National Audit Office

Report
by the Comptroller
and Auditor General

HM Revenue & Customs

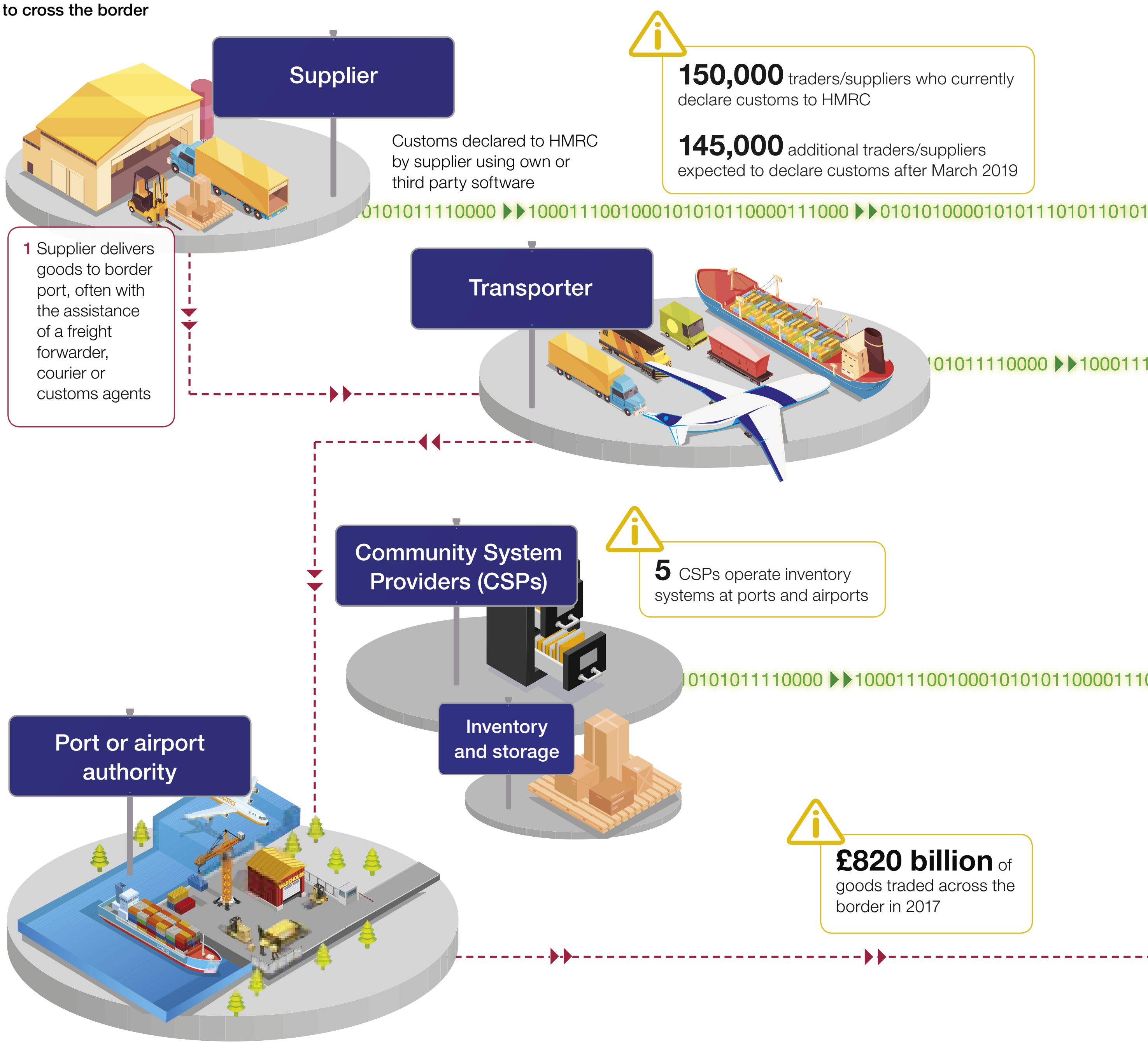
The Customs Declaration Service: a progress update

HC 1124 SESSION 2017–2019 28 JUNE 2018

Figure 1

Overview of customs declarations

The Customs Declaration Service (CDS) will process customs declarations from a variety of routes and will help to clear goods to cross the border

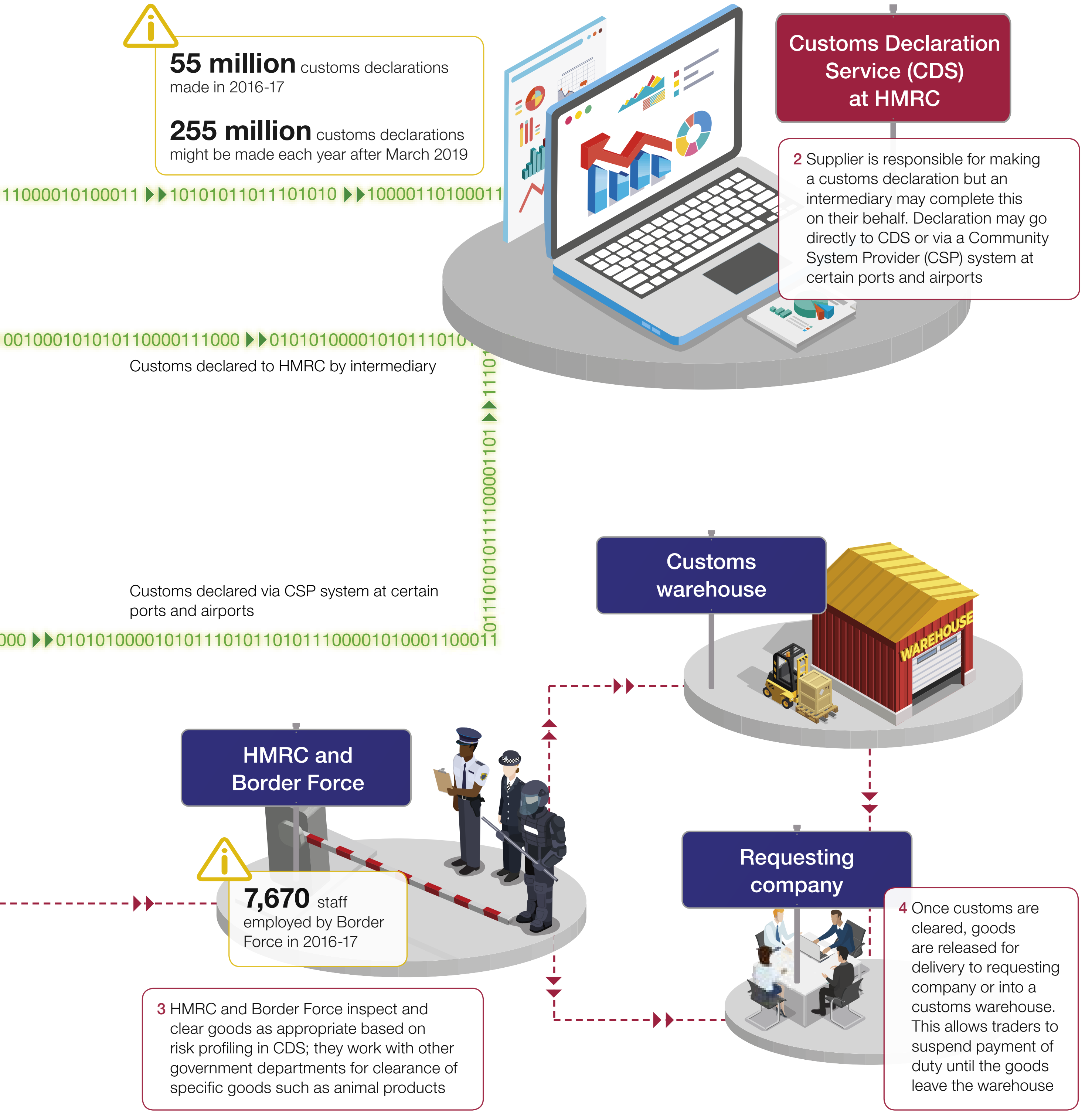


-- Flow of goods   10011 Customs declaration

Note

1 This report focuses on HMRC's creation and implementation of a new Customs Declaration Service (CDS).

Source: National Audit Office



55 million customs declarations made in 2016-17
255 million customs declarations might be made each year after March 2019
Customs Declaration Service (CDS) at HMRC
2 Supplier is responsible for making a customs declaration but an intermediary may complete this on their behalf. Declaration may go directly to CDS or via a Community System Provider (CSP) system at certain ports and airports
Customs declared to HMRC by intermediary
Customs declared via CSP system at certain ports and airports
Customs warehouse
WAREHOUSE
HMRC and Border Force
7,670 staff employed by Border Force in 2016-17
Requesting company
3 HMRC and Border Force inspect and clear goods as appropriate based on risk profiling in CDS; they work with other government departments for clearance of specific goods such as animal products
4 Once customs are cleared, goods are released for delivery to requesting company or into a customs warehouse. This allows traders to suspend payment of duty until the goods leave the warehouse

Key facts

255m

customs declarations that HM Revenue & Customs (HMRC) estimates might be made after the United Kingdom (UK) leaves the European customs union, around a 200 million increase on the 55 million existing declarations each year

150,000

current traders who make customs declarations and will need to move to the Customs Declaration Service (CDS) from the existing system

145,000

minimum number of traders whom HMRC estimates currently trade within the European Union (EU) and might make customs declarations for the first time after the UK leaves the European customs union

CDS programme dates when we last reported in July 2017

July 2018	HMRC planned to finish building the full CDS scope
August 2018	HMRC planned to start migrating traders to CDS
January 2019	HMRC planned to complete migrating traders to CDS

New CDS programme dates

August 2018	HMRC aims to go-live with CDS and start migrating traders as planned – it expects to have 44% of the full functionality in place at this time
November 2018	HMRC now plans to release remaining import functions and start migrating traders who require these functions
December 2018	HMRC now plans to release all export functions and start migrating traders who require these functions
January 2019	HMRC now aims to complete migrating traders to CDS, however this may not be possible given the plan to release export functionality one month before

Contingency programme dates

July 2018	HMRC plans to have demonstrated the CHIEF (Customs Handling of Import and Export Freight) system's capacity as a contingency option. When we previously reported, HMRC had not planned its contingency option in detail

Summary

1 HM Revenue & Customs (HMRC) is now in the final year of its programme to replace its existing customs system, CHIEF (Customs Handling of Import and Export Freight), with a new Customs Declaration Service (CDS). The new system will be an integral part of the UK's overall customs regime. The UK collects around £34 billion annually from customs and excise duties and value added tax (VAT) on transactions at the border. In 2017, around £820 billion of goods crossed the border. It is vital to the UK's economy and consumers that trade continues to operate smoothly across the border, for example by maintaining the trade flow of perishables such as food products.

2 HMRC is changing its customs system to comply with legislative requirements that were established before the UK voted to leave the European Union (EU). HMRC considers that the UK's decision to leave the EU, the European single market and customs union have not changed the overall rationale for CDS. HMRC is still building CDS to comply with the EU legislation which is already familiar to industry, and the resulting system will comply with international rules.

3 There are around 150,000 traders who import and export goods outside the EU. These traders already make around 55 million customs declarations each year in CHIEF, predominantly through a third party. HMRC expects these traders to continue to make customs declarations in CDS. The UK's decision to leave the EU and the customs union has important implications for the CDS programme. Depending on the outcome of EU exit negotiations, from March 2019:

- at least 145,000 traders who currently import or export goods solely within the EU might be required to make customs declarations for the first time; and
- the number of customs declarations could increase from around 55 million to around 255 million each year.

4 On 19 March 2018, the government published a draft agreement on the withdrawal of the UK from the EU. The withdrawal agreement proposes an implementation period that will apply from 29 March 2019 until 31 December 2020. If the draft agreement is approved and this preserves customs arrangements as they are, traders who operate solely within the EU will not have to submit customs declarations until after December 2020. As a consequence, the assumption is that there would not be an associated increase in the volumes of customs declarations until after this date. However, the draft agreement is being negotiated and HMRC, as with the rest of government, continues to plan for the UK leaving the EU customs union with 'no deal' and no implementation period.

5 We first reported on the CDS programme in July 2017. We found that HMRC had made progress, but a significant amount of work remained to implement CDS successfully. We concluded that government as a whole had to decide whether it needed to do more to mitigate the risk of CDS being needed but not ready in time.

6 In October 2017, the Committee of Public Accounts (the Committee) took evidence from HMRC on its progress in implementing CDS. A summary of the Committee's conclusions and recommendations, and HMRC's responses, is included in Appendix One.

Scope

7 This report provides an update on HMRC's progress since July 2017. We consider the deliverability of the CDS programme and highlight the risks and issues HMRC needs to manage to fully implement CDS by January 2019. We also consider what HMRC's progress with CDS and its contingency option means for the risks associated with being unable to process customs declarations at the volume required in the event of 'no-deal' with the EU. As in our previous report, we do not evaluate the overall value for money of the programme. We review:

- how HMRC is managing the CDS programme;
- HMRC's progress in meeting the technical challenges of implementing CDS and creating a working contingency option; and
- HMRC's actions to ensure that traders and others involved in customs administration are ready to use CDS by January 2019.

8 This report does not cover aspects of the government's overall customs regime that are outside the CDS programme. In particular, we have not included:

- 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.

Key findings

Progress towards a functioning customs system on leaving the EU

9 HMRC has made progress in addressing risks within the CDS programme. In our previous report, we highlighted five significant risks that HMRC needed to manage. These were: the very tight delivery timetable; integrating the CDS system with HMRC's technology and ensuring it can handle increased volumes; managing CDS's stakeholders, including the many traders who will use it; managing the CDS programme and scope; and ensuring the programme is fully funded and resourced. Since our review, HMRC has secured all the funding it currently expects to require for CDS. It has also made some progress in tackling other risks and has put mitigations in place against risks that have subsequently arisen, alongside developing contingency arrangements. Nearly one year on from when we last reported, we set out the current programme risks and issues below (paragraphs 1.7 and 1.10 to 1.14, Figure 3 and Figure 4).

10 HMRC has accelerated work on its contingency option for handling customs declarations in the event of 'no deal' in March 2019. In July 2017, we reported that HMRC had identified contingency arrangements in case CDS was not ready on time, but had not planned these in detail. HMRC has now made progress with planning and implementing contingency arrangements. These involve scaling up the existing CHIEF system to manage up to 255 million customs declarations each year. HMRC expects this to cost £8.7 million. When we first reviewed CDS, HMRC planned to complete the testing required to demonstrate whether CHIEF can scale up by December 2018. It now plans to do this by July 2018. HMRC expects it will take a further three months to scale up the operational CHIEF system. If it successfully completes this work, HMRC should have the system capacity to handle customs declarations no matter what the outcome of negotiations between the UK and the EU. HMRC is confident that CHIEF will be able to handle the increased volume of declarations, and that it remains a reliable system that is suitable for a short term contingency arrangement (paragraphs 1.13 and 2.16 to 2.20).

11 A wide range of changes are required for a fully functioning customs regime after the UK leaves the EU. Beyond HMRC's core customs IT systems, many systems and processes are required for an effective customs regime. Some of these are within HMRC's control and others require it to work with other government departments and industry. HMRC has established a separate programme, the Border Systems Programme, to manage the changes that may need to be made to other border systems as a result of the UK leaving the EU. We expect to review the Border Systems Programme at a later stage (paragraphs 1.24 and 3.17 to 3.18, and Figure 6).

The CDS programme

12 **HMRC aims for CDS to go live as planned in August 2018, but has reduced the scope of what CDS will be able to do at that date.** HMRC had planned to design and build the full scope of CDS by July 2018. Its overall aim for CDS to go live in August 2018 and migrate traders by January 2019 remains as we reported last year. Since then, HMRC has developed its transition planning and decided on a phased approach due to delays in development, and the other considerations set out in paragraph 13. In developing the system, it has found gaps in export functionality which require additional work, and has experienced delays in accessing the CDS production environment and in integrating CDS with HMRC's finance system. These issues mean HMRC has been unable to complete its development work according to the original timetable and will not deliver all the CDS functionality by August 2018. In August, HMRC expects to have around 44% of the full functionality of CDS in place, which will support certain types of import declaration. HMRC is not as far advanced as planned with its development work but considers that it is on track to deliver this first release of functionality by August (paragraphs 1.15 to 1.18 and 2.3 to 2.7, Figure 5 and Figure 7).

13 **HMRC now plans to implement functionality in three phases, with further releases in November and December.** HMRC has reviewed its approach since we last reported and now plans to implement the additional import functionality in November, and export functionality in December. It has told us that its intention would always have been to phase the release of functionality to mitigate the risk of implementing a complex system all at once. HMRC has engaged with industry in developing this phased approach, and HMRC has told us that key stakeholders consider it fits with their development timetables. This phased approach also allows HMRC to ensure it starts migrating users in August as planned. Development issues have had an impact on the timing of releases and the third release is late in the timetable. This means that some CDS functionality will not be available until after the migration process gets underway. Traders involved in the first release will have to support a further two releases and associated changes to their own systems and processes before the end of the year (paragraphs 1.15 to 1.22).

14 **Testing will continue but HMRC will not know whether CDS works in live service until it has implemented all the functionality in December 2018.** HMRC's programme of testing CDS is underway. In April, HMRC started to test how the main CDS modules perform at higher volumes, and in May it started to test how the modules perform when integrated with existing HMRC systems. It will continue to progressively test the system functionality until the third release of functionality in December 2018. It will also monitor the performance of the system as users migrate on to CDS from CHIEF. The late release of functionality and migration of users increases the risk that HMRC will not have sufficient time to resolve any issues that it might identify with the last release. As is common with IT systems, even after testing issues may also emerge in the live environment (paragraphs 2.9 to 2.13).

15 **HMRC is unlikely to complete the migration of all users on to CDS in January 2019.** HMRC plans to closely manage the migration of traders who submit high volumes of declarations and has a communications campaign in place for lower-volume traders. HMRC's overall aim is to complete migration by January 2019 as planned. However, traders who export goods may not complete migration by this date as they will only have one month to complete the process. HMRC is considering whether it can bring forward its November and December releases or reduce the time available to some users to migrate on to CDS. However, this may not be possible if the development of the CDS system continues to progress at its current rate, or if CDS users are not able to respond quickly enough. Traders will continue to have access to CHIEF, which HMRC intends to continue running alongside CDS, for a period after January 2019. This will help mitigate the risks of CDS not being ready as traders will be able to revert to CHIEF. However, it may also lead to some traders continuing to use CHIEF for longer than necessary, which could also delay the completion of migration (paragraphs 1.19 to 1.21).

Readiness of users and delivery partners

16 **Key organisations that need to change their software and business processes to use CDS may not be ready.** In February and March 2018, we interviewed and surveyed community system providers (CSPs) and customs software suppliers. These organisations operate systems that allow traders to make customs declarations. While CSPs and customs software suppliers are confident that HMRC will deliver an operational CDS system, they are not yet confident that the full scope of CDS will be ready by January 2019. CSPs and customs software suppliers told us that HMRC's communication and engagement have been generally good. However, they have also told us that the technical information HMRC has provided has consistently arrived later than they would have liked, and has not always been complete or sufficiently detailed. This means that, in March 2018, 4 out of 5 CSPs and 14 out of 19 customs software suppliers whom we surveyed were uncertain about exactly what changes they needed to make to their software and therefore when their systems would be ready for users to submit customs declarations. Since January 2018, HMRC has run a series of 'trade tests' to allow stakeholders to test their software and connections to CDS. To date, 15 of 57 software suppliers have reported successfully testing all scenarios. HMRC has told us that it has also undertaken further activity to engage with these stakeholders since the time our work was completed (paragraphs 2.14 to 2.15, 3.3 to 3.5 and 3.10 to 3.15, Figure 10 and Figure 13).

17 HMRC has started to communicate with the existing traders and other users who regularly engage with CHIEF but there is a lot more to do. Currently, 150,000 traders make customs declarations for trade outside the EU. These traders predominantly use a third party to submit declarations on their behalf. HMRC has identified around 8,700 registered users of CHIEF, including freight forwarders and customs agents, who may also need to change business systems and processes, and recruit and train staff. HMRC has been directly communicating with larger businesses. It updated its website in January 2018 and emailed current CHIEF users in February 2018. Leading up to August, HMRC will increase its direct communications. HMRC also uses other mechanisms to communicate more widely, including through trade representative groups, software suppliers and its established customs forum (paragraphs 1.6 and 3.6 to 3.9, Figure 2, Figure 11 and Figure 12).

18 HMRC has not yet started communicating with at least 145,000 EU-only traders about CDS. These traders may need to make customs declarations once the UK leaves the EU. In light of the continuing uncertainty about the customs arrangements that will apply from March 2019, HMRC has prepared, but not yet started, a communications campaign for these traders. HMRC is keeping under review the need to start this campaign. HMRC told us it is unable to do so until the results of negotiations with the EU about the post-March 2019 customs arrangements are clearer (paragraphs 1.6 and 3.9, Figure 2 and Figure 12).

Concluding comments

19 The UK and EU have made progress towards an agreement that will leave customs arrangements unchanged until December 2020. However, until this agreement is confirmed, the government has directed HMRC to continue planning for a ‘no deal’ scenario with the expectation that a fully scaled and operational customs system will be in place in March 2019.

20 In response to the concerns we highlighted in July 2017, HMRC has accelerated its plans to develop the existing CHIEF system as a contingency option. This has reduced the risk that it will not be able to handle the potential increased volume of customs declarations at the end of March 2019, in the event of ‘no deal’. The contingency option is still to be fully tested, and the success of customs preparations will involve many other dependent systems and processes at the border. However, if HMRC completes this work successfully, it will be in a better position in the event that CDS is not ready or does not perform as planned.

21 Since July 2017, HMRC has taken steps to mitigate some of the risks we previously highlighted. However, further technical and business issues have arisen in the CDS programme, and an already tight timeline has become even more demanding. Significant challenges remain and there is a risk that CDS will be unable to fully replace CHIEF by January. HMRC has mitigated some of the risk with its plans to operate CHIEF and CDS in parallel over this period. However, it is also critical that HMRC fully tests and scales-up its contingency option over the summer of 2018, supports delivery partners such as CSPs and software providers to make necessary changes to their own systems, communicates effectively with traders about new customs processes and migrates them successfully on to CDS.