



Defra Group Management Consultancy Framework: Project Engagement Letter

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

Engagement details			
Engagement ref #	DPEL_61540_008[code]		
Extension?	No	DPEL Ref.	[code]
Business Area	Rural Payments Agency		
Programme / Project	Digital Vision and Strategy		
Senior Responsible Officer	[REDACTED]		
Supplier	McKinsey & Company, Inc. United Kingdom		
Title	Strategy, work planning and evidence support on private finance contributions		
Short description	<p>Support is required to assess and provide options for any necessary course correction on Defra's green finance workstreams which aim to deliver against private finance contribution targets in 2027 and 2030. This DPEL will provide evidence to ExCo on strategic decisions to be taken, to the Deputy Director of Green Finance on workstream prioritisation and adequacy, and on international best practice evidence.</p> <p>For ExCo, on strategy, it will show:</p> <ol style="list-style-type: none"> 1. where decisions could be taken; 2. the potential trajectory of private finance contributions; 3. options to execute a stronger pivot towards private finance. <p>For the Deputy Director, on tactical work programme, it will:</p> <ul style="list-style-type: none"> • test whether the right workstreams are in progress; • support the Director's prioritisation between these workstreams; • propose potential tracking metrics. <p>The research element will document international practice examples in developing and measuring private finance contributions to nature recovery.</p>		
Engagement start / end date	15/03/23	15/5/2023	
Funding source	[RDEL]		
Expected costs 22/23	£300,000 plus VAT		

Expected costs 23/24	£200,000 plus VAT
Dept. PO reference	TBC
Lot #	Lot 1 (Strategic Consultancy)
Version #	1



Department
for Environment
Food & Rural Affairs

Approval of Project Engagement Letter

By signing and returning this cover note, Rural Payments Agency accepts the contents of this Project Engagement Letter as being the services required and agrees for McKinsey & Company, Inc. United Kingdom to provide the services in accordance with the agreed Supplier Proposal under the overarching contract (Lot 1 - Ref 28595), with Defra Group and confirms the availability of funding to support recharge for the services.

Signatures**Supplier****Business Area****Defra Group Commercial**

1. Background

Previous work

The Department has carried out previous scoping work, commissioning Eftec to compile a list of revenue and capital flows from private sources. The work has not been definitive, as data has been collected via survey and reporting is *ad hoc*, but the Department believes that the private sector is contributing around a 10 per cent share of funding towards its programme. While it does not have a target share in mind, its hypothesis is that the current share is too low to deliver its ambition for nature recovery.

For this work, in addition to the Eftec report, the Department will share materials it has prepared on the topics of development of revenue streams, market infrastructure, capacity building, investment readiness and blended finance. It has been including nature in its discussions with HMT and Dept for Business on greening finance, however, it sees greening finance as a separate topic, for now, to the question under examination here, of private sector financial contributions to nature recovery.

The Department has not yet modelled the environmental outcomes that would be delivered by its private finance target. This will be addressed by a separate workstream and is beyond the scope of this engagement.

International experience

A number of countries are pursuing similar initiatives in this area. Germany has a biodiversity market, Australia has a bill in progress and Canada is contemplating it. This work will elicit and collate insights from international experience.

Leadership and strategy

The Department faces pressures which can mean policy and delivery is focused on shorter term responses. This can impinge on space for a sophisticated, wider transition conversation.

There is also a wider cultural change element to this agenda. The Defra Group is very well equipped to deliver grants. Shifting to a more market/investment approach requires a change across the Department, including building capacity across the Department's functions and oversight.

The work under this DPEL will be executed in an effective manner given the above context, bringing forward a set of evidenced decisions to be taken by either Defra's Delivery Committee or the Strategic Design Authority.

2. Statement of services

Objectives and outcomes to be achieved

HMG's targets (which Defra is accountable for) are to mobilise from private sources annual contributions totalling GBP 0.5 billion in 2027, and to double that figure to 1 billion in the three years to 2030. Through this engagement, the Department wishes to assess:

- whether it is on track to achieve the first, based on current assumptions and its agreed definition of private finance into nature's recovery;
- whether it has the levers and prioritised workstreams in place to achieve both the first and second, based on the current assumptions;
- whether the current identified risks are the correct ones, and which ones are particularly pertinent to the achievement of the target; and
- what opportunities and policy options might be available to accelerate progress, how much these might contribute and their feasibility.

This engagement is to support the Executive Finance Director and Deputy Director of Green Finance in:

- Identifying the current trajectory of private financial contributions to nature recovery, across Defra Group and HMG, both those already in use or planned, and additional levers that could be used to accelerate market growth significantly;
- Identifying the current trajectory and making course corrections to that trajectory;

Setting up ongoing tracking of progress.

The work will achieve this by:

- Supporting through evidence and decision support, strategic decisions by ExCo on prioritisation across green finance workstreams;
- Identifying need for new workstreams (if any) associated and new levers.

Scope

The work will be overseen by [REDACTED] taking responsibility for the delivery performance and effective engagement of ExCo members, and [REDACTED] for the content, policy and interaction with workstream teams.

At strategic level the work will provide ExCo leadership with data and analysis to support:

1. where the hard decisions need to happen;
2. how the private finance contributions stack up and how they fit into the broader financing of nature recovery;
3. how to execute a pivot towards a greater share of private finance.

The findings of the work will be taken to the fortnightly Strategic Design Authority, which is ExCo's forum for thinking about how to deliver priorities. The Permanent Secretary and the transformation lead are two of the key individuals within the audience for the work, as is Defra's Delivery Committee.

Supporting the strategy will be the tactical workstreams. The Department already has a set of workstreams in play, which it will share information on. As well as helping to identify **whether these are the right workstreams**, the work will provide the Department with a fact base to help inform it how it **prioritises between these workstreams, maps out and agrees a plan to bring these to maturity, and articulates this plan so it encourages senior engagement** in a manner that is suitable for those facing time constraints and high cognitive demands.

This tactical plan will cover the remaining period of the current spending review (18 months) in detail and in addition will layout potential priority areas for the medium term (to 2027)/the next Spending Review, with the purpose of achieving the 2027 target and accelerating private finance contributions to 2030.

The workstreams will include Natural Flood Management, Biodiversity Net Gain, Voluntary Carbon Markets (including woodland and peatland codes), CSR contributions and voluntary biodiversity credits. For example, the team expects to test the hypothesis whether it is too late to include structural elements within the periodic review of water charges 2024, as well as provide potential options on how tracking and communicating progress in private finance could be carried out.

Assumptions and dependencies

- Supplier will be responsible for managing and overseeing input from their delivery team
- The Supplier has the required expertise and the means to resource this project within the timescales required
- Defra will ensure that the necessary resources, data and prior deliverables are made available to the Supplier in a timely manner and will provide all reasonable input and guidance as required
- The work will be conducted remotely or at Defra / Supplier offices in Central London. If this changes and expenses to travel outside London are incurred, they will be agreed in advance where they are additional to the stated cost

Deliverables

Strategic workstream:

1. Assessment of extent to which Defra is on target to achieve private finance goals, quantified to the extent possible
2. Opportunity assessment of levers to accelerate progress and prioritisation
3. Offer a range of intermediate goals and indicators to complement the 2030 target
4. Identify ways in which Defra might develop its capacity to support delivery

Tactical workstream:

5. Develop options for a prioritisation framework and support its application to existing workstreams and develop options for additional workstreams, which might include for example a system map covering policies, measures, investments and levers which do or could contribute to the 2027 and 2030 targets, and might include a policy appraisal and gap analysis
6. Forward roadmap of how the workstreams could sequence and mature over time, which might be supported, for example, by a logic model and estimates of the effectiveness of current policy measures and future options
7. Communication material to articulate the plan in a way that effectively engages senior management;

Research workstream:

8. Document international practice examples in developing and measuring private finance contributions to nature recovery.

Indicative work plan with key milestones and activities

Deliverable	Success Criteria	Milestone / Date	Owner (who in the delivery team?)
Stage 1: Initial Hypothesis of interim options, evidence and findings supported by evidence gathered via interview, data, Defra materials, third party published materials	Report out of evidence to [REDACTED] [REDACTED] [REDACTED]	Milestone 1, 31st March 2023 TBC based on Defra stakeholder availability	RC and engagement delivery lead/expert
Stage 2: Roadmap and presentation to Strategic Design Authority or equivalent forum	Roadmap and presentation delivered	Milestone 2, 1st May 2023 TBC by Defra based on Defra stakeholder availability	RC and engagement delivery lead/expert
Delivery of final report consolidating previous outputs and next steps	Final report delivered to Defra team	Approx 1 week after SDA presentation	RC and engagement delivery lead/expert

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

Agreed team members including their roles and responsibilities during the project are listed below. The table listed below is an estimate only, and the Supplier will be agile in flexing the resourcing to meet emerging client requirements in direct support of the agreed outcomes and timescales. This work is undertaken at an agreed fixed price of £500,000 excluding VAT.

[REDACTED]			
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Agreed fixed price excluding VAT		£500,000

Total resource – early estimate only <div style="text-align: center;"> <u>Total days*</u> Engagement Length** </div>	
<small>*Total days worked across all resources **Total working days in engagement</small>	

Business Area's team

Outline Business Area staff allocated delivery team in completing the engagement including names, roles, responsibilities and any dependencies / scope they will deliver.				
Business Area	Name	Role (link to stage/s resource will work on)	Responsibilities / Scope	Estimate of days
Defra green finance team	██████	Executive Finance Director	<ul style="list-style-type: none"> Responsible Senior Officer 	n/a
	██████	Deputy Director, Green Finance	<ul style="list-style-type: none"> Oversight of work 	

4. Fees

Defra Group will reimburse the Supplier for approved work done according to the table below. The total fees for the scope of work detailed in this Engagement Letter will be up to a maximum of £500,000 excluding VAT.

Provide costs for any particular stages to the engagement.

Grand total		GBP £500,000

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.

5. Governance and reporting

Parties have established governance to manage delivery. A project working group has been established which includes the Supplier's engagement delivery leader and Client 'Business Area's team'. It is planned for this group to meet weekly. The group will also meet after before and after major presentations of work to executive stakeholders within Defra and make any necessary adjustments. This group will be coordinated and chaired by the Supplier, with support from a Defra project manager.

Key Performance Indicators

Business Area and Supplier to agree any specific key performance indicators related to this specific project engagement.

Feedback and satisfaction

See section on “Governance and Reporting” above.

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

Non-disclosure agreements

It is not expected that there will be a need for any additional NDA's for this project. The overarching MCF2 framework include NDAs.

6. Exit management

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

Several weeks after the delivery of the final report, the Supplier's Responsible Partner and the Defra's leads will have a follow-up call to discuss progress since the engagement and provide feedback to the Supplier on the impact of the work against its objectives.

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:
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"> ▪ DPEL agreed ▪ DPEL signed: Supplier, Dept and CO ▪ Purchase Order number 	<ul style="list-style-type: none"> ▪ Work can start ▪ Supplier can invoice for work

