

Board Paper

Paper Title	Finance Report
Paper Reference:	NRW B 19.09
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Purpose of Paper:	Scrutiny and Decision
Recommendation:	Scrutinise the year to date financial performance for 2018-19. Decision on the how assurance is provided on NRW's Annual Report and Account. Note the position on items sent to Welsh Government for approval.

Impact:	Looking at the <u>long term</u>: This paper focuses on the current financial year plus sound financial management is an important element in planning for the long term. <u>Preventing issues from occurring.</u> This paper highlights actions being undertaken to mitigate future financial pressures.
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Issue

1. Report to the Board the financial position to November 2018.
2. In accordance with our Financial Scheme of Delegation the Board is asked to note items referred to Welsh Government (WG) since the last Board meeting.
3. To determine whether we wish to alter our current process on the assurance provided by the Board on our Annual Report and Accounts following a suggestion made by the Wales Audit Office (WAO).

Summary

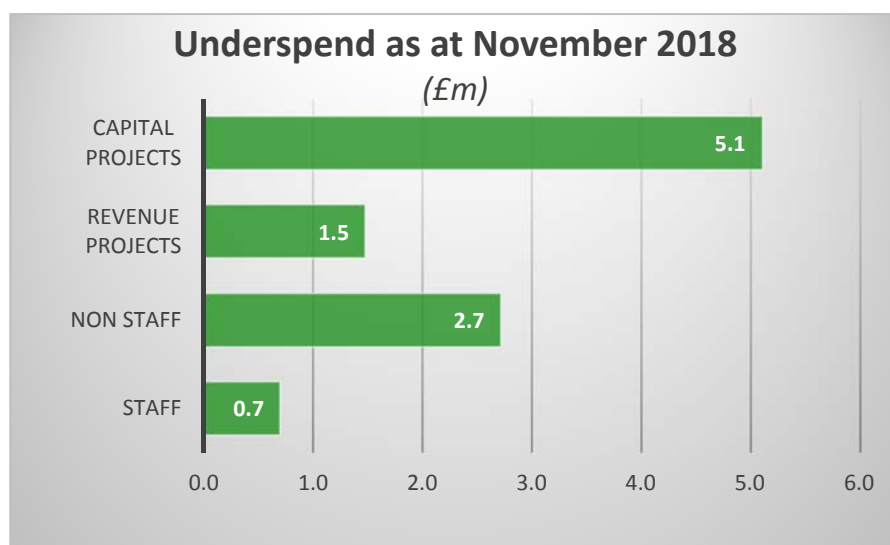
4. **Financial performance to November 2018:** income was £134.1m compared to a budget to date of £133.9m and expenditure £99.8m compared to £109.8m. Financial

Performance in this report is measured against the Revised Budget endorsed by the Board in November 2018.

Assessment

Financial Performance – November 2018

- Income to date was as expected at £134.1m, which was £0.2m more than our Revised Budget. The increased budget for timber sales is still on course to meet its target.
- During our Mid-Year Review with Directorate Leadership Teams on financial performance and the risks for the remainder of the financial year, they identified slower than expected delivery of revenue projects, linked to impact of Organisation Design and recruitment, and the achievement of the capital programmes as key risk areas.
- At the end of November, we have spent 50% of the £198.1m annual Budget. Expenditure was £10m less than budget to date. This is of concern, with slippage against expenditure plans on Non-Staff (9%), Revenue Projects (19%) and Capital (25%). The largest variance being the Flood Risk Management Capital Programme (£3.8m). The diagram below highlights key spend areas contributing to the expenditure variance.



- Annex A** summarises the reasons for the underspend and some of the actions being undertaken. We need to improve our financial performance and below are some of the initiatives that are being progressed to achieve this but most of the benefits will be felt next financial year.
 - Following Organisational Design, improvements in recruitment processes and increased levels of over programming on staff budgets.
 - Business Board adoption of best practice programme and project management, that will improve project budget utilisation.
 - Influence Welsh Government Flood Risk Management Capital Programme funding methodology to allow us to manage risks via over-programming.

- Following Organisational Design, we will be providing further financial training for Budget Managers. There will be less team leaders and managers but with a better concentration of key skills.
- Improvements to financial reporting, making use of more user-friendly dashboard type reports.

Quarter 3 Forecast

9. We are in the process of conducting our Quarter 3 review of budgets. This exercise will target those areas of most significant risk.
10. Directors will be provided with list of the projects with budgets left to be spent this year for them to discuss with their management teams as part of this review.
11. The results of this review will be presented to Executive Team in January for approval.

Items to note

12. As per our Framework Agreement with WG and Financial Scheme of Delegation, this table shows items which the Board is required to note:

Item	Reason to note	Description	Approval
Use of wind farm income	Referral made to WG as per our Framework Document	Approval sought in relation to the retention of wind farm income to cover the costs of NRW pursuing all aspects of Welsh Government's energy policy objectives.	WG approval is currently pending
Long Term Contracts - Transitional arrangements	Referral made to WG as per our Framework Document	Approval sought regarding the continuation of transitional arrangements in relation to their novel, contentious and repercussive nature.	Noted by WG
WG approvals	Advised amendments to our Framework Document	It has been brought to our attention that the transactions described in our Framework Document which currently require WG approval will be delegated to NRW from 1 April 2019. In accordance with our Financial Scheme of Delegation all transactions which require WG approval are submitted to the NRW Board for notification. These transactions will be reviewed as part of the current review of the Financial Scheme of Delegation with a paper being submitted at the next Board meeting for consideration and approval.	WG approval pending

13. There is one novel, contentious or repercussive decision for the Board's approval which is in relation to the Caldicot & Wentlooge Internal Drainage District and is included within the "Internal Drainage Districts – Precepts, Rates & Levies" paper.

Proposal to Change the Arrangements for the signing of the Annual Report and Accounts

14. Currently the Audit Risk and Assurance Committee (ARAC) provides assurance to the Accounting Officer (Chief Executive) to sign our Annual Report and Accounts. A copy of the Annual Report (but not the Accounts) is provided to the Board for comment during this process, therefore securing the input of all Board members.
15. Following a discussion at ARAC we are proposing that the full Board's involvement is formalised by:
 - Assurance provided by ARAC to the Accounting Officer remains;
 - All Board members are given the opportunity to input into the development of the Annual Report;
 - The Annual Report and Accounts is given a final consideration by the Board before the Accounting Officer signs the document and submits to Wales Audit Office for the Audit Opinion to be signed by the Auditor General Wales and laid in the Assembly.
 - This could potentially result in a change in timing of ARAC in July as well as a change in timing of the WAO audit (with deadlines brought forward). WAO are prepared to alter their timetabling.

Recommendations

16. The Board is asked to scrutinise the year to date financial performance for 2018-19.
17. Note the position on items sent to Welsh Government for approval.
18. The Board is asked to consider whether it wishes that it's involvement in the production of the Annual Report and Accounts is extended and formalised.

Key Risks

19. There is an impact on the Grant in Aid carry forward position to 2019-20 which we will seek Welsh Government approval for. Please also refer to Annex A for key risks and opportunities.

Financial Implications

20. The paper is all about the financial position and performance of NRW. There are no additional financial implications arising other than the time spent in the creation of this document.

Equality impact assessment (EqIA)

21. None Required.

Annexes

Annex A Financial Performance to November 2018