HM Revenue & Customs

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Meg Hillier MP
Chair of the Public Accounts Committee
House of Commons
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28 March, 2018

Dear Ms Hillier

2nd PAC Report of 2017-19: Brexit and the Future of Customs

I agreed to update you on the four recommendations made in the above response, published on 25 January, 2018. These recommendations relate to HMRC's Customs Declaration Services (CDS) Programme.

Recommendation 1

HMRC should ensure that traders are informed of the Customs Declaration Services (CDS) timeline and progress by January 2018. As part of its plans to broaden engagement with traders, it should also promote the benefits of obtaining trusted trader status and aim to increase the number of registered traders.

The Programme remains on track to migrate existing CHIEF users across to CDS starting from August 2018. Since the last report to the Committee we have further developed our transition plan, which is being implemented in collaboration with trade and industry representatives. We have increased the frequency of our meetings with businesses who are significant users of CHIEF and with our key delivery partners.

We met with software houses 42 times between July 2017 and the end of January 2018. We have continued to engage with these organisations since and had 20 meetings with the five Community System Providers (CSPs) who all link directly to CHIEF and will to CDS.

Since December 2017, we have put in place senior Business Readiness Managers who have been tasked with developing closer bilateral working relationships with key delivery partners, including with the c.65 Software Houses and CSPs. Their responsibilities include ensuring HMRC and external delivery partner implementation plans are aligned and bring about the required changes to prepare customers for CDS.

This enhanced HMRC support service will ensure our delivery partners have everything they need from us to complete their CDS development work and enable them to track their progress against CDS critical milestones.

We have deployed a test service to allow trade partners (CSPs and software developers) to test their software and connections to CDS within a secure cloud environment, using test data. We refer to these events as “Trade Tests” and there are six planned in the CDS delivery schedule. We have now completed three of these tests.

The purpose of trade test is to provide software developers and CSPs with an environment that mirrors CDS functionality against which their software can be tested. Through trade test, HMRC also provides technical documentation to facilitate software development and live support for any issues or queries raised by those who are undertaking this testing.

Trade test deployed an initial basic declaration to five software developers in December 2017. This covered a straightforward pre-defined test for a supplementary declaration with limited validation. After all five developers reported successful tests, this basic functionality was opened up to all external developers at the second trade test at the end of January 2018.

The second trade test from the end of January 2018 through to mid-March has been delivered and includes additional software developers. Trade partners who have participated so far report successful connections and completion of all tests. Since January 2018 a further 21 software developers have signed up to taking part in the testing process.

On 12th March 2018, the third trade test milestone was implemented successfully. This milestone allowed developers to test more complex declaration scenarios, including complex duty calculations for definitive anti-dumping duty (ADD) and common agricultural policy (CAP) goods, which do not require CAP licenses (i.e. agricultural goods), as well as the application of preference claims.

Trade test is building continual momentum, with each milestone increasing in functionality, complexity, and scale. Functionality will continue to be incrementally delivered across the three further trade test milestones in 2018.

As part of our ongoing dialogue with external stakeholders we are discussing trusted trader status and its benefits. Trusted traders who meet the required criteria are welcome to apply for Authorised Economic Operator (AEO) status. HMRC had seen an increase in applications for AEO approval at the time the new Union Customs Code (UCC) was introduced in May 2016.

After EU exit, we will leave the EU's AEO scheme and the Government's intention is to negotiate a mutual recognition of UK/EU schemes. While welcoming applications, AEO status will not suit all traders and it may only benefit those who regularly deal with customs in appropriate volumes or sectors and/or that act on behalf of others. HMRC is working closely with stakeholders to take into consideration their views and experience of applying for trusted trader status both in the UK and in other member states.

In February 2018, as part of our broader engagement plan, HMRC contacted all existing CHIEF users who had a registered email address on the system to provide details about the new Customs Declaration Services (CDS). We followed this up with a postal mailshot to ensure we reached all existing 141,000 CHIEF users. We informed them about the timeline for CDS implementation, why we are replacing CHIEF, how the change will affect an importer and exporter, when users needed to start using CDS and how users can get more information via GOV.UK. We will keep users updated with CDS developments through our ongoing engagement activity and direct messaging.

Once the outcome of EU exit negotiations are clear, if appropriate, we will inform EU only traders about CDS. HMRC has a wealth of experience in liaising with businesses about changes to the tax and customs regimes and we will ensure that all businesses who need to be aware of CDS receive the support they need.

Recommendation 2

HMRC should ensure that the CDS system and the CHIEF contingency option are capable of managing 255 million customs declarations every year, while providing the flexibility to meet the wider challenges of an integrated customs and trade system for the UK, such as managing changes to tariffs, Free Trade Agreements and international trade quotas. HMRC should report back to the Committee by March 2018 to update us.

HMRC is ensuring that CDS can manage the volume of declarations anticipated when the UK leaves the EU. Our testing activity indicates that we are on track to meet the demand of up to 255 million declarations a year. As you know we are building for a capacity of 300 million declarations a year.

There are two levels of performance testing, covering specific purchased components and the wider CDS end-to-end whole service as it deploys. The vendor testing is in a series of phases, the first of which completed successfully in January 2018. It demonstrated that the major platform components, Declaration Management System and Tariff, can achieve the current CHIEF volumes. The second phase is already underway and will complete in April 2018. This phase will test the major components to ensure they can cope with EU exit level volumes and is progressing to plan.

CDS end-to-end performance testing starts at the beginning of April 2018 prior to formal completion of development activities. It will continue testing iteratively until just before live implementation begins in July. This testing will continue after July to test how each phase of migration from CHIEF to CDS is performing, leading up to full service deployment in January 2019. This work is highly complex and is a key focus for CDS delivery.

CDS is being designed, developed and built to have the flexibility to meet the challenges of change to tariffs, free trade agreements and international trade quotas. CDS will also align with international trade standards, as set out in the World Customs Organisation (WCO) Kyoto Convention and currently being implemented in the UK through the Union Customs Code (UCC).

HMRC has created a contingency programme so it will have additional resilience built into the delivery of, and the transition to, CDS. The contingency programme is responsible for ensuring the existing CHIEF system is scaled so that it is capable of managing the volume of declarations expected when the UK leaves the EU. HMRC will continue to operate CHIEF in tandem with CDS during the transition from one system to the other (known as dual running). This will provide an additional level of contingency, should it be required.

Our intention is to ensure that CHIEF remains a viable customs declaration processing service fit to manage the higher volumes expected from Day 1 of EU exit and beyond whatever the date. The contingency programme has already achieved a number of key milestones that include refreshing the CHIEF IT infrastructure to improve performance and resilience. This included extending the CHIEF contract with Fujitsu to March 2020, with an option to extend it further to March 2021, and completing the expansion of the IT support team with new staff to ensure that the service is robustly supported.

We built the CHIEF test environment, which was successfully completed in January 2018 and are now developing a test service to sit within that environment, which will be ready by April 2018. We will use that service to test what capacity CHIEF can be scaled to in supporting up to 255 million declarations by July 2018. In parallel, we will develop options should CHIEF not scale to the level required, including examining both technology and process changes to ensure that peak periods can be managed.

Our contingency options also include retaining the option of using CHIEF beyond March 2019 if CDS is significantly delayed. We are confident that these arrangements give us the ability to maintain customs activity beyond the UK’s exit from the EU if required.

Recommendation 3

HM Treasury should ensure that HMRC has sufficient funding by December 2017 to increase the capacity of CDS to handle 255 million customs declarations each year, and to develop functioning contingency arrangements.

CDS is a top priority programme within government and HMRC receives the support it needs. We have the capability required to deliver CDS, and we have prioritised delivery of CDS for Day 1 of EU exit.

The programme has the funding that it currently requires (although we recognise that further costs may arise as a consequence of EU exit), and is on course to deliver as planned. HMRC has been allocated an additional £260m of funding for Brexit related costs for 2018-19 and this, together with the core HMRC budget gives sufficient funding for CDS and CHIEF for 2018-19.

This funding covers the requirement to increase capacity to handle up to 300 million customs declarations each year, and to develop functioning contingency arrangements. Our programme capability is continuously reviewed, and additional resource is allocated where it is needed. I personally review these programmes on a monthly basis, together with the entire senior HMRC leadership given the importance of these programmes.

The Contingency Programme is looking across both CDS and wider work to implement the UK's exit from the EU. This will identify and progress any further contingency options that are required. Above all, HM Treasury recognises that CDS requires a flexible and agile delivery process to account for changing circumstances. The department are working closely to ensure that CDS delivery remains on track.

Recommendation 4

HMRC should report back to the Committee by March 2018 with clear plans on how it will manage the many challenges it faces due to Brexit and its ongoing transformation programmes, including how this will help to mitigate the risks in the CDS programme.

As discussed at the last Public Accounts Committee hearing in October 2017, HMRC was to review the entirety of our transformation programme, including the need to accommodate Brexit related projects and programmes. That review was completed in January 2018, with full transparency and involvement of HM Treasury. The review prioritised on the basis of seven criteria and included all 267 projects that were in flight, or planned by September 2017, including all envisaged Brexit programmes. We also took a very clear view on the capacity and capability of HMRC to deliver and the risks associated with a programme as large and complex as this.

We took our initial proposals to HM Treasury Ministers in early February and we will update the Committee as soon as final decisions have been taken. At this stage I can say that we have proposed a number of projects which should stop, or not start and a number which should be stretched out over a longer time scale. I hope that we can provide further transparency of the detail of this in due course. Our assessment is that if these changes are agreed then the resultant portfolio is deliverable, with appropriate level of risk. Also, that we have the capacity and capability to deliver it, or can obtain those capabilities in an appropriate timescale.

I hope the detail I have provided reassures the Committee that we have progressed CDS significantly since October 2017. We are the first to acknowledge that we have a lot more work to do, and that we need to retain tight control of our risks to ensure successful delivery of CDS by January 2019. I am reassured by the fact that the March 2018 review of this programme by the IPA gave it an Amber/Green rating, but I am also conscious that colleagues from the NAO are providing an independent update to the Committee.

Yours sincerely

Jonathan

JON THOMPSON
CHIEF EXECUTIVE AND PERMANENT SECRETARY