

## **Amendment to Part 1 Schedule 8 of the Agricultural Holdings Act 1986 as regards its application in England – end of tenancy compensation for improvements**

**Department for Environment, Food and Rural Affairs**

**RPC rating: validated**

### **Description of proposal**

The proposal is to amend the Agricultural Holdings Act 1986 to broaden the scope of materials for which end-of-tenancy compensation is paid. The new materials for which compensation will now be paid are manure from 'other' livestock, digestate and compost. The Department expects that more comprehensive compensation will help strengthen the incentive for outgoing tenants to maintain the quality of their land right up to the end of the tenancy.

### **Impacts of proposal**

The proposal will directly affect the outgoing tenant and the landlord, as the two parties to an expiring tenancy, and also the incoming tenant.

The Department estimates that, as a result of the proposal, compensation paid by landlords to outgoing tenants will increase by approximately £75,000 per year. This represents a direct transfer from landlords to out-going tenants, both of whom are businesses. As such, the increased payment of compensation neither counts as a net cost nor as a net benefit to business. Ultimately, landlords and incoming tenants will indirectly derive some benefit from the increased compensation through the increase in the productivity of the land.

The Department explains that there will be additional negotiation costs to landlords and outgoing tenants of approximately £110,000 per year, to agree the value of compensation for the new set of materials to be covered. This is based on a professional agricultural valuer taking two hours (at £120 per hour) to prepare, review and discuss a claim.

The Department does not expect the proposal to generate significant additional familiarisation costs. This is because interested parties do not need to be familiar with the regulations until the end of a tenancy. This was confirmed by the Tenancy Reform Industry Group (TRIG) who advised the Department that familiarisation costs would not change as a result of the proposal.

The Department, therefore, estimates that the proposal will result in an annual net cost to business of £0.08 million, which is the annualised cost of the £110,000 per year negotiation costs in 2009 prices.

## Quality of submission

The Department based its estimates on responses to its consultation, observable data and advice from the TRIG.

The Department explained that the amount of compensation transferred between interested parties is sensitive to two assumptions that were tested in different scenarios:

1. The rate at which tenancies fall over time: the Department used two methods to provide upper/lower bounds to derive a best estimate of 465 tenancies each year.
2. Projected future values of the new materials of manure, digestate and compost: the Department allowed future prices of materials to vary  $\pm 2.5\%$  in real terms to give a compensation range of between £1.13 million and £2.80 million, in net present value terms.

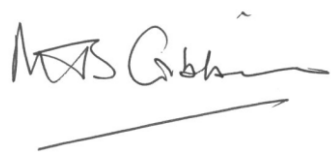
Based on the analysis provided in the IA, the Department's estimates appear to be reasonable.

## Initial departmental assessment

Classification	IN
EANCB	£0.08 million

## RPC assessment

Classification	IN
EANCB – RPC validated	£0.08 million
Small and micro business assessment	Not required (fast track low-cost regulation)



**Michael Gibbons CBE, Chairman**