

EXPLANATORY MEMORANDUM TO
THE CATTLE COMPENSATION (ENGLAND) ORDER 2005

2005 No. 3433

1. This explanatory memorandum has been prepared by the Department for Environment, Food and Rural Affairs and is laid before Parliament by Command of Her Majesty.

This memorandum contains information for the Joint Committee on Statutory Instruments.

2. **Description**

2.1 This Order will introduce a rationalised compensation system for cattle slaughtered for the following diseases: Bovine TB, Brucellosis and Enzootic Bovine Leukosis (BSE, which was included in the same consultation process, will be covered under a separate instrument). Under this system compensation will be determined using table valuations, based on average market price for pre-determined cattle categories. There is also a provision for individual valuations to be used, at the discretion of the Secretary of State, should there be inadequate supporting sales data for a particular category in any particular month or months and the procedure to be followed in these circumstances is set out in the Individual Ascertainment of Value (England) Order 2005.

3. **Matters of special interest to the Joint Committee on Statutory Instruments**

3.1 This Order is made under Section 32(3) of the Animal Health Act 1981, which provides that orders made under it shall be subject to annulment in pursuance of a resolution of either House of Parliament. This Order is to be read with the Individual Ascertainment of Value (England) Order 2005 which is made under Section 34(7) of the Animal Health Act 1981. This section gives the Secretary of State the power to make orders for prescribing the mode of ascertainment of value of an animal slaughtered and does not require that orders made under this section be laid before Parliament. The provisions governing individual valuations therefore appear in this separate Order.

4. **Legislative Background**

4.1 The instrument is being made to address irregularities in the current cattle compensation systems, and, in particular, to reduce the level of over-compensation (for bovine TB), provide a more consistent approach for determining compensation, and to enhance disease controls. Current compensation regimes for the diseases covered are detailed in secondary legislation, and so can be revised more easily than those in place for other animal diseases.

4.2 The Animal Health Act 1981, s.32, sets out the obligation to pay “compensation of such amount as may be determined in accordance with scales prescribed by order” where the Secretary of State orders an animal to be slaughtered

(Section 32(3)). The instruments made under this enabling power (and section 34(7) of the same Act) which currently prescribe the methods by which compensation for cattle slaughtered for the relevant diseases is to be determined are the Brucellosis and Tuberculosis (England and Wales) Compensation Order 1978 (as amended) and the Enzootic Bovine Leukosis (Compensation) Order 1980. These Orders require, with a small number of exceptions, that the compensation payable by the Secretary of State is to be the animal's "market value" or a certain percentage of that value, depending on the disease in question. This market value is currently required to be determined either by agreement or by a valuer conducting an individual valuation of the particular animal which has been slaughtered. The new instrument will enable Government to apply compensation rates which are far more in line with real "market value" as originally intended, by employing a system of fixed table values based on sales prices achieved from a wide range of sources.

4.3 The new instrument will revoke and replace the Brucellosis and Tuberculosis (England and Wales) Compensation Order 1978 (along with its amending instruments) and the Enzootic Bovine Leukosis (Compensation) Order 1980 insofar as they apply in England only.

5. Extent

5.1 This instrument applies to England only.

6. European Convention on Human Rights

6.1 As the instrument is subject to negative resolution procedure and does not amend primary legislation, no statement is required.

7. Policy background

7.1 This important policy change constitutes the first stage in government's objective of rationalising compensation systems for all notifiable animal diseases.

7.2 There are four main reasons why government is changing compensation policy for the diseases (Bovine TB, Brucellosis, and Enzootic Bovine Leukosis) covered under this instrument:

- 1) There is significant evidence of overcompensation, particularly for bovine TB, which places an unfair burden on taxpayers and may provide a disincentive for some cattle owners to implement robust bio-security controls. Based on 2005 data, we expect that compensation based on table values for all cattle culled to control bovine TB will be in the region of 70% of that paid under the previous system.
- 2) To ensure owners of all animals affected by Brucellosis are not under-compensated.
- 3) Simplification of the compensation regime through a table valuation system will reduce bureaucracy and increase transparency.
- 4) To facilitate the speedier removal of diseased animals.

7.3 The Department consulted on the need to rationalise the current, fragmentary system of animal disease compensation in October 2003 and on specific cattle compensation proposals in December 2004 (*Cattle Compensation: Bovine TB, Brucellosis, BSE and Enzootic Bovine Leukosis*). The consultation paper specifically invited comments on:

- the way it is proposed to introduce a table valuation system;
- if an advisory group on livestock valuations could play a useful role in helping Defra to maintain and develop practical, robust and fair valuation systems.

7.4 An analysis of stakeholder responses is included in the Regulatory Impact Assessment (RIA), and a website link is shown below, but in summary, a number of stakeholders did accept that there was a need to replace the different compensation schemes (for the four diseases, including BSE) with a common system. However, there was a good deal of opposition to the introduction of a system based on table valuations.

7.5 More specifically, a number of stakeholders commented that some of the proposed categories (particularly for younger animals) were inadequate and would result in under-compensation of high-value animals and over-compensation of poor quality animals. Some expressed the view that reducing compensation paid for pedigree and elite stock would impose punitive and unfair costs on those farmers most concerned with developing a sustainable agriculture built upon quality.

7.6 Defra's objective is to introduce as fair a system as possible for cattle owners and taxpayers. After considering stakeholder comments, and completing further data analyses, government has increased the number of categories from 29 to 47, with separate tables for commercial and pedigree cattle. The increase in the number of categories addressed some stakeholder concerns in relation to categories (originally proposed) for younger animals – a number of stakeholders believed that the consultation categories were too wide i.e. there would be wide differences in the value of animals covered by the same category. Defra acknowledges that table valuation systems have limitations, and cannot incorporate certain qualitative data, which could result in under-compensation of high-value animals and over-compensation of poor quality animals in comparison with market prices for *healthy* animals. However, the majority of animals for which compensation is paid are diseased, and the remainder affected by disease, making their true worth salvage value only. Also, 'table valuations' are not a new concept, and have often been used for animal compensation systems (e.g. bovine TB until 1999 and BSE offspring).

7.7 There was strong support for the creation of an advisory group, whose expertise could be used to help implement and audit the table valuation system and offer guidance on future proposals to rationalise animal disease compensation. Defra will be taking this work forward once a new compensation system is in place.

<http://defraweb/corporate/consult/cattle-compensate/responses.pdf>

8. Impact

8.1 A Regulatory Impact Assessment is attached to this memorandum – see Annex A.

9. Contact

Sean O'Byrne in Defra's TB Division – Area 104, Page Street, SW1P 4PQ Tel: 020 7 904 6969 or e-mail: sean.o'byrne@defra.gsi.gov.uk can answer any queries regarding the instrument.

Final Regulatory Impact Assessment

Cattle Compensation: Bovine TB, Brucellosis, BSE and Enzootic Bovine Leukosis

November 2005

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1. Introduction

This is a Final Regulatory Impact Assessment (for England only) in response to the consultation, **Cattle Compensation: Bovine Tuberculosis (Bovine TB), Brucellosis, Bovine Spongiform Encephalopathy (BSE) and Enzootic Bovine Leukosis (EBL)**, which ended on 24 December 2004. It provides further information and analysis of the scheme's costs and benefits. Examples of likely compensation rates against cattle categories are included. A recommended course of action concludes the assessment.

This scheme forms part of a package of TB control measures to be announced in Autumn 2005. The other strands of this package comprise a pre-movement testing scheme, and a route plan for tackling the wildlife vector.

2. Purpose and intended effect of the measure

(i) Objective:

The purpose of the proposal is to:

- 1) Simplify valuation arrangements for cattle by introducing a table valuation system based on price data collected continuously from a wide range of sources.
- 2) Ensure that compensation payments will more accurately reflect market value, and address the problems of inconsistent compensation levels, which have arisen under existing systems.

Table valuations for culled cattle would provide livestock owners with greater certainty as to the amount of compensation they would receive if their cattle have to be slaughtered because of an outbreak of one of the four diseases covered by the proposed scheme. The four diseases that would be covered are: Bovine TB, Brucellosis, BSE and Enzootic Bovine Leukosis. Compensation procedures for these four diseases are detailed within Secondary Legislation, hence are quicker and are therefore easier to revise than those for other animal diseases. Rationalisation of compensation paid for animals slaughtered because of an outbreak of one of these four diseases represents the first stage in the Government's longer-term objective of rationalising compensation for all notifiable animal diseases, on which we consulted in 2003.

A new valuation system will also:

- Enhance disease control measures by providing stronger incentives for livestock holders to invest in bio-security;
- Provide a consistent and equitable approach to determining compensation payments for the four specified cattle diseases.

(ii) Background:

Existing compensation arrangements (for the four cattle diseases) can be summarised as follows:

- Compensation for animals slaughtered in the course of disease control measures for bovine TB and for Brucellosis is provided for under the Brucellosis and Tuberculosis (England and Wales) Compensation Order 1978 (as amended). This stipulates the level of compensation payable when an animal is slaughtered for Brucellosis or for TB. For Brucellosis, compensation should be 75% of either market price or 125% of the Indicative Market Price (IMP), whichever is the lower, based on figures obtained from a very limited number of markets two months previously. For TB, the compensation should be market value;
- BSE compensation is currently paid, in accordance with the TSE Regulations, on the basis of the IMP; and
- Compensation for Enzootic Bovine Leukosis (EBL) is provided for under the Enzootic Bovine Leukosis (Compensation) Order 1980. This stipulates the level of compensation payable when a bovine animal is slaughtered for EBL. Compensation should be an amount equal to its market value or the sum of £567, whichever is less.

Compensation cannot be provided to meet cattle owners' consequential losses (such as secondary cleansing and disinfecting). This would constitute a breach of EU State Aid rules.

The Department currently operates a different compensation scheme for each notifiable disease. For some (e.g. Brucellosis and BSE (for certain beef animals)) farmers are compensated at less than the full market value for their stock, while under other schemes, such as for TB, reliance on valuations of individual animals before slaughter often results in compensation payments which exceed the market value of the animals.

(iii) Rationale for government intervention:

There are four reasons for government to change compensation policy for these cattle diseases:

- 1) There is significant evidence of overcompensation, particularly for bovine TB, which may be placing an unfair burden on taxpayers and providing a disincentive for livestock owners to invest in bio-security.
- 2) The possibility of under-compensation for certain BSE affected animals, and for animals affected by Brucellosis.
- 3) Simplification of the compensation regime through a table valuation system will reduce bureaucracy and increase transparency.
- 4) To help to ensure the speedy removal of diseased animals.

The evidence for overcompensation (for TB) is extensive and includes the NAO (Wales) review of TB compensation¹ and two Defra internal audit studies. Also, a separate report by the University of Reading² concluded that 20% of dairy farms and 35% of beef farms showed a net gain associated with their TB breakdown, which suggests that some farmers were being over-compensated by significant amounts: Not only was their compensation higher than the animals' value, it exceeded the animals' value and consequential losses combined. A subsequent study by the University of Exeter also concluded that numbers of farm businesses experienced a net financial gain following a TB breakdown.

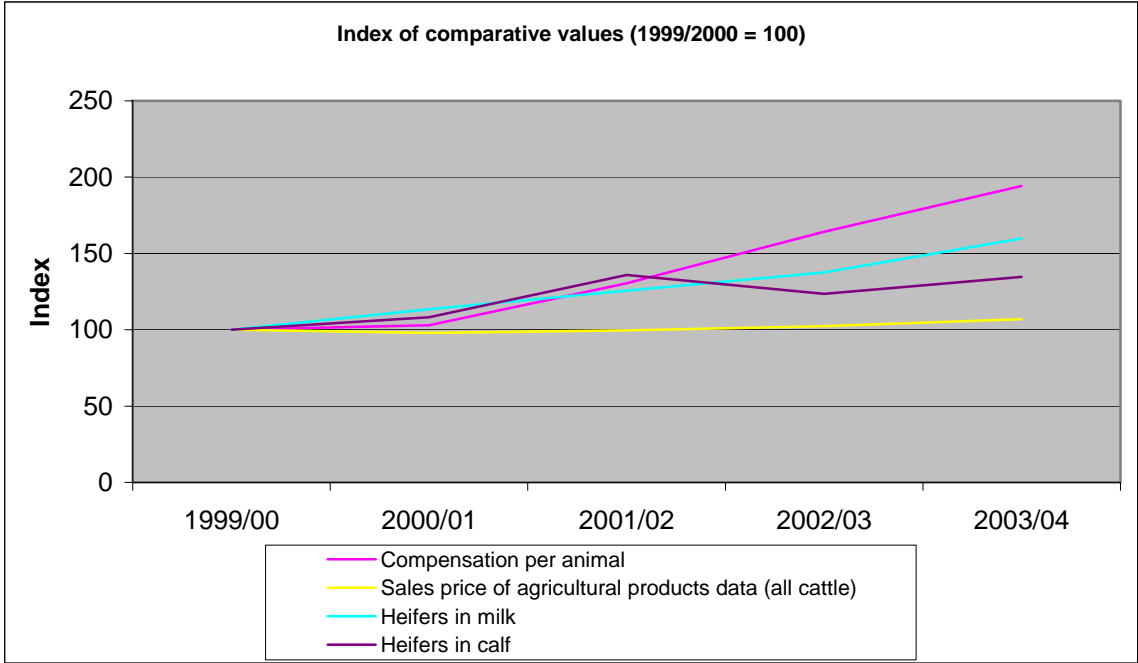
¹ <http://www.agw.wales.gov.uk/whatsnew.htm>

² http://www.defra.gov.uk/science/project_data/DocumentLibrary/SE3112_1428_FRP.doc

The number of new TB cases, in particular, continues to rise each year, the trend in 2005 indicating a 20% increase on the same period last year. This has a knock-on impact on the industry and on taxpayers in terms of increased compensation and related costs payable.

For illustrative purposes, Figure 1 (below) shows an index of average compensation³ per animal to be compared with indices for the average price of a heifer in milk and for a heifer in calf, and the sales index of prices of agricultural commodities for all cattle. These series are shown for the financial years 1999/00 to 2003/04. Over this period, total compensation paid rose from £5.3M p.a. to £34.4M p.a.

Figure 1



BSE compensation is based on 100% of market value or an Indicative Market Price (IMP), whichever is less. A few farmers (e.g. with good quality beef animals culled for BSE control purposes) are being under-compensated for their cattle.

It makes little sense to have different compensation systems for different cattle diseases. There is, therefore, a clear need to simplify the existing valuation systems in order to ensure consistency of application, enhance disease control, and address the issue of over-compensation for bovine TB. Existing cattle compensation schemes are administratively cumbersome, unnecessarily complex, less than transparent, and open to abuse. Brucellosis outbreaks are limited and sporadic, and EBL has not been recorded in the UK since 1996.

Existing cattle compensation schemes are intended to support robust disease control systems. Using table valuations, as proposed, would enhance disease control by removing the need for 'point of slaughter' valuations, the arrangement of which can cause delays to the removal (from farms) of diseased animals.

Not introducing a new cattle compensation scheme would:

³ Figures are GB-wide in order to match current sales data retrieval, but broadly equate with England-Only as well.

- Perpetuate existing compensation inequities and inconsistencies e.g. lower compensation paid for certain diseases/cattle types;
- Mean that the delays that can be caused by individual on-farm valuations (which adversely affect disease control) would continue;
- Allow the independently identified problem of over-valuations (for bovine TB) to continue. Over-compensation can act as a disincentive to the introduction of robust bio-security controls.

3. Consultation - Summary of Results

A number of stakeholders did accept that there was a need to replace the different compensation schemes (for the four diseases) with a common system. However, they were opposed to the introduction of table valuations to determine compensation, and specifically commented that the 29 categories proposed were insufficient and would result in under-compensation of high-value animals and over-compensation of poor quality animals. It was suggested that the introduction of tables would erode confidence between the rural sector and Government. It was also suggested that table valuations could be a viable option, only if 'subjective' qualities typical to individual valuations were applied equally to table categories, employing statistical data available from reputable organisations such as the Milk Development Council, Holstein UK and the International Committee of Animal Recording (ICAR), and further delineating categories by age, breed and performance characteristics.

Another issue of concern was the robustness of the market data, which, by calculating averages from 'live' markets, to the exclusion of, for instance, private sales, would create a system favourable only to inferior animals. However, data on prices achieved will be collected from as wide a range of sources as possible from across GB, including sales of prime (finished) cattle, store cattle, rearing calves, breeding, dispersal and slaughterhouse sales. Some expressed the view that reducing compensation for pedigree and elite stock would impose punitive and unfair costs on those farmers most concerned with developing a sustainable agriculture built upon quality, and could result in actionable valuations under Human Rights Legislation. After further analyses we have reacted to a number of stakeholder concerns by increasing the number of categories from 29 to 47.

There was strong support for the creation of an advisory group, whose expertise could be used to help implement and audit the table valuation system and offer guidance on future proposals to rationalise animal disease compensation. Defra will be taking this work forward once a new compensation system is in place.

Post consultation review:

After carrying out further analyses of sales data we accepted that there was substance to some of the concerns raised by certain stakeholders. Specifically, that the proposed categories (particularly for younger animals) were not 'fit for purpose'. Following a review it has been decided to extend the non-pedigree and pedigree categories. The proposed new list of cattle categories upon which table valuations would be based is shown below:

<i>Male</i>	<i>Female</i>
Beef Sector – non-pedigree animal	

up to 3 months	up to 3 months
3 months up to 6 months	3 months up to 6 months
6 months up to 9 months	6 months up to 9 months
9 months up to 12 months	9 months up to 12 months
12 months up to 16 months	12 months up to 16 months
16 months up to 20 months	16 months up to 20 months
20 months and over	20 months and over
Breeding bulls 20 months and over	Calved
Dairy Sector – non-pedigree animal	
up to 3 months	up to 3 months
3 months up to 6 months	3 months up to 6 months
6 months up to 12 months	6 months up to 12 months
12 months up to 16 months	12 months up to 16 months
16 months up to 20 months	16 months up to 20 months
20 months and over	20 months and over
	Calved
Beef Sector – pedigree animal	
Bull 6 months up to 12 months	6 months up to 12 months
Bull 12 months up to 24 months	12 months up to 24 months
Bull 24 months and over	24 months and over (not calved)
	Calved under 36 months
	Calved 36 months and over
Dairy Sector – pedigree animal	
up to 2 months	up to 2 months
2 months up to 12 months	2 months up to 10 months
12 months up to 24 months	10 months up to 18 months
Bull 24 months and over	18 months and over (not calved)
	Calved under 36 months
	Calved 36 months and over

4. Options (previously proposed in the partial RIA)

Option 1 – Continue with existing systems.

Option 2 – Table values for all cattle categories, including pedigrees. Compensation rates for commercial and pedigree cattle to be published monthly.

Option 3 – Determine market value more strictly by taking into account the fact that the majority of animals are diseased, while the remainder have been ‘affected’ by disease.

Note: Some stakeholders suggested that the best way forward would be to introduce a panel of monitor valuers to oversee the existing system. However, this ‘option’ is not considered viable; as currently proposed, it would add a further burden to the taxpayer and (in our view) have only a minimal effect on valuation levels – not least

because of the large numbers of affected animals. It should be noted that under the current system some SVS offices do regularly seek justification for valuations, which they perceive to be 'potentially excessive'. However, we envisage that the proposed advisory group would consider the potential for enhancing extant compensation systems.

5. Costs and Benefits

Business sectors affected:

Cattle industry: In England in 2003, there were 14,300 Dairy holdings, 45,600 other Cattle and Sheep holdings, and 10,300 Mixed holdings, all of which could be affected by these proposals. Current statistics from the State Veterinary Service indicate an average of 4,200 holdings per annum being compensated for TB disease control purposes in England. Bovine TB mainly affects cattle owners in certain 'hotspot' counties. The West Midlands, Powys, Monmouthshire, Staffordshire, Derbyshire, and South West Wales, for instance, saw the majority of confirmed new TB cases for 2004/5.

We envisage that changing to a compensation system based on table valuations will reduce the risk of over compensation (for TB), and therefore result in a significant reduction in total compensation expenditure. For illustrative purposes Figure 2 compares (over a 3 month period) compensation paid for TB affected commercial cattle against what would have been paid under the proposed table valuation system.

Other sectors: We envisage that there will be occasions when the services of valuers will be required e.g. if/when there is insufficient data for certain cattle categories – however the amount of Defra funded work for valuers will drop significantly. Discussions with valuer organisations have indicated that the rates paid by the Department (for on-farm valuations) makes the work non-profitable.

In the livestock insurance industry it is difficult to gauge what the true effect of moving to table valuations would be. However, we anticipate that some farmers will obtain further insurance for animals. There may be scope for the livestock insurance industry to expand to accommodate this extra demand, especially in the pedigree sector.

5 (i) Benefits (of each option)

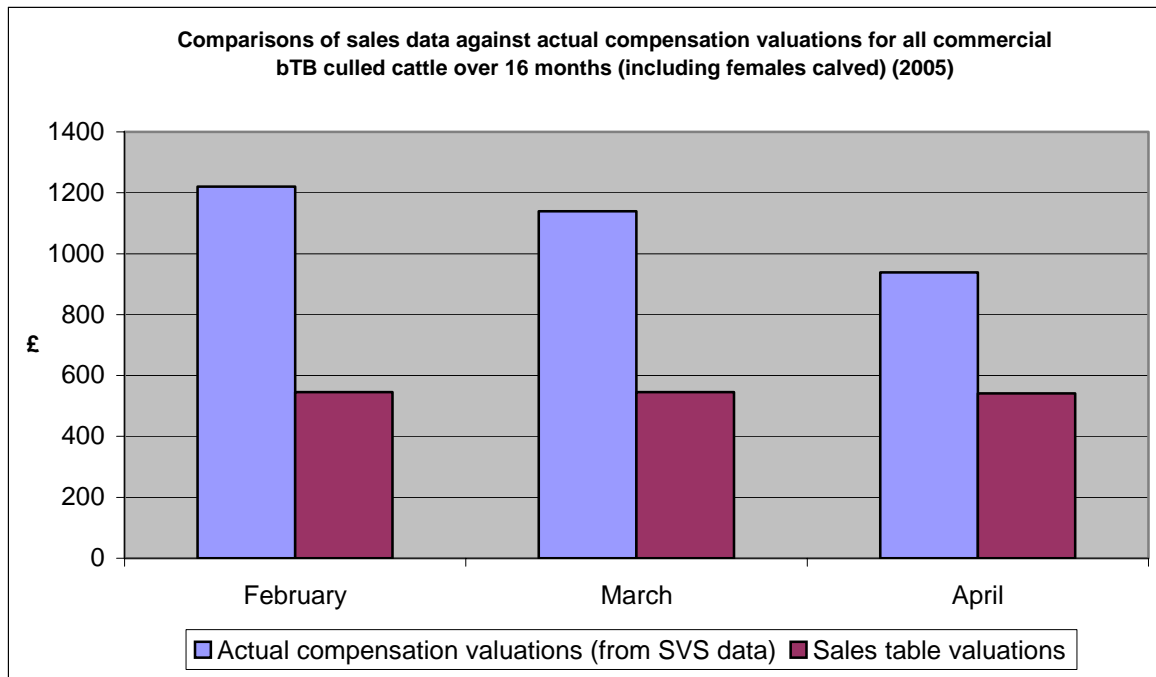
Option 1 – Continue with existing systems:

This is the baseline against which the benefits of the other Options can be considered. For the reasons detailed above this is not considered a viable option.

Option 2 – Table valuations for all cattle

1. Table valuations would ensure compensation payments more accurately reflect market values, as currently intended under the relevant secondary legislation. They would also significantly reduce the risk of overvaluations. This would benefit the taxpayer, as shown in Figure 2 (below). This table shows how TB valuations of commercial cattle over 16 months of age culled under the current bTB compensation regime (which in the period in the chart made up 82% of the animals culled) compare with sales data collected in the same months.

Figure 2



Based on available data for the first half of 2005, we would expect that compensation savings based on table values for all cattle culled (including pedigree cattle) to control bTB to be in the region of 35 to 50% of the compensation currently paid for bTB under the existing system. Given that bTB is by far the most financially significant disease that these proposals deal with, and that compensation payments in **England** for bTB amounted to £26.6M in 2003/04, a total saving to the taxpayer of around £13M per annum might be anticipated. However the data available for early 2005 is incomplete and may not be representative of a full year. For instance, it can be noted in Figure 2 that the gap between actual and table valuations for April is narrower, and would correspond to compensation around 64% of what is currently paid. In addition, there would be a small increase in the amount of compensation paid for BSE and brucellosis. **On this basis, and allowing for variables in certain categories and the potential impacts on the market of the new system, it may be prudent to assume a saving to the taxpayer of around £9M per annum as a result of ending the excess compensation paid under the present system.**

2. As noted above, a table valuation system would significantly reduce the need for Defra to engage valuers. It would also help speed up the removal of diseased stock, therefore reducing disease risk. A survey by Reading University in 2004 suggested that 36% of dairy farmers and 28% of beef farmers failed to isolate reactors after a suspected bTB breakdown, and part of the time delay between testing and slaughter can be due to waiting for valuation. Without the need to use independent valuers, such delays will be largely removed.

3. A better-controlled compensation system would provide greater incentives for the introduction of robust bio-security controls on farms. We expect there to be a net benefit from new disease control measures, although these are difficult to

quantify and some behavioural effects may have capital cost implications for the industry. The main behavioural changes that may occur include:

- i) Livestock holders are likely to be more cautious when purchasing cattle from high disease risk areas, leading to fewer Confirmed Herd Breakdowns (CHBs).
- ii) Livestock owners may spend more on other measures to prevent contiguous infection from other herds or from wildlife vectors, also reducing CHBs.
- iii) Livestock holders suspicious of the diseased status of their herd would conceivably have stronger incentives than under Option 1 to sell them on before disease symptoms manifest themselves more clearly. This could lead to extra breakdowns of bTB, which would not otherwise have occurred.
- iv) Cattle owners may make other costly decisions as a result of a new compensation regime, possibly including movement or downgrading (in the case of pedigree farmers) of herds.

4. Savings to the taxpayer will also be obtained from not using valuers for diseased stock. In the financial year 2003/04 £630,000 was spent on valuers in England. **We expect annual savings on valuation costs of approx. £700K.**

Option 3 – Compensate based on diseased status of animal:

- Compensation levels will more accurately reflect market values (for animals affected by the four diseases) and thereby reduce levels of compensation and the total cost of compensation to the taxpayer. In 2003/2004, the average salvage value of an animal with bTB was around £235. This compares to average compensation paid of £1063 per commercial animal and £2,103 per pedigree animal in 2005. The outcome of this drop in compensation payments to farmers would result in a **taxpayer saving of around £23M per annum, based on 2003/04 compensation figures for England.**
- Strong incentives for livestock holders to improve bio-security.

5 (ii) Costs:

Option 1- Continue with existing systems

This is the baseline against which the costs and benefits of the other Options are considered.

Option 2 – Table values for all cattle categories

There would be several significant costs associated with introducing table valuations:

1. Cost for Government to procure livestock sales data
A service provider would be engaged to collect sales data from a large number and wide range of GB sources including livestock markets, dispersal sales and breed sales. This will include information on classes of cattle that are not regularly traded, and for which price information has not in the past been systematically collected by the Department. The annual cost would be circa £70,000.
2. Costs to businesses under table valuations (see below)

Under table valuation based compensation system cattle owners experiencing a breakdown of bTB will typically receive less compensation than they have in the past.

The benefits listed under Options 2 and 3, as accruing to taxpayers will be transfers from cattle owners who would have been compensated by greater amounts under the current system. Therefore, under Option 2, we would expect cattle owners as a whole to be worse off by around **£9M per annum**. This corresponds to the prudent estimate of taxpayer savings given above, compared with the estimate on partial data for early 2005 (which suggested a potential saving of £13M). The latter figure represents a reduction in average compensation for commercial animals from £1063 to £575, and a reduction from £2,103 to £1178 for pedigree animals.

3. Adjustment and information costs associated with the transition to the new system. These are likely to be minor (estimated at £100,000 one-off cost), and would include informing the agricultural community.

Option 3 - Compensate based on diseased status of animal:

This is essentially a variant on Option 1. Valuations for diseased animals would usually be expected to be the animals' salvage value. For bovine TB we estimate that, based on 2003/2004 data, farmers would be likely to receive an average compensation amount per animal of about £235⁴ instead of £1063 per commercial animal and £2,103 per pedigree animal under the present scheme (SVS data for 2005). This will result in an overall cost to cattle owners across England of **£23M per annum** (based on 2003/04 compensation figures).

Adaptation and information costs would also be incurred under this Option.

6. Issues of equity and fairness:

As described above, the main impact of a change in compensation regime would be a redistribution of income from cattle owners suffering a breakdown of bTB to taxpayers. Under the current system many cattle owners are being compensated at a higher level than the value of the animals culled. Table valuations will ensure that taxpayers are not contributing unfairly large amounts to this compensation bill. Under Option 2, based on the total compensation paid in 2003/04 and provisional figures on what amounts would be paid under the new system, we would expect this to be **in the region of £9M (to £13M) per annum**. Under Option 3, the corresponding figure would be **£23M per annum**.

For exceptionally valuable animals, the onus will fall on farmers to privately insure animals (where possible), if they feel the table valuation sum would not provide adequate compensation. It is also expected that more farmers will pay greater attention to bio-security measures.

7. Small Firms Impact Test (SFIT):

Farmers and valuers would be the most affected by the proposals – early soundings were sought from the valuation sector and farming members as represented through stakeholder groups such as the National Farmers Union.

⁴ Average salvage value for 2003/04

Before consultation, impact tests were completed with leading stakeholders who were advised, initially by letter, of our proposal to introduce table valuations for commercial and pedigree cattle. Copies of the letter were sent to the National Farmers Union (UK), Central Association of Agricultural Valuers, Livestock Auctioneers Association, National Beef Association and the Milk Development Council. Separate meetings were then held with the following groups: National Farmers Union (30/7/04), Livestock Auctioneers Association (15/9/04) and the Central Association of Agricultural Valuers (29/9/04). All felt that the present system was unacceptable and clearly needed better auditing to provide as fair a compensation regime as possible. Concerns were expressed, at this stage, on the robustness of the market data, especially in regards the pedigree sector. Further comments were reserved until the consultation document was issued. Our discussions made it clear that cattle farmers and valuation services would be most affected by a table valuation system, which used sales data and did not incorporate predicted earnings per animal. The table valuation approach would bring increased compensation rates for some animals, but a decrease for others. The National Farmers Union agreed to inform its members of the proposals before despatch of the consultation document.

More detailed stakeholder views were presented during the consultation exercise. To ensure that stakeholder views continue to be taken into account it is proposed to set up a compensation advisory group. This proposal received unanimous support from those who responded to the consultation.

8. Competition assessment:

The introduction of table valuations would significantly decrease the volume of work that valuers currently undertake on behalf of the Government.

Insurance companies might try to fill the gap in table valuations, by offering insurance packages to those farmers who wish to further insulate their cattle. These insurance packages are likely to be competitive, though it is understood that insurance is difficult to obtain in TB “hotspot” areas.

9. Enforcement and Sanctions:

The measures are designed to be operationally simple, requiring little or no enforcement or sanctions. The State Veterinary Service will retain its authority to enter non-compliant holdings and/or instigate legal proceedings against any parties, who do not comply with the law.

10. Monitoring and Review

In line with the Animal Health and Welfare strategy’s avowal of the need for a shared approach (between Government and Industry) it is proposed to set up a stakeholder advisory group on compensation. It is envisaged that such a group would assist the Government in monitoring the table valuation system and develop and enhance its scope, so that it continuously reflects the vagaries of the livestock market as best as possible.

11. Summary and Recommendation

Despite Industry opposition to table valuations, most stakeholders agree that the present compensation system is burdensome and open to abuse (for TB), and therefore must be replaced. In the light of widespread evidence of over-compensation, particularly for TB affected animals, it is important that action is taken to protect taxpayer interests. The Government aims to provide a system that is fair to all parties, and indeed has delayed the introduction of a new cattle compensation scheme to allow full consideration of detailed concerns raised during the most recent consultation (in December last year). Though there are certain limitations to a system based on “sales price” table valuations, we consider it would provide a fair and reasonable alternative to individual valuations, which have been shown to often result in over compensation. New administrative controls have been introduced over the last 2 years, but have failed to sufficiently address the problem. Table valuations provide a number of benefits, including:

- fair compensation payments and a consistent approach to determining compensation across the four cattle diseases proposed (at present the amount of compensation paid will, to a significant extent, depend on the disease);
- payments will accurately reflect actual sale prices being achieved (for healthy animals of the same category) in a wide range and number of livestock sales, and reduce risk of over-valuations;
- farmers would know, at the start of each month, how much compensation they would receive in the event of a disease outbreak;
- improved disease controls through speedier removal of diseased stock; and
- greater assurance for taxpayers on propriety of spend.

We therefore recommend the introduction of table valuations for cattle compensation for Bovine TB, Brucellosis, BSE and Enzootic Bovine Leukosis disease incidences.

12. Summary costs and benefits table:

Option	Total benefit per annum: economic, environmental, social	Total cost per annum: economic, environmental, social, policy and administrative
1	<p>Farmers will continue to benefit financially (certainly for TB) from systems they are used to and which they feel have the best chance of providing a price reasonably related to the value of their animal.</p> <p>For TB, many farmers believe that the current ‘high’ compensation levels are necessary in order to account for the consequential losses associated with a TB breakdown.</p>	<p>Compensation for 2003/04 reached £26.6 million (England), and is set to rise if Option 1 (status quo) remains.</p> <p>Keeping this option will not encourage farmers to improve their bio-security as they are guaranteed very reasonable and often ‘above the odds’ compensation through individual valuations, which often appear to include for illegal consequential losses.</p> <p>Public confidence in the disease compensation process will continue to be diminished.</p> <p>Department will come under increasing pressure from PAC to tackle over-compensation and be more accountable to the taxpayer.</p>

		As the number of new TB breakdowns continues to increase the pressure on the administrative (in the field) process to value and process animals destined for slaughter will continue to increase also, and place a drain on resources.
2	<p>Will ensure that compensation more accurately reflects market value.</p> <p>Table valuations for commercial animals only would go some way to address the over-compensation of cattle and bring savings in the region of £9 million (to £13 million) p/a.</p> <p>Potentially reduce disease spread by speeding up the removal of diseased cattle.</p> <p>Provide greater incentives for farmers to introduce robust bio-security controls.</p>	<p>Procurement of sales data – currently £70k per annum.</p> <p>Businesses will receive lower compensation rates under table valuations, with estimated reductions of 35% to 50%, as compared with current valuations.</p> <p>Disseminating information to agricultural community (letters/advertising, etc) – one-off cost estimated at £100k.</p> <p>Administrative costs, particularly in the SVS, should be reduced with the cessation of individual valuations.</p>
3	<p>By employing salvage value only, potential savings in compensation could amount to £23 million p/a.</p> <p>Greatest benefit to taxpayer.</p>	<p>The social costs would, in the current climate of increasing disease prevalence, be largely unsupportable.</p> <p>Would be very unpopular and would significantly damage affected farm businesses.</p> <p>Residual effects of a severely damaged farming industry through salvage value compensation might prove a false economy in the long run.</p>

13. Conclusion

Options we do not intend to choose:

Option 1 continuing with the existing system is not considered to be viable due to independently identified abuses of the system (for TB).

Option 3 is not a realistic option. However, it is included here to show that all possible options have been considered.

We recommend, therefore, Option 2

Option 2 - Table valuations for all cattle (preferred option)

This incorporates all of the benefits outlined in our initial consultation, and should tackle, robustly, the problem of over-compensation (for TB). It should also enhance disease control efforts by encouraging more farmers to introduce robust on-farm bio-

security measures, and facilitate the speedier removal of diseased animals. The costs and benefits of this option are significant, and even with the inevitable upwards adjustment of market prices (post table valuation) we should expect significant reductions in the amount currently spent on compensation for the 4 diseases stated, and in particular, bovine TB. For these reasons we recommend this option.

14. Ministerial Declaration

I have read the Regulatory Impact Assessment and am satisfied that the benefits of Option 2 justify the costs.

Signed by the responsible Minister

Ben Bradshaw.....

Date 27th November 2005.....

Minister for Local Environment, Marine and Animal Welfare

Department for Environment, Food and Rural Affairs

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