



Cynulliad
Cenedlaethol
Cymru

National
Assembly for
Wales

Cofnod y Trafodion The Record of Proceedings

[Y Pwyllgor Cyfrifon Cyhoeddus](#)

[The Public Accounts Committee](#)

22/5/2017

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Cofnodir y trafodion yn yr iaith y llefarwyd hwy ynnddi yn y pwyllgor. Yn ogystal, cynhwysir trawsgrifiad o'r cyfieithu ar y pryd. Lle mae cyfranwyr wedi darparu cywiriadau i'w tystiolaeth, nodir y rheini yn y trawsgrifiad.

The proceedings are reported in the language in which they were spoken in the committee. In addition, a transcription of the simultaneous interpretation is included. Where contributors have supplied corrections to their evidence, these are noted in the transcript.

Mike Usher Swyddfa Archwilio Cymru
Wales Audit Office

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

Fay Buckle Clerc
Clerk

Claire Griffiths Dirprwy Glerc
Deputy Clerk

Katie Wyatt Cyngorydd Cyfreithiol
Legal Adviser

*Dechreuodd y cyfarfod am 14:02.
The meeting began at 14:02.*

**Cyflwyniad, Ymddiheuriadau, Dirprwyon a Datgan Buddiannau
Introductions, Apologies, Substitutions and Declarations of Interest**

[1] **Nick Ramsay:** Welcome to this afternoon's meeting of the Public Accounts Committee. Headsets are available for translation and for sound amplification. Could Members please turn any electronic devices on to silent? In an emergency, please follow the ushers. We've received two apologies today, from Lee Waters and Mohammad Asghar. Do any Members have any declarations of interest that they wish to make at this point? No, okay.

14:03

**Papurau i'w Nodi
Papers to Note**

[2] **Nick Ramsay:** Item 2 and, first of all, if we can agree the minutes of the last meeting. Also, we have a letter from the Cabinet Secretary for Finance and Local Government on 'Reforming Local Government: Resilient and Renewed'. Are Members happy to note that letter? I suggest that, on publication of the Bill, the committee writes to the relevant committee Chair, asking that the committee's views be considered as part of Stage 1

consideration of the Bill. Thank you.

**Cyfoeth Naturiol Cymru: Adroddiad Blynyddol a Chyfrifon 2015–16:
Sesiwn Dystiolaeth 2
Natural Resources Wales: Annual Report and Accounts 2015–16:
Evidence Session 2**

[3] **Nick Ramsay:** Item 3 and Natural Resources Wales’s annual report and accounts. Can I welcome our witness? Thank you for being with us today. Would you like to give your name and position for our Record of Proceedings?

[4] **Mr Sulman:** Yes. Good afternoon, my name’s David Sulman. I’m executive director of the UK Forest Products Association.

[5] **Nick Ramsay:** Great. As I say, thank you for being with us. We’ve got a number of questions for you, so, if I can kick off with the first one, I wonder if you could give the committee a brief outline of what the United Kingdom Forest Products Association is, what it does, who it represents and its involvement in forestry matters.

[6] **Mr Sulman:** Certainly. The UK Forest Products Association is a trade association that represents the technical and commercial interests of processors of British grown timber. The association was established in 1996 and it has member companies in Wales, England and Scotland, and about a fifth of our members are located in Wales or the Marches. Our focus is very much on the practical issues affecting the sector on a day-to-day basis. The organisation has a number of regional groups that provide the opportunity for members in different parts of the country to come together to discuss matters of interest or concern, or to be updated on topical matters. And, over the years, the association has developed a number of effective working relationships with organisations in both the public and private sector.

[7] **Nick Ramsay:** You said you cover the Marches—your cross-border area.

[8] **Mr Sulman.** Yes, indeed.

[9] **Nick Ramsay:** Great, that’s really helpful. Mike Hedges has some questions on capacity.

[10] **Mike Hedges:** I don't know if you heard the evidence which was given by Dr Roberts to us, but he certainly gave the indication that larch was not a particularly popular wood, and they were having difficulty in finding somebody to take the quantity they had off their hands. Is that something that you would recognise?

[11] **Mr Sulman:** Not as such. There has always been a market for larch. In fact, to put it into perspective, larch is the third most commonly planted conifer species in the UK. So, it has been around for a long time. Its end uses are well known, although it would true to say that, for some end uses—it's particularly well-suited for some and not others, like most species of timber. So, it would be untrue to say that there wasn't a market and there wouldn't be interest in it.

[12] **Mike Hedges:** In your experience, are there are other sawmill operators throughout the UK, or abroad, who may have had the capacity to handle the volume of timber offered to the sawmill operator? And is there any reason why the volume of timber needing to be processed could not have been shared out across several operators?

[13] **Mr Sulman:** I think that's a good point. Clearly, there was an issue to be dealt with in terms of the way in which Natural Resources Wales had decided to deal with the disease of larch crops. But, having said that, there are a number of sawmills in Wales and in the Marches, and, indeed, elsewhere in the UK, but not necessarily so outwith the UK, who would certainly have the capability and capacity to process larch. I think the key issue here is, perhaps, the way in which NRW chose to offer the larch to the market. And unfortunately, the decision they took was to offer it in such large volumes that the scale of the offer to the market was such that, initially, the volumes were simply too large for the vast majority of their customers to be able to cope with. So, it follows that if they had offered the larch in smaller volumes, I have no doubt that there would have been greater interest from more companies, both in Wales and a little further afield.

[14] **Mike Hedges:** Are we a net importer or a net exporter of larch as a country? Or are we in roughly equilibrium?

[15] **Mr Sulman:** If we look at all wood species, we are still a significant importer of wood. In the case of larch, moderate amounts of larch are imported, and have started to be imported, in recent years, typically from

Siberia. The timber is slightly different to what we grow here in the UK; it's a little more mild. Nonetheless, larch is known about by many sawmillers, and there are many customers who are familiar with it.

[16] **Mike Hedges:** One of the reasons that the single contract was given was that a new saw line had to be constructed—that was one of the reasons we were given. How long does a new saw line take to construct?

[17] **Mr Sulman:** Well, I think the first thing I would say, and it's, perhaps, quite important to appreciate that sawmills cannot be bought off the shelf. They are almost, without exception, bespoke engineering installations. So, before a company would set about placing an order, there's a great deal of behind-the-scenes work that needs to be done in terms of deciding exactly what sort of machinery, and everything that goes with it, would be required. So, a lot of work would be required before you actually finalise one's specification and then went off to speak to sawmill manufacturers. But, assuming that had been done—and that takes quite some time—and once you've agreed the specification with suppliers of sawmill machinery, it would be unusual—and if we look at the scope of the sorts of saw lines we see being installed here in the UK—to see an order placed through to commissioning in anything less than 18 to 24 months. And I should qualify that that sort of period—18 to 24 months—would assume that, at the moment the order was placed, the manufacturer was able to get on with making that saw line. But, of course, there aren't that many saw line manufacturers in the world, and you would expect many of them to have a backlog of orders. So, in fact, that 18 to 24 months could be even longer.

[18] **Mike Hedges:** So, correct me if I've got this wrong—if a company was going to put a saw line in, it would have gone through the process and it couldn't sort of just stop it part of the way through. So, 'The saw line which we were expecting by 31 March 2016 may be late', but, once the process is started, the company has started their bespoke production. Therefore, if it had been ordered two years ago, then it might be late, but it would still be on its way.

[19] **Mr Sulman:** Indeed. The moment the order is placed, a manufacturer would set about the manufacturing process, and various preparations would be undertaken on site—there might be some civil engineering work, there'd be steel work, electrical work. So, a great many processes would be undertaken simultaneously, both on the site and within the manufacturing facility.

[20] **Mike Hedges:** The last question, on capacity, taking you back to something you said earlier, that if it had been broken down into smaller quantities, then you would have had a lot more people interested. I mean, how much smaller?

[21] **Mr Sulman:** Well, I think my response to that would be, if we look at the way in which Natural Resources Wales has traditionally brought its timber to the market, then, if the larch had been handled in that same sort of way, in those sorts of proportions, I have no doubt that there would have been much more interest. If they would have continued in the way in which they traditionally marketed timber—as, indeed, their predecessors, Forestry Commission Wales did—then that would have made a great deal of sense to everybody, I think.

[22] **Mike Hedges:** Okay, thank you.

[23] **Nick Ramsay:** Thanks. Given that the saw line in question hasn't been constructed, do you think that NRW's argument that it had to award such large contracts to the sawmill operator to incentivise it, as they said—do you think that stands up to scrutiny?

[24] **Mr Sulman:** Frankly, I don't think it does. I think the interim period between the contracts being awarded back in 2014 and now proved to us—because we've seen that all of the larch that's come to the market in Wales has been satisfactorily processed and sold into the market, without the need for investment in a wholly new saw line.

[25] **Nick Ramsay:** So, you've answered that question. It clearly is an issue. Neil McEvoy, do you have some questions?

[26] **Neil McEvoy:** Quite a few have been answered already, actually. You've answered the one about markets. You say there has always been a market. I'm just wondering why this committee would be told that there wasn't a market. Have you any idea?

[27] **Mr Sulman:** Frankly, I have no idea. It simply doesn't make any sense. The market in Wales, in terms of the species it uses, is little or no different to the market in England and Scotland—same species, same capabilities. So, for someone to suggest that there wasn't a market for larch doesn't seem to stand up to any scrutiny.

[28] **Neil McEvoy:** When did the marketing of larch change with NRW?

[29] **Mr Sulman:** Well, the significant and almost seismic change, if you like, came about following the discovery of the disease that has ravaged larch crops, and one would certainly not underplay the significance of that disease. It's the first time we've seen this particular disease here in the UK. There was very little experience of this particular disease in other countries, and even less experience in terms of how it affected larch crops. So, there was certainly a major challenge in terms of what to do to address the disease, and what measures might be taken to possibly control its spread, although, frankly, that's largely to do with our climate and what mother nature does, rather than anything else. So, the challenge was to see how the volumes of larch that were having to be felled for plant health purposes could be brought to the market, processed, and then sold. That was a significant challenge, and, as we've seen over the period, a challenge that the sector has risen to and would suggest has done a remarkably good job.

[30] **Neil McEvoy:** I'm not an expert on larch or woods or anything connected to this sector, really. So, if one person says that there was no market, and you come here and say, 'There has always been a market', how could that be demonstrated?

[31] **Mr Sulman:** One could look at utilisation data. Surveys are regularly done in terms of not only how much wood is used in the UK, but what sort of species are grown, sold and, indeed, used in the marketplace. In general terms, there are three principal markets for the softwood species that we grow here in the UK. The principal ones are, in descending order: Sitka spruce, which is the most commonly planted species; various pines; and then larch and Douglas fir. And, for each of those, there's a degree of shared markets in some cases, but some have particular natural characteristics that make them especially suitable for some end uses.

14:15

[32] But, in broad terms, the sorts of softwood species we grow here in the UK would be used in construction—house building, typically—in fencing and timber garden products, decking and the like; and significant volumes are used in pallets and packaging. So, quite different and quite distinct markets, but the demand for British-grown timber in those three markets has continued to be particularly strong.

[33] It would also be true to say that, given the glut of larch—and I think it is appropriate to refer to it as a glut—some markets that perhaps might not have chosen larch as their first choice have been able to say, ‘Well, we can use it. We know what it’s about, so instead of using pine, we’ll maybe use some larch’. So, there’s been a degree of substitution of species just to deal with the glut.

[34] **Neil McEvoy:** Okay, thanks.

[35] **Neil Hamilton:** Presumably, as we are major importers of timber products, there would be scope, with such volumes as this coming on the market, to substitute for imports as well.

[36] **Mr Sulman:** Yes, indeed. And, in fact, if we look at the official statistics, the domestic timber processing sector has been particularly successful in recent decades. In fact, over the past 20 years, they’ve successfully doubled their market share almost exclusively by displacing imports. So, it’s a good news story for Wales, England and Scotland.

[37] **Nick Ramsay:** So, just to clarify, going back to NRW’s argument that their previous efforts to sell larch had met with very limited success, that’s more to do with the approach they were taking and the way they were trying to sell it rather than the actual market for the larch itself.

[38] **Mr Sulman:** Yes, I believe so. I think there can be little doubt that the apparent difficulties that they experienced were largely of their own doing, if I may say so, inasmuch as they chose to offer the larch in such large volumes that the vast majority of their customers simply wouldn’t have had the capacity or the capability to deal with it in one fell swoop. Yet, as I said earlier, if they’d divided it into smaller parcels, then that would have suited people’s capabilities and a larger number of players, I’m sure, would have expressed interest, as, indeed, I believe some did.

[39] **Nick Ramsay:** Given that there had been an intake from the previous Forestry Commission and that was incorporated, are you surprised that NRW didn’t realise the reason why they weren’t able to shift the larch?

[40] **Mr Sulman:** Yes, I’m extremely surprised in terms of their expressions. I’m not at all surprised that they encountered difficulty, simply because of the approach they took to marketing the material. Why they did that I really

don't know, because plainly it flies in the face of past experience. One is tempted to say—and perhaps we will never know whether they were panicked into it or whether it was simply an expediency—it was easy to try and sell one very large volume to a small number of processors rather than the usual array of their customers.

[41] **Nick Ramsay:** Neil Hamilton.

[42] **Neil Hamilton:** I notice from the auditor general's report on this that NRW took the view on the basis of their experience in 2012 and 2013 in selling much, much smaller parcels of timber than the one in issue here—there was a lack of interest in 21 individual parcels of trees in 2012–13, and only three bids received in response to the 2013 tender. But the auditor general's conclusion is that the size of those parcels and tender offer are not comparable to the offer of eight long-term contracts for larch, which amounted in total to something like 20 per cent to 25 per cent of the total timber made available to the market by NRW over a period of 10 years. So, we're dealing here with something on a wholly disproportionate scale to anything that had ever come to the market before.

[43] **Mr Sulman:** That's absolutely right. The disease that has affected larch crops has been seen, as you're probably aware, in England, Wales and Scotland, and the approach by the state forestry organisations—NRW here in Wales, and the Forestry Commission in England and Scotland—has been quite different. I think it would be true to say that many people looked askance at the decision that NRW took, because it is quite different to the approach that was taken to handling the disease in England and Scotland. The approach here in Wales was, 'We have a disease that is threatening our larch crops', and the thinking appears to have been that the only way to deal with it was to basically eradicate all of the larch in the public forest estate in Wales. Whereas in England and Scotland the approach was, 'Yes, we've got the same disease. We can't possibly expect, nor does it make sense, to fell it all. We should concentrate on those areas where we know the disease is, we should try and predict—which is sometimes easier said than done—where we think the disease might go next and focus on those target, principal areas and fell the material there'. The important thing is that the reason that felling is undertaken is that, once a tree is infected, it is then capable of producing spores, which can then be carried by the wind and the rain and infect other trees. So, clearly, the control measure is to fell those trees that are showing evidence of infection, together with a safety margin around them, and then move on to the next growing season.

[44] The decision, as I say, to eradicate all larch from the public forest estate in Wales seemed to be a huge overreaction and, because of the scale of it, was potentially very difficult for most people to deal with. So, I think we would say a more measured approach—hindsight is always a useful thing, but a more measured approach, as we saw elsewhere, might have been more relevant.

[45] **Neil Hamilton:** Would it have been an option just to fell the timber and store it and then release it in smaller parcels? Or, once the tree is cut, does the disease then—whatever causes the spores to be produced—die with it?

[46] **Mr Sulman:** In effect. The problem is that—. The disease itself does not affect the workability or the marketability of the timber. The trees suffer as a consequence of the infection and, as I say, the reason for felling the trees is to stop the spread of infection. Once the tree is felled, ideally, you would want to take that to a sawmill or another wood-processing plant fairly quickly, because, if it's left for any length of time, it ultimately will deteriorate and its value would be lost. So, it is a matter of some importance to process that material whilst it's fresh.

[47] **Neil Hamilton:** Because it's a softwood and not a hardwood. Therefore, it—

[48] **Mr Sulman:** That doesn't really matter. Whether its softwood or hardwood, time is of the essence. There are some exceptional cases where you might leave felled timber lying around for some time, but not in the case of the commercial softwood species that we have here in the UK.

[49] **Neil Hamilton:** Right, thank you.

[50] **Nick Ramsay:** Given the concerns that you've expressed to the committee, and you've expressed previously, why didn't you or any of your members raise your concerns with NRW at the time?

[51] **Mr Sulman:** Well, it's interesting, because we have persistently raised our concerns with NRW. Looking back in my records, we have done this on a regular basis since the summer of 2014, when the award of the larch—and, indeed, the spruce—contracts first came to light. We had raised, as I say, with senior NRW staff, very significant concerns that were expressed by sawmillers in Wales, and, indeed, further afield, about the way in which not

only the larch had been marketed but, of course, this totally unexpected award of spruce contracts as well.

[52] It's important to remember that, whilst the larch was offered in an open manner to everybody, the spruce contracts most certainly were not. It's also worth noting that, at this time, Natural Resources Wales were ending the long-term contracts—and I should qualify that by saying that long-term contracts, in forestry terms, are typically five years, so, not very long—all of those were being ended by NRW. So, everybody else was being told, 'Right, your contracts are ending', and then the next thing they discover was that one company had been awarded new long-term contracts for another 10 years—so, you know, a significant development.

[53] Coming back to the question of challenges, it is also worth noting that each time we raised a challenge with senior NRW staff, they pretty well said, 'We're not prepared to discuss it', and they said they weren't prepared to discuss it because the decision that they'd taken they said they took on purely commercial grounds and they could not therefore discuss that with any other parties because it was commercially confidential.

[54] We repeatedly pressed NRW on the award and, indeed, we repeatedly pressed NRW in the interim period, between 2014 and 2016, on what was happening about the proposed new saw line that we understood was an integral part of the award of the larch and the spruce contracts, because it was quite apparent to the outside world that, as time went on, there didn't seem to be much happening. The only comment that was made by NRW each time that was raised was that, 'We have milestones and we'll be watching them'. But, as time went on, as you've seen and heard within this committee, things weren't happening.

[55] **Neil Hamilton:** In the light of the last answer you gave to me about whether timber could be felled and then stored for a time, given the length of time in gestation of a new saw line being created—we're talking about two or three years, possibly—I find it difficult to understand quite why they weren't prepared even to try to parcel up this total quantity of timber into smaller parcels and see what market capacity there was for dealing with it at the time—

[56] **Mr Sulman:** Well, coming back to—

[57] **Neil Hamilton:** —given that, if timber is on the ground for three years

before it's dealt with and processed, the process of deterioration that you referred to might be well advanced by then.

[58] **Mr Sulman:** Indeed, yes. Three years would be a very long time in terms of timber storage, and, in fact, comments were made early on by NRW that they might have to face up to the fact that some material may have to be left in the forest. But, again, it is important to note that, in this interim period, the larch that's been felled on the public forest estate and elsewhere has been successfully processed without the need for a new sawmill, so it kind of tells the story that the latent capacity was there. And it is the case, not just in Wales but elsewhere here in the UK, that there is usually a not insignificant, let's call it 'latent', capacity within sawmills, because very few of them would be working at full production day in, day out, so they have the ability to vary production according to market conditions, and I think that's exactly what we've seen here. The larch has been brought to the market, various people have sold it, traded it, and the industry has risen to the challenge and has been able to process what's come forward.

[59] **Neil Hamilton:** Yes. I'm also very interested to follow up what you said about your own contacts with NRW at the time, because the evidence we've received from the chief executive of NRW is, and I'm quoting him here:

[60] 'Specifically on this contract, it was not challenged at the time. We published a press notice and nobody came back to us.'

[61] Well, it may be that nobody came back to him, or them, on that press notice, but you're saying quite categorically that you were in correspondence with him, or possibly even in face-to-face meetings, where you did raise concerns.

[62] **Mr Sulman:** Exactly that. We, as an organisation, have, for a long time, as we do in England and Scotland, had routine liaison meetings with NRW to discuss topical matters and, as you might well imagine, since 2014, the question of the larch and spruce long-term contracts has been pretty well at the top of the agenda, despite their unwillingness to answer any questions on the subject.

[63] **Nick Ramsay:** So, not only were there clearly issues with the sawmill, and with capacity, and also with the way that this larch was being sold—or not being sold, as the case may be—but you, throughout this process, were pointing out these issues to NRW.

[64] **Mr Sulman:** Indeed.

[65] **Nick Ramsay:** And yet there was no recognition of what was going wrong.

[66] **Mr Sulman:** There was a complete unwillingness to enter into any useful dialogue on the subject.

[67] **Nick Ramsay:** Extraordinary. Sorry, Neil.

[68] **Neil Hamilton:** NRW say, quite contrary to what you've just said to us today, that other sawmill operators had very little surplus capacity. But your evidence is that, as a general rule, there is an in-built surplus capacity, simply because mills are not working full steam ahead for 365 days a year.

[69] **Mr Sulman:** That's correct, and I do wonder—. I mean, there is this question that's arisen: what sort of study of the market did NRW undertake before they decided to market the larch in the way that they did? I think, if they'd had greater contact with their customers, they would have got an indication of just what was possible, but that seems not to have been the case. NRW and their predecessors, Forestry Commission Wales, have been selling timber into the market for many, many years; one would have expected them to have had better market intelligence than seemed to be the case. But I do wonder just how many of their customers they did actually sit down and discuss options with, and I get the impression that the answer to that is probably not very many.

[70] **Neil Hamilton:** Can you give us some idea of where NRW fits into the market for provision of timber? Are they a hugely dominant supplier or—?

[71] **Mr Sulman:** Yes, indeed. NRW, like the other operators of the public forest estate in the UK, are very significant suppliers to the market. The balance between wood that's grown and brought to the market by the public sector—i.e. NRW in Wales—and private sector growers, is beginning to change slightly, with private sector growers becoming more important, but there is absolutely no doubt that NRW, as did FC Wales before it, plays a hugely significant role in terms of not only bringing wood to the market, but, equally importantly, providing businesses in Wales and adjoining counties with confidence, because continuity of wood supply, you won't be surprised to learn, is probably the most important ingredient to the operation of any

successful wood processing business.

14:30

[72] If you can't be certain of your continuity of wood, then where is the business going to come from? The significance of Natural Resources Wales, in common with their counterparts in Scotland and England, is that they routinely publish and make publicly available their marketing plans, typically in five-year periods. So, their customers have a very good indication of what wood is going to be brought forward in what areas, and customers then have an indication that they will have an opportunity to at least bid for that timber when it's brought to the market, either in tenders or in auctions. So, having that information for potentially five years on a rolling basis is hugely important to businesses and plays a vital role in their planning of investment. So, for those plans almost to be thrown up in the air, and many people potentially being denied the opportunity to bid for both the larch and, especially, the spruce for the next 10 years, had a huge impact.

[73] **Neil Hamilton:** So, it's potentially very destabilising for—*[Inaudible.]*

[74] **Mr Sulman:** Absolutely. We were dealing with a situation where the market had, in effect, been flooded with one species, and it was a case of then deciding, 'Right, how do we deal with that?'

[75] **Nick Ramsay:** Okay. Mike Hedges.

[76] **Mike Hedges:** Yes, two questions. You've talked about Natural Resources Wales, or Forestry Commission Wales as it used to be, being a major player. How does it compare against Forestry Commission England and Forestry Commission Scotland in terms of percentages?

[77] **Mr Sulman:** The production of the public forest estate in Wales is significantly smaller than in Scotland. It's slightly different to England, and that simply reflects the level of the afforestation in each of the three countries. The management objectives of the public forest estates in the three countries vary quite considerably, and it is a mixture of providing, in essence, public benefit. Of course, that public benefit can take the form of economic, social and environmental benefits. The administrations in each of the three countries apply slightly differing values and importance to each of those three deliverables.

[78] **Mike Hedges:** My last question is: we talked about the single large contract, which was dealt with in the manner it was. Wasn't there anywhere in England that might have also wanted to have been able to deal with it, or was it only this one company, which I assume was in Wales, being the only company capable of dealing with that increasing volume at that time?

[79] **Mr Sulman:** In terms of the way in which NRW chose to market the larch, i.e. in very large volumes, it would certainly be the case that there would be more than one sawmill or processor who had the capability at that time. As I said earlier, if the volumes had been parcelled up into smaller parcels, a great many more companies would have come forward. Of that I have no doubt.

[80] **Mike Hedges:** In England, when they dealt with the larch, and you said that they dealt with it slightly differently and they didn't have a destroy-all-larch way forward, but just doing those that had been affected and the area around them, do you know how they parcelled up their sales?

[81] **Mr Sulman:** Yes, their sales were dealt with in a more traditional method that was very much more in line with the way in which Forestry Commission England had always marketed its timber—in regular frequencies, in smaller parcel sizes, which reflected the ability of Forestry Commission England's customers to deal with that, and that's proved to be a successful way of handling it.

[82] **Mike Hedges:** I think I know the answer to this, but I'd like to say it for the record: this was an abnormal way of marketing the larch, compared to, historically, the way it's been marketed.

[83] **Mr Sulman:** It was, indeed, a very different approach, yes, in terms of the scale.

[84] **Nick Ramsay:** NRW have told this committee that they don't think the auditor general has given them full credit for the way that they dealt with the diseased larch. You said that it was handled differently across the border. What would be your verdict of the way that they've handled the situation?

[85] **Mr Sulman:** Well, frankly, it would be difficult to say what credit would be due to them. I don't mean that in an uncharitable way—

[86] **Nick Ramsay:** Say what you think.

[87] **Mr Sulman:** They had a significant challenge on their hands, and I would be the first to say that everybody, irrespective of which country in the UK we happen to be sitting in, was at the bottom of a very steep learning curve. It's not as though we could speak to colleagues across the channel or across the Atlantic and say, 'How did you deal with it?' because it was a slightly different situation here. But time has shown that the measures that were taken in Scotland and in England, which were considerably less draconian, have been proven to have been appropriate, and seem to have enabled the plant health authorities to operate effectively, to provide reasoned, sensible scientific and technical advice to the industry. It's interesting to reflect that the sources of that scientific information—there would be a few here in the UK, but the principal one would be Forest Research, which is the Forestry Commission agency that deals with all aspects of forest and timber research, including plant health, tree pests and diseases. It's interesting that, based on the evidence presented in each of the three countries, the solution that was taken in Wales appeared to be so markedly different from that taken elsewhere.

[88] **Neil Hamilton:** You'd expect, given that there are only about three such organisations in Great Britain, that there would be a certain amount of discussion between them as to what was the most appropriate way to deal with this.

[89] **Mr Sulman:** Yes, and it was the case that the state forestry organisations in the three countries met and continued to meet collectively to discuss plant health and tree health issues, and as you would expect, the difficulties of tree diseases, larch and other species, that are besetting us are regularly and routinely discussed and notes compared. So, that variation is noteworthy, but it does seem that a somewhat over-zealous response was perhaps adopted in Wales, which, if anything, potentially made the situation in terms of marketing the wood and getting best value for the public purse perhaps not well served.

[90] **Nick Ramsay:** So, a sledgehammer to crack a nut.

[91] **Mr Sulman:** You could say that.

[92] **Nick Ramsay:** We've received a document from NRW that they state is their business case. Have you seen the document?

[93] **Mr Sulman:** I have, yes.

[94] **Nick Ramsay:** What is your view on its contents?

[95] **Mr Sulman:** I think my immediate response was that certainly I for one, and, I suspect, very few of my colleagues in the industry, if they'd seen that document, would recognise it as a business case. We might recognise it as an options paper or a discussions paper, but what seems to be glaringly absent is a reasoned financial case. It almost reads as though someone had made up their mind what they were going to do and worked backwards from that point, rather than the opposite way, which you would expect a normal, commercial business case to do. So, it's a somewhat unusual document that is deficient in many aspects.

[96] **Nick Ramsay:** Interesting. Do you have any wider matters that you wish to raise regarding the way in which NRW is managing the public woodland estate?

[97] **Mr Sulman:** Well, there are a number of matters—[*Laughter.*]

[98] **Nick Ramsay:** I sense this is just the tip of the iceberg.

[99] **Mr Sulman:** Well, sadly it is, and frankly it doesn't give me much pleasure to say this to you, and what I'm about to say is not the first time that we've said this to Assembly Members and officials involved with managing the public forest estate in Wales. If we cast our minds back to the time, not too many years ago, when the proposal was consulted on to create Natural Resources Wales, there were very genuine concerns then across the forestry sector, from nurseries right the way through harvesting, contracting, sawmilling and other aspects of wood processing—there were very real concerns that what we could see being formed at that stage gave us severe concerns, very serious concerns, that forestry was going to become, or was likely to become, the poor relation in the new family that was being created. Sadly, that has proved to be exactly the case. As I say, we have routinely flagged up concerns about the operation of NRW, and the continuing way in which the public forest estate is being managed, because this is a matter of very serious concern. There is a great deal at stake here, not just people's livelihoods who are dependent on the forests and woodlands of Wales for their wood raw materials, but for all the other benefits that our woodlands provide. Sadly, as someone said to me as recently as last week, just when you think things can't get any worse, they do. That is a shocking situation.

[100] If we look at the history of the management of the public forest estate in Wales, as you know, it was managed until relatively recently by Forestry Commission Wales, and with a legacy that would soon have reached 100 years—the Forestry Commission was established in 1919. I would have to say to you that we are very seriously concerned at the way in which the public forest estate here in Wales is being managed by NRW, and their approach to their customers, with a seemingly indifferent view of how to treat customers, is at risk of squandering that legacy, and that, I think, should be of serious concern to all of us. There is a need to get forestry in Wales back where it belongs. It has the potential to deliver huge benefits to society in general, today and for future generations, but it requires a long-term view to be taken. Forestry is, after all, by its very nature, a long-term undertaking, and that seems to be sadly lacking at the moment. It's our sincere hope—. We have made numerous representations to the recent succession of Ministers responsible for forestry in Wales in recent years, and, sadly, very few of them—in recent years, I hasten to add—have shown very much interest in what I and my members believe to be a significant sector of the economy in Wales, and especially the role it plays in providing jobs in rural areas.

[101] So, as I say, there is a great deal at stake, and we very much hope that, from this episode and other representations that have been made, maybe, just maybe, we've come to a time when things might improve. They certainly need to, and there are a great many benefits to be delivered if we get it right.

[102] **Nick Ramsay:** You've painted a rather bleak picture of where we are with forestry management in Wales at the moment under the tenure of Natural Resources Wales. Are you hopeful that the situation can be turned around?

[103] **Mr Sulman:** As we stand today, I would say it's hope rather than expectation, frankly. One of the reasons why I would temper that comment is that we have very serious concerns about the very significant loss of forestry expertise within that organisation, and that's come about through people taking early retirement, taking retirement at old age, or simply deciding to go and pursue another career, and that is extremely worrying. Forestry as a profession takes a long while to learn. We continue to learn during all of our careers in forestry, as the practice of forestry and silviculture continues to evolve, and, for the sorts of changes that we need to see in Wales, there needs to be a far greater recognition by the senior team in NRW of the

importance of having forestry professionals throughout the organisation, not just at the sharp end in the forest and the woodlands, but right the way through.

[104] Not so long ago, we had to write to the chief executive of NRW to express our concern about this very problem. At that time, a senior member of their team had moved out of the operational side, and it was felt necessary to write to ask what plans they had to fill that gap of expertise and knowledge. We had a response back from Dr Roberts at that time, which basically said that he and his team didn't place particular importance on what he described as 'sectoral knowledge' in terms of choosing members of the executive team, but rather their ability to lead and contribute to the team. It will probably come as no surprise to you when I say that, when that response was relayed back to industry, it was met with absolute incredulity. To have an organisation that is supposed to be acting as a steward of the public forest estate, for them not to recognise the importance of having forestry knowledge and skills—

[105] **Nick Ramsay:** So, their point was that a knowledge of forestry was not necessary in an organisation that was dealing with forestry on a daily basis.

[106] **Mr Sulman:** If you were going to be a member of its executive team—exactly that.

[107] **Nick Ramsay:** Mike Hedges.

[108] **Mike Hedges:** I recognise that from other places—this idea that there are these supermanagers who can do anything, anywhere, and, by some sort of intellectual osmosis, they learn about a subject because they're so incredibly clever. I have yet to see it work, by the way, but I've seen lots of people think it can. Just a question I've got for you is: is the problem structural or management in dealing with forestry in Wales?

[109] **Mr Sulman:** I suspect it's actually both. Clearly, the organisation needs to be led soundly and professionally, and the senior management team clearly need to understand what forestry is all about. They don't have to necessarily be forestry professionals, but they need to have a good grasp of it and at least an empathy with the rest of the industry that they're essentially responsible for. And then, in terms of making it happen on the ground, of course, yes, you have to have an operational team who are both knowledgeable and empowered to do the job that they've been charged to

carry out. I think we're a long way from that at the moment.

[110] **Nick Ramsay:** Any further questions?

14:45

[111] **Neil Hamilton:** It seems, from the evidence that you've given, that NRW treat forestry as a low priority for their business—

[112] **Mr Sulman:** That would certainly seem to be the case.

[113] **Neil Hamilton:**—and therefore they give disproportionate resources to other parts of their empire.

[114] **Mr Sulman:** I'd have to confess I'm not familiar with the resources they give to their other arms, but certainly forestry appears to be seriously suffering, yes.

[115] **Neil Hamilton:** That's something we'll have to look at, I think.

[116] **Nick Ramsay:** Okay? Can I thank our witness, David Sulman, for being with us today? That's been a really interesting evidence session. Thank you for having paid interest in this committee's work.

[117] **Mr Sulman:** And thank you for your interest.

[118] **Nick Ramsay:** Well, I think it might just be the tip of the iceberg, so I think I can see further work ahead. But thanks for being with us today. We'll send you a copy of the transcript before it's published for you to check for accuracy.

[119] **Mr Sulman:** Thank you.

14:46

**Cynnig o dan Reol Sefydlog 17.42 i Benderfynu Gwahardd y Cyhoedd
o'r Cyfarfod
Motion under Standing Order 17.42 to Resolve to Exclude the Public
from the Meeting**

Cynnig:

Motion:

bod y pwyllgor yn penderfynu that the committee resolves to gwahardd y cyhoedd o eitemau 5 a 7 exclude the public from items 5 and y cyfarfod yn unol â Rheol Sefydlog 7 of the meeting in accordance with 17.42(vi). Standing Order 17.42(vi).

Cynigiwyd y cynnig.

Motion moved.

[120] **Nick Ramsay:** I propose, in accordance with Standing Order 17.42, that we meet in private for items 5 and 7 of today's meeting.

Derbyniwyd y cynnig.

Motion agreed.

Daeth rhan gyhoeddus y cyfarfod i ben am 14:46.

The public part of the meeting ended at 14:46.

Ailymgynullodd y pwyllgor yn gyhoeddus am 15:15

The committee reconvened in public at 15:15

Cyfoeth Naturiol Cymru: Sesiwn Dystiolaeth 3

Natural Resources Wales: Evidence Session 3

[121] **Nick Ramsay:** Can I welcome Members back to this afternoon's meeting of the Public Accounts Committee? Can I also welcome our witnesses to the meeting? Would you like to state your name and position for the Record of Proceedings?

[122] **Dr Roberts:** Dr Emyr Roberts, chief executive, Natural Resources Wales.

[123] **Mr Ingram:** I'm Kevin Ingram, executive director of finance and corporate services for NRW.

[124] **Nick Ramsay:** Thanks. The first 30 minutes of this session have been allocated to return to scrutiny of NRW's annual report and accounts 2015-16, following the earlier session that we held on the 28 March. Then we'll go on, beyond that, to wider issues. But firstly, if I can ask you the first question, in the evidence you provided on 28 March, you told the committee that there was, and I quote,

[125] 'a full business case set out, and the way forward, I think, was very clear. It set out the risks of doing what we were proposing to do and the other options, and, in fact, the conclusion was that our options were very limited. So, I'm happy that the right decisions were taken by the right people going forward.'

[126] That's what you said at the time. Am I correct that the document you've sent us entitled 'Developing options for larch investment and wider guidance on replacement of existing Spruce LTCs' is the document you refer to as the full business case?

[127] **Dr Roberts:** It is indeed, Chair. Yes.

[128] **Nick Ramsay:** The committee's had a number of issues with the document. Would you accept the criticism that, for a business case, there doesn't seem to be much rationale for the decisions that were taken at the time, which we would have said was crucial to a business case?

[129] **Dr Roberts:** I think it is more correct to describe it as an options appraisal. The reality is that the number of options that were available to us were very limited, and what the paper tried to do was to actually set out what those options were—the pros and cons of each. So, I do accept that it was more of an options paper than a business case.

[130] **Nick Ramsay:** So, 'business case' wasn't really the right term for it.

[131] **Dr Roberts:** I accept that.

[132] **Nick Ramsay:** Okay. I'm not sure whether you've heard the evidence from our previous witness, David Sulman, the executive director of the UK Forest Products Association, but he clearly had a number of concerns about ways that NRW operated during the period that you had to deal with the problem of larch—the issue of the sawmill; the issues of the mechanism for sale of the timber that was chosen. In terms of the lack of a market for the timber, do you accept that there were issues with the way that that timber was put to market?

[133] **Dr Roberts:** I think, at the time, because we were faced with this crisis, we had very limited options in the way we actually went about marketing the timber. As the auditor general's report pointed out, we did try an earlier exercise of smaller volumes of larch, and had a very limited response to that.

So, we weren't confident at the time, bearing in mind the exponential growth in the amount of larch disease that was happening—we weren't confident at the time that there was a sufficient market for that larch. So, that's the way that we marketed in the way that we did.

[134] **Nick Ramsay:** Mike Hedges, do you have a supplementary?

[135] **Mike Hedges:** You talked about a crisis. We just heard earlier that England and Scotland dealt with it in an entirely different way. Whereas you went, 'Let's get rid of all the larch we've got', they tended to get rid of the diseased larch and a certain amount of larch around it, and leave the rest. They didn't go to a whole destruction of all the larch. Is that true? And, if so, why did you act differently to England and Scotland?

[136] **Dr Roberts:** Yes, I did hear those comments. I think we're a bit puzzled about those comments, because it was actually a UK disease control strategy that applied across the UK, and the policy was to fell all infections until the core disease zone was set up. As far as I'm aware, that was undertaken in England and Scotland and Wales at the same time. So, you set up, if you like, the area, and then you control the edge, which is what we did, to try and stop the spread of larch. So, I am confused about that comment that Mr Sulman made.

[137] **Mike Hedges:** I think probably because you and he are talking about different things. He said you got rid of all the larch—you just made sure that all the larch was chopped down so there were none to get diseased. He said, in England, it was basically what you just said there, that you'd get rid of the diseased trees, you'd get a safe area around it, but anything outside that safe area was not being felled. But he said that you felled everything. Did you fell everything?

[138] **Dr Roberts:** No. There's an ongoing programme of larch harvesting going on as we speak within the disease control area. So, we adopted exactly the same policy: we identified the edge, tried to control it there, and then, as now—we're currently working within the controlled areas. So I have to say I was puzzled by that comment.

[139] **Nick Ramsay:** So, just to be clear, you don't feel that you have deviated at all in dealing with this disease from the national strategy that was laid down, in contrast to the previous witness's comments.

[140] **Dr Roberts:** We believe that it is consistent with that, but there is some difference in the dispersion of the disease. It's far more widespread in England on a smaller scale, whereas we had a lot more concentration of the disease in the south Wales Valleys. Some parts of Scotland are similar to Wales in that—not all, but some parts. So, there's a bit of a difference in the distribution of the larch disease, but as I say, it was a UK policy that was adopted.

[141] **Nick Ramsay:** Neil Hamilton.

[142] **Neil Hamilton:** So, the response was exactly the same, you're saying, in England and in Scotland as it was in Wales.

[143] **Dr Roberts:** As far as I'm aware, yes. As far as I'm aware.

[144] **Neil Hamilton:** So, the disposal policy also would have been similar then, I presume. In Wales, you adopted this policy of having one very large contract, which amounted to a fifth or a quarter of the entire amount of larch timber that you would normally expect to provide for processing over 10 years, and concluded that there was no capacity within existing operators in Wales, and therefore, you needed to incentivise one single operator in order to provide the capacity to deal with it. Was that the policy that was adopted elsewhere?

[145] **Dr Roberts:** I'm not sure. I don't know what the policy adopted in England and Scotland was. Certainly, in terms of our position, as I said before, we felt that there were very limited options available. We had tested the market coming forward; there was very limited interest to that. We did do some online sales—and I think the auditor general's report picks that up—which actually showed negative values. In other words, we would have to pay to get rid of the larch. So, the situation that was facing us was a rapidly escalating situation here. At the time, we felt that the right approach was to undertake a negotiation with one of the operators who'd expressed an interest.

[146] **Neil Hamilton:** Turning to the executive team paper of August 2013 that is referred to in paragraph 19 of the auditor general's supplementary memorandum, the auditor general says there that

[147] 'Whilst the paper was prepared for consideration by NRW's Executive Team, there is insufficient contemporaneous evidence that it was provided to

or considered by the Executive Team.’

[148] Can you clarify how this business case was reviewed within the organisation, and approved? Who decided which of the options set out in the paper should be taken?

[149] **Dr Roberts:** The paper was prepared for the executive team, but as the auditor general says, we have got no evidence that it actually went to the executive team. So, the decision was taken by the then executive director for national services, who had delegated authority to take the decision. He was the former director of Forestry Commission Wales, so he was in a good position, I think, to take that decision.

[150] **Neil Hamilton:** So, it was just reviewed by that one person.

[151] **Dr Roberts:** No, there was a team around him, but that was the advice that came forward and, as I say, it was his final decision to do that.

[152] **Neil Hamilton:** Right.

[153] **Nick Ramsay:** Just returning to the business case—or whatever you would call that now—and the justification for the award of the £72 million contract, are there other sections of the business case that we haven’t seen? There doesn’t seem to be much financial analysis of all the evidence of market analysis or testing in that document. So, are there supporting documents that looked into the market testing?

[154] **Dr Roberts:** I think we relied very much on what happened with the initial market test, and I think we were, I suppose, disappointed to see that there were so few operators interested in that. So, we took, I think, our decision on the basis of that experience.

[155] **Nick Ramsay:** You’ve stated in your previous evidence that you felt that

[156] ‘in reality, there were only two operators who could have taken on the volumes that we were looking for.’

[157] You mentioned earlier about the packaging of the timber. Now, are you saying that you did actually try smaller packaging of the timber but that wasn’t successful?

[158] **Dr Roberts:** Yes, at an earlier stage we certainly did—I think in 2012, when we did go out and test the market—but as I say, there was very limited interest or the prices were negative. That was what we found.

[159] **Nick Ramsay:** And what evidence did NRW rely on to conclude that other sawmills in Wales and elsewhere did not (a) have surplus processing capacity, or (b) were unwilling to increase their processing capacity?

[160] **Dr Roberts:** Well, firstly, nobody approached us to offer to undertake the work. As I said, there was an opportunity there for other operators to come in as part of the tender, but for whatever reason they chose not to do that. So, I think we drew our conclusion that there was a limited market and that we had to act fairly quickly on this.

[161] **Nick Ramsay:** Do you now accept that NRW's assumptions were fundamentally flawed and there was, in fact, no need to provide such a large volume of timber to a single operator without competition—obviously, with the benefit of hindsight?

[162] **Dr Roberts:** I think that's the crucial issue, really. I think, with the benefit of hindsight, yes, we would have handled it differently, but at the time there was a threefold increase in the area under statutory plant health notices. We believed that that would continue. So, we had a major problem on our hands. We were under pressure, including from the Assembly environment committee, to act quickly on this, so we did act decisively. With hindsight, and fortunately, the disease spread a lot more slowly than that, largely due to the actions, I think, that all the authorities took. So, with hindsight, we would have done it differently. But at the time, I think we were justified in taking that decision.

[163] **Nick Ramsay:** Mike Hedges.

[164] **Mike Hedges:** So, there was no larch being imported into the country at that time, because we had surplus capacity within Britain as a whole, and we didn't consider exporting any.

[165] **Dr Roberts:** I think it would have been very difficult to export infected trees.

[166] **Mike Hedges:** I'm sure you may well be right, but listening to the

answer that you gave earlier, you had the infected trees, you then felled the trees around the infected areas that were not themselves infected, so maybe they might have been eligible for export. And you didn't answer the first question that we were not importing any larch at that time, because that's a matter of public record. I don't know what it is, but I—.

[167] **Dr Roberts:** I'm sorry; I don't know the answer to how much larch was being—. I know there is a market for larch, but our concern was that the volumes that were coming forward were so large that they would swamp that market.

[168] **Mike Hedges:** So, if I go and do some research somewhere, I'll find that there was no larch being imported into the country in the period during that time because we had surplus capacity in this country, which is what you're telling me.

[169] **Dr Roberts:** No, I'm not saying that there wasn't any import. I don't know what the answer to that one is. What I am saying is that the volumes that were coming forward, because of the larch disease, were very, very high indeed, and we had to move quickly.

[170] **Mike Hedges:** But if we had huge volumes—sorry; maybe I'm not making myself clear—in this country, which were greater than could be taken by the sawmills, how would we be importing larch from Siberia or wherever when we actually had surplus capacity in this country? So, what I'm saying to you is: if you're right—and I've no reason to say you're either right or wrong because I don't know enough about it—then we would be in a situation that I would find that the import of larch just stopped at that period because there's surplus capacity, which you've just told me, in this country.

[171] **Dr Roberts:** I think the big difference is that we were dealing with infected larch. So, there was a reluctance by the trade to actually take it on.

[172] **Mike Hedges:** But you also deal with uninfected—. Sorry. Coming back to what you said, you said that you got rid of the infected larch, and then the larch around it, you created a zone around it, and that larch was not infected.

[173] **Dr Roberts:** It would have been largely infected larch that we were dealing with here.

[174] **Nick Ramsay:** Neil Hamilton.

[175] **Neil Hamilton:** This timber has actually been disposed of.

[176] **Dr Roberts:** Yes.

[177] **Neil Hamilton:** So, there was no resistance to taking infected larch in the event.

[178] **Dr Roberts:** No, what happened—and partly as a result of long-term contracts—is that some of the operators did find a market for it at the end, albeit probably at a lower value use than we would have expected for healthy larch.

[179] **Neil Hamilton:** Yes. So, I'm wondering why you were so totally pessimistic to start with then—I'm only talking about a time frame of two or three years here—that you concluded that there was no market for this timber just because you received no bids, or few bids, for contracts in 2012 and 2013.

15:30

[180] **Dr Roberts:** I think our concern—

[181] **Neil Hamilton:** And how can the reality of what actually happened be so far at variance with what your experience was in 2012?

[182] **Dr Roberts:** Well, I think what happened during 2013 was an explosion of larch disease. We had no reason at that time not to believe that that would continue. That was all the prognosis going forward. So, that's why we felt the—

[183] **Neil Hamilton:** I'm not talking about your felling; I was talking about the process of disposal and the potential demand for the timber that was created.

[184] **Dr Roberts:** We felt we had to get that larch off—. In many areas, it had been felled. I remember myself going to the Afan Argoed forest and there were acres and acres of felled timber—there was nowhere for it to go. So, we felt we had to get rid of it in those volumes otherwise we would never get out of the situation.

[185] **Neil Hamilton:** But the new sawmill that was projected was never actually built.

[186] **Dr Roberts:** That's correct—

[187] **Neil Hamilton:** And yet the existing sawmills were able to cope with these extraordinary volumes of timber compared with what normally comes forward in a year, which shows that there must have been a very significant surplus capacity in the industry that was available to be utilised.

[188] **Dr Roberts:** What happened with the sawmill was that they expanded the capacity within the sawmill—they went from two shifts to three shifts. They did make other investments on the site and they did develop new markets. So, yes, they grew the market. They dealt with the capacity that way. Crucially, though, as you say, they didn't put the new sawmill in, which is why we've drawn the contracts to a conclusion.

[189] **Neil Hamilton:** So, it wasn't necessary to market the timber in the way that you did, in the event, because if the industry had the capacity to respond to this extraordinary situation by increasing its available capacity in a much less capital intensive way, or a much easier way organisationally than setting up an entire new massive sawmill enterprise—. And what I'm wondering is why those who advise you in your organisation on these technical matters were not in a position to be aware of that.

[190] **Dr Roberts:** I mean, obviously there was a cost to employing extra people for that extra shift, so it wasn't a costless thing. I think what happened, over the succeeding two, three and four years, was that they adapted to the volumes that were coming forward. At the time, the only solution seemed to be to put an extra sawmill in to actually deal with the volumes. Again, you know, looking back on it, thankfully it didn't develop as we had expected.

[191] **Neil Hamilton:** But Mr Sulman's evidence to us earlier on was that it's the natural state of affairs that sawmills are not working at full capacity all the time and there is a significant amount of flexibility, elasticity, what you will, in the system to cope with significant changes in volume, and even unprecedented increases in volume such as the ones we're dealing with here. Shouldn't your advisers have been aware of that possibility and explored these avenues, even if you had no response, and you were looking at it reactively? Shouldn't they then have gone out and made further enquiries—

[192] **Dr Roberts:** Again, I think—

[193] **Neil Hamilton:** —and marketed the thing in a different way?

[194] **Dr Roberts:** I think, with hindsight, perhaps we should have tested the market more thoroughly, but, as I say, we based our decision on the initial market testing and there were very few players in the market.

[195] **Mr Ingram:** Sorry, Chair, I would just like to add—.

[196] **Nick Ramsay:** Kevin.

[197] **Mr Ingram:** Thank you. I know in 2012 we actually had groups of customers come in—and operators—where we discussed the issues around larch. That was held with our staff and we discussed the outcome before that took off. I think the issue very much was: it is diseased larch, and it's not that it's just larch; it's the fact it's small diameter, because it's immature, it's smaller lengths, and sawmills have to change from cutting some types of wood to others. You know, it's not fundamentally attractive, even if there is—. I don't doubt there is spare capacity within the market, but it was that desire to take that diseased wood, really, that was in question. As Emyr said, prior to 2013, on some small contracts, we were having to pay people to actually cut it and take it away.

[198] **Neil Hamilton:** As you'll be aware, we're not experts in this field, but there's been a flat conflict of evidence that we've received today that naturally we'll want to resolve.

[199] **Dr Roberts:** Yes, I listened very carefully to what Mr Sulman said. I think a lot of this can be rationalised now, whereas, you know, we were facing a very difficult situation at the time. It's true, the markets have evened out—we don't deny that. I think had we not taken this action though, it would have been far more serious.

[200] **Nick Ramsay:** Neil McEvoy.

[201] **Neil McEvoy:** Yes. So, is there a difference in quality between infected larch and healthy larch?

[202] **Dr Roberts:** Yes. As Kevin has just said, because they haven't grown to

their full height, full diameter, they have to be harvested much earlier.

[203] **Neil McEvoy:** But the actual quality of the wood, is it different or is it the same?

[204] **Dr Roberts:** I don't know the difference, really.

[205] **Mr Ingram:** It certainly has more limited use because obviously it can't be used for certain products just from the sheer size of it. So, it has much more limited uses.

[206] **Neil McEvoy:** So, there is a difference in price between the values?

[207] **Mr Ingram:** There is a difference.

[208] **Neil McEvoy:** A difference in value. I'm slightly confused that you've mentioned market testing because, according to the report in front of us, the contracts were not subjected to market testing.

[209] **Dr Roberts:** No, what we're referring to was an earlier market test when we did test the market for some admittedly smaller contracts and we'd had very little response to that.

[210] **Neil McEvoy:** What was that market testing? What did you do?

[211] **Dr Roberts:** I think we tendered as normal. We would put out a supply, invite the market to respond and, of course, that didn't happen.

[212] **Mr Ingram:** Our usual method of sale on those is to do an electronic auction online. So, we put the volumes, we put the location, we put the types of wood and then people from the industry bid online for those sorts of parcels of wood.

[213] **Neil McEvoy:** So, at the time, was there a market for larch?

[214] **Dr Roberts:** There was certainly a limited market for larch. But, as I say, the issue that was facing us was the massive increase in volume that was coming forward.

[215] **Neil McEvoy:** Okay. Because the last time—I've got it in front of me here:

[216] 'At the time, there was no market for larch'.

[217] So, what you're saying today is different to what you told us last time.

[218] **Dr Roberts:** I stand corrected. There was a limited market for larch, I think.

[219] **Neil McEvoy:** Okay. What market data have you used, therefore, to justify what you've just said?

[220] **Dr Roberts:** As I say, it was basically around the original tenders there. In terms of actual pricing, obviously, we built that into the long-term contracts so that they reflected any movement in the market prices, so that was actually built in.

[221] **Neil McEvoy:** So, what data have you used? I missed that, sorry.

[222] **Dr Roberts:** I think we relied very much on, first of all, our experience, but also on the lack of response, if you like, to the earlier tenders that we actually did and the fact that only three operators came forward and one of whom didn't carry on with that.

[223] **Neil McEvoy:** When was the earlier tender presented?

[224] **Neil Hamilton:** Can I help on this?

[225] **Dr Roberts:** 2012, was it?

[226] **Neil Hamilton:** It is essentially in paragraph 44 of the auditor general's supplementary report and he says that,

[227] 'NRW's view is that there was no market for diseased larch based on (a) the lack of interest in 21 individual parcels of trees that NRW sought to sell between November 2012 and September 2013... and (b) that only three bids were received in response to the 2013 tender'.

[228] That's one tender in 2013. So, it was 21 parcels in 2012 and one parcel, by the look of it, in 2013.

[229] **Dr Roberts:** That's correct, yes.

[230] **Neil McEvoy:** How many customers were spoken to?

[231] **Dr Roberts:** Well, we regularly talk to customers. So, as Kevin described, it's a very open system that we have. The online purchasing—. So, everyone would have been aware of the parcels that were coming forward to the market.

[232] **Neil McEvoy:** Is this the business case?

[233] **Dr Roberts:** Yes, as I clarified before, it was more of an options appraisal.

[234] **Neil McEvoy:** Options appraisal, business case—. I'll just check here. Looking through it I can't see any financial figures in this.

[235] **Dr Roberts:** This was market driven. We put out a tender. Bids come in at a price. Obviously, in those kinds of circumstances we weren't sure what the price might be.

[236] **Neil McEvoy:** I'm looking through evidence and this was called the business case. I think we're now referring to it as something different. But there are no financial figures. It just doesn't really—. It doesn't add up. It wouldn't add up because there are no figures in there.

[237] **Dr Roberts:** Well, going back to the start, we had very limited options in front of us. The concern really was actually about getting the volumes away from the market so that we could actually shift this material.

[238] **Neil McEvoy:** I'll finish shortly, Chair. So, we've got a contract to the value of £74 million.

[239] **Dr Roberts:** Well, that is the total—

[240] **Neil McEvoy:** It's £72 million, I'm sorry—£72 million.

[241] **Dr Roberts:** In terms of the total, that's not the income that we receive.

[242] **Neil McEvoy:** The £34 million, yes? Is that right?

[243] **Mr Ingram:** Well, it's £39 million—

[244] **Neil McEvoy:** So, £39 million. Okay.

[245] **Mr Ingram:** So, £39 million for the 10 years.

[246] **Neil McEvoy:** So, a 10-year contract was awarded.

[247] **Dr Roberts:** Yes.

[248] **Neil McEvoy:** This contract was not subject to competition.

[249] **Dr Roberts:** Not in the formal sense, no.

[250] **Neil McEvoy:** Okay. Or market testing.

[251] **Dr Roberts:** We relied on previous market testing.

[252] **Neil McEvoy:** Okay, so no new market testing. The contracts were not referred to the Welsh Government, and the auditor general says that you therefore acted outside of the framework of authority. You may not accept that, but it didn't go to the Government, did it?

[253] **Dr Roberts:** No, we did not seek formal approval.

[254] **Neil McEvoy:** Okay. So, the board and executive team didn't scrutinise the proposal either.

[255] **Dr Roberts:** Well, the director responsible certainly did.

[256] **Neil McEvoy:** But the board or executive team didn't. Correct?

[257] **Dr Roberts:** No, it didn't go to the executive team.

[258] **Neil McEvoy:** Okay. And there was a failure to maintain sufficient contemporaneous documentation. Agreed?

[259] **Dr Roberts:** Yes, indeed.

[260] **Neil McEvoy:** Okay. Finally, there's a business case with no financial figures.

[261] **Dr Roberts:** I would say it's more of an options' appraisal than a business case.

[262] **Neil McEvoy:** Okay. We were told initially the business case—. People watching this—it's broadcast; people do see it—having answered all those questions, do you not see how bad this looks in terms of the reputation of your organisation?

[263] **Dr Roberts:** I think we were faced with a very, very difficult situation at the time. We were under pressure to act quickly and decisively. The problem was mounting. I think we'd have been criticised whatever decision we'd taken. Had we gone out to the market, again I think people would have criticised us for being slow. So, you know, the judgment was made that we go with the negotiation with the operator, which is what we actually did. In the event, thankfully, the market has stabilised, and we're very pleased that that has happened. I think that putting the long-term contracts in at that time did help with that.

[264] **Neil McEvoy:** Do you think this gives a good impression of your organisation?

[265] **Dr Roberts:** As I said before, we had very limited options, so we had to react quickly, and that's what we did.

[266] **Neil McEvoy:** Do you think—third time lucky: do you think this is giving a good impression or a bad impression?

[267] **Dr Roberts:** I'm happy to justify the decision we took. With hindsight, we'd have handled things differently.

[268] **Neil McEvoy:** Okay.

[269] **Nick Ramsay:** Going back to the issue of market testing, am I right in saying your earlier market testing was for smaller volumes? So, if that was the case, was it safe to rely on that for a larger longer-term contract?

[270] **Dr Roberts:** That is a good question. I think we felt at the time—or the team felt at the time—that it was so disappointing in terms of what had come back that we had very little option but to actually work with the operators that had actually bid for those smaller volumes.

[271] **Nick Ramsay:** So, you accept that those data probably wasn't the best data to use for the longer-term contract.

[272] **Dr Roberts:** That's all that we had available, I think, at that time. As I say, we needed to move quickly on this. We felt we had to move quickly on this. With hindsight, had we had more time, had we known that the disease wouldn't have expanded as rapidly, we probably would have taken a different course of action.

[273] **Nick Ramsay:** Okay. Just going back to the issue of the saw line and the breach of contract, it must have been apparent to NRW soon after the contracts were awarded in May 2014 that construction on the new sawmill hadn't happened. The evidence we took previously showed us the length of time it takes to build a sawmill. They're bespoke; you can't just go and pick one up overnight. So, you must have known pretty early that that contract was going to be breached, yet you granted an extension to the contractual condition, and it took NRW until 31 March 2017 to terminate the contract. Why did it take so long?

[274] **Dr Roberts:** I understand that at the time the company did provide evidence that they were going to purchase a line. As I understand it, they showed the specification to the team. Clearly, they didn't go through with that, but at the time that the contract was extended, our belief was that they would be going ahead with the sawmill, so we extended by a year.

[275] **Nick Ramsay:** But given the length of time it takes to construct the sawmill, there was no way that that could have been completed on time, surely.

[276] **Dr Roberts:** Well, I think Mr Sulman's point earlier was that the time was actually spent in actually designing it in the first place, and as I said, they provided evidence—the company provided evidence—that they were engaged with a company to actually purchase one. The actual construction doesn't take that long.

15:45

[277] **Nick Ramsay:** Okay. In your earlier evidence you stated, and I quote:

[278] 'Specifically on this contract, it was not challenged at the time.'

[279] This is going back to the contract on the sale.

[280] ‘We published a press notice and nobody came back to us. It was some time after the event that a third party actually challenged this. So, how do you define “contentious”?’

[281] I’m taking your quote. Given those comments, are you still of the view that the decision to award the contracts was not novel, contentious or repercussive?

[282] **Dr Roberts:** As I explained in the last session we had, I think, had we taken any decision, it would have been repercussive. If we hadn’t done anything, that would have been repercussive. I think what I was trying to get to was how we define ‘repercussive’? How significant is it? So, again, with hindsight I can see that it may have been seen as repercussive, but at the time we didn’t think it was novel, contentious and repercussive. That is an area I think we’d like to have clarified.

[283] **Nick Ramsay:** You’d have a different view now?

[284] **Dr Roberts:** Oh, certainly. We very much take on board the auditor general’s comments. We now regularly look at any decisions that may need to go to Welsh Government.

[285] **Nick Ramsay:** Neil.

[286] **Neil Hamilton:** I’ll just follow up on an earlier question, again arising out of Mr Sulman’s evidence earlier on, where, in relation to the tenders of 2012, and the lack of interest, as you say, in what was on offer then, those were for smaller parcels of timber, and this was a very unusual event—we’re talking about an unprecedented event here with the volumes involved. Now, Mr Sulman said that there were regular contacts between NRW at various levels and sawmill operators and other timber processors and so on. I presume that this was an issue that was of great interest for everybody. The question first of all of the disease, and it was inevitable in those circumstances that there was going to be a substantial increase in the volume of timber coming to the market—so, it’s rather surprising you weren’t able to obtain some sort of indication that there would be a demand for this timber. Quite apart from your process of publishing public tender documents, I’m trying to find some rationale for your decision to go for this one nuclear—if I may call it that—option of the single purchaser and building

a tiny sawmill or whatever it was that was in prospect, given that the depth of contact that there must be on an ongoing basis in the year, and to conclude that there was no demand, when, as we know, in the event, there was.

[287] **Dr Roberts:** I can only say, you know, this was a very experienced team that was dealing with this, and I guess at the time that their market intelligence was that there was no substantial market for this diseased timber. I can't actually comment on discussions at the time, but, as I say, they must have come to the view that there was no point retendering because we would have had the same response. So, I guess that they did use that information.

[288] **Neil Hamilton:** But Mr Sulman's evidence, admittedly in retrospect, was that he would have expected sawmill operators to be very interested in this, albeit not on the scale of orders that you were requiring. So, I'm wondering how there could possibly be such a disconnect between the reality of what happened and what enquiries you made or your staff made at the time about offloading this very extraordinary volume of timber.

[289] **Dr Roberts:** I don't know, and, as I say, the evidence was in terms of the fact that very few bidders actually came forward. I think a possible explanation was that it was still very new, it was a problem that was emerging, and there, perhaps, was, I don't know, a lack of confidence in dealing with this material. Certainly, my personal experience was—and Mr Sulman did at the time take me to some of his members—that it was very clear that they did not want to handle larch. So, that's pretty anecdotal, but I think the proof, if you like, would have been them actually coming forward and bidding for the contracts, which they didn't do.

[290] **Neil Hamilton:** I see.

[291] **Neil McEvoy:** Is there any evidence of that—that they didn't wish to process the larch? Where is the evidence?

[292] **Dr Roberts:** Well, the evidence is that they didn't come forward to actually bid for it. That's the bottom line here.

[293] **Neil Hamilton:** You were seeking—. Are you talking about 2012 or this—?

[294] **Dr Roberts:** It would've been about 2013.

[295] **Neil Hamilton:** Mr Sulman's point was that nobody else was going to come forward to purchase one single parcel, with this volume of timber, because they couldn't possibly cope with that. But had it been segmented, then you would've had interest. So, I mean, I can see, in comparison with 2012, why you might've come to that conclusion in relation to smaller parcels. But packaging it up into a single unit meant that it was impossible for anybody else to come forward to meet your tendering requirements.

[296] **Dr Roberts:** I drew your attention to paragraph 44—I think we probably took the view that we had tried the smaller parcels approach before but it hadn't worked.

[297] **Nick Ramsay:** And finally from me, can you explain why, as well as larch, the contract covered the sale of spruce? Did the earlier market testing of smaller contracts also cover spruce?

[298] **Dr Roberts:** Well, when we got into the negotiation with the company, they made it very clear that it was not worth their while taking the larch volumes without extending the contracts on spruce. So, it became a negotiation at that time between the team and the sawmill operator as to what the balance there was.

[299] **Nick Ramsay:** So, had the earlier market testing covered spruce? I assume it hadn't.

[300] **Dr Roberts:** No, as I say, we had to enter that negotiation with the company, and part of the deal, if you like, was actually the extension of long-term contracts for spruce as well.

[301] **Nick Ramsay:** Okay. Any further final questions? No, okay. *[Interruption.]* Neil.

[302] **Neil McEvoy:** I just have one final question. You talked about the experience of the team in assessing the market. What was their expertise in forestry?

[303] **Dr Roberts:** They were very experienced. They obviously came across from Forestry Commission Wales into Natural Resources Wales. It was, essentially, the same team. As I said, the executive director was a former director, so it was a very experienced team. Chair, can I just make one

comment, please?

[304] **Nick Ramsay:** Yes.

[305] **Dr Roberts:** At the end of his comments, Mr Sulman said that they thought that forestry was the poor relation within Natural Resources Wales—a low priority. That is certainly not the case. We attach a very high priority to forestry, on developing good relations with our customers, and, indeed, at only the last board meeting, we had a visit to a forest and we had a paper on forestry policy. We've worked very hard with the stakeholders. There was a view at the time that NRW was created that some forestry organisations didn't like the idea and they wanted to retain the Forestry Commission as a separate organisation. But I can only say that we have worked tremendously hard with the forestry sector and I believe that we have very good relations with them. So, I was disappointed to hear what he said there.

[306] **Nick Ramsay:** Can you understand why that view might be pervading—that forestry is the poor relation within the organisation?

[307] **Dr Roberts:** I'm a bit baffled by it, to be honest, because, as I say, we have regular stakeholder meetings. Forestry is very, very important to us. We get a high proportion of our income from forestry, so it's really important to us. Obviously, I'm very happy to meet Mr Sulman to discuss that further, but, categorically, that is not the case, Chair.

[308] **Nick Ramsay:** Okay, thank you. We will now move on to focus on scrutinising our witnesses on the Auditor General for Wales's report, 'The development of Natural Resources Wales', which was published in February 2016. If I kick off with the first of these questions. Can I ask you, in terms of corporate planning and budgeting, what progress has NRW made in developing its new corporate plan, and whether you intend to consult more widely on its content?

[309] **Dr Roberts:** Thank you. I think we're making good progress in terms of the corporate plan. We've already published our well-being statement and our well-being objectives, which we're required to do under the Well-being of Future Generations (Wales) Act 2015, and the well-being statement and objectives will be a key part of the corporate plan going forward. We developed them in consultation both with staff internally and externally, and the board was fully involved with that. So, we're developing those into our corporate plan and we will be having, as you ask, further engagement with

staff and with stakeholders as part of that process. We can't finish that process until we see the natural resources policy come forward from the Welsh Government. That has been delayed. But, once that's in place, we should be able to move forward and develop our corporate plan.

[310] **Nick Ramsay:** Okay. Mike Hedges.

[311] **Mike Hedges:** You'll be coming round to producing another corporate plan shortly. What have you learnt from the last one and what changes do you see coming through that need to be made in terms of the focus of what you're doing?

[312] **Dr Roberts:** I think what we've learnt from last time is that this is going to be a much more strategic plan, much more in line with our new purpose, which is the sustainable management of our natural resources. I think there will be things in it like more emphasis on working in partnership with other organisations through public services boards, and in other ways as well. So, that's the kind of change I think we'll see happen in it.

[313] **Mike Hedges:** Have you got the right skills mix at a senior level in terms of knowledge and understanding of areas such as forestry, for example? There is a tendency—it's almost a civil service tendency—of the generalist, 'I'm very good, I can do anything.' But this idea of having people with skills, knowledge and experience in the areas of the environment, in areas such as forestry, in order to bring those skills and knowledge to the senior management table when decisions are being made—.

[314] **Dr Roberts:** Absolutely. It's a key thing. I believe we have got those skills. Obviously, most of the leadership team within NRW have come from the predecessor organisations. The head of commercial services, for instance, under which forestry rests, he's a former Forestry Commission person. The head of natural resource management is former Forestry Commission as well. I can give you examples on rivers and so on, so I believe that we do have the right skills.

[315] **Mike Hedges:** Sorry, I've obviously phrased my—. You've got five accountants who had worked in different bodies, but their knowledge of forestry or knowledge of environment would be probably no greater than mine. Actually having knowledge—not having worked there, but actually having knowledge of forestry, knowledge of the environment, actually having an understanding of, even, dare I say it, qualifications in, botany and forestry

and qualifications in the environmental sciences—.

[316] **Dr Roberts:** The vast majority of our leadership team do. They have that knowledge. They also have operational experience. A lot of them are professionally qualified, so I think we stand very well on that.

[317] **Mike Hedges:** Are you sure that you can deliver on statutory responsibilities in the context of your current budget?

[318] **Dr Roberts:** It's certainly very challenging at the moment. Obviously, we have had, roughly, a 15 per cent real-terms reduction in our budget over the last three years. So, it is very challenging. We've had to make some hard decisions on that, but I believe that we are still delivering our statutory responsibilities. But, if we do get any further cuts in our grant in aid, I think that will make it very, very difficult for us and we'll have to make even harder decisions.

[319] **Mike Hedges:** Okay. That's me.

[320] **Nick Ramsay:** Thanks, Mike. Neil McEvoy.

[321] **Neil McEvoy:** Did the Welsh Government, as anticipated, commission an independent review of NRW's procurement function, and, if so, what was concluded?

[322] **Dr Roberts:** Can I ask Kevin to answer that?

[323] **Mr Ingram:** Yes, I can. The simple answer to that is 'no'.

[324] **Neil McEvoy:** That's okay.

[325] **Mr Ingram:** I can give you more details on that, if you want. What we did is we used the Welsh Government's procurement maturity model. So, we did a self-assessment of where we were in that and we've developed our procurement plan on the basis of that. That self-assessment was then going to be subject to a third-party review by Welsh Government procurement colleagues, but, no, that hasn't happened yet, and, the latest we spoke to them, they don't have a confirmed date of when that might happen.

[326] **Neil McEvoy:** So, are there any particular areas of focus to strengthen procurement arrangements?

[327] **Mr Ingram:** Yes. Yes, there were. Certainly, when we first did that assessment the fact we'd come in from—and the first time we did the assessment was in the first two years of NRW. There were a number of areas. We had three different procurement teams and we were bringing all of our procurement arrangements in line and making them consistent. So, certainly, the main actions there were actually to get common sets of guidance, get training out to users and those sorts of areas. So, those are the areas that we've taken forward on procurement.

[328] **Neil McEvoy:** Okay. What grant funding are you managing at the present time and how much money is involved in specific schemes?

16:00

[329] **Dr Roberts:** We're managing two sets of grant funding at the moment. The first round, which was issued in 2014, that's £8.1 million over three years, and then the second round was in 2015—that was £0.5 million. We are developing proposals now to go out for a further round of grant funding in April 2018.

[330] **Neil McEvoy:** With the reduction in board members since November 2015, do you think this has impacted upon governance arrangements and levels of scrutiny?

[331] **Dr Roberts:** No, I don't think it's a factor on governance and scrutiny. Obviously, we have six board meetings. We have an audit committee, and a remuneration committee. So, I don't think it's affected the governance arrangements at all. I think they are still very robust. Perhaps where the reduction in the number of days has affected is the ability of board members to find time to do the stakeholder engagement that perhaps they would like to do.

[332] **Neil McEvoy:** Just looking at the remuneration on page 46 of the pack, it's a salary range—. In the third column, is that the amount paid to each director: £0 to £5,000, £10,000 to £15,000?

[333] **Mr Ingram:** So, this isn't the development report you're referring to. You're going back to the annual report on the accounts.

[334] **Neil McEvoy:** Yes, sorry. Just out of curiosity, really.

[335] **Dr Roberts:** Forty-six.

[336] **Neil McEvoy:** It says '£5,000 range', so—.

[337] **Mr Ingram:** Yes. Sorry, which page are you on?

[338] **Neil McEvoy:** Page 32. Page 46 of the pack.

[339] **Dr Roberts:** Sorry, yes.

[340] **Neil McEvoy:** So, it's £0 to £5,000, £10,000 to £15,000. Yes. Okay. Thanks.

[341] **Mr Ingram:** Sorry, what was the question? Those are the ranges.

[342] **Neil McEvoy:** The range, yes.

[343] **Mr Ingram:** They are, yes. That asks us to nominate them in ranges of £5,000.

[344] **Neil McEvoy:** Okay. Right.

[345] **Dr Roberts:** Correct.

[346] **Neil McEvoy:** Okay, thanks.

[347] **Nick Ramsay:** Neil Hamilton.

[348] **Neil Hamilton:** Is this on performance or staffing?

[349] **Nick Ramsay:** This is on projections and monitoring, but you can ask whatever questions you like about it, the report. No?

[350] **Neil Hamilton:** Monitoring. Yes. Well, let me take the NRW performance to start with, and the extent to which you've met the targets that you've set. In 2015-16, you had 41 indicators and measures, 28 met the target set and nine were within 10 per cent and four not where you planned to be. But, in 2016, you've adopted a different kind of methodology. The latest published report shows that you have 31 indicators, 21 rated green, 10 amber, one as red, and one not applicable. What isn't clear to us is how the later figures

relate to the earlier figures, and whether the latter are a subset of the former, or have you changed the method of evaluation completely?

[351] **Dr Roberts:** Okay. Perhaps I could actually explain. So, we use indicators and measures. So, indicators measure trends across Wales as a whole. So, we contribute to them, but others do as well. Measures are looking directly at what we as Natural Resources Wales do. So, there is a mixture of indicators and measures there. We've kept all the indicators the same, so the Wales-level information the same. We have reduced the number of measures, though. Basically, these are linked to our annual business plan, so, as we achieve a measure, we take it out for the next year. So, for instance, we've taken out—one of our goals was to set up a strategic equality plan; we've achieved that, so we've taken that out. Make information available on flood risk—we've done that. We've replaced them with things like producing the 'State of Natural Resources Report' and working with the public services boards. So, the measures are more flexible and dealt with on an annual basis.

[352] **Neil Hamilton:** Right, I understand. I'm grateful for that. Can I ask you a more general question, on the basis of that, as to what your 2016–17 performance outturn looks like compared with the 2015–16 outturn?

[353] **Dr Roberts:** We're actually taking a paper to the board this week on this. It's subject to their ratification. Of the 33 indicators and measures we're showing 22 green, nine amber, one red, and one to be confirmed.

[354] **Neil Hamilton:** Perhaps you could submit a paper to us showing the things that you've ticked off and which, obviously, not having any continuing purpose, can be forgotten about, so that we can compare one year with another with the items that are not just one-offs as such.

[355] **Dr Roberts:** Certainly; I'd be happy to do that.

[356] **Neil Hamilton:** I'd like to ask some questions also about staffing. Forgive me, because one of our Members who's not here today was originally going to do this, so I've come to this at a late stage. At the time of the last auditor general's report, you were completing a job evaluation exercise.

[357] **Dr Roberts:** That's right.

[358] **Neil Hamilton:** And set a timescale for completion of that for last

February, February 2016. The auditor general described this timetable as ambitious, and highlighted a risk that the role descriptions and job design resulting from this exercise might not align with new service delivery arrangements. So, I wonder if you could give us an indication of what change has been made a result of this exercise, and how you've sought to ensure that the outcome does reflect your future business needs.

[359] **Dr Roberts:** In terms of the timeline, I think the auditor general was right, the timeline was ambitious, because the job evaluation exercise is still ongoing as we speak. What are the changes we anticipate? A more consistent approach to the remuneration of our staff. I think the other change that that will bring is it'd be helpful in terms of career development, so staff will know what pay ranges go with which roles. So, that will help with that. As I say, the job evaluation process is ongoing, and we are in, obviously, regular dialogue with the trade unions around that.

[360] **Neil Hamilton:** Right, and—

[361] **Dr Roberts:** I'm sorry, I didn't answer your question about how it's fitting the new organisational design. We're ensuring that it is. The tool that we've adopted, which is around job families and role profiles, other organisations have adopted that. So, we believe that it is very flexible and will be appropriate for the organisational design.

[362] **Neil Hamilton:** Right, very good. And, as regards levels of sickness and absence, in 2015–16 you reported 5.2 days per employee, which equates to a rate of 2.37 per cent compared with a target range of 3.1 per cent, which was seven working days, so you're within that target. But what assurance can you give the committee that these low levels of sickness were unaffected by the issues with data accuracy that the auditor general commented on in his report, following the implementation of the new HR and finance system?

[363] **Dr Roberts:** I think, at the time of the report, we were still dealing with the three legacy systems of measuring sickness. So, we've now got a single recording system for reporting sickness. We regularly monitor; we analyse the data in there. We've obviously offered training to staff to make sure that they record them correctly. So, we are confident that what we're measuring is the right figure.

[364] **Neil Hamilton:** As regards staffing and recruitment, you've dispensed with a large number of people, obviously, as part of the efficiency savings

that you were set to achieve. Are you having any ongoing problems with recruitment? You reported last time that there were difficulties in certain niche posts such as nuclear regulation, and so on.

[365] **Dr Roberts:** Generally, no, we're not. We've been able to fill some fairly specialised posts, so we're not having any general problems. The nuclear one, at the end of the day, we felt it was better to actually contract for that particular post, so we're contracting with the Environment Agency in England. That made more sense from a service point of view, rather than have our own person, as it were. So, that's the way we've got around that one.

[366] **Neil Hamilton:** And is that the only niche post you're having difficulty with recruitment, or are there others as well?

[367] **Dr Roberts:** I'm not aware of any others. It's a bit of an unusual—because it's so specialised, that post. I'm not aware of any other posts that are unfilled at the moment.

[368] **Mr Ingram:** The only other area of experience I've had from my own part of the business is certain areas of ICT posts, where we need a fairly high degree of expertise and specialism in those. We have filled those posts now, but it certainly took longer than we would have wanted.

[369] **Neil Hamilton:** The auditor general also highlighted potential problems with succession planning in his report. Can you give us an update on that and how it looks from your point of view?

[370] **Dr Roberts:** Yes. We're very mindful of that, and one of the tasks for this year is to produce a full workforce plan for the organisation, but we've already taken steps to meet succession issues. We've got, I think it's four or five, schemes for apprentices. We're mindful of the age of some of our teams, so we're bringing in apprentices now so that they can pick up the skills and carry on from that. So, we are actively planning on that basis, but we will have a full workforce plan later this year.

[371] **Neil Hamilton:** And just looking in more detail, also, at the voluntary exit schemes that you've had, the schemes that you've run so far have been significantly oversubscribed, with 444 applications, of which 183 were approved. So, you were rather spoilt for choice there. Can you give us any idea of how you decided on individual cases, and what were the principles

upon which you made the decision to let one person go rather than another?

[372] **Dr Roberts:** Yes. We looked, in the first instance, at the role and whether the role was going to continue to the future, and we looked at the skills of the individual in that role and whether they could be used for other roles. So, we filtered out the applications based on those roles going forward and, obviously, if we felt that we could release somebody, then we did.

[373] **Neil Hamilton:** Right. And the last questions I'd like to ask you are in relation to your staff surveys. In 2015, you had a response rate of only 58 per cent of your staff in relation to that people survey, and you had some responses that were more positive than others, shall we say. In 2016, you had a much higher response rate of 82 per cent, but this showed a general deterioration in the percentage of positive responses. The biggest deterioration was seen across questions about organisation objectives and purpose, learning and development, and employee engagement, and the least positive set of responses overall related to questions about leadership and managing change—perhaps not surprising. In any organisation that is rapidly changing you do get that. But, can you account for the deterioration in the latest survey of these results, given that stated emphasis was being placed on people management and staff communication in your transformation programme?

[374] **Dr Roberts:** Yes, certainly, and this is a very important issue for us. I think I have to say that, at the time of the survey in particular, and still to some extent, there was considerable change happening within the organisation, so a lot of uncertainty. We haven't been able to conclude the job evaluation exercise, so that brings in further uncertainty too. So, there was a lot of change happening at the time. What we have done since the 2016 survey is we've published a people and teams strategy, and we have a people and teams group, who are selected from across the organisation—all grades and locations—to tackle the issues that came up in the staff survey. In the 2016 survey, we had boxes for commentary, for text, as well, and that has provided us with a very rich source of material. So, the kinds of issues that you're talking about: organisational purpose, we have a programme to involve people in that; learning and development, we have programmes that we have established for learning and development; engagement, yes, we've tried to improve our communications to show that we are listening to people, and we want people to be involved in the next phase of NRW. So, through the group and through the strategy, we try to tackle all these issues that were identified in the staff survey.

[375] **Neil Hamilton:** Right. And so how are you seeking to turn the position round with your staff through the organisational development and people management strategy?

[376] **Dr Roberts:** I think a lot of it was that our staff didn't feel valued, they didn't feel involved in the decisions that were affecting them. So, we've learnt from that. We mentioned earlier the organisational design programme that's going ahead. We've involved staff right from the start in that, so we're listening to what they say, the ideas that they have. So, you know, that's a good example where we've learned from the response of the staff, to engage them more, so that they do feel valued, and we want to hear their views on the organisation.

16:15

[377] **Neil Hamilton:** So, you're going to repeat this exercise this year again—the people survey?

[378] **Dr Roberts:** The intention is to do it later in the year. The format may be slightly different, but that's the intention at the moment.

[379] **Neil Hamilton:** And when do you plan to complete the job evaluation exercise?

[380] **Dr Roberts:** Right, well, the current situation is that a proposal was developed. It was not accepted by the trade unions. So, at the moment, we are considering the options ahead of us. We met the trade unions a couple of weeks ago, so we have a very good dialogue with them. In the meantime, we are going ahead with an appeals process for the job evaluation exercise. So, I can't give you an absolute deadline, but it is very important for us as an organisation to make sure it's done properly and we move forward.

[381] **Neil Hamilton:** Compared with when you set off on this journey, it's now well over a year behind schedule. It was designed to be completed in February last year; here we are in May, and you can't give us an end date when you're likely to do this.

[382] **Dr Roberts:** No. I say with regret that it's taken a lot longer than we have. Clearly, we need to get it right so that staff have got confidence in it, but it has taken longer. Although, periods like we're dealing with are not

unusual to actually deal with a job evaluation process. I heard recently that one organisation in Wales had taken seven years to do it. Certainly, we hope to do it far, far more quickly than that.

[383] **Neil Hamilton:** And just a final sort of catch-all question, what do you think that the results of these surveys tell you about your organisation and management?

[384] **Dr Roberts:** I think they tell us that we're still in a process of development and of change, that things have still not settled down completely, that we need to take our staff with us, I think, far more on this journey. We have got an organisational design programme, as I say, which will deliver what we were set up to do—much more integrated teams. But I think the crucial thing is that our staff feel part of that process.

[385] **Neil Hamilton:** Thank you.

[386] **Nick Ramsay:** Neil McEvoy, do you want to ask your questions?

[387] **Neil McEvoy:** Yes. What was the conclusion of the board effectiveness review at the end of 2016?

[388] **Dr Roberts:** It's an ongoing process, which the board is engaged with. In fact, there's a further discussion at the board meeting later this week. But, if I could give an example, one of the things that the board has done is, at an individual level, to align themselves with our major offices in Wales. So, one board member will look after a particular office in order to increase the visibility of the board members and to get to know staff much better. Another thing that the board is doing is feeding back regularly on the external events that they attend, so that we all know—we all get good feedback, then, at board level.

[389] **Neil McEvoy:** What are the expectations of changes in late 2017 to the board?

[390] **Dr Roberts:** The appointments to the board are by the Welsh Government. So, I personally don't know what the intention is there. I know that the Chair is talking to the Welsh Government about those appointments.

[391] **Neil McEvoy:** Okay.

[392] **Nick Ramsay:** Okay. Going back to the issue of ICT and accommodation, has NRW now fully exited from legacy contractual arrangements through the Environment Agency and/or the Forestry Commission GB?

[393] **Dr Roberts:** Can I ask Kevin to come in on that?

[394] **Mr Ingram:** Yes, we have; yes, we have. There's been a large number of transitional services, and we exited the last of those on 31 March 2017.

[395] **Nick Ramsay:** So, that transition is complete.

[396] **Mr Ingram:** Yes. From the Environment Agency, we've got an agreement with some services that are going to continue as joint services. There are four services, which we call the enduring services, and those are continuing. But all of the services that we wished to exit, we have now done so.

[397] **Nick Ramsay:** And has NRW now established its own digital strategy and, if so, what are the key areas of focus for the future?

[398] **Mr Ingram:** During the first years, really, our digital strategy was all focused on transformation and on exiting the services from Forestry Commission GB and Environment Agency. It was about setting up an in-house ICT team from scratch, because there wasn't one, on day one. And it was about setting up cloud-based systems. So, we've completed that first bit of transformation. We now have a key set of digital principles, going forward—how we'll move to a very digitally based organisation. We're just in the process of now putting together our next ICT strategy, but that will be very much aligned with the new corporate plan 2017–22, understanding exactly what the business requires. So, we're just going through that process at the moment of developing the next strategy.

[399] **Nick Ramsay:** On the issue of ICT and the broader business case savings realisation, does NRW remain confident in its ability to close the gap on the savings that still need to be realised to deliver the projections in the business case for its creation?

[400] **Dr Roberts:** I can answer that one, Chairman. Yes, we are confident. In fact, last week, we delivered a report to the Welsh Government on our first four years, which shows that we're on course for £171 million-worth of

benefit in the first 10 years, which is higher than the business case projection of £158 million. So, you know, we're very pleased with that and we will publish that report in due course.

[401] **Nick Ramsay:** Great, and how confident are you that NRW is able to distinguish reliably benefits arising specifically from its creation from the impact of actions required to address ongoing budgetary pressures?

[402] **Mr Ingram:** I think, up to this point in time, we are confident, but, as time goes on, it becomes more challenging to do that. You know, if we make a decision now through the work we're doing about organisational development, the key question there is: was that a benefit from the setting up of NRW or have we made that change because of budget constraints from new requirements? So, I think, going forward now, it's become increasingly hard to do that. So, we're happy with what we've pulled together. I think the submission to Welsh Government about the end of the first four years and the benefits and the cost of the business case is in line with the recommendation from the auditor general's report, which talks around our request to Welsh Government to bring that to a close and then we move forward measuring just other benefits that we deliver going forward.

[403] **Nick Ramsay:** Has there been any further dialogue with the Welsh Government about the continued reporting of savings?

[404] **Mr Ingram:** That was this report that was just submitted last week, really, which was the report as at the end of March 2017. So, that's just been submitted and we've not had a response to that yet.

[405] **Nick Ramsay:** Finally, unless anyone else has any other questions. No. In terms of board capacity and effectiveness, how has the reduction in board member time since November 2015 impacted on NRW's governance arrangements?

[406] **Dr Roberts:** I think I've responded to that. You've asked that previously.

[407] **Nick Ramsay:** I am repeating myself then, sorry, dashing back and forward in my brief. I think everything has been answered, then. Can I thank our witnesses for being with us today—Kevin Ingram and Dr Emyr Roberts? That's been really helpful. We will provide you with a transcript before it is finalised for you to check for accuracy. We're going back into private session.

Daeth y cyfarfod i ben am 16:23.
The meeting ended at 16:23.