

Public Accounts Committee

Oral evidence: Customs Declaration Service: Progress Review, HC 1398

Wednesday 11 July 2018

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Members present: Meg Hillier (Chair); Sir Geoffrey Clifton-Brown; Caroline Flint; Luke Graham; Gillian Keegan; Layla Moran; Anne Marie Morris; Bridget Phillipson.

Sir Amyas Morse, Comptroller and Auditor General, Adrian Jenner, Director of Parliamentary Relations, National Audit Office, and Leena Mathew, Director, NAO, and Richard Brown, Treasury Officer of Accounts, HM Treasury, were in attendance.

Questions 1-128

Witnesses

I: Jon Thompson, Chief Executive and Permanent Secretary, HMRC, Jim Harra, Deputy Chief Executive and Second Permanent Secretary, HMRC, and Kevin Franklin, Director, Customs Transformation, HMRC.

Written evidence from witnesses:

– [Add names of witnesses and hyperlink to submissions]



Report by the Comptroller and Auditor General

The Customs Declaration Service (HC 241)

Examination of witnesses

Witnesses: Jon Thompson, Jim Harra and Kevin Franklin.

Q1 Chair: Good afternoon and welcome to the Public Accounts Committee on Wednesday 11 July 2018. We are here to look at the progress of the customs declaration service, which is an important programme in getting Britain prepared for customs post Brexit. It will replace the CHIEF programme. We have looked at this a number of times before, so I will not go through all the background detail.

Our witnesses today are Jim Harra from HM Revenue and Customs. Your full title, Jim, which seems to change every time you come, is deputy chief executive and second permanent secretary at HMRC. Jon Thompson is chief executive and permanent secretary at HMRC. You all seem to have two titles. I don't know whether that is reflected in your productivity. We also have Kevin Franklin, who is director of customs transformation at HMRC: one of the 17 major projects that HMRC is dealing with.

Before we kick into the main session, Mr Thompson, there was a very big meeting at Chequers on Friday. The Prime Minister came out announcing a new approach to customs that she hopes to get through Europe. You keep reassuring us that things are going fine. Are you ready to deal with this new programme plan that has come out of Chequers?

Jon Thompson: Are we ready for whatever is going to be published tomorrow in the White Paper?

Q2 Chair: Yes. You must have had some conversations, one would hope, before it was agreed.

Jon Thompson: To be transparent, Jim was at Chequers and we have been fully involved in the development of the third option. We have to re-evaluate what exactly that means for existing programmes: not this so much, but definitely the border systems programme, which is referred to in the Report. Giving you assurances that it is ready is a bit difficult until we can be really clear and transparent with you about what exactly it means and what the timetable is.

Q3 Chair: But you have been involved in the preparation, so you have been helping to shape it. Do you think the Prime Minister has made an announcement that is deliverable?

Jon Thompson: Yes.

Q4 Chair: By March 2019?

Jon Thompson: I think you will have to wait until tomorrow. Sorry.

Q5 Chair: You can't announce what is in the White Paper. We just need a bit



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of reassurance. We have been talking about CDS and CHIEF for some time. We have talked about the border and preparedness for Brexit for some time. You keep reassuring us that things are on track. We have got the Report in front of us today, which tells us where the progress is and where the gaps and worries are, and yet there is a whole other bit of work for you to do that just popped up last weekend. This is on top of the 17 huge, major pieces of work that you are dealing with. That is among just the biggest issues. Will you be ready? Can you practically deliver on the Prime Minister's promise?

Jon Thompson: To be clear with you, for HMRC, reducing to one option from what is currently two would definitely be beneficial. If you remember, we were running with both the highly streamlined customs arrangement and the new customs partnership, and we had people running both of those, so the Government policy narrowing down to one option will to some extent allow us to streamline some of those programmes and concentrate resources.

Q6 **Chair:** What functionality will you need in different programmes and when will you need to have them ready by in order to deliver this third option?

Jon Thompson: I think you're doing really well at chipping away at asking me about Government policy that has not been announced.

Q7 **Chair:** Well, as far as we are concerned, it was announced last week, in principle.

Jon Thompson: To come back to what we came to talk about, you need a customs declaration service in whatever option is required for leaving the European Union. Over and above that, there are a range of other projects that you could need, depending on what the overall strategic approach is when the Government enter into the negotiations. The core programme that will change is the border systems programme, which is referred to in the Report. If you would like us to, we could go through and tell you what would be retained and what would not, using the table provided by the National Audit Office.

Q8 **Chair:** We will certainly get on to that. Just so I am clear, you are introducing upgrades to CDS, for example, that are quite tight to the point of actual take-up. What other upgrades to CDS or other systems will you have to now look at as a result of the announcement, of which the detail will be available tomorrow? Where will you have to make changes and how quickly can they kick in?

Jon Thompson: CDS will remain as it is, but it is figure 6 on page 20 of the Report. If you would like, Jim can run you down that table and tell you what we would need to retain and what we would not—

Chair: For the new Chequers announcement that will come out in detail.

Jon Thompson: And what we could stop work on, if that proceeded.

Q9 **Chair:** Mr Harra, that would be very helpful.



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Jim Harra: The new customs model involves enabling the UK to set its own tariffs and, in addition, to administer the EU's tariffs for goods that are entering the UK that are destined for the EU. That was a feature of one of the previous models. It will undoubtedly require some changes to CDS so that we can operate two tariffs. That is something that we had already been scoping.

The border systems programme is largely projects that were relevant for a highly streamlined customs arrangement or if there was no deal—obviously, as part of the Cabinet's decision last week, we will continue to plan for no deal—but the nature of some of them will change. One of the key ones that would still be required for the new customs model is that we would continue to wish to accede to the common transit convention. The UK has already applied to accede to that and we are going through the negotiations as we speak. That is relevant to the new model.

In addition, for tariffs and quotas, because the UK will be setting its own tariffs and trade policy, our system will need to be able to receive tariffs from the Department for International Trade, as well as, in the future, tariffs from the EU. That is a bit of a development of CDS that will need to be done once the existing schedule of releases have been landed.

Similarly, for trade statistics, we will continue to have a project for that, because some changes will be required to distinguish UK and EU trade, and because the EU will want to monitor us to the extent that—

Chair: Are we looking at figure 6?

Jim Harra: Yes, I have started at the bottom.

Caroline Flint: Can you just go down from the top?

Chair: I was just trying to work out where you were. We will need something for ro-ro ferries.

Jim Harra: Okay, I'm sorry. The first six of those in figure 6, starting with ro-ro and going down to safety and security, are not required for the new customs model if that is what is negotiated, because generally speaking, they relate to controls being introduced at the UK-EU border, and one of the features of the new model is that it would not involve introducing those controls, so those projects would not be needed for the new model. The bottom three, to some extent, will be required for the new model.

Q10 **Chair:** So you still have the other three to do and you will not know the final detail until—

Jim Harra: Until the negotiations.

Jon Thompson: Does that clarify the simplification?

Chair: It does. We will come back to that. I forgot to say that I need to ask Ms Keegan to declare an interest.

Gillian Keegan: I would like to declare an interest that my husband is a



senior exec for Fujitsu.

- Q11 Sir Geoffrey Clifton-Brown:** Mr Thompson, if you can answer this question, it would be great. If you cannot, I would be happy for you to write to the Committee. Could you give us an update on the EU infraction proceedings on the €2.7 billion of VAT that the EU claims was under-collected from various goods from China?

Jon Thompson: Again, I think Jim has been leading on that.

Jim Harra: The position remains as it was before we gave the previous updates, which is that the UK does not recognise the liability or the quantification of the supposed liability, because we believe that we took all reasonable steps to collect the duties that were due, and also because we do not believe that the methodology that has been used is valid for arriving at a figure of the duty at stake. That infraction has not been withdrawn by the EU, so it remains in place, but our position has not changed on it.

- Q12 Sir Geoffrey Clifton-Brown:** You have had the second letter now.

Jim Harra: Yes, engagement continues. That process still trundles on, but our position is unchanged from what we have said before.

- Q13 Anne Marie Morris:** Mr Franklin, you have a huge challenge here, because we are still in the world of unknowns. Although Mr Harra and Mr Thompson identify a simplification, because we have one option—plus, clearly, a WTO option—we still do not know what the EU will suggest. I am a bit curious as to why you are not still looking at what you might need to do to CDS, and indeed the legacy system, just in case any of those, or new variants, come back. How much flexibility do you really have, Mr Franklin? You really do not know what is going to happen.

Kevin Franklin: First, it is worth reminding ourselves of what the purposes of CDS were in the first place. The first is to replace an ageing system called CHIEF; the second is to make it compliant with the European Union customs code. Many if not all of the simplification measures from European Union legislation are being transferred into UK customs law. We still need to be compliant with that legislation and we still need to replace CHIEF, so in many respects, whatever happens in March 2019, we need to do this with CDS.

- Q14 Anne Marie Morris:** True, but what is your flexibility? How quickly can you react once you know what it is going to be?

Kevin Franklin: The technology that has been put in place for CDS gives us far more scope and agility when it comes to making a change. That is one of the reasons why we need to move from CHIEF to the CDS system anyway.

- Q15 Chair:** How far and how quickly?

Kevin Franklin: Changes in CHIEF that happen now can take hours; in CDS they will take minutes.



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Q16 Anne Marie Morris: So for the average change—you are better off specifying one than I am—how long would it take? Two days? For the average sort of change, whatever option we arrive at, how long will it take? It is not in minutes; it will be hours and days, won't it?

Jon Thompson: Perhaps a good example would be, let's say, that the UK decided to set its own set of tariffs. How long would that take? We believe the answer is seven hours.

Q17 Chair: Okay, but that is for you to practically do it. There is a policy decision that would have to be made and then delivered through.

Jon Thompson: Sorry. I thought we were answering the question about how flexible the systems were.

Q18 Chair: Absolutely, but winding back from that, if the Government makes a decision one day, how long is the running time until you can deliver the technical change you would need?

Jim Harra: Can I just check up on that? In terms of CDS being able to accept a UK tariff rather than an EU tariff, that project is already in train. It is part of the border systems programme and that is due to be delivered in time for 29 March next year, so that if the UK leaves the EU with no deal we can set up a UK tariff from that date. Under the new model, that would need to be amended, because if we negotiate so that we come out of the implementation period in December 2020 with the UK collecting either a UK tariff or an EU tariff, depending on the destination of the goods, there would be a different change required to CDS so it can have both those tariff sets sitting on it. That is something we have already scoped out, but it is not in delivery at this stage because there are still negotiations to be carried out—

Q19 Anne Marie Morris: But it will only be seven hours. You are saying seven hours, whichever way it is.

Jim Harra: To load a new tariff.

Q20 Anne Marie Morris: How much longer will it take for the system to operate? You have HMRC to be trained up and you have the customers to be trained up, because in a sense they are as confused as you are.

Jon Thompson: Again, it depends on what the change is, but this system works system to system; with a change in the tariff, once you put up the tariff it works automatically.

Q21 Chair: What about a more complicated one? Give us an example of something where it is a bit more complicated to change the system.

Jon Thompson: The more complicated scenario is the facilitated customs arrangement where, if you run two sets of tariffs, we need to build an entirely different tariffs system to run two alternative systems. That takes some considerable time.

Q22 Anne Marie Morris: How long is "some time"?



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Jim Harra: We have already scoped out a plan to deliver that by the end of the implementation period in December 2020, which involves both our system changes and—you are right—the changes that traders would need to make to their business processes. What happens at the moment is that they look at one tariff and decide which rate of tariff applies to their import; in future, they will have to decide which of two tariffs applies to their import, based on what they know about the destination of the import. There is a different set of business rules that they will need to follow.

Q23 **Anne Marie Morris:** But you are assuming we have the luxury of until 2020, and right now there are absolutely no guarantees about anything.

Jim Harra: No, we are not assuming that. If we leave with no deal, there will not be an EU tariff and a UK tariff; there will just be the UK tariff. The project to deliver that is already in train in the border systems programme and will be ready by March 2019, but if we were to move to the new model where you have two tariffs on the system, we have already scoped making that change for the end of December 2020.

Q24 **Sir Geoffrey Clifton-Brown:** The real crunch is if we get no deal, because the system has to work and the suppliers have to be compatible with it by 29 March. From this Report, we see that the last technical roll-out of CDS is not due until January. Is that going to give enough time between January and March to get the suppliers fully conversant with the new system and to get their systems compatible with it?

Jon Thompson: Probably not for all traders, to be up front about it, but perhaps I can refer you to figure 3, which is the NAO's assessment of the risks and an update of them.

Q25 **Sir Geoffrey Clifton-Brown:** Can you give us an update of the risks, because this seems to be the real crunch?

Jon Thompson: I will try to answer your question. The area where the NAO comments that we have accelerated arrangements is in relation to the full contingency—in other words, building CHIEF to handle a capacity of 300 million transactions a year or 100 million transactions a second. At the point when testing demonstrates that CHIEF can handle 300 million transactions, risk No. 5 on this list would clearly reduce, because you now have a full contingency in CHIEF. It also impacts on two other risks—the timetable and the stakeholder engagement. At the point at which you know that CHIEF can handle every transaction, the pressure on the timetable and the migration reduces significantly. Everyone does not have to be on by January, because you can run both systems concurrently. At that point, you have a capacity of 600 million, and the pressure to migrate reduces significantly. Does that make sense?

Q26 **Sir Geoffrey Clifton-Brown:** Absolutely, and that is really helpful. Going back to the previous hearing, and indeed this hearing, it all depends on when you can be absolutely certain that CHIEF will handle that extra work. When will we get to that point?



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Jon Thompson: We are in testing now, and I believe we will have the first results by the end of July for whether it can handle the 300 million. At that point, there is a bit of further work to be done, so I believe it is September, but Kevin may have to correct me on the September bit.

Kevin Franklin: It is September. The upgrade to CHIEF has already been built by Fujitsu. They are already claiming that it can cope with 300 million declarations, and I am sure that is absolutely right. We will now put it into our own test harness and test it for ourselves. We will make sure it is to the specification that is required to service our customers. As Mr Thompson said, the first assessment of that will be at the end of this month, but we will run four test iterations on it to evaluate it, and by the end of September we will have a very clear view of CHIEF's ability to cope with that degree of change.

Q27 **Chair:** So there is not very much room for slippage in either of your systems, is there? That is what the NAO concludes.

Jon Thompson: Correct. We would agree with the risk assessment in figure 3. We take a slightly different risk assessment, but we agree with the risks in figure 3. We are pointing out that, at the point at which you have got full contingency, it fairly significantly changes the overall risk matrix here. Some of the pressure on release 2, release 3 and the dates reduces. It is worth pointing out that we also have the option to run CHIEF for some considerable time beyond January 2019. Kevin can give you the exact details, but we think we can run it well into 2020. At that point, the whole January 2019 issue, frankly, becomes secondary, because you have a full operating CHIEF to the full capacity you need.

Q28 **Sir Geoffrey Clifton-Brown:** There are two important questions. First, are there any quirks in a no deal situation and WTO system that will require you to modify CHIEF? It is one thing getting it up to the capacity to do the transactions, but it is another thing to modify an old system.

Kevin Franklin: The way we have been designing CDS, it is compatible not only with the Union customs code but with World Customs Organisation standards and laws. Those are the things that govern the customs controls and the data elements that go into a customs declaration. We would have no issue with the World Trade Organisation rules either.

At the moment, CHIEF will accept customs declarations that meet the standards of the World Customs Organisation. To be absolutely transparent, what CHIEF does not do and will not do on 29 March 2019 is to have all the functionality that is demanded by the Union customs code. We have a window, in terms of the movement from CHIEF to CDS. Regardless of the implications of Brexit, there is a period of time to deliver this between 2017 and 2020 for imports, and 2023 for exports. CHIEF will still be compliant with the current rules, even after March 2019.



- Q29 Sir Geoffrey Clifton-Brown:** In the event of a no deal, there are going to be a whole of lot people—importers direct from the EU—that will have to be brought into one or other system. Do you think that you will have had sufficient engagement with them to make sure that their systems and knowledge will be compatible with one or other of the systems by 29 March 2019?

Jon Thompson: This is one of the key risks that is set out in figure 3. In a no-deal scenario, we have between 145,000 and 250,000 businesses that currently trade intra-EU. We know it is at least 145,000 because they are above the VAT threshold, and we have to make some estimate of the number of businesses that are trading intra-EU below the threshold. We advise Ministers that that is 100,000. That is a key group where we are not currently engaged in any kind of communications. The reason for that is that Ministers have been mindful that they need to balance engaging with potential new customers for a no-deal scenario against the ongoing negotiations with the European Union. In the light of Chequers, we have been asked to provide some further advice about what we would do—to ramp up, well, not ramp up—to start communicating with existing customers and potential new customers. We are in the middle of a dialogue with Ministers.

- Q30 Sir Geoffrey Clifton-Brown:** So is there a systemic risk that those customers might not be properly compatible with the system by 29 March?

Jon Thompson: Yes, because they are not currently customers at all.

- Q31 Sir Geoffrey Clifton-Brown:** Yes, there is a risk.

Jon Thompson: That is where you get to telling someone, “You now have to do customs declarations where you previously did not have to because we were members of the customs union.” That is where you get into the cost of it and so on.

- Q32 Sir Geoffrey Clifton-Brown:** Understood. So what are the implications if we cannot get all of those on the system by 29 March?

Jim Harra: First of all, in terms of system scaling, we aim to scale up CDS and CHIEF to be able to cope with the volumes of declarations that that group will produce and so that we have both the CDS system and the contingency in place able to deal with that. The key thing we need to do is make sure that those people are aware of their new obligations and how they can fulfil them. That is the work that Jon has described, where we are engaging with Ministers as part of the ramping up of planning for no deal. We will want to make sure that they can access the guidance that tells them what they need to do, that they have time to acquire software or an agent—whatever it is they require to enable them to fulfil their obligations—and that we make them aware of any new tariffs that they will have to pay as a result of us leaving with no deal.

- Q33 Chair:** Before I go back to Ms Morris, I want to ask Mr Franklin something. Mr Thompson said you agree with the agreed Report, but what is the thing that keeps you awake at night? What could go most



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wrong with this now? There is obviously no deal, which is huge and presumably keeps you awake, but is there anything else?

Kevin Franklin: I think we said this at the last hearing, but with system development of this size and shape, the integration of multiple technology components and making that work in a live environment will remain a risk until we have completed it. One of the things that gives me encouragement is that we have already integrated those technology components into a live environment, and we are already running performance testing on that. To date, we are not seeing major development issues. However, with the nature of this type of IT programme, there will always be things that will come up.

I think it is highlighted in the Report, and I am transparent about it, but we have had some issues with the access security we want to place on our cloud-based technology. We have had to put recovery plans in place to make sure we get through that. We have identified some gaps between the major component, which is the declaration management system that is the heart and soul of CDS—the core product—and what we want to do to maintain and enhance UK trade facilitations. We are having to work through those. The thing that can always pop up that we had not seen as a consequence of integration building is one thing.

The second thing is that I am confident about the ability to deal with 300 million declarations, because the infrastructure is already tested to do that. We now need to run that in a performance system to ensure that it provides the same sort of response times that we get currently and improves those.

Q34 **Chair:** So quite a lot, then?

Kevin Franklin: Yes. I don't sleep.

Jon Thompson: Can we answer your question? The thing that has not come out is that we have a core dependency—

Chair: You sleep well at night, I know, Mr Thompson.

Jon Thompson: Me? I've lost 35 lb this year, because of worrying about Brexit. The key dependency we have here is on IBM, the core contractor. The report refers obliquely to ongoing discussions with the contractor, without saying IBM, but I think it is appropriate that I can say that. We need IBM to stick to the timetable that they agreed to, which is then reflected in the timetable of the delivery of this project. That is a key dependency for us and we continue to have high-level conversations about keeping them accountable for their element of the delivery of this project. That is the thing that keeps me awake at night.

Q35 **Anne Marie Morris:** That is very interesting. What steps can you take to make sure that IBM get it right? What sorts of meetings and assurances do you have? What are you doing to make sure that this risk is minimised?



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Jon Thompson: I am sure that Kevin can tell you about the ongoing working practices, but we have accelerated this to the level of chief executive to chief executive, because this is a mission-critical project.

- Q36 **Anne Marie Morris:** Are there any financial penalties? Are the financial penalties on them sufficient to give them some good reason to meet this?

Kevin Franklin: I do not think the financial penalties in the contract that we have for this particular product are sufficient to do that. We want to be clear: IBM are doing their best. There is no doubt about that. We have IBM people on site with the development team in Southend. I am having regular checkpoint meetings with the senior executives. They are doing everything that they can, but we have found that there is some difficulty—they are finding some difficulty—in trying to close the gaps between the core product and the thing that we want to do in the UK around some of the trade facilitation measures, particularly on exports.

On imports, it is not an issue at this stage, but on exports—our release three—it is dependent on us closing those gaps. So we are collaborating. It would not help us to get into some contractual battle with IBM. We need to work in partnership with them and we are doing that, but the leverage that we are now applying is that we want to talk directly to the subcontractors Intrasoftware in Athens and we have the chief executive to chief executive exchange. Those are the sort of levers we are pulling.

- Q37 **Anne Marie Morris:** In terms of risk, on a scale of one to 10, where 10 is dreadful and one is zero, where would you rate it?

Kevin Franklin: Seriously, at the moment, at the stage of the discussions that we are having, it is probably four or five.

Jon Thompson: Can I link this conversation back to Sir Geoffrey's questions? Let us say, ultimately, that the third release is not in January and it moves back slightly, at the point that you have a fully operating chief. That matters, but not anywhere near as significantly as if you do not have a full contingency.

- Q38 **Anne Marie Morris:** Let's just look at this, because you are effectively saying that you have been given the heads-up, saying, "Go ahead. Go and talk to the customers, clients and users, and get them up to speed." However, what are you telling them? You do not know what it is they need to get up to speed with and you do not know what software you need to tell them to buy, because you do not know what is going to happen.

Jon Thompson: Sorry, just to be clear, I did not say that at all. I said that Ministers have asked us for some further advice about who we should communicate with and when, and what we should communicate. That is what we have been asked for in the light of Chequers.

- Q39 **Anne Marie Morris:** Okay. In which case, let me ask the question differently. Regardless of what the PM and her team have said to you, there is clearly an issue about your communication with these companies that will have to get themselves sorted and right now you do not know



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what it is you are telling them to do or what software needs to be installed to try to give them the support you need to, never mind the ones that are not getting any support at all. So it seems to me that you are between a rock and a hard place. You cannot do anything.

Jon Thompson: This scenario only arises in the case of no deal on day one.

Q40 **Anne Marie Morris:** But it might arise.

Jon Thompson: Yes, it might arise. Therefore, Ministers have asked us for some further advice. We will give them some advice and then they can make a decision, and then we can implement whatever action they—

Q41 **Anne Marie Morris:** Any idea how long all of this will take?

Jon Thompson: In the light of what the Prime Minister has said post Chequers, we have been asked to give some advice. We will give them some advice about how we would do it, how long it would take, when we would do it and who with.

Jim Harra: In terms of timings, clearly, the more time you give people and the way you communicate to make sure that they are aware and have time to prepare, the greater the likelihood that they will be ready. However, in terms of asking these EU-only traders to take action, our view is that at this point we would not require them to take any action. That would be later on. So if and when we communicate with them about the prospect of no deal, initially we would want to make them aware of the implications for them of no deal and direct them to where they can become familiar with what those implications may be and get prepared. Later, we would come back to them and say, "Here is what you need to start doing."

Q42 **Caroline Flint:** Presumably, if there is some sort of deal, in terms of timing, the transition period would come into play.

Jim Harra: Yes.

Q43 **Caroline Flint:** In the situation of a no deal, would there still be a transition possibility following a no-deal situation that would benefit both sides?

Jim Harra: Our no-deal planning is based on the UK leaving the EU on 29 March 2019 with no agreement, and therefore a UK-only customs system being applied. You are right that the more likely prospect is that there is a withdrawal agreement and therefore we go into that implementation period up to December 2020, at the end of which we will implement whatever has been negotiated. There must be a possibility that at the end of that you have no deal, but our no-deal planning is for March 2019.

Q44 **Chair:** Ms Flint was asking whether if you had no deal, there could still be negotiation that would be a slightly slower withdrawal. Can you be clear that there are no plans in place?

Jon Thompson: It's theoretically possible.



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- Q45 **Caroline Flint:** It is theoretically possible that if there was a no deal, you could say for argument's sake, for both the UK and the EU side, there is a six-month transition to the new arrangements for all the declarations.

Jim Harra: That would be for others to agree. We have to plan on the basis of a March 2019 exit.

- Q46 **Chair:** Can you give us an idea of how long it would take, from the point at which there was a decision on no deal or it was obvious there would be no deal, to get all those organisations and stakeholders up and ready? You have given some indication of what you would do practically, but how long would it take? If you had the six months that Ms Flint has floated, I am sure that would help, but how much time would you need in an ideal world?

Jim Harra: It is not an absolute thing; the shorter the time frame you give these people, the more of them will not be ready on the first day, and therefore the more will feel that their trade has been disrupted. Therefore, I would want the maximum amount of time I can possibly get to get them ready.

- Q47 **Caroline Flint:** What is the minimum amount of time you could get away with?

Jim Harra: In the autumn and winter of this year, if we are not telling them the actions that they need to take, you are going to get an increasingly disrupted day one.

- Q48 **Gillian Keegan:** I think you talked about EU-only traders—smaller ones. I get that the longer the period of time, the more chance they have got of getting compliant with the system. What are the implications of them not being compliant with the system? Is it just forgoing some revenue—not that that is a “just”—or do you or they have some liabilities? What is the implication of their not being ready to interface with CHIEF in this case?

Jim Harra: The obligation on them is that they make a declaration before their goods hit the border. That is both relevant to us in the case of imports into the UK and relevant to UK exports to the EU, because they will expect there to be a declaration and that they are ready to pay any liability that they may have if there is a tariff due. The key risk is that they will not do one or other of those things—they will fail to make the correct declaration or they will fail to make the payment.

From the UK's perspective, you are then into how you want to manage that compliance risk, and how you want to balance the way you manage that against keeping trade flowing into the UK. We would certainly want to educate people in that circumstance, to make sure that they know for the future what it is they need to do. We would want to collect any revenue that had not been accounted for. But certainly, in the early days, my aim would be to educate people and help them to comply, rather than to go in with a heavy hand on day one with enforcement.

- Q49 **Gillian Keegan:** Are there no WTO enforcement requirements on you?



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Jim Harra: The WTO expects all countries to operate customs controls on goods that move across their border. Clearly, we would do that.

Q50 **Gillian Keegan:** But we would not be doing that if it was not working.

Jon Thompson: But it might occur on the other side of the border. One of the key risks on the border is about how member states will operate controls with the UK. We talked about that before in this Committee. That is definitely one of the three big border issues.

Q51 **Anne Marie Morris:** Before we leave CDS specifically, we have got the delay and we have got therefore a system that is not going to be fully functional, and then we have got three separate update programmes. How critical are each of those?

Jim Harra: The three releases?

Q52 **Anne Marie Morris:** Yes, the three releases—August, September, etc. How much lack of capability are we going to have and how crucial is it going to be? If we only get to the first additional release, how vulnerable are we, given all the things that you have just talked about? Then, with the second release, how vulnerable are we?

Jim Harra: With the first release next month, we have got a very high level of confidence about landing that. That will give us the functionality that will cope with about 80% of all supplementary import declarations. The second release then covers the rest of the import declarations and the third release covers exports.

It would be possible to implement, for example, the two import releases and then, in the event that the export release was late, to continue using CHIEF for exports. That is not our plan; our plan is to bring it on time, but there are a range of contingencies around that.

Q53 **Anne Marie Morris:** So could you be looking at using both systems at the same time—one for imports, one for exports?

Jim Harra: That is actually part of our plan A—to dual-run both systems.

Kevin Franklin: And that was always part of our plan.

Q54 **Anne Marie Morris:** Your customers will have a real challenge, it seems to me, because that is adding complexity, isn't it, particularly for the ones you are not specifically supporting?

Kevin Franklin: We have to be very honest about this. The migration from CHIEF to CDS is a complex business, as was the migration from CHIEF's predecessor DEPS to CHIEF 25 years ago. So, there will be some disruption, not to international trade but to the business processes and procedures of intermediaries and the businesses.

However, we are putting quite a lot in place to hand-hold those organisations that need to migrate in a controlled migration way. We talk about these very big numbers, but in actual fact when you look at the number of declarants on CHIEF, it is 8,700 declarants. In 2017, there were



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only 4,000 declarants, because these are very intermediary-based businesses.

We can work with the 8,700, which will be a mixture of fast parcel operators, freight forwarders, importers and exporters, and so on, to look after the 140,000 existing users and you would expect the current intra-EU businesses to think about whether or not they might adopt a customs agent or go through an intermediary.

That is not to say we ignore the rest, because we have already started and we are running a targeted communication campaign to where we are allowed to—with the existing CHIEF users—and a whole range of things that we are doing on that. And we have appointed specific teams—business relation management teams—to hand-hold the controlled migration: 135 traders, who will go through releases 1 and 2 for imports, which covers off 80% of current declarations anyway, and for exporters as well.

So we are putting quite a lot in place to help and hand-hold the different communities as we go through this.

- Q55 **Anne Marie Morris:** My concern is that, although you may say it is 80%, one of the challenges for us—industrial strategy, increasing productivity—is export. That is the last piece of all this. And actually it is those smaller entrepreneurial businesses that are going to be key to our strength and growth. I am not entirely clear how they really are going to be able to help, because it is not about 20% in terms of value or volume. Most of that is going to be individual returns by an awful lot of different businesses.

Jon Thompson: I think we recognise that. We are trying to be realistic with you. We completely recognise that risk. We are being asked by Ministers to give some advice about how we would go about addressing that question; we are in the middle of that conversation.

There are two things that you are slightly missing on figure 1, which I think is a rather excellent way of setting it all out. One of them is the 8,700 intermediaries; the other is that the vast majority of businesses do not interact with this system. They buy some software—there are 57 software products in the market. They do not interact directly with us, so they would buy a software product—

- Q56 **Anne Marie Morris:** But these little businesses do not have an HR man and an IT man. I mean, they are on their own.

Jon Thompson: Yes, in which case they may well use an agent. This is a highly intermediary-rich environment, with tens of thousands of customs agents who will do all of this work for you.

Jim Harra: But you are right that in the case of EU-only traders, our research shows that they are largely small and medium-sized enterprises. Under the customs model that the Government have decided that they want to negotiate, there will be no additional burdens on them compared



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with today. However, if we were to leave with no deal and customs controls were introduced with the EU, then we would have to help those businesses to cope with a new set of obligations that they would have to comply with.

Q57 **Anne Marie Morris:** And do you have a contingency plan to do just that?

Jim Harra: Yes. So, we have—

Q58 **Anne Marie Morris:** Have you got the people employed? How are you going to physically do it?

Jim Harra: We have no-deal planning and, as John mentioned, part of that is advising Ministers about when and how to communicate with these people, and what messages to give them. At this stage, there is no certainty that they will be impacted at all, because if we reach a withdrawal agreement we will go into that implementation period, up to December 2020, where everything continues as now, as far as they are concerned. And if we negotiate the new model, everything will continue as now indefinitely. But the Government has decided that it wants to ramp up people's readiness for the eventuality of no deal, and that is what we are currently advising Ministers about how we could—

Q59 **Anne Marie Morris:** When do you need Ministers to make a decision by, so that you can act on this?

Jim Harra: As I said before, there is no particular date at which it has to stop, but in the autumn or winter time we definitely need to be telling people what they would need to do, to be ready for March 2019—

Chair: We will come back to the point on timetabling when we get back from the vote.

Sitting suspended.

On resuming—

Q60 **Anne Marie Morris:** Mr Harra, you were giving us a reply about SMEs and explaining how some of those—the very smallest businesses—would indeed be vulnerable. My concern is this. How much is it going to cost each of those very small businesses to go to the agency you described to buy the CD material? What are we exposing them to?

Jim Harra: We have given evidence before about the costs of completing customs declarations. That can be up to £55 per declaration. It depends on the nature of it, but that is the kind of money they can expect—

Q61 **Anne Marie Morris:** But what about buying software? There is the set-up bit in addition to the cost of doing the particular—

Jim Harra: The ongoing cost of complying with customs can be between £45 and £55 per declaration that you have to make. You would expect small businesses to try to take that into account in terms of the number of declarations that they make. However, the nature of the EU trade—certainly the static nature of it at the moment—is that there is a large



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number of small consignments and therefore there is potentially a quite high cost for them. In relation to one of the previous models, we estimated that the cost was between £12 billion and £13 billion a year for the UK as a whole, and the greater part of that would fall on these traders who, for the first time, are having to engage with customs.

- Q62 **Chair:** Ms Morris asked earlier about the various deadlines in place. You have all those coming in; you have the costs coming in for business. Mr Thompson, in your role as the border group, are you looking across Government at the costs to businesses of all these changes? There has been the bonfire of the regulations. This could be a phoenix rising from those ashes, couldn't it? I say that because you have customs declarations, buying software, getting the customs agents in—just that alone is an issue, but there must be other aspects of border control—

Jon Thompson: The cost of introducing customs declarations for the 200 million additional customs declarations is the dominant one, by some considerable margin. I think I have given evidence before that our estimate is £17 billion to £20 billion a year of additional administrative burdens on UK businesses for complying.

- Q63 **Chair:** Is there anything in the system that is going to try to mitigate that? I ask because just that aspect alone is a big burden.

Jon Thompson: It is difficult to see how you would mitigate it. To be really clear, we are talking about a scenario in which we leave the European Union with no deal, which is not the Government's preferred option. We are exploring day one, no deal. I have to put that on the record, because we need to be really clear about what we are saying. In that situation, our estimate is that you have 205 million additional customs declarations. Actually, the cost is between £20 and £55, depending on exactly what is being transported. There are broadly five groups of businesses, and it comes out at £17 billion to £20 billion a year. That is to comply with the Union customs code. Then there are whatever requirements we want, because now we are an independent nation under WTO rules. We would require customs declarations for imports and exports, because we need to know what is being traded. I think the broad estimate of £17 billion to £20 billion per year holds for day one, no deal.

- Q64 **Chair:** So there is a huge burden on businesses. In terms of the money you make, when you charge people to go through the system and they have to make a declaration, are you covering costs? Are you getting full cost recovery?

Jim Harra: We don't charge anyone for making a customs declaration.

- Q65 **Chair:** You are not going to be charging anyone, just to be clear.

Jim Harra: That is the commercial cost to them if they do it themselves or hire a freight forwarder or whoever else would do it for them. What they might have to pay on top of that to us is any tariff that becomes due.

- Q66 **Chair:** And VAT, potentially.



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Jim Harra: Yes. We have talked before about the cash-flow issue of changing the VAT rules. At the moment, when you import goods from the EU, we have postponed accounting for VAT, so there is no cash-flow disadvantage to a business for bringing those goods in. They basically account for VAT and get a deduction for it at the same time. If you import goods from the rest of the world, you have to pay that import VAT before you get your deduction. As a default, that would apply when the EU becomes part of the rest of the world, but the Chancellor announced in the Budget last autumn that he recognises that that is an issue, and that he wants to work to a resolution on that. There has been no announcement since then about what the decision will be.

Chair: So uncertainties are rife.

Jon Thompson: It is not a quantum problem; it is a time challenge.

- Q67 **Sir Geoffrey Clifton-Brown:** Can you repeat those figures for the compliance costs for these extra businesses that are coming on board? Did I hear correctly that you are talking about £17 billion to £20 billion?

Jon Thompson: Yes.

- Q68 **Sir Geoffrey Clifton-Brown:** To safeguard how many billion pounds-worth of tax?

Jim Harra: We currently collect about £28 billion of VAT a year, about £7 billion of excise and about £3.5 billion of customs duty. How much customs duty there will be in the future depends on what the UK's tariff policy is. Of course, there is now VAT on EU trade as well, which is not included in that £28 billion.

Jon Thompson: Again, if you refer to figure 1, the difference between the current 55 million declarations and the estimate of 255 million is because all of those businesses are currently on intra-EU trade, for which there is no paperwork. They now have to do customs declarations. The cost is between £20 and £55. We break that up into five parts—I can take you through the methodology—and it averages out at £32.50 per declaration. There are up to 56 fields in a customs declarations. For high-volume, automated businesses, the cost is at the lower end, and if you are a small business doing it manually, it is at the higher end.

- Q69 **Sir Geoffrey Clifton-Brown:** That is a huge burden on small businesses. Isn't it going to put a lot of small businesses out of business because they will simply be uncompetitive?

Jon Thompson: You are asking us to speculate, and I am just giving you the advice.

Chair: I think that goes beyond Mr Thompson's remit.

- Q70 **Sir Geoffrey Clifton-Brown:** Surely one of the fundamental principles of taxation is that the compliance costs should be economic. It doesn't sound to me like a compliance cost of £17 billion to £20 billion is an economic compliance cost for the amount of tax you are actually



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collecting. Is it a one-off cost?

Jon Thompson: No, it is annual.

Q71 **Sir Geoffrey Clifton-Brown:** Do you really think this is a sensible taxation system?

Jon Thompson: You are asking me what it costs, and I am giving you the advice we have given to Ministers. I can happily walk you through the calculation and the research that underpins it in considerable detail. There are three independent reports, and so on. I am very happy to do that. It is £17 billion to £20 billion a year, because you are moving from a frictionless, intra-EU customs union—

Q72 **Chair:** Mr Thompson, what we are dealing with is a decision the British people made, which is being implemented by Ministers. That is the challenge.

Jim Harra: In terms of being sensible, the Government has been clear that, in arriving at a new customs arrangement when we leave the customs union, they want to avoid those frictional costs. That is one of the key reasons for the model they have produced.

Q73 **Sir Geoffrey Clifton-Brown:** Have you given this advice clearly to Ministers?

Jon Thompson: Yes.

Sir Geoffrey Clifton-Brown: Because this is the first time I have heard these figures in the public domain.

Jon Thompson: I there was a point—when I first told the Treasury Committee—that it was fairly high up in the news.

Chair: We have been discussing slightly different figures today, but if we add them up I think they are much the same.

Q74 **Anne Marie Morris:** Could you be a bit more specific about what sort of help you will give these little businesses? The figures are not really on the internet. They might not even have the internet. Is the internet not where the figures need to be?

Jim Harra: These EU-only traders fall into two categories, in terms of our being able to reach them with help. We know who 145,000 of them are and where they live or do business, so we can engage with them directly to make them aware of what they would potentially need to do in the event of no deal. I must stress that this is all in the event of no deal.

Our aim would therefore be direct communications with them initially, to raise their awareness of the implications of no deal and to encourage them to think about those implications and to prepare. Later on, if it looked like no deal was going to happen, we would get back in touch with them to tell them what it is we think they actually need to do. In between, we would encourage them to register for an email news alert service, through which we would update them with any information as we got it.



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Jon mentioned another category of traders that are below that VAT threshold. We estimate that there could be as many as 100,000 of them, but we don't actually know their identities. They are 100,000 businesses out of the 5 million out there. We will be reliant on general communications to reach them and to make them aware, through their trade bodies or whatever. We cannot communicate with them directly because we don't know who they are.

- Q75 **Anne Marie Morris:** Okay. Will you use trade bodies, and if so, how small? Some of the national bodies don't reach the very smallest businesses, which just have their local town bodies.

Jim Harra: We are working through that at the moment. As Jon said, we are engaging with Ministers on the approach to that and how to zone in on those micros that will be affected, so that we can reach them. The 145,000 is easier. We have to achieve some kind of balance, rather than bothering 5 million businesses to try to find those 100,000. Going through intermediaries, whether accountants, trade bodies or *The Grocer* magazine or whatever their trade magazine is, will be the way we will initially try to reach them.

- Q76 **Anne Marie Morris:** How early are you going to engage? You talked about a series of engagements, but clearly you do not know, and neither do we until we get there, whether there will be no deal. How many days, weeks or months ahead of that will you make your first communication?

Jim Harra: If we engage with them now, it will be to raise their awareness of the risk of no deal.

- Q77 **Anne Marie Morris:** When you say now, do you mean now?

Jim Harra: Yes. If we communicate with them at this stage, it will be to raise their awareness of the possibility of no deal and the implications of that.

- Q78 **Anne Marie Morris:** But I am asking you when. You say "if I was doing it now". When will you do it?

Jon Thompson: To be clear, we will advise Ministers. We cannot tell you.

Jim Harra: I can't tell you that at the moment.

- Q79 **Anne Marie Morris:** What about staffing? You will need quite a lot of people to help with all of this lot. Do you have the budget for it? Do you have the people for it? When will you recruit them?

Jon Thompson: I have been reasonably clear that, in these various scenarios, we will need somewhere between 4,000 and 5,000 additional staff.

Anne Marie Morris: That is a lot.

Jon Thompson: We recruited 1,113 by the end of May. We have 1,570 offers of employment out, which will take us to 2,700, and we will continue to recruit en route to the 4,000 to 5,000.



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Q80 Anne Marie Morris: How confident are you that you will get all the recruits that you need on time.

Jon Thompson: Definitely. We have 4,000 people on a waiting list who would like to join HMRC.

Q81 Anne Marie Morris: Once you have employed them, you still have to train them. How long will that take?

Jon Thompson: That depends on what they will do. If they will work in the national customs hub, that will be shorter than if they will work on customer compliance, which is further downstream and is more complicated because it involves risk assessing information and deciding which businesses to do a compliance review of.

Q82 Anne Marie Morris: Will you be able to deliver the training on time?

Jon Thompson: Our estimate is that 3,000 people need to be trained—2,500 HMRC colleagues and 500 Border Force colleagues.

Q83 Anne Marie Morris: How long will it take you to do that?

Jon Thompson: Kevin, do you have any idea?

Kevin Franklin: It depends on the type of work they are doing. If a Border Force officer is engaged in intelligence, that will take longer than, say—

Q84 Anne Marie Morris: How long is longer?

Kevin Franklin: For Border Force to train an officer would take between six and 12 weeks.

Jon Thompson: The question you are really asking is, is this going to be an optimal system on 1 April 2019? The answer is, it is not. It will not be optimal, but from 2019, in the scenario that you are exploring of day one, no deal, we would continue to mature the system through 2019 and 2020—get more people and so on and so forth. We believe you would have a functioning border, but it would not be an optimal situation.

Anne Marie Morris: Right—

Jon Thompson: I think the three of us have been consistent about that on multiple occasions, including with you.

Jim Harra: I should add on the resourcing, that is resourcing of HMRC. Border Force is obviously critical to the implementation of the customs system. It is also slightly ahead of us in recruiting officers to add to their force at the border, so you need to bring those two together to see the total additional resources on customs.

Q85 Chair: You have given a number of caveats—you can't be sure it will be optimal on day one and all the rest of it—but if you were sitting here to make requests, what would you like from other bits of Government such as the Treasury? Put aside ministerial decisions, because we can't get into that here, what would make this deliver better? Is there anything



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outside your immediate control that could be done to make this work more smoothly?

Jon Thompson: We have excellent pan-Whitehall arrangements for working together and so on. I don't think that anything is required from another Government Department—

Q86 **Chair:** What about the Treasury? Will you open the door to bid for more funding, Mr Thompson?

Jon Thompson: Open a bid? Well, we have been given £260 million. Whether that is enough in the current year depends on how the policy eventually settles down.

The key issue that arises—*[Interruption.]* Sorry, I was going to say what the issue that you might run into is. You have got three objectives at the border: security, flow of trade and the raising of revenue. In the run-up to 1 April 2019 Ministers could, in extremis, make some decisions on which of those three objectives we might have to trade, but right now that balance of those three objectives exists, but the dynamic might change in 2019 under day one, no deal.

Q87 **Sir Geoffrey Clifton-Brown:** Mr Thompson, paragraph 1.12 indicates, if my maths is correct, that you need £342 million even without the £53 million from the border systems programme. Do you have those resources from Treasury?

Jon Thompson: Sorry, can you do that again?

Sir Geoffrey Clifton-Brown: If you add up those figures in paragraph 1.12 on page 15—270 plus 60 plus 12, so that is £342 million, separate from the £53 million from the border systems programme—is that money you have already been allocated from the Treasury, or is it a wish list?

Jon Thompson: The £270 million set out in figure 4 is a multi-year cost—so that is spread over several years all the way to 2022. At the minute, the way in which Brexit is being funded by the Treasury is with an annual allocation. So we have an allocation of £260 million for 2018-19, and there is a debate within HMRC about whether that is or is not sufficient for the current year, because there are obviously still ongoing policy considerations. For example, to go back to an earlier conversation, in various scenarios the border systems programme might get smaller, in which case the cost will go lower. For us, if we do everything that Ministers want, £260 million is insufficient, but there are plausible scenarios of policy changes over the next few months in which £260 million would be plenty.

Jim Harra: I should explain that the CDS programme was funded separately, in the 2015 spending review, because of course we were intending to do that programme before the referendum. The £260 million that we have been given for Brexit this year is on top of the allocation we got for CDS.

Q88 **Sir Geoffrey Clifton-Brown:** In the worst-case scenario, with the most



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complicated system, how short will you be?

Jon Thompson: In the current year?

Sir Geoffrey Clifton-Brown: Yes.

Jon Thompson: For Brexit?

Sir Geoffrey Clifton-Brown: Yes.

Jon Thompson: It could be as high as £70 million. If we did everything that is on the table, bearing in mind that the policy scenario continues to develop, we could be as much as £70 million out, but some policies are unlikely to occur.

Chair: The quicker decisions are made, the cheaper it is for the taxpayer.

Q89 **Anne Marie Morris:** We have touched on the border systems programme a bit, but we have not really drilled down. As far as I understand it, that is the area you have quite a lot of concern about. Could you perhaps just articulate clearly what the three biggest risks are in that area?

Jon Thompson: Rather brilliantly, Kevin is also the programme director for the border systems programme, so perhaps Kevin would like to answer the question.

Kevin Franklin: There are nine projects inside the border systems programme. They range from an uplift in capability to some internal systems through to some of the biggest areas that we are working on, which would be: what do we do at roll-on/roll-off ports, what do we do in Ireland and what do we do around community transit? Community transit is a significant simplification measure that is currently enjoyed by thousands of businesses. They are the three biggest areas.

Q90 **Anne Marie Morris:** Where have we got to with the ro-ro piece?

Kevin Franklin: In terms of a day one no deal, it would be another suboptimal solution, but we do have a suboptimal solution in so much that we would be taking customs declarations through CHIEF or CDS. What we wouldn't be able to do by that time is to tie that to the movement of the goods. To be able to do that, we need the deployment of some form of inventory system that enables us to link that. Our longer term plan is that we would be able to deploy an inventory-based solution at roll-on/roll-off ports, certainly by 2020.

Q91 **Chair:** Can you explain what that would look like?

Kevin Franklin: That was what I was just about to say. It depends on what it would look like and it depends on where we are in terms of the model that will evolve. It will also depend on the range of other actors in the supply chain that need to do work to do that. For example, community service providers are the organisations that run port systems and own and deploy inventory systems currently. If they were asked to do something similar at Dover, they would need a lead-in time—they have told me probably nine to 12 months—and there are other dependencies here. We



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have those same organisations working on other priorities. CDS is a good example. Of course, we need to take into account their ability to deliver against those timelines as well. Alignment tension among the various components is probably the biggest challenge that I have.

- Q92 **Anne Marie Morris:** How are you going to manage that challenge? How are you going to make those decisions about what you do when and where you spend the money you've got—or haven't got, as the case may be?

Kevin Franklin: We have already got an allocation of money. The border systems programme itself is all about systems that need to be ready in the event of a day one no-deal situation. We have an allocation of money for that already. Those projects are already in flight.

Jim Harra: To simplify, the issue is that there is no customs control at the moment on all of those roll-on/roll-off services. As things stand, they do not have any inventory systems in place. So if in a no-deal situation we start getting customs declarations on day one, an importer may give us a declaration but we are unable to link that to a particular lorry on a particular ferry. We need the ferry operators and the ports and the hauliers to implement inventory systems that enable us to connect the customs declaration that we receive to the movement of a vehicle with the goods on it. That will be for them to do. There is not very much of that that is actually done in government; it has to be done in the industry. We have shared with them the sort of technical specification of what it is that they will need to do in the event that that comes about. We did that in March. Since March, we have been engaging with them to make sure that they understand that technical specification and making sure that we understand its implications for them. We have now sent them a second iteration of that specification. We have shared with them all the technical detail that we can, but of course they continue to work under the uncertainty of whether any of it is going to be needed, because under the model that the Government wish to negotiate, none of it is required.

- Q93 **Anne Marie Morris:** At what point do you call stumps and say we are too close to going out with no deal and say, "Do it and put the programme in"?

Jim Harra: Our view is that it is already too late to have these inventory systems in place for March 2019 where they do not exist, which is why we would start on day one with a suboptimal system where we cannot link declarations easily with movements and we will try to manage that in a risk-based way. We would be talking about implementing improvements to that over time and the ports effectively being required to do that.

- Q94 **Anne Marie Morris:** But in terms of the ports and what they need to do, are you not going to tell them to make any change until and unless we get to D-day?

Jim Harra: At this point, I am not in a position to mandate them to do anything—



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Q95 **Anne Marie Morris:** But presumably you are talking to the Government?

Jim Harra: Sure, but there is no law in place saying that that is the customs model that they will have to operate and there is no certainty that it will be. It will cost them a lot—a considerable amount of money and a considerable amount of time—to do it. The point has already passed where that could be in place for March '19.

Q96 **Chair:** To be clear, D-day has already passed—well, the pre-planning deadline for D-day for a lot of this has already passed—so on day one no deal, there will have to be a leniency on the ports and others not being able to fully comply with customs, because it will not be physically possible to do the inventory checks and certain other checks—

Jim Harra: It will be possible for people to comply. We will have the ability for importers to make their declarations. It will be difficult for us and Border Force to police the compliance risks in relation to that in the way that we would like.

Q97 **Chair:** Forgive me, I cannot remember the exact rules, but if you are a port or a freight provider and goods are coming in illegally—just like with illegal migrants, you get fined for that if you are the lorry driver—is there not some sanction for facilitating goods coming in that are breaking customs rules?

Jim Harra: The obligation is on the importer to make the declaration and to pay any tariff. We can place administrative obligations on ports and carriers in terms of the facilities that they have to make available.

Q98 **Chair:** But you actually cannot do that now in time, because it would be unreasonable.

Jim Harra: We would acknowledge that when it comes to implementing inventory systems, there is not time for all the ports and operators to do that before March '19, and in any event, I do not have the ability to require them to do that at this point.

Q99 **Chair:** So we will potentially see goods coming through the border with no control and no checking—

Jim Harra: There will be controls in place.

Jon Thompson: To be really clear, that is the current situation. The question is, on day one—I am not sure whether we have debated this before—is there any more risk from French wine in April 2019 than there is now? It freely comes across the border now.

Q100 **Chair:** It is not the French wine coming through. It is what people might put in instead of the French wine, I suppose.

Jon Thompson: Sure, I understand that. The security arrangements, which I know you have some doubts about, would be the same. The question then is about how you trade those three objectives and whether you think the risk has changed at all. The Government do not.



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Q101 **Chair:** Okay, we have covered that, and I remember reading the transcript again about it only recently. Can I go back to the functionality upgrade dates that Ms Morris was talking about earlier—August, September and December? Mr Franklin, if everything goes well in August, you are on track for September and potentially December, but when will you know? Presumably you will not know that you have hit the September upgrade functionality until December, so you could have a delay as late as December on that third upgrade.

Kevin Franklin: Yes, that is a risk, there is no doubt about that. The acid test will be when we launch the first release. The system is due to be ready on 12 August and we will launch it on the 14th. It is an iterative process. That will take care of the majority of the technology platform that we will require for imports, so we will then be in a really good place to move relatively quickly to the second half of importer release too. The issue that we are working on at the moment is ensuring that we have sufficient functionality on the export side of things, and that is the major risk that I face.

Q102 **Chair:** Mr Harra, in April, you told us that the last release should go in during July, and you described that as broadly speaking, functionality complete, yet we are now talking about December for that last release.

Jim Harra: Sorry if I misled the Committee then; I meant to refer to the build of the system. The infrastructure for CDS will be completed not in August but this month. But you are right that the software drops are being phased after that.

Q103 **Chair:** So the functionality will not be complete until the software drops are in place.

Jim Harra: Yes, so the system will be built and the infrastructure will be there ready to receive the first software and then for the first traders to migrate.

Q104 **Chair:** Mr Franklin, one of the ways that any Government Department delivers projects on time, if there is a challenge, is to reduce the scope. Have you had to reduce the scope of anything since we started talking to you about this?

Kevin Franklin: No, we have not reduced the scope. When we last spoke, we were talking about the fact that we had set out a transition strategy, but the Report said, and we agreed, that we still needed to develop a transition plan. There will be three influencing factors in the evolution of that plan. One is the trade consultation that we have been through. Because this is such a diverse and complex industry, there are different communities and they are at a different state of trade readiness. We need to acknowledge and accommodate that. The approach of the three releases has allowed those companies, software developers and CSPs to look at how they can do that within their own technical and business capabilities. That was a very strong representation from the industry that we have accepted.



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The second influencing factor is something that I have already mentioned. We have had some technology difficulties in getting access to the public cloud, which is the platform on which we build that. We have recovered that now to preserve the August timeline, but we realised that we would need to defer some of that development work to enable us to preserve that August timeline, and that is what we have done. It does not reduce the scope in terms of our business case and what we wanted to do.

Q105 Chair: It delayed the breadth of service, effectively. Can you tell us what has been delayed as a result of that?

Kevin Franklin: Yes. In release 1, it is all about supplementary declarations, which are the declarations that are made on a monthly basis, or whatever it might be. There are so many different types of customs declarations, but this is something that does not affect release of goods at the border. It is something that would enable the goods to go into a warehouse, for example.

When you look at the data standards, the data model and the infrastructure that needs to be put in place for a supplementary declaration, it is very similar to what you then need to put in place for a frontier declaration. In release 2, when we have implemented all of that by November, that will then bring on board the frontier declaration. You effectively have supplementary declarations that allow goods to go into warehouses, temporary storage, and some of these other simplification measures. By the time we get to release 2, that brings on the frontier declarations as well, and that brings the CSPs into play.

Q106 Chair: How long can CHIEF continue to run? It is more than 20 years old. Are you confident that it could keep going if necessary?

Kevin Franklin: Yes. There is no evidence to suggest—we do not have lots of unplanned outage, for example, on the current system. One of the reasons we want to change it is because the technology is not as flexible or nimble.

Chair: Yes, we know it is old.

Kevin Franklin: We have extended the contract that we have with Fujitsu to March 2020. There are always options to extend it further if we need to. We would not want to continue to run with CHIEF for too long because that would just be expensive and not helpful to those traders who are using the systems anyway, but we have already extended the contract, as I say, to March 2020, so theoretically that gives us a window to dual-run in that period.

Q107 Chair: And you could extend it beyond that, but obviously at a cost?

Kevin Franklin: Yes, we could.

Q108 Chair: I can't remember what the costs were. I think there were some figures on the cost of extending it. What is the figure? What would it cost to extend it by, say, another year, and would it be sensible to do it a year at a time? Presumably there would be a benefit if you were to extend it



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for a longer period, and maintain the maintenance.

Kevin Franklin: I don't have the figure in terms of what the cost of extension would be.

Chair: If you've got it, it would be very helpful to have it.

Jim Harra: I should also say on CHIEF's resilience that as part of the contingency planning we have bought brand-new infrastructure for CHIEF and we will move the live service on to that infrastructure in the autumn.

Chair: That's bits of computer equipment.

Jim Harra: Correct. They will be new, and that therefore helps with the resilience of the system.

Q109 **Chair:** Do you know what that has cost?

Jim Harra: Yes. That is part of the Brexit costs that are in the NAO Report. They are all part of that £53 million.

Chair: So they are all part of that £53 million.

Q110 **Anne Marie Morris:** When I asked you what the challenges were with regard to the border piece, you said that Ireland was the second one. What will you do in terms of ensuring that, if there is no deal, we do not have a hard border, but we recognise that we are out?

Jim Harra: Everything we have talked about in terms of no deal—all those extra customs declarations and the potential for checks—applies to GB-EU trade and would also apply to Northern Ireland-EU trade that is not using the land border, but the Government are committed that at the land border they do not want to require the vast majority of traders to make customs declarations or be subject to any routine checks or controls related to the border. That is built into that day one plan, but it does involve us creating some bespoke systems for Northern Ireland traders as part of the border systems programme so that we are able to support them to operate a different system from the rest of the UK's traders in relation to that land border trade—in essence to enable them to identify themselves as international traders to whom the rules should not apply. That is a brand new system that we need to create.

Q111 **Anne Marie Morris:** So that has not been created yet.

Jim Harra: No, that is part of the border systems programme. It is in train to be ready in March '19 to accommodate whatever day one plan we put in specifically for Northern Ireland-Ireland land border trade.

Q112 **Anne Marie Morris:** Has it been fully specced, and is somebody actually working on its development now?

Kevin Franklin: In terms of what we want to do for day one, yes. In terms of what Mr Harra has just laid out, we have a project team that is developing that solution.

Q113 **Anne Marie Morris:** And therefore you would expect there to be no risk

that it will not be functional on day one, D-day, or whatever.

Kevin Franklin: There are always risks to all these—

Q114 **Anne Marie Morris:** How big is the risk? Can you quantify it?

Kevin Franklin: I am not sure that I would be able to quantify it. Part of the solution will be a customs declaration system. We will have a customs declaration system in place. Part of the solution will be a registration service. That is already being built as we speak. I am confident that we could have the appropriate solution in place to support the policy that has just been laid out by Mr Harra by March 2019.

Q115 **Gillian Keegan:** Jim, you said something about having a different land border system in Ireland in this scenario. Does that create incentives for more traders to come through that route as opposed to other routes, and can you track or monitor that in any way?

Jim Harra: The aim that the Government has described in relation to even a negotiated solution where customs controls are reintroduced between the UK and the EU is that low-value trade on the island of Ireland would be regarded as not really international trade; it would be regarded as trade in a local economy. There would be some fiscal risk around that, but it is very small—in economic terms, it is not a threat to the integrity of the UK or the EU. But of course we would want to monitor that that was being used by the people for whom it was intended, not by any other—

Q116 **Chair:** So farmers transporting the odd cow or sheep across the border is all right. Is that what you're saying?

Jim Harra: The example I always give is if a plumber in Newry goes across to Dundalk to fix someone's bathroom with a bit of copper piping, I don't want him to have to make a customs declaration for his copper piping going across the border. But—I don't want to pick a poor city in the UK—if someone in a city in England thinks, "I'm going to move several thousand tonnes of copper over there," we will definitely want to make sure that does not happen. They are not the people who are supposed to be accessing that, so we will want to manage the risks. We are already used to operating cross-border VAT and excise rules in Ireland, and we can do that and manage the risks without any border checks or border controls.

Q117 **Gillian Keegan:** I assume these transaction costs we have talked about are equal on the other side of the border, so they will be incurred by small suppliers in other European countries—

Jon Thompson: The numbers we gave you actually split, so the £17 billion to £20 billion is both sides of the transaction.

Q118 **Gillian Keegan:** Okay, so we wouldn't actually pick up all of that bill.

Jon Thompson: Half would be on the UK economy and half would be on the EU.

Q119 **Gillian Keegan:** Does that create an incentive for some of those SMEs to



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try to avoid some of those costs by coming through the Irish route?

Jim Harra: That would be a risk that we would need to manage. We believe that you can create a system whereby only Irish small business can access this exemption, and that will apply only to low-value trade. For any more significant trade that crosses that border, normal customs declarations and payment of any tariffs would apply.

Q120 **Gillian Keegan:** Yes, but we have already established that you would not have any enforcement for nine or 12 months.

Jim Harra: We would certainly wish to collect that revenue. What the Government has committed to is that it will not use routine border controls at the land border in order to do that.

Chair: It is a very interesting sentence that includes both those statements. I appreciate that it is not entirely your decision and that Ministers have to make those.

Q121 **Sir Geoffrey Clifton-Brown:** Mr Thompson, last time you told us: "We know what the next steps are, but there remain four risks in relation to the project." Specifically, you mentioned "how the system integrates with HMRC's other systems, most notably accounting and finance". Can you tell us how that is progressing, and what the problems are?

Jon Thompson: I am sure Kevin can give a bit more detail. I believe that we fixed the finance systems challenge that is referred to in the Report. We would ideally like it to integrate with what is now called the enterprise tax management platform, but we found a different way of fixing that particular problem. There are some other integration challenges, but I am sure Kevin can tell you what they are.

Kevin Franklin: We have fixed that finance problem inasmuch as we are using the existing accounting system, called CECAS. So from a CDS perspective, as long as we can account for the money collected, and account for the money, it does not matter; but we will move to the enterprise tax management platform at a later date. So that integration of risk is not there. In terms of the integration of technology components we put them into a live environment and we are putting messages through that, and that is working. That also includes the interfaces with some other legacy systems. So for risk, for example, we have developed a solution that works together with the declaration management service. Much of the integration is contained within CDS itself. So long as we have got the 18 functional components and eight core products integrated and working, we are okay.

Q122 **Sir Geoffrey Clifton-Brown:** So at paragraph 2.5, in relation to that CECAS, it says, "HMRC is still determining what work is required to integrate CDS with CECAS." Has that work been done, or not?

Kevin Franklin: Yes, that work has been done. When CDS processes a customs declaration, the accounting side of it will be done through CECAS until such time as the enterprise tax management platform is ready, and then we will switch that. One of the advantages of the technology that we

are deploying in CDS is that that will be done in the back office functions. It will not be visible to the trade. Then we can switch that relatively quickly.

Q123 Sir Geoffrey Clifton-Brown: That is in your seven-hour category of switch, is it? You said at the beginning of this hearing that these back office functions could be done in seven hours.

Jon Thompson: No, I said a tariff upload could be done in seven hours.

Q124 Chair: Exactly, so how long would a change like this take?

Kevin Franklin: I don't know; I couldn't put a precise time on it.

Q125 Chair: Hours, days?

Kevin Franklin: No, we are talking days.

Jon Thompson: Can we just be transparent with you about the architecture here? One of the challenges of HMRC is there are 317 different IT systems. The enterprise tax management platform is an SAP platform. The core architecture that we are trying to devise is to consolidate as many systems as it can on to SAP. In an ideal world, as per para 2.5, we would link CDS directly into the enterprise tax management platform; but in the interim we have a functioning option to link it to CECAS. So that will work. It is not optimal and in due course we will migrate from CECAS to the SAP programme.

Q126 Chair: You have got huge IT projects going on across HMRC anyway. You have got this. What is the biggest IT risk, then? Does this have an impact on some of those other IT projects, because you are having to focus so much attention on getting this right on day one? I know you have got other priorities on day one, too, but in terms of IT integration.

Jon Thompson: This is the biggest technology project we currently have. As you can see, it is £270 million. It is a multi-year project and it is absolutely fundamental to our business.

Q127 Chair: You have got your other internal thing; you have got your customer service stuff. That is a big IT challenge.

Jon Thompson: We do have a wide range and, as you know, we have been through an extensive prioritisation process; and in tomorrow's annual report and accounts the NAO comment fairly extensively on that process and what it is that we have had to stop or defer in order to find the capacity and capability necessary to make sure that we can secure this.

Q128 Chair: So it will all be published tomorrow—

Jon Thompson: I think there is a fairly extensive section—

Chair: We have not seen that yet because it is being published tomorrow.

Gillian Keegan: Two big publications tomorrow.



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Chair: Yes, the White Paper and your annual report and accounts. The PAC will be burning the midnight oil as we read these exciting documents. Thank you very much indeed for your time, gentlemen. Obviously we wish this well, but we are quite staggered, as I think you have picked up from the Committee, about the additional burdens on business, potentially. Almost whatever happens there is going to be a burden, so I think that has been noted. Our Report on what we do with this will be coming out, not until after the summer, but thank you very much for your time. A transcript, as ever, will be up on the website in the next couple of days, and we look forward to seeing you again on 5 September, I think.

Jon Thompson: Sorry?

Chair: Well, 5 or 12 September, I think.

Jon Thompson: Okay, well that is news to me.

Chair: We are giving you early notice—there you go. If you have not been notified yet, you will be very soon.