

Summary: Intervention & Options

Department /Agency: Defra	Title: Impact assessment of an independent body for animal health in England	
Stage: Initial (with insurance)	Version: 0.6	Date: 27 March 2009
Related Publications: Consultation on an independent body for animal health in England: a new governance and funding structure for tackling animal diseases		

Available to view or download at:

<http://www.defra.gov.uk/animalh/ahws/sharing/index.htm>

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

The problem under consideration has been widely debated in the aftermath of the 2001 Foot and Mouth Disease outbreak and has two strands: (i) ensuring the livestock industry has a greater say in animal health policy, and (ii) achieving a fairer balance in who pays for controlling disease outbreaks and who benefits. Government intervention is necessary as only the state can implement the required actions to control many diseases and maintain preparedness for exotic disease outbreaks, but it does not follow that the major beneficiaries (ie livestock keepers) should not contribute to these costs. More recently, action on disease control measures, such as Bluetongue vaccines, demonstrates the extent to which government policy benefits from substantive industry input.

What are the policy objectives and the intended effects?

The aim is to establish a new governance and funding framework for animal health policy which will:

- Help reduce incidence and lower overall costs of animal diseases;
- Deliver effectiveness, efficiency and economy from investment in disease prevention, control and management;
- Share costs between main beneficiaries and risk managers; and
- Improve confidence in the way disease outbreaks and disease risks are managed.

What policy options have been considered? Please justify any preferred option. Since 2005 a range of measures have been considered with stakeholders including a levy at slaughter, registration scheme, private insurance, maintaining existing government structures with increased industry involvement or establishing a new body. From intensive consultation, there is one option on which we are consulting: **Option 1 – a new independent body for animal health in England which, in addition to public funding, will raise a levy from livestock keepers (by numbers and types of animals).** Option 1 has variants on which views are sought: (i) non ministerial department or non departmental public body; (ii) horses in or out of scope of levy mechanism. **Option 2** is "business as usual". In addition we are exploring with the insurance industry the role private insurance could play in covering some of the Government costs of controlling exotic disease outbreaks. (**Option 3**)

When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects? Summer 09 (in light of responses) – in particular further work will be necessary on an insurance scheme should this be taken forward. Costs and benefits will be further refined at Draft Bill (Spring 10) & passage stage (Nov 10). Evaluation will form part of the new body once it is established.

Ministerial Sign-off For consultation stage Impact Assessments:

I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options

Signed by the responsible Minister:



27th March 2009

Summary: Analysis & Evidence

Policy Option: 1	Description: A new independent body for animal health in England which, in addition to public funding, will have a revenue stream from livestock keepers (by numbers and types of animals).
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COSTS	ANNUAL COSTS		Description and scale of key monetised costs by 'main affected groups' Taxpayers: Set-up of new body & levy (£14.3m) & additional running costs of body (£200k). Taxpayers – saving annual running costs of £22m. Livestock industry - annual running costs of levy (£2m), preparedness costs (£22m).		
	One-off (Transition)	Yrs			
	£ 14.3 million	1			
	Average Annual Cost (excluding one-off)				
	£ 2.7 million	30			
			Total Cost (PV)	£ 56 million	
Other key non-monetised costs by 'main affected groups'					

BENEFITS	ANNUAL BENEFITS		Description and scale of key monetised benefits by 'main affected groups' Reduced costs of endemic disease and exotic disease outbreaks - Livestock industry and taxpayers - £0 to £114m annually.		
	One-off	Yrs			
	£ nil	1			
	Average Annual Benefit (excluding one-off)				
	£ 0 to 114 million	30			
			Total Benefit (PV)	£ 0 to 1,817 million	
Other key non-monetised benefits by 'main affected groups' Improved confidence/faith in the system by livestock industry; greater transparency for livestock industry on animal health costs; better value for money from investment by better targeting through greater industry involvement.					

Key Assumptions/Sensitivities/Risks Assessment of risk of future disease outbreaks (affects both benefits and costs). Extent of behaviour change which the new arrangements are expected to foster - affects level of benefits. Costs of new funding arrangements - initial costings. Inclusion or exclusion of horses from the levy.

Price Base Year 2008	Time Period Years 30	Net Benefit Range (NPV) £-56 to +1760	NET BENEFIT (NPV Best estimate) £ unknown but positive
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What is the geographic coverage of the policy/option?				England	
On what date will the policy be implemented?				2012	
Which organisation(s) will enforce the policy?				AH & others (paras 63-4)	
What is the total annual cost of enforcement for these organisations?				£ 200-500k	
Does enforcement comply with Hampton principles?				Yes	
Will implementation go beyond minimum EU requirements?				No	
What is the value of the proposed offsetting measure per year?				£	
What is the value of changes in greenhouse gas emissions?				£	
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?		Yes	No	N/A	N/A

Impact on Admin Burdens Baseline (2005 Prices)				(Increase - Decrease)	
Increase of	£ 475,000	Decrease of	£ see text	Net Impact	£ see text

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

Evidence Base (for summary sheets)

[Use this space (with a recommended maximum of 30 pages) to set out the evidence, analysis and detailed narrative from which you have generated your policy options or proposal. Ensure that the information is organised in such a way as to explain clearly the summary information on the preceding pages of this form.]

SUMMARY OF COSTS AND BENEFITS

Table A: Summary of costs for Option 1 compared to “business as usual” (Option 2)

Source: Summary figures are taken from Tables 6-9 and Table 11.

	Set-up in London	Running in London
New body for animal health	£2.1m	£0.2m
Registration based levy scheme	£12.2m	£2.0m
Administrative burden		£0.5m
TOTAL	£14.3m	£2.7m

Table B: Summary of potential scale of benefits of reduction in overall cost of disease range

Source: Summary figures are taken from Table 3 and 5.

Percentage reduction in disease prevalence and/or cost	1%	2%	5%	10%	25%
Expected annual benefits (in the "average" year) – exotic	£1M	£3M	£7M	£13M	£34M
Expected annual benefits (in the "average" year) – endemic	£8m	£16m	£40m	£80m	£200m

1. It is considered that that the proposals are more likely to impact on exotic diseases than endemic disease costs so the maximum possible benefit is calculated on a 10% decrease in costs for endemics (£80m) and 25% for exotics (£34m) making a total of £114m. These costs and benefits are used to calculate the present values presented in the summary sheets. A 30 year period has been used as the proposals are for significant changes which are expected to last for at least that time and to deliver benefits over a long term period.

INTRODUCTION

2. This initial impact assessment forms part of the consultation on proposals for an independent body for animal health. It accompanies a consultation document ***A new independent body for animal health: A modern governance and funding structure for tackling animal diseases.***¹
3. The consultation document sets out government proposals to establish a new independent body for animal health. It will have responsibility for all animal health policy and delivery in England and some UK and GB animal health functions. The new body will take over Defra’s current public funding for animal health and, in addition, will have new funding arrangements. This will be a power to raise a levy from livestock keepers who will be required to register for that purpose. Most livestock keepers are already required to register with the competent authority. This registration requirement will replace or utilise

¹ <http://www.defra.gov.uk/corporate/consult/ahw-nextsteps/index.htm>

the existing requirement. This impact assessment assesses the impacts, cost and benefits of these proposals.

REASONS FOR ACTION

4. Animal health policy and its funding is currently the responsibility of Department for Environment, Food and Rural Affairs (Defra). While industry stakeholders are increasingly being involved in advising on decision-making through partnership-working, final decisions lie with government, while taxpayers pay for many of the costs. Since the Foot and Mouth Disease (FMD) outbreak of 2001 there has been debate about the sharing of these costs with industry and also the responsibility for the decisions that give rise to them.
5. Animal health is important for animals, their owners, public health, society and the wider rural economy. Animal diseases, and the measures to control them, can be costly to farmers and the livestock industry. Some animal diseases can pose a potential threat to public health. Consumers may face higher prices and wildlife may be affected. The occurrence of diseases from which the country is currently free (exotic diseases) is an ever-present threat to the sustainability of the livestock industry. In the worst cases the wider economy suffers, as was illustrated in the FMD outbreak in 2001, on which *The Anderson Inquiry*² concluded that “On narrow economic grounds, it is difficult to see why costs as substantial as those of the 2001 epidemic should be met by people not engaged in agriculture”. The Public Accounts Committee of the House of Commons reached similar conclusions³.
6. The immediate responsibility for the health of animals lies with their keepers. The owners of animals are the major beneficiaries of effective animal health. One of the key principles of better regulation is that government should only intervene where market forces either fail to deliver solutions or cause significant damage. Protection of public health is the paramount issue underlying government animal health policy – much of it achieved through regulation.
7. Traditionally government has also acted to prevent, control and eradicate some infectious animal diseases which do not have public health implications (e.g. FMD). This is because only the Government can undertake and enforce the necessary measures such as controlling animal movements, and culling animals that are infected or who are potential carriers. This action is primarily for the collective benefit of the livestock industry, but the direct costs of much of these actions fall to the Government and the general taxpayer – around £3 billion for FMD in 2001⁴, and around £44m per annum for the Government costs of exotic disease preparedness and surveillance. This has also created little incentive for individual animal keepers to manage disease risks actively, or for collective action by the farming industry.

AIMS

² Foot and Mouth Disease 2001: Lessons to be Learned Inquiry Report, 22 July 2002, HC 888

³ House of Commons Committee of Public Accounts The 2001 Outbreak of Foot and Mouth Disease Fifth Report of Session 2002-3 p9: “(xi) The Department is currently engaged in discussions with the livestock and insurance industries about alternative ways of reimbursing farmers for the costs of having their animals slaughtered. Rather than continue to make direct compensation payments, the Department is considering a subsidised insurance scheme or a joint industry-Government levy scheme. We are glad that these options are being considered since they offer the prospect of substantially reducing the taxpayer’s exposure.”

⁴ Iain Anderson’s review of the 2001 FMD outbreak concluded, those who benefit directly from measures being taken for their specific benefit should contribute to the cost of those measures. Accordingly, those engaged in livestock production should, in a disease outbreak, share the costs of compensation for animals culled and items seized, and associated disease control costs such as cleansing & disinfection, slaughter, disposal, haulage.

8. The aim of the new arrangements proposed is to achieve a modern governance and funding framework for animal health to tackle these issues by:
 - a. Ensuring more independent and better informed decision making;
 - b. Increasing the involvement of livestock keepers and other key stakeholders in policy decisions;
 - c. Providing financial incentives to reduce the costs of managing disease;
 - d. Providing financial incentives for better risk management; and
 - e. Making the costs of animal disease prevention, preparedness and outbreaks more transparent and offering greater accountability to the livestock industry.

Aims of new arrangements

- Reduce the overall levels and total costs of animal diseases;
- Deliver effectiveness, efficiency and economy from investment in disease prevention and management;
- Share costs between main beneficiaries and risk managers; and
- Improve confidence of the livestock industry and other stakeholders in the way disease risks are managed.

CONSULTATION AND OPTION DEVELOPMENT PROCESS

9. The livestock sectors have been engaged in the process of developing the Government's policy of responsibility and cost sharing over a considerable period, starting in the wake of the Classical Swine Fever outbreak in East Anglia in 2000 and in the aftermath of the 2001 FMD outbreak. In England work continued in December 2005 through the Joint (Industry/Government) Working Group (JIGWG) on exotic diseases, which reported in July 2006 recommending that full partnership working should be implemented across Great Britain and a new statutory body established for sharing the responsibilities and costs of exotic animal disease with both industry and government representation⁵.
10. In December 2006, there was a UK-wide public consultation on the principles of responsibility and cost sharing and, in the same month, the UK Consultative Forum on Responsibility and Cost Sharing⁶ was constituted, concluding its activities in June 2008. When the Forum resumed after FMD in 2007, Defra conducted an 18 week public consultation from December 2007 on possible approaches to responsibility and cost sharing, supplemented by a national seminar and 12 regional workshops during February and March 2008, plus three rounds of meetings with livestock sector groups comprising representatives of the main livestock organisations between February and June 2008. A sub-group of the England Implementation Group⁷ for the Animal Health and Welfare Strategy held several meetings with the team to discuss, challenge and advise on emerging policy options.
11. Papers on key policy issues were developed and presented to the Forum for discussion (and made available on the Defra website).⁸ These considered the merits of different responsibility sharing options, the operation of a fund raised from the livestock industry and different ways of raising funds from the livestock sectors. Along with the other consultations this helped to refine the options and determine the proposals which are set out in the present consultation document and which are assessed here.

⁵ <http://www.defra.gov.uk/farm/policy/regulation/csharead/jigwg/report01/index.htm>

⁶ Henceforth referred to as 'the Forum' and comprising representatives of Defra, NFU, CLA, the 3 DAs and the farming unions of Scotland, Wales and NI. www.defra.gov.uk/animalh/ahws/sharing/forum/index.htm

⁷ http://www.defra.gov.uk/animalh/ahws/sharing/rsc_sub-group.htm

⁸ <http://www.defra.gov.uk/animalh/ahws/sharing/index.htm>

12. The role that private insurance could play in new arrangements has also been considered as part of the policy development process. Discussions with the insurance industry have indicated that the option of a requirement for compulsory private insurance by livestock keepers to cover all or part of the costs of controlling exotic disease breaks currently met by government is possible but the relevant insurance products are not available at the present time. The Government is considering how an insurance scheme might work and exploring with the industry whether, with the right framework, appropriate insurance products would be made available to pay for a part of the Government share of the costs of exotic disease outbreaks. It is an objective of this consultation to seek further views and information on which to develop this option.
13. If a compulsory insurance scheme does not prove to be workable then the government will consider how the proposed levy could be used for the livestock industry to contribute to the costs of exotic disease outbreaks

KEY PROPOSALS ASSESSED

14. One main proposal (Option 1) is assessed here which is set out in detail in the consultation. It has the following main elements:
- a. establish a new body at arm's length from Ministers to which all of Defra's animal health responsibilities will be transferred; and
 - b. set up new funding arrangements for the body which will be a power to raise a levy to pay for 50% of Government costs of surveillance and preparedness from livestock keepers who will be required to register for that purpose.
15. There are variants in the way these elements can be developed and implemented which are set out in the consultation and discussed below.
16. The new body will take on responsibility for developing and implementing all the policy for animal health currently undertaken by Defra. Its objectives will encompass the aims of the Animal Health and Welfare Strategy – a lasting and continuous improvement in the health of kept animals, having regard to their welfare, while protecting society, the economy and the environment from the effect of animal disease. The relevant statutory functions of the Secretary of State, other than the functions of making legislation, will be exercised by the Board rather than Defra Ministers. Its scope will cover all animal diseases and all species.
17. The assumption for this impact assessment is that the new body will be based in London. The cost implications of relocating outside London are also examined but this is not an issue which will be determined by the outcome of this consultation. The consultation proposes that the body could have the status of a non-ministerial department or non departmental public body. **(Option 1 variant (i))**. The possible cost implications of the difference in legal status is considered.
18. The body will receive public funding as well as income from fees and charges. As the consultation sets out it is assumed that funding will be raised from a registration based levy of livestock keepers. The consultation proposes that the levy will cover the main farmed species. It invites initial views on whether arrangements should be extended to horses. **(Option 1 variant (ii))** Some initial information and costings are provided in respect of horses but any decision on extending the scheme to horses would be determined after more detailed work and further consultation. Although this may be changed in the future it is proposed that the levy will be used initially to contribute to preparedness and surveillance work for exotic diseases.

19. These proposals are compared with a “business as usual” approach (**Option 2**) in which there would be no new funding arrangements but where partnership working between Defra and the industry would continue to develop (as set out in the consultation paper).
20. Subsequent sections look at the impacts of these proposals which are a mixture of economic, financial, social and environmental. The costs and benefits of these proposals for those who will be affected is described and, where possible and appropriate, quantified and expressed in monetary values.
21. In addition to these proposals the Government is exploring the option (**Option 3**) of creating a liability for livestock keepers to contribute a proportion of the Government costs of exotic disease outbreaks and a requirement to take out commercial insurance to cover this liability. The Government considers that, in principle, the livestock industry sectors affected should contribute 50% of the cost of the new body’s total costs (including Animal Health and the rest of what is currently the Defra network) in dealing with any exotic disease outbreak that affects their sectors. Whilst the consultation seeks views on this issue, the Government is not putting forward firm proposals for compulsory private insurance at this stage.
22. If a compulsory insurance scheme does not prove to be workable, the Government will consider how the proposed levy could be used for the livestock industry to contribute to the costs of exotic disease outbreaks.

WHO WILL BE AFFECTED

23. The main groups affected by these proposals are:

- a. Livestock keepers;
- b. Taxpayers generally; and
- c. Defra staff.

Livestock keepers

24. Primary livestock production in England is made up of a very varied range of systems and patterns. Table 1 shows the size of the main livestock sub-sectors in England.

Table 1 Livestock sectors in England

Source: 2007 June Census.

Sector	No. of holdings	Population	Median ⁹ no. of animals per holding
Dairy cattle	21,134	2,083,085	39
Beef cattle	44,706	3,512,503 ¹⁰	12
Pigs	9,566	3,943,345	16
Sheep	47,155	15,436,410	109
Poultry	31,570	128,742,542	21,260
Goats	6651	80,163	-
Deer	481	21,466	-
Other livestock (eg donkeys, llamas, mules, hinnies)	1,897	27,613	-

⁹ Median holdings are holdings with 50% of farms bigger or smaller.

¹⁰ Of which 1,503,720 attributed as male calves.

25. The average number of dairy cattle on *dairy* holdings in England is 99. Of approximately 21,000 dairy holdings in England, 64% have fewer than 100 dairy cattle. 36% have 100 dairy cattle or more.
26. By contrast, the average number of beef breeding cattle on *beef* holdings is 45 (79 if male calves are included). Of approximately 45,000 beef holdings in England, 58% have fewer than 30 heads of beef breeding cattle, while only 12% have 100 heads of beef breeding cattle or more.
27. 42% of the 9,600 *pig* holdings in England have 10 pigs or fewer – mainly smallholders, pet and hobby keepers. The average number of pigs per holding is 412. 13% of pig holdings have 1,000 pigs or above.
28. 35% of the 47,000 *sheep* holdings in England have 50 sheep or fewer, against an average of 327 sheep per holding. 19% of holdings have 500 sheep or more.
29. On the 31,600 poultry holdings the average number of birds per holding is approximately 4,000. 1% of the holdings hold 100,000 or more birds. 8% hold 1,000 birds or more, with 77% of holdings having 50 birds or fewer.
30. The overwhelming majority of primary livestock producers are *micro or small businesses*¹¹. This means that the question of differential impacts on businesses according to their size will not apply in the normal way. However, we recognise that the resilience of such small businesses has to be taken into account when looking at the financial costs of proposals. The small firms' impact assessment considers this further.

Taxpayers

31. Taxpayers in England will be affected by the proposals in that they would benefit by paying a reduced contribution to exotic disease surveillance and preparedness costs of £22m.

Defra staff

32. There are currently c235 Defra staff working on animal health issues based in London plus 10 London-based Animal Health staff. Depending on the location and status of the new body there could be significant impacts on staff – as identified in paragraphs [54-56]. Should the proposals be taken forward we will carry out an Equalities' Impact Assessment to examine these issues in detail.

BENEFITS

33. Animal health policy is intended to deliver a range of benefits including protection of public health, and the environment and the improvement of animal welfare as well as supporting the sustainability of the livestock industry. The implementation of the consultation proposals is intended to increase all these benefits over the short, medium and longer term (see benefits' map at Annex 8).
34. A variety of work has been, and continues to be, undertaken to assess the risk pathways for disease incursion and its spread. Annex 9 summarises some of this work in diagrammatic form – identifying some key parameters in the behaviours and actions of the key players.

¹¹ Micro businesses are those with 0-9 employees; small businesses are defined as having 0-49 employees (source: Small Business Service)

35. The proposals in the consultation for new arrangements for animal health governance and funding are aimed to influence some of these parameters. This **(Option 1)** will deliver benefits over and above those secured through carrying on with “business as usual” **(Option 2)**. These are summarised in Diagram 1 below and described in the following paragraphs.

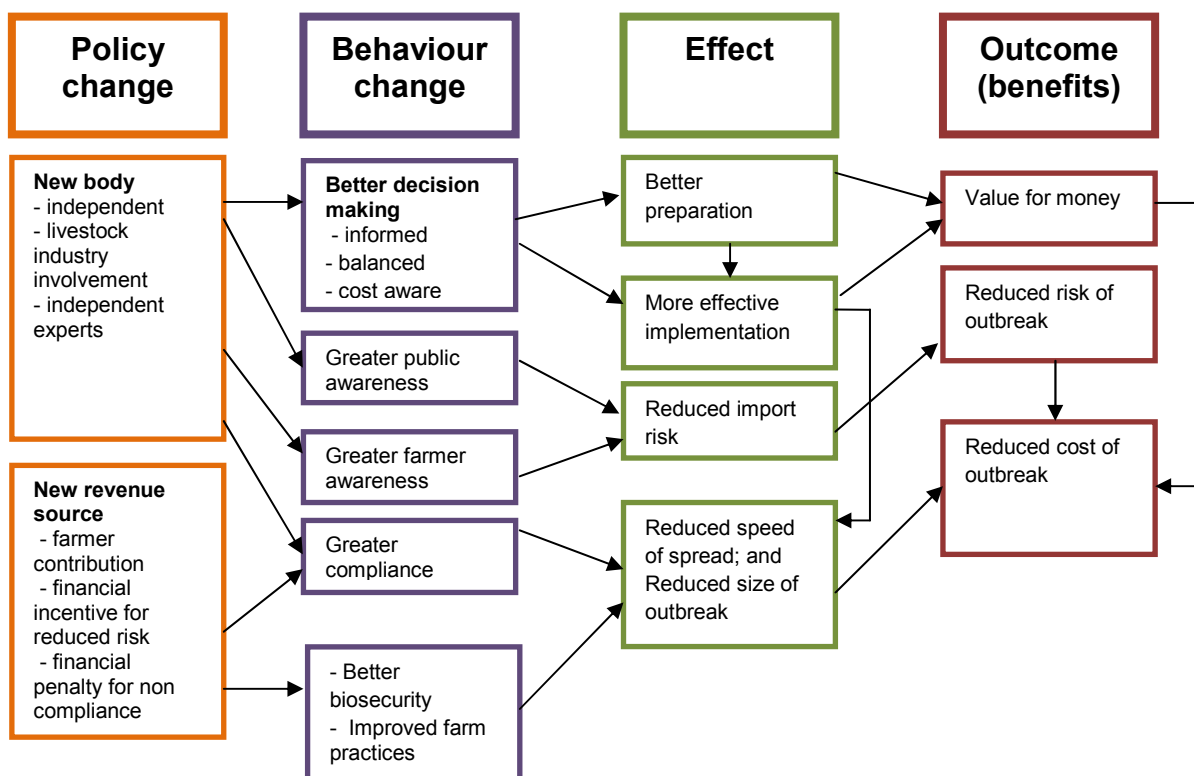
36. The new body will have an independent Board with a mixture of relevant skills and experience making decisions in a transparent and consultative way. The cost of animal health policies will also be made more transparent. This should lead to better informed, cost aware and balanced decisions. Equally important it should command greater confidence with the public and the livestock industry. This should help to bring about a change in the way in which decisions and policies are viewed with an increased sense of ownership of issues, and the measures to solve them, by the livestock industry. This, in turn, should also lead to improved compliance with controls and regulations designed to reduce the likelihood of disease incursions and spread.

37. The new funding arrangements (as set out in paras 3, 13 and 17) should give a clear financial signal and incentive to livestock keepers. This should also help to improve compliance, raise awareness and incentivise changes to biosecurity and farming practices which will reduce the likelihood of disease incursion and spread. The effect of these incentives will depend in part on the scale of payments to be made by livestock keepers and the extent to which these are differentiated according to a risk assessment of their business.

38. Awareness by farmers and the public could reduce the risk from imports and encourage early identification and reporting of disease. Increased awareness should also help the more effective dissemination of information for plans to tackle outbreaks and their implementation possibly leading to quicker and cheaper eradication of diseases.

Diagram 1 Disease benefit chain

Source: Defra programme on responsibility and cost sharing.



39. The new arrangements are expected, over time, to deliver better value for money for resources invested in disease prevention, management and control and to deliver reduced levels of animal disease generally. The extent to which these benefits can be quantified is discussed below.
40. The proposals are also expected to deliver improved confidence in the animal disease management system by the livestock industry; and by the public in the management of animal diseases which have a potential to affect public health. The development of the new arrangements should also make it easier to comply with expected future harmonised EU arrangements on responsibility and cost sharing.

Quantification of benefits

41. Significant benefits are anticipated under the new system from reducing the cost of disease as set out in paragraphs 31-38. These will take time to occur and it is not possible to quantify them exactly at present. But work has been undertaken to illustrate what the effect of different levels of impact would be.

Exotic diseases

42. A first step in quantifying the benefit of reducing the risks and costs of exotic disease outbreaks is an assessment of future disease risks. Assessing future likelihood of disease outbreaks and their scale is very difficult. Outbreaks of any particular exotic disease in this country are generally rare or may never have occurred at all (see Annex 5). Diseases change as new strains develop (e.g. Avian Influenza or Bluetongue) and the possibility of new diseases arriving in this country can change rapidly, for example, a few years ago Bluetongue was considered extremely unlikely.
43. Changes in the way the industry and wider economy operates can influence the risk of incursion and speed of spread. Increased travel of various kinds (animals, people, products) can increase the possibility of the spread of diseases. Knowledge of the characteristics of some diseases is more limited than others.
44. Instances of disease outbreaks in the last couple of decades include BSE which posed an important threat to public health (public spending on BSE has been over £5 billion); and the FMD outbreak in 2001 whose eradication cost government £3 billion and the economy as a whole £8 billion. The exotic disease outbreaks in 2007 (FMD, Bluetongue, Avian Influenza) cost government around £50m and industry costs for the FMD outbreak have been estimated at more than £100m. This experience shows that there is a great variation in the level of costs of exotic disease outbreaks between different years. This means there is great uncertainty about what may happen in the future with limited evidence on which to base assessments.
45. In view of the risk from a number of exotic animal diseases, a variety of measures are used to reduce this risk. These include measures to reduce the risk of the certain disease agents arriving in the country or getting into livestock, for example, controls on the imports of animals and animal products and the ban on the feeding of swill and other food waste to pigs. They also include measures to reduce the rate and extent of spread should certain diseases be introduced, for example, livestock movement controls and livestock market and transport hygiene measures. The success of these risk management measures means that disease incidents are much rarer than they would be if there were no controls and, importantly, that they do not conform to a predictable pattern.

Costs of exotic disease outbreaks

46. The scale and costs of an outbreak will depend on the degree of “silent spread” (the stage between the incursion of the disease and the first case being confirmed), and the speed and effectiveness of the contingency response. The eventual costs are influenced by any public health implications and the effects of disease controls on other industries. But typically the main elements of the costs due to control measures in a disease outbreak include:

- a. Disposal of culled animals;
- b. Payments to owners for culled animals;
- c. Tracing, testing and diagnosis of animals;
- d. Cleaning and disinfection of infected premises;
- e. Loss of animals to food chain additional to the compensated value (b above);
- f. Loss of exports;
- g. Admin costs in managing the outbreak;
- h. Costs to industry of movement restrictions; and
- i. Impact of loss of consumer confidence

47. These costs will vary according to the scale of the outbreak with key factors being the number of infected premises, numbers of animals culled, and the length of the outbreak. Part of these costs is currently borne by government and part by livestock keepers, slaughter houses and food supply chain.

Potential cost of future exotic disease outbreaks

48. The approach taken here is to consider eight important potential diseases in three stages. The stages are:

- a. How likely is the disease to occur in this country in any one twelve month period. This is expressed as a fraction such as “1 year in 10” meaning that there is a 10% of a disease outbreak in any one year. “1 year in 1” means that on average there is likely to be an outbreak every year. “1 year in 100” means that an outbreak is a very rare event.
- b. If an outbreak were to occur, how likely is it that it will be a minor outbreak rather than a major one. This is a simplistic representation of disease outbreaks, which can range from tiny (one animal or premises affected, with minimal trade disruption) to nationwide (thousands of affected premises, very high eradication costs and long disruption to businesses), and all the scales in between. But this approach is justified because it captures the range of disease outbreaks without claiming greater knowledge about the probability of all the different scales than we truly have.
- c. What is the cost of a minor and a major outbreak of each disease.

49. It is important to emphasise that these figures are not intended to be forecasts or predictions of what will happen or what Defra considers is likely to happen. Rather it is an exercise to illustrate very roughly the possible scale of outbreak costs in an “average” year to show what might be achieved by reducing those costs. In reality there is never an “average” year and the average in Table 2 is made up of many years with minor disease outbreaks controlled at low cost, together with much rarer years of one (or even more) major high cost disease outbreak(s). The probabilities and costs used are a reasonable reflection of expert opinion about disease risks based on the information we currently have. Of course information is constantly changing (see Annex 5 for historical information on previous outbreaks).

50. The “average” year’s cost is shown in Table 2 as the “expected annual cost”. The word “expected” has a technical meaning here: it is the scale of an outbreak multiplied by its probability. It does not mean that this is the cost we “expect” in everyday language.

51. Two diseases dominate Table 2, as shown by the figures in the right hand column. These are Bluetongue disease and an “unknown major disease”, and they dominate for quite different reasons. For this exercise, Bluetongue is assumed to be eradicated at the outset of the period analysed so that vaccination is not required or used. But there would be a high risk of re-introduction through infected midges from continental Europe, leading to control measures and vaccination, potentially for several years. It is the high risk in particular that produces the high “expected annual cost” for Bluetongue. The “unknown major disease” is different in that it is shown as a highly unlikely event (1% risk in any year) but if it should arise it would cause very high costs (shown here as £5 billion, which is similar in scale to BSE). The very high cost of such an event leads to the high “expected annual cost”.

Table 2 Potential costs (as set out in para 44) of future outbreaks

Source: Defra illustration of possible scale of outbreaks based on recent experience and epidemiological models where available.

Disease	Main Species Affected	Chance of outbreak once every “how many” years	% Probability that outbreak:		Incident cost £M if outbreak:		Mean cost per outbreak £ M	Expected annual cost £ M
			Minor	Major	Minor	Major		
Avian Influenza	Poultry	0.5	90	10	5	60	11	21
Bluetongue	Sheep, goats, cattle	2	90	10	70	200	83	42
Newcastle Disease	Poultry	3	95	5	5	60	8	3
Classical Swine Fever	Pigs	8	70	30	10	90	34	4
Foot and Mouth Disease	Cattle, sheep, pigs	15	90	10	100	500	140	9
African Swine Fever	Pigs	12	70	30	15	120	46.5	4
Swine Vesicular Disease	Pigs	20	95	5	5	50	7	0
Unknown major disease	Unknown	100	0	100	-	5000	5000	50
Other known notifiable not listed above(*)	Various	8	70	30	5	20	9.5	1
Total of above								134

52. Based on this illustrative result that the “expected” cost of disease outbreaks in an “average” year totals £134m. Table 3 shows that if the new system could achieve a reduction of 1%¹² in disease risk or cost, then this would amount to a benefit of about £1m. Similarly, a reduction of 25% would be a benefit of £34m, and so on. These numbers are hypothetical but they are intended to be helpful in enabling an appreciation of the relative orders of magnitude of the possible impacts.

Table 3 Reduction in overall cost ranges in Table 2

Source: See Table 2.

“Expected” annual cost of disease outbreaks	£134m	£134m	£134m	£134m	£134m
Percentage reduction in disease risk and/or outbreak cost	1%	2%	5%	10%	25%

¹² Arbitrary percentages have been used to exemplify scale.

Expected annual benefits (in the "average" year)	£1M	£3M	£7M	£13M	£34M
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53. Such benefits, if they occur, will accrue to the economy as a whole and, in immediate financial terms, be shared between the livestock sector and the taxpayer. Under existing arrangements, the Government share of the £134m "expected" annual cost of outbreaks would amount to around £65m.

Table 4 Potential costs to Government of future outbreaks under current arrangements

Source: Defra illustration of costs falling to Government under the existing funding arrangements in the outbreaks shown in Table 2.

Disease	Minor incident cost			Major incident cost			Mean cost per incident		
	Total £m	Govt £m	Govt share	Total £m	Govt £m	Govt share	Total £m	Govt £m	Govt share ¹³
Avian Influenza	5	4.9	98%	60	40	67%	21	17	80%
Bluetongue	70	20	29%	200	30	15%	42	11	25%
Newcastle Disease	5	4.9	98%	60	40	67%	3	2	86%
Classical Swine Fever	10	4.9	49%	90	60	67%	4	3	63%
Foot and Mouth Disease	10	0	0%	500	200	40%	9	4	40%
African Swine Fever	15	10	67%	120	80	67%	4	3	67%
Swine Vesicular Disease	5	4.9	98%	50	40	80%	0	0	92%
Unknown major disease				500					
Other known notifiable not listed above(*)	5	4.9	98%	0	2500	50%	50	25	50%
Total of above				20	10	50%	1	1	68%
							134	65	48%

Endemic diseases

54. Endemic diseases (including Bovine TB) are estimated to cost the economy around £800m a year¹⁴ and the Government about £150m annually. Table 4 below shows what the savings would be if, for illustrative purposes, these costs could be reduced by 1%, 2%, 5%, 10% or 25%¹⁵.

Table 5 Reduction in overall cost of endemic disease ranges

Source: Based on Bennett, R and Ijpelaar, J (2003) "Economic Assessment of Livestock Diseases in Great Britain" Department of Agricultural and Food Economics, University of Reading, Final Report to Defra, with limited updating by Defra.

Average annual cost of endemic diseases	£800m	£800m	£800m	£800m	£800m
Percentage reduction in disease prevalence and/or cost	1%	2%	5%	10%	25%
Average annual benefits	£8m	£16m	£40m	£80m	£200m

Table B: Summary of potential scale of benefits of reduction in overall cost of disease range

Source: Summary figures are taken from Table 3 and 5.

Percentage reduction in disease prevalence and/or cost	1%	2%	5%	10%	25%
Expected annual benefits (in the "average" year) – exotic	£1M	£3M	£7M	£13M	£34M
Expected annual benefits (in the "average" year) – endemic	£8m	£16m	£40m	£80m	£200m

¹³ In this table "Govt £m" and "Govt share" refer to the element of the cost of an outbreak that would be met by Government under the existing arrangements. We are now consulting on how this element will be met in future.

¹⁴ Based on Bennett, R and Ijpelaar, J (2003) "Economic Assessment of Livestock Diseases in Great Britain" Department of Agricultural and Food Economics, University of Reading, Final report to Defra, with limited updating by Defra.

¹⁵ Arbitrary percentages have been used to exemplify scale.

COSTS OF THE NEW BODY

55. This section looks at the costs of Option 1. It considers firstly the costs of the new body and secondly the costs of the new funding arrangements.

56. The following assumptions are made in assessing the additional costs of a new body compared to the current situation. The costs are based on available data and comparable experience as appropriate:

- a. The body is for England (and some UK/GB animal health policy functions currently undertaken by Defra) with the expectation that the devolved administrations would develop arrangements with current delivery agents to ensure co-ordinated disease management);
- b. Scope would include Defra's animal health policy (excluding welfare);
- c. Staff numbers remain the same at the time of transfer (for ease of modelling) i.e. 235 core Defra staff plus 10 Animal Health staff currently based in London;
- d. Running (admin) costs remain the same, and do not take account of inflation;
- e. Running costs do not include specialist support resources – legal, finance, economic etc;
- f. A new body will not be in place before 2012 if Royal Assent is granted late 2011; and
- g. It is not proposed to pass on set-up or running costs onto industry.

57. The costs identified below are estimated to cover one year only. Figures have been calculated on the assumption that staff turnover would not be high on the basis that the new body remains in London and staff are employed according to their existing terms. (Annex 2 provides explanatory notes on the budget lines in the tables below).

Table 6 Initial estimate of additional set-up costs of a new body: London

Source: Defra best estimate based on available evidence, see Annex 2.

	Item	Cost (£)
A	Specialist set-up team	1,210,000
B	IT	31,000
C	Recruitment of Shadow Board, Chairman/Deputy and Chief Executive	120,000
D	Chief Executive (inc pension), Shadow Board and Chairman/Deputy salaries	399,000
E	Secretariat for Shadow Board	204,000
F	Re-branding	65,000
G	Removals within London building	29,000
	TOTAL	2,058,000

Table 7 Initial estimate of additional running costs of a new body: London

Source: Defra best estimate based on available evidence, see Annex 2.

	Item	Savings (£)	Costs (£)
A	Chief Executive (inc pension), Shadow Board and Chairman/Deputy salaries	-	399,000
B	England Implementation Group savings	285,000	-
	TOTAL	285,000	399,000

Possible relocation to Defra offices outwith London: set-up costs

The assumption for this impact assessment is that the new body will be based in London. The cost implications of relocating outside London are set out below but this is not an

issue which will be determined by the outcome of this consultation.

The Lyons' Review (Annex 3) requires that all new bodies should consider locating outside of the South East. In the interests of keeping costs down, Defra offices outwith the South East do, in principle, have spare capacity but no immediate savings would be apparent as the earliest date that Defra sites can be disposed of is 2013.

Relocation would undoubtedly be the biggest single factor affecting staff retention rates and therefore staff costs. The Transfer of Undertakings (Protection of Employment) Regulations 2006 (TUPE) does not apply to NMDs (as a transfer of civil servant staff between Departments), but in accordance with recent Cabinet Office guidance, Defra must make every effort to provide an opportunity for those who wish to stay with or return to the Department to do so. This could reduce the numbers of staff transferring to the new body, which would mean increased costs of recruitment and training of new staff.

Costs for the tables below are based on the assumption that 50% of Defra staff + London-based Animal Health staff (in total 122 staff) would be content to relocate and that 50% would not. The half that do not relocate require support (and salary) until alternative employment is found, or voluntary redundancy could be paid. To allow for this, 'pre-redundancy' salary has been factored in for those staff. Of the 122 staff staying in London, it is estimated that half would gain alternative employment, and the remainder would require redundancy.

Table 8 Initial estimate of additional set-up costs of new body: outwith London

Source: Defra best estimate based on available evidence, see Annex 2.

	Item	Costs (£)
A	Costs identified A-F in Table 1 above	2,029,000
B	Staff relocation expenses	4,600,000
C	Pre-redundancy salary for staff not relocating	3,200,000
D	Voluntary redundancy for staff not relocating	5,200,000
E	Recruitment to replace staff not relocating	66,000
F	Removals	38,000
	TOTAL	15,133,000

Table 9 Initial estimate of additional savings and running costs of new body: outwith London

Source: Defra best estimate based on available evidence, see Annex 2.

	Item	Savings (£)	Costs (£)
A	Chief Executive (inc pension), Shadow Board and Chairman salaries	-	399,000
B	National pay scale savings	808,000	-
C	Accommodation rental savings	1,428,000	-
D	England Implementation Group savings	285,000	-
	TOTAL	2,521,000	399,000

There could also be significant costs of relocation that cannot be easily quantified. Loss of existing specialist staff (particularly those of longer standing) could lead to loss of corporate knowledge, and accumulated experience and competence. This could substantially reduce the initial effectiveness of the body. Many of the activities of the body are likely to be more effectively carried out in London (e.g. cross-government co-ordination during a significant disease outbreak).

Distinctions in costs between an NMD and an NDPB (Option 1 Variant (i))

58. The consultation proposes that the body could have the status of a non-ministerial department or non departmental public body. The possible cost implications of the difference in legal status is assessed below.

Table 10 Initial estimate of cost differentials between an NMD and an NDPB

Source: Defra best estimate based on available evidence, see Annex 2.

	Item	NMD (£)	NDPB Costs (£)	NDPB (£) Savings
A	VAT payments on services	-	1,010,000	-
B	Replacement staff for vacancies (25) on transfer: recruitments	-	17,500	158,000
	TOTAL		1,027,500	158,000

59. The costs of VAT payments would represent an internal government transfer but would need to be considered in the initial public funding of the body.

COSTS OF LEVY USING A REGISTRATION SCHEME

60. The consultation proposes that a levy is raised from livestock keepers with payments made according to the type and number of animals they keep. Livestock keepers would be required to make an annual return estimating the maximum number of animals to be kept on the holding during the year. The subsequent year's return would report any adjustment to the previous year's estimate as well as estimating the current year. Only large changes during the year would need to be notified.

61. The scope would include the major farmed species (cattle, sheep, pigs and poultry) and the consultation invites views on including horses (paragraphs 71-74), goats, farmed deer and camelids. Views are also sought on whether there should be minimum thresholds below which no payment is made where the cost of collection exceeds the registration fee. Otherwise payment would be calculated by the maximum number of "animal numbers or animal places" as declared.¹⁶ (Options for thresholds are discussed in the consultation).

62. The consultation proposes that there will be scope (within any legislation) for the scheme to be developed to allow for differential payments according to risk factors relating to the livestock keeper, holding and business. More work is needed to develop specific proposals to determine what risk factors should be used to differentiate payments and how they would be assessed. Such proposals will be subject to consultation and a specific impact assessment.

63. It is proposed that the primary registration system would be managed by the Animal Health Agency building on their existing IT systems but that the associated financial systems would be outsourced. Initial estimates of the set-up and running cost have been made. This is set out in the Table 11 below.¹⁷

Table 11 Initial estimate of set-up and running costs of registration scheme

Source: Animal Health best estimate based on available evidence, see Annexes 6 and 7.

¹⁶ For some species, notably poultry, the throughput of animals during the year will be greater than the number of animal places where the life-cycle of the animals is shorter than one year.

¹⁷ A registration scheme operated within an NDPB has the same VAT issue noted above for contracted-out services. Any contracted IT service would, therefore, be subject to VAT @ 17.5%.

	Set-up and pre-launch	Year One	Year Two
	£	£	£
Information Technology Design & Build	7,500,000	-	-
One-off Administration Costs	602,000	-	-
Information Technology Running Costs	500,000	500,000	500,000
General Running Costs	3,640,000	1,806,000	1,533,000
Total	12,242,000	2,306,000	2,033,000

64. The detailed breakdown of these costs is in Annex 6 and notes on the assumptions set out in Annex 7. The initial set up costs would be borne by the taxpayer while the running costs for the scheme would be met by levy payers as a deduction from the overall funds collected before assessing the yearly industry contribution to the relevant costs of the body.

Enforcement and costs

65. Enforcement will include both failure to register and failure to pay. Both will be strongly discouraged but a proportionate approach to enforcement procedures will be adopted in line with Hampton principles. In devising a practicable and risk based enforcement regime, existing systems will be utilised. These may include Animal Health Agency, the Rural Payments Agency and the activities of local authorities. Penalties for non-compliance could include fixed financial penalties for failure to register or pay and a loss of entitlements including, for example, compensation for animals compulsorily slaughtered (where such compensation is available). Default on payments could also be enforced under usual recovery procedures with reliance on legal proceedings as necessary.

66. Costs of debt collection have been estimated at £27,085 from year one onwards. Audit visits (added onto existing visits) have also been built into costs at £180,567 a year.

SUMMARY OF COSTS

Table 12 Summary of costs in £000s (rounded to nearest thousand)

Source: Summary figures are taken from Tables 6-9 and Table 11, see Annexes 2 and 6.

	Set-up in London	Running in London	Set-up outwith London	Running outwith London
New body	2,058	114	15,067	-2,122
Registration	12,242	2,033	12,242	2,033
TOTAL	14,300	2,147	27,309	-89

IMPACT OF NEW FUNDING ARRANGEMENTS

67. This section looks at the potential impact of the levy proposals on the livestock sector. It sets out the levels of payment falling on livestock keepers.

Where the impact will fall

It is useful to consider the potential effects of the levy both in terms of the direct short-term impact and also taking a longer term perspective when some potential dynamic effects would have worked through over time. In the first instance those who will have to pay the levy will bear the incidence of the cost. Given the nature of the industry and the openness of the British meat market, it is likely that in most cases it would be very difficult to pass on these costs generally up the supply chain. Hence, apart from very specialised products, there would be little prospect of significant consequential price rises in consumer meat prices. However over time there could be some influences backwards towards the land rental market. Where producers on rented agricultural land experienced downward pressure on their profit margins as a consequence of the new levies, they would seek to mitigate this effect by trying to reduce their rent charges. Given the general inflexibility (or inelasticity) in the supply of land, this would tend to have the effect of lowering agricultural rents (other things being equal). The actual extent of such reductions is very difficult to quantify. Rented land represents approximately 36.6% of all agricultural land in England (in 2007).¹⁸

Within the sector there are various types of land tenure with differing duration terms. The indirect influences from changes in production costs would be felt sooner on short term lettings than on longer-term tenancies. The amount of land under tenancies of one year or longer duration (including those that require a system of arbitration to determine rents, i.e. Full Agricultural Tenancies), in England was 3.32 m hectares in 2007. The amount of land rented for less than one year (including grazing licences) was 0.442 m hectares. Thus given the institutional framework and the structure of the rented sector, it is probable that the impact of the cost increases on rents for the grazing licences segment of the market would be felt earlier, whilst the wider effects on the overall rented sector would take some time longer to exert a sizeable influence. In principle a somewhat analogous tendency could occur in the agricultural land market. Whilst such a downward influence would tend to operate, in practice it would be rather more difficult to isolate this effect on prices because of the numerous extraneous, non-agricultural factors that can also affect land prices.

Preparedness, surveillance and collection costs

68. The key proposals as set out in the consultation document are that:

- a. Although this may change in the future, initially the livestock sectors contribute 50% of the annual Government costs of preparedness and surveillance work for exotic disease through a registration-based levy;
- b. Costs of preparedness and surveillance will be allocated between sectors according to sector output.

69. Defra is estimated to spend about £44m on exotic disease preparedness at present so the annual industry contribution to this would be £22m. Collection costs are estimated at about £2m a year. Table 13 below illustrates what the level of payments might be based on these assumptions.

¹⁸ Source: SURVEY OF AGRICULTURE AND HORTICULTURE: 1 JUNE 2007 ENGLAND - FINAL RESULTS; November 2007; Table 2.

70. This is calculated by apportioning costs according to the estimated value of the gross output of each sector. An amount for each “animal place” is then calculated.¹⁹ The table illustrates two different approaches to cattle which are the subject of consultation. One would divide up the costs between beef and dairy animals according to the gross output of each sector. The other is to have one rate for all cattle based on the costs allocated to the combined sectors (based on the combined gross output).

Table 13 Illustrative annual payment per “animal place” for main sectors covering preparedness and collection costs (£)

Source: Defra modelling estimates (based on information for 2007).

Livestock Sector	No. of livestock (000s)	Gross output - England (£m)	Preparedness	Collection	Total Payment
Dairy Cattle	2,084	1,847	£4.40	£0.40	£4.80
Beef Cattle	3,514	750	£1.10	£0.10	£1.20
All cattle	-	-	£2.30	£0.20	£2.50
Sheep	15,437	269	£0.08	£0.01	£0.09
Pigs	3,943	583	£0.75	£0.07	£0.82
Poultry (and eggs)	128,743	941	£0.04	£0.00	£0.04

71. Table 14 below shows what this level of payment would amount to for typical farms showing the different effects of the alternative approaches to the cattle payment rate.

Table 14 Estimate of illustrative annual payments for typical farms (illustrating both single cattle rate and separate beef and dairy rate)

Source: Defra modelling estimates (based on information for 2007).

	Number of animals/places on example farm:				Single cattle rate (£)	Separate beef & dairy rate (£)
	Cattle	Sheep	Pigs	Poultry (places)		
Dairy farm	200				507	969
LFA grazing livestock farm	75	600			247	145
Lowland grazing livestock farm	100	350			287	150
Pig farm			2,000		1,615	1,615
Poultry farm				50,000	1,999	1,999

¹⁹ For some species, notably poultry, the throughput of animals during the year will be greater than the number of animal places where the life-cycle of the animals is shorter than one year. This means that the effective rate per animal will be less than the rate for each animal “place”. For instance for an average broiler chicken unit the 4 pence per place might be equivalent to something like less than one pence per bird.

Table 15 Estimated effect on average farm business and costs for main sectors of preparedness and collection costs (illustrating both single cattle rate and separate beef and dairy rate)

Source: Defra modelling estimates (based on information for 2006 and 2007).

		Annual payment (£m)	Total annual costs ²⁰ (£m)	Annual payment as a percentage of annual costs	Total Farm Business Income ²¹ (FBI) (£m)	Annual payment as a percentage of FBI
Single cattle Rate	Dairy	6.6	1,667.8	0.4%	396.1	1.7%
	LFA Grazing Livestock	1.8	288.1	0.6%	81.8	2.2%
	Lowland Grazing Livestock	3.0	483.7	0.6%	106.7	2.8%
Separate beef and dairy rate	Dairy	10.5	1,667.8	0.6%	396.1	2.7%
	LFA Grazing Livestock	1.0	288.1	0.3%	81.8	1.2%
	Lowland Grazing Livestock	1.5	483.7	0.3%	106.7	1.4%
	Pigs	1.8	293.2	0.6%	29.8	6.0%
	Poultry	4.7	536.8	0.9%	109.4	4.3%

Exotic disease outbreak costs (Option 3)

72. This impact assessment is not assessing the impact of specific proposals for sharing the costs currently borne by Government in respect of exotic disease outbreaks. But the estimates of the costs of future exotic diseases presented earlier (paragraphs 46-51 and Tables 2 and 4) are useful to illustrate the potential costs involved. This work suggests that over time the “average” cost to Government for dealing with exotic disease outbreaks affecting the main farmed species might be of the order of £65m a year. If, under Option 3, 50% of this is contributed by livestock keepers this would be equivalent to an average annual contribution of £32.5m which would be recoverable from insurers should a proposal for compulsory insurance be taken forward. Payments would only be required from the insurers in the event of a disease outbreak for the costs actually incurred.

Horses (Option 1 variant (ii))

73. The consultation proposes that horses, which will be part of the remit of the new body, may be covered by the new levy. This diverse industry includes large-scale commercial activities such as racing and sport horses, the leisure and recreational use of horses, and ancillary activities like farriery, equine medicine, tack and feed supply. The horse industry's gross output has been estimated at approximately £4 billion per year, attracts around 4.3m riders, and directly or indirectly employs up to a quarter of a million people. It plays an important part in the national and especially rural economies, the social fabric of rural communities, and environmental and land management.

74. Horses are considered separately in this impact assessment for a number of reasons: equine diseases tend to affect horses only; Defra available data is less robust given that horses tend not to be comprehensively included in survey data; and, on the basis that Animal Health runs the registration scheme, extra work will be necessary to include horses. No assessment has yet been made of the potential benefits from the reduction in

²⁰ Average farm business incomes and costs have been derived from averaging results from the 04/05, 05/06 and 06/07 Farm Business Survey data

²¹ Average farm business incomes and costs have been derived from averaging results from the 04/05, 05/06 and 06/07 Farm Business Survey data

the risk and costs of exotic diseases affecting horses. Further work will be required to develop this.

Table 16 Estimated additional costs of horse registration

Source: Animal Health best estimate based on available evidence, see Annex 6 and 7.

	Set-up and pre launch	Year 1	Year 2
	£	£	£
Information technology design & build	2,500,000	-	-
One-off administration costs	900,000	-	-
Information technology running costs	748,000	748,000	748,000
General running costs	4,293,000	2,046,000	1,638,000
Total	8,441,000	2,794,000	2,386,000

75. As with the main table on registration costs (Table 11) the detailed breakdown of these costs is in Annex 6 and notes on the assumptions are set out in Annex 7. The initial set-up costs would be borne by the taxpayer while the running costs for the scheme would be met by levy payers as a deduction from the overall funds collected before assessing the yearly industry contribution to the relevant costs of the body.

76. Calculations of the size of a registration fee on horse keepers remains, to some extent, speculative given uncertainties about the value of the sector output. For illustrative purposes it is assumed that horse keepers share 20% of the industry proportion of the £22m annual exotic preparedness costs. On this basis keepers would contribute £4.5m per year (or about £7 per horse based on the estimated number of 650,000 horses). With a collection cost of about £2.3m (or about £3.50 a keeper) this makes a total of £10.50 per keeper each year as Table 18 sets out.

Table 17 Illustrative horse industry payments

Source: Defra modelling estimates based on (2004) "A report of research on the horse industry in Great Britain" The Henley Centre, British Horse Industry Confederation, Defra.

Estimated no. of horses (000s)	Preparedness cost (£m)	Collection cost (£m)	Total cost (£m)	Payment per horse (£)
650	4.5	2.3	6.8	10.5

ADMINISTRATIVE BURDEN

77. Keepers of the main farm animals (cattle, sheep, pigs, goats and poultry) are already required to register and owners of horses are required to apply for passports for their animals. As a result, for these keepers, the administrative burden that arises relates to providing information in a different manner in order that the payment required can be determined. This will generally only be an annual requirement. As set out in the

consultation the intention in the longer term is to build on existing systems so that the additional information required from livestock keepers can be supplied alongside, and at the same time, as they provide other information already required. The aim is that the whole process can be completed electronically with the annual return pre-populated where possible so that the work involved is minimised. It is estimated (from experience with the Poultry Register) that completion of the return on-line (or over the telephone) would take about 10-15 minutes on average. There will be some offsetting savings as this process can be used to replace some existing registration requirements. The net increase is estimated at 10 minutes on average which is estimated to cost £475,000.²²

78. There will also be potential savings from a reduction of the administrative burden incurred during exotic disease outbreaks to the extent that the scale of such outbreaks is reduced. These are difficult to quantify but could be substantial.

HAMPTON PRINCIPLES

79. In March 2005 the Hampton Review reported on the scope for promoting more efficient approaches to regulatory inspection and enforcement while continuing to deliver excellent regulatory outcomes. In particular the report discouraged the formation of new regulatory bodies unless no existing organisation could carry out those functions, it recommended merging 31 smaller regulatory bodies into seven larger bodies, and, it set targets for reductions in form filling for business. These proposals are in step in the following ways:

- a. Industry's involvement in the arm's length body will fundamentally re-define the way that farmers interface with the regulatory system – from better decision-making on animal disease policy through to the way in which forms are devised. Over time this will have the potential to reduce the regulatory burden on the livestock sector.
- b. At the same time, much of the infrastructure is proposed to remain the same. Animal Health, for example, will retain its functions though infrastructure may be streamlined depending on the outcome of further work (paragraph 78). The option to maintain Defra staff as civil servants within their existing locations would clearly cause minimal disruption. Furthermore, the use of a common location would help to foster good relations between staff in the new body and the parent Department.
- c. The proposed registration based levy scheme has the potential in the longer term to bring together a range of ways in which livestock keepers need to fulfil their statutory obligations to their animals (such as registering births, deaths and movements).
- d. The biosecurity incentive proposed would have the potential in the longer term to reward keepers for effective risk management, which is in line with Hampton principles.
- e. The overall policy objective is to reduce risk of animal disease and to reduce spread when incursions occur. In meeting this objective, the measures will reduce the need for government intervention.
- f. The proposals will bring about a clearer rationale for the contribution of public funds to exotic disease control that is more transparent and justifiable.

80. Further, the Government is committed to conducting further analyses on how the delivery landscape in the area of animal health can be improved and streamlined. Chapter 3 of the consultation document outlines Defra's commitment to continue to work to simplify the regulatory landscape, in line with the Hampton principles, to improve effectiveness, increase efficiency and enhance responsiveness to customer wishes.

EC CONTEXT AND REQUIREMENTS

81. As part of the Community Animal Health Policy 2007-2013, the Commission is expected to develop proposals for the harmonisation of responsibility and cost sharing for epidemic diseases in 2010. Defra is working closely with the Commission, and it is our view that

²² Using Defra standard admin burden cost model

working up options relevant for England in advance of the Commission proposals, is the best way to help shape the direction of Community policy as it emerges.

IMPLEMENTATION

82. Primary legislation will be needed to establish a body with decision-making powers and a levy mechanism. Proposed implementation dates are given below, clearly at this point they remain provisional.

Spring 2010	Publish a draft Bill for pre-legislative scrutiny
Autumn 2010	Introduce Bill to Parliament
Summer 2011	Shadow Board established
2011	Consult on draft Statutory Instrument(s) for revenue mechanism
November 2011	Royal Assent
Jan - March 2012	Statutory instrument laid for revenue mechanism
April 2012	Act takes effect (on Common Commencement Date)
	Body up and running
	Levy mechanism in place

MONITORING, REVIEW AND EVALUATION

83. The new body will be required to put in place monitoring, review and evaluation mechanisms for its work. These will be subject to consultation with relevant stakeholders. If an NDPB it will be assessed by the sponsor department in accordance with good practice.

84. The annual levy rates will be reviewed annually by the new body and will be subject to consultation once the body is up and running. The scope and operation of the cost sharing arrangements more generally will be reviewed periodically by the new body after implementation. Again, precise evaluation mechanisms will need to be developed with stakeholder input as this work progresses.

FUTURE DEVELOPMENT OF ASSESSMENT OF IMPACTS

85. As set out in the consultation views are invited on this initial impact assessment and on the assumptions and cost estimates made here. The impact assessment will be revised and developed in the light of further information and as the proposals are developed in more detail. This will include work to develop a levy scheme which reflects risk and therefore incentivises farmers as well as further consideration of issues such as whether horses should be included in scope. Further work is also being undertaken on Option 3 - compulsory insurance for livestock keepers.

86. If, in the light of responses to this consultation and further work and discussions with the insurance industry, the Government brings forward specific proposals for Option 3 (compulsory insurance for livestock keepers in respect of exotic disease outbreaks) then a further impact assessment will be produced. This will assess in particular the costs and administrative burdens associated with any such proposal for business and government; and the extent to which incentives to reduce risk can be built into the proposal.

87. If a compulsory insurance scheme does not prove to be workable then the government will consider how the proposed levy could be used for the livestock industry to contribute to the costs of exotic disease outbreaks. A further impact assessment would also be produced for any such proposals.

Specific Impact Tests: Checklist

Use the table below to demonstrate how broadly you have considered the potential impacts of your policy options.

Ensure that the results of any tests that impact on the cost-benefit analysis are contained within the main evidence base; other results may be annexed.

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

ANNEX 1: IMPACT TESTS

Competition assessment

1. The UK market in meat is open to significant competition, both from domestic suppliers and from those of other EU member states. The proposed measures to be introduced under the responsibility and cost sharing programme are unlikely to significantly alter that general situation.
2. In carrying out the Competition Assessment it is appropriate to look at the general situation and also to examine a little more closely some of the specific aspects to see if there might be secondary effects arising from the measure. In this context the most pertinent issue will be the geographical scope of the scheme. At this juncture the present proposals are to be implemented in England and not in Scotland and Wales. Ongoing discussions are taking place between the respective administrations on further developing this policy area. Hence in due course the systems and arrangements that will be put in place in Britain as a whole will become clearer. Also it is likely that in the intermediate to longer term the prospective EU Community Animal Health Policy will tend to mitigate some of the disparities relative to Scotland and Wales that might arise from implementing the proposed measures in England only.
3. However, for the purpose of conducting the impact assessment for this programme, one will need to focus on the foreseeable future period and, hence, one should consider what the likely effects will be of having the levy scheme applied as planned. It is quite difficult in general to be very categorical about the wider effects of the measure because they will depend on a number of factors, including the periodically prevailing market conditions, the size of payments and the conditions attached and the flexibility around registration and payment timings, etc. Moreover a lack of suitable data, particularly on the abattoir sector, means that there are limitations on the quantitative analysis that is possible in the time available.
4. Whereas few, if any, distortionary effects on competition would be likely to emerge from the proposed measure in itself, the consequences for livestock trading between England and Scotland and Wales is less certain. The trading and movement of farm animals across these borders are already quite common. One possibility might be that, given the feasibility of flexible trading over the production period of grazing livestock, particularly store cattle, some English producers would tend to bring forward some disposals of their intermediate stage animals before the onset of a payment period. When livestock would be put up for sale in English border regions, either for this reason or as part of the normal intermediate stage trading pattern, farmers from the Scottish and Welsh sides of the borders will have some competitive advantage in bidding for them compared with their English counterparts, who will have to factor in the levy charge in their prospective production costs. Other issues may arise around the question of compliant behaviour. One might consider it appropriate to take as a default (“base case”) position an assumption of 100% compliance with requisite regulations. However alternative scenarios could take account of realistic circumstances whereby, given the potential financial incentives towards recording deficiencies and the fairly readily available diversion outlets in border regions, the possibility of non-compliant behaviour that could be associated with a leakage of grazing livestock across the borders, could not be entirely discounted. Such behaviour will, of course, be liable to sanctions. The extent of these effects is unquantifiable at this point.
5. The degree to which movements would arise would depend in part on the stocking and handling capacity of contiguous Scottish and Welsh producers. The potential

scale of such effects would also be partly influenced by the English livestock population distributions. The ruminant livestock population distribution in England is concentrated in the Northern and Western regions, which are those closest to the borders with Scotland and Wales (respectively). For beef cattle, concentrations of more than 10 beef breeding cows per 100 hectares of farmed land are found in Cumbria, Durham and Northumberland. High concentrations of sheep (over 100 per 100 hectares of farmed land) and dairy cattle (more than 20 per 100 hectares of farmed land) occur in the same areas, and extend into the Pennine region, (as well as in Somerset and Dorset) (MLC, 2007). Thus whilst transport costs (related to distance) would certainly limit the number of animals displaced, given the concentration of much of the ruminant livestock industry in the English border regions, some cattle and sheep farmers in those areas may be less constrained by this. The option of transporting livestock, giving rise to the displacement effect, will probably not be as applicable for most pig farmers, since they are generally more concentrated in Norfolk, Suffolk and East Yorkshire (i.e. regions with > 10 pigs per 100 has. of farmland) (ibid.).

6. At the next stage of the supply chain, to the extent that some of those farmers who will be affected will be unable to fully absorb the additional costs, English abattoirs may attempt to increase their demand for livestock from over the borders in Scotland or Wales, whose suppliers would again tend to gain a comparative advantage. The formers' effectiveness in securing such supplies would be affected by the availability or otherwise of slaughtering capacity in Scotland and Wales (there are 39 abattoirs in Scotland and 24 in Wales) (ibid.). The transportation costs would, as before, act as a limitational factor on the geographical extent of this impact, with the pull effect diminishing as distance from the border increases. Demand from the English abattoirs would tend to be directed, (other things being equal), towards drawing some more of their animals from Scottish and Welsh sources (as applicable) if, and to the extent, that the increased transportation costs were less than the amount of the additional costs arising from the levy.
7. There is likely to be a time dimension to the regional competitive effects that are outlined above. In the short run, contractual obligations and limitations on investments and capacity adjustments mean that one would not expect that significant displacements would be likely in the short term. However over time in the medium term, as contracts come to an end, capacity increased and the transportation network expands, somewhat more animals, particularly cattle and sheep, in English regions fairly near to the borders could be affected. In the longer term this effect could potentially become rather more influential, if the effects were not mitigated by corresponding policy measures and payments throughout Britain, although the scale of such effects in practice are impossible to quantify at this point and will obviously be affected by the size of the charge. English abattoirs not very distant from the borders could be put under some pressure to maintain their supply of livestock and a few of the smaller ones may find it difficult to do so, depending on circumstances. However the incremental number of abattoirs that might leave the industry as a direct result of the scheme is expected to be relatively very small when compared to the total secular decline in numbers.
8. Thus at the general level, there are not expected to be significant competition issues in the livestock and meat sector arising from the proposed levy. There might be effects on local competition in particular border regions unless parallel mitigating schemes were put in place over time. However the overall changes to the sector particularly in Britain, but also in England, are unlikely to be of a scale as would materially alter the competitive nature of the national market.

Small Firms Impact Test: Checklist

A. At an early stage in the impact assessment preparation make a preliminary assessment of the businesses likely to be affected

1. The proposals will apply to small businesses in that the majority of livestock farms are small enterprises. The main impact assessment, therefore, has been constructed from this perspective.

Table Size of farm businesses measured by standard labour requirement²³ (SLR)

Source: "Agriculture in the UK", 2007

Size of holding by SLR	No of holdings (000s)	Total SLR
Under 1 SLR	150.8	29,736.8
1 to under 2 SLR	24.4	34,313.7
2 to under 3 SLR	10.7	26,176.6
3 to under 5 SLR	8.7	33,192.8
5 SLRs and over	5.7	59,851.7
	200.4	183,271.6

B. Assess alternative options

2. There has been extensive consultation on the proposals since the first policy soundings in the aftermath of Classical Swine Fever in 2000. In broad terms, the policy was originally confined to cost-sharing and as discussions with industry developed, the need for greater decision-making by industry on funds contributed by their constituency has emerged. It is now the case that key sections of industry are calling for an independent body with industry representation to decide on animal health policy. This is perhaps the first and most fundamental way in which policy has been adapted to take account of SME (small and medium enterprise) livestock producer needs – given that it is not sustainable for the taxpayer to continue to bear the cost of exotic disease preparedness when the main beneficiaries are livestock producers.
3. Partial exemptions are being considered for micro businesses in that we are consulting on whether there ought to be thresholds of livestock numbers where payments are not required under the proposed scheme. This will not, however, override existing livestock identification registration requirements where they currently exist.

C. Scope issues with a representative sample of small businesses

4. We have discussed policy options extensively since the consultation issued in December 2007²⁴:
 - In February and March 2008 we held 12 regional workshops which involved livestock producers and representatives from farming organisations
 - Three rounds of meetings with sector groups comprising representatives of the main livestock organisations were held between February and June 2008.

²³ SLR is Standard Labour Requirement for a farm business and represents the labour requirement (in full-time equivalents) for the agricultural activities on the farm.

²⁴ Responsibility and Cost Sharing for Animal Health and Welfare: Next Steps – Your Views Matter

- The UK Consultative Forum on Responsibility and Cost Sharing, which included industry representatives and administrators from the UK ran between December 2006 and July 2008 (with a break during FMD in 2007).

5. Through this policy development process we eliminated certain options (such as a levy at slaughter) and have moved to consultation on a registration based levy scheme.
6. It is possible that the costs imposed on livestock producers could have an impact on supply, in that the additional costs might make producers decide to switch from livestock to arable or horticultural production. In sufficient numbers, this could in principle, affect small businesses dependent on them such as small isolated abattoirs in rural areas. However, past example shows that livestock farmers are not immediately responsive to cost changes.
7. Whilst it is fair to say that no industry stakeholders welcome the imposition of costs, feedback on the independent body proposal is not unanimous. Some stakeholders believe it to be a necessary measure, others would prefer to retain the existing structure and extend partnership working within it.

D. Determine if there is likely to be a greater impact on the operations and performance of small businesses than others

8. As the majority of livestock businesses are SMEs then the impact of the registration payment and administrative burden will be fairly spread. In addition, the levy is proposed on a headage basis – therefore the greater the size of the business, the proportionately greater the payment will be required.
9. It may also be the case that should discounts be developed for good biosecurity, measures are proportionately more difficult to access for smaller producers (in any livestock sector). So, for example, it will be easier for a larger operator to find the funds to take on discount-linked biosecurity measures than it would be for a smaller operator with more constrained finances. But there are no specific proposals in the consultation on this.

E. Gather detailed data about likely impact on small businesses as part of the wider consultation including costings

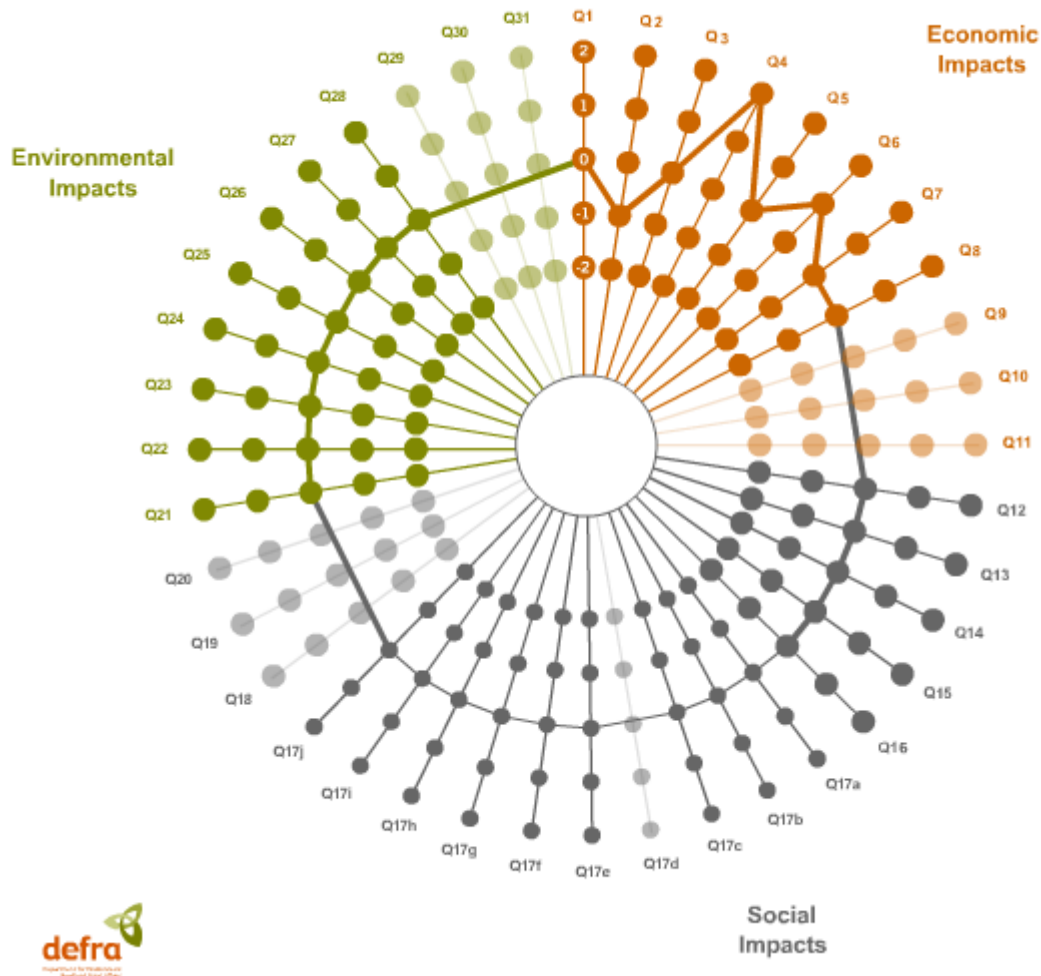
10. Early illustrations of costs based on disease outbreaks in 2007 were provided in policy development papers to the UK Consultative Forum. These are further outlined in the main impact assessment given that the majority of livestock producers are SMEs.

F. Ensure that the impact assessment covers the impact on small businesses

11. It does.

Sustainable Development: Policy Web

Source: <http://www.defra.gov.uk/sustainable/think/stretch/index.htm>



1. The policy web is a tool for illustrating graphically the overall social, environmental and economic impacts of the responsibility and cost sharing proposals.

2. Discussions were held to create a web for the policy proposals – generating the policy’s ‘score’ for each question in the impact assessment.

3. The two policy proposals (new independent body and registration scheme) have been considered together as they are interdependent to the overall policy aim of achieving new arrangements for animal health which:

- Reduce the overall levels and total costs of animal diseases;
- Deliver effectiveness, efficiency and economy from investment in disease prevention and management;
- Share costs between main beneficiaries and risk managers; and
- Improve confidence of the livestock industry and other stakeholders in the way disease risks are managed.

4. The questions listed below represent each “spoke” of the policy web. Negative (-1) or positive (+1) impacts and neutral (0) impacts resulting from a balancing exercise between negative and positive effects are briefly outlined below.

Economic impacts

Q1. Will it impact on the levels of competition within the affected sector? [0]

A1. Competition between the various segments of the livestock industry could be very slightly affected if the proposed measures are implemented in England but not elsewhere in Britain, given that significant portions of the ruminant livestock population in England borders Wales and Scotland. The devolved administrations have been closely involved in discussions on how policy measures will be reflected in their own context, but firm proposals have yet to be adopted. Competition with EU and third countries is significant and unaffected.

Q2. Will the proposal impact on small businesses? [-1]

A2. As most livestock producers are classified as small businesses, then the proposals will impact on small businesses. The impact assessment has been drafted from this perspective and a Small Firms' Impact Test forms part of Annex 1 within the impact assessment.

Q3. Will the proposals introduce new criminal sanctions or civil penalties? [0]

A3. No.

Q4. Will the proposal bring receipts or savings to the Government? [+2]

A4. Some additional financial support (set-up costs) will be necessary to establish the new body and to set-up the registration based levy scheme. These costs will be more than off-set by savings to government expenditure on disease surveillance/preparedness and reducing the likelihood and cost of such outbreaks.

Q5. Will it impact on the costs, quality or availability of goods and services? [0]

A5. For consumers, the proposals could, in theory, increase the costs of meat products but this would depend on livestock keepers being able to pass costs back to consumers, which traditionally they have found difficult to do.

Q6. Will it impact on the public sector, the third sector, consumers? [+1]

A6. The proposals will impact on the elements of the public sector directly related to the policies. As such, the new body would entail a transfer of staff from Defra (estimated 235 staff) to the new body which may or may not involve a move out of London. In the main these will be policy and specialist staff. In addition, one of Defra's existing delivery agents would need to be contracted to run the registration scheme. The wider public sector will not be affected nor, on the whole, will the voluntary sector. There may, however, be impacts on charities such as animal sanctuaries in terms of registration requirements. As already noted, the proposals could have an impact on prices of meat products, but this is unlikely. Consumers, as taxpayers, should experience better value for money in the sense that the key beneficiaries of disease prevention and control measures will bear a proportion of the costs of exotic disease preparedness costs. The proposals will continue to safeguard public health in relation to zoonotic diseases.

Q7. Will the proposal result in new technologies? [0]

A7. No.

Q8. Will the proposal result in a change in the investment behaviour both into the UK and UK firms overseas and into particular industries? [0]

A8. The proposals could, in theory, increase investment by livestock keepers in biosecurity measures in order to be eligible for the biosecurity discount from levy payment(s). Conversely, the requirement to pay a fee may decrease investment in that livestock keepers may not be able to afford investment in addition to paying the fee. For this reason this question has been rated at zero.

Q9-Q11. Blank

Social impacts

Q12. *Will the proposal have an impact on health, wellbeing or health inequalities? [0]*

A12. No. The proposals will continue to safeguard public health in relation to zoonotic diseases.

Q13. *Will the proposal influence safety at work or affect the likelihood of accidents in the community? [0]*

A13. No.

Q14. *Will the proposal affect the rate of crime or crime prevention or create a new offence / opportunity for crime? [0]*

A14. Default on payments would be enforced under usual recovery procedures with reliance on legal proceedings as necessary. Penalties for not registering would need to be sufficient to ensure that failure to register was strongly discouraged and it could involve a loss of entitlements including, for example, compensation for animals compulsorily slaughtered. That said, a proportionate approach will be adopted which takes account of the latest guidance and approach of the public sector.

Q15. *Will the proposal affect the levels of skills and education? [0]*

A15. No.

Q16. *Will the proposal affect the provision of facilities or services that support community cohesion or in other ways affect the quality of life in the local community? [0]*

A16. No.

Q17. *Could the proposal result in any changes in or a differential impact on any of the following?:*

- a. race equality [0]
- b. rural proofing [0]
- c. human rights [0]
- d. gender equality [0]
- e. disabled equality [0]
- f. children and young people [0]
- g. older people [0]
- h. income groups [0]
- i. devolved administrations [0]
- j. particular regions of the UK [0]

Q18-20. Blank

Environmental impacts

Q21. *Will the policy option lead to a change in the emission of greenhouse gases? [0]*

A21. No.

Q22. *Will the policy option be vulnerable to the predicted effects of climate change? [0]*
A22. No.

Q23. *Will it lead to a change in the financial costs or the environmental and health impacts of waste management? [0]*
A23. No.

Q24. *Will it impact significantly on air quality? [0]*
A24. No.

Q25. *Will it involve any material change to the appearance of the landscape or townscape? [0]*
A25. No.

Q26. *Will it change the degree of water pollution, levels of abstraction of water, or exposure to flood risk? [0]*
A26. No.

Q27. *Will it disturb or enhance habitat or wildlife? [0]*
A27. No.

Q28. *Will the policy option affect the number of people exposed to noise or the levels to which they are exposed? [0]*
A28. No.

Legal Aid

Default on payments would be enforced under usual recovery procedures with reliance on legal proceedings as necessary. Penalties for not registering would need to be sufficient to ensure that failure to register was strongly discouraged and it could involve a loss of entitlements including, for example, compensation for animals compulsorily slaughtered. That said, a proportionate approach will be adopted which takes account of the latest guidance and approach of the public sector. We are consulting with the Ministry of Justice on possible approaches to enforcement and offences. Until the exact scope of a registration scheme is determined, it is not possible to ascertain the impact on the court system or level of legal aid.

Carbon Assessment

The proposals are not believed to result in any significant change in carbon emissions, though it is possible that there may be an increase in vehicle movements associated with enforcement/inspection of the registration scheme. Ideally these visits would be combined with other purposes, but it is too early to say whether this will be possible in practice.

Other Environmental Issues

As the nature and scale of the livestock sector is likely to remain the same, the proposals have no implications in relation to climate change, waste management, landscapes, water and floods, habitat and wildlife or noise pollution.

Health Impact Assessment

The proposals will continue to safeguard public health in relation to zoonotic diseases.

Race/Disability/Gender Equality

We considered carrying out an equalities impact assessment in relation to the proposals – particularly in relation to the establishment of a new body – to assess possible impacts on race, disability and gender as a minimum. However, following discussion with Defra's Diversity Team, it was agreed that it was too early to carry out such an assessment at this stage of the process. Should the proposals be taken forward, an equality impact assessment will be undertaken to assess any potential impacts on different groups.

Human Rights

The proposals are consistent with the Human Rights Act 1998.

Rural Proofing

The majority of producers affected by the proposals are based in rural areas. The proposals are likely to have an economic impact which will be specific to those involved in livestock production. The impact assessment looks at this in detail.

ANNEX 2: NOTES TO ACCOMPANY COSTS OF NEW BODY

The costs identified are best estimates based on data available and based on comparable experience, in particular the experience of establishing the Agriculture and Horticulture Development Board.

Table 5 Initial estimate of additional set-up costs of a new body: London

A Specialist set-up team

Salary of full-time staff in specialist areas to oversee the development of the body: Legal (1xG6, 1xG7, 1xE0), HR (1xG6, 1xG7 and 1xHEO), Estates (1xSEO). The creation of the new body would also involve a team of administrators (1xG6, 1xG7, 2xSEOs, 2xHEOs and 1xE0 as existing civil servants) and a Bill team (of 1xG7, 1xHEO and 1xE0) to see through the transition from Defra to the new body. Staff could be expected to be in place for a year, requiring full-time input from around 17 staff in total.

B IT

It is assumed that the new body would use the Defra 'e-nabling' contract at a cost of £1,100 per staff member (not included as it represents a transferred running cost). In terms of set-up costs, transfer of IT services would be approximately £125 per person, although this depends on the remoteness of the location and the networks already available at the site.

C Recruitment of Shadow Board, Chairman and Chief Executive

This item covers the costs of contracting an agency to recruit at executive level and the (senior) Defra staff costs to be involved in sifts and interviewing panels.

D Shadow Board, Chairman and Chief Executive

This line covers for one year Board staff costs and Chief Executive costs whilst the body is being set-up:

Shadow Board (non-pensionable) @ 8 members x £300 per day x 40 days per year = £96k

Chairman (non-pensionable) @ £91k

Deputy Chairman (non-pensionable) @ £75k

Chief Executive (including pension) @ £136.5k (£100k salary + £11k NI + £25.5k pension)

E Secretariat for Shadow Board

This line covers the salary costs of employing (1xG7, 1xHEO, 1xE0, 1xAO as existing civil servants) for one year to provide a secretariat service to the Shadow Board in advance of the Board being up and running.

F Re-branding

Re-branding is not expected to be a significant cost. In addition to internal signage, stationery, logo development, a separate front desk arrangement would be needed within the Defra complex.

G Removals within London building

At present Defra staff working on animal health policy are sited in different buildings of the London complex. There would be some cost involved in bringing together 235 Defra staff + 10 AH staff @ £120 per person to work in one or more floors of the same

building. This is the amount that Bishops Move (removals' company) would charge, which includes transporting hardware, assuming a desk top. As Defra staff move to laptops in the future, there may be less demand to move hard drives, screens, docking stations etc.

Table 6 Initial estimate of additional running costs of a new body: London

A Shadow Board, Chairman and Chief Executive

This line covers the annual pay for Board staff, Chairman and Chief Executive:

Shadow Board (non-pensionable) @ 8 members x £300 per day x 40 days per year = £96k

Chairman (non-pensionable) @ £91k

Deputy Chairman (non-pensionable) @ £75k

Chief Executive (including pension) @ £136.5k (£100k salary + £11k NI + £25.5k pension)

B England Implementation Group (EIG)

This independent advisory group was appointed to drive delivery, in England, of the Animal Health and Welfare Strategy for Great Britain in partnership with government. The role of the group would be duplicated if a new body was created, and therefore the 13 members and small Defra secretariat would no longer be required. This represents a saving of circa £322k per annum (£135k for EIG, and £187k for the secretariat).

Table 7 Initial estimate of additional set-up costs of new body: outwith London

A Costs identified A-F in Table 6 above

These costs are the same for a London location as for an outwith London location and as such have not been itemised again.

B Staff relocation expenses

These costs are spread over nine years (in accordance with Defra's relocation policy) and include moving costs and additional travel expenditure for half of current staff numbers (i.e. 122 staff).

C Pre-redundancy salary for staff not relocating

These costs are based on the additional pay necessary for an estimated 59 staff who are not prepared to relocate, but who either go on to find alternative employment within a year, or accept voluntary redundancy.

D Voluntary redundancy for staff not relocating

These estimates are based on the costs of voluntary redundancies for an estimated 59 staff.

E Recruitment to replace staff not relocating

This line includes the costs of contracting an agency to manage the process of recruiting an estimated 122 members of staff. The recruitment drive also requires management time in terms of sifting, interviewing and moderating. This is estimated at £500 per posting, (07/08 figures) plus an additional £5,000 for specific local advertising. The costs of adverts could increase substantially if the vacancies required specific (separate) job descriptions. There may be a limited amount of interest in these posts

from other government departments, which could reduce external recruitment costs slightly.

F Removals

This line covers the costs of removing office furniture and equipment from Defra's HQ site and installing it at an outwith London site @ £155 per person.

Table 8 Initial estimate of additional savings and running costs of new body: outwith London

A Shadow Board, Chairman and Chief Executive

This line (as with table 5) covers the annual pay of Board staff, Chairman, Deputy and Chief Executive:

Shadow Board (non-pensionable) @ 8 members x £300 per day x 40 days per year = £96k

Chairman (non-pensionable) @ £91k

Deputy Chairman (non-pensionable) @ £75k

Chief Executive (including pension) @ £136.5k (£100k salary + £11k NI + £25.5k pension)

B National pay scale savings

The savings estimated are based on reduced staff costs which derive from establishing the body outside of London (savings in pay, pension, National Insurance etc. from adopting national pay scales for new staff, as opposed to London pay scales). It should be noted that further savings will be released over a number of years as staff who do transfer from London will be on "marked time".

C Accommodation rental savings

Savings are calculated on the basis that accommodation outside of London will be cheaper than renting from Defra's HQ estate. For the purposes of estimating costs, the figures are based on moving to Defra's Crewe site. Savings may take time to filter through as existing accommodation contracts cannot be released until 2013.

D England Implementation Group savings

See Table 6 Note B.

Table 9 Distinctions in costs between an NMD and an NDPB

A VAT payments on services

NDPBs are not considered as government departments for VAT purposes and must comply with normal VAT regulations. They are treated in the same way as private VAT-registered traders and are not able to take advantage of the special VAT procedures available to government departments, including refunds of VAT on contracted-out services. As such, 17.5% would need to be added to services contracted-out such as accounting, pay and IT. The figure provided is a working estimate based on the VAT reclaimed by the administration side of Animal Health (not including the VAT reclaimed for official veterinary services).

B Replacement staff for vacancies at transfer: The Transfer of Undertakings (Protection of Employment) Regulations 2006 (TUPE) protects employees' terms and conditions, when the service in which they work is transferred from one employer to

another and the service retains its identity. However, it is estimated that 10% of those staff being transferred (245) will not wish to lose their civil service status, and will endeavour to transfer to a different department before then transfer date. This will potentially leave additional vacancies at the point of transfer, which the new body will be required to fill @ £500 per post (for 25 posts), plus local advertising at £5,000. Replacing staff would potentially release a saving of £158,248 based on the terms and conditions for new staff.

ANNEX 3: LYONS' REVIEW

In March 2004 Sir Michael Lyons' independent review of government accommodation in London and the South East "Well Placed to Deliver? – Shaping the Pattern of Government Service"²⁵ was announced. The review concluded that the pattern of government needed to be reshaped:

"National public sector activity is concentrated in and around London to an extent which is inconsistent with Government objectives. In particular this pattern fails fully to reflect the large cost disparities between London and other parts of the UK and the revealed benefits of dispersal for the efficient delivery of government business and for regional economies. London as capital needs a governmental core supporting ministers and setting the strategic policy framework. In every other respect the status quo is open to challenge."

He made 10 recommendations which included:

- Identifying more than 27,000 jobs that could be taken out of London and the South East;
- Major dispersals are unlikely to offer a quick payback and they incur considerable costs up front. The Government must be prepared to make the necessary investment;
- Whitehall headquarters should be radically slimmed down, reflecting a clearer understanding of what is really needed in London, and of the distinction between policy and delivery;
- There should be a strongly enforced presumption against London and South East locations for new government bodies and activities; for functions such as back office work and call centres which do not need to be in London; and for bodies and functions whose effectiveness or authority would stand to be enhanced by a location outside London.

²⁵ http://www.hm-treasury.gov.uk/the_lyons_review.htm

ANNEX 4: GOVERNMENT EXPENDITURE ON ANIMAL HEALTH AND WELFARE

This Annex provides a summary breakdown in Tables 1 and 2 below of Defra expenditure on animal health and welfare. Table 1 covers expenditure managed by animal health and welfare policy part of the department while Table 2 covers expenditure by the Animal Health executive agency. In both cases it includes some expenditure which relates to activities in Scotland and Wales as well as England.

Table 3 summarises the costs to Defra of the exotic disease outbreaks in 2007.

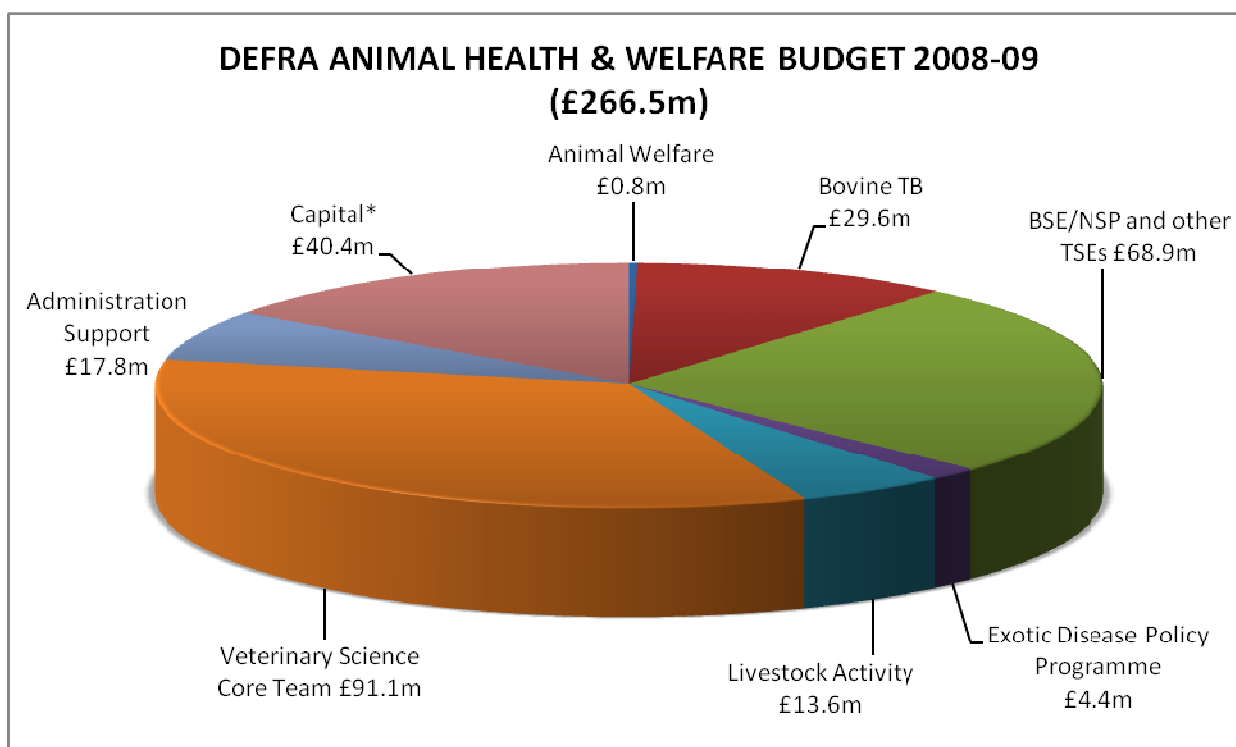
Table 1 Defra animal health and welfare budget 2008-09

Source: Defra and Animal Health finance teams

2008-09	£m	%
Animal Welfare	0.750	0%
Bovine TB	29.551	11%
BSE/NSP and other TSEs	68.916	26%
Exotic Disease Policy Programme	4.399	2%
Livestock Activity	13.640	5%
Veterinary Science Core Team	91.074	34%
Administration Support	17.833	7%
Capital*	40.385	15%
	266.548	100%

Figure 1 Defra animal health and welfare budget 2008-09

Source: Defra and Animal Health finance teams



Capital* – Includes a one-off £10m for VLA redevelopment

Table 2 Animal Health costs information

Source: Defra and Animal Health finance teams

Budget analysis – Aug 08	£m	%
Animal Welfare	4.604	4%
Brucellosis/Zoonotics	0.838	1%
By Products	3.635	3%
Exotic Notifiables	14.754	12%
International Trade	5.366	4%
Other Endemics	1.137	1%
Outbreaks	1.521	1%
TSEs	2.698	2%
Bovine TB	33.472	26%
DHI/EMI/WLRS	3.616	3%
Livestock Programme	2.000	2%
Organisational Development (BRP)	15.000	12%
Central Functions and Support	25.332	20%
Capital	14.070	11%
	128.043	100%

Figure 2 Animal Health costs information

Source: Defra and Animal Health finance teams

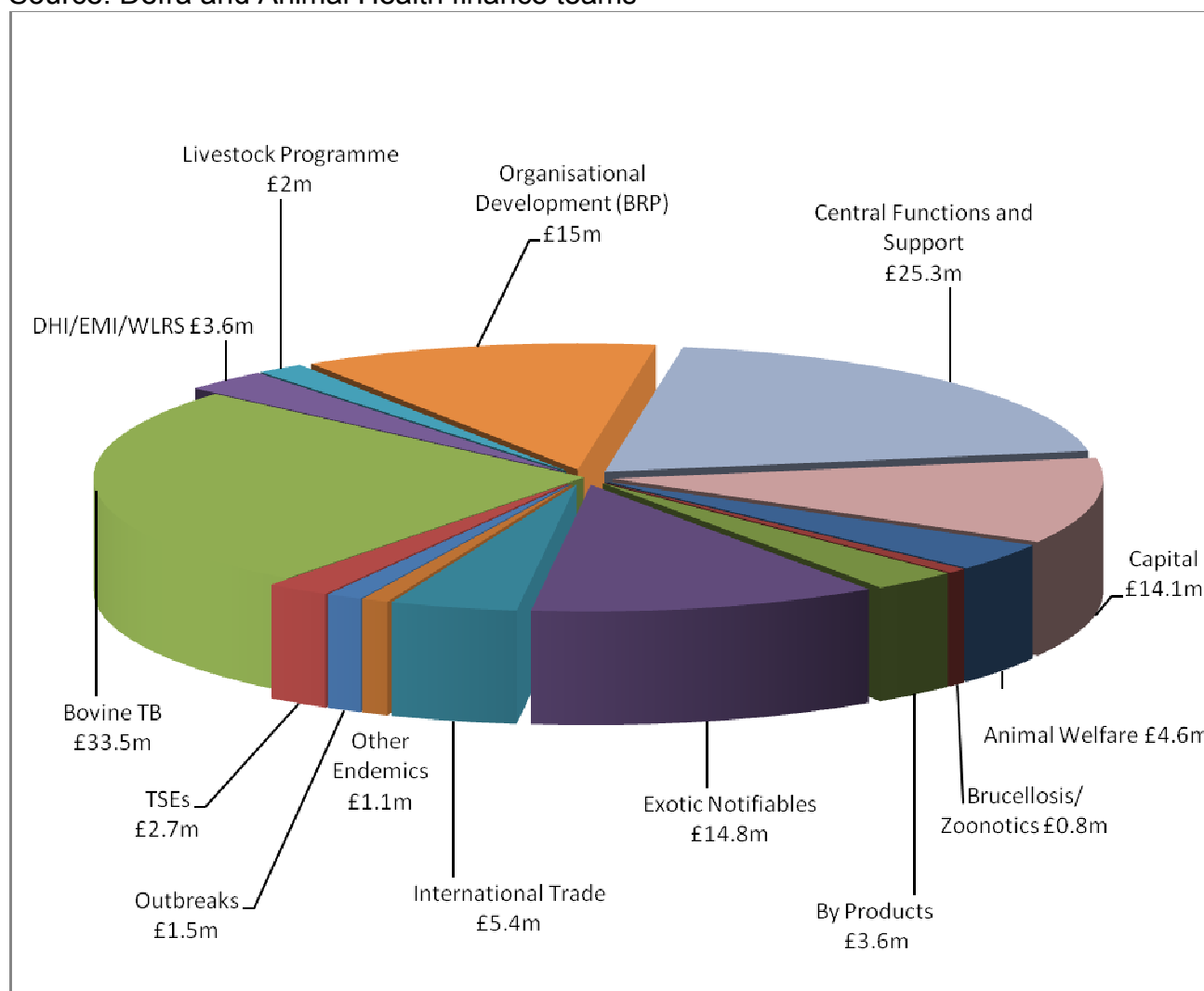


Table 3 Exotic disease outbreak costs in 2007

Source: Defra finance team

Outbreaks in 2007	Cost
FMD	£47m
Bluetongue	£2m
Avian Influenza	£3m
Total	£52m

Table 4 Exotic disease preparedness and surveillance costs

Source: Defra policy teams

Table 4 provides an indication of the costs involved in Defra's exotic disease preparedness work with its delivery partners. The figures are based on the 2007/8 budget and represent a best estimate based on available data. The costs provided are for operational costs only, and do not include the pay and on-costs of officials conducting this work.

Category	Item	TOTAL (£000s)
Surveillance	VLA contract to scan surveillance of emerging diseases (eg testing samples & animal carcasses)	8,880
	MLC surveillance of wild birds and dead wild birds' helpline for Avian Influenza	1,000
Record keeping, movement recording & control	Payment to local authorities (for activities including data capture and traceability work on Animal Movement Licensing System and Animal Health and Welfare Management and Enforcement System (AMES), and enforcement).	8,500
	Livestock identification and movement	1,450
	Implementation of Madders review (changes to the way in which Defra records the location to and from which livestock are moved).	1,000
	Poultry register	1,153
	National Equine Database	200
Contingency planning	Animal Health Agency (preparing for outbreaks, including exercises, setting up and reviewing contingency contracts and updating processes such as disposal arrangements in the event of an outbreak, reviewing FMD and other contingency plans and recruiting, training and coordinating the activities of Regional Operation Directors and Deputy Operational Managers).	8,039
	Contract with VLA to provide consultancy and diagnostic services in relation to a range of statutory and exotic viruses and bacteria. This contract contains an element of preparedness in that it provides for a ramp up of testing capacity in the event of an outbreak.	4,334
Research & development	Vaccine banks for FMD & AI	1,286
	Research and development for FMD, AI, Newcastle Disease, Bluetongue, CSF, ASF,	6,900

	Brucellosis & new and emerging diseases	
Laboratory infrastructure	Payment to Institute of Animal Health for reference laboratory services for FMD, Swine Vesicular Disease, Rinderpest, Bluetongue, African Swine Fever, African Horse Sickness, Lumpy Skin Disease and Sheep & Goat Pox.	1,699
TOTAL		44,439

ANNEX 5: NOTIFIABLE DISEASES

Source: <http://www.defra.gov.uk/animalh/diseases/notifiable/index.htm>

Notifiable Disease	Species Affected	Occurred last in Great Britain
African Horse Sickness	Horses	Never
African Swine Fever	Pigs	Never
Anthrax	Cattle and other mammals	Present
Aujeszky's Disease	Pigs and other mammals	1989
Avian Influenza (Bird Flu)	Poultry	Present
Bovine Spongiform Encephalopathy	Cattle	Present
Bluetongue	All ruminants and camelids	Present
Brucellosis (Brucella Abortus)	Cattle	2004
Brucellosis (Brucella Melitensis)	Sheep and goats	1956
Classical Swine Fever	Pigs	2000
Contagious Agalactia	Sheep and goats	Never
Contagious Bovine Pleuro-pneumonia	Cattle	1898
Contagious Epididymitis (Brucella Ovis)	Sheep and goats	Never
Contagious Equine Metritis	Horses	2008
Dourine	Horses	Never
Enzootic Bovine Leukosis	Cattle	1996
Epizootic Haemorrhagic Virus Disease	Deer	Never
Epizootic Lymphangitis	Horses	1906
Equine Viral Arteritis	Horses	2004
Equine Viral Encephalomyelitis	Horses	Never
Equine Infectious Anaemia	Horses	1976
Foot and Mouth Disease	Cattle, sheep, pigs and other cloven hoofed animals	2007
Glanders and Farcy	Horses	1928
Goat Pox	Goats	Never
Lumpy Skin Disease	Cattle	Never
Newcastle Disease	Poultry	2006
Paramyxovirus of pigeons	Pigeons	Present
Pest des Petits Ruminants	Sheep and goats	Never
Rabies	Dogs and other mammals	2006
Rift Valley Fever	Cattle, sheep and goats	Never
Rinderpest (Cattle Plague)	Cattle	1877
Scrapie	Sheep and goats	Present
Sheep Pox	Sheep	1866
Swine Vesicular Disease	Pigs	1982
Teschen Disease (Porcine Enterovirus Encephalomyelitis)	Pigs	Never
Tuberculosis (Bovine TB)	Cattle and deer	Present
Vesicular Stomatitis	Cattle, pigs and horses	Never
Warble Fly	Cattle, (deer and horses)	1990
West Nile Virus	Horses	Never

ANNEX 6: COSTS OF REGISTRATION SCHEME

Table Estimated costs of registration scheme without horses

Source: Animal Health best estimate based on available evidence, see Annex 7.

Possible Cost Scenario: Without Horses	Note	Year -2	F T E	Year -1	F T E	Year +1	F T E	Year +2	F T E
		£		£		£		£	
TOTAL COST		7,500,000	6	4,741,998	60	2,305,708	32	2,033,071	26
Number of Owners: 300,946	1								
IT Systems									
Design & Build	2	7,500,000		-		-		-	
Running Charges	3	-		500,000		500,000		500,000	
Set-Up Processes									
Communications	4	-		601,892		-		-	
Training	5	-		58,686		8,460		6,971	
Running Processes									
Handling General Enquiries	6	-	-	601,290	1	451,419	1	225,709	6
Handling Appeals	7	-	-	54,170	1	216,681	5	216,681	5
Handling Omissions & Errors	8	-	-	22,571	1	90,284	2	90,284	2
Monitoring submissions	9	-	-	180,567	5	30,095	1	30,095	1
Handling Amendments	10	-	-	297,936	7	45,142	1	45,142	1
Sales Ledger Management	11	-	-	12,952	0	51,809	1	51,809	1
Debt Collection	12	-	-	6,771	0	27,085	1	27,085	1
Maintenance Processes									
Data Verification	13	-	-	902,837	2	-	-	-	-
Audit self-declarations	14	-	-	45,142	3	180,567	3	180,567	3
Data Cleansing	15	-	-	45,142	1	9,028	0	9,028	0
Management Information									
Design MI	16	-	2	207,236	2	103,618	2	103,618	2
Produce MI	16	-	2	207,236	2	103,618	2	103,618	2
Reconciliations	16	-	2	207,236	2	103,618	2	103,618	2
General Contingency (20%)				790,333		384,285		338,845	

Table Estimated costs of registration scheme with horses

Source: Animal Health best estimate based on available evidence, see Annex 7.

Possible Cost Scenario: With Horses	Note	Year -2	F T E	Year -1	F T E	Year +1	F T E	Year +2	F T E
		£		£		£		£	
TOTAL COST		10,000,000	6	10,682,780	141	5,099,347	70	4,419,039	55
Number of Owners: 750,946	1								
IT Systems									
Design & Build	2	10,000,000		-		-		-	
Running Charges	3	-		1,247,643		1,247,643		1,247,643	
Set Up Processes									
Communications	4	-		1,501,892		-		-	
Training	5	-		137,220		18,349		14,635	
Running Processes									
Handling General Enquiries	6	-	-	1,500,390	37	1,126,419	28	563,209	14
Handling Appeals	7	-	-	135,170	3	540,681	14	540,681	14
Handling Omissions & Errors	8	-	-	56,321	1	225,284	6	225,284	6
Monitoring submissions	9	-	-	450,567	11	75,095	2	75,095	2
Handling Amendments	10	-	-	743,436	19	112,642	3	112,642	3
Sales Ledger Management	11	-	-	12,952	0	51,809	1	51,809	1
Debt Collection	12	-	-	16,896	0	67,585	2	67,585	2
Maintenance Processes									
Data Verification	13	-	-	2,252,837	56	-	-	-	-
Audit self-declarations	14	-	-	112,642	3	450,567	8	450,567	8
Data Cleansing	15	-	-	112,642	3	22,528	0	22,528	0
Management Info'n									
Design MI	16	-	2	207,236	2	103,618	2	103,618	2
Produce MI	16	-	2	207,236	2	103,618	2	103,618	2
Reconciliations	16	-	2	207,236	2	103,618	2	103,618	2
General Contingency (20%)				1,780,463		849,891		736,506	

ANNEX 7: GENERAL ASSUMPTIONS & NOTES ON COSTS OF REGISTRATION SCHEME

General Assumptions and Considerations

A Assumptions used are broad and have not been subjected to testing. Consideration should be given to trying to identify and obtain data from an existing comparable project, such as the Single Farm Payment, against which it may be possible to apply a reasonableness test for the assumptions used in this exercise. No guarantee is offered with any of the costs provided.

B All assumptions used need to be explored and agreed in light of the consultation and future developments as the project progresses. None of the assumptions should be regarded as accurate: each has been derived based on the application of common-sense and logic to fact or historic data where known, and all costs based on assumptions should be considered to be subject to change.

C A number of initial set-up costs have been excluded such as advertising, providing editorials, stakeholder engagement (including show attendance) and website design and build in order to promote the scheme and raise awareness.

D All accounts receivable functions have been assumed to be executed without using Shared Services Directorate (SSD); invoices and sales ledger functions will be driven by the system and cash collection will be handled externally to minimise the SSD cash management charges, which could run to in excess of £1.5m.

E It is assumed that Year -1 (pre-launch) will be used to run a test environment; general running costs have been included at 25% of full-running in order to account for test-data.

Notes

1. The data is for owners only, and is missing some poultry register information due to data protection. The relationship between owner and keeper has been assumed to be 1:1, and it is accepted this is unlikely to be accurate, but SAM (customer database) does not currently hold complete keeper information. To try and account for both the absence of complete poultry information and the possibility that some owners will have more than 1 keeper, a 15% increase on the number of owner records has been applied. For the example costing including horses, the exact number of horse registrations is unknown, but it is assumed that it lies between 400,000 and 500,000. The mid-point of 450,000 registrations has been assumed.
2. The system specification is assumed to be based on self service for customer registration via a website, although a paper option would need to exist alongside it. A phone channel would need to be provided as a back-up. There would be a generic approach to customer registration. Payment would be delivered via an established payment service e.g. Paypal, GooglePay, etc. No real need to set something new up within Animal Health/Defra. Registration made is within government Gateway. The new system will use shared infrastructure i.e. SUE (Defra's network infrastructure). Design is based around a peak registration period over three months of a year (assumed approximately 300,000-350,000 registrations pa). It is assumed that there will be an incremental increase in design and build costs if horse registrations are included; this has been arbitrarily placed at one-third of the base cost.
3. Based on the assumptions listed in Note 2, the cost for running the IT infrastructure supporting the charging programme could be somewhere in the region of the figure quoted. Prices have been uplifted to reflect the pro-rata increase in scale if horses are brought in. However, the system build requirements could be fundamentally different given the material change in scale.

4. Pre-launch, it is assumed that every registrant will be contacted at a print-house cost of £2 each. There will also be advertising and editorial costs – these are not included here. No ongoing communications' costs have been assumed.
5. Each additional staff member will be trained at a notional cost 15 hours' training time and a trainer fee of £300/person. Each staff member will receive top-up training of 3 hours plus trainer fee per year.
6. It is assumed that prior to release, one-third of registrants will make enquiries that will take 10 minutes to resolve; in year one there will be a 25% enquiry rate and thereafter it will run at 12.5%.
7. Once the programme is live it assumed that there will be an appeal rate of 1%, with each appeal taking 2 hours to resolve.
8. An omission/error rate of 10% has been assumed; it is estimated that each error will take 5 minutes to resolve.
9. It is assumed that in the year prior to launch, 50% of all registrant information will be gathered. Monitoring and verifying this process will take approximately 2 minutes per submission. Once live, general submission monitoring will take place, which will be automated and delivered by exception reporting. It is expected that this will take a matter of seconds per record as an average.
10. It is assumed that one-third of all pre-launch records will require amendment; thereafter, it is assumed that there will be a 5% amendment rate, arising where keeper details change mid-year. Based on time taken to amend TB data on Vetnet, it is assumed that each amendment will take 5 minutes.
11. Sales ledger management will be largely automated and will be handled by 1 EO. It should be noted that this could be substantially more in practice.
12. Based on RPA data, debt collection issues are likely to be low. Debt collection will be conducted by the EO and supported by an AA who will handle all admin matters. A debt collection rate of 1% is assumed, with each chase requiring 15 minutes.
13. There will be a complete verification of data pre-launch. Each record will account for 5 minutes of AA time. Thereafter, verification will be on a rolling programme that will be wrapped up in the monitoring processes and will be done by exception (i.e. where registration information has changed).
14. It is estimated that a random sample of 5% of registrations will be audited; audits will be carried out as part of routine visits, and will add 15 minutes to each routine visit. Costing is at an Animal Health Officer rate. Sampling will not commence until the programme has commenced.
15. There will be a complete data cleansing exercise pre-launch. The verification exercise is estimated to give rise to a 5% cleansing requirement. Each record will account for 5 minutes of AA time. Thereafter, verification will be on a rolling programme that will be largely automated. Each record will be verified and it is estimated that 1% of records will be cleansed at a time of 5 minutes per record.
16. It is assumed that there will be a dedicated Management Information design, build and delivery team of 2 EOs; in the pre-launch year there will be an additional resource of 2 EOs to assist with the initial design and build phase for Management Information.

ANNEX 8: BENEFIT MODELLING

Source: Defra programme on responsibility and cost sharing

ENABLERS	INTERMEDIATE	END BENEFIT
Farmers will develop efficient and effective animal health measures	Reduced costs of disease outbreaks through financial incentives/penalties	Improved confidence/faith in system by livestock industry
Decision making which better effectively protects public health, the environment and improves and encourages animal health	Improved decision making leading to: -More efficient use of resources -Improved mgt of exotic disease outbreaks -Improved control of endemic disease	Protection of public health
Partnership working	Increased farmer awareness of disease risks and how to minimise them	Reduced levels of animal disease
Increased public awareness of disease risks	Better compliance with import controls reducing risk of disease being imported	Increased public/consumer confidence
Industry has opportunity to address animal health issues beyond public interest		Cost of disease outbreaks reduced
		Defra reputation enhanced and increased Whitehall confidence

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ENABLERS	INTERMEDIATE	END BENEFIT	
REGISTRATION BASED LEVY SCHEME	Increased compliance with controls	Compliant with any harmonised EC arrangements	
	Develop efficient animal health to obtain discounts	Quicker control of endemic disease	Better value for money from resources invested in disease prevention, management and control
	Increased farmer awareness of disease risks leading to better detection and reporting of disease	Lower impact from each exotic disease outbreak	Better sharing of costs between tax payer and industry
		Improved biosecurity	Fairer spread of financial risk
		Less risky farming practices	Savings to government expenditure on disease outbreaks

ANNEX 9: EXOTIC DISEASE SYSTEMS' THINKING

Source: Defra illustration of the range of drivers that affect the likelihood and impact of exotic animal disease, based on experience of policy owners and delivery partners.

