

Climate Change, Environment & Infrastructure Committee: Annual Scrutiny of Natural Resources Wales March 2025

Ahead of our annual scrutiny session with the Committee on Wednesday 12 March 2025 we thought it would be helpful to provide written updates on how we are progressing against our three well-being objectives, and on a number of topical issues.

Well-being objective 1: Nature is recovering

2024/25 will be a landmark year for nature's recovery in Wales with Welsh Government setting the strategic direction for the next decade or more through two major pieces of work: the White Paper defining the approach to environmental principles, governance and biodiversity targets and the Sustainable Farming Scheme setting out how land managers will be rewarded for nature positive land management.

The annual commitments reflect our contribution to these crucial pieces of work, as well as delivery of the Nature Network Programme and the process for designation of a new national park. These set the foundations for meeting the 2030 global targets for nature on land, sea and in freshwaters. We will continue for example to undertake environmental monitoring and reporting, respond to planning applications, issue permits, undertake compliance visits and where necessary take enforcement action.

Well-being objective 2: Communities are resilient to climate change

Welsh Government has set the strategic direction for climate action in Net Zero Wales, where all parts of the public, private and third sector are expected to play their part to drive action. Through NetZero Industry Wales and the industry clusters, there is increasing focus on decarbonisation of industrial processes and development of alternative low-carbon energy sources. Onshore and offshore renewable energy developers are continuing to actively explore and develop new schemes, including on the Welsh Government Woodland Estate. With additional investment from Welsh Government the National Peatland

Programme will be scaled up to achieve the ambition of 1800ha/year being restored by 2030/31.

Our annual commitments for 2024/25 reflect our contribution to these crucial pieces of work as well as delivering priority actions in our net zero plan particularly through our procurement and contract management service. This year we will deliver the new flood warning system for communities across Wales and complete the Newport flood defence scheme protecting 814 properties. We have not included all the steps to take in this year's business plan. We will continue to manage the land in our care, producing timber and creating new woodlands on the Welsh Government Woodland Estate, restoring peatland and adapting to climate change across all our sites. Our Adfywio programme will continue to focus on reducing our carbon use in fleet and facilities, and we will continue to roll out carbon literacy training across the organisation.

Well-being objective 3: Pollution is minimised

2024/25 will see continued delivery of actions from Welsh Government's Beyond Recycling strategy, including implementation of the new workplace recycling legislation. Minimising pollution of rivers and seas will be a continued focus with the Periodic Price Review 24 determining the pace and scale of improvement by Dŵr Cymru Welsh Water and Hafren Dyfrdwy in improving their assets to minimise pollution and maintain security of water supply. The opportunity to minimise pollution from agriculture will be significantly shaped by the Sustainable Farming Scheme setting out how land managers will be rewarded for nature positive land management.

Our annual commitments for 2024/25 reflect our contribution to these crucial pieces of work as well as our continuing focus on improving water quality through for example the review of permits for larger wastewater treatment works and planned farm inspections in line with the Agriculture Pollution Regulations. We plan to review our approach to incident management drawing on evidence, to enable us to integrate preventative action into incident response. Alongside these traditional regulatory approaches, we will continue to deliver prioritised action at the catchment scale and explore opportunities for innovation and collaboration with partners, through for example the Teifi Demonstrator Project. We have not included all the steps to take in this year's business plan. We will continue for example to issue permits, undertake compliance visits, respond to incidents and where necessary take enforcement action.

Alignment of performance with the Corporate Plan

In the Committees' most recent scrutiny report, they made a recommendation that NRW should provide an update as soon as practicable after October 31, 2024, on the progress of developing final strategic indicators and performance metrics. We wrote to you in January to advise that this work had been delayed due to our case for change programme.

Our corporate plan to 2030, Nature and People Thriving Together, sets out our vision, mission and well-being objectives. Since publication we have been focussed on the alignment of our performance management framework to the intent of the corporate plan.

This years Annual Business Plan (2024/25) provides the line of sight to the corporate plan, showing those things that we will do in the year to take forward some of the steps to take. The quarterly reporting process has been streamlined. We have established a WBO Performance Group, bringing together the ET well-being objective leads and Leadership Team to facilitate a holistic discussion of performance across the three well-being objectives against the commitments in the Annual Business Plan, seeking support to unblock issues and/or mitigate risks and a steer on relative priorities for resources. This informs the reports to the Board and Sponsorship each quarter. Alongside this, the Board undertakes a deep dive on a well-being objective each quarter to scrutinise progress. Scrutiny at these strategic sessions primarily focus on NRW delivery and we will evidence this in the NRW Annual Report. We have undertaken three scrutiny sessions over the course of the last 18 months focussed on each WBO and these will restart in 2025/26. The development of the prioritisation approach to inform the case for change is a key step forward for the organisation as we align resources (people and budget) to delivery of the WBOs.

Key staff leading our work on the performance management framework have been heavily involved in the development of the prioritisation approach and preparation of the case for change. This alongside vacancies in the team has meant that our work on the corporate plan impacts and strategic indicators paused in the autumn. Although we had engaged with partners and colleagues across the organisation to seek their feedback and advice we have not yet finalised and published our report. We are dependent on recruitment to a vacancy, so cannot confirm a set date for publication but would hope to do this by the autumn.

There has been no further work with Welsh Government on SLAs in 2024/25. As we prepare the 2025/26 Business Plan and Budget we welcome the significant additional funding allocated to NRW in the draft budget. The organisation is in receipt of a permanent increase in grant in aid revenue funding as well as new and additional WG grants for specific programmes of work. Much of this new or additional funding is aligned to key

steps to take in the corporate plan as well as improving the underpinning BAU activities in regulation and statutory planning advice.

The 2025/26 Business Plan will continue to show the alignment to delivery of the corporate plan WBO, as well as the additional funding provided by WG. This year we will include a focus on those BAU activities in regulation and statutory planning advice that contribute to all three WBOs. The business plan will include SMART metrics as we continue to evolve our performance management framework.

Sponsorship Officials have started to engage with us about the opportunity to build a case for investment in NRW delivery to inform the next spending review. This is likely to draw on the lessons from the preparation of the baseline exercise and SLAs. At this stage we are keen to ensure that the new process and products provide an integrated case for investment rather than looking in silos as we did previously. This will require us to look end to end, capturing the flow from evidence, monitoring and analysis through to the use of this evidence to inform the preparation of statutory advice and guidance which then informs permitting decisions, compliance and enforcement and incident management.

NRW's Case for Change

Natural Resources Wales is in the process of implementing changes to its structure, enabling it to sharpen our focus on areas where we can make the most meaningful impact for nature, climate and pollution.

NRW started the 2024/25 financial year with a £9m deficit. Over the past year, we have significantly reduced our non-staff budgets, and implemented controls on our staff budgets, such as a recruitment freeze and the termination of many of our fixed term appointments, to allow us to address this pressure in-year. Financial forecasts indicated that the pressure on our staff budget will rise to £13million in 2025/26 if no action was taken, and this would grow by a further £4m to £17m in 2026/27 if no action was taken. Therefore we needed to revisit our structure and permanent headcount numbers to make the forecasted savings of £13m.

Early in 2024, Leadership Team undertook a thorough prioritisation process to identify areas for saving across the organisation, which were set out in a proposal for change to the Trade Unions in July 2024. Following this period of consultation with the Trade Unions, the feedback was acted on with revisions to the proposals in some services and departments.

The finalised Case for Change was signed off and agreed by the NRW Board on 5th November 2024. In summary, we are taking 235 roles out of our structure (down from 276

following the consultation). In addition, we are carrying over 200 vacancies and we will be looking to use these vacancies as a source of alternative employment to affected individuals, where appropriate.

The Case for Change also committed us to undertake two additional reviews:

- A review of our Flood Risk Management Service to identify an additional £1.1m of saving, to be realised by the 1 April 2026;
- and a review of Enabling Services, to identify efficiencies and opportunities for improving service delivery.

Visitor centres

The 'Case for Change' includes NRW ceasing its own delivery of catering and retail operations at Coed y Brenin, Nant yr Arian and Ynyslas.

All paths, trails, car park, play area and toilet facilities will remain open at the sites and we held public meetings to update communities in November, and have a [dedicated citizen space page](#) for any further and future updates, including a FAQ section.

The National Nature Reserve at Ynyslas continues to be served by the dedicated officer there (and the wider team).

We understand how important our sites are to local communities and visitors, and we know the decision to stop providing catering and retail services is disappointing to many people. Our board made the decision in response to the extremely tight funding situation we and other public bodies face.

Increased allocation to NRW in Welsh Government's draft budget

We welcome the increased funding allocation from the Deputy First Minister and Cabinet Secretary for Climate Change and Rural Affairs and are absolutely committed to ensuring this funding has maximum impact that will be felt by communities and stakeholders in Wales. We are keen to progress at pace with the transformation work we believe is necessary if we are to succeed in delivering our ambitious Corporate Plan.

Heads of Business and Service have been tasked to work together, to set out how they would use the additional funding in line with the steer set out in your letter to invest in

water quality and in action to support biodiversity and nature recovery. Our expectation is that the funding will support:

- integrated delivery, with the funding targeted to those areas which will have the greatest impact in delivering the steps to take in the corporate plan.
- doing things differently, testing new ways of working across teams and with partners.
- maximising our flexibility to adapt to changing circumstances by considering delivery options such as external procurement, grants, partnerships, placements, apprenticeships and temporary staff rather than defaulting to permanent staff.

The proposals will be scrutinised by our Executive Team and the Board's Finance Committee before formal endorsement by the Board at the March meeting, as part of the 2025/26 Budget and Business Plan, and we will discuss our plans with your officials in due course at the Sponsorship meeting.

IR35

The HMRC enquiry into NRW's historic tax treatment of Off Payroll Workers under IR35 regulations continues.

NRW recently engaged professional advice from Deloitte, who have provided a report on their review of NRW's historic engagement of these contractors. The report is due to be considered by NRW Board this month. Subject to Board approval, Deloitte will write to HMRC by the end of February setting out our position and the extent of liability accepted. HMRC would then be in a position to review the individual and personal service company taxation circumstances of the contractors concerned to calculate the final liability due from NRW, including any interest and penalties.

NRW has already made a payment on account of £19m using funds advanced from Welsh Government in March 2024. The final liability cannot yet be confirmed until the HMRC calculations are completed, but Deloitte and NRW have provided the Board with updated estimates of the expected liability.

NRW has agreed a repayment instalment of the funds advanced for 2024/2025 with Welsh Government and has submitted a proposal for future repayments of the balance, which will be subject to the final settlement figure with HMRC.

NRW, HMRC and Welsh Government colleagues continue to meet on a weekly basis to monitor progress and agree milestones towards resolution.

NRW has set up a Board IR35 Working Group to provide oversight and a strategic steer to Deloitte and the NRW team.

Good progress is being made towards a resolution and all parties expect the enquiry to be concluded in time for reporting in the NRW Annual Report & Accounts for 2024/2025.

Planning and infrastructure

NRW is a statutory consultee in both the planning application, and development plan making processes. When consulted, we advise on how planning policies and development proposals should protect and enhance the environment and allow for our natural resources to be sustainably managed. Our Consultation Topic List sets out when we want to be consulted in relation to a planning application.

Our advice is informed by the information submitted by the applicant, our expertise, and the Welsh Government's aspirations and policies for the environment as set out in national planning policy, and relevant legislation. It is the role of planning authority to determine planning applications and in so doing they will consider our advice alongside information submitted to them from the applicant, the public, other advisors (e.g. their own local ecologists), and other parties as appropriate.

During the reporting period 1st April 2023 to 31st March 2024, we received 7,964 planning application consultations. We responded to 7,982 consultations, with 7,910 (99%) of those submitted within a statutory or other agreed deadline. There is a growing pressure on our DPAS service and the need to negotiate extensions to meet deadlines and the number of consultations involving Developments of National Significance are continuing to increase. These schemes usually involve a significant level of resource commitment across a number of specialisms within NRW.

In response to the increasing number of consultations involving major infrastructure which incur significant staff time and effort at NRW, and other pressures common across Wales's public sector, we have developed a Planning Service Strategy in ensuring a resilient NRW planning service. This includes optimising opportunities for increasing the provision of standing advice to empower decision-makers to make environmentally informed decisions without consulting NRW for bespoke advice. This will represent a change in our service model for planning authorities and we will engage with them as we implement our strategy.

Water quality

Water quality issues continue to be the subject of intense public and political scrutiny, and we have had to significantly re-prioritise and adjust our workplan priorities to respond, leading to minimal service or less in some other areas of our water quality work. For example, we have set up a programme to address the problem of phosphates in Special

Area of Conservation (SAC) rivers, and we are members of the Nutrient Management Boards working on Nutrient Management Plans on potential solutions.

Water Companies Environmental performance is not where it needs to be and continues to decline with DCWW remaining a 2* rated company (based on its 2023 performance against the metrics in the Environmental Performance Assessment (EPA)). We continue to scrutinise Water Company Performance and will report in July 2025 on 2024 performance.

We have reviewed and strengthened our regulatory position on storm overflows. NRW is chair of the Better Water Quality Task force set up between Water Companies, Ofwat, Welsh Government and NRW, who have developed and implemented a storm overflow roadmap and action plan to drive forward improvement in the performance of storm overflows in Wales.

Along with Better Water Quality Taskforce members we have progressed the majority of actions within the Storm overflow road map, including to strengthen our environmental regulation - this has been made available to stakeholders via the Welsh Government website. We will continue our work to prevent deterioration of waters, protecting our most precious designated waters included SAC Rivers and bathing waters, and continuing to address water company performance.

We continue to deliver Welsh Government funded Nature and Climate Emergency (NaCE) Capital schemes and influence action at scale through the Sustainable Farming Scheme.

Further water quality issues are emerging, resulting from an aged sewage system, poor agricultural practices, climate change and new forms of pollution, such as microplastics or pharmaceuticals.

NRW will continue to work with the water companies involved, the Environment Agency and the Welsh Government to ensure water resources are managed and used sustainably and that strategic resource scheme proposals would not cause a detriment to public water supply, other water users or the environment in Wales.

Enforcement

Strong regulation underpins our purpose to protect, maintain and enhance Wales' natural resources so that people can live better and healthier lives, and our wildlife can thrive. We regulate a range of activities and apply a suite of enforcement responses for non-compliant or illegal activities to protect our environment, prevent pollution and tackle the climate and nature emergencies.

We adopt a risk-based approach to enforcement, taking action where there is evidence of an environmental offence and where there is public interest.

Over the past five years NRW has concluded over 4,600 new enforcement cases, comprising 4,500 offenders and over 7,000 separate enforcement charges. The reason that there are more charges than cases is because an offender can often face multiple charges.

In 2024, our enforcement activity resulted in 1,273 enforcement cases and 2,321 separate charges. When compared to 2023, these represent increases of 30% and 42% respectively. There are several factors for this, but most notable is the increased enforcement against matters relating to agriculture and water, aligning with our wellbeing goals to tackle the climate and nature emergencies, and minimise pollution.

It should be noted that our enforcement activity can, in some cases, span several reporting periods. This is normally due to the nature of our investigative and enforcement work, given the time it can take to investigate an incident, identify potential offenders, obtain legal opinion, and update our systems on progress and enforcement outcomes. This lag becomes more evident when officers are drawn into complex investigations, particularly those with links to other enforcement agencies such as the Police, the Welsh Revenue Authority and Local Authorities. Caution should therefore be taken if measuring our enforcement performance on the number of outcomes and prosecutions alone.

Our enforcement approach emphasises the importance of collaboration and partnership working between regulators, local communities and businesses to prevent environmental offences from occurring in the first place or ensure an environmentally protective response to any offence committed. This involves raising awareness of environmental issues and promoting good environmental practice, as well as working with businesses to help them comply with environmental laws and regulations. It is worth noting that our success in this area is less obvious and harder to measure. However, it is likely to result in lower levels of formal enforcement, such as prosecution.

We know that some offences may be minor or unintentional. In these cases, we may see greater benefit in seeking to educate or use fewer formal approaches. In 2024, NRW saw specific increases in advice and guidance issued as an enforcement outcome, which rose from 457 in 2023 to 1,069 in 2024. This can primarily be attributed to NRW's delivery of an inspection and enforcement programme for farms across Wales under the Water Resources (Control of Agricultural Pollution) (Wales) Regulations 2021 (the programme commenced in late-2023).

However, some offences are serious or are undertaken by offenders who do not care about complying with legal obligations. NRW is committed to using prosecution for the most serious of offences across those we regulate. We take companies or individuals to court where other enforcement tools have been ineffective or where the offence is particularly serious and in the public interest. In 2024, NRW recorded 77 prosecution cases, compared to 85 in 2023. This figure is subject to change as records are updated over the coming months, with nearly 600 cases raised in 2024 still under investigation.

Our data for 2024 also show that the total fines levied by the courts in 2024 reduced to £150,000 from over £650,000 in 2023, with the legal and other costs awarded to NRW also decreasing. This could be attributed to the nature of cases taken to court and the level of penalty available for individual charges. In addition, the total fines awarded in 2023 were significantly raised by the fine from one prosecution case, where the court awarded a £480,000 fine.

NRW understand the ongoing questions around increasing prosecutions, but the key point is that prosecution in isolation does not lead to compliance or remedy of the root cause. The other regulatory and enforcement tools mentioned above may result in a better outcome.