



**Cyfoeth
Naturiol
Cymru
Natural
Resources
Wales**

Enterprise Plan 2017 - 2022

Commercial opportunities and activities that support the Sustainable Management and use of Natural Resources



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Introduction

Natural Resources Wales (NRW) inherited a range of commercial activities from its legacy bodies, many of which related to the land that we manage on behalf of Welsh Government. NRW has continued to undertake and develop these activities as part of its remit to ensure that the natural resources in Wales are sustainably maintained, used and enhanced.

Commercial activities provide an important income stream for NRW in a period when public sector funding is reducing and declining Grant in Aid (GiA) from Welsh Government. However, NRW's commercial activities also generate a positive economic impact in Wales, supporting and creating jobs and enterprise, enabling others to participate in and benefit from the sustainable management and use of natural resources and contributing to the development of the Green Economy.

The Welsh Government has mandated NRW, through its annual Remit Letter in 2017/18 "to develop an Enterprise Plan with milestones for income generation that exemplify the Sustainable Management of Natural Resources, working with partners and communities." NRW's Board has actively contributed to the development of this plan.

The timescale for this Enterprise Plan is 1st April 2017 to 31st March 2022, which aligns with our Corporate Plan.

This document sets out the framework of NRW's Enterprise Plan. It puts our commercial activities into the context of NRW's Well-being Objectives and remit to deliver the Sustainable Management of Natural Resources (SMNR). It then sets out the principles that will guide its commercial activities and how NRW will organise the programme and plan the development of each portfolio. It also describes the governance arrangements that will be needed.

The plan gives an indication of the scale of the different areas of commercial activity and the existing themes and priorities. However, this document does not include detailed financial information or comprehensive detail of all the specific actions we are taking. These will be set out in Business Plans for each activity. The Business Plans will also define the Financial Targets and Performance Measures for each portfolio of activities. So although this document does not specify Financial Targets, it does explain how and when these targets will be defined in a way that both improves financial performance as well as ensuring alignment to SMNR.

Policy and Legislative Background

NRW complies with all applicable UK and EU laws and regulations and with all relevant Welsh Government and NRW policies when carrying out its commercial activities. It also participates in voluntary regulation where appropriate, in particular the independent certification of the Welsh Government Woodland Estate to verify sustainable management.

In addition to the large number of specific duties and obligations relating to large numbers of specific UK and EU regulations, NRW also has over-arching responsibilities under two Wales specific Acts: the Well-being of Future Generations (Wales) Act 2015 and the Environment (Wales) Act 2016. The Well-being of Future Generations Act makes it a duty

for all public bodies in Wales to maximise their contribution to the achievement of seven Well-being Goals through the SMNR - see Figure 1 below.

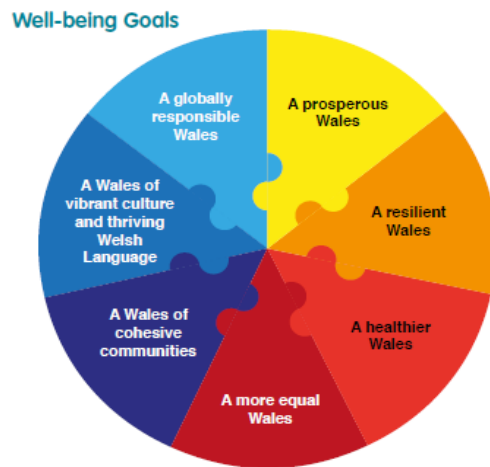


Figure 1. Well-being Goals for Wales

To do this, each public body must develop a set of Well-being Objectives, reviewed annually and published in a Well-being Statement. [NRW's Well-being Statement](#) was published on 1st April 2017 on the NRW website.

The statement includes NRW's Well-being Objectives, which provide the foundation for NRW's Corporate Plan. The Well-being Objectives are to:

- Champion the Welsh environment and the sustainable management of Wales' natural resources
- Ensure land and water in Wales is managed sustainably and in an integrated way
- Improve the resilience and quality of our ecosystems
- Reduce the risk to people and communities from environmental hazards like flooding and pollution
- Help people live healthier and more fulfilled lives
- Promote successful and responsible business using natural resources without damaging them
- Develop NRW into an excellent organisation, delivering first class customer service.

The Environment Act sets out NRW's purpose which is to:

- Pursue the Sustainable Management of Natural Resources (SMNR) and
- Apply the principles of SMNR in the exercise of our functions.

The SMNR principles link very closely to the five ways of working set out, which we are required to follow from the Well-being of Future Generations Act. These are:

- thinking long term

- prevention
- integration
- collaboration and
- involvement.

The Enterprise Plan is aligned with NRW's purpose, Well-being Objectives, the 5 ways of working and to the legal obligations and purpose set in the Well-being of Future Generations Act and the Environment Act, as set out in Appendix 1 *Applying SMNR Principles to NRW's Enterprise Activities*. The top part of the flow chart shows the type of contributions that SMNR can make towards the Well-being Goals and then goes on to show how NRW's commercial activities will be considered and aligned.

Whilst the Environment Act and the Well-being of Future Generations Act set out NRW's duties in relation to SMNR, these acts do not in themselves give NRW the legal powers to undertake any activity that might contribute positively to this general purpose. For example, NRW has duty and power to use natural resources to provide access and recreation opportunities to contribute to improving people's health but it does not have the remit of powers to operate hospitals.

In order to undertake activities outside NRW's existing legal powers, Welsh Government would either need to alter the legislation to give NRW those powers or provide NRW with the delegated authority to undertake such activities that are within Welsh Government's legal powers.

NRW may in some situations be able to have a commercial relationship with a third party, for example in the form of a lease with a developer or body, which is not constrained by the same legal powers.

Scope

The scope of the Enterprise Plan is the commercial activities that NRW undertakes using the current legal powers and delegated authority that NRW has to sell products and services, or to grant rights to others for the use of land or assets managed by NRW.

Although the great majority of current commercial activity is based upon the land that NRW manage directly (or on neighbouring land), NRW recognise that as its expertise develops, there may be opportunities to undertake other commercial activities that support the delivery of SMNR; an early example of this would be the specialised Analytical Services that are provided by the NRW's Laboratory team.

The Enterprise Plan will not include the recovery of costs incurred while undertaking our regulatory duties. Those regulatory charges are covered under NRW's "Charging Regime." More information about this is available on the NRW website by following the link to [Our Charges](#).

Enterprise Principles and Ways of Working

The broad rationale for NRW undertaking commercial activities is to support the Sustainable Management and use of Natural Resources but the following principles and ways of working will guide how, as a public body in Wales, NRW will develop and implement its commercial activities.

1. To protect and enhance the delivery of public good, NRW will give careful consideration to defining *Performance Measures* that will provide appropriate parameters for commercial activities to operate within.
2. NRW will ensure that commercial programmes are developed with an understanding of the markets in which they operate and engage appropriately with the commercial sectors in which NRW play a significant role.
3. Wherever NRW has *freedom of choice*¹ it will award contracts and other commercial agreements through fair and open competition, ensuring that when non-financial factors are considered, that these criteria are clearly defined and transparently evaluated.
4. NRW will provide a range of opportunities and encourage competition by offering commercial opportunities at different scales, wherever practicable, and by exploring different delivery models.
5. NRW will avoid adversely impacting on business sectors through unfair competition. To this end NRW will not sell goods and services below market value and will work to secure best value and ensure full cost recovery.
6. NRW will comply with “EU State Aid” rules through a combination of the above measures and by seeking advice when it is unclear, to avoid any breaches.
7. In situations where NRW offers a unique service, NRW will not take advantage of a lack of competition and will contain charges to a reasonable margin.
8. NRW will ensure accuracy and integrity in the way that income and expenditure is accounted for on commercial activities. Financial Reports will identify net margins and where applicable, the financial performance of different operating models. Where Performance Measures lead NRW to provide additional public or environmental benefit, NRW will endeavour to assess the cost of doing so in order to enable consideration of cost / benefit.
9. When considering investment decisions and business cases for commercial activities, NRW will take a long-term, whole life cost approach, including revenue funding, staff cost and capital values.
10. NRW will ensure effective internal governance around the development of commercial activities and the assessment of progress against Financial Targets and other Performance Measures.

¹ Where NRW needs to work with third parties with an existing legal interest in land managed by NRW (or on adjoining land) this may restrict NRW’s ability to ensure fair and open competition. There may also be situations where NRW is obliged to contract work out through Welsh Government framework contracts.

Restrictions on the use of income

In overall terms and with the exception of the net income from Wind Energy Projects on NRW land, NRW is able to retain the income from commercial activities and this will help NRW to deliver SMNR. However, there are rules around the use of particular income streams from different activities. These are defined in a number of places: from specific legislation to Welsh Government guidance on Managing Welsh Public Money, NRW's Framework Agreement with Welsh Government and the disciplines that NRW has introduced as part of the Business Area Reviews in order to avoid cross funding between different activities. NRW's internal governance and Finance services will uphold adherence to these rules but these rules themselves should not act as a barrier to exploring new commercial opportunities.

Timescales

The 5 year period of the Enterprise Plan is aligned to NRW's Corporate Planning cycle but the plan seeks to build long-term income streams that can be used to deliver SMNR.

Implementation of the Enterprise Plan will include the development of detailed Business Plans for activities showing income and expenditure projections and targets for the 5 years that will be linked to Corporate / Business Planning timescales. In the meantime, the budgeted costs and income targets for 2017/18 are included in the Business Plan for the current year.

These Business Plans for each area of activity will identify actions that NRW is taking to improve income in the short-term in order to deliver the savings set out in the Business Area Reviews and help to mitigate the reductions in GiA.

Working with Others

NRW recognises that it does not have the capacity or all of the capabilities required to realise all of the available commercial opportunities. NRW is therefore committed to working with others to ensure the right capabilities are deployed and to avoid NRW's internal resources becoming a limiting factor in the development of its commercial activities.

NRW will be open to working in new ways, using new mechanisms where appropriate, such as partnerships or joint ventures, to deliver the best results – subject to the necessary approvals.

In addition to working with the private sector, NRW will be open to entering into commercial agreements with the voluntary sector, including community bodies such as social enterprises.

Community projects will not be exempt from the need to provide value for money, however, where they provide additional social, environmental or economic benefits, this may be taken into account in the assessment of competing projects. The NRW website will explain how interested parties can get in touch with NRW and take their proposals forward.

Developing and Implementing the Enterprise Plan

The Enterprise Plan is being developed in a staged approach.

Stage 1 Organising our Enterprise Activities into Portfolios

Having set out how NRW commercial activities can support the delivery of NRW's SMNR objectives (as illustrated in the flowchart in Appendix 1), NRW's commercial activities have been grouped into portfolios of activities, which will provide a basis for business planning and development. NRW's current commercial activities are grouped into the following portfolios.

- Timber Production
- Energy Development
- Other Estate Income
- Recreation and Tourism
- Analytical Services.

A summary of the portfolios and outputs are shown in in Table 1 below. The existing themes and priorities for each portfolio are described in Appendix 2.

Table 1: Portfolio Descriptions

Existing Portfolios	Description / Examples	FY17/18 Current Programme Outline
Timber Production	<ul style="list-style-type: none"> • Thinning programme • Clearfelling programme • Associated Restocking programme of felled areas • Maintenance of access infrastructure through civil engineering and roadside vegetation management. 	850,000m ³ of timber marketed (mixture of Standing Sales and Direct Production) Wide range of timber products for different markets.
Energy Development	<ul style="list-style-type: none"> • Onshore wind • Hydro • Solar • Biomass development • Responding to requests for non-renewable energy. 	Onshore wind projects Pen y Cymoedd 228 MW Brechfa Forest West 57 MW Clocaenog Forest 96 MW Other projects under development Enhancements e.g. battery storage. Providing third party access across the NRW Managed Estate to wind energy projects on adjoining land.

Existing Portfolios	Description / Examples	FY17/18 Current Programme Outline
		Hydro projects 10 self-build hydro project business cases prepared.
Other Estate Income	<ul style="list-style-type: none"> Rental and lease income Wayleaves and telecom masts Surplus asset sales Filming rights. 	Telecommunication masts Third party access agreements Mineral rights Sales of surplus land and depots.
Recreation and Tourism	<ul style="list-style-type: none"> Visitor Centres Carpark charges Leases of recreational sites Cabin developments Event permissions. 	Visitor Centres 4 directly operated Visitor Centres: Coed y Brenin, Nant yr Arian, Ynyslas and Garwnant. Several other sites with car parking charges including Newborough and Moel Famau. Cabin developments 2 Forest Holidays sites with planning approval: Beddgelert and Garwnant. Hundreds of events across Wales ranging from local community events through to the Wales Rally GB.
Analytical Services (Chemical analysis)	<ul style="list-style-type: none"> Chemical Analysis of environmental samples to provide evidence to enable decision making. The service is based in a laboratory at Swansea University. Most analysis is for NRW's internal requirements but there is a growing element of external commercial analysis. 	Water quality analysis Pollution analysis Soils analysis Marine sediment and biota analysis Passive sampling Field meter calibration.

The scale of different portfolios is difficult to compare as they all have different outputs. An indication of relative scale based on gross income is shown in Figure 2 below. However, gross income is only an indicator of turnover and does not denote profitability.

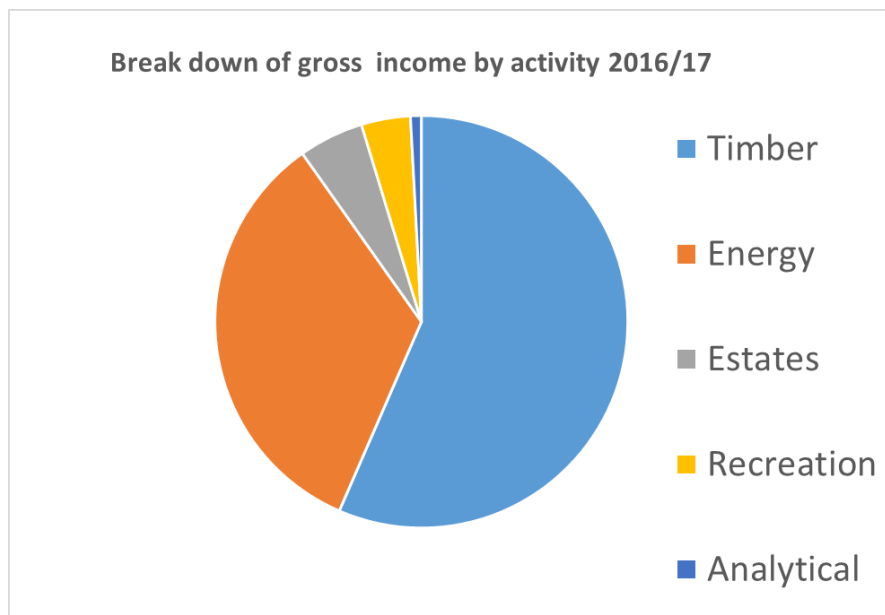


Figure 2. Indication of Relative Scale of Existing Commercial Activities

The relative size of different portfolios is not fixed and will develop over time in response to NRW's corporate objectives, the markets and commercial opportunities available. Although timber production is the largest element at present, some of the other smaller areas have significant potential for growth in the medium to longer term.

Stage 2 Understanding of the Financial Position, then Setting Targets

The next priority has been to establish a clear understanding of the financial position for each commercial activity in order to build a financial baseline and to enable future planning and forecasting. Gross income is not the most useful measure of performance, instead the emphasis will be on the net income after all associated costs are taken into account. This will help to ensure that commercial activities contribute positively to NRW's overall financial position.

NRW's Finance team have been developing Financial Reports for the different portfolios identifying income, expenditure and net margins using 2016/17 as a baseline year and then setting out the current budgeted figures for 2017/18 in the same reporting format to allow comparison and enable financial progress to be measured more accurately than is currently practicable.

These Financial Reports contain some commercially sensitive information and are therefore not published as part of this plan. They will inform the development of detailed Business Plans for each portfolio with financial projections to 2022. Before the Financial Targets can be set, the Performance Measures will need to be confirmed for each activity. The current NRW Business Plan does not provide enough detail to set Performance Measures for many of NRW's commercial activities and the existing targets and Performance Measures do not provide enough of a framework to guide NRW's commercial activities and measure progress.

Suitable Performance Measures will therefore be identified for each of the portfolios in time to inform the development of Financial Targets in the Autumn of 2017 when the budgets for 2018/19 are assembled. An example of what the Performance Measures and Financial

Targets may look like is given in Table 2 below for Timber Production to illustrate the nature of the measures and targets.

Table 2: Possible Performance Measures and Targets for Timber Production

Possible Performance Measures	Financial Target
<p><u>Compliance</u></p> <ul style="list-style-type: none"> • Compliance with Statutory Regulations • Compliance with Welsh Government <i>P. ramorum</i> Disease Control Strategy • Retain Forest Certification <ul style="list-style-type: none"> ○ No Major Corrective Actions relating to Timber Production arising from audits. 	<p>Financial Targets to be developed based on Net Income. This will include:</p> <ul style="list-style-type: none"> • Staff Costs • All Harvesting and Restocking costs • All Forest Civil Engineering costs • Timber income plus any specific funding and any Welsh Government funding for <i>P. ramorum</i> operations. <p>but the targets will exclude:</p> <ul style="list-style-type: none"> • NRW Central Overheads and • any future Capital funded engineering projects e.g. Landslip remediation, bridge replacement (none at present).
<p><u>Harvesting Programme</u></p> <ul style="list-style-type: none"> • Market timber in accordance with parameters set out in NRW's Timber Marketing Plan e.g. volumes of timber offered to market by sale type • Achieve a sustained increase in Thinning Programme by x % by 2020. 	
<p><u>Restocking</u></p> <ul style="list-style-type: none"> • Bringing the area of felled land within sustainable levels by 2022 <ul style="list-style-type: none"> ○ No more than 4% of the productive forest area on the public forest estate • Achieve at least 90% of target stocking densities on restocked areas by year 3 of crop. 	<p>The Financial Targets for net margin would be set in terms of an upward trend and a cumulative net surplus target over the 5 years as there may be fluctuation in market prices from one year to another. NRW's carry forward allowance for timber income will be used to accommodate income fluctuations from year to year.</p>
<p><u>Health & Safety</u></p> <ul style="list-style-type: none"> • Reducing trend of accidents per m³ of timber harvested • Learn from near misses (a ratio of near miss reports to accidents >3:1) • Actions from Serious Incident Reviews implemented in defined timescales. 	
<p><u>Environment</u></p> <ul style="list-style-type: none"> • Enable at least 1,000ha of Ancient Woodland restoration by clearfelling Plantations on Ancient Woodland Sites (PAWS) • Work towards further restoration by thinning at least 1,600ha of PAWS. 	<p>The Net Income Target will be apportioned to each of the 6 Place Based land managers in our Organisational Design and Cost Centre structure. Area Targets will be informed by appropriate baseline expectations for each Area.</p>

Stage 3 Internal Alignment and Governance

An Enterprise Sub-Group of the NRW Board has been formed to oversee the development of the Enterprise Plan and will provide oversight of the further development and implementation of the Plan. Quarterly reports, including revenue generation and progress against the key Performance Measures will be provided to the NRW Board.

In 2017, NRW will complete the development of a new Organisational Design in order to provide the structure, governance and ways of working needed to deliver its business including the commercial activities. The Head of Commercial Operations has been appointed to provide leadership for commercial activities and appropriate new or revised governance structures will be put in place for each of the Enterprise Portfolios in 2017 in order to monitor progress in the delivery of the Enterprise Plan, provide financial scrutiny, and oversee the development of programmes and projects.

Existing governance structures such as the Energy Delivery Programme Board and Estate Management Forum will continue to monitor and report on particular Enterprise Portfolios until Organisational Design is completed and any changes in governance are introduced. In addition, NRW's Audit and Risk Assurance Committee (ARAC) will continue to provide scrutiny on risk assurance where necessary. Given the diverse range of portfolios the governance will be tailored to suit business needs. For example, there may be a need for a governance group for the Analytical Services portfolio, which would consider the external commercial laboratory services in the context of the NRW's Monitoring and Evidence activities. This is a completely different context from NRW's Energy portfolio.

However, full implementation of structural changes across NRW will take longer than the introduction of new governance arrangements. This is because structural change needs to be undertaken in a way that minimises impacts on customers and is in line with NRW change management procedures.

Scoping Out and Evaluating New Opportunities

In addition to developing clear business plans for NRW's existing activities and aligned NRW teams to enable effective implementation, NRW must be able to scope out and evaluate new opportunities and ideas. Some of these opportunities may come through evolution of the existing activities but NRW will also actively consider ideas and suggestions for new commercial activities and innovation. To this end a New Opportunities portfolio will be established before the end of 2017/18 and will evaluate business ideas from within NRW and from external sources wishing to use NRW resources.

New commercial ideas will be assessed using the criteria set out in the flowchart in Appendix 1, which starts with assessing whether the proposal contributes positively to SMNR and then considers a series of criteria designed to target resources at the most promising ideas and avoid putting NRW's own resources (and those of others) into projects that are poorly aligned to our SMNR objectives and / or which do not have a sound commercial basis.

Ideas for innovation and new ways of working will be evaluated for their feasibility and cost effectiveness and this assessment will involve a mixture of people within that area of the business and others with a fresh perspective.

Competencies, Skills and Improving our Business Processes and Expertise

NRW will be clear and honest about whether it has the right business skills to develop and deliver the commercial programmes. In many cases NRW will work with others who may be better placed to delivering aspects of commercial activity and have the right skills needed. However, it is also recognised that NRW will also need to strengthen its own commercial capability in terms of areas such as market research, marketing, product development, innovation, business planning, procurement or negotiation skills. Closing the skills gap will require a combination of training, outsourcing and recruitment.

In addition to improving its commercial capability, NRW will also identify opportunities to improve processes and systems to achieve efficiencies and enhance performance. This will range from refining guidance and procedures through to enhancing or replacing ICT systems or adopting new technology.

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Enterprise Plan 2017 - 2022

Appendix 1: Applying SMNR Principles to NRW's Enterprise Activities

See Appendix 1 – separate PDF.

Appendix 2: Existing Themes and Priorities for Enterprise Portfolios

Timber Production

- Implement the new Timber Marketing Plan for 2017 - 2022. In particular:
 - Increasing the proportion of timber sold through Standing Sales
 - Refine the Standing Sales Plus method of sale in order to optimise the benefits to NRW and the forestry sector
 - Assess the performance of different methods of sale in order to inform the development of timber sales plans.
- Improve standards of Health & Safety in forest operations in close co-operation with the forestry sector and in line with the Forest Industry Safety Accord.
- Continue to market larch in accordance with the *P. ramorum* Disease Control Strategy.
- Further develop our E-Business capability to consolidate and improve the Timber Marketing Platform ICT system and introduce electronic timber auctions, to better maximise competition.
- Integrate the delivery of Timber Harvesting, Restocking and Operational Planning to form local Forest Operations teams as part of NRW's Organisational Design. The aim will be to create resilient teams that are better able to handle the interdependencies between activities and operate in a more empowered and agile way to achieve best value through better decision making.
- Ensure cost effective restocking by targeting the inputs in proportion to the potential outputs, in order to achieve a high specification on sites with the highest potential to grow timber profitably. Reduce the area of felled land awaiting restocking and monitor progress through transparent Performance Measures.

Energy Development

- Work with developers through the construction phase of 3 large wind energy projects at Pen y Cymoedd, Brechfa Forest and Clocaenog Forest to deliver Welsh Government Policy.
- Negotiate re-powering of the Cefn Croes wind farm in Mid Wales in order to enable higher energy outputs and improved income.
- Assess the potential for additional wind energy generation on the NRW Managed Estate, while responding appropriately to approaches from developers.
- Agree with Welsh Government how to develop the renewable energy programmes on the NRW Managed Estate in a post subsidy market.
- Strengthen co-operation with adjoining land owners and freehold owners on the leasehold elements of the NRW Managed Estate, to enable renewable energy projects to be developed.
- Progress towards completion of existing small-scale hydro energy projects on the NRW Managed Estate through self-build and marketing opportunities.

- Explore potential for Green Growth Fund to fund hydro projects on the NRW Managed Estate.
- Identify mechanisms for community involvement and ownership in renewable energy projects on the NRW Managed Estate.
- Determine commercial potential of the concept of Energy Parks in which battery storage, solar and biomass energy development is integrated with wind farm developments.
- Co-operate on a commercial basis with requests from owners of Petroleum and Development Licences (PEDL) and coal reserves whilst not actively promoting non-renewable energy.

Commercial Recreation

- Improve the performance of Visitor Centres through implementation of the Visitor Centres review.
- Develop a new Car Parking charging policy and trial the use of new technology to improve collection of revenues.
- Work with Forest Holidays during the construction phase of cabin development at Garwnant and Beddgelert and identify potential sites for cabin development.
- Assess the potential for new commercial recreation projects at key locations on NRW land in partnership with local managers and external partners.
- Implement new ways of working for motor sport to ensure full cost recovery and adherence to higher standards of Health & Safety management at events.

Estate Income

- Develop mechanisms for securing payments for ecosystems services such as carbon trading at the Llynfi woodland project.
- Continue to develop Natural Capital Values methodology in liaison with Welsh Government in order to quantify the ecosystems services value of the NRW Managed Estate.
- Continue to ensure best value from rental income such as siting of telecommunications structures.
- Actively manage usage of stone on the NRW Managed Estate to ensure legal compliance and value for money.
- Review charging rates for permissions, events and activities such as filming.
- Secure best value from the sale of surplus assets, such as buildings and depots that have no operational purpose.

Analytical Services

- Increase commercial income from the provision of analytical laboratory services for samples related to SMNR to achieve or exceed the targets set in the 10 year Business Case for moving the laboratory to Swansea University.

- Undertake market analysis and research in order to identify sections of the market where NRW has a unique or scarce expertise with opportunities for higher value low volume analysis.
- Ensure internal governance structures are established so that the development of external commercial income does not adversely affect the provision of services to internal customers.