

<b>Title: Cattle Compensation: Bovine TB, Brucellosis, BSE and Enzootic Leukosis</b>  <b>IA No: 1424</b>  <b>Lead department or agency:</b> Department for Environment, Food and Rural Affairs  <b>Other departments or agencies:</b> N/A	<b>Impact Assessment (IA)</b>				
	<b>Date:</b> 19/01/2012				
	<b>Stage:</b> Final				
	<b>Source of intervention:</b> Domestic				
	<b>Type of measure:</b> Secondary Legislation				
<b>Contact for enquiries:</b> Geoff Jasinski, Defra, TB Programme tel n: 0207 238 6382 email: <a href="mailto:Geoffrey.jasinski@defra.gsi.gov.uk">Geoffrey.jasinski@defra.gsi.gov.uk</a>					
<b>Summary: Intervention and Options</b>					<b>RPC Opinion:</b> RPC Opinion Status

Cost of Preferred (or more likely) Option				
Total Net Present Value	Business Net Present Value	Net cost to business per year (EANCB on 2009 prices)	In scope of One-In, One-Out?	Measure qualifies as
£0.48m	£-8.94m	£1,27m	No	N/A

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

Bovine Tuberculosis (TB) is a serious infectious disease of cattle which is getting worse. It is a significant burden for farmers and is costing the taxpayer around £100M a year, of which £28M was spent on compensation for compulsorily slaughtered cattle. Changes to the Compensation Statutory Instruments are needed as part of the package of measures (including, as approved by the RPC, measures to address bovine TB in badgers, and amendments to exemptions to TB pre-movement testing, the IA for which is being sent to RPC with this IA) to remove ambiguities from the text of the Orders, better ensure compensation paid correlates to the value of the animal and, maximise opportunities to encourage farmers to comply with the legal requirement to regularly test their herds for the disease.

**What are the policy objectives and the intended effects?**

We aim to provide fairer compensation arrangements, based on a proportionate approach, to encourage and reward farmer compliance with disease controls and support the wider objective of TB eradication. Through our proposed changes we will show industry that government has responded to valid industry feedback on where and how the compensation system needs changing. We will also take the opportunity to improve the TB control framework – to the benefit of the vast majority of farmers that fully meet their disease control responsibilities – by using the compensation system to reduce the number of herds with significantly overdue tests.

**What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)**

- Option 0 - Do nothing – We cannot amend compensation without a statutory Order as this is required by section 32(3) of the Animal Health Act 1981.
- Option 1 - Replace the Cattle Compensation (England) Order 2006 (and related The Individual Ascertainment of Value (England) Order 2005), by including a) the provision for a scaled reduction to table value compensation payments (where TB tests are overdue), b) change the text from the original 2006 Order (which is being replaced) to remove ambiguities on how the system operates and c) table valuation category changes. **This is our preferred option.** In introducing the proposed changes, we expect to incentivise farmers to reduce the number of overdue routine herd tests, while providing compensation at more equitable rates, and so encourage farmer compliance with disease controls and support for the wider objective of TB eradication.

**Will the policy be reviewed?** It will be reviewed. **If applicable, set review date:** April 2017

Does implementation go beyond minimum EU requirements?			N/A		
Are any of these organisations in scope? If Micros not exempted set out reason in Evidence Base.	<b>Micro</b> Yes	<b>&lt; 20</b> Yes	<b>Small</b> Yes	<b>Medium</b> Yes	<b>Large</b> Yes
What is the CO <sub>2</sub> equivalent change in greenhouse gas emissions? (Million tonnes CO <sub>2</sub> equivalent)			<b>Traded:</b> N/A	<b>Non-traded:</b> N/A	

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

Signed by the responsible SELECT SIGNATORY: ..... Jim Paice ..... Date: 14 May 2012 .....

# Summary: Analysis & Evidence

# Policy Option 1

**Description:** Reduced compensation rates, tightened Order wording and an appeals system for claims

## FULL ECONOMIC ASSESSMENT

Price Base Year 2011	PV Base Year 2012	Time Period Years 7	Net Benefit (Present Value (PV)) (£m)		
			Low: 0.48	High: 0.53	Best Estimate: 0.48

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	Nil	1.38	8.73
High	Nil	1.55	9.82
Best Estimate	Nil	1.4	9.42

### Description and scale of key monetised costs by 'main affected groups'

- Cost of administering a bovine TB compensation appeals process – falling to the Animal Health and Veterinary Laboratories Agency (a Defra agency) (£80k per annum)
- Reduced bovine TB compensation payments to livestock keepers (a transfer of resources to Defra) (£1.4 million per annum)

### Other key non-monetised costs by 'main affected groups'

N/A

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	Nil	1.3	8.23
High	Nil		9.29
Best Estimate	Nil	1.41	8.94

### Description and scale of key monetised benefits by 'main affected groups'

- Reduced bovine TB compensation payments to livestock keepers by Defra (a transfer of resources to Defra from the livestock industry) (£1.4 million per annum)

### Other key non-monetised benefits by 'main affected groups'

- Reduced prevalence of bovine TB in England, due to a reduced number of overdue routine herd tests for bovine TB – falling to both taxpayers and livestock keepers, who share the costs of bovine TB-related herd breakdown costs.
- Reduced administrative burden, due to less ambiguous text in the existing Cattle Compensation (England) Order 2006 (and so clearer rules governing compensation payments) – falling to both Defra and livestock keepers.

Key assumptions/sensitivities/risks	Discount rate (%)	3.5
<ul style="list-style-type: none"> <li>• Overdue testing-related reduced compensation rates are expected to reduce the number of overdue (by more than 60 days) routine bovine TB herd tests (our headline assumption is a reduction of 20%).</li> <li>• The costs of administering an appeals process will roughly correlate to the number of reduced compensation payment appeals processed (our headline assumption is that 20% of reduced compensation payments will be appealed).</li> <li>• The number of scaled down compensation payments as a result of farmers having failed to have their herds tested on time each year will be stable (our headline assumption is at around 270).</li> </ul>		

## BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m:			In scope of OIOO?	Measure qualifies as
Costs: £1.41 million	Benefits: N/A	Net: -£1.41 million	No	N/A

## Evidence Base (for summary sheets)

### INTRODUCTION

1. Bovine Tuberculosis (TB) is one of the most difficult animal health problems facing England's cattle farmers resulting in a significant cost burden for industry and government. TB related controls in England in 2010/11 cost government £108 million. In that period over 25,000 cattle were compulsorily slaughtered for bovine TB control purposes with compensation for the animals totalling £28M. TB is an infectious disease of cattle, and can also infect and cause bovine TB in other animals, e.g. badgers, deer, goats, pigs, camelids (llamas and alpacas), dogs, cats, etc. It is also a zoonotic disease, which means it can be transmitted from infected animals to people where it causes a condition very similar to human TB. The risk of people contracting bovine TB from cattle in Great Britain is currently considered very low. However, we still need to tackle TB in order to support high standards of animal health and welfare, to promote sustainable beef and dairy sectors, to meet EU legal and trade requirements, and to reduce the cost and burden on farmers and taxpayers. The eradication of TB in cattle is a long-term objective which is likely to take many years.

2. The Government is committed to taking a comprehensive and balanced approach to tackling TB, with eradication as the long-term goal. We already have a comprehensive range of cattle measures in place to address cattle to cattle transmission, but other measures, including changes to the way we pay compensation, are proposed to tighten TB controls even further. The current table valuation-based compensation system was introduced in 2006 for cattle affected by bovine TB, brucellosis or Enzootic Bovine Leukosis (EBL) under the Cattle Compensation (England) Order 2006. The system is also used to compensate for animals slaughtered for BSE in England, though under different legislation. Compensation is determined primarily using table values, which reflect the average sale prices of cattle in 47 different categories. The categories are based on the animal's age, gender, type (dairy or beef) and status (pedigree or non-pedigree). At the end of each month an average sales figure is determined for each of the categories (for non-pedigree categories the average is calculated from one month's cattle sales data, for pedigree categories 6 months' data is used). The Order was the subject of a Judicial Review challenge, but the Court of Appeal in the case of Partridge Farms v Secretary of State Defra in April 2009 confirmed that the use of table values was reasonable and objectively justifiable.

3. To support table valuations sales data is continuously collected by an independent service provider (at present the Agriculture and Horticultural Development Board (AHDB)) from a large number and wide range of sources across Great Britain. AHDB collects data from between 500-600 livestock auctions, 99% of all GB auctions. Data from around 8,000 cattle sales (1.2 million head of cattle) is collected over a year to support the table valuations. The data is collected from:

- Prime (finished) cattle sales
- Store cattle and calf sales
- Breeding and dispersal sales<sup>1</sup>

Details of about 100,000 individual sales transactions are collected each month.

4. Our default position is to use a table valuation wherever possible. However, where sales data for a particular cattle category is inadequate we will use the most recently used table value for that category. If that is not possible, compensation is determined through individual valuation -

<sup>1</sup> A dispersal sale is the sale of an entire herd; Finished cattle are cattle that are ready for slaughter having reached desired weight and fatness; Store cattle are cattle sold that are not yet ready for slaughter – requires “finishing”

the procedures to be followed in such cases are set out in the Individual Ascertainment of Value (England) Order 2005, which is also being changed to make corresponding changes for reduced compensation for individual valuations, which are used for around 1% of the TB affected cattle we take.

## **PROBLEM UNDER CONSIDERATION**

5. TB is a major animal health issue causing significant financial and other problems for large numbers of cattle farmers. The Government is committed to a comprehensive and balanced approach to tackling TB, with eradication as the long-term goal. Cattle measures will remain central to the Government's approach, which needs to be comprehensive, risk-based and staged. Payment of fair compensation is intended to help support farmer compliance with TB controls, thereby reducing the risk of disease spread from cattle herds untested for TB to neighbouring cattle herds, but the current system, which was introduced in February 2006, does not maximise opportunities to encourage farmers to test their herds on time, includes some values that are not always fair to farmers (and the general taxpayer), and includes anomalies and ambiguities that need to be addressed. The system generally works well in that most farmers accept the table rate values and cooperate with the TB testing programme. The advantage of maintaining the current policy is that it is a system the industry now knows well. However, making no changes would have a number of disadvantages. We would fail to take the opportunity to use the compensation system as a lever to encourage good practice (timely TB testing) which is in the best interest of the cattle farming sector as a whole. We would also fail to remove the anomalies and ambiguities flagged to us by stakeholders, i.e. within the Cattle Compensation Order and in relation to the cattle categories we use.

6. A key TB policy objective is to identify and remove TB infected animals as quickly as possible. Our proposals support this objective. A TB herd breakdown, which results in suspension of TB-free status, and the immediate imposition of cattle movement restrictions on the farm, results in costs (on average) of £20K for government, mainly comprising testing and compensation, and £10K to the farmer (arranging testing, consequential losses, etc). The concept of linking compensation to behaviour is part of the wider package of TB measures aimed at eradicating bovine TB and is consistent with a move towards greater cost and responsibility sharing.

7. To increase incentives to reduce disease spread risks by maximising compliance with TB control measures and to ensure compensation rules are clear for the benefit of farmers and to facilitate efficient delivery of the policy. Making no changes would have a number of disadvantages.

## **RATIONALE FOR INTERVENTION**

8. Bovine TB, and transmissible animal disease more generally, constitute a negative externality, whereby the disease-free status of clear herds is at risk from infection by diseased cattle both on neighbouring holdings and cattle moved (e.g. via trade) into those previously clear herds, as well as from wildlife. Additionally, animal disease-free status is a public good, which is non-rivalrous and non-excludable. These market failures create the potential for cost-beneficial government intervention. If left solely to the market, investment in bovine TB control measures would occur at a sub-socially-optimal level. Ultimately, the objective of government intervention is to stop the spread of bovine TB and thereby reduce the financial (and other) impacts of the disease for the general taxpayer and cattle farmers. We pay compensation to owners of cattle compulsorily slaughtered for bovine TB control purposes. In doing this we aim to provide fair compensation to encourage farmer compliance with disease controls and support the wider objective of TB eradication. The proposals form part of a package of TB measures announced by Defra in July 2011. There are two other Impact Assessments connected to this



one. The first, approved by the RPC, was entitled “Measures to address bovine TB in badgers”<sup>2</sup>, concerning proposals to introduce a pilot for a limited cull of badgers. The second IA “Amendments to exemptions to TB pre-movement testing” (IA No: DEFRA1054) relating to proposed changes to current pre-movement testing exemptions to enhance disease controls, is being sent to RPC with this cattle compensation IA.

9. Paying reduced compensation for cattle owners with significantly overdue TB tests would help reduce TB transmission risks within herds, between herds, and to wildlife by encouraging more farmers to complete their TB tests by prescribed deadlines. The changes will also reduce delivery and administrative burdens

## **POLICY OBJECTIVE**

10. The Government is developing a programme to eradicate TB in the longer term, and is committed to putting in place a balanced package of measures to tackle the disease. Cattle measures continue to be central to the TB control and eradication framework. Not making the changes proposed would be a disservice to the cattle farming sector as a whole, as late TB tested herds (the number of which we aim to reduce) represent a disease risk for all neighbouring herds. We pay compensation to owners of cattle compulsorily slaughtered for bovine TB control purposes. In doing this we aim to provide fair compensation to encourage farmer compliance with disease controls and support the wider objective of TB eradication. The category changes we propose would remove the current anomalies and ambiguities, and inequities in the existing 2006 Order, for example, whereby an owner of a young productive dairy cow receives the same level of compensation as an owner of an older unproductive animal.

## **DESCRIPTION OF OPTIONS CONSIDERED**

### **Option 0 – Make no changes to the cattle compensation system as it currently operates**

11. Make no changes to the current cattle compensation order and maintain the current compensation system.

### **Option 1 - Introduce proposed changes to the cattle compensation system**

12. Replace the Cattle Compensation (England) Order 2006 (and related The Individual Ascertainment of Value (England) 2005 Order), and in particular introduce the ability to reduce compensation for herds with overdue tests (see paragraph 17 for detail), and introduce new cattle categories into the Schedule table values. There are several advantages to option 1 – for industry and for government. Paying reduced compensation where TB tests are significantly overdue will reduce the number of overdue TB tests thereby reducing the risk of disease spread from animals with an unknown TB status to other cattle and/or wildlife. The benefit of this change will be felt most by those farmers that are persuaded to complete their tests on time and are found to have TB infected cattle – since the disease would have had less time to spread within the herd. There will also be a reduced residual risk of disease spread to other herds through indirect transmission (contaminated environment and farm equipment, infected local wildlife). The direct financial impact of this measure will only apply to non-compliant farmers. As an example of the likely impact there were a total of 343 significantly overdue herd tests in 2010, in which TB reactors were found – our best estimate is that this number would reduce by 20% each year. Under the proposed new Orders all such farmers would receive reduced compensation payments. The reductions will be on a sliding scale – 25% reduction for being 60

<sup>2</sup> <http://archive.defra.gov.uk/foodfarm/farmanimal/diseases/atoz/tb/documents/bovine-tb-impact-assessment.pdf>

days late, which increases to 95% reduction for reactors with tests overdue by more than 180 days. This change should encourage good practice and reinforce the important message that cattle farmers must take their TB control responsibilities seriously by testing their herds when obliged to do so.

13. In Wales the policy of reducing compensation for overdue tests has already been in place for over a year and, combined with other administrative measures, has helped reduce the number of overdue tests. Therefore, it is difficult to use experience in Wales to quantify the impact of reduced compensation rates on the number of overdue routine tests from that of administrative changes. Whilst it is difficult to predict how many TB breakdowns might be avoided by this change, it is reasonable to assume that there could be several herds that would otherwise be continuing to harbour infected cattle excreting TB disease for unnecessarily long periods that endanger the health of surrounding livestock and badgers. An average breakdown costs government £20,000. The concept of linking compensation to behaviour has been endorsed by ministers as part of the wider package of TB measures aimed at eradicating bovine TB and is consistent with a move towards greater cost and responsibility sharing.

14. The changes to the table categories of livestock will make compensation more closely correlate to the value of reactor cattle and remove the anomalies and ambiguities that have come to light since the 2006 Order has been in place. This will be helpful for cattle farmers and also support efficient policy delivery as the scheme rules will be clearer and fewer queries will be handled by AHVLA.

### **Other options considered**

15. We have considered, but rejected, the following other potential changes alongside those detailed in Option 1:

i) For instance, we were approached by the organic cattle sector, to review prices paid on the open market for organic cattle to ascertain whether they should, for example, attract higher compensation payments – but the data gathered and independent report produced showed there was no evidence to support this proposed change:

ii) We considered excluding sales data for non-productive animals when determining compensation rates for the current under 3 months dairy calves category as most of the sales data we use is for non-breeding animals, whereas the majority of calves retained by farmers (we were advised by stakeholders) would have breeding potential. However, we determined that it would be too difficult and impractical to accurately identify breeding stock at the point where sales data is collected.

### **PROPOSED POLICY CHANGES**

16. The policy changes we propose have been shared with, and generally supported by, key stakeholder groups<sup>3</sup>. The changes can be brigaded into three groups.

#### **a) Reduce compensation payments where TB tests are overdue**

17. In 2010 there were a total of 343 herd tests overdue by more than 60 days, in which TB reactors were found. Currently, beyond having movement restrictions imposed, there are no other incentives to modify farmer behaviour. Feedback from the European Commission and others is that compensation schemes should be aligned to the level of herd keepers co-operation with any disease eradication programme and that compensation should be used to help modify the behaviour of cattle keepers to ensure that they do their best to avoid bovine TB.

<sup>3</sup> British Cattle Veterinary Association ; TB Eradication Group for England (TBEG); National Farmers Union; National Beef Association; Central Association of Auctioneers and Valuers; Livestock Auctioneers Association; Royal Association of British Dairy Farmers; Royal Institution of Chartered Surveyors; Farm Crisis Network

Paying scaled-down compensation for herd owners who delay TB tests by more than 60 days beyond a notified deadline is considered very likely to reduce the number of overdue herd tests (by approximately 70 based on 2010 total figures). The compensation reductions, which are based on those already introduced into legislation by the Welsh Government in 2010, would only apply to the cattle removed that were associated with the overdue test(s) and would be on a sliding scale, i.e. the longer the delay in testing, the bigger the reduction from the compensation value for the animals. TB controls in England and Wales are delivered by Animal Health and Veterinary Laboratories Agency (AHVLA). Wherever possible it makes good sense to ensure consistency of policy. We can therefore see no objective reason to introduce different scaled down rates to Wales.

The level of compensation reductions would be:

<u>Period test overdue</u>	<u>Reduction</u>
• more than 60 but not more than 90 days	25%
• more than 90 but not more than 180 days	50%
• more than 180 days	95%

18. In exceptional cases a testing delay may be justifiable or unavoidable and it is only fair and reasonable that a farmer is able to challenge the decision on any reduction of compensation payable. We therefore include a review process to enable affected cattle farmers to obtain an objective and independent review of the decision to reduce the payment. Examples of where a testing delay may be 'justified' include:

- Non availability of a veterinary surgeon (the tests are carried out by vets)
- The farmer is seriously ill
- Force majeure (i.e., chance occurrence, unavoidable accident)

19. AHVLA are responsible for identifying overdue tests.

#### **b) Other changes in the Schedule to the replacement 2006 Order to remove ambiguities on how the table values apply**

20. Experience since the current compensation system was introduced in February 2006, and feedback from stakeholders, indicates that the following changes would reduce administrative burdens for government thereby supporting the efficient delivery of the compensation scheme and help improve compliance levels with key TB control measures:

##### i. Change to make it clear that owners of steers (castrated cattle) will not receive compensation at pedigree rates

21. It is widely accepted by industry and government that to have pedigree status an animal must have breeding potential. To reduce the risk of challenges to this interpretation – which would be a drain on official resources - it is explicit in the replacement Order that pedigree rates for male animals apply only to entire animals. This change is supported by representative stakeholder organisations.

##### ii. Change to tighten the definition of "pedigree" in the Order

22. Defra's current policy is to pay pedigree compensation rates only for cattle with full pedigree certificates. However, some cattle owners have in recent years tried to argue that animals 'registered' with breed societies but in the process of being up-graded to full pedigree status should also be compensated at pedigree rates. To support the efficient delivery of the compensation policy we need unambiguous and objectively justifiable criteria for determining



which animals are or are not entitled to pedigree rates of compensation. The replacement Order therefore makes it clear that only animals with full pedigree certificates receive pedigree compensation. This change is supported generally by representative stakeholder organisations.

### iii. Change to clarify how average market values are calculated

23. At the moment we do not specify the precise periods over which we collect sales data for table valuations – and some stakeholders have told us it would be helpful if we did this. The replacement Order specifies the data collection periods we use, which are:

- 1 month (between the 21<sup>st</sup> day of one month and the 20<sup>th</sup> day of the next month) sales data collection period for non-pedigree stock; and
- 6 months (but not necessarily consecutive full calendar months) for pedigree cattle.

### iv. Compensation is only payable for cattle with required ID documentation

24. Cattle born in or imported into Great Britain since 1 July 1996 must have full identification (ID) known as a cattle passport. This identifies them and also contains a record of their movements – it must remain with the animal’s owner. An animal without ID has no market value as it cannot be moved either to another farm or to slaughter, therefore our policy is to pay no compensation for these cattle. However, insufficiently tight wording within the 2006 Order means we must compensate if a farmer does not present passports for their TB infected animal until after slaughter. This is unfair for the general taxpayer as there is a cost burden (for government) to remove the animal, but no prospect for off-setting this cost through obtaining a salvage payment from a slaughterhouse for the meat value of the animal, as meat from cattle without ID cannot enter the food chain. We therefore now make it clear that full compensation is only paid when a cattle passport is produced before the animal(s) is removed for slaughter. However, in circumstances outside the control of the farmer (e.g. replacement passport applied for but not received) we will continue to compensate.

## **c) Category changes in the Schedule table of values**

25. On our evaluation the following cattle category changes proposed by delivery agents and stakeholders would make the compensation system more equitable for cattle farmers and the general taxpayer. These changes to the 2006 Schedule table values have been generally supported by stakeholders:

### i. Add a category for young pedigree beef animals (aged 0-6 months)

26. Within the existing 47 categories there is no category for very young pedigree beef animals – which we now know is less than fair as some beef farmers will certify their stock as pedigree at a very young age but, at the moment, will only receive non-pedigree compensation rates. We propose correcting this anomaly by adding a new pedigree category.

### ii. Split the “dairy calved” animals category into two age bands

27. To ensure farmers are compensated at rates that more accurately reflect the value of animals on the open market, we propose splitting the dairy calved categories (i.e. for commercial and pedigree stock<sup>4</sup>) into two new age bands. Feedback from most industry representatives, confirmed and supported by veterinary advice, is that an appropriate age split would be at 7 years. Our analyses show that splitting the dairy calved categories for commercial and pedigree stock into two new age bands would slightly increase the level of compensation paid to owners of younger calved animals and reduce (more substantially) payments for older less productive stock. The current category for dairy calved animals includes animals aged from 2 years upwards, e.g. up to 21 years, and stakeholder feedback suggested

<sup>4</sup> Pedigree animal is a bovine animal for which a pedigree certificate has been issued by a recognised breed society.

that this is too wide an age range. It is inequitable to compensate younger, productive (and so higher value) dairy cattle at the same rate as older, less productive animals. The European Commission – who co-finance our TB eradication programme – have also flagged this as an issue of concern. We have therefore introduced two categories for dairy calved stock – animals aged 2 to 7 years, and those over 7 years.

28. IN SUMMARY **Option 1** (replacing the 2006 Order) **is our preferred option because** it helps reduce TB transmission risks by encouraging farmers to test their herds on time. The changes will ensure a shared understanding with farmers on the rules governing cattle compensation and support efficient delivery of the policy. The category changes in the Schedule of table values will ensure we continue to operate a fair and equitable compensation system for both government and farmers – and show that we do respond positively to feedback from those most directly affected by our policy.

## WIDER IMPACTS

29. There are no expected impacts on the wider economy.

## COST AND BENEFITS OF OPTIONS UNDER CONSIDERATION

30. The time period of economic assessment is 7 years (to be compatible with length of the new legislation). The cost and benefits of option 1 can be summarised as follows:

31. *Reduce compensation payments where TB tests are overdue* - Reducing compensation for herd owners who delay TB tests by more than 60 days beyond the deadline specified in their notice of TB testing requirements, is expected to reduce the number of overdue herd TB tests. The scaled reduction in compensation payments will only apply to the cattle removed that were associated with the overdue test(s) and would be on a sliding scale. The overall beneficiary of the policy change is Defra at £0.7M per annum. While it is not possible to accurately predict precisely how many TB breakdowns might be avoided by this change, we have assumed that there is likely to be a 20% (rather than, say, 10% or 30%) reduction in the number of TB breakdowns in herds with overdue tests (estimated to be about 70). This changed behaviour is because a reduction of 25% in compensation values for TB reactors is applied where testing is more than 60 days overdue (increasing to 50% for 90 days and more) can be a significant cost to a farmer, especially where more than one reactor is identified. To determine costs/benefits:

- we used AHVLA data on the number of actual reactors to calculate the number of reactors we would expect from a reduced (by 20%) number of overdue tests. In 2010, there were 1,490 reactors from overdue tests, which we would expect to fall to 1,192 in the event of a reduced number of overdue tests.
- Again, using AHVLA data, we identified the “lateness” of the overdue tests that identified these reactors:

In 2010, the following schedule of late-tested reactors was identified:

Test overdue by >180 days	108 reactors identified
Test overdue by >90<180 days	459 reactors identified
Test overdue by <90 days	922 reactors identified

- We calculated the compensation payments under the ‘Do Nothing’ (i.e. at 100% compensation rates and with the total number of observed late-tested reactors compensated for):

- In 2010, 1,490 reactors were identified from overdue tests, and these were compensated for at an average of £1148 per head of cattle. **This gives a total compensation bill of £1.7 million.**
- We calculated the compensation bill under the Option 1 (i.e. under both reduced compensation rates and a reduced number of overdue tests):

In 2010, approximately 100 reactors were identified from overdue tests that undertaken by more than 180 days late. Each of these reactors were then multiplied by the average compensation paid per head of cattle in 2010 (£1,148), and, further, by a factor (of 0.05) to account for the reduced compensation rates proposed under Option 1.

108 (the number of reactors) x £1,148 x 0.05

- This reduced compensation figure is subtracted from the 'Do Nothing' compensation figure to isolate the impact of both reduced compensation rates and a reduced number of overdue tests.
- These same steps were repeated for both 2008 and 2009, and an average figure for reduced compensation payments to farmers for late-tested reactors calculated.

32. *Making it clear that owners of steers will not receive compensation at pedigree rates* - In making the Order clear and unambiguous that owners of steers (castrated, unproductive cattle) will not receive compensation at pedigree rates, the cost to industry will be negligible. The change will make the scheme rules clearer thereby benefitting farmers (as they will not need to make enquiries within AHVLA offices – their compensation entitlement will be clear). This will have the effect of reducing administrative burdens in AHVLA offices as there would be fewer queries to deal with. The cost benefits are not quantifiable. We are aware of only one cattle farmer that sought to claim pedigree rates for his unproductive stock, though he was eventually compensated at the lower, and correct, non-pedigree rates.

33. *Tightening the definition of "pedigree" in the Order* - The cost to industry of the measure to tighten the definition of "pedigree" in the Order to make it clear that only animals with full pedigree certificates receive pedigree compensation is negligible. The cost benefits of the measure are not quantifiable, but removing the ambiguity in the Order will make the scheme rules clearer thereby benefitting farmers.

34. *Adding a category for young pedigree beef animals (aged 0-6 months)* - Within the existing 47 categories there is currently no category for very young pedigree beef (aged 0 to 6 months) animals – this is seen as less than fair as some beef farmers will certify their stock at a very young age, and they are currently only paid lower equivalent non-pedigree rates for their animals. Evidence suggests that this change will benefit only a small number of cattle owners – as very few very young animals are culled for TB control purposes. The impact of the change will therefore be a small increase in compensation income for farmers with pedigree TB reactors of this age/type.

35. *Splitting the dairy calved animals into 2 age bands* - Our analyses of the large volume of cattle sales data collected in 2009 and 2010 to determine table values for the dairy calved category show that splitting the dairy calved categories for commercial and pedigree stock into two new age bands will slightly increase the level of compensation paid to owners of younger calved animals and reduce (more substantially) payments for older less productive stock. The current category for dairy calved animals includes animals aged from 2 years upwards, e.g. up to 21 years. Feedback from stakeholders and our TB control and surveillance delivery partner

(AHVLA) is that this is too wide an age range. It is inequitable to compensate younger, productive (and so higher value) dairy cattle at the same rate as older, less productive animals. We therefore propose splitting the dairy calved categories for commercial and pedigree stock into two new age bands and feedback from industry representatives, confirmed by veterinary advisers, is that an appropriate age split would be at 7 years. So there will be two categories for dairy calved stock – animals aged 2 to 7 years, and those aged over 7 years. The values produced were determined in the following way:

An average £/head compensation paid for the year was calculated from AHVLA data for each age group. An adjustment figure (based on the difference between the annual average price for all animals, minus the average for a particular age group) was then added to this figure to derive a new £/head compensation rate. A total was calculated using this price and the actual number of animals in each group.

The estimated reduced cost per annum if the age limit for the maximum rate were set at 7 years is £728K (total £5.1M over 7 years).

36. Overall this change will ensure farmers are compensated at rates which more accurately reflect the value of their animals on the open market. This proposed change is supported by stakeholder groups. We need our compensation system to be fair to the general taxpayer and cattle farmers. Feedback from cattle farmers and their representatives is that certain category changes are needed – though the changes will have the net effect of reducing government spend. The estimated impacts of the changes are a total decrease in compensation costs for Defra of £0.7M per annum, with an overall increase in table values paid for those with reactors in the 2 to 7 years age range, and a decrease in table values paid for those with reactors in the over 7 years age range.

37. *Clarifying how average market values are calculated* - This is not easily quantifiable. The purpose of this measure is to provide greater clarity of the rules for TB affected keepers and to reduce administrative burdens for Defra.

38. *Making it clear that compensation is only payable for cattle with legally required ID documentation* - Making clear within the replacement Order that compensation is only payable for cattle with the required full identification (ID) documentation should result in farmers taking more care to keep cattle ID accessible and acknowledging the importance to presenting them when the cattle are removed. An animal without ID has no market value as it cannot be moved either to another farm or to slaughter, therefore our policy is to pay no compensation for these cattle.

#### *Proposed Review of decisions to reduce compensation*

39. Cattle farmers will have the option of requesting a review by a person appointed by the Secretary of State against a 'reduced compensation' decision – and if they can show that the TB testing delay was unavoidable or justifiable full compensation will be paid. We have assumed that there may be reviews in 20% of cases, though we would expect this rate to drop as the system beds in. It is acknowledged that reducing compensation by 25% to 95% will be significant for these non-compliant farmers and act as a strong deterrent against their inaction when it comes to TB testing. It is their responsibility to arrange TB tests (the costs of which are met by government) by prescribed deadlines. The impact of the proposal will be to lower compensation costs for Defra, whilst reducing the overall income for non-compliant TB affected farmers. Internal administration of the review system is estimated to cost a maximum of £80K



per annum based on the assumed number of appeal cases (range was considered between 34 and 103 cases), involving detailed TB test chart checks, staff time including the appeals process itself.

40. The overall beneficiary of the policy is Defra. The overall costs fall to Defra in terms of paying for the reviews of decisions, and to industry in reduced compensation payments if the TB tests for their herds are significantly overdue and for older dairy cattle which we are currently paying too much for. Additionally, reducing the number of overdue tests will reduce the severity of some TB breakdowns – as disease problems will be identified and dealt with at the earliest opportunity – thereby reducing impacts for neighbouring farmers and for government.

*Other option - Do Nothing (not replace the Cattle Compensation and Individual Ascertainment of Value Orders)*

41. The table based valuation system was introduced in 2006 due to evidence that the previous system – where compensation was determined through individual valuation in all cases – resulted in significant and widespread over-compensation. The benefit of the current policy is that it operates a compensation system which provides payments to farmers that are higher than the true value (i.e. salvage value) of TB affected cattle while simultaneously protecting the taxpayer. After running the new scheme for six years it has become apparent that improvements are needed. Maintaining the status quo does not incentivise farmers to adhere to TB controls and hence does nothing to mitigate the disease transmission risks associated with delayed TB tests. This is just one tool in the wider package of measures needed to tackle the severe difficulties caused to much of the livestock industry by the relentless spread of bovine TB across England and Wales in recent years.

42. Doing nothing also does not address the issues with the compensation system that have come to light since the introduction of table values in 2006. These have been highlighted by ad-hoc TB casework as well as feedback from industry and delivery agents, and there is an obligation to act on such feedback where changes are objectively justifiable and implementation of them is not only in the interests of protecting the taxpayer but they also ensure fair compensation for responsible farmers who have cattle removed for TB control.

**Table for the Evidence Base of the IA**

<u>Proposed policy change</u>	<u>Nature of impact</u>	<u>Size of impact</u>
<b><u>Transfer from (or to) Defra to (or from) the livestock industry</u></b>		
<b>Overdue testing reduced compensation rates</b>	Lower compensation costs for Defra; reduced compensation income for TB-affected keepers	£0.7 million per annum (partially quantified)
<b>Split dairy 'calved' category</b>	Lower compensation costs for Defra; reduced compensation income for some TB-affected keepers, and increased compensation income for other TB-affected keepers.	£0.7 million per annum



<b>Addition of a young pedigree beef category</b>	Negligible increase in compensation income for TB-affected keepers; negligible increase in compensation costs for Defra.	Unquantified
<b><u>Reduced admin burden for Defra</u></b>		
<b>Tightened definition of 'pedigree'</b>	Reduced admin burden for Defra; greater compensation rate clarity for TB-affected keepers.	Unquantified
<b>Steer compensation at non-pedigree rates</b>	Reduced admin burden for Defra; greater compensation rate clarity for TB-affected keepers.	Unquantified
<b>Clarification of market values calculations</b>	Reduced admin burden for Defra; greater compensation rate clarity for TB-affected keepers.	Unquantified
<b>Compensation paid only where a passport is presented</b>	Reduced admin burden for Defra; greater compensation rate clarity for TB-affected keepers.	Unquantified
<b>Costs of the policy</b>		
<b>Costs of administering an appeals system</b>	Additional admin burden for Defra in administering the cost of an appeals system	£0.08million per annum
<b><u>Net present value of the policy</u></b>		<b><u>£-0.48 million over 7 years</u></b>

## RISKS AND ASSUMPTIONS

43. There is a risk that the true costs and benefits of the policy proposal will not be the same as the costs and benefits presented above. The calculations of the costs and benefits presented above have been generated using a number of key assumptions. These are:

- Overdue testing-related reduced compensation rates are expected to reduce the number of overdue (by more than 60 days) routine bovine TB herd tests.
- The costs of administering an appeals process vary in response to the number of reduced compensation payment appeals processed.
- The number of reduced compensation payments made each year will be stable.

44. The risk of the true costs and benefits of the policy being significantly different from those presented above is created by the degree of accuracy of the evidence (where that was

available) underpinning the above key assumptions. However, we have attempted to mitigate this risk by:

- **For the expected reduction in the number of overdue tests**

**Our ‘central’ assumption is a reduction of 20%** - There was no published evidence on the extent to which we might expect overdue tests might reduce in response to lateness of test-related reduced compensation rates. In 2010, the Welsh Government (WG) introduced late test-related reduced bovine TB compensation rates. However, WG simultaneously made significant changes to the way in which routine herd tests are administered in Wales. Therefore, it is difficult to disentangle the impact of reduced compensation rates on the number of overdue routine tests from that of administrative changes. We therefore constructed a range of possible impacts to compensate for this absence of evidence. At the low impact end of our range, we assumed there would be no change to the number of overdue tests in response to reduced compensation payment rates. At the high impact end of our constructed range, we have assumed a 30% fall in overdue tests.

- **For the costs of administering an appeals system (which is driven by the number of appeals processed)**

**Our ‘central’ assumption is that 20% of reduced compensation payments will be appealed** – Evidence from WG suggests that 20% of reduced compensation payments to farmers have been appealed in the first year since their introduction. The percentage of reduced compensation payments processed has a minor impact on the overall costs and benefits of the policy, and so we have not made use of a range around this 20% rate.

- **For the number of reduced compensation payments made each year**

**Our central assumption is that this figure will be stable at approximately 270 per annum** – There were 343 overdue (by more than 60 days) routine herd tests in England in 2010 where TB reactors were found, and there would have been at least 343 compensation payments made at the proposed reduced rates, if the policy had been in place in England in 2010. Given, using our central assumption, we expect overdue tests to fall by 20% per annum in response to lower compensation payment rates, we also assume a commensurate fall in the number of compensation payments made by Defra to livestock keepers per annum. Further, we assume that this number is stable on a per annum basis over the seven year life of the policy. Therefore, we have also considered no change to the current number of compensation payments made, and a 30% fall in overdue compensation payments made by Defra, at the high and low end of a constructed range, respectively.