



1. INTERNATIONAL TRADE MODERNISATION PROJECT (EPU RATIONALISATION)

1.1 This Operational Impact Assessment (OIA) examines the potential impact arising from the proposed concentration of HM Revenue & Customs (HMRC) international trade entry processing and clearance activity into one National Clearance Hub (NCH). This is commonly known as EPU Rationalisation.

2. PURPOSE AND INTENDED EFFECT OF THE MEASURE

2.1 The policy objective

The purpose and intended effect of these operational changes is to:

- rationalise the number of geographical sites where HMRC international trade processing and clearance activities are undertaken;
- move HMRC international trade non-location critical¹ work away from traditional frontier² locations;
- identify a centralised hub site where entry processing and clearance activities will be carried out and migrate that work to its new location without disruption to business;
- provide significantly improved levels of service and consistency of treatment to the trade across the UK through the creation of one national processing and clearance hub.

It is intended that this project will be completed by 31 March 2007.

2.2 The background

The proposed changes set out in this OIA build upon a number of initiatives implemented during 2003-04. By modernising most international trade post-clearance activities, these initiatives delivered improved levels of service to business and enabled the department to better deploy resources to risk.

As part of that work, some traditional frontier based activities migrated to national sites (for example, the processing of customs duty repayment claims and manual customs declarations). As a direct consequence, a number of those frontier sites have now become unviable in terms of the volume of work with which they are required to deal.

¹ Non-location critical work (i.e. work that can be undertaken anywhere) covers activities such as the processing and clearance of customs declarations or duty repayment claims.

² Frontier locations (also known as Entry Processing Units, EPUs) are the ports/airports where goods first enter the UK and where HMRC currently performs customs declaration processing and clearance activities.

This project aims to complete the work started in 2003-04. It will identify the remaining non-location critical activities that are still located at the frontier and migrate that work into a centralised site.

2.3 Rationale for Government Intervention

The proposed changes set out in this Operational Impact Assessment are needed for the following reasons:

- to deliver significant improvements to the quality of service and consistency of treatment to all trade sectors involved in the import and export of third country goods;
- to put HMRC in an advanced position to meet the forthcoming changes to the Customs Code and EU proposals for a single national entry processing and clearance site in each Member State; and
- to deliver the resource savings required of Frontiers as a result of the merger between Inland Revenue and HM Customs & Excise.

None of these benefits will be realised in the event that HMRC does not modernise its remaining frontier based entry processing and clearance activity.

3. CONSULTATION

3.1 Within Government

EPU Rationalisation will have an impact on other business streams within HMRC and Other Government Departments/Agencies (OGD/OGA). Principal among the latter is the Department for Environment, Food and Rural Affairs (DEFRA) for whom HMRC undertakes a significant amount of work on an agency basis. HMRC has already set up a working group with representatives of affected government departments to discuss the broad policy objective, which has been agreed in principle. What remains to be resolved is the day-to-day interaction between OGD/OGA and HMRC and the practical issues around implementation in advance of the migration of work from individual frontier sites to the central hub. This will also involve local OGD representatives at those ports/airports affected. It is not anticipated that these discussions will have an impact on the proposal to move to a National Clearance Hub, rather they are intended to overcome any residual operational difficulties.

3.2 Public consultation

Potentially, all areas of the UK import and export business will be affected by a decision to move to a single national clearance hub. That is, agents and freight forwarders, Community System Providers (CSPs), and importers and exporters. HMRC has already undertaken consultation with key trade stakeholders in relation to the department's overall policy objective via a special Joint Customs Consultative Committee (JCCC) sub-group. In addition, HMRC has engaged with local trade communities around the UK as part of the process of migrating a limited number of frontier sites into regional clearance hubs at, for example, Dover, Manchester and Heathrow.

Overall, trade reaction to both the regional and proposed national concentration of entry processing and clearance has been favourable. Two main concerns have been raised:

- that the changes should be cost neutral; and
- there should be no reduction in service.

How HMRC will address these concerns is set out at Section 5 below.

The department will continue consultation at both JCCC and local level in advance of the migration of each site into the central hub in order to resolve any outstanding operational issues. Moreover, as part of that process, trade representatives will work alongside departmental project team members on some aspects of the detailed design. Similarly, the department will publish a migration timetable in order to provide a degree of certainty and minimise any disruption to the trade. Again, it is not anticipated that these discussions will have an impact on the proposal to move to a National Clearance Hub.

The involvement of the Small Business Service will be actively sought to ensure that small businesses are included in the implementation process.

This Operational Impact Assessment will be published on the HMRC website www.hmrc.gov.uk and feedback from all business sectors will be encouraged.

4. OPTIONS

4.1 Option 1 - Do nothing.

That is, maintain the existing number of entry processing and clearance sites across the UK as at 1 January 2006, currently approximately 18.

Doing nothing would allow HMRC to maintain levels of service across all existing EPU sites and provide for the same level of access to international trade staff at the frontier as is currently available. However, the clearance times available to the trade across the UK varies considerably from site to site. By maintaining this inconsistency, there is a very real risk that businesses operating through the department's best performing sites will gain a competitive advantage over those operating through locations with more limited opening hours and/or slower clearance times.

Moreover, the need to deliver resource savings as a result of the creation of HMRC and focus more of the available resource on risk based interventions, as opposed to document processing, makes Option 1 unviable.

4.2 Option 2 - Decentralise the existing hubs and return to traditional frontier EPU locations.

This would involve increasing the number of entry processing and clearance sites to approximately 40 and re-opening those EPUs closed under the limited regional rationalisation already completed.

Returning to all the department's traditional frontier sites would allow the trade improved direct access to international trade staff at all these locations.

However, this would mean re-opening a number of frontier EPUs that have been closed for some years and undoing the limited regional concentration that has taken place during 2005-06. For a considerable number of traders, now benefiting from a 24 hour entry

processing service with 2 hour clearance times, this would result in a significant reduction in service as not all sites would be able to operate around the clock.

In the event that HMRC would be able to resource an increased number of frontier locations and meet the associated infrastructure costs, it would be at the expense of deploying more resources to risk based interventions and the staff savings required of the merger between HM Customs and Inland Revenue.

In addition, a return to a greater number of frontier EPU sites would risk increased levels of inconsistency of service to business compared with that which the department currently offers.

For these reasons, Option 2 is considered unviable.

4.3 Option 3 - Create a smaller number of regional hubs.

Concentrate the existing 18 EPU sites into a maximum of six regional hubs.

Concentrating entry processing activity at a smaller number of regional hubs would allow a more consistent level of service delivery to the trade and, through economies of scale, enable the provision of a 24 hour clearance facility in more, but not necessarily all, locations. The risk remains that businesses operating through the 24 hour hubs would have a commercial advantage over those which are not.

4.4 Option 4 - Create a single National Clearance Hub.

Concentration of entry processing activity in one national hub would enable HMRC to maximise any resource savings and, through economies of scale and the implementation of lean business techniques, provide a 24 hour entry processing service to all ports/airports with a two hour clearance time for all customs Route 1 interventions. That is, a consistent and significantly improved service to the trade across the UK.

Option 4 is the preferred option.

5. COSTS AND BENEFITS

5.1 Sectors and groups affected

Potentially, all businesses involved in the import of goods from and the export of goods to third countries will be affected by these changes. That is, agents, freight forwarders, Community Service Providers (CSPs) and importers and exporters. It is anticipated that the greatest potential impact will be on those businesses (the agents and freight forwarders) whose work involves a direct and day-to-day interface with HMRC. However, overall, it is considered that the proposed changes will have a minimal impact on the trade's business practices.

It is difficult to quantify, specifically, the potential costs to the trade in purely financial terms. This is because a large number of businesses in the sector that is likely to be most affected, the agents and freight forwarders, already clear consignments through various ports and airports around the UK, using any number of the available inventory systems and dealing with HMRC both locally, over the counter and remotely, by courier, fax and email.

The department has asked the trade for estimates of the costs associated with the local presentation and clearance of entries compared with the potential costs of remote clearance by fax or email at a national site.

In response, only the Port of Dover has produced an estimate which shows a potential impact on their business at £250,000. This assumes a need to update the "Clearway" computerised port control system to interface with a single EPU identity at NCH. However, the recommended move to a single national clearance hub set out in this paper will not involve any change to the existing number of CHIEF freight locations or identities.

In a further attempt to quantify the potential costs to the trade, soundings have been taken from those agents already clearing entries remotely through regional hubs in Manchester, Dover, Felixstowe and Heathrow as a result of the limited centralisations undertaken to date. Evidence gathered at post-implementation meetings with the trade at some of the regional hub locations suggests that, overall, the centralisation of entry processing and clearance work will be cost neutral.

The following paragraphs set out how each of the main business sectors are likely to be affected in more detail. 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.

5.2 Importers and exporters

The majority of UK importers and exporters are not directly involved in the business of moving goods between the UK and third countries. This work is done by shipping companies, airlines and hauliers and facilitated by agents, freight forwarders and CSPs. As such, the impact of EPU modernisation on importers and exporters is likely to be minimal. There is a risk that any increase in costs incurred by agents and forwarders will be passed on to the principal(s) albeit these are not expected to be significant.

5.3 Community System Providers (CSPs)

CSPs provide computerised port inventory control systems and various electronic interfaces with HMRC's entry processing and clearance systems, CHIEF for imports and NES for exports. Their incomes are dependent on the number of ports/airports using their inventory system, the number of users at each location and, crucially, the number of uniquely identified HMRC freight locations within CHIEF.

The changes associated with the preferred Option 4 do not involve any major technical alterations to CHIEF or NES. This means that the number and identities of HMRC freight locations will remain unchanged. As a consequence, the National Clearance Hub (NCH) will have a minimal impact on the CSPs' business.

5.4 Agents and Freight Forwarders

It is anticipated that the greatest potential impact will be on those businesses (the agents and freight forwarders) whose work involves a direct and day-to-day interface with HMRC. This is because the centralisation of clearance activity will require agents and forwarders, whose business is based on the completion of all customs formalities on behalf of importers and exporters, to send paperwork to and deal with HMRC staff at a remote location. That is, rather than over the counter at a local port/airport based EPU.

However, the majority of agents and forwarders, including a significant proportion of small and medium sized companies, already arrange clearance on behalf of their clients at ports

and airports outside their immediate geographic catchment. For example, most of the agents clearing goods through the EPU at Chatham are based in Felixstowe and send entries via van courier to HMRC every day. Similarly, before the migration of Portsmouth EPU to the Dover Hub, agents in Dover regularly faxed large quantities of entries and supporting documents to Portsmouth agents in order to arrange clearance locally.

Again, for those agents and forwarders already clearing through one of the existing regional hubs, it will make little or no difference where the remote location is sited.

Finally, the incidence of face-to-face contact with the trade, locally, is low even where the majority of entries are presented over the counter. Most enquiries and day to day interaction between HMRC and the trade is phone based. A move to a National Clearance Hub will make no or little difference in this respect. Equally, despite the withdrawal of international trade staff from the frontier that would accompany the migration to NCH, the trade will continue to have access to HMRC Detection Officers at all ports/airports across the UK.

5.5 Benefits

5.5.1 Option 1

The benefits to the trade of Option 1 are limited. The existing and different levels of service afforded by our current EPU structure will be maintained, including the opportunity for face to face contact with international trade staff at some sites.

5.5.2 Option 2

The benefits to the trade of Option 2 would be an increase in the number of ports/airports across the UK with an HMRC international trade presence through which entries could be presented and goods cleared.

5.5.3 Option 3

The benefits to the trade of a further concentration of entry processing and clearance activity into a smaller number of regional hubs would include:

- an improvement in service at some additional ports/airports afforded by economies of scale which would allow HMRC to offer a 24/7 clearance facility at more locations;
- increased opportunity for improved consistency of service across and between individual regions;
- the creation of a small number of centres of knowledge and expertise as specialist processing centres are established in each region;
- any increase in costs associated with faxing and/or emailing paperwork to a remote regional site for clearance will be off-set by the reduction in costs associated with physically delivering papers (using direct employees and vehicles and/or couriers) to a local EPU; and
- the continuing presence of HMRC Detection officers at all ports/airports to undertake any residual location specific international trade work.

5.5.4 Option 4

The benefits to the trade of Option 4 can be summarised as follows:

- a significant improvement in service as a result of 24/7 clearance being made available to all trade sectors operating at every port/airport across the UK;

- a significant improvement in service as a result of a reduction in the clearance time for every Route 1 customs import and export intervention from 12 to two hours;
- a reduction in the number of customs interventions as individual local practice is replaced by the introduction of streamlined national guidelines and procedures;
- the creation of a single centre of knowledge and expertise, providing an efficient and consistent level of service;
- any increase in costs associated with faxing and/or emailing paperwork to a remote site for clearance will be off-set by the reduction in costs associated with physically delivering papers (using direct employees and vehicles and/or couriers) to a local EPU;
- minimum investment in new technology will be required to meet the requirements of the NCH. There will be no significant changes required of the CSPs inventory/badge systems, neither will CHIEF be upgraded in a way that will require a similar investment by the trade;
- the continuing presence of HMRC Detection Officers at all ports/airports to undertake any residual location specific international trade work;
- detailed national and local consultation with the trade throughout the project including the presence of trade representatives at Project Team meetings. This will allow the trade to directly influence the service they will receive from NCH; and
- UK business will be better placed to take advantage of the proposed changes to the way in which entry processing and clearance work is undertaken across the EU, compared with their competitors in other Member States.

5.6 Costs

5.6.1 Option 1

There are no direct financial costs to the trade involved in maintaining the existing EPU structure. However, currently there is considerable inconsistency in the levels of service offered across the UK, both in terms of opening hours and clearance times. In turn, this provides a greater opportunity for competitive advantage for businesses operating at or through the department's better performing sites.

5.6.2 Option 2

Increasing the number of entry processing and clearance sites would almost certainly lead to a reduction in the levels of service offered to the trade, especially for those traders currently able to make use of the 24/7 facilities at two of the existing regional hubs. Further, there would be an increased risk of inconsistency in the levels of service provided. There is also the possibility that the trade could be forced to re-open offices, or at least provide cover at those smaller ports/airports currently without an HMRC presence, in the event that an EPU is re-established. This would involve a direct additional financial cost.

5.6.3 Option 3

It is anticipated that the costs to the trade of Option 3 would be kept to a minimum. This is because:

- any one-off costs associated with the need to purchase upgraded information systems (IS) are expected to be off-set by savings made in carriage and courier costs of paperwork to a local site; and
- the regional hubs would accept entries and paperwork for processing and clearance by both fax and email. It is considered that most, including the smallest agents/forwarders, will already have access to a fax of sufficient capacity to enable the presentation of declarations as required.

There is also a risk that small, port-based agents would lose work to larger firms able to offer a 24/7 service to importers and exporters, and/or competitors based closer to the NCH. However, this has not happened with the limited regional centralisations undertaken to date. Moreover, current working practices mitigates against this, with smaller agents using other companies in their local area to clear goods on their behalf during those hours when they are closed.

The real cost to the trade of Option 3 is as set out for Option 1 above. That is, the continuing inconsistency in levels of treatment and service available between the individual regional hubs and the associated potential for competitive advantage.

5.6.4 Option 4

The costs associated with Option 4 are the same as those associated with Option 3 above except that a National Clearance Hub will delivery consistency of service and treatment to all trade sectors across the UK.

5.7 Given that costs to the trade will vary widely between different ports/airports and individual businesses, depending on the precise way in which they interact with HMRC, more detailed work will be done in this area on a site-by-site basis as the implementation project progresses.

6. THE SMALL FIRM'S IMPACT TEST

6.1 As part of the introduction of regional entry processing and clearance hubs, HMRC has been involved in detailed negotiations with agent communities at a number of key ports/airports. These communities are comprised of many small businesses undertaking customs clearance work on behalf of UK importers and exporters. A number of trade representative bodies have also been involved, including the Road Haulage Association (RHA) and the British International Freight Association (BIFA). The key concerns raised at these discussions were:

- the introduction of regional hubs should be cost neutral; and
- there should be no reduction in service as a result of a move to the remote clearance of entries.

Follow up discussions have been held post-migration to gauge trade reaction and identify any lessons that will need to be learned in the event that the department moves to a single national clearance hub. Overall, trade reaction to regionalisation has been favourable with significantly improved EPU clearance times and cost savings (compared with those incurred in over the counter presentation of entries at local, port-based sites) being cited.

6.2 As a consequence, HMRC has concluded that a move to one national clearance hub from a number of smaller regional hubs will have minimal impact on small business.

6.3 However, in advance of the migration of entry processing and clearance work at all of our remaining sites to NCH, further discussions will be undertaken with the trade as part of the implementation process in order to resolve any outstanding operational issues.

7. COMPETITION ASSESSMENT

7.1 Three separate competition assessments have been completed as part of this Operational Impact Assessment. That is, one each for the trade sectors described at Section 5 above.

7.2 Importers and exporters

It is considered that the proposed changes will have no detrimental impact on competition between importers and exporters. The market is comprised of a large number of businesses across the UK. These vary in size from multi-nationals through medium sized national companies to sole proprietors. The day-to-day involvement of the principals in the movement of goods to and from the UK and third countries is largely limited to the purchase of customs clearance formalities from agents and freight forwarders. Any cost increases are likely to be evenly distributed between all firms. Agents costs are usually governed by the number of entries prepared and cleared on behalf of a client. As such, it is anticipated that larger companies will pay proportionately more than small or medium sized businesses.

7.3 Community System Providers (CSPs)

This market sector is comprised of five companies who, between them, manage the interface with HMRC at all inventory linked ports/airports across the UK. Market share is largely dictated by the type of traffic each inventory system controls (air, deep sea maritime, Ro-Ro, fast parcels etc). CSP incomes are dependent on the number of ports/airports using their inventory system, the number of users at each location and, crucially, the number of uniquely identified HMRC freight locations within CHIEF. The limited scope of the changes associated with the preferred Option 4 do not involve any major technical alterations to CHIEF and/or NES. This means that the number of HMRC freight locations and identifiers will remain unchanged. As a consequence, it is considered that the proposed changes will have no detrimental impact on competition between CSPs.

7.4 Agents and Freight Forwarders

The market is comprised of a large number of small to medium sized businesses operating, largely, from frontier locations at ports and airports. Business practices often involve a level of co-operation whereby some agents undertake work on behalf of local competitors wishing to clear goods out of hours. Similar co-operation exists between freight locations where some agents are unwilling to purchase the appropriate inventory access for a limited amount of business at a particular port. In addition, the market includes a small number of multi-national fast parcel operators who control their own specific business sector. No one company or group dominates.

HMRC's existing structure for the processing and clearance of entries through regional hubs combined with single site EPU's means that for a large percentage of freight agents and forwarders, doing business via the NCH will replicate their current practice and procedures.

The international trade business is not subject to rapid technological change and the only minimum essential IS that will be required to interface with NCH will be a fax machine. It is considered that the proposed changes will have no detrimental impact on competition between agents and freight forwarders.

8. DIVERSITY

8.1 Potentially, all businesses across the UK involved in the import of goods from and the export of goods to third countries will be affected by the move to a single national entry processing and clearance hub. This will include businesses operating in Northern Ireland, Scotland and Wales. It is intended that the EPU's in the devolved countries will also migrate into NCH in addition to those currently located in the English regions. As such, diversity issues have been considered as part of this impact assessment, both generally and, specifically, in relation to the Northern Ireland Act 1998, section 75.

8.2 Externally, trade reaction to the proposal has been favourable in the devolved countries because of the significant improvements in opening and clearance times that will be offered by NCH compared with the local EPU's.

8.3 The internal impact of the proposal on HMRC in the devolved countries is also likely to be minimal. The number of staff working in the existing EPU's in N Ireland, Scotland and Wales is currently 15. There will be no redundancies as a result of a move to NCH and all displaced staff have either already been or will be found other work within HMRC at the same location or within reasonable daily travelling. That is, within the same devolved area. Moreover, detailed human resource (HR) impact assessments have already been undertaken for all sites that will close and the trade unions consulted.

8.4 It is considered that the proposed changes will have no adverse impact on equality or diversity issues.

9. ENFORCEMENT, SANCTIONS AND MONITORING

9.1 How the proposal will be enforced

Once entry processing and clearance work undertaken at existing EPU's has migrated to the National Clearance Hub, the international trade staff at the 'old' locations will be redeployed. The trade will be unable to present declarations for clearance other than at NCH.

9.2 Criminal sanctions for non-compliance with these operational changes

HMRC already operates a civil penalty system for non-compliance with EU and UK regulations in respect of the declaration of third country imports and exports. This includes the non-presentation of entries for clearance. This system will be applied at NCH in the same way as it currently applies to all existing EPU's. In addition, current practice allows for the use of compound penalties and offence action to be taken in the event of illegal imports, prohibition and restrictions.

9.3 Monitoring and review

The operation of NCH will be subject to ongoing monitoring both during migration and after full concentration via JCCC and at meetings with local port/airport communities across the UK. A dedicated team within the hub, tasked with customer focus and trade liaison, will undertake this work. The arrangements for a formal post implementation review are set out at Section 11 below.

10. IMPLEMENTATION AND DELIVERY PLAN

10.1 It is proposed that the move to full concentration of entry clearance and processing work at a single national site will be completed by the end of March 2007. Existing EPU's and regional hubs will be migrated to NCH during 2006-07. A migration timetable will be published separately via the JCCC, through local agent's bulletins and on the HMRC website www.hmrc.gov.uk. The precise timing of the migration of each EPU will be subject to HMRC's ability to maintain existing levels of service at any given port/airport and the agreement of the local trade community.

10.2 In addition and in advance of any migration, HMRC will engage with the local trade and OGD/OGA communities in order to identify any specific issues associated with import/export clearance at that location and consider how best these should be resolved. Similarly, HMRC

will publish detailed guidance for agents, as we have already done in respect of the regional centralisations. This will set out the specific procedures to be followed in respect of both import and export consignments, including examinations, appropriate numbers and/or email addresses for submitting declarations and making enquiries and liaising with local port based HMRC Detection staff.

11. POST IMPLEMENTATION REVIEW

11.1 A formal post-implementation review of the National Clearance Hub will be undertaken 12 months after the new procedures come into full effect. That is, one year after the last of the existing sites has migrated. This will be undertaken by HMRC in partnership with the appropriate JCCC working groups.

11.2 The review will focus specifically on the extent to which HMRC is delivering a consistent and significantly improved service to the trade at all locations across the UK and any impact in terms of additional costs.

12. SUMMARY AND RECOMMENDATION

12.1 It is recommended that HM Revenue & Customs proceeds with the concentration of international trade entry processing and clearance activity into one National Clearance Hub.

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