

## Defra Group Management Consultancy Framework: Project Engagement Letter

Completed forms and any queries should be directed to Defra Group Commercial at [REDACTED]

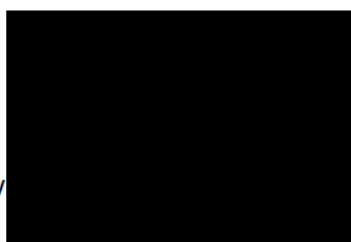
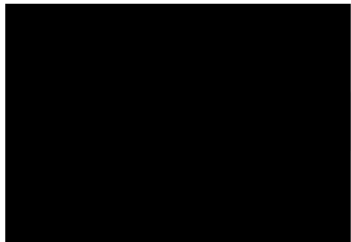




Engagement details			
Engagement ref #	DPEL_61547_002		
Extension?	No	DPEL Ref.	N/A
Business Area	Inland Waterways, Commercial Policy, Floods and Water Directorate		
Programme / Project	Canal and River Trust 21/22 Grant Review		
Senior Responsible Officer	[REDACTED]		
Supplier	Deloitte		
Title	Financial and Commercial Assessment of Canal and River Trust (CRT), supporting 21/22 grant review		
Short description	<p><b>Summary:</b></p> <p>We are seeking the support of financial consultants to support the future funding review of the Canal and River Trust. The scope of the work to be carried out by the consultants is outlined below (with specific asks detailed in the procurement strategy):</p> <ul style="list-style-type: none"> <li>• <b>Part 1 (20%):</b> A <u>retrospective</u> assessment of the CRT's financial and commercial position from 2012 to 2021</li> <li>• <b>Part 2 (70%):</b> Evaluate (for the period 2026/27 through to 2036/37) CRT's <u>prospective</u> financial and commercial projections around four Defra funding scenarios, combining and triangulating the information and reports provided</li> <li>• <b>Part 3 (5%):</b> Review and comment on emerging issues where commissioned by HMG in relation to the Review</li> <li>• <b>Part 4 (5%):</b> Provide ad hoc advice and support to HMG/DEFRA in ongoing discussions with the Trust regarding potential future funding options</li> </ul> <p><b>Background:</b></p> <p>This CRT future funding grant review will establish what, if any, case there is to continue funding of the CRT by grant for the delivery of public benefits and management of its waterways beyond 2026/27. There is no obligation to do so, and the decision must be published on or before 1 July 2022, five years ahead of the end of the current grant arrangement to allow the CRT time to properly prepare for the impact of the review outcome. The Terms of Reference for the grant review are published on Gov.uk providing more detail on the aims and objectives of the grant review.</p> <p><a href="https://www.gov.uk/government/publications/canal-river-trust-grant-review">https://www.gov.uk/government/publications/canal-river-trust-grant-review</a></p> <p>The current grant arrangement is c.£50m pa for 15 years. The consultants assessing evidence will also be advising on the extent to which the CRT are dependent, or otherwise, on Government</p>		



	grant funding beyond the end of the current arrangement. They will also be available to test and explore the viability of potential future funding options prior to sharing these options with Ministers and HM Treasury.	
<b>Engagement start / end date</b>	<b>Proposed start date</b> 13/09/2021	<b>Proposed end date:</b> 26/11/2021 with a possibility of an additional 3 month extension until 28 February 2022, depending on internal approvals.
<b>Funding source</b>	Commercial Policy Budget, Floods and Water Directorate	
<b>Expected costs 21/22</b>	£81,538 [REDACTED]	
<b>Expected costs 22/23</b>	N/A	
<b>Expected costs 23/24</b>	N/A	
<b>Dept. PO reference</b>	Dept. PO reference # (to allow for Defra Group recharge)	
<b>Lot #</b>	Lot 2	
<b>Version #</b>	0.1	

## Approval of Project Engagement Letter

By signing and returning this cover note, [Commercial Policy, Floods and Water Directorate] accepts the contents of this Project Engagement Letter as being the services required and agrees for Deloitte to provide the services in accordance with the agreed Supplier Proposal under the overarching contract (Lot 1 / 2 / 3 - Ref 28595), with Defra Group and confirms the availability of funding to support recharge for the services.

Signatures		
Supplier	Business Area	Defra Group Commercial
By 		
or and on behalf of Deloitte LLP  Partner	For and on behalf of Commercial Policy Division, Floods and Water Directorate  Head of Inland Waterways Policy	Defra Group Commercial  Consultancy Lead
01/09/2021	08/09/2021	08/09/2021
Supplier engages with Business Area to complete. Once agreed, Supplier signs front page and sends to Business Area	Business Area signs front page and sends to DgC	On approval, DgC signs and returns copy to Business Area and Supplier

Supplier contact: 

Business Area contact: 

## 1. Background

We are seeking a financial consultant to review, collate, test and advise on prospective projections provided by the Canal and River Trust (CRT) to inform the CRT future funding grant review. CRT's financial and commercial information, both retrospective and prospective, includes property and non-property investments, pensions, tax, income and expenditure, and business planning. The current grant arrangement is c.£50m over 15 years. The consultants assessing evidence will also be advising on the extent to which the CRT are dependent, or otherwise, on Government grant funding beyond the end of the current arrangement. They will also be available to test and explore the viability of potential future funding options.

### Context:

The Canal and River Trust (CRT) (the 'Trust') is an independent charity created in 2012 to take over stewardship of 2,000 miles of inland waterways in England and Wales from British Waterways (BW), which was a public corporation. The Trust holds the waterways infrastructure in trust and is responsible for its upkeep. One of the key objectives for moving the waterways out of the public sector was to better provide for this upkeep by unlocking commercial income generating opportunities not available to public bodies.



The Trust has a legally-binding grant agreement with Defra for the 15-year period 2012/13 to 2026/27 of £39m+inflation per annum, with an additional £10m per annum conditional on delivery of specified KPIs (totalling c£50m per annum; about a quarter of the Trust's income). In order to support CRT, Defra transferred British Waterways' investment and property portfolio (worth c£460m then and c£1bn now) to generate funds for maintenance. A Protector was jointly appointed in 2013 by Defra and the Trust to provide oversight of the management, planning, policies and performance relating to the investment and property portfolio and reports annually to the SoS. Also, when the Trust was established, support was put in place for the pension scheme deficit it was set to inherit.

Defra made a one-off payment £25m and agreed a "last resort" guarantee capped at £125m ending in 2031. The scheme closed to new members in 2016 and the Defra guarantee is limited to those people who accrued pension under BW and would only pay out once all of the Trust's assets had been exhausted (i.e. the charity has become insolvent). The Trust is working through the Waterways Pensions Fund (comprising property and non-property asset) to generate enough funds to cover all the liabilities under the pension scheme without needing to draw on the Defra guarantee.

### 21/22 grant review

The grant agreement stipulates that Defra must undertake a review in 2021/22. This review will establish what, if any, case there is to continue funding the Trust by grant for the delivery of public benefits and management of its waterways beyond 2026/27. There is no obligation to do so, and the decision must be published on or before 1 July 2022, five years ahead of the end of the current grant arrangement to allow the Trust time to properly prepare for the impact of the review outcome.

The Terms of Reference for the grant review are published on Gov.uk providing more detail on the aims and objectives of the grant review.

<https://www.gov.uk/government/publications/canal-river-trust-grant-review>

### Prospective Forward Look for 21/22 grant review.

Considering four Defra funding scenarios, the Trust will need to evidence the extent to which they can deliver against each of Defra's strategic objectives for any future funding arrangement. The draft strategic objectives are subject to Ministerial input and approval. The four draft strategic objectives are:

- Levelling up
- Natural capital
- Access to the outdoors
- Protection and long-term resilience, including transition to net zero

The CRT's supporting evidence and analysis will also include detailed responses to questions under each of the following themes:

- Business planning, income and expenditure
- Waterways and asset condition
- Public benefits and legal responsibilities

Considering the period 2026/27 through to 2036/37, the four funding scenarios to be modelled by the Trust are:

- Grant funding for the Trust ceases in 2026/27, with no further funding for 10 years = £0 p.a.
- Grant funding continues; the Trust receives 50% of the 2026/27 grant value, each year, for 10 years = £26.3m p.a.
- Grant funding continues; the Trust receives 100% of the 2026/27 grant value, each year, for 10 years; = £52.6m p.a.
- Grant funding continues; the Trust receives 125% of the 2026/27 grant value, each year for 10 years; = £65.8m p.a.

## **2. Statement of services**





## Objectives and outcomes to be achieved

### Scheme Objectives:

**Part 1 (20%):** A retrospective assessment of the CRT's financial and commercial position from 2012 to 2021

- Provide a summary assessment of The Canal and River Trust's (the 'Trust') retrospective financial and commercial evidence base for the period 2012 through to 2020/21 - income (by type), expenditure (by type), property and non-property investments (incl debt), pensions, tax (see: Sources, below)
- This assessment should consider reliability, credibility and quality of the financial information. Outline the interdependencies between each of the information streams (see: Sources, below) and highlight any areas of concern, drawing on financial ratios where appropriate.
- Provide an outline and assessment of the financial governance arrangements within the Trust, including their strengths and weaknesses.

**Part 2 (70%):** Evaluate (for the period 2026/27 through to 2036/37) CRT's prospective financial and commercial projections around four Defra funding scenarios, combining and triangulating the information and reports provided (see: Sources, below). In particular:

- Provide an assessment of the reliability, credibility and quality of the Trust's forward look projections under each of the four funding scenarios, including the assumptions and conclusions with respect to all the financial and commercial information included.
- Develop simple financial analysis to test and challenge the Trust's projections across the four funding scenarios and forecast the interconnectivity between these projections and the advisory reports (Pensions, Tax, Technical review etc. - see Sources, below), commenting on the consistency, interplays and coherence across the four sets of projections. NB In order to explain our work to you, we may share with you the simple financial analysis prepared for discussion purposes, but this will not form a deliverable under the terms of the contract
- Identify key vulnerabilities and potential upsides to the financial projections for the four scenarios and the advisory reports (see Sources, below), & provide associated sensitivity analysis to assess the level of reliance on Defra grant funding in each of the four scenarios and on the investment portfolio (including an assessment of risks and opportunities)
- Produce a sensitivity analysis around the pension portfolio, including the Defra indemnity, and the Trust's management of the portfolio, risks and opportunities. Note the financial advisor will not be expected to perform a valuation assessment on the pension portfolio. This will not include any actuarial analysis of the health of the pension fund.
- Conclude on the affordability, from the Trust's perspective, of each of the four scenarios and highlight concerns within each scenario from a financial perspective, including the extent to which it would be prudent for the Trust to build in cash reserves, with a recommended range. This should include an assessment around the Trust's ability to continue to operate based on the four funding scenarios.

**Part 3 (5%):** Review and comment on emerging issues where commissioned by HMG in relation to the Review. These items will be discussed and agreed at the time of request and be paid for through call off on a Time and Materials basis.

**Part 4 (5%):** Provide ad hoc advice and support to HMG/DEFRA in ongoing discussions with the Trust regarding potential future funding options. These items will be discussed and agreed at the time of request and be paid for through call off on a Time and Materials basis. NB we will not be able to act on behalf of HMG in any direct discussions with the Trust. We will be able to provide an opinion on the Trust's financial projections and most appropriate grant funding following our financial assessment.



### Timetable:

- September & October: Part 1 [Note: some retrospective data only available mid-late September]
- October & November: Part 2 [Note: forward look data only available from first week of October]
- Parts 3 and 4 [throughout the contract, most likely at the latter end, and/or where there is a contract extension]

### Sources:

To be shared with advisor following appointment, with timings indicated against each source.

### Retrospective:

- Defra analysis of the Trust's data on income, expenditure and investment portfolio, drawing on CRT's input data as required [Note – most/all of this data will be available at the start of September, with some sub-sets of the data available mid-late Sept]
- Government Actuarial Department analysis of the CRT's pension liability, drawing on the Trust's input data as required. [Note - available mid-Sept]
- Government Tax Alliance analysis of the Trust's tax burden, drawing on the Trust's input data as required. [Note - available mid-Sept]
- Discussions with the Protector of the investment portfolio [To be arranged with advisor as required]
- TBC the financial aspects/analysis of the technical infrastructure evidence base

### Prospective Forward Look:

- Forward look commission evidence pack, provided by the Trust (as per Annex B) [Note – available from first week in October]
- Government Actuarial Department analysis of the forward look, pensions aspects [Note – to be available end of October]
- Government Tax Alliance analysis of the forward look, tax aspects [Note to be available end of October]
- Discussions with the Protector of the investment portfolio [To be arranged with advisor as required]
- Each of the sources for the retrospective evidence base (as outlined above)
- TBC the financial aspects/analysis of the technical infrastructure evidence base

The advisor may also request additional information directly from the Trust.

### Scope

Define the scope of the services (SMART):  
Refer to deliverables, below.

### Assumptions and dependencies

Provide further description of the assumptions and dependencies:  
Source data is all available either at the start of the project, or in some cases will be provided to the supplier throughout the project (as per the Source information) rather than up front.

### Deliverables (timetable assumes delivery of information in line with section 2 above)



**Deliverable – end of September**

- Draft summary report outlining draft findings to Part 1. [REDACTED]

**Deliverable – end of October:**

- Summary report providing updated findings to Part 1 & draft initial findings to Part 2. [REDACTED]

**Deliverable – end of November:**

- Final Report summarising the information, methodology and conclusions gathered against Parts 1 and 2 in a logical accessible way. [REDACTED]

**Deliverable – throughout contract duration:**

- [REDACTED]

Deliverable	Success Criteria	Milestone / Date	Owner (who in the delivery team?)
<b>Project Stage A</b>			
Draft report, Part 1	Subject to Steering Group approval. The report should clearly address each of the questions asked in Part 1 in a clear and logical format.	[REDACTED]	[REDACTED]
Draft report, Parts 1 and 2	Subject to Steering Group approval. The report should clearly address each of the questions asked in Part and 2 in a clear and logical format	[REDACTED]	[REDACTED]
Final report, Parts 1 and 2	Subject to Steering Group approval. The report should clearly address each of the questions asked in Part and 2 in a clear and logical format, including final conclusions.	[REDACTED]	[REDACTED]



Deliverable	Success Criteria	Milestone / Date	Owner (who in the delivery team?)
Written advice, Parts 3 and 4	Subject to SRO approval		
<b>Social Value Outcomes</b>			
Inform value for money assessment on future funding.	Public funds are spent in value for money and transparent way.		

### Limitations on scope and change control

Unless instructions to the Supplier are later amended in writing, the work undertaken will be restricted to that set out above. In providing the services detailed above, the Supplier will be acting in reliance on information provided by the Business Area.

The Project Engagement Letter is the agreed contract of work between the Defra Group Business Area and the Supplier and can be varied under the change control process. Any changes to timescales, scope and costs will require approval by DgC.

### 3. Delivery team


Name	Role (link to stage/s resource will work on)	Grade	Daily rate
	Oversight on all elements	Partner	
	Oversight on all elements	Director	
	Lead for Parts 1&2	Managing Consultant	
	Analyst for Parts 1&2	Principal Consultant	
	Analyst for Parts 1&2	Principal Consultant	

### Business Area's team

Support from (Defra), will be provided to:

- Clarify questions and data provided from sources outlined
- Facilitate access to CRT, data providers or experts as required to complete analysis
- Ensure that data sources are available in the timeframes outlined in scope section

### 4. Fees



Defra Group will reimburse the Supplier for approved work done according to the table below. The proposed total fees for the scope of work detailed in this Engagement Letter will be £81,538, inclusive of expenses and excluding VAT. This will be broken into two Stages as shown below

Stage	Cost	Due (link to milestone dates)
<b>A – Part 1 &amp; 2 – Fixed Price</b>		<b>DD/MM/YY</b>
Part 1 & 2 Scope with associated deliverables for these parts as outlined in the deliverables table above. This will be a fixed price for these deliverables.		
<b>B – Part 3 &amp; 4 – Time &amp; Materials</b>		
Part 3 & 4 Scope with associated deliverables for these parts as outlined in the deliverables table below. Cost shown for these is indicative and these fees will be charged on a Time & Materials basis based on the pro rata day rates outlined in the table above showing the team resources.		
<b>Expenses</b>		
No expenses anticipated	£0	
<b>Grand total</b>	<b>£81,538</b>	

### Expenses statement

Defra Group overarching contract rates include expenses for any travel to/from any UK location defined by the Business Area as the base office for the work. Only expenses for travel at the Business Area's request from this base can be charged. If appropriate, define permissible expenses to be charged.

### Payment

The Supplier should invoice fees monthly in arrears. Defra Group will reimburse fees monthly on confirmation of approval of work delivered by the Business Area. The Supplier will keep an accurate record of time spent by staff in providing the services and provide this information and supporting narrative, if requested.

## 5. Governance and reporting

As part of the Call-Off Contract, the Supplier and Business Area agree to provide reporting on the following:

- Completion of the time tracker on a monthly basis, to track days worked by our consultants

### Key Performance Indicators

Given the nature of the project the supplier will meet with the Business on a weekly basis.

### Feedback and satisfaction

Defra Group reserves the right to hold review meetings during the assignment, discussing what went well, opportunities for improvement on future assignments and similar. This will incorporate any 'Show and Tell' documentation or transferable products that have been produced.

A post-engagement quality review of the engagement will be arranged where the Business Area rates the services provided.



## Non-disclosure agreements

It is expected that this work will be undertaken under the NDA as part of the Defra Consulting Framework. Any additional NDA agreements required from CRT or other parties will need to be assessed and agreed separately.

## 6. Exit management

The agreed actions and deliverables by the Supplier for when the contract ends are as follows:

The supplier will provide:

- All documents, reports, excel files, presentations
- Delete any commercially sensitive information held that is related to the Trust
- Prepare a handover note of any outstanding issues

## Notice period

The nature of these engagements require that Defra Group have the ability to terminate an engagement with notice. Defra Group's termination rights for this engagement are marked below.

The minimum notice period for termination is 5 working days regardless of engagement duration.

1. Business Area identifies a potential need for delivery support, initiates a conversation with DgC, confirms which approvals are required for an engagement to occur, e.g. Consultancy Governance Board if over £100k or DgC Corporate Services Delivery Board if under £100k.
2. Request Form completed by Business Area and submitted to DgC at:  
[REDACTED]
3. The form is reviewed by the DgC team around which resource route is most appropriate (e.g. Lots 1/2/3) and may request additional information/edits from the Business Area if required.
4. Lot / Supplier is selected and briefed on the request by DgC, then introduced to the requesting Business Area for further discussion and confirmation of work to be delivered
5. A Project Engagement Letter is completed by the Business Area with input from the Supplier (with supporting proposals as appropriate) and then finally agreed between the two parties, including evidence of all required approvals either being in place or being progressed (e.g. PO) and forwarded to the DgC for review by the Consultancy Governance Board (CGB). Approval states are:

Approval state	Definition	Permissions
Full approval	<ul style="list-style-type: none"> <li>▪ DPEL agreed</li> <li>▪ DPEL signed: Supplier, Dept and CO</li> <li>▪ Purchase Order number</li> </ul>	<ul style="list-style-type: none"> <li>▪ Work can start</li> <li>▪ Supplier can invoice for work</li> </ul>

