Key facts

255m
HMRC’s current estimate of the maximum number of customs declarations per year after March 2019 based on current levels of UK/EU trade, subject to the new customs arrangement negotiated with the EU – around a 200 million increase on the 55 million existing declarations each year.

January 2019
date by which HMRC expects all traders to use its new customs system. This is two months before the UK intends to leave the existing European Union (EU) customs union.

£34bn
approximate value of customs and excise duties and value added tax collected by HMRC at the border annually.

8,700
users and intermediaries, including freight suppliers, customs agents and software providers directly affected by the new customs system (approximate).

180,000
traders currently estimated by HMRC who will make customs declarations for the first time under the new system, assuming the UK leaves the EU customs union. This is in addition to the 141,000 traders who currently make customs declarations for trade outside the EU.

£696 billion
estimated trade in goods across the UK border in 2015.
Summary

1. In October 2013, the European Union (EU) changed a number of the rules and procedures governing the way that customs duty is levied, calculated and collected by EU member states. As part of these changes, it introduced a new Union Customs Code (UCC), which, together with other associated changes, also require all communications between customs authorities and economic operators to be electronic by December 2020.

2. In 2013-2014, HM Revenue & Customs (HMRC) started planning to replace its customs system, known as CHIEF (Customs Handling of Import and Export Freight). HMRC decided that updating CHIEF’s ageing technology, which it has operated for more than 20 years, would be too expensive and would cause significant delay in meeting the requirements of the UCC. The new system will collect customs and excise duties, and value added tax (VAT) from transactions at the border. These are currently collected by CHIEF and are worth around £34 billion annually. The new system is also intended to grow in line with the government’s plans both to increase international trade, and to improve the government’s ability to identify and respond to risks to international trade and taxation. The new system is called the Customs Declaration Service (CDS). HMRC plans that CDS will handle all customs declarations from January 2019. The CDS programme is one of 15 major programmes in HMRC’s wider transformation portfolio.

3. On 23 June 2016, the United Kingdom voted to leave the EU. In March 2017, the government triggered Article 50 of the Lisbon Treaty, having signalled its commitment to leave the EU single market and seek a new customs arrangement from March 2019. HMRC currently estimates that, subject to the new customs arrangement agreed with the EU, these changes could increase the number of customs declarations from around 55 million to a maximum of around 255 million each year, based on current volumes of UK/EU trade. This number is subject to the new customs arrangement negotiated with the EU, and other scenarios exist which may result in different volumes. HMRC’s existing CHIEF system can currently process 100 million declarations a year which reinforces the need for the new service.

4. The new relationship between the UK and the EU also brings forward the need for the new system to be fully implemented, from the end of 2020 (when EU member states must implement the UCC) to March 2019 when the UK leaves the EU and a new customs arrangement may apply if no transitional arrangements are in place. HMRC is still planning to deliver a system which is based on the UCC as this approach is already familiar to industry and is compliant with World Trade Organization rules.
In 2015, nearly £700 billion of goods crossed the UK border and the continued smooth operation of these crossings is critical to the UK’s economy and consumers, for example maintaining the trade flow of perishables such as food products. In 2016, the UK came fifth out of 160 countries in the World Bank’s ranking of the efficiency of the border clearance process, including customs. The government aims to maintain or improve this position while supporting effective border and customs controls. Having a fully functional customs system is an important factor in safeguarding against undue disruption to trade after the UK leaves the EU.

Scope

This report is based on a short review of the deliverability of the CDS programme. We set out some facts about the CDS programme, and highlight the risks and issues HMRC is managing ahead of implementation of the new service in January 2019. The report describes:

- the need for the CDS;
- CDS programme delivery; and
- the impact and management of programme risks.

We have not evaluated the overall value for money of the CDS programme.

Our report does not cover other aspects of the government’s overall customs regime which are outside the scope of the CDS programme. In particular, the following are not covered in our review:

- Border Force, which controls the movement of goods, people and transport at the border, and the work of other government departments and agencies; and
- wider changes to border systems, infrastructure and any requirements for new staff resources.

Findings

HMRC has made progress in designing and developing the new Customs Declaration Service. It has prepared and updated its business case and procured major suppliers. It has also designed the overall service model and shared technical specifications with third party software suppliers and intermediaries to allow them to develop the tools they will need to interact with the new system (paragraph 2.10).

There is still a significant amount of work to complete, and there is a risk that HMRC will not have the full functionality and scope of CDS in place by March 2019 when the UK plans to leave the EU. HMRC recognises this risk. The decision to leave the EU could increase the number of transactions by around 200 million and more than double the number of traders having to go through customs processes. HMRC faces some significant challenges to deliver the programme within the current timetable. Our assessment of the key risks and issues in the programme include (paragraphs 2.3 to 2.5 and 2.7, Figure 7):
HMRC has only two months between January 2019, when it plans to complete the transition to CDS, and March 2019 when the UK plans to leave the EU. This provides little contingency time should the programme overrun or unexpected problems occur. Transition from CHIEF is planned to start in August 2018, with all users expected to make declarations in CDS by January 2019.

HMRC is in the early stages of integrating a number of new systems with each other and with its existing technology, which could be challenging. HMRC has chosen commercially available software for the management of customs declarations and the calculation of tariffs. HMRC has already identified issues with how the new software communicates with other parts of HMRC’s technology and could identify more issues as it continues to integrate these systems.

Core parts of the system work in other countries but have not yet been used at the volume and intensity the UK might need. For example, the customs declaration management component has been tested to cope with 180 million declarations a year compared with the 255 million which may be needed. Until it is shown to work at this level and with the UK’s specific systems, there is a risk that this new component may not meet the UK’s requirements.

HMRC has a well-established forum for engaging with some stakeholders but has significant gaps in its knowledge of important groups. In particular it needs to know more about the number and needs of the smaller and less established traders who might be affected by the customs changes for the first time.

HMRC’s plans to ensure traders are ready to use CDS are not yet fully developed. It has a high-level transition strategy, including a phased approach from August 2018 when the first users start to make declarations using CDS, but does not yet have a detailed transition plan. HMRC does not yet know how many of the estimated 180,000 traders that currently interact solely within the EU will make customs declarations under a new arrangement with the EU, nor their readiness to make declarations from March 2019.

HMRC has a high-level plan that sets out 13 key milestones through to January 2019. It is managing the programme with a high-level overview of milestones supported by detailed plans for rolling 10-week periods. This approach relies on plans being regularly maintained and monitored to prevent slippage of key milestones and ensure clear management oversight. It also requires skilled staff, trained in the methodology, to ensure risks and dependencies are identified and monitored. HMRC must continue to closely maintain the plan to ensure overall delivery is not delayed.

The programme has been operating with a significant number of staff vacancies. At the end of March 2017, there were 67 vacancies in the programme team, with 9 required immediately to prevent an adverse impact on delivery of the programme. By 27 June 2017, the vacancies had reduced to 48, with 4 required immediately. These totals include some planned future resource requirements.
The CDS programme may incur additional costs that are not covered in the programme’s business case. HMRC’s business case has total costs of £157 million. This will fund the creation of a system with the technical capacity to handle 150 million declarations each year, rather than the estimated 255 million. HMRC is seeking additional funding for increased volumes through its separate Border Systems Programme. It plans to seek additional funding for requirements relating to the UK’s exit from the EU as negotiations progress. The CDS business case does not include costs to upgrade the CHIEF system to develop contingency options.

10. HMRC is implementing the CDS programme using agile techniques, which is consistent with government guidance for technology projects. HMRC believes that its programme management methodology, combined with the skills and capabilities of its staff, means that programme risks and issues are currently being effectively managed (paragraph 3.2).

11. HMRC has identified contingency options should the CDS programme not deliver a fully functional new service by 2019, but has not yet planned these in detail. Its options include modifying the existing CHIEF system and operating it in parallel with elements of the new service to help cope with the increase in transactions after March 2019, or using CHIEF to handle all declarations if CDS is not ready in time. HMRC believes CHIEF could be upgraded to handle the additional volumes, but does not know whether it would be able to deliver all the necessary functionality. Both would require additional investment of time and money by HMRC to explore and make the changes needed. If HMRC can make these changes to CHIEF, these options could reduce the risks associated with the performance and capability of the new service in the short term (paragraphs 3.3 and 3.4).

12. Following the UK’s decision to leave the EU, both parties must now negotiate the terms of leaving. One factor under negotiation is a new customs arrangement. Until UK/EU customs negotiations are complete, the programme is operating with some uncertainty, which increases the risk that management does not have a clear view on the amount of work still required. The UK’s negotiations with the EU could result in changes to customs processes in the UK and other EU member states. These negotiations could introduce changes to the new system requirements shortly before the planned implementation date. They could also provide a transition phase for leaving the customs union which gives more time to implement CDS. HMRC will use change control procedures to evaluate what any new requirements mean for the programme’s cost, time and delivery schedules. The cost and time needed to make such changes could range significantly. For example, they could require CDS to implement an entirely new data model or they may require a relatively simple change to tariffs. More significant changes could mean HMRC has to rely on contingency arrangements for a period of time, or require a negotiated transitional period beyond March 2019 to implement all the necessary changes (paragraphs 1.11 to 1.13, Figure 4 and Figure 7).
Concluding comments

13 HMRC set out to replace its existing customs system to meet legislative requirements and respond to changing business needs. These remain valid reasons. However, HMRC started the project to replace the system before the UK triggered Article 50 of the Lisbon Treaty and formally started the process of withdrawing from the EU. The result of that process could have a significant impact on the requirements for the system.

14 We know that the UK will be leaving the EU by March 2019 but we do not know what customs arrangements will be in place at that point, or whether the Article 50 negotiations will lead to transitional customs arrangements. What is clear is that the timeline for completing the CDS programme under its current scope allows very little flexibility should the programme overrun or unexpected problems occur. While HMRC is working to manage the risks and issues identified in this report, and is developing contingency plans, the whole of government must choose now whether it needs to do more to help HMRC to mitigate the risk of the system being needed, but not ready in time. For example, by prioritising funding and resources to speed up progress with the programme, and by supporting HMRC to develop contingency options. What is not reasonable is leaving HMRC to decide alone what mitigating actions are needed. Government as a whole must decide what priority it attaches to the CDS programme, and whether any extra costs linked to having a suitable customs system in place by early 2019 are an insurance premium worth paying.