

Summary: Intervention & Options

Department /Agency:
HMRC

Title:
Impact Assessment of the Import Control System (ICS)

Stage: Implementation

Version: 1.0

Date: 01 November 2010

Related Publications: 1 - ICS Technical Interface Specification;
2 - Regulation (EC) 648/2005 and its Implementing Provisions

Available to view or download at:

1 - <http://www.hmrc.gov.uk/ebu/tis-ics.pdf> ; 2 - [Regulation \(EC\) 648/2005.pdf](#)

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What is the problem under consideration? Why is government intervention necessary?

In recognition of the increased threat to international supply chain security, EU law requires the implementation of the Import Control System by 1st January 2011. The Security Amendment to the Community Customs Code requires Member States [MS] to introduce systems capable of handling data regarding imports (pre-arrival) and exports (pre-departure). This data will be used by MS to undertake risk analysis at both national and EU levels. This Impact Assessment covers ICS only but does link to the previously submitted Export Control System IA dated 22/06/09.

What are the policy objectives and the intended effects?

The Policy objective is to ensure that Carriers of third country freight have the capability to submit electronic pre-arrival data to EU customs administrations for all consignments entering the territory of the EU. MS will then perform risk analysis, to agreed Community risk profiles and share positive results with subsequent [air]ports in other MS, for which the goods are ultimately destined. This will harmonise customs controls across the EU by the introduction of a standardised EU risk assessment process and improve the safety, security and efficiency of EU international supply chains.

What policy options have been considered? Please justify any preferred option.

1. Do Nothing;
 2. Use existing HMRC legacy systems (e.g. Customs Handling of Import Export Freight [CHIEF]);
 3. Use HMRC's Customs and International Reference Architecture to develop a new system.
- Option 1 - Doing nothing is unacceptable as it is an EU legal requirement to provide ICS;
Option 2 - Using legacy systems would involve a significant cost & operating change to CHIEF;
Option 3 - Offers the flexibility & scalability to deliver the required changes in terms of both volume & additional functionality, and future proofs ICS. .


When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects? Policy review of all HMRC systems & processes is constant and ongoing to ensure policy continues to deliver all legal & operational requirements. Policy is updated and published accordingly. Once the MASP has been delivered it will be subject to a PIR.

Ministerial Sign-off For

Impact Assessments:

I have read the Impact Assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) the benefits justify the costs.

Signed by the responsible Minister:



Date: 08/12/10

Summary: Analysis & Evidence

Policy Option: 3	Description: Implement UK Import Control System reforms by 1st January 2011 using HMRC's C&I Reference Architecture for International Trade.
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C O S T S	ANNUAL COSTS		Description and scale of key monetised costs by 'main affected groups' HMRC's start up costs in the period 2008/09 - 2010/11 are £8.7M per year. Annual HMRC running costs for the period 2008/09 - 2015/16 are £5.3M per annum. Cost to UK business is estimated at £9.4M per year in 2010 prices against expected 21.8M transactions per annum.
	One-off (Transition)	Yrs	
	£ 8.7M	3	
	Average Annual Cost (excluding one-off)		
	£ 10.1M	pa	Total Cost (PV) £ 18.8M
Other key non-monetised costs by 'main affected groups' Consultation with representatives of UK international trade businesses has revealed no significant non-monetised cost concerns for operating ICS.			

B E N E F I T S	ANNUAL BENEFITS		Description and scale of key monetised benefits by 'main affected groups' Full compliance with primary EU legislation; improvements in security and risk based controls of imports into the UK and wider EU; sharing of information between MS by IT systems alignment; use of mutual recognition with other 3rd countries (e.g. Japan) to facilitate legitimate trade & enhance supply chain security.
	One-off	Yrs	
	£ Not quantifiable		
	Average Annual Benefit (excluding one-off)		
	£ Not quantifiable		Total Benefit (PV) £ Not quantifiable
Other key non-monetised benefits by 'main affected groups' Trade will benefit from a reduced level of interventions on low risk freight movements as a result of the greater use of [shared] information exchange and technology.			

Key Assumptions/Sensitivities/Risks These reforms have no impact on the amount of tax or duty collected. The administrative costs to UK business are expected to be low but this is uncertain due to lack of commercial information available from businesses on how they will operate and/or charge for ICS interactions, which is seen as commercially sensitive data.

Price Base Year 2008	Time Period Years 1	Net Benefit Range (NPV) £ positive	NET BENEFIT (NPV Best estimate) £ not quantifiable
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What is the geographic coverage of the policy/option?		UK; EU		
On what date will the policy be implemented?		01/01/2011		
Which organisation(s) will enforce the policy?		HMRC & UKBA		
What is the total annual cost of enforcement for these organisations?		£existing resource		
Does enforcement comply with Hampton principles?		No		
Will implementation go beyond minimum EU requirements?		No		
What is the value of the proposed offsetting measure per year?		£ N/A		
What is the value of changes in greenhouse gas emissions?		£ N/A		
Will the proposal have a significant impact on competition?		No		
Annual cost (£-£) per organisation (excluding one-off)	Micro	Small	Medium	Large
Are any of these organisations exempt?	No	No	N/A	N/A

Impact on Admin Burdens Baseline (2005 Prices)		(Increase - Decrease)		
Increase of	£ 8.1M	Decrease	£ 0	Net Impact £ 8.1M

Key: Annual costs and benefits: Constant Prices (Net) Present Value

Import Control System Regulatory Impact Assessment ~ Oct 2010

Evidence Base

1. Overview and Rationale for Government Intervention

International Trade needs to be managed in a safe, secure, efficient and cost effective manner. To continue to meet this need, in recent years, the European Commission has adopted legislation designed to update existing technology, improve security and ensure that appropriate risk based controls are maintained.

Some of the new rules address concerns about inadequate security information being exchanged between Member States and some information not being available electronically. The Security Amendment requires all Member States to introduce systems capable of handling a number of new initiatives. The core requirement is the ability to handle pre-arrival and pre-departure information [electronically], upon which Member States will be required to perform risk analysis at both EU and national levels, and to be able to pass resulting messages between the customs administrations in Member States. The EU's safety and security reforms are being implemented in stages. The Export Control System (ECS), the first stage, went live on 1 July 2009 [<http://www.hmrc.gov.uk/ria/ia-ecs-july09.pdf> refers].

The next stage, ICS, requires results of positive risk analysis to be passed between the Office of First Entry (OoFE) of the goods, i.e. the first port of call in the territory of the EU of the goods, and those Offices of Subsequent Entry (OoSE) i.e. any subsequent port visited within the territory of the EU as part of the vessels onward journey to its final port of destination.

The specific regulations relating to the UK being required to implement the ICS system are:

- Regulation (EC) No 648/2005 (the Security Amendment to the Customs Community Code);
- Commission Regulation (EC) No 1875/2006 (the Implementing Provisions); and
- Commission Regulation (EC) No 1875/2006 Annex 30A which describes all the required data elements to be presented by carriers and to be processed electronically by all EU MS ICS systems.

This system will ensure that low risk goods are cleared without delay, while those identified as a higher [safety and security] risk will be subjected to appropriate and proportionate checks.

ICS will go live on 1 January 2011. The UK intends to implement ICS on 1 December 2010 to enable traders time to test their systems in advance of the mandatory implementation date for the submission of live, legally binding data on 1 January 2011.

2. Background

In 2005, the EU made a commitment to increase competitive business across Europe and to address the ever-increasing security and safety challenges faced by Member States. Recognising the need to modernise the EU Customs Code as part of this commitment, UK Ministers lobbied for and approved the implementation of EU legislation to drive forward changes to customs processes.

Delivery of this legislation comes under the umbrella of the customs Multi-Annual Strategic Plan (MASP) and it introduces integrated customs processes and obligatory electronic declarations across the European Union for the first time. (The MASP is explained in more detail at paragraph 3.1.3 below). The functional and technical specifications (i.e. what the system should do and how it should be built) include both mandatory and recommended elements of ICS.

In agreeing the ICS functional and technical specifications with its contracted IT suppliers the UK focussed on the mandatory elements, as specified in the Regulations, which would need to be implemented to receive and process the ICS Entry Summary Declarations [termed the ENS for ICS purposes] plus the ability to receive and process an Arrival Notification and / or Diversion requests.

The ICS system will work alongside the previously delivered Export Control System (ECS) to meet the full range of the UK's obligations under the EU safety and security legislation. ECS Phase 1 is designed to better control indirect exports by passing electronic messages from the Member State where the export starts, to another Member State where the goods will exit the EU. ECS Phase 2 provides for the electronic handling of exit summary declarations under the security amendment, and requires additional information to be included in export declarations, for safety and security purposes. An impact assessment covering these reforms has already been published.

3. Policy Objective and Intended Effect of ICS

3.1 ICS Project Determinations

The aims, objectives, scope and intended effect of the ICS project are determined by:

- **EC Legislation;**
- **ICS European Commission documentation;**
- **The Multi-Annual Strategic Plan (MASP);and**
- **UK specific requirements.**

3.1.1 EC Legislation

The primary EC Legislation, which requires all EU Member States to comply and commit to ICS are:

- Regulation (EC) No 648/2005 (the Security Amendment to the Customs Community Code); and
- Commission Regulation (EC) No 1875/2006 (the Implementing Provisions), including Annex 30A which describes the data elements to be presented and processed.

3.1.2 ICS EU Commission Documentation

The EU Commission Documentation relating to ICS scope and functionality are:

- Working Document TAXUD/2027/2009 - Guidelines on entry and summary declarations in the context of Regulation (EC) No 648/2005; and
- Working Document TAXUD/1043/2006 – FTSS-AIS Addendum 1/2006 Import Control System – Security & Safety Aspects.

3.1.3 Multi Annual Strategic Plan [MASP]

The MASP was developed to introduce a strategic framework across the EU to modernise the customs business and deliver a wide range of benefits to customs administrations and the international trading community. One of the key projects arising from the MASP was ICS.

ICS is seen as the first part of a wider Automated Import System (AIS) which seeks to ensure that import operations starting in one Member State can be completed in another Member State without re-submission of the same information.

AIS includes the exchange of electronic messages related to the different stages of import operations amongst the various actors involved, e.g. customs administrations, traders (importers), trader's representative (agents) and other government departments, such as, Defra.

3.1.4 UK Specific Requirements

The UK will deliver the legal minimum requirements (plus Arrival Notices) for ICS by 1 January 2011. This will ensure that admin burdens are kept to a minimum.

ICS will compliment the existing processes of:

- Presentation of the manifest;
- Arrival and presentation of the goods; and
- Performing national risk analysis for goods to be discharged.

ICS will also supply:

- A trader test system where the connectivity will operate in the same manner as the live system and provide an on-going, long-term test facility for future enhancements; and
- An additional choice of channel, other than via Community Systems Providers (CSP) for the trade to send data to ICS.

3.1.4.1 Objectives of ICS

To provide for:

At the first point of entry into the European Union:

- The submission by carriers or their authorised representatives (as declarants) of an Entry Summary Declaration (ENS);
- The amendment of a previously submitted Entry Summary Declaration;
- The submission of a Diversion Request, where consignments are diverted to a port or airport not previously on the itinerary;
- The submission of an Arrival Notification advising arrival of consignments;
- The return to the declarant and, if appropriate, carrier of all response messages including a Movement Reference Number (MRN); and
- The ability to perform Safety and Security risk analysis for every ENS declaration and share the results with other Member States, if appropriate. The declarant and carrier will be notified of any 'Do Not Load' message issued, as necessary.

At a subsequent office or place of discharge in another MS – the Office of Subsequent Arrival – ICS will provide for:

- The submission of an Arrival Notification advising the MS of the arrival of consignments; and
- Referencing the Entry Summary Declaration [ENS] in the manifest or summary declaration, most probably by use of the MRN, to establish compliance with the legislation at the Office of First Entry.

3.1.4.2 Advantages of ICS

For Customs Administrations:

- A fully electronic, paperless environment for dealing with pre-arrival information;
- Improved international co-operation for supply chain security;
- Making best use of resources in the face of the expected growth in freight through earlier access to data relating to imported goods; and
- A common approach to the application of risk analysis across the EU.

For Economic Operators:

- Economic operators across the EU will benefit from improvements in customs risk assessment, more efficiently targeted controls and improved security; and
- A greater certainty of release for low risk consignments as a result.

4. Options

4.1 Provision of ICS Live Services – Options

Option 1 - Do Nothing

ICS is an EU legal requirement.

To do nothing means that the UK would be unable to exchange information routinely with other Member States on the safety and security of goods entering the territory of the EU.

There is also the risk that UK business will be placed at a disadvantage, both within our own borders, and the wider EU, when the changes are introduced in other Member States, i.e. goods arriving would be subject to a greater level of control.

This option was rejected because the UK would be in breach of EU law and would face infraction proceedings from the Commission for non compliance with EU legislation.

Option 2 - Use existing HMRC legacy systems (e.g. Customs Handling of Import Export Freight [CHIEF])

This option implements the required reforms using customs existing systems and infrastructure - CHIEF.

This option was rejected as untenable for the following reasons:

- The data captured by CHIEF, and the functionality use to process this data, is predominantly for tax collection purposes. To enhance CHIEF to support safety & security requirements would be a significant and costly change to the current application;
- There is a requirement to provide integration with the HMRC Domain Service Bus to access the EU risk and gateway services, which would negate the advantages of this solution; and
- Any further investment in CHIEF is a short term investment as CHIEF is due to be replaced within the next 2 years. As such, the cost of ICS is not recoverable within its remaining lifetime.

Option 3 - Use HMRC's Customs & International Reference Architecture for International Trade (CIRAIT)

This is the preferred option as it ensured that business requirements can be met within the required time frames and ensures that HMRC has the flexibility and scalability to deliver future changes to both functionality and volume.

From a channels perspective (receiving / sending information from / to traders and CSP) this is also the **only viable solution** that meets all of HMRC, CSP and software suppliers requirements to deliver a standard IT platform and minimise costs.

4.2 Provision of a Non-Live Trade Test Service – Options

As well as providing a live ICS service, the legislation requires all member states to provide a 'non-live' trade test service to enable those customers who have to, or opt to, interact with ICS the ability to test their systems and ensure they are fit for purpose prior to live implementation, and against all future system changes. It is important that this test service provides users with confidence that the full range of ICS messages can be processed and exchanged. In full consultation with UK trade, a number of options were considered before a final approach to trade testing was agreed. These options are explained below:

Option 1 - Test-in-Live (concurrent receipt of test messages in the production environment).

This option allows the trade to issue test messages alongside on-going live submissions.

This option was rejected as it does not comply with HMRC security policy or EU policy which mandates that each Member State should provide a separate test system in addition to a live system.

Option 2 - Test-in-Live (Pre-production)

This option provides a live system, which prior to the go-live date can be used by the trade for testing purposes.

This option was rejected as it does not allow for an on-going test facility after implementation of the live system and there is no capability for future enhancements to be tested due to security restrictions.

Option 3 - Local Test Service

This option involves a downloadable Java application that allows software developers (working on behalf of the trade) to test their submission on a local machine.

This option was rejected as it allows only limited testing and no ability to test connectivity to the HMRC infrastructure.

Option 4 - Approved Third Part Validations Software (TPVS)

This option is a full standalone solution that is available in parallel with the live system.

This was selected and agreed as the best option with UK traders because:

- It fulfils the EU mandate to provide a separate test system in addition to a live system;
- It satisfies HMRC security policy that development / test facilities are separate from a live environment;
- It is a standalone system where the connectivity will operate in the same manner as the live system;
- It provides an on-going, long term test facility for future enhancements; and
- Full level 1, 2 and 3 validation is available.

5. Customer Impact

All UK businesses involved in the importation of goods to the EU will be affected by this new requirement. Many of the data elements required by ICS are already provided by importers to complete customs import declarations, however, ICS will require UK businesses to provide extra data elements and at an earlier point in the process than is currently required. Additionally, details of all goods on a shipment where the UK is the first port of call in the EU, before onwards movement to other MS, will be required on an Entry Summary Declaration and not just those destined for import into the UK.

The following impacts have been identified for particular types of business:

Business Type	Impact
Carriers; Consolidators; Freight Forwarders (acting as carriers representative); and Customs Agents.	Acquiring additional / new data from clients; Changes to IT systems to provide data to UK ICS; and Requirement to provide data at an earlier point in the international supply chain.
Community Systems	Changes to IT systems to accommodate / transfer the ICS

Business Type	Impact
Providers (CSP)	data requirements: Place “holds” on systems; Link to HMRC; and Changes to in-house anti-smuggling nets.
Small to Medium size regular importers	Procurement and provision of new data elements: and Ability to meet declaration time limits.
Significant to Large importers	Procurement and provision of new data elements: Ability to meet declaration time limits - particularly multi-nationals / express couriers (harmonisation of data / system / control requirements); Changes to in-house anti-smuggling nets; and Links to the department / CSP IT platforms.
Software suppliers / customs consultants	Develop, test and release of amended software packages; and Familiarity and training costs associated with changes.

ICS legislation allows for simplifications. For the UK, where HMRC / UKBA can access ICS declaration data elements from within a trader’s system and carry out full risk assessment of that data using approved in-house anti smuggling nets, then an Entry Summary Declaration will not be required. Some carriers (e.g. Fast Parcel Operators [FPO]) already have such systems in place and criteria has been provided to allow such traders to use this simplification.

It is estimated that this simplification will remove the burden of providing approximately 42.5% of the expected entry summary declaration total of 40 million. This will increase if other customers decide to apply for this simplification. However, this simplification does depend on other Member States being prepared to accept movement of goods where no ICS declaration MRNs have been allocated by the official system. Where another MS will not accept the unavailability of an MRN the carrier will be required to submit a full ICS declaration to the system. This has been fully explained to UK traders and the final decision to adopt the simplification was made by the carriers, with a full understanding of this potential risk.

Software suppliers are also able to provide a facility for their customers whereby the trader can input information into their system once and send two separate messages, one to ICS and one to CHIEF, which will eliminate the need to double-key information.

Analysis of 2009 import declarations shows that there are around 170,000 businesses in the UK international trade sector and that around 40 million import Entry Summary Declarations will be made annually, including FPO traffic.

It is not possible to estimate the percentage of UK traders that will complete their declarations in-house or choose to outsource their declaration obligations. Traders which usually complete their customs declarations in-house tend to be large businesses, which account for a large percentage of the overall number of import declarations. For these traders there is likely to be time spent on familiarising themselves with the new data requirements, training staff on the new requirements and installing and testing upgrades to their in-house software to interact with ICS.

6. Benefits & Costs

6.1 Benefits Overview

The introduction of an electronic customs environment under the MASP means that there is a need to put in place a system, which allows 27 Member States to exchange information and data in a common format.

This allows import and export customs information requirements to be seamlessly passed between authorities that need to control and / or examine the goods, thereby providing for a more joined up and efficient customs service across the EU that will aim to:

- Reduce administrative burdens;

- Combat fraud, organised crime and terrorism;
- Protect intellectual property and cultural heritage;
- Increase the safety and security of goods in the international supply chain;
- Enhance health and environmental protection; and
- Improve targeting and interventions.

Customer benefits are:

- Improved security of the international supply chain
- A common approach to controls across the EU
- Greater certainty of clearance for low risk consignments.

6.2 Strategic benefits of ICS

- Fits with HMRC's strategy for increase in e-filing by delivering a fully electronic, paperless environment for dealing with freight transactions;
- Meets mandatory EU legislative requirements and UK ministerial commitments to improve physical security at the frontier;
- Contributes to the cross-governmental Public Service Agreements (PSA) to reduce the risk to the UK and its interests overseas from international terrorism and to deliver the conditions for business success in the UK;
- Provides the ability to interoperate with other Member States (OMS);
- Support delivery of HMRC's supply chain security strategy;
- Increases effectiveness of risk analysis; and
- Improves international co-operation with 3rd countries in respect of supply chain security.

Many of these benefits cannot be quantified in financial terms and they are shown as non-monetised on page 2 accordingly. However, collectively they do form a strong case for the proposed changes and justify the costs outlined below.

6.3 Estimated one-off costs

Quantifying the time / cost required per business is difficult because individual systems will vary as will individual traders requirements to interact with ICS.

In most cases one-off costs will affect the CSP and the software houses developing new ICS systems or upgrades to existing systems. However, these costs will either be absorbed within the business as part of their growth, or be recovered in the form of charges to their clients for using the channel or software provided.

The main sticking point for one-off costs will be for those UK businesses that will make their own ICS declarations and need to set up their own systems. However, these costs can be offset against the savings they will make from not incurring charges for using third party systems and/or software.

6.4 Estimated ongoing annual costs

ICS is introducing a new declaration into the import process. Although a large amount of the data required is already provided on customs import declarations, ICS requires additional data elements that are currently not provided to customs administrations but should be readily available within commercial systems, although this may not necessarily be the carrier.

ICS requires provision of this data at an earlier point in the movement of the goods than is currently required.

We have estimated that there could be up to 40 million ICS entry summary declarations annually where the UK is the first point of entry into the EU for third country imports. This will reduce to approx. 23 million if the FPO take advantage of the simplifications available.

ICS data must be submitted to HMRC electronically and traders can use either the Government Gateway **or** one of the CSP solutions. Both methods are essentially the same - data must be formatted in a particular way and then sent electronically.

The costs arising from this are:

1. The time and cost of retrieving the data from existing systems and formatting it, if necessary;
2. The time and cost of obtaining any new data, and formatting it;
3. The fees charged by agents for providing the above services, if applicable;
4. The time and cost of transmitting the data to HMRC; and
5. The fees charged by CSP for data transmission, if applicable.

We believe that the costs associated with 1, 2, 4 and 5 are likely to be relatively small (but not negligible). The cost for item 3 will be higher. Agents currently charge approx. £25 for a full paper declaration but this includes a lot of activity that is not required for ICS. As such, we expect agent fees to be considerably less than this for item 3.

Original estimates put the cost per declaration at between 25p and £1, or a time equivalent of between 1 and 5 minutes. With around 23 million ICS declarations this equates to additional annual costs to business of between £5-20 million (at 2005 prices).

HMRC re-examined these estimates following a consultation exercise June 2010. This led to re-examination of the two main factors underpinning the analysis – the number of ENS declarations and the cost per declaration. The results led to the total number of declarations being reduced by around 1.2m from the original estimate of 23m to 21.8m.

In addition, following recommendations from operational experts in conjunction with trader responses from the consultation exercise, the median cost of 50p per transaction was considered too high and was, therefore, considered as the higher boundary of the estimate.

As a result the new analysis, a revised estimate for the admin burden of ICS is between **£5m - £10m per year**. This is labelled under the “submission of forms and returns to HMRC” category and hence is scored against target 1.

The recommended point estimate within this range is **£8.1m** (2005 prices) based upon a methodology employed for similar obligations and assuming a **37.5p** cost per transaction, which was agreed as a fair reflection of the per transaction cost by HMRC and the trade.

Using GDP deflator data supplied by HM Treasury, this figure equates to **£9.4m** at 2010 prices.

6.5 HMRC Costs

In addition to costs on business, HMRC will incur one-off costs in IT system development and staff training, together with recurring costs associated with supporting the ICS system during live operation, upgrades and enhancements, carrying out risk analysis and providing trade support.

A full business case and project evaluation has been completed and the assessed capital costs are £8.7 million over the years 2008/09 to 2010/11 with support running costs of £5.3 million over the years 2008/09 to 2015/16 (an average of £0.7m per year).

6.6 Overall Net Present Value Costs

The cost benefit analysis shown on the Summary: Analysis and Evidence page looks at the impacts in terms of per annum costs. However, the business case for the Import Control System presents costs to HMRC over a period from 2008/09 to 2015/16 so it is possible to show the overall impact of the implementation of ICS assessed in present value terms across a period of eight years.

Averaging the ongoing costs over the entire eight year period gives an average annual cost to business of £7.0m in 2008 prices and an average annual cost to HMRC of £0.7m.

Discounting these costs over the eight year period of assessment gives the following:

One-off costs (HMRC): £8.7 million
 HMRC Ongoing Costs: £5.3 million
 Ongoing Costs to Business: £51.3 million

This leads to a total present value cost of £65.3m in 2008 prices over the eight year period from 2008/09 to 2015/16.

6.7 Administrative Burden

Within the overall compliance cost to business, HMRC tracks one component in particular. The 'administrative burden on business' is defined very specifically as the time and cost on compliant businesses of retaining information and sending it to the department and/or a third party. As such, it includes the burden of completing forms and returns, and of complying with audits and inspections.

All Government departments have targets to reduce administrative burdens and HMRC impact assessments provide an itemised figure accordingly. This does not mean that other types of burden are ignored: it means simply that HMRC is taking additional steps to address business concerns that the administrative burden, as defined, is minimised.

In the case of ICS, the preferred option is estimated to increase the administrative burden on UK business of **£8.1m** (in 2005 prices), as noted on page 2. This figure reflects the additional time and cost requirement for the entry summary declaration to be made.

The methodology used incorporated use of the Standard Cost Model (please see Annex for details). HMRC is subject to quantified targets to reduce one aspect of compliance costs in particular; the admin burden on business of disclosing information to HMRC or to third parties. This burden is assessed through the 'Standard Cost Model', an activity-based costing model which identifies what activities a business has to do to comply with HMRC's requirements, and which estimates the cost of these activities, including agent fees and software costs.

7. Risks

In order to minimise risks to UK trade, HMRC has been fully engaged with customers, including commercial system developers and CSP, throughout the development of the technical requirements for making declarations to the ICS system.

Outlined below are the identified risks, which may arise from the introduction of ICS:

Description of Risk	Impact (High / Med /Low)	Probability (High / Med / Low)	Mitigation
UK trade are unable to make changes to their own systems in time to meet EU legislative date.	High	High	<ol style="list-style-type: none"> 1. Early publication of technical specifications. 2. Trade test services made available to trade software suppliers prior to implementation. 3. Active consultation with trader and software suppliers via trade working group on technical issues.
IT suppliers unable to meet EU Legislative deadline.	High	High	<ol style="list-style-type: none"> 1. Early publication of technical specifications. 2. Trade test services made available to trade software suppliers prior to implementation. 3. Active consultation with trader and software suppliers via trade working group on technical issues.

EU Business process does not prove to be a workable solution.	Medium	Medium	<ol style="list-style-type: none"> 1. Active consultation on operating procedures with trade both at EU and national level 2. Presentations given to key trade sectors on ECS operating procedures. 3. Publication of guidance and trade information
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8. Consultation

Detailed consultations have taken place with trade representative bodies at both the national and EU level on the proposed changes. Additionally the trade has been continuously consulted on the best way to implement this change as part of ongoing discussions in consultative groups such as the Joint Customs Consultative Committee (JCCC).

The JCCC ICS / ECS Sub Group and ICS Working Group have been used to identify and address trade concerns.

Representatives from CSP and software houses have been actively involved in the design of the Technical Specification for ICS.

A full customer consultation exercise was undertaken by ECSM in April 2010 requesting the trade to confirm to HMRC the actual [fiscal] business burden that ICS is placing upon them - [JCCC Consultation Paper 015/2010 refers](#). The resulting data received from the consultation was used by HMRC to revise their estimates on costs and numbers as detailed above.

HMRC has also provided an ICS Helpdesk. This enables customers to e-mail HMRC with any ICS related queries or requests for clarification or information. These enquiries are subsequently researched and responded to by the HMRC ICS project and policy teams. Answers are also fed into the published ICS FAQ document when they are judged to have wider reaching implications than just for the original enquirer.

HMRC has written and published [on-line only] a comprehensive guide to ICS, written in layman's terms, and detailing the full, intended operation of ICS processes and procedures in the UK.

9. Competition Assessment

Whilst this change affects all UK importers, the [legal] responsibility for ensuring that Entry Summary Declarations are made rests with the carrier of the goods. However, declarations can be made by other parties, as long as it is with the explicit consent and knowledge of the carrier and on their behalf.

For the UK, this will only affect air and maritime carriers (we do not expect to receive any road or rail declarations, which are mainly for intra-Community traffic and which are excluded from the ICS requirement). However it is unclear at the moment how many UK and foreign registered carriers will submit ICS declarations themselves, or make provisions for these to be made on their behalf by another party.

The impact of the costs on traders will, therefore, vary considerably depending on how they decide to make Entry Summary Declarations to UK ICS, e.g.:

- Those businesses choosing to make their own declarations will have higher initial one-off costs but with lower costs per declaration. We expect these to be the businesses operating larger volumes of international trade to justify the one-off costs.
- Generally businesses doing smaller volumes of international trade are likely to use agents to make their declarations on their behalf. This avoids large one-off costs but results in higher on-going costs for each entry summary declaration made.

- Community Systems Providers and software houses will be involved in higher initial set up costs but will be able to recoup their costs on a commercial basis by charging for the use of their services.

10. Small Firms Impact Test

The changes to the legislative requirements to provide the information for Entry Summary Declarations will apply to all UK traders bringing goods into the territory of the EU, where the UK is the first port of call.

Whilst this change doesn't differentiate between small, medium or large traders, how UK businesses decide to operate and interact with ICS will have a bearing on any additional burdens placed upon them.

As the legal requirement to make the ICS declaration is with the carrier of the goods, the reality could be that no UK importer has to interact with ICS, as the carrier will undertake this duty in-house, or contract out to a third party, e.g. a shipping agent. It is likely that this cost will be passed on to SME by the carrier and/or CSP. These costs are likely to be recouped by SME by passing them on to the consumer.

11. Other Specific Impact Tests

11.1 Legal Aid

This ICS proposal is not seeking to introduce new criminal sanctions or civil penalties, therefore, the Ministry of Justice Civil Legal Aid Strategy team does not need to be consulted.

11.2 Sustainable Development

ICS is a data supply and exchange IT system which respects the five principles of sustainable development.

11.3 Carbon Assessment

As an addition to HMRC's existing IT systems, ICS its operation and policy do not have any significant effect upon UK or EU carbon emissions.

11.4 Other Environment

ICS is a data supply and exchange IT system which will have no impact on the environment, or environmental issue, within the UK.

Specifically, ICS will have a zero impact on:

- climate change;
- air quality;
- changes to the appearance of the land/townscape;
- the fiscal costs, environment and health impacts on waste management;
- levels of abstraction of water
- water pollution;
- disruption to wildlife or habitat; and
- exposure levels to noise.

11.5 Health Impact Assessment

ICS is a data supply and exchange IT system. Its operation and its policies will have no impact on the health and well being of UK citizens.

11.6 Race; Disability & Gender Equality

Equality Impacts have been considered for these proposals and a screening test has been carried out. It indicates that these proposals:

- will have no significant race equality impact.
- will have no significant disability equality impact.
- will have no significant gender equality impact.

Therefore we have concluded that there is no requirement for a full equality impact assessment.

11.7 Human Rights

An initial screening test has been undertaken and it has been found that ICS its operation and policies will not impact on any single person's or groups human rights.

11.8 Rural Proofing

The requirements of the Commission for Rural Communities for policy makers to rural proof a policy by applying the following have been taken into account when formulating ICS policy and its operation:

- Is the policy likely to have a different impact on different areas and/or communities;
- Will the impacts be significant in rural areas; and
- How can a policy be adjusted to ensure that the needs of rural communities are taken into account?

ICS will not operate within or upon a rural environment, it will not impact on any rural areas and/or communities and will have a zero impact on rural communities, therefore no adjustment is necessary.

Specific Impact Tests: Checklist

Type of testing undertaken	<i>Results in Evidence Base?</i>	<i>Results annexed?</i>
Competition Assessment	Yes	No
Small Firms Impact Test	Yes	No
Legal Aid	Yes	No
Sustainable Development	Yes	No
Carbon Assessment	Yes	No
Other Environment	Yes	No
Health Impact Assessment	Yes	No
Race Equality	Yes	No
Disability Equality	Yes	No
Gender Equality	Yes	No
Human Rights	Yes	No
Rural Proofing	Yes	No

Annexes

As referenced from 6.7 above:

The 'Standard Cost Model' (SCM) has been used to derive an estimate of the costs to business of complying with HMRC obligations to disclose information to HMRC or to third parties. The SCM considers which activities a business has to do to comply with an HMRC obligation, how many businesses have to comply, and how often they need to comply. The SCM considers the burdens applying to different sizes of business.

The SCM estimates the costs of using agents; the costs of undertaking work in-house; and the costs of actually transmitting the information. The SCM does not consider one-off costs or transitional costs. The SCM does not consider costs which a business would have incurred anyway had the relevant HMRC obligation not existed. It considers the costs which apply to a normally efficient business and the costs to businesses which comply. The SCM does not consider wider compliance cost issues, such as the costs of business uncertainty, cash flow costs, or the costs of deciding whether or not to do something.

The Impact Assessment template requires SCM figures to be presented in May 2005 prices, as admin burden reduction targets relate to a May 2005 baseline. The Impact Assessment also uplifts those figures to current day prices.