan and annual Business Plan.

Our performance framework will develop over future years to demonstrate progress towards meeting our Well-being Objectives, share how we are using the nine SMNR principles in our work and describe how we will address priorities from Welsh Government's Natural Resources Policy and Public Services Boards' Well-being Plans.

This year we changed our high level performance monitoring from three times a year to four, therefore our progress is now monitored by our Board and Welsh Government and published on our website on a quarterly basis.

The following pages of this report outline examples of how we are working to deliver our Well-being Objectives as well as our key performance information this year. They also demonstrate how we are working towards putting the sustainable management of natural resources at the heart of everything we do.

Of the 35 measures on this year's Business Plan dashboard



Well-being Objective 1

Champion the Welsh environment and the sustainable management of natural resources (SMNR)

We aim to champion the natural environment in everything we do – in the information we provide, in supporting Public Services Boards and in putting the sustainable management of natural resources into practice across all our work – to help people make the most of the benefits it offers as well as valuing it for its own sake now and for future generations.

Our measures

- Working with others to develop a shared 2050 vision for Wales' natural environment
- Working with others to develop our Area Statements
- Deliver the Carbon Positive Enabling Plan and reduce our carbon footprint
- Quality of our evidence base
- Collaborative working through projects
- Collaborative working through our SMNR funding and other support to external organisations

2018/19 results

- Work towards a shared 2050 vision is ongoing
- 2 National stakeholder updates on delivery of Area Statements have been circulated
- Our Carbon Positive Enabling Plan was approved
- 9 decarbonisation projects were completed
- New evidence Codes of Practice and Standards adopted
- 76 partnership projects are underway
- 64 SMNR priority projects were approved

Examples of our work over 2018/19

Tackling the environmental challenges we face in Wales

We are co-producing seven Area Statements, working with a wide range of stakeholders and applying the SMNR principles as we develop them. These will identify opportunities and challenges where the local environment can help address a wide range of issues or prevent them



from worsening in the first place. They will help embed sustainable management into plans and processes and help deliver the priorities in Welsh Government's National Resources Policy, seeking to tackle the environmental challenges we face in Wales.

Area Statements cover seven geographical areas across Wales, six terrestrial places and the marine environment around Wales and will

provide an evidence base and a series of other products and tools for Public Services Boards (PSBs) and others to plan and deliver changes and improvements across Wales. During 2018/19, we have been working with external stakeholders and our staff to raise awareness of Area Statements and to begin to identify emerging themes which can then form an integral part of PSBs' well-being plans and our own internal plans. We have a new online system – called Granicus – for National Stakeholder updates, while our Engagement for Area Statements Tool is being developed to record stakeholder conversations and help identify opportunities.

Public Services Boards champion the natural environment!

We are using the opportunity of being the only public body that sits on all 19 Public Services Boards (PSBs) as another way to champion the natural environment and the sustainable management of natural resources across Wales.

- We chair the Wrexham PSB and lead some PSB sub-groups.
- We are supporting (including through financial contributions) the collaborative development of the responses to the 19 Well-being Plans and objectives through specific initiatives, projects and proposals. For example, in Newport we help facilitate groups looking at Green Infrastructure and Sustainable Travel for the city; we are providing specific support to some PSBs around their climate change objective (e.g. Torfaen PSB); and contributed to PSBs' first annual reports due in May/June 2019.
- We actively participate in the Welsh Government/Future Generations Commissioner PSB network and

at specific events e.g. a recent workshop exploring the relationship between Regional Partnership Boards and PSBs,

- We are developing a cycle where Area Statements are being informed by the PSBs' first well-being assessments and plans, and then first completed Area Statements will inform future versions of well-being assessments and plans.

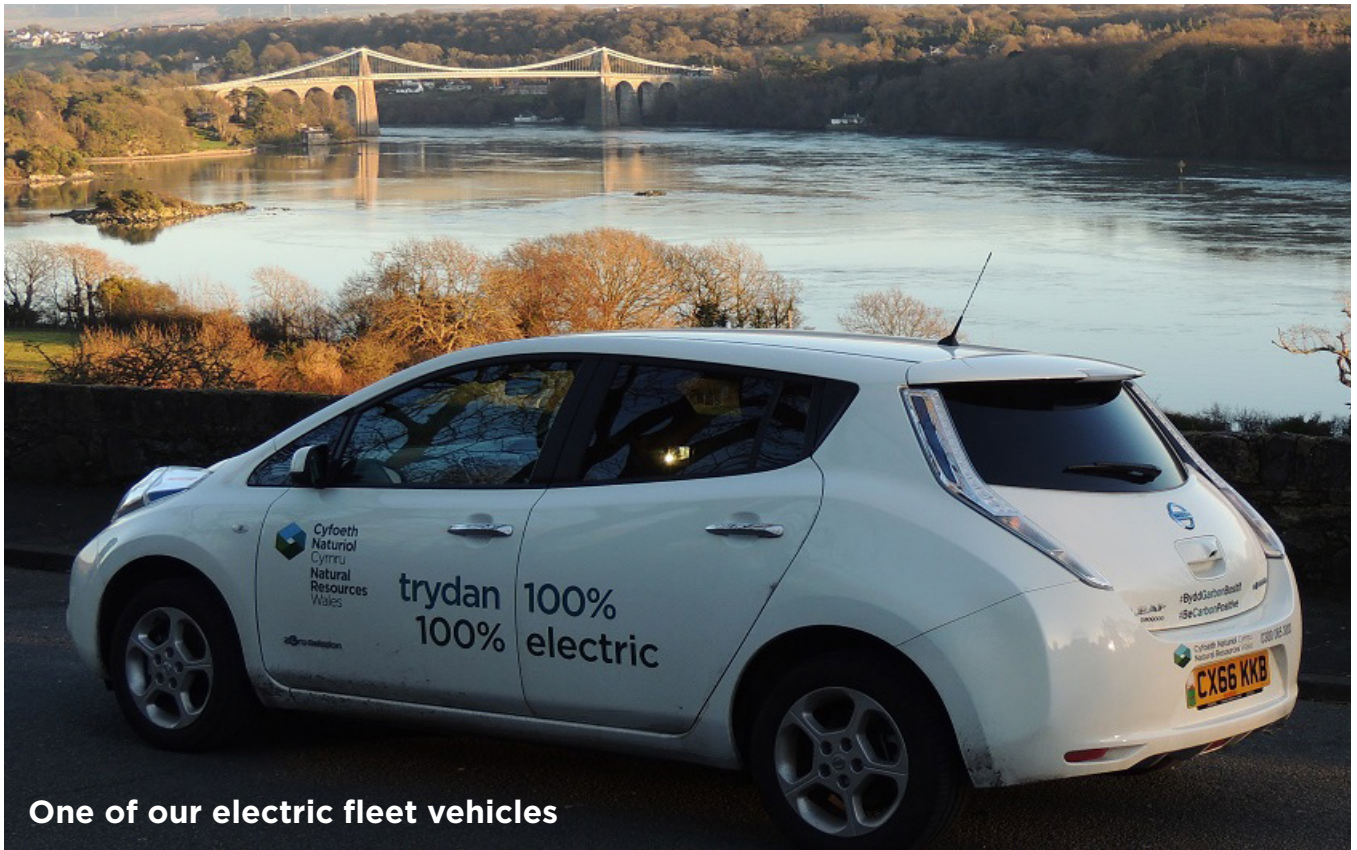
Keeping our staff involved and up to date

Internally, we are supporting the embedding of SMNR across our organisation through our continuing professional development framework. We have designed and rolled out a 2-day course for all staff to raise awareness and stimulate action to embed our new purpose. Over 1400 staff have completed the training and this has led to a significant shift in the focus of our work to further embed SMNR. One of the ways that the general purpose is therefore being taken forward across our role and functions is by supporting individual staff taking small steps within their own roles following the training. The training has been held up as an exemplar of a “simple change” by the Future Generations Commissioners Office as part of their <https://futuregenerations.wales/the-art-of-the-possible/> programme.

What next?

Keeping the focus on the natural environment

Responding to the UK leaving the European Union, we will work with Welsh Government and advise as they develop a new approach to financially support land managers to help achieve Wales' objectives for the natural environment and a low carbon economy.



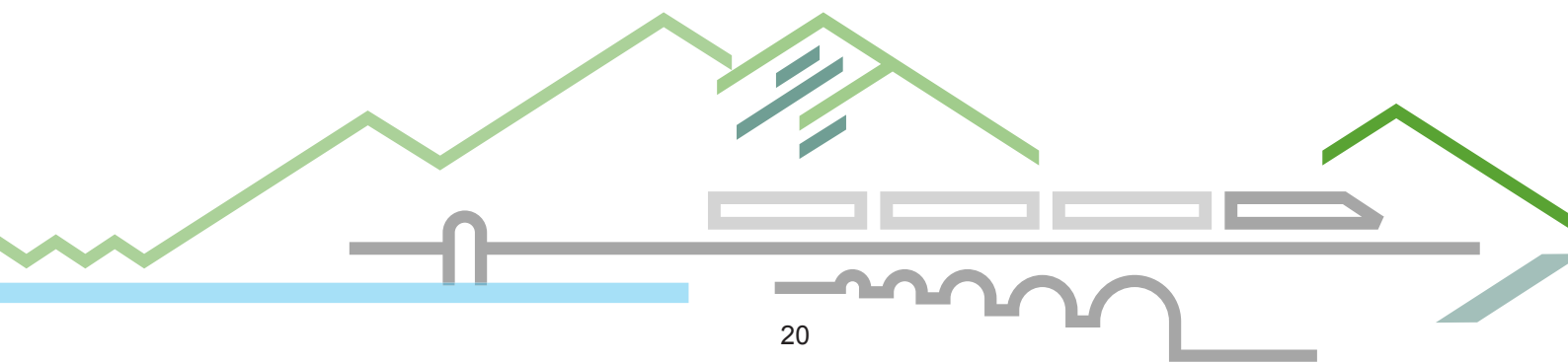
One of our electric fleet vehicles

Area Statements and State of National Resources Reports are on their way!

In 2019/20 we will deliver, in collaboration with stakeholders, seven Area Statements covering Wales' land and inshore marine area. An interim publication of the second State of Natural Resources Report (SoNaRR) will be available, building on our first assessment of the sustainable management of natural resources that was set out in the first SoNaRR published in 2016.

Developing opportunities for decarbonisation and renewable energy

We will use our Carbon Positive Plan to support the delivery of Welsh Government decarbonisation and renewable energy targets including by applying our learning to support Welsh Government and the wider public sector in becoming low carbon.



Well-being Objective 2

Ensure land and water in Wales is managed sustainably and in an integrated way

A fully integrated approach to the sustainable management of land and water in Wales can reap multiple benefits across all sectors – farming, forestry, fisheries and the urban environment. However, this is not happening yet. We aim to put this approach into practice on the land and water we manage ourselves and encourage all land and water managers to adopt an SMNR approach.

Our measures

- Implement river basin management plans
- Sustainably managed timber to market (incl. long term timber contracts)
- Land is restocked for sustainable forest management
- Retain forest certification against UK Woodland Assurance Standard
- Permitting process (% on time, and develop for quality)
- High public interest sites (long-term development)
- Reservoir programme

2018/19 results

- Staff reallocation to Fisheries Inquiry meant we are behind in implementing River Basin Management Plan measures
- We published our consultation on the next cycle of River Basin Management Plans 2021 - 2027
- 796,000 m³ sustainably managed timber despatched to market
- 1,035 hectares restocked for sustainable forest management
- UK Woodland Assurance Standard certification retained
- 96% of permit applications determined within deadline
- Review is underway of our Public Participation Statement
- Only 74% of NRW reservoirs meet statutory requirements

Examples of our work over 2018/19

Bathing Waters Success

Making sure Wales' bathing waters are safe and clean for people and wildlife is a significant part of our job. In 2018, all of Wales' bathing waters were 100% compliant with EU standards for the first time since 2015.

Samples are taken at least six times during the bathing season which runs from May to September are tested to find their average water quality level

and are classified as either "Excellent", "Good", "Sufficient" or "Poor". 2018 results showed all 104 monitored sites achieving a 'Sufficient', 'Good' or 'Excellent' classification.

Our work will continue, in partnership with others, so that bathing water standards are maintained and continue to improve where necessary, supporting tourism and local activities along the coastline.



Family-friendly forest estates

The Purpose and Role of the Welsh Government Woodland Estate Launch



In July 2018, we published a report on the purpose and role of the Welsh Government Woodland Estate (WGWE) over the next 25 years. The WGWE is a treasured feature of the Welsh landscape. It covers more than 126,000 hectares - that's nearly 6% of the country's total land area - and makes up around 40% of Wales' woodlands. It is home to an amazing variety of plants and animals, including some of the rarest in the UK. The WGWE produces around 850 000 tonnes of timber per year - directly supporting thousands of jobs and contributing to the Welsh economy as well as helping us combat climate change by locking up carbon. We are working to develop the wind and hydro power potential of the Woodland Estate, which further help reduce greenhouse gas emissions.

And they attract a huge number of visitors - for adrenaline-pumping activities, wildlife observation, outdoor

learning or quiet reflection - and pretty much everything else in between.

The report includes:

- A clear statement about the purpose and role of the Welsh Government Woodland Estate;
- A list of 10 key priorities for managing the Estate;
- An overview of the Estate and the benefits it provides;
- A discussion about main challenges and opportunities looking ahead, for example in relation to climatic change, pests and diseases;
- An explanation of how the purpose and role will be delivered, in partnership with others, and how progress will be monitored over time.

A series of accompanying case studies demonstrate the multiple well-being benefits that are generated by the WGWE, and how these contribute to delivery of SMNR.

UK Woodland Assurance Standard Accreditation retained

This year we retained our UK Woodland Assurance Standard (UKWAS) accreditation which not only means we can market our timber as being from a sustainable source, it also demonstrates that we are practising SMNR on the land we manage.

The Forest Stewardship Council® (FSC-UK) and The Programme for the Endorsement of Forest Certification (PEFC) provide international forest management standards including economic, social and environmental criteria. The UKWAS is both the FSC-UK and the PEFC-UK endorsed forest management standard for the UK. Certification as a measure of sustainable forest management is compatible with delivery of both the Well-being of Future Generations and the Environment Acts.

Reservoirs Management

We manage and maintain 40 reservoirs and we work to protect the safety of people, property and environment downstream of our reservoirs from the uncontrolled release of water from large, raised reservoirs and the potentially catastrophic consequences that can arise.

A relatively new area of work for us, we are delivering a programme of work to ensure that all the reservoirs we manage comply with the Reservoirs Act 1975. This has included major works for the Gwydir Reservoirs, near Betws y Coed (Llyn Cyfty, Llyn Sarnau, Llyn Goddienduon and Llyn Tynymynydd). The works involve strengthening embankments, constructing new spillways and improving access to the reservoirs.

We aim to achieve 100% compliance by end of summer 2019: unfortunately,

Dawnus Construction going into administration has meant that we have several projects without a contractor. Steps are underway to appoint alternatives.

Working together to protect the land we manage

Our South West Land Management Team are collaborating with Dyfed Powys Police and others to deal with rural crime and anti-social behaviour, in particular, unauthorised raves and illegal off-road driving by 4x4s and motorbikes.

Working as a core member of two Rural Crime Partnership groups, a strengthened and more coordinated approach is allowing us to gather and share intelligence and keep improving communication between local partners to try to prevent these incidents occurring in the first place. Several joint operations particularly targeting Bank Holiday weekends, has enabled our staff and the Police coordinate their activities in the run-up to the weekends via skype and intelligence gathering, press releases and social media posts. Our staff are also 'on the ground' working with the Police during the evenings/nights to monitor for any illegal activity and we have installed 'target hardening' measures at certain forests to reduce the potential for illegal activity. To date four potential raves have been stopped and several other offences have been dealt with by the police, all preventing damage to forests, essential wildlife habitat and excessive repair and clean-up costs to the taxpayer. These focused operational activities and awareness raising within local communities have been positively received by external agencies and stakeholders.

Joint operational exercises and Rural Crime Partnership meetings will continue throughout 2019 to ensure



an even closer coordinated approach between NRW and Dyfed Powys feeding in information and working with our partners to tackle rural crime issues.

What next?

Looking after Wales' water

In 2019/20 we will develop and implement River Basin Management Plans through investigation, local and Wales wide action to restore waters, prevent deterioration and improve their quality.

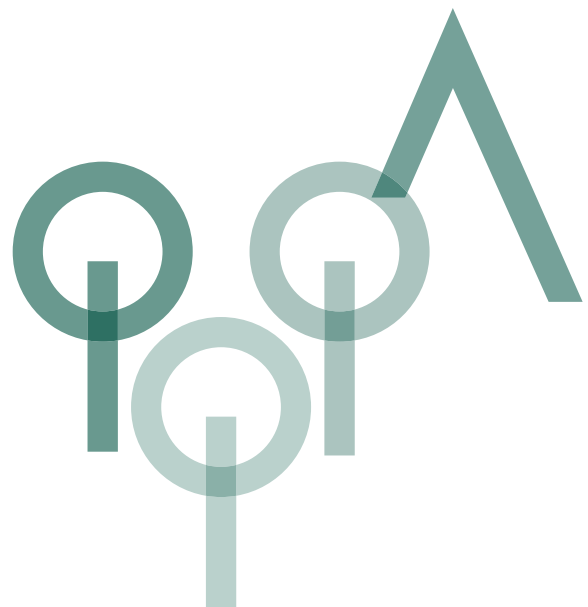
Through the Wales Land Management Forum and its sub group on agricultural pollution we will consider whole system approaches for improved land management, and, support Welsh Government to develop and implement a suite of measures to address agricultural water pollution, including regulation, voluntary initiatives and innovation.

We will work with partners to ensure Water Companies' business plans deliver effective outcomes for the environment and enhanced environmental performance.

The land we manage

Among many activities in 2019/20 we will begin to deliver our ambitious new woodland creation programme by:

- Improving the rate of new woodland creation through our action plan
- Commencing our new woodland planting project
- Commemorating 100 years of forestry and the end of the First World War via our Centenary Planting project
- Plan and market 700,000m³ of timber through open competition via e-sales
- Invest £5.2m in upgrading structures on the land that we manage to ensure continued safe and responsible management in compliance with the Reservoirs Act 1975
- Develop and pursue opportunities for renewable energy, such as windfarms, solar, hydro, battery storage and energy parks



Well-being Objective 3

Improve resilience and quality of our ecosystems

Our State of Natural Resources Report (SoNaRR) 2016 identified that many ecosystems will not be adaptable enough to deal with climate change and other pressures in future and so may not be able to provide the services we need – such as clean air and water. We designate special sites such as National Nature Reserves and Sites of Special Scientific Interest, for example – but our work is much broader than this. We aim to take biodiversity and ecosystem resilience into account in all our functions, activities and decisions and help other public bodies do the same.

Our measures

- Implementing ‘Vital nature’ - restoring, creating and improving habitat and enhancing biodiversity
- Build ecosystem resilience by improving the conservation status of the features on protected sites working with our partners
- River restoration plans and fisheries connectivity and habitat
- Monitoring and addressing tree and plant health issues

2018/19 results

- Launched Vital Nature
- Created biosecurity training and guidance for NRW staff
- 87% of our annual work programme to improve the conservation status of features on protected sites was completed
- 5 of 8 planned river restoration plans were commissioned
- We continue to implement WG’s *Phytophthora ramorum* in Wales – Disease Management Strategy

Examples of our work over 2018/19

Vital Nature

Our well-being and that of future generations depends completely on the natural environment and biodiversity. We literally cannot live without it. What’s more, biodiversity has its own intrinsic value as well as being essential for human well-being.

In July 2018 we launched Vital Nature: Making the connections between biodiversity and the people and places of Wales - our Strategic Steer for Biodiversity. In it we set out how we want to connect people and biodiversity, embed consideration of biodiversity and ecosystem resilience



across all our work, improve our approach to protected sites and work with others to maintain and enhance biodiversity.

Since its launch, Vital Nature has been used as a basis and catalyst for discussions with NRW staff and stakeholders to move forward our biodiversity agenda and develop a better collective understanding. Organisations Design process, we have put in place improved structures and governance systems to translate the commitments and high-level actions expressed in Vital Nature into tangible deliverables in our annual business and

delivery plans, which seek to meet our Well-being Objectives, and therefore our Section 6 plan.

We are now involving and collaborating with partners to build actions to achieve these priorities into our own workplans. Biodiversity continues to decline. Our SoNaRR has identified that currently no ecosystem in Wales has been assessed as having good resilience and many will not be adaptable enough to deal with pressures including climate change and the impact of invasive non-native species. Unless we can halt and reverse this decline and build the resilience of ecosystems, our well-being and the well-being of future generations will suffer.

Life! Raised Bogs Project



We have embarked on a major project to conserve a rare habitat while fighting climate change and improving water quality.

Raised bogs have been altered by centuries of peat cutting and drainage. Now, with the EU LIFE funding, NRW can work with others to improve their condition so that Welsh raised bogs continue to create new peat and lock in more carbon. The four-million-pound LIFE for Welsh Raised Bogs project will restore over 900 hectares, or about 3.5 square miles, of raised bog - some of Wales' rarest and most important habitats. The drive to repair them involves rewetting them, cutting invasive species, removing scrub and introducing light grazing - all in partnership with local communities, landowners and contractors.



The project will improve the condition of seven of the most important raised bogs in Wales, including Cors Fochno and Cors Caron in Ceredigion. Restoration work will also take place at sites near Trawsfynydd, Fishguard, Crosshands, Crickhowell and Builth Wells. These sites are home to rare plants and animals, including the large-heath butterfly and the iconic bog rosemary. Restoration will help fight climate change by storing vast amounts of carbon and improving water quality in local rivers. And they're great places to visit to enjoy nature and the benefits of being active outdoors.

You can see more information about the project at our YouTube channel and follow our progress via @WelshRaisedBog on twitter

Balancing our decisions

Pursuing the sustainable management of natural resources to maximise the benefits towards achieving Wales' well-being goals can be a challenge but one where we seek to use our multiple roles to ensure the delicate balance of managing the environment is met. We are striving to use the most up to date evidence and views of as many stakeholder groups as we can when making decisions however we know often views conflict. This year we have seen challenges to our decisions:



- A Local Inquiry was convened by Planning Inspectorate Wales on behalf of Welsh Government in January 2019 to consider our proposal to Welsh Government to implement new fishing byelaws that would prevent the catch and release of salmon and sea trout across Wales. Current arrangements have been extended until conclusion of the Inquiry.

- Judicial Review proceedings were issued challenging the process followed when making our recommendation to not renew leases for pheasant shooting rights on the Welsh Government Woodland Estate following a steer from the Minister for Environment on the Welsh Government's position as the landowner of the estate we manage.
- Phase three of Roath Flood Alleviation Scheme in Cardiff was delayed due to significant local opposition to plans to remove local trees and action to undertake an independent review of our work on the scheme.

These decisions were not taken lightly, but as an advisor, regulator and land manager we take an evidence-based approach to all our activities and must pursue the sustainable management of natural resources as per our core purpose. In future, we know we need to do more with local stakeholders to ensure evidence and the requirements of our decisions are understood but also to involve them as much as possible in the decision-making process.

Removing barriers to connectivity

To improve fish migration on the River Taff, work was completed to remove Merthyr Vale weir, at Aberfan, South East Wales, constructing a low flow channel and installing bank protection works to ensure the habitat potential of the upper reaches of the watercourse would be fully realised. Significant investment has been made in addressing the barriers to migratory fish passage present on the River Taff over the last decade. This includes a major fish pass on the Merthyr Tydfil town centre weir and fish passes on Llandaff weir, Blackweir and Radyr weir in Cardiff. The Merthyr Vale weir was



the last major impediment on the river and addressing it allowed the upper reaches of the River Taff to become fully accessible to all fish species for the first time in approximately 200 years. The project reinstated river connectivity and improved passage is now possible for migratory fish to move unimpeded from Cardiff to up and beyond Merthyr Tydfil. As part of our work we also supported the local community by improving the adjacent pathway and provided funding to improve some adjacent land for local amenity use.

These works support the regeneration of South East Wales, helping to improve environmental resilience and the community and economic ambitions of the area.

What next?

Reversing the decline of biodiversity

In 2019/20, embedding our Vital Nature strategic steer for biodiversity across our functions to drive a reversal of the decline in biodiversity and help other

public bodies do the same will be our focus. Particularly by:

- Utilising additional National Nature Reserve funding (£0.3m currently) to deliver the annual programme of priority actions from reserve management plans, including essential conservation management
- Implementing of the outcome of the local enquiry on the introduction of Fishing Bylaws to promote the recovery of sustainable salmonid populations in our freshwaters alongside our work to promote better land management in vulnerable catchments.
- Providing a further £2 million to support action delivering benefits for biodiversity and building ecosystem resilience through our grants mechanisms.



Essential conservation management on NRW land

Well-being Objective 4

Reduce the risk to people and communities from environmental hazards such as flooding and pollution

We advise on, forecast and monitor the likelihood of flooding and, as well as developing flood defence schemes, support local communities to reduce their risks. Similarly, we advise and regulate industry and waste sites to reduce the likelihood of pollution entering the wider natural environment – we also provide a response to environmental incidents that do occur despite best efforts. Aiming to be firm but fair, we investigate incidents and use our full range of powers to tackle environmental crime when necessary.

Our measures

- Effective and efficient incident management response
- 99% of NRW flood risk management assets in high risk locations are maintained in target operating condition
- Flood Risk Management Capital Programme
- Tackling environmental crime to the threat to SMNR
- Impact of industry and waste sites

2018/19 results

- We assess and respond to incidents within our classification criteria however there is a system reporting issue which requires changes in 2019/20
- 97% of our flood risk management assets in high risk locations were maintained in target operating condition.
- 1,541 properties now benefit from a sustained level of flood protection because of our capital maintenance work.
- We continue to develop our enforcement processes and share our enforcement priorities with key enforcement partners.
- Work is ongoing to ensure environmental compliance with an increased number of poor performing waste and industry sites.

Examples of our work over 2018/19

Improving our local engagement

Potential health risks to local residents were highlighted this year with the much-publicised disposal of dredged sediment near Cardiff Bay from proprietary works associated with the construction of the Hinkley 'C' Nuclear Power Station site in Somerset. These concerns also focused on our role to

involve and inform communities of the potential environmental risks they face.

In issuing the marine licence in 2014, sampling of the sediment was undertaken by the licence holder and tested in accordance with international standards. This included chemical and radiological testing and the sediment was deemed safe for disposal and posed no risk to people

or the environment. Local residents and actions groups were notably concerned once operations began in 2018 and in October, a Ministerial Direction was issued to NRW to undertake further communication and engagement around the issue.

Following review of our activities, we recognise that public participation expectations are far higher now than six years ago when the application was being considered and public organisations, including us, need to respond to the call for greater conversational interaction relating to local issues. We will use the recommendations from our review and look for increased involvement and collaboration with local residents and partners for example focus groups and more accessible information, to build into all future communications and engagement plans for similar permits and licences.

Reducing the risk of flooding to people and properties



Our application of the SMNR principles relating to Flood Risk Management is essential in seeking preventative action now for the long-term benefit in Wales. Reducing the risk of flooding to people and properties is a core part of our work and delivered through our Flood Risk Management capital programme.

In 2018/19 we successfully reduced the risk of flooding to 591 properties at Pontarddulais, Pont Robin (Rhuddlan) and Roath. Through our capital maintenance projects, we provided sustained protection to over 1500 properties in locations such as Taff's Well, Llanbadarn, Aberystwyth, Monmouth and Caerphilly. We continued with major construction works at Crindau, Llanfair Talhaiarn and Friog Corner (Fairbourne), and the development of future works



Flood defence works at Fairbourne

at locations such as Llyn Tegid, Ammanford, Stephenson Street, the Dyfi estuary and the Conwy Valley, ensuring our medium-term plan continues to progress.

Underpinning our whole medium-term plan is our modelling programme. This continued to develop projects across the country, allowing potential schemes to develop over the medium term at locations high on the Communities at Risk Register (such as Liswerry Pill (Newport), Rhyl and Prestatyn) as well as locations recently affected by flooding like Llangefni and Dwyran on Anglesey.

Last year we also

- created 55 hectares of biodiversity action plan habitat, surpassing our initial target of 30ha and continued to develop projects for future years. Schemes included
 - ditch blocking and peatbog restoration at Bryn Engan, Snowdonia;
 - furthering our understanding of Natural Flood Risk Management at Ffrwd Wylt, Port Talbot;
 - the creation of a functioning wetland system at Afon Merin, Ceredigion; and
 - a review of our coastal squeeze monitoring requirements.
- developed enhancements and improvements to critical FRM ICT Systems such as River Levels Online, AMX, our Flood Warning System and Flood Estimation Wales
- continued to develop a key upgrade of our Telemetry system as well as delivering the new Flood Risk Assessment Wales system.

Responding to Forest fires

Wildfires pose a serious risk to people in the area, our officers, the firefighters who have to tackle

them, and local wildlife. In summer 2018, fires devastated Twmbarlwm in Cwmcarn forest lasting over three weeks and destroying 250 hectares of woodland, roughly the size of 250 rugby pitches. Helicopters, drones, excavators and tractors were all used as part of the multi-agency response that included NRW, South Wales Fire and Rescue (SWFR) and Gwent Police. Our staff worked long hours cutting firebreaks around the affected area and supporting firefighters from SWFR who tackled the fire itself.

This caused a huge amount of environmental damage and destroyed tens of thousands of newly planted trees, undoing years of work and investment. Large areas were being replanted with native broadleaf species and timber-producing conifers following large-scale felling operations to combat the spread of larch disease. Any wildlife in the path of the fire will most likely have been killed and their habitat and food sources destroyed. Populations of some species of plants and animals may take years to recover.

Also, we know how important the whole area is to local people who use it to relax and exercise. We closed the site until we inspected all the footpaths and bike trails and although now reopened, this fire will have a lasting economic impact on the area's businesses, tourism, and the public purse as we all seek to rebuild, replant and make up 2018 losses.

We will continue our work, but this fire has certainly put the new Cwmcarn woods back some of our replanting efforts by some years, but we'll be speaking to the community to see how they can get involved in the new woodland planting and help us to catch up.

Reacting to extreme weather

Responding to and informing others about severe flooding incidents that could endanger life is a core part of our role as a Category 1 responder under the Civil Contingencies Act. Storm Callum brought strong winds and heavy and persistent rain throughout South Wales in October which caused local rivers to rise quickly. At its peak 35 Flood Warnings and 42 Flood Alerts were issued. Over the hills of South West Wales there was more than 200mm of rainfall in 60 hours which was significant as the average monthly rainfall for October is approximately 150mm.

Our emergency response teams on the ground were out checking that flood defences were in good working order, clearing gully's and ditches and installing temporary defences to protect communities as much as possible. Inside, staff kept our business-critical forecasting and monitoring systems running, along with updates to our website, engaging with the media and social media. There were half a million views on website flood pages, and social media posts reached over 110,000 people, with 20,000 engaging with those posts (liking / sharing / commenting etc).

Staying safe in the natural environment

Keeping the public, our staff and contractors safe when going about their lives and work is a responsibility we take extremely seriously. That is why we work with local communities and authorities before, during and after large scale projects to minimise disruption to others.

- This year, following eight months of road closures, we completed the Bont Evans Tree Works and Stabilisation project which involved the felling of some extremely large

Douglas Fir trees and stabilisation of the steep hillside above the A487 near Ceinws, north of Machynlleth. The trees in this area are becoming increasingly unstable due to their age, height, weight, condition, growth patterns, exposure to high winds, and steepness of the site. The risk of trees and debris falling onto the road was increasing each year and could have caused unplanned road closures and potentially a major accident.

- We have also reopened trails and footpaths used heavily by the public at Fforest Fawr near Caerphilly following a major 18-month operation to remove diseased larch trees. Approximately 4,000 larch trees have been removed from 25 hectares of the forest. The forest will now be monitored as it recovers, with native tree species expected to regenerate felled areas naturally.

What next?

Next year we will continue to focus on tackling illegal waste activity as part of effective regulatory compliance and working with others to support impacted communities and legal operators.

Well-being Objective 5

Help people live healthier and more fulfilled lives

As well as providing a wide range of opportunities for recreation on the land we manage ourselves, we work with partners to encourage people to access the outdoors throughout Wales and improve their health and well-being. We support community projects and help people to learn about the value of the natural environment, its importance in day to day life and its part in Welsh culture and heritage

Our measures

- Develop joint measures with Sport Wales and Public Health Wales
- Development and launch of our Cyfle placement scheme by March 2019
- Promoting outdoor recreation leading to an increase of Wales Coast Path (WCP) and National Trail visitor numbers
- Air quality action

2018/19 results

- Joint measures with Sport Wales and Public Health Wales are under development
- Our new Placement scheme was launched, supporting: apprenticeships, all level students, research and volunteers.
- Wales Coast Path Promotion Strategy and Action Plan was agreed
- Wales Coast Path Business Toolkit launched
- We are contributing to Newport and Neath Port Talbot Public Service Boards' air quality improvement actions
- We are working with 6 Cardiff primary schools to improve air quality in their locality

Examples of our work over 2018/19

Working together to sustain our natural environment



Connecting with and learning about the natural environment is a key element to maximise what we can do to help achieve a healthier Wales. We look to join up our regular operations with opportunities to involve others as much as we can.

We know re-planting oak trees in the area they were found as acorns means they are better suited to the local conditions and provide the greatest benefit to local wildlife. Our annual Acorn Antics Project gives people the

chance to get outside and learn about our natural environment, while helping to protect it at the same time by collecting acorns for us to use in our future replanting schemes.

This year schools and other community groups collected 500kg of acorns which is enough to plant 115 football pitches with Oak trees. These have been sent to the Forestry Commission nursery in Cheshire where they are grown into saplings before we replant them in Welsh woodlands and forests. Watch our YouTube video to see what we do with the collected acorns and how the Acorn Antics project will

contribute to NRW's overall programme of planting around four million trees, made up of 35 conifer and broadleaf species, in Wales this year.

Accessing the outdoors



Accessing the natural environment is increasingly being recognised as a way that people can help themselves to look after their physical and mental health and well-being. This year we have focused on creating material to help everyone get outside and enjoy the sites we manage.

- We launched a brand new Wales Coast Path website that highlights the 870 mile long route from the outskirts of Chester to Chepstow and shares links to activities, accommodation and local businesses that can support visits along the way to help people make the most of this fantastic route.
- In support of Visit Wales' Year of the Sea campaign, we published our 'Ten Special Places by the Sea' leaflet, picking ten special places that we look after around the coastline of Wales for people to explore. They

include a mixture of National Nature Reserves with sand dunes, forests near beaches and Wales' only Marine Conservation Zone. Each place has walking trails with information panels to help make the most of a visit including coastal discovery on two wheels on the cycling trails in Newborough Forest.

Planting our future



Creating woodland is a simple way to help everyone connect with our natural environment. This year we celebrated the tenth anniversary of Plant! Wales' tree-planting initiative to plant a native Welsh broadleaf tree for every child born or adopted in Wales. Starting as a school girl's suggestion to her Assembly Member that planting a tree would be a good way to make people think about their environment and how they can help look after it, we have worked with Welsh Government since 2008 to create 15 new woodlands across Wales, with more than 380,000 trees planted.

Every baby receives a certificate soon after their birth or adoption,



Re-planting oak trees ; Acorn Antics project

stating that a tree has been planted for them and is given the location of the woodland which contains their tree.

Developing and sharing skills and experience



As an organisation, we are committed to helping develop a skilled workforce for Wales, helping those back in to work as well as developing skills and experience for the future. This year we have revised and launched a new coordinated approach to work placements relating to our work.

Taking part in placements make a significant contribution to the success of our organisation whilst also giving people the opportunity to gain valuable skills and share experience and expertise. It will also enable others to promote the sustainable management, benefits and value of natural resources and ecosystems.

Our new webpage now offers information on available paid placements for apprenticeships and higher education candidates as well as unpaid placements opportunities for general work placements, student work experience, research and volunteers.

What next?

Next year we will focus on improving health and well-being through using our natural environment, by working across our functions and the land and water we manage to:

- Prepare a strategic steer on green infrastructure, landscape and placemaking and establish a green infrastructure programme.
- Develop a Memorandum of Understanding with Public Health Wales on promoting health outcomes in the environment and work in partnership with Public Health Wales and Sport Wales to address the levels of physical inactivity in Wales.
- Develop a Strategic Policy for Health and Well Being Improvement.
- Invest £1.7m in partnership work to deliver the Wales Coast Path Programme and National Trails Programme; advising on the benefits the programmes provide.
- Develop and implement our own Active and Sustainable Travel Plan, including actions to obtain “Cycle Friendly Employer” accreditation, and to increase active and sustainable travel options for staff commuting and business travel.



Well-being Objective 6

Promote successful and responsible business, using natural resources without damaging them

We want Wales to be seen as a great place to do business, embracing green growth, new sectors, research and innovation. As well as developing our own commercial activities, we want to encourage businesses to use resources efficiently and work towards a circular economy. We use our regulatory powers – permitting, monitoring to check compliance and enforcement – to protect the natural environment and to ensure that legitimate businesses are not undermined

Our measures

- Commercial income (supporting SMNR; long-term development)
- Renewable energy programme
- Planning consultation (response & quality/satisfaction)

2018/19 results

- We received £26.3m from selling timber from the Woodland Estate
- Brechfa Forest West 57.4MW wind energy project is now fully operational
- Turbine installation has started at Clocaenog Forest
- 97% of statutory planning consultation responses submitted were responded to within agreed deadlines

Examples of our work over 2018/19

Wylfa Newydd

Working with large infrastructure projects across Wales and their impact on the natural environment is another significant part of our role. One of the largest in recent years has been Wylfa Newydd Nuclear Power Station on Anglesey. NRW, and our legacy bodies, have been working with Horizon Nuclear Power, the developer of the Wylfa Newydd nuclear new build project, since 2010. The £12bn project aimed to build two Advanced Boiling Water Reactors adjacent to the existing site which ceased generating in 2015.

These will deliver 2900MW of power into the National grid in comparison with the 980MW generating capacity of the original station.

Following intensive pre-application engagement over a number of years, on the 1 June 2018, we received Horizon's Planning Application (Development Consent Order) to the Planning Inspectorate and Environmental Permit and Marine License Applications to NRW. We secured a financial agreement with developers to ensure we have the appropriate resource and technical resilience to support the project. We had 18 full time equivalent working on the project, supported by 30+ technical specialists.

The decision in early 2019 to mothball the plans at Anglesey has meant that Horizon has also withdrawn applications for all permits from NRW apart from the two directly related

to construction of the plant – the Marine license for the construction of offload facilities and harbour and the Environmental Permit concerning construction water discharges. We have agreed to continue determination of these unless Horizon fails to respond to a request for further information from NRW.

Protecting the environment and legitimate businesses



Our enforcement action continues to help protect the environment while working to create a level playing field for legitimate businesses. This year we revoked the permit of a scrap yard in North Wales to stop it polluting the local environment and bring it in to line with the standards we expect from waste sites. Despite repeated attempts by our officers to engage in plans to clean up the site, the operator continued to break the terms of their environmental permit and had been labelled one of the worst performing waste sites in Wales. Our officers found visible oil pollution, polluting oils and fluids not stored properly, no fire prevention plan as well as waste stored in the wrong places and without the right infrastructure.

As a result, we revoked the permit which means the site can no longer store or dismantle cars which have reached the end of their life. We all need to understand that we must comply with the terms of an environmental permit as in this case, not doing so is breaking the law and has potentially serious consequences for them and their business.

This year, 63 prosecutions for waste, water quality and fisheries offences have seen the courts impose fines totalling £267,269.66 and award costs of £40,307.49 to NRW. Further information on our enforcement work and how we regulate can be found on our website at <https://naturalresources.wales/about-us/what-we-do/how-we-regulate-you/regulatory-responsibilities>

Developing opportunities for the Welsh Woodland Estate

Taking opportunities to develop the role of the Woodland Estate to support business in Wales is another of our objectives. Beddgelert Forest in Snowdonia is already home to 16 holiday cabins and we continue discussions with Forest Holidays regarding development of our site at Garwnant, near Merthyr Tydfil. Any proposed development has to balance the benefits of the development with protection of our special natural environment. It is important to recognise that we perform two separate and distinct roles in this instance, as facilitator and as regulator and we are careful to exercise these distinct responsibilities.

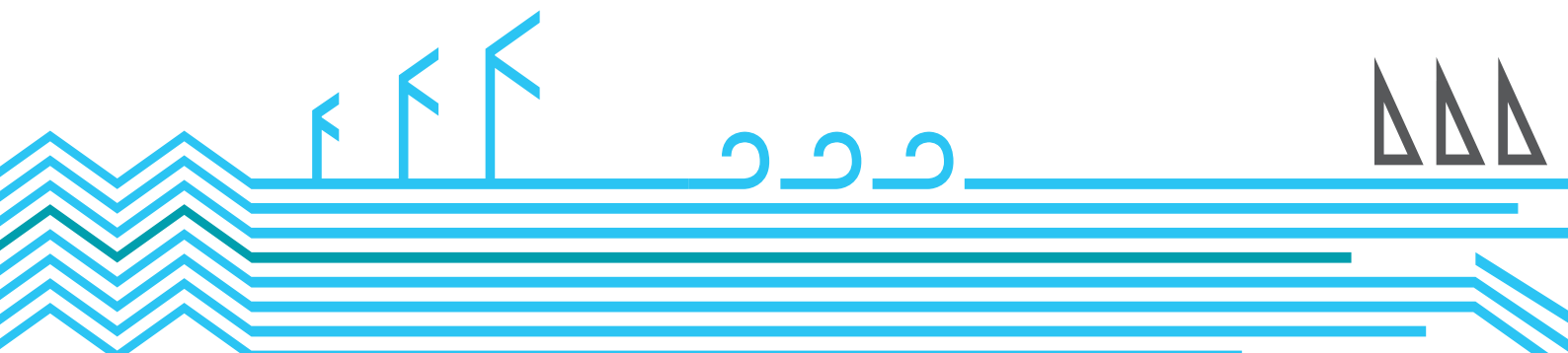
As facilitator, the development is in response to the existing master agreement between us and Forest Holidays. This proposed development of the Woodland Estate would, it is estimated, contribute to the wider societal gains, including a £10million non-subsidised investment and the creation of 40 new jobs near to an area of economic deprivation.

What next?

Significant work in 2019/20 will support the delivery of Welsh Government decarbonisation and renewable energy targets by

- Working to identify solar and wind energy opportunities which can potentially be reflected in the Welsh Government's Energy Atlas, our Area Statements, and the National Development Framework. We will publish guidance on Landscape Sensitivity Assessment to help ensure the right development in the right place.
- Developing and pursuing opportunities for renewable energy, such as windfarms, solar, hydro, battery storage and energy parks, along with our own renewable energy programme.
- Providing advice on the delivery and implementation of the Wales National Marine Plan including ensuring our advice on marine renewables is proportionate to the potential impact.

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Well-being Objective 7

Develop NRW into an excellent organisation delivering first class customer service

We want to be the best organisation we can be, for our staff, our customers and the natural environment. This means we have undergone considerable change as an organisation. Completion of our staff restructure in summer 2019 will allow us to focus on developing our organisation to support staff and customers to meet personal and business objectives.

Our measures

- Embedding SMNR through training, policies, guidance & streamlining processes
- Implement our new organisation design
- Customer satisfaction
- Independent Review of Timber Contracting
- Improve our organisation as a place to work
- Wellbeing Health and Safety incident reporting

2018/19 results

- 1400 staff have received SMNR training
- Consultation on our new Organisational Design was completed ahead of an extended implementation phase
- NRW Customer Strategy launched
- Independent review of timber contracting completed with follow up actions to address recommendations agreed
- Launched new organisational values
- Unfortunately, there were 5 Lost Time Incidents of staff becoming ill or being hurt while at work

Examples of our work over 2018/19

Falling short and putting it right

We want to be an organisation that practices high levels of good internal governance and acts with integrity to make a difference to the natural environment and to our customers. We know, that in issuing timber contracts in recent years we have not done this.

This year, we have left no stone unturned in getting to the bottom of the issues in our commercial forest operations, which is why in summer 2018 we commissioned Grant Thornton

to carry out a thorough independent review. We fully accept their findings and recommendations, which we have translated into specific improvement actions.

We are taking this very seriously and we know that we have to get this right. We have set up a stand-alone project reporting to the Board to implement the actions at pace. The project is led by a project manager with a professional procurement background, who is working across NRW to implement the actions. Everyone affected is fully on board.

We are already making progress on many fronts:

- We have written a new Timber Sales Governance Standards document, which covers all the areas in Grant Thornton's recommendations and replaces outdated documentation that predates NRW. We have trained staff on using and applying the new standards and will review its efficacy annually.
- Our relationship with the timber industry is very important and we started the process of rebooting it at our annual timber customer liaison meeting in January, updating them on the report findings, our action plan and the improvements that we are already making. We will continue to keep them updated as we make progress.
- All staff are receiving training in Public Law and relevant teams have also been trained in State Aid.
- In December 2018 we introduced new terms and conditions to all new timber contracts

Designing an organisation for the future



We embarked on an ambitious programme to redesign the roles and structure of our organisation in order to meet our purpose of pursuing the sustainable management of natural resources and adapt our operations to the future focus on place-based working in order to do so.

Following a summer 2018 consultation on our proposed design, we took on board staff and trade union comments before approving a final structure in October. Implementation has since been underway with staff being matched to and expressing interest in roles on the new structure which will be operational on 1 July 2019. A huge undertaking is also ongoing with

policies, processes and systems being redeveloped and adapted to support the new structure and its roles.

Creating #TeamNRW

Following poor staff survey results we know there is a lot to be done to support and boost morale among our staff. It's even more important when much of this year has still involved significant change for everyone.

Creating a team ethos is important to us so in October, around 600 of us got together at our first ever #TeamNRW Day in Aberystwyth. It was a busy day with people travelling from all corners of Wales to be there and others watching via live streams to our offices.

The day was an amalgamation of all things NRW with our popular marketplace for staff to showcase their work and those of our staff networks and internal groups; interactive talks and workshops; our first staff awards, recognising the individual and team achievements of our talented and diverse colleagues as well as a keynote speech from Richard Parks, ex Wales rugby player and now outdoors adventurer. We're already asking our staff through surveys and working groups for input to our 2019 event and we hope to make it bigger and better again!

The values we hold, the value we bring

At our team day we also launched our new corporate values. Listening to our people surveys, staff groups and team meetings etc. we recognised that our original values did not really reflect the core values and expectations of our staff, so we set about designing our new Values Tree which we think now represents us, as people, and what is important to us.

Supporting our wellbeing, health and safety

Work to support the wellbeing, health and safety of our staff was formally recognised in March when our efforts were rewarded with Public Health Wales (PHW)' Corporate Health Standard – Silver Award. A fantastic achievement at our first attempt! Assessors considered our evidence of current policies, plans and ways of working against their framework of what an organisation can/should be doing to help and support staff. The PHW team also spoke to staff in Bangor as part of our assessment.

We were working towards achieving 'Bronze' as a starting point so we could improve but when we saw all the of the fantastic examples of local initiatives – welfare rooms, book clubs, walking and cinema groups, lunchtime quizzes – and the policies we have in place the evidence just stacked up. Plans will now be amended so we can apply for the Gold Award in future.

Equipping #TeamNRW for the future

Working with customers and business users we have rolled out the Windows 10 Operating Systems to improve the user experience of staff and modernise our technical IT foundation ready for the next phase of NRW's evolution. 1,650 laptops to users at 31 different locations across Wales have been delivered, with staff involved in specifying laptops and tablets and an ICT User Group has been established. 90% of NRW applications are available in an "App Store", enabling staff to install them themselves.

What next?

Developing our organisation

In 2019/20 we will continue significant work developing our organisation, recognising that our staff are at the heart of our ability to achieve all that we can for Wales and our natural environment. We will focus on:

- Improving our internal governance and compliance procedures relating to the execution of timber sales, providing assurance that the issues arising out of the Grant Thornton review are being resolved using short term, medium term and long-term measures.
- Provide support to new managers and team leaders including the establishment of a competency framework for all staff.
- Develop a Strategic Workforce Plan that facilitates career pathways, informs development programmes and a recruitment focus.
- Develop a fresh Communications Strategy in support of our new phase of delivery, including investigating tools we can use to deliver better engagement and consultations.
- Deliver and implement a new Risk Management Framework for the organisation.
- Implement our Customer Strategy workplan by establishing a baseline to measure our customers' experience with our services and delivering 13 projects by March 2020 with £0.6m in funding.
- Develop our Wellbeing, Health and Safety management system to become certified to ISO45001,

Accountability Report

Our Accountability Report outlines key features of how we manage our organisation. Over the following pages our Corporate Governance report explains who our Board and senior management team are, how they work and the governance arrangements in place to ensure effective management and oversight of our resources to achieve our objectives.

Our Remuneration and Staff Report describes how we address Board and senior management pay as well as providing an overview of the make-up of our staff numbers.

Our Parliamentary Accountability and Audit Report brings together additional requirements requested to demonstrate our accountability to the UK and Welsh Governments, regularity of expenditure and the final opinion from our Auditor.

Corporate Governance Report

Directors' Report

We employed five executive directors and two directors who, along with the Chief Executive formed our Executive Team during 2018/19. Our Executive Director of Organisational Development and People Management left at the end of July 2018 and due to the expected changes with our new Organisational Design we did not replace this post.

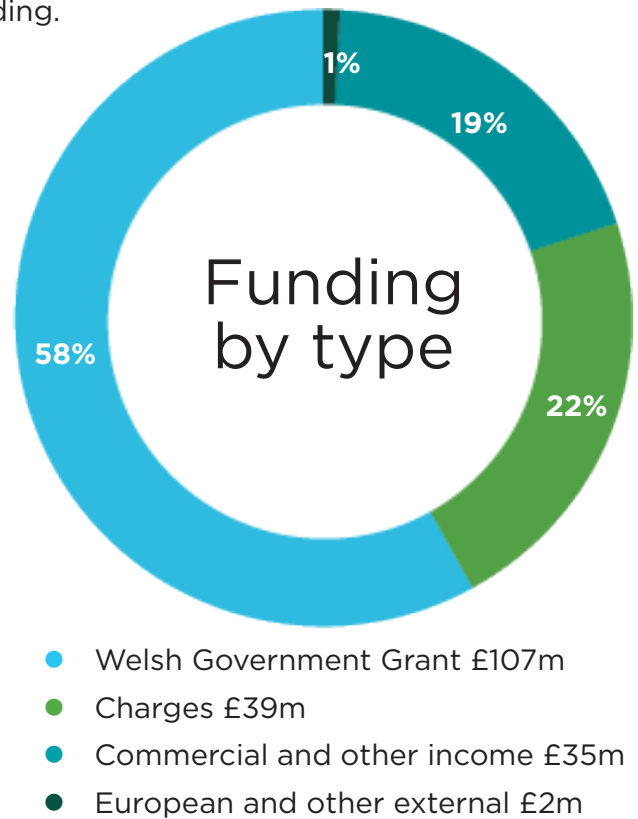
Position	Post Holder	Length of Service
Chief Executive	Clare Pillman	26 February 2018 – present
Executive Director of Finance and Corporate Services	Kevin Ingram	1 April 2013 – present
Executive Director of Evidence, Policy and Permitting	Ceri Davies	1 April 2013 – present
Executive Director of Operations (North & Mid)	Tim Jones	1 April 2013 – present
Executive Director of Operations (South)	Gareth O'Shea	27 April 2015 – present
Executive Director of Organisational Development and People Management	Ashleigh Dunn	17 November 2014 – 31 July 2018
Director Customer, Communications and Information	Catherine Love (née Smith)	22 April 2014 – present
Director Transformation Portfolio	Niall Reynolds	1 April 2013 – present

Managing our finances 2018/19

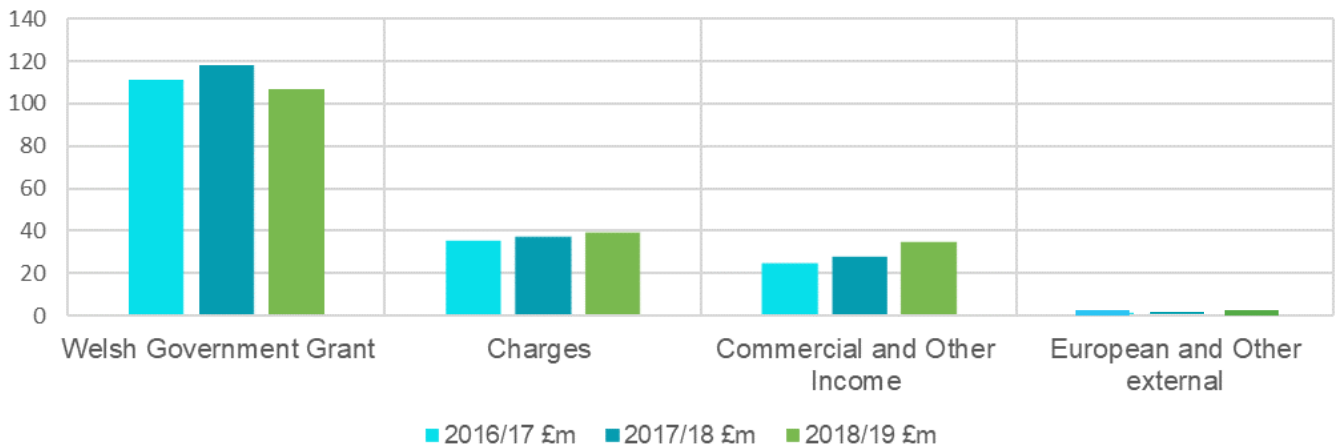
Funding

Our total income for the year was £76 million. In addition, the Welsh Government provided £107 million Grant in Aid and other grants towards a range of outcomes, of which £39 million was allocated to flood and coastal risk management. In the financial statements, 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.

In 2018/19 our funding decreased from £185 million to £183 million with the biggest decrease being the Welsh Government Grants (£11 million). Our core grant funding reduced by £3m when compared to the previous financial year, but we have received additional funding for new priorities. An overall increase in charges (£2 million) was in respect to a 'non-cash' adjustment of £2m to reflect the income that will need to be raised in future to cover the full cost of capital works that is being undertaken on reservoirs via the abstraction charge - otherwise they have been kept at the same cash level as the previous financial year. Commercial and other income also increased this year by £7 million owing mainly to the buoyant timber market. This is illustrated in the graph below.



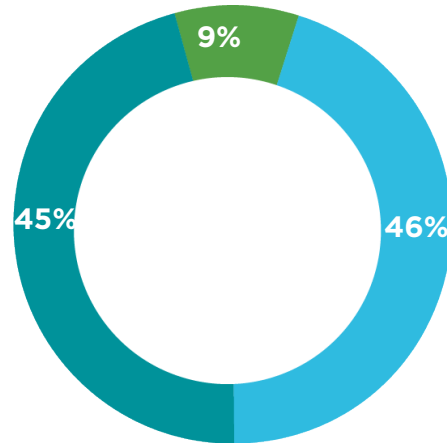
Funding by Financial Year



How we spent our money

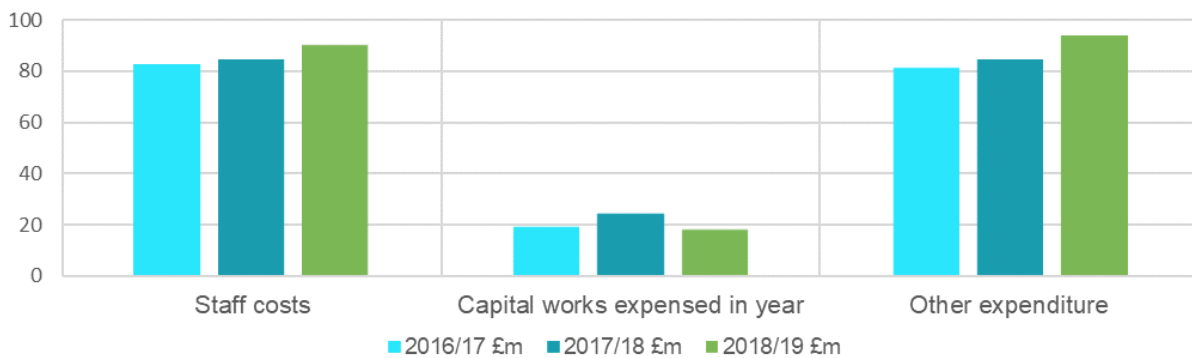
Our total expenditure was £201 million. The detailed breakdown by category of spend can be found in the Financial Statements and is also illustrated below.

In 2018/19, our expenditure increased from £192 million to £201 million. The change in expenditure is due to a number of circumstances including an increase in the value of timber sold, reservoir operating agreement and staff costs offset by a reduction in the level of flood and coastal risk capital management schemes. This is illustrated in the graph below.

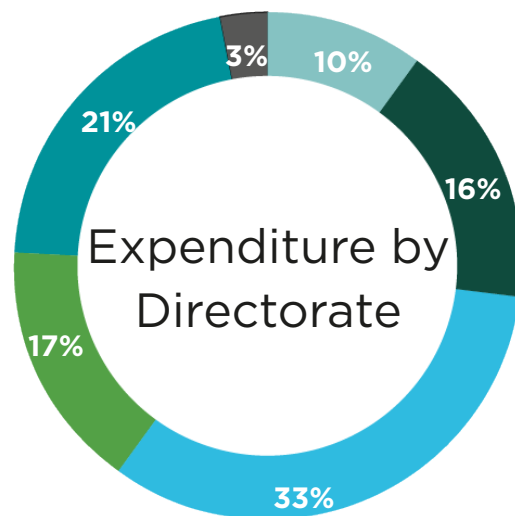


- Staff costs £90m
- Capital works expensed in year £18m
- Other expenditure £93

Expenditure by Financial Year



The graph shows how the money was spent by directorate. 49% of our expenditure was spent in our Operations teams, whilst another 21% was spent in our Evidence, policy and Permitting teams. 10% has been categorised as centrally controlled which accounts for non-cash movements such as depreciation. The remaining 20% was spend across the range of our corporate service departments, which have been benchmarked against other public-sector bodies.



- Operations North and Mid Wales
- Evidence, Policy and Permitting
- Operations South
- Finance and Corporate Services
- Centrally Controlled
- Chief Executive's Office

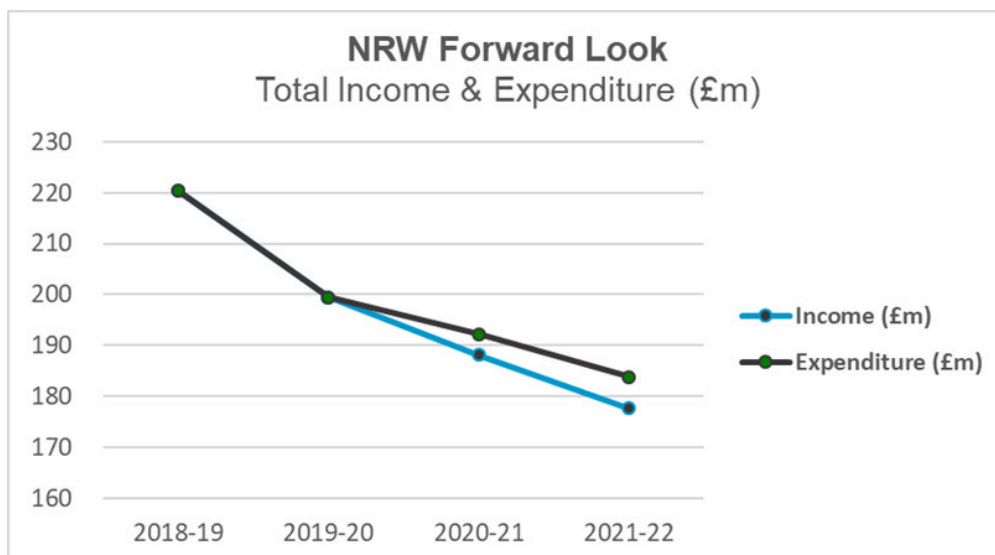
Managing our money

In 2018/19, our 'core' funding from Welsh Government was reduced by £3m but we received additional funding from the Welsh Government to tackle issues such as the spread of the tree health disease and embedding the sustainable management of natural resources. We also utilised our charges and commercial income in the undertaking of our activities. All budget allocations were scrutinised and approved by the Executive Team and Board. We have also benefited from an extremely buoyant market and our timber sales (>£26 million) are over £7 million more than last financial year.

Future look

We have published our Business Plan for 2019/20 which sets out our priorities for the financial year ahead. Our current Corporate Plan runs until 2022. We have set our plans based on funding assumptions on Grant in Aid, charges and commercial income. Charge income tends to be relatively stable, but our commercial income is less predictable as it's very sensitive to exchange rate changes which have impacted on our timber prices. We don't know what our Grant in Aid allocations will be for 2020/21 onwards but Welsh Government are planning to issue longer term funding indications in future which will help our financial planning. We have just implemented a new organisation design which takes account of recent Grant in Aid funding reductions and timber income increases. That structure will be flexible so as to respond to future funding changes.

The table below shows the gap between income (including funding from Welsh Government) against expenditure based on assumptions of funding levels and inflation.



Non-current assets

The value of our non-current assets was £1,036 million at 31 March 2019, a 9% (£87 million) increase compared to last financial year. The most significant component is the value of the Welsh Government Woodland Estate which accounts for £903 million of the total. We are required to undertake an independent quinquennial revaluation of land, buildings, forest estate and biological assets and that will next be undertaken in 2020/21. In the intervening

years, our non-current assets, where they have a material impact on the financial statements, are revalued via the appropriate indices.

Payment of trade and other payables

Welsh Government has a commitment to pay 95% of suppliers within 30 days and we aim to exceed this target wherever possible. Performance for the whole year was 96%. In 2017/18 we achieved 97%. This helps to ease businesses' cash flow in the current challenging economic climate.

Debtor performance

Our continued effective management of commercial debt has seen us again deliver an improvement in commercial debt, with the average number of days it took customers to pay reduced to 2.6 days compared to 11 days in 2017/18.

Our management of regulatory debt has also seen an improvement in debt collection - from 2.4% of charges raised in 2017/18 to 1.86% in 2018/19.

Our expected credit loss for debt was £0.4million at 31 March 2019.

Going Concern

The Statement of Financial Position at 31 March 2019 shows positive taxpayers' equity of £981 million. The future financing of our liabilities is to be met by the Welsh Government Grant in Aid and the application of future income. We have already received approval for funding for 2019/20. Therefore, it is appropriate to adopt a going concern basis to prepare the Financial Statements.

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 Plan.

We are rolling out Forest Resource Plans (FRP) to replace the previous Forest Design Plans (FDP), The forest resource plan is a core management document used on the Welsh Government's Woodland Estate. It lays out proposals for the future management of a woodland in accordance with current policy and practice. These plans are far reaching, with a strong emphasis on delivering social, economic and environmental benefits, incorporating the ecosystem approach to land management. The plans are approved for an initial period of ten years, with the period beyond (50+ years) being approved in outline. This allows for a review of the document and revision if necessary. All plans include a long-term vision for the woodland and form the framework for detailed work programmes to be developed.

All national nature reserves, including those owned or managed by NRW, those managed through partnership arrangements, and those managed by third-parties, are managed in accordance with an approved management plan.

These plans include conservation objectives for all recognised features of interest and identify necessary projects and work programmes. The plans are for a period of 5 years and are reviewed annually, checked by our Conservation Management team, through a rolling programme of reviews and environmental audits.

Pensions

The pension liability is disclosed in the Financial Statements based on International Accounting Standard 19. The liability has increased for the Local Government Pension Scheme from £32 million to £56 million in the year.

This is different from the basis used for funding calculations. The last formal revaluation of the fund was undertaken at 31 March 2016 and showed an overall funding position of 103%.

Auditors

Our accounts (including Internal Drainage Districts) are audited by the Auditor General for Wales. The audit fee for 2018/19 was £224,476, that includes an additional fee of £35,595 for the Well-being of Future Generations Wales Act audit.

Corporate reporting

The following annual reports and plans are also available on our website:

Corporate Dashboard 2018/19

Strategic Equality Action Plan 2015 - 2020

Equality Diversity and Inclusion Annual Report 2018/19

Gender Pay Gap Analysis

Corporate Environmental Report 2018/19

Wellbeing, Health and Safety Annual Report 2018/19

Welsh Language Annual Monitoring Report 2018/19

Environmental reporting

Our environmental management system (EMS) is helping develop Natural Resources Wales (NRW) into an excellent organisation by maintaining our ISO14001:2015 certification, our forest certification against the UK Woodland Assurance Standard and by reducing our own environmental impact and carbon footprint. Our Corporate Environmental Report (see Annex 1) relates primarily to environmental sustainability, as distinct from wider sustainability actions or outcomes. Wider sustainability-related reporting can be found throughout our Annual Report & Accounts. This year we have:

- met our target to reduce our carbon footprint by 5% in relation to occupied buildings energy use and business travel;
- retained woodland certification (UK Woodland Assurance Standard) for the Welsh Government Woodland Estate that we manage, following independent external audits and verification
- completed 75% of the National Nature Reserve management audit target and ensured any improvement actions identified were implemented
- identified the number of staff who walk, cycle and use public transport for commuter and business travel

Clare Pillman
Chief Executive and Accounting Officer

10 July 2019

Statement of Accounting Officer's Responsibilities

Paragraph 23 (1) of the Schedule to the Natural Resources Body for Wales (Establishment) Order 2012 requires 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 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
- confirm that there is no relevant audit information of which Natural Resources Wales' auditors were unaware, and take all steps to make themselves aware of any relevant audit information and to establish that Natural Resources Wales' auditors are aware of that information
- confirm that the Annual Report and Accounts as a whole is fair, balanced and understandable and take personal responsibility for it and the judgements required for determining that it is fair, balanced and understandable.

The Additional Accounting Officer for the 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 she 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

This Statement sets out the governance structures, risk management and internal control procedures that have operated within NRW during the financial year 2018/19 and accords with HM Treasury and Managing Welsh Public Money guidance.

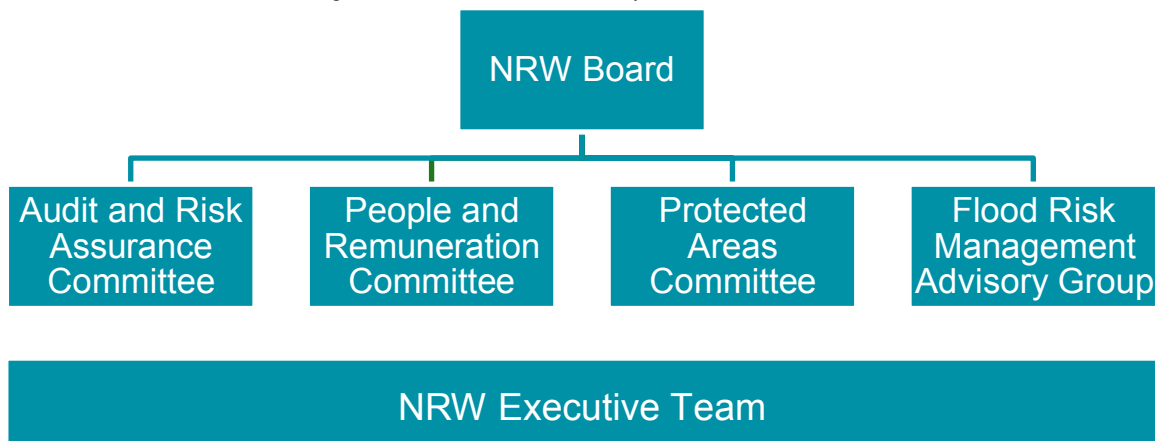
As the delegated Accounting Officer for Natural Resources Wales, my role is also to safeguard public funds and organisational assets by putting in place arrangements for the governance of our affairs and effective exercise of our functions. I can confirm that the information in our Annual Report and Accounts is a true and fair account of how the organisation has delivered its functions this year. I also confirm that there is no outstanding information that has been brought to my attention or that I am aware of that has not been brought to the attention of the Wales Audit Office.

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 Environment, Energy and Rural Affairs.

We currently have 13 Board members, led by our Chair with 11 non-executive members and myself as an executive member of the Board. There have been significant changes to the make-up of our Board this year. Following the resignation of Diane McCrea in July 2018, Sir David Henshaw was appointed as interim Chair for 12 months from 1 November 2018. In the autumn, five of our original non-executive members came to the end of their terms with Dr Ruth Hall CB, Dr Madeleine Havard, Andy Middleton, Nigel Reader CBE and Sir Paul Williams stepping down at the end of October 2018. Following a Welsh Government recruitment exercise, the following five new non-executives were appointed from 1 November 2018: Catherine Brown, Julia Cherrett, Dr Rosie Plummer, Professor Steve Ormerod, Professor Peter Rigby and with Geraint Davies joining on 1 January 2019.

To carry out our duties, we meet as a full Board with additional scrutiny being undertaken by three statutory committees and one advisory group. Our Executive Team will provide strategic and operational updates to our Board and Committees for scrutiny and decision as required.



Each is chaired by a Board member and includes at least three other Board members. We do not have a Nominations Committee as our members are appointed by Welsh Ministers. Membership of each committee was reviewed in November 2018. The following sections outline the work focus areas and attendance of our Board and Committees.

Board Meetings

We held six two-day meetings across Wales this year, as well as an additional meeting to approve our new organisation structure. Standing items on our agenda include: in-year finance and performance reporting; and strategic and operational updates from the Chair, Chief Executive, Committees, and Board Groups. 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.

Board member attendance

Board Member	No. of possible meetings	No. of full meetings attended
Diane McCrea (Chair)	2	2
Dr Madeleine Havard (Deputy Chair)	4*	4
Ruth Hall	4*	4
Andy Middleton	4*	4
Nigel Reader	4*	4
Sir Paul Williams	4*	4
Chris Blake	7*	6.5
Howard C Davies	7*	7
Elizabeth Haywood	7*	4.5
Zoe Henderson	7*	7
Karen Balmer	7*	5
Clare Pillman (Chief Executive)	7*	7
Sir David Henshaw	3	3
Catherine Brown	3	3
Julia Cherrett	3	3
Dr Rosie Plummer	3	2
Professor Steve Ormerod	3	3
Professor Peter Rigby	3	3
Geraint Davies	2	2

*There was one extraordinary meeting held in October 2018 to address organisational design final sign off taking the total to 7 meetings in 2018/19.

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. The Chief Executive attends every meeting as NRW's Accounting Officer, along with our Executive Director of Finance and Corporate Services.

This year ARAC addressed a range of issues including:

- Ongoing Public Accounts Committee Scrutiny of Annual Report and Accounts 2015/16
- Grant Thornton: Governance of Timber Sales Report
- Internal Audit Plan 2018/19
- Annual Report and Accounts 2017/18 and plans for this report, 2018/19
- Cyber security internal controls

Board member ARAC attendance

Board Member	No. of possible meetings	No. of full meetings attended
Karen Balmer (Chair)	5	5
Ruth Hall	3	3
Nigel Reader	3	3
Chris Blake	5	4
Rosie Plummer	2	2
Peter Rigby	2	2
Catherine Brown	1	1

People and Remuneration Committee

The People and Remuneration Committee (PaRC), considers matters relating to people management, reward and organisational change. This includes oversight of the pay and conditions of employment of the most senior staff, an overall pay strategy for all staff employed by Natural Resources Wales, pension scheme provision, organisational design, wellbeing, health and safety, customer care, equality and diversity and development of the Welsh language.

The People and Remuneration Committee advises on strategic organisational development, ensuring there is a clear strategy in place, effective and affordable organisation design and effective management of major change initiatives, with the intention of ensuring a well-motivated, high-performing and innovative workforce. The Committee also oversees, on behalf of the Board, the embedding of excellence in customer care as a key component of organisational culture.

The Chief Executive attends every meeting, along with our Transformation Portfolio Director. Our Executive Director of Organisational Development and People Management attended meetings before leaving her post in July 2018. This role has not been replaced in the new structure. Senior Leadership Team staff will attend to support work within their remit.

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

- Organisational Design Consultation and Implementation
- Wellbeing, health and safety and Serious Incident Reviews
- Changes to pension schemes
- Scrutiny of proposed People Management policies
- Director appointments and remuneration

Board member PaRC attendance

Board Member	No. of possible meetings	No. of full meetings attended
Paul Williams (Chair)	3	3
Nigel Reader	3	3
Zoe Henderson (Chair December 2018 onwards)	5	5
Karen Balmer	5	4
Howard Davies	2	1
Julia Cherrett	2	2
Rosie Plummer	1	1

*There was one additional meeting held in October 2018 to address organisational design final sign off taking the total to 5 meetings in 2018/19.

Protected Areas 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.

The Committee did not formally meet this year however continued offering advice when required. Committee members included: Andy Middleton, Madeleine Havard, Paul Williams, Howard C Davies and Elizabeth Haywood. Steve Ormerod and Rosie Plummer will replace Andy Middleton and Madeleine Havard at future meetings.

Flood Risk Management Advisory Group

The Group is advisory and reports to the Natural Resources Wales Board. Its primary responsibilities are to scrutinise Flood Risk Management (FRM) investment programmes for current and future years, and to consider key issues which may affect the delivery of FRM-related work in Wales.

The Group comprises four members of the Board along with the Executive Director for Finance and Corporate Services, Executive Director for Evidence, Policy and Permitting, Head of Flood and Incident Risk Management and Head of Finance.

The Group reviewed areas including:

- prioritisation of flood risk management activities
- governance of the flood risk management capital programme

- the latest medium-term plan for our capital programme
- the current performance indicators relating to the condition of NRW maintained flood risk assets
- the Internal Drainage District rates and precepts for 2019/20.

Board Member FRM Advisory Group Attendance

Board Member	No. of possible meetings	No. of full meeting attended
Madeleine Havard (Chair)	2	2
Nigel Reader	2	2
Elizabeth Haywood	2	2
Karen Balmer	2	2

Board groups

Previously, outside of our formal meetings Board members contribute to strategic development through ‘task and finish’ Groups providing advice as requested on specific areas of work e.g. our charging scheme, performance reporting. Our new Chair has established new non-statutory committees to formally structure this work with the implementation of the Finance, Planning and Performance Sub Committee and the Evidence Advisory Committee beginning their work in 2019/20.

Board effectiveness

A significant change to non-executive members this year has allowed us to strengthen the NRW Board’s skills in governance and operational scrutiny as well as scientific focus. This will help to ensure appropriate attention on both the methods and structure of running an organisation as well as delivering its core purpose.

In early 2019 Sir David Henshaw asked Dr Rosie Plummer to undertake a review of current Board practices as outlined above. This work will provide a more in depth look at current effectiveness and suggested actions will form future development actions. This review is due to report back in the summer 2019.

Compliance with the UK Corporate Governance Code

Our organisational structure, policies and procedures are set in line with the UK Corporate Governance Code. To improve the workings of our internal governance arrangements, and ensure they are following examples of exemplary practice, between the Board and Executive our interim Chair commissioned a review with a planned reporting during quarter 2 of the next financial year. Our leadership is consistent with expected senior management roles and responsibilities; supporting procedures are in place to ensure Board roles can operate effectively; our reporting routes are clear to ensure accountability and appropriate division of duties and key internal controls are in place; remuneration is considered by non-executives to ensure independence and we have regular meetings with our key stakeholders to maintain constructive working relationships.

Our Executive

Day-to-day management of our organisation is delivered through Executive Team (ET), which has also seen some major changes to how we deliver our work this year. To ensure appropriate scrutiny, transparency and visibility, ET now meet once a month for a full day. A new agenda structure ensures core corporate business – budget updates, performance information, wellbeing health and safety, risk register, Welsh Government sponsorship arrangements etc. are discussed in the morning, before scrutiny and decisions concerning strategy/policy and operational issues are discussed in the afternoon. In response to our People Survey results, we now move these meetings around our offices across Wales, giving staff more opportunity to meet senior managers. I have also introduced an Observer Programme, where staff can attend the ET meetings, sitting alongside us to discuss the issues of the day. Following the meetings, staff attendees write a blog for the intranet on the views / thoughts of what they've seen and heard. Our Agendas and Minutes are also published on the intranet each month for all staff to read.

We produce an annual business plan that outlines steps we will take towards meeting commitments in our longer term Corporate Plan to 2022. This includes corporate targets and outcomes that we monitor delivery against. Detailed Management Information is reviewed monthly at Executive Team meetings with a summary Corporate Performance Dashboard being reviewed before scrutiny from the NRW Board and Welsh Government on a quarterly basis. Detailed day to day delivery is managed through directorate leadership teams, however this will be moving to new Business Boards in the new structure during 2019/20.

Ministerial Directions

We received one Ministerial Direction this year. In October 2018 the Minister for Environment, Energy and Rural Affairs wrote to us to ask that we review our approach to engagement with local communities relating to the disposal of mud into Cardiff Bay from the development of Hinkley 'C' Nuclear Power Station in Somerset. As a result, we have undertaken a thorough and objective review of all communications and engagement of this marine licence, which has looked at: legal requirements; best practice; and robust scrutiny of what was done in this case. This has resulted in some detailed key findings and recommendations. A final report was sent to the Minister for Environment, Energy and Rural Affairs in February 2019 and actions to address findings and recommendations are already underway e.g. updating Hinkley 'C' related webpages, updating NRW Public Participation Statement etc.

Our risk management framework

Our day-to-day risks are identified, evaluated and managed at a number of different levels. The Executive Team are responsible for managing corporate risks in line with achieving strategic objectives. The Board uses ARAC to exercise scrutiny over our risk management processes, as well as to drill-down into specific risks and issues. Significant improvements to our Corporate Risk Register this year have brought increased scrutiny and visibility at the highest level, however escalation and delegation of risks is better in some areas of the business than others. As we transition to our new structure we are moving

away from directorate managed risks and creating Business Boards which will oversee the planning, performance and risk management of linked policy and operational work together. This year has seen the beginning of this move, with some directorates such as Communications, Finance and Corporate Services and Governance and Planning moving to one Corporate Services Business Board. Other work areas within Policy and Operations E.g. Regulatory Business Board, Natural Resources Management Business Board are similarly underway with new areas to set up post implementation of the new structure e.g. Land Stewardship. This work will be supported by a dedicated Risk Manager who will be appointed during 2019/20 as part of the new structure to drive greater understanding and consistency across the organisation.

Information assurance

We are committed to ensuring data and information is well governed, managed and continue achieve a balance between openness and security, making sure that staff and customers are assured of suitable levels of protection. The Senior Information Risk Owner (SIRO) continues to lead an integrated programme of work to strengthen our response to resilience against cyber and information security threats. This year we have rolled out a new cyber security online training and renewed our Cyber Essential Plus accreditation approved by the National Cyber Security Centre and independently audited by a qualified third-party specialist.

Last year NRW had a single information breach caused by a third-party handler of our information. We have worked closely with the third party and Information Commissioners Office (ICO), complying with the GDPR process and ensuring we have effective information security incident management and controls in place.

Our capability to manage Cyber security has strengthened with the establishment and specialist training of two dedicated Cyber Security roles focussed on monitoring and improving security of our digital assets and services. Likewise, has our capability to implement and comply with GDPR supported by the specialist Data Protection Officer role and GDPR training rolled out to every member of staff.

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 remain positive with Executive Team members confirming that our control framework continues to be developed and applied across all work areas. Policies and procedures continue to be introduced or revised as necessary to adapt to external changes or internal gaps identified. Consistency of application remains a concern in some areas, for example, information management, due to ongoing prioritisation of other key projects, such as Organisational Design (OD) as well as day job activities. Senior management are aware of this and will look to improve consistency through OD implementation along with a revised induction programme planned for 2019/20.

We have established anti-fraud and whistleblowing measures in place to raise serious concerns about malpractice or impropriety. Following concerns raised in the Grant Thornton Report in February 2019 the whistleblowing policy and supporting procedures is currently under review with changes expecting to be implemented during summer 2019.

We have received 23 allegations of fraud, which have been handled in accordance with NRW's anti-fraud, bribery and corruption process. These are reported to our Audit and Risk Assurance Committee and have been handled using trained internal investigators and agreed procedures.

Audit report

Our Internal Audit team have completed their annual audit plan, with regular progress and feedback to the Audit and Risk Assurance Committee. The opinion of the Internal Audit Manager, as set out in their annual assurance report is:

“NRW has been undergoing an unparalleled amount of change since inception. In 2018/19 the Organisational Design (OD) programme and timber related issues placed an increasing demand on the organisation and its staff, increasing the overall risk profile.

The annual audit opinion is informed by the delivery of the Internal Audit plan. This year we provided limited assurance on six key business areas. They included workforce planning, business continuity, timber sales contracts, H&S implementation of forestry safety review and the Organisational Design and Day One Readiness programme. The audit coverage also included business planning and unfunded bids, no deal Brexit preparedness, some aspects of IT security and various aspects of timber sales. The number of areas where significant control weaknesses have been identified has increased when compared to last year (where we had 12 Moderate and no Limited opinions). This, together with our assessment of governance and risk management (below) has led me to conclude that I can offer a limited overall assurance opinion.

Significant weaknesses in the internal governance and the framework of internal controls in timber sales continued to be identified by Wales Audit Office and then by subsequent internally commissioned reviews, including those delivered by Internal Audit. Management have commenced an improvement programme to deal with the identified failures, but it is too early to assess its effectiveness. We will re-visit these areas in 2019/20, however the 2018/19 annual opinion reflects this year's position.

Through the delivery of the Internal Audit plan, we have highlighted some wider governance issues which are rooted in organisational culture. They are in areas of quality and scrutiny of information presented for decision-making, escalation and oversight. Internal Audit are not yet able to fully assess the extent of these issues. However, they appear to be common, to a degree, in most areas we've audited or provided advice. I have taken this into consideration when designing 2019/20 audit plan.

NRW management assessed “Culture of poor compliance” as a high likelihood and a very high impact risk, in their Corporate Risk Register. This, coupled with the fact that the organisation is in the period where risk is elevated, raises concerns and is reflected in the annual audit opinion.

Over the past two years, the organisation has begun to recognise and accept that its maturity in Risk Management is lower than desired. A self-assessment, carried out in January 2019 by the Executive Team against a maturity model, indicated an average score of 2 (on a scale of 1-lowest to 5-highest). This level was described as “management have acknowledged the key principles of risk management but have yet to begin their

implementation in earnest". This corresponds with Internal Audit findings. While work has commenced to improve organisational maturity in this area, this has been slow, leaving ongoing weakness in this fundamental management process which had an impact on my opinion."

External audit

Following three consecutive years of a qualified opinion on NRW's accounts on the basis of regularity, I requested that Grant Thornton complete an independent review of our timber sales operations.

The Grant Thornton Final Report was received and shared with the Minister for Environment, Energy and Rural Affairs, Public Accounts Committee, NRW staff and the general public on 4 February 2019. Sir David Henshaw and I also attended a Public Accounts Committee scrutiny session on 11 February 2019 to discuss the concerns it raised.

We recognise that this is not a single business area issue and in response I have appointed a dedicated project manager to oversee the Improvement Plan. There are now weekly project team meetings and monthly Board oversight group meetings taking place to oversee the improvement plan delivery. Work to date includes

- Creation of seven workstreams, with a business lead to focus delivery and reporting back to project group at pace.
- Employed a Grant Thornton secondee to consider standing sales + issue
- Increased staff communication concerning compliance which includes good engagement with Harvesting and Marketing colleagues
- A new Timber Sales Standards document is being used
- Holding our first liaison day with the Timber industry to explain NRW changes
- Holding a meeting with our Heads of Place to look at the Report and subsequent Improvement Plan and consider what this means for operations in their areas of responsibility.

We maintain a close watch on progress against our improvement plan ahead of a return to the Public Accounts Committee in December 2019

Clare Pillman
Chief Executive and Accounting Officer

10 July 2019

Remuneration and Staff Report (audited)

Remuneration Report

Remuneration policy

The Board has established a People and 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 People and Remuneration Committee comprises 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. Movement between the pay points is subject to performance assessment by the Chief Executive and moderation by the Remuneration Committee. Any movement through the pay points and beyond is only for consistent outstanding performance as assessed by the Chief Executive and confirmed by the People and Remuneration Committee.

There was no pay deal for all staff for the period 1 July 2017 to 30 June 2018. There was a consolidated pay increase of 1% applied from July 2018 which was part of the whole Job Evaluation proposal.

There is a social partnership agreement in place with five trade unions and the setting of terms and conditions for staff below the Executive Team members 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. As part of the Job Evaluation proposal a 1% non-consolidated pay deal was agreed and implemented for 2017/18. This will be consolidated into pay from 2018/19.

Service contracts

All appointments to the Board are made on behalf of the Minister for Environment, Energy and Rural Affairs.

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 consistent with the Civil Service Compensation Scheme. Board members are not entitled to compensation.

Board members' remuneration

Board Member	Employment Contract	Salary 2018/19 (£5,000 range)	Salary 2017/18 (£5,000 range)
Karen Balmer ^{1,2}	9-11-18 to 8-11-22	15-20	15-20
Chris Blake ¹	9-11-18 to 8-11-20	10-15	10-15
Catherine Brown ⁸	1-11-18 to 31-10-22	5-10	0
Julia Cherrett ⁸	1-11-18 to 31-10-21	5-10	0
Geraint Davies ⁸	1-1-19 to 8-11-20	0-5	0
Howard Davies ^{1,11}	9-11-18 to 8-11-20	10-15	10-15
Dr Ruth Hall CBE ⁹	1-11-17 to 31-10-18	5-10	10-15
Dr Madeleine Havard ³ (Deputy and Acting Chair)	1-11-17 to 31-10-18	10-15	15-20
Elizabeth Haywood ^{1,12}	9-11-18 to 8-11-20	10-15	10-15
Sir David Henshaw ¹³	1-11-18 to 31-10-19	15-20	0
Zoë Henderson ^{1,10}	9-11-18 to 8-11-22	15-20	10-15
Diane McCrea (Chair) MBE ⁴	1-12-15 to 19-7-18	20-25	40-45
Andy Middleton ⁵	1-11-17 to 31-10-18	5-10	10-15
Steve Ormerod ⁸	1-11-18 to 31-10-22	5-10	0
Rosie Plummer ⁸	1-11-18 to 31-10-21	5-10	0
Nigel Reader CBE ⁶	1-11-17 to 31-10-18	5-10	10-15
Peter Rigby ⁸	1-11-18 to 31-10-21	5-10	0
Sir Paul Williams OBE ⁷	1-11-17 to 31-10-18	5-10	15-20

¹ These board members were re-appointed. The appointment of NRW's Non-Executive Directors or Board Members is the responsibility for Welsh Government and are appointed on varying lengths of terms.

² Karen Balmer was appointed as Chair of the Audit and Risk Assurance Committee (ARAC) from 1 September 2017.

³ Madeleine Havard was the Deputy Chair of the Board until 19 July 2018. Her full year equivalent salary as Deputy Chair was £15,000 to £20,000. She was appointed as the Acting Chair of NRW for the period 20 July 2018 to 31 October 2018. Her full year equivalent salary as Acting Chair was £30,000 to £35,000, which was based on 72 days per annum. She was also Chair of the Flood Risk Management Advisory Group until 31 October 2018.

⁴ During 2017/18, Diane McCrea's salary was based on a time commitment of 96 days per annum from 1 April 2017 to 31 August 2017 and 72 days per annum from 1 September 2017 to 31 March 2018. During 2018/19 she received a back pay for the additional days she'd worked from 1 September 2017 to 19 July 2018 which was based on a time commitment of 96 days per annum. Her full time equivalent salary based on 96 days per annum was £40,000 to £45,000.

⁵ Andy Middleton was Chair of the Protected Areas Committee until he finished on the 31 October 2018. His fully year equivalent salary for 2018/19 was £10,000 to £15,000.

⁶ Nigel Reader was Chair of the Audit and Risk Assurance Committee until 31 August 2017. His full year equivalent salary as ARAC Chair was £15,000 to £20,000. His full year equivalent salary for 2018/19 was £10,000 to £15,000.

⁷ Sir Paul Williams was Chair of the People and Remuneration Committee (PaRC) until 31 August 2018. His full time equivalent salary as the Chair of PaRC was £15,000 to £20,000. From 1 September 2018, his full time equivalent salary was £10,000 to £15,000.

⁸ The full year equivalent salary of the new board members is £10,000 to £15,000.

⁹ Ruth Hall's full year equivalent salary for 2018/19 is £10,000 to £15,000.

¹⁰ Zoë Henderson was appointed Chair of the People and Remuneration Committee on 1 September 2018. Her full year equivalent for 1 April 2018 to 31 August 2018 was £10,000 to £15,000 and as Chair of this committee is £15,000 to £20,000.

¹¹ Howard Davies was appointed as Chair of the Protected Areas Committee on 1 November 2018.

¹² Elizabeth Haywood was appointed as Chair of the Flood and Risk Management Advisory Group on 1 November 2018.

¹³ Sir David Henshaw's full year equivalent salary for 2018/19 is £45,000 to £50,000.

Executive Team's remuneration

Executive Team Member	Salary		Benefits		Pension benefits ⁶		Total	
	(£5000 range)		(nearest £100)		(nearest £1,000)		(£5000 range)	
	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18
Clare Pillman ¹ (Chief Executive)	130-135	10-15	0	0	284,000	29,000	410-415	15-20
Dr Emyr Roberts ² (Chief Executive)	0	120-125	0	0	0	(8,000)	0	115-120
Ceri Davies	100-105	100-105	0	0	38,000	7,000	140-145	105-110
Ashleigh Dunn ³	30-35	90-95	0	0	8,000	36,000	40-45	125-130
Kevin Ingram ⁴	95-100	100-105	0	0	18,000	58,000	115-120	160-165
Tim Jones	90-95	90-95	0	0	0	20,000	90-95	110-115
Catherine Love	75-80	75-80	0	0	30,000	30,000	105-110	105-110
Gareth O'Shea	90-95	90-95	0	0	26,000	24,000	115-120	115-120
Niall Reynolds ⁵	75-80	80-85	0	0	8,000	26,000	85-90	105-110

¹ Clare Pillman was appointed as Chief Executive on 26 February 2018. Her full year equivalent salary for 2017/18 was £130,000 to £135,000. The figure disclosed for her pension benefits for 2017/18 has been restated to take into account earnings and pension benefits from her previous employment. Her role within NRW has resulted in a significant increase in pension and lump sum accrued at 31 March 2019 and thus the pension benefits figure disclosed for 2018/19 above, which is calculated per footnote 6.

² Dr Emyr Roberts finished on the 31 October 2017. The salary figure reported for 2017/18 includes a payment of £35,000 to £40,000 which was made under the terms of a settlement agreement. The full year equivalent salary for 2017/18 was £145,000 to £150,000.

³ Ashleigh Dunn finished 31 July 2018. Her full year equivalent salary for 2018/19 was £90,000 to £95,000.

⁴ Kevin Ingram acted up as Chief Executive for the period 1 November 2017 to 25 February 2018 and the full year equivalent salary for this period was £120,000 to £125,000. The full year equivalent salary for the rest of 2017/18 was £95,000 to £100,000.

⁵ Niall Reynolds acted up as the Executive Director of Finance and Corporate Services for the period 1 November 2017 to 25 February 2018 and the full year equivalent salary for this period was £85,000-£90,000. The full year equivalent salary for the rest of 2017/18 was £75,000 to £80,000.

⁶ 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. This value does not represent an amount that will be received by the individual. It is a calculation that is intended to convey to the reader of the accounts an estimation of the benefit that being a member of the pension scheme could provide. The pension benefit table provides further information on the pension benefits accruing to the individual.

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 through the pay points and beyond is only for consistent outstanding performance as assessed by the Chief Executive and confirmed by the People and 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 & Customs as a taxable emolument. None of the Board members or Executive Team received benefits in kind during 2017/18 and 2018/19

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

Pension benefits

Executive Team member	Accrued Pension at pension age as at 31/03/19	Accrued Lump Sum at pension age as at 31/03/19	Real Increase in pension at pension age	Real Increase in Accrued Lump Sum at pension age	CETV at 31/03/19	CETV at 31/03/18	Real Increase in CETV
	£000	£000	£000	£000	£000	£000	£000
Clare Pillman ¹ (Chief Executive)	45-50	125-130	12.5-15	30-32.5	976	649	246
Ceri Davies	40-45	65-70	0-2.5	0-2.5	819	698	23
Ashleigh Dunn ²	5-10	0	0-2.5	0	115	106	5
Kevin Ingram	35-40	40-45	0-2.5	(0-2.5)	528	442	6
Tim Jones	40-45	120-125	0-2.5	0-2.5	908	820	(1) ³
Catherine Love	5-10	0	0-2.5	0	97	67	14
Gareth O'Shea	45-50	80-85	0-2.5	(0-2.5)	803	672	11
Niall Reynolds	35-40	70-75	0-2.5	(0-2.5)	806	701	(1) ³

¹ The pension figures for 18/19 and the CETV at 31 March 2018 now take into account earnings and pension figures from her previous employment.

² To 31 July 2018.

³ 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 they have 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 or 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.

Compensation for loss of office

Ashleigh Dunn left under voluntary exit on 31 July 2018. She received a compensation payment of £25,000 to £30,000.

Niall Reynolds agreed to leave during 2018/19 and as such, his exit package has been included in the Exit Packages table on page 65. He will receive a compensation payment of £95,000 to £100,000 in April 2019.

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 where applicable. It does not include severance payments, employer pension contributions and the CETV.

In 2018/19, 2 contract staff (2017/18: none) were charged at a rate in excess of the highest-paid director. The banded remuneration of the highest paid Director in the financial year 2018/19 was £130,000 to £135,000 (2017/18: £130,000 to £135,000). This was 4 times (2017/18: 4 times) the median remuneration of the workforce which was £33,424 (2017/18: £32,090). Staff pay scales range from £17,003 to £65,068. Directors' remuneration is shown in the table above.

Staff report

This report provides information on the composition and costs of our workforce.

Number of staff by headcount and full time equivalent (FTE) at 31 March 2019

	Male		Female		Total	
	Headcount	FTE	Headcount	FTE	Headcount	FTE
All employees	1,155	1,130	905	827	2,060	1,957
of which:						
Leadership team	14	14	7	6	21	20
Executive team	4	4	3	3	7	7

Number of staff by headcount and full time equivalent (FTE) at 31 March 2018 (Restated to exclude 93 volunteers)

	Male		Female		Total	
	Headcount	FTE	Headcount	FTE	Headcount	FTE
All employees	1,148	1,127	883	800	2,031	1,927
of which:						
Leadership Team	15	15	7	6	22	21
Executive Team	4	4	4	4	8	8

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

	2018/19			2017/18
	Permanent Staff	Others	Total	Total
Directly employed	1,728	104	1,832	1,791
Agency and contract staff	0	123	123	91
Total	1,728	227	1,955	1,882

The average full time equivalent number of staff employed on capital projects was 141.9 (2017/18: 104.7)

Staff cost

	2018/19			2017/18
	Permanent staff	Other staff	Total	Total
	£'000	£'000	£'000	£'000
Wages and salaries	57,176	11,579	68,755	64,305
Social security costs and other taxation	5,875	542	6,417	6,545
Other pension costs	12,501	915	13,416	18,742
Total net salary costs	75,552	13,036	88,588	89,592
Other expenditure for staff		Note		
Exit package costs			354	184
IAS 19 (pensions) additional service charge		14	13,865	10,978
Less early retirement pension costs			0	(18)
Less in-year LGPS pension contributions			(7,089)	(12,181)
Transfer to provision for Annual Compensation Payments			2	0
Other staff costs			0	4
Movement in accrued holiday pay			880	223
Total other expenditure for staff			8,012	(810)
Less amounts charged to capital projects			(6,466)	(4,651)
Total staff costs			<u>90,134</u>	<u>84,131</u>

Details of NRW's pension obligations can be found in Note 14.

Details of the remuneration of board members and directors are in the remuneration report. Bought-in services in Note 5 (other expenditure) includes £6.9 million of expenditure on consultants.

Pension schemes

Natural Resources Wales is a member of two pension schemes. The Principal Civil Service Pension Scheme is an open scheme and Natural Resources Wales is a closed member of the Environment Agency Pension Fund under a community admission agreement. Further details of these pension schemes are 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 schemes, but Natural Resources Wales is unable to identify its share of the underlying assets and liabilities. The scheme actuary valued the PCSPS 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 2018/19, employer's contributions of £6,939k were payable to the PCSPS (2017/18: £5,794k) at one of four rates in the range 20% 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 2018/19 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. Employer's contributions of £94k (2017/18: £59k) were paid to one or more of the panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 8% to 14.75%. Employers also match employee contributions of up to 3% of pensionable earnings. In addition, employer contributions of £3k, 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 were due to the partnership pension providers at the balance sheet date, and no contributions were prepaid.

Local Government Pension Scheme contributions

Natural Resources Wales 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. Every three years the EAPF undertakes a valuation in conjunction with the Scheme Actuary. The 31 March 2016 valuation assessed the EAPF financial position with a funding level of 103% (2013: 90%). 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 UK Government introduced regulations in 2016 which require LGPS funds to pool investments to improve efficiency. Brunel Pension Partnership, was created, comprising the EAPF and nine other LGPS funds to meet this obligation.

Natural Resources Wales has a community admission agreement with the EAPF 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. The 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 2018/19 the employer's contribution rate was 21.9% (2017/18: 21.9%). In 2018/19 employer's contributions of £7,089k were paid to the LGPS (2017/18: £12,181k) which included an additional payment to reduce the balance on the IAS 19 pension fund.

Exit packages

The total number of exit packages by cost band:	2018/19	2017/18
Under £10,000	0	2
£10,001 - £25,000	0	1
£25,001 - £50,000	3	3
£50,001 - £100,000	3	1
£100,001 - £150,000	0	0
Total	6	7

Total resource cost for 2018/19 was £354,000 (2017/18: £194,000)

There were no compulsory redundancies in 2018/19 and 2017/18.

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. One exit package in 2017/18 was not covered by the Civil Service Compensation Scheme. 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 in which they were agreed, and a provision made for future commitments. The annual compensation payments in respect of these are shown in Note 13 (Provisions).

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

Sickness absence (not subject to audit)

Our sickness absence rate for the rolling year (1 April 2018 to 31 March 2019) showed an average of 7.6 days lost per employee and equates to 3.5%. This was against a target of an average of up to 7 days lost, which equates to 3.1% of available working days.

Disability policies (not subject to audit)

Disability Confident Employer

In May 2018, we successfully completed our self-assessment exercise and as a result, The Department of Works and Pensions have re-accredited NRW as a Disability Confident Employer until 27 May 2020.

The self-assessment was carried out by Samantha Carpenter (Equalities Senior Advisor) and looked at aspects of our recruitment and retention practices for people with a disability.

‘Two Ticks’ guaranteed Interview Scheme

During the 2018 calendar year we continued to be 100% compliant with our ‘Two Ticks’ guaranteed interview scheme where applicants who declare themselves as disabled, in line with the Equality Act 2010 definition, and meet the minimum criteria for the role applied for are automatically invited to interview.

Externally we received applications from 903 people of which 33 (3.7%) people requested a guaranteed interview. 17 of those were invited to interview and the remaining 16 did not meet the minimum criteria.

Internally we received applications from 384 people of which 12 (3.1%) people requested a guaranteed interview. 9 of those were invited to interview and the remaining 3 did not meet the minimum criteria.

Assisted User Group

We have an active Assisted User Group staff network which provides advice and opinion on both existing and new IT and telephony issues for members of staff that have reasonable adjustments made to their workspaces. We have found this group particularly useful due to their ability to test new initiatives such as accessibility to our externally hosted staff surveys. The network is key to ensuring our systems are usable by all staff and shares best practices with user group members and regularly user-tests newly proposed systems on behalf of the organisation.

Dementia Friends

Throughout the year, we have delivered further dementia friend information sessions for staff, grown our Dementia Friends membership and had fun celebrating cupcake day and elf day to raise awareness and funds for dementia research

We continue to work closely with the Alzheimer’s Society Cymru to achieve accreditation. We have completed our year two of the three-year process. Looking forward we have set stretching dementia friendly objectives in our Equalities Action Plan for 2019/20 where we will continue to review our visitor centre facilities to make sure that we offer a welcoming environment for visitors living with dementia, alongside other access considerations. We are also looking at how best to share our dementia friendly learning with other partners, to build on our ambition for excellence in this area.

Other employee matters (not subject to audit)

During 2017/18, we concluded the consultation on our new Job Evaluation Scheme. This has seen a significant investment and for the first time brings the whole of NRW onto aligned salaries and pay scales. In concluding this scheme, we worked in partnership with the Trade Unions.

Off-payroll engagements (not subject to audit)

Following the review of Tax Arrangements of Public Sector Appointees by Treasury in 2012, NRW is required to publish information about appointments of consultants or staff that last longer than 6 months and where the individuals earn more than £245 per day, where we pay by invoice rather than through payroll. The off-payroll working rules were designed to ensure that if someone works through an intermediary and would have been regarded, for income tax and national insurance contributions purposes, as an employee if they were directly engaged by the client (NRW), they pay broadly the same income tax and national insurance contributions as if they were employed. These rules do not apply to people who are genuinely self-employed.

In April 2017, it became the responsibility of the client (NRW) to undertake the assessment for tax purposes as opposed to the intermediary. If the determination of the assessment is that the role is inside scope of IR35, the intermediary will pay the same employee tax as a pay rolled employee.

The following tables show our position in relation to these requirements:

Off-payroll engagements as of 31 March 2019, for more than £245 per day and that last for longer than six months

Number of existing engagements at 31 March 2019 that have existed for:	Number of contractors
less than one year	14
between one and two years	14
between two and three years	9
between three and four years at time of reporting	4
four or more years at time of reporting	14
Total	55

The majority of the contractors are supporting the Transformation team in developing and transforming our ICT systems.

New off-payroll engagements, or those that reached six months in duration, between 1 April 2018 and 31 March 2019, for more than £245 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, between 1 April 2018 and 31 March 2019.	12
of which:	
The number assessed as caught by IR35	0
The number assessed as not caught by IR35	12
The number engaged directly and are on the NRW payroll	0
The number of engagements reassessed for consistency / assurance purposes during the year.	0
The number of engagements that saw a change to IR35 status following the consistency review.	0

Parliamentary and Audit Report (audited)

Losses and special payments

The Welsh Government's Managing Public Money rules require disclosure of losses and special payments by category, type and value where they exceed £300,000 in total and for any individual items of £300,000 or more.

Individual losses of £300,000 or more

There were no losses or special payments of £300k or more throughout 2018/19.

Losses and special payments by category

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

Category or type of loss	2018/19 Number	2018/19 £'000	2017/18 Number	2017/18 £'000
Write-off of irrecoverable debts	118	133	72	67
Loss of assets	15	21	20	48
Other losses (cash losses, fruitless payments, unenforceable claims, or gifts)	1	12	13	30
Special payments ¹	7	316	9	745
Total	141	482	114	890

¹ Refer to 'compensation for loss of office' in the Remuneration and Staff Report for the details of one of the special payments made in 2017/18.

Clare Pillman
Chief Executive and Accounting Officer

10 July 2019

Certificate and Independent Auditor's Report of the Auditor General for Wales to the National Assembly for Wales

Report on the audit of the financial statements

Opinion

I certify that I have audited the financial statements of Natural Resources Wales for the year ended 31 March 2019 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, including a summary of significant accounting policies. These financial statements have been prepared under the accounting policies set out within them. The financial reporting framework that has been applied in their preparation is applicable law and HM Treasury's Financial Reporting Manual based on International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In my opinion the financial statements:

- give a true and fair view of the state of Natural Resources Wales' affairs as at 31 March 2019 and of its net operating costs for the year then ended; and
- have been properly prepared in accordance with Welsh Ministers' directions issued under the Natural Resources Body for Wales (Establishment) Order 2012.

Basis for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK (ISAs (UK)). My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I am independent of the body in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Accounting Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the body's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Accounting Officer is responsible for the other information in the annual report and accounts. The other information comprises the information included in the annual report other than the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in my report, I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information 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 report.

Qualified opinion on regularity

In my opinion, except for the possible effects of the matters described in the below '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.

Basis for qualified regularity opinion

Note 6 to the financial statements records timber income of £26.3 million in 2018-19 (£19.5 million in 2017-18).

Since 2016 Natural Resources Wales has let 79 contracts known as standing sales plus contracts. Timber prices under these contracts reflected a requirement on the purchaser to harvest the timber, undertake any required civil engineering works and where applicable restock the site. In 2018-19 Natural Resources Wales received £3.1 million in respect of standing sales plus contracts.

I have qualified my 2018-19 regularity opinion in relation to the award of the standing sales contracts as follows:

- In letting the 79 timber sales contracts, Natural Resources Wales failed to demonstrate good reason for departing from two of its own policies; the 'Timber Marketing Plan 2017-22' and the 'Summary of the Regulatory and Policy requirements for procurement with a value of £25,000 or over in NRW'. As a consequence, I have significant uncertainty that Natural Resources Wales acted in compliance with principles of public law and I have qualified my regularity opinion accordingly.
- Natural Resources Wales is required to comply with European Union (EU) procurement rules and the rules governing the award of contracts for goods, works and services have been enshrined in UK law through the Public Contract Regulations 2015 (PCR 2015). Mixed contracts, such as the standing sales plus contracts, fall within the scope of these regulations. Natural Resources Wales has not been able to demonstrate the requirements of these regulations has been met in the letting of these contracts. I therefore have significant uncertainty as to whether EU procurement rules have been followed and I have qualified my regularity opinion accordingly.
- Natural Resources Wales did not properly document the decision-making process that led to the award of the standing sales plus contracts. As a consequence, I have significant uncertainty that Natural Resources Wales acted in compliance with principles of public law and I have qualified my regularity opinion accordingly.
- Under Natural Resources Wales' framework of authority it is required to refer any activities which appear novel, contentious and/or repercussive to its sponsor

department within the Welsh Government. Natural Resources Wales did not refer its decision to enter into the 79 timber sales contracts, which I consider to be novel, contentious and/or repercussive, to its sponsor department. I therefore consider the transactions relating to these contracts to be unlawful and I have qualified my regularity opinion accordingly.

- My sample testing identified eight timber contracts (including six relating to standing sales plus contracts) and 18 timber contract extensions (including four relating to standing sales plus contracts) which were not authorised in accordance with Natural Resources Wales' Scheme of Delegation. The cumulative value of the contracts and contract extensions not properly authorised was material. I therefore consider the transactions relating to these contracts to be unlawful and I have qualified my regularity opinion accordingly.
- I have seen no evidence that Natural Resources Wales took into consideration the relevant costs and benefits when determining the contract pricing mechanism of the 79 contracts. I therefore have significant uncertainty as to whether Natural Resources Wales complied with the requirements of its own Establishment Order and I have qualified my regularity opinion accordingly.

Further details on these matters are set out in my accompanying Report on pages 74 to 79.

Report on other requirements

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 the Natural Resources Body for Wales (Establishment) Order 2012.

In my opinion, based on the work undertaken in the course of my audit:

- the information given in the Governance Statement for the financial year for which the financial statements are prepared] is consistent with the financial statements and the Governance Statement has been prepared in accordance with Welsh Ministers' guidance;
- the information given in the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements and the Annual Report has been prepared in accordance with Welsh Ministers' guidance.

Matters on which I report by exception

In the light of the knowledge and understanding of the body and its environment obtained in the course of the audit, I have not identified material misstatements in Annual Report or the Governance Statement.

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

- proper 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.

Responsibilities

Responsibilities of the Accounting Officer for the financial statements

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 the Natural Resources Body for Wales (Establishment) Order 2012 and Welsh Ministers' directions made there under, for being satisfied that they give a true and fair view and for such internal control as the Accounting Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Accounting Officer is responsible for assessing the body's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

Responsibilities for regularity

The Accounting Officer is responsible for ensuring the regularity of financial transactions.

I obtain sufficient evidence 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.

Adrian Crompton
Auditor General for Wales
18 July 2019

24 Cathedral Road
Cardiff
CF11 9LJ

Report of the Auditor General for Wales on NRW's 2018-19 Financial Statements: Standing Sales Plus 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.
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.
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 70 to 73 contains my opinion that the financial statements give a 'true and fair view'
4. My certificate also includes my 'regularity' opinion, ie 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. My predecessor as Auditor General qualified his regularity opinion on NRW's 2015-16 and 2016-17 accounts on the basis that the agreement of eight inter-related long-term timber sales contracts with a sawmill operator did not comply with the framework of authority under which NRW was operating. Furthermore, on the basis of the information provided to him by NRW in relation to its decision-making procedure, he was unable to satisfy himself that the decision to agree those contracts was lawful and did not involve the provision of State Aid.
5. In July 2018, my predecessor also qualified his regularity opinion on NRW's 2017-18 accounts on the basis that the award by NRW of 59 new timber sales contracts to three companies did not comply with the framework of authority under which NRW was operating. Furthermore, on the basis of the information provided to him by NRW in relation to its decision-making procedure, he was unable to satisfy himself in respect of these contracts with further income of £4.92 million expected himself that the decision to agree those contracts was lawful and did not involve the provision of State Aid.
6. This year, I have qualified my regularity opinion on NRW's 2018-19 accounts. This relates to 79 contracts known as Standing Sales Plus (SS+) contracts that combined timber sales with the requirement to undertake civil engineering work and the restocking of felled sites. As at 31 March 2019, NRW had received £6.35 million income in respect of these contracts with further income of £4.92 million expected in 2019-20. The reasons for my qualification are set out in paragraph 17.

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.'

Background

7. In early 2017, NRW published an 'Interim Timber Marketing Statement' setting out NRW's approach to marketing timber from the publicly owned forest and woodland estate during the period 1 April 2016 to 31 March 2017. In this document NRW set out that it would sell up to 150,000m³ obs of the 325,000m³ obs of standing timber volume to be offered on the open market using a new sales approach². NRW's traditional approach to selling standing timber was to ask potential customers to bid on the basis that purchasers would be required to harvest the timber.
8. Under the new approach, purchasers would also be required to undertake civil engineering infrastructure at the sale site and they could also be required to restock the site in question. Traditionally NRW had either undertaken the civil engineering and restocking work itself or awarded separate contracts to external contractors to undertake the work.
9. During the 2016-17 financial year NRW began awarding contracts which combined timber sales with civil engineering works and in some cases restocking, NRW later began to refer to this new contract type as SS+. NRW advertised these contract opportunities through an E-Timber Sales system, and bidders were asked to bid an average price they would be willing to pay per tonne of timber taking account of the requirement to harvest the timber, undertake the required civil engineering works and where applicable restock the site
10. In January 2017, NRW published a Timber Marketing Plan setting out its approach to selling timber during the period 1 April 2017 to 31 March 2022. The document set out that NRW would sell 'an annual baseline flexible programme sale offer of 150,000m³ obs which will be offered either as a traditional or conditional method of sale approach, to be known as Standing Sales plus'.
11. The Timber Marketing Plan also stated that 'where we are piloting new ways of working, such as the offer of sales of standing sales plus volume, we will carefully assess performance to make sure that they are capable of meeting the outcomes we seek, provide good value for money and customer benefit. There will be no compromise on performance, silvicultural, environment and health and safety standards'.
12. In the period 1 April 2016 to 31 December 2018, NRW entered into 83 SS+ contracts of which 79 came into effect. All the contracts which proceeded included a requirement for the successful bidder to undertake civil engineering and 44 of the contracts included restocking requirements.
13. Following the decision of my predecessor in July 2018 to qualify his regularity opinion on NRW's 2017-18 financial statements, NRW's Chief Executive, supported by NRW's Board, decided to commission Grant Thornton to undertake an independent review of NRW's governance of timber sales.
14. The review identified significant concerns relating to the development, implementation and management of SS+ contracts. When NRW became aware of the emerging findings of the review, it took immediate action to

² 1 cubic metre obs of timber volume is equivalent to approximately 0.81 tonnes in weight

suspend any further award of SS+ contracts, until such time as the concerns had been addressed.

15. Table 1 sets out details of the 79 SS+ contracts that proceeded during the 2016-17, 2017-18 and 2018-19 financial years.

Table 1 sets out details of the 79 SS+ contracts that proceeded during the 2016-17, 2017-18 and 2018-19 financial years.

Financial year start date	Number of contracts which proceeded	Net contract value based on contracted volume	Contracted volume (m ³ obs)	Volume of timber (m ³ obs) sold to 31 March 2019	Contracted volume m ³ obs remaining to be sold as at 31 March 2019 ²	Total volume (m ³ obs), sold + expected to be sold	Income Received to 31 March 2019 + Estimated income 2019-20
2016-17	8	£735,807	28,358	28,219	0	28,219	£739,225
2017-18	28	£2,545,743	111,191	115,465	9,904	125,369	£2,816,660
2018-19	43	£6,611,158	198,747 ¹	107,580	100,269	207,849	£7,718,890
Total	79	£9,892,708	338,296	251,264	110,173	361,437	£11,274,775

¹ Standing Sales+ contracts were suspended in December 2018

² Estimated volume outstanding has been calculated on the difference between the contracted volume and volume sold before 31 March 2019 on SS+ contracts still live at that date.

16. Of the total volume of timber, 371,341m³ obs sold or expected to be sold under SS+ contracts since their introduction, it is estimated that 247,146m³ (69% of the total) will be sold to 2 customers.

Conclusion

17. NRW's 2018-19 financial statements include £3.1m income in respect of SS+ contracts. In auditing NRW's 2018-19 financial statements, I considered the regularity of the transactions included within those accounts relating to SS+ contracts. I have doubt as to whether NRW acted in accordance with its statutory duties, public law principles and EU procurement rules in awarding 79 SS+ contracts in 2016-17, 2017-18 and 2018-19.

18. In consequence, I am unable to positively affirm that the transactions in NRW's 2018-19 financial statements conform to the framework of authority governing them. I have therefore qualified my regularity opinion accordingly. However, a decision is not unlawful unless and until declared to be so by a court. Therefore, in the absence of a legal challenge the contracts remain valid and enforceable.

19. My reasons for reaching this conclusion are as follows:

- a. For a decision of a public body to be lawful it must be made in accordance with applicable legislation and with public law principles. Public bodies must (a) take into account and (b) follow relevant policies, unless they have a good reason to depart from them. At the very least they must have stated clear reasons for the departures. I consider that:
 - i NRW departed from its own policy as set out in its published Timber Marketing Plan 2017-22, which said NRW would carefully assess the performance of a pilot of SS+ contracts to make sure that this new

approach to timber sales was capable of meeting NRW's outcomes and providing good value for money and customer benefit. NRW has been unable to provide my auditors with any evidence that it carried out any assessment of the performance of SS+ contracts as it had committed to do in its Timber Marketing Plan. NRW has been unable to provide me with any good reason why it departed from this commitment.

- II NRW has made policy governing how it will procure supplies, goods and services with a value of £25,000 and over. NRW estimates that 16 of the 43 SS+ contracts awarded by NRW in 2018-19 had procurement values above £25,000. NRW's procurement rules specify that procurements above £25,000 must be carried out by NRW's Procurement Team and how such contracts should be advertised. NRW's procurement Team has established framework contracts through competitive processes for the procurement of civil engineering works and restocking services. However, these framework contracts were not used to procure the civil engineering and restocking elements of the SS+ contracts. NRW's Procurement Team was not involved in the advertisement or award of SS+ contracts. I therefore consider NRW did not comply with its own procurement policy when procuring civil engineering works and restocking services as part of SS+ contracts, and it has been unable to demonstrate that it had good reason to depart from its policy.
- b. NRW is required to comply with EU procurement rules. The rules governing the award of contracts for goods, works and services have been enshrined in UK law through the Public Contract Regulations 2015 (PCR 2015). SS+ contracts included both timber sales and procurement and therefore fell within the scope of the PCR 2015. The PCR 2015 sets out procedures that public bodies must follow before awarding contracts to buy supplies, services or works above defined financial thresholds. The PCR 2015 requires public bodies to calculate the estimated value of a contract at the moment at which a call for competition is sent. I have seen no evidence that NRW sought to estimate the value of SS+ contracts before advertising these contract opportunities. I therefore consider that the award of SS+ contracts and transactions included within NRW's 2018-19 financial statements in respect of these contracts was irregular.
- c. Public law requires public bodies to take into account all relevant considerations and disregard irrelevant considerations when taking decisions. One way in which public bodies can demonstrate that they have complied with this principle is by fully documenting the considerations they have taken into account. NRW failed to properly document the decision-making process that led to the introduction of SS+ contracts. In particular, NRW has been unable to provide me with contemporaneous documentation setting out its rationale for introducing SS+ contracts and how it considered the potential risks and benefits of this new approach to timber sales. I therefore have significant doubt as to whether NRW took into account all relevant considerations and disregarded irrelevant considerations when taking decisions in respect of SS+.
- d. NRW is required to comply with its Framework Document and Managing Welsh Public Money, which together require NRW to refer novel, contentious and/or repercussive proposals to the Welsh Government. I consider that the proposal to award SS+ contracts was novel in that it involved a new approach to timber sales requiring the introduction of mixed contracts covering both sales and procurement. I consider that the introduction of SS+ was also contentious and/or repercussive. SS+ contracts required purchasers of timber to undertake civil engineering works, and in some cases site

restocking. In my view, it was foreseeable that this would advantage larger companies who were already undertaking each of these functions. NRW did make the Welsh Government aware that it was introducing a new sales methodology called SS+, but it did not make a referral to the Welsh Government on the basis that the proposal was novel, contentious and/or repercussive as was required by its Framework Document and Managing Welsh Public Money. In consequence, I consider that NRW did not meet this requirement.

- e. NRW's Board made a Scheme of Delegation under the provisions of the Natural Resources Body for Wales Establishment Order 2012 (the Order). This Scheme of Delegation grants delegated powers to specified NRW office holders to agree timber sales contracts on behalf of NRW. As part of the audit of NRW's 2018-19 accounts, my auditors examined 13 SS+ contracts to ensure that they had been authorised in accordance with the Financial Scheme of Delegation. My auditors found that whilst each contract was authorised by NRW officers, 6 were authorised by NRW officers without the necessary delegation to authorise contracts awards of the value they signed off. The total contract value of the sample of contracts tested that were not properly authorised was £2,405,375. My auditors also tested 10 cases where SS+ contracts had been extended and found that in 4 cases contract extensions had not been authorised in accordance with NRW's Financial Scheme of Delegation. My auditors found that this matter was not isolated to SS+ contracts. Audit testing of timber sales contracts identified two non-SS+ with a value of £1.6 million that had been authorised by NRW officers without the necessary delegation to do so and 14 extensions of non-SS+ timber sales contracts had not been properly authorised. I consider that all the contracts and contract extensions not properly authorised were not entered into lawfully.
 - f. Article 8 of NRW's Establishment Order states that in considering whether or not to exercise any power conferred upon it by or under any enactment, NRW must take into account the likely costs and benefits of the exercise or non-exercise of that power'. I have doubt as whether the use of average pricing within SS+ contracts was conducive to assessment of costs and benefits, and I am concerned that the operation of the contractual pricing mechanism means that NRW is unable to demonstrate that it sold timber within SS+ contracts at market rates. Notwithstanding these concerns, I have seen no evidence that NRW took into account likely costs and benefits when it first introduced SS+ in 2016-17 or carried out a subsequent assessment of the costs and benefits of their continued use. I have therefore significant doubt as to whether NRW complied with the requirements of Article 8 of its Establishment Order.
20. This report highlights serious concerns regarding NRW's decision-making in respect of the introduction and management of SS+ contracts. This is the fourth consecutive year in which an Auditor General for Wales has found it necessary to qualify the regularity opinion on NRW's financial statements due to concerns over timber sales contracts. This report is a further example that highlights serious deficiencies in the way in NRW's historic management of its timber sales function. It also highlights that there has been a lack of effective corporate oversight of this function..
21. Whilst transactions relating to SS+ contracts are included in NRW's 2018-19 financial statements, (and there will be transactions within NRW's 2019-20 financial statements), the issues referred to in this report are largely the consequence of historic decisions. The initial decision to introduce SS+ was

taken in 2016. Since that time, many new appointments have been made at both Board and senior management levels. This includes the appointment of a new Chair and Chief Executive. I have been very encouraged by the efforts NRW has made in the last year in starting to address some of the historic issues that have undermined NRW's reputation and impacted on its effectiveness. It is pertinent that concerns regarding SS+ contracts were brought to light by a review NRW itself commissioned into its governance of timber sales. I recognise that NRW took immediate action to address these concerns when it became aware of them.

22. I have not sought to conclude on whether the contracts entered into by NRW in 2018-19 represented value for money. Such value for money examinations do not form part of my audit of the financial statements, which is performed in accordance with legislation and United Kingdom auditing standards prescribed by the Financial Reporting Council.
23. I will provide a supplementary memorandum to the Public Accounts Committee, with further detail on the reasons I have qualified my regularity opinion on NRW's 2018-19 financial statements.

Financial Statements and Notes to the Accounts for 2018/19

Statement of Comprehensive Net Expenditure

For the year ended 31 March 2019

	Note	2018/19 £'000	2017/18 £'000
Staff costs	3	90,134	84,131
Capital works expensed in year	4	17,654	23,599
Other expenditure	5	93,544	84,280
Total operating expenditure		<u>201,332</u>	<u>192,010</u>
Charge income	6	(39,468)	(37,597)
Commercial and other income	6	(35,076)	(27,986)
European and other external funding	6	(1,543)	(890)
Total operating income		<u>(76,087)</u>	<u>(66,473)</u>
Net operating expenditure		<u>125,245</u>	<u>125,537</u>
Financing on pension scheme assets and liabilities	14.5	930	1,088
Net expenditure for the year		<u>126,175</u>	<u>126,625</u>
Other comprehensive net expenditure			
Pension actuarial remeasurements	14.5	15,898	(9,848)
Revaluation			
Net gain on revaluation		(19,296)	(10,656)
Total comprehensive net expenditure for the year		<u>122,777</u>	<u>106,121</u>

The notes on pages 85 to 118 form part of these accounts.

Statement of Financial Position

As at 31 March 2019

		31 March 2019	* Restated 31 March 2018
	Note	£'000	£'000
Non-current assets			
Property plant and equipment	7.1	882,963	814,430
Heritage assets	7.1	7,000	6,432
Biological assets	7.1	122,538	113,125
Intangible assets	7.2	16,604	14,809
Financial assets	9	4,663	95
Long term receivables	10	2,052	0
Total non-current assets		<u>1,035,820</u>	<u>948,891</u>
Current assets			
Assets held for sale		238	451
Inventories		2,436	798
Trade and other receivables	10	15,067	13,821
Cash and cash equivalents	11	49,025	43,539
Total current assets		<u>66,766</u>	<u>58,609</u>
Total assets		<u>1,102,586</u>	<u>1,007,500</u>
Current liabilities			
Trade and other payables	12	(22,052)	(22,564)
Provisions	13	(1,078)	(1,227)
Total current liabilities		<u>(23,130)</u>	<u>(23,791)</u>
Assets less current liabilities		<u>1,079,456</u>	<u>983,709</u>
Non-current liabilities			
Pension liabilities	14.5	(56,088)	(32,484)
Financial liabilities	8	(39,973)	(39,992)
Long term payables	12	(2,478)	(406)
Total non-current liabilities		<u>(98,539)</u>	<u>(72,882)</u>
Assets less liabilities		<u>980,917</u>	<u>910,827</u>
Taxpayers' equity and other reserves			
General fund	SoCTE	240,998	216,830
Revaluation reserve	SoCTE	796,007	726,481
Pensions reserve	SoCTE	(56,088)	(32,484)
Total taxpayers' equity		<u>980,917</u>	<u>910,827</u>

* The balance due under finance leases, previously reported within Trade and other payables under Current liabilities has been split between Current and Non-current liabilities and £406k has been moved to Long term payables under Non-current liabilities.

The notes on pages 85 to 118 form part of these accounts.

Clare Pillman
Chief Executive and Accounting Officer

Date: 10 July 2019

Statement of Cash Flows

For the year ended 31 March 2019

	Note	2018/19 £'000	2017/18 £'000
Cash flows from operating activities			
Net operating expenditure	SoCNE	(125,245)	(125,537)
Adjustment for non-cash transactions		34,643	22,568
Increase in trade and other receivables	10 *	(1,675)	(1,612)
Increase/(Decrease) in trade and other payables	12 *	(570)	7,921
Decrease in provisions	SoFP *	(31)	(149)
Net cash flow from operating activities		<u>(92,878)</u>	<u>(96,809)</u>
Cash flows from investing activities			
Purchase of tangible assets	7.1 *	(4,384)	(3,386)
Purchase of intangible assets	7.2 *	(4,791)	(2,526)
Proceeds on disposal of property, plant and equipment		521	1,086
Net cash flow from investing activities		<u>(8,654)</u>	<u>(4,826)</u>
Cash flows from financing activities			
Grants from Welsh Government	SoCTE	107,018	118,373
Net Financing		<u>107,018</u>	<u>118,373</u>
Net increase in cash and cash equivalents in the period			
		5,486	16,738
Cash and cash equivalents at the beginning of the period		<u>43,539</u>	<u>26,801</u>
Cash and cash equivalents at the end of the period	11	<u>49,025</u>	<u>43,539</u>

The notes on pages 85 to 118 form part of these accounts.

- 7.1 * The cash outflow of £4,384k represents capital tangible purchases during the year as per Note 7.1 of £4,493k adjusted for unpaid capital invoices of £92k and deposits paid in previous years relating to current year additions of £201k.
- 7.2 * The cash outflow of £4,791k represents intangible capital purchases during the year as per Note 7.2 of £4,942k adjusted for unpaid capital purchases of £151k.
- 10 * The cash outflow due to the movement in trade and other receivables of £1,675k represents the increase in Trade and other receivables per Note 10 of £3,298k adjusted for £1,824k non-cash transactions and £201k in respect of deposits paid in previous years relating to current year non-current assets and reported under investing activities.
- 12 * The cash outflow due to the movement in trade and other payables of £570k represents increase in Trade and other payables per Note 12 of £1,560k after adjusting for non-cash transactions of £2,071k and £59k relating to investing activities
- SoFP * The cash outflow due to decrease in provisions of £31k represents the movement in provisions per Statement of Financial Position £149k adjusted for non-cash transactions of £118k

Statement of Changes in Taxpayers' Equity

For the year ended 31 March 2019

	General Fund £'000	Revaluation Reserve £'000	Pension Reserve £'000	Total £'000
Opening balance	216,830	726,481	(32,484)	910,827
Comprehensive net expenditure for year	(122,777)	0	0	(122,777)
In-year movement				
In year revaluation	0	85,849	0	85,849
Realised revaluation	16,323	(16,323)	0	0
Actuarial loss on pension scheme	15,898	0	(15,898)	0
Increase in pension liability	7,706	0	(7,706)	0
Total in-year movement	39,927	69,526	(23,604)	85,849
Funding				
Grants from Welsh Government	107,018	0	0	107,018
Balance at 31 March 2019	240,998	796,007	(56,088)	980,917

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 85 to 118 form part of these accounts.

Comparative figures for the year ended 31 March 2018

	General Fund £'000	Revaluation Reserve £'000	Pension Reserve £'000	Total £'000
Opening Balance	203,289	674,288	(42,465)	835,112
Comprehensive net expenditure for year	(106,121)	0	0	(106,121)
In-year movement				
In year revaluation	0	63,463	0	63,463
Realised revaluation	11,270	(11,270)	0	0
Actuarial gain on pension scheme	(9,848)	0	9,848	0
Increase in pension liability	(133)	0	133	0
Total in-year movement	1,289	52,193	9,981	63,463
Funding				
Grants from Welsh Government	118,373	0	0	118,373
Balance at 31 March 2018	216,830	726,481	(32,484)	910,827

Note 1 Accounting policies

1.1 Requirement to prepare accounts

The financial statements have been prepared in accordance with the 2018/19 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, and intangible non-current assets to fair value as determined by the relevant accounting standard.

These financial statements are based on the going concern principle.

1.3 Grant in aid

Grant in aid and other grants received from Welsh Government are treated as financing received from a controlling party. The receipts are recorded as a financing transaction and are credited directly to the general reserve in the Statement of Financial Position and not through the Statement of Comprehensive Net Expenditure.

1.4 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. To correspond to accounting treatment by Welsh Government, the net value of windfarm option fees after deducting the payment to Welsh Government, is shown within renewable energy income in note 6.

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.

Sale and purchase transactions which are inherently linked, and for which a single payment is made or received, are accounted for as a single transaction. The accounting policy appropriate to the main element of the transaction is applied.

All other grant contributions received is recognised as income within the Statement of Comprehensive Net Expenditure.

1.5 Inventories

Inventory consists of felled timber stocks and is valued as fair value less estimated selling costs expected to be incurred to completion and disposal. Fair value is estimated using expected sales prices.

1.6 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.

1.7 Internal drainage districts

NRW acts as the drainage board that runs fourteen internal drainage districts in 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 drainage rates, special levies and precepts for 2018/19 were set by NRW acting as the drainage board. This income is included in Note 6.

1.8 Adoption of new and revised IFRS or FReM interpretations

Effective in these financial statements

All International Financial Reporting Standards (IFRS), interpretations and amendments effective during this reporting period have been adopted in these statements.

IFRS 15 - Revenue from Contracts with Customers

The Financial Reporting Manual applied a new standard, IFRS 15 Revenue from Contracts with Customers, for the public sector from 2018/19 onwards. It replaces previous accounting standards. It does not apply to items such as leases, financial assets and grants which are covered by other standards

The core principle of this standard, as adapted and interpreted for the public sector, is that an entity recognises revenue from contracts with customers when they satisfy a performance obligation by transferring a promised good or service, by following a five-stage model. Performance obligations can be satisfied over time or at a point in time. If an obligation is assessed as being satisfied at a point in time, then revenue can only be recognised when the performance obligation has been satisfied in full. Revenue can only be recognised over time, if the performance obligation is also judged to be satisfied over time. Specifically, for NRW, this standard applies to all our charge and commercial revenue streams.

A review of all its significant income streams was undertaken. As the majority of its charge income streams are on short term delivery (making an application for a permit) or time related within the same financial year (having that permit to operate for that year), the initial basis for revenue recognition under IAS18 will apply to IFRS15. The five-step model mentioned above will not affect the accounting treatment of commercial income as the five-stage model essentially equate to treatment on an accruals basis which is the current accounting treatment for this income stream.

IFRS 9 – Financial Instruments

This standard includes a number of improvements to the previous standard IAS 39, to simplify the reporting of financial instruments so as to provide users with more useful information about an entity's credit losses at all times. It has been incorporated into the 2018/19 Financial Reporting Manual. The impact of this standard on Natural Resources Wales' financial statements has been assessed as immaterial.

For IFRS 9 and 15, no adjustments were required to opening balances as the amounts involved were immaterial. The accrued and deferred income balance at 31 March 2018 relating to the charge schemes have been reclassified as contract assets and contract liabilities.

Effective for future financial years

IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, requires disclosures in respect of new IFRSs, amendments and interpretations that are, or will be applicable after the reporting period. There are a number of IFRSs, amendments and interpretations that have been issued by the International Accounting Standards Board that are effective in future reporting periods. Those with relevance to Natural Resources Wales are outlined below. Natural Resources Wales has not adopted any new IFRS standards early and will apply the standards upon formal adoption in the FReM.

IFRS 16 – Leases

This standard is effective in the public sector from 1 April 2020. It will supersede all existing IFRS standards on leases. It is likely to result in a uniform accounting treatment for all leases, with the distinction between operating and finance leases removed. IFRS 16 is expected to have an impact in financial reporting terms which is currently being assessed.

1.9 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 12)
- Cash deposits with NRW (shown in note 12)
- Escrow accounts
- Local authority deed agreements
- Parent company guarantees
- Umbrella agreements (covering a number of sites)

1.10 Notes to the accounts

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

Notes 3 to 14 provide analysis of material figures reported in the statements of comprehensive net expenditure, financial position and cash flows.

Notes 15 to 22 relate to figures not disclosed elsewhere in these accounts.

2. Analysis of net operating expenditure by segment

For the year ended 31 March 2019

These segments are components for which financial information is managed and reported internally. Income and expenditure shown below were directly attributed to the segments.

	Finance & Corporate Services	Operations North & Mid Wales	Operations South	Evidence, Policy & Permitting	Office of the Chief Executive & Transformation	Centrally Controlled	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Reported by segments							
Expenditure	34,245	67,117	32,450	42,069	4,832	20,619	201,332
Income	(38,818)	(39,807)	(2,707)	(569)	0	5,814	(76,087)
Total	(4,573)	27,310	29,743	41,500	4,832	26,433	125,245
Capital expenditure	6,750	1,570	47	1,068	0	0	9,435

NRW determines that the following categories can be used to meet the disaggregation disclosure requirement in IFRS 15.

	Finance & Corporate Services	Operations North & Mid Wales	Operations South	Evidence, Policy & Permitting	Office of the Chief Executive & Transformation	Centrally Controlled	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Reported by segments							
Fees and charges	37,773	1,525	143	27	0	0	39,468
Commercial	1,045	37,545	2,164	136	0	(5,814)	35,076
European and other external funding	0	737	400	406	0	0	1,543
Total	38,818	39,807	2,707	569	0	(5,814)	76,087
Reported by segments							
Government	1,721	1,021	1,227	518	0	0	4,487
Non-Government	37,097	38,786	1,480	51	0	(5,814)	71,600
Total	38,818	39,807	2,707	569	0	(5,814)	76,087

Analysis of net operating expenditure by segment (continued)

Description of segments

Finance & Corporate Services	Provides financial, ICT, legal, procurement support, buildings and fleet management, organisational development and people management services.
Operations North & Mid Wales	Delivers sustainable management of natural resources at an operational level within North and Mid Wales. Also provides capital programme management and commercial operations for the whole of Wales.
Operations South	Delivers sustainable management of natural resources at an operational level and via a network of local teams, within the counties of South Wales. Also delivers planning and marine services for the whole of Wales.
Evidence, Policy and Permitting	Manages the strategic, environmental and spatial planning functions, permitting and flood and coastal risk management.
Office of the Chief Executive and Transformation	The Office of the Chief Executive includes governance, audit and risk assurance, secretariat, external relations and communications, customer contact centre, and transformation.
Centrally Controlled	Income and expenditure controlled centrally and not allocated to directorates. It includes depreciation, book value of fellings, year end accruals for provisions.

Although reported separately to management, Chief Executive, External Relations and Communications, and Transformation are within the same directorate (Office of the Chief Executive) and therefore have been aggregated here. Following a restructure, OD and People Management Services are now included in Finance & Corporate Services.

Comparative figures for the year ended 31 March 2018

	OD & People Management	Finance & Corporate Services	Operations North & Mid Wales	Operations South	Evidence, Policy & Permitting	Office of the Chief Executive & Transformation	Centrally Controlled	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Reported by segments								
Expenditure	1,880	36,964	64,390	29,690	40,188	3,873	15,025	192,010
Income	0	(35,691)	(29,515)	(2,157)	(1,584)	0	2,474	(66,473)
Total	1,880	1,273	34,875	27,533	38,604	3,873	17,499	125,537
Capital expenditure	0	4,396	1,772	174	129	0	0	6,471

3. Staff costs

Further details of staff costs and numbers are now disclosed from page 63 within the Accountability Report.

	2018/19			2017/18
	Permanent Staff £'000	Other Staff £'000	Total £'000	Total £'000
Wages and salaries	57,176	11,579	68,755	64,305
Social security & Other taxation costs	5,875	542	6,417	6,545
Other pension costs	12,501	915	13,416	18,742
Total net salary costs	75,552	13,036	88,588	89,592
Other expenditure for staff			8,012	(810)
Less amounts charged to capital projects			(6,466)	(4,651)
Total staff costs			90,134	84,131

4. Capital works expensed in year

Categories	2018/19	2017/18	31 March 2019	31 March 2018
	Actual £'000	Actual £'000	Committed £'000	Committed £'000
Operational Work	16,985	21,922	5,000	7,316
Capital grants	669	1,677	76	209
Total	17,654	23,599	5,076	7,525

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 of the asset being constructed.

Operational work includes:

Flood and coastal risk management assets built on land which NRW does not own but where it has permissive powers to to maintain defence, such as:

- 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.

Improvements to reservoirs where the Reservoirs Act 1975 places that responsibility on the reservoir owner. Specifically these measures are taken in the interests of safety.

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

	2018/19 £'000	2017/18 £'000
Cash items		
Bought in services	19,037	17,064
Reservoir operating agreements	9,112	8,281
ICT costs	5,245	4,837
Materials and equipment	4,046	4,072
Fleet costs	3,568	3,325
Office running costs	3,378	3,604
Service levels agreements	3,228	3,545
Staff related costs	2,527	2,034
Grants	2,436	2,663
Forest roads network maintenance	2,407	2,775
Rents	1,825	2,241
Collaborative agreements	1,820	1,753
Fees and court costs	1,385	760
Travel and subsistence	1,367	1,155
Rates	808	834
Operational costs	760	549
Losses and special payments	328	738
Statutory audit fees	246	171
European grants	100	76
Finance lease interest	3	14
Sub-total	63,626	60,491
Non-cash expenditure		
Value of sold timber	18,410	11,971
Depreciation, amortisation and impairment	9,037	11,702
Reservoir repair costs	2,052	0
(Gain) / Loss on disposal	290	(525)
Losses	154	115
Movement on expected credit loss	95	(27)
Movement on other provisions	(120)	553
Sub-total	29,918	23,789
Total	93,544	84,280

Details of write-offs and special payments are shown in the Accountability section on page 69.

6. Income analysis

For the year ended 31 March 2019

	2018/19 £'000	2017/18 £'000
Abstraction charges	21,245	19,349
Environmental permitting regulations: water quality	6,414	6,364
Environmental permitting regulations: installations	3,035	3,078
Environmental permitting regulations: waste	2,267	2,294
Nuclear regulation	2,073	2,458
Other environmental protection charges	1,240	1,101
Fishing licences	1,142	1,244
Hazardous waste	876	657
Water resources rechargeable works	645	632
Emissions trading and carbon reduction commitment	291	307
Marine licensing	240	113
Charge Income	39,468	37,597
Timber income	26,349	19,534
Renewable energy income ⁺	3,791	3,640
Income from estates	2,431	2,374
Internal drainage district income	1,338	1,265
Provision of information and services	726	726
Legal costs recovered and Proceeds of Crime Act income	356	303
Miscellaneous income	36	103
Interest receivable	43	35
Income towards site clean up costs	6	6
Commercial and other income	35,076	27,986
European income ⁺⁺	1,093	656
Grants and contributions	450	234
European and other external funding	1,543	890
Total income	76,087	66,473

+ Renewable energy income is shown net of option fees due to Welsh Government in respect of wind energy income. The balance of £3,791k represents income of £8,936k (in 2017/18 £4,759k) after deducting the option fee payment to Welsh Government of £5,145k (in 2017/18 £1,119k).

++ Including income claimed via Welsh European Funding Office for European funded projects.

6.1 Analysis of fees and charges

Year ending 31 March 2019	Income billed £'000	Expenditure £'000	Surplus/ (Deficit) £'000
Abstraction charges	20,239	21,245	(1,006)
Environmental permitting regulations: water quality	6,449	6,414	35
Environmental permitting regulations: installations	3,015	3,035	(20)
Environmental permitting regulations: waste	2,239	2,267	(28)
Nuclear regulation	2,062	2,073	(11)
Other environmental protection charges	1,239	1,240	(1)
Fishing licences	1,141	1,142	(1)
Hazardous waste	1,101	876	225
Water resources rechargeable works	645	645	0
Emissions trading and carbon reduction commitment	284	291	(7)
Marine licences	230	240	(10)
Total	38,644	39,468	(824)

Comparative figures - year ending 31 March 2018	Income billed £'000	Expenditure £'000	Surplus/ (Deficit) £'000
Abstraction charges	19,098	19,349	(251)
Environmental permitting regulations: water quality	6,455	6,364	91
Environmental permitting regulations: installations	3,093	3,078	15
Nuclear regulation	2,460	2,458	2
Environmental permitting regulations: waste	2,140	2,294	(154)
Fishing licences	1,244	1,244	0
Other environmental protection charges	1,081	1,101	(20)
Hazardous waste	904	657	247
Water resources rechargeable works	632	632	0
Emissions trading and carbon reduction commitment	296	307	(11)
Marine licences	113	113	0
Total	37,516	37,597	(81)

Revenue is recognised based on the consideration specified in a contract with customer. NRW recognises revenue in accordance with the five stages set out in IFRS 15. Revenue is recognised when (or as) NRW satisfies a performance obligation.

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. Charges income falls into two main categories: an application for a licence or permit for which revenue is recognised at the time of the application, and the subsistence charge associated with licences and permits, which give the customer legal entitlement to carry out their operation for a period of time under NRW's regulation. Such subsistence income is recognised when billed at the point the new permit period commences.

In accordance with Managing Welsh Public Money, fees and charges are set on a full cost recovery basis taking into consideration scheme balances. Accumulated surpluses and deficits relating to our charge schemes 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 they have arisen accidentally as a result of unplanned circumstances in line with Managing Welsh Public Money definition, or where there is a future plan to utilise those balances. The deferred and accrued income balances are considered when setting future years' fees and charges, to enable a cost recovery position to be achieved over a reasonable period of time, which due to timing differences is not considered appropriate within a single financial year.

We have a transitional arrangement where material balances without a plan will be reduced by 31st March 2021. This treatment overrides the standard revenue recognition criteria outlined in the first paragraph above.

Significant judgment

A judgement is made regarding the satisfaction of performance obligations on fees and charges, and commercial income per IFRS15. Within receivables (Note 10) and payables (Note 12) there are accrued and deferred income balances for fees and charges there is a surplus or deficit. As mentioned above, charging schemes are required to break even over a reasonable period of time and judgment is required in assessing the factors behind whether the surplus or deficit will result in a break-even position over this reasonable period (reported in notes 10 and 12).

Expenditure funded by grant-in-aid has been excluded from the table below. The table does not include the effect of IAS 19 pension adjustments as these are not passed on to charge payers. The financial objective for the charging schemes is full cost recovery including current cost depreciation 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
- 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 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 – regulation of deposits, removals, construction projects on or under the sea bed and all forms of dredging.
- 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, flood defence consents, reservoir compliance, development planning advice 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. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, if appropriate.

A judgement is made to the categorisation of expenditure as capital works expensed in year, and tangible and intangible assets.

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 costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. They are not revalued and are transferred to the appropriate non-current asset category when completed and ready for use.

Indexation and Revaluation

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 last professionally revalued at 31 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, were 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 were quality assured by the NRW Principal Surveyor. All valuers had 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 last valued at 31 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. External professional surveyors were used for those assets where we have future rental income on our land. Cefn Croes Windfarm was valued by Bidwells and the telecommunications portfolio by Strutt & Parker.

For specialised assets where there are no market comparables, '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. Typically these assets include flood risk management works such as gauging stations and water resource assets such as boreholes. These assets are accounted for in the Statement of Financial Position at depreciated replacement costs.

In between professional revaluations, the forest estate, land, buildings, operational structures and biological assets are indexed annually using an appropriate index.

Where movement in the indices for plant and machinery, information technology and intangible assets are material, these assets are re-valued under the modified historical cost convention.

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 and amortisation

Land (forest estate and non-forest land) and intangible rights to land are not depreciated, unless the land 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.

A judgment is made on the useful economic lives that form the basis for the period over which property, plant and equipment is depreciated, and intangible assets amortised. The estimated asset lives are reviewed, and adjusted if appropriate, at each reporting date. The principal useful lives used for depreciation purposes are:

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

The range in the useful lives above reflects the variety of assets within the asset categories. An exception within Building and dwellings would be leasehold improvement assets, which are given the same life as the relative lease.

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 gain or loss on disposal. 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 carrying amount of the assets and depreciation based on the asset's original 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, a loss in economic benefit or reduction of service potential. 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 only those impairment losses that do not result from a clear consumption of economic benefit or reduction of service potential should be 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. Impairment losses that arise from a clear consumption of economic benefit or reduction in service potential should be taken in full to the Statement of Comprehensive Net 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 and a sale within 12 months of the reporting date is considered to be highly probable. Management is committed to a plan to sell and the asset is being actively marketed in its present condition at a price which is reasonable in relation to its current condition.

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 and are recorded as current assets in the Statement of Financial Position.

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 2018	671,145	58,612	15,889	21,473	13,280	80,446	671	861,516	113,125	6,432	981,073
Additions	0	0	132	2,236	45	324	1,461	4,198	0	295	4,493
Assets commissioned in year	0	29	0	0	287	965	(1,281)	0	0	0	0
Disposals and derecognition	(7)	(183)	0	(1,305)	(148)	(663)	(8)	(2,314)	0	0	(2,314)
Movement from/(to) held for sale	6	169	0	131	0	0	0	306	0	0	306
Fellings	(14,750)	0	0	0	0	0	0	(14,750)	(5,298)	0	(20,048)
Indexation and revaluation	80,474	3,671	326	0	0	1,814	0	86,285	18,444	0	104,729
Reclassification	0	(273)	116	0	0	(116)	(333)	(606)	(3,733)	273	(4,066)
At 31 March 2019	736,868	62,025	16,463	22,535	13,464	82,770	510	934,635	122,538	7,000	1,064,173
Depreciation											
At 1 April 2018	0	0	1,564	14,440	13,181	17,901	0	47,086	0	0	47,086
Charged in year	0	0	884	1,471	42	3,391	0	5,788	0	0	5,788
Disposals and derecognition	0	0	0	(1,182)	(146)	(386)	0	(1,714)	0	0	(1,714)
Movement from/(to) held for sale	0	0	0	93	0	0	0	93	0	0	93
Indexation and revaluation	0	0	29	0	0	390	0	419	0	0	419
Reclassification	0	0	50	0	0	(50)	0	0	0	0	0
At 31 March 2019	0	0	2,527	14,822	13,077	21,246	0	51,672	0	0	51,672
Carrying amount at 1 April 2018	671,145	58,612	14,325	7,033	99	62,545	671	814,430	113,125	6,432	933,987
Carrying amount at 31 March 2019	736,868	62,025	13,936	7,713	387	61,524	510	882,963	122,538	7,000	1,012,501
Asset Financing											
Owned	687,347	56,682	13,936	7,668	387	61,524	510	828,054	122,538	7,000	957,592
Leased	49,521	5,343	0	45	0	0	0	54,909	0	0	54,909
Carrying amount at 31 March 2019	736,868	62,025	13,936	7,713	387	61,524	510	882,963	122,538	7,000	1,012,501

Buildings include dwellings with a carrying amount of £294k. The other buildings are offices and workbases.

The amount held in the Revaluation Reserve for these assets at 31st March 2019 was £795,321k (£725,645k at 31st March 2018)

£3,733k representing the value of the asset at Lake Vyrnwy as at 1st April 2018 was re-classified during the year and was transferred from biological assets to financial assets (Note 9).

Comparative figures for the year ended 31 March 2018

	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 2017	626,724	54,418	14,484	22,153	13,320	72,855	818	804,772	105,643	6,432	916,847
Additions	0	280	190	1,490	0	1,070	482	3,512	0	0	3,512
Assets commissioned in year	0	0	0	521	96	66	(635)	48	0	0	48
Disposals and derecognition	(1)	(231)	(137)	(2,577)	(186)	(43)	0	(3,175)	0	0	(3,175)
Movement from/(to) held for sale	(28)	317	231	(114)	0	0	0	406	0	0	406
Fellings	(8,802)	0	0	0	0	0	0	(8,802)	(3,162)	0	(11,964)
Indexation and revaluation	53,252	3,834	1,121	0	0	6,534	0	64,741	10,644	0	75,385
Reclassification	0	(6)	0	0	50	(36)	6	14	0	0	14
At 31 March 2018	671,145	58,612	15,889	21,473	13,280	80,446	671	861,516	113,125	6,432	981,073
Depreciation											
At 1 April 2017	0	0	694	15,352	10,205	13,586	0	39,837	0	0	39,837
Charged in year	0	0	820	1,629	3,114	3,188	0	8,751	0	0	8,751
Disposals and derecognition	0	0	(4)	(2,454)	(186)	(11)	0	(2,655)	0	0	(2,655)
Movement from/(to) held for sale	0	0	6	(87)	0	0	0	(81)	0	0	(81)
Indexation and revaluation	0	0	48	0	0	1,173	0	1,221	0	0	1,221
Reclassification	0	0	0	0	48	(35)	0	13	0	0	13
At 31 March 2018	0	0	1,564	14,440	13,181	17,901	0	47,086	0	0	47,086
Carrying amount at 1 April 2017	626,724	54,418	13,790	6,801	3,115	59,269	818	764,935	105,643	6,432	877,010
Carrying amount at 31 March 2018	671,145	58,612	14,325	7,033	99	62,545	671	814,430	113,125	6,432	933,987
Asset Financing											
Owned (Restated)	625,316	53,486	14,325	6,882	99	62,545	671	763,324	113,125	6,432	882,881
Leased (Restated)	45,829	5,126	0	151	0	0	0	51,106	0	0	51,106
Carrying amount at 31 March 2018	671,145	58,612	14,325	7,033	99	62,545	671	814,430	113,125	6,432	933,987

Buildings include dwellings with a carrying amount of £291k. The other buildings are offices and workbases. The amount held in the Revaluation Reserve for these assets at 31st March 2018 was £725,645k

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 was valued as appropriate for obtaining a fair value. In the intervening years, custom indices are provided by Clegg & Co and 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 estate, 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 2019. 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.

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 2019 Natural Resources Wales manages 58 of Wales's National Nature Reserves, either entirely, or in partnership, and one Marine Nature Reserve (MNR). During 2018/19 30 Ha of additional land was purchased as part of the Dyfi NNR. Two more purchases were made in 2017/18 were re-classified from land to heritage during the year.

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/guidance-and-advice/environmental-topics/wildlife-and-biodiversity/find-protected-areas-of-land-and-seas/national-nature-reserves/?lang=en>

7.2 Intangible non-current assets

	Software Licences	Other Licences	Software Development Expenditure	Web Site	Assets under construction	Total Intangible Assets
	£'000	£'000	£'000	£'000	£'000	£'000
Cost or valuation						
At 1 April 2018	8,139	2,354	12,573	477	2,392	25,935
Additions	198	0	137	0	4,607	4,942
Assets commissioned in year	1,732	0	293	0	(2,025)	0
Disposals and derecognition	0	0	0	0	(231)	(231)
Indexation and revaluation	0	0	0	0	0	0
Reclassification	0	0	0	0	333	333
At 31 March 2019	10,069	2,354	13,003	477	5,076	30,979
Amortisation						
At 1 April 2018	4,770	32	6,103	221	0	11,126
Charged in year	1,383	9	1,729	128	0	3,249
Disposals and derecognition	0	0	0	0	0	0
Indexation and revaluation	0	0	0	0	0	0
Reclassification	0	0	0	0	0	0
At 31 March 2019	6,153	41	7,832	349	0	14,375
Carrying Amount at 1 April 2018	3,369	2,322	6,470	256	2,392	14,809
Carrying Amount at 31 March 2019	3,916	2,313	5,171	128	5,076	16,604
Asset Financing						
Owned	3,916	2,313	5,171	128	5,076	16,604
Carrying Amount at 31 March 2019	3,916	2,313	5,171	128	5,076	16,604

The amount held in the Revaluation Reserve for these assets at 31st March 2019 was £686k (£836k at 1st April 2018)

Comparative figures for the year ended 31 March 2018

	Software Licences	Other Licences	Software Development Expenditure	Web Site	Assets under construction	Total Intangible Assets
	£'000	£'000	£'000	£'000	£'000	£'000
Cost or valuation						
At 1 April 2017	6,790	2,456	11,796	472	1,661	23,175
Additions	174	0	388	5	2,392	2,959
Assets commissioned in year	0	0	1,613	0	(1,661)	(48)
Disposals and derecognition	(45)	0	(92)	0	0	(137)
Indexation and revaluation	0	0	0	0	0	0
Reclassification	1,220	(102)	(1,132)	0	0	(14)
At 31 March 2018	8,139	2,354	12,573	477	2,392	25,935
Amortisation						
At 1 April 2017	3,359	83	4,699	95	0	8,236
Charged in year	1,233	9	1,583	126	0	2,951
Disposals and derecognition	(47)	0	(1)	0	0	(48)
Indexation and revaluation	0	0	0	0	0	0
Reclassification	225	(60)	(178)	0	0	(13)
At 31 March 2018	4,770	32	6,103	221	0	11,126
Carrying Amount at 1 April 2017	3,431	2,373	7,097	377	1,661	14,939
Carrying Amount at 31 March 2018	3,369	2,322	6,470	256	2,392	14,809
Asset Financing						
Owned	3,369	2,322	6,470	256	2,392	14,809
Carrying Amount at 31 March 2018	3,369	2,322	6,470	256	2,392	14,809

The amount held in the Revaluation Reserve for these assets at 31st March 2018 was £836k

8. Financial liabilities and instruments

8.1 Financial liability

The financial liability of £39,973k 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.

£5,729k was paid to Dŵr Cymru Welsh Water during 2018/19 (2017/18: £5,544k) for the indexed fixed payments. These are included with other payments under the reservoir operating agreements in Note 5.

Recently introduced legislative obligations relating to enhanced standards for spillways, pipes & dams as well as assets coming to the end of their useful lives have resulted in Dŵr Cymru Welsh Water implementing a capital programme over 8 years across the Clwyd, Dwyfor, Aled, Dee, Wye & Tywi catchments. This programme of new works has significantly increased costs to unprecedented levels which has resulted in NRW agreeing an incremental payment schedule with DCWW over 10 years at a total projected cost of £27.5m.

Through the 'smoothing' of these costs and manageable increased charges for the abstractor, this facility has enabled NRW to forecast a sustainable Standard Unit Charge Account over the duration of this timeline. The cost is reported within Reservoir operating agreements in Note 5 and the in-year deficit is reported as Long term payables in Note 12. The corresponding income to be received is reported within abstraction costs in Note 6.1 and Long term receivables in Note 10.

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.

IFRS 9 introduces a new Expected Credit Loss *(ECL) model to estimate and account for expected credit losses for all relevant financial assets. NRW's estimate is based on our historic experience of credit losses over the past three financial years, updated for known future credit issues. The impact of this standard on NRW has been assessed as immaterial.

9. Financial Assets

	31 March 2019	31 March 2018
	£'000	£'000
Forest holidays	425	95
Lake Vyrnwy forest	4,238	0
	<u>4,663</u>	<u>95</u>

Up to 1st April 2018, Natural Resources Wales managed a forest in the Lake Vyrnwy area under a joint afforestation scheme with Hafren Dyfrdwy (previously Severn Trent Water). The relative asset was included within Biological assets at fair value under IAS 41. Income was received and costs incurred by Natural Resources Wales and an annual payment of 50% of the operating surplus was paid to Hafren Dyfrdwy. Since 1st April 2018, Hafren Dyfrdwy has become responsible for the management of the forest, collecting the income and incurring the relative costs. Natural Resources Wales now have an advisory role under the afforestation scheme agreement and receives 50% of the operating surplus from Hafren Dyfrdwy. The asset has been re-classified and Natural Resources Wales now recognises a financial asset.

10. Trade and other receivables

	31 March 2019	31 March 2018
	£'000	£'000
Within 1 year		
Trade receivables	4,320	3,835
Expected credit loss	(418)	(323)
Contract assets - commercial and other	2,972	0
Accrued income:	0	5,572
European and other external funding	1,196	0
Charges	1,297	0
VAT receivable	2,713	2,617
Prepayments	2,430	1,692
Deposit	377	206
Other receivables	180	222
Total	<u>15,067</u>	<u>13,821</u>
More than 1 year		
Long term receivables	2,052	0
Total Trade and other receivables	<u>17,119</u>	<u>13,821</u>

Expected credit losses have been calculated per IFRS 9, as described in Note 8.2.

11. Cash and cash equivalents

	31 March 2019	31 March 2018
	£'000	£'000
Opening balance	43,539	26,801
Net change in cash and cash equivalent balances	5,486	16,738
Total	49,025	43,539
The following balances were held at 31 March		
Government Banking Service	46,594	35,078
Other bank accounts	2,429	8,460
Cash in hand	2	1
Total	49,025	43,539

Cash and cash equivalents comprise cash in hand, financial provisions (see Note 1.9) and current balances which are held in Government Banking Service and Barclays bank accounts. They are readily convertible to known amounts of cash, and are subject to insignificant risk of changes in value. Financial provisions are not available for use by NRW. Only when the permit conditions are breached by the landfill operator will NRW give due consideration to drawing down the provision in place.

12. Trade and other payables

	31 March 2019	*Restated 31 March 2018
	£'000	£'000
Within 1 year		
Trade payables accrual	8,286	9,614
Deferred income:	0	7,755
European and other external funding	1,840	0
Charges	4,394	0
Contract liabilities:		
Charges	564	0
Commercial and other	730	0
Holiday pay **	2,724	1,845
Trade payables	1,875	1,671
Bonds and deposits	1,446	1,421
Finance leases (current)	12	81
Other payables	172	177
Taxation and social security	9	0
Total	22,052	22,564
More than 1 year		
Long term payables	2,052	0
Finance leases (non-current)	426	406
Total Trade and other payables	24,530	22,970

* The 31 March 2018 total for trade payables accrual has been reduced by £1,084k. This amount which represents deferred income on the LIFE Welsh Raised Bogs project, is now shown within the total of £7,755k for deferred income.

Also, the balance due under finance leases has been split between current and non-current according to when the amount falls due.

** The methodology of the calculation of accrued holiday pay was changed in 2018/19. The daily rate of pay is now based on working days rather than calendar days.

13. Provisions

	Early departure costs £'000	Other £'000	Total £'000
Balance at 1 April 2018	56	1,171	1,227
Provided in the year	3	201	204
Released in year	(1)	(4)	(5)
Used in the year	(31)	(317)	(348)
Balance at 31 March 2019	27	1,051	1,078
Estimated timing of discounted cash flows			
Due within one year	16	1,051	1,067
Due between one and five years	11	0	11
Total	27	1,051	1,078

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 and it is probable that NRW will be required to settle the obligation and a reliable financial estimate can be made.

Provision for early departure costs consist of annual compensation payments to former staff who left under legacy bodies' early retirement programmes.

Other provisions include £673k of grant offers to fund work to be undertaken up to 31 March 2019 but which will not to be claimed until June 2019 and £378k for other claims. It is expected that all of these will be paid within the next twelve months. Other grant commitments are reported within note 17 Other financial commitments.

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 the movement in expected credit loss is shown in note 5, and the total provision for expected credit loss in note 10 and included in the Statement of Financial Position under receivables.

14. 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 4.6% and 8.05% for members of classic, premium, classic plus, nuvos and 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 8% and 14.75% (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 0.5% of pensionable salary 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 1 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, primarily governed by the LGPS Regulations 2013 and the LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014. These are subject to amendment over time. 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 for the financial year 2018/19 was £13,865 million (£10,978 million in 2017/18). 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 2016. The assets taken at market value (£2.7 billion) were sufficient to cover 103% of the value of liabilities in respect of past service benefits which had accrued to members. NRW accepted the independent actuary's recommendation in respect of future employer contributions. The next triennial actuarial valuation will be as at 31 March 2019 and will be used to set employer contribution rates for the three-year period starting 1 April 2020.

The annual report and financial statements for the EAPF estimated that it had sufficient assets to meet 103% of its expected future liabilities at 31 March 2019 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 real terms discount rate in these financial statements is therefore 1.1% lower than the rate used in the EAPF financial statements. This lower rate results in a higher value being placed on liabilities. The sensitivity analysis in note 14.2 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 2.1% per annum. The estimated contribution payable by NRW, excluding any discretionary lump sum payments, for the year to 31 March 2020 will be approximately £0 as it has paid all of its normal employer contributions.

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 2016 updated to 31 March 2019. The assumptions underlying the calculation of a net liability at 31 March 2019 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.

When the Local Government Pension Scheme was reformed in 2014, transitional protections were applied to certain older members within ten years of normal retirement age. The benefits accrued from 1 April 2014 by these members are subject to an 'underpin' which means they cannot be lower than what they would have received under the previous benefit structure.

In December 2018, the Court of Appeal upheld a ruling that similar transitional protections in the Judges' and Firefighters' Pension Schemes were unlawful on the grounds of age discrimination. This is referred to as the McCloud case. The implications of the ruling was expected to apply to the LGPS and other public service schemes as well.

On 27 June 2019, the Supreme Court refused the Government permission to appeal the McCloud case in respect of age discrimination and pension protection. The pension scheme's actuary has estimated the impact on Natural Resources Wales at £3,001k and this is reflected within the notes below.

14.1 Financial and longevity assumptions

Period Ended	31 Mar 2019 % p.a.	31 Mar 2018 % p.a.
Pension Increase Rate	2.2%	2.1%
Salary Increase Rate	2.5%	2.4%
Discount Rate	2.4%	2.7%

	Males	Females
Current Pensioners	22.6 years	24.4 years
Future Pensioners*	24.3 years	26.7 years

* figures assume members aged 45 as at the last formal valuation date

14.2 Sensitivity analysis

Change in assumptions at 31 March 2019:	Approximate % increase to employer liability	Approximate monetary amount (£000)
0.5% decrease in Real Discount Rate	12%	50,932
0.5% increase in the Salary Increase Rate	2%	10,339
0.5% increase in the Pension Increase Rate	9%	39,670

In addition to the main sensitivity analysis on the overall liabilities, below is an additional analysis on the sensitivity of the estimated impact of the McCloud judgement to the assumed level of future salary increases. The McCloud impact also depends on other assumptions, for example retirement ages and rate of withdrawals, but previous analysis indicated that the sensitivity to salary increases was most significant.

	Estimated impact of McCloud judgement on closing liabilities (relative to central assumption) £000
Mean salary increases 0.5% p.a. lower	(1,957)
Mean salary increases 0.5% p.a. higher	2,528

14.3 Duration of defined benefit obligation

The duration of the defined benefit obligation (i.e. the weighted average of the time until payment of future cash flows) for scheme members calculated at the last triennial valuation as at 31st March 2016 was calculated by the actuary as 20.4 years.

14.4 Fair Value of Assets

Fair Value of Assets for the year ended 31 March 2019

Asset Category	31 March 2019 (£000)				
	Quoted	Unquoted	Undetermined	Total	%
Equity Securities:					
Common Stock	62,656.0	0.0	0.0	62,656.0	17%
Preferred Stock	0.0	0.0	0.0	0.0	0%
Rights/Warrants	336.8	0.0	0.0	336.8	0%
Other Equity Assets	3,474.4	0.0	0.0	3,474.4	1%
Debt Securities:					
UK Government Bonds	0.0	36,018.1	0.0	36,018.1	10%
Corporate Bonds	0.0	31,184.3	0.0	31,184.3	8%
Other	0.0	2,157.0	0.0	2,157.0	1%
Pooled Investment Vehicles:					
Equities	0.0	79,765.8	0.0	79,765.8	21%
Bonds	0.0	30,183.7	0.0	30,183.7	8%
Funds - Common Stock	0.0	0.0	0.0	0.0	0%
Funds - Real Estate	58,510.7	13,342.5	0.0	71,853.2	19%
Funds - Venture Capital	0.0	0.0	0.0	0.0	0%
Venture Capital and Partnerships:					
Partnerships & Real Estate	0.0	46,166.2	0.0	46,166.2	12%
Other Investment:					
Stapled Securities	0.0	0.0	0.0	0.0	0%
Derivative Contracts:					
Equity Derivatives - Futures	0.0	0.0	0.0	0.0	0.0
Forward FX Contracts	0.0	(424.4)	0.0	(424.4)	(0.0)
Cash and Cash equivalents					
All	0.0	0.0	9,732.9	9,732.9	3%
Totals	124,977.8	238,393.3	9,732.9	373,104.0	100%

Fair Value of Assets for the year ended 31 March 2018

Asset Category	31 March 2018 (£'000)				
	Quoted	Unquoted	Undetermined	Total	%
Equity Securities:					
Common Stock	82,482	166	0	82,648	24%
Preferred Stock	26	0	0	26	0%
Rights/Warrants	0	0	0	0	0%
Other Equity Assets	276	0	0	276	0%
Debt Securities:					
UK Government Bonds	0	33,902	0	33,902	10%
Corporate Bonds	0	29,442	0	29,442	9%
Other	0	1,698	315	2,013	1%
Pooled Investment Vehicles:					
Equities	0	0	40,940	40,940	12%
Bonds	27,659	0	32,798	60,457	18%
Funds - Common Stock	2,269	0	26,019	28,288	8%
Funds - Real Estate	422	1,763	9,360	11,544	3%
Funds - Venture Capital	0	44	0	44	0%
Venture Capital and Partnerships:					
Partnerships & Real Estate	0	42,558	0	42,558	12%
Other Investment:					
Stapled Securities	458	0	0	458	0%
Derivative Contracts:					
Equity Derivatives - Futures	(43)	0	0	(43)	0%
Forward FX Contracts	0	87	0	87	0%
Cash and Cash equivalents					
All	0	0	8,502	8,502	3%
Totals	113,548	109,659	117,934	341,141	100%

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

Period ended 31 March 2019	Assets	Obligations	Net (liability)/asset
	£(000s)	£(000s)	£(000s)
Fair value of employer assets	341,141	0	341,141
Present value of funded liabilities	0	373,625	(373,625)
Present value of unfunded liabilities	0	0	0
Opening Position as at 31 March 2018	341,141	373,625	(32,484)
Service cost			
- Current service cost*	0	11,623	(11,623)
- Past service cost (including curtailments and McCloud impact)	0	2,242	(2,242)
- Effect of settlements	0	0	0
Total service cost	0	13,865	(13,865)
Net interest			
- Interest income on plan assets	9,233	0	9,233
- Interest cost on defined benefit obligation	0	10,163	(10,163)
- Impact of asset ceiling on net interest	0	0	0
Total net interest	9,233	10,163	(930)
Total defined benefit cost recognised in Profit or (Loss)	9,233	24,028	(14,795)
Cashflows			
- Plan participants' contributions	2,094	2,094	0
- Employer contributions	7,089	0	7,089
- Contributions in respect of unfunded benefits	0	0	0
- Benefits paid	(7,050)	(7,050)	0
- Unfunded benefits paid	0	0	0
Effect of business combinations and disposals	0	0	0
Expected closing position	352,507	392,697	(40,190)
Remeasurements			
- Change in demographic assumptions	0	0	0
- Change in financial assumptions	0	36,495	(36,495)
- Other experience	0	0	0
- Return on assets excluding amounts included in net interest	20,597	0	20,597
- Changes in asset ceiling	0	0	0
Total remeasurements recognised in Other Comprehensive Income (OCI)	20,597	36,495	(15,898)
Exchange differences	0	0	0
Fair value of employer assets	373,104	0	373,104
Present value of funded liabilities	0	429,192	(429,192)
Present value of unfunded liabilities	0	0	0
Closing position as at 31 March 2019	373,104	429,192	(56,088)

* The current service cost includes an allowance for administration expenses of 0.6% of payroll.

14.5 Change in fair value of plan assets, defined benefit obligation and net liability (Continued)

Period ended 31 March 2018	Assets	Obligations	Net (liability)/ asset
	£'000	£'000	£'000
Fair value of employer assets	323,540	0	323,540
Present value of liabilities	0	366,005	(366,005)
Present value of unfunded liabilities	0	0	0
Opening Position as at 31 March 2017	323,540	366,005	(42,465)
Service cost			
- Current service cost*	0	10,978	(10,978)
- Past service cost (including curtailments)	0	0	0
- Effect of settlements	0	0	0
Total service cost	0	10,978	(10,978)
Net interest			
- Interest income on plan assets	8,502	0	8,502
- Interest cost on defined benefit obligation	0	9,590	(9,590)
- Impact of asset ceiling on net interest	0	0	0
Total net interest	8,502	9,590	(1,088)
Total defined benefit cost recognised in Profit or (Loss)	8,502	20,568	(12,066)
Cashflows			
- Plan participants' contributions	1,962	1,962	0
- Employer contributions	12,199	0	12,199
- Contributions in respect of unfunded benefits	0	0	0
- Benefits paid	(6,710)	(6,710)	0
- Unfunded benefits paid	0	0	0
Effect of business combinations and disposals	0	0	0
Expected closing position	339,493	381,825	(42,332)
Remeasurements			
- Change in demographic assumptions	0	0	0
- Change in financial assumptions	0	(8,200)	8,200
- Other experience	0	0	0
- Return on assets excluding amounts included in net interest	1,648	0	1,648
- Changes in asset ceiling	0	0	0
Total remeasurements recognised in Other Comprehensive Income (OCI)	1,648	(8,200)	9,848
Exchange differences	0	0	0
Fair value of employer assets	341,141	0	341,141
Present value of funded liabilities	0	373,625	(373,625)
Present value of unfunded liabilities	0	0	0
Closing position as at 31 March 2018	341,141	373,625	(32,484)

* The current service cost includes an allowance for administration expenses of 0.6% of payroll.

15. Capital commitments

	31 March 2019 £'000	31 March 2018 £'000
Property plant and equipment		
Plant and machinery	161	77
Transport equipment	12	82
Operational structures	1,186	1,311
Public Structures	13	0
Total	<u><u>1,372</u></u>	<u><u>1,470</u></u>
Intangible assets		
Information technology - software licences	8	0
Information technology - software development	422	351
	<u><u>430</u></u>	<u><u>351</u></u>

16. 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.

16.1 Operating leases

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

	31 March 2019			
	Land	Buildings	Vehicles	Total
	£'000	£'000	£'000	£'000
Obligations under operating leases are:				
Not later than one year	88	1,314	528	1,930
Later than one year and not later than five years	219	2,178	260	2,657
Later than five years	1,802	1,075	0	2,877
Total value of obligations	<u><u>2,109</u></u>	<u><u>4,567</u></u>	<u><u>788</u></u>	<u><u>7,464</u></u>

	31 March 2018			
	Land	Buildings	Vehicles	Total
	£'000	£'000	£'000	£'000
Obligations under operating leases are:				
Not later than one year	79	1,397	248	1,724
Later than one year and not later than five years	196	2,258	449	2,903
Later than five years	1,760	191	0	1,951
Total value of obligations	<u><u>2,035</u></u>	<u><u>3,846</u></u>	<u><u>697</u></u>	<u><u>6,578</u></u>

16.2 Finance leases

	31 March 2019		
	Land	Vehicles	Total
	£'000	£'000	£'000
Obligations under finance leases are:			
Not later than one year	12	0	12
Later than one year and not later than five years	42	0	42
Later than five years	384	0	384
Total value of obligations	438	0	438

	31 March 2018		
	Land	Vehicles	Total
	£'000	£'000	£'000
Obligations under finance leases are:			
Not later than one year	13	68	81
Later than one year and not later than five years	41	0	41
Later than five years	365	0	365
Total value of obligations	419	68	487

17. Other financial commitments

Natural Resources Wales has entered into non-cancellable contracts not reported in Note 4 - Capital Works Expensed in year, Note 15 - Capital commitments or Note 16 - Commitments under leases. The total other payments to which Natural Resources Wales is committed at 31 March 2019 are :

	31 March 2019	31 March 2018
	£'000	£'000
Not later than one year	16,802	11,606
Later than one year and not later than five years	13,522	16,712
Later than five years	172	268
Total	30,496	28,586

18. Lease receivables

Assets (land and buildings) which are leased to external parties under an operating lease are capitalised in accordance with the non-current assets policy which is 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 2019	* Restated 31 March 2018
	£'000	£'000
Not later than one year	8,900	9,088
Later than one year and not later than five years	34,511	34,870
Later than five years	158,980	167,721
Total	202,391	211,679

* The 31 March 2018 values have been re-stated to include all projected income received for windfarms, as NRW manages these leases on behalf of Welsh Government and the royalties for Energy Delivery Programme, Third Party, Hydro and Other Leases. These are surrenderable income streams and will be returned to Welsh Government in the form of wind energy payments. As result of this change, the total receivables value as at 31 March 2018 has increased from £17,040k to £211,679k.

19. Contingent liabilities

Natural Resources Wales discloses contingent liabilities in accordance with IAS 37 when a possible obligation exists depending on whether some uncertain future event occurs, or a present obligation exists but payment is not probable or the amount cannot be measured reliably.

Natural Resources Wales has the following contingent liabilities:

	31 March 2019	31 March 2018
	£'000	£'000
Civil claim	0	225
Public and employee liability	174	151
Other	20	0
Total	<u>194</u>	<u>376</u>

Public and employee liability

7 public and employee liability claims have been made against Natural Resources Wales and the amounts are disclosed above. The claims are for damages, personal injury and employee grievances.

Other Claims

The other £20k relates to an amount which will possibly be due to HMRC for additional NI contributions for fuel benefit.

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

HMRC Audit

An HMRC audit of Natural Resources Wales' treatment of Off-payroll working (IR35) is under way and will continue into 2019/20. In accordance with IAS 37, an unquantifiable contingent liability is disclosed to recognise the possibility of non-compliance liabilities arising from the audit.

Timber Sales Claims

NRW have received correspondence on behalf of some timber firms in respect of their contracts with NRW. An unquantifiable contingent liability is disclosed to recognise the possibility of liabilities arising from these contracts.

Standing Sales Plus (SS+) contracts

NRW stopped letting any new SS+ contracts from December 2018 and are now looking to enter into negotiations with customers to remove the civil and replanting obligations from all the ongoing contracts.

Minerals

Formal proceedings have been served for a civil claim by a third party for the use of stones by Natural Resources Wales and one of its predecessor bodies. The lowest estimate for future legal costs to NRW for this case is below £100k and the highest estimate to be £2,286k. In addition, the claim states that it is for a sum in excess of £200k. Any definitive figure as to the level of damages that may be payable should NRW be unsuccessful in defending the claim is yet to be quantified by the claimants but NRW's position is that it would be in the low tens of thousands. In 2017/18, a contingent liability of £225k was disclosed in respect of this case as per the table above.

A second, similar claim has been received but NRW have agreed to an extension on a standstill agreement with the other party. No values have been discussed in relation to this second claim.

Contractor in liquidation

NRW is reviewing its position in respect of the contracts with Dawnus Group Limited or its subsidiary companies which were terminated at the time the group went into administration in March 2019. The final position is subject to reaching an agreement with the administrators on the value of the work carried out by up to the date the contracts were terminated. There were 8 ongoing projects at the date of termination.

20. Impact of Brexit

On 29 March 2017, the UK Government submitted its notification to leave the EU in accordance with Article 50. The triggering of Article 50 started a two-year negotiation process between the UK and the EU. On 11 April 2019, the government confirmed agreement with the EU on an extension until 31 October 2019 at the latest, with the option to leave earlier as soon as a deal has been ratified. NRW has allocated funding in both 2018/19 and 2019/20 to assess and manage the exit from the EU.

21. Events after the end of the reporting period

There are no events to report after the end of the reporting period.

22. 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 Welsh Government during the year is reported in the Statement of Taxpayers Equity). NRW has also had transactions with other entities for which the Welsh Government is regarded as the parent department namely Welsh Local Authorities and National Parks, and transactions with other government departments and other central government bodies. Most of these transactions have been with Environment Agency, Forestry Commission and HMRC.

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 £'000	Total income £'000	Amount owed by NRW at 31 March 2019 £'000	Amount owed to NRW at 31 March 2019 £'000
Aneurin Bevan University Health Board	Catherine Brown	Independent Member	0	6	0	0
Canal and River Trust	Ruth Hall	Member of Board in Wales and National Council	0	27	0	0
	Julia Cherrett	Trustee				
Cardiff University	Steve Ormerod	Professor	36	9	0	0
Cardiff University Water Research Institute	Steve Ormerod	Co-Director				
Cardiff University Llyn Brianne Observatory	Steve Ormerod and spouse	Principal Investigators				
Cardiff Metropolitan University	Sir Paul Williams	Honorary Fellow	0	1	0	0
DEFRA including: Joint Nature Conservation Committee and Support Company	Madeleine Havard/ Steve Ormerod	Board Member of JNCC & Non-Executive Director of JNCC Support Co	12	0	0	0
	Nigel Reader	Independent Member of JNCC Audit and Risk Assurance Committee				
DEFRA Audit and Risk Committee	Nigel Reader	Ex-officio Member (as Board Member of Natural England and Audit and Risk Assurance Committee)				
Animal and Plant Health Agency	Nigel Reader	Non-Executive Board Member of Management Board and Audit and Risk Assurance Committee member				

Organisation	Member	Nature of relationship	Total payments	Total income	Amount owed by NRW at 31 March 2019	Amount owed to NRW at 31 March 2019
Environment Agency	Steve Ormerod	Member of Science Advisory Group	4082	2,431	249	483
Groundwork North Wales	Karen Balmer	Chief Executive	9	0	9	0
Leonard Cheshire Disability	Elizabeth Haywood	Board Member and Trustee	0	1	0	0
National Association of Areas of Outstanding Beauty	Howard Davies	Chief Executive	5	0	0	0
National Trust	Ruth Hall	Council Member	228	14	0	0
Natural England	Nigel Reader	Non-Executive Board Member and Audit Committee Chair	148	0	76	151
North Wales Wildlife Trust	Howard Davies	Trustee and Honorary Vice President	145	0	0	0
Pembrokeshire Coast National Park Authority	Rosie Plummer	Welsh Government appointed board member	194	3	0	0
PLANED	Madeline Havard's spouse	Trustee	3	0	0	0
Plantlife International	Rosie Plummer	Trustee	3	0	0	0
Refurbs Flintshire	Karen Balmer	Group Chief Executive	0	1	0	0
RSPB	Steve Ormerod	Vice President	43	4	0	0
TGV Hydro Ltd	Chris Blake	Director	17	1	0	0
University of Wales Trinity St David (INSPIRE)	Andy Middleton	Associate Director	0	2	0	0
Wild Ground	Karen Balmer	Group Chief Executive	6	0	0	0

Annex 1 Corporate Environmental Report

Our Vision

Proud to be leading the way to a better future for Wales by managing the environment and natural resources of Wales sustainably.

Our Purpose

Through the new Environment (Wales) Act 2016, we

- must pursue the sustainable management of natural resources, and;
- apply the principles of sustainable management of natural resources; ...in the exercise of our functions.

Introduction

Our environmental management system (EMS) is helping develop Natural Resources Wales (NRW) into an excellent organisation by maintaining our ISO14001:2015 certification, our forest certification against the UK Woodland Assurance Standard and by reducing our own environmental impact and carbon footprint.

Our focus during this year has been to:

- reduce our carbon footprint – decarbonisation;
- maintain woodland certification (UK Woodland Assurance Standard) for the Welsh Government Woodland Estate that we manage;
- improve the status of designated features, access and interpretation on protected sites we manage;
- develop mechanisms for active and sustainable travel to be the favoured choice of NRW commuter travel and for appropriate business journeys

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

Summary of Performance

This year we have:

- met our target to reduce our carbon footprint by 5% in relation to occupied buildings energy use and business travel;
- retained woodland certification (UK Woodland Assurance Standard) for the Welsh Government Woodland Estate that we manage, following independent external audits and verification
- completed 75% of the National Nature Reserve management audit target and ensured any improvement actions identified were implemented

- identified the number of staff who walk, cycle and use public transport for commuter and business travel

Table 1: Corporate Environmental report summary table

	Units	2015/16	2016/17	2017/18	2018/19
Greenhouse gasemissions	Consumption (tCO ₂ e)	6,021	5,115	4,387	4,199
Estate energy	Consumption (million kWh)	6.9	6.3	6.0	6.3
	Expenditure (£k)	657	776	618	583
Estate waste	Generated (tonnes)	864	1,424	1,141	966
	Expenditure (£k)	205	225	273	218
Estate water ¹	Consumption (million (m ³))	78,395	76,283	50,908	40,115
	Expenditure (£k)	39	32	25	30

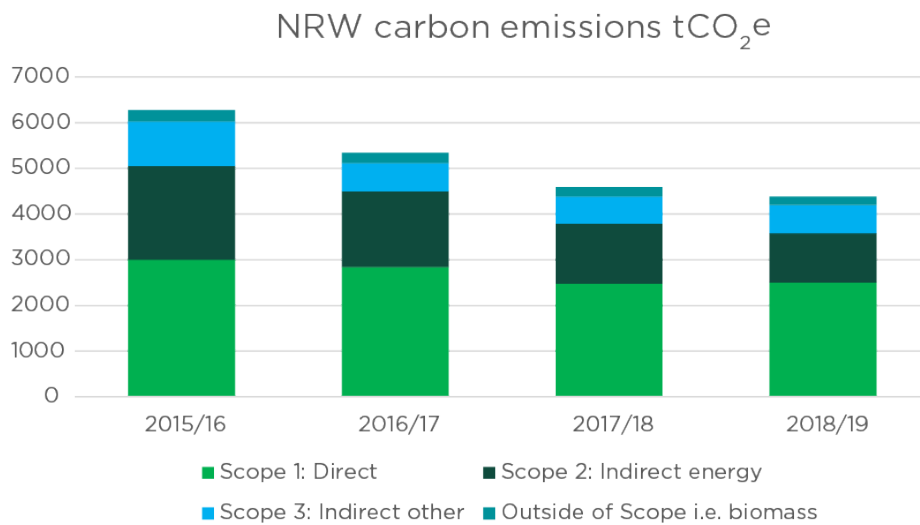
Table 1 reflects relative change for key areas in the last year. More detail around each can be found within the related sections of this report.

In summary:

- organisational carbon emissions decreased in 2018/19 by 4.3% compared with the previous year
- energy use increased in 2018/19 by 3.8% compared with the previous year
- waste disposed decreased in 2018/19 by 15.3% compared with the previous year
- water consumption decreased in 2018/19 by 21.2% compared with the previous year

Greenhouse Gas Emissions

Our greenhouse gas emissions are outlined below:



Carbon emissions decreased in 2018/19 by 4.3% compared with the previous year.

Scope 1 direct emissions increased by 1.3%, this was due to the increase in gas and fuel used for heating.

Scope 2 energy indirect emissions decreased by 18.2%, this was due to the reduction in electricity use in occupied buildings and a reduction in the DEFRA greenhouse gas factor for electricity.

Scope 3 other indirect emissions increased by 3.5%, this was due to a slight increase in private car, hire car and air mileage.

Table 2: Greenhouse gas emissions

Greenhouse Gas Emissions	2015/16	2016/17	2017/18	2018/19
Scope 1: Direct emissions (tCO ₂ e)	2,999	2,835	2,466	2,499
Scope 2: Energy indirect emissions (tCO ₂ e)	2,048	1,662	1,317	1,077
Scope 3: Other indirect emissions (tCO ₂ e)	974	617	603	624
Total gross GHG emissions (tCO₂e)	6,021	5,115	4,387	4,199
<i>Outside of scopes (i.e. biomass)</i>	253	220	208	187

Table 2: Note 1: Data not externally verified – Limited Assurance.

Note 2: The Scope 3 other indirect greenhouse gas emissions include; train travel, air travel, grey fleet travel, lease car travel, hire car travel, water and waste.

Note 3: Scope 3 emissions from the purchase of goods and services, aggregates use in construction and timber use are not included.

Energy

Our total energy use (which includes electric, mains gas, LPG, heating oil and biomass) in both occupied and unoccupied buildings has increased by 3.8% based on the previous year's data.

Mains electricity use in occupied buildings decreased by 4.5%, due to installation of LED lighting the previous year.

Electricity use used in unmanned sites such as pumping and gauging stations increased by 15.8%.

A reduction in biomass and an increase in LPG used was mainly due to the biomass boiler at our Bwlch Nant Yr Arian visitor centre not working in 2018/19.

There were increases in mains gas (6.0%) and heating oil (13.4%) used, this was mainly due to a colder than normal winter.

The energy generated from renewables (PV panels) increased by 54% from 71,806 kWh to 110,598 kWh.

The energy generated from renewables (micro-hydro) increased by 63% from 35,050 kWh to 57,281 kWh.

The carbon emission savings from electricity use were higher than expected due to the DEFRA greenhouse gas conversion factor for UK electricity decreasing further in 2018.

This was due to a significant decrease in coal generated electric and an increase in natural gas and renewables generation.

Table 3: Energy consumption

Resource use – Estate energy		2015/16	2016/17	2017/18	2018/19
Energy used: Occupied sites	Consumption (kWh)	5,550,100	5,209,072	4,918,340	4,973,616
	Consumption (tCO ₂ e)	2,011	1,723	1,436	1,236
Energy used: Unoccupied sites	Consumption (kWh)	1,319,745	1,131,651	1,122,103	1,298,317
	Consumption (tCO ₂ e)	610	466	395	367
Renewable energy: Self-generated	Generation (kWh)	81,713	76,649	106,856	167,879
	Consumption (% of energy used)	1.4%	1.4%	2.2%	3.4%
Energy used: Total	Consumption (kWh)	6,869,845	6,340,723	6,040,443	6,271,933
	Consumption (tCO₂e)	2,621	2,189	1,830	1,603
	Expenditure (£k)	657	777	618	583

Water

Overall water consumption decreased by 10,793 m³ this was due to the amount of water abstracted to operate our fish hatchery decreasing from 36,721 m³ to 25,424 m³. Mains water consumption in our offices increased by 492 m³ (8.9%) compared with the previous year. This was mainly due to increase in water at our two largest offices Ty Cambria, Cardiff and Maes Y Ffynnon, Bangor. Our water use intensity (m³/FTE) is 3.3, this is still below the average of 4.0 for water use 6.

The mains water at our non-office sites decreased by 18 m³ (0.3%) compared with the previous year.

Table 4: Water Consumption

Resource use – Estate water	Units	2015/16	2016/17	2017/18	2018/19
Water supplied - Office use					
Mains supply	Consumption (m ³)	6,830	5,923	5,555	6,047
Abstraction	Consumption (m ³)	2,011	15	22	32
Water supplied - Office use					
Mains supply	Consumption (m ³)	5,555	5,488	6,339	6,321
Abstraction	Consumption (m ³)	65,981	64,850	39,014	27,715
Water use intensity (for office use)	m ³ per FTE	3.4	3.4	3.4	3.3
Water used:	Consumption (m³)		76,283	50,908	40,115
Total	Consumption (tCO₂e)	27	26	18	14
	Expenditure (£k)	39	32	25	30

Travel

Our travel needs include; travel to manage sites, responding to serious environmental incidents, taking samples, dealing with flooding, site meetings and inter-office travel.

In 2018/19 our total business mileage increased by 3.7%, however the equivalent transport carbon emissions decreased by 0.8%, due to increase mileage in electric vehicles, low carbon badged vehicles and train travel.

We will continue to reduce inter-office travel using our travel decision tree and by increasing the use of skype conferencing, which will reduce the need to travel further.

Table 5: Water Travel

Travel by vehicle	Units	2015/16	2016/17	2017/18	2018/19
Badged vehicle	Miles travelled	5,833,839	6,064,812	5,440,945	5,562,246
	Expenditure(£k)	800	768	749	789
Lease vehicles	Miles travelled	1,649,345	191,730	0	0
	Expenditure(£k)	162 162	18	0	0
Grey vehicles	Miles travelled	552,343	639,064	590,998	614,868
	Expenditure(£k)	244	287	266	277
Hire	Miles travelled	256,654	322,505	261,039	277,390
	Expenditure(£k)	59	74	88	124
Train	Miles travelled	865,693	864,366	938,418	993,213
	Expenditure(£k)	221	223	183	328
Air	Miles travelled	18,898	71,057	33,661	50,299
	Expenditure(£k)	4	19	5	7
Bicycle	Miles travelled	1,944	2,346	2,301	3,714
	Expenditure(£k)	< 1	< 1	< 1	< 1
Motorbike	Miles travelled	4,475	2,447	1,735	1,155
	Expenditure(£k)	1	< 1	< 1	< 1
Electric	Miles travelled				32,832
Total vehicle travel	Miles travelled	9,183,191	8,158,327	7,269,097	7,535,717
	Consumption (tCO₂e)	2,629	2,249	2,019	2,002
	Expenditure (£k)	1,493	1,371	1,295	1,536

Waste Minimisation and Management

Total waste disposed of by the organisation decreased in 2018/19 by 15.3% compared with the previous year.

The equivalent carbon emissions associated with waste disposal increased by 0.7% due to an increase in waste to landfill.

Waste sent for incineration (diverted from landfill) increased for the third year in a row.

Table 6: Waste Generated

Travel by vehicle	Units	2015/16	2016/17	2017/18	2018/19
Office waste Landfilled	Consumption (tonnes)	266	241	213	286
	Consumption (tCO ₂ e)	122	101	125	168
	Expenditure	25	22	25	25
Office waste Recycled / reused	Consumption (tonnes)	451	934	600	431
	Consumption (tCO ₂ e)	10	20	13	9
Office waste Incinerated	Consumption (tonnes)	14	15	27	31
	Consumption (tCO ₂ e)	< 1	< 1	< 1	< 1
Fly tipped waste	Consumption (tonnes)	133	234	301	218
	Consumption (tCO ₂ e)	32	65	135	98
Total waste	Consumption (tonnes)	864	1,424	1,141	966
	Consumption (tCO₂e)	164	186	274	276
	Expenditure	205	225	273	218

Sustainable Procurement

Our Vision for Procurement is to provide effective procurement leadership and direction in support of Natural Resources Wales mission and values and embed the fundamental concepts of a learning organisation with the Sustainable Management of Natural Resources (SMNR) as its central organising principle.

Our ambition for procurement is to use our commercial power wisely and strategically, and to be recognised as an exponent of innovative, sustainable and modern procurement and commercial practice, whilst striving for continuous improvement in our performance. We understand the need to be compliant, but it important for us to make the buying process as easy for staff as possible. To do this, we need to develop trusted relationships with staff and be involved in key decisions within the organisation.

“Procurement”, as a function and a strategic activity, can enable and positively influence a significant proportion of everything that Natural Resources Wales does. Making informed procurement decisions can aid in the delivery of our work programmes, ensuring that they are completed on time and to budget whilst driving efficiency that contributes to the achievement of sustainable development in Wales.

Effective procurement can help to deliver a wide range of socio-economic agendas (including equality and diversity, a successful “local” economy, a thriving third sector, community empowerment, value for money and natural resource management) and can be key in Natural Resources Wales delivering against its 7 Well-being Objectives.

Behaviour change

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

Environmental incidents

There have been thirteen environmental incidents because of our work or that of our contractors. This compares with fifteen environmental incidents in the previous year.

There was one high category environmental incident in 2018/19 relating to potential noncompliance with a European Protected Species (EPS) licence. No enforcement action was taken following an independent investigation by a police wildlife officer. When incidents occur because of our work (or that of our contractors), we review what has happened, and act to address the root cause of the incident.

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), suppliers data (e.g. train miles) and finance data, using the most accurate source/s we have available. We also look to minimise use of any estimated data in our reporting, and we are working to improve in this area.

Carbon Positive Project

NRW’s Carbon Positive Project was funded by the Welsh Government to show leadership in decarbonisation in Wales’ public sector and beyond.

During 2018/19 we have:

Developed an Enabling Plan setting out NRW’s high-level decarbonisation ambition for the organisation. This has been approved and endorsed by the project steering group, the Natural Resource Management Business Board and will soon be presented to the NRW Board. We are developing an Action Plan that will deliver on this Enabling Plan, programming and prioritising mitigation opportunities for the organisation into a three to five year plan for decarbonisation.

Delivered a series of decarbonisation projects including: six peatland projects on the NRW estate, restoring water levels at modified bog or fen sites including Cors Bodeilio and Hafod Elwy; small projects to facilitate active travel or energy

efficiency in our offices – such as installation of a new shower at Monmouth, an electric bike at Maes-y-Ffynnon and additional roof insulation at Clawdd Newydd.

Worked with industry experts to improve our evidence base for future decarbonisation projects, including:

- A strategic assessment of the potential to roll out electric vehicles and charging infrastructure across the NRW estate, considering fleet composition at each office, journey details from the vehicle booking system and electrical connections at site. This work has also been informed by a staff travel survey run in conjunction with the EMS team and active travel group which received >900 responses.
- Site based assessments of the potential for small scale wind, hydro and solar renewable energy installations to supply power to NRW offices and visitor centres (previously prioritised in a desk-based analysis). The work includes development of technical drawings for promising installations and exploring grid connection restrictions.

Continued to publish and share the work of the project, as a reference for other organisations evaluating and managing their own carbon impact. Publications include: the technical report “Calculating NRW’s net carbon status”, detailing the approach taken to estimate the organisation’s emissions and sequestration; commissioned evidence reports assessing NRW peatland and woodland greenhouse gas emissions and a strategic fleet carbon review; case studies on our completed demonstration projects covering peatland restoration, electric cars and charging infrastructure, procurement emissions and the installation of solar panels on hydrometric assets. We continue to finalise our mitigation technical report setting out the costs and carbon savings of all decarbonisation opportunities identified for the organisation.

Worked with the Welsh Government to inform the development a potential public-sector emissions reporting approach to demonstrate progress towards the carbon neutral by 2030 ambition, including: drafting a survey for public-sector bodies assessing current reporting; running a contract exploring the strengths and weaknesses of available reporting approaches; and sharing our materials on a stand at the launch of WG’s first low carbon delivery plan.

Future Strategy

Over the next three years in line with our corporate strategy 2017/22 we want to:

- Delivery of a carbon positive action plan 2019/22 to include; retrofit buildings with solar PV, reduce badged fleet fuel through installation of telematics, develop an electric vehicle (EV) charging infrastructure, increase the EV mileage, identify and deliver a programme of peatland projects
- Develop mechanisms for active and sustainable travel to be the favoured choice of NRW commuter travel and for appropriate business journeys
- Maximise the reduction of plastics in NRW including Single Use Plastics and packaging
- Continue to maintain woodland certification (UK Woodland Assurance Standard) for the Welsh Governemnt Woodland Estate.