

Public Accounts Committee

Oral evidence: Brexit and the Future of Customs, HC 401

Wednesday 25 Oct 2017

Ordered by the House of Commons to be published on 25 Oct 2017.

Watch the meeting

Members present: Meg Hillier (Chair); Geoffrey Clifton-Brown; Martyn Day; Chris Evans; Caroline Flint; Luke Graham; Gillian Keegan; Shabana Mahmood; Nigel Mills; Bridget Phillipson; Gareth Snell.

Sir Amyas Morse, Comptroller and Auditor General, Adrian Jenner, Director of Parliamentary Relations, National Audit Office, Leena Mathew, Director of HM Revenue & Customs Value for Money Work, NAO, and Marius Gallaher, Alternate Treasury Officer of Accounts, HM Treasury, were in attendance.

Questions 1-160

Witnesses

[I](#): Kevin Franklin, CDS Programme Director, HM Revenue & Customs, Nick Lodge, Director General Transformation and CDS Programme SRO, HM Revenue & Customs, and Jon Thompson, Permanent Secretary, HM Revenue & Customs.

Written evidence from witnesses:

– [Add names of witnesses and hyperlink to submissions]

Examination of witnesses

Witnesses: Kevin Franklin, Nick Lodge, and Jon Thompson.

Q1 Chair: Welcome to the Public Accounts Committee. It is Wednesday 25 October 2017. We are here today to look at the Customs Declaration Service, but before I get into that issue, and before I introduce the witnesses, I just want to ask Mr Thompson a couple of questions about a couple of things that have arisen in the media—we do not usually just pull a headline from the media and ask questions about it, but I am sure you are on top of it—and also about some money that the Prime Minister has promised your Department. I will start with a very interesting story the *Financial Times* carried today about the increase in your estimate of what large corporations should pay in tax. According to an FOI request, you are now suggesting that multinationals avoided paying as much as £5.8 billion in tax, which is a 50% increase on your previous estimate. Why were your estimates so badly wrong before?

Jon Thompson: I think there is a misunderstanding about what exactly the freedom of information request was and what exactly the answer is. It is correct that the tax under consideration—if you like, the amount we are questioning and querying with multinational businesses—has doubled. To put it in a relatively straightforward way, the amount we have opened inquiries on is the £5.8 billion quoted. That has increased because we have put significant additional resource into that particular area.

I think it is unfortunate that the *Financial Times* went with “Tax lost doubles” but, hey, that is the way they have written it. Just to make sure we are all clear, that amount is the total amount of open inquiries between us and large businesses.

Q2 Chair: It is double what you were planning to inquire about. You say you have put more resource in, and it also talks about you having more staff on the case. Is that true?

Jon Thompson: Yes, and one of the things that the Committee has previously talked about is international business and transfer pricing arrangements and all of that, so it reflects that aspect of our growing agenda. We put more people on to that because we think there are more risks in that, and we have opened more inquiries. That is what the FOI—

Q3 Chair: If you are putting resource in, you will be expecting a rate of return on that. Do you have a guesstimate or an estimate for how much you expect to bring in as a result of opening those inquiries? Presumably you are not opening ones that you think are going to be hopeless.

Jon Thompson: Well, we wouldn’t open inquiries that we didn’t think—

Chair: I hope you are not going to say yes to that.



HOUSE OF COMMONS

Jon Thompson: There might be some merit in opening ones that are hopeless, on the basis that it might change somebody's behaviour. To be frank, we do some random inquiries on taxpayers. Although our primary methodology areas are risk-based, incisive inquiries, we also do some random ones, so having a random inquiry is not completely lost.

It is actually very difficult to answer your question. Essentially, the Chancellor's threshold with me is a 10:1 investment; if he gives me £1, he wants £10 back.

- Q4 **Chair:** We know that. Does the fact that you have revised this estimate not mean that some of these multinational corporations have potentially been getting away with not paying what they are due to pay? If a bit more resource can get you to double your estimate—sorry, a 50% increase in your estimate—

Jon Thompson: We are possibly still talking past each other. It is not an estimate, it is the total amount of tax we are investigating.

- Q5 **Chair:** But you are investigating 50% more than you were. Does that not mean that they were previously getting away with it, when you weren't actually getting that close to looking at it?

Jon Thompson: One thing you learn in this job is that you can never be definitive about anything.

Chair: Very handy.

Jon Thompson: It is theoretically possible, yes.

- Q6 **Chair:** Do you have any idea when the first results of these investigations will bear fruit? It took a very long time for some of the ones we have looked at in the past.

Jon Thompson: Might I suggest that you ask a series of questions on this on Monday week, which I think is when we are back on the annual report and accounts. At that point, you will have the necessary tax specialists to give you some of that information. I was not expecting to get much further than "What did the *Financial Times* say and what exactly is it?", so I couldn't answer that question.

- Q7 **Chair:** Perhaps we will alert you to some of the questions that we would like to ask in more detail and give you a moment at the beginning of that hearing. I think we have quite a long list of things to ask you at that hearing.

The other quick one was about your relationship with Amazon Data Services. You have changed contracts and you are now working with an Amazon company to hold HMRC data. Can you explain why HMRC did that, and whether that flies in the face of the Government's proposals to contract with more small and medium-sized enterprises?

Jon Thompson: I do not personally think there is anything wrong with HMRC contracting with Amazon Web Services, and that is indeed what we have done. If you wind back a bit and think about IT and HMRC, it is not



HOUSE OF COMMONS

that long ago that we just had one enormous deal, if you remember rightly, for more than £700 million a year. We decided to break that deal up, insource it all and then spin some of it back out into the market. That has provided a range of market opportunities, which we think has attracted somewhere in the order of 100 different SMEs that are now working with us that would not have before because we were working through that enormous deal.

Chair: But there are SMEs that have lost their business as a result of you going with this. And why have you gone for a bigger contract on this particular aspect?

Jon Thompson: There are two reasons, really. One is that the market has moved on for very large businesses, and we are a very large business, into what's called hyperscale cloud. So you're not just dealing in a cloud environment; you're dealing with enormous businesses holding significant data. We need resilience in data centres and we need someone who can hold all that data for us. We are then out of the data centre business—

Q8 **Chair:** So you are saying that Amazon Web Services, or something of that size, is the only type of organisation that can have the level of resilience that HMRC needs?

Jon Thompson: No. There are two. And the price reduction on this particular one was more than 50% for us, so there is a clear value-for-money case for us moving down this route of scaling up the way in which data is held. We then come out of the data centre business, so we do not have physical buildings ourselves. We get much more resilience, because data can be held in multiple sites, so that if one of them goes down we do not lose the data and we do not lose services to customers.

Q9 **Chair:** Of course there is an impact on the companies that have lost business, and there is a Government mission to increase the amount of contracts, or the value of contracts, let to SMEs to 33% of all Government contracts.

Jon Thompson: I understand that. We are increasing the amount of business in relation to SMEs, but in this one particular case the SME was not successful. I understand that you are looking at the one that has attracted the publicity in relation to the loss, as opposed to a significant number of additional contracts that have gone to SMEs after the break-up of one single £700 million-a-year deal, a deal that I think previous members of this Committee were deeply sceptical that we could break up.

Q10 **Chair:** We will come back to that when we are looking next at some aspects of your IT contracts. However, the final point on this is that Amazon is an American company. Where is the data held and is any of it under US jurisdiction?

Jon Thompson: It is held in the UK and the answer to your second question is none, which was a major issue the last time we were here with—

Q11 **Chair:** Yes, absolutely. It is very important. I just wanted to make sure—I



HOUSE OF COMMONS

hoped you might be as clear as you were. If only all witnesses could be that clear—I send that message out to Whitehall. Yes and no answers on clear questions are very helpful.

Passported money that the Prime Minister announced last week will go to various Departments, including your own—£250 million that you can spend ahead of any policy decisions on Brexit, but in preparedness for Brexit. How much of that money is coming to HMRC?

Jon Thompson: In the current year, £78 million.

Q12 **Chair:** So £78 million of that £250 million has been earmarked for you. Do you know what you are going to spend it on?

Jon Thompson: Do I know what I am going to spend it on?

Chair: I hope you do. Just stick it in the back pocket for a rainy day.

Jon Thompson: To be ready for leaving the European Union.

Q13 **Chair:** You are in a fun mood today, Mr Thompson. Have you got any specific things to do with leaving the European Union that you are planning to spend that money on? It is not your money, by the way. It is, of course, our money—taxpayers' money—just to be absolutely clear.

Jon Thompson: Indeed. Thank you very much; it is indeed all the taxpayers' money. So we are spending it on several different things. There has been a huge burst of activity in relation to what policy impact there will be. Top of that list has been customs. I think that when I was here before we also said there were three other big areas. There is, "What impact is there on indirect tax?"; "Where are we on the welfare state?", because, clearly, we still have tax credits and child benefit—

Chair: I think we listed them in our report, indeed.

Jon Thompson: And then there is data sharing. So those are the four big things. We have been doing a huge amount of policy work in relation to those; they are mostly where the money is going. We have recruited more than 250 additional staff to work on all of those areas and you will see some of the products from that in relation to the White Paper, for example, in relation to the Customs Bill—preparing the Bill and all that kind of work.

This project, the Customs Declaration Service, is in addition to that, so it is not part of that—

Q14 **Chair:** So none of that £78 million is going on this—what we are talking about today. And of that £78 million—you are spending it already on policy staff. How quickly will you burn through that money?

Jon Thompson: We think that £78 million is enough for the current year.

Q15 **Chair:** To be clear—to the end of the financial year?

Jon Thompson: Correct.

Q16 **Chair:** Okay. And then you will be asking for more, do you think?

Jon Thompson: Significantly more.

Q17 **Chair:** Any ballpark figure you could give us?

Jon Thompson: It will be several hundred million pounds, if we are implementing the option of the United Kingdom leaving the European Union, with no ongoing special relationship, in April 2019. That is the most extreme version, I think, of leaving the European Union. In that scenario, you are looking at an estimate of between £300 million and £450 million.

Q18 **Geoffrey Clifton-Brown:** Of that money, how much will need to be spent on additional staff?

Jon Thompson: Our estimate is between 3,000 and 5,000 additional staff would need to be recruited.

Q19 **Geoffrey Clifton-Brown:** Is this including a no-deal scenario?

Jon Thompson: Yes.

Q20 **Geoffrey Clifton-Brown:** Where we are just on WTO terms.

Jon Thompson: Perhaps I could link your question to this: in this Report the NAO have very clearly laid out the situation—if we leave the European Union, so that importers and exporters have to make customs declarations to the European Union, then the volume increase in-year goes from about 55 million to 250 million. We apply a risking model to every customs declaration that is made, and make a decision about where we will intervene. At the moment, although we intervene on approximately half of 1% of the number of declarations made, if the volume increases from 55 million to 250 million and you keep intervening at 0.5% of those declarations, you need to significantly increase the number of staff. There are approximately 750 people working in the national customs hub in Manchester. We would need to ramp the number of people up significantly to cope with this.

There are then some policy choices for Ministers about “Do you really need to do that, or would you adjust the risk?” So you might be able to reduce that; but that is one of the areas—it is not the biggest area, actually—where you would need to inject significant numbers of additional staff, through the course of 2018, to be ready for 2019.

Q21 **Geoffrey Clifton-Brown:** Have you yet got a split: of that proposed extra number of staff how many will be dealing with policy, and how many will be in individual ports and points of entry themselves?

Jon Thompson: The vast majority of those people would be in what we call operational delivery; so they are either in customer services like the national customs hub, or they are in customer compliance. At the minute, because we are operating, clearly, in the single market, where there are no declarations made, the risk to the United Kingdom in tax terms is low. As soon as you move out of the European Union it opens up new potential risks on the tax system, and our view is that that would require more compliance staff, because now you have gone from 55 million to 250 million there are potentially new tax gaps that would open up there. So for



HOUSE OF COMMONS

example at the moment we collect £3 billion of customs duties; 80% of that is handed to the European Union. In the future, it will be reasonable to assume that all of that customs duty is due to the United Kingdom, and there is potential then for intra-EU trade to open up new risks and new tax gaps, which we would need to apply new staff to.

Sir Amyas Morse: Just a quick question; I know you have massive programmes already that you are committed to in HMRC, but we are talking about what, even though they are very important sums, are relatively quite small sums. My question is: don't you need to carry out a full prioritisation exercise of all the commitments that you have in HMRC, to see if you are really putting effort in the right place?

Jon Thompson: Yes, we do. If you would like to think about HMRC from my perspective, there is this huge delivery organisation, which the Committee will get into in the annual report and accounts. You have, secondly, got one of the largest organisational transformation programmes in Europe. You have, thirdly, got leaving the European Union, and you have fourthly got Treasury Ministers who continue to have fiscal events that give us new policy, and changes. So there is actually a question for us about can the organisation actually continue to do all of that; or do we not need to do a full reprioritisation for the organisation. The answer to that is yes. We are planning to do that in quarter 4, between Christmas and the end of the financial year, and give that back to Ministers, because I do not believe that it is possible to take 250 existing programmes of change and simply add Brexit on. I think you reach the point of organisational capacity and capability and you simply can't say "I can do 250; now I can do 320; now I can do 350." I just do not think that is credible, so we have committed to Ministers to do exactly that. It is a very good point.

Chair: We are going to introduce the witnesses and get into the main session, but I know Shabana Mahmood is already twitching in her seat at that bit of information. Can I introduce, from my left to right, Kevin Franklin, who is the Customs Declaration Service programme director at HMRC; that is the subject, of course, of our inquiry today. Jon Thompson has been chief executive and permanent secretary at HMRC—never a man with just one job. Nick Lodge is the director general of transformation at HMRC, a Department that has more transformation going on than any other across Whitehall, so that is a pretty big job in its own right.

I do not need to give much introduction to this, but the Customs Declaration Service is the new system that HMRC is planning to introduce as an update from its old CHIEF system. The aim is for it to be up and running, ready to go, in January 2019.

- Q22 **Shabana Mahmood:** Mr Thompson, it is helpful what you just said about re-prioritisation about the amount of work and the transformation programmes that HMRC is currently doing. You wrote to us on 13 October with a seven-page update. I am interested that you did not mention this re-prioritisation programme, because I imagine that it might throw off course the hard deadline that you face for the CDS programme, which has to be delivered by March 2019. Why is that? Those two things are not



HOUSE OF COMMONS

consistent with one another.

Jon Thompson: No. To be really clear, whatever re-prioritisation we do—and we do absolutely need to do that—there is no possible option where the Customs Declaration Service does not become a priority.

We need to put this in some context. Although we have 250 ongoing projects at the moment, seven of those are in the Government's major projects portfolio. This is one of those seven; it is of the absolutely highest priority for the organisation. There is no chance that this programme will be de-prioritised. If we continue on with various scenarios set out in the National Audit Office Report, other things may have to either slow down or stop entirely, but not this. This has to be the—

Q23 **Shabana Mahmood:** This is No. 1 on your list?

Jon Thompson: It is equal seventh, but yes. I have got seven projects in the Government major projects portfolio. It is up there with Making Tax Digital for Individuals, the childcare offer or Columbus.

Q24 **Shabana Mahmood:** Okay, so whether it is No. 1 or equal seventh, it is really important all the same.

Jon Thompson: Yes.

Q25 **Shabana Mahmood:** I am interested. Why has the £78 million that you are going to be getting in the additional funding not been allocated to CDS? You said that it was completely separate.

Jon Thompson: Because apart from the question of funding a contingent option, which is raised in the NAO Report, this project is fully funded, at £157 million, from one end to the other. The NAO Report highlights that £157 million, but the area where we are having ongoing conversations with the Treasury about additional funding is in the question of a full contingency option, which would be the CHIEF system, enhanced so that it could take all the transactions. We have done some work on that since the Report was published, and we have an estimate of how much it would cost: up to £7.9 million additional. That is not in the £157 million, so that would need to be additional funding.

Q26 **Shabana Mahmood:** Let's unpack that. The upgrade of CHIEF was going to cost £2 million. Is that correct? That is not an upgrade; that is basically to make CHIEF work if CDS falls apart.

Jon Thompson: Yes. So if you need CHIEF to handle 250 million transactions instead of 55 million, we would need to spend up to £7.9 million to do that. We do not have all of that funding.

Q27 **Shabana Mahmood:** And CHIEF's current capability, or full functionality, is 100 million. Is that correct?

Jon Thompson: Up to a maximum of 100 million, yes.

Q28 **Shabana Mahmood:** And we haven't got close to 100 million transactions.



HOUSE OF COMMONS

Jon Thompson: No. We were at £55 million in 2016.

Q29 **Shabana Mahmood:** Is 55 million the most it has ever dealt with?

Jon Thompson: I believe so; I will double-check.

Kevin Franklin: No, the most it has ever dealt with is 60 million, but 55 million is a pretty good average over a 12-month period.

Q30 **Shabana Mahmood:** And you are confident that you can get CHIEF to do 255 million by March 2019, with the additional funding that you have just mentioned?

Jon Thompson: Nobody said we were confident.

Q31 **Shabana Mahmood:** Well, that is quite important, isn't it, Mr Thompson?

Jon Thompson: It is quite important, so we take it very seriously. We had some good conversations with the NAO back in February and March. Since then, we have done the work on whether we can scale up. We have signed some contracts. We know that there are eight phases of work to scale CHIEF from where it is now to handle the 250 million. We have started the first three of those phases, and we have committed a first tranche of £630,000. That will go into a test environment in January 2018, but I run out of money at £630,000, so we are in conversation with the Treasury about needing that additional money if they want an all-up, fully operating CHIEF in case CDS does not work. It is also worth remembering that one of the reasons for replacing CHIEF is not just the capacity question but also that CHIEF is not compliant with the EU Union Customs Code, which is required of all member states.

Q32 **Nigel Mills:** There is a certain irony in the timing on that. Are you not tempted to have an upgrade to your existing system that has been working for 20 years that costs you only £8 million, rather than spending £157 million on trying to design a new one when you do not quite know what the customs system will look like? Don't you get a little tempted to think, "Actually, I'll spend the £8 million, sit with CHIEF for another couple of years and then we will design a new system when we know where the end point is"?

Jon Thompson: No, not really. I refer you to figure 4, on page 16 of the National Audit Office Report. At the time this Report was drawn up, of course the Government had not published their paper called "Future customs arrangements", which came out in August 2017. Figure 4 sets out four potential scenarios in the UK-EU negotiation outcome. Since this was written and published, I think it is fair to say that option 4 is not the UK Government's position. If we assume that options 1, 2 and 3 are the likely outcomes of an EU-UK negotiation, all three of those options require the United Kingdom to be Union Customs Code compliant. The Government's position paper on future customs arrangements sets out two different scenarios, both of which require the UK to be Union Customs Code compliant. Whatever we do here, we need to get ourselves into a position where we are Union Customs Code compliant, whatever the outcome of the negotiations.



HOUSE OF COMMONS

Q33 Nigel Mills: When do we need to be Union Customs Code compliant? Is that the end of 2020?

Jon Thompson: The Union Customs Code became law on 1 May 2016 and the 28 members of the EU have until December 2020 to implement it. We had planned to implement it in the spring of 2020, but of course following the vote to leave the European Union, one of the significant changes that then occurs is that you have got to bring that forward in order for it to be ready for 2019. That was one of the three big changes that we had to make as a result of the vote to leave the EU and the Government's position on that. We then had to re-plan and re-scope in order to get it in for before 2019.

Q34 Nigel Mills: The reason I was asking is that, if we leave the customs union at the end of March 2019, it will have been a lot of change for a lot of people. If you could have a system whereby there are 55 million transactions and 150,000 traders are using an existing system, that might be easier than trying, at roughly the same time, to have 180,000 new traders who have never used a system before and your 150,000 trying to use a brand-new system, probably without very much knowledge in your own organisation of how these new systems work to support all that, and maybe not much in the real world as to how it all works as well. If you could shove that off for a year and stick with a system that people know how to work, that looks quite attractive, doesn't it?

Jon Thompson: If I might return you to figure 4 on page 16 of the NAO's Report, I think you are assuming that the option that wins out is No. 2: "No negotiated agreement and no transitional arrangement...with trade governed by WTO rules." I cannot plan on that basis, can I? I have got to plan on: can I deliver something for the UK to do options 1, 2 and 3 on the basis that, as I previously explained, the UK Government's position is not to have No. 4?

Q35 Nigel Mills: I was asking whether you think it might be quite attractive to spend £7 million and keep a system that you know works running a little longer, rather than trying to implement a brand-new system that, hand on heart, nobody yet knows how to work, at the same time as having a risk that you have to double the amount of people using the system and multiply the number of transactions by five.

Jon Thompson: I think I understand your question. The only option that your scenario works for is option 2 in figure 4, but I have also got to be able to plan for options 1 and 2, which is what CDS gives you because it is UCC-compliant.

Q36 Nigel Mills: I was not suggesting that you abandon CDS completely; I was suggesting that having CHIEF ready to use and perhaps letting CDS slip a bit further might look quite attractive.

Jon Thompson: To be transparent, if I had some real clarity that the outcome was actually going to be No. 1—a negotiated agreement with a transition period in which we could defer full compliance with the UCC back to the original UK timescale—you are correct, but I don't. I am trying



HOUSE OF COMMONS

to plan for the contingent scenario of being out of the European Union in 2019 and needing something that is UCC-compliant in order to continue to trade with the EU.

- Q37 **Nigel Mills:** I do not want to labour this. On the £8 million it will cost to upgrade CHIEF, are you suggesting to Ministers that you would quite like them to spend that, and that it looks like a sensible investment, or are you saying, "Well, if you really want a backstop I suppose we could spend this, but I'm not that keen"? Is that something you think you ought to do?

Jon Thompson: I think it is something we ought to do, yes.

- Q38 **Shabana Mahmood:** But you remain confident that you can deliver CDS on time and get everybody using it by January 2019? The upshot of the update letter that you sent us is that everything is going just fine and it will all be delivered on time.

Jon Thompson: The programme has met all the milestones it needed to meet between when the fieldwork was completed by the National Audit Office in February/March and now. In those eight months we have met the necessary milestones. We can be reasonably confident, but we need to be transparent with you that there are four significant risks to this programme. Any one of those four risks could either delay the project or, in the ultimate worst-case scenario, would mean that CDS would not be ready.

We can happily run through those four risks. I put the two major ones in the opening of my letter to you, but I can quickly run through the four risks if you want. If we do not manage those risks, you are absolutely right that this will either get delayed or go off track. It is currently doing well, but I will never give you or any other Select Committee a guarantee that an IT system will work until afterwards—that is the way technology is. It is going well, we are confident in it, it is amber rated and we have taken up the NAO's points, but we know what the risks are and we have to manage them.

- Q39 **Shabana Mahmood:** Forgive me, Mr Thompson, but your demeanour in giving your evidence is rather different from the tone you struck in your update letter and from what we understand of your discussions with the National Audit Office at the point at which they were given a draft of your letter and some supporting documentation. I am interested that, in coming here, you are hedging your bets a hell of a lot more than you were in the update letter. What has changed between 13 October and today?

Jon Thompson: Nothing has changed since 13 October. I am just being—

- Q40 **Shabana Mahmood:** You could have used fewer letters in your letter. You could have put the things you are saying to me today in one page. I am just interested that you put us through the trauma of reading a seven-page letter that said very little and then turned up today prepared to be much more candid, open and transparent about the risks.



HOUSE OF COMMONS

Jon Thompson: I'm sorry if I put you through any trauma. If I have to write to you again, I will make sure it is—

- Q41 **Shabana Mahmood:** In your written evidence to the Committee you were not as transparent and open as you are being in your evidence today.

Jon Thompson: I am trying to be realistic. This is a programme that is going well. It is well-managed and well-governed, and it is funded. It is meeting all the milestones, and we know how to get from here to the end, but there are no guarantees on technology projects. We have to be realistic about it, and I am trying to do that. I don't want to be sitting here in six months saying, "We did that testing programme last month, but what we now need is another six weeks, which is going to eat into X, Y and Z."

- Q42 **Shabana Mahmood:** On that exact point, Mr Thompson, when would we have to see you next year—for example, after you have done some testing—to have you in this room telling us, "We have done some testing, and we are 100% clear that we can do this by March 2019," or alternatively, "It's all going to pot. We're going to miss this deadline and the whole of Government now need to give us a shedload more money to sort this out"? At what point next year would we need to see you to have that question definitively answered one way or the other?

Jon Thompson: Between April and July.

Shabana Mahmood: That is very helpful.

- Q43 **Chair:** So if it was all going wrong in July, you think there would be time to rescue it? Mr Lodge would probably have some responsibility for this.

Jon Thompson: I am looking at the next eight milestones that get us to January 2019. April 2018 is the key milestone that we have set for this to integrate with our accounting system, which is fairly vital. July 2018 is when the risking model should be up and running.

- Q44 **Shabana Mahmood:** August is when you will have people using it. Is that correct?

Jon Thompson: That is correct.

Shabana Mahmood: One month.

Chair: So if it has gone wrong in July—

- Q45 **Shabana Mahmood:** Has all your leave been cancelled for summer next year? Is everybody going to be at work sorting this out when it goes wrong, or if it goes wrong?

Chair: In case it goes wrong—to be optimistic for a minute.

Jon Thompson: Mr Franklin might be able to give you a slightly more detailed answer, if you want.



HOUSE OF COMMONS

Kevin Franklin: The first thing to say is that we have already done some testing. It was very small, but two community service providers, which are particularly important organisations at ports and airports and help to manage the movement of traffic in and out of the country, have already tested with CDS in a live environment. We have seen a supplementary declaration, a form of customs declaration, from the CSV go through our new declaration management system, and messages have been returned. There is already a form of testing.

The next big milestone for the programme will be the first piece of real testing with software developers, which happens in December. Then we will start testing some of the functionality. We have five software houses lined up to help us do that testing, including two that currently have 60% of customs declarations go through their systems to the CHIEF system. We will then have six sessions of trade test drops, as we have called them, taking us from December through to June. We will be building up functionality as we go along, which will give us a clear view of whether or not CDS is working and on track. That is why we can say that July next year is a point when we could say “Go” or “No go” on whether we should invoke the contingency that has already been mentioned—the evolution of CHIEF.

The other thing I would say is that one of the big risks cited in that seven-page document relates to the integration of technology components. Integration of technology components always throws up new areas of—

Q46 **Shabana Mahmood:** Precisely on that point and on the risks, can you definitively outline the four major risks to the project as you see them today?

Jon Thompson: There is integrating the eight components of this service; there are eight components, and they have to be integrated with the rest of HMRC. That is one risk. The second is testing volumes and the performance of the system at the level at which it will need to be to accommodate the 250 million—we are actually scaling it to 300 million. The third risk is the migration from CHIEF to CDS, and the fourth is user-readiness. Those are the four risks.

Q47 **Shabana Mahmood:** We will look at some of those later in the questioning, but I want to come back to volume, which is one of the key points. That is why I asked you, Mr Thompson, whether you could be confident that the CHIEF system would be able to handle the 255 million transactions. You did not say yes or no; you gave a much longer answer, where I felt that, again, you slightly hedged your bets, if you do not mind my saying so. If we cannot guarantee that the system that we know and understand, which has been in place for over 20 years, can handle the volume of 250-odd million, how can we possibly say with confidence that CDS can? CDS is a new system and has only ever been tested up to 180 million transactions, far below the number we might need it to do by March 2019.



HOUSE OF COMMONS

Jon Thompson: As Kevin said, there is a programme of testing that takes us up to the number we need. We are also working on a contingency plan, which would also give us that option.

It seems to me that those are both rational, sensible things for us to do as officials in terms of providing a service. The primary project is going well and is meeting the milestones. We know what the key milestones are and we know what the risks are, but we need to build a full-blown contingency in case that does not happen. That seems to me a sensible, risk-savvy way of working.

- Q48 **Shabana Mahmood:** I appreciate that you say you are hitting your milestones, Mr Thompson, but the thing is that if this goes wrong, it will be catastrophic for Britain's global reputation. We would have queues at the port at Dover. We would have rotting food, and everybody would think, "Brexit's happened and Britain has become a basket case." We cannot afford for this to go wrong. Do you agree that it would be catastrophic?

Jon Thompson: Yes.

- Q49 **Shabana Mahmood:** All the testing that could say that the volume of transactions cannot be handled is happening at some point next year, and yet your hard deadline of Brexit and your confidence in meeting it have not shifted at all?

Jon Thompson: I am slightly struggling with what you think the doubt is. What is the doubt?

- Q50 **Shabana Mahmood:** The doubt is that there is a huge risk in this project. All your milestones and baselines have shifted, and yet you are confident you are going to hit the deadline. I am questioning your confidence that you will hit the hard deadline of Brexit.

Jon Thompson: I am slightly struggling with this. The NAO Report does not say that they think we cannot. It is like any major project; there are a range of things you need to do to ensure success.

- Q51 **Chair:** We have read the Report. We know what the NAO has said—that it has not gone wrong at this point, but that the contingency has squeezed massively. As Ms Mahmood has highlighted, there could be a 180 km queue if there is a delay at the port of Dover, for a start. If you look at Larne, there is very little space there. A lot of our ro-ro ports have very little space. It is covered in the Government's White Paper. Ms Mahmood is right—we feel you are being very confident. You are always a very confident witness, Mr Thompson, but I am sure you find it hard to sleep at night, worrying that this might go wrong, because it could be catastrophic, and there is very little contingency. You have said that by July we might know whether it is working or not. You have very little time then to sort it out if it goes wrong, which is where Ms Mahmood is pushing you. Can you answer her question?

Jon Thompson: You had better ask me the question again then.



HOUSE OF COMMONS

- Q52 Shabana Mahmood:** This is a project with a very tight deadline. You say you will have migrated all users on to it by January 2019. That gives you two months until Brexit occurs. That does not strike me as being a sufficient period to fix any problems you encounter in January by the day Brexit occurs, and yet, in your response to the NAO Report, you are very confident that you can hit the March 2019 deadline, all your milestones are being met and everything is going fine. I am putting it to you that this is a little bit tighter than you are implying and that there is a risk that the deadline might not be met. If it is not met, it will be catastrophic.

Jon Thompson: Sorry; I apologise for not quite understanding what you were driving at. Is there a risk that this might not work? Theoretically, yes. I just set out what I think the four big risks are that we have to manage for this programme, and I can go through them again. In parallel work, we need to have a full-blown contingency option—CHIEF—in case this does not work, scaled up to handle this level of transactions. That is the thing we are working on in case this does not work. I was transparent in saying that that is not fully funded, so we are having a conversation with the Treasury about the fact that we need another £7.3 million to have a full-blown fall-back contingency option in CHIEF if CDS does not work in the time we need it to work. Does that give you some assurance about contingency?

- Q53 Shabana Mahmood:** Well, once we have the funding in place I might have some further confidence in the contingency. I think that is the reason Mr Mills was pushing you so strongly on the issue of contingency. What I am taking from your demeanour today is that you are a little bit less concerned about CDS being able to deliver because you are confident that you will get the money for CHIEF to be able to scale up, sort out any problems and prevent this sort of catastrophic damage to Britain's reputation come March 2019.

Jon Thompson: No, I am not saying that at all.

- Q54 Shabana Mahmood:** So you are confident about CDS? That brings me right back to why you are so confident about CDS. The timescale is so very tight and nobody has ever dealt with this scale of transactions before, and yet you are saying, "CDS is going to work fine, and we're also going to have CHIEF. Everything is going to be up and running."

Jon Thompson: No, what I said was that at this point it is meeting all the milestones that we said it would meet, it is fully funded, it is overseen and governed in an appropriate way and it is being run by experienced project people, but a level of technology change such as this has inherent risks and we have to manage those risks. On the basis of all of the information we have now, what we have done so far and what we plan to do between here and the end, we are reasonably confident that we will get there for January 2019. That is what I said. But in the unlikely event that this does not work, we need a full-blown fall-back, because it is so important.

- Q55 Geoffrey Clifton-Brown:** Mr Thompson, can I talk about that fall-back—the pessimistic scenario where you get to January and CDS is clearly not going to work? You will have migrated all those 180,000 extra traders on



HOUSE OF COMMONS

to CDS the previous August. Are they going to continue working with CHIEF as well? When it gets to January, if you have to delay CDS, will the information still be there on CHIEF in order to be able to extend it until April?

Jon Thompson: Would you mind if Kevin answered that question?

Kevin Franklin: The simple answer is yes. There are a couple of things I would like to say. In addition to the testing regimes that I have set out, we will be running full-blown, end-to-end performance testing in January 2018. That is a further indication as to whether or not CDS is going to be ready. We are going to have dual running of CHIEF and CDS. In fact, we planned to have dual running of CHIEF and CDS long before the EU referendum, because we just felt that was a sensible and safe thing to do.

As somebody who has actually spent 40 years in this business—I am a former customs officer—I am fully aware of the damage that this could do to the way we move traffic in and out of this country, to the economy and so on. I was also actually part of the team that implemented CHIEF, so I have experience of how we need to phase this in—and we will phase this in, so there will be no loss of data on CHIEF until we are satisfied that we have fully migrated all of the data and all of the customers who use this system on to CDS. It will be a phased implementation. That phased implementation actually starts in August next year. You talk about us having a contingency of January through to March, but it is not quite so stark, because we will actually start doing that phased implementation from August next year.

Q56 **Geoffrey Clifton-Brown:** Are you running two parallel operations at the moment? Are you running the operation of upgrading CHIEF in parallel with implementing CDS?

Kevin Franklin: We are running CDS as a programme. Since the EU referendum, we have made a planning assumption for no deal, so we will continue to make sure we have a contingency arrangement. That contingency arrangement does include the upgrade of CHIEF, and Mr Thompson has already answered questions about the funding of that.

Q57 **Geoffrey Clifton-Brown:** So the answer to my question is yes, you are running two operations in parallel.

Jon Thompson: Yes.

Q58 **Geoffrey Clifton-Brown:** Definitely?

Kevin Franklin: Yes.

Jon Thompson: As long as someone gives me the money.

Q59 **Chair:** This £7.3 million is a relatively small amount of money in your total budget. You are still discussing that with the Treasury. Is that a practical decision—a money decision—or is it because there is a political worry about basically investing in upgrading an old system?



HOUSE OF COMMONS

Jon Thompson: I do not think it is a political worry. The way in which the Treasury has decided to fund Brexit is to do it in tranches of six months. We had funding for the first six months—

Q60 **Chair:** So it is a political decision.

Jon Thompson: We had funding for the first six months of the current financial year, then we had approval for the second six months.

Chair: I think you have just answered our question. Thank you.

Gareth Snell: Mr Thompson, we have talked about the timescale for delivery of CDS and the back-up options for CHIEF. As part of exiting the European Union, one of the things that we will have to do—it is in the Government's White Paper on the trade Bill, not the customs Bill—is develop and design our own trade remedy scheme, which will obviously be a new source of customs and duties to collect for imports.

Ceramics is a big issue in my constituency. Currently, the European Union deals with trade remedies for tableware and tiles from non-market economy status China, and the British Ceramic Confederation has done a lot of work to get the Government into a position to understand this. What I want to understand from you is: for you to be ready in March 2019 to implement whatever those trade remedies are, to give the protections to the indigenous current producers and from non-market economy status, when will you need to know what those trade remedies look like so you can build them into your CDS and your CHIEF system so that we are getting the right tariffs applied to imports? Because without those tariffs even a delay of a couple of weeks could cause huge problems to the tile producers in my constituency.

Jon Thompson: I have to be straightforward with you: I am not sure what the answer to that question is—unless Kevin does.

Chair: Does Mr Franklin know?

Kevin Franklin: No, I don't really—

Jon Thompson: I think we will have to write—

Q61 **Chair:** Is that another one of your list of things to consider for Brexit?

Jon Thompson: One of the eight components of CDS is indeed the tariff module, which is what tariffs we will apply.

Q62 **Chair:** You won't know anything about that until much later down the line, so are you going to be ready to deal with the prospect that Mr Snell has outlined?

Nick Lodge: I think it is the case, though, that changes to arrangements within the tariff—because there is a framework built into the system—are not that difficult to make. But if something wholly new or different came along, clearly we would have to have a look and assess how long it would take.



HOUSE OF COMMONS

- Q63 Gareth Snell:** One of the parts of the Government's White Paper on trade uses the experimental public interest test, which would change the way that the tariff is calculated and applied as part of market remedy, so if the Government were to create something new in order either to have a more competitive system for imports or to do something that would potentially change the way we currently lay a tariff, how much notice would you expect to receive of the new tariff in order to be able to build that component into your framework so as to ensure that the tariff is applied correctly on the day that we leave the European Union?

Kevin Franklin: In CDS, we have already built a tariff component. It is actually a package that we have procured from an external organisation. Content into that tariff currently comes from the European Union. When we leave the European Union, that content will have to come from elsewhere. We have the capability to receive that feed from wherever that might come from, whether from another Government Department or the World Trade Organisation—wherever it comes from, we will have the capability in CDS to receive it and to make the change to the content.

- Q64 Gareth Snell:** How long does it take to make that change?

Kevin Franklin: I could not give you a precise timeframe. One of the big reasons for replacing CHIEF is that it might work but it is on very old technology—big mainframes, VME based. It is not very flexible and agile when it comes to making changes. Moving on to cloud-based technology and using APIs gives us more flexibility, so changes of that nature can happen within days.

- Q65 Gareth Snell:** Going back to the point that CHIEF is the back-up: if CHIEF is so flexible, what potentially would be the timeframe for changing CHIEF to implement those particular new trade remedy income streams on the day that we leave the European Union? I accept that cloud-based systems are quicker—I get that—for that day, but what would you be looking at with CHIEF to be able to rewrite that, to make sure that we have got an effective system?

Jon Thompson: I think we would like to write to you.

Gareth Snell: Thank you. I think I would like you to write as well.

- Q66 Shabana Mahmood:** Following up on the questions on tariffs, with tariff rate quotas—I am thinking specifically of the position between the EU27 and Britain—we want to apportion the current TRQs between each other and that has been challenged at the World Trade Organisation by the Americans, joined by the Australians, the New Zealanders and a couple of others. Is CDS going to have the agility and flexibility to handle the current hoped-for apportionment of our TRQs between us and the EU27? If that is not what ends up happening, will the system still be WTO-compliant?

Jon Thompson: The straightforward answer is yes. CHIEF currently does handle TRQs. Approximately 27% of the work that we do in the national customs hub—I talked about the 0.5% of exceptions that spin out; if you



HOUSE OF COMMONS

then break that down to why they are spinning out, 27% is to do with DEFRA-related issues such as tariff quotas.

- Q67 **Shabana Mahmood:** If we end up in a more complicated position because of a successful challenge at the WTO by the Americans and others, will you be able to handle whatever scenario might come forward?

Jon Thompson: Well, I think I said earlier that you can never be absolutely definitive about that, so the answer has to be that it depends on how extreme it is. We currently handle tariff-related quotas in CHIEF—that would definitely be the case in CDS. It really depends on how extreme it gets, but I have been to the national customs hub and processed some transactions where TRQs applied, so I have seen the process work. It works now, so it rather depends on how the quotas are divvied up and what we decide the UK's policy will be in relation to limits on imports and exports.

- Q68 **Shabana Mahmood:** That is quite a significant risk though: we might not be able to handle trade-remedy issues, or handle the result of the American challenge at the WTO of our current wishes in relation to a portion of it. That is quite significant in terms of what actually happens at the border, isn't it?

Jon Thompson: Let me be more straightforward: if you want to get a long way into this, you have the wrong permanent secretary, because you really need to have the Department for International Trade permanent secretary to answer those questions.

- Q69 **Shabana Mahmood:** I am wondering whether technologically the system can handle it.

Jon Thompson: Will we build a system that is capable of handling tariff-related quotas? It is now, and it will be in the future.

- Q70 **Chair:** Okay, so the Potteries can be reassured that if anything goes wrong, it will not be down to your Department. Is that what you are saying?

Jon Thompson: I hope so.

Chair: There you are, Mr Snell—you can go off with hope. I think we may need to raise this matter with our sister Committee on trade.

- Q71 **Gillian Keegan:** I, too, bear the scars of many IT delivery projects, and I have actually never had one go right. Moving from legacy systems to these systems is incredibly difficult. You have a 17-month programme with two months' contingency; the world has changed since you set out; and this has now become a critical system with a deadline—all of which is new.

It seems to me that the only real contingency that you have is falling back to CHIEF, because this is too risky as it is at the moment. I would like to dig a little more to understand what the risks are with upgrading CHIEF. How long will it take? We know it will cost £17.3 million, but more importantly, what will it not be able to do when that system is the one



HOUSE OF COMMONS

operating in April 2019?

Kevin Franklin: I agree that the main contingency is CHIEF. We are planning to have an environment set up early in the new year so that we can look at the scalability of CHIEF. We will have a very clear view then of how long it will take, because we have already started having discussions with the current supplier of CHIEF, Fujitsu, around scalability and the ability for that to be done. Upgrading CHIEF will deal with volumes, but it has not been built to accommodate the functionality that is associated with the Union Customs Code, so it will not be able to do that.

Gillian Keegan: I have to declare an interest, because I was not aware it was a Fujitsu system. My husband works for Fujitsu and is probably involved with this project.

Chair: So someone on the Committee is happy that you are contracting with Fujitsu.

Q72 **Gillian Keegan:** I know you are going to start in January, so basically you think it is a year-long programme to upgrade CHIEF. Are you saying there is no risk, or that it's low risk?

Kevin Franklin: No, it is not a year-long programme. We haven't set down the timeframe for upgrading CHIEF, but from talking to Fujitsu it is matter of weeks to be able to make the upgrade. We need to have the environment to do some more work on understanding what that would look like, and that environment will be ready in January 2018.

Q73 **Gillian Keegan:** And what will it not do?

Kevin Franklin: CHIEF will not accommodate the functionality that is associated with the Union Customs Code. There are two drivers for CDS: one is to replace CHIEF, because it is an ageing system and we want to move on to new technology; the other is to implement the Union Customs Code.

Chair: We are moving from ceramics now to whisky.

Q74 **Martyn Day:** Obviously, we want to focus on the end-users—the actual customers who are exporting and importing. One of the big players is the Scotch Whisky Association and their members. They export 93% of their produce, so getting the system correct is absolutely essential for them. If everything works to plan, there is a limited window for them to test their own in-house systems, but if things do not work to plan and if there are hiccups with CHIEF, it will be absolutely catastrophic for them. So what reassurances can you give them on both those points?

Jon Thompson: Are you asking, if plan A doesn't work and neither does plan B, what do you do then? Is that your question?

Q75 **Martyn Day:** My question is how do we reassure them if plan A does work, because they have their own systems to integrate, but, in the worst-case scenario, what back-up have we got?

Q76 **Chair:** Are you saving the Scotch whisky industry?

Jon Thompson: I am very happy to save the Scotch whisky industry.

Chair: Single-handedly.

Jon Thompson: Yes, although the days when permanent secretaries did that in the afternoon are long gone.

Perhaps one of the things that has not come out in this is that we are talking about the Customs Declaration Service, which is with us. That links to five community service providers, so there are five private sector organisations that directly interact with CDS. Then, if we go another one back, you have 64 different software houses, all of which provide a range of software to the industry, including agents, exporters and importers and so on. If you think about it as one, five and 64, we know that there is a significant amount of work to be done with the software houses. Kevin is heavily involved in those. There are currently 141,000 traders. That will rise to approximately 273,000 traders. There is a big piece of work to be done in 2018 on business involvement, business education, what are the rules, and how does it work and so on.

We have taken a significant number of soundings from various industry organisations. We have a long-standing consultative committee on customs with 31 different trade organisations on it. We have discussed it at some considerable length with organisations such as the CBI about when we say, "This is what we are implementing" and what the timescale is. The decision has been made that the ideal window is when we have more certainty about which of the options on table 4 is likely to be the outcome. So we know that we need to engage with importers and exporters and with the software agencies and so on. Kevin is heavily involved in the first three of those layers, clearly with the community service providers and the software houses.

We have done limited work with importers and exporters because we think the window to do that will probably be between Easter and the summer. At the minute the advice to us from various industry organisations is not to do it yet because there is not enough certainty about what to do and what the timescale is to implement it.

- Q77 **Luke Graham:** To elaborate on that point, it is great to hear that you intend to engage with the Scotch Whisky Association. How are you also engaging with some of the other devolved agencies? Some of the evidence we have had from Hutchison Ports UK makes the point that we have a difference between national agencies and other agencies, whether devolved or not: the Food Standards Agency and Food Standards Scotland, for example. How much work has been done already to engage with devolved agencies, and will you make recommendations about what standards should be devolved and what should be part of a UK-wide framework to make sure we have a coherent UK customs experience, so that no part of the UK is disadvantaged?

Jon Thompson: Customs is a reserved matter for the UK Government. The answer to your question is as straightforward as that.



HOUSE OF COMMONS

Q78 Luke Graham: Sorry, when you look at figure 1 you go through the registration and the flow process: licences and approvals. When you go on to the second level down, in the right column, different Government agencies are responsible. It refers to the Department for International Trade and the Department for Environment, Food and Rural Affairs—Environment obviously goes into devolved matters—and Arts Council England is used as an example, but there is a Scottish arts council. That is my point. I understand the reserved/devolved distinction, but it is about engaging to make sure we can connect the dots. Devolution is not complete yet, so we want to make sure things are being co-ordinated.

Jon Thompson: Okay. In relation to the traders' relationship with us, one of the elements of CDS, which we are digitising, is the first of those steps on figure 1. At the minute the registration process is paper-based. You fill in a form, you send it to HMRC, we turn it around and send it back to you in a three-day turnaround. We are digitising the front end, so you can do it all online.

Your question about licences and approvals and, on the right-hand side, the different Government organisations listed there is, I think, the subject of a different NAO Report, which sets out, if you like, everything at the border and what that might mean at Brexit.

Chair: Which we will be looking at soon.

Jon Thompson: You will be looking at that.

Q79 Chair: We will, but you can give us a hint; you can still answer the question today. We never don't look at these things, Mr Thompson.

Jon Thompson: So as chairman of the cross-Whitehall Border Planning Group, I'll be back.

Chair: Yes, you will. The date is 15 November, just so you can get it in your diary now.

Jon Thompson: There are 26 different Government organisations that have an interest in the operation of the border. You have some listed on the right-hand side. We are having all the discussions we need to across Whitehall, and with a series of agencies, about customs. There is a much bigger question there about how the border works, which I guess you want to get into. I think you have scheduled that in on the 18th. But we are having all the necessary discussions. I chair a 31-body committee that is going through all the various interdependencies—for example, if you set these food standards, what does that mean at the border in relation to the free flow of trade and all that? So we have a reasonable handle on the interdependencies between the border and so on and so forth.

Q80 Shabana Mahmood: Mr Thompson, I want to come back to our previous discussion about priorities. Are you running this project as an absolute priority or as one of seven balanced priorities?

Jon Thompson: I have seven key programmes, all of which we need to deliver, and this is one of those seven. But to try to put it into some



HOUSE OF COMMONS

context, there are 15 major programmes of change; this is in that seven; there are 250 overall. So it's in that group of seven that all have to work. The optionality is in relation, if you like, to the other eight major programmes and the 250 projects. That piece of work—

Q81 **Shabana Mahmood:** I take from that this is one of seven balanced priorities.

Jon Thompson: Sure.

Q82 **Shabana Mahmood:** How much could you accelerate the project by and remove or reduce the risk if it had top priority and money was no object?

Jon Thompson: I don't believe we could accelerate it any further. That is my understanding of it, but you could double-check with Nick and Kevin if you wanted to.

Q83 **Chair:** Mr Lodge?

Nick Lodge: I think that is absolutely right. It is—

Q84 **Chair:** Well, if it's right, it's right. Is there anything you want to add?

Nick Lodge: No; that's correct.

Q85 **Chair:** Mr Franklin?

Kevin Franklin: No; he is absolutely right.

Chair: Unanimity. Right; thank you.

Q86 **Shabana Mahmood:** So you can't go any faster.

Kevin Franklin: We're going pretty fast, actually.

Jon Thompson: Let's be transparent about it. There was a moment, clearly, after the vote to leave the European Union when we had to regroup around this. We had to pull it back a year, and there was a period when this project was rated red. You remember that that became public information. And it is from there that we have been building this project forward.

Q87 **Chair:** To put Ms Mahmood's question in a slightly different way, of the seven projects that are of equal priority, which one would have the biggest impact if it did not happen in time? They are all interrelated, you were saying, Mr Franklin, I think, but—

Jon Thompson: Which of the other six would have the biggest impact?

Q88 **Chair:** Which of any of them—of all seven?

Jon Thompson: Making Tax Digital would have the biggest impact on the Exchequer, because clearly there are significant additional revenues from that programme.

Q89 **Chair:** So of all of these, which one keeps you awake at night? Well, you tell us you sleep well at night, but if you were the sort of man who was restless at night, worrying about things, which one would worry you the



HOUSE OF COMMONS

most?

Jon Thompson: Well, I sleep very little! Brexit in general, and this programme in particular, is a huge undertaking for HMRC.

- Q90 **Shabana Mahmood:** What functionality does the £157 million current budget for CDS get you in terms of number of transactions? I am talking about the volume of transactions that it can handle on a £157 million budget. That is to Mr Franklin, Mr Lodge or whoever.

Nick Lodge: That funding gets us up to 150 million transactions, and we will need to go back to the Treasury for more funding to scale it beyond the 150 million to the 300 million that have already been mentioned.

- Q91 **Shabana Mahmood:** How much more money would you need to get to the 255 million, as a first staging post? I am talking about the expected number of transactions as of March 2019.

Nick Lodge: We are going through that work now, so I can't put a figure on it, unless Kevin has a figure to hand, but I don't think we have completed the work yet to have a precise number on exactly that part of the scaling up that we will need to do.

- Q92 **Shabana Mahmood:** When will you know? That seems to me to be a key bit of information, Mr Lodge. When will you know how much more money you need to get CDS operational to the full number of transactions you need it to be ready for?

Kevin Franklin: We will know very clearly by the end of this calendar year, because we are doing a lot of impact assessment. We have procured two of the technology components from external suppliers. We have change requests in with those suppliers, so they will work those through. As part of getting ready for the performance testing in January 2018 that I mentioned, we will have to have those products scaled up, so we will have a very clear understanding about the additional costs by that time.

- Q93 **Nigel Mills:** I have a few questions on the history of this project. It has been running a few years, and it would be remiss of us not to nit-pick a little. I think that you originally hoped to have this implemented by early 2017, so it has slipped a bit over its history, hasn't it? That was probably before your time, Mr Thompson.

Jon Thompson: Yes, in which case Mr Franklin—

Kevin Franklin: Well, it was before my time as well. I think I can offer some clarification. I think you are referring to something known as CHIEF replacement, and that had not actually reached formal programme stage. The CDS programme actually started in January 2015. I was appointed to lead it in November 2014. By the time I had had the opportunity to scope it, we formally kicked it off in January 2015. So I don't recognise that slippage at all.

- Q94 **Chair:** It said in the NAO—I want to make sure we are on the same page, literally. Do you want to come back or have you found it?



HOUSE OF COMMONS

Leena Mathew: I am just looking back at the Report. HMRC started planning to replace CHIEF in 2013-14 and then there were some significant changes and it turned into the CDS project in—sorry, I thought it was 2014.

Kevin Franklin: I was appointed in November 2014, and the programme was formally kicked off in January 2015.

Chair: Okay, just to be clear, we are all talking about the same thing.

Q95 **Nigel Mills:** Paragraph 2.3 of the Report notes a couple of things that you have had to change your mind on: one being the systems main database and the other being the security aspects of the first choice of software. Can you talk us through how much extra money we have had to spend because you had to change your mind on both those things? Why did we not get the right database and the right security in the first place? That is on page 17.

Jon Thompson: Paragraph 2.3?

Nigel Mills: Yes.

Jon Thompson: I will deal with the security point and then colleagues can deal with the systems main database. My understanding of the history is that we ran a competition. There was a preferred solution, and when scrutinising that preferred solution we decided that it did not meet our national security requirements.

Q96 **Nigel Mills:** Did HMRC decide that or did somebody else tell you?

Jon Thompson: HMG. For a programme of this scale there is obviously a Government-wide process, and in the end it was decided that the preferred solution did not meet our national security requirements—I am slightly hedging back on why that was, because it is a national security issue—so we ran the competition again.

Nigel Mills: That was quite a fundamental thing at the start of the competition. I assume you would not let people who did not meet security requirements get through the first stage.

Jon Thompson: I am telling you what I know about the history before any of us got to this programme. A competition was run, there was a national security concern, it was decided that those concerns were sufficient to outweigh it, and the competition was run again.

Q97 **Nigel Mills:** So you never signed a contract and you never spent any money with the first provider.

Jon Thompson: That is my understanding, yes.

Q98 **Nigel Mills:** Regarding the database, I must admit that the Report says you originally chose one that was not consistent with other HMRC databases, and then changed your mind to use one that was. Is that right? Mr Franklin, you were nominated for this.



HOUSE OF COMMONS

Kevin Franklin: I am not sure I recognise the question. We had a number of environments that we were looking at, and we did move from one environment to another, but that did not have any material impact on the delivery schedule.

Jon Thompson: Mr Lodge may have some further—

Nick Lodge: I will have to double-check and will write to you if I get this wrong, but I believe that we originally looked at using a database provided by one of the suppliers and we regarded that then as not being conformant with our IT strategy, because we wanted an HMRC-wide strategic approach to the IT, and that is why we shifted. I don't think we spent lots of money and then had to wind back—

Q99 **Nigel Mills:** So no money was spent on either.

Nick Lodge: I don't think we spent any material amount of money, but I will double-check that.

Q100 **Nigel Mills:** Okay, that is helpful.

Can I go back to Mr Thompson's four big risks, and particularly the first one—integrating the eight components? How many of the eight components have you now bought or built that you have been able to test so far, at least individually?

Kevin Franklin: Of those eight, we have procured two and the rest we have already built. Three have already been deployed in a live environment and so we have built the integration around those three. The rest will be completed by 7 November.

Q101 **Nigel Mills:** So of the eight, is that two plus three that you have that you can play with?

Kevin Franklin: We have all of them to play with. We have all of the technology components available to us. The next stage is to deploy them in a live environment and then build the interfaces between those components and build the messaging between them so that they all interact.

Q102 **Nigel Mills:** So that is quite fundamental. The reason why I ask—it is maybe the opposite question to what we normally ask—is that figure 6 suggests that you have only spent a third of the budget so far. I guess I would naively think that you would spend the money upfront buying and building components and integrating and making them talk to each other. Towards the end, you would be testing them and the spend would start to reduce. It looks like you have two-thirds of this left to spend. Does that suggest that you are not as far through as perhaps you might be implying to us?

Kevin Franklin: One of the things that it is worth talking about is the fact that we are building this inside HMRC's technology architecture. We are reusing some of the platforms and technologies that have already been deployed for other things. If you take digital services, for example, that is not something that is directly related to the CDS budget.



HOUSE OF COMMONS

Q103 **Nigel Mills:** My fundamental question is this. Two and a half years through the project, with less than a year to go until you think you have got it all built and working and going live, you have only spent a third of the money. Is that just the way it is?

Kevin Franklin: The other thing to bear in mind is that the £157 million includes two years of live running. It is not all on actually building the system; some of it is about running it live as well.

Q104 **Nigel Mills:** Okay, so you are not worried that you have only spent less than half of the capital cost at this point.

Kevin Franklin: I am never worried if I spend too much money.

Q105 **Nigel Mills:** To go back to another point, we asked Mr Thompson earlier if we wanted to look again and be sure that everything is going to be fine or not. He said, I think, March to July next year. If we were to ask Sir Amyas to send his team in to do this work again, when would you say would be the right time to get a really clear picture of whether you are on track. Is that next July?

Jon Thompson: Oh, it is so tempting. Some point in 2023, I would have thought.

Q106 **Nigel Mills:** It is getting earlier with every joke.

Jon Thompson: If we are being serious about it, I think once we get past the third software drop in March 2018 and you get into the accounting module in April 2018, looking at whether those have worked somewhere in there, to give some assurance before you get into that April through July window, feels about right to me. But that is clearly for the Comptroller and Auditor General.

Amyas Morse: It's a date.

Q107 **Nigel Mills:** And you'd welcome that constructive input, I'm sure.

I'd like to ask a couple of questions about authorised economic operators, which are referred to in the report and in the letter of a couple of weeks ago. Can you tell us how many businesses are signed up and approved for that now? I am guessing it is quite a lot, seeing as there are 158,000 traders currently exporting and importing.

Jon Thompson: It is actually surprisingly low in terms of numbers. I cannot give you the exact number—it is in the hundreds—but, in terms of volume of trade, 60% of all imports and 72% of exports currently go through the authorised economic operator scheme, which is disproportionate to the number.

Q108 **Nigel Mills:** The EU database has 604. Is that something that you worry about? One of the ways we will have resilience and make our new customs arrangements work is by having lots of authorised operators who we trust, whose trucks we do not need to check and who can pay monthly. So if we have only 600 of them out of 300,000-odd people that might be importing or exporting, it feels a little low.



HOUSE OF COMMONS

Jon Thompson: It does. Where we currently are—with 600 out of 141,000—feels low. A lot of those are the dominant players in the market. I do share that.

Q109 **Nigel Mills:** Germany has 6,103.

Jon Thompson: Yes, so 10 times more than us. In one of the scenarios—the highly streamlined customs arrangement—that was set out in the Government's paper, "Future customs arrangements" there is extensive commentary on "mutual recognition of Authorised Economic Operators" status between us and the EU in terms of a future relationship.

Q110 **Nigel Mills:** It will not be very mutual, will it?

Jon Thompson: It clearly needs to be negotiated. If we are going to trust their traders, they need to trust ours. That seems like a reasonable negotiating position and it is set out in the Government's paper. If that is the case then we will much more heavily promote AEO status to traders. There are some reasonable benefits for AEOs and I would recommend it. It means that you automatically get a lower risk and that you are likely to get a lesser level of physical or documentary checks. It is possible that in the future we will move to self-assessment, rather than through individual transactions.

Q111 **Nigel Mills:** So will you have a plan at some point to market that status and try to get more people signed up to it?

Jon Thompson: Yes. To be honest, I am waiting on whether the negotiation will bring some mutual recognition between us and the EU.

Q112 **Nigel Mills:** Surely, given that the number of your transactions could multiply by five, you would be quite keen to have as many traders as you could signed up, pre-authorised and scrutinised so you could low-risk them and not have your team in Manchester scrutinising there? Regardless of the mutual recognition, is it not a good thing for UK traders to have just for the UK system?

Jon Thompson: Yes.

Q113 **Nigel Mills:** So why are you not promoting it regardless?

Jon Thompson: We would do it as part of saying, "This is what we are doing with the future of customs", when we are clear about what we are doing with the future of customs. Your question alternates between what the options are and what the timescale is. Is it 2019 and no deal, or is it 2021? Inherently, is it a good idea? Yes. Could we do more? Yes. We would bundle that up with saying, "Here's the future of customs, and we would recommend AEO status". The major benefits for authorised economic operators that are set out in the Union Customs Code, we give to more than just those 600 traders. Nevertheless, it is inherently a good thing to do.

Q114 **Nigel Mills:** I asked whether it was a good idea if we have a deal or if we have no deal. The answer was yes both times. So why do we not get on with it and have a plan to promote it?



HOUSE OF COMMONS

Jon Thompson: I may as well do it by saying, "This is what we are doing with the future of customs". I think there were some questions about when we do that.

Q115 **Shabana Mahmood:** Do you now have the full complement of staff that you need on the CDS programme? Are you still running with a staffing shortfall?

Jon Thompson: I think we are currently running with 12 vacancies out of a complement of just over 200—unless Kevin has a more up-to-date figure.

Q116 **Shabana Mahmood:** Are you worried that that is holding you back in terms of timescales?

Kevin Franklin: No, it is not holding us back at all. What we are doing is resequencing and moving people around so that we have the flexibility to cover those points. So it has no material impact on the agreed schedule.

Q117 **Shabana Mahmood:** So staffing issues have not meant that any milestones have been missed?

Kevin Franklin: No.

Q118 **Shabana Mahmood:** Have you missed any milestones?

Kevin Franklin: No.

Q119 **Shabana Mahmood:** On stakeholder engagement, what have you done to improve on the National Audit Office's finding that you know "little about the smaller and less established traders" that may need to use CDS in 2019?

Kevin Franklin: If we are referring to the 132,000 that we think may have to start submitting customs declarations as a consequence of leaving the EU, I think we have already addressed that question. We are not in a position to do that yet, although we are planning on turning around the sort of—

Shabana Mahmood: My concern is from your previous answer. You said you have been engaging with trade organisations.

Kevin Franklin: Yes. There are currently 141,000 that use the system, and in terms of that, we have a very clear view of the customer segments in all of this. Mr Thompson has already outlined the way in which we layer some of this. We are working with software developers, CSPs and fast parcel operators. We have identified the top 12 large business declarants. At least 36% of declarations currently go through CHIEF. We are working with straight forwarders, importers and exporters, and also with trade associations.

We have a whole series of things going on, in terms of engagements with those different groups. We meet with them on either a monthly or weekly basis. They are now aligned with the delivery milestones we have put in place. I have mentioned the six trade tests. We have the right people lined up to support us on that. We are speaking at trade association events. We



HOUSE OF COMMONS

have a migration strategy that we have agreed with the industry segments that I have just outlined. We have provided the technical specifications to the software developers, so they have a clear view of what they need to deal with. There has been quite a lot of activity since the NAO Report.

Shabana Mahmood: With respect, Mr Franklin, I did not get from your answer a clear sense about smaller, less-established traders—people who might not account for volume in transactions but who will be filling up our postbags in our constituencies. We will be very aware of the teething troubles of this system because we will hear about it, and I guarantee it will be from smaller, less-established traders who need more assistance to get used to a system they have never used before and to complete a transaction that they probably never expected to have to complete. Nothing that you have said so far suggests to me that you either understand that or are taking steps to address it right now. I suggest you start early.

Kevin Franklin: I certainly understand it, but I think we have already addressed that question about the timing of when we start speaking to them. I think you are referring to the 132,000. If you are talking about small businesses inside the 141,000, we addressing that through the various things we are doing.

Shabana Mahmood: I am talking about the people who have never done it before and who currently trade within the European Union but have never—

Kevin Franklin: That is the 132,000 that we have already addressed.

Jon Thompson: In answer to some of your earlier questions, we agree that it needs to be done. The question is when and on what basis do we engage those importers and exporters. If there is a negotiated settlement for 2021 and nothing is going to change until 2020, it is more appropriate to do it then than in 2018. I think I was reasonably clear about saying we would do something in 2018. We think we know who they all are. The question is do you do it in 2018 or do you do it 2020.

Q120 **Shabana Mahmood:** Except if there is nothing, then come 2019 it will be panic stations everywhere.

Jon Thompson: I appreciate that this is slightly messy, but I am trying to deal with—

Shabana Mahmood: I would use a different word from “slightly”.

Q121 **Chair:** Does “slightly” mean you are an optimist, Mr Thompson? Or are you paid to be?

Jon Thompson: I am paid to deal with complexity, I suppose. Figure 4 sets out a number of different arrangements, but it also has a number of different timescales. If we leave the European Union customs union in 2021, because in the interim period we will stay in—I think the Brexit Secretary said this morning that it would feel exactly the same for those two years—there is very little point in engaging businesses who do not



HOUSE OF COMMONS

currently do anything and would not need to until 2020. There is not much point in doing that in 2018, is there? I need to travel a little bit further. You may not agree with that, but I need to travel a little bit further.

Chair: I am going to cut you off because Mr Clifton-Brown has an important question.

Q122 **Geoffrey Clifton-Brown:** One very quick question. The NAO Report says that, on 27 June 2017, you had 48 vacancies on this programme, of which four were required to be filled immediately. Can you give us an updated sitrep on that, and on how long it takes to train people to fill those vacancies?

Jon Thompson: I think we did give an update on that. That number has fallen to 12.

Q123 **Geoffrey Clifton-Brown:** So the 48 has fallen to 12. That's good. How long does it take to train up the people to fill those vacancies?

Chair: So these are the high-level vacancies, they are skilled coming in. I think with the training up you talked earlier about the large volume of people you are going to be recruiting at the front line.

Jon Thompson: Do you want me to answer Mr Clifton-Brown's question about how long it takes?

Chair: Answer Mr Clifton-Brown's question, but then there is the why question.

Jon Thompson: I am tempted to answer that it depends what they need to do.

Q124 **Geoffrey Clifton-Brown:** You have got 12 vacancies, how long does it take to train them up?

Jon Thompson: Well it depends what they do.

Chair: This particular 12.

Jon Thompson: You want the detail. Kevin, tell us a bit about the 12.

Kevin Franklin: In the 12 there is a mixture of programmers, developers and architects. In terms of the recruitment process, we are looking for people who already had that skill base, so it is not a question of training them in the skills that we require, it is just about giving them an induction into the type of work we want them to do in this particular programme, which does not take very long at all.

Q125 **Geoffrey Clifton-Brown:** So shortage of skills is not a critical factor in the timing of its operation.

Kevin Franklin: No.

Q126 **Gillian Keegan:** How can that make sense? How can you not have programmers and it not have an impact on the delivery of the programme?



HOUSE OF COMMONS

Kevin Franklin: We have 200 people working on this.

Gillian Keegan: You need 249.

Kevin Franklin: But it is not as though we are devoid of those skills already. We ensure that we are mapping those skills to the priority work, to ensure that we are working towards the critical milestones.

Q127 **Gillian Keegan:** It is quite a big percentage of people missing though, isn't it?

Kevin Franklin: Twelve out of 200?

Gillian Keegan: No, you had 48.

Kevin Franklin: We are now down to 12.

Q128 **Gillian Keegan:** Yes, but you said that they had no impact on the delivery at all, that when they were not there doing a job, there was no impact on the delivery of this programme. It does not make sense.

Kevin Franklin: Because we prioritised the work according to the skills of the people that we had. We already talked about some of the prioritisation challenges we have had around working on some of the programmes and we were able to sequence that from a technology perspective.

Q129 **Chair:** Earlier you talked about the volume of staff you will be recruiting at the front line. How long does it take to recruit and train them?

Jon Thompson: To be clear, we may have to recruit.

Chair: You may have to—okay. Were you to have to do that, how long would it take?

Jon Thompson: We think we need to press the “go” button on recruitment sometime in March. Generally, these people can be recruited and trained within a few months, so they would be up and running at some point in the late autumn, on run to March 2019.

Q130 **Chair:** Are any of these skills from people who would have been working for HMRC before the recent rounds of redundancies? I know there are different skills in HMRC dealing with tax and dealing with—

Jon Thompson: The national customers' hub is an element of the business customer services area, so it is a transactional thing. You get yourselves a transaction, you do it, you turn around and you do it. It is not a tax professional's job.

Q131 **Chair:** I am just making sure that it is a different set of people that you would have to recruit from scratch, so there are job opportunities at HMRC in certain circumstances. You put a positive spin on it.

Jon Thompson: Possibly.

Chair: Sorry, we have no vote, so that is why we are all a bit agitated, or tensed, ready to run to the vote. There is now no vote.



HOUSE OF COMMONS

Jon Thompson: What are you voting on?

Chair: It seems the Government completely supports the Opposition's position on social care.

Q132 **Shabana Mahmood:** I want to understand the technicalities of CHIEF and CDS. So with CHIEF 80% of the current transactions are supplementary declarations, is that correct? They don't need to be made at the border, only 20% are frontier checks.

Jon Thompson: No, not frontier checks.

Shabana Mahmood: I thought I had got the word from the report, I might have got that wrong, but they have to be cleared at the border. The declaration has to be done at the border before it can go through, right?

Jon Thompson: No. It is perfectly possible that absolutely nothing happens at the border. You can pre-declare that you are importing, for example, frozen chicken from Brazil; you lodge a declaration; it is done machine to machine, generally in seconds, and that means it can clear the port and move on. It is worth understanding that because it is a vital aspect of your earlier questions about if you do begin to start checking at the border more than you currently are, that is what would lead to an impact on the trade.

Q133 **Shabana Mahmood:** That is what I was trying to establish. I got that bit of information from page 13, in the note section it said, "Of the import declarations, 20% are frontier declarations which must be cleared before the goods leave the border." Is that correct?

Jon Thompson: Yes, they are declarations, but not checks, in the sense of opening something up, "Is that chicken? No it's not." It doesn't work like that at all.

Q134 **Shabana Mahmood:** How much would you expect that mix of 80 to 20 to change, post-Brexit?

Kevin Franklin: There is no reason why that should change at all.

Q135 **Shabana Mahmood:** Even with the mass increase in the number of transactions?

Kevin Franklin: If anything, and certainly if we get an increasing number of AEOs, you might get to a point where the number of supplementary declarations increases.

Q136 **Chair:** Can I ask a quick question to Mr Thompson about the Irish border and customs there? There is the huge issue of the Government's position paper that was released in the summer. There is a lot of concern from both sides of the border—from the Republic and from Northern Ireland—about how that will work. Have you modelled how this system would work with that non-physical, virtual border that is currently the Government's proposition?

Jon Thompson: Yes.

Q137 Chair: How will it work? Can you explain it to us?

Jon Thompson: CDS would work in the scenario that is set out in the “Northern Ireland and Ireland: position paper” of August 2017—I’m opening it up—because the Government’s position is to maintain a common travel area so that there is no border. You would try to maximise the authorised economic operator scheme.

Q138 Chair: Do you know or can you write to us to tell us how many people operate across that border now? Do you have an estimate of how many people will trade across that border?

Jon Thompson: We could try to give you an estimate, but obviously that data is slightly unreliable because of the free flow.

Q139 Chair: It is a moveable feast—I fully understand that. The scale is what we are interested in.

Jon Thompson: Obviously, the Government set out in the paper that they are trying to avoid any kind of infrastructure at all, but what that requires is at least a two-tier system: one where you have the trusted trader scheme and the second where you might seek some derogations for small traders, because the border is relatively fluid. What you do not want is a plumber or a milkman to be crossing the border, doing perfectly normal trade, and having to make customs declarations as they leave and enter the European Union. We are seeking some sort of derogation for those with a turnover lower than n to be negotiated, and to maximise out the authorised economic operators scheme and mutual recognition between us and the EU, at which point you are into the trusted trader scheme, self-assessment, and so on and so forth. That is a scenario where we, the UK, would not require any physical infrastructure at the border.

Q140 Chair: So you are absolutely confident that that will work. There is a lot of nervousness on both sides of the border—in the Republic, too.

Jon Thompson: We are doing our element, but clearly we do not lead on Northern Ireland.

Q141 Chair: I appreciate that. If you ever have the chance, you should travel that border and see how often you weave in and out. You will realise the challenge that your team are facing, as well as other parts of the Government.

Q142 Geoffrey Clifton-Brown: Just a simple question: how much flexibility have you built into CDS for future changes? We know that the EU has 42 free trade agreements at the moment, each of which has to be, and hopefully will be, reconfirmed. There will be other free trade agreements coming along, all of which will have different regimes, no doubt. Will CDS have sufficient flexibility to deal with all of that?

Jon Thompson: The straightforward answer is that currently it deals with EU FTAs, and therefore we have built in the assumption that there will be multiple, different FTAs in the future of CDS.

Q143 Geoffrey Clifton-Brown: The assumption is that they will remain the



HOUSE OF COMMONS

same, but supposing they do not? In any case, there will be future FTAs, so is there flexibility in the system to cope with that?

Jon Thompson: The straightforward answer to your question is yes.

Q144 **Chair:** I thank you very much for your time this afternoon. I am sure that we are not the only Committee that will return to the wider subject of customs and the border. As I said, we have a hearing planned on that very shortly, which we will welcome you back to, Mr Thompson. That will be your 26th appearance.

Jon Thompson: No—I am back on Monday week.

Q145 **Chair:** Yes, so it will be the 27th appearance—they are so frequent that I am losing count. We welcome you every time. Thank you for the candour. We will produce a Report in the next few weeks. The transcript will be up on the website in the next couple of days, as ever, so keep an eye open for that and obviously we will send you a copy, too.