HOUSE OF COMMONS

Exiting the European Union Committee

Oral evidence: The progress of the UK's negotiations on EU withdrawal, HC 372

Wednesday 17 October 2018

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Watch the meeting

Members present: Hilary Benn (Chair); Joanna Cherry; Sir Christopher Chope; Stephen Crabb; Mr Jonathan Djanogly; Wera Hobhouse; Richard Graham; Peter Grant; Andrea Jenkyns; Stephen Kinnock; Jeremy Lefroy; Seema Malhotra; Mr Pat McFadden; Mr Jacob Rees-Mogg; Emma Reynolds; Stephen Timms; Hywel Williams; Sammy Wilson.

Questions 2848 - 2983

Witnesses

I: Jon Thompson, Chief Executive and Permanent Secretary, HM Revenue and Customs; Bernadette Kelly, Permanent Secretary, Department for Transport; Sir Chris Wormald, Permanent Secretary, Department of Health; Sir Ian Cheshire, Government Lead Non-Executive Director, Cabinet Office.

Examination of witnesses

Witnesses: Jon Thompson, Bernadette Kelly, Sir Chris Wormald and Sir Ian Cheshire.

Q2848 **Chair:** Good morning. On behalf of the Committee, can I welcome our panel of witnesses this morning? Sir Ian Cheshire, Government lead non-executive director, Jon Thompson, First Permanent Secretary and chief executive of HMRC, Bernadette Kelly, Permanent Secretary of the Department for Transport, and Sir Chris Wormald, Permanent Secretary at the Department of Health and Social Care, we are very grateful to you for coming this morning.

As ever with the Brexit Select Committee—indeed all select committees—we have many questions to put to you. You are a large panel, so we would be very grateful for as succinct answers as possible to enable us to cover the ground. We are aware, Sir Ian, that you need to leave at about 11.00. Do not worry; that is fine. If you just slip out, we understand. It is good of you to make the time available this morning.

Can I begin by asking you each of you briefly to answer this question? I want you to focus on the impact on people of a no-deal outcome, because we will get into process, structure, money and things like that. What is it that keeps you awake at night worrying about what might be the effect of a no-deal outcome on people?

Sir Chris Wormald: Our issues in health are actually the same issues for deal and no deal. We have three issues that are considerably larger than all others. Those three are securing the supply of medicines, workforce questions and reciprocal healthcare arrangements with the EU 27. Those are the three things that keep me awake on this subject.

Q2849 **Chair:** You said the same for deal or no deal.

Sir Chris Wormald: Those are both of the themes we are negotiating about as a part of the withdrawal agreement and other agreements, and would be the themes that in a no-deal situation we would be needing to mitigate. We do not have a different list between the two. Those are the big three things on which we relate to the Union. We are possibly a little different from other Departments in that we have a small number of really quite big issues, with the vast majority of health questions, which are of course common to every western economy, the same regardless of whether we are in the European Union or not. We are very clear that those are our three big questions.

Q2850 **Chair:** Are you aware of any indication that the EU 27 have given—taking the EHIC card, for instance—about what position they might adopt towards that in the event of no deal?

Sir Chris Wormald: Not in the event of no deal. We have had very good discussions about how all this would work in a deal. In general—and I will probably say this several times to the Committee—health has not been a huge issue of contention in our dealings with the European Union. I think most countries—and I hope this would continue—see it as their responsibility to ensure that vulnerable people are catered for regardless of the outcome. Most people have been in conversations from that starting point, which is I am sure why most of these issues have not been hugely contentious. Most of our issues are practical ones.

Q2851 **Chair:** It is not possible at this stage to say to people here in the UK, if you go on holiday after 1 April and there is no deal, and you get in a car accident and find yourself in a French hospital, how it is going to work if you have no travel insurance to pay for the cost of the medical treatment if the UK decides that your EHIC card is no longer valid.

Sir Chris Wormald: No, it is not possible to say, though obviously it will be clear before you go on holiday whether the situation is exactly the same as if you are going on holiday in the United States, where you traditionally take out travel insurance, or whether there is some subsequent arrangement. That I am sure would be clear before we left, but what that would be you could not say now.

Q2852 **Chair:** What about citizens who might decide to go on holiday without any travel insurance? Have you done any contingency planning on having to bring people home if other hospitals say, "We have stabilised the patient but that is all we are going to do"?

Sir Chris Wormald: No, not at this time. As I say, it will be very clear to people, in exactly the same way as if you travel to the United States, what you need to do, which will either be a successor to an EHIC scheme or you will be making private arrangements. That will be clear before we depart.

Q2853 **Chair:** Are you confident that the supply of essential medicines will be maintained in the event of no deal?

Sir Chris Wormald: I never use words like "confident". We have appropriate contingencies in place, as I am sure you have picked up. We have asked the pharmaceutical industry to create a buffer stock or other appropriate arrangements for if there is short-term disruption at the border. We are working with pharmaceuticals companies on all that right now. We are pleased with their response, but it is a very complex market and supply chain. There will be things we can do in advance such as buffer stocks, which we are doing.

No one can really predict exactly what would happen. There will be decisions we would have to make along the way. We are confident that we are putting in place all the correct mitigations, but in an incredibly complex supply chain it of course remains very challenging. I should say it is quite challenging in normal circumstances: there are always medicines that we are worried about at any given time. We are currently dealing with, as I suspect you will have noticed, a world shortage around EpiPens. That is nothing to do with exiting the Union. As I say, it is a very complex set of supply chains. We are doing the right mitigations, but it remains extremely difficult.

Q2854 **Chair:** Are you able to give an assurance to patients that nothing that transpires as a result of a no-deal Brexit will prevent them from getting the medicines that they require?

Sir Chris Wormald: I never do this regardless of exiting the Union. We put in the right mitigations and contingencies.

Q2855 **Chair:** But you are not able to give that assurance.

Sir Chris Wormald: As I say, I do not do it outside of this. I am asked this question a lot by committees, and in a business as complex as health, we do not issue assurances and guarantees. Nobody can.

Q2856 **Chair:** That is very clear; thank you so much. Ms Kelly, what worries you about what might happen to people?

Bernadette Kelly: There are probably four key things that cover the transport arena. Probably the first two bear on citizens quite directly; the second two are perhaps more on businesses, though of course those businesses employ people. I would categorise them as, first, ensuring that there is continuity of travel for people. This is of course equally true under no-deal and deal scenarios, as Mr Wormald has indicated. Whether it is by air, road or rail, we want to ensure there is not disruption to travel either for citizens or businesses. We want to minimise any burdens that citizens may bear as a result of leaving the EU. For example, in the area of driving permits, et cetera, we are keen to ensure that additional burdens are not placed on citizens unnecessarily.

The other two areas I would point to that are very important for the transport sector but probably bear less directly on members of the public would be around ensuring that we have continuity of approvals, standards and licensing in areas like vehicle type approvals, aviation security and maritime security. These are very important to the transport sector and to the economy.

Finally, we are of course, on a contingency basis, making sure that there are arrangements in place to deal with any traffic disruption that could occur, particularly around Dover and Kent, as a consequence of a no-deal Brexit—or indeed for other reasons, actually. We are putting those in place. We have 17 work streams, so obviously the totality of my Department's work is a lot more complicated than that, but if I were grouping them under themes, those would be the four areas that we are working extremely hard to ensure we have sensible arrangements in place to cover.

Q2857 **Chair:** That is very helpful. Can I take the last of those? Those contingency plans are looking at what you do if there are queues of lorries. As I understand the Government's position, it is that in the event of a no-deal Brexit, the Government would not be planning to do additional checks on lorries arriving from the continent. What we do not know is what approach the French, Belgian and other authorities would take to lorries leaving the UK heading the other way. Eventually, if there were queues in Calais, there would be a backing up of lorries. Is that what you are particularly concerned about?

Bernadette Kelly: This is partly a question about border control. Obviously Mr Thompson will have more to say than I, but the arrangements that my Department is making are in relation to disruption that might lead to a backing up of lorries on the UK side of the border. Clearly that is all that we can ourselves prepare for and control, and so that is what my Department's preparations are focused on. As you say, we do not control what the French may decide to do by way of checks on their side of the border. As I say, that is as much to do with border checks as to do with traffic disruption. It is possibly a question for Mr Thompson.

Q2858 **Chair:** That presumably includes very practical arrangements. Philip Rycroft said you would be the one who would answer this question. Can you confirm that the Government have signed a contract with providers of portable loos in case there are long queues of lorry drivers?

Bernadette Kelly: I am not sure I can confirm that the exact contract is in place. I can confirm that there are advanced plans for dealing with lorries on the M20, M26 and, if needed, Manston Airport. Obviously, as part of that, we would want to ensure that the necessary arrangements are in place for portaloos as well.

Q2859 **Chair:** When you say that you cannot confirm that the contract is signed, is that because you do not want to tell the Committee that one has been signed, or you do not know?

Bernadette Kelly: It is because I do not know for sure whether a contract has been signed at this point.

Q2860 **Chair:** It was reported that it has been.

Bernadette Kelly: In which case that may well be true.

Q2861 **Chair:** To avoid my calling another member of your Department who does know the answer to come before the Committee, it would be very helpful if you could just confirm that. It is indicative of the degree of planning that is taking place.

Bernadette Kelly: I will write you a note. By the way, I would just say on this that we do have experience of dealing with this and working with local partners on how we are going to do it, including for portaloos. This is not a particularly unusual or difficult thing to be arranged.

Q2862 **Chair:** On aviation quickly, before I turn to Mr Thompson, the technical notices that have been published say that there are various permissions that need to be got and we are not sure how quickly and so on. Do you expect that on 1 April—a particularly apposite date if we get to that point and there is no deal—passengers who have booked to fly from the UK to an EU country or within the EU on a UK airline will be able to do that?

Bernadette Kelly: I do expect that they will be able to do that. I would just say there is a long set of arguments as to why we have a very strong expectation that that will occur. There is a very strong mutual interest in the EU in ensuring that people can fly to and from the UK. The Article 50 taskforce has itself indicated that in this area it would consider a bare-bones agreement would be appropriate to ensure the continuity of flights. Sir Chris is reluctant to use the word "confident", but we do expect that people will be able to fly. We have set out in technical notices the contingency arrangements that would apply in the extremely unlikely scenario that is not the case, but that is not my expectation; I expect people to be able to fly.

Q2863 **Chair:** That is very helpful. Mr Thompson, what do you worry about in the event of no deal?

Jon Thompson: You asked about people.

Chair: The impact on people, yes.

Jon Thompson: Clearly our focus is very much mostly on business customers.

Chair: I include businesses among the definition of people.

Jon Thompson: Our biggest concern about business customers is about readiness and awareness for day one of no deal, for three reasons. The first is because there is ongoing policy uncertainty about whether we are going to get a deal or not, and whether therefore they need to do something or not. The outcome of the White Paper fundamentally affects the economy very differently than day one of no deal, and I can expand on that if you want me to.

The second reason is that there has been limited engagement with the 145,000 intra-EU traders. We have written to all of them. We said, "We are making you aware, but you do not need to do anything at the moment". We believe there is a further 100,000 intra-EU traders who we are not aware of because they do not need in any way to tell us that they are conducting intra-EU trade.

Q2864 **Chair:** Have you had many responses to that letter or email that you have sent, saying, "How would I find out what I would need to do if we end up with no deal? What is this form I would have to fill in that I have never had to fill in before?"

Jon Thompson: Almost none, surprisingly. We anticipated that between 6% and 10% would contact us, and it has been less than 1%.

Q2865 **Chair:** You have no idea whether that is because they have already worked out what it is they will have to do, or they are hoping that it does not happen.

Jon Thompson: It could be either of those.

Q2866 **Chair:** It could. You are not able to make an assessment, obviously, as to the degree of preparedness on their part to cope with what would be required.

Jon Thompson: Our assessment is that this is a red-rated risk. There are two others that I guess you might want to get to at some other point, but that is one of our three red-rated risks. It is worth at least one of us recording that no deal is not the Government's preferred outcome of this process. Customers being able to do that is clearly a significant issue.

Q2867 **Chair:** That is very helpful. Sir Ian, what is your point of view?

Sir Ian Cheshire: The Cabinet Office and network of NEDs have been talking about preparedness since the referendum result. This has been a theme of the last two years. The NED community has been very actively involved. In terms of specifically answering your question, Chair, the impact on people is generally difficult to predict at this moment, because even in the no-deal scenario there will still be reactions from the other side, as it were. This is precisely your point about Calais, but it goes in all other areas: until you know what may be a mixture of bare-bones, bilats and various other arrangements made, it genuinely is very difficult to predict.

What we can say is that once we start seeing that pattern emerge and we know where the issue list is, then you can move quite quickly to start saying, "What can we do from our end?" This is not us—either the Government, the civil service or anyone else—saying singlehandedly we will be able to work this out. We have to see the shape of the reaction as well as the no deal. There is a very long list of areas, and a good understanding, from what I have seen from the Cabinet Office supervision of this, of where the issues will arise and therefore where we prioritise. We will have to react very quickly once we start seeing the shape of those other actions.

Q2868 **Chair:** Incidentally, Mr Thompson referred to three red areas, one that you spoke about. Do you happen to know how many reds there are across all of the Departments?

Sir Ian Cheshire: There is a fairly spectacularly long list of risks.

Q2869 **Chair:** Do you know how many of them are red, if they all have the same colour coding system?

Sir Ian Cheshire: They do not. This is one of the aspects of departmental governance. There is a departmental assignment of rating. There is the network of audit committees, which are typically chaired by a NED. We do see that, and the network does meet to discuss those.

Q2870 **Chair:** If they do not have a common system for rating, does it not make it rather difficult for those overseeing the process to work out what they should be worried about in supervising what the Departments are up to?

Sir Ian Cheshire: It is very much the decision on the rating in the Department and the conversation at the relevant Department board. That is entirely consistent, because within the Department it is consistent.

Jon Thompson: What happens is that Departments produce a monthly report. That is then collated by the Department for Exiting the European Union so that an overall view across Whitehall is put together by DExEU, and then that goes into corporate Ministers in the Cabinet Office or to DExEU.

Chair: That is very helpful.

Q2871 **Stephen Crabb:** Can I start by following up with Bernadette Kelly on your answer about aviation? The phrase you used was "strong expectation" that flights would continue as normal, and you explained why you had that confidence. "Strong expectation" is still some way short of the phrase that the Secretary of State used last week at Transport Questions, where I think he said he could give the House a categorical assurance that flights would carry on as normal. Why is there this gap between what you are saying and what the Secretary of State is saying?

Bernadette Kelly: I understand that what my Secretary of State gave a categorical assurance around was the question of all flights being grounded, which is somewhat different, actually, to the slightly more narrow question of whether UK airlines would be able to fly and continue to fly to and from the EU. He is very clear that that is not going to happen. There are very good reasons why he would give a very strong assurance to the House on that. The likelihood of UK airlines being unable to fly is very low. As I say, the Article 50 taskforce wants to seek a bare-bones agreement in this.

Actually, all that is needed to ensure that flights can continue is for EASA to issue an authorisation; that is a simple matter. We fully expect, as I say, UK airlines to be in a position to fly the day after exit day if we do exit with no deal. I do think the assurances I can give to the Committee are strong. As I say, my Secretary of State was talking about the general grounding of airlines, and that we do not see as a likelihood at all.

Q2872 **Stephen Crabb:** Has any technical work started between EASA and the CAA about such a bare-bones agreement that you are describing?

Bernadette Kelly: The bare-bones agreement is something that the Commission, I think, would need to lead on, because it would relate to the provision of air services and the agreements that would need to be in place. As I understand it, a bare-bones agreement would be more around Commission negotiation and a technical agreement. The CAA and EASA have technical discussions all the time, and of course we are currently a member of EASA and wish to remain a non-voting member of EASA after we exit. There is a long history of dialogue and co-operation with the CAA, and that continues obviously now, all the more importantly as we contemplate the possibility, though we hope not the likelihood, that we may need to put different arrangements in place.

Q2873 **Stephen Crabb:** I have a question for you and the rest of the panel. When we met with Michel Barnier at the beginning of last month, he was really clear with us that if negotiations break down and there is a no-deal scenario, there will not be side discussions, no side negotiations and no bilateral deals; the conversation stops. From what you are saying, and from answers to the earlier questions, is the posture of HMG that that kind of statement from Michel Barnier is purely rhetoric, and actually there will be ample appetite within the system in a no-deal scenario to strike all of these necessary bilateral deals to overcome some of the risks that you have already started to highlight?

Bernadette Kelly: I think you may be asking me to comment on a negotiation.

Q2874 **Stephen Crabb:** It is about whether there is work going on now between ourselves, the Commission and other actors on some of the side deals that may be necessary in a no-deal scenario.

Bernadette Kelly: I am not going to comment on any wider discussions, but in my own area, we have seen in slides that the Article 50 taskforce have published that they would see bare-bones agreements in aviation as being something that they would need to consider. There is a very, very strong interest in the EU in maintaining the continuity of flights. We have 164 million people a year travelling between the EU and the UK.

The other area is around rail services through the tunnel, where actually the Commission has indicated that it does see the need for us to maintain the continuity of services. We have permissions to talk to the French about that, and those discussions have indeed begun.

Sir Chris Wormald: Obviously I cannot really comment on what Mr Barnier said, but it is inconceivable that you will not have discussions about issues of mutual interest in exactly the same way as we do with the rest of the world. If I take my own area, we have a series of health protection discussions, for example, that go on within the European Union. We have similar discussions with the CDC in the United States. We have similar discussions with the rest of the world, some of them as part of WHO arrangements, et cetera. Would we go on working with countries in Europe in one way or another on health protection, for example? It seems almost inconceivable that you would not. Would they be part of a formal discussion with the European Union of the type that we have just been having? If that is what Mr Barnier means, possibly not. Would discussions go on? Of course they would.

Sir Ian Cheshire: You are in the middle of a negotiation, so you have to be quite careful about taking the negotiators' public statements as being the entire story. There is also a level of pragmatism that if we are faced with a no-deal situation, then that is a decision you then have to go on and implement. As has been said, that is absolutely not the Government's preferred outcome but we have to prepare for that as a responsible administration. Therefore, you do identify where you would have to go to find those types of agreements that would provide continuity. They will not necessarily provide the longer-term answer, but the immediate issue is to deal with the urgent and highly impactful issues such as M25-type scenarios, airports and medicines. There is clarity that we know where those issues are and what we would need to do, but we are still in the middle of something, so it is hard to go further than that.

Q2875 **Stephen Crabb:** What I am trying to test is whether there is actual hard evidence now that there will be this pragmatism, and that we can say with reasonable confidence that we will be able to strike the necessary short-term bilateral agreements, or whether we are just making a punt on an expectation that they will play ball. Is there not a danger here of misreading of cues and signals?

Sir Ian Cheshire: In my opinion, we cannot say that we know for sure at this point; we are literally in the middle of this. There is, though, enough evidence, to pick up on Bernadette's point on aviation, that people on the other side of these negotiations are looking at their end of these issues. If you are responsible for Calais, you are thinking about this quite hard. You cannot prove that at the moment, so I could not give you that assurance.

Jon Thompson: Perhaps I could answer your question as chairman of the Borders Delivery Group, which is a pan-Whitehall group of 26 organisations that tries to co-ordinate the delivery of the border. The answer to your question is that we simply do not know. How exactly member states behave and how that translates into the operation of the border is the second of the three big risks that I believe that we face from HMRC's perspective. We do not know whether the French, the Dutch, the Belgians and the Irish in particular will be reasonable or legalistic, and it makes a significant difference to the level of checking that may or may not take place on both imports and exports, which the Chair referred to earlier. In terms of simulating what that might mean in terms of the operation of the border, it is extremely difficult to work that out. There are no side deals that I am aware of that we are working on from an HMRC perspective.

Q2876 **Seema Malhotra:** Could I just ask first if I could follow up on a comment that you made, Sir Chris, about the supply of medicines in the event of no deal? You said that you were not able to give assurances or guarantee that British people would get all the medicines they needed in the event of no deal, and that nobody could give that guarantee.

Sir Chris Wormald: Sorry, just to be clear, I never use words like "guarantee" in relation to health. It is an incredibly complex business in which a vast number of things go right every day and a small number of thing go wrong every day. That is the nature of running a health system.

It is simply not a word that means anything. We are in a constant business in health of making contingency plans for things we hope will never happen. Those contingency plans work on a prepare-and-respond basis, so you do the things you can do in advance to put yourself in the best position to deal with those things, and then you have to respond to events as they happen. If you do it right, everything works. That is not a system in which you issue guarantees or in which they mean anything.

Q2877 **Seema Malhotra:** Perhaps I could use a word that may have more sense associated with it. Is there a risk, in the event of no deal, that medicines that are currently available to people in Britain will not be available?

Sir Chris Wormald: There is a risk. If we get our contingency planning right—and I have already outlined the beginnings of our contingency planning—that risk will be minimised.

Q2878 **Seema Malhotra:** Thank you for that, and I appreciate your remarks. If I could pass on to some questions about the legislative side of planning for Brexit, the Government have so far managed to pass six of the 13 currently announced Brexit Bills. In addition, there are between 800 and 1,000 SIs that would need to be passed so that UK law is operable on the day that the UK leaves the European Union. We have been told by the Institute for Government that Parliament will be passing SIs at twice the normal rate, with a corresponding concern about the impact on quality of scrutiny. Would you share that concern about the impact on scrutiny of the rate at which SIs would need to be passed by Parliament?

Jon Thompson: I do not know why the three of them look at me. It is quite difficult for us to give you an opinion about how this situation plays in any sort of historic terms. We know there are a lot. The number of SIs continues to reduce; that is my understanding of it. If I take my own Department, for instance, we do have the Taxation (Cross-border Trade) Act. Our original estimate was that the number of statutory instruments would be around 100 to 110. That has now fallen to 48. It is possible, through a process of being really clear and prioritising, that the number might come down. I am afraid that I cannot then say about the working of the House and what that means for you and other members.

Q2879 **Seema Malhotra:** Could I just probe on that? What does that mean in terms of coming down? Does that mean that a change to legislation is no longer required, or does it mean that Ministers are able to make any of those changes without scrutiny of the House? What does that mean?

Jon Thompson: We have been very focused. The original estimate of the number of statutory instruments was clearly a significant one. Certainly departmentally, we took the decision to sit down and say, "Do we actually really need this level of statutory instruments to go through, or are there already existing powers to minimise the number of statutory instruments to bring the Act into effect?" Therefore, we have moved from the original estimate of 100 to 110 some time ago now down now to

48. That number will vary a little, but that is obviously significantly fewer than it was when we started.

Q2880 **Seema Malhotra:** What does "existing powers" actually mean? There is no change, or there is a change but it does not come through an SI route?

Jon Thompson: We have been looking at what the existing powers that Ministers have are and whether some of those powers be used. Of course, there is a regular stream of finance Acts that give powers to Ministers to some degree already. We have tried to remove some of the SIs where there are already existing powers but they do not need further clarification.

Q2881 **Seema Malhotra:** Existing powers for Ministers to make decisions and make changes without it coming through to Parliament.

Jon Thompson: Correct. Second, we have consolidated some into single SIs rather than two. You can consolidate and shorten so that you bring the effect through one statutory instrument rather than two or three.

Q2882 **Seema Malhotra:** Thank you very much for that. What it does suggest is that there is even less scrutiny of changes that are being made if we are in a position of a reduced number of SIs and an increasing number of changes being made by Ministers without that being explicit and transparent.

Jon Thompson: If they already have those powers, then they would have previously been scrutinised by the House.

Sir Chris Wormald: I would say that the latest Cabinet Office review suggests that the SI number was 462. It is a bit of a moving target, as Jon says, because you do try to analyse what is absolutely necessary. There is absolutely no intention to avoid scrutiny in Parliament; it is quite the reverse. What is important is that you define it. Again, given the moving target with the shape of the deal or no deal, those numbers will be landing at a late stage. It is manageable. It is not easy, but it is absolutely being engaged with. I have seen that level of engagement myself.

Q2883 **Seema Malhotra:** Ms Kelly, your Department has come under some scrutiny from the National Audit Office as well in terms of preparedness and the timetable for laying secondary legislation, described as now "seriously compressed". Do you believe there is a backlog in your Department, and, if so, what is the scale of that backlog?

Bernadette Kelly: I do not believe there is a backlog, because we have been working extremely hard to manage our forward programme of legislation. Actually, I would say we have been continuing to work at that since the NAO reported, which I think was in June. We have seen improvement, actually, in our overall readiness legislation. We obviously already have our Haulage Permits and Trailer Registration Act on the statute book ahead of time. My Department currently has 66 EU exit-related statutory instruments that we are processing. 17 have been laid, I believe three actually are before the House today, and we have a forward plan that we are working extremely hard to keep on track. As John and Sir Ian were saying, we will constantly look to ensure that we are prioritising that work so as to manage it and to manage the burden on Parliament, but we do have a plan, and it is a plan that we are working very hard to deliver.

Q2884 **Seema Malhotra:** Is that with confidence that they will all go through by February?

Bernadette Kelly: We have confidence that we can produce the legislation that we need to produce in the timeframe that we need to do it. Obviously I do not control the constraints that may exist on Parliamentary time, but as a Department, what I need to do is make sure that there is nothing we are failing to do that is causing any backlog in legislation. That is where we are at the moment.

Q2885 **Seema Malhotra:** We heard last week that the Parliamentary Counsel is recruiting more drafters. Could I just finally ask perhaps Sir Ian whether there is a risk that Whitehall does not have the capacity to get the legislation needed for Brexit through by next March?

Sir Ian Cheshire: Obviously when we were looking at the planning for both deal and no-deal scenarios, the civil service capability was a big issue. At the very beginning across Whitehall there was identified a need for over 16,000 people to be added. The parliamentary draftsman service is one key element of that. It is something that has been actively thought about. Again, there is no way of eliminating to zero risk, but contingency measures have been put in place. I was speaking to Elizabeth Gardner at a recent board meeting and we specifically covered the question. She is confident that we have the capacity, but again this is a general situation where there is no way of saying there is no risk or giving absolute guarantees. It is actively being managed.

Q2886 **Hywel Williams:** I have a question to Ms Kelly especially, and possibly Mr Thompson as well. You referred earlier on to contingency planning for the Channel ports and using the M20 and M26. Arrangements for Holyhead and Fishguard are something of a mystery to me, though I have asked a number of times what is actually happening in terms of planning, given that Holyhead in particular is the second busiest roll-on/roll-off ports and also the road is owned and run by the Welsh Government. It is not a very good road, and there are some very bad bridges over to Anglesey. Can you enlighten the Committee as to what planning has taken place?

Bernadette Kelly: I am afraid, as you say, the road is the responsibility of the Welsh Government, so I cannot give you detail about the planning and preparation. I would be very happy to provide a note for information, but I do not have that in front of me at the moment.

Q2887 **Hywel Williams:** There is presumably some planning taking place.

Bernadette Kelly: I am sure there is planning taking place as there is planning around all ports. Jon may know more relating to Holyhead, because obviously we do recognise the sensitivity of that as a roll-on/roll-off port as well.

Jon Thompson: To give you some facts, there were 2.6 million movements for roll-on/roll-off between Dover and northern France. The Eurotunnel was 1.6 million and then Holyhead is third on that list at 499,000, I think, in 2016. The next one is Portsmouth at 165,000, so it is well up our list. We have had a group working with Holyhead. I know one of my Director Generals for the Borders Delivery Group has been to Holyhead and has had conversations about what might be the impact on roll-on/roll-off ferries. We are very seized about Holyhead, as we are about Dover and the Eurotunnel, and RO/RO ferries in general. Again, I can provide you with some further details if you like about what we have been doing and the conversations we have had, but we are certainly very focused on it because of its ranking, if you like, as third in terms of transport.

Q2888 **Hywel Williams:** You referred, Ms Kelly, to the attitude on the other side of the Channel, and this was imponderable. Of the 26 on that side of the Channel, they have various proportions of their trade coming to the UK. I should think it is higher up the agenda for Ireland, given the amount of ton shipment through Holyhead to Dover and wherever else. Do you detect or suspect there might be a more pliable attitude from the Irish as compared to the other 26?

Bernadette Kelly: I would not like to comment on the position of the Irish on this negotiation, in truth. It would be unwise to do so. What you say is clearly true: that the Irish in particular have interests in maintaining the movement of goods and people across the UK border, and I would hope that would be in a factor in their position, but I really do not want to speculate on their wider position in negotiations, unless Mr Thompson has anything to add.

Jon Thompson: I will not speculate on the negotiations, but it is worth us recording that it is extremely difficult to have bilateral conversations with any of the 27 or indeed with any of the individual ports. There have been some limited conversations with Calais, Zeebrugge, and Rotterdam, but the 27 feedback into Taskforce on Article 50, so it is very difficult to have any kind of practical conversations.

Q2889 **Hywel Williams:** I just have one other possibly very small question. There have been developments of direct links between Dublin and Rotterdam rather than coming through the UK. I take it you are aware of those, of course, and no doubt you are continually planning for changes in the freight through the UK as a result.

Jon Thompson: We are aware of those, yes.

Q2890 **Mr McFadden:** I would like to ask a couple of questions about the workforce implications of all of this. I will start with you, Mr Thompson. Could you tell us a little about the headcount implications since the referendum for your Department, and then maybe looking forward a few years too? How many more people have you hired? How many more are you preparing to hire?

Jon Thompson: For no deal, our estimate was that we would require between 4,500 and 5,500 staff. That has hardened up now to 5,300 or thereabouts. As at Friday of last week, 2,300 people had started working for HMRC on Brexit, and I could break that down between the areas if you wanted me to. There is a significant further tranche coming in November. In the event there is no deal, I would anticipate that we would be well north of 4,500 additional staff by the end of the current financial year.

Q2891 **Mr McFadden:** Can you tell us a little about what they are doing, what kind of grades they are, and what kind of jobs they are doing? Who exactly is it you are hiring?

Jon Thompson: Certainly. They broadly break down into five areas. Initially, clearly we needed to hire a range of people to develop the policy and support the negotiations. There is a fairly heavy drive in that area; more than 500 additional staff have been added to policy. It is worth remembering, of course, that neither the Treasury nor HMRC had any customs policy capability really of any scale, because it had been EU-wide since 1974. That then turned into delivering projects and changing technology, with nearly 400 people working in that area.

The two big operational elements of HMRC are customer services, which I will say a little more about in a minute, and compliance. Withdrawing from the EU represents potentially different risks in relation to customs and tariffs, excise and VAT, and then there are a range of other disciplines that support that: legal, finance, HR, a bigger estate and so on.

The big difference for us is in relation to the national customs hub, which is in Salford, and that processes customs declarations. We anticipate that under no deal, the number of customs declarations would increase by a factor of five. We will need to increase the national customs hub by a factor of three, so we will need somewhere around 1,200 additional staff to run exceptions to customs declarations. That is where the big customer services impact is to process the additional customs declarations. I can happily expand again on any of that if you want me to.

Q2892 **Mr McFadden:** Can you give us a broad cost of this for HMRC, for all these extra people? What is the global extra cost?

Jon Thompson: I cannot give you the exact staff cost number for the current year, but the cost of Brexit in 2018-19 for HMRC is £260 million. Our estimate for next year, in the event that there is a deal, is just over £400 million. In the event that there is no deal, it is about £450 million.

Q2893 **Mr McFadden:** If I could turn to you, Sir Chris, we have been given a slightly curious figure in our briefings about Department of Health staff counts, which points to a huge reduction due to the creation of NHS England and Public Health England a few years ago. That is slightly artificial.

Sir Chris Wormald: Yes. All of my numbers are going to seem very small compared to Mr Thompson's because of the type of Department we are. We are primarily a policy Department, with all the delivery functions now with NHS England, NHS Improvement and other arm's-length bodies. In terms of exiting the Union, we have added about 100 people; that is basically 45 in policy, 11 in project management, 21 in analysis, nine in commercial, seven in communications and we have a few more to recruit. The numbers are very small compared to Mr Thompson's.

A large number of the rest of our staff have their jobs affected in different ways. If you take an issue like workforce, we look at the NHS workforce and their concerns in the round, one element of which is what we do and do not recruit from the EU 27. We do not have a specific set of people who do exiting the Union work. We have people who worry about the supply of the workforce across the piece. That 100 is entirely the additional we have added for new work, which is mainly around the medicines question and the reciprocal healthcare question, and then a lot of other people have their jobs partially affected. As I say, our number is very small compared to Mr Thompson's.

Q2894 **Mr McFadden:** That is the central Department of Health you are talking about. What about the NHS as a whole? What has happened on NHS recruitment in the more than two years since the referendum?

Sir Chris Wormald: Our total number of staff from the European Union has gone up since the referendum. Obviously, as the Government have said on a number of occasions, one of our absolute top priorities is to reassure all of our staff from overseas, both European and elsewhere, as to how much we value their contribution to the NHS and indeed to social care, and how we want it to continue. There is a lot done within the Health Service itself to reassure those individuals. We have not seen evidence of people leaving. As I say, the overall numbers have gone up.

It is worth pointing out that, both in health and social care, we actually have more staff from the rest of the world than we do from the EU 27. While the EU 27 is a significant and important part of our workforce, we tend to look at this as a global market. There clearly will be implications for us, not particularly from the specific exiting-the-Union question; it is more a question for the Government and their future immigration policy. As you know, there have been a number of statements of principles of that, and there will be a White Paper later in the year.

Q2895 **Mr McFadden:** Ms Kelly, can I ask you the same questions, really, about headcount and cost in your Department?

Bernadette Kelly: Much like Sir Chris, my numbers are very much smaller than Mr Thompson's. My core Department is about 2,500 in total; obviously it is very much smaller than HMRC. We have about 150 people now for whom most or all of their job is EU-related within the core Department. Quite a lot of those were recruited from within the Department, because we wanted to make use of people with existing EU and project delivery skills. We continue to look at what headcount we need in future. I have already approved on a contingency basis a plan to increase by a similar number the number of people we might have working on EU exit-related business in the event of a no-deal scenario.

It is broadly in that ballpark of 150 people at the moment doing a whole range of work. We have a central co-ordination team that accounts for about 20 or 30 of that, then we have people bedded out in each of our modal teams supporting the work on our EU exit preparations, and of course we have a significant body of lawyers working on this as well. We also have people working in our agencies in addition to those numbers, in DVLA and DVSA, obviously, in particular; we have people working on putting in place new systems that may be needed either in a deal or a no-deal scenario. The CAA is also recruiting additional staff as well.

Q2896 **Mr McFadden:** Sir Ian, last week we took evidence from Jill Rutter from the Institute for Government, who described Brexit as a job-creating bonanza for the civil service. Having heard from three individual Departments, can you give us an overview of what the impact of Brexit has been on civil service recruitment more broadly since the referendum?

Sir Ian Cheshire: This relates to the block grant by HMT of £3 billion of extra cost. This is over the whole cycle to 2020—£1.5 billion a year for two years.

Q2897 **Mr McFadden:** £1.5 billion a year extra cost since the referendum.

Sir Ian Cheshire: The broad split of that 16,000 that I mentioned is roughly half and half between operational and non-operational. Some of the operational come in in areas like the customs hub, which gets built up. A short-term issue is more in the policy area, where the frontloading of the work was needed. We have seen 3,000 more people since April join the civil service. This is a significant effort. If you think of this as one of the major peacetime challenges to Government and civil service, it has been reflected in the sheer level of effort that has gone into it.

Q2898 **Mr McFadden:** Could you just explain a little more about that 16,000 figure that you used? That is the global total of extra people being hired.

Sir Ian Cheshire: Yes, over, again, a two-year period.

Q2899 **Wera Hobhouse:** We were asking at the very end how long the expectation was that this extra cost would be carried forward. We were told at the very end about 15 years. Is that what you would also think: that this is how long it would take to keep that level of extra civil servants going?

Jon Thompson: We have a rolling five-year plan. One might question whether even that is too long, but we have a rolling five-year plan. Our anticipation is that you would need these people for five years in either of the scenarios. I cannot go beyond that.

Q2900 **Mr Djanogly:** We have already spoken about the impact on the borders, but given how the impacts of no deal are likely to be keenly felt—in fact possibly most keenly felt—on the borders, I am going to come back to Dover, if I may. I looked at the report produced by UK in a Changing Europe. It says, "Dover in particular is likely to be heavily affected as almost all of its trade is with the EU. Currently, as few as two out of 180 lorries are checked. Research suggests that an increase of two minutes spent at the border by each vehicle could more than triple the existing queues on the M20/A20, to 29 miles, meaning nearly five-hour delays. In anticipation of this, a recently leaked local government report outlines plans to turn a 13-mile stretch of motorway into a lorry park and goods holding area to try to ease gridlock, which could be in place until '2023 at the earliest'". Bernadette Kelly, do you recognise that as an accurate reflection of the position?

Bernadette Kelly: No, I do not. The plan we are working on—and Highways England are working on most immediately—is the plan we are calling Operation Brock. This is the interim arrangement that we are putting in place on a contingency basis to deal with disruption to road haulage if this occurs in the immediate aftermath of Brexit. As I say, this is not just a Brexit-related plan; disruption can occur for other reasons too. The plan as it stands is a plan to stack lorries on a section of the M20, between junctions 8 and 9 principally, and also to have a holding space for lorries on the M26, and to hold lorries in Manston Airport. We have three very specific areas where we would expect to hold lorries in the event of a backlog of HGVs on this side of the border.

Those plans are well advanced; indeed, they were in the news in relation to the M26 on Friday. Highways England is already undertaking the work needed to strengthen hard shoulders, et cetera, on the M20 and on the M26. Manston Airport is pretty much ready for use, actually, as it stands. It is a very large runway and it is ideal for this sort of purpose. All of these plans are very well advanced. I certainly do not recognise the 2023 deadline. We have charged Highways England with ensuring those arrangements are in place for 29 March. Given the scale of infrastructure work and other things needed, that is an entirely plausible scenario. We do have a plan, and we have a plan to be ready for 29 March.

Q2901 **Mr Djanogly:** The plan is Project Brock, which the National Audit Office has said it is concerned you will not be able to deliver in time for March 2019. What are you doing to address that? Why did they say that?

Bernadette Kelly: This was one of a number of work streams I know that it highlighted in the report that it published on our readiness back in June. We believe that it is entirely plausible that will be ready. We think it can be ready and will be ready for March 2019. Obviously we have been accelerating efforts, working very, very hard with Highways England to ensure that is indeed happening. Jim O'Sullivan, the chief executive, is personally overseeing this work, because he knows it is absolutely critical to have this ready for March 2019. There is a great deal of work going on with Kent partners—Kent County Council, the Port of Dover, and Kent Police as well—to make sure we are ready to activate this project. Rather like Sir Chris, I am loath to give you 100% guarantees on any of this, because these are difficult, complex projects, but this is a manageable project that we believe can be delivered.

Q2902 **Mr Djanogly:** Are you saying the National Audit Office is wrong, or are you saying you have taken what it has said and you have put it right?

Bernadette Kelly: The National Audit Office was offering a view on readiness on a number of projects. We had, as you can imagine, some lengthy discussions about that view and the preparation of the report. The report was not wrong; I signed it off as an Accounting Officer, so I was satisfied that factually it was correct. We are certainly working very, very hard. Operation Brock is very much, of all our work streams, one of our most important, and we are working very hard to make sure that all of the arrangements that need to be in place to deliver it are in fact in place.

Q2903 **Mr Djanogly:** Mr Thompson, how would you be dealing with the rest of Dover in a no-deal scenario?

Jon Thompson: We have been talking to Dover for some considerable time. We signed a non-disclosure agreement with them at least a year ago, and I have personally been to Dover three times to see the operation and what it is like. The risk for Dover is really the other side. There were some questions earlier about how member states behave. We do not know how Calais might behave. It is a closed-loop system, so as soon as there is any kind of delay or queue in Calais, you will get some kind of delay or queue in Dover.

It is worth remembering that the Government's decision has already been that there will be no increase in checks for incoming traffic. There is no reason to believe that there are any different risks from French wine or Spanish tomatoes in April 2019 than there are now. There are no checks now; there is the free movement of those goods now. Over time, people will change their behaviours and we need to think about the risks, but to start with we do not believe there is any requirement to add additional UK-based checks.

We are in the hands of the French. This comes back to at what point we can talk to them about the reality of no deal and how reasonable and legalistic they are going to be. At this point, given that the Government's preferred outcome is to strike the withdrawal agreement, we have plans to engage with the French in the event that there is no deal to work our way through this, because the one element of the report that is correct is if you add in additional time to check in France, the traffic flow will slow down, the system will become less optimal, and then from there on you have to begin to speculate about how long that will last, what it really means and so on.

Q2904 **Mr Djanogly:** There is going to be a huge rush in the event of no deal; that is what you are saying. Have you actually planned with the French authorities what happens in the event of no deal in terms of process looking towards what you have to do? You said you are not doing it yet, but have you looked at the process of what you will have to do with them?

Jon Thompson: We know what we need to sit down and talk about, yes, but we have not been able to do that, because clearly people are trying to strike a deal.

Q2905 **Mr Djanogly:** Why can you not say, "We will meet within one day of no deal"? Why can you not agree a process with them, if not what you are going to be talking about?

Jon Thompson: They will not have a conversation at all, and they will not have a conversation about the process either.

Q2906 **Mr Djanogly:** They will not talk about the process either.

Jon Thompson: Clearly it would be at the absolute forefront of our minds to get together as fast as possible in the event that there is no deal.

Q2907 **Mr Djanogly:** How long do you think that would take, practically speaking, in the event of no deal?

Jon Thompson: The decision is for the EU 27 about how much checking they actually require on exports from the EU to the UK and on exports from the UK to the EU. If you take our current arrangements, there is, as you rightly say, very limited checking, and actually most of those checks are not about customs; they are mostly about other things like security or the application of tariff-related quotas, for example, or they are livestock-related. It requires a practical approach, because the impact on northern France, Belgium, Ireland, and Holland will also be dramatic. There is a rather excellent public report by KPMG, which they did for the Dutch Government in January of the current year, that predicts what would be the impact for the Dutch of a no deal. It sets out very clearly what the impact would be.

Q2908 **Mr Djanogly:** If things went smoothly, how long would it take to do this side deal?

Jon Thompson: I do not believe that a conversation should last more than a few hours that says, "Do not increase the number of checks". Frankly, that is what we are talking about.

Q2909 **Mr Djanogly:** Is that realistic?

Jon Thompson: I do not know if it is realistic. I have literally no idea. We have had these conversations with Ministers. What you are trying to do here is guess what the President of France will instruct customs officials to do in the event of no deal, and I cannot speculate on that. I cannot mind-read the President of France; sorry.

Mr Djanogly: That has answered my question. Thank you.

Q2910 **Sammy Wilson:** Mr Thompson, you have stated that in the event of a no-deal situation, you would be able to run the border and the trade; you have explained that this morning. The systems would be suboptimal and they would carry some risks. Could you maybe explain just what further functions would need to be added after we leave the EU? How long would it take to add those? What are the risks involved?

Jon Thompson: It is worth recording four things about the operation of the UK border. First of all, it is a high-functioning border. It is currently ranked by the World Bank as fifth in the world. Parts of it are at full capacity. It is highly efficient and it is technologically advanced. We have some genuine world class facilities at, say, Thames Gateway, Felixstowe or Peel Ports in Liverpool. They are very technologically advanced.

What I meant by "suboptimal" was the questions I was being asked there. Suboptimal for me really means two things. First of all, that there may be time delays or queues. Time equals money, so that is one aspect. The second is there is additional administrative burdens on business of leaving the customs union and trading on WTO terms. If you want me to set out what I think the estimate of that cost is, then I would do. It would be suboptimal in that sense.

It is possible to get around the time delays and queues issues through the application of new technology. The one that the Government has advanced is the so-called inventory linking system. At the minute, if you are trading with the rest of the world, you notify in advance that you are bringing a shipping container in Felixstowe, our IT system—the Customs Handling of Import & Export Freight system—will apply risking engines to those transactions, and 98% of all customs declarations and containers are approved without any intervention at all from a human; the machine does it, and it does it in less than 10 minutes. Secondly, we can use inland pre-clearance, as opposed to it being at the actual border. Last of all, you want to put in checks at the physical border.

If you play a little further forward, at the minute roll-on/roll-off ferries do not use an inventory-linked system and the Government's policy has been, in both deal and no-deal scenarios, that inventory linking on RO/ROs would be a good idea. We have agreed a second version now of the specification of what the Government would like industry to implement. We are now going to go into a design phase with the ferry operating group. Being realistic, though, it will take between two and three years for that system to be up and running.

At the point that it can be up and running, we would get advanced notification of what is travelling on which ferries. You can then run that through the IT system. That gives you much better data. You could decide which of the two lorries you actually want to stop. That is essentially the system. We are looking for a mutual agreement to do that, because essentially the ferry goes from Calais to Dover and back in a closed-loop system. It would be in the interest of both the EU and us to implement that, and that has been well set out by the Government in various different papers.

The short answer to your question is between two and three years to get yourself around the time-delay and queue question unless there is a more practical approach to it that is agreed bilaterally. On the question of administrative cost, it is quite difficult for me to see how you would get that down, but one suspects that businesses would be smart enough to change their behaviours to reduce some of those costs.

Q2911 **Sammy Wilson:** What discussions have you had? You said you had notified the 145,000 small businesses that are engaged in trade. Are there any plans at present to go beyond simply notifying them and leaving it up to them to make contact with you, and to start talking about what current arrangements are and what new arrangement could be put in place?

Jon Thompson: Yes. We have prepared something called a partnership pack in which we have set out for them what they would need to do in the event of no deal. It would clearly be for Ministers to decide the timing of issuing that as and when you get to the position where you have no deal. We know who the 145,000 are, because they are registered with us and are undertaking intra-EU trade and have to record that on the VAT return they give us. We know those 145,000 and we have their names and addresses, and we have already communicated directly with them. The worry is about small and medium-sized enterprises that are below the VAT threshold but are trading intra-EU. We have literally no record of who they are. We have worked up a plan through 31 other various trade organisations like the Chambers of Commerce and so on to be able to reach them. We think there is a route from us to them. At the moment, we have no direct relationship but we have worked up a pack that could be issued.

Q2912 **Sammy Wilson:** Most of the discussion this morning has been about the risks at Dover, Calais, and other GB ports. The big sticking point, of course, in all of these negotiations that appears at present is the Northern Ireland border. In the event of a no deal, what risks do you see emerging on the Northern Irish-Republic border? Is there any assessment you have done of that?

Jon Thompson: We believe there are three top risks for HMRC. Just to be explicit about what they are, you covered the member state controls and how member states behave. Secondly, we have talked about customer readiness. The third is what exactly the situation is in Northern

Ireland, because it is clearly under negotiation, which provides uncertainty. In addition to that, we are not engaging with businesses in Northern Ireland because of the sensitivity of the negotiations. In an ideal world, by now we would have had a private beta, if you like, working group: "We could arrange it like this", "Can we consult you?", "Would that work?", "Would this not work?" and so on and so forth. That is what we have done in many other different places, but we are not currently able to do that.

The Government are striving for the withdrawal agreement. If it does not get it, there will need to be some swift decision-making by Ministers about what we now do with Northern Ireland businesses. Just as much as there would be with conversations with the French, there would need to be conversations with the Irish about what practically we can do at the border. The UK is clear about what we would do, but we do not know how the Irish will behave and what the EU will or will not instruct the 27 countries to do.

Q2913 **Sammy Wilson:** The Road Haulage Association, when they were here with us, said that, in their view, the process of taking goods across the border will not work on 30 March 2019. Is that based on any discussions they have had with you? If so, how do you respond to that?

Jon Thompson: The Road Haulage Association is one of the 31 organisations that form the longstanding Joint Customs Consultative Committee. That includes the British Retail Consortium, the British Chamber of Commerce, the British Ports Association and so on and so forth. The concern I understand they have is exactly the one that has been flushed out by this Committee, which is about what this will mean for time delays and queues, and what it will mean for their members in terms of their approach to HGVs and roll-on/roll-off ferries. They share pretty much the same concerns we do.

Q2914 **Sammy Wilson:** But they say they do not believe the process will work. You have suggested here today that, first of all, provided the French and Irish Governments are prepared to co-operate, there should not be a problem with huge delays and backups at the borders, et cetera. Are you really saying that any fears that they have are dependent upon how robustly the EU decides to respond?

Jon Thompson: I absolutely did not say that. I said we do not know; I would have to guess the mind of the President of France to be able to answer your question. We do not know. We cannot give you or Ministers any assurances whatsoever of what will actually happen in the event that there is no deal, or what will happen between the point when you reach that and 31 March. We do not know. We can plan—we would need to swiftly engage, have a conversation and see whether we could practically navigate our way around these issues—but we do not know, I cannot speculate and we also cannot talk. There are multiple problems here. I cannot say it will all be fine. I absolutely cannot tell you that. I cannot be any clearer with you, can I?

Q2915 **Sammy Wilson:** I have one last question. UK in a Changing Europe has said it has concerns around continued health co-operation between Northern Ireland and the Irish Republic. Currently, there are arrangements for cancer patients to be treated in Londonderry, for children with heart disease to be treated in Dublin, and for accident and emergency to be provided in Newry. What steps have the Department of Health taken to ensure that these arrangements would be maintained, especially since they are not dependent on any EU arrangements but are departmental arrangements between the Government of the Northern Ireland and the Government of the Irish Republic?

Sir Chris Wormald: As I am sure you know, I do not cover the NHS in Northern Ireland. That is an entirely devolved matter, so those would mainly be questions for my colleagues in Belfast. We have regular discussions with all three devolved administrations about areas of mutual interest, and some of what we do is UK-wide. The things we were discussing around reciprocal healthcare are done on a whole-UK basis, and on the drugs and medicines supply questions, because we cannot actually differentiate where medicines that come in through Dover and elsewhere go to, we do our numbers on a UK basis. In terms of the traffic of people, that would be a matter for my colleagues in Northern Ireland. We discuss with them but it is not something I could comment on.

Q2916 **Sammy Wilson:** But since it is departmental—the Department of Health in the Republic and the Department of Health in Northern Ireland—it should not be affected at all by whether we are in the EU or out of the EU.

Sir Chris Wormald: It would come to comments that Jon Thompson has just made. We do not know, and it will depend upon the attitudes of Governments in that situation. The only thing I would say, going back to something I said earlier, is throughout this, we have seen no signs that anyone on any side of this debate wishes to do things that damage patient care. My hope—and it is no more than a hope—is everyone would continue with that extremely sensible approach.

As you have said, there is an awful lot of health traffic between us and the Republic of Ireland. There is a fair amount with England, because a number of patients from the Republic travel to specialist facilities in London, as I am sure you know. As I say, I would hope that as it is about the treatment of vulnerable individuals, everyone will be sensible and want people to go on living their lives as they do. I cannot guarantee that for the reasons that Mr Thompson set out.

Q2917 **Chair:** Just to be absolutely clear, there would be nothing to stop that being the subject of a bilateral agreement between the United Kingdom and the Republic of Ireland.

Sir Chris Wormald: There is nothing to stop it.

Q2918 **Chair:** It would not require the approval of the EU.

Sir Chris Wormald: It would depend on what our colleagues in Dublin felt they did and did not need. These arrangements with the Republic of Ireland predate either of our memberships with the EU, but I cannot comment legally on what they would need to do.

Q2919 **Richard Graham:** Thank you all for coming today. Sir Ian, before you disappear in a few moments, in overseeing the non-executive directors in each Department do their scenario-planning, they and you are wrestling with issues that concern process, practical issues and political risk. In terms of scenario-planning for a no-deal scenario, in your mind, are there two different no-deal scenarios? One is where the Government of the United Kingdom and the European Union fail to reach an agreement, and the Prime Minister comes back to say that she was unable to recommend a deal. The second is a situation where she does come back with a deal, which Parliament refuses to approve. How are you tackling those two different scenarios? There will be a time difference between both of them happening and the end of March.

Sir Ian Cheshire: What we have seen from the Cabinet Office overview and the non-executive network overview is very much twin tracks of work for no deal and deal. I do not think we have seen a lot of variation in the no-deal scenario between those two outcomes we describe. There is clearly a timing challenge. One of the conversations that is difficult to have at the moment is that there has to be at some point, obviously pre-March, a decision that there is no deal. When exactly that decision is taken, be it by the Prime Minister or by the failure of a meaningful vote, that is the trigger point for some of these other conversations we have been talking about. The longer we can have in that period, frankly, the better from a mitigation point of view. The decision about when that happens and which process is so far out of our hands that it is not something we have spent much time looking at.

Q2920 **Richard Graham:** I understand. Previous Secretary of State David Davis told this Committee that in a no-deal scenario he could imagine either what he called a bare-bones deal or a series of mini-deals. In your scenario-planning at the moment, has there been any consideration of what either of those two might look like, or, again, is that too speculative to focus on?

Sir Ian Cheshire: I would probably defer on the detail to the experience of the civil servants to my left here. What we have seen as boards is because of the nature of Government being very structured around Departments and departmental priorities, the assumption is you would have to have a series of departmental and, as has been said, geographic specific deals. It is transport talking to France and Belgium. It is probably a slightly broader deal in the shape of health. Actually, what you end up with is a patchwork. It is quite unlikely you would see a quick, EU-wide bare-bones deal. Actually, the issues are more granular and specific. Without guessing the mind of President Macron, the people that will be dealing with us are a couple of levels down from that. It is an important point: do the Departments understand what they have to solve in that no-deal scenario with board level? That is where the energy I have seen has gone.

Q2921 **Richard Graham:** In terms of our own preparations, clearly, as Jon Thompson and others have intimated, we can take a view at this stage about what we would do. To what extent are you comfortable that almost all Departments, and organisations within a Department, have effectively arrived at the "what we would do if", and that those have been signed off by Secretaries of State and so on in each Department?

Sir Ian Cheshire: It is clear that everyone has engaged. Everyone has the issue list. We have 43 projects in the current portfolio that you would have to tackle for no deal. There is a good oversight and I have seen evidence of a lot of departmental engagement at board, Secretary of State and other levels. I am confident that we know the issue area. The exact type of action is again very difficult to nail down, because you do not have the political decision and the exact detail on the bilats that you would need. It is ready to go at a point where we can get a signal to move. The civil service's ability to respond to this at this point is hamstrung by the fact that we do not have the clarity of decision, but we know where we need to go once we have the clarity.

Q2922 **Richard Graham:** Just lastly, Sir Ian, the advantage of non-executive directors, in a sense, is that you can be detached; you can look at it from an outsider's point of view and aim off for where you see potentially either wishful thinking from politicians or rank optimism from civil servants about the ability of their Departments to respond to any and every challenge the world throws at them. Where do you think the surprise in terms of preparation might happen? Where are you thinking is the sort of area where, although we are not expecting anything to happen, who knows, in a scenario where it is almost impossible to plan?

Sir Ian Cheshire: There are lots of conversations around known knowns, known unknowns and unknown unknowns. I would actually generally say both the non-executive and civil service levels over the last 18 months have spent a lot of time worrying about where to be worried, and that has produced a very effective oversight. I am very confident we know where multiple landmines might be. The problem is we do not know which are the most likely to go off in that period. The difference between a deal and a no deal means you do have two sets of preparations to plan. I have not detected any wild sense of optimism. If anything, you have a lot of quite worried people in Whitehall at the moment who are absolutely focused on doing the right thing. There does need to be this period well before March when a decision is made as to which scenario we are in. At that point, we would be much more able to answer your question. We are slightly shy of that.

Q2923 **Richard Graham:** Jon Thompson, clearly you have spent huge amounts of time thinking on this. You have given a lot of evidence to this Committee and others. In many ways, you have probably thought out the scenarios in huge detail. One aspect of it that we have not really asked you about at the moment is whether there are any revenue potential implications. One thing I am not clear about is a lot has been said that if we leave with no deal, then on 1 April 2019 WTO tariffs kick in. What is that going to mean particularly for agricultural produce, where WTO tariffs are quite high? What are both the practical impacts of potential delays for, say, sheep farmers getting sheep to the restaurants in Paris, but also the impact on flows and costs to consumers of a sudden huge increase in tariffs on those goods?

Jon Thompson: Just to be clear about the question, you asked me about revenue and then you asked me about paying tariffs. One of those is an income stream and one is a cost. Which one are you interested in?

Richard Graham: I am interested in both, because I just do not think we are quite clear.

Jon Thompson: It would be for Ministers to decide what tariffs, if any, it wished to put in in the event of no deal. There have been, as far as I can see, no announcements made by any Ministers about putting tariffs in for the UK, but that would clearly be a future decision for Ministers to make. It is a shared responsibility between the Treasury and the Department for International Trade. It is relatively straightforward for us to put new tariffs in.

Q2924 **Richard Graham:** We would not revert automatically to WTO tariffs.

Jon Thompson: Do you mean the UK?

Richard Graham: Yes.

Jon Thompson: Ministers have not said anything about what the future UK tariff position is.

Q2925 **Richard Graham:** That would be a decision by the Government. There would be no automatic implication and transfer, if you like, of a tariff regime to the WTO tariffs.

Jon Thompson: When you talk about WTO tariffs, you have to lodge with the WTO a tariff schedule. It is therefore for the Government to decide which tariffs they do and do not want to put in for which goods. The last time I checked, there were 14,000 tariffs in a tariff schedule.

Q2926 **Richard Graham:** What tariffs would then apply for exporters into the European Union in that situation?

Jon Thompson: The only reasonable estimate you can make is that UK exports would have to pay the common external tariff. There are ranges with that, because there are 44 variants to the EU's common external tariff depending on the free trade agreements that they have struck. If you assume that it is the common external tariff that UK exports would have to pay, the CBI estimated that at between £4.5 billion and £6 billion a year of additional tariff costs for UK exporters.

Q2927 **Richard Graham:** Give us an idea of which sectors would be most hit.

Jon Thompson: From memory, it is cars and vehicle manufacturing, chemicals and agriculture, I believe. Just to be really clear, tariff policy is not HMRC; I am giving you the best information I have.

Q2928 **Richard Graham:** Of the 145,000 companies you mentioned are exporting to Europe at the moment, you have indicated that not many of those are really engaging in terms and preparations, and indeed the FSB said something very similar the other day. The FSB suggested that the vast majority of these exporters actually do not export anywhere else and therefore are never used to filling in customs forms and having to deal with some elements of what could be called friction when exporting. What is your take on that?

Jon Thompson: That is correct. There are 77,000 companies that trade only with the rest of the world, 73,000 that trade with the rest of the world and the EU and a minimum of 145,000 that trade only intra-EU. The 77,000 and 73,000, because they are trading with the rest of the world, would be used to customs processes, and for the 145,000 it would be completely new.

Q2929 **Richard Graham:** What paperwork would they have to actually complete if they were just exporting to the EU in this new world of no deal, post the end of March?

Jon Thompson: A reasonable assumption would be that we would have to comply with the standard EU customs declaration. The last time I checked, it had 55 data fields in it. There is a standard one that is used by the 28.

Q2930 **Richard Graham:** I have a very quick one just to Sir Chris. Again, assuming this worst-case scenario of no deal at the end of March, European health insurance has helped huge numbers of British people travelling on the continent who become ill for different reasons. What would happen?

Sir Chris Wormald: In the event of no deal, with no other arrangements, all of the current arrangements around EHIC would fall and individuals would have to take out appropriate travel insurance exactly as if you were travelling to the United States, Canada or any other country where we do not have a set of bilateral agreements.

Q2931 **Richard Graham:** But there will be no more of you signing a bit of paper and a bill coming back to the NHS.

Sir Chris Wormald: The EHIC system is a series of intra-Government agreements to pay for our own citizens both ways. In the event of a pure no deal, clearly that would not exist. There are some countries where we have other bilateral arrangements not to do with the EU, but in the vast majority of cases when you go abroad, you are responsible for ensuring that you have appropriate health cover. As I say, that is what you do every time you get on a plane to the United States.

Q2932 **Wera Hobhouse:** I just have a very quick question for any of you. Given that you earlier said that the lights are not going to go out if there is no deal, what actually is the difference between a small bare-bones agreement and no deal?

Jon Thompson: I am sorry; I have no idea what a bare-bones agreement is, so I cannot really answer your question.

Chair: I think it was a phrase that the previous Secretary of State used at some point.

Q2933 **Peter Grant:** Can each of you tell us whether you are aware of any increase in the number of times your Department has been asked not to share information, either with other Departments or with external stakeholders? Some of the external stakeholders have told us they think there is less information being shared now than would be normal during the course of Government work. Has there been any such direct or indirect instruction to any of your Departments?

Sir Chris Wormald: I do not think there has been any instruction to anyone, but it has come out during the course of this hearing on a number of occasions. The biggest challenge for us, industry and individuals is the level of uncertainty. There are a large number of people, certainly in the sectors I am responsible for, and what they really want is certainty, which we cannot currently give them, for all the reasons that we have just discussed. I suspect what people are seeing is more that phenomenon than it is secrecy.

Jon Thompson: We do not have any instruction. In fact, if anything, we have gone the other way. We have created 19 working groups that are in three broad areas: some geographic working groups like Kent or Scotland; some on modes of transport, like rail, road or air; and then some on crosscutting things, like infrastructure and data exchange. There is a mixture of using existing consultative forums and we have used NDAs in some places. That has really helped to improve policy advice to Ministers, as far as I can see.

Bernadette Kelly: It would be the same story for my Department. We have been engaging very extensively with our stakeholders and key sectors. In some cases, we have done that consultation and engagement under non-disclosure agreements, because that has been appropriate in order to create a space in which we could have confidential conversations and also protect any commercial sensitivities. That has often been very productive.

For example, our air safety technical notice, which is some 20 pages long and is, indeed, very technical, was produced through a very intensive process of consultation with the industry under an NDA, and I think they would agree and say publicly that it is a much better document because we were able to do that engagement with them.

Sir Ian Cheshire: I have not seen any evidence of that idea of an instruction. If anything, we are now seeing more engagement with business, particularly as these things come more towards the deadline. It is difficult in the early stages of a negotiation because there is, frankly, a need for secrecy if you are having this public negotiation, but I think we are now moving on, and my impression is the other way.

Q2934 **Peter Grant:** Some of the witnesses we have spoken to, including one who was in just last week, were very firmly of the view that there has been an increase in the use of non-disclosure agreements, for example, and they thought that sometimes it was in circumstances where the usual justifications would not apply, and that it was not just about commercial confidentiality, for example.

You have all quite clearly said that that has not been something that you have been asked to do, but can you offer any explanation as to why so many people outside of Government appear to be telling us that they are finding it harder to get information when each of you is saying, within your own Departments, that you are trying harder to put information out there? Where does the difference in perception come from?

Sir Ian Cheshire: I will probably have to go, so maybe I can make my last comment, if that is alright.

Chair: Indeed.

Sir Ian Cheshire: What I have seen is that there have been more NDAs because there has been more attempt to reach out and have conversations. The NDAs are a result of trying to have more conversations; they are not a push for greater secrecy. That is what I have seen.

Jon Thompson: I would agree with that. Certainly, on various different occasions, Ministers have been very seized about, "Do you have any industry views on this?" We have used NDAs to get industry views, to do research and to sound them out about policy development. I have not heard any angst, in relation to the work that HMRC has done, about, "I am signing an NDA". In general, people have welcomed the fact that they can get inside the policy development process on that basis.

Chair: Sir Ian, thank you.

Sir Ian Cheshire: Thank you very much.

Sir Chris Wormald: We did exactly the same. We had a series of conversations with the pharmaceutical industry under NDAs before we issued our letter about stockpiling, so that we would be clear that, when we went out to the industry, we would be doing so in correct terms. That seems to me to be an entirely appropriate use of NDAs.

In terms of the explanation, it comes back to what I said a few moments ago: that there were a large number of people asking for certainty, which, as we have described, we cannot currently provide. It is not at all surprising that you would see a level of frustration about that, and I suspect it is that that you are witnessing.

Q2935 **Peter Grant:** Very briefly, coming back to Mr Thompson's comment, you seem to be implying that most of the non-disclosure agreements are either at the request of, or for the benefit of, the external stakeholders, so that they can share commercially sensitive information. Has there been any increase in the number of the times that Government have asked for or insisted on NDAs as a basis for these discussions?

Jon Thompson: In this situation, where Ministers are trying to develop policy in a febrile environment, certainly my experience working with Treasury Ministers and the Prime Minister is that they want some sense about, "Have you tested any of this with industry? What does it mean, for example, for the chemicals industry or car manufacturing?" It is easier for us to say, "We signed an NDA. We did some research. Here is what BMW tells us. Here is what Honda tells us", and so on and so forth. I will stick my neck out and say, without exception, I have not heard any of those people say to me that they had any objections to that. They welcomed having a conversation that they knew would feed in to Ministers for negotiations or policy development.

Sir Chris Wormald: As a straight answer to your question, if you take my example, the impetus for an NDA conversation did come from us. We wished to positively go out and consult industry before we made our public statements, and we did that on a confidential basis. The straight answer to your question is yes, there has been more for Government but, certainly in my case, it was because we wanted to get the public announcement right.

Bernadette Kelly: I would say the same. Sometimes we are choosing to use NDAs because we want to be able to have the conversation confidentially before we set out in public what the conclusion of that conversation is, and we want to get those views at the stage of policy development. If there are more NDAs used, it is, as Sir Ian said, because there is an intensity of engagement around these issues, which is greater than one would expect in a business-as-usual period for Government.

Q2936 **Mr Rees-Mogg:** Good morning. Thank you all for coming in. Mr Thompson, I want to follow up, really, from an evidence session in front of the Treasury Select Committee, given by a couple of your colleagues, Mr Harra and Mr Williamson, in 2017. At that point they were extremely confident about the ability of HMRC to be ready under all circumstances from a UK point of view. I would like to confirm that that is still your view and expectation.

Jon Thompson: Are you asking about deal or no deal?

Mr Rees-Mogg: Under all circumstances, they were confident that HMRC would be able to cope with whatever happened.

Jon Thompson: If you are asking me to get off the fence about yes or no, I have been relatively transparent about what the top risks are for us: Northern Ireland, customer readiness and member state controls. I could go beyond that, which includes what exactly happens with RO/RO ferries; there is the question about postponed VAT accounting which has come up in some other Select Committees; whether CDS will be ready, which somebody may or may not have a question on, I gather, but we have a full-blown contingency—

Mr Rees-Mogg: That was going to be my question.

Jon Thompson: And then where we are with legislation. Those are my top seven. It depends where you feel that my responsibilities start and finish. It seems to me that, increasingly, HMRC feels responsibility for the entire tax system, not just for what HMRC does. If you take the implementation of CDS, a full-blown contingency, which is a scaled-up version of CHIEF, will be ready to cope with 300 million transactions a year. HMRC would have the facility to process 300 million customs declarations a year. Will customers be ready to submit that level? I am putting some significant doubt on that. It depends on where you want to draw the line about whether we are ready and whether the system is ready.

Q2937 **Mr Rees-Mogg:** CDS is delayed, and so it is an expansion of CHIEF. In 2017, to be fair, you and your colleagues were very careful to say that you expected CDS to be ready by 2019 but you could not guarantee it, to use the word Sir Chris very carefully and wisely avoided, and that that non-guarantee was the right thing to say.

Jon Thompson: Yes. If you recall, the Customs Declaration Service was originally to be implemented in 2020, in accordance with the deadline for the rollout of the Union Customs Code, but we brought it forward to 2019 because of the vote to leave the European Union. What has happened now is it has slightly moved back.

We have, though, a highly reliant system—the CHIEF system—but it can, at the moment, only scale to 100 million transactions. It is reasonable, and there was a question earlier about the fact that we would have to scale to 300 million, so we have spent a fairly small amount of money to scale it up to 300 million. I gave extensive evidence to the Public Accounts Committee about this. At the point when you have a fully scaled CHIEF, it does not really matter about CDS. It can take as long as we like to roll it out because you have a fully functioning Plan A, and you can migrate people on to CDS over a longer period of time.

Q2938 **Mr Rees-Mogg:** In relation to the Northern Ireland border, again from the UK's point of view rather than from an agreement or non-agreement point of view, Mr Harra gave evidence that they would be able to manage the border without physical controls—this was in answer to George Kerevan's question—and that they had no intention of having controls physically at the border. These are questions 583 and 595 from the evidence given in February. That, I assume, is still the position of HMRC.

Jon Thompson: Correct.

Q2939 **Mr Rees-Mogg:** One of the other things Mr Harra said, which was question 552, was, "There is certainly no direct correlation between any increase in the volume of customs declarations and an increase in the resources needed to administer the customs system".

Jon Thompson: Yes, that is correct.

Q2940 **Mr Rees-Mogg:** There must have been policy decisions made that have led to the requirement for HMRC to spend several hundred million pounds and to employ so many thousands more people. These are a political responsibility rather than a civil service responsibility, but I wonder if you could outline what the policy decisions are that have been made that require this extra expenditure.

Jon Thompson: It is a mixture of the two. For a fivefold increase in the number of customs declarations, we require a threefold increase in the number of people, so it is not a linear relationship. We need some increase, and that is because our view is that intra-EU traffic has a lower risk than trade with the rest of the world, so you do not need a fivefold increase in the number of people but only a threefold increase.

The areas where, clearly, we are starting from scratch are that, as I said in answer to an earlier question, since 1974 customs has been an EU responsibility and, with that being repatriated to the UK, we need to develop a customs expertise and customs policy. That also applies to elements of indirect tax like VAT.

There are aspects of the welfare state that lie with HMRC. It is an increase in policy capacity in relation to customs, VAT and so on. You have a range of IT systems that we now need to provide ourselves rather than relying on pan-EU systems. Then you have the operational scale-up of around three times when there is a fivefold increase in the work.

Q2941 **Mr Rees-Mogg:** But is it not the case that, to some extent, the controls we have had on non-EU trade have been mandated by the EU to ensure that we meet their requirements and satisfy them that we are implementing customs controls properly, and that there would be an opportunity to reduce the level of controls on countries that we are very comfortable trading with and believe have high standards, rather than extending that level of control to the EU?

Jon Thompson: It is possible that that is true. That would be for Ministers to decide. At this point, we are working with a ministerial directive that we should assume that we need to maintain alignment with the Union Customs Code. If you begin to diverge from the Union Customs Code, it is theoretically possible, for example, that you could reduce the number of data fields in the customs declaration, which was Mr Graham's question.

Q2942 **Mr Rees-Mogg:** That is important because what I was trying to get at is that it is a policy decision that is leading to a significant part of this extra expenditure rather than purely an administrative requirement to maintain a satisfactory customs process.

Jon Thompson: It is possible to change some of the policies to mitigate the increase that I set out in answer to the earlier question. It would come down. How much it would come down is unclear but it would be less. You would still, overall, need more.

Q2943 **Mr Rees-Mogg:** Thank you. That is very helpful and clear to differentiate between the two parts. You mentioned the companies that export to the EU exclusively; was it 144,000?

Jon Thompson: 145,000.

Q2944 **Mr Rees-Mogg:** Sorry; I chopped off a thousand in half an hour. They all have to make EU VAT declarations, which are a slightly different line than an ordinary VAT declaration. Those will no longer, I assume, apply because they will not be collecting VAT for the European Union once we have left. Although they will have a complexity on a declaration to the EU with customs, they will lose some complexity in terms of their VAT. When we say frictionless, there is already some friction because they already have to make the VAT declaration, collection and payment.

Jon Thompson: They do. It is relatively limited. I gather it is one field on your VAT return. To be clear about the number, we can identify the 145,000 because they are declaring that on their VAT return. We have an established 100,000 below the VAT threshold. There is also something called the Intrastat return, which slightly larger traders have to complete to give us some summary information about that flow of intra-EU trade, which enables you to estimate the value and the volume of current intra-EU trade, although there are no customs declarations.

Q2945 **Mr Rees-Mogg:** There is one final question I want to ask you. You said that 98% of non-EU trade is cleared without any checks, which is good news, because that is 2% up on the figure we got in 2017.

Jon Thompson: I did not say it was not without any checks.

Q2946 **Mr Rees-Mogg:** With electronic checks rather than physical checks, or without any individual involved in the checks.

Jon Thompson: With any human involvement, yes, correct.

Q2947 **Mr Rees-Mogg:** That allows for just-in-time delivery coming from outside the European Union.

Jon Thompson: Yes.

Q2948 **Stephen Kinnock:** Mr Thompson, I would just like to go back to this question of the WTO schedules that we would need to create or at least plug into, if we leave in the event of no deal. Can you just talk in a little bit more detail about how that would work in practice and how long you think it would take for the UK to establish a system based on those schedules, and whether you think that is feasible before 29 March?

Jon Thompson: I do not know the triggers. In answer to the earlier question, I was clear that the responsibility for deciding on tariffs is shared between the Treasury and the Department for International Trade. My responsibility would be somebody would hand me a schedule and we would put that into the CHIEF system so that it flowed through into the customs declaration.

Q2949 **Stephen Kinnock:** Let us say that it is 30 March and there is a lorry carrying certain goods that needs to go through a border. If the schedules have not been agreed, settled and gone through the legislative process—and it is very interesting, Chair, that we perhaps need to get that clarity from the Department for International Trade and the Treasury as to how exactly that would work and what the decision-making process would be—although there is a system of barcodes, that lorry would not be able to pass through the border. Is that correct?

Jon Thompson: No. Sorry, that is not correct. If I link your question to that of Mr Graham, you are asking me to speculate but, if the UK does not have a tariff, we will not charge a tariff. That does not mean it cannot get through the border.

Q2950 **Stephen Kinnock:** We simply would not charge a tariff at all coming in.

Jon Thompson: If somebody does not tell me what the tariff is, I cannot charge it. That would not prevent you getting through the border, because the assumption would be there are no tariffs and, therefore, you can go through the border. To be really clear—and I need to continue to reiterate this—that is not my responsibility; it is two other people's. It would not stop anyone coming through the border.

Q2951 **Stephen Kinnock:** If I could ask you to speculate—and I know it is not easy to speculate on these things—for us to export to the European Union, would it be safe to assume that, if we have left the European Union without a deal, they would apply WTO tariffs and schedules to our goods going into their markets?

Jon Thompson: To reiterate an answer that I gave, our assumption is that the European Union would apply the common external tariff. That is, if you like, the standard EU tariff. They vary that tariff depending on the free trade agreements that they have and also trade defence. It is really difficult to give you an example but, in general, there is a common tariff and then there is a bar on that. For trade defence, there are countries where they may want to increase that or they may want to reduce it because they have struck a free trade agreement with South Korea. You have a common and then you vary.

At the minute, the CHIEF system handles 44 variants to that common external tariff that the EU charges. The CBI tried to simulate what the cost would be to British exporters of paying the common external tariff, and its estimate was between £4.5 billion and £6 billion a year.

Q2952 **Stephen Kinnock:** I have one more broader question to all three, really. I would like to say that I really admire the professionalism and the dedication that you are showing and the challenges that you are facing. From what you have said to us today, we have no idea what the French are doing. Out of 145,000 businesses, 1% or 2% seem to be making enquiries that would suggest that they are preparing for this. We have no real idea what is going to happen on reciprocal healthcare. We have a ludicrous amount of primary and secondary legislation that would have to be passed in order to be ready by 29 March in the event of no deal. Is it not absolutely clear that this no-deal thing is a charade and that it is simply unthinkable that the United Kingdom could leave the European Union without a deal?

Jon Thompson: It is for you to describe it how you want to describe it. I do not think it is for us to comment on the words that you use.

Q2953 **Stephen Kinnock:** Would anyone else care to comment on that?

Sir Chris Wormald: No.

Bernadette Kelly: No.

Q2954 **Jeremy Lefroy:** Could I first ask Ms Kelly about vehicle type registration? At the moment, a number of European vehicle manufacturers register their vehicles in the UK because it is a very efficient system. Skoda, for instance, registers one or two of their popular models in the UK for the use right across Europe. What will the situation be post 29 March?

Bernadette Kelly: In a deal scenario, we would hope that vehicle type approval is part of a wider system of a common rulebook or mutual recognition. As for a no-deal exit on 29 March, there are a number of possibilities. It is true that UK type approvals will no longer be valid within the EU. One option that we are working on is that the Vehicle Certification Agency, which is the agency in the UK that does those type approvals and, at the moment, produces EU-valid approvals, could continue to do that work for UK manufacturers, but then it would still need to be authorised by an EU type approval agency. Another is that UK manufacturers would need to go to an EU type approval agency in order to have their type approvals recognised.

Q2955 **Jeremy Lefroy:** Is the proposal from the UK to recognise European type approvals, even if they do not recognise ours?

Bernadette Kelly: Yes, that is currently our plan.

Q2956 **Jeremy Lefroy:** That means that there would be no point in anybody, in future, putting their vehicle through a UK type approval, if we adopt that approach. Therefore, in effect, the agency would have no work to do.

Bernadette Kelly: At the moment the agency is expecting to have a significant amount of work to do and is gearing up accordingly. Clearly, if, in future, UK-based manufacturers choose to go to EU agencies for their type approval, then that will have an impact on the VCA's workload. I confess I may need to check whether the way the legislation is framed means that there would need to be a UK approval anyway for vehicles that need to be registered in the UK.

Q2957 **Jeremy Lefroy:** Could I move to air transport? Pretty much every single civilian airliner in the world has bits made in Britain, whether wing or engines or whatever, whether they are made by Boeing, Airbus, Embraer, McDonnell Douglas or anybody else. What is the situation regarding type certification of bits made in Britain on the existing stock and future stock of airliners? How would that be maintained so that they would not be grounded?

Bernadette Kelly: Clearly, what we are seeking is to continue to be members of EASA. There are non-EU, third-country members of EASA at present.

Q2958 **Jeremy Lefroy:** Could you give us one example?

Bernadette Kelly: Norway.

Q2959 **Jeremy Lefroy:** But they are EEA. Is there a non-EEA member? Is Israel a member?

Bernadette Kelly: It is certainly possible for the UK to continue to be a third-country member of EASA. There is no reason that I can tell the Committee why that is impossible. Indeed, it is our preferred approach at the moment, so we will continue to be a part of EASA, which, of course, provides many of those aircraft product approvals at the moment. If it is not possible for us to continue to be a member, then we would look to have a bilateral agreement with the EU on air services. Our third fall-back, as it were, is that the CAA would take on responsibility for type approvals currently carried out by EASA. As I say, we are very firmly focused at the moment on ensuring that the UK remains a member of EASA.

Q2960 **Jeremy Lefroy:** Could I ask a question to Sir Chris now? There are more pharmaceutical treatments that are exported from the UK than are imported on a monthly basis, certainly in numerical terms and possibly in value terms. You have made it quite clear that, on imports, the UK would maintain the current situation and would not put any blockage on that. What have you understood on the export side? Presumably, European patients would be similarly concerned that, if the only source of their medicines is the United Kingdom and there were to be some blockages put in the way of that, that might have some impact on a large number of European patients.

Sir Chris Wormald: That is certainly possible. As with previous answers, I do not know what the EU and its members would choose to do in that circumstance. If I were them, I would want to go on receiving medicines from the UK as they do, but it is a matter for them. I should say, just to be absolutely clear, that, although the volumes are, in absolute terms, greater, of course, a considerably smaller percentage of European medicines come from Britain than British medicines come from Europe, so it is a bigger issue for us.

Q2961 **Jeremy Lefroy:** I had understood that the quantities were more from our side.

Sir Chris Wormald: Yes, but in a much bigger market.

Q2962 **Jeremy Lefroy:** Understood. Yes, clearly, but for each of those 45 million patients a month, it is quite significant.

Sir Chris Wormald: Yes. Approximately two-thirds of the medicines that we use in the UK are either from the European Union or are transported via the European Union, whereas the similar ratio for Europe would, of course, be much lower, even though, in absolute terms, because we have a very successful pharmaceutical industry, it is a higher amount. Your basic point is right that, for those medicines, they would have exactly the same challenges that we do. I should reiterate what I said earlier: that the conversations around health have not been vexed so far, because, as I say, everyone has an interest in ensuring it works. Whether that continues, as I say, is a matter for our EU colleagues.

Q2963 **Jeremy Lefroy:** Understood. I have two questions for Mr Thompson, if I may, following on from what Sir Chris has said. I am not asking you to speculate on what the French President or others might or might not do; I am simply asking a technical question. Is it possible for a country to pick and choose—we might even use the word “cherry-pick”—in terms of the products that they might want to take from the United Kingdom that are quite critical to them, such as pharmaceuticals, as opposed to other areas such as motor vehicles or aerospace? They might have a policy of waving through trucks with British pharmaceuticals on but stopping those with British-manufactured goods such as cars or aerospace parts.

Sir Chris Wormald: Do you want me to answer on the pharmaceuticals question? It is theoretically possible but it is operationally very difficult. The way supply chains and the logistics around this work is there is not a truck that is exclusively medicines and another truck that is exclusively something else. The haulage industry fills its loads.

Q2964 **Jeremy Lefroy:** Sorry; if I may come back, I fully understand that but I am talking more in conceptual terms. A car transporter taking cars from Solihull to Paris is not carrying pharmaceuticals, so it is quite easy to distinguish.

Sir Chris Wormald: Yes. As I say, theoretically it is possible to do that, but operationally it is extremely difficult. Very few of our medicines come in on containers in terms of what we get via the European Union. About 73% of it comes through the short straits, and about 90% of the medical equipment that we import comes through the short straits, so it is very much that closed loop and very complex system that we have been discussing that we currently rely on. As I say, it is theoretically possible but operationally very complex. Is that fair, Jon?

Jon Thompson: Yes.

Q2965 **Jeremy Lefroy:** If I may ask Mr Thompson that question, I am trying to get to whether it is legally possible for two trading partners to, on the one hand, say, "Yes, we would very much like pharmaceuticals to come but, on the other hand, not other products".

Jon Thompson: It is very difficult to answer your question. Let me just check: you are asking whether a French customs officer could determine which lorries are carrying which goods and prioritise those in the queue.

Q2966 **Jeremy Lefroy:** Yes, and saying, "We are very happy to take these pharmaceuticals, because we need them, but we are not going to take your motor vehicles", or, "We are going to subject them to a much higher standard".

Jon Thompson: You are stretching my knowledge but it is quite difficult, is it not? As I had understood it, if an exporter pays the common external tariff, then they have every right to export. I do not know what the grounds would be for refusal.

Q2967 **Jeremy Lefroy:** That is a very clear answer. As a final question to you, have Ministers indicated to you that they will provide any flexibility in terms of payment of taxes, particularly by SMEs, as a result of potential disruption to their cash flow post March next year, whether there is a deal or no deal? Clearly, an awful lot of them are either incredibly well prepared and not consulting or not well prepared at all and not consulting either. My experience from many years in business is that one of the first impacts on any disruption is on cash flow. With VAT bills to be paid, corporation tax to be paid or income tax to be paid at the end of a financial year, which it will be, that is a considerable part of the cash flow. Have Ministers given you any instructions to be lenient on SMEs particularly but all businesses in terms of cash flows and tax payments?

Jon Thompson: The Chancellor did announce that, in relation to VAT, the shift from paying VAT intra-EU, as it were, on your invoice, which is part of your normal VAT return, to paying import VAT accelerates the point at which you have to pay VAT. The Chancellor gave a very clear indication that he would ensure that that did not impact on any UK business and would adjust the UK VAT system to make sure that any VAT payer was not impacted negatively by that change. Beyond that, we are still working with Ministers on whether there is any further advice that we might need to give in relation to no deal. The Chancellor has been very clear about VAT, which is a multi-billion-pound adjustment.

Q2968 **Jeremy Lefroy:** You have not had any advice on income tax or corporation tax at this stage.

Jon Thompson: Not at this stage. Our general rules in relation to cash flow are that it is better to talk to us. We strike time-to-pay arrangements in 96% of cases. We regularly have between 800,000 and one point something million individuals or companies with time-to-pay arrangements. It is better for us to collect the tax more slowly than it is to do anything else.

Sir Chris Wormald: Just for completion on that question, in relation to pharmaceuticals, we have said that, as we discuss with the industry what is required to build up our buffer stock, we will discuss with the industry what support they need. As my Secretary of State has made clear, there is the possibility of that including financial support, because you see exactly the difference that you described. There are some very big companies, some of which were doing this anyway, and some SMEs that were struggling. Those are the discussions we are having. That is entirely separate from the tax sets of questions. It is about what you need to do to do what the Government have asked them to do in terms of buffer stock.

Jeremy Lefroy: That is very helpful, thank you.

Q2969 **Stephen Timms:** Can I ask Mr Thompson a question first of all? You mentioned that there have been discussions with the Port of Calais about all of this. The Committee visited Dover several months ago and there was a representative of the Port of Calais present. I think what he said to us was that their view at the time was that, if there was no deal, the Port of Calais would just have to shut down because they could not see a way of coping with the checks, keeping the lorries stacked up and so on. Has the Port of Calais, as far as you can establish, worked out a way of continuing operating in the event of no deal?

Jon Thompson: I have been reasonably transparent that there have been very limited conversations with the Port of Calais. The primary driver of checks is at the French national level. Although the Port of Calais is a municipal port, from memory, under local government control, it nevertheless needs to be part of a unified system, so my understanding is they would wait to see what the national view was. It then comes down to some of the earlier questions about where it is on a scale between reasonable and legalistic. The position has not really moved any further forward, as far as I can see. This would be part of the, "In no deal, what are the individual conversations we need to have?" Calais and Dover would be almost at the top of my list, as far as I can see.

Q2970 **Stephen Timms:** You are saying that, at the moment, they do not know what will happen but one possibility is that they would feel they just could not handle the checks that would be necessary.

Jon Thompson: I cannot speak for the Port of Calais. I am not running the Port of Calais. I think I know what I am running but it is definitely not the Port of Calais.

Q2971 **Stephen Timms:** Let me ask you, though: you did say there had been discussions with a number of other ports. You mentioned Zeebrugge and Rotterdam. Can you tell us what the view there is at the moment about how they would be able to cope?

Jon Thompson: We started some informal conversations with them to see what they were planning to do. There is an increasingly large car park being built in Belgium, as far as I can see. If we are being completely frank with you, both Zeebrugge and Rotterdam see this as a commercial opportunity. If you talk to trade, they quite often drive through northern France to see where the shortest queue is before they decide when to turn left. From talking fairly extensively to the Road Haulage Association, there is that flexibility, and so, potentially, we are in a situation where there is some direct competition between those three. The other two seem to be somewhat more willing to talk and do see it as a commercial opportunity for them. Although the crossing is longer, it may be a commercial opportunity.

Q2972 **Stephen Timms:** Can I ask you a question about what might happen at the Northern Ireland border? You have made clear that there would be no need to erect infrastructure from a UK point of view. Are you able to tell us anything about what the thinking on the part of the Irish Government would be about that and whether they would also feel that they would not need to erect infrastructure?

Jon Thompson: No, I am not in a position to give you any opinion about what the Irish are going to do. I was relatively clear that it is the Irish, the French, the Dutch and the Belgians that we would need to have urgent bilateral conversations with.

Q2973 **Stephen Timms:** Have they said anything about what they would do?

Jon Thompson: No. The countries are very seized about the fact that there is an ongoing negotiation that is trying to strike an agreement, en route to the deep and special partnership between the UK and the EU. They are very seized about that. All of those conversations, therefore, feed into the taskforce on Article 50. That is perfectly understandable. They do not really want to talk about no deal until and if that arises.

Q2974 **Stephen Timms:** I have a question for Sir Chris. How important is it for the UK and for the health service to maintain access to EU medical databases like those on infection control and pharmacovigilance?

Sir Chris Wormald: They are important but, as I described earlier, health protection is a world business. We draw on a range of sources, both from the European Union and the WHO, and our bilateral arrangements with a whole series of countries. Were we to lose access to Europe, we would clearly have to increase what we do with other bodies. It would be disadvantageous to us, but, as I say, health protection is a world business.

Q2975 **Stephen Timms:** If we were no longer part of the EU regulatory framework, what would that mean for the viability of clinical trials?

Sir Chris Wormald: As you know, to the point of your question, a lot of clinical trials are conducted on a pan-European basis. It would depend on what arrangements we could agree about our clinical trials. The key issue that would affect the trials would be whether our European colleagues, after exit, recognised the results of those trials for their own regulatory decisions. As with so many other things that we have discussed, that would be a decision for them, not us.

Q2976 **Stephen Timms:** Is it important for us that we would continue to be part of EU-wide clinical trials?

Sir Chris Wormald: The Government have made clear that what we want out of the negotiation is to remain a part of all those systems, normally on an associate-membership basis. That goes across medicine regulation. We would hope that our European colleagues would also see the benefit of that. Of course, the MHRA and the UK pharmaceutical industry is the leader in Europe in this area and we do a considerable amount of work for the European Union around drugs regulation, et cetera, so that is clearly our preferred position.

Q2977 **Chair:** There is one final and quick question to each of you from me: when is the last date by which you have to advise Ministers, given that we know that, if there is no deal, it will apply from 1 April, that you would have to press the "go" button on putting into effect all of the contingency arrangements that you have spoken about this morning?

Sir Chris Wormald: I very much doubt that there is a single answer to that question.

Q2978 **Chair:** What is the answer for the Department of Health and your contingency arrangements?

Sir Chris Wormald: We have already pressed "go" on our question around medicine-stockpiling. We did that 23 August. Other things would come in at other points. We did that because the practicals of how long it takes to increase production and lay on the correct amount of storage meant that we had to go early on that. There will not be a day on which you turn everything on.

Q2979 **Chair:** There is a series of "go" dates where buttons will have to be pressed.

Sir Chris Wormald: Yes. There are a series of things—and the Department of Health is reasonably unique in this, though transport has done a bit as well—where we have already passed that point and we have therefore taken the action we have taken on a contingent basis.

Q2980 **Chair:** Ministers, therefore, know, in respect of health, what those dates are.

Sir Chris Wormald: Yes.

Bernadette Kelly: It is the same answer for me. We have already pressed "go" in a number of areas—for example, road-haulage permits, international driving permits, et cetera. We already have well-advanced plans to put those arrangements in place in the eventuality that they are needed on 29 March. We have already passed "go" on a number of our work streams. Ministers are well aware of exactly where we are on those work streams. It is different. There is not a single "stop/go" date for us in relation to our preparedness.

Q2981 **Chair:** Would you need Ministers' approval to press subsequent buttons?

Bernadette Kelly: All of these areas of work are ones where we seek ministerial approval. We certainly do not act without ministerial authorisation in any of these areas. Indeed, I have needed to seek ministerial approval as well in relation to expenditure.

Jon Thompson: We have a series of dates too but we are really past most of those dates. In some areas, we have taken action; in some, we have not. You will have a functioning border but it will be suboptimal.

Q2982 **Chair:** If you are past the date already, why have you not taken action in some of those?

Jon Thompson: Because, as you saw with Mr Wilson's question, some of the lead times are really rather long.

Q2983 **Chair:** You could not have put them in place anyway.

Jon Thompson: If you want to move from the optimal, high-functioning system that you have now and not feel any impact of no deal, you had to take action a long time ago.

Chair: That is a very straightforward answer. On behalf of the Committee, can I thank all of you for coming, as well as Mr Cheshire, in his absence, and for answering our questions so comprehensively? Can I also, on behalf of the Committee, ask you to thank all of your staff because we are acutely conscious of the enormous amount of work that they are undertaking in trying to prepare for two different eventualities? We are extremely grateful to them, as we are to you.