

Annex 1

Enterprise Framework for Natural Resources Wales managed assets and resources

Introduction

Background

1. Income from enterprise activities has in the past been almost exclusively derived from activities across the Welsh Government Woodland Estate (WGWE).
2. The Natural Resources Wales Business Plan 2013-14 shows a income budget of £19.8 million (11%), most of which comprises receipts from timber sales and option fees for large scale wind energy developments, although the net income here is returned to the Welsh Government.
3. Looking ahead, it is probable that Welsh Government Grant in Aid will decrease in future years. The development of new and innovative enterprise activities will be required to make a contribution to mitigating this pressure.
4. This Enterprise Framework will
 - Set the context and scope for increasing the financial returns from Natural Resources Wales's managed assets and resources:
 - Define our Strategic Objective,
 - Consider the skills, assets and resources available to us,
 - Consider the market sectors we will operate in,
 - Define the levels of risk and return that we are prepared to accept,
 - Describe our approach to identifying, qualifying, prioritising and, delivering ideas for enterprise activities,
 - Describe the way in which we will forecast and report on results.

Context

5. Natural Resources Wales is capable of being enterprising in the way that it conducts its own business activities as well as supporting the Welsh economy more widely by stimulating and supporting enterprise. Natural Resources Wales is able to do this in three main ways:

- To facilitate access to sustainably managed land and water to support economic development.
- To facilitate through our approach to the delivery of programmes, more economic development, social enterprise and commercial enterprise opportunities for people from NRW managed natural resources and their goods and services.

- To enable using grant-aid; provision of statutory planning advice, permitting and expert advice for Welsh Government policy development.

Scope

6. The scope of this document is focused on generating greater financial returns from the sustainable management of assets and resources managed by Natural Resources Wales. The framework will be guided by the ecosystems approach that requires social, environmental and economic opportunities and limitations to be considered as a whole in reaching decisions.

Agenda for action and measures

7. Our work to generate greater financial returns from our assets and resources aims to:

- Help to drive up productivity and competitiveness.
- Encourage the development of skills based training that meet local needs whilst contributing to the maintenance of a skilled workforce and promoting natural resource management as an attractive career choice.
- Develop goods and services that suit local and visitor economies.
- Contribute to a low carbon economy – especially renewable energy.
- Facilitates new woodland and other habitat creation and the sustainable management of our existing natural resources – particularly areas of unmanaged woodlands.
- Have a positive environmental impact.
- Contribute to a socially inclusive form of wealth creation and employment.
- Focus development in ways that complement other provision, rather than displace or duplicate.

8. To help ensure more people benefit we will ensure that our pursuit of increased financial returns is guided by clear objectives about its purpose and function, and has as its rationale at least one of the following main measures.

- The generation of increased new economic activity.
- That has a positive impact on ecosystems.
- That it addresses issues of social inclusion and poverty.
- That woodland, locally sourced timber and other goods and services are used to help combat climate change.
- That it contributes to meeting existing market needs.

Strategic Objective

9. In accordance with our above aims and objectives our strategic objective is to materially increase Natural Resources Wales's income and financial

surplus, using core skills and resources, by increasing earnings, net of expenses, without dilution of the rate of return on assets employed and within the risk envelope agreed with the Board. [Financial targets to be produced at the end of the evaluation process outlined in section 6 – Enterprise Ideas]

Resources

10. The resources that we can employ to meet the strategic objective are:

- Core skills and knowledge of our staff

We will seek to make the best use of the core skills of our people. We will identify core skills and take steps to fill gaps through our workforce planning and development programmes. We will work with partners and others where an opportunity requires non-core or expert skills.

- Our land holdings, physical assets and mineral rights.

We will assess the estate from an enterprise perspective (e.g. identify land and buildings that could be sold or leased, land with grid and telecommunications connections, mineral sites, potential renewable energy sites etc) so that we can market opportunities proactively and ensure we obtain the best value from our managed resources.

- Timber and other provisioning services.

We will revise the current timber marketing strategy before the current strategy expires in 2015. We will increase our understanding of emerging markets for ecosystem goods and services.

- Intellectual Property, data and information.

We will gain a better understanding of our intellectual property, data, information, expert services and sponsorship opportunities, and its commercial potential. We will identify leading commercial and partnership practices.

Market Sectors

11. We have a good understanding of the forestry, energy, construction and real estate sectors, as well as sufficient knowledge of regulated industries in order to undertake an initial appraisal on an enterprise idea. We anticipate that most opportunities will be realised in the market places that we understand. We will require assistance, perhaps drawing on expertise in Welsh Government, to understand other market places. Our strategy will be to seek expert advice before committing resources in sectors that we do not sufficiently understand.

Risk and return

Financial risk and return

12. We need to apply Minimum Acceptable Rates of Return or hurdle rates to judge what we do in our markets of choice. Some things are not worth doing because of poor returns or the risks involved. High risk needs high reward, and must be aligned with Natural Resources Wales's risk appetite.

13. Natural Resources Wales's broad aims and objectives and current 'cautious' risk appetite point towards higher hurdle rates than those typically applied by private sector businesses. By working in new ways with business sectors, we will learn how to manage progress in high risk areas with appropriate levels of skills, investment and engagement.

14. Guideline Hurdle rates

- no capital/low staff input (low risk-low interest) - 5%
- no capital/higher staff input (medium risk – low interest) -10%
- revenue contribution (medium risk – high interest) - 15%
- capital contribution (high risk – high interest) - 20%

15. Discretion and judgement will be applied to ideas that also make a positive contribution towards social and/or environmental outcomes.

Reputational risk

16.

- Inherent from financial – mitigated by knowledge of markets of choice and board approval to pursue activities with at least medium risk and high interest.
- Displacement of social or commercial enterprises – mitigated by testing activities against aims and objectives and agenda for action and measures.
- Environmental acceptability – mitigated by early 'pre-application' with Natural Resources Wales's regulatory functions.
- Legal/vires – mitigated by co-location of Territorial Surveyor and Legal Services in the Head of Enterprise's team.

Enterprise Ideas

Generating Ideas

17. We are fortunate to have gathered a wide range of ideas since the formation of Natural Resources Wales. The repository is managed by the Head of Enterprise in the National Services Directorate. In order to meet our strategic objectives we must market that 'we are open for business' and must continue to collect new material ideas from within and beyond the organisation. This work will be led by the Head of Enterprise and his team, but success will only be possible if this approach is promoted and adopted across the whole organisation.

Qualifying Ideas

18. We will qualify and prioritise ideas, so that we obtain the best value out of the ideas and our resources. The process is designed to sort ideas with minimum effort and cost, but increasing diligence and audit trail. There is no fixed time taken for an idea to progress to implementation. Quick wins may go through the process in a less than a day; more complex, higher risk ideas may take months or longer.

Idea Phase

19. Each idea will be subject to a cursory assessment to estimate potential income, cost, timescales, legality, environmental and reputational impact (positive, neutral or negative).

20. Ideas with little or no profit potential and negative or neutral environmental, social and reputational impact or are *ultra vires* will be discarded.

21. Ideas that have a positive environmental or reputational impact with little profit potential will be excluded from the enterprise pipeline but may be candidates for implementation as business as usual (e.g. bee hives) or as environmental projects.

22. All *intra vires* ideas that show profit potential will go forward to the Feasibility phase.

Feasibility Phase

23. During the Feasibility phase enterprise opportunities will be subjected to a greater degree of rigour, to weed out the least suitable ideas at the lowest cost.

24. We will consider fit against our core skills and our knowledge of the market. We will determine if we need partners to delivery the opportunity, and who those partners might be. We will re-assess benefits, costs, hurdle rates, timescales and environmental acceptability. We will seek the Board's advice and approval to progress potential projects with at least medium risk and/or high reputational risk.

25. Opportunities that fail to pass the feasibility requirements will be discarded, and those that are deemed to be feasible will move forwards to the Initiation phase.

Initiation Phase

26. This phase will involve activities such as drawing up of contracts, delivery plans, producing business cases, selecting partners and issuing tenders in accordance with our internal governance arrangements.

27. The final sign-off of the Initiation phase will move the opportunity into the Delivery phase.

Delivery Phase

28. The opportunity is delivered according to contracts and plans.

Forecasting and reporting

29. The idea/feasibility/initiation/delivery pipeline will show each enterprise opportunity, its revenue/cost potential and its forecast delivery timescale. The certainty of that revenue determines its location in the pipeline. Those opportunities in the Delivery phase can be forecast at 100% because we can expect all the revenue to be received. We expect very few projects at the Initiation phase to drop out of the programme, but there is less certainty over the timescales for delivery. We might choose to forecast say 70% of the revenue from these opportunities. Typically only a minority of opportunities that make it to the Feasibility phase will actually happen – we would forecast these at 10%. Even fewer of our ideas will become a reality, and we could choose to forecast these at 1%.

30. A typical pipeline could look like this:

Phase	Total profit of items in phase	Forecast profit
Idea	£300m	£3m
Feasibility	£10m	£1m
Initiation	£6m	£4.2m
Delivery	£2m	£2m
Total Forecast		£10.2m

31. A pipeline report will be produced monthly.

32. The Enterprise Strategy will be reviewed by the Head of Enterprise on an annual basis.