



An Integrated Eradication Programme

TBSPG Background Thinking Paper



FINANCE

Issue

At present, Government covers all costs relating to the bTB Programme and compensation. Bovine TB (bTB) is not just a disease which results in a frustrating regime of testing, reactor removal, movement restrictions, etc., it is also a major ongoing drain on the public purse and on farm businesses.

Our deliberations have focused on the following key objectives with respect to financing our bTB Eradication Strategy:

- i) To rebalance the cost of the disease between the public and private sectors so encouraging a change of culture and attitude and a shared commitment to the control and eradication of bTB; and
- ii) To identify new sustainable arrangements which would allow Government to maximise and better deploy resources.

One of our key aims is to see a shift in culture from a position where bTB is seen as an unavoidable feature of farming life to one where the focus is on a concerted effort to eradicate it as a disease. It follows that all stakeholders will be required to support changes in attitudes and approaches and agree to share the responsibility and costs associated with the eradication of this disease.

Whilst cost saving was not the main driver in our considerations, we could not ignore the wider financial realities facing both Government and the agri-food industry. We recognise that public finances are presently under major pressure and Departments and Agencies in NI have had to reduce their spending, requiring some difficult decisions to be taken.

The cost of the bovine bTB programme during the last 3 years has varied between approximately £27M - £29M per annum, of which reactor compensation costs have been between approximately £12M - £16M¹. The rate of compensation is 100% of the market value of the animal as determined by on-farm valuation.

We acknowledge the views of the industry that, whilst compensation is paid at 100% of an animal's value, this is not likely to cover all of the additional costs which are incurred through the testing and/or removal of animals from the herd.

These additional cost implications can include: the cost of rearing additional calves; the loss of earnings due to test impact on livestock feeding; the cost of additional labour and time to complete the tests; the time taken to look after additional livestock; the reduction in milk yield in the days following a bTB test; and the negative impact on animal fertility, abortions, or accidental injury to livestock during testing.

We are also acutely aware through our engagements with farmers and their representative bodies of the difficulties and pressure facing both them and the wider agri-food sector due to market volatility and falling prices.

In order to help us to analyse our recommendations and finalise our strategy, we secured the services of experienced independent economic financial consultants,

¹ Figures supplied by DAERA Veterinary Service

PACEC, to carry out a cost/benefit analysis of the full package of our interrelated recommendations. We firmly believe that the full implementation of all of our recommendations is necessary to achieve the goal of disease eradication and that it is not possible to differentiate between the contributions of individual recommendations.

We requested that PACEC's analysis should assess the economic implications of our proposed recommendations to effect a long term reduction and eventual eradication of bTB as well as the costs, thus eliciting the desired benefits for the tax payer, farming community and wider society in general.

This cost/benefit analysis clearly illustrated that while implementing the Strategy would require significant additional funding and investment, the cost of maintaining the status quo regime would result in an ongoing drain on public finances ad infinitum without securing the monetary savings eradication would accrue through a much reduced testing and control regime.

In addition to appointing economic consultants, we separately appointed Dr Philip Robinson, an independent social consultant, to assess our recommendations from a behavioural perspective. This work assisted us in assessing the likely impact of our recommendations on the attitudes and behaviours of key stakeholders.

In considering a variety of options to change how the current available funding could best be targeted to reduce and ultimately eradicate the disease, we finally agreed on the recommendation cited below.

Recommendations

We recommend that:

- there should be a cap in compensation levels should be introduced with a maximum of £1,500 for non-pedigree bovine animals and a 20% premium for pedigree bovine animals (to a maximum of £1,800) (with all valuations being independently determined by appointed valuers);
- a herd-keeper should be permitted to receive compensation up to a cap of £3,500 for one pedigree stock bull per year with no carry-over from one year to the next, introduced as soon as practicable;
- the TBEP, once established, should consider a reduction in the percentage of compensation paid.

Rationale for Change

The Bovine TB Eradication Strategy includes a variety of measures, including improved testing arrangements and wildlife intervention. These measures are likely to require significant additional funding in terms of the eradication of bTB, but the feasibility of additional investment in the context of constrained public finances is in question without some degree of cost sharing from the industry. In order to effect this, through our deliberations considered a variety of options to ensure cost

sharing/greater industry responsibility and to drive a change in culture towards eradication,

Our primary objectives are to create a financial partnership between industry and government; maximise and better deploy resources; identify new sustainable funding arrangements; and re-balance the cost of the disease between the public and private sectors, thus resulting in a change of culture and a shared commitment to the control and eradication of bTB.

We have made the above recommendations to help drive behavioural change and ensure that the other proposed changes in the strategy are financially viable. We essentially want to see a shift in culture from a position where bTB is seen as an unavoidable feature of farming life to one where the focus is on a concerted effort to eradicate it as a disease. It follows that all stakeholders would be required to support changes in attitudes and approaches and agree to share the responsibility and costs associated with the eradication of this disease.

We are certain that continuing the current programme would never achieve eradication: disease levels are broadly stagnant, fluctuating between 4.99% and 7.46% since 2011, with the resultant constant financial drain on Government and farmers. This will continue indefinitely unless there is a scientific breakthrough.

In contrast, by implementing our recommendations as a package of measures we fully believe that we can eradicate the disease. International experience has shown that it is very difficult to predict with any certainty the timescale within which implementation of the disease measures will lead to eradication. This can be affected by numerous factors. Broad estimates, however, (created by extrapolating from the data reflecting experience in the Republic of Ireland) suggest that we could realistically hope to achieve disease eradication within the next 3-4 decades.

While clearly this will take time, as we move towards eradication, costs to both Government and farmers would fall and, in due course, eradication would not only result in significant savings to Government and farmers but it would also remove the disease's impediment to the growth of the NI agricultural industry. There are also considerable non-monetary benefits which would follow as well, for example to the mental health and well-being of affected farmers and the wider rural community.

Funding for implementation of a new NI bTB Eradication Strategy may well prove to be a challenge for the NI Executive given the current financial climate. Political acceptance of the need to address bTB in a holistic way will be essential as there will be difficult choices to be made.

There needs to be a recognition across the political spectrum that investing in the implementation of the bTB Eradication Strategy would not only produce significant cost savings in the longer term but also would be central to maintaining our international trade status, which is likely to become more crucial in the post-Brexit environment.

Evidence

In the Report of the Northern Ireland Audit Office in March 2009 on “The Control of Bovine Tuberculosis in Northern Ireland” (section 5.15), it was recognised that

“it can be difficult to eradicate bTB from a herd. However, it is a matter of concern that bTB was present within so many herds for such extended periods of time. In our view, this raises the issue of whether, under a system of 100% compensation, there is sufficient incentive for herdowners to actively seek to prevent infection.”

In June 2009 the NI Assembly Public Accounts Committee’s Report on the Control of Bovine Tuberculosis (paragraph 17) also recognised the difficulty in eradicating bovine tuberculosis from herds as follows:

“There were a number of cases where multiple compensation claims had been paid to the same herd owners. The Committee recognises that it can be difficult to eradicate bovine TB from herds but is concerned whether a 100 per cent compensation rate provides sufficient incentive for herd owners to prevent infection. In the Committee’s view, the cost of repeated disease breakdowns rests almost entirely with the taxpayer, and this cannot be right. In such cases, a share of the cost should be borne by the industry.”

Furthermore, in the FVO Working Document on Eradication of Bovine Tuberculosis in the EU (section 3.11), it was stated that,

“..compensation schemes should be subject to regular review and linked to the herd-owners’ compliance”.

Additionally, it was stated that,

“The compensation scheme should also be aimed at modifying the behaviour of the farmers in a way that they avoid the introduction of the disease and further spread in their herds.”

We were cognisant of these comments during our deliberations.

Following a public consultation from 30 June to 4 September 2015 on our Interim Report seeking views on the most efficient and pragmatic actions required to achieve the greatest reduction in the level and cost of bTB in the shortest possible time, we completed a comprehensive review of all the consultation responses and took note of the varied range of views on funding TB Eradication as expressed by: industry; nature conservationists; veterinarian representative organisations and veterinarians; and several private individuals.

Industry voiced opposition to any reduction in the compensation levels paid to farmers on the grounds that, whilst compensation is paid at 100% of an animal’s value, that still does not cover: the cost of rearing additional calves; the loss of earnings due to test impact on livestock feeding; the cost of additional labour and time to complete the tests; the time taken to look after additional livestock; the reduction in milk yield in the days following a TB test; and the negative impact on animal fertility, abortions, or accidental injury to livestock during testing.

Industry further stated that, since farmers as producers bear significant burdens (in terms of time and resources as well as the entire burden of consequential loss and the related stress of witnessing the destruction of many animals), no justification for

changing the present funding arrangements could be countenanced until there was a robust programme in place here with the reasonable possibility of eradicating bTB.

Industry additionally did not view the present time as right for any major changes which could threaten family farm businesses already close to bankruptcy (though one suggested option for further investigation was the French system based on replacement and re-stocking costs).

Nature conservationists, who responded, took the view that compensation should remain at 100% as an incentive to farmers to support TB measures, but thought that it should be tied to compliance with on-farm biosecurity measures (e.g. timely testing, best practice and infection control). They considered that failure to meet test obligations, adhere to best practice or implement adequate measures to mitigate risk should incur penalties (either as reduced compensation payments or fines).

Veterinarian representative organisations and veterinarians, who responded, expressed the view that, even with compensation at 100% for removed animals, farmers still suffer economic loss, since there are a number of consequential losses that arise from bTB infection in a herd. They also thought that under-compensating reactors provided a perverse incentive for non-disclosure and indulgence in sharp practices which could contribute to further disease spread.

We note that the former Department of Agriculture and Rural Development (DARD) previously consulted twice on proposals to introduce changes to the compensation arrangements but that these failed to win political support, illustrating the importance of securing such political and stakeholder support to ensure the implementation of our full package of measures.

Detail

In taking account of all of the foregoing evidence, we reached the view that the introduction of a compensation cap would encourage a shift in culture on the part of the industry, namely, the introduction of a compensation cap would clearly signal the continuing need for compensation to be viewed as a necessary part of the contract between government and industry to encourage support for compliance with the bTB Eradication Strategy. However, this could not continue to be seen as an unlimited safety net to mitigate all financial risk. This was a view shared by Dr Philip Robinson, in his behavioural analysis of our recommendations, where he stated;

“It is to be hoped that a reduction in compensation will encourage farmers to do all in their power to reduce the risk of bTB entering and spreading within their herd through implementing appropriate biosecurity measures.”

We have taken into consideration both the PAC and the FVO comments with regard to the impacts of DAERA’s policy of awarding compensation at full market value, and have compared our current compensation arrangements with those in other jurisdictions.

The total TB reactor compensation in NI in 2015 was £15.4M. It must be accepted that reactor compensation forecasting is not however a precise science, given that the payments depend on the age and market value of the animal as if it were not

diseased. Additionally, market values are volatile and additional gamma testing, use of severe interpretation, adjusting the NVL rules, etc would inevitably lead to more risk-testing which could increase reactor compensation payments in the short term.

However, based on the £15.4M compensation total paid in 2015, the imposition of a cap could deliver the following annual savings for re-distribution to fund additional bTB programme activities.

In coming to a cap level, we have considered various options, and the likely impact on farmers. Looking at the compensation profile spend in 2015 for bTB, we examined and sought to balance the following information and factors:

- Our view that a cap on payments would contribute to a cultural and attitudinal change by encouraging a shared financial responsibility. If the cap level was set too high, any impact on culture and behaviours would be negligible. If the cap level was set too low, it may have a significant adverse impact on the farming industry, adversely affecting the chances of obtaining the necessary buy-in for the Strategy;
- The noted criticism from both the FVO and the NI Assembly PAC with regard to the levels of compensation paid and its effect;
- The existing burden on the taxpayer from the current bTB programme and our awareness that the proposed new bTB eradication programme would result in significant additional expenditure, which would need to be resourced in part through some form of cost sharing;
- Our view that any savings from a reduced compensation bill should be redirected back in to supporting implementation of the Eradication Strategy;
- The need to address the small minority of farmers who seek to abuse the compensation system;
- The levels of payments made in previous financial years and the number of farmers that a range of cap levels would impact on; and
- Consideration of the number of animals which would have been affected by a cap based on 2015 compensation profile.

Taking all of these factors into consideration it is our judgement that setting a cap at £1,500 would have the most beneficial effect.

Impact

Compensation cap

The table below illustrates that in 2015 some 1,378 animals (13% of the total number of non-pedigree animals) would have been affected by a cap set at a level of £1,500.

Total number of non-pedigree animals for which compensation was paid in 2015	Total number of non-pedigree animals for which compensation was paid in 2015 below the £1500 cap	Total number of non-pedigree animals for which compensation was paid in 2015 above the £1500 cap	Percentage of non-pedigree animals that would have been affected by a cap of £1500 in 2015
10,554	9,176	1,378	13%

Pedigree Animals

Additionally, we considered how a cap would have affected the compensation of pedigree animals based on 2015 compensation profile. This illustrated that, due to their often superior market value, any cap would have had a disproportionate impact on the amount of compensation awarded to pedigree animals. We also recognised that farmers in NI have invested in pedigree breeding to achieve high genetic merit for animals. In light of this, we have recommended that a 20% premium be awarded, above the level of the cap, for pedigree animals. We recommend that in all cases, valuations would continue to be determined by appointed valuers.

We also recommend that compensation up to a maximum of £3,500 should be payable for one pedigree stock bull per year, but with no carry-over from one year to the next. In setting this we sought to recognise the fact that the farming industry in NI has invested in pedigree breeding to improve commercial success. We have looked at the number of payments made in the previous 3 years which exceeded £3,500 and this represents a very small number.

All animals, for which the claimed pedigree is a component of the market value, must have their pedigree proven by the submission of a DNA profile for the animal. A profile may already exist and can therefore be provided directly to the valuer by the Breed Society, presumably at no cost to the keeper. If a profile does not already exist, however, it should be up to the keeper to have one determined by the Breed Society if he wishes the pedigree to be taken into account. This reflects the approach taken by many pedigree sales.

In relation to any pedigree animals being valued it is recommended that the valuer should reserve the right to verify any DNA profile provided by comparison with the sample collected at DNA tagging. This verification would be at taxpayer's expense. A number of profiles should also be checked at random.

A composite proposal to apply both a 75% percent reduction in compensation and also to introduce a valuation cap of £1,500 would mean that, with the 75% reduction applied, the maximum compensation paid for any animal would be £1,125. If these two measures were introduced in tandem, it is estimated that the total reduction in compensation spend could be in the region of £4.75m. If herdkeepers were also allowed to have compensation paid at full market value for one pedigree animal per herd, the reduction in the compensation bill would be less than £4.75m, but it is not possible to calculate that element. Again, this would have a proportionately greater

impact on herdkeepers with a greater number of reactors and those with higher value stock, etc.

We consider that there is further scope to revise the compensation arrangements and that farmers should be further incentivised to reduce all possible risks to their herd through a reduction in the percentage of compensation paid. This would also release further funds to be reinvested back into the eradication programme.

Applying a percentage reduction uniformly across all farmers, in addition to ensuring a contribution to cost sharing, would help to encourage changes to culture, attitude and behaviour by incentivising farmers to fully embrace the role they have in protecting their herd from bTB.

We therefore recommend that DAERA reduce the percentage of compensation paid to a level of 75% of market value, subject to the cap. DAERA, along with the TBEP, should take into account the disease picture and other circumstances when seeking to introduce this measure. It should be noted that compensation payments were previously at 75% of market value.

It is our expectation the DAERA would use any savings accrued through the cap and any potential reduction in compensation payments, to support implementation of the bTB Eradication Strategy.

We are not, however, recommending that this should be introduced immediately. We recognise that in order to change culture, we will have to obtain stakeholder buy-in and secure “hearts and minds”. We, therefore, recommend that the cap on compensation is introduced first and its impact is reviewed before the TBEP considers introducing a percentage reduction in compensation paid. This would also be dependent on the agreement of DAERA Minister.

Timeline

Our recommendations, if accepted would require legislative and system change which would have to be taken forward by DAERA. Implementation of recommendations regarding finance should be linked to progress on other key recommendations. Implementation is also dependent on other external factors, including the garnering of political support.

We also recognise that, as disease levels progressively reduce in the longer term, consideration could be given to linking compensation with biosecurity. These issues should be formally reviewed by the TBEP in due course, and would be dependent on the evolving disease picture.

The changes outlined here, along with all other aspects of our bTB Eradication Strategy, should be kept under regular review by the TBEP in light of the changing disease picture going forward.