

## Agenda – Y Pwyllgor Cyfrifon Cyhoeddus

---

Lleoliad:	I gael rhagor o wybodaeth cysylltwch a:
Ystafell Bwyllgora 3 – Y Senedd	Fay Bowen
Dyddiad: Dydd Llun, 24 Medi 2018	Clerc y Pwyllgor
Amser: 14.45	0300 200 6565
	<a href="mailto:SeneddArchwilio@cynulliad.cymru">SeneddArchwilio@cynulliad.cymru</a>

---

### (Rhag-gyfarfod)

(14.45 – 15.15)

- 1 Cyflwyniad, ymddiheuriadau, dirprwyon a datgan buddiannau**  
(15.15)
- 2 Cyfoeth Naturiol Cymru: craffu ar Adroddiad Blynyddol a Chyfrifon 2017–18**  
(15.15 – 16.45) (Tudalennau 1 – 190)  
Papur briffio gan y Gwasanaeth Ymchwil  
PAC(5)–24–18 Papur 1 – Adroddiad Blynyddol a Chyfrifon Blynyddol Cyfoeth Naturiol Cymru 2017–18  
PAC(5)–24–18 Papur 2 – Memorandwm Atodol Archwilydd Cyffredinol Cymru i'r Pwyllgor Cyfrifon Cyhoeddus: Contractau Gwerthiant Pren a ddyfarnwyd gan Cyfoeth Naturiol Cymru  
PAC(5)–24–18 Papur 3 – Ymateb Cyfoeth Naturiol Cymru i Adroddiad Blynyddol a Chyfrifon Blynyddol 2015–16: Cynllun gweithredu wedi'i diweddarau.

Clare Pillman – Prif Weithredwr, Cyfoeth Naturiol Cymru

Kevin Ingram, Cyfarwyddwr Gweithredol Cyllid a Gwasanaethau Corfforaethol, Cyfoeth Naturiol Cymru

Peter Garson, Pennaeth Gweithrediadau Masnachol, Cyfoeth Naturiol Cymru



**3 Cynnig o dan Reol Sefydlog 17.42 i benderfynu gwahardd y cyhoedd o'r cyfarfod ar gyfer y mater a ganlyn:**

(16.45)

Eitem 5 ac eitemau 1 a 2 y cyfarfod a gynhelir ar 1 Hydref 2018

**4 Cyfoeth Naturiol Cymru: trafod y dystiolaeth a ddaeth i law**

(16.45 – 17.15)

Mae cyfyngiadau ar y ddogfen hon



# Annual Report and Accounts 2017/18



Noddir gan  
**Lywodraeth Cymru**  
Sponsored by  
**Welsh Government**

## Contents

Chair's foreword.....	3
Performance Report.....	4
Overview .....	4
Performance Analysis .....	8
Accountability Report .....	28
Corporate Governance Report .....	28
Directors' Report.....	28
Statement of Accounting Officer's responsibilities .....	35
Governance statement .....	36
Remuneration and Staff Report (audited).....	44
Parliamentary and Audit Report (audited) .....	54
Certificate and Independent Auditor's Report of the Auditor General for Wales to the National Assembly for Wales .....	55
Financial Statements .....	63
Annex 1 Corporate Environmental Report .....	98
Summary of performance.....	99

## Chair's foreword

Welcome to our Annual Report for 2017/18. Here we have tried to capture some of the fantastic achievements of our dedicated staff at Natural Resources Wales (NRW): indeed, there is much for us to be proud of.

First and foremost, I want to thank all our people for what they have helped us deliver for the environment and for Wales. Their commitment, at a time when things have changed so much for them, is something that the Board and I value enormously.

During the first five years, we put a strong foundation in place for us to build on for the future. This formative phase was led by Dr Emyr Roberts and we thank him for this. I also want to express my gratitude to Kevin Ingram, who acted as our interim Chief Executive Officer, as we recruited a new Chief Executive, Clare Pillman, who we welcomed to Natural Resources Wales in early 2018.

In the few months that Clare has been in the role she has very quickly seen the potential within Natural Resources Wales, and the opportunities and challenges that need to be addressed to reach that potential: opportunities for integrated land management, renewable energy production and for the natural environment and its sustainable management to be fully recognised for the benefits it provides for people in Wales, and challenges in making ecosystems more resilient, tackling diffuse and agricultural pollution and supporting our staff through organisational change. I believe that we are already seeing a positive impact which will take us forward to achieve our ambitious Corporate Plan to 2022.

However, there have been challenges which need to be fully recognised in this Annual Report. I am deeply disappointed and concerned by the continuation of governance issues around the letting of timber sales contracts. The Board and I will entirely accept the Auditor General's findings and we are fully committed to ensuring these are urgently addressed. This is one of the top priorities for us and for our new Chief Executive who is already taking action to address these issues.

I believe that under Clare's leadership Natural Resources Wales can become a better place for our people to work, and that they, together with our partners, will endeavour to improve the state of our natural resources. As we all recognise, the environment that we care so much about faces grave challenges and pressures. But by looking after it and protecting those natural resources that underpin our health and well-being, we can play our part in helping create a better place now, and for future generations of the people of Wales.

Diane McCrea MBE  
Chair

# Performance Report

## Overview

Over the following pages we offer our Chief Executive's perspective of our performance this year and outline the purpose of our organisation, our main roles and responsibilities as well as explaining how we have managed delivery of our objectives this year.

## Chief Executive's statement

It is with great pride that I introduce my first Annual Report for Natural Resources Wales.

Since joining Natural Resources Wales I have felt extremely fortunate to meet and spend time with my new team and learn about the work they care about so much. They are extremely committed, knowledgeable and passionate about Wales; its environment, its communities and its wellbeing. In such a short amount of time I have found an organisation that has such potential. There are opportunities we need to explore and challenges we must face – but I am committed to making Natural Resources Wales an organisation that our staff, and Wales, can be proud of.

From the feedback I have had from staff I know there is a lot of work needed to achieve that. This is fuelled by their ambition for Natural Resources Wales to be the kind of organisation they believe it can be. This ambition is something I share with them and, together, we can change things for the better.

The depth of feeling our staff have for the environment is shared by the people of Wales – and rightly so. This can be seen from the upsurge in support to tackle the issue of plastics in our seas to more local concerns about trees being felled, pollution in our rivers or industrial facilities being built close to where they live. This presents us with both opportunity and a challenge to better explain what we do, why we do it and how it affects them.

There are also more pressing challenges for me within this report. Clearly we have not got everything right. I have been very concerned about our governance around timber contracts and our UK Woodland Assurance Standard (UKWAS) audit for 2017. It is my priority to work with our Board and our staff to ensure that we learn the lessons from these and that they do not happen again. Annual reports give us an opportunity to look back and identify those things we need to improve, but also to feel proud of what we have achieved and spur us on to greater things.

The fact that our staff care so much about their work, and the environment and communities they protect, is an incredible foundation to build on. We have new laws which recognise that the environment is fundamentally important to Wales – to its wellbeing, its wildlife and its economic prosperity.

I feel privileged to be a part of this organisation and to build for the future. We are here to champion the environment, to protect it and make sure that it can play its part in a better future for Wales.

Clare Pillman  
Chief Executive and Accounting Officer

Date 13 July 2018

We are a Welsh Government Sponsored Body. Our 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.

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 about 9,000 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

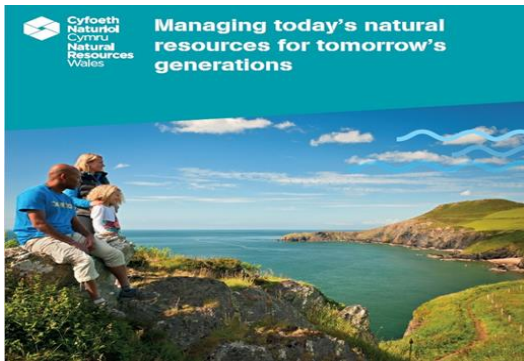
**Employer** of approximately 1,900 staff as well as contractors and volunteers

In undertaking our work, we must also maximise our contribution to the seven Well-being Goals set out in the Well-being of Future Generations (Wales) Act 2015 [Well-being of Future Generations \(Wales\) Act 2015](#) and its five ways of working.

In common with the other public bodies in Wales, we have developed a set of Well-being Objectives to help us do this.

Introduced in our [Well-being Statement](#) in 2017 and reviewed as we developed this into our [Corporate Plan to 2022](#), these are our highest level, long-term organisational objectives for NRW, and were developed with both staff and stakeholders. Further details of our Well-being Objectives are available in our Corporate Plan.





We published our Corporate Plan to 2022 in March 2018. It was launched at the Senedd by our Chair Diane McCrea and new Chief Executive Clare Pillman, sponsored by Mike Hedges AM, Chair of Climate Change, Environment and Rural Affairs Committee. [Staff Videos](#) illustrated some of our work and Lawrence Conway, Sport Wales' Chair, highlighted the importance of our collaborative working both now and in the future.

There are several key areas that we recognise as **risks and issues** to manage in order to ensure delivery of our work:

- **Well-being, health and safety of our staff:** due to the varied and complex nature of our operational work, this is an ongoing risk, affecting both staff and others that work for us as well as achievement of our Well-being Objectives. We provide training and support for staff and we need to ensure this is continually improved. We know that low staff morale and the desire for a period of stability are important issues we need to address. Although the implementation of our Organisation Design project to restructure NRW in 2018/19 will involve further disruption in the short term, the new structure, based around local teams, will both provide more stability and help us work in the way recent Welsh legislation intends.
- **Internal governance:** particularly in relation to sales and contract management. We have increased our focus on our internal governance to both protect our resources and ensure value for money for the Welsh taxpayer.
- **Withdrawal from the European Union:** much of our work is governed by legislation from the European Union. We are following developments in Brexit negotiations closely as we are aware that their outcome could have a significant impact on our core activities and potential sources of external funding. We have a key role in Welsh Government advisory groups relating to the environment and will play a full part as actions are required to be taken in response to Westminster decisions.
- **Our annual financial settlement:** the short-term nature of our financial position brings uncertainty to our commitment to longer term plans and projects. We need to be prudent in our future assumptions, and, in the challenge of continuing public sector austerity, work closely with Welsh Government to establish and manage our financial position.
- **Cyber security:** we recognise that our cloud-based information and communications technology (ICT) system is vulnerable. We continually assess our protection to ensure it is proportionate to the likelihood and scale of threat we face. We continue to develop and improve staff training and awareness to promote a culture of diligence when using ICT equipment and services which help us to manage resultant risks.

## Performance summary

We look after Wales' natural resources and what they provide for us – ensuring that the land and water we look after directly is sustainably managed and encouraging and supporting others to do the same: as our first Well-being Objective states – to champion the Welsh natural environment and the sustainable management of Wales' natural resources.

The Well-being of Future Generations (Wales) Act 2015 and the Environment (Wales) Act 2016 have given us a real opportunity to revolutionise the way we manage the natural environment in Wales and make the sustainable management of our natural resources a reality.

We are focussing on transforming our organisation to deliver more effectively, changing our structures and ways of working and ensuring we apply the SMNR principles to everything we do - for the benefit of Wales now and in the future. We still have change to come, as 2018/19 sees us implement our Organisation Design project which will restructure our organisation to help us provide more local services, integrated with those of other public bodies and partners.

Throughout these changes we have been continuing to deliver our core activities: managing forests and nature reserves; 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; 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.

We have a wide range of significant achievements for 2017/18 - working in partnership with many organisations. The official opening of Pen y Cymoedd wind farm, at the head of Rhondda and Neath valleys; the instigation of our EU-LIFE funded Raised Bogs project, protecting and restoring this valuable habitat and carbon store; award winning work on collaboration with Wales' archaeological trusts and in establishing a nature reserve adjacent to a housing development in Buckley, North East Wales, as well as innovative work tackling metal mine pollution and work with the Wales Land Management Forum to trial new approaches to diffuse and agricultural pollution. We are leading the way in the ambition for the Welsh Government to be carbon neutral by 2030 through our Carbon Positive project. We are also proud of our input to all the Public Services Boards across Wales as one of their statutory members, showing how the natural environment can contribute to dealing with a wide range of local issues – from community safety and access to obesity and mental health. You can read about some examples of our work in the following pages.

We often have difficult and contentious issues to deal with: it's the very nature of our work. Barry biomass plant, our flood scheme at Roath in Cardiff and proposals for the M4 corridor around Newport, for example, are complex, emotive issues, where we need to balance legislative requirements with stakeholders' wishes and base our decisions and recommendations on the best evidence available.

In cases such as these, there are often very strong opinions on all sides and our decisions will not please everyone. We are an evidence-based organisation, working within a strict and complex regulatory regime and legislation which is not always easily understood. We are very keen to learn how we can work better with our customers and the general public in future, particularly for those high public interest sites, where explaining the rationale behind our decisions and recommendations is especially important.

Looking ahead, we will face further challenges, both in our core activities and as we re-organise and put our new organisational structure in place. We know we need to ensure ecosystems are resilient enough to continue providing the benefits and services we need. We also need to encourage business to adopt the highest social, cultural and environmental standards, delivering green growth and making Wales competitive, successful and sustainable. Leading by example, applying the SMNR principles and encouraging others to do so, as well as using the five ways of working will help us realise our purpose and, with our partners, move towards achieving our Well-being Objectives.

### **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 Objectives.

Of the 34 measures on our Business Plan dashboard:

22 met the target set

9 were within 10% of the target set

2 were not where we wanted them to be

One was not assessed

**Our Progress** is monitored by our Board and Welsh Government and published on our website three times each year. From 2018/19 our performance will be available 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.

Each chapter covers a different Well-being Objective: it includes what our role is, what measures we use to know if we are meeting our targets and how we have performed in the last year.

We have also included case studies at the end of each section that help bring our work to life – often of course, these contribute to more than one of our Well-being Objectives. They also help illustrate our commitment to the five ways of working and our contribution to the seven Well-being Goals.

## 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

- Complete Area Statements by December 2019
- Provide environmental expertise at Public Services Boards (PSBs)
- Embed SMNR through organisational change
- Meet our 5% carbon reduction target and complete our Carbon Positive Project
- Create 230 hectares of habitat by March 2018

### 2017/18 results

- We have identified 'Initial Areas of Focus' for our Area Statements based on the priorities in the Natural Resources Policy and working closely with stakeholders
- We have and continue to provide environmental expertise at PSBs ensuring the evidence and data we provide meets their needs
- We have trained over 500 staff giving them a foundation level understanding of SMNR and encouraging them to apply its principles to their day to day work. More training will take place in 2018/19
- We are on track to meet our carbon emission target based on our latest data available and our carbon positive project will continue into 2018/19
- We have not achieved our target to create 230 hectares of habitat by March 2018. Intended to be through peatland restoration, the relevant schemes unfortunately did not receive the required funding. However, we have taken the opportunity to undertake a detailed review of our habitat creation plans. Our Business Plan for 2018/19 includes how we will be working to improve biodiversity and ecosystem resilience by restoring, creating and improving the condition of habitats.

### Examples of our work over 2017/18:

#### Developing Area Statements

We are co-producing seven Area Statements as a requirement of the Environment (Wales) 2016 Act, working with a wide range of stakeholders. They cover six geographical areas across Wales and the marine environment. Providing an evidence base for PSBs and others the Area Statements will help identify opportunities and challenges where the local natural environment can help address a wide range of issues or prevent them from worsening or happening in the first place.

Area Statements will help PSB members and others to consider the long term, focus on prevention and identify opportunities to collaborate and integrate their work, involving others such as the local communities the PSBs serve, as well as seeing the natural environment as 'part of the solution'.

## National bodies sharing group

We are part of a national bodies sharing group - a group of public bodies working together at a national level with the Future Generations Commissioner's Office to share learning about the practical application of the Well-being of Future Generations (Wales) Act 2015. We look at how we can measure progress and demonstrate we are using the five ways of working; how we can collaborate and integrate our work, involving others; develop shared Well-being Objectives in the future where appropriate and how we can work together over the long term, preventing current issues becoming worse. Partners include Public Health Wales, Sports Wales, National Museum Wales, Higher Education Funding Council for Wales and the Welsh Government.

## Landscape Institute Award for Nature Reserve shows how the natural environment can provide a wide range of benefits

A joint project with The Environment Partnership, Redrow Homes, Flintshire County Council and North East Wales Wildlife Trust to reclaim land to create a new wetland habitat has won a Landscape Institute award. The project has created a nature reserve in Buckley, north Wales as part of a major housing development.

The Heathlands Project involved creating a new wetland habitat from reclaimed land within and adjacent to the Deeside and Buckley Newt Sites Special Area of Conservation (SAC) alongside 300 new family homes.



The land was originally an abandoned claypit with an unsafe steep-sided lagoon. This lagoon had to be filled in to create open space for the new properties and over 50 ponds were also created as part of the new habitat.

Over 35,000 amphibians were relocated as part of the scheme and the new ponds will support a wide range of species in the area including the great crested newt. Not only will the new wetlands provide a place for wildlife, but also provide sustainable drainage for the planned housing estate as well as many hectares of public space.

The development will have a long-term management and monitoring plan to ensure the ecological success of the regeneration with part of the land being designated as a Site of Special Scientific Interest (SSSI) and Special Area of Conservation (SAC).

## 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

- Be bold and innovative using our new experimental powers to try new approaches
- Complete 100% of our bathing water quality checks
- Enable implementation of our Wales National Marine Plan, embedding SMNR in our processes
- Re-stock 1,000 hectares woodland by March 2018
- Advise water companies on their long-term plans by March 2018
- Determine 90% of permit applications within agreed timescales and continue to improve the permitting process

### 2017/18 results

- We are making good progress on our green marketplace project, including investigation into a potential trading platform for service providers
- We completed all our statutory bathing water samples for all 104 designated sites
- We continue to work on the Wales National Marine Plan with an expectation that this will be adopted in 2019
- Although we achieved our woodland restocking target, by re-stocking 1,250 hectares, almost half of which were areas felled due to infection from *Phytophthora ramorum*, unfortunately our land bank area is above target making us amber for this measure
- Water companies submitted their draft 25-year plans to Welsh Government in December 2017. We continue to work closely with water companies to help them meet their statutory environmental requirements and publish final plans in autumn 2018.
- We determined 96% of permit applications within agreed timescales

### Examples of our work over 2017/18:

#### Living Levels Project secures Lottery funding

As we reported last year, the Living Levels Landscape Partnership (LLLP) aims to recapture, enhance and celebrate the Gwent Levels by reconnecting people to this unique place. A programme of 26 interconnected projects seeks to conserve and restore the natural heritage of important features of the area, to develop a far greater appreciation of the value of the landscape through improving interpretation, promotion and access and to inspire people to learn about and participate in the heritage of the Gwent Levels.

The Partnership is led by RSPB and we are a core partner, leading on two projects to tackle invasive species and fly tipping, and are contributing to many others, including a £500,000 project that will restore SSSI ditch habitats. At the end of 2017, after an 18-month development phase, the LLLP was awarded a £2.5 million grant from the Heritage

Lottery Fund which will help secure nearly £4 million funding in total. The delivery phase formally began in February 2018 and the scheme will be delivered over the next three and a half years.

### Sustainable water catchment management and collaborative working in Bridgend

In collaboration with a number of organisations and communities (including Bridgend County Borough Council, local councillors, Garw Valley Community Council, Sustrans, Garw Valley Railway Society, Bryngarw Country Park, Keep Wales Tidy and Groundwork) we are promoting sustainable water catchment management in the Garw Valley in Bridgend.

Our coordination of actions to maintain, restore and create priority wetland habitat, will help to slow surface water run-off. This will help reduce flood peaks and minimise sediment running into the watercourse making the management of this water catchment sustainable in the long term. We have also helped to develop a local working group who help manage a community pathway along the valley corridor. Through this group we also aim to involve local communities and schools in management of the path, increasing the value of the route for recreation and as a wildlife corridor, and improving connectivity (for both biodiversity and people) along the valley. By working with local communities and organisations, we hope to prevent poor/unsustainable management practices and anti-social behaviour. In the long term we hope to promote the route more widely as a heritage trail and community project.

### Spirit of Llynfi Woodland Project



**The Spirit of Llynfi** is a community woodland project developed on the former Coegnant Colliery site. It had already been identified as a prime location for new woodland planting and in 2014 we successfully applied for funding from the Welsh Government Nature Fund to transform it into a community woodland and manage the land in a different way, yielding a wide range of benefits.

At the same time the Upper Llynfi Valley was identified as one of the most health deprived areas in Wales by the NHS. When we began the project we consulted extensively with local people to ensure the woodland reflected the needs of the community.

Between November 2015 and March 2016, 60,000 trees were planted on the site including 7,500 planted by local schools and community volunteers. They included a wide range of native broadleaved species together with orchard fruit trees. The aim was to increase the biodiversity of the site as well as creating an attractive backdrop to the valley.

The site has continued to flourish with a wide range of new projects, often taken forward by the Llynfi Woodland Group - local people with a passion for their environment.



## Well-being Objective 3 – Improve resilience and quality of our ecosystems

Our State of Natural Resources Report (SoNaRR) 2016 has 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 SSSIs, 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

- Provide expert input into Public Services Boards' (PSBs') Well-being Plans
- Develop a strategic approach setting out how we will work and collaborate to help deliver the Nature Recovery Action Plan
- 80% of actions on designated sites are complete or underway by March 2018
- Carry out tree health assessments and issue plant health notices on time
- Clear 715 hectares of trees on our estate to manage larch disease (*Phytophthora ramorum*)

### 2017/18 results

- All 19 PSBs' Well-being Plans have been approved by our NRW Board (some with conditions)
- We have produced a strategic steer for biodiversity and presented it to our Board
- 67% of actions on designated sites have been completed or are underway - we have not achieved our 80% target. This does however include a number of successes such as our Raised Bogs Projects
- At the request of the Welsh Government, we have stopped issuing tree health notices in order to review the extent of the disease
- 949 hectares of trees have been felled due to clearance of *Phytophthora ramorum* infection, above our intended target

### Examples of our work over 2017/18:

#### Developing a strategic collaborative approach to delivering the Nature Recovery Action Plan

We want to deliver a step change in the way we work, to embed the maintenance and enhancement of biodiversity and resilient ecosystems into all the functions of our organisation so they are considered at an early stage of decision making, planning and project delivery. Our draft document – 'Vital nature: Making the connections between biodiversity and the people and places of Wales. NRW's strategic steer for biodiversity to 2022' - was presented at the NRW Board meeting in March 2018.

We aim to emphasise the multiple benefits and ecosystem services that can be derived from biodiversity and resilient ecosystems, such as pollination, cultural services (such as landscape, recreation and access to the outdoors) pollution reduction and water management. It also focuses on future action for biodiversity, addressing the root-causes of issues and undertaking preventative measures, applying the nine SMNR principles.

## Raised Bogs Project gets underway

Our EU-LIFE funded Raised Bogs Project has now begun. Raised bogs are an important part of our ecosystem and very valuable for carbon sequestration. The aim of the project is to improve the conservation status of active raised bog and degraded raised bog in Wales, by directly addressing the causes of poor condition. This mainly relates to the effects of drainage for agriculture, historic peat cutting, fragmentation of peat bodies and loss of the characteristic morphology and habitat zonation of raised bogs, as well as colonisation by invasive species. The project will include seven of the eight raised bog SACs in Wales.

## Celtic Rainforest National Nature Reserve extended

Ceunant Llennyrrch National Nature Reserve (NNR) has been substantially extended, helping to protect much more of this special area. We manage a 12-hectare reserve – but the Woodland Trust (Coed Cadw) manages 300 hectares of land which has now also been granted NNR status.

Referred to as a Celtic rainforest due to its humid conditions, the whole area (the size of 400 football pitches) will be managed to restore and extend native woodland and bring other upland habitats into good condition.

It also provides an opportunity to improve public access so that more people can experience this special site. Its gorge woodland contains more than 200 species of mosses and liverworts, some of which have only been recorded in a few sites world-wide. More than 200 species of lichen live on the trees. It is also home to redstarts and wood warblers, otters and rare lesser horseshoe bats.

## Water voles thriving in Wales

The water vole population in Wales is on the increase following a 10-year breeding programme. Since the 1970s water voles had declined by almost 90% and was one of the most endangered mammal species in the UK. Changes in riverbank management techniques and land use practices in the UK, together with the introduction of the North American mink for fur farming has had a devastating effect on their numbers.



In the 10 years since we began a captive breeding programme almost 1,000 water voles have been reared and released into the wild, helping to boost the population.

Working with local partners we have established four breeding colonies in south, mid and west Wales. The water voles typically produce six litters between March and late September, each with four to six young. The offspring are then released during the summer, into selected controlled sites with good habitat connectivity, so they are able to colonise the wider landscape.

## M4 Corridor around Newport

The Welsh Government has proposals for a new section of motorway - the M4 corridor around Newport (M4CaN). We have provided detailed comment on a range of issues including flood risk, drainage, sustainability, protected species, historic landscapes, ecology and conservation and air and water quality, including at a recent public inquiry. In our role as advisor to Welsh Government, we have objected to the proposals as they currently stand, on four main grounds:

- **Flood risk** - we consider the Flood Consequence Assessment (FCA) does not fully demonstrate the consequences of tidal flooding can be acceptably managed/ mitigated over the lifetime of the project.
- **Designated sites** - we consider that the scale of permanent loss of SSSI in the Gwent Levels is both unprecedented and would be contrary to the statutory duties of the Wildlife and Countryside Act 1981 (as amended) and the Environment (Wales) Act 2016.
- **Protected species** (Bats) - we have raised an objection to the granting of the road orders due to the impacts of severance, habitat fragmentation and mortality associated with the construction and operation of the road.
- **Historic landscape** - the new section of motorway would result in a significant adverse effect on the historic landscape of the Gwent Levels which could not be effectively mitigated.

Now that the inquiry has concluded, inspectors are finalising their report. This will be submitted to the Welsh Government and ministers will then make their decision on approval.

## 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 for example, to reduce the likelihood of pollution entering the wider natural environment – and we of course provide a response to environmental incidents that do occur despite best efforts. Aiming to be firm but fair, we will investigate incidents and use our full range of powers to tackle environmental crime when necessary.

### Our measures

- Deliver an effective and co-ordinated incident response service by March 2018
- Maintain 99% of high risk flood risk and coastal risk management assets at target condition
- Construct flood alleviation schemes to reduce risk to 500 properties
- Develop a new approach and monitoring system for enforcement by March 2018
- Reduce the impact and number of the poorest performing waste and industrial sites

### 2017/18 results

- We were unable to assess our incident response service this year, but we have established a set of improvement targets to be achieved by April 2019
- We did not achieve our target of 99% of flood assets at target condition, achieving 97.5%
- We have seen improvements in flood alleviation schemes – achieving improved flood protection for 1,282 properties against a target of 500
- Our new approach for monitoring enforcement has made good progress, although some of our established targets remain outstanding at year end
- Poor performing sites improved again from 2016 –with three fewer in the industry sector and four fewer in the waste sector

### Examples of our work over 2017/18:

#### New air quality thresholds to limit air pollution

Wales is now the largest producer of free range eggs in the European Union: there are now two hens for every one person in Wales. While this is good for the economy it can have a detrimental effect on air quality and wildlife because of the high levels of ammonia that intensive livestock units can produce. Ammonia is toxic: its build up can lead to species loss and can cause significant damage to habitats.

We issue permits for larger poultry units and we are a statutory consultee for applications considered by local authorities. While ammonia emissions have stabilised across the UK generally, they have increased significantly in Wales largely due to the expansion in poultry numbers. Because of this we have been working closely with colleagues in other UK agencies to investigate and quantify the impact of air pollution from livestock units. As a result of this work we will be establishing new air quality thresholds and will use this to underpin our permitting role and support our advice on planning applications.

## Storm Emma's devastating impact on Holyhead Marina

During Storm Emma in March 2018, approximately 80 yachts and 15 commercial vessels were wrecked at Holyhead Marina as their floating pontoon moorings were ripped from their anchors and the marina pontoons, kept afloat by polystyrene, were broken apart. By the morning the devastating scale of the damage became clear - as well as the shells of broken vessels there were significant amounts of polystyrene and other debris within the harbour.

We played a key role in advising on the clean-up operation. We assessed the potential impacts on the environment from pollutants and advised on marine litter and disposal, and on marine invasive species. We worked closely and consistently with our partner agencies to minimise potential harm and have regularly been on site, providing advice and guidance to Holyhead Port Authority, Cyngor Sir Ynys Môn and the Marina owners.

Polystyrene recovery in this incident was more than an issue of simply reducing marine litter. The invasive carpet sea squirt (*Didemnum vexillum*) that had colonised the marina infrastructure at Holyhead could have spread from the marina on fragments of the rubber coating around the shattered polystyrene floats. This invasive marine animal has the potential to be very damaging to many marine interests, particularly to the shellfisheries that operate in the area. We gave this advice early and clearly so that actions to manage the invasive sea squirt were integrated with the incident polystyrene survey and collection work.



First Minister Carwyn Jones visited the site recently and announced up to £30,000 would be made available by the Welsh Government to help with the clean-up costs as well as additional money for affected local businesses.

We will be carrying out monitoring later this year to look for the presence of the carpet sea squirt outside of the Harbour.

## Roath, Cardiff Flood Scheme

As part of our flood risk management work we aim to improve the protection to 500 more properties every year and although we are consistently meeting this target, some of our schemes have met with opposition from local residents. One of these is the Roath Flood Scheme – the project will reduce the risk of flooding for 405 properties (360 homes and 45 businesses). A campaign group has been established which is opposed to a particular part of the scheme - the felling of trees in the Roath Mill and Roath Brook Gardens - which seeks to protect around 60 properties. The campaign group believe that the flood risk is not real, that we have exaggerated the extent and that other options are available. They feel the loss of trees would spoil the local environment.

Although we believe we consulted extensively with the local community during the scheme's development and received planning consent there were a number of protests held once work began including people climbing trees to prevent them being felled. This

caused delays to the project, particularly as we needed to ensure the safety of everyone on the site before we could re-start work. We have continued to engage with the campaign group and the local community and have assured them that we will replant trees sympathetically to minimise short-term impacts on the local environment and wildlife. The first two phases of the overall scheme have continued and will be completed in the late summer: they will provide protection to approximately 350 homes and businesses in the area.

### Landfill site suspended

We have taken action against the operator of a mid-Wales landfill site due to its pollution risk. Officers suspended the operator's permit after evidence showed that the site holds substantially more waste than is legally allowed. We also estimated that the waste stored at the site is significantly greater than permitted. Both are a breach of the operator's environmental permit. Every landfill site needs an environmental permit to operate, which details how the operator will manage the site to minimise the impact on air, land and water in the area.

As a result the operators are not allowed to tip any more waste in the landfill and we have now instructed the company to examine the potential risk that this waste poses. Last year we applied other legal measures, such as serving legal notices on the operator, to try to ensure the site was made compliant with the permit conditions. However, we have now needed to suspend the permit.

### Civil sanctions help schools and community groups



We have used an alternate approach with a company that polluted the River Taff in May and September of 2016. Following the reports, it was found that waste from a site in Treforest had found its way into the river via an unchartered culvert. Although no fish were killed, the pollution killed aquatic invertebrates which are an important food source for fish like trout and salmon. Rather than prosecute, we accepted an offer by the company to use civil sanctions.

The company agreed to pay £40,000 to Gwyl Taf, a local project run by the South East Wales Rivers Trust. The project encourages schools and community groups to enjoy the River Taff in a positive and healthy way and will provide more long-term benefits for people and the environment. Investigative costs of £12,000 have also been paid to NRW which will go towards aiding officers in identifying hot spots for diffuse pollution

## Proceeds of Crime Act

This year we have had two significant confiscation orders made under the Proceeds of Crime Act (POCA). POCA is a piece of legislation that allows us to make someone pay back any monies they have made through their illegal activity, helping to protect the environment while also helping to ensure a level playing field for legitimate businesses.

We have collaborated with Dyfed Powys Police, their accredited financial advisors and forensic accountants to investigate an illegal scrapyard in west Wales. The investigation took many months of hard work but ultimately led to a confiscation order of £289,000, with the operator serving a prison sentence.

A south Wales farmer has also been ordered to pay back £226,000 for using his land to deposit waste illegally.

## Prosecution for illegal tree felling

Our Regulatory Woodland Officers, Environmental Crime Team and Legal Department worked together to bring the case to court when 200 veteran hedgerow birch trees were illegally felled in south Wales.

Evidence was collected and a case for prosecution was prepared. As part of our case we had to calculate an accurate value for the trees which had been felled. We normally use the commercial value of the timber, but in this case we also used 'The Helliwell System' which is used to calculate the visual and amenity valuation of trees and woodlands. We calculated this at over £50,000. We would not have granted a licence to allow these trees to be felled. In September the defendant was fined over £100,000 and ordered to pay almost £7,000 in costs plus a £170 victim surcharge – the maximum fine possible for an offence of this nature.

## 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

- Promote the use of the outdoors to get active and improve well-being
- Increase opportunities for local access that bring communities together
- Interpretation of data on attitudes to the natural environment taken from the National Survey for Wales by March 2018
- Review and maintain our recreational facilities by March 2018

### 2017/18 results

- We have successfully promoted the Wales Coast Path, the National Trails and maintained the 'NRW Places To Go' website
- Our Cyfle scheme, providing opportunities for work placements and volunteering, continues to be developed, with the new placements being managed by teams by April 2019
- Changes in timescales meant that we did not commission additional data analysis, however, we published four bulletins interpreting data relating to people's attitudes to various aspects of the natural environment
- We have completed a review of our recreational facilities have continued to maintain them throughout the year

### Examples of our work over 2017/18:

#### Temtiwr – women's mountain biking event

We recently hosted 'Temtiwr' an event to encourage more women to take up mountain biking, at our Coed Y Brenin Forest Park. Organised in collaboration with Beics Brenin, Welsh Cycling, Dyfi Events and Infinite Exposures it offered 60 women the opportunity to improve their mountain biking skills, learn about bike maintenance and socialise with other riders.

Tracey Moseley, a former Downhill and Gravity Enduro Champion, hosted a question and answer session at the event and the weekend's activities also included mountain biking skills coaching, workshops, guided rides, yoga and a film showing.

Coed y Brenin has several purpose-built mountain bike trails ranging from forest roads trails for novices to 'black' grade trails for expert riders. The feedback for Temtiwr was extremely positive and it's hoped it will become an annual event.





## **‘By All Reasonable Means’**

**By All Reasonable Means: Least Restrictive Access to the Outdoors** has been developed to provide guidance for land owners to help ensure that access to the countryside and open spaces is equally available to people of all ages, circumstances and backgrounds.

A key concept in this guidance is to ensure the least restrictive access principle is applied when planning for access in the outdoors. A gap provides least restrictive access, followed by a gate and if that is not feasible then a stile. But it is not just about physical features, it is also about how people decide to visit a site, the usefulness of information they receive and their experience once they are there. Good information can help overcome many of the barriers that prevent people visiting a site in the first place.

The guidance aims to provide a realistic, practical and effective approach to access improvements, creating more accessible places for more people. It encourages land managers to identify those techniques that are most appropriate for their particular situation and help more people enjoy the outdoors.

### **Discovery backpacks**

Last autumn our visitor centres at Bwlch Nant y Arian and Coed y Brenin offered children visiting the centres a ‘discovery back pack’ to help them explore the outdoors. The backpacks contain binoculars, a magnifying glass, a bug pot and nature identification cards along with a guide explaining how to use them. They also included some challenges to help get the children started – ranging from tree and bird spotting to bark rubbing and searching for minibeasts.

### **Dee Estuary boat trips**

We have worked with the Harbour Master of the Dee Estuary to support a local group known as the Quay Waterman’s Association (QWA) to help develop safe and accessible recreational boat trips along the Dee Estuary, funded by various grants and charities. The two QWA boats are wheelchair accessible and enable people to develop a greater connection with the estuary.



## 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

- The impact and quality of our advice improves by December 2017
- We move to a commissioning led outward funding (grants) model by April 2018
- 700,000 cubic metres timber to market by March 2018
- Deliver our renewable energy programme
- Respond to planning consultations to agreed timescales

### 2017/18 results

- We scored four out of five when asking for feedback on the effectiveness of our advice, indicating that users surveyed either agreed or strongly agreed that our advice had had an impact on their decision making
- We received 200 expressions of interest for grants and selected 80 to be taken forward with additional advice provided for those applicants moving to the next stage
- We have put 744,000 cubic metres of timber to market in 2017/18
- The First Minister opened the Pen y Cymoedd windfarm in September 2017; the Cwm Saebren community led scheme was completed in February 2018. Construction of the Garwnant hydro scheme was completed in February 2018, and we continue to provide access to renewable energy projects adjacent to NRW managed land
- 97% of planning consultation responses were within agreed timescales (6,747 responses within deadline)

### Examples of our work over 2017/18:

#### Wales largest onshore windfarm officially opened by First Minister

The Pen y Cymoedd wind farm, on NRW managed land at the top of the Rhondda and Neath valleys, has now been developed by Vattenfall and comprises 76 turbines producing enough electricity annually to power the equivalent of 188,000 homes or 15 per cent of



Welsh households. Our Energy Delivery Programme Team has worked closely with Vattenfall since 2005 to make this 228 megawatts renewable energy project a reality.

It is one of the first projects under our Enterprise Plan's Energy Development Portfolio to be completed and has brought significant economic benefits for Wales with

52% of the £400 million investment to build the project going to Welsh businesses and securing work for more than 1,000 Welsh workers over the past three years.

Operational since spring 2017, the project will continue generating fossil fuel free electricity until at least 2037. Our collaboration with Vattenfall to deliver this project not only stimulates positive economic change for Wales but also puts NRW at the forefront of the Welsh Government's low carbon economy, climate change and green growth programmes – all aligned to our purpose of managing the environment and natural resources sustainably.

### **River Dee Cockle Fishery**

The River Dee Cockle Fishery has just completed its 10th consecutive opening season. A Regulating Order, which came into effect in 2008, has enabled us to manage the cockle bed sustainably. It is now a multi-million-pound fishery, accredited by the Marine Stewardship Council as sustainably managed. It gives licencees a regular income, feeds internationally important overwintering birds and contributes to the wider estuarine environment.

### **Barry biomass**

We granted an environmental permit to Biomass No2 UK Limited in February 2018 to operate a waste wood gasification plant in Barry. The site is contentious within the local community, with strong opposition to the proposal from the public and local politicians. Our decision followed an extensive assessment of the company's plans and several consultations with local people and professional bodies including Public Health Wales and South Wales Fire and Rescue, and we have worked very hard to engage, inform, listen to and consult local residents.

Wales needs facilities like this one to process difficult to dispose of wastes, which aren't suitable for recycling and to mitigate the risks of wood storage sites catching fire. They require both planning permission and an environmental permit. Their location is determined through the local planning process. The permit considers whether a facility is capable of operating safely, efficiently and effectively. If we determine that the site can operate within the environmental, technological and health standards required, then we have no defensible reason not to permit it – we can't say no on the basis of a petition and vocal opposition, we have to work within the guidelines of our remit.

The conditions we have set in the permit require it to operate to the Best Available Techniques (BAT) and we will monitor activity at the site to ensure it continues to work within the agreed conditions of its permit. Waste and how we deal with it is an integral part of ensuring our resources are managed sustainably and our waste regulation activities are a vital part of helping to protect our environment and ensure a level playing field for legitimate operators.

### **Wylfa Newydd nuclear power station proposals**

Horizon Nuclear Power propose to construct and operate a new nuclear power station at [Wylfa Newydd](#) on Anglesey - two advanced boiling water reactors generating up to 3100

megawatts of electricity, enough power to supply up to 5 million homes. We have a critical role to play in determining a number of environmental permits as well as providing expert advice to other organisations on the decision they need to make - planning permission for the new power station will be decided by the Secretary of State.

Over the past five years, we have provided substantial advice and guidance to the developer. We received the first of the main applications in October 2017 with a further four on the 1 June 2018. The applications include construction water and cooling water discharge, marine licensing, combustion installation, radioactive substances and later in 2018 for the abstraction of water.

We are committed to being open and transparent throughout this work and ensuring the public has the opportunity to contribute to the process. We will run two consultations for our permitting process - on the applications received and then on our draft decision.

## 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, but following the staff restructuring that will take place in 2018/19, this rate of change will reduce considerably.

### Our measures

- Quality of our collaboration with customers and other organisations
- Our new organisational design is complete by March 2018
- Deliver our Customer Focus Programme
- Implementation of our People & Teams Strategy

### 2017/18 results

- NRW and the Welsh Archaeological Trusts were winners of the Collaboration award at the Continuous Improvement in Public Services Awards for our joint working in natural and historic environments
- Our final draft structure for our Organisational Design was produced in May 2018 rather than March as we had planned
- We completed an internal and external customer survey in March. We will use the results to help develop our approach with customers and collaboration with partners
- We ran our people survey in January and February and are currently analysing the results – these will be provided by managers in April and the results will be published on our intranet

### Examples of our work over 2017/18:

#### Improving customer service in NRW

We have been working closely with the Institute of Customer Service (ICS) and have recently completed an internal and external customer survey to help us understand customer needs and ensure we provide a consistently high level of service.

Improving the experience all our customers is at the heart of our Customer Focus Programme. In May 2017 the new [NRW Customer Statement](#) was launched on our website, following a review of the existing service information available for customers. The statement explains how customers can access our services and what to expect when they contact us. The statement also contains links to other areas of work to help customers easily find what they need.

#### Collaboration award

The Institute for Continuous Improvement in Public Services (ICiPS) held its UK 2018 award ceremony at Leeds Museum on 14th March, and we were very pleased to be invited. NRW and the four Welsh archaeological trusts: Clwyd-Powys, Dyfed, Glamorgan-Gwent and Gwynedd had collectively submitted our joint working in the natural and historic environments for the collaboration award; our work is encapsulated in a Memorandum of Understanding (MoU).

Not only was our submission nominated, but we came away as winners of the collaboration category: the linking hands on the glass trophy award aptly mirrors the ethos of our work. This will help us showcase our work, share good practice and raise awareness of the value of the ICiPS. The award recognises our change in culture to one of continuous improvement. This has benefitted each signatory, partner organisation and the natural and historic environment sectors: and the MoU has been the catalyst.

Collaboration has brought unity, purpose and strength across our organisations at all levels, it has enabled us to build capacity and develop expertise in specialist areas, run joint training events, reduce duplication and improve consistency. By positively working together it has drawn in other organisations creating a ripple effect of enhanced collaboration. The rewards of working in this way are many and contribute to the economic and social vitality of Wales.

### **NRW's equality, diversity and inclusion**

We take our commitment to equality, diversity and inclusion very seriously and have had several successes during 2017/18:

- **Stonewall Index Improvement:** we climbed 52 places in the Stonewall Workplace Equality Index ratings to 15th best employer in Wales for LGBT+ people and 132nd in the UK.
- **Transgender Day of Visibility:** this year, the LGBT Network worked hard to be even more visible than before. One example of this has been our celebration of International Transgender Day of Visibility. We used the day as an opportunity to promote our Equalities Senior Advisor, Samantha Carpenter, as a positive openly trans role model.
- **Working towards dementia friendly accreditation:** our Dementia Friends Network now has over 200 friends throughout our organisation, who have raised over £1,500 for dementia research over the past year. We have now begun working towards full dementia friendly accreditation.
- **MS Employer of the Year:** In May 2017 NRW won the Multiple Sclerosis Employer of the Year Award for supporting one of our employees, helping to keep a valued member of our staff in a job he loves.

The wide range of case studies we have shown here illustrate the breadth of our work, and that as well as contributing to more than one of our own Well-being Objectives, they each also contribute to several of the Well-being Goals.

Clare Pillman  
Chief Executive and Accounting Officer

Date: 13 July 2018

## 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 2017/18.

Position	Post Holder	Length of Service
Chief Executive	Emyr Roberts	1 November 2012 – 31 October 2017
Chief Executive	Clare Pillman	26 February 2018 – present
Interim Chief Executive	Kevin Ingram	1 November 2017 – 25 February 2018
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
Interim Executive Director of Finance and Corporate Services	Niall Reynolds	1 November 2017 – 25 February 2018
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 – present
Director Customer, Communications and information	Catherine Love (née Smith)	22 April 2014 – present
Director Transformation Portfolio	Niall Reynolds	1 April 2013 – present

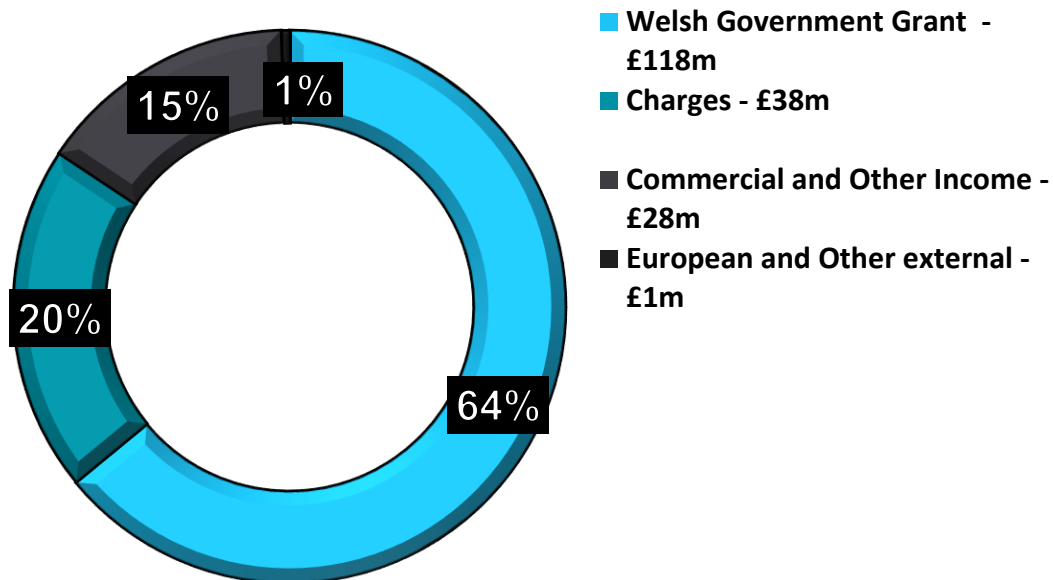
Our Executive Team Register of Interests is available [here](#)

## Managing our finances

### Funding

Our total income for the year was £67 million (note 6 on page 76). In addition, the Welsh Government provided £118 million Grant-in- Aid and other grants (Statement of Changes in Taxpayers' Equity on page 67) towards a range of outcomes, of which £38 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.

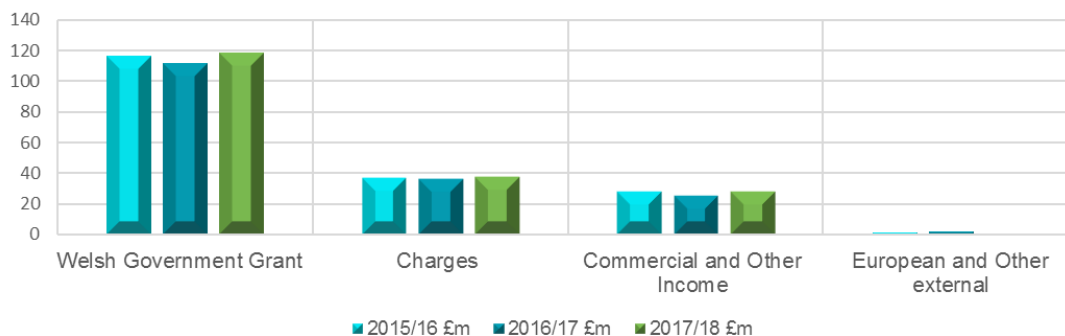
### Funding by Type



In 2017/18 our funding increased from £174 million to £185 million with the biggest increase being the Welsh Government Grants (£7 million). Our core grant funding remained at the same level to the previous financial year, but we have received additional funding for new priorities and the flood and coastal risk management capital programme. An overall increase in charges (£2 million) was required to fund specific capital works 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 last year by £3 million owing mainly to the buoyant timber market. This is illustrated in the graph below.



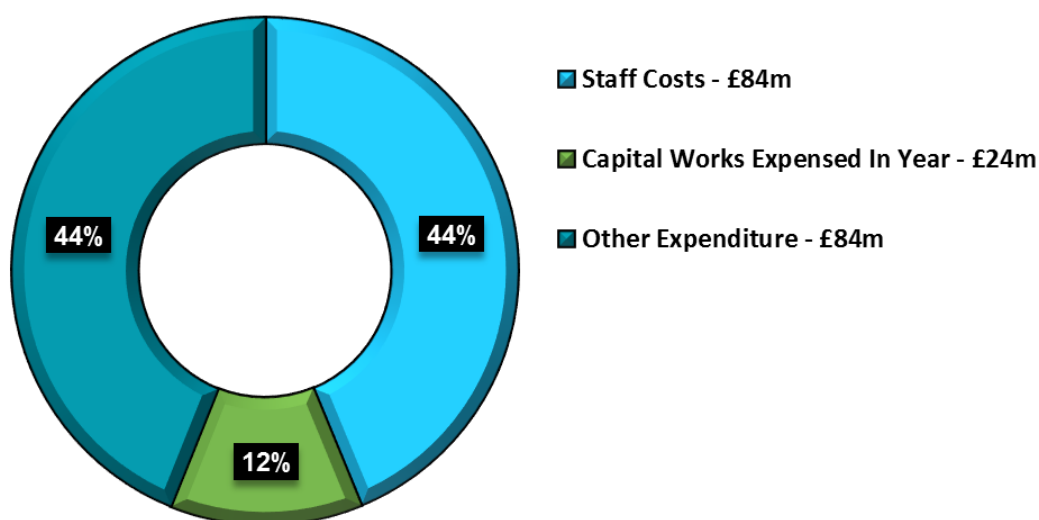
## Funding by Financial Year



### How we spent our money

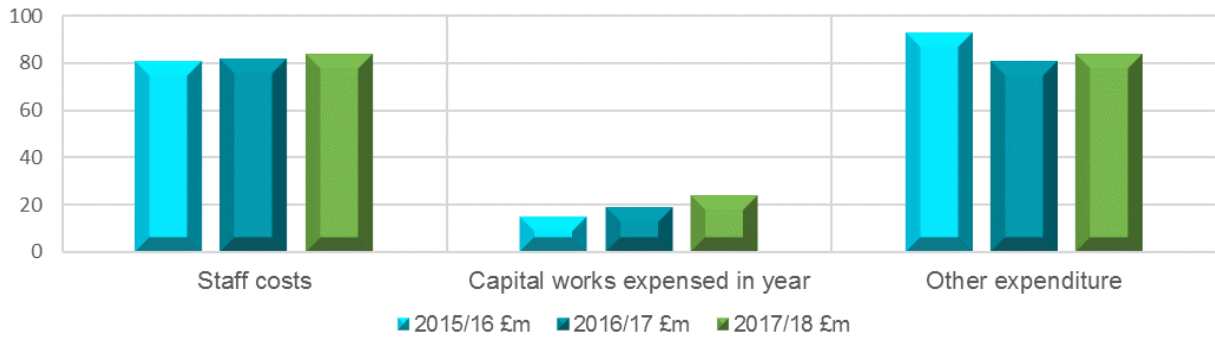
Our total expenditure was £192 million. The detailed breakdown by category of spend can be found in the Financial Statements and is also illustrated below.

## Expenditure By Type



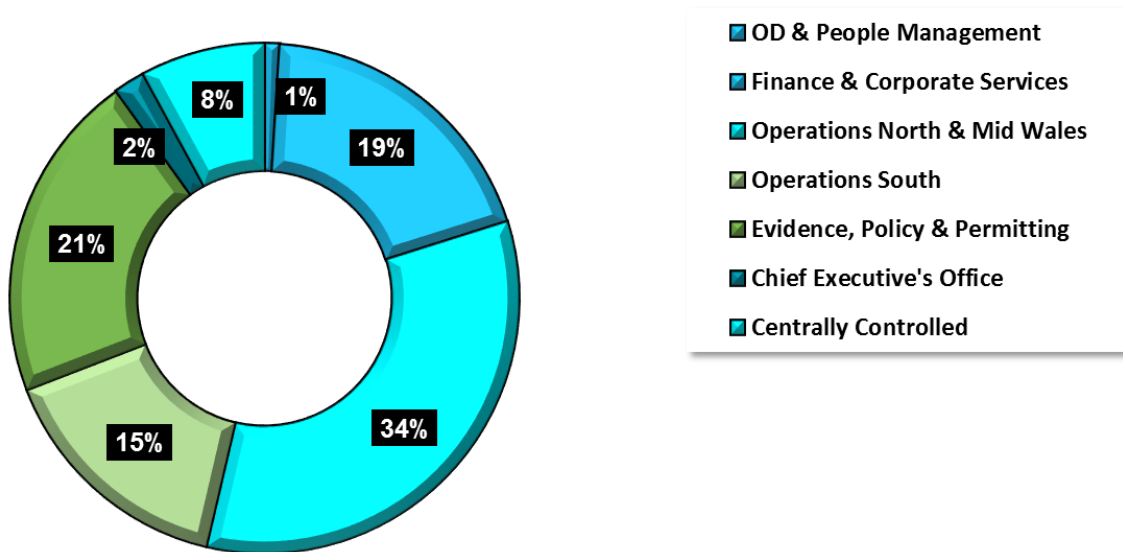
In 2017/18, our expenditure increased from £182 million to £192 million. This is not due to core activities but due to the cost of implementing the job evaluation scheme, investing in new priorities funded by additional Welsh Government grants and constructing flood and coastal risk management schemes. This is illustrated in the graph below.

## Expenditure by Financial Year



The graph below 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 Environment, Permitting and Planning teams. 8% has been categorised as centrally controlled which accounts for non-cash movements such as depreciation. The remaining 22% was spend across the range of our corporate service departments, which have been benchmarked against other public-sector bodies.

## Expenditure By Directorate



### Managing our money

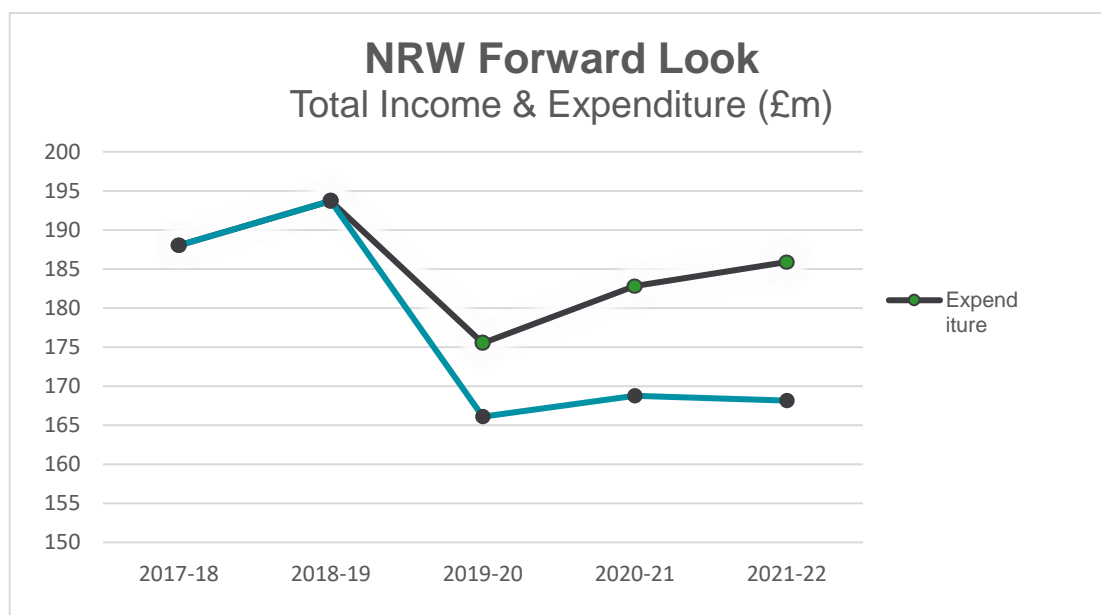
In 2017/18, our funding from the Welsh Government was at the same cash level as 2016/17. We also utilised our charges and commercial income in the undertaking of our activities. We received additional funding from the Welsh Government to tackle issues such as the spread of the tree health disease and embedding the sustainable management of natural resources. 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 topped £19 million for the first time in NRW.

### Future look

We launched our Corporate Plan to 2022 and we are also about to launch our Finance Strategy. This has been produced alongside the Corporate Plan and pulls together all known factors affecting the financial position and sustainability of NRW to 2022. We are not underestimating the overall context in which we are operating in – there are significant challenges for the natural environment and for us as an organisation in ensuring our natural resources are sustainably managed. We also have a challenging financial environment – our non-flood revenue Grant in Aid budget was reduced by 5% in 2018/19, with another 5% reduction likely in 2019/20.

The table below shows the gap between income (including funding from Welsh Government) against expenditure before we have acted to bridge that gap.



### Non-current assets

The value of our non-current assets was £949 million at 31 March 2018, a 6% (£57 million) increase compared to last financial year. The most significant component is the value of the forest estate and biological assets which accounts for £784 million of the total. We are required to undertake an independent quinquennial revaluation of freehold land, buildings and forest estate 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 97% and represented a significant improvement on the previous financial year (91%). 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 deliver a further improvement in commercial debt, demonstrated by the improvement in the average number of days it took customers to pay – 11 days compared to 36 days in 2016/17. Our management of regulatory debt has also led to an improvement in debt collection – from 3.7% of charges raised in 2016/17 to 2.4% in 2017/18.

Our bad debt provision for regulatory debt was £226,000 at 31 March 2018, relating to 45 customers, with one customer accounting for £105,000.

### **Going Concern**

The Statement of Financial Position at 31 March 2018 shows positive taxpayers' equity of £911 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 2018/19. 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 Strategy. We also have Forest Plans for all the estate, which sets how each forest will be managed to deliver strategy objectives over the next 10 years.

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

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 reviewed periodically and 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 decreased for the Local Government Pension Scheme from £42 million to £32 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 are audited by the Auditor General for Wales. The audit fee for 2017/18 was £171,000. That includes an additional fee of £15,000 for the Well-being of Future Generations Wales Act audit.

## Corporate data

In July 2017 Natural Resources Wales was the victim of a sophisticated phishing attack, which led to a small number of email accounts being compromised. We have no evidence that corporate data was lost but have undertaken a thorough investigation of the event and are in the process of implementing a suite of recommendations to improve our resilience to future attacks of this nature.

## Personal data

Some of the accounts compromised as a result of the phishing attack handled information of a sensitive nature and although we have no evidence that personal data was lost, we took the decision that it was right to inform a very small number of customers that their information potentially had been taken. We notified the Information Commissioner's Office of the incident and the action we had taken. We have undertaken a thorough investigation of the event and are in the process of implementing a suite of recommendations to improve our resilience to future attacks of this nature.

## Corporate reporting

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

- [Business Plan 2017/18](#)
- [Equality Annual Report 2017/18](#)
- [Welsh Language Annual Monitoring Report](#)
- [Gender Pay Gap Analysis](#)
- [Equality Action Plan 2018/19](#)

## Environmental reporting

Over the coming years we want to set the example in Wales in areas including our management and use of carbon, waste, water and land as outlined in our Corporate and Business Plans. Corporate reporting on our own environmental impact is included in Annex 1. 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 certification to the UK Woodland Assurance Standard for the Welsh Government Woodland Estate we manage, following independent external audits and verification
- completed 67% of the National Nature Reserve management audit target and ensured any improvement actions identified were implemented
- purchased 22 sub 100 g/km cars and two new electric vehicles

Clare Pillman  
Chief Executive and Accounting Officer

Date: 13 July 2018

## 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 in particular to:

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

As the delegated Accounting Officer for Natural Resources Wales, the Chief Executive is responsible for maintaining a sound system of internal control that supports the achievement of our objectives. My role is also to safeguard public funds and organisational assets by putting in place proper arrangements for the governance of our affairs and effective exercise of our functions.

I can confirm that 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.

The full scope of my responsibility is described in the Memorandum for Accounting Officer of Natural Resources Wales, issued by the Welsh Government, and additional content is described in Managing Welsh Public Money. I have outlined the following in order to demonstrate how I have fulfilled this role:

- Governance structure
- Review of effectiveness
- Board performance
- System of internal control
- Risk management framework
- Internal audit opinion

### Our governance structure

Our Board members are appointed by Welsh Ministers in accordance with the Code of Practice for Ministerial Appointments in Public Bodies, and as such our Chair is accountable to the Cabinet Secretary for Energy, Planning and Rural Affairs. We currently have 12 Board members, including myself as an executive member of the Board. We are led by our Chair, Diane McCrea. The remainder of the Board is made up of 10 non-executive members. There have been no changes to appointments this year.

The role and responsibility of the Board is to:

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

We operate to the principles set out in the Code of Good Practice for Corporate Governance issued by HM Treasury. We continue to support the development and implementation of the Welsh Government’s legislative programme, while transforming our organisation through implementation of the Senior Management Review and Organisational Design Programmes. Implementing requirements of the Well-being of Future Generations (Wales) and the Environment (Wales) Acts have been key to our work this year, with the Board overseeing publication of our new Corporate Plan to 2022.

We held six two-day meetings across Wales this year, as well as a number of other development sessions. Standing items on our agenda include: well-being, health and safety; in-year finance and performance reporting; and strategic and operational updates from the Chair, Chief Executive, Committees, and Board Groups. To support our commitment that our work is open and accessible to all, we publish a wide range of information regarding our work on our website, including papers to be considered by the Board in advance of those meetings held in public. All future meeting dates and previous agendas, papers and minutes are available on our [website](#)

### Board member attendance

Board member	No. of possible meetings	No. of full meetings attended
Diane McCrea (Chair)	6	6
Madeleine Havard (Deputy Chair)	6	6
Andy Middleton	6	5 <sup>1</sup>
Ruth Hall	6	5 <sup>1</sup>
Nigel Reader	6	4 <sup>2</sup>
Paul Williams	6	5 <sup>3</sup>
Chris Blake	6	6
Howard C Davies	6	5
Elizabeth Haywood	6	5
Zoe Henderson	6	6
Karen Balmer	6	5
Emyr Roberts (CE up to 31 October 2017)	3	3
Kevin Ingram (acting CE)	2	2
Clare Pillman (CE from 26 February 2018)	1	1

<sup>1</sup> Andy Middleton was present on Day 1 and Ruth Hall present on Day 2 of the March 2018 meeting

<sup>2</sup> Nigel Reader was present at Day 2 of the January and Day 2 of the March 2018 meetings

<sup>3</sup> Paul Williams was present on Day 2 of the September 2017 meeting

Our Board has four committees, each chaired by a Board member, and include at least three other Board members. In addition to the three formal committees, the Board has established a standing Flood Risk Management Advisory Group. We do not have a Nominations Committee as our members are appointed by Welsh Ministers. Membership of each committee was reviewed in January 2016 following



the appointment of new Board members. Attendance records below outline membership of our:

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

### Audit and Risk Assurance Committee

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

This year ARAC addressed a range of issues including:

- Annual Report and Accounts 2016/17 and plans for this report, 2017/18
- Public Accounts Committee Scrutiny of Annual Report and Accounts 2015 /16 relating to NRW long-term timber contracts
- External and internal audit preparations and reports
- Cyber security internal controls

### Board member ARAC attendance

Board member	No. of possible meetings	No. of full meetings attended
Ruth Hall	5	4
Nigel Reader	5	5
Chris Blake	5	5
Karen Balmer	5	4
Madeleine Havard <sup>1</sup>	2	2

<sup>1</sup> Madeleine Havard deputised at two meetings: one for Ruth Hall and one for Karen Balmer

### 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, wellbeing, health and safety, 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 Executive Director of Organisational Development and People Management, and our Transformation Portfolio Director.

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

- Job evaluation scheme
- Well-being, health and safety
- Changes to pension schemes
- Director appointments and remuneration

### Board member PARC attendance

Board member	No. of possible meetings	No. of full meetings attended
Paul Williams (Chair)	4	4
Nigel Reader	4	4
Zoe Henderson	4	3
Karen Balmer	4	4
Diane McCrea	1	1
Emyr Roberts	2	2
Kevin Ingram	1	1
Clare Pillman	1	1

### 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.

During the year the Committee considered the confirmation of one SSSI due to unresolved objections to the notification.

### Board member PAC attendance

Board member	No. of possible meetings	No. of full meetings attended
Andy Middleton (Chair)	1	1
Madeleine Havard	1	1
Paul Williams	1	1
Howard C Davies	1	1
Elizabeth Haywood	1	1

### 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 met twice in 2017/18 (July and October) and it 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 2018/19.

It also visited the Crindau Flood Alleviation Schemes currently under construction in Newport.

### 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	1
Elizabeth Haywood	2	2
Karen Balmer	2	2

### Board groups

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

### Board effectiveness

During 2017/18 we continued to develop the skills and workings of the Board - a key area in which the Board needs to develop. Using information from a Board effectiveness survey we ran specific workshop sessions looking at key areas the Board needed to develop, we made changes to how our Board meetings are run and how we gather feedback after each meeting to continually improve. We repeated a Board effectiveness survey and maturity matrix in February 2018 - this has allowed us to track trends since the last survey. The maturity matrix has been particularly useful in identifying further areas for improvement. After each Board meeting there is a catch and reflection meeting to identify quick improvements we can make and the Board is always seeking ways it can be more effective in the discharge of its duties as well as the support it can provide to the organisation and executive team.

### Compliance with the UK Corporate Governance Code

Our organisational structure, policies and procedures are set in line with the UK Corporate Governance Code. 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 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 our Executive Team. We formally meet on a three-weekly cycle. Our Business meetings deal with current and emerging issues and monitor the performance of the organisation; Strategy and Policy meetings develop strategy for the organisation and recommend new policy positions to the Board; and we meet as a Change Programme Board to receive and consider updates on the Transformation Portfolio and our Organisational Design Project.

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

### **Ministerial Directions**

We have received one Ministerial Direction this year. In February 2018 the Minister for Environment, on behalf of her portfolio and the Cabinet Secretary for Energy, Planning and Rural Affairs, wrote to us to approve implementation of our Job Evaluation scheme but with a specific proviso. Both Ministers wanted 'the non-consolidated pay award proposed in 2017/18 to be consolidated into pay in 2018/19'. We accepted the Direction however in our response we estimated that the additional £800,000 recurring cost per annum would inevitably have financial consequences and implications for delivery of our future workplans as well as our workforce.

### **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 has set the risk appetite for the organisation and uses ARAC to exercise scrutiny over our risk management processes, as well as to drill-down into specific risks and issues. Executive Team members manage Directorate Risk Registers in line with achieving their targets and outcomes in their Directorate Delivery Plan.

NRW is currently building on existing processes to implement a step change to embedding risk management throughout the organisation. The Executive Team are responsible for overseeing the implementation of the changes and report to ARAC and the Board on progress and for their scrutiny. Based on best practice approaches to managing risks, the key objective is to ensure that we have a consistent approach to identifying, measuring, controlling, monitoring and reporting risks.

### **Information assurance**

We are committed to ensuring data and information is well governed and managed and have continued to work to achieve the right balance between openness and security, making sure that staff and customers are assured of the highest levels of protection. The Senior Information Risk Owner (SIRO) continues to lead an

integrated programme of work to strengthen our response to and resilience against cyber and information security threats. The General Data Protections Regulation (GDPR) Implementation Project has successfully delivered regulation compliance through a suite of policy and guidance and thorough staff communication and engagement.

### **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 develop and apply 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 is still 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 2018/19.

We have an established fraud and whistleblowing policy and reporting procedure in place to raise serious concerns about malpractice or impropriety. The policy has also been reviewed by the ARAC Committee during 2017/18 and there have been no formal whistleblowing incidents reported.

We have received 14 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: "Natural Resources Wales can receive moderate assurance over the overall adequacy and effectiveness of its internal control environment, including its arrangements for governance and risk management in all areas except for commercial governance where, due to governance and control failures, the level of assurance is unsatisfactory."

### **Internal controls**

In response to the Public Accounts Committee review last year, a number of improvements have been made across the organisation to strengthen the controls in place, notably within Procurement and Legal. However, this year, Wales Audit Office have brought to management's attention significant failures involving timber contracts. This, and four serious non-conformities identified by the UK Woodland

Assurance Standard (UKWAS) audit in November 2017 have raised concerns over the effectiveness of governance, including the absence or poor application of internal controls in that part of the business. In response to the UKWAS audit, an action plan has been put in place which has secured the retention of the accreditation in the short term.

### **Governance**

Strengthening governance is a major part of the Organisational Design programme, due to be implemented in April 2019. This is in recognition of the gaps and weaknesses in the current arrangements, including clarity of roles and responsibilities of various boards, groups and committees, scrutiny of projects and initiatives, and accountability for managing risks.

### **Risk management**

While there are examples of a diligent approach to managing risk associated with certain operational activities, Natural Resource Wales' enterprise wide risk management is not mature. This has been recognised by the Executive Team and steps are being made to address this.

### **External audit**

The financial statements for 2015/16 and 2016/17 were issued with a qualified opinion on the basis of regularity as a result of issues highlighted in the letting of eight high value long term timber sales contracts in 2014. These contracts were terminated at 31 March 2017 and a number of transitional contracts were put in place to give time for new contracts to be let on an open market basis.

The Auditor General has identified further regularity issues with how these new contracts have been let and managed. We accept the findings and the seriousness of the matters raised. An independent review of this area is being performed which will result in a comprehensive action plan to ensure that these issues are not repeated. The Board and ARAC will provide detailed scrutiny and oversight going forward.

Clare Pillman  
Chief Executive and Accounting Officer

Date: 13 July 2018

## 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 beyond the benchmark point is only for consistent outstanding performance as assessed by the Chief Executive and confirmed by the Remuneration Committee.

There was no pay deal for all staff for the period 1 July 2016 to 30 June 2017. It was deferred pending implementation of our new Job Evaluation Scheme and the associated new pay and grading structure.

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 Cabinet Secretary for Energy, Planning 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 2017/18 (£5,000 range)	Salary 2016/17 (£5,000 range)
Karen Balmer <sup>1,2</sup>	9-11-17 to 8-11-18	15-20	10-15
Chris Blake <sup>1</sup>	9-11-17 to 8-11-18	10-15	10-15
Howard Davies <sup>1</sup>	9-11-17 to 8-11-18	10-15	10-15
Dr Ruth Hall CBE <sup>1</sup>	1-11-17 to 31-10-18	10-15	10-15
Dr Madeleine Havard <sup>1,3</sup> (Deputy Chair)	1-11-17 to 31-10-18	15-20	15-20
Elizabeth Haywood <sup>1</sup>	9-11-17 to 8-11-18	10-15	10-15
Zoë Henderson <sup>1</sup>	9-11-17 to 8-11-18	10-15	10-15
Diane McCrea (Chair) MBE <sup>4</sup>	1-12-15 to 30-11-18	40-45	40-45
Andy Middleton <sup>1,5</sup>	1-11-17 to 31-10-18	10-15	10-15
Nigel Reader CBE <sup>1,6</sup>	1-11-17 to 31-10-18	10-15	15-20
Sir Paul Williams OBE <sup>1,7</sup>	1-11-17 to 31-10-18	15-20	15-20

<sup>1</sup> These board members were re-appointed for another year. 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.

<sup>2</sup> Karen Balmer was appointed as Chair of the Audit and Risk Assurance Committee (ARAC) from 1 September 2017. For 1 April 2017 to 31 August 2017, the full year equivalent salary is £10,000 to £15,000. The full year equivalent salary as ARAC Chair is £15,000 to £20,000.

<sup>3</sup> Madeleine Havard is the Deputy Chair of the Board and the Chair of the Flood Risk Management Advisory Group.

<sup>4</sup> During 2016/17, Diane McCrea's time commitment was 72 days per annum from 1 April 2016 to 31 August 2016 and 96 days per annum for 1 September 2016 to 31 March 2017. During 2017/18, Diane McCrea's time commitment from 1 April 2017 to 31 August 2017 is 96 days and 72 days from 1 September 2017 to 31 March 2018. Her full time equivalent salary based on 72 days per annum is £30,000 to £35,000 and is £40,000 to £45,000 based on 96 days per annum.

<sup>5</sup> Andy Middleton is Chair of the Protected Areas Committee.

<sup>6</sup> Nigel Reader was Chair of the Audit and Risk Assurance Committee until 31 August 2017. The full year equivalent salary as ARAC Chair is £15,000 to £20,000. From 1 September 2017, the full year equivalent salary is £10,000 to £15,000.

<sup>7</sup> Sir Paul Williams is Chair of the People and Remuneration Committee and the Transformation Advisory Group.



## Executive Team's remuneration

Executive Team Member	Salary		Benefits in kind		Pension benefits <sup>6</sup>		Total	
	(£5,000 range)		(nearest £100)		(nearest £1,000)		(£5,000 range)	
	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17
Clare Pillman <sup>1</sup> (Chief Executive)	10-15	0	0	0	5,000	0	15-20	0
Dr Emyr Roberts <sup>2</sup> (Chief Executive)	120-125	145-150	0	0	(8,000)	26,000	115-120	170-175
Ceri Davies	100-105	100-105	0	0	7,000	40,000	105-110	140-145
Ashleigh Dunn	90-95	90-95	0	0	36,000	36,000	125-130	125-130
Kevin Ingram <sup>3</sup>	100-105	95-100	0	0	58,000	36,000	160-165	130-135
Tim Jones	90-95	90-95	0	0	20,000	13,000	110-115	100-105
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	24,000	34,000	115-120	120-125
Niall Reynolds <sup>4</sup>	80-85	75-80	0	0	26,000	26,000	105-110	100-105
Clive Thomas <sup>5</sup>	0	40-45	0	0	0	72,000	0	115-120

<sup>1</sup> Clare Pillman was appointed as Chief Executive on 26 February 2018. The full year equivalent salary is £130,000 to £135,000.

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

<sup>3</sup> Kevin Ingram acted up as Chief Executive for the period 1 November 2017 to 25 February 2018 and the full year equivalent salary during this period is £120,000 to £125,000. The full year equivalent salary for the rest of the year is £95,000 to £100,000.

<sup>4</sup> 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 during this period is £85,000-£90,000. The full year equivalent salary for the rest of the year is £75,000 to £80,000.

<sup>5</sup> Clive Thomas finished on the 31 October 2016. The full year equivalent salary for 2016/17 is £75,000 to £80,000.

<sup>6</sup> 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.

### 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 People and Remuneration Committee. Any movement beyond the benchmark point will only be for consistent outstanding performance as assessed by the Chief Executive and confirmed by the 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 2016/17 and 2017/18

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 31/03/18 £000	Accrued Lump Sum at pension age as at 31/03/18 £000	Real Increase in pension at pension age £000	Real Increase in Accrued Lump Sum at pension age £000	CETV at 31/03/18 £000	CETV at 31/03/17 £000	Real Increase in CETV £000
Clare Pillman <sup>1</sup> (Chief Executive)	0-5	0	0-2.5	0	21	17	3
Dr Emyr Roberts <sup>2</sup> (Chief Executive)	65-70	195-200	0	0	1543	1476	(8) <sup>3</sup>
Ceri Davies	35-40	65-70	0-2.5	(0-2.5)	698	656	(6) <sup>3</sup>
Ashleigh Dunn	5-10	0	0-2.5	0	106	72	24
Kevin Ingram	30-35	40-45	2.5-5	0-2.5	442	380	29
Tim Jones	35-40	115-120	0-2.5	2.5-5	820	749	17
Catherine Love	5-10	0	0-2.5	0	67	48	12
Gareth O'Shea	40-45	75-80	0-2.5	(0-2.5)	672	619	8
Niall Reynolds	35-40	70-75	0-2.5	0-2.5	701	642	14

<sup>1</sup> from 26 February 2018.

<sup>2</sup> until 31 October 2017.

<sup>3</sup> 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

Emyr Roberts left under the terms of a settlement agreement on 31 October 2017. He received a compensation payment of £35,000 to £40,000.

### 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 2017/18, no employees (2016/17: none) received remuneration in excess of the highest-paid director. The banded remuneration of the highest paid Director in the financial year 2017/18 was £130,000 to £135,000 (2016/17: £145,000 to £150,000). This was four times (2016/17: 5.2 times) the median remuneration of the workforce which was £32,090 (2016/17: £28,215). Staff pay scales range from £16,835 to £64,424. Directors' remuneration is shown in the table above.

### Staff report

#### Number of staff by headcount and full time equivalent (FTE) at 31 March 2018.

	Male		Female		Total	
	Headcount	FTE	Headcount	FTE	Headcount	FTE
<b>All employees</b>	1,221	1,127	903	800	2,124	1,927
of which:						
Leadership team	15	15	7	6	22	21
Executive team	4	4	4	4	8	8

#### Number of staff by headcount and full time equivalent (FTE) at 31 March 2017.

	Male		Female		Total	
	Headcount	FTE	Headcount	FTE	Headcount	FTE
<b>All employees</b>	1,190	1,096	858	758	2,048	1,855
of which:						
Leadership team	14	14	6	5	20	19
Executive team	5	5	3	3	8	8

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

	2017/18			2016/17
	Permanent Staff	Others	Total	Total
Directly employed	1,730	61	1,791	1,834
Agency and contract staff	0	91	91	73
<b>Total</b>	<b>1,730</b>	<b>152</b>	<b>1,882</b>	<b>1,907</b>

The average full time equivalent number of staff employed on capital projects was 104.7 (2016/17: 122.6)

## Staff cost

	2017/18			2016/17
	Permanent staff	Other staff	Total	Total
	£'000	£'000	£'000	£'000
Wages and salaries	54,930	9,375	64,305	62,051
Social security costs and other taxation	5,633	912	6,545	5,855
Other pension costs	11,702	7,040	18,742	13,260
<b>Total net salary costs</b>	<b>72,265</b>	<b>17,327</b>	<b>89,592</b>	<b>81,166</b>
<b>Other expenditure for staff</b>		<b>Note</b>		
Exit package costs			184	4,935
IAS 19 (pensions) additional service charge		13	10,978	8,710
Less early retirement pension costs			(18)	(638)
Less in-year LGPS pension contributions			(12,181)	(7,558)
Transfer to provision for Annual Compensation Payments			0	78
Other staff costs			4	4
Movement in accrued holiday pay			223	16
<b>Total other expenditure for staff</b>			<b>(810)</b>	<b>5,547</b>
Less amounts charged to capital projects			(4,651)	(5,208)
<b>Total staff costs</b>			<b>84,131</b>	<b>81,505</b>

Details of NRW's pension obligations can be found in Note 13.

Details of the remuneration of Board members and directors are in the remuneration report. Bought-in services in Note 5 (other expenditure) includes £4.9 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/](http://www.civilservicepensionscheme.org.uk/about-us/resource-accounts/)

For 2017/18, employer's contributions of £5,794k were payable to the PCSPS (2016/17: £5,658k) 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 2017/18 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 £59k (2016/17: £44k) 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 14.7%. Employers also match employee contributions up to 3% of pensionable earnings. In addition, employer contributions of £2k, 0.5% of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service or ill health retirement of these employees.

No contributions 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 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 2017/18 the employer's contribution rate was 21.9% (2016/17: 21.2%). In 2017/18 employer's contributions of £12,181k were paid to the LGPS (2016/17: £7,558k) 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:	2017/18	2016/17
Under £10,000	2	3
£10,001 - £25,000	1	15
£25,001 - £50,000	3	43
£50,001 - £100,000	1	43
£100,001 - £150,000	0	0
<b>Total</b>	<b>7</b>	<b>104</b>

Total resource cost for 2017/18 was £194,000 (2016/17: £4,885k)

There were no compulsory redundancies in 2017/18 and 2016/17.

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 12 (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 2017 to 31 March 2018) showed an average of 7.3 days lost per employee and equates to 3.3%. 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)**

During 2017/18, NRW continued our work on the disability agenda. In August 2016, we were awarded Disability Confident Employer status which replaced the Two Tick Scheme. We offer job applicants who declare a disability and who meet the minimum job criteria a guaranteed interview and we are 100% compliant with this commitment.



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.

With an ageing workforce, it is important to us that we recognise and support people suffering with dementia and continue to work closely with the Alzheimer's Society Cymru to achieve accreditation over the next two years. We have dementia friendly objectives in our Equalities Action Plan for 2018/19.



Externally facing we are active on all of the Public Services Boards and are ensuring that the voices of disabled people, along with all other protected characteristics are heard, listened to and acted upon. This will help ensure that our services are accessible to all.

#### **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)**

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

- the most senior staff must be on the payroll, unless there were exceptional temporary circumstances which would require Accounting Officer sign-off and could not last longer than six months
- departments (and their arm's length bodies) must be able to seek formal assurance from contractors with off-payroll arrangements lasting more than six months and costing over £245 per day that income tax and national insurance obligations are being met. If that assurance is not provided, contracts should be terminated
- Departments (and their arm's length bodies) are required to report to Parliament as part of their Annual Report and Accounts on the outcome of applying the above principles.

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

For all off-payroll engagements as of 31 March 2018, for more than £245 per day and that last for longer than six months	Number of contractors
The total number of existing engagements as of 31 March 2018	64
of which:	
The number that have existed for less than one year at time of reporting	34
The number that have existed for between one and two years at time of reporting	15
The number that have existed for between two and three years at time of reporting	5
The number that have existed for between three and four years at time of reporting	7
The number that have existed for four or more years at time of reporting	3

For all new off-payroll engagements, or those that reached six months in duration, between 1 April 2017 and 31 March 2018, 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, during the time period.	9
The number of these engagements which include contractual clauses giving the department the right to request assurance in relation to income tax and National Insurance obligations.	9
The number for whom assurance has been requested	9
of which:	
<ul style="list-style-type: none"> <li>The number for whom assurance has been requested and received.</li> </ul>	9
<ul style="list-style-type: none"> <li>The number for whom assurance has been requested but not received</li> </ul>	0
The number that have been terminated as a result of assurance not being received	0



## Parliamentary and Audit Report (audited)

### Losses and special payments

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

A payment of £300,000 was made in settlement of a financial loss claim due to licencing changes implemented under the Restoring Sustainable Abstraction (RSA) programme.

### 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	2017/18 Number	2017/18 £'000	2016/17 Number	2016/17 £'000
Write-off of irrecoverable debts	72	67	59	107
Write-off of Communities and Nature Project	0	0	0	0
Loss of assets	20	48	6	66
Other losses (cash losses, fruitless payments, unenforceable claims, or gifts)	13	30	6	89
Special payments <sup>1</sup>	9	745	9	825
<b>Total</b>	<b>114</b>	<b>890</b>	<b>80</b>	<b>1,087</b>

<sup>1</sup> Refer to 'compensation for loss of office' in the Remuneration and Staff Report for the details of one of the special payments.

Clare Pillman  
Chief Executive and Accounting Officer

Date: 13 July 2018

# 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 2018 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 2018 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 £19.5 million in 2017-18 (£16 million in 2016-17).

I qualified my 2015-16 and 2016-17 regularity opinion with regard to the award of a series of eight inter-related timber sales contracts. These contracts were terminated on 31 March 2017 and 59 timber sales contracts were let by Natural Resources Wales in 2017-18 to manage its exit from the eight contracts. In 2017-18, Natural Resources Wales received £2.8 million timber income in respect of these 59 timber sales contracts.

I have qualified my 2017-18 regularity opinion in relation to the award of the 59 timber sales contracts as follows:

In letting the 59 timber sales contracts, Natural Resources Wales failed to demonstrate good reason for departing from its own policy of openly marketing timber. Furthermore, Natural Resources Wales did not properly document the decision-making process that led to the award of the transitional contracts in general, and the determination of the transitional volume in particular. 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 59 timber sales contracts, which I consider to be novel, contentious and/or repercussive, to its sponsor department. Furthermore, thirteen of the contracts were not authorised in accordance with Natural Resources Wales'

Scheme of Delegation. 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 market price of the timber being sold within the 59 timber sales contracts, when determining the contract prices. I therefore have significant uncertainty as to whether Natural Resources Wales complied with the requirements of both its own Establishment Order and state aid rules and I have qualified my regularity opinion accordingly.

Further details on these matters are set out in my accompanying Report on pages 59 to 62.

## **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](http://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.

Huw Vaughan Thomas  
Auditor General for Wales  
16 July 2018

24 Cathedral Road  
Cardiff  
CF11 9LJ

## Report of the Auditor General for Wales Timber Sales Contracts

1. Natural Resources Wales (NRW) is a Welsh Government sponsored body created for the purpose of ensuring that the environment and natural resources of Wales are:
  - sustainably maintained;
  - sustainably enhanced; and
  - sustainably used.<sup>1</sup>
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 55 to 58 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. I qualified my 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 (the Sawmill Operator) did not comply with the framework of authority under which NRW was operating. Furthermore, on the basis of the information provided by NRW in relation to its decision-making procedure. I was also unable to satisfy myself that the decision to agree those contracts was lawful and did not involve the provision of State Aid.
5. This year I have qualified my regularity opinion on NRW's 2017-18 accounts. This relates to the award by NRW of 59 new timber sales contracts to the Sawmill Operator, a timber harvesting company owned by the Sawmill Operator and a further timber harvesting company. The reasons for my qualification are set out in paragraph 13.

### Background

6. In May 2014, NRW entered into a Memorandum of Agreement with the Sawmill Operator. The Memorandum of Agreement related to eight long-term connected timber sales contracts.
7. Under the terms and conditions of the Memorandum of Agreement, which was also reflected in some but not all of the contracts), the Sawmill Operator agreed to construct and operate a new saw line at its sawmill by 31 March 2016, (which was subsequently extended by agreement to 31 March 2017). Under the terms

---

<sup>1</sup> 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.'

and conditions of the Memorandum of Agreement, if the saw line was not constructed and operating by this date the contracts would terminate. In February 2017, the Sawmill Operator informed NRW that it did not intend to construct the saw line.

8. In March 2017, NRW entered into negotiations with the Sawmill Operator with the view to putting in place transitional contractual arrangements to take effect from 31 March 2017 when the long-term contracts terminated. The proposal was to offer the Sawmill Operator short-term contracts to cover the transitional period between the termination of the long-term contracts and NRW remarketing the timber volume in the terminated long-term contracts. These new contracts would be awarded without seeking competition from the market.
9. By 31 March 2017, NRW reached an agreement in principle with the Sawmill Operator. However, on that date NRW was contacted by a timber harvesting company which had acted as the harvesting agent on the terminated long-term contracts (the Timber Harvesting Company). The Timber Harvesting Company, which is a completely separate organisation to the Sawmill Operator, asked to be included in the contractual arrangements to be put in place from 1 April 2017. NRW agreed to award some of the transitional contracts to the Timber Harvesting Company.
10. The long-term contracts terminated on 31 March 2017 and during 2017-18 NRW entered into 59 transitional contracts. Twenty one of the transitional contracts were awarded to the Sawmill Operator (and a timber harvesting company owned by it).  
The remaining 38 contracts were awarded to the Timber Harvesting Company.
11. NRW's 2017-18 financial statements record that NRW received timber income of £2.76 million in respect of the 59 transitional contracts. NRW anticipates that it will receive a further £0.18 million in 2018-19. These figures represent the net sales price of the timber after contractor deductions for harvesting and haulage.

## Conclusions

12. In auditing NRW's 2017-18 financial statements, I considered the regularity of the transactions included within those accounts relating to the transitional contracts. I have doubt as to whether NRW acted in accordance with its statutory duties, public law principles and State Aid rules in awarding 59 timber sales contracts to three contractors during 2017-18. In consequence, I am unable to positively affirm that the transactions in NRW's 2017-18 financial statements conform to the framework of authority governing them. I have therefore qualified my regularity opinion accordingly.
13. My reasons for reaching this conclusion is as follows:
  - 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. NRW departed from its own policy as set out in its published Timber Marketing Plan 2017-22 when it entered into 59 timber sales contracts without openly marketing the timber. NRW

has been unable to demonstrate that it had good reason to depart from its stated policy.

- 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 award of the transitional contracts in general, and the determination of the transitional volume in particular. This means that I now have significant uncertainty as to whether NRW took into account all relevant considerations, and disregarded irrelevant ones.
  - 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 enter into the transitional contracts was novel, contentious and/or repercussive. NRW entered into the transitional contracts without making a referral to the Welsh Government and in consequence I consider that NRW did not meet this requirement.
  - 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. Thirteen of the transitional contracts were not authorised in accordance with the Scheme of Delegation, and I therefore consider that they were not entered into lawfully.
  - Article 8 of the 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 seen no evidence that NRW took into account the market price of the timber being sold within the transitional contracts, when determining the contract prices. In consequence, I am not satisfied that NRW complied with Article 8 of the Order and that it took all relevant factors into account when making its decisions.
  - NRW is required to comply with State Aid rules. I consider that NRW did not follow proper procedures to satisfy itself that its actions complied with State Aid rules when entering into the transitional contracts. It did not seek to ensure that the prices in the contracts were at market rates, and by NRW's own admission it did not consider its own legal advice which had highlighted the risk that the transitional arrangements could have State Aid implications.
14. Whilst my report on NRW's 2017-18 financial statements focusses on the regularity matters set out paragraph 10, in my view, there are wider lessons that NRW needs to learn.



15. In February 2017, NRW was facing a situation where very substantial timber contracts would terminate at the end of March 2017. Alternative arrangements were required to ensure that the ending of these contracts did not have an adverse effect on timber processors and customers, as well as NRW's own income. NRW had to act quickly, but in its haste it did not follow due process and disregarded principles of good governance. My audit found that:
- documentation of the decision-making process was wholly inadequate;
  - it was unclear who had made decisions and the rationale for those decisions;
  - contractual operations commenced in advance of written contracts being signed;
  - communications regarding the transitional arrangements, both internally and with the Welsh Government, were incomplete and on some occasions inaccurate; and
  - the proposal to enter into transitional arrangements was both significant and potentially contentious but was not subjected to proper scrutiny.
- Furthermore, no written reports were made to NRW's Board or Audit and Risk Assurance Committee (ARAC) in respect of this matter.
16. When I reported on NRW's 2015-16 financial statements I was concerned that NRW did not appear to fully accept my criticisms of their actions and sought to downplay their significance. The fact that the issues raised in my report on NRW's 2017-18 financial statements are so similar to those included in my report on NRW's 2015-16 financial statements has confirmed that NRW did not treat the findings of my 2015-16 report sufficiently seriously.
17. I am, however, encouraged that when my auditors informed NRW of the provisional findings of this audit, NRW's response was constructive, there was an acceptance of the seriousness of the matters raised, and a commitment to ensure that rigorous action is taken to ensure both that policies and procedures are improved and that cultural and behavioural issues are addressed.
18. I have not sought to conclude on whether the contracts entered into by NRW in 2017-18 represented value for money. Such value for money examinations do not form part of my financial audit of the financial statements, which is performed in accordance with legislation and United Kingdom auditing standards prescribed by the Financial Reporting Council.
19. I have provided a supplementary memorandum to the Public Accounts Committee, with further detail on the reasons I have qualified my regularity opinion on NRW's 2017-18 financial statements.

# FINANCIAL STATEMENTS and NOTES TO THE ACCOUNTS

for 2017/18

## Statement of Comprehensive Net Expenditure

For the year ended 31 March 2018

	Note	2017/18 £'000	2016/17 £'000
Staff costs	3	84,131	81,505
Capital works expensed in year	4	23,599	19,402
Other expenditure	5	84,280	81,344
<b>Total operating expenditure</b>		<b>192,010</b>	<b>182,251</b>
Charge income	6	(37,597)	(36,065)
Commercial and other income	6	(27,986)	(25,147)
European and other external funding	6	(890)	(1,681)
<b>Total operating income</b>		<b>(66,473)</b>	<b>(62,893)</b>
<b>Net operating expenditure</b>		<b>125,537</b>	<b>119,358</b>
Financing on pension scheme assets and liabilities	13.3	1,088	1,651
<b>Net expenditure for the year</b>		<b>126,625</b>	<b>121,009</b>
<b>Other comprehensive net expenditure</b>			
Pension actuarial remeasurements	13.3	(9,848)	(6,657)
<b>Revaluation</b>			
Net gain on revaluation		(10,656)	(5,356)
<b>Total comprehensive net expenditure for the year</b>		<b>106,121</b>	<b>108,996</b>

The notes on pages 68 to 97 form part of these accounts.

## Statement of Financial Position

As at 31 March 2018

		31 March 2018	*Restated 31 March 2017	*Restated 1 April 2016
	Note	£'000	£'000	£'000
<b>Non-current assets</b>				
Property plant and equipment	7.1	814,430	764,935	745,211
Heritage assets	7.1	6,432	6,432	6,432
Biological assets	7.1	113,125	105,643	102,450
Intangible assets	7.2	14,809	14,939	13,340
Financial assets		95	140	140
<b>Total non-current assets</b>		<b>948,891</b>	<b>892,089</b>	<b>867,573</b>
<b>Current assets</b>				
Assets held for sale		451	938	180
Inventories		798	805	759
Trade and other receivables	9	13,821	12,249	16,496
Cash and cash equivalents	10	43,539	26,801	22,735
<b>Total current assets</b>		<b>58,609</b>	<b>40,793</b>	<b>40,170</b>
<b>Total assets</b>		<b>1,007,500</b>	<b>932,882</b>	<b>907,743</b>
<b>Current liabilities</b>				
Trade and other payables	11	(22,970)	(14,484)	(19,568)
Provisions	12	(1,227)	(823)	(1,582)
<b>Total current liabilities</b>		<b>(24,197)</b>	<b>(15,307)</b>	<b>(21,150)</b>
<b>Assets less current liabilities</b>		<b>983,303</b>	<b>917,575</b>	<b>886,593</b>
<b>Non-current liabilities</b>				
Pension liabilities	13.3	(32,484)	(42,465)	(46,957)
Financial liabilities	8	(39,992)	(39,998)	(39,991)
<b>Total non-current liabilities</b>		<b>(72,476)</b>	<b>(82,463)</b>	<b>(86,948)</b>
<b>Assets less liabilities</b>		<b>910,827</b>	<b>835,112</b>	<b>799,645</b>
<b>Taxpayers' equity and other reserves</b>				
General fund	SoCTE	216,830	203,289	197,532
Revaluation reserve	SoCTE	726,481	674,288	649,070
Pensions reserve	SoCTE	(32,484)	(42,465)	(46,957)
<b>Total taxpayers' equity</b>		<b>910,827</b>	<b>835,112</b>	<b>799,645</b>

\* The financial position as at 31st March 2017 and 1st April 2016 has been restated to reflect an adjustment to the valuation of the Forest Estate. Details of the restatement are included in Note 1.10

The notes on pages 68 to 97 form part of these accounts.

Clare Pillman  
Chief Executive and Accounting Officer

Date: 13 July 2018

## Statement of Cash Flows

For the year ended 31 March 2018

	Note	2017/18 £'000	2016/17 £'000
<b>Cash flows from operating activities</b>			
Net operating expenditure	SoCNE	(125,537)	(119,358)
Adjustment for non-cash transactions		22,568	19,344
(Increase)/Decrease in trade and other receivables	9	(1,612)	4,310
Increase/(Decrease) in trade and other payables	11	7,921	(5,077)
Decrease in provisions	12	(149)	(132)
<b>Net cash flow from operating activities</b>		<b><u>(96,809)</u></b>	<b><u>(100,913)</u></b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	7.1	(3,386)	(3,218)
Purchase of intangible assets	7.2	(2,526)	(4,042)
Proceeds on disposal of property, plant and equipment		1,086	1,165
<b>Net cash flow from investing activities</b>		<b><u>(4,826)</u></b>	<b><u>(6,095)</u></b>
<b>Cash flows from financing activities</b>			
Grants from Welsh Government	SoCTE	118,373	111,074
<b>Net Financing</b>		<b><u>118,373</u></b>	<b><u>111,074</u></b>
<b>Net increase in cash and cash equivalents in the period</b>		<b>16,738</b>	<b>4,066</b>
<b>Cash and cash equivalents at the beginning of the period</b>		<b><u>26,801</u></b>	<b><u>22,735</u></b>
<b>Cash and cash equivalents at the end of the period</b>	10	<b><u><u>43,539</u></u></b>	<b><u><u>26,801</u></u></b>

The notes on pages 68 to 97 form part of these accounts.

## Statement of Changes in Taxpayers' Equity

For the year ended 31 March 2018

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

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 68 to 97 form part of these accounts.

### Comparative figures for the year ended 31 March 2017 (Restated)

	General Fund £'000	Revaluation Reserve £'000	Pension Reserve £'000	Total £'000
<b>Opening balance</b>	<b>197,532</b>	<b>655,860</b>	<b>(46,957)</b>	<b>806,435</b>
Correction to Opening Balance	0	(6,790)	0	(6,790)
<b>Opening Balance (Restated)</b>	<b>197,532</b>	<b>649,070</b>	<b>(46,957)</b>	<b>799,645</b>
Comprehensive net expenditure for year	(108,996)	0	0	(108,996)
<b>In-year movement</b>				
In year revaluation	0	33,349	0	<b>33,349</b>
Correction to in year revaluation	0	40	0	<b>40</b>
Realised revaluation	8,171	(8,171)	0	<b>0</b>
Actuarial gain on pension scheme	(6,657)	0	6,657	<b>0</b>
Increase in pension liability	2,165	0	(2,165)	<b>0</b>
<b>Total in-year movement</b>	<b>3,679</b>	<b>25,218</b>	<b>4,492</b>	<b>33,389</b>
<b>Funding</b>				
Grants from Welsh Government	111,074	0	0	<b>111,074</b>
<b>Balance at 31 March 2017 (Restated)</b>	<b>203,289</b>	<b>674,288</b>	<b>(42,465)</b>	<b>835,112</b>

## Note 1 Accounting policies

### 1.1 Requirement to prepare accounts

The financial statements have been prepared in accordance with the 2017/18 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.

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

### 1.5 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.

### 1.6 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 2017/18 were set by NRW acting as the drainage board. This income is included in Note 6.

### 1.7 Adoption of new and revised IFRS or FReM interpretations

#### **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.

#### **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 15 – Revenue from Contracts with Customers

This standard replaces all existing IFRS guidance on revenue recognition. It is effective from 1 January 2018 and has been incorporated into the 2018/19 Financial Reporting Manual. The core principle of IFRS 15 is that an entity recognises services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. It also introduces substantially greater disclosure requirements to address the shortcomings of the previous Standards (IAS 1 and IAS 18). The impact of this standard on Natural Resources Wales' financial statements is currently being assessed.

### 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. This is effective from 1 January 2018 and has been incorporated into the 2018/19 Financial Reporting Manual. The impact of this standard on Natural Resources Wales' financial statements is currently being assessed.

### IFRS 16 – Leases

This standard is effective from 1 January 2019. 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 will be assessed when further guidance is forthcoming from HM Treasury.

## 1.8 Financial provisions (Landfill sites)

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

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

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

## 1.9 Notes to the accounts

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

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

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

## 1.10 Prior periods restatement

An error was discovered in a valuation report provided to NRW by an external valuer which impacts on the Property, Plant and Equipment value under Non-current assets as at both 31 March 2016 and 31 March 2017. This was due to the solum value in one area of the Forest Estate being overstated by £6,750k. The error has been corrected by restating each of the affected financial statements line items for the prior years as follows:

### Statement of Financial Position

	<b>31st March 2017</b>	<b>1st April 2016</b>
	<b>£'000</b>	<b>£'000</b>
<b>Non Current Assets</b>		
Property Plant and Equipment Reported	771,685	752,001
Property Plant and Equipment Correction	(6,750)	(6,790)
	<hr/>	<hr/>
Property Plant and Equipment Restated	764,935	745,211
<b>Revaluation Reserve</b>		
Reported	681,038	655,860
Correction	(6,750)	(6,790)
	<hr/>	<hr/>
Restated	674,288	649,070

### Statement of Changes In Taxpayers' Equity

#### Comparative figures for the year ended 31 March 2017

	<b>Closing Balance</b>	<b>Opening Balance</b>
	<b>2016/17</b>	<b>2016/17</b>
	<b>£'000</b>	<b>£'000</b>
<b>Revaluation Reserve</b>		
Reported	681,038	655,860
15/16 Correction	(6,790)	(6,790)
16/17 Correction	40	0
	<hr/>	<hr/>
Restated	674,288	649,070

## 2. Analysis of net operating expenditure by segment

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
<b>Reported by segments</b>								
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)
<b>Total</b>	<b>1,880</b>	<b>1,273</b>	<b>34,875</b>	<b>27,533</b>	<b>38,604</b>	<b>3,873</b>	<b>17,499</b>	<b>125,537</b>
<b>Capital expenditure</b>	0	4,396	1,772	174	129	0	0	6,471

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

### Description of segments

OD & People Management	Provides organisational development and people management services.
Finance & Corporate Services	Provides financial, ICT, legal and procurement support. Manages buildings and fleet.
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. The expenditure in the Office of the Chief Executive is 2% of the total expenditure.

## Analysis of net operating expenditure by segment (continued)

Comparative figures for the year ended 31 March 2017 (Restated)

	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
<b>Reported by segments</b>								
Expenditure	7,185	29,238	58,069	29,598	36,727	4,049	17,385	182,251
Income	0	(35,423)	(25,873)	(2,269)	(1,697)	(77)	2,446	(62,893)
<b>Total</b>	<b>7,185</b>	<b>(6,185)</b>	<b>32,196</b>	<b>27,329</b>	<b>35,030</b>	<b>3,972</b>	<b>19,831</b>	<b>119,358</b>
<b>Capital expenditure</b>	<b>0</b>	<b>6,315</b>	<b>211</b>	<b>376</b>	<b>358</b>	<b>0</b>	<b>0</b>	<b>7,260</b>

Tudalen y pecyn 99

### 3. Staff costs

Further details of staff costs and numbers are now disclosed from page 48 within the Accountability Report.

	2017/18			2016/17
	Permanent Staff £'000	Other Staff £'000	Total £'000	Total £'000
Wages and salaries	54,930	9,375	64,305	62,051
Social security & Other taxation costs	5,633	912	6,545	5,855
Other pension costs	11,702	7,040	18,742	13,260
<b>Total net salary costs</b>	<b>72,265</b>	<b>17,327</b>	<b>89,592</b>	<b>81,166</b>
Other expenditure for staff			(810)	5,547
Less amounts charged to capital projects			(4,651)	(5,208)
<b>Total staff costs</b>			<b>84,131</b>	<b>81,505</b>

### 4. Capital works expensed in year

Categories	2017/18	2016/17	31 March 2018	31 March 2017
	Actual £'000	Actual £'000	Committed £'000	Committed £'000
Operational Work	21,922	17,431	7,316	14,323
Capital grants	1,677	1,971	209	692
<b>Total</b>	<b>23,599</b>	<b>19,402</b>	<b>7,525</b>	<b>15,015</b>

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

#### Operational work includes:

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

	2017/18	Restated 2016/17
	£'000	£'000
<b>Cash items</b>		
Bought in services	17,064	17,811
Reservoir operating agreements	8,281	5,542
ICT costs	4,837	3,572
Materials and equipment	4,072	3,843
Office running costs	3,604	3,727
Service levels agreements	3,545	6,493
Fleet costs	3,325	3,506
Forest roads network maintenance	2,775	3,320
Grants	2,663	3,251
Rents	2,241	2,089
Staff related costs	2,034	2,075
Collaborative agreements	1,753	2,421
Travel and subsistence	1,155	1,146
Rates	834	840
Fees and court costs	760	1,064
Losses and special payments	738	914
Operational costs	549	630
Statutory audit fees	171	185
European grants	76	100
Finance lease interest	14	33
<b>Sub-total</b>	<b>60,491</b>	<b>62,562</b>
<b>Non-cash expenditure</b>		
Value of sold timber	11,971	7,935
Depreciation, amortisation and impairment	11,702	11,246
Losses	115	173
Movement on other provisions	553	(705)
Movement on provision for doubtful debt	(27)	(63)
(Gain) / Loss on disposal	(525)	196
<b>Sub-total</b>	<b>23,789</b>	<b>18,782</b>
<b>Total</b>	<b>84,280</b>	<b>81,344</b>

Details of write-offs and special payments are shown in the Accountability section on page 54.

The Fleet and Operational expenditure figures for 2016/17 have been restated following the introduction of fleet recharging in 2017/18. The insurance premiums for vehicles and plant were £303k in 2016/17 and they are now included under fleet costs, rather than operational costs.

## 6. Income analysis

For the year ended 31 March 2018

	2017/18 £'000	2016/17 £'000
Abstraction charges	19,349	17,988
Environmental permitting regulations: water quality	6,364	6,560
Environmental permitting regulations: installations	3,078	3,043
Nuclear regulation	2,458	1,783
Environmental permitting regulations: waste	2,294	2,311
Fishing licences	1,244	1,161
Other environmental protection charges	1,101	1,058
Hazardous waste	657	1,013
Water resources rechargeable works	632	620
Emissions trading and carbon reduction commitment	307	266
Marine licensing	113	262
<b>Charge Income</b>	<b>37,597</b>	<b>36,065</b>
Timber income	19,534	16,070
Renewable energy income	3,640	3,336
Income from estates	2,374	2,720
Internal drainage district income	1,265	1,617
Provision of information and services	726	920
Legal costs recovered and Proceeds of Crime Act income	303	264
Miscellaneous income	103	164
Interest receivable	35	43
Income towards site clean up costs	6	13
<b>Commercial and other income</b>	<b>27,986</b>	<b>25,147</b>
European income <sup>+</sup>	656	487
Grants and contributions	234	1,194
<b>European and other external funding</b>	<b>890</b>	<b>1,681</b>
<b>Total income</b>	<b>66,473</b>	<b>62,893</b>

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

## 6.1 Analysis of fees and charges

<b>Year ending 31 March 2018</b>	<b>Income billed £'000</b>	<b>Expenditure £'000</b>	<b>Surplus/ (Deficit) £'000</b>
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
<b>Total</b>	<b>37,516</b>	<b>37,597</b>	<b>(81)</b>

<b>Comparative figures - year ending 31 March 2017</b>	<b>Income billed £'000</b>	<b>Expenditure £'000</b>	<b>Surplus/ (Deficit) £'000</b>
Abstraction charges	18,219	17,988	231
Environmental permitting regulations: water quality	6,643	6,560	83
Environmental permitting regulations: installations	3,090	3,043	47
Nuclear regulation	1,758	1,783	(25)
Environmental permitting regulations: waste	2,177	2,311	(134)
Fishing licences	1,161	1,161	0
Other environmental protection charges	966	1,058	(92)
Hazardous waste	1,006	1,013	(7)
Water resources rechargeable works	620	620	0
Emissions trading and carbon reduction commitment	262	262	0
Marine licences	280	266	14
<b>Total</b>	<b>36,182</b>	<b>36,065</b>	<b>117</b>



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

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

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

Costs funded by grant-in-aid have been excluded from the table above. The above table does not include the effect of IAS 19 pension adjustments as these costs/benefits are not passed on to charge payers. The financial objective is full cost recovery including current cost 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 groundwater. The income reported also includes other elements of water resources income.
- Water resources rechargeable works - income to recover NRW water resources effort on the ground, such as operational costs in the Upper Severn catchment (on the Welsh side of the boundary), which falls under Environment Agency jurisdiction.
- Fishing licences – charging individuals for licences to fish.
- Environmental permitting regulations: water quality – charging for discharges from businesses into the environment.
- Environmental permitting regulations: installations - permitting to control and minimize pollution from industrial activities
- Environmental permitting regulations: waste 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.

### 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.

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

<b>Asset category</b>	<b>Principal useful life</b>
<b>Tangible assets</b>	
Buildings and dwellings	10 - 60 years
Plant and machinery	4 - 25 years
Information technology	3 - 10 years
Operational structures	5 - 100 years
<b>Intangible assets</b>	
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.

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

Buildings include dwellings with a carrying amount of £291k. Our other buildings are offices and workbases.

The amount held in the Revaluation Reserve for these assets at 31st March 2018 was £725,645k (£673,299k at 31st March 2017 - restated)

Comparative figures for the year ended 31 March 2017 (Restated)

	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
<b>At 1 April 2016</b>	611,803	53,918	12,782	24,373	12,894	67,654	3,185	<b>786,609</b>	102,450	6,432	<b>895,491</b>
Correction to opening valuation	(6,122)	(668)	0	0	0	0	0	<b>(6,790)</b>	0	0	<b>(6,790)</b>
<b>At 1 April 2016 (Restated)</b>	605,681	53,250	12,782	24,373	12,894	67,654	3,185	<b>779,819</b>	102,450	6,432	<b>888,701</b>
Additions	0	2	1,282	1,030	0	304	600	<b>3,218</b>	0	0	<b>3,218</b>
Assets commissioned in year	0	4	0	1,212	426	884	(2,355)	<b>171</b>	0	0	<b>171</b>
Disposals and derecognition	0	(180)	(234)	(4,201)	0	(82)	(612)	<b>(5,309)</b>	0	0	<b>(5,309)</b>
Movement from/(to) held for sale	0	(519)	(365)	(75)	0	0	0	<b>(959)</b>	0	0	<b>(959)</b>
Fellings	(5,872)	0	0	0	0	0	0	<b>(5,872)</b>	(2,109)	0	<b>(7,981)</b>
Indexation and revaluation	26,667	2,099	1,019	0	0	4,081	0	<b>33,866</b>	5,302	0	<b>39,168</b>
Correction to in year revaluation	248	(208)	0	0	0	0	0	<b>40</b>	0	0	<b>40</b>
Reclassification	0	(30)	0	(186)	0	14	0	<b>(202)</b>	0	0	<b>(202)</b>
<b>At 31 March 2017 (Restated)</b>	<b>626,724</b>	<b>54,418</b>	<b>14,484</b>	<b>22,153</b>	<b>13,320</b>	<b>72,855</b>	<b>818</b>	<b>804,772</b>	<b>105,643</b>	<b>6,432</b>	<b>916,847</b>
<b>Depreciation</b>											
<b>At 1 April 2016</b>	0	0	315	17,586	6,063	10,644	0	<b>34,608</b>	0	0	<b>34,608</b>
Charged in year	0	0	579	1,814	4,142	2,512	0	<b>9,047</b>	0	0	<b>9,047</b>
Disposals and derecognition	0	0	(61)	(3,884)	0	(40)	0	<b>(3,985)</b>	0	0	<b>(3,985)</b>
Movement from/(to) held for sale	0	0	(139)	(60)	0	0	0	<b>(199)</b>	0	0	<b>(199)</b>
Indexation and revaluation	0	0	0	0	0	464	0	<b>464</b>	0	0	<b>464</b>
Reclassification	0	0	0	(104)	0	6	0	<b>(98)</b>	0	0	<b>(98)</b>
<b>At 31 March 2017</b>	<b>0</b>	<b>0</b>	<b>694</b>	<b>15,352</b>	<b>10,205</b>	<b>13,586</b>	<b>0</b>	<b>39,837</b>	<b>0</b>	<b>0</b>	<b>39,837</b>
<b>Carrying amount at 1 April 2016 (Restated)</b>	<b>605,681</b>	<b>53,250</b>	<b>12,467</b>	<b>6,787</b>	<b>6,831</b>	<b>57,010</b>	<b>3,185</b>	<b>745,211</b>	<b>102,450</b>	<b>6,432</b>	<b>854,093</b>
<b>Carrying amount at 31 March 2017 (Restated)</b>	<b>626,724</b>	<b>54,418</b>	<b>13,790</b>	<b>6,801</b>	<b>3,115</b>	<b>59,269</b>	<b>818</b>	<b>764,935</b>	<b>105,643</b>	<b>6,432</b>	<b>877,010</b>
<b>Asset Financing</b>											
Owned (Restated)	583,800	49,578	13,790	6,351	3,115	59,269	818	<b>716,721</b>	105,643	6,432	<b>828,796</b>
Leased (Restated)	42,924	4,840	0	450	0	0	0	<b>48,214</b>	0	0	<b>48,214</b>
<b>Carrying amount at 31 March 2017 (Restated)</b>	<b>626,724</b>	<b>54,418</b>	<b>13,790</b>	<b>6,801</b>	<b>3,115</b>	<b>59,269</b>	<b>818</b>	<b>764,935</b>	<b>105,643</b>	<b>6,432</b>	<b>877,010</b>

Buildings include dwellings with a carrying amount of £290k. Our other buildings are offices and workbases. The amount held in the Revaluation Reserve for these assets at 31st March 2017 was £673,299k (Restated)

### 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, and using the factors of location, species, age and quality (yield class) of the trees.

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

The apportionment of trees between biological assets and property, plant and equipment was carried out by Natural Resources Wales staff using judgements and estimates. An assessment was made of the proportion primarily held for economic purposes and the resulting percentage was used to determine the value of trees classed as a biological asset. Should there be an acquisition or disposal of land that would create a total change in our forest estate land holding of ten per cent or more, an interim review of the assessment would take place. There was no such change during the period ending 31 March 2018. The percentage split is currently 26% for biological assets and 74% for Property, Plant and Equipment. As required under IAS 41, the fair value of biological assets is reduced by estimated costs to the point of sale. These costs are estimated at five per cent of timber values and reflect the costs of selling the woodland or forest.

## Lake Vyrnwy joint afforestation scheme

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

### 7.1.2 Heritage assets

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

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

As at 31 March 2018 Natural Resources Wales manages 58 of Wales's National Nature Reserves, either entirely, or in partnership, and one Marine Nature Reserve (MNR). No material land purchases have been made during the last three financial years.

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

<http://naturalresources.wales/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
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Cost or valuation</b>						
<b>At 1 April 2017</b>	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)
<b>At 31 March 2018</b>	<b>8,139</b>	<b>2,354</b>	<b>12,573</b>	<b>477</b>	<b>2,392</b>	<b>25,935</b>
<b>Amortisation</b>						
<b>At 1 April 2017</b>	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)
<b>At 31 March 2018</b>	<b>4,770</b>	<b>32</b>	<b>6,103</b>	<b>221</b>	<b>0</b>	<b>11,126</b>
<b>Carrying Amount at 1 April 2017</b>	<b>3,431</b>	<b>2,373</b>	<b>7,097</b>	<b>377</b>	<b>1,661</b>	<b>14,939</b>
<b>Carrying Amount at 31 March 2018</b>	<b>3,369</b>	<b>2,322</b>	<b>6,470</b>	<b>256</b>	<b>2,392</b>	<b>14,809</b>
<b>Asset Financing</b>						
Owned	3,369	2,322	6,470	256	2,392	14,809
<b>Carrying Amount at 31 March 2018</b>	<b>3,369</b>	<b>2,322</b>	<b>6,470</b>	<b>256</b>	<b>2,392</b>	<b>14,809</b>

The amount held in the Revaluation Reserve for these assets at 31st March 2018 was £836k (£989k at 1st April 2017)

### Comparative figures for the year ended 31 March 2017

	Software Licences	Other Licences	Software Development Expenditure	Web Site	Assets under construction	Total
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Cost or valuation</b>						
<b>At 1 April 2016</b>	5,895	2,419	4,392	161	6,461	19,328
Additions	124	16	2,551	189	1,162	4,042
Assets commissioned in year	643	0	4,853	122	(5,789)	(171)
Disposals and derecognition	(44)	(9)	0	0	(173)	(226)
Indexation and revaluation	0	0	0	0	0	0
Reclassification	172	30	0	0	0	202
<b>At 31 March 2017</b>	<b>6,790</b>	<b>2,456</b>	<b>11,796</b>	<b>472</b>	<b>1,661</b>	<b>23,175</b>
<b>Amortisation</b>						
<b>At 1 April 2016</b>	2,257	56	3,643	32	0	5,988
Charged in year	1,048	30	1,058	63	0	2,199
Disposals and derecognition	(44)	(3)	(2)	0	0	(49)
Indexation and revaluation	0	0	0	0	0	0
Reclassification	98	0	0	0	0	98
<b>At 31 March 2017</b>	<b>3,359</b>	<b>83</b>	<b>4,699</b>	<b>95</b>	<b>0</b>	<b>8,236</b>
<b>Carrying Amount at 1 April 2016</b>	<b>3,638</b>	<b>2,363</b>	<b>749</b>	<b>129</b>	<b>6,461</b>	<b>13,340</b>
<b>Carrying Amount at 31 March 2017</b>	<b>3,431</b>	<b>2,373</b>	<b>7,097</b>	<b>377</b>	<b>1,661</b>	<b>14,939</b>
<b>Asset Financing</b>						
Owned	3,431	2,373	7,097	377	1,661	14,939
<b>Carrying Amount at 31 March 2017</b>	<b>3,431</b>	<b>2,373</b>	<b>7,097</b>	<b>377</b>	<b>1,661</b>	<b>14,939</b>

## 8. Financial liabilities and instruments

### 8.1 Financial liability

The financial liability of £39,992k 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.

£5,544k was paid to Dŵr Cymru Welsh Water during 2017/18 (2016/17: £5,332k) for the indexed fixed payments. These are included with other payments under the reservoir operating agreements in Note 5.

### 8.2 Financial instruments

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

## 9. Trade and other receivables

	31 March 2018 £'000	31 March 2017 £'000
Accrued income	5,572	3,367
Trade receivables	3,835	3,700
Provision for doubtful debt	(323)	(350)
VAT receivable	2,617	3,763
Prepayments	1,692	1,607
Other receivables	222	139
Deposit	206	23
<b>Total</b>	<b>13,821</b>	<b>12,249</b>

## 10. Cash and cash equivalents

	31 March 2018 £'000	31 March 2017 £'000
Opening balance	26,801	22,735
Net change in cash and cash equivalent balances	16,738	4,066
<b>Total</b>	<b>43,539</b>	<b>26,801</b>

The following balances were held at 31 March

Government Banking Service	35,078	18,906
Other bank accounts	8,460	7,894
Cash in hand	1	1
<b>Total</b>	<b>43,539</b>	<b>26,801</b>

Cash and cash equivalents include cash in hand and financial provisions (see note 1.8) which are held in Government Banking Service and Barclays bank accounts. Financial provisions are not available for use by NRW.

## 11. Trade and other payables

	31 March 2018 £'000	31 March 2017 £'000
Trade payables accrual	10,698	3,867
Deferred income	6,671	6,687
Holiday pay	1,845	1,622
Trade payables	1,671	291
Bonds and deposits	1,421	1,425
Finance leases	487	458
Other payables	177	134
<b>Total</b>	<b>22,970</b>	<b>14,484</b>

## 12. Provisions

	<b>Early departure costs</b>	<b>Other</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Balance at 1 April 2017</b>	205	618	823
Provided in the year	0	1,116	1,116
Released in year	0	(40)	(40)
Used in the year	(149)	(523)	(672)
<b>Balance at 31 March 2018</b>	<b>56</b>	<b>1,171</b>	<b>1,227</b>
<b>Estimated timing of discounted cash flows</b>			
Due within one year	31	1,171	1,202
Due between one and five years	25	0	25
<b>Total</b>	<b>56</b>	<b>1,171</b>	<b>1,227</b>

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

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

Other provisions include £917k of grant offers to fund work to be undertaken up to 31 March 2018 but which will not to be claimed until June 2018 and £254k for other claims. It is expected that all of these will be paid within the next twelve months.

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

## 13. Pension obligations

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

### Civil Service Pension Scheme

CSPS is open to new employees.

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

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

Employee contributions are salary-related and range between 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](http://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. Further details on the pension fund including its annual report and accounts, are on the EAPF website, [www.eapf.org.uk](http://www.eapf.org.uk)

The total pension charge for NRW was £10.978 million. The pension charge relating to the scheme was assessed in accordance with the advice of an independent qualified actuary using the projected unit method of valuation to calculate the service costs.

The latest triennial actuarial valuation of the EAPF was at 31 March 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 102% of its expected future liabilities at 31 March 2018 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 13.4 indicates the sensitivity of the fund liabilities to a difference in discount rate.

A number of assumptions are made as part of the actuarial valuation process. The prudent actuarial assumptions used do not represent a view on what future pay movements may be. It has been assumed that present and future pensions in payment will increase at the rate of 2.1% per annum. The estimated contribution payable by NRW, excluding any discretionary lump sum payments, for the year to 31 March 2019 will be approximately £2.289 million.

The notes below set out the disclosure requirements of IAS 19 for the current year in relation to NRW's participation in the EAPF. All calculations have been made by a qualified independent actuary and were based on the most recent actuarial valuation of the fund at 31 March 2016 updated to 31 March 2018. The assumptions underlying the calculation of a net liability at 31 March 2018 are only used for accounting purposes as required under IAS 19. There is no requirement for the reported net liability to be met as a lump sum. Cash contributions paid by NRW to the pension fund will continue to be set by reference to assumptions agreed at each triennial actuarial valuation of the scheme.

## 13.1 Financial and longevity assumptions

Period Ended	31 Mar 2018	31 Mar 2017
	% p.a.	% p.a.
Pension Increase Rate	2.10%	2.10%
Salary Increase Rate	2.40%	2.40%
Discount Rate	2.70%	2.60%

Average future life expectancy at 65	Males	Females
Current Pensioners	22.6 years	24.4 years
Future Pensioners (People aged 65 in 20 years)	24.3 years	26.7 years

## 13.2 Fair Value of Assets for the year ended 31 March 2018

Asset Category	31 March 2018 (£'000)				
	Quoted	Unquoted	Undetermined	Total	%
<b>Equity Securities:</b>					
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%
<b>Debt Securities:</b>					
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%
<b>Pooled Investment Vehicles:</b>					
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%
<b>Venture Capital and Partnerships:</b>					
Partnerships & Real Estate	0	42,558	0	42,558	12%
<b>Other Investment:</b>					
Stapled Securities	458	0	0	458	0%
<b>Derivative Contracts:</b>					
Equity Derivatives - Futures	(43)	0	0	(43)	0%
Forward FX Contracts	0	87	0	87	0%
<b>Cash and Cash equivalents</b>					
All	0	0	8,502	8,502	3%
<b>Totals</b>	<b>113,548</b>	<b>109,659</b>	<b>117,934</b>	<b>341,141</b>	<b>100%</b>

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

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
<b>Opening Position as at 31 March 2017</b>	<b>323,540</b>	<b>366,005</b>	<b>(42,465)</b>
Service cost			
- Current service cost*	0	10,978	(10,978)
- Past service cost (including curtailments)	0	0	0
- Effect of settlements	0	0	0
<b>Total service cost</b>	<b>0</b>	<b>10,978</b>	<b>(10,978)</b>
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
<b>Total net interest</b>	<b>8,502</b>	<b>9,590</b>	<b>(1,088)</b>
<b>Total defined benefit cost recognised in Profit or (Loss)</b>	<b>8,502</b>	<b>20,568</b>	<b>(12,066)</b>
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
<b>Expected closing position</b>	<b>339,493</b>	<b>381,825</b>	<b>(42,332)</b>
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
<b>Total remeasurements recognised in Other Comprehensive Income (OCI)</b>	<b>1,648</b>	<b>(8,200)</b>	<b>9,848</b>
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
<b>Closing position as at 31 March 2018</b>	<b>341,141</b>	<b>373,625</b>	<b>(32,484)</b>

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

### 13.4 Sensitivity analysis

Change in assumptions at 31 March 2018:	Approximate % increase to employer liability	Approximate monetary amount (£000)
0.5% decrease in Real Discount Rate	11%	42,946
0.5% increase in the Salary Increase Rate	2%	9,134
0.5% increase in the Pension Increase Rate	9%	33,181

### 13.5 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 31<sup>st</sup> March 2016 was calculated by the actuary as 20.4 years.



## 14. Capital commitments

	31 March 2018 £'000	31 March 2017 £'000
<b>Property plant and equipment</b>		
Plant and machinery	77	312
Transport equipment	82	0
Operational structures	1,311	481
<b>Total</b>	<b><u>1,470</u></b>	<b><u>793</u></b>
<b>Intangible assets</b>		
Information technology - software licences	0	6
Information technology - software development	351	195
	<b><u>351</u></b>	<b><u>201</u></b>

## 15. Commitments under leases

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

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

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

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

### 15.1 Operating leases

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

	31 March 2018			
	Land	Buildings	Vehicles	Total
	£'000	£'000	£'000	£'000
<b>Obligations under operating leases are:</b>				
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
<b>Total value of obligations</b>	<b><u>2,035</u></b>	<b><u>3,846</u></b>	<b><u>697</u></b>	<b><u>6,578</u></b>
	31 March 2017 (Restated)*			
	Land	Buildings	Vehicles	Total
	£'000	£'000	£'000	£'000
<b>Obligations under operating leases are:</b>				
Not later than one year	109	1,787	394	2,290
Later than one year and not later than five years	267	3,433	687	4,387
Later than five years	1,684	202	0	1,886
<b>Total value of obligations</b>	<b><u>2,060</u></b>	<b><u>5,422</u></b>	<b><u>1,081</u></b>	<b><u>8,563</u></b>

\* Following a review of land and building operating leases which was undertaken during the year, some leases were reclassified and the break clause for one lease was corrected. The 31 March 2017 figure has been amended from £10,595k to £8,563k.

## 15.2 Finance leases

	31 March 2018		
	Land	Vehicles	Total
	£'000	£'000	£'000
<b>Obligations under finance leases are:</b>			
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
<b>Total value of obligations</b>	<b>419</b>	<b>68</b>	<b>487</b>

	31 March 2017		
	Land	Vehicles	Total
	£'000	£'000	£'000
<b>Obligations under finance leases are:</b>			
Not later than one year	13	129	142
Later than one year and not later than five years	38	69	107
Later than five years	209	0	209
<b>Total value of obligations</b>	<b>260</b>	<b>198</b>	<b>458</b>

## 16. Other financial commitments

Natural Resources Wales has entered into non-cancellable contracts not reported elsewhere. The total payments to which Natural Resources Wales is committed at 31 March 2018 are :

	31 March 2018	31 March 2017
	£'000	£'000
Not later than one year	11,606	8,033
Later than one year and not later than five years	16,712	20,734
Later than five years	268	201
<b>Total</b>	<b>28,586</b>	<b>28,968</b>

## 17. 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 2018	Restated* 31 March 2017
	£'000	£'000
Not later than one year	1,035	1,112
Later than one year and not later than five years	3,362	3,615
Later than five years	12,643	12,926
<b>Total</b>	<b>17,040</b>	<b>17,653</b>

\* Following a review of lease receivable agreements during the year, Energy Delivery Programme agreements are now included and the 31 March 2017 figures have been restated accordingly from £9,310k to £17,653k.

## 18. Contingent liabilities

Natural Resources Wales has the following contingent liabilities:

	31 March 2018	31 March 2017
	£'000	£'000
Public and employee liability	151	111
Civil claim	225	0
<b>Total</b>	<b>376</b>	<b>111</b>

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

8 public and employee liability claims have been made against Natural Resources Wales and the amounts are disclosed above. The claims are for damages and personal injury. Formal proceedings has 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 above table does not include values for the following contingent liabilities:

### HMRC Audit

An HMRC audit of Natural Resources Wales' treatment of Construction Industry Scheme and Off-payroll working (IR35) is under way and will continue into 2018/19. In accordance with IAS 37, an unquantifiable contingent liability is disclosed to recognise the possibility of non-compliance liabilities arising from the audit.

### Job Evaluation Grievances

In 2018/19 we are considering grievances from staff in relation to job evaluation. This will have an impact on staff related expenditure if any of those grievances are upheld.

### Judicial Reviews

Two judicial reviews have been brought against Natural Resources Wales during the year.

The first is by Sundorne Products (Llanidloes) Limited, a subsidiary of Potter's Waste Management Limited in respect of a suspension notice served by NRW on the 18<sup>th</sup> January 2018 in relation to the company's operation of a landfill site at Bryn Posteg, Llanidloes pursuant to an environmental permit. The suspension notice served pursuant to Regulations 37(1) and (6) of the Environmental Permitting (England and Wales) Regulations 2016 was considered necessary as the operator had accepted significantly more waste material onto it's site than was permitted with a resultant risk of pollution due to landfill gas, odour and emissions to ground and surface waters, and changes in the stability of the landfill. the Notice requires the operator to take steps to remove that risk.

The second judicial review has been brought by Atlantic Recycling Limited in respect of a statutory notice issued by NRW on the 20<sup>th</sup> February 2018 pursuant to Schedule 5, Part 3, Paragraph 10 of the Transfrontier Shipment of Waste Regulations 2007 requiring the repatriation of waste which had been transported to Poland between 5<sup>th</sup> May and 5<sup>th</sup> July 2017. The waste consisted of 1204.6 tonnes of "refuse derived fuel" / "mixed municipal waste". The matter is complex and involves the Environment Agency, the relevant competent authority in Poland and the Polish recipient company, all of which have now been joined to the proceedings as interested parties.

## 19. Events after the end of the reporting period

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

## 20. Related parties

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

In addition, NRW has had various material transactions with other government departments and other central government bodies. Most of these transactions have been with 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 2018 £'000	Amount owed to NRW at 31 March 2018 £'000
Aberystwyth University	Emyr Roberts	Council Member and Chair of the Audit and Risk Committee	0	5	0	0
Canal and River Trust	Ruth Hall	Member of Board in Wales and National Council	0	23	0	0
Cardiff University (Public Policy Institute for Wales)	Ruth Hall	Governor/Vice Chair	8	11	0	0
Cardiff Metropolitan University	Sir Paul Williams	Honorary Fellow	0	1	0	0
DEFRA including: Joint Nature Conservation Committee and Support Company	Diane McCrea/ Madeleine Havard	Board Member of JNCC & Non-Executive Director of JNCC Support Co.				
	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)	8	3	0	0
Animal and Plant Health Agency	Nigel Reader	Non-Executive Board Member and Audit and Risk Assurance Committee member				
Leonard Cheshire Disability	Elizabeth Haywood	Board Member and Trustee	0	1	0	0
National Association of Areas of Outstanding Beauty	Howard Davies	Chief Executive	33	0	0	0
National Trust	Ruth Hall	Council Member	201	14	0	0
Natural England	Nigel Reader	Non-Executive Board Member and Audit Committee Chair	106	0	0	0
Wild Ground (formerly known as North East Wales Wildlife Ltd)	Karen Balmer	Trustee	2	0	0	0
North Wales Wildlife Trust	Howard Davies	Trustee and Honorary Vice President	190	0	0	0
SP Energy Network Holding Ltd	Elizabeth Haywood	Non-Executive Director	16	30	0	0
Swansea University	Emyr Roberts	Honorary Professor	282	4	244	0
TGV Hydro Ltd	Chris Blake	Director	37	0	6	0

## Annex 1 Corporate Environmental Report



**Cyfoeth  
Naturiol  
Cymru  
Natural  
Resources  
Wales**

### Environmental Management System Corporate Environmental Report 2017/18

#### 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 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;
- achieve conformity against the UK Woodland Assurance Standard;
- improve the status of designated features, access and interpretation on protected sites we manage;
- reduce the average emissions of cars in the NRW fleet – decarbonisation

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 certification to the UK Woodland Assurance Standard for the Welsh Government Woodland Estate we manage, following independent external audits and verification
- completed 67% of the National Nature Reserve management audit target and ensured any improvement actions identified were implemented
- purchased 22 sub 100 g/km cars and two new electric vehicles

**Table 1: Corporate Environmental Report summary table**

2015/16	Units	2015/16	2016 /17	2017/18
Greenhouse gas emissions <sup>2</sup>	consumption (tCO <sub>2</sub> e)	6,021	5,115	4,387
Estate energy	consumption (m kWh)	6.9	6.3	6.0
	expenditure (£k)	657	776	618
Estate waste	generated (tonnes)	864	1,424	1,141
	expenditure (£k)	205	225	273
Estate water	consumption (m <sup>3</sup> )	78,395	76,283	50,908
	expenditure (£k)	39	32	25

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.

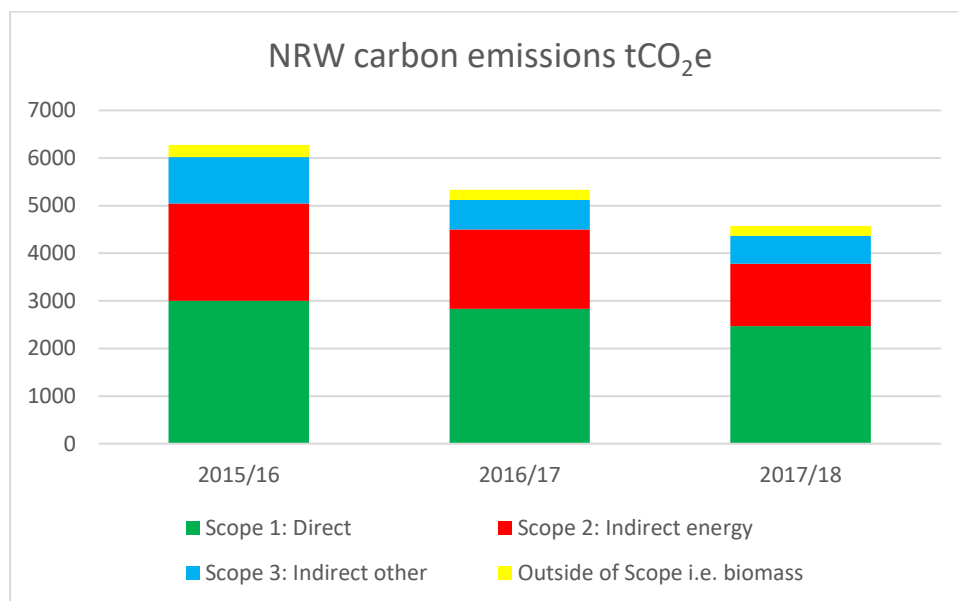
In summary:

- carbon emissions decreased in 2017/18 by 14.2% compared with the previous year
- energy use decreased in 2017/18 by 4.7% compared with the previous year
- waste generated decreased in 2017/18 by 19.9% compared with the previous year
- water consumption decreased in 2017 /18 by 33.3% compared with the previous year

## Greenhouse gas emissions

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

Our greenhouse gas emissions are outlined below:



Carbon emissions decreased in 2017/18 by 14.2% compared with the previous year.

Scope 1 direct emissions decreased by 13.0%, due to the decrease in fuel use in badged and operational vehicles and machines.

Scope 2 energy indirect emissions decreased by 20.8%, this was due to the reduction in electricity use in both occupied buildings and unmanned sites.

Scope 3 other indirect emissions decreased by 2.3%, owing to grey vehicle and hire car mileage decreasing.

**Table 2: Greenhouse gas emissions**

Greenhouse gas emissions	2015/16	2016/17	2017/18
Scope 1: direct emissions (tCO <sub>2</sub> e)	2,999	2,835	2,466
Scope 2: energy indirect emissions (tCO <sub>2</sub> e)	2,048	1,662	1,317
Scope 3: other indirect emissions (tCO <sub>2</sub> e)	974	617	603
<b>Total gross GHG emissions (tCO<sub>2</sub>e)</b>	<b>6,021</b>	<b>5,115</b>	<b>4,387</b>
<i>Outside of scopes (i.e. biomass)</i>	253	220	208

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 decreased by 4.7% based on the previous year's data.

Electricity use in occupied buildings decreased by 9.6%, while electricity used in unmanned sites decreased by 0.8%.

A reduction in biomass and LPG used was mainly due to the installation of a new biomass boiler at our Coed Y Brenin visitor centre.

There were slight increases in mains gas (1.0%) and heating oil (3.5%) used. In the last year we have increased the amount of energy we generate from renewables from 1.4% to 2.2% in our occupied buildings. The increase was mainly due to installation of a hydro power scheme at our Garwnant visitor centre.

In March 2018 we installed photovoltaic panels at five sites and will see the benefit of the energy generated in 2018/19. We also installed LED lighting at 13 sites in 2017 - 2018. Both the photovoltaic panels and LED lighting were funded by the Welsh Governments Invest to Save scheme.

The carbon emission savings were higher than expected due to the DEFRA greenhouse gas conversion factor for UK electricity decreasing further in 2017. This was due to a significant decrease in coal generated electric and an increase in gas and renewables generation.

**Table 3: Energy consumption**

Resource use – Estate energy	Units	2015/16	2016/17	2017/18
Energy used: Occupied sites	consumption (kWh)	5,550,100	5,209,072	4,918,340
	consumption (tCO <sub>2e</sub> )	2,011	1,723	1,436
Energy used: Unoccupied sites	consumption (kWh)	1,319,745	1,131,651	1,122,103
	consumption (tCO <sub>2e</sub> )	610	466	395
Renewable energy: Self-generated	generation (kWh)	81,713	76,649	106,856
	consumption (% of energy used)	1.4%	1.4%	2.2%
<b>Energy used: Total</b>	<b>consumption (kWh)</b>	<b>6,869,845</b>	<b>6,340,723</b>	<b>6,040,443</b>
	<b>consumption (tCO<sub>2e</sub>)</b>	<b>2,621</b>	<b>2,189</b>	<b>1,830</b>
	<b>expenditure (£k)</b>	<b>657</b>	<b>777</b>	<b>618</b>



## Water

Mains water consumption in our offices reduced by 368 cubic metres (6.2%) compared with the previous year. Our water use intensity (m<sup>3</sup>/FTE) is 3.1, which is below the average of 4.0 for water use <sup>3</sup>, and we have set a further reduction target for 2018/19.

The mains water at our non-office sites increased by 851 cubic metres (15.5%) compared with the previous year. This was mainly due to an increase in mains water usage at our Bwlch Nant Yr Arian visitor centre (473 cubic metres increase) and several toilet blocks at Tregaron, Geirionydd and Newborough (362 cubic metres combined increase). The increase was due to an increase in the number of visitors at the respective sites.

Water used to operate our fish hatchery site was the most significant water abstraction use this year, at 36,721 cubic metres. This however was a reduction of 25,968 cubic metres compared with the previous year. This usage was the key factor in total overall water usage reducing by 25,375 cubic metres (33.3%).

**Table 4: water consumption**

Resource use – estate water	Units	2015/16	2016/17	2017/18
Water supplied - office use: - mains supply - abstraction	consumption (m <sup>3</sup> ) consumption (m <sup>3</sup> )	6,830 3	5,923 15	5,555 22
Water supplied - non-office use: - mains supply - abstraction	consumption (m <sup>3</sup> ) consumption (m <sup>3</sup> )	5,555 65,981	5,488 64,850	6,339 39,014
Water use intensity (for office use)	m <sup>3</sup> per FTE	3.4	3.3	3.1
<b>Water supplied: Total</b>	<b>Consumption (m<sup>3</sup>)</b>	<b>78,395</b>	<b>76,283</b>	<b>50,908</b>
	<b>Expenditure (£k)</b>	<b>39</b>	<b>32</b>	<b>25</b>
	<b>Consumption (tCO<sub>2</sub>e)</b>	<b>27</b>	<b>26</b>	<b>18</b>

## 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 2017/18 we travelled 7,269,097 miles a reduction of 889,230 miles (10.9%) compared with the previous year.

<sup>3</sup> Average = 4m<sup>3</sup> per FTE (Source: Water key performance indicators and benchmarks for offices and hotels. C657 CIRIA [www.ciria.org](http://www.ciria.org))

This was mainly due to a reduction of 623,867 miles (10.3%) in badged vehicle mileage. This equates to a carbon saving of 133 tCO<sub>2e</sub> and a cost saving of over £50,000.

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

**Table 5: Travel detail**

Travel by vehicle	Units	2015/16	2016/17	2017/18
Badged vehicles	miles travelled	5,833,839	6,064,812	5,440,945
	expenditure (£k)	800	768	749
Lease vehicles	miles travelled	1,649,345	191,730	0
	Expenditure (£k)	162	18	0
Grey vehicles <sup>4</sup>	miles travelled	552,343	639,064	590,998
	expenditure (£k)	244	287	266
Hire	miles travelled	256,654	322,505	261,039
	expenditure (£k)	59	74	88
Train	miles travelled	865,693	864,366	938,418
	expenditure (£k)	221	223	183
Air	miles travelled	18,898	71,057	33,661
	expenditure (£k)	6	19	9
Bicycle	miles travelled	1,944	2,346	2,301
	expenditure (£k)	< 1	< 1	< 1
Motorbike	miles travelled	4,475	2,447	1,735
	expenditure (£k)	1	1	1
<b>Total vehicle travel</b>	<b>Miles travelled</b>	<b>9,183,191</b>	<b>8,158,327</b>	<b>7,269,097</b>
	<b>Expenditure (£k)</b>	<b>1,493</b>	<b>1,390</b>	<b>1,291</b>

## Waste minimisation and management

Overall waste generated decreased in 2017/18 by 19.9% compared with the previous year.

The office waste to landfill decreased by 11.6%, however the total amount of fly-tipped waste increased by 28.6%. Fly-tip is any waste deposited illegally by third parties on land we manage. Once deposited we become the owners and are responsible for the disposal and associated costs.

The carbon emissions were higher than expected due to the DEFRA greenhouse gas conversion factor for waste to landfill increasing in 2017. This was due to a change in the calculation methodology that is not comparable with previous years.

**Table 6: Waste generated**

<sup>4</sup> Grey vehicles are staff's own private vehicles

<b>Waste generated</b>	<b>Units</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>
Office waste landfilled	consumption (tonnes)	266	241	213
	consumption (tCO <sub>2</sub> e)	122	101	125
	expenditure (£k)	25	22	24
Office waste recycled / reused	consumption (tonnes)	451	934	600
	consumption (tCO <sub>2</sub> e)	9	20	28
Office waste incinerated	consumption (tonnes)	14	15	27
	consumption (tCO <sub>2</sub> e)	< 1	< 1	< 1
Fly-tipped waste	consumption (tonnes)	133	234	301
	consumption (tCO <sub>2</sub> e)	32	65	135
<b>Total waste</b>	<b>Consumption (tonnes)</b>	<b>864</b>	<b>1,424</b>	<b>1,141</b>
	<b>Consumption (tCO<sub>2</sub>e)</b>	<b>164</b>	<b>186</b>	<b>274</b>
	<b>Expenditure (£k)</b>	<b>205</b>	<b>225</b>	<b>273</b>

## Sustainable procurement

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

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

The approach ensures we link our supply choices to our policy priorities and objectives, making the right choices to help reduce the consumption of primary resources, using materials with fewer negative impacts on the environment and implementing effective performance monitoring and transparency.

## 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 raising awareness around our key environmental procedures, waste management, timber procurement and incident response.

## Environmental incidents

There have been fifteen environmental incidents because of our work or that of our contractors. This compares with ten environmental incidents in the previous year. There was one high category environmental incident in 2017/18 relating to sea water

ingress to a freshwater reën leading to fish fatalities. No enforcement action will be taken as the incident was caused by asset failure due to third party interference. 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. It has explored how our organisation can address its carbon impact across buildings, transport, land and operational assets and procurement of goods and services.

The Project looks beyond the carbon emissions we currently report on as part of our Environmental Management System (EMS) to understand our wider net carbon status (the balance of our emissions and sequestration). The Project has calculated the net carbon status for NRW, accounting for both greenhouse gas emissions and carbon sequestration across the whole of NRW's estate. The calculation builds upon the information from our EMS to understand the emissions of the organisation in its wider sense, including for example, emissions from the purchase of goods and services, timber production and construction, and to recognise the role of the NRW-managed estate for carbon. A report setting out the approach and the calculation will be published in 2018.

The Project also evaluated the range of potential mitigation measures to reduce our carbon impact as an organisation, seeking input from both staff and other organisations. The evaluation sets out the wide range of potential measures open to NRW and captures the predicted costs, carbon benefit, and wider benefits these measures could provide to NRW as well as exploring the potential scale of adoption across the organisation.

To pilot some of these measures, the Project delivered a series of demonstration projects, including: electric vehicles and charging infrastructure; solar PV on buildings and operational assets; peatland restoration, woodland planting; and trialling carbon planning tools in large procurement frameworks. These helped to inform the feasibility, costs and benefits NRW might see from the adoption of proposed measures.

The opportunities identified through the evaluation of mitigation options will help to build a strategic, costed and prioritised programme of delivery for NRW to address its carbon impact over the next 3-5 years, to steer decarbonisation in NRW moving forward and to embed carbon management across the organisation. This plan will be principally for internal use and will be finalised in 2018.

The Project continues to share its approach and experiences to disseminate best practice and lessons learnt in carbon management across Wales' public sector and to assist in the delivery of Wales' ambition for a carbon neutral public sector by 2030.

## Future strategy

Next year we want to:

- reduce our carbon footprint further and have set a target to reduce our carbon dioxide emissions (tCO<sub>2</sub>e) from occupied buildings, travel and water use by 5% based on 2017/18 data
- maintain certification against the UK Woodland Assurance Standard (UKWAS) and the ISO14001:2015 environmental standard
- improve the status of designated features, access and interpretation on protected sites we manage
- develop mechanisms for active travel to be the favoured choice of NRW commuter travel and for appropriate business journeys – decarbonisation
- further Improve the organisation's environmental performance

### **Carl Wannop BSc(HONS) DipEM PIEMA**

Environmental Systems Manager

Natural Resources Wales

Tel: 03000 654 930

email: [Carl.Wannop@naturalresourceswales.gov.uk](mailto:Carl.Wannop@naturalresourceswales.gov.uk)

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



Correspondence welcomed in both Welsh and English

Call us on **03000 65 3000** (24-hour) to report environmental incidents





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

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

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

[enquiries@naturalresourceswales.gov.uk](mailto:enquiries@naturalresourceswales.gov.uk)  
[www.naturalresourceswales.gov.uk](http://www.naturalresourceswales.gov.uk)

© Natural Resources Wales

All rights reserved. This document may be reproduced with prior permission of  
Natural Resources Wales



WALES AUDIT OFFICE  
SWYDDFA ARCHWILIO CYMRU

Archwilydd Cyffredinol Cymru  
Auditor General for Wales

# Memorandwm Atodol Archwilydd Cyffredinol Cymru i'r Pwyllgor Cyfrifon Cyhoeddus

## **Contractau Gwerthu Pren a ddyfarnwyd gan Cyfoeth Naturiol Cymru**

Dyddiad cyhoeddi: Gorffennaf 2018

Cyfeirnod y ddogfen: 623A2018-19



Rwyf wedi paratoi'r memorandwm hwn i Bwyllgor Cyfrifon Cyhoeddus Cynulliad Cenedlaethol Cymru er mwyn ei helpu i ystyried fy adroddiad o dan Orchymyn Corff Adnoddau Naturiol Cymru (Sefydlu) 2012 ar ddatganiadau ariannol Cyfoeth Naturiol Cymru ar gyfer y flwyddyn a ddaeth i ben 31 Mawrth 2018.

Mae'r memorandwm hwn yn cynnwys dyfyniadau uniongyrchol o ddogfennau Saesneg a ddelir gan Cyfoeth Naturiol Cymru. Mae'r dyfyniadau wedi cael eu cyfieithu i'r Gymraeg yn y memorandwm hwn. Er ein bod wedi gwneud pob ymdrech i sicrhau bod y cyfieithiadau wedi cadw at yr ystyr wreiddiol, ni ellir gwarantu eu bod yn gyfieithiadau union. Er mwyn gweld y dyfyniadau ar eu ffurf wreiddiol, cyfeiriwch atm y copi Saesneg o'r memorandwm hwn.

# Cynnwys

Memorandwm Atodol – Contractau Gwerthu Pren a ddyfarnwyd gan Cyfoeth Naturiol Cymru	
Crynodeb .....	4
Y rhesymau dros roi barn amodol ar reoleidd-dra .....	8
Methiant i ddangos rheswm da dros wyro oddi wrth bolisi CNC .....	9
Methiant i ddangos mai dim ond ystyriaethau perthnasol a ystyriwyd wrth bennu cyfeintiau contractau.....	11
Methiant i gyfeirio gweithgareddau a chynigion anarferol, dadleuol a/neu adleisiol i Lywodraeth Cymru.....	13
Methiant i gydymffurfio â Chynllun Dirprwyo CNC .....	15
Methiant i ddangos cydymffurfiaeth â gofynion Gorchymyn Sefydlu CNC a rheolau Cymorth Gwladwriaethol wrth bennu prisiau contractau .....	16
Prisiau Contractau .....	16
Cymorth Gwladwriaethol .....	18
1. Atodiad 1.....	21
2. Gweithredu'r trefniadau trosiannol.....	24
3. Dyfarnu contractau trosiannol.....	38
4. Gwerthiannau cytundebol.....	45

# Memorandwm Atodol – Contractau Gwerthu Pren a ddyfarnwyd gan CNC

## Crynodeb

- 1 Ar 2 Mawrth 2017, gosodais adroddiad ar gyfrifon Cyfoeth Naturiol Cymru (CNC) gerbron Cynulliad Cenedlaethol Cymru. Nododd yr adroddiad fy rhesymau dros roi barn amodol ar reoleidd-dra datganiadau ariannol 2015-16 CNC. Ar yr un pryd, cyflwynais femorandwm atodol i Bwyllgor Cyfrifon Cyhoeddus Cynulliad Cenedlaethol Cymru yn nodi rhagor o fanylion am fy rhesymau dros roi barn amodol ar reoleidd-dra. Roedd fy adroddiad a'm memorandwm yn ymwneud â phenderfyniad CNC i ddyfarnu wyth contract gwerthu pren hirdymor gwerth uchel i Weithredwr Melin Lifio yn 2014.
- 2 Fy nghanfyddiad oedd nad oedd CNC, wrth ymrwymo i'r contractau yn 2014:
  - wedi cydymffurfio â'i fframwaith awdurdod, yn yr ystyr iddo fethu â chyfeirio'r cynnig i ddyfarnu'r contractau at Lywodraeth Cymru yn unol â gofynion cyhoeddiad Llywodraeth Cymru, Rheoli Arian Cyhoeddus Cymru;
  - ei fod wedi methu â dangos ei fod wedi cydymffurfio ag egwyddorion cyfraith gyhoeddus yn y broses gwneud penderfyniadau a arweiniodd at ddyfarnu contractau i'r Gweithredwr Melin Lifio; yn yr ystyr nad oedd y broses gwneud penderfyniadau a arweiniodd at ddyfarnu contractau i'r Gweithredwr Melin Lifio yn gadarn nac yn dryloyw ac nad oedd CNC yn gallu rhoi digon o ddogfennaeth gyfoes i mi a oedd yn dangos yn ddigonol yr hyn a ystyriodd wrth benderfynu ymrwymo i'r contractau hyn â'r Gweithredwr Melin Lifio; a'i
  - bod yn aneglur p'un a oedd CNC wedi cydymffurfio â rheolau Cymorth Gwladwriaethol pan ymrwymodd i'r contractau â'r Gweithredwr Melin Lifio. Achoswyd yr ansicrwydd hwn o ganlyniad i benderfyniad CNC i ddyfarnu'r contractau i'r Gweithredwr Melin Lifio heb gynnal unrhyw brofion perthnasol yn y farchnad, a'r ffaith nad oedd CNC yn gallu rhoi rhesymau darbwyllo i ategu casgliad y byddai ceisio darparwyr amgen wedi bod yn ofer.
- 3 Cynhaliodd y Pwyllgor Cyfrifon Cyhoeddus ei ymchwiliad ei hun i'r materion yn fy adroddiad archwilio a chyhoeddodd ei adroddiad ym mis Mehefin 2017. Daeth yr adroddiad i'r casgliad 'credwn y gallai ac y dylai CNC fod wedi sicrhau bod trefniadau llywodraethu da ar waith yn y broses gontractio, ac yn sgil ei fethiant i sefydlu trefniadau llywodraethu effeithiol, nid yw'n gallu dangos sut iddo weithredu'n gyfreithlon. Ni chredwn fod unrhyw dystiolaeth i ddangos a oedd y contractau yn cynrychioli gwerth am arian'. Argymhellodd adroddiad y Pwyllgor Cyfrifon Cyhoeddus y dylai CNC gynnal 'gwerthusiad llawn o'i drefniadau llywodraethu mewn perthynas â phrosesau contractio, gan amlinellu'n glir y gwersi a ddysgwyd gan gyfeirio'n benodol at y contractau gwerthu pren dan sylw yn yr adroddiad hwn'.

- 4 Wedyn, rhoddais farn amodol ar reoleidd-dra datganiadau ariannol 2016-17 CNC am yr un rhesymau a nodir ym mharagraff 2. Roedd hyn o ganlyniad i'r ffaith bod y contractau hirdymor yr ymrwymodd CNC iddynt ym mis Mai 2014 yn dal i fod yn weithredol a bod datganiadau ariannol 2016-17 wedi cynnwys incwm a oedd gysylltiedig â'r contractau hyn.
- 5 Roedd Memorandwm Cytundeb a oedd yn gysylltiedig â'r wyth contract hirdymor y cyfeiriwyd atynt yn fy adroddiad blaenorol wedi cynnwys gofyniad i'r Gweithredwr Melin Lifio adeiladu a dechrau gweithredu llinell lifio newydd yn ei felin lifio erbyn 31 Mawrth 2016 (a gafodd ei estyn drwy gytundeb wedyn i 31 Mawrth 2017). O dan delerau ac amodau'r Memorandwm Cytundeb (a gafodd ei adlewyrchu hefyd mewn rhai o'r contractau ond nid pob un), pe na bai'r llinell lifio yn cael ei hadeiladu a'i gweithredu erbyn y dyddiad hwn byddai'r Memorandwm a'r contractau yn cael eu terfynu. Ym mis Chwefror 2017, hysbysodd y Gweithredwr Melin Lifio CNC nad oedd yn bwriadu adeiladu'r llinell lifio.
- 6 Ym mis Mawrth 2017, dechreuodd CNC gyd-drafodaethau â'r Gweithredwr Melin Lifio gyda'r bwriad o roi trefniadau cytundebol trosiannol ar waith i fod yn weithredol o 31 Mawrth 2017 pan gâi'r contractau hirdymor eu terfynu. Y cynnig oedd y dylid cynnig contractau byrdymor i'r Gweithredwr Melin Lifio yn ystod y cyfnod pontio rhwng terfynu'r contractau hirdymor a CNC yn ailfarchnata cyfaint y pren yn y contractau hirdymor a oedd wedi'u terfynu. Câi'r contractau newydd hyn eu dyfarnu heb geisio cystadleuaeth gan y farchnad.
- 7 Erbyn 31 Mawrth 2017, roedd CNC wedi llunio cytundeb mewn egwyddor â'r Gweithredwr Melin Lifio. Fodd bynnag, ar y dyddiad hwnnw cysylltodd cwmni cynaeafu pren a oedd wedi gweithredu fel yr asiant cynaeafu ar y contractau hirdymor a oedd wedi'u terfynu (y Cwmni Cynaeafu Pren) â CNC. Gofynnodd y Cwmni Cynaeafu Pren, sy'n sefydliad hollol ar wahân i'r Gweithredwr Melin Lifio, am gael ei gynnwys yn y trefniadau cytundebol i'w rhoi ar waith o 1 Ebrill 2017. Cytunodd CNC i ddyfarnu rhai o'r contractau trosiannol i'r Cwmni Cynaeafu Pren.
- 8 Cafodd y contractau hirdymor eu terfynu ar 31 Mawrth 2017 ac yn ystod 2017-18 ymrwymodd CNC i 59 o gontractau trosiannol. Dyfarnwyd 21 o'r contractau trosiannol i'r Gweithredwr Melin Lifio a chwmni cynaeafu pren yr oedd yn berchen arno (cwmni cynaeafu pren y Gweithredwr Melin Lifio). Dyfarnwyd y 38 o gontractau a oedd yn weddill i'r Cwmni Cynaeafu Pren.
- 9 Mae datganiadau ariannol 2017-18 CNC yn cofnodi iddo gael incwm pren gwerth £2.76 miliwn mewn perthynas â'r 59 o gontractau trosiannol. Mae CNC yn rhagweld y bydd yn cael £0.18 miliwn arall yn 2018-19. Y ffigurau hyn yw pris gwerthu net y pren ar ôl i'r contractwr ddidynnu costau cynaeafu a chludo.
- 10 Fel y nodwyd ym mharagraffau 19 i 21, fel rhan o'm hadroddiad ar gyfrifon CNC, rwy'n ystyried rheoleidd-dra'r trafodion sydd wedi'u cynnwys yng nghyfrifon CNC. Felly, ystyriais reoleidd-dra'r trafodion a oedd wedi'u cynnwys yn natganiadau ariannol 2017-18 CNC mewn perthynas â'r contractau trosiannol. Nid oeddwn yn gallu fy modloni fy hun ynglŷn â rheoleidd-dra'r trafodion hyn ac felly rwyf wedi rhoi

barn amodol ar reoleidd-dra yn unol â hynny. Yn y memorandwm atodol hwn, rwyf wedi nodi'r rhesymau dros fy marn amodol, sef:

- a) Gwyrodd CNC oddi wrth ei bolisi ei hun fel y'i nodir yn ei Gynllun Marchnata Pren cyhoeddus ar gyfer 2017-22 pan ymrwymodd i 59 o gontractau gwerthu pren heb farchnata'r pren ar y farchnad agored. Nid yw CNC wedi llwyddo i ddangos bod ganddo reswm da dros wyro oddi wrth ei bolisi datganedig (gweler paragraffau 25 i 33).
- b) Nid yw sail resymegol CNC dros bennu cyfaint y pren i'w gontractio o dan y trefniadau trosiannol wedi'i hategu gan y ddogfennaeth gyfoes sydd ar gael (gweler paragraffau 34 i 40).
- c) Mae'n ofynnol i CNC gydymffurfio â'i Dogfen Fframwaith a Rheoli Arian Cyhoeddus Cymru, sydd, gyda'i gilydd, yn ei gwneud yn ofynnol i CNC gyfeirio cynigion anarferol, dadleuol /neu adleisiol at Lywodraeth Cymru. Rwyf o'r farn bod y cynnig i ymrwymo i'r contractau trosiannol yn anarferol, yn ddadleuol a/neu'n adleisiol. Er i CNC hysbysu Llywodraeth Cymru o'i fwriad i roi trefniadau trosiannol ar waith, ni chyfeiriodd y mater yn ffurfiol at Lywodraeth Cymru fel yr oedd yn ofynnol iddo ei wneud (gweler paragraffau 41 i 49).
- d) Lluniodd Bwrdd CNC Gynllun Dirprwyo o dan ddarpariaethau Gorchymyn Sefydlu Corff Adnoddau Naturiol Cymru 2012 (y Gorchymyn). Mae'r Cynllun Dirprwyo hwn yn rhoi pwerau dirprwyedig i ddeiliaid swyddi penodol CNC er mwyn cytuno ar gontractau gwerthu pren ar ran CNC. Ni chafodd 13 o'r contractau trosiannol eu hawdurdodi yn unol â'r Cynllun Dirprwyo, ac felly rwyf o'r farn nad ymrwymwyd iddynt yn gyfreithlon (gweler paragraffau 50 i 59).
- e) Mae Erthygl 8 o'r Gorchymyn yn nodi 'wrth ystyried p'un ai arfer unrhyw bŵer a roddwyd iddo gan unrhyw ddeddfiad neu o dano ai peidio, rhaid i CNC ystyried y costau a'r buddiannau sy'n debygol o ddeillio o arfer y pŵer hwnnw neu beidio'. Nid wyf wedi gweld unrhyw dystiolaeth bod CNC wedi ystyried y pris ar y farchnad am y pren a oedd yn cael ei werthu yn y contractau trosiannol wrth bennu prisiau'r contractau. O ganlyniad, nid wyf yn fodlon bod CNC wedi cydymffurfio ag Erthygl 8 o'r Gorchymyn nac ychwaith ei fod wedi ystyried pob ffactor perthnasol wrth wneud ei benderfyniadau (gweler paragraffau 60 i 71).
- f) Mae'n ofynnol i CNC gydymffurfio â rheolau Cymorth Gwladwriaethol. Rwyf o'r farn na ddilynodd CNC weithdrefnau priodol i'w fodloni ei hun bod ei weithredoedd yn cydymffurfio â rheolau Cymorth Gwladwriaethol wrth ymrwymo i'r contractau trosiannol. Ni cheisiodd sicrhau bod y prisiau yn y contractau yn unol â chyfraddau'r farchnad, a thrwy gyfaddefiad CNC ei hun, nid ystyriodd ei gyngor cyfreithiol ei hun a oedd wedi tynnu sylw at y risg o oblygiadau i'r trefniadau trosiannol o ran Cymorth Gwladwriaethol (gweler paragraffau 72 i 75).

- 11 O ganlyniad i'r materion a nodir ym mharagraff 10, mae cryn ansicrwydd gennyf p'un a weithredodd CNC yn unol â'i ddyletswyddau statudol, egwyddorion cyfraith gyhoeddus a rheolau Cymorth Gwladwriaethol.
- 12 Er bod fy adroddiad ar ddatganiadau ariannol 2017-18 CNC yn canolbwyntio ar reoleidd-dra'r materion a nodir ym mharagraff 10, yn fy marn i, mae gwersi ehangach y mae angen i CNC eu dysgu.
- 13 Ym mis Chwefror 2017, roedd CNC yn wynebu sefyllfa lle y câi contractau pren sylweddol iawn eu terfynu ar ddiwedd mis Mawrth 2017. Roedd angen trefniadau amgen er mwyn sicrhau nad oedd terfynu'r contractau hyn yn cael effaith andwyol ar broseswyr na chwsmeriaid pren, nac ychwaith incwm CNC ei hun. Bu'n rhaid i CNC weithredu'n gyflym, ond, wrth rithro, ni ddilynodd broses briodol ac anwybyddodd egwyddorion llywodraethu da. Canfu fy archwiliad y canlynol:
- roedd dogfennaeth y broses gwneud penderfyniadau yn gwbl annigonol;
  - nid oedd yn glir pwy oedd wedi gwneud penderfyniadau na beth oedd y sail resymegol dros y penderfyniadau hynny;
  - dechreuodd gweithrediadau cytundebol cyn i gontractau ysgrifenedig gael eu llofnodi;
  - roedd cyfathrebu o ran y trefniadau trosiannol, yn fewnol a chyda Llywodraeth Cymru, yn anghyflawn, ac weithiau'n anghywir; ac
  - roedd y cynnig i ymrwmo i drefniadau trosiannol yn sylweddol ac yn ddadleuol o bosibl, ond ni chraffwyd arno'n briodol. At hynny, ni chyflwynwyd unrhyw adroddiadau ysgrifenedig i Fwrdd CNC na'i Bwyllgor Archwilio a Sicrhau Risg mewn perthynas â'r mater hwn cyn ymrwmo i'r trefniadau.
- 14 Mae'n siomedig bod natur frys y sefyllfa wedi codi am fod CNC wedi methu â monitro'r contractau hirdymor yn briodol ac wedi methu â chynllunio ar gyfer y sefyllfa lle y byddai'r contractau yn cael eu terfynu. Roedd CNC eisoes wedi estyn y gofyniad ar y Gweithredwr Melin Lifio i adeiladu llinell lifio newydd o flwyddyn i 31 Mawrth 2017, a phe na bai'r llinell lifio wedi cael ei hadeiladu a'i gweithredu erbyn y dyddiad hwnnw, byddai'r contractau'n methu. Mae'n cymryd rhwng 12 a 18 mis i adeiladu llinell lifio newydd fel arfer ac felly dylai CNC fod wedi bod yn ymwybodol sawl mis cyn mis Mawrth 2017 ei bod yn annhebygol iawn y byddai'r llinell lifio wedi cael ei hadeiladu. Roedd yn hollol ragweladwy y câi'r contractau eu terfynu a dylai CNC fod wedi datblygu cynlluniau manwl a fyddai wedi rhoi amser i'r Gweithredwr Melin Lifio a'r Cwmni Cynaeafu Pren ddod o hyd i gyflenwadau pren amgen ac wedi rhoi amser i CNC drefnu i farchnata'r pren yn y contractau hirdymor o 1 Ebrill 2017 a thrwy hynny darfu ar y farchnad cyn lleied â phosibl.
- 15 Pan gyflwynais adroddiad ar ddatganiadau ariannol 2015-16 CNC roeddwn yn pryderu nad oedd CNC yn ymddangos fel pe bai'n derbyn fy meirniadaeth o'i weithredoedd yn llawn a'i fod yn ceisio bychanu ei harwyddocâd. Mae'r ffaith bod y materion a godwyd yn fy adroddiad ar ddatganiadau ariannol 2017-18 CNC mor debyg i'r rhai a gynhwyswyd yn fy adroddiad ar ddatganiadau ariannol 2015-16

CNC wedi cadarnhau nad oedd CNC wedi trin canfyddiadau fy adroddiad yn 2015-16 yn ddigon difrifol.

- 16 Fodd bynnag, fe'm calonogir gan y ffaith, pan hysbysodd fy archwilwyr CNC o ganfyddiadau dros dro'r archwiliad hwn, fod ymateb CNC yn adeiladol, ei fod yn derbyn difrifoldeb y materion a godwyd, ac yn ymrwymo i sicrhau bod camau trwyadl yn cael eu cymryd i sicrhau bod y polisïau a'r gweithdrefnau yn cael eu gwella ac yr ymdrinnir â phroblemau diwylliannol ac ymddygiadol. Mae CNC wedi dweud wrthyf ei fod yn bwriadu comisiynu adolygiad annibynnol llawn o'r materion a godwyd yn fy adroddiad ar ddatganiadau ariannol 2017-18 CNC. Bydd cwmpas yr adolygiad arfaethedig yn cynnwys ystyried yr holl faterion sy'n ymwneud â llywodraethu a rheoli contractau gwerthu a marchnata pren. Caiff canfyddiadau'r adolygiad eu defnyddio i lywio newidiadau i drefniadau gwerthu a marchnata pren CNC er mwyn sicrhau na fydd y materion a nodwyd yn fy adroddiad yn codi eto yn y dyfodol. Mae CNC yn anelu at sicrhau y caiff yr adolygiad annibynnol ei gwblhau erbyn hydref 2018.
- 17 Mae Atodiad 1 yn cynnwys cronoleg fanwl o'r digwyddiadau sy'n ymwneud â dyfarnu'r contractau.

## Y rhesymau dros roi barn amodol ar reoleidd-dra

- 18 O dan Erthygl 23(5) o Orchymyn Sefydlu Corff Adnoddau Naturiol Cymru 2012 (y Gorchymyn), mae'n ofynnol i mi:
- archwilio, ardystio a chyflwyno adroddiad ar ddatganiadau ariannol CNC;
  - rhoi copi o'r datganiad cyfrifon ardystiedig ynghyd â'm hadroddiad arno i CNC; a
  - heb fod yn hwyrach na phedwar mis ar ôl i'r datganiad cyfrifon gael ei gyflwyno, osod copi o'r datganiad cyfrifon ardystiedig a'm hadroddiad gerbron Cynulliad Cenedlaethol Cymru
- 19 Yn ogystal ag ardystio bod y datganiadau ariannol yn rhoi darlun gwir a theg o sefyllfa ariannol Cyfoeth Naturiol Cymru ar 31 Mawrth 2018, rwy'n rhoi barn ar reoleidd-dra sy'n ardystio bod y gwariant a'r incwm yn y datganiadau ariannol wedi cael eu cymhwyso at y dibenion a fwriadwyd gan Gynulliad Cenedlaethol Cymru ymhob ffordd berthnasol a bod y trafodion ariannol a gofnodwyd yn y datganiadau ariannol yn cydymffurfio â'r awdurdodau sy'n eu llywodraethu.
- 20 Wrth roi fy marn ar reoleidd-dra, rwy'n llunio barn a yw CNC wrth arfer ei swyddogaethau, wedi:
- gweithredu o fewn ei gylch gwaith statudol;
  - wedi cydymffurfio â deddfwriaeth berthnasol;
  - wedi gweithredu yn unol ag egwyddorion cyfraith gyhoeddus; ac
  - wedi cydymffurfio â'r fframwaith awdurdod sy'n ei lywodraethu, e.e. darpariaeth Dogfen Fframwaith CNC a chyfarwyddiadau gweinidogol a roddir o dan Erthygl 11 o'r Gorchymyn.

- 21 Mae fy marn ar reoleidd-dra ar ffurf sicrwydd cadarnhaol, sy'n golygu fy mod yn nodi a yw'r trafodion y unol â'r awdurdodau sy'n eu llywodraethu. Pan fo cryn ansicrwydd p'un a yw trafodion yng nghyfrifon CNC yn afreolaidd a/neu'n anghyfreithlon, ni allaf roi barn glir ar reoleidd-dra'r cyfrifon, a hynny am na ellir yn rhesymol roi sicrwydd cadarnhaol lle ceir cryn ansicrwydd.
- 22 Mae gennyf amheuson a weithredodd CNC yn unol â'i ddyletswyddau statudol, egwyddorion cyfraith gyhoeddus a rheolau Cymorth Gwladwriaethol wrth ddyfarnu 59 o gontractau gwerthu pren i dri chontractwr yn ystod 2017-18. O ganlyniad, ni allaf roi sicrwydd cadarnhaol bod y trafodion yn natganiadau ariannol 2017-18 CNC yn cydymffurfio a'r fframwaith awdurdod sy'n eu llywodraethu. Felly, rwyf wedi rhoi barn amodol ar rheoleidd-dra yn unol â hynny.
- 23 Fodd bynnag, nid yw penderfyniad yn anghyfreithlon oni bai a hyd nes bod Llys (neu, yn achos Cymorth Gwladwriaethol, Lys neu'r Comisiwn Ewropeaidd) yn datgan ei fod yn anghyfreithlon. Felly, yn niffyg her gyfreithiol, erys y contractau'n ddilys ac orfodadwy.
- 24 Yn yr adran ddilynol, rwyf wedi nodi'r hyn a ystyriwyd gennyf wrth wneud fy mhenderfyniad i roi barn amodol ar reoleidd-dra datganiadau ariannol 2017-18 CNC.

## Methiant i ddangos rheswm da dros wyro oddi wrth bolisi CNC

- 25 Er mwyn i benderfyniad corff cyhoeddus fod yn gyfreithlon, mae'n rhaid iddo gael ei wneud yn unol â deddfwriaeth gymwys ac egwyddorion cyfraith gyhoeddus. Mae'n rhaid i gyrrff cyhoeddus (a) ystyried a (b) dilyn polisiau perthnasol, oni bai bod ganddynt reswm da dros wyro oddi wrthynt. Mae'n rhaid iddynt o leiaf nodi rhesymau clir dros y gwyradau. Gall methiant i wneud hynny olygu bod penderfyniad, ac yn ei thro, eitem o gyfrif, yn anghyfreithlon. Mae cyfraith gyhoeddus hefyd yn ei gwneud yn ofynnol bod unrhyw resymau a roddir yn cael eu cadarnhau.
- 26 Ym mis Ionawr 2017, cyhoeddodd CNC Gynllun Marchnata Pren 2017-2022 (y Cynllun). Polisi yw'r cynllun yn y bôn, sy'n nodi sut y bydd CNC yn marchnata pren, a fydd ar y farchnad agored fel arfer. Mae'r Cynllun yn cynnwys yr amod 'o dan amgylchiadau eithriadol yn unig, efallai y byddwn yn penderfynu negodi gwerthiant pren i gwsmeriaid sy'n gallu ymateb yn gyflym i ddigwyddiadau annisgwyl'. Mae hyn yn awgrymu gofyniad brys i'r graddau mai'r penderfyniad fyddai negodi â chwsmeriaid sy'n gallu ymateb yn gyflym.
- 27 Rwyf wedi ystyried a oedd CNC yn wynebu amgylchiadau eithriadol neu annisgwyl a brys a oedd yn golygu y gallai ddibynnu ar yr amod yn y Cynllun i ymrwymo i gontractau gwerthu pren heb geisio cystadleuaeth. Gellid disgwyl mai digwyddiad annisgwyl oedd y ffaith i'r contractau hirdymor gael eu terfynu'n gynnar, o ganlyniad i benderfyniad y Gweithredwr Melin Llifio i beidio ag adeiladu llinell lifio newydd.



- 28 Fodd bynnag, fel y'i nodir ym mharagraffau 13 i 14, dylid bod wedi disgwyl y digwyddiad hwn pe bai CNC wedi rheoli'r contractau hirdymor yn wahanol. Nodaf hefyd i Bennaeth Gweithrediadau Masnachol Dros Dro CNC ar y pryd (sydd bellach yn dal y swydd yn barhaol) ysgrifennu at y Gweithredwr Melin Lifio ar 15 Mawrth 2017 yn nodi y 'credwn mai'r camau y mae angen i ni eu cymryd yw dod â'r rhain [contractau hirdymor] i ben ac ailfarchnata'r cyfaint cyfatebol yn unol â'r cyfarwyddyd a nodwyd yn ein [Cynllun] pum mlynedd a gyhoeddwyd yn ddiweddar'.
- 29 Yn fy marn i, nid oedd hwn yn amgylchiad brys nac eithriadol, ac nid oedd gan CNC hawl i ddibynnu ar yr amod yn y Cynllun. Yn fy marn i, gwyrodd CNC oddi wrth ei bolisi pan benderfynodd beidio â marchnata'r contractau pren hyn ar y farchnad agored yn 2017-18.
- 30 Rwy'n cydnabod y gall cyrff cyhoeddus wyro oddi wrth eu polisïau eu hunain pan fyddant yn gyntaf wedi ystyried eu polisi ac yn ail yn gallu dangos rheswm da dros wneud hynny, ac rwy'n derbyn y gallai CNC fod wedi llunio achos rhesymol a sail resymegol dros wyro oddi wrth y Cynllun. Er enghraifft:
- Ar 16 Chwefror 2017, anfonodd Prif Weithredwr CNC ar y pryd e-bost at Lywodraeth Cymru yn nodi bod angen i CNC ystyried y buddsoddiad a wnaed gan y Gweithredwr Melin Lifio a'r rôl y mae gwaith prosesu pren yn ei chwarae yn yr economi wledig (gweler Atodiad 1, paragraff 2.9). Rwy'n derbyn bod gan CNC rôl ddilys o ran cynnal y farchnad a chefnogi busnesau.
  - Ym mis Mai 2017, ysgrifennodd Pennaeth Gweithrediadau Masnachol dros dro CNC at Brif Weithredwr CNC ar y pryd (ond ar ôl gweithredu'r trefniadau trosiannol) yn rhoi'r rhesymau canlynol dros ddyfarnu'r contractau:
    - er mwyn osgoi niweidio'r gadwyn gyflenwi pren. Pe câi'r contractau hirdymor eu terfynu heb ddarpariaeth drosiannol, gallai contractwyr fod wedi bod yn ddi-waith er nad oedd unrhyw fai arnynt hwy; ac
    - er mwyn osgoi effeithio'n andwyol ar incwm pren CNC oherwydd byddai'r amser paratoi cyn marchnata'r pren wedi arwain at ostyngiad mawr yn incwm CNC (gweler Atodiad 1, paragraff 3.24).
- 31 Er bod yr uchod yn ymddangos yn rhesymau da, nid oes fawr ddim tystiolaeth ddogfennol i ddangos bod y rhesymau hyn yn cael eu hystyried ar yr adeg yr ymrwymwyd i'r contractau. (Rwyf wedi canfod bod methiant CNC i gadw cofnodion cywir o'i broses gwneud penderfyniadau yn achos pryder penodol, gweler paragraff 13.)
- 32 At hynny, mae tystiolaeth arall a gyflwynwyd gan CNC yn awgrymu y gallai fod gan CNC resymau eraill a/neu amgen dros ymrwymo i'r contractau trosiannol. Roedd y rhain yn cynnwys:

- Roedd CNC yn ceisio gweithredu system TG rheoli pren newydd yn ystod y cyfnod dan sylw. Roedd yn wynebu anawsterau sylweddol a oedd yn amharu ar allu CNC i farchnata pren ar y farchnad agored. Gallai hyn fod wedi bod yn rheswm da, ond nid yw CNC wedi ceisio dibynnu arno ac nid oes unrhyw dystiolaeth ddogfennol iddo ddibynnu arno.
  - Ar 23 Chwefror 2017, anfonodd Pennaeth Gweithrediadau Masnachol dros dro CNC e-bost at Brif Weithredwr CNC ar y pryd yn trafod y cyfaint y gellid ei ddyfarnu o bosibl o dan drefniadau trosiannol. Noda'r e-bost y gallai cyfaint y pren gyda'r contractau hirdymor ar gyfer boncyffion ymyl ffordd gael eu hailfarchnata ym mis Ebrill 2017 ar gontractau byrdymor ac y byddai [y Gweithredwr Melin Lifio] yn gallu cynnig am gontractau newydd ochr yn ochr ag unrhyw gwsmer arall (gweler Atodiad 1, paragraff 2.19). Fodd bynnag, ar 28 Mawrth 2017, cynigiodd CNC 49,575 tonnall o foncyffion a bariau sbrws a llarwydd ymyl ffordd fel rhan o'r trefniadau trosiannol.
  - Mae Pennaeth Marchnata presennol CNC, a gynorthwyodd Bennaeth Marchnata CNC ar y pryd yn y cyd-drafodaethau â'r Gweithredwr Melin Lifio, wedi dweud wrth fy archwilwyr y byddai wedi dilyn strategaeth negodi wahanol i'r un a ddilynyd mewn gwirionedd. Byddai wedi cynnig llai o gyfaint trosiannol na'r hyn y cytunwyd arno a byddai wedi ceisio negodi'n gryfach ynglŷn â'r pris.
- 33 Felly, rwyf o'r farn nad yw CNC wedi llwyddo i ddangos bod ganddo reswm da dros wro oddi wrth ei Gynllun pan ymrwymodd i 59 o gontractau gwerthu pren heb geisio cystadleuaeth yn y farchnad. Felly, nid wyf yn fodlon bod CNC wedi cydymffurfio ag egwyddorion cyfraith gyhoeddus wrth ymrwymo i'r contractau, a bod y trafodion canlyniadol yn gyfreithlon.

## Methiant i ddangos mai dim ond ystyriaethau perthnasol a ystyriwyd wrth bennu cyfeintiau contractau

- 34 Ar 22 Mawrth 2017, anfonodd Pennaeth Marchnata CNC ar y pryd e-bost at y Gweithredwr Melin Lifio gyda chynnig i werthu 194,248m<sup>3</sup> obs o bren<sup>1</sup> i'r Gweithredwr Melin Lifio o dan drefniadau trosiannol (Atodiad 1, paragraff 2.25). O'r cyfaint hwn, roedd 8.1% ar gyfer boncyffion ymyl ffordd a bariau. Roedd y cynnig yn cyfateb i 41.1% o gyfeintiau'r contractau hirdymor presennol. Ar 28 Mawrth 2017, mewn cyfarfod â'r Gweithredwr Melin Lifio, cynyddodd CNC y cynnig i 251,973m<sup>3</sup> obs. O'r cyfaint hwn, roedd 24.4% ar gyfer boncyffion ymyl ffordd a bariau. Roedd y cynnig diwygiedig yn cyfateb i 43.3% o gyfaint y contract hirdymor (Atodiad 1, paragraffau 2.32 i 2.36).

<sup>1</sup> Mae un dunnell mewn pwysau o bren meddal yn cyfateb mewn cyfaint i tua 1.24 metr ciwbig obs

- 35 Dywedodd CNC wrth fy archwilywyr fod y cyfaint a gynigiwyd wedi'i bennu drwy gyfuniad o amcanion, er mwyn:
- sicrhau parhad cyflenwad i broseswyr pren i'w galluogi i gyflawni ymrwymadau eu contractau;
  - rhoi amser i gontractwyr coedwigaeth ddod o hyd i waith amgen; a
  - rhoi'r amser paratoi roedd ei angen ar CNC i ailfarchnata'r pren yn raddol er mwyn osgoi rhoi gormod o bren ar y farchnad ar unrhyw adeg benodol.
- 36 Fodd bynnag, yn fy marn i, mae safbwynt CNC ar y mater hwn yn anghyson â dogfennaeth gyfoes sy'n awgrymu bod y cyfaint yn gysylltiedig â gwerth y buddsoddiad roedd y Gweithredwr Melin Lifio yn honni ei fod wedi'i wneud ar ei safle, yn hytrach na'r ffactorau a nodir ym mharagraff 35 uchod:
- Yn nodyn briffio mewnol CNC dyddiedig 17 Chwefror 2017, a oedd yn nodi opsiynau ar gyfer trefniadau trosiannol amlinellwyd y cynnig y byddai'r cyfaint trosiannol yn gymesur â swm y buddsoddiad roedd y Gweithredwr Melin Lifio wedi'i wneud yn ei felin lifio (gweler Atodiad 1, paragraffau 2.10 i 2.11).
  - Mewn e-bost dyddiedig 20 Chwefror 2017, rhoddodd Pennaeth Gweithrediadau Masnachol dros dro CNC gyfarwyddyd i Bennaeth Marchnata CNC ar y pryd 'i fireinio'ch proffil dadymrwymo yn seiliedig ar leihau cyfanswm y gwerth trosiannol i 40%' (gweler Atodiad 1, paragraff 2.14).
  - Ar 31 Mawrth 2017, anfonodd Pennaeth Marchnata CNC ar y pryd e-bost at Brif Weithredwr CNC ar y pryd, yn nodi'r sail resymegol a ddefnyddiwyd i bennu'r cyfaint a gynigiwyd, 'defnyddiwyd dull colli ac ennill i wneud i'r cyfaint cyfan gydweddu â chymhareb y buddsoddiad a wnaed gan [y Gweithredwr Melin Lifio]' (gweler Atodiad 1, paragraffau 2.52 i 2.53).
- 37 Mae'n aneglur pam y cynyddodd y cyfaint trosiannol rhwng 22 Mawrth 2017 a 28 Mawrth 2017. Ymatebodd CNC i'r cwestiwn hwn drwy nodi i CNC 'sylweddoli'n fuan y byddai sefydlu a thendro'r contractau hynny wedi peryglu gallu CNC i gyflawni ei raglen gyffredinol drwy golli marchnad hollbwysig Gwanwyn a dechrau Haf 2017. Byddai hyn yn ei dro wedi tarfu ar y gadwyn gyflenwi a gallu contractwyr i ddod o hyd i waith arall. O ganlyniad, cytunwyd ar gynnydd yn y cyfaint trosiannol.' Er fy mod yn cydnabod ei bod yn bosibl mai hwn oedd y rheswm dros gynyddu'r cyfaint a gynigiwyd, nid oes gan CNC unrhyw ddogfennaeth gyfoes i ategu ei safbwynt. At hynny, nid yw CNC wedi gallu rhoi unrhyw ddogfennaeth gyfoes i mi sy'n nodi'r penderfyniad i gynyddu cyfran y pren ymyl ffordd yn sylweddol o'i gymharu â choed sy'n sefyll yn y cynnig i'r Gweithredwr Melin Lifio.
- 38 Mae CNC wedi cydnabod 'y dylai'r sail resymegol busnes, yr awydd i fentro a dogfennaeth i ategu sut y cyfrifwyd y cyfaint trosiannol fod wedi bod yn gliriach ac y dylid bod wedi craffu arnynt yn ehangach'.

- 39 Mae cyfraith gyhoeddus yn ei gwneud yn ofynnol i gyrff cyhoeddus ystyried pob ystyriaeth berthnasol ac anwybyddu pob ystyriaeth amherthnasol wrth wneud penderfyniadau. Un ffordd y gall gyrff cyhoeddus ddangos eu bod cydymffurfio â'r egwyddor hon yw drwy ddogfennu'r hyn a ystyriwyd ganddynt yn llawn.
- 40 Mae methiant CNC i ddogfennu'n briodol y broses gwneud penderfyniadau a arweiniodd at ddyfarnu'r contractau trosiannol yn gyffredinol, ac at bennu'r cyfaint trosiannol yn benodol. Mae'n golygu bod ansicrwydd sylweddol gennyf bellach p'un a wnaeth CNC ystyried yr holl ystyriaethau perthnasol, ac anwybyddu'r rhai amherthnasol.

## Methiant i gyfeirio gweithgareddau a chynigion anarferol, dadleuol a/neu adleisiol i Lywodraeth Cymru

- 41 Y brif ddogfen sy'n rhoi awdurdod ar gyfer trafodion CNC yw'r Ddogfen Fframwaith. Mae'r Ddogfen Fframwaith yn nodi bod cymorth grant yn cael ei dalu i CNC ar yr amod bod CNC yn cyflawni ei holl rwymedigaethau, sy'n cynnwys cydymffurfio â chyhoeddiad Llywodraeth Cymru, Rheoli Arian Cyhoeddus Cymru. Mae'r gofyniad i gydymffurfio â Rheoli Arian Cyhoeddus Cymru yn ymwneud ag adran 70 (2) o Ddeddf Llywodraeth Cymru 2006 (2) sy'n nodi 'the Welsh Ministers may attach conditions to the giving of financial assistance by them; and the conditions which may be attached include, in particular, conditions requiring the repayment of the whole or any part of a grant, or the making of any other payments, in any circumstances.'
- 42 O dan y teitl 'Gwariant', mae paragraff 3.9.1 o Ddogfen Fframwaith CNC yn dweud: Bydd CNC yn cydymffurfio â'r dirprwyaethau a nodir yn Atodiad 5. Mae Atodiad 5 yn nodi bod angen cymeradwyaeth tîm noddi perthnasol Llywodraeth Cymru ar gyfer unrhyw gynigion anarferol, dadleuol neu adleisiol.
- 43 Mae paragraff 3.9.8 o'r Ddogfen Fframwaith yn darparu bod yn rhaid i weithgarwch cynhyrchu incwm CNC gael ei gynnal yn unol â thelerau Rheoli Arian Cyhoeddus Cymru a'r Ddogfen Fframwaith. Hefyd, mae paragraff 1.2.9 o'r Ddogfen Fframwaith yn nodi bod Prif Weithredwr CNC, fel Swyddog Cyfrifyddu, yn gyfrifol yn bersonol am sicrhau cydymffurfiaeth â gofynion Rheoli Arian Cyhoeddus Cymru.
- 44 Rwyf wedi ystyried y fersiwn ddiweddaraf o Rheoli Arian Cyhoeddus Cymru Llywodraeth Cymru (Ionawr 2016). Mae'r ddogfen hon yn dweud 'paragraff 3.8.2: Mae'r ddogfen fframwaith (neu'r hyn sy'n cyfateb iddi) y cytunwyd arni rhwng corff cyhoeddus a'i noddwr bob amser yn darparu bod y Gangen sy'n noddi yn goruchwyllo, mewn modd ystyrion, strategaeth a pherfformiad, trefniadau talu a/neu drafodion ariannol mawr y corff cyhoeddus, ee drwy ffurflenni misol, dirprwyo safonol, adroddiadau ar eithriadau. Dylai gyrff cyhoeddus gyfeirio unrhyw faterion yr ymddengys eu bod yn anarferol, yn dadleuol neu'n adleisiol at y Gangen sy'n eu noddi'.
- 45 Mae Dogfen Fframwaith CNC yn nodi mewn perthynas â gwariant fod yn rhaid i CNC gael cymeradwyaeth ysgrifenedig cyn bwrw ymlaen ag unrhyw gynnig a allai

gael ei ystyried yn un anarferol, dadleuol neu adleisiol. Fodd bynnag, o ran incwm (gan gynnwys enillion gwaredu o Ystad Coetir Llywodraeth Cymru) mae'n nodi bod 'yn rhaid i CNC geisio sicrhau'r incwm mwyaf posibl hyd y gellir... lle mae hyn yn gyson â'i swyddogaethau ac yn unol â'r Cynllun Corfforaethol y cytunwyd arno'.

- 46 Yn fy marn i, roedd yn ofynnol i CNC gyfeirio unrhyw gynigion anarferol, dadleuol neu adleisiol sy'n ymwneud ag incwm at Lywodraeth Cymru. Rwyf o'r farn bod y contractau trosiannol yn anarferol, yn ddadleuol a/neu'n adleisiol oherwydd:
- ni chafodd y contractau eu hysbysebu ar y farchnad agored ac ni chawsant eu dyfarnu yn unol â Chynllun Marchnata Pren CNC (gweler paragraffau 25 i 33).
  - roedd y contractau â'r Cwmni Cynaeafu Pren yn cynnwys cymal roedd CNC yn ei ddisgrifio'n 'eithriadol' (roedd y cymal yn ei gwneud yn ofynnol i'r Cwmni Cynaeafu Pren werthu boncyffion a bariau sbrws a llarwydd i'r Gweithredwr Melin Lifio (gweler Atodiad 1, paragraff 3.8).
  - Roedd CNC yn amlwg yn ystyried bod terfynu'r contractau hirdymor a chyflwyno trefniadau trosiannol yn faterion o bwys gan ei fod yn teimlo bod angen cyfathrebu â Llywodraeth Cymru mewn perthynas â'r materion hyn.
- 47 Rwy'n cydnabod bod CNC wedi cyfathrebu â Llywodraeth Cymru o ran ei fwriad i ymrwymo i drefniadau trosiannol. Mewn e-byst gan CNC ar 15 Mawrth 2017 ac yna ar 3 Ebrill 2017 at Lywodraeth Cymru nodwyd yn fras fwriad CNC i lunio contract â'r Gweithredwr Melin Lifio, a rhoddwyd atodlen o'r cyfeintiau o bren roedd CNC yn ceisio eu cynnwys mewn contract â'r Gweithredwr Melin Lifio (Atodiad 1, paragraffau 2.23 a 2.49). Fodd bynnag,
- nid yw Llywodraeth Cymru na CNC yn ystyried bod y negeseuon e-bost hyn wedi'u llunio i gyfeirio cynigion anarferol, dadleuol neu adleisiol yn unol â Rheoli Arian Cyhoeddus Cymru ac ni wnaeth Llywodraeth Cymru eu trin fel y cyfryw; ac
  - nid oedd y negeseuon e-bost yn cynnwys manylion llawn y cynigion. Fel y'i nodir yn Atodiad 1, paragraff 2.50, ni chyfeiriwyd at y cynnig i gontractio â'r Cwmni Cynaeafu Pren ac ni chofnodwyd y cyfaint i'w gontractio o dan y trefniadau trosiannol yn gywir.
- 48 Mae CNC bellach yn derbyn y dylai'r cynigion fod wedi cael eu cyfeirio at Lywodraeth Cymru fel rhai anarferol, dadleuol a/neu adleisiol ac mae o'r farn y dylai fod wedi gofyn am gymeradwyaeth i ymrwymo i'r contractau trosiannol.
- 49 Yn fy marn i, ni fodlonodd CNC ofynion y Ddogfen Fframwaith na gofynion Rheoli Arian Cyhoeddus Cymru i gyfeirio cynnig anarferol, dadleuol a/neu adleisiol at Lywodraeth Cymru. Rwyf o'r farn bod y trafodion sy'n ymwneud â'r contractau hyn sydd wedi'u cynnwys yn natganiadau ariannol CNC ar gyfer 2017-18 y tu allan i'r fframwaith awdurdod sy'n eu llywodraethu ac felly eu bod yn afreolaidd. O ganlyniad, rwyf wedi rhoi barn amodol ar reoleidd-dra datganiadau ariannol 2017-18 CNC.

## Methiant i gydymffurfio â Chynllun Dirprwyo CNC

- 50 Nodir swyddogaethau CNC yng Ngorchymyn Corff Adnoddau Naturiol Cymru (Sefydlu) 2012 (y Gorchymyn). Mae'r swyddogaethau hyn yn cynnwys ymgymryd ag unrhyw un o swyddogaethau datganoledig y Comisiynwyr Coedwigaeth. Felly, mae gan CNC y pwerau i reoli'r ystâd goedwig o dan berchenogaeth gyhoeddus a gwneud penderfyniadau sy'n angenrheidiol i gyflawni'r swyddogaeth honno'n effeithiol. Mae Gorchymyn 2012 yn nodi y caiff CNC awdurdodi un o'i bwyllgorau, ei is-bwyllgorau, ei aelodau neu ei gyflogeion i arfer unrhyw un o'i swyddogaethau. Mae hyn yn cynnwys ymrwymo i gontractau â chyflenwyr allanol a phrynwyr.
- 51 Mae Bwrdd CNC wedi cymeradwyo Cynllun Dirprwyo Ariannol o'r enw 'Rheoli ein Harian'. O dan y cynllun hwn mae pob un o weithgareddau ariannol CNC wedi cael ei ddirprwyo i lefel awdurdod neu ddeiliad swydd penodol y cytunwyd arni/arno. Mae'n caniatáu i'r Bwrdd ddirprwyo'r cyfrifoldeb am wneud penderfyniadau ar faterion ariannol penodol.
- 52 Drwy'r Cynllun Dirprwyo mae Bwrdd CNC yn dirprwyo ei swyddogaeth o ran ymrwymo i gontractau i aelodau unigol o staff ac mae'n ffordd o reoli risg a gonestrwydd ariannol. Os nad yw awdurdodiadau contractau yn cydymffurfio â'r Cynllun Dirprwyo bydd trafodion mewn perthynas â'r contractau hyn yn eitemau o gyfrif sy'n anghyfreithlon.
- 53 Fel y'i nodir yn Atodiad 1, paragraff 3.3 i 3.5, mae'r Cynllun Dirprwyo Ariannol yn nodi'r deiliaid swydd sydd wedi cael eu hawdurdodi i ymrwymo i gontractau gwerthu pren, a gwerthoedd y contractau y mae eu dirprwyaethau yn berthnasol iddynt.
- 54 Cafodd pob un o'r contractau trosiannol ei awdurdodi'n unigol gan swyddogion CNC.
- 55 Fel y'i nodir yn Atodiad 1, paragraff 3.6, ni chafodd 13 o'r 59 o gontractau trosiannol eu hawdurdodi yn unol â'r Cynllun Dirprwyo. Nid yw CNC wedi gallu rhoi tystiolaeth bod pum contract wedi'u hawdurdodi a chafodd wyth eu hawdurdodi gan swyddogion CNC heb y ddirprwyaeth angenrheidiol i awdurdodi dyfarnu contractau o'r gwerth a gymeradwywyd ganddynt.
- 56 Amcangyfrifwyd bod y contractau heb eu hawdurdodi'n briodol yn werth £2,752,248 a chafodd CNC incwm o £1,868,773 mewn perthynas â'r contractau hyn yn 2017-18.
- 57 Nodaf hefyd fod Cynllun Dirprwyo Ariannol CNC yn ei gwneud yn ofynnol i gyflwyno adroddiad ar rai gweithroedd dirprwyedig ar lefel Bwrdd, pan fyddant yn ymwneud â symiau mawr o arian neu pan fyddant yn ddadleuol, yn anarferol neu'n sensitif o bosibl'. Fel y'i nodir ym mharagraffau 41 i 49, rwyf o'r farn bod y penderfyniad i ddyfarnu'r 59 o gontractau trosiannol hyn yn anarferol ac yn ddadleuol. Ni chafodd Bwrdd CNC wybod am y penderfyniad i ddyfarnu'r contractau trosiannol ac felly rwyf o'r farn bod hyn yn achos arall o fynd yn groes i Gynllun Dirprwyo CNC.

- 58 Mae CNC wedi dweud wrth fy archwilwyr ei fod o'r farn, o edrych yn ôl, y byddai wedi bod yn well pe bai'r dasg o gymeradwyo'r contractau wedi cael ei hystyried ar y cyd, gan gydnabod y ffaith bod y contractau wedi'u negodi ar y cyd. Fel y'i nodir yn Atodiad 1, paragraff 2.15, nodaf fod Prif Weithredwr CNC ar y pryd wedi dweud bod angen iddo gadarnhau unrhyw gytundeb terfynol ar y trefniadau trosiannol, ond am ryw reswm, ni wnaeth awdurdodi na chadarnhau'r trefniadau'n ffurfiol. Fodd bynnag, rwy'n cydnabod nad oedd y Cynllun Dirprwyo Ariannol, fel y'i drafftiiwyd, yn ei gwneud yn ofynnol i gontractau cydamserol lluosog sy'n cael eu dyfarnu i un cyflenwr gael eu hystyried ar y cyd at ddibenion dirprwyo, ac nad oedd ychwaith yn rhoi'r pŵer i Brif Weithredwr CNC awdurdodi'r contractau neu ddiwygio'r llinellau dirprwyo.
- 59 Rwyf o'r farn, yn yr achosion hynny lle mae CNC wedi methu â chydymffurfio â'i Gynllun Dirprwyo, fod y trafodion sydd wedi'u cynnwys yn natganiadau ariannol 2017-18 CNC yn anghyfreithlon. O ganlyniad, rwyf wedi rhoi barn amodol ar reoleidd-dra datganiadau ariannol CNC.

## Methiant i ddangos cydymffurfiaeth â gofynion Gorchymyn Sefydlu CNC a rheolau Cymorth Gwladwriaethol wrth bennu prisiau contractau

### Prisiau Contractau

- 60 Yn ystod fy archwiliad o'r contractau trosiannol cafodd fy archwilwyr gryn anhawster i gael eglurder gan CNC ynglŷn â
- sut y pennwyd y prisiau roedd yn cael eu talu am bren a werthwyd gan CNC o dan gontractau trosiannol;
  - sut y bwriedid i'r dull prasio yn y contractau i werthu coed sy'n sefyll i'r Cwmni Cynaeafu Pren a chwmmi cynaeafu pren y Gweithredwr Melin Lifio weithredu'n ymarferol;
  - a'r hyn a ystyriwyd gan CNC wrth gytuno ar brisiau contractau.
- 61 Gellid priodoli'r diffyg eglurder hwn i fethiant CNC i gadw cofnodion priodol o'i gyd-drafodaethau ar brisiau, a'r ffordd roedd y cyfraddau y cytunwyd arnynt wedi cael eu cymhwyso yn y contractau eu hunain. O ganlyniad, roedd yr archwiliad yn un hirfaith a hynny'n ddiangen, a bu'n rhaid i'm harchwilwyr wneud llawer mwy o waith na'r hyn a ddisgwyliid pe bai CNC wedi dogfennu ei gyd-drafodaethau ar brisiau'n ddigonol.
- 62 Nodir y cyfeiriad cyntaf at brisiau contractau trosiannol yn nodiadau cyfarfod rhwng CNC a'r Gweithredwr Melin Lifio ar 28 Mawrth 2017, lle y cytunodd CNC i gyflwyno cynnig prisiau ar gyfer y contractau trosiannol (gweler Atodiad 1, paragraff 3.10). Nid yw CNC wedi gallu dod o hyd i gopi o unrhyw gynnig prisiau a gyflwynwyd i'r gweithredwr.

- 63 Ar 31 Mawrth 2017, anfonodd y Gweithredwr Melin Lifio e-bost i CNC yn cadarnhau'r prisiau y byddai'n eu talu am foncyffion a bariau sbrïws a llarwydd. Roedd y prisiau a nodwyd yn gynydd ar y prisiau am bren llarwydd yn y Contractau Hirdymor a oedd wedi'u terfynu (Atodiad 1, paragraff 3.10). Cadarnhaodd e-bost mewnol a anfonwyd gan un o swyddogion CNC at gyd-swyddogion ar 21 Ebrill 2017 y prisiau y cytunwyd arnynt i bob golwg a nododd hefyd y swm y gellid ei ddiwynnu o'r pris gwerthu am gostau cludo (Atodiad 1, paragraff 3.13).
- 64 Ar y dechrau, dywedodd CNC wrth fy archwilwyr fod y prisiau a nodwyd yn yr e-byst dyddiedig 31 Mawrth 2017 a 21 Ebrill 2017 yn gymwys i bob un o'r contractau trosiannol, gan gynnwys y contractau ar gyfer gwerthu coed sy'n sefyll a ddyfarnwyd i'r Cwmni Cynaeafu Pren a chwmni cynaeafu'r Gweithredwr Melin Lifio.
- 65 Fodd bynnag, canfu fy archwilwyr fod y symiau a nodwyd yn y cyfraddau cludo ar gyfer contractau gwerthu coed sy'n sefyll yn uwch na'r cyfraddau a nodwyd yn yr e-bost dyddiedig 21 Ebrill 2017 yn y rhan fwyaf o achosion. O ganlyniad, cafodd CNC lai o incwm nag y byddai wedi'i gael pe bai'r cyfraddau a nodwyd yn yr e-bost dyddiedig 21 Ebrill 2017 wedi cael eu cymhwyso.
- 66 Canfu fy archwilwyr hefyd fod 17 o'r contractau â'r Cwmni Cynaeafu Pren (a ddothbarthwyd yn gontractau 'cyflenwad arfaethedig' gan CNC am fod y contractau yn ymwneud ag ardaloedd o goedwig lle roedd gweithrediadau cwmpo coed wedi dechrau cyn 31 Mawrth 2017), yn cymhwyso'r cyfraddau a nodwyd yn y contractau hirdymor a oedd wedi'u terfynu. Pe bai'r prisiau am foncyffion a bariau sbrïws a llarwydd fel y'u nodwyd yn yr e-byst dyddiedig 31 Mawrth 2017 a 21 Ebrill 2017 wedi cael eu cymhwyso at bob contract trosiannol, rwyf wedi cyfrifo y byddai CNC wedi cael £186,231 yn fwy o incwm yn ystod 2017-18 na'r hyn a gafodd mewn gwirionedd.
- 67 Rwy'n derbyn bod gan CNC yr hawl i gymhwyso cyfraddau cludo gwahanol at y contractau â'r Cwmni Cynaeafu Pren a chwmni cynaeafu pren y Gweithredwr Melin Lifio na'r rhai y cytunwyd arnynt â'r Gweithredwr Melin Lifio. Rwyf hefyd yn derbyn bod gan CNC yr hawl i gysoni'r prisiau a bennwyd yn y contractau cyflenwad arfaethedig â'r rhai a oedd yn gymwys i'r contractau hirdymor a oedd wedi'u terfynu. Fodd bynnag, mae'n annerbyniol yn fy marn i nad yw CNC wedi cadw unrhyw gofnodion sy'n nodi ei resymau dros gymhwyso'r prisiau a gymhwysodd at y contractau trosiannol.
- 68 Gall CNC bennu'r pris ar gyfer gwerthu pren, ond, mae'r pris ar y farchnad yn ffactor perthnasol y dylai CNC fod wedi'i ystyried wrth bennu prisiau'r contractau. At hynny, mae'r pris ar y farchnad yn berthnasol o ran a yw CNC yn rhoi mantais anghyfreithlon o bosibl yn groes i'r rheolau ynglŷn â Chymorth Gwladwriaethol (gweler paragraffau 72 i 75).
- 69 Mae fy archwilwyr wedi cymharu'r prisiau a gafodd CNC am werthu pren o dan y contractau trosiannol yn erbyn:



i. data Mynegeion Prisiau Pren y Comisiwn Coedwigaeth hyd at fis Mawrth 2017; a

ii. phrisiau gwerthiannau cyfartalog CNC ar gyfer chwarter cyntaf 2017-18.

Er nad yw'r dadansoddiad hwn yn ystyried yr holl newidynnau posibl, mae'n awgrymu bod amheuaeth fawr p'un a gafodd y contractau eu prisio yn ôl cyfraddau'r farchnad (ond nodaf fod y Gweithredwr Melin Lifio yn haeru bod y contractau trosiannol a ddyfarnwyd iddo wedi'u prisio yn ôl cyfraddau'r farchnad). At hynny, cafodd y prisiau a gontractiwyd ar gyfer y contractau cyflenwad arfaethedig a ddyfarnwyd i'r Cwmni Cynaeafu Pren eu pennu yn unol â chyfraddau'r contractau hirdymor. Mae CNC eisoes wedi cydnabod mewn nodyn briffio mewnol dyddiedig Chwefror 2017 fod yr incwm o gontractau hirdymor y Gweithredwr Melin Lifio bryd hynny £1m yn is nag y gellid bod wedi'i sicrhau ar y farchnad agored (gweler Atodiad 1, paragraff 2.2).

70 Mae Erthygl 8 o Orchymyn Sefydlu CNC 2012 (y Gorchymyn) yn nodi 'wrth ystyried p'un ai arfer unrhyw bŵer a roddwyd iddo gan unrhyw ddeddfiad neu o dano ai peidio, rhaid i'r Corff ystyried y costau a'r buddiannau sy'n debygol o ddeillio o arfer y pŵer hwnnw neu beidio'. Nid wyf wedi gweld unrhyw dystiolaeth bod CNC wedi ystyried y pris ar y farchnad (ac felly Gymorth Gwladwriaethol) wrth bennu prisiau o dan y contractau. Mae CNC wedi cydnabod, er bod ei gynghorwyr cyfreithiol wedi cynghori y gallai fod i'r trefniadau trosiannol oblygiadau o ran Cymorth Gwladwriaethol (gweler Atodiad 1, paragraffau 2.16 i 2.17) ni wnaeth CNC ystyried y risg hon na mynd i'r afael â hi.

71 Wrth fethu ag ystyried p'un a oedd y contractau trosiannol wedi'u prisio ar gyfraddau'r farchnad, nid wyf wedi cael fy modloni bod CNC wedi cydymffurfio ag Erthygl 8 o'i Orchymyn nac wedi ystyried yr holl ystyriaethau perthnasol.

## Cymorth Gwladwriaethol

72 Mae'r wybodaeth a ystyriwyd gennyf mewn perthynas â phrisio'r contractau trosiannol hefyd yn peri i mi amau a oedd CNC wedi cydymffurfio â rheolau Cymorth Gwladwriaethol yr UE wrth ddyfarnu'r contractau trosiannol. Cymorth Gwladwriaethol yw unrhyw gymorth a roddir gan un o Aelod-wladwriaethau'r UE neu drwy adnoddau Gwladwriaeth ar ba ffurf bynnag y bo, sy'n ystumio neu'n bygwth ystumio cystadleuaeth drwy ffafrio ymgymeriadau penodol neu gynhyrchu nwyddau penodol, i'r graddau y mae'n effeithio ar fasnach rhwng Aelod-wladwriaethau (Erthygl 107 o'r Cytuniad ar Weithrediad yr Undeb Ewropeaidd). Mae darparu Cymorth Gwladwriaethol yn anghyfreithlon oni chaiff ei awdurdodi ymlaen llaw, naill ai drwy 'esemptiad bloc' neu drwy awdurdodiad unigol a roddir gan y Comisiwn Ewropeaidd mewn ymateb i hysbysiad gan y Wladwriaeth berthnasol.

- 73 Cafodd CNC gyngor gan ei gynghorwyr cyfreithiol ar 20 Chwefror 2017 y gallai fod i drefniadau trosiannol oblygiadau o ran Cymorth Gwladwriaethol (gweler Atodiad 1, paragraffau 2.16 a 2.17) Fodd bynnag, nid ymddengys bod CNC wedi ystyried y cyngor hwn wrth ymrwymo i'r contractau trosiannol.
- 74 Rwyf o'r farn na ddilynodd CNC weithdrefnau priodol i'w fodloni ei hun ei fod yn gweithredu mewn cydymffurfio â rheolau Cymorth Gwladwriaethol wrth ymrwymo i'r contractau trosiannol, gan na cheisiodd sicrhau bod y prisiau yn y contractau yn unol â chyfraddau'r farchnad, a thrwy gyfaddefiad CNC ei hun, nid ystyriodd ei gyngor cyfreithiol ei hun a oedd wedi tynnu sylw at y risg y gallai fod i'r trefniadau trosiannol oblygiadau o ran Cymorth Gwladwriaethol.

Atodiad 1 – Amserlen sy'n ymwneud â dyfarnu 59 o gontractau gwerthu pren gan CNC i weithredwr melin lifio a dau gwmni cynaeafu pren yn 2017-18 fel rhan o drefniadau trosiannol

# Rhan 1

## 1. Atodiad 1

- 1.1. Ar 2 Mawrth 2017, gosodais adroddiad ar gyfrifon Cyfoeth Naturiol Cymru (CNC) gerbron Cynulliad Cenedlaethol Cymru yn nodi fy rhesymau dros roi barn amodol ar reoleidd-dra cyfrifon 2015-16 CNC. Cyflwynais hefyd femorandwm atodol i Bwyllgor Cyfrifon Cyhoeddus Cynulliad Cenedlaethol Cymru yn nodi rhagor o fanylion am y materion a oedd wedi'u cynnwys yn yr adroddiad ar gyfrifon CNC. Mae'r dogfennau hyn ar gael ar wefan Cynulliad Cenedlaethol Cymru.
- 1.2. Roedd yr adroddiad ar y cyfrifon yn ymwneud â dyfarnu wyth contract gwerthu pren hirdymor gan CNC ym mis Mai 2014 a oedd yn gysylltiedig â Memorandwm Cytundeb. O dan delerau'r contractau, cytunodd CNC i werthu coed sy'n sefyll a choed wedi'u cwmpo ymlaen llaw i weithredwr melin lifio (y Gweithredwr Melin Lifio). Roedd y Gweithredwr Melin Lifio yn defnyddio cwmni cynaeafu pren (y Cwmni Cynaeafu Pren) i gynaeafu'r coed sy'n sefyll. Fel un o amodau'r Memorandwm Cyd-ddealltwriaeth a'r contractau, cytunodd y Gweithredwr Melin Lifio y byddai'n adeiladu ac yn gweithredu llinell lifio newydd ar ei safle yng Nghymru erbyn 31 Mawrth 2016. Cafodd y terfyn amser hwn ei estyn drwy gytundeb y ddau barti wedyn i 31 Mawrth 2017.
- 1.3. Nid oeddwn yn gallu rhoi barn ddiamod ar reoleidd-dra cyfrifon CNC am y rhesymau canlynol:
  - ni chydymffurfiodd CNC â'i fframwaith awdurdod yn yr ystyr iddo fetu â chyfeirio'r cynnig i ddyfarnu'r contractau at Lywodraeth Cymru (cynnig a oedd yn ddadleuol ac yn adleisiol mewn sawl ffordd) yn unol â gofynion cyhoeddiad Llywodraeth Cymru, Rheoli Arian Cyhoeddus Cymru; methodd CNC â dangos ei fod wedi cydymffurfio ag egwyddorion cyfraith gyhoeddus yn y broses gwneud penderfyniadau a arweiniodd at ddyfarnu contractau i'r Gweithredwr Melin Lifio. Deuthum i'r casgliad nad oedd y broses gwneud penderfyniadau a arweiniodd at ddyfarnu contractau i'r Gweithredwr Melin Lifio yn gadarn nac yn dryloyw ac nad oedd CNC yn gallu rhoi digon o ddogfennaeth gyfoes i mi a oedd yn dangos yn ddigonol yr hyn a ystyriodd wrth benderfynu ymrwymo i'r contractau hyn â'r Gweithredwr Melin Lifio. Cymaint oedd yr ansicrwydd fel nad oeddwn yn gallu dod i gasgliad pendant bod y penderfyniad i ddyfarnu'r contractau i'r Gweithredwr Melin Lifio yn un rheolaidd; a
  - Roedd amheuaeth p'un a oedd CNC wedi cydymffurfio â rheolau Cymorth Gwladwriaethol pan ymrwymodd i'r contractau â'r Gweithredwr Melin Lifio. Achoswyd yr ansicrwydd hwn o ganlyniad i benderfyniad CNC i ddyfarnu'r contractau i'r Gweithredwr Melin Lifio heb gynnal unrhyw brofion perthnasol yn y farchnad, a'r ffaith nad oedd CNC yn gallu rhoi rhesymau darbwyllol i ategu casgliad y byddai ceisio darparwyr amgen wedi bod yn ofer.

- 1.4. Cynhaliodd y Pwyllgor Cyfrifon Cyhoeddus ei ymchwiliad ei hun i'r materion a ddygais i'w sylw mewn perthynas â'r contractau hirdymor a chyhoeddodd ei ganfyddiadau ym mis Mehefin 2017, gan argymhell bod CNC yn:
- 'cynnal gwerthusiad llawn o'i drefniadau llywodraethu mewn perthynas â phrosesau contractio, gan amlinellu'n glir y gwersi a ddysgwyd gan gyfeirio'n benodol at y contractau gwerthu pren dan sylw yn yr adroddiad hwn;
  - adolygu ei drefniadau dirprwyo ochr yn ochr â chodi ymwybyddiaeth o gyfraith Cymorth Gwladwriaethol, cyfraith gyhoeddus a'r prosesau ar gyfer dyfarnu contractau. Rydym yn argymhell bod canfyddiadau'r gwerthusiad hwn yn cael eu rhannu gyda'r Pwyllgor Cyfrifon Cyhoeddus fel y gall y Pwyllgor hwn fonitro gwaith gweithredu a chynnydd yn erbyn y newidiadau a nodwyd; ac
  - yn adolygu ei drefniadau llywodraethu mewnol er mwyn sicrhau bod ei swyddog cyfrifyddu, y Tîm Gweithredol a'r Bwrdd yn cyfrannu mwy o lawer at graffu ar brosesau contractio craffu a dyfarnu contractau. Mae'n hanfodol bwysig bod y prosesau hyn yn rhai cadarn gyda thrywydd archwilio clir ac amlwg bod penderfyniadau wedi eu cymryd ar sail deg a chadarn'.
- 1.5. Ar 5 Gorffennaf 2017, ysgrifennodd Prif Weithredwr CNC ar y pryd at y Pwyllgor Cyfrifon Cyhoeddus yn derbyn ei argymhellion yn llawn. Wedyn, rhoddais farn amodol ar reoleidd-dra datganiadau ariannol 2016-17 CNC am yr un rhesymau a nodir ym mharagraff 1.3. Roedd hyn o ganlyniad i'r ffaith bod y contractau hirdymor yr ymrwymodd CNC iddynt ym mis Mai 2014 yn dal i fod yn weithredol a bod datganiadau ariannol 2016-17 wedi cynnwys incwm a oedd gysylltiedig â'r contractau hyn.
- 1.6. Fel y'i nodwyd ym mharagraff 1.2, Roedd Memorandwm Cytundeb a oedd yn gysylltiedig â'r wyth contract hirdymor y cyfeiriwyd atynt yn fy adroddiad blaenorol wedi cynnwys gofyniad i'r Gweithredwr Melin Lifio adeiladu a dechrau gweithredu llinell lifio newydd yn ei felin lifio erbyn 31 Mawrth 2016 (a gafodd ei estyn drwy gytundeb wedyn i 31 Mawrth 2017). O dan y Memorandwm Cytundeb (a gafodd ei adlewyrchu hefyd mewn rhai o'r contractau ond nid pob un), pe na bai'r llinell lifio yn cael ei hadeiladu a'i gweithredu erbyn y dyddiad hwn byddai'r contractau yn cael eu terfynu. Ym mis Chwefror 2017, hysbysodd y Gweithredwr Melin Lifio CNC nad oedd yn bwriadu adeiladu'r llinell lifio.
- 1.7. Ym mis Mawrth 2017, dechreuodd CNC gyd-drafodaethau â'r Gweithredwr Melin Lifio gyda'r bwriad o roi trefniadau cytundebol trosiannol ar waith i fod yn weithredol o 1 Ebrill 2017 pan gafodd y contractau hirdymor eu terfynu. Y cynnig oedd y dylid cynnig contractau byrdymor i'r Gweithredwr Melin Lifio yn ystod y cyfnod pontio rhwng terfynu'r contractau hirdymor a CNC yn ailfarchnata cyfaint y pren yn y contractau hirdymor a oedd wedi'u terfynu. Câi'r contractau hyn eu dyfarnu heb geisio cystadleuaeth gan y farchnad.

- 1.8. Erbyn 31 Mawrth 2017, roedd CNC wedi llunio cytundeb mewn egwyddor â'r Gweithredwr Melin Lifio. Fodd bynnag, ar y dyddiad hwnnw cysylltodd cwmni cynaeafu pren a oedd wedi gweithredu fel yr asiant cynaeafu ar y contractau hirdymor a oedd wedi'u terfynu (y Cwmni Cynaeafu Pren) â CNC. Gofynnodd y Cwmni Cynaeafu Pren, sy'n sefydliad hollol ar wahân i'r Gweithredwr Melin Lifio, am gael ei gynnwys yn y trefniadau cytundebol i'w rhoi ar waith o 1 Ebrill 2017. Cytunodd CNC i ddyfarnu rhai o'r contractau trosiannol i'r Cwmni Cynaeafu Pren.
- 1.9. Cafodd y contractau hirdymor eu terfynu ar 31 Mawrth 2017 ac yn ystod 2017-18 ymrwymodd CNC i 59 o gontractau byrdymor. Dyfarnwyd 21 o'r contractau trosiannol i'r Gweithredwr Melin Lifio a chwmni cynaeafu pren yr oedd yn berchen arno (cwmni cynaeafu pren y Gweithredwr Melin Lifio). Dyfarnwyd y 38 o gontractau a oedd yn weddill i'r Cwmni Cynaeafu Pren. Bwriad datganedig CNC oedd sicrhau 'proses o ddirwyn y contractau hirdymor i ben yn drefnus'.
- 1.10. Mae datganiadau ariannol 2017-18 CNC yn cofnodi iddo gael incwm pren gwerth £2.76 miliwn mewn perthynas â'r 59 o gontractau trosiannol. Mae CNC yn rhagweld y bydd yn cael £0.18 miliwn arall yn 2018-19. Y ffigurau hyn yw pris gwerthu net y pren ar ôl i'r contractwr ddydynnu costau cynaeafu a chludo.
- 1.11. Ar ôl ystyried amgylchiadau dyfarnu'r contractau hyn, mae gennyf bryderon mawr ynglŷn â rheoleidd-dra'r broses o ddyfarnu'r contractau a'r trafodion sy'n gysylltiedig â'r contractau hyn. O ganlyniad, rwyf wedi rhoi barn amodol ar reoleidd-dra cyfrifo ariannol 2017-18 CNC. Nodir y rhesymau dros fy marn amodol ym mharagraff 10 o'r memorandwm atodol.
- 1.12. Yn yr atodiad hwn, nodaf y digwyddiadau a arweiniodd at y sefyllfa lle ymrwymodd CNC i'r trefniadau trosiannol.

# Rhan 2

## 2. Gweithredu'r trefniadau trosiannol

### Cafodd y contractau hirdymor a ddyfarnwyd i'r Gweithredwr Melin Lifio eu terfynu ym mis Mai 2014

- 2.1 Ar 17 Ionawr 2017, anfonodd Pennaeth Gweithrediadau Masnachol dros dro CNC (sydd bellach wedi'i benodi i'r swydd yn barhaol) e-bost at Brif Weithredwr CNC ar y pryd yn nodi bod 'ein [Contractau Hirdymor] â'r [Gweithredwr Melin Lifio] ar gyfer pren llarwydd wedi'u cysylltu â therfyn amser ar gyfer buddsoddiadau yn [safle'r Gweithredwr Melin Lifio]. Y disgwyliad oedd y dylai'r llinell newydd fod yn weithredol erbyn diwedd mis Mawrth 2016. Rhoddwyd estyniad y llynedd er mwyn rhoi 12 mis arall iddo wneud y buddsoddiad. Mae [Pennaeth Marchnata CNC] yn gofyn am y diweddaraf gan [y Gweithredwr Melin Lifio] ar gynnydd y buddsoddiad [ar ei safle]. Fodd bynnag, yr arwyddion yw bod cryn lithriant eto'. Mae'r e-bost hefyd yn nodi, am fod prisiau pren wedi codi ers i'r contractau gael eu dyfarnu yn 2014, eu bod bellach yn cynnig gwerth gwael am arian. Gofynnodd y Pennaeth Gweithrediadau Masnachol dros dro am ganiatâd Prif Weithredwr CNC ar y pryd iddo 'gloriannu'r sefyllfa a'r opsiynau er mwyn eich briffio ac argymhell ffordd ymlaen'.
- 2.2 Ar 31 Ionawr 2017, cyn cyfarfod a oedd wedi'i drefnu â chynrychiolwyr y Gweithredwr Melin Lifio, anfonodd y Prif Weithredwr ar y pryd e-bost at Bennaeth Gweithrediadau Masnachol dros dro CNC yn gofyn am wybodaeth am berfformiad y contractau. Ymatebodd Pennaeth Gweithrediadau Masnachol dros dro CNC ar 3 Chwefror 2017 drwy roi papur briffio drafft yn nodi pryderon ynglŷn â pherfformiad y contractau a oedd yn cynnwys:
- roedd y Gweithredwr Melin Lifio ond wedi gwneud tua £5m o'r buddsoddiad cyfalaf disgwyliedig gwerth £17m ar ei safle yng Nghymru ac nad oedd y llinell lifio newydd y cytunwyd arni yn y Memorandwm Cytundeb wedi cael ei hadeiladu.
  - roedd y Memorandwm Cytundeb yn ei gwneud yn ofynnol i'r Gweithredwr Melin Lifio fynd ati i ehangu'r farchnad ar gyfer cynhyrchion llarwydd, gan gynyddu gwerth cyffredinol y sylfaen cynnyrch a chanolbwyntio ar ddatblygu pren llarwydd yn y farchnad adeiladu. Nododd y papur briffio, er bod y Gweithredwr Melin Lifio wedi gwneud ymdrech i gynyddu faint o bren llarwydd oedd yn cael ei brynu gan y farchnad adeiladu, fod llawer o'r pren llarwydd a gynhyrchwyd yn ei felin lifio wedi cael ei ddefnyddio i ddarparu cynhyrchion wedi'u llifio ar gyfer y farchnad paneli ffensio, nad oedd yn farchnad newydd nac yn gynhyrchion adeiladu ac nad oedd ychwaith yn cynnig gwerth uwch ar y farchnad.
  - nid oedd y Gweithredwr Melin Lifio wedi bod yn hyblyg o ran y dull prisiau'r contractau, a gan fod gwerth pren llarwydd ar y farchnad wedi cynyddu ers i'r contractau gael eu dyfarnu, roedd CNC wedi cael tua £1m yn llai o incwm

nag y byddai wedi'i sicrhau pe bai'r pren wedi cael ei farchnata ar y farchnad agored.

- 2.3 Casgliad y papur briffio, o ystyried bod yr amgylchiadau wedi newid ers i'r contractau gael eu dyfarnu yw y byddai'n 'ei gwneud yn hynod anodd cyfiawnhau estyniad arall yn yr amserlen ar gyfer cwblhau'r buddsoddiad'.
- 2.4 Ar 8 Chwefror 2017, anfonodd Pennaeth Gwasanaethau Cyfreithiol CNC gyfarwyddiadau cyfreithiol drwy e-bost at gynghorwyr cyfreithiol CNC yn gofyn cyngor ar 'ba mor gryf yw ein hachos dros beidio â rhoi estyniad arall i'r terfyn amser ar gyfer buddsoddiadau o bosibl ac, yn lle hynny, derfynu'r contractau'.
- 2.5 Ar 13 Chwefror 2017, gwnaeth cynghorwyr cyfreithiol CNC gynghori, os na allai'r Gweithredwr Melin Lifio gydymffurfio â'r terfyn amser ar gyfer adeiladu a gweithredu'r safle newydd a bod CNC yn gwrthod cytuno i unrhyw gais am estyniad arall, y byddai'r contractau a'r Memorandwm Cytundeb cyffredinol a oedd yn eu cysylltu yn cael eu derfynu. Cynghorwyd y gellid defnyddio'r posibilrwydd o derfynu'r contractau i ailnegodi telerau'r Memorandwm Cytundeb a'r contractau gyda'r bwriad o amrywio'r cytundebau neu ymrwymo i gytundeb newydd. Fodd bynnag, dylai unrhyw gyd-drafodaethau o'r fath fynd rhagddynt ar y sail na fyddent yn effeithio ar safbwynt CNC, sef y câi'r Memorandwm Cytundeb a'r contractau eu derfynu'n weithredol o 31 Mawrth 2017.
- 2.6 Ar 16 Chwefror 2017, cyfarfu Prif Weithredwr CNC ar y pryd a Phennaeth Gweithrediadau Masnachol dros dro CNC â chynrychiolwyr y Gweithredwr Melin Lifio i adolygu'r contractau a thrafod y cynnydd a oedd yn ei wneud gan y Gweithredwr Melin Lifio i adeiladu'r llinell lifio newydd a dechrau ei gweithredu erbyn 31 Mawrth 2017.
- 2.7 Mae nodiadau CNC o'r cyfarfod hwn yn cofnodi i'r Gweithredwr Melin Lifio hysbysu CNC nad oedd yn fasnachol hyfyw iddo adeiladu'r llinell lifio roedd wedi ymrwymo i'w hadeiladu o dan y contract (llinell lifio i brosesu bariau bach/byr), ond bod 'lle i ehangu o ran trin boncyffion mwy o faint' ar yr amod na châi'r contractau hirdymor eu derfynu.
- 2.8 Mae'r nodiadau hefyd yn cofnodi'r canlynol:
- dywedwyd wrth y Gweithredwr Melin Lifio y câi'r contractau eu derfynu pe na bai'r llinell lifio yn cael ei hadeiladu a'i gweithredu erbyn 31 Mawrth 2017; a
  - gwnaeth y Gweithredwr Melin Lifio fygwth dwyn achos yn erbyn CNC i adennill y £4m y dywedodd y Gweithredwr Melin Lifio ei fod eisoes wedi'i fuddsoddi, cau ei safle yng Nghymru ac y byddai 'CNC yn wynebu rhai anawsterau gwleidyddol o ystyried y swyddi roedd y [felin lifio] yn eu cefnogi a'r cyfraniad economaidd y mae'n ei wneud'.
- 2.9 Ar 16 Chwefror 2017, anfonodd Prif Weithredwr CNC ar y pryd e-bost at Lywodraeth Cymru yn atodi dogfen friffio a amlinellodd yr hyn a drafodwyd yn y cyfarfod a gynhaliwyd ar 16 Chwefror 2017. Nodwyd y byddai CNC yn ysgrifennu at y Gweithredwr Melin Lifio yn nodi ei safbwynt ac wrth ddrafftio'r llythyr hwn y byddai CNC 'yn ystyriol o'r buddsoddiadau y mae'r [Gweithredwr Melin Lifio] eisoes wedi'u gwneud ar ei safle yng Nghymru a'r rôl y mae'r diwydiant prosesu pren yn ei chwarae yn yr economi wledig'.



2.10 Ar 17 Chwefror 2017, anfonodd Pennaeth Gweithrediadau Masnachol dros dro CNC bapur briffio drafft (wedi'i gyfeirio at Lywodraeth Cymru) at Brif Weithredwr CNC ar y pryd yn amlinellu hanes y contractau hirdymor a phedwar opsiwn ar gyfer rheoli'r cyfeintiau o bren a oedd yn y contractau â'r Gweithredwr Melin Lifio ar y pryd ar ôl 31 Mawrth 2017. Nodwyd yn erbyn pob opsiwn risgiau a manteision canfyddedig. Roedd yr opsiynau fel a ganlyn:

#### Arddangosyn 1: opsiynau ar gyfer rheoli'r cyfeintiau o bren

**Opsiwn 1** – Caniatáu terfynu'r contractau ar ddiwedd mis Mawrth 2017 ar y sail na chât'r llinell lifio newydd ei hadeiladu.

**Opsiwn 2** – Ailnegodi'r contractau hirdymor drwy derfynu rhai contractau a chaniatáu i rai contractau redeg am gyfnod estynedig neu nes bod cyfnod y contractau wedi dod i ben. Cât'r cyfaint is ei gyfrifo ar 40% o gyfaint gwreiddiol y contractau hirdymor, h.y. yn gymesur â swm y buddsoddiad cyfalaf disgwyledig (£10m) yn hytrach na'r swm a fuddsoddiwyd mewn gwirionedd gan y Gweithredwr Melin Lifio (£4m).

**Opsiwn 3** – Ailnegodi'r contractau hirdymor ac ailbennu uned pris sylfaenol y pren er mwyn adlewyrchu gwerth y pren ar y farchnad agored.

**Opsiwn 4** – Cytuno i estyniad arall ar gyfer y buddsoddiad a/neu negodi buddsoddiad cyfalaf amgen gan y Gweithredwr Melin Lifio er mwyn cynyddu ei allu i brosesu pren.

2.11 Mae'r nodyn briffio yn amlinellu rhai o ystyriaethau CNC wrth ddatblygu'r opsiynau. Roedd y rhain yn cynnwys:

- gellid disgwyl i'r bygythiad i ddileu swyddi 'achosi dadleuon gwleidyddol'; a
- byddai'r Gweithredwr Melin Lifio yn 'wynebu sefyllfa anodd pe bai CNC yn terfynu'r [contractau hirdymor]. Mae'r cwmni wedi dweud na all sicrhau cyllid ar gyfer buddsoddiadau, heb fod gwarant o ran sylweddol o'r cyfaint sydd ei angen. Yn y cyfamser, mae proseswyr pren eraill wedi bod yn gwneud buddsoddiadau sylweddol heb [contractau hirdymor] â CNC'.

2.12 Gofynnodd y papur briffio am farn Llywodraeth Cymru ar yr opsiynau a'r argymhellion. Sut bynnag, mae CNC wedi dweud wrth fy archwilwyr bod ei Prif Weithredwr ar y pryd wedi penderfynu peidio ag anfon y papur briffio at Lywodraeth Cymru ar y sail iddo benderfynu bod y materion yn y papur briffio yn rhai i CNC benderfynu arnynt. Gwnaeth CNC friffio Llywodraeth Cymru ar lafar ar ddatblygiadau ond ni soniodd wrth Lywodraeth Cymru am yr opsiynau yr oedd yn eu hystyried.

2.13 Ar 17 Chwefror 2017, anfonodd Pennaeth Gwasanaethau Cyfreithiol CNC e-bost at gynghorwyr cyfreithiol CNC yn atodi nodiadau'r cyfarfod rhwng CNC a'r Gweithredwr Melin Lifio ar 16 Chwefror 2017 a chopi o'r nodyn briffio drafft a oedd

wedi'i gyfeirio at Lywodraeth Cymru (paragraff 2.2). Gofynnodd y Pennaeth Gwasanaethau Cyfreithiol am ragor o gyngor cyfreithiol ar y materion cytundebol a fodolai rhwng CNC a'r Gweithredwr Melin Lifio.

- 2.14 Ar 20 Chwefror 2017, anfonodd Pennaeth Gweithrediadau Masnachol dros dro CNC e-bost at Bennaeth Marchnata CNC, y Prif Weithredwr ar y pryd a'r Pennaeth Gwasanaethau Cyfreithiol yn nodi, 'Credaf mai Opsiwn 2 yw'r un mwyaf priodol fwy na thebyg am ei fod yn canolbwyntio ar leihau'r cyfaint o dan gontract yn gymesur â'r buddsoddiadau anghyflawn, ond heb gyflwyno cymhlethdod gorfod newid prisiau' a gofynnodd i'r Pennaeth Marchnata 'a allwch fireinio'ch proffil dadymrwymo yn seiliedig ar leihau cyfanswm cyfaint [y contractau hirdymor] i 40%'.
- 2.15 Ar 20 Chwefror 2017, anfonodd Pennaeth Gwasanaethau Cyfreithiol CNC e-bost at gynghorwyr cyfreithiol CNC yn diweddar eu cyfarwyddiadau dyddiedig 17 Chwefror 2017 ac yn atodi copi o'r e-bost oddi wrth y Pennaeth Gweithrediadau Masnachol dros dro (gweler paragraff 2.14). Mae'r cyfarwyddyd cyfreithiol yn nodi bod Prif Weithredwr CNC ar y pryd 'o'r farn mai tîm CNC ddylai gynnal y cyd-drafodaethau ar yr amod y byddai angen iddo ef, fel Swyddog Cyfrifyddu, gadarnhau unrhyw gytundeb terfynol (ac mae'n ychwanegu, yng ngoleuni [fy adroddiad drafft ar y pryd ar gyfrifon 2015-16 CNC], y byddai angen i CNC ystyried proses graffu gan Lywodraeth Cymru a'r Bwrdd)'. Mae hefyd yn mynegi'r farn ei bod 'yn rhy gynnar i geisio "cymeradwyaeth" Llywodraeth Cymru' am na wyddom sut y gallai'r cyd-drafodaethau fynd rhagddynt'.
- 2.16 Ar 20 Chwefror 2017, gwnaeth cynghorwyr cyfreithiol gynghori fel a ganlyn:
- gan nad oedd y llinell lifio wedi cael ei hadeiladu y câi'r contractau eu terfynu ar 31 Mawrth 2017;
  - mae'r ffaith bod y Gweithredwr Melin Lifio wedi buddsoddi tua £4m yn amherthnasol yn eu barn hwy gan nad oedd llinell lifio newydd wedi cael ei hadeiladu ac nad oedd yn weithredol, ac ni allent weld unrhyw sail bosibl i'r Gweithredwr Melin Lifio hawlio yn erbyn CNC;
  - mewn perthynas â'r opsiynau a amlinellwyd, nid oedd unrhyw ddarpariaethau ar gyfer amrywio'r contractau gwreiddiol a byddai'n well pe bai CNC yn negodi contractau newydd; ac
  - roedd i opsiynau 2, 3 a 4 oblygiadau posibl o ran Cymorth Gwladwriaethol.
- 2.17 Gwnaeth cynghorwyr cyfreithiol CNC hefyd ddychwelyd copi o fatrics opsiynau CNC a oedd wedi'i gynnwys yn y papur briffio drafft y cyfeirir ato ym mharagraff 2.10 gyda diwygiadau awgrymedig wedi'u holrhain mewn coch. Tynnodd y diwygiadau hyn sylw at y ffaith y gallai fod i'r broses o ailnegodi contractau â'r Gweithredwr Melin Lifio oblygiadau o ran caffael a/neu Gymorth Gwladwriaethol.
- 2.18 Ar 21 Chwefror 2017, anfonodd Pennaeth Gweithrediadau Masnachol dros dro CNC lythyr drafft wedi'i gyfeirio at y Gweithredwr Melin Lifio drwy e-bost at Bennaeth Gwasanaethau Cyfreithiol CNC, ynghyd â chopi at gydweithwyr eraill yn CNC, yn cofnodi'r hyn a oedd wedi cael ei drafod yn y cyfarfod ar 16 Chwefror 2017 ac yn nodi safbwynt CNC mewn perthynas â'r contractau hirdymor presennol.

Rhannwyd y llythyr drafft â chynghorwyr cyfreithiol CNC a awgrymodd nifer o ddiwygiadau i'r drafft.

- 2.19 Ar 23 Chwefror 2017, anfonodd Pennaeth Gweithrediadau Masnachol dros dro CNC y llythyr diwygiedig wedi'i gyfeirio at y Gweithredwr Melin Lifio drwy e-bost at Brif Weithredwr CNC ar y pryd. Nododd yr e-bost eglurhaol 'mai'r paragraff olaf [o'r llythyr] sy'n cynnwys y gwahoddiad i gynnig dirwyn y contractau coed sy'n sefyll i ben yw'r ffordd y gall [y Gweithredwr Melin Lifio] gyd-drafod a dod o hyd i ateb. Mae tua 65% o'r cyfaint o dan gontract yn werthiannau coed sy'n sefyll ac mae rhesymau gweithredol pam na ddylai'r rhain gael eu terfynu ar 31 Mawrth. Nid yw'r un peth yn wir am y contractau ar gyfer boncyffion ymyl ffordd, lle y gallwn barhau i reoli'r gweithrediadau cynaeafu tra byddwn yn ailfarchnata'r cyfaint o fis Ebrill ar gontractau byrdymor y gallai'r [Gweithredwr Melin Lifio] gynnig amdanynt ochr yn ochr ag unrhyw gwsmer arall'.
- 2.20 Ar 24 Chwefror 2017, ysgrifennodd Pennaeth Gweithrediadau Masnachol dros dro CNC at y Gweithredwr Melin Lifio. Mae'r llythyr terfynol yn nodi bod yn y cyfarfod ar 16 Chwefror 2017:
- bod y Gweithredwr Melin Lifio wedi cael ei hysbysu y câi'r contractau eu terfynu pe na bai'r llinell lifio yn weithredol erbyn 31 Mawrth 2017;
  - bod y Gweithredwr Melin Lifio wedi bygwth dwyn achos yn erbyn CNC pe câi'r contractau eu terfynu; a
  - bod y Gweithredwr Melin Lifio wedi haeru ei fod wedi gwneud buddsoddiad cyfalaf gwerth £4m yn ei safle yng Nghymru.
- 2.21 Yn y llythyr dyddiedig 24 Chwefror 2017, gofynnodd Pennaeth Gweithrediadau Masnachol dros dro CNC hefyd am fanylion y sail dros unrhyw hawliad gan y Gweithredwr Melin Lifio yn erbyn CNC a gofynnodd am dystiolaeth o'r buddsoddiadau roedd y Gweithredwr Melin Lifio wedi honni ei fod eisoes wedi'u gwneud (gwerth tua £4m yn ôl y sôn). Anfonodd CNC gopi o'i lythyr at y Gweithredwr Melin Lifio ymlaen at Lywodraeth Cymru er gwybodaeth.
- 2.22 Ar 7 Mawrth 2017, ymatebodd y Gweithredwr Melin Lifio i lythyr CNC gan fygwth hawliad cyfreithiol unwaith eto. Er i'r llythyr restru buddsoddiadau a wnaed, ni roddwyd unrhyw dystiolaeth i ategu swm y buddsoddiad cyfalaf yr haerodd y Gweithredwr Melin Lifio ei fod wedi'i wneud ar ei safle.

## Cynnig cyfaint o bren yn y dyfodol i'r Gweithredwr Melin Lifio

- 2.23 Ar ôl derbyn llythyr y Gweithredwr Melin Lifio dyddiedig 7 Mawrth 2017, drafftiodd Pennaeth Gweithrediadau Masnachol CNC lythyr at y Gweithredwr Melin Lifio yn nodi safbwynt CNC ac yn adlewyrchu'r cyngor roedd cynghorwyr cyfreithiol allanol CNC wedi'i roi iddo. Noda'r llythyr, a anfonwyd at y Gweithredwr Melin Lifio ar 15 Mawrth 2017 'rydym yn gwerthfawrogi'r rôl y mae'r [felin lifio] yn ei chwarae yn y gadwyn gyflenwi pren yng Nghymru a hoffem sicrhau eich bod yn cael cyfle i brynu cyfaint amgen cyn i'r [contractau hirdymor] ddod i ben. Credwn hefyd, er mwyn gwneud hyn a sicrhau ein bod yn cael y gwerth gorau am y pren, fod angen i ni gyflwyno'r cyfleoedd prynu yn raddol dros gyfnod. Felly rydym yn cynnig y dylid

cyfarfod â chi, heb ragfarn, i drafod proffil ar gyfer cyflwyno'r dyddiadau diwedd y [contractau hirdymor] yn raddol mewn dilyniant a fyddai'n ein galluogi i farchnata'r cyfaint a rhoi cyfle i chi brynu cyfaint cyfatebol. Fodd bynnag, mae'n rhaid i mi bwysleisio y byddai'r cyfleoedd prynu ar y farchnad agored a'u bod yn debygol o fod ar ffurf contractau byrdymor yn bennaf yn unol â'r Cynllun Marchnata presennol. Os [hoffech] dderbyn y cynnig o gau'r [contractau hirdymor] yn raddol, byddai angen i ni ymrwmo i Femorandwm Cytundeb newydd ar gyfer y cyfnod gan y bydd y Memorandwm presennol yn dod i ben ar ddiwedd mis Mawrth'. Anfonodd CNC gopi o'r llythyr at Lywodraeth Cymru er mwyn ei hysbysu o'r datblygiadau diweddaraf.

- 2.24 Mae Pennaeth Gweithrediadau Masnachol dros dro CNC wedi dweud wrth fy archwilwyr iddo gael galwad ffôn gan gynrychiolydd y Gweithredwr Melin Lifio ar 17 Mawrth 2017 a ddywedodd wrtho yr hoffai'r Gweithredwr Melin Lifio dderbyn y cynnig i drafod 'cynllun trosiannol'. Mae Pennaeth Gweithrediadau Masnachol CNC wedi dweud wrth fy archwilwyr iddo hysbysu Prif Weithredwr a Phennaeth Gwasanaethau Cyfreithiol CNC ar y pryd drwy e-bost a gofyn i'r Pennaeth Marchnata ar y pryd baratoi proffil cyflenwi ar gyfer cyfaint trosiannol y gellid ei gynnig i'r Gweithredwr Melin Lifio erbyn canol yr wythnos ddilynol.
- 2.25 Ar 22 Mawrth 2017, anfonodd Pennaeth Gweithrediadau Masnachol dros dro CNC e-bost at Bennaeth Gwasanaethau Cyfreithiol CNC ar y pryd yn gofyn iddo baratoi memorandwm cytundeb diwygiedig 'ar gyfer y cyfnod lle rydym yn terfynu'r contractau'n raddol'. Noda'r e-bost fod Pennaeth Marchnata CNC ar y pryd wedi llunio atodlen y byddai'n ei rhannu â'r Gweithredwr Melin Lifio. Yn ddiweddarach y diwrnod hwnnw, anfonodd Pennaeth Marchnata CNC e-bost at y Gweithredwr Melin Lifio yn atodi taenlen yn nodi'r cynllun trosiannol arfaethedig a fyddai'n dod i rym ar ôl i'r contractau hirdymor gael eu terfynu ar 31 Mawrth 2017. Nododd y daenlen fod CNC yn barod i werthu'r cyfaint canlynol o bren i'r Gweithredwr Melin Lifio ar ôl y dyddiad terfynu fel rhan o'r trefniadau trosiannol.

**Tabl 1: Cyfaint trosiannol i'w gynnig i'r Gweithredwr Melin Lifio fel y'i nodwyd mewn e-bost gan Bennaeth Marchnata CNC at y Gweithredwr Melin Lifio ar 22 Mawrth 2017**

	Cyflenwad Arfaethedig Ymrwymedig	Cyfaint Ychwanegol	Cyfanswm y Cyfaint
Pren ymyl ffordd	7,700 o dunelli	5,000 o dunelli	12,700 o dunelli
Coed sy'n sefyll	49,500m <sup>3</sup> obs	129,000m <sup>3</sup> obs	178,500m <sup>3</sup> obs
<b>Cyfanswm yr unedau cyflenwi</b>	<b>57,200</b>	<b>134,000</b>	<b>191,200</b>

- 2.26 Roedd cyfaint 'y cyflenwad arfaethedig ymrwymedig' yn ymwneud â chwblhau gwaith cwmpo coed mewn ardaloedd coedwig lle roedd gweithrediadau wedi dechrau cyn 31 Mawrth 2017. Roedd cyfanswm y cyfaint trosiannol roedd Pennaeth Marchnata CNC ar y pryd yn cynnig ei roi i'r Gweithredwr Melin Lifio yn cyfateb i tua 22.9% o'r pren y nododd CNC yn ei Strategaeth Marchnata Pren y byddai'n ei werthu i'r farchnad yn 2017-18.
- 2.27 Mae'r daenlen yn cofnodi bod y cyfaint trosiannol, o'i adio at y cyfaint roedd y Gweithredwr Melin Lifio eisoes wedi'i gael o dan y contractau hirdymor cyn 31 Mawrth 2017, yn golygu byddai'r Gweithredwr Melin Lifio wedi cael 41.1% o'r cyfaint a oedd wedi'i gontractio yn 2014.
- 2.28 Mae'r daenlen hefyd yn nodi cynlluniau CNC i ryddhau pren (a fu'n rhan o'r contractau hirdymor) ar y farchnad i'w werthu drwy dendr agored yn ystod 2017-18. Noda y byddai 90,685 tonnall o bren yn cael eu rhyddhau mewn gwerthiannau cystadleuol rhwng 31 Mai 2017 a 28 Chwefror 2018.
- 2.29 Ar 24 Mawrth 2017, anfonodd Pennaeth Gwasanaethau Cyfreithiol CNC ar y pryd e-bost at Bennaeth Gweithrediadau Masnachol dros dro CNC ac yna'r Pennaeth Marchnata yn nodi ei bod yn hanfodol bod cyfarfod dros y ffôn yn cael ei gynnal â chynghorwyr cyfreithiol CNC er mwyn llunio'r Memorandwm Cytundeb diwygiedig yn derfynol ac iddo ef a chynghorwyr cyfreithiol CNC 'ddeall y darlun negodi oedd yn dod i'r amlwg yn hyn o beth. Yn benodol, [a yw'r Gweithredwr Melin Lifio] bellach wedi nodi y bydd yn bodloni i'r drefn ac yn cytuno i broses o ddirwyn y [contractau hirdymor] i ben yn drefnus?'
- 2.30 Ar 27 Mawrth 2017, anfonodd Pennaeth Gwasanaethau Cyfreithiol CNC ar y pryd e-bost at y Pennaeth Gweithrediadau Masnachol dros dro ac yna'r Pennaeth Marchnata yn eu hatgoffa y câi'r contractau hirdymor eu terfynu ar 31 Mawrth 2017 pe na bai CNC yn cymryd unrhyw gamau eraill ac yn nodi cyngor pellach roedd cynghorwyr cyfreithiol CNC wedi'i roi iddo yn cyfeirio at yr angen i CNC gydymffurfio â'r cymalau ôl-derfynu yn y contractau hirdymor, sef galluogi'r Gweithredwr Melin Lifio symud unrhyw goed a dorrwyd cyn y dyddiad terfynu a symud ei adeiladau, ei gyfarpar ei hun, ac ati, oddi ar dir CNC. Pwysleisiodd 'ei bod yn bwysig bod CNC yn gweithredu'n unol â'r holl ddarpariaethau ôl-derfynu yn y contract ac fel petai'r contract wedi dod i ben neu fel arall gallai'r [Gweithredwr Melin Lifio] haeru bod y contract wedi parhau ar yr un telerau a bod CNC wedi hepgor y darpariaethau terfynu'.
- 2.31 Yn ddiweddarach y diwrnod hwnnw, ysgrifennodd Pennaeth Gweithrediadau Masnachol dros dro CNC at Bennaeth Gwasanaethau Cyfreithiol CNC ar y pryd yn nodi 'nid wyf yn siŵr a fydd y darpariaethau ôl-derfynu yn ddigon wrth i ni geisio sicrhau cyfnod pontio didrafferth o gyflenwi ar y contractau hyn i ddechrau contractau newydd (a allai neu na allent gael eu prynu gan [y Gweithredwr Melin Lifio]). Rydym yn anelu at gytuno ar gyfres o ddyddiadau diwedd gwasgarog ar gyfer gwahanol gontractau â'r [Gweithredwr Melin Lifio] yfory (29<sup>ain</sup>). Er y bydd rhai contractau yn dod i ben ar unwaith ac y gall y cymalau ôl-derfynu fod yn gymwys o bosibl, bydd eraill yn parhau am rai wythnosau neu fisoedd'. Ar 28 Mawrth 2017, ymatebodd Pennaeth Gwasanaethau Cyfreithiol CNC ar y pryd i'r Pennaeth

Gweithrediadau Masnachol dros dro drwy nodi, 'efallai ein bod yn camddeall ein gilydd. Nid wyf finnau (na'n cynghorwyr cyfreithiol) yn awgrymu y dylem ddibynnu ar y darpariaethau ôl-derfynu wrth negodi'.

## Cyd-drafodaethau â'r Gweithredwr Melin Lifio

- 2.32 Ar 28 Mawrth 2017, cyfarfu Pennaeth Gweithrediadau Masnachol dros dro CNC, y Pennaeth Marchnata ar y pryd a'r Pennaeth Cynaeafu ar y pryd â chynrychiolydd y Gweithredwr Melin Lifio i drafod cytundeb rhwng y Gweithredwr Melin Lifio a CNC yn y dyfodol. Mae nodiadau'r cyfarfod yn cofnodi i'r cynnig gael ei wneud 'gyda'r bwriad o lunio cytundeb ynglŷn â'r cyfeintiau i'w cynnig a'u trin yn ystod 2017-18 er mwyn hwyluso'r broses o ddirwyn y [contractau hirdymor] i ben yn drefnus. Mae'r cynnig yn ceisio ei gwneud yn bosibl i broses ddiraffferth o drawsnewid pren i'r farchnad, rhoi amser i'r gadwyn gyflenwi ymaddasu gan fod cludwyr a chontractwyr pren ynghlwm wrth y contractau hyn, gyda rhai yn gwneud buddsoddiadau sylweddol mewn llafur/cyfarpar a rhoi amser i'r cwmni addasu ei broffil prynu i gyflenwi'r felin lifio'.
- 2.33 Mae'r nodiadau hefyd yn cofnodi i CNC gynnig 41,875 tonnelli o goed wedi'u cwmpo a 141,000m<sup>3</sup> obs o goed sy'n sefyll dros gyfnod o flwyddyn (cyfanswm o 182,875 o unedau cyflenwi), gyda'r cyfaint yn cael ei ddileu'n raddol dros bedwar chwarter y flwyddyn ariannol gyda 97.7% o'r cyfaint trosiannol yn cael ei werthu erbyn 31 Rhagfyr 2017 fel y dengys tabl 2.

Tabl 2: Y bwriad i ddileu cyfaint y contract trosiannol yn raddol yn unol â'r cyfarfod rhwng CNC a'r Gweithredwr Melin Lifio ar 28 Mawrth 2018 (heb gynnwys cyfaint y cyflenwad arfaethedig)

	Chwarter 1	Chwarter 2	Chwarter 3	Chwarter 4	Cyfanswm
Pren ymyl ffordd	16,750 o dunelli	12,561 o dunelli	8,375 o dunelli	4,189 o dunelli	41,875 o dunelli
Coed sy'n sefyll	78,000m <sup>3</sup> obs	51,000m <sup>3</sup> obs	12,000m <sup>3</sup> obs	-	141,000m <sup>3</sup> obs
<b>Cyfanswm yr unedau cyflenwi</b>	<b>94,750</b>	<b>63,561</b>	<b>20,375</b>	<b>4,189</b>	<b>182,875</b>
% y cyfaint trosiannol	51.8%	34.8%	11.1%	2.3%	100%

- 2.34 Yn ôl nodiadau'r cyfarfod 'caiff cyfeintiau gwerthiannau coed sy'n sefyll eu darparu drwy lennyrch newydd a chaiff y llennyrc'h sy'n cael eu torri ar hyn o bryd eu trin fel cyfaint cyflenwad arfaethedig. Rhagwelir mai cyfanswm terfynol ar gyfer pob contract fydd 928,000 o unedau gwerthu. Mae hyn yn cyfateb i 43.3% o'r cynnig gwreiddiol', h.y. roedd y cyfaint trosiannol a'r cyfaint cyflenwad arfaethedig, o gael eu hadio at y cyfaint roedd y Gweithredwr Melin Lifio eisoes wedi'i gael o dan y

contractau hirdymor cyn 31 Mawrth 2017, yn golygu byddai'r Gweithredwr Melin Lifio wedi cael 43.3% o'r cyfaint a oedd wedi'i gontractio yn 2014.

- 2.35 Mae nodiadau'r cyfarfod yn cyfeirio at 'gyfaint cyflenwad arfaethedig' ond nid ydynt yn nodi'n benodol p'un a yw'r 182,875 o unedau cyflenwi a gynigiwyd yn y cyfarfod yn cynnwys 'cyfaint cyflenwad arfaethedig', y datganiad bod 'hyn yn cyfateb i 43.3% o'r hyn a gynigiwyd yn wreiddiol'. Mae'r datganiad yn awgrymu i 57,200 o unedau cyfaint cyflenwad arfaethedig gael eu cynnig i'r Gweithredwr Melin Lifio yn ogystal â'r 182,875 o unedau. Felly, roedd y cynnig yn gwneud cyfanswm o 240,075 o unedau cyflenwi, sef cynnydd o 29.7% (mewn m<sup>3</sup> obs) o gymharu'r cynnig a e-bostiwyd at y Gweithredwr Melin Lifio ar 22 Mawrth 2017.

Tabl 3: Cymharu'r cyfaint trosiannol y cynigiwyd y dylid ei gynnig i'r Gweithredwr Melin Lifio gan Bennaeth Marchnata CNC ar 22 Mawrth 2017 a'r cyfaint a gynigiwyd i'r Gweithredwr Melin Lifio mewn cyfarfod ar 28 Mawrth 2017

Cynnig 22 Mawrth 2017	Cyflenwad arfaethedig ymrwymedig	Cyfaint ychwanegol	Cyfanswm y cyfaint
Pren ymyl ffordd	7,700 o dunelli	5,000 o dunelli	12,700 o dunelli
Coed sy'n sefyll	49,500m <sup>3</sup> obs	129,000m <sup>3</sup> obs	178,500m <sup>3</sup> obs
<b>Cyfanswn yr unedau cyflenwi</b>	<b>57,200</b>	<b>134,000</b>	<b>191,200</b>

Cynnig 28 Mawrth 2017	Cyflenwad arfaethedig ymrwymedig	Cyfaint ychwanegol	Cyfanswm y cyfaint
Pren ymyl ffordd	7,700 o dunelli	41,875 o dunelli	49,575 o dunelli
Coed sy'n sefyll	49,500m <sup>3</sup> obs	141,000m <sup>3</sup> obs	190,500m <sup>3</sup> obs
<b>Cyfanswn yr unedau cyflenwi</b>	<b>57,200</b>	<b>182,875</b>	<b>240,075</b>

- 2.36 Yn ogystal â'r newid yng nghyfanswm cyfaint y pren a gynigiwyd gan CNC, fel y dengys Tabl 3, bu newid sylweddol yn y gymhareb rhwng pren ymyl ffordd a choed sy'n sefyll, a olygai fod y Gweithredwr Melin Lifio wedi cael cynnig cyfaint llawer mwy o bren ymyl ffordd na'r hyn a gynigiwyd yn wreiddiol ar 22 Mawrth 2017.
- 2.37 Mae Pennaeth Gweithrediadau Masnachol CNC wedi dweud wrth fy archwilydd bod y cyfaint a gynigiwyd wedi cael ei gynyddu am fod y Gweithredwr Melin Lifio wedi mynegi pryderon mawr bod y lefel o gyflenwad a gynigiwyd yn wreiddiol, yn enwedig o ran boncyffion ymyl ffordd, yn rhy isel i gynnal y nifer bresennol o sifftiau a oedd yn cael eu cynnal yn y felin lifio. Hefyd, erbyn 28 Mawrth 2017 roedd CNC wedi sylweddoli, pe bai ei gyflenwad o bren ymyl ffordd i'r Gweithredwr Melin Lifio yn dod i ben ar 31 Mawrth 2017, y byddai angen iddo ailfarchnata'r cyfaint cyfatebol o foncyffion yn gyflym iawn er mwyn cyflawni ei raglen werthiannau gyffredinol. Byddai hyn wedi bod yn anodd iawn am fod CNC yn cyflwyno system

TGCh marchnata pren newydd ar 1 Ebrill 2017 a fyddai wedi atal CNC rhag sefydlu a thendro contractau'n gyflym.

- 2.38 Fodd bynnag, nid oes gan CNC unrhyw ddogfennaeth gyfoes sy'n nodi pam y cynyddwyd y cynnig, ac nid yw nodiadau'r cyfarfod ar 28 Mawrth 2017 yn cofnodi'r sylw a briodolwyd i'r Gweithredwr Melin Lifio ym mharagraff 2.37. At hynny, nid yw CNC wedi gallu rhoi unrhyw dystiolaeth i'm harchwilwyr bod y cynnydd yn y cyfaint a gynigiwyd wedi'i nodi'n fewnol.
- 2.39 Digwyddodd y cynnydd yn y cynnig o bren ymyl ffordd fel rhan o'r trefniadau trosiannol yn fuan ar ôl i CNC gyhoeddi yn ei Gynllun Marchnata Pren ar gyfer 2017-2022 (Ionawr 2017) ei fwriad i leihau ei waith cynhyrchu uniongyrchol (sy'n arwain at werthiannau ymyl ffordd) o 380,000m<sup>3</sup> obs i 280,000m<sup>3</sup> obs yn 2017-18.
- 2.40 Mae'r cynnig a wnaed i'r Gweithredwr Melin Lifio yn y cyfarfod ar 28 Mawrth 2017 yn cyfateb i 29.6% o gyflenwad pren arfaethedig CNC i'r farchnad yn ystod 2017-18. Roedd hefyd yn cyfateb i 74% o gyfaint blynyddol pren ymyl ffordd a 106% o'r coed sy'n sefyll a gontractiwyd i'r Gweithredwr Melin Lifio o dan y contractau hirdymor a oedd yn cael eu terfynu.
- 2.41 Ar 29 Mawrth 2017, anfonodd Pennaeth Gweithrediadau Masnachol dros dro CNC e-bost at Bennaeth Gwasanaethau Cyfreithiol CNC ar y pryd yn nodi ei ddealltwriaeth o'r cyfarfod â'r Gweithredwr Melin Lifio ar 28 Mawrth 2017. Mae'r e-bost yn awgrymu bod y Pennaeth Gweithrediadau Masnachol dros dro ar ddeall y byddai'r trefniadau trosiannol yn 'cau'r [contractau hirdymor] yn raddol ac y 'bydd hyn yn cynnwys addasu'r pris am bren llarwydd ar rai o'r contractau sydd i'w hestyn'. Mae'r e-bost yn cyfeirio at y ffaith bod angen cytuno ar Femorandwm Cytundeb newydd â'r Gweithredwr Melin Lifio ac at gais i'r Pennaeth Gwasanaethau Cyfreithiol ddrafftio'r ddogfen hon.

## Cyflwyno contractwr ychwanegol

- 2.42 Ar fore 31 Mawrth 2017, anfonodd Pennaeth Marchnata CNC ar y pryd e-bost at Bennaeth Gweithrediadau Masnachol dros dro CNC ynglŷn â'r trefniadau trosiannol arfaethedig. Yn yr e-bost hwn nododd:
- y byddai'n hysbysu'r Gweithredwr Melin Lifio a'r Cwmni Cynaeafu Pren (a oedd wedi cael ei is-gontractio gan y Gweithredwr Melin Lifio i gynaeafu coed sy'n sefyll o dan y contractau hirdymor) y diwrnod hwnnw y câi'r contractau hirdymor eu terfynu ar ddiwedd y dydd;
  - y byddai'r trefniadau presennol yn trosglwyddo i gontractau newydd ac y byddai contractau newydd hefyd yn cael eu llunio ar gyfer y cyfaint newydd yn y cynllun trosiannol; a
  - chynnig y câi cytundebau ymyl ffordd newydd eu sefydlu bob chwarter.



- 2.43 Yn ystod prynhawn 31 Mawrth 2017, cafodd Pennaeth Marchnata CNC ar y pryd e-bost gan y Cwmni Cynaeafu Pren. Noda'r e-bost 'a allwch gysylltu â'r [Gweithredwr Melin Lifio] a gofyn iddo gysylltu â ni oherwydd ymddengys ei fod yn gwneud ymdrech fawr i'n hosgoi ar hyn o bryd. Rydym mewn sefyllfa enbyd. Gwnaethom gyd-drafod â'r [Gweithredwr Melin Lifio] yn ddiwyll i gefnogi'r buddsoddiad yn [ei safle], gwyddom oll beth sydd wedi digwydd yno. Rydym wedi gwneud popeth y gofynnwyd i ni ei wneud ac wedi cael ein gadael yn ddiymgeledd i bob diben. Ni wn sut y bydd [y Gweithredwr Melin Lifio] yn ymddwyn yn y dyfodol ond mae gennyf amheuan y bydd yn ceisio gwneud y gwaith cynaeafu'n fewnol unwaith eto oni allwch roi rhyw gyd-destun yn eich trefniadau cytundebol newydd i ddiogelu ein buddiannau. Mae'r [contract hirdymor] yn nodi mai ni yw'r asiantau cynaeafu enwebedig; gan mai chi sy'n rheoli'r trefniant hwn yn llwyr onid oes modd i ni gael cynnig yr un trefniant yn y contractau [newydd]? A rhaid ychwanegu hefyd bod y llinell yn y contract sy'n gymwys i'r cyfaint sy'n weddill .... Ffordd arall o weithredu fyddai, yn syml, ailaseinio ein contract gwreiddiol i ni gan mai sylfaen wreiddiol y trefniant oedd cefnogi'r buddsoddiad. A allwn drefnu galwad gynadledda ddydd Llun i drafod hyn?'
- 2.44 Ymatebodd Pennaeth Marchnata CNC ar y pryd drwy nodi bod CNC ar gael ar gyfer galwad gynadledda ar 3 Ebrill 2017 ac y byddai'n rhybuddio'r Gweithredwr Melin Lifio bod angen ffonio'r Cwmni Cynaeafu Pren.
- 2.45 Yn ddiweddarach yn ystod y prynhawn hwnnw, anfonodd y Gweithredwr Melin Lifio e-bost at Bennaeth Marchnata a Phennaeth Cynaeafu CNC ar y pryd yn diolch iddynt am eu galwad yn gynharach y diwrnod hwnnw ac yn cadarnhau'r prisiau y cytunodd i'w talu am brynu boncyffion a bariau sbrws a llarwydd.
- 2.46 Anfonodd Pennaeth Gweithrediadau Masnachol dros dro CNC e-bost at y Gweithredwr Melin Lifio 20 munud yn ddiweddarach yn atodi llythyr yn ei hysbysu y byddai'r contractau hirdymor yn dod i ben y diwrnod hwnnw ac y byddai darpariaethau ôl-derfynu'r contractau hirdymor yn dod i rym. Hefyd, cynigiwyd y dylai CNC a'r Gweithredwr Melin Lifio gyd-drafod yn ddiwyll i ymrwymo i drefniadau newydd sy'n adlewyrchu'r telerau i gytuno arnynt rhwng y partion, gan gynnwys (ond heb fod yn gyfyngedig i) fatrics atodedig ac fel arall gyda'r bwriad o ddirwyn gweithrediadau i ben yn drefnus. Roedd y llythyr a anfonwyd at y Gweithredwr Melin Lifio wedi cael ei baratoi gan Bennaeth Gwasanaethau Cyfreithiol CNC ar y pryd gyda mewnbwn gan gynghorwyr cyfreithiol CNC.
- 2.47 Gofynnwyd i'r Gweithredwr Melin Lifio gadarnhau drwy lofnodi copi o'r llythyr ei fod yn cytuno i'r telerau a nodwyd yn y llythyr hwnnw. Noda e-bost CNC 'er mwyn bod yn glir, bydd ffigurau'r contractau presennol yn dod i ben heddiw heb unrhyw awdurdodiad pellach i godi pren yn erbyn ffigurau'r contractau. Ar ôl derbyn eich cadarnhad, byddwn yn pennu ffigurau contract newydd gyda'r prisiau diwygiedig am bren llarwydd i gwmpasu'r cyfnod dirwyn i ben'. Mae'r atodlen gyflenwi a atodir yn cofnodi'r bwriad i gynnig 41,875 tunnell o bren ymyl ffordd a 141,000m<sup>3</sup> o goed sy'n sefyll, sef cyfanswm o 182,875 o unedau cyflenwi. Er bod yr atodlen yn gyson â nodiadau'r cyfarfod rhwng CNC a'r Gweithredwr Melin Lifio ar 28 Mawrth 2017 (paragraffau 2.32 i 2.35), nid yw'n cynnwys y 'cyfaint cyflenwad arfaethedig'

ychwanegol o 57,200 o unedau a gynigiwyd i'r Gweithredwr Melin Lifio yn yr e-bost a anfonwyd gan Bennaeth Marchnata CNC at y Gweithredwr Melin Lifio ar 22 Mawrth 2017 (gweler tabl 3).

- 2.48 Ar fore 3 Ebrill 2017, anfonodd Pennaeth Gweithrediadau Masnachol dros dro CNC e-bost at y Gweithredwr Melin Lifio. Roedd yr e-bost mewn ymateb i alwad ffôn a dderbyniwyd gan y Pennaeth Gweithrediadau Masnachol oddi wrth y Gweithredwr Melin Lifio ar 31 Mawrth 2017 pan oedd y Gweithredwr Melin Lifio wedi gofyn am gynnydd yn y cyfeintiau arfaethedig o bren. Nododd yr e-bost gan Bennaeth Gweithrediadau Masnachol CNC 'rwyf wedi adolygu gyda [Pennaeth Marchnata CNC ar y pryd] yr atodlen gyflenwi ac ni fyddai'n briodol ychwanegu cyfaint ychwanegol, gan gynnwys sbriws a theimlwn fod y proffil yn rhesymol ac yn gymesur ..... Y rheswm dros yr atodlen gyflenwi yw nid dim ond i'ch galluogi [chi] i ymaddasu at derfynu'r [contractau hirdymor], ond ei gwneud yn bosibl i'r gadwyn gyflenwi gynllunio ac ymaddasu. Felly rydym yn disgwyl [i chi] ymgysylltu â'r contractwyr yr effeithir arnynt a rhoi o leiaf yr un lefel o ddiogelwch iddynt ag a ddarperir gan yr atodlen gyflenwi'.
- 2.49 Yr un bore, ysgrifennodd Pennaeth Gweithrediadau Masnachol dros dro CNC at Lywodraeth Cymru yn nodi bod y contractau hirdymor â'r Gweithredwr Melin Lifio wedi cael eu terfynu ar 31 Mawrth 2017 a bod y Gweithredwr Melin Lifio wedi 'dewis peidio â herio hyn ac, yn lle hynny, wedi dechrau trafodaethau gyda ni ynglŷn â sut i ddirwyn y contractau i ben. Y cyngor cyfreithiol a roddwyd i ni oedd y dylid defnyddio darpariaethau ôl-derfynu'r contractau a derbyn y byddai'r contractau yn dod i ben ar 31 Mawrth'. Roedd y datganiad hwn yn anghywir. Roedd cynghorwyr cyfreithiol CNC wedi cynghori na ellid defnyddio darpariaethau ôl-derfynu'r contractau hirdymor i gynnig cyfaint i'r Gweithredwr Melin Lifio yn y dyfodol fel rhan o'r trefniadau dirwyn i ben. Roedd yr e-bost at Lywodraeth Cymru yn cynnwys atodiadau, gan gynnwys y llythyr ôl-derfynu ac atodlen yn dangos y pren roedd CNC yn bwriadu ei werthu i'r Gweithredwr Melin Lifio o dan y trefniadau trosiannol (Tabl 4).

**Tabl 4: Crynodeb CNC o'r cyfaint trosiannol o bren a gynigiwyd i'r Gweithredwr Melin Lifio fel yr hysbyswyd Llywodraeth Cymru ohono ar 3 Ebrill 2017.**

	<b>Cynnig Ch1 Ebrill – Meh 2017</b>	<b>Cynnig Ch2 Gorff – Medi 2017</b>	<b>Cynnig Ch3 Hyd – Rhag 2017</b>	<b>Cynnig Ch4 Ion – Maw 2018</b>	<b>Cyfanswm i'w Gynnig 2017/2018</b>
Pren ymyl ffordd	16,750 o dunelli	12,563 o dunelli	8367 o dunelli	4,189 o dunelli	41,877 o dunelli
Coed sy'n sefyll	78,000 m <sup>3</sup> obs	51,000 m <sup>3</sup> obs	12,000 m <sup>3</sup> obs		141,000 m <sup>3</sup> obs
<b>Cyfanswn yr unedau cyflenwi</b>	<b>94,750</b>	<b>63,563</b>	<b>20,367</b>		<b>182,877</b>

- 2.50 Er bod yr atodlen a roddwyd i Lywodraeth Cymru yn nodi bod 182,877 o unedau cyflenwi wedi cael eu cynnig i'r Gweithredwr Melin Lificio, fel y dengys Tabl 3, cynigiwyd 240,075 o unedau cyflenwi i'r Gweithredwr Melin Lificio. Roedd y cyfaint a nodwyd yn y wybodaeth a roddwyd i Lywodraeth Cymru wedi'i danddatgan o 30.6% am nad oedd yn cynnwys y cyfaint cyflenwad arfaethedig a oedd hefyd wedi cael ei gynnig o dan y cynnig ar gyfer trefniadau trosiannol. Mae CNC wedi dweud wrth fy archwilydd ei fod yn derbyn 'y dylai'r cyfaint cyfan fod wedi'i nodi yn yr atodlen'. Ni nododd yr e-bost at Lywodraeth Cymru fod CNC, yn gynharach y bore hwnnw, wedi cytuno i gontractio â'r Cwmni Cynaeafu Pren yn drosiannol ar gyfer coed sy'n sefyll (gweler paragraffau 2.43 a 2.54).
- 2.51 Yn ddiweddarach y bore hwnnw, anfonodd y Gweithredwr Melin Lificio ei lythyr llofnodedig at CNC yn cytuno i 'gyd-drafod yn ddidwyll' a chopi llofnodedig o'r atodlen gyflenwi roedd CNC wedi'i hanfon ato ar 31 Mawrth 2017. Ar ôl derbyn yr e-bost hwn, ysgrifennodd Pennaeth Gweithrediadau Masnachol dros dro CNC at Brif Weithredwr a Phennaeth Gwasanaethau Cyfreithiol CNC ar y pryd yn nodi bod y Gweithredwr Melin Lificio wedi cytuno i'r trefniadau ôl-derfynu ar gyfer y contractau hirdymor. Ysgrifennodd hefyd at Lywodraeth Cymru yn ei hysbysu bod y Gweithredwr Melin Lificio wedi cytuno i ddirwyn y contractau hirdymor i ben a bod y 'rheswm dros ddileu'r cyflenwad yn raddol dros gyfnod o fisoedd nid yn unig yn galluogi [y Gweithredwr Melin Lificio] i ymaddasu at derfynu'r contractau hirdymor hyn, ond ei gwneud yn bosibl i'r gadwyn gyflenwi gynllunio ac addasu ar gyfer derfynu'r contractau hyn. Bydd hefyd yn osgoi effaith andwyol ar incwm pren CNC a fyddai'n ganlyniad anochel i'r tarfu sy'n gysylltiedig â therfynu'r holl gyflenwad yn gyfan gwbl'.
- 2.52 Ymatebodd Prif Weithredwr CNC ar y pryd i'r Pennaeth Gweithrediadau Masnachol dros dro yn nodi 'yr ymddengys bod y broses derfynu wedi mynd rhagddi'n ddiraffferth iawn ac rwy'n falch ein bod yn gallu dod i gytundeb cyn diwedd mis Mawrth'. Aeth yn ei flaen i nodi 'fodd bynnag yn ystod cyfarfod nesaf y Pwyllgor Cyfrifon Cyhoeddus mae'n debygol y bydd yn pwyso arnaf i ddweud pam y dewiswyd y cyfeintiau hyn a sut maent yn cymharu â'r contractau blaenorol. Yn benodol, nodaf fod [cyfaint y contract ar gyfer un ardal goedwig] yn uwch na'r cyfaint yn y contract gwreiddiol. Byddwn hefyd yn ddiolchgar am esboniad o'r gwahaniaethau mewn prisiau y mae'r [Pennaeth Marchnata] yn cyfeirio atynt. A allwn gael nodyn briffio i ymdrin â'r pwyntiau hyn?'
- 2.53 Anfonodd y Pennaeth Marchnata ar y pryd e-bost at y Prif Weithredwr ar y pryd gydag ymatebion i'w ymholiadau. Wrth ateb y cwestiwn ynghylch 'pam y dewiswyd y cyfeintiau hyn', nododd y Pennaeth Marchnata, 'defnyddiwyd dull colli ac ennill i wneud i'r cyfaint cyfan gydweddu â chymhareb cyfran y buddsoddiad a wnaed gan [y Gweithredwr Melin Lificio], dim ond 12,000 allan o 30,000 (40%) a gynigiwyd iddo ar y contract sbriws sy'n sefyll ar gyfer y canolbarth, er enghraifft'. Nododd y Pennaeth Marchnata hefyd y cynnydd (o gymharu â'r contractau hirdymor) ym mhrisiau gwerthu pren llarwydd a negodwyd yn y cyfarfod ar 28 Mawrth 2017.

2.54 Ychydig cyn 5pm ar 3 Ebrill 2017, anfonodd y Pennaeth Marchnata e-bost at y Cwmni Cynaeafu Pren yn cadarnhau bod y canlynol wedi cael ei drafod mewn galwad ffôn y bore hwnnw ac yn nodi'r canlynol:

- Roedd y contractau hirdymor wedi cael eu terfynu ganol nos 31 Mawrth 2017.
- Ni fyddai 'ymgodiad yn y pren' nes bod contractau newydd wedi cael eu rhoi ar waith â'r [Cwmni Cynaeafu Pren].
- Byddai 'tybiaeth' y byddai'r boncyffion a'r bariau a oedd yn addas ar gyfer y Gweithredwr Melin Lifio o'r safleoedd gwaith presennol 'a'r rhai a gynigiwyd yn y trefniant camu allan yn cael eu gwerthu i'r Gweithredwr Melin Lifio.
- Byddai pob llannerch newydd yn cael ei gwerthu yn ôl y prisiau newydd am bren llarwydd y cytunwyd arnynt â'r [Gweithredwr Melin Lifio] ar 31 Mawrth 2017.
- Byddai pob contract a oedd wedi'i weithio'n rhannol yn cael ei ailddyfarnu i'r [Cwmni Cynaeafu Pren] yn uniongyrchol o dan y contractau newydd.
- Byddai pob llannerch newydd hefyd yn cael ei dyfarnu i'r [Cwmni Cynaeafu Pren] yn uniongyrchol o dan y contractau newydd.
- Roedd yn synhwyrol cytuno ar gymal cytundebol a nododd bod [y Gweithredwr Melin Lifio] yn cael y boncyffion a'r bariau addas.
- 'Y cyfaint i'w gynnig eleni yw 42,000m<sup>3</sup> obs o dan drefniant Llanymddyfri a [72,000m<sup>3</sup> obs] o dan drefniant [Coed y Cymoedd] ..... Roedd CNC yn bwriadu contractio'r holl gyfeintiau erbyn diwedd [Chwarter 3].

2.55 Ar 6 Ebrill 2017, anfonodd y Cwmni Cynaeafu Pren e-bost at Bennaeth Marchnata CNC yn gofyn am i'r contractau newydd gael eu llunio'n gynt ac yn gofyn am gadarnhad 'y bydd CNC yn negodi'r holl gyfeintiau sy'n weddill ar y [cytundebau hirdymor ar gyfer coed llarwydd sy'n sefyll] â ni? I bob diben, nid oes dim yn y cytundeb rhwng CNC/[y Gweithredwr Melin Lifio] sy'n rhoi hawl iddo negodi'r cyfaint sy'n weddill yn y dyfodol. Dim ond yr hawl i gael y boncyffion a'r bariau sy'n ymwneud â'r cnydau sy'n sefyll sydd ganddo.'

2.56 Ymatebodd Pennaeth Marchnata CNC yn ddiweddarach y diwrnod hwnnw, gan nodi: 'Y cytundeb yw y byddwn yn sicrhau bod y cyfeintiau a nodwyd gennym ar gael. Mae wedi cytuno mai chi fydd yr asiantau i gynaeafu'r cyfaint sy'n weddill o hyd? Ni all brynu'r pren yn uniongyrchol felly chi fydd yn cael y contractau yn niffyg unrhyw drefniant arall. O'm rhan i, bydd yn cael mynediad at y coed llarwydd a sbriws ar y safleoedd, ni chafodd mân-rywogaethau eu trafod ac ni chafodd prisiau eu haddasu, felly byddai'n well pe baent yn cael eu marchnata'n lleol, gwerth gorau os bydd yn barod i dalu'r pris hwnnw, gorau oll. Nid yw'r [Gweithredwr Melin Lifio] erioed wedi cyd-drafod y lleiniau unigol yn y gorffennol felly pam byddai am wneud hynny nawr? Byddwn yn disgwyl y câi'r matrices ar gyfer cyfraddau cynaeafu eu defnyddio o hyd. Mae ein rheolwyr contractau yn gweithio ar hyn mor fuan â phosibl ond mae'n waith ychwanegol ac mae'n rhaid dod o hyd i amser i'w wneud, mae ganddynt derfynau amser gwerthu eraill i'w bodloni hefyd. Os na wnânt hynny ni fydd unrhyw gynigion ym mis Mehefin'.

# Rhan 3

## 3. Dyfarnu contractau trosiannol

### Awdurdodi Contractau

- 3.1. Rhwng mis Ebrill 2017 a mis Mawrth 2018, ymrwymodd CNC i 59 o gontractau trosiannol.
- 3.2. Roedd 11 o'r contractau hyn yn ymwneud â gwerthu pren ymyl ffordd i'r Gweithredwr Melin Lifio, roedd 11 yn ymwneud â gwerthu coed sy'n sefyll i gwmni cynaeafu pren y Gweithredwr Melin Lifio ac roedd 38 yn ymwneud â gwerthu coed sy'n sefyll i'r Cwmni Cynaeafu Pren. Yna, tynnodd CNC dri o'r contractau a ddyfarnwyd i'r Cwmni Cynaeafu Pren yn ôl ac mae wedi dweud wrth fy archwilwyr mai oedi ar ran y Cwmni Cynaeafu Pren cyn dechrau gweithrediadau cynaeafu oedd y rheswm dros hyn.
- 3.3. Mae Bwrdd CNC wedi mabwysiadu Cynllun Dirprwyo Ariannol o'r enw 'Rheoli Ein Harian'. O dan y cynllun hwn mae pob un o weithgareddau ariannol CNC wedi cael ei ddirprwyo i lefel awdurdod neu ddeiliad swydd penodol y cytunwyd arni/arno. Mae'n caniatáu i'r Bwrdd ddirprwyo'r cyfrifoldeb am wneud penderfyniadau ar faterion ariannol penodol.
- 3.4. Drwy'r Cynllun Dirprwyo mae Bwrdd CNC yn dirprwyo ei swyddogaeth o ran ymrwymo i gontractau i aelodau unigol o staff ac mae'n ffordd o reoli risg a gonestrwydd ariannol.
- 3.5. Mae Tabl 5 yn amlinellu'r deiliaid swydd yn CNC sydd wedi cael eu nodi yn y Cynllun Dirprwyo fel rhai sydd wedi cael awdurdod i ymrwymo i gontractau gwerthu pren ar ran CNC.

Tabl 5: Awdurdod Dirprwyedig i gymeradwyo gwerthiannau pren: Rheoli Ein Harian

Terfyn	Corff neu Berson(au) Awdurdodedig
£250,000 a throsodd	Pennaeth Menter
Hyd at £250,000	Pennaeth Marchnata neu Bennaeth Cynaeafu
Hyd at £100,000	Rheolwr Gwerthiannau'r Gogledd neu Reolwr Gwerthiannau'r De neu'r Rheolwr Systemau Busnes Gweithrediadau

- 3.6. Yn ystod yr archwiliad, canfu fy archwilwyr nad oedd 13 o'r contractau trosiannol wedi cael eu cymeradwyo yn unol â Chynllun Dirprwyo CNC, ac mewn pump o'r achosion hyn, nid oedd CNC yn gallu dangos bod y contractau wedi cael eu hawdurdodi gan unrhyw un o swyddogion CNC. Mae Tabl 6 yn rhoi crynodeb o awdurdodiadau'r contractau.

Tabl 6: Crynodeb o awdurdodiadau'r contractau yn erbyn gofynion Rheoli ein Harian

Contractwr	Nifer y contractau	Wedi'i awdurdodi yn unol â'r Cynllun Dirprwyo Ariannol	Gwerth y contract uwchlaw terfyn dirprwyo'r swyddog awdurdodi	Heb ei awdurdodi gan CNC
Gweithredwr Melin Lifio	11	5	6	0
Cwmni Cynaeafu Pren	38	34	1	3
Cwmni cynaeafu pren y Gweithredwr Melin Lifio	10	7	1	2
<b>Cyfanswm</b>	<b>59</b>	<b>46</b>	<b>8</b>	<b>5</b>

3.7. Amcangyfrifwyd bod y contractau heb eu hawdurdodi'n briodol yn werth £2,752,248 a chafodd CNC incwm o £1,868,773 mewn perthynas â'r contractau hyn yn 2017-18.

## Telerau a Phrisiau Contractau

- 3.8. Roedd y contractau trosiannol yr ymrwymodd CNC iddynt yn ystod 2017-18 yn rhai cyffredinol ar gyfer gwerthiannau pren. Fodd bynnag, ym mhob contract â'r Cwmni Cynaeafu Pren mewnosododd CNC deler cytundebol ansafonol yn nodi, 'bydd y prynwr yn y lle cyntaf yn cynnig yr holl foncyffion llarwydd, bariau llarwydd a baria sbrwys sy'n deillio o'r contract hwn i [y Gweithredwr Melin Lifio]. Gellir marchnata pob rhywogaeth/cynnyrch arall i sicrhau gwerth gorau. Bydd yn rhaid hysbysu CNC o'r holl brisiau wrth y gât a sicrhawyd'. Dywedodd Pennaeth Gweithrediadau Masnachol dros dro CNC wrth fy archwilwyr fod cynnwys y telerau cytundebol ansafonol yn beth 'eithriadol' ac nad oedd unrhyw un o gontractau gwerthu pren eraill CNC wedi cynnwys telerau tebyg.
- 3.9. Nid yw'r contractau yn pennu'r pris gros i'w dalu gan y Gweithredwr Melin Lifio i brynu boncyffion llarwydd, bariau llarwydd a bariau sbrwys a gynaeafwyd gan y Cwmni Cynaeafu Pren.
- 3.10. Mae nodiadau'r cyfarfod rhwng swyddogion CNC a'r Gweithredwr Melin Lifio ar 28 Mawrth 2017 yn nodi bod y Gweithredwr Melin Lifio 'wedi cytuno i ystyried cynyddu pris y deunydd llarwydd sy'n mynd i'w felin lifio [yng Nghymru]; cyflwynodd CNC gynnig prisio'. Nid yw CNC wedi gallu rhoi copi o unrhyw gynnig prisio a gyflwynwyd i'r Gweithredwr Melin Lifio i'm harchwilwyr. Fodd bynnag, fel y'i nodir ym mharagraff 2.45, ar 31 Mawrth 2017 anfonodd cynrychiolydd y Gweithredwr

Melin Lifio e-bost at Bennaeth Marchnata a Phennaeth Cynaeafu CNC ar y pryd, 'i gadarnhau'r prisiau a drafodwyd'. Nodwyd y byddai prisiau sbrîws yn unol â dull y [contract hirdymor] a phrisiau pren llarwydd 'ar gyfer y 12 mis nesaf'. Roedd y prisiau a nodwyd yn yr e-bost fel a ganlyn:

**Prisiau sbrîws yn unol â dull y contract:**

Boncyff £46.05 wrth ymyl ffordd<sup>2</sup>

Bar £42.94 wrth ymyl ffordd

**Prisiau pren llarwydd ar gyfer y 12 mis nesaf:**

Boncyff £46.46 wedi'i ddsbarthu<sup>3</sup>

Bar £38.50 wedi'i ddsbarthu.

- 3.11. Er nad yw wedi'i nodi'n benodol yn yr e-bost, mae'n amlwg o'r contractau yr ymrwymwyd iddynt fod y prisiau uchod yn cyfeirio at bris y dunnell.
- 3.12. Mae e-bost mewnol oddi wrth y Pennaeth Marchnata ar y pryd at y Pennaeth Gweithrediadau Masnachol dros dro ar 3 Ebrill 2017 yn nodi 'bod y cynnydd ym mhrisiau pren llarwydd fel a ganlyn, mae boncyffion yn cynyddu £4.46 y dunnell, mae bariau yn cynyddu £6.50 y dunnell'. Roedd y cynnydd yn ymwneud â'r prisiau am bren llarwydd a oedd wedi bod yn gymwys yn y contractau hirdymor a gafodd eu terfynu.
- 3.13. Ar 21 Ebrill, anfonodd Rheolwr Gwerthiannau Pren y De CNC e-bost at aelodau eraill o dîm gwerthu CNC ar ôl trafodaeth a gynhaliwyd ganddi gyda chynrychiolydd y Gweithredwr Melin Lifio. Yn yr e-bost nododd y prisiau roedd yn ystyried eu bod wedi'u cytuno mewn perthynas â phrisiau'r contractau trosiannol. Roedd y prisiau a nodwyd yn gyson â'r rhai a nodwyd ym mharagraff 3.10. Fodd bynnag, mae'r e-bost yn darparu ychydig o wybodaeth ychwanegol:
- cytunwyd ar bris o £11 y dunnell o ran y gyfradd cludo i'w chymhwyso at bren llarwydd ac felly y pris ymyl ffordd am foncyffion llarwydd y dunnell oedd £35.46 (£46.46 - £11.00) a bariau llarwydd £27.50 (£38.50 - £11.00);
  - chytunwyd ar bris o £8.50 y dunnell o ran y gyfradd cludo i'w chymhwyso at bren sbrîws ac felly y pris wedi'i ddsbarthu am foncyffion sbrîws oedd £54.55 y dunnell (£46.05 + £8.50) a £51.44 am fariau sbrîws (£42.94 + £8.50).

<sup>2</sup> Pris ymyl ffordd yw'r pris y bydd y prynwr yn ei dalu os bydd yn prynu wrth ymyl y ffordd, h.y. y pris gwerthu gros llai'r costau cludo a delir gan y prynwr yw'r pris ymyl ffordd.

<sup>3</sup> Prisiau wedi'u ddsbarthu yw'r prisiau y bydd y prynwr yn eu talu os caiff y cynnyrch ei ddsbarthu i'w safle. Fodd bynnag, os oes rhaid i'r prynwr gludo'r cynnyrch i'w safle, caiff y pris wedi'i ddsbarthu ei wrthbwysu gan gostau cludo.

- 3.14. Dywedodd CNC wrth fy archwilwyr fod y cyfraddau uchod wedi cael eu cymhwyso at bob un o'r 59 o gontractau trosiannol, p'un a oedd y contractau hynny yn ymwneud â'r Gweithredwr Melin Lifio, cwmni cynaeafu pren y Gweithredwr Melin Lifio neu'r Cwmni Cynaeafu Pren.
- 3.15. Fodd bynnag, canfu fy archwilwyr, er i'r prisiau a nodwyd uchod gael eu cymhwyso at y contractau ymyl ffordd y cytunwyd arnynt â'r Gweithredwr Melin Lifio, na chawsant eu cymhwyso'n llawn at y contractau a luniwyd â chwmni cynaeafu pren y Gweithredwr Melin Lifio na'r Cwmni Cynaeafu Pren.
- 3.16. Canfu fy archwilwyr fod y symiau a nodwyd yn y cyfraddau cludo ar gyfer contractau gwerthu coed sy'n sefyll â chwmni cynaeafu pren y Gweithredwr Melin Lifio a'r Cwmni Cynaeafu Pren yn uwch na'r cyfraddau a nodwyd yn yr e-bost dyddiedig 21 Ebrill 2017 yn y rhan fwyaf o achosion. O ganlyniad, cafodd CNC lai o incwm nag y byddai wedi'i gael pe bai'r cyfraddau a nodwyd yn yr e-bost dyddiedig 21 Ebrill 2017 wedi cael eu cymhwyso.
- 3.17. Canfu fy archwilwyr hefyd fod 17 o'r contractau â'r Cwmni Cynaeafu Pren (a ddsbarthwyd yn gontractau 'cyflenwad arfaethedig' gan CNC) wedi cael eu priso ar yr un cyfraddau â'r rhai yn y contractau hirdymor a gafodd eu terfynu. Roedd CNC wedi cydnabod ym mis Ionawr 2017 fod y prisiau yn y contractau hirdymor yn is na'r cyfraddau ar y farchnad (gweler paragraff 2.2). Fel y'i nodir yn Nhabl 7, pe bai'r cyfraddau a nodwyd yn yr e-byst dyddiedig 31 Mawrth 2017 a 21 Ebrill 2017 wedi cael eu cymhwyso'n llawn at bob contract trosiannol, byddai CNC wedi cael £186,232 yn fwy o incwm yn ystod 2017-18 na'r hyn a gafodd mewn gwirionedd.

Tabl 7: Y gwahaniaeth yn incwm derbyniadwy CNC yn 2017-18 o ganlyniad i beidio â chymhwyso'r prisiau a nodwyd ar 31 Mawrth 2017 a 21 Ebrill 2017

Gweithredwr Melin Lifio: Contractau ymyl ffordd	£0
Cwmni cynaeafu pren y Gweithredwr Melin Lifio: Contractau Coed sy'n Sefyll	-£58,898
Cwmni Cynaeafu Pren: Contractau Coed sy'n Sefyll, Ddim yn Gyflenwad Arfaethedig	-£110,494
Cwmni Cynaeafu Pren: Contractau Coed sy'n Sefyll, Ddim yn Gyflenwad Arfaethedig	-£16,840
<b>Cyfanswm</b>	<b>-£186,232</b>

- 3.18. Nid yw CNC wedi gallu rhoi unrhyw ddogfennaeth gyfoes i'm harchwilwyr sy'n nodi ar ba sail y pennwyd y prisiau yn y contractau hirdymor na'r camau a gymerodd i sicrhau bod y prisiau yn unol â'r cyfraddau ar y farchnad. Mae'r ddogfennaeth gyfoes, sydd ar glawr, yn awgrymu i'r Gweithredwr Melin Lifio hysbysu CNC o'r prisiau (gweler paragraffau 2.45 a 3.10).



## Cyfeintiau contractau

3.19. Nodir y cyfeintiau o bren y contractiwyd i'w gwerthu o dan y trefniadau trosiannol, a sut roedd hyn yn cymharu â'r symiau a gynigiwyd i'r Gweithredwr Melin Lifio ar 22 Mawrth 2017 a 28 Mawrth 2018 yn Nhabl 8.

Tabl 8: Newidiadau i gyfaint y pren a gynigiwyd o dan y trefniadau trosiannol

Cynnig 22 Mawrth 2017	Cyflenwad arfaethedig ymrwymedig	Cyfaint ychwanegol	Cyfanswm y cyfaint
Pren ymyl ffordd	7,700 o dunelli	5,000 o dunelli	12,700 o dunelli
Coed sy'n sefyll	49,500m <sup>3</sup> obs	129,000m <sup>3</sup> obs	178,500m <sup>3</sup> obs
<b>Cyfanswn yr unedau cyflenwi</b>	<b>57,200</b>	<b>134,000</b>	<b>191,200</b>

Cynnig 28 Mawrth 2017	Cyflenwad arfaethedig ymrwymedig	Cyfaint ychwanegol	Cyfanswm y cyfaint
Pren ymyl ffordd	7,700 o dunelli	41,875 o dunelli	49,575 o dunelli
Coed sy'n sefyll	49,500m <sup>3</sup> obs	141,000m <sup>3</sup> obs	190,500m <sup>3</sup> obs
<b>Cyfanswn yr unedau cyflenwi</b>	<b>57,200</b>	<b>182,875</b>	<b>240,075</b>

Cyfeintiau cytundebol a ddyfarnwyd 2017-18	Gweithredwr Melin Lifio a'i gwmni cynaeafu pren	Cwmni Cynaeafu Pren	Cyfanswm y cyfaint
Pren ymyl ffordd	65,377 o dunelli	0 tunnell	65,377 o dunelli
Coed sy'n sefyll	43,321m <sup>3</sup> obs	210,287m <sup>3</sup> obs	253,608m <sup>3</sup> obs
<b>Cyfanswn yr unedau cyflenwi</b>	<b>108,698</b>	<b>264,991</b>	<b>318,985</b>

3.20. Fel y dengys Tabl 8, roedd cyfaint y pren y contractiwyd i'w werthu i'r Gweithredwr Melin Lifio a'i gwmni cynaeafu pren a'r Cwmni Cynaeafu Pren o dan y trefniadau trosiannol yn gwneud cyfanswm o 318,985 o unedau cyflenwi, sef 72% yn uwch na'r cyfaint mewn m<sup>3</sup> obs a gynigiwyd i'r Gweithredwr Melin Lifio ar 22 Mawrth 2017 a 33% yn uwch na'r hyn a gyd-drafodwyd â'r Gweithredwr Melin Lifio ar 28 Mawrth 2017.

- 3.21. Mae CNC wedi dweud wrth fy archwilwyr nad oedd y cyfeintiau a gynhwyswyd yn y contractau trosiannol a ddyfarnwyd yn 2017-18 yn cyfeirio at 'y cyfeintiau y bwriadwyd i'w cyflenwi' a bod y cyfeintiau a gontractiwyd wedi cael eu chwyddo am fod y cyfaint wedi'i gontractio yn y contractau cyflenwad arfaethedig yn cynnwys swm sylweddol o bren a gafodd ei gynaeafu cyn 1 Ebrill 2017. Nid wyf yn siŵr pam yr ymrwymodd CNC i gontractau newydd i werthu pren a oedd eisoes wedi cael ei gynaeafu a'i werthu o dan gontractau a oedd wedi cael eu terfynu. Mae CNC wedi dweud wrth fy archwilwyr, er ei fod yn derbyn y dylai fod ond wedi cynnwys 'cyfaint yn weddill' yn y contractau, nad oedd erioed wedi bwriadu rhoi cyfeintiau uwch na'r rhai y cytunwyd arnynt yn y cyfarfod â'r Gweithredwr Melin Lifio ar 28 Mawrth, a pharhaodd i weithio yn ôl y cyfeintiau y cytunwyd arnynt yn y cyfarfod hwnnw.
- 3.22. Roedd y cyfaint a gontractiwyd â'r Gweithredwr Melin Lifio a'i gwmni cynaeafu pren a'r Cwmni Cynaeafu Pren yn gwneud cyfanswm o 39.4% o gyfanswm cyfaint y pren y dywedodd CNC yn ei Gynllun Marchnata Pren y byddai'n sicrhau ei fod ar gael i bob prynwr yn 2017-18. Roedd y cyfaint a gontractiwyd yn cyfrif am 97.6% o gyfaint blynyddol gwerthiannau ymyl ffordd a 141% o gyfaint blynyddol gwerthiannau coed sy'n sefyll yn y contractau hirdymor a gafodd eu terfynu.
- 3.23. Ar 4 Mai 2017, anfonodd Prif Weithredwr CNC ar y pryd e-bost a Bennaeth Gweithrediadau Masnachol dros dro CNC yn gofyn am wybodaeth ynglŷn â'r 'trefniadau trosiannol'. Un o'r darnau o wybodaeth y gofynnodd amdano oedd 'cysoni rhwng yr hyn y cytunwyd arno yn y contractau gwreiddiol a'r hyn y bydd y cwmni yn ei gael mewn gwirionedd – o ran cyfaint a gwerth'.
- 3.24. Ar 11 Mai 2017, ymatebodd y Pennaeth Gweithrediadau Masnachol dros dro drwy e-bost i'r Prif Weithredwr ar y pryd yn nodi sail resymegol dros ymrwymo i'r trefniadau trosiannol. Noda'r e-bost: 'Cafodd y penderfyniad i ddirwyn y cyflenwadau i lawr, fel y'i dangosir yn y cyfeintiau dileu'n raddol, ei wneud er mwyn osgoi niweidio'r gadwyn gyflenwi pren ac osgoi effaith andwyol ar incwm pren CNC yn 2017-18. Byddai terfyn sydyn ar y cyflenwad ar 31 Mawrth wedi cael effaith enfawr, gyda gweithrediadau cynaeafu yn dod i ben a chontractwyr yn colli gwaith er nad oes unrhyw fai arnynt hwy. Byddai rhai contractwyr cynaeafu a chlodwyr, yn anochel, wedi mynd i'r wal. Byddai'r amser paratoi cyn ailfarchnata'r cyfaint wedi arwain at ostyngiad mawr yn incwm pren CNC, y byddai wedi bod yn anodd iawn ei unioni gan mai'r gwanwyn yw'r adeg o'r flwyddyn pan welwn y galw mwyaf am bren'. Atodir taenlen i'r e-bost yr haerwyd ei bod yn rhoi cyfrif am gyfaint y pren i'w ddarparu i'w gwerthu o dan y trefniadau trosiannol, a chanran cyfaint gwreiddiol y contractau hirdymor gwreiddiol a fyddai wedi'i gyflenwi i'r Gweithredwr Melin Lifio erbyn diwedd y trefniadau trosiannol. Nid oedd yr e-bost na'r daenlen yn cyfeirio at ymwneud y Cwmni Cynaeafu Pren â'r trefniadau trosiannol.
- 3.25. Nodir crynodeb o'r wybodaeth a ddarparwyd i'r Prif Weithredwr ar y pryd yn Nhabl 9.

Tabl 9: Cyfaint y pren a gynigiwyd o dan y trefniadau trosiannol yn ôl yr e-bost gan Bennaeth Gweithrediadau Masnachol dros dro CNC at Brif Weithredwr CNC ar y pryd dyddiedig 11 Mai 2017.

	Cyfaint gwreiddiol y contractau hirdymor	Cyflenwyd hyd at 31/3/17 o dan y contractau hirdymor	Cyfaint trosiannol 2017-18	Cyfanswm y cyfaint a gyflenwyd	% cyfaint y contractau hirdymor i'w gyflenwi erbyn 31/3/18
Pren ymyl ffordd	670,000 o dunelli	191,300 o dunelli	41,875 o dunelli	233,175 o dunelli	34.8%
Coed sy'n sefyll	1,475,000m <sup>3</sup> obs	498,200m <sup>3</sup> obs	141,000m <sup>3</sup> obs	639,200m <sup>3</sup> obs	43.3%
<b>Cyfanswm yr unedau cyflenwi</b>	<b>2,145,000 o unedau</b>	<b>689,000 o unedau</b>	<b>182,875 o unedau</b>	<b>872,375 o unedau</b>	<b>40.7%</b>

- 3.26. Roedd y cyfaint trosiannol o 182,875 o unedau cyflenwi a nodwyd yn yr atodiad i e-bost gan Bennaeth Gweithrediadau Masnachol dros dro CNC at Brif Weithredwr CNC ar y pryd dyddiedig 11 Mai 2017 wedi'i danddatgan. Fel y dengys Tabl 3, roedd CNC wedi cytuno â'r Gweithredwr Melin Lifio yn ei gyfarfod ar 28 Mawrth 2017 i ddarparu cyfaint trosiannol o 240,075 o unedau cyflenwi.
- 3.27. Mae e-bost eglurhaol y Pennaeth Gweithrediadau Masnachol dros dro at Brif Weithredwr CNC yn nodi 'Rwyf wedi trefnu i'r ffigurau ar werthoedd gael eu darparu ac yn gobeithio eu rhoi i chi yfory [12 Mai 2017]'.
- 3.28. Ar 19 Mai 2017, anfonodd Pennaeth Marchnata newydd ei benodi CNC e-bost at Brif Weithredwr CNC ar y pryd yn atodi fersiwn wedi'i diweddarau o'r daenlen a ddarparwyd i'r Prif Weithredwr ar 11 Mai 2017. Cofnododd y daenlen wedi'i diweddarau fod gwerth amcangyfrifedig y pren a werthwyd i'r Gweithredwr Melin Lifio o adeg cychwyn y contractau hirdymor yn 2014 hyd at 21 Mawrth 2017 yn £11,013,286. Nid yw'r daenlen yn cofnodi gwerth gwerthu amcangyfrifedig y pren yn y contractau trosiannol, er bod y Prif Weithredwr wedi gofyn am y wybodaeth hon yn ei e-bost at Bennaeth Gweithrediadau Masnachol dros dro CNC ar 4 Mai 2017.

# Rhan 4

## 4. Gwerthiannau cytundebol

- 4.1. Yn ei gynllun trosiannol nododd CNC y byddai'n gwerthu'r pren trosiannol yn raddol (gweler Tabl 4) fel y byddai 90% o'r cyfaint ymyl ffordd a holl gyfaint trosiannol coed sy'n sefyll yn cael eu gwerthu erbyn 31 Rhagfyr 2017. Fel y digwyddodd, roedd gan 9 o'r 11 o gontractau ymyl ffordd gyfnodau contract a oedd yn rhedeg tan 31 Mawrth 2018 a pharhaodd gwerthiannau ar y contractau hyn yn ystod mis Mawrth 2018. O'r 48 o gontractau gwerthu coed sy'n sefyll, roedd gan 26 gyfnodau contract a oedd yn ymestyn y tu hwnt i 31 Rhagfyr 2017, ac roedd 10 o'r rhain yn ymestyn i 2018-19. Nid oes gan CNC unrhyw ddogfennaeth sy'n nodi'r sail resymegol dros wyro oddi wrth y cynllun trosiannol.
- 4.2. Mae Tabl 10 yn crynhoi cyfaint y pren a werthwyd yn 2017-18 o dan y contractau trosiannol.

Tabl 10: Pren a werthwyd o dan y contractau trosiannol yn ystod 2017-18 o gymharu â chyfanswm y cyfaint y cytunwyd arno â'r Gweithredwr Melin Lifio a'r cyfaint wedi'i gontractio

	Cynnig 22/03/2017	Cynnig 31/03/2017	Cyfaint wedi'i gontractio	Gwerthiannau trosiannol hyd at 31/03/2018
Pren ymyl ffordd	12,700 o dunelli	49,575 o dunelli	65,377 o dunelli	45,453 o dunelli
Coed sy'n sefyll	178,500m <sup>3</sup> obs	190,500m <sup>3</sup> obs	253,608m <sup>3</sup> obs	132,439m <sup>3</sup> obs
<b>Cyfanswn yr unedau cyflenwi</b>	<b>191,200</b>	<b>240,075</b>	<b>318,985</b>	<b>177,892</b>

- 4.3. Ym mis Rhagfyr 2017, dechreuodd fy archwilwyr archwiliad o'r trefniadau trosiannol, ac ers hynny mae CNC wedi ceisio lleihau faint o bren sy'n cael ei werthu o dan y contractau trosiannol i'r eithaf. Mae hyn wedi golygu atal gweithrediadau ar rai contractau a phenderfynu peidio ag estyn cyfnod y contract ar gontractau eraill lle nad oedd y cyfaint a gontractiwyd wedi cael ei ddarparu erbyn diwedd cyfnod y contract. Mae CNC yn amcangyfrif y bydd 40,300m<sup>3</sup> obs o goed sy'n sefyll yn cael ei werthu i'r Cwmni Cynaeafu Pren yn 2018-19 o dan delerau'r contractau trosiannol.
- 4.4. Mae incwm CNC o'r pren a werthwyd o dan y contractau trosiannol yn 2017-18 yn werth £2.76 miliwn ac amcangyfrifir y bydd yn werth £0.18 miliwn yn 2018-19.

Wales Audit Office  
24 Cathedral Road  
Cardiff CF11 9LJ

Tel: 029 2032 0500

Fax: 029 2032 0600

Textphone.: 029 2032 0660

E-mail: [info@audit.wales](mailto:info@audit.wales)

Website: [www.audit.wales](http://www.audit.wales)

Swyddfa Archwilio Cymru  
24 Heol y Gadeirlan  
Caerdydd CF11 9LJ

Ffôn: 029 2032 0500

Ffacs: 029 2032 0600

Ffôn testun: 029 2032 0660

E-bost: [post@archwilio.cymru](mailto:post@archwilio.cymru)

Gwefan: [www.archwilio.cymru](http://www.archwilio.cymru)

We welcome correspondence and telephone calls in Welsh and English.  
Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg.



Ein cyf/Our ref: NRW17-058

Ty Cambria / Cambria House  
29 Heol Casnewydd / 29 Newport Road  
Caerdydd / Cardiff  
CF24 0TP / CF24 0TP

Ebost/Email:

[clare.pillman@naturalresourceswales.gov.uk](mailto:clare.pillman@naturalresourceswales.gov.uk)

Ffôn/Phone: 0300 065 4453

Mr Nick Ramsay  
Chair  
National Assembly for Wales, Public Accounts  
Committee  
National Assembly for Wales  
Cardiff Bay  
Cardiff  
CF99 1NA

12 September 2018

Dear Nick,

### **Natural Resources Wales Response to Annual Report and Accounts Scrutiny 2015/16**

In June I wrote to you to outline the approach we have taken in response to the original action plan following the Public Accounts Committee scrutiny of our Annual Report and Accounts 2015/16.

In advance of our session at the Public Accounts Committee on 24 September I enclose an updated action plan summarising further progress.

Since I wrote to you last, I have commissioned Grant Thornton LLP to undertake a comprehensive review of the key commercial business areas, governance arrangements and the behavioural and cultural aspects that led to the award of the Long-Term Timber Sales Contracts and the transitional arrangements that were subsequently put in place. Grant Thornton have already met with me, NRW Board Members and Wales Audit Office. I would note that parts of our original action plan may be supplemented by any recommendations or learning out of the Grant Thornton review.

I would like to take this opportunity to ask whether I am allowed to make an opening statement at our session on 24 September?

With best wishes,

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

A copy of this letter has been sent to:

- Andrew Slade, Director of Environment and Rural Affairs at Welsh Government
- Wendy Burris, Welsh Government Sponsorship Team
- Derwyn Owen, Wales Audit Office

**PAC Recommendation 1: We recommend that Natural Resources Wales undertake a full evaluation of its governance arrangements relating to contracting processes, clearly setting out lessons learned with specific reference to timber sales contracts referred to in this report.**

Action Ref.	NRW Action	NRW Lead	How we will do this	Status	Progress update
1.1 Tudalen y pecyn 183	Identify the key areas of the organisation that are charged with entering or the ongoing management of contracts.	Executive Director of Finance and Corporate Services	Consider the breadth of NRW operational and corporate work and acknowledge teams that are involved in contract management.	Completed	Teams Identified: <ul style="list-style-type: none"> <li>Enterprise: Timber Production; Energy Development; Other Estate Income; Recreation and Tourism; Analytical Services.</li> <li>Corporate: Procurement; Grants &amp; Partnerships, Future Regulations and initiatives delivered jointly with other bodies</li> </ul>
1.2	Review the process of evaluation, negotiation and awarding of contracts and other external commitments for the key areas identified in action 1.1	Head of Governance and Planning	Governance process mapping of Procurement (goods, works and services); Projects (non flood), Projects (flood); Timber Sales; Grants and Collaborative Agreements.  The following teams follow non flood project governance processes: Analytical Services, Energy Delivery, Future Regulation	Completed	A continuous improvement project was completed to process map decision making, approvals, roles and responsibilities within our contract management frameworks. This work was superseded by development of the Commercial Activity Governance Policy to support the Enterprise Plan.



OFFICIAL – SENSITIVE

Action Ref.	NRW Action	NRW Lead	How we will do this	Status	Progress update
1.3  Tudalen y pecyn 184	<p>Review governance arrangements of Sales and Procurement contracts to ensure all 'significant' contracts let without competition (individually or collectively) are:</p> <ul style="list-style-type: none"> <li>considerate of the approval limit within the FSoD of the letting of timber sales contracts</li> <li>the rationale for letting contracts without competition is documented, including clear evidence of matters such as urgency and market conditions or evidence that there is only one suitable or available purchaser; and</li> <li>the letting is subject to consideration of procurement regulations, State Aid and risk of legal challenge.</li> <li>Audit and Risk Assurance Committee will be briefed about the new controls for timber contracts let without competition, (by 7 June 2018)</li> </ul>	<p>Head of Commercial Services - Sales Contracts</p> <p>Head of Procurement - Purchase Contracts</p>	<p>Significant has been defined as £5m for Procurement and £0.5m for Commercial Activity.</p>	Completed	Head of Sales and Marketing has developed a STA form and guidance.
			<p>It has been determined that significant in the context of contracts let without competition shall be the OJEU limit, currently set at £106k.</p>	On-going	We continue to refine our reporting to ARAC and expect the external review by Grant Thornton to inform ways of working
			<p>The Head of Commercial Operations will be responsible for informing NRW's ARAC in the event that a contract without competition reaches this threshold.</p>	On-going	As part of the restructure, recruitment of a new Head of Commercial Services, reporting to Executive Director of Finance and Corporate Services, is underway.
			<p>In addition, Head of (Timber) Sales and Marketing will develop a new Single Tender Action (STA) process which includes clear justification (like that used by Procurement) to document contracts awarded without competition. This process will consider State Aid compliance.</p>	Completed	See above
1.4	<p>Review and strengthen the controls around financial decisions and external commitments which involves commitments entered into without open competition.</p>	<p>Head of Commercial Services - Sales Contracts</p>	<p>Controls have been reviewed along with our financial scheme of delegation and the procedures for current and future activity under the Enterprise Plan.</p> <p>Clarify existing procedures for certain types of commercial agreements such as 3rd party Access requests Where there is no such process, we will develop a generic STA for non-timber</p>	On-going	<b>Grant Thornton are reviewing these controls.</b>

OFFICIAL – SENSITIVE

Action Ref.	NRW Action	NRW Lead	How we will do this	Status	Progress update
1.5  Tudalen y pecyn 185	Ensure teams handling contract decisions are aware of NRW response to improve quality of documentation and records of decision making (See action 2.4)	Head of Governance and Planning	commercial agreements entered into without competition	On-going	<p>Our Document Management System (DMS) provides our corporate repository of information and evidence which is used to inform future decisions, provide a clear audit trail and enable historical research,</p> <p>We have already provided staff across NRW with training on using the DMS which is a key tool in providing evidence of transparency and accountability through our decisions.</p> <p><b>Grant Thornton are reviewing these controls.</b></p>
			<p>Provide training as part of the Public Law Training in action point 2.4</p>		
1.85	A protocol is put in place for handling post contract negotiations and evidence requirements of any amendments.	Head of Commercial Services	The Head of Sales and Marketing will assess the guidance that we have to ensure it fit for purpose	On-going	<b>Grant Thornton are reviewing these controls.</b>
			An assessment will be made of the way in which the Timber Management Package (TMP) system embeds the guidance into the business process in a way that is proportionate to risk and the level of authority required.	On-going	Further development of the TMP is currently being assessed.  <b>Grant Thornton are reviewing these controls.</b>
			We will evaluate the potential to develop system reports in TMP to monitor performance.	On-going	See above

Action Ref.	NRW Action	NRW Lead	How we will do this	Status	Progress update
1.7	Enterprise Programme Board to review their process to ensure they are effective in challenging / scrutinising all aspects of new commercial enterprises.	Head of Commercial Services	Following approval of our new Enterprise Plan July 2017 a Commercial Activity Policy Project has been set up to develop governance and scrutiny arrangements of current and future activities under the new structure.	On-going	Commercial Activity Policy approved by Executive Team in June 2018.  Detailed procedures are now being drafted.

Tudalen y pecyn 186

**PAC Recommendation 2: We recommend Natural Resources Wales review its delegation arrangements alongside its awareness raising of State Aid law, public law and the processes for awarding contracts. We recommend the findings of this evaluation are shared with the Public Accounts Committee to enable this Committee to monitor implementation and progress against identified changes.**

Action Ref.	NRW Action	NRW Lead	How we will do this	Status	Progress update	
Tudalen y pecyn 187	2.1	Review the Financial Scheme of Delegation (FSoD) to ensure that the appropriate checks / actions / escalation required when dealing with novel, contentious and repercussive issues are included in sign off procedures.	FSoD Coordinator	FSoD has been reviewed. Instructions are clear however broader examples will be added during our next revision of the scheme.	On-going	An amended definition describing novel, contentious and repercussive transactions was agreed at Executive Team in August 2018 and will be considered for NRW Board approval in September 2018. .
	2.2	Review Non-Financial Scheme of Delegation to ensure appropriate checks / actions / escalations that are required when dealing with novel, contentious and repercussive issues are included in sign off procedures.	Governance Partner	NFSoD requires full review in 2018 following Organisational Design restructure of the organisation.	On-going in line with OD timetable.	Organisational Design is on track for 1 April 2019.  As part of the restructure, recruitment of a new Head of Commercial Services, reporting to Executive Director of Finance and Corporate Services, is underway.
	2.3	Develop a workshop to cover State Aid and deliver to staff in the following teams (deemed as most likely to encounter these issues): <ul style="list-style-type: none"> <li>• Grants and Partnerships,</li> <li>• New Enterprises,</li> <li>• Future Regulations</li> <li>• Procurement</li> </ul>	Head of Legal Services	State Aid workshops delivered identified staff during September and October 2017.  State Aid staff guidance document prepared.	Completed	5 State Aid workshops have been delivered to 81 staff in identified teams.  A guidance document was prepared and shared with all attendees.

OFFICIAL – SENSITIVE

Action Ref.	NRW Action	NRW Lead	How we will do this	Status	Progress update
2.4	<p>Develop a presentation on Public Law including documentation of decision making and concepts of novel, contentious and repercussive issues; and deliver to staff in the following teams (deemed as most likely to encounter these issues):</p> <ul style="list-style-type: none"> <li>• Grants and Partnerships</li> <li>• New Enterprises</li> <li>• Future Regulations</li> <li>• Procurement</li> </ul>	Head of Legal Services	Provide a Public Law presentation to relevant NRW teams.	Completed	<p>8 Public Law sessions have been delivered to 166 staff in identified teams.</p> <p>This is now part of a programme of legal training for staff across the organisation. Further workshops in Autumn 2018 already have an additional 109 staff signed up.</p>
	Share results with Public Accounts Committee through this action plan and subsequent update.	Chief Executive	To be shared with PAC in November 2017.	Completed	Action Plan progress was shared with the PAC in November 2017, a follow up letter in April 2018, and this action plan update in September 2018.

Tudalen 9 y pecyn 188

**PAC Recommendation 3: We recommend that Natural Resources Wales review its internal governance arrangements to ensure that its accounting officer, Executive Team and Board should have a much greater role in scrutinising contracting processes and the awarding of contracts. It is imperative that these processes are robust with a clear and demonstrable audit trail that decisions have been taken on a fair and sound basis.**

Action Ref.	NRW Action	NRW Lead	How we will do this	Status	Progress update
3.1  Tudalen y pecyn 189	Review internal governance arrangements to ensure <ul style="list-style-type: none"> <li>• clarity of the remit of Boards and Committees</li> <li>• appropriateness of the escalation routes</li> <li>• effectiveness of the oversight they provide</li> </ul>	Head of Governance and Planning	Board and sub-committee Terms of Reference reviewed during summer 2017.	Completed	All Terms of Reference are reviewed annually.
			We are introducing standardised internal governance arrangements to address planning, performance, risks management, with new escalation routes and scrutiny.	On-going	This review is integral to the work of the Business Boards that are being created as part of Organisational Design and how they will operate.  New Executive Team ways of working have been implemented to ensure effective oversight of organisation.  Senior management corporate governance training is booked in November 2018
3.2	Review NRW Governance arrangements to ensure all 'significant' income and expenditure contracts (above a financial ceiling to be set by NRW) should: <ul style="list-style-type: none"> <li>• consider the approval limit within the FSoD of</li> </ul>	Head of Commercial Services - Sales Contracts  Head of Procurement - Purchase Contracts	Significant has been defined as £5m for Procurement and £0.5m for Commercial Services	Ongoing	The FSoD Co-ordinator in consultation with the Enterprise team is working on ensuring that procedures comply with the thresholds set by NRW and this work will be included as an output of the commercial activity governance project.

Action Ref.	NRW Action	NRW Lead	How we will do this	Status	Progress update
Tudalen y pecyn 190	<p>the letting of timber sales contracts</p> <ul style="list-style-type: none"> <li>• be referred to Executive Committee/NRW Board for approval; and</li> <li>• be subjected to appropriate scrutiny which may include seeking legal advice on State aid rules and/or compliance with procurement regulations, and formal consideration as to whether the contracts should be referred to the Welsh Government as potentially novel, contentious or repercussive.</li> </ul>				<b>Grant Thornton are reviewing these controls.</b>
	<p>3.8 Roll out an initiative to improve the quality of</p> <ul style="list-style-type: none"> <li>• the documentation submitted to the Boards, Committees and Senior Management Groups</li> <li>• the record taking to document decisions they make.</li> </ul>	Head of Governance and Planning	Revised templates have been established for Terms of Reference, Agenda Planning, Agenda Standing Items, Minutes, Actions Logs Risk Registers etc.	Ongoing	<p>Work continues on standardising Terms of Reference and associated documents for the various Boards, Committees and Senior Management Groups.</p> <p>See above re. Executive Team ways of working.</p>