



Committee of Public Accounts

House of Commons, London SW1A 0AA

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Mr Jon Thompson
Chief Executive and Permanent Secretary
HM Revenue & Customs
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5 December 2018

Dear *Permanent Secretary*

Brexit and the UK Border: Progress Review

Thank you for the evidence you gave to the Public Accounts Committee on 5 November 2018 on the government's preparedness at the border for leaving the EU. As you know, my committee has taken evidence on this subject on several occasions over the past 12 months. While we recognise the difficult context in which government and departments continue to work, we remain concerned about the level of preparedness at the border. This letter sets out further details about our concerns.

Readiness and engagement

We understand that the Border Delivery Group (BDG) has undertaken 132 of a planned series of 135 visits to ports and airports across the UK to understand the potential impacts of EU exit on each of them, and has identified a priority list of 12 ports and locations on which to focus. It additionally plans to hold follow-up discussions with other locations. I note from Karen Wheeler's response to the committee that the visits to the ports have been taking place since July this year. If these are the first visits to these ports specifically to look at operational impact I am very concerned that this is too late in the day. I would welcome clarification on this. But we have also heard concerns from ports about the fact that local stakeholders are still unsure about what they need to do to prepare. We are concerned by the overall level of engagement with key groups that will be affected by EU exit, such as small and medium enterprises, and that businesses are still not getting sufficiently detailed information to prepare for 'no deal'. The Department for Environment, Food & Rural Affairs (Defra) told us that "guidance on the things that people will need to do" was not included in the technical notices issued by the government. HM Revenue & Customs (HMRC) similarly told us that business readiness is one of its top three risks and is 'red rated', and that not all businesses will be in a position to make customs declarations on 29 March in the event of 'no deal'. We are extremely disappointed that more has not been done to support businesses to prepare, as we have raised this point with government time and again

over the last 12 months. We also remain concerned about the government's use of non disclosure agreements to prevent businesses and stakeholders sharing details of discussions they have held with departments, hampering wider discussions on preparations.

The impact of Brexit in key sectors and locations

We recognise the rationale for government focusing its attention on those border locations which would be most affected by 'no deal' on the basis of the number of movements of goods across the border. However, we are concerned that there are some locations and industries where any change in border arrangements may have a disproportionate effect on the local economy or business model. We note that BDG and HMRC have visited a major car manufacturer to understand the practical implications of 'no deal', but we are not convinced that the government has given sufficient consideration to the impact on some locations assessed as less critical, such as the Port of Tyne.

We are similarly concerned that the government may not fully appreciate the impact that 'no deal' arrangements at the border could have on farmers' ability to export livestock and animal products, and on exporters within the chemical industry. While we note that Defra has started modelling the impact of reduced exports of livestock, we are concerned that this is a potentially huge piece of work which has been started relatively late in the day. We understand that the actual impact on specific business sectors and locations in the event of 'no deal' will depend on how the market reacts to events. But there is no clear blueprint for action which may be needed at speed in the event of a no deal.

The availability of critical systems and infrastructure

We are not convinced that the government knows in detail what infrastructure and resources will be required, or when it will be required, at the border for it to function optimally after EU exit. For example, we were not assured from the evidence that you gave us that Defra knows how and when it will establish the new compliance regime to tackle biosecurity risks. We similarly remain to be convinced that arrangements to ensure the safe and speedy transit between ports of entry and HMRC's new inland checking sites will be sufficient.

It is concerning that eleven of twelve critical systems are at risk of not being ready for day one and government is unable to predict how many will be ready on day one in event of 'no deal'. We note that BDG told us that contingency arrangements are being developed in case these critical systems are not ready. However, even if they are built in time, the systems may still not work effectively if businesses do not know how to use them, appropriate legislation is not in place, and departments do not have enough staff to operate them. We know from our other inquiries that HMRC plans to continue using CHIEF because of the delays in rolling out the new Customs Declaration Service. We would like more information regarding the contingency arrangements for other systems to give us confidence that the government will be able to operate all critical systems on day one.

Northern Ireland

It is sensible that planning for Northern Ireland has been brought into the remit of the Border Delivery Group, but it is alarming that so little planning has been undertaken so far. The Prime Minister has said on numerous occasions that there will be no hard border between Northern Ireland and Ireland. HMRC told us that it has interpreted this to mean that there will be no physical infrastructure at the border. It is still working up plans on the basis of a derogation for small and medium sized enterprises and to maximise the use of self-assessment and trusted trader schemes. However, the Northern Ireland Audit Office considers that Northern Ireland is not fully ready and lacks time to implement any required changes. HMRC acknowledged that there is more they could do to improve communications with businesses in Northern Ireland about the risks but that "we are in a very difficult political environment to do that".

Planning for a 'no deal' scenario

In the event of 'no deal', we note that the government expects the European Union will require member states to treat the UK as a third country with full custom controls and agri-food type checks applied to UK exports. We also note that there is uncertainty about exactly how the EU would apply these checks or implement arrangements to enable the flow of goods. While the Civil Contingencies Secretariat is leading civil contingency planning to minimise the impact of disruption relating to member states' controls, we would like more detail relating to these plans and to be clear about who would be responsible for activating them. Defra told us it has a crisis management plan, but this is not yet complete and some parts are more fully developed than others.

About 10% of the food consumed in the UK travels through the Dover Straits route, which is at risk of disruption. We note that the Department for Transport is exploring options to re-route traffic if needed, working closely with the local resilience forums. However, it is worrying that contingency arrangements have not yet been resolved and Ministers are still to decide whether to intervene and which goods should be prioritised. This is not good enough, as ensuring that shops do not run out of food should surely be one of the highest priority areas for government's planning.

The time to implement an optimal 'no deal' system has now gone. HMRC told us that while it might take a few months to address most of the issues relating to 'no deal', implementing an inventory-linking system would take up to three years. We are concerned that organised criminals and others will exploit such gaps in the UK's knowledge and systems. We share the Home Affairs Select Committee's concerns about the Home Office's ability to plan properly without having undertaken an assessment of the security downgrade that might result from the potential loss of EU law enforcement tools such as SIS II. It is vital that Parliament receives clearer information about the scale of the information and intelligence loss which could ensue.

Introducing new border arrangements

We recognise that the amount of work required to implement new border arrangements in a 'deal' scenario will depend on the terms of the agreement that is reached. On the basis of the terms of the 'deal' set out in the government's White Paper, BDG told us that there would be comparatively little for it to worry about when compared with a 'no deal' scenario. However, HMRC also told us that a 'deal' on the

basis of the White Paper would be narrower in scope but would still involve it implementing 'technologically unique' facilitated customs arrangements. It has requested £430 million in 2019-20 to implement 'deal' arrangements compared with £400 million for 'no deal'. Even if the government agrees a 'deal' with the European Union, and Parliament votes to accept it, there is a relatively short time until December 2020 to implement new arrangements. We note that HMRC has previously estimated that it could take up to three years to implement a new customs model from the time that there is certainty about a decision. It is important therefore that, if a 'deal' is agreed, the government does not lose momentum in its preparations for EU exit.

We appreciate that Parliament is due to vote on the draft withdrawal agreement, which was announced by the Prime Minister on 14 November, and that the political context in which the government is planning could change rapidly over the coming weeks. However, if a 'no deal' scenario continues to be a possibility by the end of November, then we will expect you to improve your communication, and engagement, with those likely to be affected, ensuring that all parties know exactly what they need to do to prepare. If a 'deal' emerges we expect you to learn the lessons from the past months of preparation and use the implementation period wisely to allow the UK to leave the EU under the best possible terms.

I am writing in the same terms to Ms Karen Wheeler, Ms Clare Moriarty and Mr Paul Lincoln and would be grateful if you would write jointly to the Committee before the House rises for its Christmas recess, with details regarding your latest position on the issues that we have raised above. I am also copying this letter to the Comptroller and Auditor General and the Treasury Officer of Accounts.

Yours sincerely



MEG HILLIER MP
CHAIR OF THE COMMITTEE OF PUBLIC ACCOUNTS