



Treasury Chambers, Parliament Street, SW1P 3AG
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7 May 1982

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Dear Michael

REFUSAL OF CUSTOMS FACILITIES AT WICK AIRPORT

Because of the possibility of political repercussions, the Prime Minister may like to be aware of the Chancellor's decision to support the Customs in their refusal to provide facilities at Wick Airport for an air service to the Faroe Islands, and the reasons for it.

The Civil Aviation Authority have licensed Air Ecosse to run a service from Aberdeen to the Faroes calling in at Wick twice a week on both the inward and outward flights. The CAA act independently and does not have regard in its decisions to the ability of HM Customs to provide facilities at non-Customs airports. We feel this is an unsatisfactory state of affairs and the Economic Secretary is now writing to the authority with a view to improving its awareness of the implications of its licensing procedures for Customs.

The aircraft to be used on the proposed service would have a maximum capacity of 12 passengers and those boarding or leaving the aircraft at Wick might well be no more than two or three. Indeed on some flights there could be no passengers at all.

The Customs have to cover for the Home Office (Immigration) at small ports and airports and it is a Home Office requirement that they should attend all flights to control the movement of non-UK residents. The Chancellor will be taking this up with the Home Secretary. The aircraft will also carry freight, thus involving Customs attendance to certify export or to provide clearance for imported freight.

A recent Rayner study on Customs attendance at ports and airports (in which the Prime Minister has expressed a particular interest) is still the subject of Ministerial consultations. That study identified as an important potential source of economy in Customs operations the elimination of Customs attendance at ports and airports where

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Customs officers cannot be fully employed because of the inadequate volume of traffic. Sir Derek Rayner himself strongly supports this objective. To concede the claim for Customs clearance at Wick would be directly contrary to the conclusions of this study. The amount of time taken up in providing Customs facilities would be out of all proportion to the amount of work actually involved by the flights, and there would inevitably be a limit to the officer's ability to fit in other work.

The provision of Customs staff in such circumstances is not compatible with the Government requirement for efficient working methods in the public service. HM Customs and Excise are in no way exempted from the campaign to reduce Civil Service manpower. They have already lost well over 2,000 staff and they are expected to make further reductions in pursuance of the April 1984 target.

Had Customs not refused to provide facilities at Wick, there would have been repercussions elsewhere. It would have been extremely difficult for them to refuse concessions at a number of other airports demanding similar services some of them with the prospect of handling much more traffic than Wick. Furthermore it would have been made even more difficult for the withdrawal of uneconomic facilities at ports and airports whom already have them.

A number of representations have been received from local interests. The Secretary of State for Scotland and the local MP, Robert MacLennan, have also approached the Chancellor. Given local sensitivities in the Highlands and Islands, some political repercussions are inevitable. But the Chancellor felt it right to stand firm on the commitment to promote efficiency and economy in the public service.

I am copying this letter to Clive Priestley.

*Yours ever
Peter*

P S JENKINS
Private Secretary



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PRIME MINISTER

THE SCRUTINY PROGRAMME 1981 : CUSTOMS ATTENDANCE

This minute advises you of progress with the scrutiny of attendance arrangements for customs officials at ports, airports and inland clearance depots. You asked me to take a particular interest in the scrutiny on your behalf.

Findings and recommendations

2 There are currently more than 1500 places approved for the loading and unloading of goods and the movement inwards and outwards of passengers. Attendance is provided at the general taxpayers' expense during a "free" period of normal working hours which varies according to local need.

3 There are about 7000 field staff concerned with the application of revenue and preventive controls. Many work shifts and overtime outside these "free" hours in order to facilitate the movement of passengers and meet the requirements of the import/export trade. Attendance outside working hours at the request of commercial concerns has been provided by Customs almost as a matter of course until recently when cash limits and reduced manpower have dictated a less generous approach towards facilitation. The charges currently levied for such attendance only partly cover the extra costs (about £4 million in 1980 compared to extra costs of £11 million). No charge is made for clearing passengers at any time of the day or night.

? 4 Mr St Quinton draws attention not only to the extent to which the general taxpayer picks up the bill, but also to the manpower implications of operating shift systems, which are especially uneconomic when, as for example, at Folkestone a

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full shift has to be worked to clear a single ferry in the small hours - exacerbated when further staff have to be called out to deal with two ferries docking simultaneously at night.

5 The report's main proposals are:

- (a) to standardise a uniform period of "free" hours (except at the minority of locations where there is already 24-hour working);
- ~~(b)~~ to charge at one full economic rate rather than the present range of rates (some of which have been held at uneconomic levels by successive administrations) for out-of-hours attendance for the clearance of freight; ~~and~~ to look sharply at the justification for continuing to provide a service at locations where such attendance is prohibitively expensive;
- (c) to introduce for the first time a system of charging for the out-of-hours clearance of passengers on a similar basis; ~~and~~
- (d) to establish more rigorous criteria for assessing where and when new facilities for customs clearance should be provided and to institute regular reviews of the use of existing levels of facilitation.

The proposals to standardise hours and to charge one full economic rate would introduce a simple, rational system in place of the current system which is beset by anomalies and exceptions and which has never succeeded in keeping pace with the true costs of providing Customs attendance.

~~5~~ The effect of an economic charge ^{for freight clearance} would be to increase the overall costs to private business by about £1.5 million a year, ~~and to reduce or possibly terminate the service provided by Customs at a few small airports and inland clearance depots.~~

6 Looking critically at the justification for providing attendance at uneconomic locations would

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^{This}
The latter would lead to modest savings of staff (of the order of 30-40 according to the examining officer).

7 The proposal to charge for passengers would impose a significant new expense on aircraft and ferry operators. It is estimated that the overall additional cost to them - doubtless to be passed on to their passengers in the shape of increased fares - would be something in the region of £5.5 million per annum.

8 The proposals for regularly assessing and reviewing where and when facilities should be provided are not susceptible of useful quantifications but they are perhaps the most important for Customs. The best prospect of coping with future growth in trade and passenger traffic without lowering standards of control lies in exercising a greater discipline in the policy of canalisation, in achieving the most economic balance in the distribution of resources between the ports and inland and in adopting a more rigorous approach to requests for facilities to be varied or extended.

Ministers' decisions

9 Ministers have not reached agreement on the recommendations. Customs is one of the Chancellor of the Exchequer's departments but much of its work is also conducted on behalf of other Ministers, notably the Secretary of State for Trade, ~~and the Home Secretary.~~

10 Treasury Ministers accept that there are economic, social and likely political consequences of the proposals. Nevertheless the Economic Secretary argues that on grounds of efficiency they should be pursued. He acknowledges that individual ports and airports should be considered on their merits as to which category of "free hours" they qualify but he would prefer to see customs attendance provided at true economic costs. On the question of limiting facilitation the Treasury view is that if demand falls below the level which originally justified the provision of facilities, it is logical to withdraw or restrict them. This should enable Customs to give a better service than would other-

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wise be the case at the places and the times where there is a fully justified need.

11 The Treasury view on the proposal to extend the charging arrangements to include the out-of-hours clearance of passengers is that it should be accepted, since it is not right that the high cost of providing the attendance should fall on taxpayers in general.

12 Outside the Treasury the report has been seen by the Secretaries of State for Trade, Industry, Transport, Scotland, Wales and Northern Ireland. All are in varying degrees opposed to the main thrust of Mr St Quinton's proposals notably on account of:

- extra costs on business
- limitation on facilities
- political repercussions (especially from the proposals about provincial airports and fees for passenger clearance).

The view generally taken by these Ministers is that the difficulties for Customs in reconciling, on the one hand, the need to respond to changes in the pattern of traffic or trade with, on the other, an increasingly compulsive requirement to make efficient use of reduced manpower is a matter to be resolved by improvements in internal efficiency rather than by imposing additional burdens on the private sector.

Comments

13 I very much agree that Customs must set about internal improvements as well as raise the wider issues. Mr St Quinton's report suggested a number of good target areas including:

- reducing the costs of handling import documentation;
- making more flexible use of staff;
- using part-timers;
- developing a bonded agents scheme.

14 Treasury Ministers are pressing ahead to improve internal efficiency and have, for example, included a scrutiny of import entries in the 1982 programme. Action is also in hand to see how a bonded agents scheme can be made to work.

15 But all this is unlikely to be enough to solve the recurrent difficulty of management. There are four chief issues of principle concerning how central government organises customs work.

(a) How can the view of some Ministers that there should be no restriction on the provision of customs facilities at uneconomic times or locations be reconciled with Government policy on cash limits and reductions in Civil Service manpower? Does it make any difference to that policy if the trade is prepared to meet the full economic cost? Clearly to provide unlimited facilities is well beyond what the Government believes the country can afford. I do not see how one can reconcile strict limits on manpower to be achieved by greater efficiency with an open-ended commitment on the part of Customs to provide manpower in circumstances in which it is not economic for them to do so. Under the rules as they now stand the Customs would not be allowed to keep the money collected and use it to pay for extra staff. ^{For the reasons set out below} My own preference would be to provide facilities outside "free hours" ~~[only where the staff can be employed for most of their time on-duty and]~~ where the trade is prepared to meet the full economic cost. At those places where the traffic is insufficient to keep Customs staff properly employed, the facilities should be withdrawn.

(b) How far should the general taxpayer pick up the bill, and how far should operators be faced with commercial judgements on the extra costs of customs operations outside a 'core time'? Here my view is that although there is a clear link between the general good and the

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accessibility of Customs to freight and passenger traffic the principle of "free good" is wrong. I would not regard a charge as out of line with the normal operation of market forces. The principle of charging is already established on the freight side.

- (c) To what extent should charges represent the full economic cost of providing attendance at night, at weekends, and on public holidays? I would make two points. I do not regard the present hotch-potch of charges as any more than historical accident. Second, I think the Customs authorities are entitled to build incentives into the pricing mechanism which are designed to hold down costs.
- (d) Is the time ripe for an extension of the charging arrangements to include attendance for the clearance of passengers? Logically, and from an efficiency point of view, it would make sense to extend charges in this way. Clearance of passenger traffic requires concentration of manpower to hold down queuing and at least one of the most telling examples of extra costs involves the arrival of a night ferry. To make a charge would, however, extend the principle of charging into a new and controversial area.

Proposed action

16 The Secretary of State for Trade has suggested that the report should now be examined by officials of the Departments concerned to assess the practical and detailed implications of what is being proposed. It is appropriate to do that for examination of detailed changes to Customs procedures such as those listed in paragraph 13. I suggest you might agree to that.

17 But in my judgement it would not be right to leave the issues described in paragraph 15 to officials without strong guidance from Ministers. Otherwise we run a great risk that

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uncomfortable issues will be shelved, the opportunity of getting the basis of charges right will be missed and there will be no progress towards introducing appropriate incentives into the system. I would therefore favour prior Ministerial agreement on the issues of principle. If you agree, I suggest you ask the Chancellor of the Exchequer to take the lead and to report back to you in, say, one month.

DEREK RAYNER

April 1982

None for the file

MR RICKETT

I have told
Mr Priestley that the Chancellor
should sort this out since the
something is of his Department.

WM
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SCRUTINY OF CUSTOMS ATTENDANCE

I realise that these are not propitious days for seeking the Prime Minister's attention. But I should be grateful if you could take a look at the attached draft submission covering difficult issues of principle which Ministers have so far been unable to resolve.

2. I should perhaps say that the draft has not yet been seen by Sir Derek Rayner. Though it has been cleared with Customs and Excise and with the Chancellor of the Exchequer who has commented that he is "entirely content with the draft, which he thinks is a very good one".

3. I should be grateful for your advice on handling. In one sense some of the urgency has gone with the changes at Ministerial level. But if Customs are to press on with follow up involving legislation (such as the bonded agents scheme) they will need to do so quickly if they are to make the Finance Bill next year. So, subject to your comments I would see merit in an early submission to the Prime Minister on the attached lines.

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IAN B BEESLEY

7 April 1982