Memorandum
to the House of Commons
Committee of Public Accounts

Cross-government

The UK border: preparedness for EU exit update

FEBRUARY 2019

Our vision is to help the nation spend wisely.

Our public audit perspective helps Parliament hold government to account and improve public services.

The National Audit Office scrutinises public spending for Parliament and is independent of government. The Comptroller and Auditor General (C&AG), Sir Amyas Morse KCB, is an Officer of the House of Commons and leads the NAO. The C&AG certifies the accounts of all government departments and many other public sector bodies. He has statutory authority to examine and report to Parliament on whether departments and the bodies they fund, nationally and locally, have used their resources efficiently, effectively, and with economy. The C&AG does this through a range of outputs including value-for-money reports on matters of public interest; investigations to establish the underlying facts in circumstances where concerns have been raised by others or observed through our wider work; landscape reviews to aid transparency; and good-practice guides. Our work ensures that those responsible for the use of public money are held to account and helps government to improve public services, leading to audited savings of £741 million in 2017.

Contents

The National Audit Office team consisted of Richard Hagen, Helen Holden, Natalie Klisevica and Lee Nicholson, under the direction of Leena Mathew.

This report can be found on the National Audit Office website at www.nao.org.uk

For further information about the National Audit Office please contact:

National Audit Office
Press Office
157–197 Buckingham Palace Road
Victoria
London
SW1W 9SP

Tel: 020 7798 7400

Enquiries: www.nao.org.uk/contact-us

Website: www.nao.org.uk

Twitter: @NAOorguk

Introduction

1 On 29 March 2019, the United Kingdom (UK) is set to leave the European Union (EU). The government is preparing for when the UK–EU relationship changes and the EU begins treating the UK as a non-member state and third country for the purposes of EU law.

2 On 24 October 2018, we published our report: *The UK border: preparedness for EU exit*.[1] This report set out the basis on which the government had planned for the changes that may be required at the UK border and their potential impact; and assessed whether departments were on track to deliver the changes to systems, infrastructure and resources that they believed were required before the UK leaves the EU.

3 At that point, the government was negotiating the terms of the UK's withdrawal from the EU, and the text of a document setting out a framework for the future of the UK–EU relationship. On 14 November 2018, the UK and the EU reached agreement on the draft documents setting out the terms of the withdrawal agreement and future relationship (the 'deal').[2] On 15 January 2019, the 'deal' was rejected by the UK Parliament.[3] Since then, departments have continued to plan on the basis of both a 'deal' being reached and on the basis that, if a 'deal' is not agreed, the UK will leave the EU on 29 March 2019, with no implementation period and a sudden change in the UK–EU relationship ('no deal').

4 This memorandum has been prepared to support the Committee of Public Accounts' (the Committee's) examination of the government's preparedness if the UK leaves the EU without a 'deal' on 29 March 2019. The memorandum sets out:

- the change in the risk profile of key border-related systems since we last reported in October 2018 (Part One);
- departments' progress in implementing the key projects needed to manage the border (Part Two); and
- departments' progress in managing the cross-cutting issues, such as resourcing and trader readiness, that need to be addressed for the border to function effectively (Part Three).

1 Comptroller and Auditor General, *The UK border: preparedness for EU exit*, Session 2017–2019, HC 1619, National Audit Office, October 2018.
2 Department for Exiting the European Union, *Progress on the UK's exit from, and future relationship with, the European Union*, November 2018.
3 *Hansard HC*, vol. 652, cols. 1122–25, 15 January 2019.

5 The October 2018 report covered the government's preparations at the border under both 'deal' and 'no deal' scenarios. This memorandum focuses on the progress that departments' have made in preparing for 'no deal' because of the limited amount of time that remains. If the UK leaves the EU without a 'deal' in place at 11 pm on 29 March 2019 ('day one of no deal'), or at any stage thereafter, then trade between the UK and the EU would be governed by World Trade Organization (WTO) rules, including the principle of 'most favoured nation'. This principle requires non-discrimination between trading partners and the consistent application of customs checks, tariffs and non-tariff barriers to trade. This means that new customs controls, tariffs and non-tariff barriers might apply to around £423 billion of trade at the UK border. This could require the government to put in place new systems, upgrade existing systems and make extensive other changes.

6 As we set out in our October 2018 report, the government does not have enough time to put in place all of the infrastructure, systems and people required for a fully effective border on 'day one of no deal'. In the event of 'day one of no deal', the government has accepted that the border will be less than optimal. Less than optimal could include delays for goods crossing the border, increased opportunities for tax and regulatory non-compliance and less information to inform checks of people crossing the border.

7 As we reported in October 2018, the government has confirmed that in the event of disruption on 'day one', it will prioritise security and safety and the flow of people and goods. The government's third priority will be compliance activity, including the collection of revenue. In line with these priorities, ministers have agreed the following objectives for 'day one':

- 100% checks on people at the border will be maintained and there will be no change to current security-related checks on freight (security);
- A risk-based approach to customs, agri-food and other controls will seek to minimise disruption to imports as a result of UK controls at the border (flow); and
- Customs compliance policies will be risk-based to facilitate flow at roll-on, roll-off ports (revenue).[4]

8 This memorandum provides an update on progress relating to the key issues in our October 2018 report and sets out new issues that have become more significant since we previously reported. It is based on interviews with officials and a review of documents, such as programme management documents and management reports, from HM Revenue & Customs, Border Force, the Department for Environment, Food & Rural Affairs, the Department for International Trade and the Border Delivery Group. We have not visited border locations, spoken to third parties, or undertaken any further detailed audit of systems development or systems testing. Due to the fast-moving nature of the events that we are auditing, in some limited cases, we do not have documentary evidence and we have drawn on evidence from interviews with officials. We have not evaluated or concluded on the approach taken by the government. We have agreed all the facts and their presentation with the departments named in this report and with the Border Delivery Group. The report is based on information available up to 26 February 2019. The scope of our report and our approach are outlined in Appendix One.

4 Roll-on, roll-off, or RORO, refers to the way that freight is loaded and unloaded – that is, it is usually driven on or off the ferry or train. A large proportion of freight arriving from the EU comes via RORO services. The speed and flexibility of RORO services are integral to the operation of 'just in time' supply chains across Europe. Depending on policy decisions taken by government in the event of 'no deal', traffic passing through RORO ports would become subject to customs (and other) controls.

Part One

The risk profile of key border-related systems

1.1 As set out in our October 2018 report, *The UK border: preparedness for EU exit*, government departments and other organisations need to make a significant number of changes if the border is to operate effectively after the United Kingdom (UK) leaves the European Union (EU).[5] Many of these changes relate to systems because leaving the EU, particularly in a 'no deal' scenario, could result in departments having limited or no access to some of the key EU systems they currently use. This part sets out:

- the extent to which the risk profile of the key border-related systems has changed since we last reported in October 2018; and
- the actions that the government is taking to test key border systems and assure itself they are functioning effectively, in advance of 29 March 2019.

Changes in the risk profile of key border-related systems

1.2 The Border Delivery Group (BDG) is a cross-government team, hosted by HM Revenue & Customs (HMRC). It reports jointly to the chief executive of HMRC and the second permanent secretary of the Home Office, who are the co-chairs of the Border Planning Executive Group.[6] It is responsible for scoping, planning, coordinating and ensuring the delivery of the necessary change plans to ensure the border works effectively after EU exit.

5 Comptroller and Auditor General, *The UK border: preparedness for EU exit*, Session 2017–2019, HC 1619, National Audit Office, October 2018.

6 Since we last reported in October 2018, the governance structure has been revised and the Border Planning Group no longer exists.

1.3 BDG continually reviews departments' progress in delivering key border-related projects by having a presence on programme delivery boards, conducting reviews of detailed department plans and through further engagement with departments. It reports on these key border-related projects on a weekly basis. It also reports specifically on the development and implementation of the IT systems that it views as the most critical to the effective functioning of the border on 'day one'. The key risks to delivery of these systems that we identified at the time of our October 2018 report were:

- uncertainty about, or late agreement of, the system requirements and design;
- insufficient time due to delays in legislation/policy decisions;
- lack of time to prepare business for change;
- dependencies on other systems being ready; and
- insufficient time to deliver the change.

1.4 In our October 2018 report, we indicated that, in September 2018, BDG assessed that 11 out of the 12 systems it considered the most critical to the effective functioning of the border on 'day one' at the time were at risk of not being delivered on time and to an acceptable quality. Since we last reported BDG has separated its risk rating of systems projects into two categories: IT, which relates to modifications or development of systems; and process, which relates to the business and policy changes required to embed the systems. **Figure 1** on pages 8 to 13 sets out those systems and shows the change in their risk profile since we reported in October 2018, together with a summary of the risk position as at 14 February 2019.[7]

1.5 Since we reported in October 2018, BDG has changed the population of the most critical systems on which it reports to the border planning governance groups.[8] It has:

- stopped reporting on developments on six projects: UK Trade Remedies; the Customs Declaration Service (CDS); Import Control System; Excise; Parcels; and Binding Tariff. This is either because it has assessed the project as less critical for operational readiness on 'day one', or because it has assessed that the project has been significantly de-risked. Alongside this its reporting on the Northern Ireland border systems has been subsumed into its wider reporting on Northern Ireland readiness;[9]
- continued reporting on five projects: Import of Products, Animals, Food and Feed System (IPAFFS); the Automatic Licence Verification System (ALVS); Tariff Application; Transit; and Roll-on, roll-off locations; and
- begun reporting on three projects: Customs Handling of Import and Export Freight (CHIEF); Import of Products, Animals, Food and Feed System Contingency (IPAFFS Contingency); and Food Standards Agency pre-notification (FSA pre-notification).[10]

7 The process risk rating for roll-on, roll-off ports reflects the decision announced on 19 February 2019 that Entry Summary Declarations will not be required on imports from the EU for a period of six months after 29 March 2019.

8 The systems projects BDG reports on differ from the EU exit workstreams managed by departments. BDG's reporting draws upon departments' reporting to form a cross-government view, and aims to highlight the risks to delivering the systems needed at the border for 'day one'. Departments may report and rate risks differently.

9 Departments are continuing to implement these projects.

10 The Department for Environment, Food and Rural Affairs manages IPAFFS, IPAFFS contingency and ALVS as sub-projects to a larger project.

Figure 1

Summary of the risk position as at February 2019 in relation to the key systems projects monitored by the Border Delivery Group (BDG)

Six of the eight IT systems which BDG views as the most critical for 'day one' remain at risk of not being delivered to time and to acceptable quality[1]

Key responsible organisation	Project/programme	System	Description
Department for Environment, Food & Rural Affairs (Defra)	Import of animals and animal products and high-risk food and feed not of animal origin – replacement for Trade Control and Expert System (TRACES)[3]	Import of Products, Animals, Food and Feed System (IPAFFS)	IPAFFS is a system being developed to monitor and control the import of animals, animal-related products, high-risk food and feed from the European Union (EU) and rest-of-world countries, replacing use of the EU's TRACES system. IPAFFS was previously called TRACES replacement.
Defra	IPAFFS Contingency[3]	Online form-based contingency and possible use of Port Health Interactive Live Information System (PHILIS Online)	Defra is developing a contingency solution to be used in the event that it is not able to implement IPAFFS successfully to monitor and control the import of live animals and animal products and high-risk food and feed not of animal origin by 29 March 2019.
Defra	Automatic Licence Verification System (ALVS)[3]	ALVS	ALVS is an existing system that enables the sharing of information between HM Revenue & Customs (HMRC) and Defra systems. Defra and HMRC are testing that ALVS works with the new systems being developed for EU exit. In the event of 'no deal', ALVS will be critical to ensure an operational link between the Customs Declaration Service (CDS)/Customs Handling of Import and Export (CHIEF) and IPAFFS.
Food Standards Agency (FSA)	Pre-notification	Port Health Interactive Live Information System (PHILIS Online)	This programme aims to enable importers to provide pre-notification of the import of high-risk food and feed from EU countries from June 2019. This is to enable the FSA to ensure that food coming from the EU can be traced in the event of an incident or a new emerging risk. The FSA is also modifying the existing PHILIS Online system as an interim solution until IPAFFS functionality for this requirement is ready. The FSA aims for the IPAFFS system to be used for pre-notification of high-risk food and feed from EU countries from autumn 2019, replacing use of PHILIS Online.
Department for International Trade (DIT)	Tariff Application	Tariff Application Platform (TAP)	TAP is a new system being developed by DIT to transmit tariff data to HMRC for the calculation of duties due at the border, replacing the Tarif Intégré Communautaire (TARIC) database administered by the European Commission.

Border Delivery Group risk rating of system in September 2018	Border Delivery Group risk rating as at 14 February 2019[2]		Summary of position on risk as at February 2019
	IT	Process	
Amber-Red	Amber-Red	Amber-Red	Decision to use IPAFFS for imports of animals, animal-related products and high-risk food and feed from non-EU countries instead of contingency options taken at the end of January 2019. Higher-risk imports from EU countries will use a manual system. Development and testing ongoing in parallel due to the limited time available before 'day one'. Defra has identified some issues with the software arising from the testing but reports that it is confident that these can be addressed in time for 'day one'. Defra is developing a contingency option in the event that testing identifies significant issues or IPAFFS is not ready in time. See paragraphs 2.19 to 2.20.
Not reported	Amber	Amber-Red	Defra plans to use a simple system of notifications based on an online form that can be downloaded from the gov.uk website and emailed to Port Health Authorities to notify of the import. Defra reports that it is discussing with the larger ports about the role PHILIS Online (the existing Port Health Interactive Live Information System) might play in these notifications. Defra reports that the necessary capacity upgrade work and testing of PHILIS Online to gain assurance that, if needed, it can handle increased volumes for the processing of imports of animals and animal-related products and high-risk food and feed not of animal origin, had been successfully completed. If either of the contingencies are used, traders would have limited notice. See paragraph 2.21.
Amber	Amber-Red	Not applicable	Testing of the IPAFFS – ALVS – CHIEF link is progressing but not expected to complete until early March 2019. Defra and HMRC were still working out how to prepare for a failure of IPAFFS, and the implications for ALVS and CHIEF. There is currently no alternative system. See paragraphs 2.24 and 2.25.
Not reported	Amber-Green	Amber-Green	FSA decided to use PHILIS Online for the pre-notification of high-risk food and feed from the EU in early autumn 2018, once it became clear that IPAFFS would not deliver this functionality in time for June 2019. PHILIS Online requires expansion and some changes to how it works, and FSA has tested this. FSA has communicated to importers that they will need to provide pre-notification from June 2019 but is still to decide how to implement this. See paragraph 2.22.
Amber-Red	Amber-Green	Amber	DIT and HMRC, working closely, need to develop and agree processes for feeding tariff information into both the CDS and CHIEF systems. Testing of the connection between TAP and CDS is underway and a process for manually uploading tariff data into CHIEF has been agreed. The significant risks to the successful delivery of the project in time for 'day one' include the need to develop and test both processes simultaneously, and the fact that ministers have not yet made a final decision regarding the level of the tariffs that should feed into the systems. See paragraphs 2.16 and 2.17.

Figure 1 *continued*

Summary of the risk position as at February 2019 in relation to the key systems projects monitored by the Border Delivery Group (BDG)

Key responsible organisation	Project/programme	System	Description
DIT	UK Trade Remedies	Trade Remedies	Trade Remedies is a new system being developed by DIT to replace the existing EU system that investigates complaints of unfair trading practices and unforeseen surges in imports, which may cause injury to UK industry. It will provide the operating platform for the newly established UK Trade Remedies Authority.
HMRC	Transit	Transit	HMRC is developing a new transit regime following the UK acceding to the Common Transit Convention (CTC) in its own right after EU exit. As a member of the CTC, goods can move into and across customs territories under duty suspense, that is, without completing fiscal declarations and paying duty. After EU exit, goods arriving in the UK via EU member states will need to be recorded and managed in the UK's existing 'New Computerised Transit System' (NCTS).
HMRC	Roll-on, roll-off locations (RORO)	RORO	Many locations that operate 'roll-on, roll-off' (RORO) services do not have the infrastructure or systems that they need to undertake the customs checks that would be required to comply with United Nations Security Council Resolutions, World Trade Organization rules and World Customs Organization conventions. The project aims to deliver a solution that maintains trade flow across the border without loss of customs revenue, from either 29 March 2019 or at the end of the implementation period. This project was previously called Freight – non-inventory linked.
HMRC	Customs Handling of Import and Export Freight (CHIEF)	CHIEF	HMRC is developing its existing customs system CHIEF as a contingency option to provide additional capacity for processing customs declarations in the event that the new Customs Declaration Service is not ready. HMRC has had to upgrade CHIEF to increase its capacity to cope with the estimated fivefold increase in customs declarations in the event of 'no deal'.
HMRC	Customs Declaration Service (CDS)	CDS	HMRC is developing the new CDS system to replace CHIEF to handle and risk-assess customs declarations, and account for payment of duties. The programme started before the EU referendum and is a requirement no matter what the outcome of negotiations with the EU over exit. However, it became significantly more important after the referendum because of the potential increase in the numbers of traders who may be required to make customs declarations once the UK is outside the EU.

Border Delivery Group risk rating of system in September 2018	Border Delivery Group risk rating as at 14 February 2019[2]		Summary of position on risk as at February 2019
	IT	Process	
Amber-Green	Not reported	Not reported	The project was taken off the Border Delivery Group's key risk register in November 2018. The IT system is on track for roll-out in March; however, there are limits to what the UK Trade Remedies Authority will be able to do if the Royal Assent of the Trade Bill is not received before the exit day. DIT has secured a cross-government agreement for the implementation of contingency plans if needed.
Red	Amber	Red	HMRC's transit project is working to ensure the existing NCTS can handle the expected increase in volume in the event of 'no deal'; however, there remains a risk that the system will not be ready in time. There are significant challenges remaining to put in place the resourcing and infrastructure needed to support the transit process to be used by border users. See paragraphs 2.14, 2.15 and 3.12.
Amber-Red	Amber	Amber-Green	The government has announced that, in the event of 'no deal', Transitional Simplified Procedures (TSP) will be available for customs declarations on trade with EU member states. Under TSP, traders or their appointed representatives will be able to make either a simplified frontier declaration (electronically to HMRC) in advance of travel, or an entry in their own records of when the goods are crossing the border. In both cases, traders will need to pay the duty and make a more detailed declaration by the following month. A series of changes are planned to CHIEF to accommodate this.[4] See paragraphs 2.10 and 2.11.
Not reported	Amber	Not reported	Due to delays with developing and testing CDS and the concerns from key users including software developer, HMRC now intends to use CHIEF as the primary declaration system for EU traders in the event of 'no deal'. HMRC has successfully completed its testing of CHIEF to ensure it will be able to handle 300 million customs declarations each year. Work is still required to ensure connections with other systems, such as to Defra's IPAFFS system, through ALVS. See paragraphs 2.2 to 2.6.
Amber-Red	Not reported	Not reported	CDS went live with certain import functionality in August 2018. Remaining import functionality planned for implementation in November was delayed, with some going live in December and the remaining functionality set to go live by March 2019. System development is ongoing and HMRC now expects to phase the release of export functionality starting with an initial delivery from the end of March 2019. A small number of traders are currently making customs declarations in CDS and HMRC expects 25 traders to be making declarations on CDS by mid-April 2019. The delays with development and the decision to use CHIEF as the primary declaration system in the event of 'no deal' mean that migration of traders is behind schedule. HMRC does not need to complete the migration of traders to CDS for a 'day one no deal' scenario. See paragraphs 2.2 to 2.3 and 2.7 to 2.9.

Figure 1 *continued*

Summary of the risk position as at February 2019 in relation to the key systems projects monitored by the Border Delivery Group (BDG)

Key responsible organisation	Project/programme	System	Description
HMRC	Northern Ireland border	VAT, Customs, Excise	Once the UK leaves the EU, the Ireland/Northern Ireland land border will become a UK/EU border, with traded goods subject to duties and tariffs. The project aims to develop an approach for VAT, customs and excise duties for goods crossing the border that is consistent with the Belfast Agreement and which does not place strain on affected businesses.
HMRC	EU Risk and Response Import Control System (ICS)	Safety and Security	This programme aims to identify and make the changes needed to the UK's existing Import and Control System (ICS), which forms part of the EU's wider ICS. Currently, traders who import goods into the EU are required to make a safety and security declaration on the EU's ICS. Following EU exit, the UK will need to be able to process UK safety and security import declarations from 'day one' and cope with an estimated seven times increase in the number of declarations.
HMRC	Excise	Excise Movement and Control System (EMCS)	HMRC must make changes to the UK's existing IT systems that monitor the movement of goods between the UK and EU, and vice versa, so that they do not rely on receiving data from central EU systems, to prevent disruption at the border.
HMRC	Parcels (Import and VAT)	Parcels (Import and VAT)	HMRC is developing a new system to identify and collect VAT due on goods in small parcels arriving in the UK after EU exit. Currently, import VAT is accounted for on goods in small parcels from the EU by either the receiving or selling businesses according to circumstance. Small parcels from elsewhere also attract import VAT subject to Low Value Consignment Relief (LVCR), which is collected by postal operators from consumers. In the event of 'no deal', VAT on such parcels valued up to and including £135 will instead be payable by overseas businesses and LVCR will no longer apply to any parcels arriving in the UK.
HMRC	Binding Tariff	Electronic Binding Tariff Information (EBTI)	HMRC is developing a new system for storing binding tariff rulings made by HMRC and making available historic rulings to the EU after exit, replacing use of the existing EU's Binding Tariff Information system. Binding tariff rulings are legally binding decisions, generally lasting for three years, which state the correct commodity code to be applied to a particular trader's imports/exports. These rulings are made by HMRC in the UK, but stored centrally in an EU system.

Notes

1 'At risk' is defined as being rated as Amber or above.

2 As of January 2019, BDG separated its risk rating into two categories: IT delivery; and process, which relates to ensuring businesses readiness for the system. This was done to reflect that the challenge for rolling out a new system is wider than just delivering new IT and in order to give a better overall picture of the readiness of each system.

3 The Department for Environment, Food and Rural Affairs manages IPAFFS, IPAFFS Contingency and ALVS as sub-projects to a larger project.

4 The process risk rating for roll-on, roll-off locations reflects the government's announcement on 19 February that it intends to phase in Entry Summary Declarations if the UK leaves the EU without a 'deal'.

Source: National Audit Office analysis of Border Delivery Group and departments' data

Border Delivery Group risk rating of system in September 2018	Border Delivery Group risk rating as at 14 February 2019[2]		Summary of position on risk as at February 2019
	IT	Process	
Red	Not reported	Not reported	BDG's reporting on Northern Ireland border systems has been subsumed into its wider reporting on Northern Ireland readiness.
Amber-Red	Not reported	Not reported	BDG is no longer reporting on this project as at 14 February as part of its cross-government risk portfolio, as it views this to not be one of the most critical systems to the effective functioning of the border on 'day one'. In February 2019 government agreed that traders will not need to submit safety and security declarations on imports for a period of six months after 29 March 2019. See paragraph 2.11.
Amber-Red	Not reported	Not reported	BDG is no longer reporting on this project as at 14 February as part of its cross-government risk portfolio, as it views this to not be one of the most critical systems to the effective functioning of the border on 'day one'. Papers from HMRC show that the most significant risks remaining relate to dependencies on other projects and programmes, including CDS, RORO and Northern Ireland.
Amber-Red	Not reported	Not reported	BDG is no longer reporting on this project as at 14 February as part of its cross-government risk portfolio, as it views this to not be one of the most critical systems to the effective functioning of the border on 'day one'. Papers from HMRC show that IT testing is ongoing, having been delayed due to difficulties identifying overseas businesses to support it.
Amber-Red	Not reported	Not reported	BDG is no longer reporting on this project as at 14 February as part of its cross-government risk portfolio, as it views this to not be one of the most critical systems to the effective functioning of the border on 'day one'. Papers we have reviewed from HMRC show that delivery for March 2019 is largely on track.

5 Red – Successful delivery appears to be unachievable. There are major issues which, at this stage, do not appear to be manageable or resolvable. The project may need re-baselining and/or overall viability re-assessed; Amber-Red – Successful delivery is in doubt with major risks or issues apparent in a number of key areas. Urgent action is needed to ensure these are addressed, and establish whether resolution is feasible; Amber – Successful delivery appears feasible but significant issues already exist requiring management attention. These appear resolvable at this stage and, if addressed promptly, should not present a cost/schedule overrun; Amber-Green – Successful delivery appears probable. However, constant attention will be needed to ensure risks do not materialise into major issues threatening delivery; and Green – Successful delivery to time, cost and quality appears highly likely and there are no major outstanding issues that at this stage which appear to threaten delivery.

1.6 BDG has begun reporting on the three projects because:

- CHIEF: in January 2019 HMRC decided to use CHIEF as the primary customs solution in the event of 'no deal' (see paragraph 2.3).
- IPAFFS Contingency: issues with delivering IPAFFS in the time available increased the relative importance of a contingency solution being in place for 29 March 2019 (see paragraphs 2.19 to 2.21).
- FSA pre-notification: the Food Standards Agency (FSA) became aware that the functionality to enable importers of high-risk food and feed from the EU to provide pre-notification of the import of these products before arrival in the UK would not be available in the IPAFFS system until autumn 2019. It launched a programme to modify the existing Port Health Interactive Live Information System (PHILIS Online) to provide this functionality from June 2019 and until IPAFFS is developed to enable this (see paragraph 2.22).[11,12,13]

1.7 There has been progress in key areas since we last reported in October 2018. For example, HMRC has completed its work to scale up CHIEF to be able to handle an increase in the volume of customs declarations (see paragraph 2.4) and the UK government has successfully applied for the UK to accede to the Common Transit Convention (CTC) in its own right (see paragraph 2.15).

1.8 However, six of the eight critical systems remain at risk of not being delivered on time and to acceptable quality relating to delivery of IT changes, and four relating to the process for embedding them (rated 'amber' or above). In regard to delivery of IT changes, of the five projects that BDG judged to be key in September 2018, and that remained so in February 2019:

- one (IPAFFS) remained at the same risk profile;
- three (Transit, TAP and Roll-on, roll-off) had improved; and
- one (ALVS) had deteriorated.[14]

Despite the general improvement in the IT risk rating for these critical systems, significant risks remain in relation to the process for embedding these systems. These relate, for example, to the need to ensure that traders are ready to use the new systems or the need to put in place the appropriate infrastructure and resource requirements to support their use.

11 PHILIS Online is also being developed as part of the contingency for the IPAFFS system.
12 The Food Standards Agency decided to not require pre-notification from 'day one' because it assessed that the level of risk posed from imports of food and feed from the EU would not significantly change after 'day one'.
13 PHILIS Online is an existing system used to support declarations on products such as plastics from China and Hong Kong.
14 These ratings reflect BDG's assessment of risk. Departments will have their own ratings, which may differ from these.

1.9 As we reported in October 2018, there are significant dependencies between systems, which magnify the overall risk relating to the government's border preparations. **Figure 2** on pages 16 and 17 sets out the current delivery risk for key projects monitored by BDG. It shows that delivery risk is heightened because systems that are at high risk of not being delivered successfully in time for 'day one', rely on other systems that are high delivery risk. For example, in order to help manage the biosecurity risks and collect any customs due relating to the imports of animals and animal-related products, IPAFFS must function effectively to identify the need for, and record, the results of biosecurity checks. It must also be able to share that information through the ALVS with CHIEF to facilitate customs clearance.[15]

1.10 In seeking to reduce the risk to the operation of the border in the event of 'no deal', BDG and departments have focused on putting in place the minimum necessary requirements for 'day one' with the intention of strengthening controls and improving systems in the longer term. This includes introducing arrangements that departments believe will facilitate trade across the UK border while still seeking to meet legislative requirements. For example, in two cases (Roll-on, roll-off and Import Control System), departments have made progress in addressing risks and issues on their projects by agreeing 'easements' with ministers. These 'easements' reduce the previously planned requirements on traders and others in the event of 'no deal'. Paragraphs 2.11 and 2.12 set out further details. Further 'easements' are being discussed and these are subject to ministerial decisions.

Assurance activity

1.11 In December 2018, BDG undertook a stocktake of UK border readiness for 'day one' in the event of a 'no deal' scenario. This restated the government's objectives to prioritise flow over revenue, but not at the expense of security, and recognised the impact on 'day one' of this approach. This includes the increase to security risk from the loss of access to EU information and tools, and increased risk to compliance and revenues. BDG's stocktake of the risks at that time concluded that there were significant risks to delivering border-related systems and processes, and that the biggest risks to border operations were still industry and trader readiness, and disruption caused by the impact of member states imposing controls.

1.12 In response to the delivery risks and in preparation for 29 March 2019, departments are testing their systems' ability to cope with the changes, such as integration with new systems and increases in volume, that are being implemented. BDG has supported departments by reviewing the systems testing plans in place, including links between departmental systems, to identify gaps and areas that require further scrutiny. BDG is also coordinating a programme of operational testing of new processes in key border locations, involving the Department for Environment, Food & Rural Affairs (Defra), HMRC, and Border Force and others, which is due to complete by the end of February 2019.

15 IPAFFS will be one of a number of elements of biosecurity management at the border.

Figure 2

Cumulative delivery risk for key systems projects monitored by the Border Delivery Group (BDG)

In the event of 'no deal', on 'day one' different departmental systems must be connected to support operation of the border

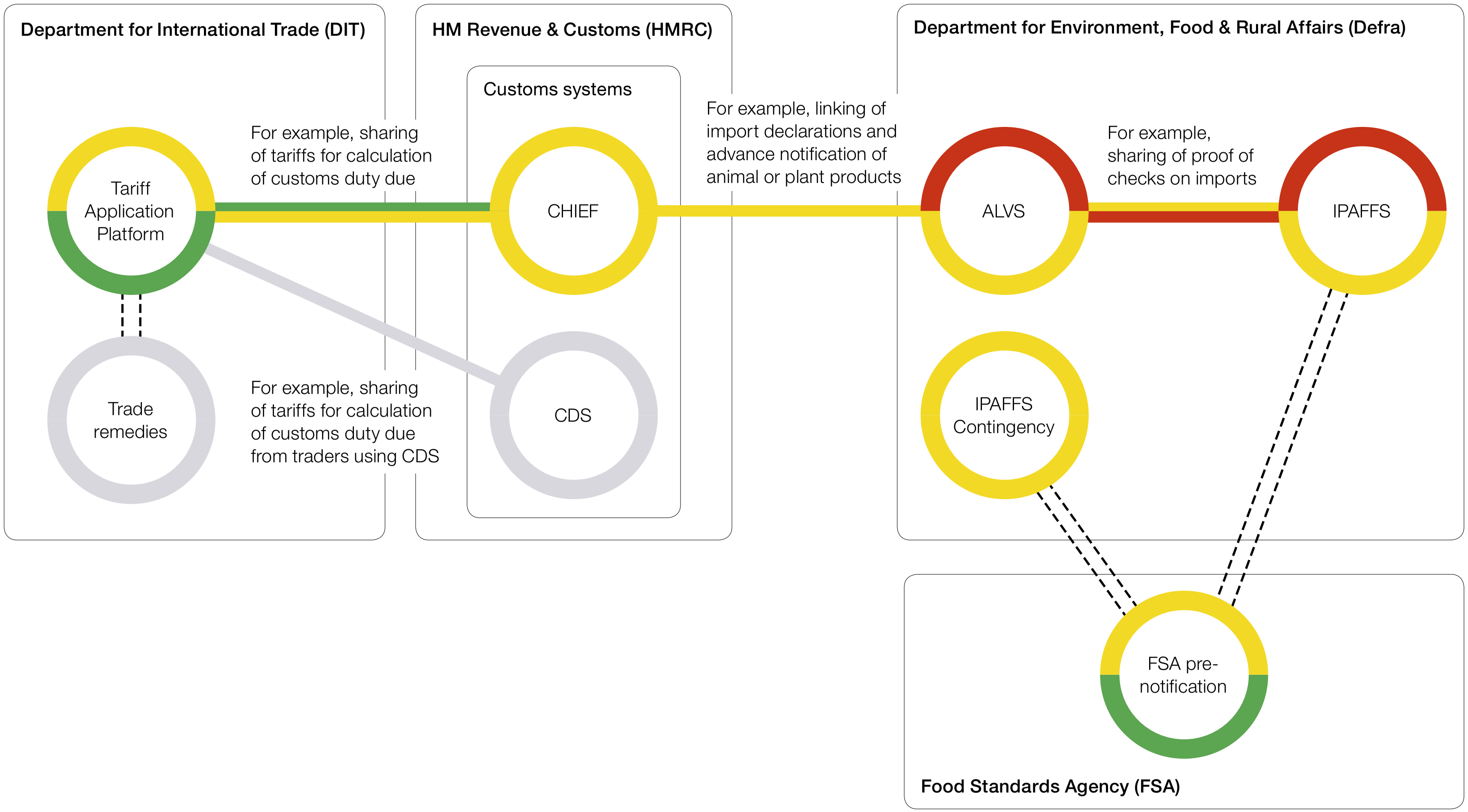

Figure 2 *continued*
Cumulative delivery risk for key systems projects monitored by the Border Delivery Group (BDG)

System delivery risk rating as reported by BDG

Red – Successful delivery of the project/programme appears to be unachievable. There are major issues which at this stage do not appear to be manageable or resolvable. The project/programme may need re-baselining and/or overall viability reassessed.

Amber-Red – Successful delivery of the project/programme is in doubt with major risks or issues apparent in a number of key areas. Urgent action is needed to ensure these are addressed, and establish whether resolution is feasible.

Amber – Successful delivery appears feasible but significant issues already exist requiring management attention. These appear resolvable at this stage and, if addressed promptly, should not present a cost/schedule overrun.

Amber-Green – Successful delivery appears probable. However, constant attention will be needed to ensure risks do not materialise into major issues threatening delivery.

Green – Successful delivery of the project/programme to time, cost and quality appears highly likely and there are no major outstanding issues that at this stage appear to threaten delivery.

Grey – BDG is no longer reporting on this project as at 14 February as part of its cross-government risk portfolio, as it views this to not be one of the most critical systems to the effective functioning of the border on 'day one'.

Dependencies

High compound risk. Connects projects with deliverability rated Red with projects rated Amber-Red.

Medium-high compound risk. Connects projects with deliverability rated Amber-Red with projects rated Amber-Red.

Medium compound risk. Connects projects with deliverability rated Amber or Amber-Green with projects rated Amber-Red, or projects with deliverability rated Amber with projects rated Amber.

Medium-low compound risk. Connects projects with deliverability rated Amber with projects rated Amber-Green.

Systems are linked but compound risk is not known because system delivery risk rating is no longer reported on by BDG.

No physical link between systems or sharing of data, but systems have been developed together or have close policy links.

Notes

1 CDS = Customs Declaration Service; CHIEF = Customs Handling of Import and Export Freight; IPAFFS = Import of Products, Animals, Food and Feed System; and ALVS = Automatic Licence Verification System. The IPAFFS Contingency project includes the use of Port Health Interactive Live Information System (PHILIS Online) and manual contingency.

2 The system delivery risk rating refers to BDG's assessment of IT-related risk, see Figure 1.

3 The connectors show the compound risk where the creation of a functioning system depends on other systems for it to function as intended.

4 Data connections between systems are shown in shaded connectors. Development links between systems, where one system has been developed to work alongside another, or have close policy links, are shown as dotted line connectors. Primary connections are shown in the diagram, and other connections exist.

5 In January 2019, HMRC decided that it would use CHIEF as the primary customs system for EU trade in the event of 'no deal'. HMRC intends that any existing traders already migrated from CHIEF will continue to make declarations in CDS. HMRC is continuing its development for CDS as it remains the preferred long-term customs system.

6 Departments are developing connections between CDS and other systems, but these are not expected to be in place for 'day one'.

7 This diagram does not show all systems being monitored by the BDG. It focuses on the key risks identified by BDG as part of its work on contingency planning and dependency identification.

8 Department plans for some systems have changed since we reported in October 2018.

9 Example types of data are shown for illustrative purposes.

Source: National Audit Office analysis of Border Delivery Group data

1.13 Since September 2018, the Infrastructure and Projects Authority (IPA), which is the government's centre of expertise for infrastructure and major projects, has undertaken 10 reviews of projects needed for 'day one'.[16] Six of these related to issues covered directly in this report and the IPA assessed in each case that either 'successful delivery appears feasible but significant issues already exist requiring management attention', or that 'successful delivery of the project is in doubt with major risks or issues apparent in a number of key areas'.[17] In February 2019, the IPA was undertaking a review, with the participation of the Government Digital Service and the Prime Minister's Implementation Unit, focusing on HMRC's progress in implementing customs and border-related programmes in readiness for 29 March 2019. At the time of publication of this report, the review had not concluded.

16 The 10 reports covered the following subjects: Customs Declaration Service, Border Systems and Contingency programmes; animal and animal product exports; import control projects including replacing use of the EU's Trade Control and Expert System; digital, data and technology services portfolio; assurance of Border Force's action plan on improvements to its management of its EU exit portfolio; freight ferry capacity; continuity of supply of medicines; plans for traffic management in Kent; HMRC non-borders portfolio; and chemicals and pesticides.

17 The six reports covered the following subjects: Customs Declaration Service, Border Systems and Contingency programmes; animal and animal product exports; import control projects including replacing use of the EU's Trade Control and Expert System; digital, data and technology services portfolio; assurance of Border Force's action plan on improvements to its management of its EU exit portfolio; and freight ferry capacity.

Part Two

Departments' actions to address issues on key border-related systems and other projects

2.1 Since we published our report *The UK border: preparedness for EU exit* in October 2018, departments have been working to implement the projects and programmes that are needed if the United Kingdom (UK) leaves the European Union (EU) without a 'deal' on 29 March 2019.[18] This part sets out the progress that departments have made on implementing key border-related projects and programmes, including the key systems set out in Figure 1, in relation to:

- customs and international trade;
- imports and exports of animals and animal-related products; and
- the Convention on International Trade in Endangered Species of Wild Flora and Fauna (CITES).

Customs and international trade

2.2 The Customs Declaration Service (CDS) is the new system to handle and risk-assess customs declarations, and account for payment of duties, which HM Revenue & Customs (HMRC) is currently implementing. It will replace the existing Customs Handling of Import and Export Freight (CHIEF) system. HMRC plans to use both systems on 'day one of no deal' as part of its approach to enabling traders to make customs declarations.

2.3 HMRC always planned to continue running CHIEF in parallel with CDS until all traders had migrated. However, because of delays with CDS and concerns from key users including software developers, HMRC made the decision in January 2019 that it would use CHIEF as the primary customs system for EU trade in the event of 'no deal' rather than CDS. This means that all traders involved in EU-only trade and traders not migrated to CDS will make customs declarations in CHIEF. HMRC therefore does not need to complete the migration of traders to CDS for a 'day one of no deal' scenario.

18 Comptroller and Auditor General, *The UK border: preparedness for EU exit*, Session 2017–2019, HC 1619, National Audit Office, October 2018.

Customs Handling of Import and Export Freight (CHIEF)

2.4 When we last reported on CDS in June 2018, we noted that HMRC had accelerated work on its contingency option for handling customs declarations in the event of 'no deal' in March 2019. This involves scaling up CHIEF to manage up to 300 million customs declarations each year to handle the estimated 260 million customs declarations which might be made annually after the UK leaves the European customs union. CHIEF currently handles 55 million customs declarations each year. In January 2019, HMRC confirmed that CHIEF had been successfully tested to handle these increased volumes and was therefore able to operate effectively alongside CDS, as envisaged. HMRC intends that any existing traders already migrated from CHIEF will continue to make declarations in CDS. It is continuing its development for CDS as it remains the preferred long-term customs system.

2.5 In addition to the work to increase CHIEF's capacity, HMRC must complete further work to ensure CHIEF is ready for 29 March 2019. This includes work to ensure that CHIEF connects with other critical systems, including the Department for Environment, Food & Rural Affairs' (Defra's) Import of Products, Animals, Food and Feed System (IPAFFS) through the Automatic Licence Verification System (ALVS) (see paragraph 2.19 and 2.24 to 2.25). There also remains a risk that key delivery partners will not be ready. HMRC is working with BT and Community System Providers (CSPs) to upgrade the network links into CHIEF.[19] CSPs had also expressed concerns that they may not have capacity to handle all the changes required to their systems for a 'no deal' scenario while still maintaining their systems for existing activity. In December 2018, HMRC reported that software developers may be unable to deliver all functional changes required on CHIEF by 29 March 2019 in the event of 'no deal'.[20] HMRC is seeking to mitigate these risks by, for example, regular engagement and the provision of the appropriate technical specifications to enable delivery partners to get their software products ready.

2.6 HMRC's contract with its commercial partner Fujitsu to support CHIEF runs until March 2020. HMRC must give 12 months' notice of its intention to renew the contract and therefore must do so by the end of March 2019.[21] During this time, it also needs to consider how long it intends to continue to operate CHIEF after the UK leaves the EU. No decision has yet been made on this.

19 CSPs operate inventory systems that control the movement of import and export freight at UK ports and airports. These systems connect to CHIEF allowing traders to submit customs declarations electronically.
20 Customs software developers make software that is used by importers, exporters and agents to submit customs declarations.
21 Under the current contract, this intention would involve taking up the available option year from April 2020 to March 2021.

The Customs Declaration Service (CDS)

2.7 We have reported twice before on HMRC's progress implementing CDS.[22] **Figure 3** provides a high-level overview of the key elements of the CDS programme and changes in the timeline since we last reported on CDS in June 2018.

Figure 3

An overview of changes to the 'day one of no deal' readiness of the CDS and CHIEF systems since we last reported on CDS in June 2018

HMRC has revised its delivery plans for CDS and has made the decision to continue with CHIEF as the primary customs system in the event of 'no deal'

Work to complete	Planned completion date at the time of our CDS update report in **June 2018**[1]	Current planned completion date
Customs Declaration Service (CDS) functionality designed and implemented	HM Revenue & Customs (HMRC) planned to implement the third and final release of CDS functionality in **December 2018**[2]	In January 2019, the CDS programme board agreed in principle to phase the release of export functionality starting with an initial delivery from the end of **March 2019**
Migration of existing traders from the existing Customs Handling of Import and Export Freight (CHIEF) system	HMRC planned to complete the migration of traders onto CDS by **January 2019**	HMRC has **yet to confirm** by when it expects to migrate all existing traders onto CDS
Increasing and testing CHIEF's capacity to handle 300 million customs declarations as a contingency	HMRC planned to complete its testing in **July 2018**[3]	HMRC successfully completed its testing in **January 2019**
CHIEF in operation[4]	HMRC always planned to continue running CHIEF in parallel with CDS until all traders had migrated. It will now use CHIEF as the primary system for customs declarations in the event of 'no deal'. HMRC's current contract with its commercial partner, Fujitsu, expires in March 2020	

Notes

1. We have reported twice on CDS before in: Comptroller and Auditor General, *The Customs Declaration Service: a progress update*, Session 2017–2019, HC 1124, National Audit Office, June 2018; and Comptroller and Auditor General, *The Customs Declaration Service*, Session 2017–2019, HC 241, National Audit Office, July 2017.
2. When we reported on CDS in June 2018, HMRC planned three releases of CDS functionality in August, November and December 2018. We had previously reported in July 2017 that HMRC planned to fully design and build CDS by August 2018. The delay to the planned completion date of CDS does not impact upon HMRC's readiness for 'day one of no deal'.
3. When we reported in June 2018, HMRC had brought forward its testing of CHIEF from December 2018.
4. HMRC has operated the current CHIEF system for more than 20 years.

Source: National Audit Office analysis of HM Revenue & Customs information

22 Comptroller and Auditor General, *The Customs Declaration Service: a progress update*, Session 2017–2019, HC 1124, National Audit Office, June 2018; and Comptroller and Auditor General, *The Customs Declaration Service*, Session 2017–2019, HC 241, National Audit Office, July 2017.

2.8 When we last reported on CDS in June 2018, HMRC planned to complete the migration of traders onto a fully built CDS in January 2019, although we reported that this was unlikely to be achieved. HMRC planned that, once it had completed the implementation, CDS would be its primary system for processing customs declarations. HMRC successfully implemented the first release of CDS functionality in August 2018 as planned. This functionality allowed traders to make certain types of import declaration. Due to technical issues, HMRC did not achieve its planned milestone to implement all remaining import functionality in the second CDS release in November 2018. In November 2018, the Programme Board reviewed HMRC's plans for releasing import functionality, and agreed to phase the release to align with migration plans. An initial imports release at the end of November was followed by a further release on 19 December, which together accounted for around 83% of imports functionality. HMRC expects to implement all remaining import functionality by March 2019. In January 2019, the CDS programme board agreed in principle to phase the third and final CDS release, implementing export functionality, starting with an initial delivery at the end of March 2019. In September 2018, HMRC told the Committee of Public Accounts that it would implement the third release in March 2019.

2.9 HMRC's migration of traders from CHIEF to CDS is behind schedule. Technical issues have meant that customs software developers and CSPs have been unable to undertake all the required testing of their products. In addition, HMRC has told us that software developers are concentrating more of their efforts on testing and implementing changes required for 'day one of no deal'. HMRC planned to migrate 25 high-volume traders onto CDS by the end of 2018 but missed this target. To date, it has migrated four of these traders onto CDS and expects to migrate the remaining 21 by mid-April 2019.[23]

Roll-on, roll-off (RORO) and the Import Control System (ICS)[24]

2.10 In the event of 'no deal', imports from and exports to the EU would need to be supported by a customs declaration. This represents a significant business change for traders, freight forwarders and hauliers, who may be making declarations for the first time. It also represents a significant challenge for the government to both maintain the flow of trade across the border and enforce compliance. The government has decided that, in the event of 'no deal', it will prioritise flow over compliance activity, but not at the expense of security.[25]

23 In 2017, 4,211 users made a customs declaration in CHIEF out of a total population of 8,700 registered users.

24 Roll-on, roll-off, or RORO, refers to the way that freight is loaded and unloaded – that is, it is usually driven on or off the ferry or train. A large proportion of freight arriving from the EU comes via RORO services. The speed and flexibility of RORO services are integral to the operation of 'just in time' supply chains across Europe. Depending on policy decisions taken by government in the event of 'no deal', traffic passing through roll-on, roll-off ports would become subject to customs (and other) controls.

25 See footnote 18.

2.11 To maintain the flow of trade in the event of 'no deal', the government announced in February 2019 that Transitional Simplified Procedures (TSPs) will be available for customs declarations on trade with EU member states.[26] These procedures will be in force for at least 15 months. This means that traders or their appointed representatives will be able to make either:

- a simplified frontier declaration (an electronic declaration submitted to HMRC); or
- an entry in their own records of when the goods are crossing the border.

In both cases, traders or their representatives will need to pay the duty and make a more detailed declaration by the following month. This will help maintain flow by reducing the amount of information a trader is required to provide before the goods arrive at their EU location of departure. If a consignment is subject to a Border Force check, the haulier will be asked to provide evidence that a declaration has been completed.[27,28]

2.12 Safety and security declarations ('entry summary declarations') are currently a legal requirement for non-EU trade. The information provided in these declarations is used by Border Force to inform its risk profiling at the border. In response to concerns from hauliers and traders about their ability to comply with requirements, government announced plans to phase in this requirement for EU imports, in the event of 'no deal'.[29] Currently these are not required when importing goods from the EU, and this will continue to be the case for a period of six months after 29 March 2019. This is one of the measures ('easements') being introduced to give businesses more time to prepare for changes to border requirements in the event of 'no deal'.[30]

2.13 HMRC is also working with Border Force to determine what action to take when lorries arrive at ports without having made a customs or safety and security declaration. In the short term, HMRC is developing transitional arrangements ('managed transition') to deal with traders who may have difficulty in complying with new customs requirements. HMRC and Border Force recognise the challenge for new and existing traders to adapt in time for 'day one' in the event of 'no deal'.

26 HM Revenue & Customs, HM Treasury and The Rt Hon Mel Stride MP, *HM Revenue and Customs simplifies importing from the EU as part of 'no deal' preparation*, February 2019. Available at: www.gov.uk/government/news/hm-revenue-and-customs-simplifies-importing-from-the-eu-as-part-of-no-deal-preparation

27 These include checks on the identity of the traveller, checks to prevent smuggling and checks to prevent prohibited or dangerous goods from entering the UK.

28 This evidence could be either in the form of a Movement Reference Number (for a full customs declaration or a simplified frontier declaration) or an Economic Operator Registration and Identification (EORI) number (for an entry completed in the declarant's record). Having an EORI number allows traders to: trade goods in or out of the UK; submit declarations using software; and apply to be authorised for customs simplifications and procedures.

29 Available at: www.gov.uk/government/news/hmrc-outlines-phased-approach-for-entry-summary-declarations

30 HMRC will continue to receive safety and security information on non-EU trade so there will be no reduction in data received.

Transit

2.14 The 'common' transit procedures are used for moving goods between EU member states and certain other European countries that are members of the Common Transit Convention (CTC). Under the terms of the CTC, customs declarations are only required on entry into the common transit area. This reduces administrative burdens as additional declarations are not required for entry and exit when moving across borders within the area. The UK is a currently a member of the CTC as an EU member state. As goods are marked as 'arrived' at the point where they enter the EU, no entry is required on the UK's New Computerised Transit System (NCTS) for goods arriving in the UK via other EU member states. When the UK leaves the EU, the UK will be a separate customs territory and therefore goods will need to be marked on NCTS when they arrive in the UK. This is an additional requirement on traders. It is estimated that a significant volume of goods arriving at RORO locations are movements of goods which have already entered the common transit area.

2.15 The UK government has successfully applied for the UK to accede to the CTC in its own right.[31] In addition, HMRC's transit project is working to ensure NCTS can handle the expected increase in volume and remains compliant with EU legislation. There are also significant challenges remaining to manage the transit process, including the additional resourcing and infrastructure requirements (see paragraphs 3.12 and 3.15).

Tariff Application Platform

2.16 The Department for International Trade (DIT) is developing a new Tariff Application Platform (TAP) to replace the EU system (TARIC) for transferring information to HMRC regarding the tariffs that should be applied at the border. TARIC contains tariff duties and other measures such as quotas, trade remedies, import controls, prohibitions and restrictions. Preparing equivalent data for TAP ahead of the UK's exit from the EU requires collaboration between DIT and HMRC. There are dependencies such as providing tariff content to HMRC, policy decisions and the passing of legislation, the continuation of trade agreements with non-EU countries, and the availability of CDS and CHIEF systems to receive the information from TAP.

2.17 Development of TAP is challenging because of the volume and complexity of the data it contains, and the need to ensure connectivity and compatibility with CDS, CHIEF and other systems. As a result there are shared risks between HMRC and DIT. The tariff application is already connected to CDS and testing of the system is underway. However, there is no digital connection between TAP and CHIEF. To mitigate risk relating to the transfer of data between systems, DIT and HMRC have taken measures to provisionally prepare the data on TAP, CHIEF and CDS. This includes manually entering tariff data into a testing environment within CHIEF to facilitate implementation on 'day one'. Any changes in the data in TAP resulting from policy decisions or changes to trade agreements will need to be entered into CHIEF which will require a lead-in time. DIT is working with HMRC to share timelines for policy and legislation to mitigate risk.

31 HM Treasury, *UK to remain in Common Transit Convention after Brexit*, December 2018.

Northern Ireland

2.18 In our report *The UK border: preparedness for EU exit*, published in October 2018, we found that the most complex issues relating to the border in the event of the UK leaving the EU without a 'deal' remained to be resolved. This included that the government had not yet taken a policy decision regarding whether and how to implement customs arrangements at the Northern Ireland and Ireland land border in the event of 'no deal'. Internal planning has continued but the government has not yet announced a detailed policy. Any policy which is agreed may have resource or other implications that will need to be worked through. The government has said that it will do everything in its power to avoid a 'hard border'.[32]

Imports and exports of animal and animal-related products

Imports – Import of Products, Animals, Food and Feed System (IPAFFS) and contingency

2.19 The UK currently uses the EU's TRACES (Trade Control and Expert System) as part of its import controls to notify border inspection posts that carry out controls on commodities being imported to the UK, to record the outcome of biosecurity and food safety checks on imported commodities, and to communicate electronically with CHIEF. The Department for Environment, Food & Rural Affairs (Defra) has been developing a new Import of Products, Animals, Food and Feed System (IPAFFS) to replace use of TRACES once the UK leaves the EU. Defra has been testing IPAFFS since December 2018 and on 30 January 2019 it took the final decision to implement it, rather than the contingency system it has been developing. However, it decided not to use IPAFFS until late summer for some higher-risk imports from EU countries of animals and animal-related products that currently require pre-notification, which will be monitored and tracked from 'day one' using a manual system that Defra is currently developing.[33] This is to reduce the risk that IPAFFS does not work on 'day one' by limiting further system changes and freeing up resources to focus on improving the core software. On 'day one', Defra will not require other non-higher risk EU imports of animals and animal-related products to be pre-notified or monitored.[34]

2.20 Defra is continuing to develop and test IPAFFS in parallel due to the limited time available. It has identified some issues with the software arising from the testing, but reports that it is confident that these can be addressed in time for 'day one'. Defra reports that a small number of importers importing from the Far East were registered on a live version of IPAFFS from 15 February 2019. Subject to this successful trial, it plans to carry out public beta testing during March 2019.

32 Prime Minister's Office, 10 Downing Street and The Rt Hon Theresa May MP, *PM speech in Belfast: 5 February 2019*, February 2019.

33 Imports that require pre-notification before arrival in the UK are: live animals, equines, germplasm and certain animal products from EU countries with disease outbreak safeguards. Defra plans to launch the manual process by 29 March 2019.

34 Available at: www.gov.uk/government/news/government-urges-businesses-to-prepare-for-changes-to-animal-imports-and-exports-in-a-no-deal-brexit

2.21 Defra is developing a contingency solution if IPAFFS is not ready in time. Defra plans to use a simple system of notifications based on an online form that can be downloaded from the gov.uk website and emailed to Port Health Authorities to notify of the import.[35,36] Defra reports that it is discussing with the larger ports about the role PHILIS Online (the existing Port Health Interactive Live Information System) might play in these notifications.[37] Defra reports that the necessary capacity upgrade work and testing of PHILIS Online to gain assurance that, if needed, it can handle increased volumes for the processing of imports of animals and animal-related products and high-risk food and feed not of animal origin, has been successfully completed.[38] The contingency solution does not link to CHIEF via the Automatic Licence Verification System (ALVS) (see paragraph 2.24). Defra and HMRC are investigating how to modify the automatic customs clearing process in CHIEF so that it does not require inputs related to biosecurity and food safety checks.

2.22 FSA aims to use the IPAFFS system to enable the pre-notification of the import of high-risk food and feed from EU countries before arrival in the UK from June 2019. This is to enable FSA to ensure that food coming from the EU can be traced in the event of an incident or a new emerging risk. FSA decided to not require pre-notification from 'day one' because it assessed that the level of risk posed from imports of food and feed from the EU would not significantly change after 'day one'. Also, it does not plan for any new checks for food and feed coming from the EU on 'day one'. In early autumn 2018, FSA set up a programme to enable pre-notification of these products once it became clear that IPAFFS would not have the functionality from June 2019 to support this (FSA pre-notification system). FSA is developing the existing PHILIS Online system to handle increased volumes of pre-notifications as an interim solution until IPAFFS functionality for this requirement is ready, forecast to be autumn 2019. FSA has communicated to importers that they will need to provide pre-notification from June 2019 but it is still to decide how to implement this. FSA is working closely with Defra on the development of the IPAFFS system and IPAFFS Contingency programmes.

2.23 Defra has developed a separate common registration system that links to the new IT systems it has developed for EU exit, including IPAFFS. This will enable traders that need to register with Defra for the first time to do this only once. Testing has shown that this system is not user friendly and that some traders may struggle to use it. Defra has identified this as its biggest system-related risk for 'day one'. Defra is continuing to modify the system and expects to roll this out from 25 February 2019. In the event of issues with the system, Defra reports that it is putting in place contingency arrangements, such as increasing staff numbers.

35 Port Health Authorities conduct a range of health controls at the border, including controls on imported food and inspections of ships and aircraft for food safety and infectious disease control. They are usually the local authority where a port or airport is located. Some are specially created local authorities where the port is covered by more than one local authority.

36 Defra plans for this contingency to be the enduring business continuity solution for 'day one'.

37 PHILIS Online is an existing system used to support declarations on products such as plastics from China and Hong Kong.

38 The contingency solution being developed is known as 'IPAFFS Contingency' in Borders Delivery Group reporting.

Imports – Automatic Licence Verification System (ALVS)

2.24 ALVS provides a link between CHIEF and TRACES, enabling Port Health Authorities and the Animal and Plant Health Agency to communicate the results of biosecurity and food safety checks to HMRC.[39] Importers and agents cannot see or log into ALVS. Since July 2018, Defra and HMRC have been testing whether ALVS works correctly as a linking system between CHIEF and the new IPAFFS system, which is due to replace use of the EU's TRACES as the system to record the outcome of biosecurity and food safety checks on imported commodities. In January 2019, the Border Delivery Group changed its RAG rating for ALVS from Amber to Amber-Red because Defra and HMRC were still working out how to prepare for a failure of IPAFFS, and the implications for ALVS and CHIEF. Defra and HMRC report that they have now agreed a solution to enable customs clearances in the event of IPAFFS failure as a contingency, which Defra believes could lead to a small increase in biosecurity and food safety risk at the border.

2.25 Defra reports that testing of the IPAFFS – ALVS – CHIEF link is progressing but is not expected to complete until March 2019. There is currently no alternative system. The limited number of traders using CDS do not need to make animal health declarations and so a link between ALVS and CDS is not required for 'day one'.

Exports – Export Health Certificates

2.26 In the event of 'no deal', the EU will require the UK to be listed as a 'third country' to export animal or animal-related products to the EU. The government applied for listed status in November 2018 and has been in discussions with the European Commission (EC) on its application, but is not certain of the EC's response or its timing. Without listed status, UK companies cannot export animal products and most live animals to the EU.

2.27 Currently, UK exports of animals and animal products to countries outside the EU must be accompanied by an Export Health Certificate (EHC). After EU exit and in the event that these are needed for exports to the EU, Defra estimates that there will be a 150% to 300% increase in demand for EHCs.[40] Since we last reported in October 2018, Defra has changed its plans to seek agreement with 154 non-EU countries on UK versions of EHCs.[41] Defra now plans for the UK to continue to use existing EHCs, if they reference the EU or EU law, on the basis that the UK is retaining EU law, and has written to all countries to inform them of this approach. Defra reports that responses to date have not raised any significant objections or requested changes to the wording of these EHCs.

39 ALVS also provides a link between CHIEF and other systems used by Defra agencies such as Procedure for Electronic Application for Certification (PEACH).

40 This estimated range reflects uncertainties regarding the impact on the market and training in a 'no deal' scenario.

41 There are more than 1,400 versions of EHC in use because there are different versions for each country and each commodity. Each of these refers to EU law.

2.28 Defra has decided to implement a new IT system to manage EHCs, which is due to be implemented in summer 2019. For 'day one', Defra has developed a contingency solution, developing the existing spreadsheet-based system so that it can handle the expected increase in EHC numbers. It has also made all EHCs available to exporters. Defra reports that the contingency is working well and can handle multiple users. Defra plans to hire 62 additional staff to manage the forecasted increase in volumes, and at 19 February 2019, it had 42 of these staff in post. EHCs must be signed by an authorised official (usually a vet) following inspection of the consignment and Defra estimates increased volumes of EHCs will require the equivalent of a 25% increase in the number of vets doing this work.[42] It is relying on the market to provide sufficient numbers of vets and is providing training for vets and others to become authorised officials. Defra has also created a new Certification Support Officer role to support administrative aspects of the EHC process and has subsidised training for these posts. Defra reports that it is also engaging with exporters to ensure that they consider export and certification requirements.

Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES)

2.29 After the UK leaves the EU, it will no longer be possible to freely move species subject to the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES) between the UK and EU, and vice versa, without a permit. Some traders will need to apply for permits for the first time.[43] Defra estimates a threefold increase in the number of CITES permits issued per year after EU exit, from approximately 50,000 to 150,000, which must be checked and endorsed at the border by Border Force.

2.30 Defra has assessed that the checking of such an increase in CITES permits will not be possible at all ports and could have a significant impact on the flow of goods and people at the border. Defra and Border Force have therefore announced a list of ports designated for the import and export of CITES products, basing additional staff at these locations or training existing staff in CITES permit checks. This may mean some traders need to change where they import or export CITES products because this will not be permitted at non-designated ports. Defra and Border Force are in the process of agreeing transitional compliance arrangements. Some ports are challenging not being designated as a point of entry or exit because of the impact on their business.

42 Equivalent to 50 full-time equivalent vets.
43 Available at: www.gov.uk/guidance/trading-cites-listed-species-through-uk-ports-and-airports-after-brexit

Part Three

Progress in addressing cross-cutting issues

3.1 In addition to implementing key systems and projects, the Border Delivery Group (BDG) and departments are seeking to address a number of issues which affect multiple departments' preparations at the border. This part sets out the progress that departments and others have taken to:

- ensure that there are sufficient resources in place to manage the border;
- put in place the minimum amount of infrastructure they consider necessary;
- communicate with the traders and others who will need to comply with new processes and obligations in regard to crossing the border; and
- understand the controls that are likely to be put in place by other European Union (EU) member states.

Resources

3.2 Officials from government departments and agencies operate directly at the border, and away from the border in administrative, intelligence and support roles. Border Force and HM Revenue & Customs (HMRC) will require significant numbers of additional staff to operate the border after the UK leaves the EU. In addition, many other departments, agencies and local authorities may require additional resources.

3.3 Some departments are developing contingency plans to move staff to border-related work if they are needed. Other departments are temporarily loaning staff to departments with responsibilities for managing the border to increase resilience and will increase numbers if there is no 'deal'. Diverting staff to border-related roles will carry some risks to other areas of departments' business.

Border Force resourcing

3.4 Border Force is the part of the Home Office responsible for securing the border and managing the flow of people and goods, and delivers interventions on behalf of a number of other government departments. Border Force is the most visible government agency at the border.

3.5 Since we reported in October 2018, Border Force has continued to work with other government departments to agree the compliance regime that it will operate on their behalf at the border after EU exit.[44] Based on a combination of customs compliance modelling and operational judgement, Border Force currently estimates that it needs 572 full-time equivalent (FTE) staff to respond to the additional requirements for EU exit (**Figure 4**).[45] Detailed compliance requirements in a small number of areas are still to be agreed, for example on passengers with personal goods and merchandise in baggage, which could result in a small increase in the number of staff required or put additional requirements on existing staff. The government has set out the immigration arrangements for EU nationals that will operate on 'day one' in the event of 'no deal' at the border, which includes EU nationals continuing to be able to enter the UK as now, using e-gates when travelling on a biometric passport.[46] Border Force therefore does not expect to undertake any additional immigration controls or checks than it currently does.

3.6 In March 2018, recognising that it can take up to 12 months to recruit, security-clear, and train and deploy staff, Border Force launched a 'pipeline' approach to recruiting up to 1,000 new staff, beyond the Readiness Task Force that was already being recruited (paragraph 3.9).[47] This number was to fulfil its needs following EU exit and to allow it to replace around 450 business-as-usual staff lost each year due to attrition. The pipeline approach has led to greater coordination and improved management of the overall recruitment process. However, the uncertainty in the locations of where staff will be based and the grade mix required, and the time taken to complete security clearance and be offered a contract, meant that not enough suitable candidates were identified through initial recruitment activity, and Border Force launched a further recruitment campaign in October 2018. Border Force has implemented a number of changes to reduce the time taken to recruit staff, such as fast-tracking recruits through government's recruitment and clearance processes and undertaking clearance and training in parallel.

3.7 Given the need to ensure sufficient staff are in place for 'day one', Border Force has now prioritised EU exit work in its recruitment 'pipeline' and has worked to meet its 'day one' requirement by using its whole workforce flexibly. It plans to deploy staff where needed from 'day one', and reports to have delivered additional training to existing staff to support this flexibility. Overall, Border Force reports that it aims to increase staff numbers by 900, against a 'March 2018 baseline' of 7,734 full-time equivalent members of staff.[48]

44 Comptroller and Auditor General, *The UK border: preparedness for EU exit*, Session 2017–2019, HC 1619, National Audit Office, October 2018.

45 At the time of our October 2018 report, Border Force estimated that it required 581 additional full-time equivalent staff for EU exit.

46 Available at: www.gov.uk/government/publications/eu-immigration-after-free-movement-ends-if-theres-no-deal/immigration-from-30-march-2019-if-there-is-no-deal

47 The pipeline approach aimed to organise the recruitment and security clearing of staff in batches, providing a number of candidates that could be offered a contract of employment once there is certainty on the nature of the compliance regime and locations where staff will be based. Comptroller and Auditor General, *The UK border: preparedness for EU exit*, Session 2017–2019, HC 1619, National Audit Office, October 2018.

48 In 2017-18 Border Force employed an average of 7,734 full-time equivalent members of staff.

Figure 4

Border Force's progress recruiting additional staff for 'day one'

Border Force forecasts that it will be able to deploy 471 additional staff at the border for 'day one' plus a forecast 284 staff in its mobile readiness taskforce, in response to its requirement for 572 additional staff for EU exit work

		Actual – as at 5 February 2019 Total staff recruited[1,2] (Headcount)	Actuals – as at 5 February 2019 Staff deployed at the border[1,3] (Headcount)	Forecast for 'day one' Total staff recruited[1,2] (Headcount)	Forecast for 'day one' Staff deployed at the border[1,3] (Headcount)
Requirement for core EU exit staff deployed at the border – full-time equivalent[4]	**572**				
Core EU exit requirement – recruitment		193	170[5]	396	291
Business as usual 'badged' staff – recruitment[6,7]		56	39	300	180
Core EU exit staff and business as usual 'badged' staff		249	209	696	471
Readiness Task Force		274	274	284	284
Total number of staff recruited since March 2018 that Border Force reports can be deployed at the border for 'day one'					**755**

Notes

1 Border Force monitors the requirement for staff in full-time equivalent (FTE) numbers and numbers of staff at various stages of the pipeline in headcount terms.

2 Staff recruited shows the total number of staff who have been appointed by Border Force. Staff will either have been trained, be in training or awaiting training.

3 Staff deployed shows the number of staff who have completed training and are deployed at the border.

4 Border Force has revised its requirement for core EU staff from 581 FTE staff as we reported in October 2018 to 572 FTE staff.

5 This includes 111 existing Border Force staff re-assigned to EU exit-related work.

6 Not reported in our October 2018 report.

7 These are staff that are being recruited for business-as-usual activity to fill gaps due to attrition. However, Border Force has decided to assign these staff to EU exit work. Beyond reaching its aim of 8,600 members of staff, staff recruited will be assigned to business-as-usual activities.

8 In addition to numbers reported in this table, Border Force plans to increase staff temporarily at the border for 'day one' by using around 250 Home Office Immigration Enforcement staff and around 100 HM Revenue & Customs 'surge and rapid response' staff.

9 We reported in October 2018 that Border Force had made 452 offers of employment, of which 149 had been accepted by potential recruits. At 5 February 2019, Border Force had made 583 offers of employment, of which 470 had been accepted.

Source: National Audit Office analysis of Border Force data

3.8 In response to the 572 FTE staff requirement, Border Force forecasts that it will have recruited an additional 696 staff, with 471 deployed, by 'day one'.[49] This includes staff recruited specifically for EU exit work requirements and staff recruited to support business-as-usual activity, but who will be assigned to EU exit work. It has made a number of operational judgements on locations of new staff and may need to deploy staff to other locations if needed. In addition, to increase the number of staff available, Border Force plans to use staff temporarily loaned from Home Office's Immigration Enforcement team and HMRC (Figure 4). Also, Border Force reports to have trained existing staff in new EU exit requirements to support it flexibly deploying staff from 'day one', including training around 190 staff in International Trade requirements by the end of March 2019.

3.9 In addition to the requirement for 572 FTE staff for core EU exit work, Border Force has also recruited a Readiness Task Force made up of 274 FTE staff who are fully trained in all aspects of border operations and whose terms of employment make them a mobile workforce. This temporary task force is intended to be a mobile and flexible resource that could be deployed to deal with any potential surge in demand at key border points and allow existing staff to attend EU exit awareness training. Border Force is aiming to increase the size of the task force to 284 FTE staff by March 2019, against a requirement of 300 FTE staff.

3.10 'Easements' have been put in place to reflect the availability of infrastructure and people and trader readiness on 'day one' (paragraphs 2.11 and 2.12). In some cases, departments are yet to agree the time period over which these easements will apply and when the intended future compliance regime will be introduced. As a result, Border Force expects that it may need to increase its staff in the months and years following EU exit.

3.11 Border Force faces a challenge updating its operating guidance and ensuring that all of its approximately 8,600 staff are trained in new procedures following EU exit. It plans to use existing communications and training programmes to disseminate required training as and when decisions on outstanding compliance policy have been resolved with government departments.

49 Border Force monitors the requirement for staff in full-time equivalent numbers and numbers of staff at various stages of the pipeline in headcount terms.

Transit arrangements

3.12 The government expects that the UK acceding to the Common Transit Convention (CTC) will increase the number of traders making transit declarations in the UK (see paragraph 2.14). This means that Border Force will require additional staff to undertake sample checks on goods crossing the border. Border Force has made an assumption about the number of staff it will require on ‘day one’, based on expected transit movement data from HMRC. The government has assessed that compliance with standard CTC provisions will significantly impact on flows of goods across the border, and has negotiated with the CTC Secretariat a temporary solution for a small number of locations. This may include data collection before arrival in the UK port using non-Border Force staff. Additionally, HMRC is looking at ways of increasing capacity at the border for moving goods under CTC. With these agreed temporary easements from CTC requirements, Border Force assesses that HMRC’s latest estimate of transit volumes is manageable in the immediate term after ‘day one’.

HMRC resourcing

3.13 HMRC requires additional roles for EU exit, including operational staff at HMRC’s National Clearance Hub, support staff in customer services, staff required in HMRC’s border transformation programmes, support staff in back-office functions and compliance officers. Primarily because of an increase in work following the government’s announcement in mid-December 2018 that it would step up plans for ‘no deal’, HMRC has slightly increased its assessment of the number of staff it needs for ‘day one’ to 5,474 FTE staff, including 4,453 border-related roles (**Figure 5**).

Figure 5

HM Revenue & Customs’ (HMRC’s) progress recruiting additional staff needed for ‘day one’

At the end of January 2019, HMRC had 77% of EU exit staff needed for ‘day one’ in place

	Number of additional staff required for EU exit (Full-time equivalent)	Of which relate to work at the border (Full-time equivalent)	Number of staff in place/percentage of requirement (Full-time equivalent)	Forecast number of staff for ‘day one’ (Full-time equivalent)
As at end of September 2018[2]	5,454	4,571	2,374 (44%)	5,454
As at end of January 2019	5,474	4,453	4,198 (77%)	5,474

Notes

1 HMRC monitors both the requirement for staff and those staff in place in full-time equivalent numbers.

2 As reported in our October 2018 report.

Source: National Audit Office analysis of HM Revenue & Customs data

3.14 At the end of January 2019, HMRC was reporting that it had 4,198 FTE staff working on EU exit. HMRC does not capture how many of these roles have been filled from internal transfers or by new recruits. It recognises that moving staff onto EU exit work may create risks to other areas of its business and it has taken a number of decisions to de-prioritise or delay some ongoing work. On current performance HMRC may not have all required staff in place for 'day one' and is developing contingency options, including temporarily moving more existing staff from other business units. Depending on whether they have moved internally, or are a new recruit, EU exit staff will have different training needs. Centrally, HMRC does not track the extent to which EU exit staff are trained, and there is a risk that, while it may have sufficient numbers to meet its identified requirement, not all staff may be fully trained in time.

Infrastructure

3.15 As we reported in October 2018, departments are planning on the basis that there is insufficient time to build substantial new infrastructure at the border before EU exit. However, departments have identified that there are minimum infrastructure requirements for:

- the compliance regime for Admission Temporaire/Temporary Admission (ATA) carnets, which enable the tax-free and customs-free movement of business-related goods across the border and must be physically stamped on arrival. HMRC has decided to enhance capacity to check and validate ATA carnets in Holyhead and near the short strait crossings, which currently mainly deal with EU trade; and
- the UK acceding to the CTC and the fact that HMRC is forecasting increased volumes of traders will seek to use transit arrangements. HMRC estimated that it could take approximately 18 months to deliver the physical infrastructure that may be needed to comply with the CTC in full. It is developing options for infrastructure in Kent to provide an interim capability and is focusing on expanding private sector authorisations that do not require government infrastructure, including authorising consignees and consignors to transit with minimal paperwork and process. In the longer term government is considering options which limit the amount of additional physical infrastructure and personnel required.

3.16 Failure to provide sufficient infrastructure could mean increases in travel time as border users divert to another border crossing point, and delays at those crossing points with existing facilities that cannot cope with increased volumes.

3.17 HMRC has procured two inland checking facilities and associated logistics arrangements to target the 50 current highest-fiscal risk traders importing goods from the rest of the world, replacing the temporary facilities it had already established, and operations are expected to begin in late February 2019. In the event of 'no deal', HMRC will include high-fiscal risk EU traders in its checking process. This will require revised processes to deal with roll-on, roll-off (RORO) traffic as well as sea and air freight. HMRC does not expect to use these facilities to undertake other checks on imports from the EU.[50]

Trader readiness

3.18 In October 2018, we reported that government is heavily dependent on third parties, such as traders, being well-informed and making changes to their systems and behaviours. We found that businesses did not have enough time to make the changes that will be required if the UK leaves the EU without a 'deal'.

3.19 Since October 2018 BDG and departments have undertaken activities to communicate requirements at the border to traders and others in both the UK and the EU. These include producing a 'Partnership Pack', that seeks to provide a high-level guide to processes and procedures that are likely to apply to cross-border activity between the UK and the EU in a 'no deal' scenario, and attending and speaking at business events, including in other EU member states.[51]

3.20 Despite these activities, traders' readiness continues to be one of the most significant risks to the operation of the border in the event of 'no deal'. Government has recently announced 'easements' in relation to transitional simplified procedures and Safety and Security declarations, which help to mitigate this risk. However, there is very little time remaining for traders and others to prepare before 29 March 2019. A survey of external readiness commissioned by government in December 2018 found that 31% of businesses cited lack of knowledge as a barrier preventing preparedness, and that 50% of small businesses were yet to take action to prepare for 'no deal'. As at February 2019, BDG assessed the risk in relation to trader readiness as red-rated.

EU member states' controls

3.21 As we noted in our October 2018 report, the government has acknowledged that if the UK leaves the EU without a deal on 29 March 2019, it is highly likely that member states will apply full customs and agri-food controls to UK goods entering the EU and that this will have a significant impact on the flow of traffic across the border. The government continues to plan on the basis that EU member states will apply full third country controls.

50 As customs declarations are not required on intra-EU trade, HMRC has identified high-risk traders involved in importing goods from the EU by examining data on their history of compliance with VAT returns and payments.

51 Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/777373/Partnership_pack_Feb_2019.pdf

Appendix One

The scope and evidence base of this memorandum

Scope

1 This report has been prepared to support the Committee of Public Accounts' examination of the government's preparedness if the UK leaves the EU without a 'deal' on 29 March 2019. It provides an update to the progress on delivering the EU exit projects and programmes discussed in our October 2018 report and looks at action taken by the government departments since then. It focuses on the preparations the departments have made for the 'no deal' scenario.

2 The report provides a factual account of events and evidence and does not evaluate whether the preparations are reasonable or represent value for money to the taxpayer.

3 We have examined:

- the change in the risk profile of key border-related systems since we last reported;
- departments' progress with regard to implementing the key projects needed to manage the border; and
- departments' progress in managing the cross-cutting issues, such as resourcing and trader readiness, which need to be addressed for the border to function effectively.

Evidence base

4 Given the urgency of this work, we have drawn on the evidence and analysis underlying our October report and have supplemented it with new information readily available within departments. This report is based on information available up to 26 February 2019. We have not conducted significant new analysis, undertaken case study visits to ports and other key locations, or consulted with third parties.

5 We have interviewed key stakeholders:

- The Border Delivery Group;
- HM Revenue & Customs;
- Department for Environment, Food & Rural Affairs;
- Home Office including Border Force;
- The Infrastructure and Projects Authority; and
- The Department for International Trade and The Food Standards Agency.

6 We have reviewed management documentation and progress update reports, including: Border Delivery Group reports containing information on key risks and updates to critical IT systems; information provided to senior management in key government departments; delivery plans and documentation on risks.

This report has been printed on Evolution Digital Satin and contains material sourced from responsibly managed and sustainable forests certified in accordance with the FSC (Forest Stewardship Council).

The wood pulp is totally recyclable and acid-free. Our printers also have full ISO 14001 environmental accreditation, which ensures that they have effective procedures in place to manage waste and practices that may affect the environment.

National Audit Office

Design and Production by NAO External Relations
DP Ref: 007710-001