CABINET OFFICE
LONDON SW1A 2AS

Alex Chisholm
Civil Service Chief Operating Officer
and Cabinet Office Permanent Secretary
13 December 2021

Dame Meg Hillier MP
Chair, Public Accounts Committee
House of Commons
London
SW1A OAA

Dear Chair

Public Accounts Committee - 24 November

Thank you for your letter of 6 December, in which you set out the emerging themes for your report following my appearance with other Permanent Secretaries at the Committee on the 24 November. We have carefully noted the points raised in your letter, and I look forward to receiving the full report in January. In the meantime, I committed to writing to the Committee separately in response to questions asked by Sir Geoffrey Clifton-Brown regarding medicines and Northern Ireland.

In terms of the supply of medicine, the Government has been clear that the supply of medicines for Northern Ireland patients is of paramount importance. The Northern Ireland Protocol must not put the supply of medicines at risk. As things stand, the Protocol creates so much complexity that the Government is proposing taking medicines out of the Protocol entirely. We have been in ongoing technical talks with the EU and any acceptable solution needs to ensure that medicines are available at the same time and on the same basis across the whole of the UK. While there has been some convergence between us over recent weeks, we haven't yet reached agreement on medicines. As Lord Frost said in the House of Lords on 9 December, we haven't yet seen the full detail of the EU's proposals and it's essential we see that in order to reach agreement.

To provide space for these discussions, on 6 September the Government announced a "standstill" arrangement to continue to operate the Protocol on its current basis, and to pause existing legal actions. The EU has set out publicly that it is not taking the legal proceedings it initiated in March to the next stage. This means the current grace period for medicines will not end in January 2022. The extension of the grace period means that the current processes for moving goods between Great Britain and Northern Ireland will continue to be administered as they have been up to this point. This will provide a clear basis on which businesses and citizens can operate as UK-EU discussions move forward.

The Government understands the needs to ensure that reasonable notice is provided in the event that any of these arrangements are to change, to enable businesses and citizens to make appropriate preparations. The Department of Health and Social Care, the Department of Health in Northern Ireland (DoH NI), and the Medicines and Healthcare Products Regulatory Agency have been working with industry to help ensure the continuity of supply.

Sir Geoffrey Clifton-Brown also asked about whether there are checks on new medicines. I can confirm that all medicines - including new medicines - are regulated in the same way and checks are carried out on the market. These checks include clear labelling on the medicine packaging which identify the medicine as being valid for the UK only. There are also clear rules for the economic operators responsible for the manufacture and distribution of medicines who can be held to account if a medicine leaks onto the Single Market.

I hope the Committee finds this information helpful. Separately, I am mindful that whilst much ground was covered in the Committee hearing on 24 November, there are a number of outstanding requests from our correspondence earlier this year which I wanted to ensure you had full, written responses to in advance of your report in January:

Recommendation 2*: Departments should continue to monitor the impact of the Northern Ireland Protocol, resolving any operational issues that arise where possible. However, if burdens for traders or barriers to trade cannot be mitigated, then Departments should, as far as possible, develop alternative proposals for discussion at the UK-EU Joint Committee.*

There are clear issues with the Protocol which the EU has recognised cannot be solved simply through more implementation of the existing Protocol, including the impact on businesses. We put forward proposals to fix the problems in our Command Paper in July and, more recently, we shared with the European Commission a new legal text of an amended Protocol based on the proposals set out in the Command Paper. We continue to be in intensive discussions with the EU with the aim of delivering significant changes to the NI Protocol.

Recommendation 3*: Government should review the experiences of businesses in December and January, identify what went well, and what issues specific business sectors and hauliers found particularly challenging. It should use this learning to target its engagement and develop support measures to ensure maximum readiness [for July].*

We have worked intensively with business to support them as they prepare for the changes to import controls, seeking to learn lessons as we have moved forward. There are some things that worked very well in terms of planning for the end of the transition period that we have learned from positively and will be replicating in the coming months. For example, we will be seeking to replicate the intensive work we did with Member State counterparts and stakeholders in January this year to quickly identify and resolve any issues as changes around the customs import requirements are introduced. We have also heard from stakeholders how important the Border Operating Model has been in providing a single, cross-Government description of GB's border with the EU; and consequently have sought to keep this up to date as changes have been agreed over the recent months and will continue to do so. Equally, there are some areas where we are planning to do things differently having learned the lessons from last time. For example, we plan this time to have a much greater focus on EU traders and hauliers in our communications. The government, through the Cabinet Office, BPDG, HMRC and Defra, is running a communications campaign to prepare these groups for changes to import controls. We have expanded our network of Information and Advice Sites positioned into the EU and on cross-Channel ferries to reach EU hauliers. In collaboration with HMRC, we have expanded the languages that the latest version of the Haulier Handbook and other materials are available in.

Recommendation 6*: Government should work urgently with the industry sectors which have been significantly affected by new border requirements to resolve the issues they are facing and to determine whether they require financial or other support while issues are resolved to the extent possible.*

The Government has worked closely with industry sectors throughout the year to resolve issues they are facing and provide tailored support. For example, the launch of the Export Support Service earlier this year provides a platform for GB businesses to get support and advice on export-related issues, and has been very well received by stakeholders. Alongside this, the government has put in place a range of schemes to provide financial assistance to businesses including the Brexit SME Fund and the Seafood Disruption Support Scheme. The Government continues to support businesses through regular communication, webinars and guidance..

Recommendation 7*: In order to seek to minimise the costs to business as far as possible, government should: i) undertake a comprehensive exercise to identify and quantify the additional costs the businesses community and border stakeholders face as a result of new border requirements from 1 January 2021; and ii) look for all opportunities to reduce costs and administrative burden to traders including working quickly to develop and agree a trusted trader scheme with the EU*

The Government published the third edition of its assessment of the impact of leaving the EU on businesses in October 2019. We have not published an updated version because we have not yet fully implemented the customs controls, and so an assessment at this point would only provide a partial picture. The Government remains keen to ensure that burdens on businesses are minimised. That is why we have negotiated a Mutual Recognition Agreement with the EU which allows businesses that hold Authorised Economic Operator status in the UK, to be recognised as 'trusted business partners'. We will also be investing over £1 billion funding over the next three years to modernise the border, and we will use this funding to seek to streamline borders processes and make them simpler and easier for businesses. So far, the indications are that costs will come out at less than those we published in October 2019.

Recommendation 8*: Government should encourage the business community to be transparent about the VAT and customs duty costs which consumers will face when importing some goods from the EU; and include this aspect in government's ongoing communications about the impact of the UK exiting the EU.*

The Government has been clear in its messaging to industry representatives about the need for transparency of invoicing. Industry agrees that it is important that customers are clear what they are being charged for and we continue to work with them on this issue.

Recommendation 9*: Government should draw together a high-level summary of costs of EU exit preparations, additional funding commitments and ongoing support measures relating to EU exit, and set out how it is maintaining central oversight of this spending across departments.*
HM Treasury has developed robust methodologies for identifying and capturing the costs of EU Exit and has worked closely with departments to ensure that expenditure is accurately tracked and reported.

Associated expenditure against these budgets can be found in the relevant Annual Reports and Accounts (ARA) where departments are asked to report EU Exit spend at year-end. The Treasury further strengthened guidance for the 2020-21 ARAs to require departments to provide an analysis of EU Exit expenditure for 2019-20 and 2020-21, with details of the spend disaggregated by area and funding type.

Recommendation 10*: To increase certainty for businesses Departments should: i) examine the support measures and waivers that currently apply; ii) identify what is needed short term and longer-term; iii) develop a transparent plan to phase them out and provide alternative solutions, extend them, or improve them; and set out when and how it will communicate this in a timely way to industry.*

The Border Operating Model, first published in July 2020 and most recently updated on 18 November 2021, sets out the latest position in respect of policies and processes operating at the border. These include the delayed declaration scheme to support traders in complying with import requirements, safety and security declarations waiver for imports, and specific waivers on EXS declarations in certain circumstances.

The Border Operating Model also sets out when these waivers and support measures will be phased out throughout 2022 and what businesses need to do to comply with new requirements. Departments continue to focus on supporting traders and hauliers to ensure that they are ready for the new processes, including through the delivery of 200 webinars, reaching a total of 20,000 exporters.

Recommendation 11*: HMRC should ensure that its compliance strategy minimises fiscal risk to the fullest extent possible until the introduction of full import controls and that it is monitoring any new fiscal risks emerging. Once import controls are in place, HMRC should ensure it is able to use the new data it is collecting on the movement of goods to target its compliance activity appropriately and improve its compliance approach over time.*

HMRC seeks to ensure its compliance strategy minimises fiscal risk. Prohibited goods have been excluded from Staged Customs Controls. Compliance activity is targeted according to where we think it is most needed. HMRC will continue to do so and use any new data available.

That brings us up to date. But clearly we have much work still to do in the remainder of the year and we will heed the commentary in your letter of 6 December as we do so, pending the formal report.

I hope the above information is useful, and I look forward to receiving your full report in January.

I am copying this reply to the Permanent Secretaries in HMRC, Defra, DfT and the Home Office and to the Director General for BPDG, the Comptroller and Auditor General and the Treasury Officer of Accounts.

Yours sincerely,

Alex Chisholm

Civil Service Chief Operating Officer & Cabinet Office Permanent Secretary
Email PSAlexChisholm@cabinetoffice.gov.uk **Telephone** +44 (0) 20 7271 8822