



HM Treasury

Treasury Minutes

Government response to the Committee of Public Accounts on the Second and Third reports from Session 2017-19



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2nd Report: Brexit and the future of customs (HMRC and Treasury)

3rd Report: Hinkley Point C (BEIS and Treasury)

Presented to Parliament by the Exchequer Secretary to the Treasury by
Command of Her Majesty

Cm 9565

January 2018

TREASURY MINUTES DATED 25 JANUARY 2018 TO THE COMMITTEE OF PUBLIC
ACCOUNTS ON THE SECOND AND THIRD REPORTS FROM SESSION 2017-19

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Second Report of Session 2017-19

HM Revenue and Customs

Brexit and the future of Customs

Introduction from the Committee

In 2013–14, HM Revenue and Customs (HMRC) started planning to replace its customs system, known as Customs Handling of Import and Export Freight (CHIEF), following changes to European Union (EU) legislation which would have been costly and difficult to make on CHIEF's ageing technology. HMRC is replacing CHIEF with a new Customs Declaration Service (CDS). Planning for the new system started before the EU referendum in June 2016. HMRC maintains that the programme is on track and is well governed. However, HMRC admits that major risks remain, which means that CDS might not be fully operating by the planned date of January 2019.

HMRC highlights 4 major risk areas: integrating the 8 CDS system components; testing CDS to ensure it can correctly handle the potential increase to 255 million declarations every year; migrating traders from the existing CHIEF service to CDS; and ensuring that users are ready to make customs declarations in the new system. But HMRC's timetable is incredibly tight given the amount of work still to do. HMRC will only know by July 2018 whether the system works as intended, which is only one month before the first traders start to use it, and gives very little time to take remedial action if anything goes wrong.

Based on a report by the National Audit Office, the Committee took evidence, on 25 October 2017, from HM Revenue and Customs. The Committee published its report on 14 November 2017. This is the Government response to the Committee's report

Background resources

- NAO report: *The Customs Declaration Service* - Session 2017-19 (HC 241)
- PAC report: *Brexit and the future of Customs* - Session 2017-19 (HC 401)

1: Committee of Public Accounts conclusion:

HMRC has not yet done enough to manage the huge uncertainty faced by a large number of traders

Recommendation:

HMRC should ensure that traders are informed of the Customs Declaration Service (CDS) timeline and progress by January 2018. As part of its plans to broaden engagement with traders, it should also promote the benefits of obtaining trusted trader status and aim to increase the number of registered traders.

1.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

1.2 The Department is already working closely with trade representatives to prepare businesses who currently use CHIEF for the Customs Declaration Service (CDS) and has developed a phased migration plan to ensure it takes place in a controlled way. It recognises that businesses may need support during the transition. This includes:

- building awareness and understanding that the Customs regulations are changing,
- encouraging traders to make the necessary preparations to be ready to make declarations,
- providing easy access to guidance and publicising the Department's helpline for support

1.3 The Department is beginning its education campaign for existing CHIEF traders in January 2018. It is also working on an education campaign for the estimated 138,000 VAT registered businesses, currently only trading with the EU and which will therefore be required to submit customs declarations for the first time, if the UK leaves the EU without a customs deal. This will help them to understand customs processes and to prepare for CDS.

1.4 The Department will ensure that it is making best use of all available communication channels and is working, in collaboration with the Department for Exiting the European Union (DEXEU), on its communications to intra-EU traders.

1.5 The Department is engaging with UK businesses on future enhancements to the Authorised Economic Operators (AEO) scheme once the UK leaves the EU. This includes businesses who may benefit from AEO status and those who already have the accreditation. Businesses are welcome to apply for AEO status at any time. The Department has already seen applications for AEO approval increase over the last year and therefore has put more resources in place to meet that extra demand and will do so again in anticipation of a further increase in applications.

2: Committee of Public Accounts conclusion:

It is vital that HMRC has a flexible service which can handle the increased volume of customs declarations and a well-developed contingency option.

Recommendation:

HMRC should ensure that the CDS system and the CHIEF contingency option are capable of managing 255 million customs declarations every year, while providing the flexibility to meet the wider challenges of an integrated customs and trade system for the UK, such as managing changes to tariffs, Free Trade Agreements and international trade quotas. HMRC should report back to the Committee by March 2018 with an update.

2.1 The Government agrees with the Committee's recommendation.

Target implementation date: March 2018.

2.2 The Department is ensuring that CDS can manage the volume of declarations anticipated when the UK leaves the EU. In a scenario where the UK leaves the EU without a negotiated customs deal, the Department estimates that UK-EU trade will result in an additional 199 million customs declarations, bringing the total to 255 million in a twelve-month period.

2.3 The Department is testing the scalability of CDS to manage 300 million declarations a year, with a peak of 100 declarations per second. The Department is also testing the scalability of current system, Customs Handling of Import and Export (CHIEF), as a contingency option. The Department will continue to operate the CHIEF system in tandem with CDS during the transition from one system to the other (known as dual running). This will provide an additional level of contingency, should it be required.

2.4 As with CDS, work is already underway to test CHIEF scalability and the Department has extended the contract with its supplier. It expects to have created a scalable CHIEF test environment by January 2018. CDS is being designed, developed and built to have the flexibility to meet the challenges of change to tariffs, free trade agreements and international trade quotas.

3: Committee of Public Accounts conclusion:

HMRC does not yet have funding to increase the capacity of CDS or to develop contingency options.

Recommendation:

HM Treasury should ensure that HMRC has sufficient funding by December 2017 to increase the capacity of CDS to handle 255 million customs declarations each year, and to develop functioning contingency arrangements.

3.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

3.2 The Treasury meets regularly with HMRC to review the programme's funding arrangements. HMRC has been provided with sufficient funding to undertake the contingency work required to date. This funding was provided as part of the additional funding HMRC received from the Treasury to prepare for Brexit in 2017-18.

3.3 The 2017-18 additional funding will allow HMRC to carry out CDS performance testing, which will determine the extent of the work required to increase the capacity of CDS to handle 300 million customs declarations and will inform future funding requirements for the programme. It will also allow HMRC to undertake work on understanding the requirements for the scaling of CHIEF to ensure that it remains a viable contingency solution beyond March 2019. Future funding for contingency will therefore be confirmed after this work has concluded in early 2018, following further discussions between HMRC and the Treasury about HMRC's detailed requirements.

4: Committee of Public Accounts conclusions:

HMRC is currently managing an unsustainable amount of change which could put the delivery of CDS at risk

Recommendation:

HMRC should report back to the Committee by March 2018 with clear plans on how it will manage the many challenges it faces due to Brexit and its ongoing transformation programmes, including how this will help to mitigate the risks in the CDS programme.

4.1 The Government agrees with the Committee's recommendation.

Target implementation date: March 2018.

4.2 The Department recognises that the impact of EU Exit, on top of an already ambitious Transformation agenda and delivering a wide range of services, introduces additional risk to the current portfolio. It is in the process of reviewing the sequence and timescales of delivering its transformation to prioritise the most important projects and to safeguard the CDS programme and will report to the Committee by March 2018.

Third Report of Session 2017-19

The Department for Business, Energy & Industrial Strategy

Hinkley Point C

Introduction from the Committee

The Government sees Hinkley Point C and other planned nuclear projects as central to its strategic aim of managing the energy 'trilemma' ensuring a secure supply of energy that is affordable for consumers while helping the UK meet its statutory target to reduce carbon dioxide emissions by 80% in 2050 compared with 1990 levels. The Department for Business, Energy & Industrial Strategy therefore agreed a deal to support construction of Hinkley Point C in September 2016.

The deal is with NNB Generation Company (HPC) Limited (NNBG), which is owned 66.5% by Electricite de France (EDF) and 33.5% by China General Nuclear Power Group (CGN). The deal guarantees that NNBG will receive £92.50 (2012 prices), linked to inflation, for each megawatt hour (MWh) of Hinkley Point C's electricity for 35 years, with electricity bill payers paying top ups if the market price is lower. The Department expects that the power station will be the first in a series of deals for new nuclear power stations and will generate around 7% of the UK's electricity from the mid-2020s. NNBG expects it will cost £19.6 billion to build Hinkley Point C; and the Department estimates that top-up payments will cost consumers around £30 billion over the 35-year contract. The Department estimates that between £10 and £15 of the average annual household electricity bill (in 2012 prices) will go towards supporting Hinkley Point C up to 2030.

Based on a report by the National Audit Office, the Committee took evidence, on 9 October 2017, from the Department for Business, Energy and Industrial Strategy, and HM Treasury. The Committee published its report on 22 November 2017. This is the Government response to the Committee's report.

Background resources

- NAO report: *Hinkley Point C* - Session 2017-18 (HC 40)
- PAC report: *Hinkley Point C* - Session 2017-19 (HC 393)

1: Committee of Public Accounts conclusion:

The Department has no plan in place for securing the wider benefits of the project.

Recommendation:

As part of its development of the industrial strategy, the Department needs to put a plan in place for realising the wider strategic and economic benefits of Hinkley Point C. The Department's plan should explain how it will prove those benefits have been achieved.

1.1 The Government agrees with the Committee's recommendation.

Target implementation date: Summer 2018.

1.2 The Government published its Industrial Strategy White Paper on 27 November 2017, which included detail on the government's plan to support the nuclear industry to become more competitive and drive greater value at both national and regional levels. Industry proposals for a Nuclear Sector Deal focus on how, working with the Government, substantial cost reductions can be achieved across the UK's new build and decommissioning programmes. There are shared Government and industry interests in improving productivity and improving the UK's competitiveness, domestic capability and export growth.

1.3 The Department meets with NNB Generation Company (HPC) Limited regularly to monitor progress and delivery of benefits from the project. The Department and the developer capture delivery against the public commitments, as well as a breakdown and summary of wider benefits realisation. The Department will publish a plan for benefits realisation and a benefits tracker by Summer 2018.

1.4 In 2016, the Government announced that developers will be required to show evidence that their projects will support growth in the UK supply chain, improve competition, and boost innovation and skills. With NNB Generation Company (HPC) Limited, the Department will review key learning from these Supply Chain Plan arrangements and consider their relevance to the balance of procurement for the remaining Hinkley Point C content.

2: Committee of Public Accounts conclusion:

No one was protecting the interests of energy consumers in doing the deal.

Recommendation:

By March 2018, the Department should tell the Committee how it will ensure there is an independent and transparent assessment of the impacts on consumers, including the impacts on the poorest households, when agreeing future energy infrastructure deals that are paid for through consumers' bills.

2.1 The Government agrees with the Committee's recommendation.

Target implementation date: Spring 2018.

2.2 The Department already publishes assumptions on future wholesale electricity prices, fossil fuel prices, carbon prices and technology costs.

2.3 The impact of energy infrastructure supported by Government schemes on consumer bills is always considered when decisions to agree new projects are made.

2.4 The Government is taking firm action to control the cost to consumers of supporting low carbon projects. At Autumn Budget 2017, the Chancellor announced the new Control for Low Carbon Levies, which sets out that there will be no new low carbon electricity levies until the burden of such costs is falling. Based on the current forecast, this means there will be no new low carbon electricity levies until 2025. The Government has confirmed it will update the forecast of low carbon electricity levies on an annual basis, which will provide further transparency on such costs for consumers.

2.5 The Department will consider what more can be done to improve the transparency and understanding of the impacts on consumers, including the impacts on the poorest households. The Department will also look at how to incorporate an independent assessment of the impacts. The Department will write to the Committee in Spring 2018 with a further update.

3: Committee of Public Accounts conclusion:

The Department pressed on with locking consumers into an expensive deal, despite the case for Hinkley Point C and nuclear power weakening during its negotiations.

Recommendation:

The Department should re-evaluate and publish its strategic case for supporting nuclear power before agreeing any further deals for nuclear power stations.

3.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

3.2 Nuclear has an important role to play in the UK's electricity system as part of a diverse energy mix. In particular, it provides reliable baseload power that contributes to the UK's energy security.

3.3 A review of the strategic case for new nuclear would form a key part of the value for money case for any proposed new nuclear project (as it was for Hinkley Point C).

3.4 The Department remains committed to transparent, open policy making, and will consider any future publications at the appropriate time.

4: Committee of Public Accounts conclusions:

The Department and HM Treasury did not sufficiently appraise alternative ways to finance the deal that might have offered better value for consumers.

Recommendation:

The Department and HM Treasury should show decision makers the cost and risk implications of different possible financing structures when appraising large infrastructure projects, including its further nuclear deals, even if they are outside the prevailing policy.

4.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

4.2 As part of their appraisal of large infrastructure projects, the Department and the Treasury will assess the cost and risk implications of a range of possible financing structures. Ministers will be sighted on such a range of options, including possible financing structures outside of the prevailing policy, when deciding whether and how to proceed with future new nuclear projects.

5: Committee of Public Accounts conclusion:

There is uncertainty over whether the project will be completed on time.

Recommendation:

The Department should ensure it publishes its 'Plan B' for achieving energy security, while at the same time delivering on its decarbonisation and affordability ambitions, before the end of this year and should review and revise it every year in light of the latest progress at Hinkley Point C.

5.1 The Government agrees with the Committee's recommendation.

Target implementation date: Summer 2020.

5.2 The Department agrees that ensuring homes and businesses have the certainty of secure energy supplies they can rely on now and in the future is a priority.

5.3 The principal tool for managing risks to security of supply is the Capacity Market. The Capacity Market targets already factor in a wide range of non-delivery risks, including delays to particular projects. The Capacity Market can take account of new or varied risks as they become apparent. There are two auctions for each delivery year – a four year ahead (T-4) auction which secures the bulk of capacity needed in a given year, and a one year ahead (T-1) 'top-up' auction.

5.4 National Grid provides annual advice on how much capacity is needed in the following year's auctions in its Electricity Capacity Report and this advice is reviewed by an independent Panel of Technical Experts. This informs the Department's decision on a final figure. National Grid's advice for Hinkley Point C's target delivery year (2025) will be published in 2020 (one year prior to the relevant T-4 auction) and will reflect Hinkley Point C delivery risks (informed by robust governance arrangements for monitoring progress with delivery).

5.5 The Department will therefore revisit plans in the run up to Hinkley Point C's delivery as better information becomes available, including whether and how to make adjustments to the amount of capacity it secures through the T-4 and T-1 auctions.

6: Committee of Public Accounts conclusion:

The Committee is concerned about the Department's ability to identify any possible delays as early as possible, given government's poor track record on effective contract management.

Recommendation:

The Department must ensure on an ongoing basis that the LCCC has the skills, capacity and access rights that enable it to monitor delivery on the Hinkley Point C project effectively.

6.1 The Government agrees with the Committee's recommendation.

Recommendation implemented.

6.2 The Department is satisfied that the Low Carbon Contracts Company (LCCC) has sufficient skills and resources in place in order to perform its role as Counterparty to the Hinkley Point C contract, and will work closely with the Treasury to monitor the LCCC's capabilities and ensure that this is the case in future. This was an important consideration when agreeing LCCC's proposed budget for the next three financial years, which is currently out to consultation.

6.3 The Department will monitor the LCCC's needs and capabilities through the assurance process that has been established for monitoring Hinkley Point C, and more generally as part of the ongoing relationship and information sharing arrangements between the Company and the Department as set out in LCCC's Framework Document.

6.4 LCCC's Hinkley Point C team consists of 3 dedicated commercial team members in addition to wider LCCC support functions and considerable oversight from the Head of Legal, Legal Counsel, Head of Commercial, CEO and Chair, complemented by external professional, technical and legal resources when required. Under the Contract for Difference, LCCC has contractual rights to the information it requires from the developer in order to monitor the overall progress of the project

Treasury Minutes 2015-20¹

Treasury Minutes are the Government's response to reports from the Committee of Public Accounts. Treasury Minutes are Command Papers laid in Parliament.

Session 2017-19

Committee Recommendations: 16
 Recommendations agreed: 16 (100%)
 Recommendations disagreed: 0 (0%)

Publication Date	PAC Reports	Ref Number
December 2017	Government response to PAC report 1	Cm 9549
January 2018	Government responses to PAC reports 2 and 3	Cm 9565
February 2018	Government responses to PAC reports 4 to 11	Cm
March 2018	Government responses to PAC reports 12-15+	Cm

Session 2016-17

Committee Recommendations: 393
 Recommendations agreed: 356 (91%)
 Recommendations disagreed: 37 (9%)

Publication Date	PAC Reports	Ref Number
November 2016	Government responses to PAC reports 1 to 13	Cm 9351
December 2016	Government responses to PAC reports 14 to 21	Cm 9389
February 2017	Government responses to PAC reports 22-25 and 28	Cm 9413
March 2017	Government responses to PAC reports 26-27 and 29-34 ²	Cm 9429
March 2017	Government responses to PAC reports 35-41	Cm 9433
October 2017	Government responses to PAC reports 42-44 and 46-64	Cm 9505

Session 2015-16

Committee Recommendations: 262
 Recommendations agreed: 225 (86%)
 Recommendations disagreed: 37 (14%)

Publication Date	PAC Reports	Ref Number
December 2015	Government responses to PAC reports 1 to 3	Cm 9170
January 2016	Government responses to PAC reports 4 to 8	Cm 9190
March 2016	Government responses to PAC reports 9 to 14	Cm 9220
March 2016	Government responses to PAC reports 15-20	Cm 9237
April 2016	Government responses to PAC reports 21-26	Cm 9260
May 2016	Government responses to PAC reports 27-33	Cm 9270
July 2016	Government responses to PAC reports 34-36; 38; and 40-42	Cm 9323
November 2016	Government responses to PAC reports 37 and 39	Cm 9351
December 2016	Government response to PAC report 39 (part 2)	Cm 9389

¹ List of Treasury Minute responses for Sessions 2010-15 are annexed in the Government's response to PAC Report 52

² Report 32 contains 6 conclusions only.

Treasury Minutes Progress Reports Archive

Treasury Minutes Progress Reports are the Government's response on the implementation of recommendations from the Committee of Public Accounts. Treasury Minutes Progress Reports are Command Papers laid in Parliament.

Publ' i	PAC Reports	Ref Number
January 2012	Session 2010-12: updates on 13 PAC reports	Cm 8271
July 2012	Session 2010-12: updates on 28 PAC reports	Cm 8387
February 2013	Session 2010-12: updates on 31 PAC reports	Cm 8539
July 2014	Session 2010-12: updates on 60 PAC reports Session 2012-13: updates on 37 PAC reports	Cm 8899
March 2015	Session 2010-12: updates on 26 PAC reports Session 2012-13: updates on 17 PAC reports Session 2013-14: updates on 43 PAC reports	Cm 9034
February 2016	Session 2010-12: updates on 8 PAC reports Session 2012-13: updates on 7 PAC reports Session 2013-14: updates on 22 PAC reports Session 2014-15: updates on 27 PAC reports	Cm 9202
July 2016	Session 2010-12: updates on 6 PAC reports Session 2012-13: updates on 2 PAC reports Session 2013-14: updates on 15 PAC reports Session 2014-15: updates on 22 PAC reports Session 2015-16: updates on 6 PAC reports	Cm 9320
January 2017	Session 2010-12: updates on 1 PAC report Session 2013-14: updates on 5 PAC reports Session 2014-15: updates on 7 PAC reports Session 2015-16: updates on 18 PAC reports	Cm 9407
October 2017	Session 2010-12: updates on 3 PAC reports Session 2013-14: updates on 7 PAC reports Session 2014-15: updates on 12 PAC reports Session 2015-16: updates on 26 PAC reports Session 2016-17: updates on 39 PAC reports	Cm 9506
January 2018	Session 2010-12: updates on 2 PAC reports Session 2013-14: updates on 5 PAC reports Session 2014-15: updates on 4 PAC reports Session 2015-16: updates on 14 PAC reports Session 2016-17: updates on 52 PAC reports	Cm 9566

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