Committee of Public Accounts
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Dear Permanent Secretary

The UK border: preparedness for the end of the transition period

Thank you for your evidence to the Committee on 23 November 2020, alongside your colleague from the Border and Protocol Delivery Group (BPDG) in the Cabinet Office and the Permanent Secretaries of HM Revenue & Customs (HMRC), the Department for Environment, Food and Rural Affairs (Defra) and the Department for Transport (DfT).

The Public Accounts Committee produced several reports focussing on how the UK border will operate after the UK leaves the EU. We recognise that progress has been made, but we remain concerned that are still huge challenges to meet before January 2021, many of which this Committee has raised repeatedly. Given the short time remaining before the end of the transition period this letter sets out the Committee's vies on the areas we consider require particular focus now:

- It is unclear what contingency plans might operate if individual parts of the border operating model do not function as planned after the end of the transition period, or if the relevant legislation cannot be passed in time.
- There is still much more to do to ensure that traders and hauliers moving goods into or out of the UK are ready for the changes at the border from 1 January 2021. Businesses have faced massive challenges coping with the impact of pandemic, yet still have not got the certainty they need to fully prepare for the end of the transition period.
- It appears that there will be insufficient customs agents with the required expertise to handle the increase in customs declarations.
- If disruption arises after 1 January 2021 it will predominantly occur in the South East, yet departments have not yet clearly defined the arrangements for hauliers travelling through Kent.
- Government does not know the impact of all the additional costs and burdens on businesses of the new border requirements and therefore cannot determine if or where extra support is most needed.
- Implementing the Northern Ireland Protocol on 1 January 2021 is the most high-risk and uncertain area of preparations, with many issues still to be resolved.

Based on the evidence we heard last week, I set out our conclusions and recommendations on these issues and timescales in which we require responses. These conclusions and recommendations are based on the Committee's view of the National Audit Offices report, the evidence session on 23 November, the Committee's previous work in this area.

Overall preparations and contingency arrangements

The NAO's [The UK border: preparedness for the end of the transition period], report found that government departments had a "reasonable degree of confidence" that most of the systems, infrastructure and staff needed to provide a minimum operating capability would be in place by January 2021. However, several key systems, including the critical Goods Vehicle Movement Service (GVMS) required to manage roll-on, roll-off traffic in the short Channel crossings are rated an amber delivery risk. The Cabinet Office set out government's improved delivery confidence in its preparations, including that all inland sites were now rated amber or amber green. However, an amber delivery risk means that significant existing issues need to be resolved.

The Cabinet Office told us that "the sheer scale of the overall operation means that there are literally many millions of moving parts" which need to be brought together for January 2021 and that even if individual systems are all rated green, the collective risk in bringing them together would be higher. More specifically, HMRC told us that the seven key IT systems will need to work together to facilitate GB-EU trade and failure of one part can have knock-on effects on other parts. The NAO report concludes there is little time to undertake end-to-end and integration testing. This problem is more acute still for the five community system providers and around twenty software developers that help link individual ports and carriers to HMRC systems.

HMRC told us that, in order to manage risks, the government had already introduced two key contingencies: GB-EU trade controls would be phased in over 6 months, and a new Trader Support Service would help businesses trading in Northern Ireland deal with new controls. However, given the delivery risks and tight timetable for testing and for users to get their systems ready, there is a risk that these contingencies may not be delivered in time. The NAO report stated that departments were developing further contingency plans, including options such as using alternative IT systems; delaying or waiving control requirements; or using manual processes.

An additional risk is the limited time available for any legislation to be passed by Parliament. This includes legislation if there were to be a UK-EU agreement, and specific legislation to facilitate border operations, such as to allow data-sharing.

Recommendation: *Government should write to the Committee urgently, confirming its contingency plans in the event that the component parts of the border operating model, such as individual systems, do not function as planned on 1 January or that it cannot pass the necessary legislation in time.*

Improving trader readiness

We have previously expressed concern that too little is being done to support businesses to prepare for the impact of new border controls. Government has now published a range of guidance for businesses, including a detailed border operating model and, more recently, a haulier handbook. It also launched campaigns in July and October to increase business awareness of the changes that they need to make. But these efforts have clearly not yet had the required impact. The Cabinet Office told us on 23 November that the single most high-risk area of preparations remains trader readiness.

The state of readiness across the business community is variable. Of the 10,000 high value traders, HMRC told us that it had contacted the top 2,000 businesses and it expected that almost all would be ready. However, HMRC told us that the level of readiness falls to about 48% as you go down that list. BPDG explained that businesses were also offered further one-to-one support, and around 600 exporters have been contacted in this way. BPDG told us that feedback from businesses indicated two current barriers. Firstly, businesses are still grappling with the impact of COVID-19 and secondly, businesses are waiting to see what happens in relation to a trade agreement. However, as the NAO report states, as the UK will be leaving the EU single market and customs union in all scenarios, full border controls will be implemented whatever the outcome of negotiations.

The NAO report noted that industry representative bodies wanted greater clarity from government on border processes and requirements and written evidence provided to this Committee indicates that the guidance provided is incomplete.

Recommendation: *Government should urgently step up its engagement with smaller high value traders, SMEs and less frequent traders and determine what additional support, information or removing regulatory compliance requirements could be provided to businesses, including beyond January 2021.*

<u>Expanding the customs intermediary market</u>

Government recommends that traders use the services of a customs intermediary. However, it may be challenging for businesses to secure the services of an intermediary given that the capacity of the UK customs intermediary market will need to expand significantly to cope with the 270 million customs declarations required once full controls are implemented. Government has allocated £84 million of grant funding to help firms train staff and/or improve their systems. Despite this funding, as at 21 October, BPDG reported the risk that there would not be sufficient customs intermediaries in place for January, or July 2021, as red.

HMRC told us that government's recent research indicates that the intermediary market could have the capacity to fulfil 76-119 million additional declarations per year by January 2021, against the current annual capacity of 29-39 million. HMRC told us that if actual capacity came in at the high end of the estimated range then there could be enough capacity in the market to cope with immediate demands, but if it came in at the lower range then it could get "quite uncomfortable" and that government would have to assess whether there were further policy decisions to make to deal with that. HMRC also recognised that this is an unregulated market and that, apart from the approvals required if customs agents wished to be part of customs facilitations schemes, anyone could set up as a customs agent.

Recommendation: *Government should continue to monitor the customs intermediaries' market and i) determine if there are any further immediate actions it can take to support expansion on the basis of its research; ii) clarify how it will obtain assurance that new entrants to the market are able to perform the role appropriately; and iii) assess the value for money of the money spent so far.*

<u>Managing disruption in the South East and its impact</u>

219 million tonnes of freight crossed the UK – EU border by ferry and train during 2019 and haulier readiness is therefore a key element of preparations. Groups representing hauliers and other third parties have previously criticised the amount of information that government has made available to help hauliers prepare. For example, Logistics UK told the Committee on the Future Relationship with the European Union that earlier versions of the haulier handbook were not 'fit for purpose'. DfT told us that it had a very extensive suite of action in place to reach hauliers and ensure that they are ready including the, "Time is running out" campaign; 44 information and advice sites; the publication of the haulier handbook; and that government was working closely with industry bodies to ensure that it is reaching out to their members. We welcome this engagement, but we are concerned at how late this information is being made available and that the handbook has only very recently been made available in languages other than English.

Under government's worst-case scenario planning assumptions, 40% to 70% of laden lorries travelling to the EU will not be ready for EU controls, and this could result in queues of up to 7,000 lorries on the approach to the short Channel crossings. BPDG told us the assumptions are before considering the impact of mitigating steps, such as the introduction of the new "Check an HGV" service. This will enable hauliers to confirm that they have the documents required to make a successful border crossing and obtain a Kent Access Permit, and will be mandatory for hauliers using the short Channel crossings. We were not convinced by the explanation of how the system would be enforced and how lorries making domestic deliveries in Kent will be differentiated from those carrying goods for export.

We note that some progress has been made in putting in place infrastructure since the publication of the NAO's report on 6 November, including in relation to sites that will be used for traffic management purposes in Kent in the event of disruption. However, DfT told us that there was still some work to do at the Ashford, Sevington and Manston sites to ensure that they are ready. DfT expected Ashford to have all "key functionality" by 1 January 2021 although not all work would necessarily be completed. Given the amount of time that government has known that it is likely to need such facilities, we fail to see why these sites are not yet complete.

If there is significant disruption in the South East after 1 January 2021 this could potentially result in disruption to supply chains for critical goods and could place a strain on local authorities at a time during which they are already under pressure as a result of COVID-19. The Cabinet Office told us that financial aid had been given to local authorities, much of it under the heading of COVID and which had added to their overall resources, but that this was definitely one of the areas of pressure from a contingency perspective.

Recommendation: *DFT and BPDG must urgently clarify the arrangements for hauliers travelling through Kent, both for exports and domestic journeys, and how the wider traffic management plans for reducing disruption in Kent or real-time arrangements to divert to alternative ports will operate in practice.*

The additional costs of new border requirements.

Complying with new border arrangements will increase administrative costs for international traders. For example, in 2019 HMRC estimated that the annual administrative burden on UK businesses from additional import and export declarations was £7.5 billion. We are concerned however that other costs are only just being acknowledged, and there may be

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other costs and burdens which have not yet come to light. In the evidence session we were told that:

- Traders in agri-food goods will need to pay for Export Health Certificates. Indeed, supermarkets moving goods from GB to NI face paying between £50 to £200 extra per Export Health Certificate. According to the Northern Ireland Retail Association, a single supermarket shipment based on current practices could therefore require hundreds of EHCs be completed for each trip.
- Businesses will face extra costs from ATA Carnets, which allow the temporary export/import of goods.
- GB businesses that trade across the EU and NI will have to use both the CDS and CHIEF customs declaration systems, increasing their IT and process costs.
- GB-based chemical companies currently registered with the EU REACH system will no longer be able to sell into the EEA market without transferring their registrations to an EU/EEA-based organisation. Chemical businesses estimate that the cost of re-registering could be £1 billion.

Recommendation: *Government should identify the additional costs the businesses community and border stakeholders face as a result of new border requirements from 1 January 2021, in order to understand the impact and determine if any additional support or intervention is needed.*

<u>The Northern Ireland Protocol</u>

This is the area of most concern for my Committee. We recognise that preparations are complicated by the ongoing negotiations between the UK and the EU in the Joint Committee. Nevertheless, it is worrying that, with such a short amount of time left, there is so little clarity about the arrangements for moving goods into Northern Ireland. Government has not published detailed guidance for moving goods into Northern Ireland as it has for Great Britain and we urge government to publish similar guidance as soon as possible. Furthermore, we are not reassured that sufficient planning has taken place to mitigate some of the risks, for example that there is no disruption to the food supply to Northern Ireland.

The Cabinet Office assured us that delivering the Protocol is a challenging project but that it will be delivered by 1 January 2021. However, the evidence that we heard during the session did not fully support that view. For example, Defra acknowledged that the Department of Agriculture, the Environment and Rural Affairs (DAERA) in Northern Ireland had said that it would not be able to put in place the necessary infrastructure for sanitary and phyto-sanitary checks and was looking at interim arrangements.

HMRC told us that there is a high level of confidence that the Customs Declaration Service (CDS) will be ready to support the movement of goods under the Protocol in January. However, HMRC acknowledged that there is a much lower level of confidence that everyone would have the software and business processes to be able to interact with CDS directly, which was why government has introduced the free Trader Support Service. As at 23 November 2020, around 13,000 traders had registered for the Trader Support Service out of an estimated target population of 24,000. We welcome that government has stepped in to provide support to traders moving goods under the Protocol but note that HMRC assesses that this is still “one of the most risky parts” of the preparations. We remain very concerned that these preparations have been put in place very late in the day. We do not share government's confidence that the Northern Ireland Protocol can be fully implemented by 1 January 2021 or that there are robust contingency arrangements in place if it cannot.

Recommendation: *Government should announce the date it intends to publish detailed guidance to enable traders moving goods into Northern Ireland to prepare. It should also set out the contingency arrangements that will apply if the planned elements of the Protocol are not ready for 1 January 2021.*

We recognise the scale and complexity of the task and the enormous amount of effort from the civil service to prepare for the end of the transition period.

In this letter I have briefly set out the Committee's immediate concerns. The Committee may report on these issues in more detail in the near future and will be returning to in the future. I am copying this letter to the Permanent Secretaries of HMRC, Defra and DfT. Noting that we have requested an urgent response to our first recommendation, I would be grateful if you could provide a written response to the other points above by 31 January 2021.

I am also copying this letter to the Comptroller & Auditor General and to the Treasury Officer of Accounts. A copy will be published on our website.

Yours sincerely,

Meg Hillier

MEG HILLIER MP
CHAIR OF THE COMMITTEE OF PUBLIC ACCOUNTS