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Civil Service Chief Operating Officer
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Meg Hillier MP
Chair, Public Accounts Committee
House of Commons
London
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Dear Chair

Response to PAC border recall letter

Thank you for your letter of 8 February providing your conclusions and recommendations following my and colleagues' appearance at the Committee on 21 January.

You provided 12 recommendations and requested a response to four of these by the end of February 2021 (with the remainder to follow by the end of May 2021). These answers, which I provide on behalf of all of the departments that provided evidence during your inquiry, are set out below.

Recommendation 1: *The government should write to the Committee by the end of February 2021 with a summary of the operational issues in managing the border which have arisen since the end of the Transition Period and how it has resolved them or what plans it has in place to do so.*

We have not seen any evidence of generalised disruption at the border following the end of the transition period. On 23rd September, the Cabinet Office published the Reasonable Worst Case Scenario (RWCS) planning assumptions, for potential disruption to freight travelling between Great Britain (GB) and the European Union (EU) at the end of the transition period. As of 1 January 2021, EU Member States have imposed EU third country controls on UK goods at the end of the transition period. This has meant that freight travelling to the border without the correct documentation is being stopped before boarding services in the UK or on arrival at Member State ports. Based on data from January and February regarding freight volumes and proportions of freight turned back for lack of border readiness, we have not seen disruption to the extent previously assumed in the RWCS and do not expect any such disruption to occur in the months to come.

Freight flows through GB ports are at the levels that we would expect for this time of year and traffic is flowing freely to and from our ports. The percentage of HGVs being turned back – either for the lack of a COVID test or because of a border readiness issue – was on average 5% throughout January and stabilised at below 3% in February. The large majority of hauliers - an average of 85% during February - are complying with the requirement to obtain a Kent Access Permit and, in the process, to assure that they have completed the necessary border preparations.

The emergence of new variants of COVID, and France's decision to close the border in mid December was an additional challenge to our preparations for the end of the transition period. But we were able to deploy the mechanisms that we had in place for combating disruption, and our contingency planning showed its value.

We do, however, acknowledge that some businesses are facing challenges. Our decision to leave the EU Single Market and Customs Union has meant that businesses must master new processes and procedures - especially the challenges of moving goods under the Common Transit Convention and navigating Sanitary and Phytosanitary (SPS) controls. In the short term there has been a learning curve and in some cases a requirement for businesses to adapt. There have also been some early systems glitches. For example, there was a fault - now resolved - in recent software updates to the New Computerised Transit System (NCTS).

We have been working closely with EU Member State colleagues to identify and address operational issues with their IT systems, and to help businesses do what they need to do to interact with these systems.

We have responded rapidly to issues raised by traders. For example, in response to issues raised by the seafood industry in January, the Government announced that seafood exporters across the UK will receive government funding of up to £23 million - see our answer on recommendation 5 below. Similarly, on the particular issue of groupage, the Government recently announced a new model for groupage that will ease the movement of mixed load consignments from Great Britain into Northern Ireland. This was in response to specific issues with the movement of groupage loads.

We continue to maintain our efforts to support businesses to adapt to the new trading environment. There are a number of online tools available to support businesses, such as the Brexit checker tool and HMRC's Brexit transition communications resources, and helplines for those who wish to speak to someone. We are continuously monitoring the effectiveness of the support we offer businesses. As part of this we are regularly speaking with businesses and trade representative organisations at the Brexit Business Taskforce in order to hear businesses' feedback, work through particular issues and discuss what further steps the government may be able to take to help businesses adapt.

Recommendation 4: *HMRC should write to the Committee by the end of February 2021 setting out the evidence it has on the capacity, quality and cost of intermediary services. HMRC should* *also monitor the market to ensure that costs of services do not rise and thereby deter smaller businesses from trading.*

Customs intermediary services are varied and the sector is made up of a number of different business models including specific customs brokers, freight forwarders and fast parcel operators – all of which deliver slightly different services for clients.

HMRC works closely with these businesses and their clients to understand how they are operating. The sector significantly increased its capacity before the end of the transition period. Ipsos MORI research ran by HMRC last year found that the sector expected to be able to complete 76-119 million additional declarations following the end of the transition period. This aligned with anecdotal evidence from the sector that the majority were expecting to make around a four-fold increase in capacity – and HMRC's early conversations with the sector this year have suggested this happened. Ipsos MORI have also conducted a second wave of surveying which we expect to publish in March. Initial results of this wave appear to be broadly consistent with the scaling up demonstrated by Wave 1.

Understandably, as a new market comes to life, initial reports of access are mixed. Some intermediaries have told us they have capacity to take on new business, but others have indicated they are now having to turn away some clients, particularly those that are less prepared. Many intermediaries are having to spend significant time working with customers to upskill them on what they need to provide. This often causes delays initially which will ease as both sides upskill. To help with this we have announced a £20 million SME Brexit Support Fund to support small and medium sized businesses adjust to new customs, Rules of Origin, and VAT rules when trading with the EU.

We continue to advise traders to keep trying if the first intermediary they contact is unable to fulfil their request. In addition to providing links on gov.uk to helpful sector trade body pages who offer search functions, we have created an 'online intermediary register' that will specify which agents are taking on new clients. This should help reduce the time it takes for a trader to find the right intermediary.

The intermediary market is not regulated and clients are free to choose a provider that best delivers the type of service they require, including the quality and service level they need and at what cost. HMRC continues to closely monitor how the sector is responding in real time, through ongoing surveying alongside regular interaction with businesses and representative organisations in addition to continuing our programme of research.

A summary of the results of the first Ipsos MORI survey of the intermediaries sector has been published at:
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/936949/HMRC_Research_Report_599_Customs_Intermediaries_Wave_1.pdf

Recommendation 5: *Defra should write to the Committee by the end of February 2021 to set out the details of the £23m support to the fishing industry, including the rationale for the £100k limit; how it has determined the eligibility requirements for applications; and how long it is taking to pay claims.*

The Seafood Disruption Support Scheme (SDSS) opened on 9 February and closed to applications on 28 February. The scheme provides financial support to UK seafood businesses that experienced a verifiable loss due to disruption during the movement of goods to the single market. The scheme is being delivered by the Marine Management Organisation (MMO). Full details of scheme criteria and accompanying guidance can be found on the scheme's website at https://www.gov.uk/guidance/apply-to-the-seafood-disruption-support-scheme.

This financial support reflects the unique circumstances of the sector which, on account of the highly perishable nature of fresh and live seafood, can suffer a large loss of value as a result of even short delays. Support is targeted at SMEs which have incurred an actual loss in the process of exporting seafood to the single market. Payments will cover a proportion of losses incurred between 1 – 31 January and will be capped at £100,000.

We have chosen to target payments in this way to ensure that the fund is able to support all qualifying businesses, is targeted towards smaller businesses who may have less financial resilience and represents value for money for the taxpayer. By targeting funding at losses incurred in January we are ensuring that support covers the period where the greatest losses are likely to have occurred and avoids setting a long-term precedent of financial support for change to export conditions. It does not cover export costs, or opportunity losses which arose as a result of new trading conditions.

To support the development of the scheme's eligibility requirements we engaged representatives of the industry across the UK, including by gathering information through third parties. We discussed different export models and the ownership of seafood along the chain, along with the evidence that could help us to establish a qualifying application and determine the level of loss.

The scheme closed to applications on 28 February. The MMO are now undertaking an assessment of each application and will begin communicating the outcome of applications to applicants, and processing payments. We expect to have made all payments by the end of March, and will be able to confirm the full scheme costs once all payments have been made.

On 21 February, the Government announced that an additional scheme, the Seafood Response Fund, will provide support to the UK catching and shellfish aquaculture businesses that have been affected by closures to the hospitality markets in the UK and abroad as a result of Covid. This scheme will open for applications in early March and will provide a grant payment to cover up to three months of average business fixed costs incurred between January and March 2021.

Full details and eligibility criteria for the scheme are still being finalised but will be similar in scope to the support offered under the English Fisheries Response Fund in 2020. Further details can be found on the scheme's press release at https://www.gov.uk/government/news/increased-support-for-fishing-and-shellfish-businesses.

Recommendation 12: *Departments should write to the Committee by the end of February 2021 setting out progress with introducing new import controls in April and July 2021, including the lessons that they have learned from their preparations for the end of the transition period, and any major risks and issues to be resolved.*

As previously advised, import controls for GB-EU trade are being introduced in stages (full controls on exports came into force in January). Preparations are underway for the introduction of checks on all products of animal origin (POAO). All regulated plants and plant products will also require pre-notification and the relevant health documentation. We will establish the necessary Border Control Posts (BCPs) to be operational once checks on animals, plants and their products are in force.

Work is well underway at inland sites and at ports and airports to ensure phased controls can be introduced.

All interested Departments have plans underway to ensure that the necessary resources are in place:

- Border Force expects to require a total of 2000 additional operational staff by July, when full customs import controls are implemented on movements of goods from the EU to GB, but we continue to keep the position under review. We are confident that these staff will be in place by July. Border Force will continue to train new recruits in customs activities and will provide any required supplementary training and guidance to operational staff. Border Force already carries out customs checks - on goods imported from non-EU countries and in some cases from the EU - so this activity is covered in existing training and guidance products, and Border Force do not therefore expect a significant requirement for supplementary customs training and guidance for its staff.

- HMRC successfully increased the numbers of its staff working on these issues to the levels required at the end of the transition period. Some of these will be redeployed onto other work from April, with further redeployments after August. HMRC Inland Border Facilities are currently staffed at required levels and will not require a significant increase in resourcing in August. The staff in question are contingent labour, and commercial arrangements are in place to allow flexibility in numbers as required.

- A key focus for Defra will be to ensure that there is enough specialist resource in place and ready to carry out checks. To support readiness for delivery of the new import controls on animals and animal products, Defra has provided £14m funding to local authorities (LA) in England to support Port Health Authorities (PHAs) with the recruitment and training of over 500 new staff, including Official Veterinarians.

All Departments are also actively engaged in boosting trader readiness for the phased introduction of import checks.

- Defra are currently running a dedicated webinar series, targeting Defra sectors with the key actions that those businesses can take to prepare for upcoming changes. This will continue throughout March. Webinars similar to this for exports have had high levels of attendance, and Defra are monitoring levels of business readiness across sectors on a continuous basis and seeking to target those at risk of not getting ready.

- HMRC will continue with its extensive programme of webinars, educational videos, guidance improvement and trader letters telling traders what to do to prepare, and refine the content based on feedback from regular and active business engagement. HMRC also continues to offer extended 24/7 helpline support and operational teams are working with industry to understand challenges and improve processes relating to registration, applications and other new requirements. This includes technical support, monitoring and enhancing financial guarantees and responsive 24/7 'urgent care' arrangements.

- HMRC has an ongoing relationship with the top 200 large businesses, which allows HMRC to address their specific concerns, and provides intelligence on the level of successful adaption to the new customs arrangements within the supply chain. To support SMEs, HMRC has already provided for a trader training grant (up to £1,000 per organisation) for businesses new to customs (i.e. EU only traders) who would not be completing their own customs declarations. The government has now announced an additional £20m to support small and medium businesses in adjusting to new customs, rules of origin and VAT rules when trading with the EU. SMEs can apply for a grant of up to £2,000.

- HMRC has also procured the Trader Support Service (TSS) which provides comprehensive education and guidance to traders on how new processes, under the NIP when moving goods between GB and NI, impact them and completes customs declarations on their behalf. TSS have been engaging extensively with key players including hauliers and large retailers to ensure they can use the service successfully. HMRC is working to ensure traders understand and are prepared for further changes. Early user feedback is largely positive with continuous improvements to the service being built based on points that are raised by users and Business Representative Organisations (BROs).

- As a general point, one lesson learned from the end of the transition period was that ongoing uncertainty about the shape of a trade deal with the EU may have had an impact on levels of trader readiness for new customs controls. Now that the UK has signed a Trade and Co-operation Agreement with the EU, we expect the majority of traders will be engaged and proactive in preparing for new import controls.

Yours sincerely,

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