Dear Ms Morgan,

Thank you for your letter of the 2 April in relation to the Supplementary Estimate and accompanying Memorandum as laid by HM Revenue and Customs on 11 February 2019.

In our Supplementary Estimate, HMRC Resource DEL budget was increased by £191.6m and Capital DEL increased by £67.4m, due to preparation funds for EU Exit. This was in addition to £2m RDEL already held, bringing our total EU Exit funding for 2018/19 to £261m.

_Could HMRC provide a breakdown of how these funds will be spent? Will they be spent solely on EU Exit purposes? What proportion of these funds does HMRC estimate will be spent by the end of the financial year?_

These funds cover:

- staff to develop and administer the compliance activities affected the UK leaving the European Union, and to provide customer service support for citizens,
- completing changes to HMRC IT systems,
- coordinating cross government border activity, and
- other activity that supports the exit from the EU, including policy development and legislative changes, additional estate capacity, communications and internal administration costs.

The table below provides the breakdown of the £261m by activity in 2018/19, along with full-year expenditure as at 8th April 2019. We have adequate audit evidence in place to support these figures as expenditure solely attributable to preparing for the UK exiting the EU.
<table>
<thead>
<tr>
<th>Service/Activity</th>
<th>Budget</th>
<th>Outturn*</th>
<th>% Outturn / Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer service operations</td>
<td>£ 35.1</td>
<td>£26.9m</td>
<td></td>
</tr>
<tr>
<td>Compliance activities</td>
<td>£ 53m</td>
<td>£38.8m</td>
<td></td>
</tr>
<tr>
<td>IT changes to HMRC systems</td>
<td>£ 106.7m</td>
<td>£122.1m</td>
<td></td>
</tr>
<tr>
<td>Coordination and delivery of cross government border activity</td>
<td>£ 14.0m</td>
<td>£13.0m</td>
<td></td>
</tr>
<tr>
<td>Other*</td>
<td>£ 51.9m</td>
<td>£60.0m</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>£261.0m</td>
<td>£260.8m</td>
<td>99.9%</td>
</tr>
</tbody>
</table>

*Outturn figures are indicative, pending completion of year-end financial accounting and audit activities.

What preparation work is HMRC planning to do in response to the publication of the “No Deal” tariff schedule by the government?

HMRC has a joint project running with Department for International Trade (DIT) to connect tariff data to both CDS and CHIEF. DIT also sit on the CDS Programme Board so that we can monitor progress and manage issues or risks.

Please could you also give details of why a reserve claim was needed for the Customs Declaration Service (Resource DEL £3m and Capital DEL £47m)? Why wasn’t this funding included in the preparation funds for EU Exit?

The Customs Declarations Service Programme was set up to replace the CHIEF system, fundamental to collection of c.£34bn of revenue annually and enabling the flow of international trade worth £700bn to the UK economy each year. CHIEF has served the UK well for over 25 years but is old technology that can no longer support the functional changes needed to respond to the development pace of our customs models, regardless of the UK exiting the European Union. The decision to replace CHIEF with CDS was made at Spending Review 2015, before the referendum on leaving the EU and an initial funding profile agreed for the years of the Spending Review. However, in the light of the referendum significant changes to the original programme had to be made, for example, to cope with the well-publicised estimate of the fivefold increase in volumes of declarations amongst others.

HMRC’s funding of £261m for EU Exit activity in 2018/19 was agreed through discussions with HMT officials and confirmed in the Chancellor’s Written Ministerial Statement for Spring Statement, in March 2018. At that time, we were still doing a large amount of work on defining the business requirements, at a delivery-ready level of detail, for CDS. In particular, we had to make a number of major solution changes in response to evolving business requirements, specifically the significant number of
changes that arose due to EU Exit D1ND considerations, which subsequently increased costs significantly. In order to remain utterly transparent about the total costs of the CDS programme, however, we treated this increase and the resulting funding pressure as entirely separate to other EU Exit preparation costs, and resolved with HM Treasury via the Reserve Claim process.

Yours sincerely

SIR JONATHAN THOMPSON
CHIEF EXECUTIVE AND PERMANENT SECRETARY