

COMPLIANCE COST REVIEW

INTERNATIONAL TRADE MODERNISATION PROJECT (EPU RATIONALISATION)

1. Introduction

1.1 Background

In line with Government commitments to reduce the compliance burdens that are placed on businesses, HM Revenue & Customs (HMRC) assesses the likely change in compliance costs whenever a policy is introduced or changed. The results of that analysis are published in a final Operational Impact Assessment (OIA).

This document summarises the outcome of a post-implementation review of the final OIA that was published on 31 March 2006 for the above-mentioned measure by HMRC. The measure was fully implemented by 31 March 2007. A copy of the published final OIA is attached.

This review re-assesses the compliance cost analysis published in the original OIA and addresses two main questions:

- whether the estimates of compliance costs used in the OIA were correct, with hindsight; and
- whether the processes used to estimate compliance costs were appropriate and reasonable, given the circumstances at the time.

HMRC intend to use this review to improve the IA process, and also to assist in future policy development and evaluation work in general. As such, the emphasis is on identifying learning points for future assessment of compliance costs. The review does not revisit the original policy decision.

2. The published RIA

2.1 Description of the policy change

The Operational Impact Assessment (OIA) examined the impact of concentrating HMRC international trade entry processing and clearance activity from 18 sites into one National Clearance Hub (NCH).

It was anticipated to provide significantly improved levels of service and consistency of treatment to UK trade and aimed to complete the work started in 2003-04 where the number of sites was reduced from 40 to 18.

2.2 Anticipated compliance costs or savings

The costs were not quantified in monetary terms but were summarised as follows:

- Costs of faxing/e-mailing paperwork to a remote location.
- Possible need to purchase upgraded information systems

No on-going costs were identified although it was noted that any costs would vary widely between different ports/airports and individual businesses, depending on the way they interact with HMRC.

Again savings were not quantified but were summarised as follows:

- A significant improvement in service as a result of 24/7 clearance being made available across the UK, a reduction in time from 12 to two hours for route 1 customs interventions, and a reduction in the number of customs interventions as individual local practice is replaced with streamlined national guidelines and procedures
- A single centre of knowledge and expertise, providing an efficient and consistent level of service
- Savings achieved by not having to physically deliver papers to a local EPU

It was thought that any savings from not having to courier or physically deliver papers to a local EPU would be off-set against costs such as faxing/e-mailing papers to a remote location and purchasing of upgraded IT equipment.

Further information can be found in section 5 of the OIA.

3. Conduct of the review

Each compliance cost review is conducted individually, and the review process is adapted to suit the particular circumstances applying in each case. The emphasis is on making sure that the review itself - and any burden of consultation - are sufficient to meet the objectives of the review, but proportionate to the likely benefits.

In this case, the review was led by an HMRC project team supported by consultants. The staff in the review team were completely independent of those involved with the original policy change.

An essential element of the review was consultation with those actually affected, and consultants were commissioned to carry out a small number of targeted in-depth interviews with some of those affected and their trade bodies. The

research was not intended to deliver any degree of statistical robustness (to do so would have been costly and impractical) but instead to provide indicative findings. Coupled with the consultants' own knowledge and expertise, this has allowed the research to identify the major issues and any associated learning points.

The external research was complemented by an internal review of HMRC paperwork and electronic files.

4. Were the original estimates of compliance costs accurate?

This section addresses two main aspects – the nature of the change in compliance costs (i.e. what did people have to do differently) and the monetary impact of that change (what did it cost or save them).

Question	Comments
<p>Were the specific types of cost and benefit identified in the RIA (e.g. reading legislation, filling in forms, updating IT systems, saving time etc.) incurred?</p>	<p>The external research identified a differing view amongst the respondents depending on whether they were authorised to operate simplified procedures or not (goods can be released by the submission of a simplified electronic declaration, providing minimal information. An electronic supplementary declaration is then required to be submitted by the 4th working day of the following month from the date of the simplified declaration). Respondents who operated simplified procedures did not experience any visible impact on their day to day operations. However, respondents not authorised to operate simplified procedures had mixed experiences. Several cited instances of missing paperwork and increased processing times resulting in goods being delayed at port, which lead to increased costs such as additional storage, damage to fresh fruit and onward delivery considerations. One respondent had information relating to a third party (a small business) whose experience of NCH delays had been so significant that they had applied to operate simplified procedures and had incurred staff training and software costs as a result. Another said that clearance times had improved dramatically and are on average an hour, compared to before when clearance times were not consistent and could be up to 24 hours or</p>

	<p>more. This respondent also said they are now making significantly fewer calls to the NCH to expedite clearance of specific consignments and they reported significant savings on administration. A free fax facility and local rate phone number were introduced as the project progressed on the basis of specific feedback from the trade. However, any savings relating from these measures were not highlighted by the external research.</p>
<p>Were costs/savings incurred at the expected time?</p>	<p>The OIA does not specifically address the point of when savings were to be expected. In theory it should have been soon after the implementation of the change. The external research found that those respondents authorised for simplified procedures noticed little change. Other respondents reported mixed experiences with either longer or shorter clearance times.</p>
<p>Were costs/savings incurred by the expected people?</p>	<p>Some specific groups were identified in the OIA, but not those operating simplified procedures. Specific costs for each of the options for these groups were not detailed.</p>
<p>Were any other costs/savings, not identified in the OIA, incurred ?</p>	<p>Some respondents identified costs such as the routine hassle of change as the new procedures bedded in, which were not identified in the OIA.</p>
<p>If the type of costs/savings varied from the original estimates, why was that?</p>	<p>The external research identified that most large importers/exporters operate the simplified procedures and were not affected by the changes. Others had experienced delays whilst the NCH was bedding in.</p>
<p>Could such variances have been foreseen at the time?</p>	<p>Although the intention was that there should be minimal disruption the OIA could have mentioned that there might be some relating to the bedding in process.</p> <p>It was expected at the time of implementation that other HMRC projects, such as Single Window, would start delivering and pass on benefits to the trade such as less HMRC interventions and less requirement to engage with the NCH. However, this and other projects were delayed meaning that the impact on the NCH in terms of workload was far greater than anticipated at the time the OIA was completed. This increased costs to the trade and was not</p>

	specifically mentioned in the OIA.
What is the assessment now of the total value of costs and savings?	As traders operating the simplified scheme were not affected, and this group consists of most large UK importers/exporters, the introduction of the NCH did not affect as much of the trade as anticipated in the OIA.
If different from the original RIA, what has caused the discrepancies?	The OIA concentrated on the assumed benefits of the change, i.e. improved efficiency, consistency and service. The external research identified that most respondents had seen no significant reduction in compliance costs as a result of the change.
With hindsight, were the compliance cost estimates accurate?	As compliance costs were not specifically quantified in the OIA it is very difficult to provide a view on the accuracy of the savings in the OIA. Benefits were stated for UK trade as a whole, but only accrued to those not operating simplified procedures. The OIA did consider that the process of change might generate some costs but did not quantify them. Based on this, we believe that the estimates appear to be nearer inaccurate rather than accurate.

5. Was the process used to estimate compliance costs reasonable?

Irrespective of whether the analysis turned out to be correct, the review has considered whether the original analysis was completed in a reasonable way.

Question	Comments
Who worked on the original RIA?	It would appear that analysts within HMRC were not consulted and this may account for the fact that no cost/savings estimates were quantified in monetary terms, and may also explain why the affect on a significant group, such as those operating simplified procedures was not considered. The new IA template now in use with HMRC requires a senior analyst to sign off the IA, ensuring that this issue should not arise again in future.
Was an adequate audit trail maintained?	A full audit trail does not appear to have been maintained. However, systems have improved since this OIA was done and the learning points have been addressed to a large extent.
Was Cabinet Office and/or internal HMRC guidance on RIAs followed	No. The decision to consolidate the EPU's into one site was taken before the OIA was drafted.

correctly?	
How much effort was devoted to compliance cost estimation, and was that effort proportionate in the context of the policy measure?	It would appear that adequate effort was put into the consultation process, although a better response could have identified some of the issues in advance.
Were the right people (both internal and external) consulted, and were their views reflected appropriately?	The appropriate trade groups and those agents already clearing entries remotely through regional hubs as a result of limited centralisations earlier in the project were consulted. HMRC also asked the trade for estimates of time spent on local clearance compared with remote clearance. The response to this latter consultation was poor, but views received were reflected in the OIA. The external research acknowledged that HMRC were willing to listen to the trade but suggested it may have been more appropriate to have considered broad groups of customers using the Entry Processing Units (such as those not authorised to use the simplified procedures).
Did those who were consulted when the RIA was written express views on the reasonableness of the process?	There is no evidence of any problems here.
Have those who have been consulted now as part of this compliance cost review expressed views on the reasonableness of the process?	The external research identified that the consultation should perhaps have considered distinctive groups such as those operating simplified procedures rather than aiming at all UK trade.
Were compliance costs estimated for all options mentioned in the RIA?	Costs and benefits were mentioned for each option, but these were in general terms and no monetary estimates were included.
Were compliance costs estimated separately for key groups (such as small businesses, large businesses, self-employed)?	Costs and benefits were considered at a high level for those sectors and groups identified by the OIA, such as importers/exporters, community service providers and agents/freight forwarders. A separate section was also included for small businesses. However there was no mention of groups such as those operating simplified procedures. Specific costs or benefits were not quantified.
Was an appropriate analytical approach used, with economists or other analysts consulted appropriately?	Yes. The OIA did make a genuine effort to identify all costs and savings, even if they could not be quantified.

Was there sufficient time to produce a robust assessment of compliance costs?	There is no evidence of problems.
Were any assumptions reasonable, given the circumstances at the time?	The OIA assumed that there would be no disruption to businesses and that the level of service and consistency would improve significantly to the trade. This does not appear to have happened.
Were any estimates of compliance costs caveated appropriately?	No monetary estimates were given in the OIA. It was acknowledged that it was difficult estimate costs to business. It was stated that “further work will be undertaken to quantify the costs and benefits to the trade as part of the implementation and business design process as the project progresses”. This does not appear to have been completed, suggesting that there is a learning point for HMRC. The broad anticipated benefits mentioned were not caveated.
Were any risks correctly identified, addressed and explained?	The OIA did not consider the effects of related projects, on which some of the benefits of this measure were dependant upon, being delayed.
Were any disagreements identified and reflected appropriately (e.g. if the figures were disputed by businesses, or if more than one set of figures was available)?	Not applicable
Would HMRC do anything differently if the exercise were repeated, and hence could the RIA process have been improved?	The respondents felt that the OIA should have considered the effect on the day to day procedures and processes rather than how the EPU's would be incorporated into the NCH. The OIA was generally thought by respondents to be partially reasonable. There are some learning points associated with this OIA detailed below.

6. Learning points arising from the review

6.1 Learning points for future work in this policy area

- Rather than just identifying the groups of traders affected by their sector, consideration should be given as to how they are more likely to be affected by the measure. In this case it may have been better to consider the broad groups of customers using the EPU (such as those not authorised to operate simplified procedures), and the effect of the change on them. This is especially so as further research has identified that it was known at the time the OIA was drafted that the effect on traders operating simplified procedures was likely to be very minimal.
- Although the trade consultation process was said to be good, especially following the OIA, the membership and consultative groups should be reviewed on a regular basis to ensure the correct representatives from the trade are present.
- It was stated in the OIA that “further work will be undertaken to quantify the costs and benefits to the trade as part of the implementation and business design processes the project progresses”. It may have given more certainty to the trade if a timetable had been published stating when and how this work would be carried out.

6.2 Learning points for the OIA and compliance cost process in general

- HMRC’s own internal analysts should always be consulted to ensure that all groups likely to be affected are identified and the costs and benefits for these groups for all of the options considered are quantified.
- Any change is likely to cause some disruption even if it’s unforeseen or unintentional, therefore some allowance should be made for this.
- Where benefits are described at a high level, appropriate caveats should be used to compensate for the lack of detail.
- Impact Assessments should be part of the wider policy development process and used as a tool to consult before any decisions are made.
- Where the measure is reliant on other projects being completed to a specific timetable in order to realise specific benefits to the trade, these projects should be specifically mentioned within the OIA

7. The way forward

Comments are invited on any aspect of this report or the wider compliance cost review programme.

The learning points are being fed into the policy development process directly if particular to one RIA or policy area. More generic recommendations are being collated across the review programme overall, and will be used to create an action plan for HMRC to take forward to improve the RIA process and development.

8. Contact points for further information

For issues relating to Customs & International specifically:

Anne Treadaway
Customs Partnerships & Marketing
Customs & International
6th floor South
Portcullis House
Southend SS2 6AL
Telephone 01702 361934
E-mail: Anne.Treadaway@hmrc.gsi.gov.uk

For issues relating to the compliance cost review programme generally:

Richard Bowyer
3E/14, 100 Parliament Street
LONDON
SW1A 2BQ
Telephone: 020 7147 0062
E-mail: richard.bowyer@hmrc.gsi.gov.uk

ANNEX : THE PUBLISHED REGULATORY IMPACT ASSESSMENT

<http://www.hmrc.gov.uk/oia/oia-nch.pdf>