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for Environment
Food & Rural Affairs

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_61538_024		
Extension?	N	**DPEL Ref.**	N/A
Business Area	10020106 (Finance Director Admin Support and Transformation)		
Programme / Project			
Senior Responsible Officer	[redacted]		
Supplier	KPMG LLP		
Title	VAT Savings Review		
Short description	KPMG to review Defra VAT recovery to identify additional VAT savings.		
Engagement start / end date	15 July 2024	15 July 2025	
Funding source (CDEL/RDEL)	**RDEL**		
Consultancy Spend approval reference	TBC – once final fees known		
Expected costs 24/25			
Expected costs 25/26			
Expected costs 26/27			
Dept. PO reference	TBC – once final fees known		
Lot #			
Version #	1.0		

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Approval of Project Engagement Letter

By signing and returning this cover note, Defra accepts the contents of this Project Engagement Letter as being the services required and agrees for KPMG to provide the Services in accordance with the agreed Supplier Proposal governed by the overarching call off contract (MCF2, RM6008, Lot 1 - Ref 28595), with Defra Group and confirms the availability of funding to support recharge for the Services.

The Defra parties to this engagement are:

- Department for Environment, Food & Rural Affairs (Defra)
- Natural England (NE)
- Animal & Plant Health Agency (APHA)
- Centre for Environment, Fisheries and Aquaculture Science (CEFAS)
- Rural Payments Agency (RPA)
- Veterinary Medicines Directorate (VMD)
- Marine Management Organisation (MMO)
- Environment Agency (EA)

Collectively these parties are referred to as the "Defra Group" in this engagement letter.

Signatures		
Supplier	**Business Area**	**Defra Group Commercial**
[redacted]	[redacted]	[redacted]
12 July 2024	10/07/24	15th July 2024
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: [redacted]

Business Area contact: [redacted]

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General Instructions

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1. Background

e.g., what skills are needed, when and how much) to deliver the planned activities.
The project requires specialist VAT Act 1994 “section 41” VAT knowledge and knowledge of partial exemption and business/non-business VAT recovery methodologies. The supplier will need to have the resources to deliver Part 1 of the services by 7 August 2024 as this is the latest date that VAT savings relating to 2023/24 can be realised. There is no deadline for Parts 2 and 3, although timeframes will be agreed for these elements between the Supplier and Business Area after Part 1 has been completed.

2. Statement of services

Objectives and outcomes to be achieved

State and describe the aims of the engagement:
The primary aim of the engagement is to identify whether Defra is maximising the available VAT recoveries and reliefs, with a view to making retrospective claims for additional VAT recovery where applicable and improving VAT recovery prospectively. Any additional VAT savings will need to comply with the relevant VAT legislation and HMRC Guidance.

Scope

Define the scope of the services *(SMART):*

The Scope comprises three Projects / Parts:

1. **Contracted Out Services (COS) review**

Review of the COS VAT recovery for the Defra VAT return for the 2023/24 period. The Defra VAT return includes Core Defra activity as well as the 4 executive agencies (APHA, CEFAS, RPA & VMD). The data from these 5 constituent parts of Defra is consolidated to generate the quarterly VAT return submission.

Although this is a single VAT return submission, the review will focus on some or all of these divisions/agencies, and from initial discussions the main opportunities are likely to centre on Core Defra and APHA.

The Supplier will apply a contingent fee of 25% of the additional VAT savings that are identified and are ultimately repaid to Defra by way of inclusion on a VAT return or other payment or offset by HMRC. The Supplier will charge a fee based on the savings relating to 23/24.

The review will be focused on identifying additional VAT recovery. If as part of the review the Supplier identifies any potential overclaims of VAT then they will flag these to Defra for consideration and these adjustments will not be netted off against the underclaims when determining the value of savings identified.

The Supplier will require the following data and access in order to undertake the review:

- A download of the 23/24 purchase ledger at a transactional (invoice) level “accounts payable data”. This will need to show the key information necessary to make VAT recovery decisions (Supplier name, description (where available), value, invoice date, ‘posting’ date,

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account code, cost centre, project code (or equivalent, where available), VAT recovery decision undertaken by the Defra team)
- Details of any additional VAT recovery adjustments, eg Journals
- Access to invoices, either on-site or remotely so the Supplier can review query invoices
- In a small number of cases, access to contracts/agreements with suppliers. This can either be via direct access or a contact the Supplier can liaise with to request these documents where required.

The review will need to be completed by 7 August 2024, because the deadline to recover COS VAT relating to 23/24 is:
- COS VAT can be included on the June 2024 VAT return (given that Defra has a March/June/Sep/Dec VAT stagger), which has a submission deadline of 7 August 2024.
- If making a separate submission (error-correction-notice or clearance request) to HMRC, this must be done by 31 July 2024.

2. Natural England VAT recovery review

Natural England does not apply the COS rules. It has a mix of business income (subject to VAT) and non-business income. As a result, Natural England is entitled to recover some VAT in full (where it relates entirely to NE's VATable business activity) and some VAT in part (where it is 'overhead' expenditure relating to a mix of VATable business and non-VATable / non-business activity.

Review of the VAT recovery position for NE for the past 4 years (which is the window that we can go back to make VAT adjustments that are not COS related) to identify if there is any additional VAT recovery either in full or in part. Any additional claim would need to be submitted to HMRC as an error correction notification, and the work would include preparing the submission and liaising with HMRC (or supporting Natural England in that liaison with HMRC).

The Supplier will apply a contingent fee of 25% of the additional VAT savings that are identified and are ultimately repaid to Natural England by way of inclusion on a VAT return or other payment or offset by HMRC.

The Supplier will require the following data and access in order to undertake the review:
- A download of the past 4 years accounts payable data
- A download of the past 4 yeast accounts receivable data
- A final 'year end' trail balance for the past 4 years
- VAT return working papers for the past 4 years
- Details of the current residual (overhead) VAT recovery methodology applied
- Where required, further details regarding NE's taxable business activities (i.e. supplies/activities where VAT is charged)

There is no deadline as such on this work. There is effectively a rolling 4 year window to make retrospective claim.

3. Defra VAT Return – residual VAT recovery

The Defra VAT 'group' undertakes a mix of VATable business activity, VAT exempt business activity and non-business activity. As a result it is entitled to recover some residual VAT under a combination of a 'business / non-business' VAT apportionment and a 'Partial Exemption' calculation. (Collectively referred to as a 'VAT recovery methodology').

Review of the 'VAT recovery methodology' applied by Defra to the group VAT return submission. This has the potential for 3 areas of savings:

a) Without seeking to apply a new 'special' VAT recovery methodology, look back over the past 4 yrs to identify any additional VAT recovery savings that can be achieved, and submitting a claim to HMRC for this extra VAT recovery.

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b) Again, without seeking to apply a new 'special' VAT recovery methodology, by applying the same principles from (a) above Defra may be able to recover additional VAT recovery in future periods
c) Seek to agree a new 'special' VAT recovery methodology with HMRC for future periods, with a view to improving the position compared to what is currently being done (or compared to what a 'standard' VAT recovery methodology would achieve).

The Supplier will apply a contingent fee of 20% of the additional VAT savings achieved for
- The past 4 years (i.e. by way of a claim to HMRC), (a) above
- The next 2 years (i.e. (b) and (c) above)

The Supplier will require the following data and access in order to undertake the review:
- A download of the past 4 years accounts payable data
- A download of the past 4 yeast accounts receivable data
- A final 'year end' trail balance for the past 4 years
- VAT return working papers for the past 4 years
- Details of any residual VAT recovery that has been applied over the last 4 years
- Where required, further details regarding Defra's taxable business activities (i.e. supplies/activities where VAT is charged)

There is no deadline as such on this work. There is effectively a rolling 4 year window to make retrospective claim.

Assumptions and dependencies

Provide further description of the assumptions and dependencies:

Liability

Subject to Clause 37.1 (Unlimited Liability) of the MCF2 call off terms, the Supplier's total aggregate liability, in respect of all other Losses incurred by DEFRA under or in connection with this PEL shall in no event exceed a sum equal to one hundred and twenty-five per cent of the Call Off Contract Charges payable in connection with this PEL.

Deliverables

Notwithstanding any other provision of this Contract, unless required by Applicable Law, the Client shall not without the Supplier's prior written consent:
disclose any Supplier branded Deliverable to any third party; or
alter any Supplier branded Deliverable.

Tax Terms

The Tax Terms set out at Annex 1 to this PEL are incorporated herein and shall govern the provision of the Services.

Risk management

Provide further details of any foreseen risks with this project and how they could be mitigated:
The VAT recovery rules for government bodies are complicated and the nature of the Section 41 "COS" rules in particular allows for different interpretations of the VAT reliefs available. This has led to some areas where the tax authorities have been inconsistent in their treatment and/or there is uncertainty regarding the scope for VAT relief.

If any of the savings identified relate to know uncertain or contentious areas, an approach to the tax authorities will be made to seek their approval. This need will be monitored and agreed between the Supplier and Defra.

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Deliverables

Describe what the supplier will produce: The nature of the deliverable will depend on the results of the work and the savings identified. It will likely take the form of: - Excel schedules setting out VAT savings, with explanatory notes where appropriate. - Emails explaining Supplier's findings. - Where necessary a memo to provide further explanation of any findings. - Where required, emails or letters to be sent to HMRC, either sent by Defra directly to HMRC or sent by Supplier on Defra's behalf.

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

The core Supplier team will be:

- [redacted]
[redacted]

We will inform you of any other Supplier team members who will be involved on this engagement.

Business Area's team

[redacted] will provide data required as set out in scope, supported by members of the Tax Team. [redacted]

4. Fees

Defra Group will reimburse the Supplier for approved work done according to the contingent fee approach set out below and in Section 2 (scope) above.

Supplier Charges

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Charges for the services provided under this engagement will comprise fees (as set out below), outlays and VAT thereon (where appropriate)

Fees for the Services delivered under this engagement will be contingent fees based on the level of VAT savings, further details are provided in Section 2 above. Any variation to this approach will be agreed between the parties in writing.

If there is any material change to the scope or nature of the assignment, or the timing of the work slips because of delays in making information, documentation or personnel available to the Supplier, we may agree with you a different basis for charging our fee.

Definition of VAT Savings

Within this Engagement Letter, VAT Savings (including COS VAT) are defined as:

- The aggregate of any repayments received by the Defra Group as a reimbursement of VAT (including any interest paid).

- The total amount of VAT received by the Defra Group (including interest and/or supplements) from HMRC or any third party, for example where VAT has been incorrectly charged and subsequently refunded by any means whatsoever. An amount shall qualify as a repayment regardless of whether it is paid to the Defra Group or used to reduce any sums due from the Defra Group to HMRC.

- VAT Savings arising from an improvement in input tax recovery rates and reductions in irrecoverable VAT incurred including future savings under the Capital Goods Scheme. Savings may arise where the Supplier identifies an alternative interpretation of the partial exemption method with the effect that additional VAT can be recovered in respect of past periods even where the Supplier does not devise any changes to the existing partial exemption method agreement.

VAT Savings include those savings arising as a result of issues identified by the Supplier during the course of the work.

Other fee matters

VAT Savings will be treated as having been realised on the earlier of (i) when the repayment/refund has been received from HMRC, (ii) a third party raises a credit note or makes and adjustment for VAT incorrectly charged, (iii) when HMRC recognise the amount to be recoverable for interest and supplement purposes, and (iv) when Defra's liability to make a payment to HMRC or a third party is reduced.

If the whole or part of the VAT Saving has to be offset against a payment due to HMRC arising in respect of a different matter, the payment due to HMRC will be ignored when calculating the Supplier fee.

The Supplier accepts that Defra reserves the right not to implement proposed strategies or VAT adjustment strategies if it deems them to be too difficult in practice or if they do not fit into its corporate planning strategies or culture. No fee will be charged in relation to strategies which are not implemented. If however the strategies are subsequently implemented by Defra, the Supplier reserves the right to charge a fee.

If the Supplier becomes unable, for legal or regulatory or ethical reasons, to recover payment of its fees on the contingency basis set out above, in whole or in part, instead of the contingent fee, the Supplier and Defra may agree a fee based on time spent performing the Services. This condition will apply even if the Supplier has, in good faith, entered into an agreement with you to undertake work on a contingent fee basis and, in the performance of that work, the parties subsequently identify matters which for regulatory reasons mean the Supplier is precluded from undertaking on a contingent fee basis.

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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

Defra will inform the Supplier within 10 working days of the date on which the VAT Saving arises. Upon such notification, the Supplier will issue their invoice. If information concerning VAT Savings is not provided, the Supplier may estimate the amounts involved, and issue invoices on that basis.

5. Governance and reporting

Not applicable

Key Performance Indicators

Not applicable

Feedback and satisfaction

At the end of each project (or monthly where a project runs for longer than a month) the Supplier and Defra (Individual TBC) will meet to review the performance of the engagement.

Non-disclosure agreements

N/A (MCF2 already contains confidentiality requirements)

6. Exit management

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

Describe what the supplier will produce upon existing the project engagement: The Supplier will provide a memo setting out the work that has been completed in summary form, with reference to the underlying deliverables that have been provided throughout the engagement. The Supplier will attend a meeting with Defra to run through this memo and will work with Defra to ensure this is complete and accurate.

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.

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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	▪ DPEL agreed ▪ DPEL signed: Supplier, Dept and CO ▪ Purchase Order number	▪ Work can start ▪ Supplier can invoice for work

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Annex 1 – Tax Services Additional Terms

AT_Tax_Services.pdf