

PO-CH/NL/0277

PART A

Part A.

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MANAGEMENT - IN - CONFIDENCE

Begins: 16/9/87.
Ends: 22/7/88.

PO -CH /NL/0277



PART A

Chancellor's (Lawson) Papers:

CUSTOMS AND EXCISE
STAFFING AND PROCEDURE
CHANGES

Disposal Directions: 25 Year



11/10/95.

PO -CH /NL/0277
PART A

X | health departments is a reduction in per capita consumption; no distinction is seen between the different drinks, but there is a concern with beer because more beer is drunk than anything else.

The Home Office and Department of Transport are concerned primarily with beer drinking because of the link with anti-social or criminal activities. Their main concern is with the drinking habits of young men, and they believe that a restructuring of the beer duty could encourage young men to consume weaker beer.

All departments acknowledge the problems, both health and social; but there is disagreement within the Group over how far excessive alcohol consumption is a cause or merely associated. Medical opinion sees a clear causal link, statistically demonstrated, between per capita consumption and the level of health-related harm; although there is no doubt that drinking causes some anti-social or criminal behaviour (eg drunk driving), in other cases there may be an association but not a causal link. MAFF tends to deny the validity of the statistical links, even on the health side. Customs, you may not be surprised to learn, adopt a position of cautious scepticism; the health link seems reasonably clear, but there seems to be much conjecture and little hard fact about the link with crime and in particular the attitude of young men to drinking.

Taxation

The duty system has been attacked by the health and social departments because it contains anomalies in not always relating the level of tax to the alcohol content. Cider is typically stronger than beer but bears less tax. The duty on table wine does not vary with strength. Most seriously, and this is where most of the argument has taken place, the beer duty does not rise in proportion to alcoholic strength. This is because the beer duty is charged on the original gravity of the liquid before fermentation

and not on the alcohol content of the finished beer. Above a basic level, the beer duty is exactly proportional to original gravity; but the relationship between original gravity and alcoholic strength is such that the duty does not rise proportionately with alcoholic strength, and it can therefore be claimed that stronger beers are under-taxed.

Options for change

The Working Group is divided on the desirability of pursuing options for change. There is a theoretical case for a common duty system for all alcoholic liquors in which the tax would rise progressively with strength; but even the enthusiasts for this will probably accept that it is too radical, given where we start from. So the real options are modifications of the existing structure.

There is agreement that cider is under-taxed and should be moved towards parity with beer - but gradually. It is accepted, with some reservation on the part of MAFF and the Scottish Office, that per capita alcohol consumption would be reduced by shifting some of the burden of taxation from beer and wine to spirits, thus reversing the trend of recent years; but the other factors affecting spirits taxation are recognised. On the beer duty, there is agreement that the minimum duty charge should be abolished. But there is disagreement on whether there should be a more radical change to make the duty more progressive in terms of alcoholic strength. The health and social departments feel strongly that it should; Customs, Treasury and MAFF feel that the case is not proven.

While the charge on original gravity may seem a curiously archaic way of taxing beer, it is in fact a sensible practical basis; and taken with administrative reforms of recent years, collection of the beer duty is extremely cheap and efficient both for us and the brewers. Any of the options for change designed to increase the

relative level of taxation on stronger beers would involve resource costs for us and the brewers; the further the changes went the more likely it would be that the duty would have to be completely recast. Our concern has been to avoid committing ourselves to high costs and Treasury Ministers to possibly contentious legislation, while the benefits in terms of changing social habits are not clearly established.

It was outside the terms of reference of the Group to consider any overall increase in the drinks duties. But most members of the Group would acknowledge that the effect of this would be to reduce alcohol consumption in a way that was reasonably predictable and would not involve the administrative costs.

Other developments

Since the official Working Group was set up, the Home Secretary has suggested setting up a Ministerial Group to coordinate policies and develop an overall strategy on alcohol problems. We understand that this has now been approved. The officials' report could be useful fodder for this Group.

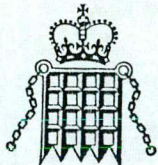
Knowledge of the official Group has been kept confidential, but I think it will not be long before outside interests start to put pressure on the Government. One trigger will inevitably be the legislation to relax licensing hours. The health lobby can be expected to press ever more vigorously for tax increases to regulate alcohol consumption, and they may start to focus on the hitherto unnoticed anomalies of the beer duty. On the other hand, the Brewers' Society know that the Home Office is seriously concerned about strong beers, are worried about the activities of the health lobby; they are likely to start lobbying against change.

In summarising the Working Group's emerging conclusions, I am condensing a complex report which is likely to run to nearly 50

paragraphs plus a number of technical annexes. I would be glad to amplify any points on which you would like further explanation before you get the report.

ph

P JEFFERSON SMITH



Sir T Burns
Mr Sedgwick
Mr D Owen.

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9 are new to
me 4 1
unaguo to the
Chancellor

Board Room
H M Customs and Excise
King's Beam House
Mark Lane London EC3R 7HE

You will want to be
aware of paras
8 and 9.

FROM: PHILIP NASH
DATE: 19 OCTOBER 1987

PAYMASTER GENERAL

Handwritten red asterisk

CR 20/10

Handwritten red notes:
I should be grateful if you
could look into this as
matter of urgency.

cc Chancellor of the
Exchequer
Chief Secretary
Mr F E R Butler
Mr Scholar

↑
NB

CUSTOMS CHANGES DUE TO TAKE EFFECT ON 1 JANUARY 1988

1. With less than three months to go before major customs changes take effect on 1 January, you will doubtless wish to know about our progress in making the necessary preparations as well as our apprehensions about the way things may turn out in the light of the many difficulties involved in bringing about changes of this scale.

Background

2. The new customs procedures to be introduced on 1 January represent the largest single change in the import and export arrangements for freight since the United Kingdom joined the European Community in 1973. The two main elements of the changes are the introduction of a standard customs freight declaration - the single administrative document (SAD) - which will replace more than 100 import, export and transit forms currently in use by customs administrations within the Community - and a completely new customs tariff based on the new "Harmonised System" of commodity classification being adopted worldwide by most of the countries involved in international trade. These changes will affect all firms and organisations involved in the business of importing or exporting goods commercially. The total investment in implementing the changes nationally and

Internal distribution: CPS
Mr Knox
Mrs Strachan
Mr Weston
Mr Russell

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V. Rank, appian
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for lower
@ all
clean
until 1 April
1988.

internationally must run to tens if not hundreds of millions of pounds. In the UK the introduction of the SAD and new tariff and other associated changes constitute what we have called the Customs 88 project, a title that has been adopted enthusiastically by the freight trade and trade press.

3. We have put a great deal of effort into preparation for Customs 88. An extensive publicity campaign has been conducted and a series of information notes has been sent out over the last 2 years to about 20,000 importers and exporters. All traders registered for VAT have been advised of the changes and officials have worked closely with the interested trade associations (Institute of Freight Forwarders, Freight Transport Association, British Importers Confederation, etc) on the production of training material and in running a series of more than 50 "management awareness" seminars which have been attended by some 4,000 freight managers. The training of 9,000 Customs and Excise staff affected by the Customs 88 changes will be completed by the end of this year.

4. The Customs 88 changes also involve the first major systems changes to be made since the processing of import and export information became extensively computerised - nearly 80% of all import information is now received electronically via the direct trader input (DTI) arrangements. The amendment of computer systems has been the most difficult aspect of the Customs 88 project as it has been necessary to co-ordinate the systems changes affecting a series of linked systems operated by a large number of different enterprises and organisations. In addition to the entry processing, trade statistics, tariff and accounting systems operated by the Department there are 6 direct trader input community systems and more than a thousand firms using computer programs developed by about 30 different software houses.

5. Although a good deal of systems testing remains to be done we are becoming increasingly confident that the Department's systems will be ready for 1st January. We are working closely with the trade as far as practicable by monitoring their computer developments and in general we are content with the progress achieved. However, there is some concern that one or two of the DTI communities may not be adequately prepared. In addition some of the smaller software firms may not be ready in time. A full-scale dress rehearsal of the revised computer changes is

to take place on 25 November and we should then be able to assess the extent of the systems problems likely to occur in January. We shall let you know the outcome of this dress rehearsal.

Problem areas

6. Despite the extensive publicity and education campaign and apart from the potential difficulties already mentioned, it seems inevitable that the Customs 88 changes will cause some problems in the handling of import and export freight declarations and the processing of the statistics drawn from them. It is difficult to forecast the likely extent of operational difficulties as we cannot tell how proficient the trading community will be or how soon they will become proficient at completing the SAD and using the new tariff. On the import side most of the difficulties are likely to be associated with the computer systems. If these systems have been modified correctly there should be no major processing difficulties at import provided the importers and agents adjust quickly to the new tariff code numbers.

7. However, in the case of exports there are clear indications that the SAD will result in an increase in the actual number of export documents to be processed by the Department. This is because groupage (ie. the carriage of a number of different consignments in the same vehicle or container) operators now seem likely to choose to produce a separate SAD for each package within the groupage instead of continuing the current practice of providing a single customs transit declaration covering all packages. This is something which we could not have foreseen (and for which we have made no provision). Indeed the possibility emerged only during the course of trials of the SAD which we piloted earlier in the year and in which, for the first time, operators started to firm up on their probable new trading practices. We estimate that about 50 more staff will be needed to deal with the increased volume of work at major points of export (notably Dover). Although only the live operation will tell, we think it likely that there will be a continuing requirement for these additional staff on export work, at least until CHIEF provides the opportunity for its wholesale computerisation. We shall of course be keeping the operation under continuous review from the moment of its inception, both for its manpower implications and to prevent delays in clearing goods for export.

Trade statistics

8. A further area of difficulty is likely to be the processing of statistics by the Statistical Office at Southend where information taken from import and export declarations is an essential ingredient in the compilation of the overseas trade statistics. We see three distinct upward pressures on the workload : one, we hope, will be temporary, but the other two will be continuing. Currently about 5 per cent of all freight entries are rejected as being incorrect and a further 5 per cent are queried because the information is not credible (eg. the declared quantity and value may be inconsistent). We believe that there will be a steep rise, at least initially, in the number of errors, simply because a totally new system of classification will take time to be fully absorbed by the trading public. Second, it has become clear in the trials that the SAD (which was necessarily a compromise document to achieve Community-wide harmonisation and which therefore does not always reflect the degree of sophistication achieved by member states, like the UK, well advanced in computerised entry-processing) is a poor "keying document", ie it is less easily processed by our Statistical Office staff than the existing forms. This will continue to be a problem. Third, the groupage problem, to which I have already referred, will add significantly to the number of SADs to be processed in the Statistical Office. We shall be attempting to contain these pressures by taking all practicable steps to reinforce the number of data editing staff in the Statistical Office. In addition, we shall reduce query levels so that credibility failures will be investigated only when significant amounts are involved. This means that during the first few months of 1988 there will be an unavoidable deterioration in the quality of the statistics at the finer commodity code levels. We are however mindful that if checks are reduced too far the overall accuracy of the overseas trade statistics could suffer.

9. The loss of quality in the trade statistics will continue at least until the new arrangements have settled down. But, more immediately, we shall not be able to guarantee the accuracy of the figures for January 1988 which are the ones most seriously at risk and, since they will be published in mid-February, the figures with the greatest impact in the run-up to the Budget. We are of course advising the Department of Trade and Industry appropriately and recommending that they heavily qualify the published statistics for the first few months of 1988.

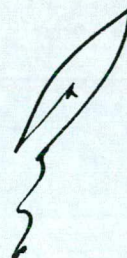
Resources

10. From the foregoing you will see that as we approach 1.1.88 a number of hitherto unforeseeable demands are emerging on our resources. Some are likely to be temporary, but others will be more enduring. There is of course no provision to meet them within our existing running costs limit for 1987-88, and they emerged too late to be covered in our PES bid for 1988-89 and subsequent years. We shall be doing everything possible to absorb the immediate requirements within our provision for the current year, but it is another difficult factor which we shall have to take into account in our imminent review of the outturn of the second quarter's expenditure. Mr Unwin will be minuting you on this next month. For the PES years these are yet more pressures which we shall seek to accommodate somehow within our existing bids.

Conclusion

11. Preparations are going reasonably well for the introduction of the SAD and the Community's integrated tariff. There is some concern about whether the trading community will be ready on 1.1.88 but we are making every effort to assist with advice on the modification of their systems. On the import side the extensive use of direct trader input should mean that any initial teething problems are overcome fairly quickly. However, some operational difficulties and delays at the major ports and airports seem inevitable initially. We expect the main problems to lie in lower quality trade statistics during the first part of 1988 and in continuing pressures, which we shall do our utmost to absorb, on our resources at the points of export freight processing and statistical data handling.

12. We shall be keeping a careful eye on the impact of the Customs 88 changes and shall grasp any opportunity for making administrative improvements in the short term in order to reduce the burden on resources. Most of the potential difficulties on the export side should be ironed out eventually when we introduce a comprehensive export processing system as part of the CHIEF project. A full study report seeking authority to proceed with the CHIEF system will be submitted for approval before the end of the year.



PHILIP NASH

psp



FROM: CATHY RYDING
DATE: 21 October 1987

SIR P MIDDLETON

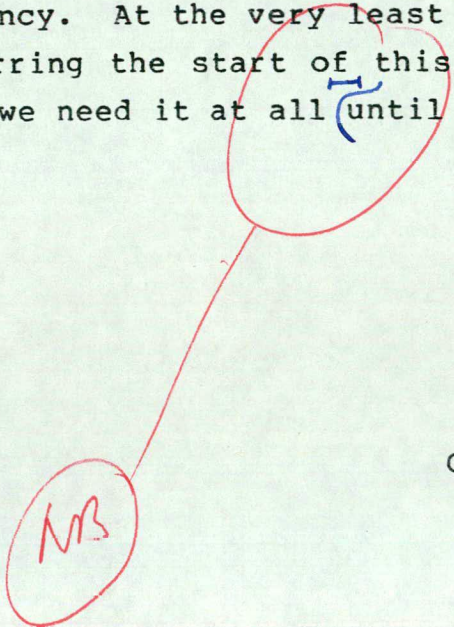
CUSTOMS CHANGES DUE TO TAKE EFFECT ON 1 JANUARY 1988

... I attach a minute from Mr Nash to the Paymaster General of 19 October.

2. The Chancellor has noted in particular paragraphs 8 and 9 on the harmful impact of these changes on the accuracy of the trade statistics. He would be grateful if you could look at this as a matter of urgency. At the very least there appears to be a strong case for deferring the start of this project - the Chancellor is not clear why we need it at all until 1 April 1988.

CR

CATHY RYDING



PS/Sir P Middleton.

See above - sorry for any confusion.

cl 23/10

Paper Pse

CONFIDENTIAL



Board Room
H M Customs and Excise
King's Beam House
Mark Lane London EC3R 7HE

FROM: J B UNWIN
DATE: 29 OCTOBER 1987

PAYMASTER GENERAL

Handwritten notes in red ink:
I have with
Mr. Unwin (P... u)

cc: Ch/Ex
Mr Scholar
Mr Cropper

BEER DUTY AND ALCOHOL MISUSE

I have now had a chance to study and discuss with Mr Jefferson Smith his very clear and full report on this subject, which you have discussed briefly with the Chancellor.

2. I must say that, although the social and health case is unproven (and indeed probably unprovable), and the simplest way of tackling alcohol abuse is a general increase in the level of the existing duties, I have a good deal of sympathy with the arguments advanced by the Social Departments. You and the Chancellor will, of course, judge the politics of any restructuring of the beer duty (the Chancellor has referred to the "class" problem), but the health lobby case is inherently plausible and it is clear that if we were devising the beer duty structure from scratch, we should not come up with the present system. At the least we should want to relate the duty more closely to alcohol content, and also to build in the possibility of progressivity.

Internal Distribution:

- Mr Knox
- Mr Jefferson Smith

3. We cannot, of course, simply adopt the Irishman's advice since the fact is that we are where we are, and the industry has geared itself to the present structure of the duty. There are also some real difficulties. The scope for change is limited by the wine duty (this in effect means that if the duty on the strongest beers were increased by more than about 17p they would be taxed more heavily than a table wine with equivalent alcoholic strength); there would be costs to this Department (not negligible but not overriding) and also to the industry (which is in part why a change would be fiercely resisted); and there are also technical problems relating to the procedures for changing from the present simple measurement by specific gravity to one related to alcoholic strength. On the other hand, the RPI effect need not be a problem if we assume that any change would be revenue neutral (any small effects then would depend on the precise composition of the change); and I suspect that, if Government intentions were made clear, the minds of the industry would be so concentrated as to find ways of ameliorating the technical difficulties and reducing the costs.

4. My own conclusion is that we should not rule out the possibility of a move in this direction which could over time lead to a fundamental restructuring of the beer duty structure. Any change would, however, need to be preceded by close consultation with the industry and reasonable time would need to be given to them to adjust. This clearly means, as you and the Chancellor have noted, that the earliest conceivable date would be 1989.

5. I hope you will feel able to keep the possibility open when you discuss this subject in the new Ministerial Group on alcohol abuse. Perhaps, if you agree, we might have a word about this when we meet to discuss other matters on 10 November.



J B UNWIN

(m)

Papers

FROM: A BOTTRILL

DATE: 9 NOVEMBER 1987

Agree. We must go ahead on 1 Jan, and take the best care possible to

- 1. SIR PETER MIDDLETON
- 2. CHANCELLOR OF THE EXCHEQUER

minimise the repercussions on the trade figs.

- cc:
- Chief Secretary
 - Economic Secretary
 - Sir T Burns
 - Mr F E R Butler
 - Mr Cassell
 - Mr Scholar
 - Mr Sedgwick
 - Mr Barrell
 - Mr Michie
 - Mr Owen

cn/Content for Sir PM to write as suggested in para 5? mpw 10/11

fm.

OK

CUSTOMS CHANGES DUE TO TAKE EFFECT ON 1 JANUARY 1988

You asked for advice on the effects of the new customs freight declaration on the trade figures and the ramifications of delaying its introduction for three months. The attached note sets out the issues. It has been prepared after discussion with Customs and DTI.

2. Our conclusion is that introduction of the new system is likely to have only a small effect on the balance of payments out-turn figures for 1987 which provide the main basis for the Budget forecast. Some worsening in the quality of the trade figures in the early months of 1988 is possible, but this is likely to affect the detailed categories more than the totals. Some modest delays are possible and there is an outside chance of a breakdown in the system which could cause longer delays to the trade figures. We obviously need to impress on Customs the need to minimise any errors or delays.

3. The UK, however, is bound by EC regulations to introduce the new system along with other countries on 1 January. The change has been planned over the past five years. Delay could cause serious difficulties for traders and for the processing of the trade figures.

X. 4. The letter of 19 October from Mr Nash at Customs draws particular attention to the staff resources needed to implement the new system. Customs PES figures, however, have been agreed subsequently, and Customs know that they will have to cope within the agreed total.

5. In view of these conclusions the most appropriate action in response to the Customs letter might be to impress on Mr Unwin the importance of taking all necessary steps to ensure the regular flow of accurate data on visible trade. If you agree, Sir Peter Middleton will write to Mr Unwin in these terms.

David Owe

pp A BOTTRILL

CUSTOMS CHANGES DUE TO TAKE PLACE ON 1 JANUARY 1988

The Chancellor asked about the ramifications of delaying introduction of the new system until 1 April 1988 and the likely effect of the new customs arrangements on the trade figures.

2. Four sets of changes are due to be introduced on 1 January 1988.

(i) The new Single Administrative Document (SAD) will replace individual country customs documents for exports and imports. It is intended to simplify intra-EC trade, and is also being adopted for non-EC trade.

(ii) The Harmonised Commodity Description and Coding System (HS) is a new more detailed internationally agreed method of classifying goods for customs and tariff purposes.

(iii) A European integrated tariff (TARIC) based on the Harmonised System will apply tariff measures in the same way to all Member States.

(iv) Another classification-related change is the third revision of the Standard International Trade Classification (SITC (Rev 3)) which will use the raw data collected under the Harmonised System to produce the published trade statistics. The last revision was in 1978.

3. Delay in introducing the new systems in the UK would cause serious problems. Both the SAD and HS/TARIC are covered by EC regulations. They are to be introduced simultaneously by all Community members on 1 January, and our latest information is that other countries expect to move to the new system on time. UK exporters will face difficulties at Continental ports and frontiers if they do not have the SAD. Imports arriving in the UK will already be accompanied by the new documents. It will not be possible to run the old and the new systems side by side, nor as far as we can see, to postpone or abandon the change to the new system.

4. Customs has been the lead Department for the most part in preparing these changes which are designed to help development of the EC's internal market - an objective the UK supports. An explanatory memorandum on the SAD went to the House of Commons Select Committee on European Legislation in 1982 with the then Economic Secretary's approval. The SAD regulations were approved in February 1985 by the EC's Internal Markets Council on which DTI Ministers represent the UK. The HS regulation was approved in July 1987 by the EC's Foreign Affairs Council on which Foreign Office Ministers represent the UK. Customs have also put a good deal of effort into educating traders about these changes (fifty management awareness seminars attended by 4 thousand freight managers and a series of information notes about the changes sent to 20 thousand import and export firms).

5. In discussions with DTI and Customs, we have identified several possible implications for the trade figures at the end of 1987 and in early 1988 - although it is impossible to be sure about their scale.

- (i) The December figures for both exports and imports - to be published in late-January - may be inflated as traders and port officials accelerate the processing of documents in the days before 31 December to clear the way for introduction of the new system.
- (ii) The January figures for exports and imports may be correspondingly lower. They may also be published a few days later than the usual date in late February depending on the scale of any processing problems at Customs and DTI.
- (iii) The trade figures for January and for several months thereafter are likely to be of poorer quality than normal, largely as a result of traders taking time to become familiar with the new system. This is likely mainly to affect the allocation of exports and imports to different categories rather than the aggregate figures - although it is not impossible that the totals could be affected. Customs are trying to assess what might be the effects of relaxing their credibility checks to cope with the higher rate of traders' errors. They currently expect them to be small on the aggregate figures, but will advise us.

(iv) There is a risk of a computer failure at one of the three levels at which data are keyed into the Customs system. Customs is reasonably confident that its central processing system will work. The main problems could come with data keyed in by traders or ports. Customs has made some contingency plans to process manually a limited proportion of returns normally keyed in by traders if their software is unable to cope. Failure of the system at a major entry point, however, such as Dover or Heathrow, could not be met manually. We shall need to see the results of the dress rehearsal for traders and ports planned for 25 November.

(v) A particular Treasury problem is that the Budget forecast for trade volumes and values will need to be done on the new basis with a consistent set of figures for the past. We rely on DTI for these and they are preparing a detailed schedule to meet our demands. The present objective is to have figures up to 1987 Q3 available by mid-December and 1987 Q4 figures by late-January. Thus we should have a firm 1987 base although it may be difficult to take the information fully on board during the pre-Budget forecast which is prepared in December and early-January.

6. On balance we see difficulties in delaying introduction of the new system for UK traders, apart from the fact that it would put the UK in breach of EC regulations and disrupt other countries' systems. Introduction of the new system, however, will cause some teething problems in the run-up to the Budget and we cannot rule out some delay to the January trade statistics. The new figures, however, should not affect our assessment of the balance of payments out-turn for 1987 which is the main basis for the Budget forecast.

CONFIDENTIAL

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m



FROM: G R WESTHEAD
DATE: 10 November 1987

PS/CHANCELLOR

cc PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
Mr Scholar
Miss Sinclair
Mr Mitchie
Parliamentary Counsel

Ch / Action at para 3

OK

mpw

10/11

Mr Knox - C&E
Mr Nash - C&E
Mr Brown - C&E
Mr Allen - C&E

CUSTOMS AND EXCISE POWERS TO SEARCH PERSONS

X/

The Economic Secretary has considered Mr Wilmott's minutes of 5 and 9 November about Customs and Excise powers to search persons and whether these should be updated in the Criminal Justice Bill or the 1988 Finance Bill.

2. The Economic Secretary notes that Lord Monson's amendment to the Criminal Justice Bill to the Criminal Justice Bill gives us three choices:

- (i) To introduce a Government amendment to clear up the position. [Officials have rejected this on the grounds that the Whips could not guarantee full backing for the Government line. There would thus be a consequent risk of unwelcome changes being carried by the House].
- (ii) To risk ^{*default*} default in the Lords by simply trying to reject Lord Monson's amendment at Criminal Justice Bill Report Stage.
- (iii) To seek to buy off Lord Monson with a promise of action in the 1988 Finance Bill.

3. The Economic Secretary has concluded that option (iii) is the more acceptable (or least unacceptable) of the options available. He would therefore (would) be grateful for the Chancellor's approval to room being found in the 1988 Finance Bill to update Customs powers in this area - about 1/2 page of Finance Bill space would be



required. Customs would be asked to keep this to the bare minimum
necessary.

Guy Westhead.

GUY WESTHEAD

Assistant Private Secretary

MANAGEMENT IN CONFIDENCE



Board Room
H M Customs and Excise
King's Beam House
Mark Lane London EC3R 7HE

FROM: J B UNWIN

DATE: 18 DECEMBER 1987

CHANCELLOR OF THE EXCHEQUER

cc: Chief Secretary
Economic Secretary
Sir P Middleton
Miss Mueller
Mr Scholar
Mr Cropper

*This is about
matter of
concern.
More active disposal
policy on imports
areas, or must
Don't wait a minute
To what extent
can the problem be
alleviated by
some staff
numbers?*

LOSSES OF STAFF FROM CUSTOMS AND EXCISE

When we talked informally the other week I said that I would let you have some material on the increasingly serious staffing problems that we now seem to be facing, especially in the London area. I hope the following will give you a better picture of the situation. It derives both from a lot of analysis done within the Department over the past months and from my own observations during my first few weeks here.

2. Resignations. The rising trend of resignations is particularly worrying. The Department is proud of its long tradition of service and high rate of morale compared with most other Departments. This has still been evident in my tours of the Department both in the London area and outside. As recently as two or three years ago, other than in specialised areas such as ADP where losses have plagued us for years, wastage was at acceptably low levels. But since then there has been a disturbing change: the general rate of resignations, while still by no means as bad as some parts of, for example, the Inland Revenue tax inspectorate, has risen to a historic high, and there is no doubt that our VAT staff in particular are becoming increasingly vulnerable to poaching by the private sector.

3. I attach a few short tables to give you some indication of the picture. Some of them have been prepared on a rolling five year basis to 30 September; others cover only the last two (because the Department did not find it necessary to analyse resignations by function and stated reasons before 1985). Key points are:-

- the total number of resignations has increased from 642 (2.5%) of staff in post in 1983 to 1142 (4.5%) in 1987 and from 1,004 (3.9%) over the last year alone (Table 1)
- the total numbers resigning from the main working grades of EO and HEO, covering well over 50% of all staff and including all our visiting VAT control officers, increased from 164 (just over 1% of the staff in post in those grades) in 1983 to 378 (about 2.5%) in 1987 and from 299 to 378 in the last year (Table 2)
- in the VAT area the numbers of EO and HEO staff resigning to take up alternative employment rose from 79 in the year ending 30 September 1986 to 121 in the year to 30 September 1987 (just over 2% of the staff in post in those grades) - a year-on-year increase of over 50% (Table 3)
- in the grade of Administration Officer (previously Clerical Officer), which is particularly important to the Department in the customs function and in such key locations as the VAT Central Unit at Southend, the numbers of resignations increased from 178 (3.3% of staff in post) in 1983 to 309 (5.6%) in 1987 - an increase of 75% over the period (Table 2).

4. All these numbers are, of course, in addition to normal wastage through retirement or death, which tends to be about 5% at HEO level, but rather less (in the range of 1.5-3%) in the lower grades.

5. In addition, we have also lost a number of more senior officers (up to Grade 5 or Assistant Secretary level) to the major accountancy firms and other private sector companies. Losses of trained lawyers have also been a serious problem. Because of the small numbers involved I think the percentage statistics have to be treated with some caution here, but in 1985-86, for example, the Department was for the first time "top" of the Whitehall league table of losses of staff at Grades 5 and 6 levels (2.8% and 7% respectively compared with Whitehall averages of 0.8% and 1.1%) and not far from the top with Grade 7.

6. The lure of the private sector. Direct poaching is now on the increase and is naturally aimed at our better staff. Some of the advertisements by people like Price Waterhouse both in the quality national press and in civil service trade union journals are very direct and aggressive and you may like to glance at the attached examples. As you will see, some of them identify the grades of Customs staff being sought, with direct salary comparisons. It is hardly surprising that HEOs with a maximum salary from 1 January 1988 of around £14,500 per annum in London find £20,000 or more plus a car irresistible - and this applies to people who enjoy their job and say they would really prefer to stay. At the higher levels we know of Grade 6s (Senior Principals) who have been offered starting salaries at Under Secretary level plus a car, while some fast-stream leavers are said to be earning more than anyone else here other than myself.

7. Effects. What does all this mean in terms of our effectiveness and ability to deliver the Government's policies? The single most worrying factor is the increased rate of wastage from the crucial EO and HEO grades in VAT. These grades comprise our VAT control officers who undertake the regular visits to business premises and were responsible for detecting underdeclarations of VAT amounting to almost £600 million in 1986-87. Expressed in terms of the return from the individual officer, this means that the trained VAT control EO finds, on average, underdeclarations worth some £95,000 a year and the trained HEO £180,000. In addition, there is a substantial "preventive" effect, in the form of improved accuracy in VAT returns following a control visit. It

is impossible to quantify this with certainty, but our operational researchers reckon it is broadly equivalent to the original value of the underdeclarations.

8. We face a double bind here. Trained staff in VAT are particularly difficult and costly to replace. VAT officers undergo training which takes up to 18 months and includes periods of formal classroom training together with practical training and work experience. The more capable at HEO level receive additional accountancy or computer accounts training. Most of these staff are then deployed on our highest yielding control visits, to the largest traders, which provide an average direct yield:cost ratio of about 18:1 as well as substantial indirect benefits in terms of improved compliance, record-keeping and accounts for the future. Losses among this group of staff are proportionately higher; and when we lose them, they have to be replaced by inexperienced and relatively untrained staff. The loss of expertise and revenue awareness can take years fully to replace. So as well as losing immediate revenue, the Department's management potential for the future is also weakened.

9. Many of the VAT leavers have joined the large accountancy firms who have been aggressively expanding their businesses in the last two years - what I call the "Price Waterhouse Syndrome". Other, more direct changes of allegiance are also, however, becoming commonplace. For example, we have lost to the direct employment of the traders concerned control officers who were formerly responsible for visiting large organisations such as British Telecom, Bass Charrington, Bank of Scotland, British Nuclear Fuels, Tesco's, Coutts, Prudential, Total Oil etc. A somewhat similar situation has arisen with lawyers who leave us to join partnerships and then appear for the appellant in VAT Tribunal cases. In one sense, of course, it is to our advantage that traders and their advisers should be better informed: but in practice these developments are causing us many more problems than the reverse.

10. The London and SE problem. As you well know, this is where the most serious problems are and we are preparing for discussion with the Economic Secretary in the New Year an Action Plan on the

recent Efficiency Scrutiny of our difficulties in London and the SE region. We have so far taken a very cautious and noncommittal line, emphasising the need for careful consideration by the Board and, where appropriate, consultation with the Treasury, but we have got to make early progress on this report if the deteriorating situation is to be contained and improved. The Scrutiny is available if you wish to see it, but I think the general picture it reveals is as follows.

11. Our local Collection boundaries do not correspond precisely with the accepted economic regions, but in broad terms just over 50% of our total staff work in the London and SE region, yet nearly three-quarters of all resignations occurred there, particularly disproportionately on the VAT side of the Department. At a recent date we had no fewer than 312 vacancies at HEO level in the region, the majority of them in the most demanding jobs in our local VAT offices. This includes a hard core of about 200 posts (with close to £40 million in terms of direct revenue benefit forgone) which I am told we have no early hope of filling substantively. The problems are further compounded by staff inexperience. In our London North and West Collection, for example, out of a complement of 300 HEO posts 100 are vacant (mostly filled, much less than fully effectively, by EOs on temporary promotion) and a further 100 are occupied by staff with less than three years experience in the grade. Within that Collection our operational researchers have calculated that our West End VAT Office is, because of these factors, producing only about two-thirds of its expected results : underdeclarations of £13.5 million instead of about £20 million a year.

12. There are no doubt many contributory causes to this, but the low basic level of pay at these grades is undoubtedly a major one. This makes housing costs in particular a really acute problem. The net result is that many of our staff who are not native Londoners move back to the provinces at the earliest opportunity; and it is becoming increasingly difficult to get staff to move to London, even on promotion. The rates of pay on offer to them can only result in a substantial lowering of their living standards, even assuming that they can afford to buy a house.

13. At the recruitment level of EO we have so far managed, with the help of the Civil Service Commission and the use of special Departmental recruitment exercises, to fill most of our vacancies in London and the South East. We are, for example, now seeking to capitalise on the success of the "Duty Men". But we still expect to be about 100 EOs short at the end of the year, and we expect turnover to remain high. This worries me greatly as I have seen a lot of keen and able new EO entrants, but retention is not going to be easy.

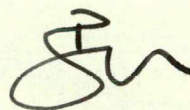
14. This is largely because of the difficulties facing younger staff on moving to London or starting their first job there. Assuming they can find accommodation (some of which leaves a great deal to be desired and produces staff welfare problems) it is expensive and their slender budgets provide very little scope for other than basic essentials. Many, therefore, seek to return to offices near their home towns in the provinces as soon as possible, or what is worse, resign just as they become of real value to us. I had a depressing demonstration of this only recently when I visited our Statistical Office in Southend. One of our (younger) officers was engaged, largely on his own initiative, in preparing a first rate new computer based training programme related to the Single Administrative Document to be introduced on 1 January 1988. I have since heard that because he cannot afford to live in the Southend area he is looking for a job in the North of England. There are many other examples of staff refusing promotions to London and Southend, or even reverting to their former grade on housing grounds when they come to face the trauma of moving.

15. Remedies? What can we do to tackle this? First, a great deal can be done by purposeful and motivating management and, without going into details here, I am impressed by what I have seen in action, and in preparation, at all management levels in the Department. We shall continue and develop this, including tackling some legacies from the past within the Department which are of our own making. Second, I hope that a more positive location policy, about which I have recently minuted the Chief Secretary, will go some way to help meet these problems into the 1990s. The scope is, however, limited. For the time being, we can probably only

realistically address the 4,000 or so staff in our Headquarters Offices in London and Southend, but we shall also look for any other practical possibilities.

16. These and other actions lie largely, though not entirely, within our own management competence and I shall ensure that we give them high priority and drive them along. But there is no doubt that basic pay at crucial grades will remain a fundamental problem, particularly in the London area, and unless we can do something to reduce the gap with our competition, the worrying trends described above will get worse. From your point of view, it will mean an increasing opportunity cost in terms of revenue foregone.

17. The purpose of this note is not to put proposals to you now but to spell out a bit more fully the position as I see it after my first three months here. I am well aware, of course, of the wider problems you face on public sector pay and its implications for public expenditure control and the economy generally, and we do not labour under any illusions about the public service being able to compete totally with the rewards offered in the private sector. But the gap is now disturbingly large in many areas and, as a start, we shall be working up targetted proposals arising from the London Scrutiny report for discussion with the Treasury and the Economic Secretary early in the New Year. I will, if I may, keep you posted.



J B UNWIN

papers pse.

MANAGEMENT IN CONFIDENCE



Board Room
H M Customs and Excise
King's Beam House
Mark Lane London EC3R 7HE

FROM: THE CHAIRMAN

DATE: 13 JANUARY 1988

CHANCELLOR

cc: Chief Secretary
Economic Secretary
Sir P Middleton
Miss Mueller
Mr Scholar
Mr Cropper

*Thanks.
2. The point @ X
must, I assume, depend
on some factor on whether
dispersed + staff travelling
longer distances ~~is~~
or not. It is a solution
I recognise that
staff require more
travel (because of that is
why I raised the
question of staff
numbers).*

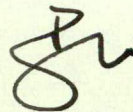
LOSSES OF STAFF FROM CUSTOMS AND EXCISE

X I am grateful for your reactions to my minute of 18 December and your expression of concern as reported in Miss Wallace's minute of 21 December. As I explained, I have a number of initiatives in hand, but perhaps I could comment very briefly on the points you have made.

X 2. A more active dispersal policy. As I indicated in paragraph 15 of my original minute, this is already high on our agenda (and indeed, has recently leaked in the press). I am expecting to receive later this month the first of a series of reviews I have put in hand to cover, over time, virtually all our 4,000 or so headquarters staff. But, as I pointed out previously, because so much of our Outfield work is closely involved with traders' affairs at or near their places of business, the scope for relocation beyond headquarters work is much more limited.

2. London Weighting in the next pay round. I should welcome a fresh look at London Weighting, although I would also hope that in the event of a larger settlement than last year there could be some alleviation of the burden on running costs. We shall in any case be putting to the Economic Secretary in the next few weeks our Departmental case on the London problem and the particular problems for VAT work at HEO and EO level, where so much revenue is at stake.

3. Some increase in staff numbers? I do not wish to make any claim here at present. We are content with the numbers agreed in the 1987 PES round. Our priority is now actually to fill the agreed posts where they are most needed in the London area. Again, I hope the proposals I shall be putting to the Economic Secretary will be relevant.



J B UNWIN

See attached at X



J B Unwin CB
Chairman

Board Room
H M Customs and Excise
King's Beam House
Mark Lane London EC3R 7HE
Telephone: 01-382 5001

[Handwritten signature in red ink]

FROM: H M MASSIE
DATE: 5 FEBRUARY 1988

PS/CHANCELLOR

CC PS/ECONOMIC SECRETARY

PRESS REPORTS ABOUT CUSTOMS AND EXCISE

X In the Chairman's absence in Southend he has asked me to send you a copy of the message which he has asked should be issued to all staff about the articles in the Guardian and Mail today.

Heather Massie

H M MASSIE



J B Unwin CB
Chairman

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5 February 1988

CHAIRMAN'S MESSAGE

The 'Guardian' and 'Daily Mail' today carry stories about the proposed hiving-off of VAT collection. I would like to assure you straight away that there is no truth whatsoever in these reports.

No decisions have yet been reached by the Government on any further developments in the management of the Civil Service. As soon as they are, I shall inform all managers and staff in the Department of any implications for Customs and Excise.

As the Board's recent statement on Personnel policies made clear we envisage that Customs and Excise will remain an integrated Department for the foreseeable future.

I also made clear in my note on the outcome of the last PES settlement that in recent years the Department has been able successfully to demonstrate to Treasury Ministers impressive results in all the main operational areas as well as improving the efficiency of our support services. Our intention is to build on these past successes to continue as a Department to secure good value for money.

I would be grateful if you would ensure that this note is brought to the attention of all members of your staff as soon as possible.

Heather Mason

pp J B UNWIN

BF 25/7 (for Vaux meeting/ptd)

FROM: MS D J SEAMMEN

DATE: 22 July 1988

PS/CHANCELLOR

cc

2nd. The answer to X is yes. But I agree with Mrs Stammin. Nat is a good idea. London problem Nat was pushed Nat was needed for Customs about.

Dame Anne Mueller

Mr Kelly

CUSTOMS AND EXCISE

1. I understand that the Chairman will be calling on the Chancellor next week and that amongst the topics he wishes to discuss is the pay of Customs and Excise staff. The Chancellor may like this background note.

2. Two claims were submitted to us at the end of March, both reflecting previous efficiency scrutinies. The first, the Gudgin Report on skills of VAT control officers, sought an allowance of £1,000 a year for HEOs and SEOs who successfully completed internal training courses to enhance their skills. The allowance was proposed on a national basis. The second, the Barnard Report on the London problem, recommended an allowance of £1,500 a year (inclusive of the agreed local pay addition of £600) for HEOs in VAT offices in the London area.

David Howard

3. After some discussions and correspondence, I held a meeting with Customs Director of Personnel on 8 July. I then made him an offer which was designed to meet the most acute problem, ie the difficulty of attracting to London, and retaining in London, trained and experienced HEOs in VAT offices. Essentially, this conflated elements of the Barnard and Gudgin recommendations. My offer was of an extra £400 a year to HEOs in this category. The offer would cover approximately 150 HEOs at an annual cost of

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£60,000. This could readily be accommodated within Customs' running costs provision in the Survey.

4. On 20 July the Director of Personnel replied rejecting my offer and reiterating the separate claims on account of Gudgin and Barnard. We are to meet again on 3 August.

Background

5. (i) Gudgin.

Customs argue that their staff must be more professional, in order to cope on equal terms with increasing professionalism on the part of traders - the latter stimulated by Customs' success in increasing revenue from under declarations and, in future, completion of the implementation of the Keith package with the prospect of interest charges on late payments and penalties for serious mis-declarations. This has resulted in a dramatic increase in the number of professional advisers, many themselves recruited from the Department. Customs argue that their PESC forecasts of revenue depend upon this more professional approach.

The proposed allowance would be paid in two parts: the first after completion of a six week course and the second after completion of 12 months practical training. Customs insist that the allowance must be paid on a national basis since the skills required are not affected by location. They say that an allowance for London staff only could have a detrimental effect on the willingness of provincial staff to undertake the training.

(ii) Barnard

The Barnard scrutiny estimated a revenue loss, principally of VAT, from shortages of HEOs to amount to £150 million in 1986-87; Customs say that since then the problem has got worse. Barnard was concerned not only about current revenue loss but also about the diminished preventive effect.

Customs have in the past operated what amounts to a self posting system and this has undoubtedly contributed to staffing difficulties in London. Customs say that their proposed changes in that transfer system will have "a useful effect" in attracting staff to London and in retaining them for a longer period, but say that these moves must be combined with an adequate pay differential.

We have already agreed that Customs may pay a local pay addition of £600 a year to HEOs in VAT offices in London and the South East. The original Barnard recommendation was for £1,500 a year: after taking account of the LPA, it now stands at a claim for an extra £900 a year.

Treasury arguments

6. We need to consider, against the background of recent and prospective developments, whether the Customs difficulties are so pressing as to require additional concessions. Since the original claim, we have agreed for Customs' HEOs in VAT offices in London a local pay addition of £600, and there has been agreed an increase in London Weighting of over £200. Thus these HEOs are already over £800 a year better off than when the claim was formulated (plus this year's 4½% uplift in basic pay). Moreover, we are engaged in a review of London Weighting with the CCSU, and are taking departments along with us in the process. Lastly, we are discussing with the NUCPS a long term pay agreement which would incorporate flexibility to address problems such as those of Customs. Does more therefore need to be done?

7. We concluded that the loss of trained and experienced HEOs from VAT offices in London did - just - merit some further limited help. We recognised the validity of the argument that revenue was at risk. But we were anxious that our concession should be highly targeted on the problem and this helps reduce the risk of repercussions. Thus we in effect conflated Barnard and Gudgin to offer £400 a year to London VAT office HEOs who had done the

Gudgin training. In all therefore these HEOs would be over £1,200 a year better off than when Customs formally made their claim.

8. Customs have rejected this on grounds both of scope and of scale. They reiterate their Gudgin argument that a skills allowance must be national if it is not to be divisive. They then argue that the amount proposed is insufficient to deal with the London problem.

Possible line

9. We will of course discuss this further with Customs. But frankly I see little prospect of an advance down the Gudgin route. While Customs' arguments about the need for increasing professionalism are compelling, they have not provided evidence of staff resistance to undertaking the training courses and indeed it would be surprising if there were any: job satisfaction, and opportunities to demonstrate promotability, must be clear incentives to undertaking the training. Most important, there are not significant national difficulties of recruitment and retention; the major problem is London, with a few difficulties in eg Leeds. I think Customs attach less priority to Gudgin; certainly they have not made provision in their survey baseline for it.

X | 10. There may however be some prospect of further movement on the Barnard front, ie a London-based allowance. Customs could accommodate the full claim of an extra £900 within survey provision but I would be dubious about going so far. It would however be helpful to know if the Chancellor concludes that the revenue risk is such that Customs do merit special treatment going beyond the offer I have already made.



MS D J SEAMMEN