National Audit Office

Report
by the Comptroller
and Auditor General

Cross-government

The UK border: preparedness for EU exit October 2019

HC 98 SESSION 2019–2020 16 OCTOBER 2019

Key facts

150,000 to 250,000	30% to 60%	45% to 65%
traders, estimated by HM Revenue & Customs (HMRC), who would need to make a declaration for the first time in the event of no deal	estimated proportion of heavy goods vehicles travelling via the short Channel crossings that will be ready for French customs, under the government's reasonable worst-case scenario	assumed flow rate, as a percentage of current flows, at the short Channel crossings on day one under the government's reasonable worst-case scenario

228.5 million	The number of tonnes of freight that crossed the border between the UK and the rest of the EU in 2018, not including an unknown amount that crossed the border between Northern Ireland and Ireland
270 million	HMRC's revised estimate of the annual number of customs declarations it may be necessary to process if the UK leaves the EU without a deal, compared with current volumes of 55 million
Approximately 25,000	The total number of traders registered for Transitional Simplified Procedures, of the 150,000 to 250,000 traders who may need to make a customs declaration for the first time in the event of no deal, as at 8 October 2019
5% to 20%	The government's estimate of the number of small and medium-sized enterprises that will be ready for French customs, under the government's 'reasonable worst-case scenario'
Up to 1,000	The number of additional staff for whom Border Force has been allocated funding since April 2019, including around 250 staff to support the increase in transit checks from day one
£42.4 billion	Estimated tax and duty collected in 2018-19 from border transactions

Summary

1 The UK was initially scheduled to leave the EU on 29 March 2019 after triggering Article 50 of the Treaty on European Union on 29 March 2017, which started a two-year formal notice period. The UK government and the EU reached an agreement on the terms of the Withdrawal Agreement and future relationship on 14 November 2018 (the 'deal'). The UK Parliament rejected this agreement on 15 January 2019. The UK and EU agreed to extend the Article 50 deadline to 12 April 2019, and again to 31 October 2019 after the UK Parliament rejected the Withdrawal Agreement in two further votes.

2 The policy of the current government is that it will seek to renegotiate the Withdrawal Agreement with the EU. In case it is not possible to reach a deal, the government has ramped up preparations for leaving without a deal on 31 October 2019. On 9 September the UK Parliament passed the EU Withdrawal (No.2) Act, 'the Benn Act', which requires the Prime Minister to seek an extension to Article 50 if Parliament has not agreed a deal or approved leaving without a deal by 19 October 2019.

3 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 31 October 2019, with no implementation period and an immediate change in the UK–EU relationship ('no deal'). No deal has implications for the movement of goods, people, services and areas of cooperation such as data-sharing and security. The precise impact would depend on whether, and how quickly, the UK and EU could reach agreements on these issues.

4 In whichever situation the UK leaves the EU there are implications for how the border is managed. The UK's current management of the border is heavily influenced by its membership of the EU, which allows free movement of goods, services, capital and people across member states. If the UK leaves the EU without a deal at 11pm on 31 October 2019 or at any stage thereafter, then World Trade Organization (WTO) rules would govern trade between the UK and the EU, which include the principle of 'most favoured nation'.[1] 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 £438 billion of trade at the UK border.

1 'Day one of no deal' can refer to 31 October (from 11pm) or 1 November 2019 or the immediate period after a no-deal exit.

5 In preparing for leaving without a deal, the government has put in place new systems, upgraded existing systems and made other extensive changes to minimise the potential for disruption at the border. Some departments' preparations for no deal may also be useful if a deal is reached; the extent of this depends on the terms of any deal. It is not always straightforward for government as a whole to prioritise the various activities involved in managing a safe and effective flow of people and goods, and the collection of revenue. In the event of a no-deal exit, the government has decided to prioritise security and safety; flow of people and goods; and then compliance activity, including the collection of revenue.

6 This is our fourth report covering the UK border since the EU referendum in June 2016. Our previous reports were:

- *The UK border* (October 2017), which set out the issues and challenges for government's management of the border.[2] It considered existing challenges such as increased movements of goods and people and increasingly complex security threats as well as specific issues related to EU exit.
- *The UK border: preparedness for EU exit* (October 2018), which assessed the implications for border management of a no-deal EU exit.[3] It considered the progress that government had made in preparing for these changes and identified significant risks to delivery of an effective border at day one following a no-deal exit.
- *The UK border: preparedness for EU exit update* (February 2019), which provided an updated assessment of government preparations to manage a no-deal EU exit on 29 March 2019.[4]

7 Our October 2018 report covered the government's preparations at the border in both deal and no-deal scenarios. This report and our February 2019 report focus primarily on the government's preparations for no deal. This is because this has been, and continues to be, the main focus of the government's preparations in relation to management of the border. We engaged with the Border Delivery Group, which is the cross-government team responsible for scoping, planning, coordinating and ensuring the delivery of the necessary change plans to ensure the border works effectively after EU exit, and with individual departments and agencies with border responsibilities. We also engaged with stakeholders from the private sector who play a significant role at the border, including representatives from ports and industry.

2 Comptroller and Auditor General, *The UK border: issues and challenges for government's management of the border in light of the UK's planned departure from the EU*, Session 2017-19, HC 513, National Audit Office, October 2017. Available at: www.nao.org.uk/wp-content/uploads/2017/10/The-UK-border.pdf

3 Comptroller and Auditor General, *The UK border: preparedness for EU exit*, Session 2017-19, HC 1619, National Audit Office, October 2018, available at: www.nao.org.uk/wp-content/uploads/2018/10/The-UK-border-preparedness-for-EU-exit.pdf

4 Comptroller and Auditor General, *The UK border: preparedness for EU exit update*, National Audit Office, February 2019. Available at: www.nao.org.uk/wp-content/uploads/2019/02/The-UK-border-preparedness-for-EU-exit-update.pdf

8 The purpose of this report is to consider the work that the government and departments have been undertaking to prepare for no deal since we last reported and to assess how prepared they are at the border for a no-deal exit on 31 October 2019:

- In Part One we set out the background to a no-deal exit on the operation of the UK border.
- In Part Two we set out the government and departments' actions to prepare for a no-deal exit on 31 October 2019. This part covers progress with putting in place the required systems, infrastructure and resources.
- In Part Three we assess the government and departments' actions to mitigate the risk associated with a no-deal exit. This part covers the risks over which the UK government has less direct control, such as the controls which would be imposed by EU member states, but which would still have an impact on the operation of the border on day one of a no-deal exit. It also includes the government's planned immediate response should disruption occur after a no-deal exit.

9 This report is based on information available up to 14 October 2019. We do not reach a final conclusion on the value for money of government's preparations for a no-deal exit. The scope of our report and our approach are set out in Appendices One and Two. We have reported separately on the government's preparations for ensuring continuity of supply to the health and social care sectors.[5]

Statement from the Comptroller and Auditor General

"The Civil Service has faced an unprecedented challenge preparing for the UK's exit from the European Union. It has done so within a context where the form of the UK's departure has been uncertain, subject to shifting timetables and vigorous political debate.

"This report records the progress made by government departments, working with others, to prepare for the changes required at the border and to mitigate risks should the UK depart without a deal with the EU on 31 October. In doing so, I am obliged to point out the work that still needs to be done, and the remaining risks in the short and longer term. However, I wish to record that these have not been normal times for individual departments or government as a whole and that a great deal has already been achieved in the midst of much uncertainty."

5 Comptroller and Auditor General, *Exiting the EU: Supplying the health and social care sector*, National Audit Office, HC 2654, September 2019. Available at: www.nao.org.uk/wp-content/uploads/2019/09/Exiting-the-EU-supplying-the-health-and-social-care-sectors.pdf

Key findings

Government and departments' actions to prepare for a no-deal exit on 31 October 2019

10 **In the event of the UK exiting the EU with no deal on 31 October 2019, the government plans to implement broadly the same model that it intended for 12 April 2019.** Departments have not made wholesale changes to their plans and have largely not developed their systems and processes beyond the minimum operating capability that they intended to achieve for 12 April 2019. The government also intends to apply the same easements as it had planned for 12 April 2019, such as the Transitional Simplified Procedures, which simplify the process for making customs declarations. These measures are intended to give businesses more time to prepare for changes to border requirements and facilitate the flow of traffic. The government has accepted some fiscal and regulatory risk associated with these easements because it would not require EU traders to provide all of the information that it requires of non-EU traders (paragraphs 2.3–2.5; 2.28, 2.30, 2.31 and 3.3).

11 **By April 2019, departments had put in place most of the systems, infrastructure and resources they considered necessary for a no-deal exit, but risks remained in relation to two programmes.** By 12 April 2019, departments had largely implemented the planned minimum operating capability on key programmes. However, there were significant risks relating to two of these. Firstly, the Department for Environment, Food & Rural Affairs (Defra) had developed the Import of Products, Animals, Food and Feed System (IPAFFS) to monitor and control the import of animals, animal products and high-risk food and feeds from outside the EU. However, Defra had not been able to undertake the degree of user testing which it would have liked. Secondly, HM Revenue & Customs (HMRC) had developed new transit arrangements to allow traders to use the Common Transit Convention (CTC) to move goods through the UK to other countries without needing to make additional customs declarations. However, as at 12 April, there was insufficient infrastructure and system capacity to handle an expected increase in goods coming through Dover and Eurotunnel under transit arrangements. This created a risk of delays because there were no contingency arrangements in place (paragraphs 2.4, 2.13, 2.14, 2.35–2.38, 2.20–2.23 and Figure 6).[6]

12 **Since April 2019, departments have strengthened their preparations to be ready for a potential no-deal exit on 31 October 2019, but there is still work to do and little time to resolve any issues which may emerge**. The current position is:

6 EU member states and certain other European countries are members of the Common Transit Convention (CTC). The UK is currently a member of the CTC as a member of the EU. HMRC is developing a new transit regime following the UK acceding to the CTC in its own right after EU exit. After EU exit, goods arriving in the UK via EU member states would need to be recorded and managed in the UK's existing 'New Computerised Transit System'.

- **Development of systems required for day one of no deal has mostly completed, but some work remains to ensure that systems will operate as planned for day one.** The New Computerised Transit System is now able to deal with the expected increase in capacity required to deal with goods moving under the CTC. Defra has made progress implementing IPAFFS since 12 April and is now confident that it will operate and provide a reliable day-one solution. As at 1 October, 1,132 of the users who may potentially need to use the IPAFFS system had registered. Those systems which were ready for 12 April 2019, and which had subsequently been closed were remobilised. In some other cases, such as the tariffs and customs systems, limited changes will continue to be made up to 31 October to ensure readiness for no deal (paragraphs 2.21, 2.24, 2.32, 2.33 and 2.38).

- **Focus has shifted to testing the robustness and integration of systems.** The Border Delivery Group is overseeing a programme of operational testing between August and October 2019, including system integration testing to test whether new and existing functionality is operating as expected. There was not time to do this in the period leading up to 12 April 2019. There will be limited time to resolve issues which have arisen (paragraphs 2.13–2.16 and Figure 6).

- **Six sites have been leased and new infrastructure required to implement arrangements under the CTC is in development.** By 12 April 2019 HMRC had set up three Offices of Departure and Destination needed for handling the anticipated increased volume of freight moving through the short Channel crossings under transit arrangements but there was no contingency if these sites proved insufficient.[7] HMRC considered there would be sufficient capacity for three months after day one. HMRC has now secured three new sites and planning permission, with development due to complete by mid-October 2019 (paragraphs 2.20–2.26).

- **Departments are identifying staff from across the civil service to deploy to key EU exit roles in advance of 31 October 2019, and are also recruiting additional staff.** By 12 April 2019, departments were ready to deploy most of the staff they assessed they needed for day one, drawing upon staff from across the civil service. Such staff are now in the process of being identified and deployed again. Departments have also identified some new resourcing requirements, for example up to 500 additional Border Force staff in 2019-20 to support a projected increase in transit checks, of which around 250 posts are required by day one. Given the timescales, Border Force plans to use agency and temporary staff to fill the day one requirement and to run recruitment for permanent posts in parallel to this. As at 11 October 2019, it has secured around 200 agency staff for day one, supported by around 100 additional staff from across the civil service for transit checks and a further 175 staff to provide additional resilience for its front-line activities (paragraphs 2.7–2.10).

7 There are three short Channel crossings: Dover to Calais and Dover to Dunkirk via ferry routes, and Folkstone to Coquelles via the Channel Tunnel.

Government and departments' actions to mitigate the risks associated with a no-deal exit

13 **Despite recent efforts across government, a large proportion of traders and businesses would not be ready for new customs and regulatory controls if the UK leaves without a deal and might not be able to access the support they require.** The flow of goods across the border depends on businesses knowing and complying with their border obligations. Groups representing traders, hauliers and ports told us that they welcomed the government's efforts to provide information to help them prepare but some were concerned about the scale and complexity of the task their members faced. On 21 August 2019, HMRC began automatically enrolling more than 88,000 VAT-registered businesses for Economic Operators Registration and Identification (EORI) numbers to help facilitate compliance with customs procedures.[8] On 1 September 2019, the government launched a major communications campaign to help individuals and businesses prepare for EU exit, including newspaper and television adverts, improved guidance, and direct engagement with industry. However, at this late stage and with ongoing uncertainty about the prospect of no deal on 31 October, this may have limited impact. The government's reasonable worst-case assumptions regarding the percentage of traders who would be ready on day one was 30%–60% in October 2019. There is limited capacity in the market for intermediaries, such as customs agents, to help businesses prepare. HMRC estimates that there are currently around 4,000 customs agents and that a very significant increase could be required to manage trade across the border in a no-deal scenario (paragraphs 3.2–3.9).

14 **The government anticipates that EU member states are likely to introduce controls which would significantly reduce the flow of traffic that is able to cross the border.** The government assumes that EU member states would apply customs and regulatory controls to goods crossing from the UK into the EU. It has developed an agreed set of planning assumptions about expected flows across the short Channel crossings, modelling a reasonable worst-case scenario, which ministers review and approve periodically. The latest approved cross-government reasonable worst-case scenario, from October 2019, is that the current flow of goods across the short Channel crossings could be reduced to 45%–65%, with flow rates gradually improving to 100% over 12 months. The scenario includes assumptions on the EU's ability to apply mandatory controls; the proportion of lorries which would be ready for French customs; and the capacity of French ports to hold lorries which are not ready (paragraphs 3.11 and 3.12).

8 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.

15 The government intends to introduce new mandatory readiness checks on lorries to identify and divert hauliers who are not ready if queues build on the approaches to Dover and Eurotunnel, but these would be challenging to operate. It intends to undertake these new checks on the M20 and at Manston Airport if queues occur as part of Operation Brock, which is the plan to manage traffic flow in Kent in the event of disruption to services across the short Channel crossings. This is to mitigate the risk of hauliers arriving at the EU border without the appropriate documents, thereby causing tailbacks on UK roads leading to Dover Port and to Eurotunnel at Folkestone. Hauliers without the appropriate documentation would be given the option of travelling to and parking at specific sites where they would have up to 24 hours to obtain this or they would not be able to proceed to the EU border. The Department for Transport estimates that, in a reasonable worst-case scenario, just over 3,000 lorries a day (80% of lorries carrying loads) may need to be diverted because they do not have the appropriate documentation. There is very limited time for the government to get the necessary infrastructure and resources in place to undertake these checks in advance of 31 October 2019. In addition, stakeholders raised concerns about how the checks would operate in practice, including the lack of an agreed operating model and the feasibility of traders obtaining the appropriate documentation within the 24-hour period available (paragraphs 3.20–3.24).

16 The UK government has announced temporary arrangements for managing trade crossing the land border from Ireland to Northern Ireland, but it acknowledges these are not likely to be sustainable. The Northern Ireland and Ireland land border does not have any customs infrastructure, and people and goods can cross freely. If the UK leaves the EU without a deal, Northern Ireland and Ireland would have different customs and regulatory regimes. In March 2019, the UK government confirmed a strictly unilateral, temporary approach to checks, processes and tariffs in Northern Ireland, which would apply if the UK leaves the EU without a deal. It would not introduce any new checks or controls on goods at the land border, including no customs requirements for nearly all goods, with some limited exceptions. However, there is still uncertainty about border arrangements that the Irish government would introduce. The EU is likely to require Ireland to impose controls on goods entering from Northern Ireland by land, but it is not yet clear what checks it would impose or where they would take place. The UK government has stated that, in a no-deal scenario, it is committed to entering into discussions urgently with the European Commission and the Irish government to jointly agree long-term measures to avoid a hard border (paragraphs 3.13–3.17).

17 **Despite the government's actions, it has been unable to mitigate the most significant risks to the effective functioning of the UK border in the event of no deal and the border would be 'less than optimal'.** In preparing for day one of no deal the government has decided to prioritise security and safety; flow of people and goods; and then compliance activity, including the collection of revenue. It accepts that this model comes with risks and has stated that the border would be 'less than optimal' for a period of time. This 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. As we previously reported, it is likely that organised criminals and others would quickly exploit any perceived weaknesses, gaps or inconsistencies in the enforcement regime. The government acknowledges that some of the arrangements that it has put in place to facilitate flow at the border, including easements such as Transitional Simplified Procedures, and the arrangements for the Northern Ireland and Ireland land border are not intended to remain in place in the long-term and would not be sustainable (paragraphs 1.5, 1.6, 2.3, 2.28–2.31 and 3.17).

18 **The government is putting in place civil contingency arrangements to manage the impact of a no-deal exit in the short-term.** The government is once again preparing to activate its civil contingency plans, which focus on mitigating the short term, severe, disruptive impacts of a no-deal exit. These plans all sit within what is known as Operation Yellowhammer. Two of the 12 Operation Yellowhammer workstreams relate to the UK border: 'Disruption to people crossing the border' and 'Disruption to key goods crossing the border'. The Cabinet Office leads on the contingency preparations and the Border and Supply Chain Impact Group within the Border Delivery Group is responsible for coordinating policy on matters in relation to the two border-related strands and the collation of supporting information and data. In addition, work is under way in other parts of the government and locally to enable the continued supply of essential goods and medicines and to manage queues of traffic in Kent. Local resilience forums are planning how to manage any potential emergencies which may result from a no-deal exit in their local areas (paragraphs 3.25–3.28).

Concluding remarks

19 The government has made progress with putting in place the systems, infrastructure and resources required to manage the border if the UK leaves the EU without a deal on 31 October 2019. However, there is still some work to do to finalise arrangements in the short time that remains and bringing all these elements together for the first time in a live environment carries inherent risk.

20 The most significant risks to the operation of the border remain, namely business readiness, EU member states imposing controls, and arrangements for the Northern Ireland and Ireland land border. Although the government has actions under way to influence these, mitigating these risks is now, to some extent, out of its control. It is impossible to know exactly what would happen at the border in the event of no deal on 31 October 2019. Departments face new challenges in monitoring and responding to any disruption that may ensue. This includes supporting businesses and individuals in meeting their new obligations, mitigating risks of the border becoming vulnerable to fraud, smuggling or other criminal activity, and activating civil contingency plans if necessary.

21 Many of the new arrangements the government plans to implement at the border to facilitate flow on day one would be temporary, and it will take some time for a fully functioning border to be put in place. In determining longer-term arrangements, the government would need to balance enabling the flow of traffic across the border with introducing appropriate controls to minimise the risk of non-compliance or criminal activity.