

## **Explanatory Memorandum to the Tuberculosis (Wales) (Amendment) Order 2016.**

This Explanatory Memorandum has been prepared by the Department for Economy, Skills and Natural Resources and is laid before the National Assembly for Wales in conjunction with the above subordinate legislation and in accordance with Standing Order 27.1.

### **Minister's Declaration**

In my view, this Explanatory Memorandum gives a fair and reasonable view of the expected impact of the Tuberculosis (Wales) (Amendment) Order 2016. I am satisfied that the benefits outweigh any costs.

**Rebecca Evans AM**  
Deputy Minister for Farming and Food

11 March 2016

## **1. Description**

The arrangements for paying compensation for cattle slaughtered because of bovine TB are currently set out in the Tuberculosis (Wales) Order 2010 (“the 2010 Order”). The 2010 Order includes rules that can affect the amount of compensation that a person can receive for any animal slaughtered for TB. This Statutory Instrument will amend the 2010 Order to give the Welsh Ministers further powers to reduce compensation where a person has not complied with the 2010 Order.

The amendments are contained in the Schedule to this Order. Paragraph 17 introduces a new Schedule to the 2010 Order, replacing the previous Schedule, making new provision for the calculation of the value of a bovine animal slaughtered for tuberculosis.

## **3. Legislative background**

Section 32 of the Animal Health Act 1981 confers the power on the Welsh Ministers to slaughter animals for disease control purposes and also imposes a duty on them to pay compensation in respect of those animals. Animals include cattle under section 87(1) of the Act and disease includes tuberculosis by virtue of article 6 of the 2010 Order. The duty to pay compensation requires it to be determined in accordance with a prescribed scale which is currently set out in the Schedule to the 2010 Order.

This amending Order is being made in exercise of a number of powers conferred by the Animal Health Act 1981, including under Section 1 of the Animal Health Act 1981 which provides for Ministers to make Orders for the purpose of preventing the spread of disease. These powers are exercisable by the Welsh Ministers in Wales through the National Assembly for Wales (Transfer of Functions) Order 1999, the National Assembly for Wales (Transfer of Functions) Order 2004 and section 162 of, and paragraph 30 of Schedule 11 to, the Government of Wales Act 2006.

## **4. Purpose & intended effect of the legislation**

Compensation for cattle slaughtered because of bovine TB in Wales is currently determined by individual on-farm valuation, in accordance with the Tuberculosis (Wales) Order 2010, on the basis of 100% of market value.

The European Commission has frequently expressed the opinion that the current compensation system offers little incentive for farmers to make additional effort to prevent infection. This is because valuations are higher for animals in Wales compared to England, where valuation is determined primarily using table values. This opinion was reiterated as the most recent in the Food and Veterinary Office (FVO) Audit visit. Although the Commission has not taken any action at this point, a failure to address this criticism could, in future, jeopardise EU co-financing of some of our TB control measures.

The Tuberculosis (Wales) (Amendment) Order 2016 will provide the Welsh Ministers with wider powers to reduce compensation for people who have breached the Order to better incentivise people to keep disease out of their herds. This could result in a reduction in the overall amount of compensation paid through a combination of reduced payments as a consequence of breaches of requirements and also farmers changing their practices - therefore potentially reducing the number of animals slaughtered due to TB.

## **5. Consultation**

The details of the consultations undertaken are included in the Regulatory Impact Assessment.

## PART 2 – REGULATORY IMPACT ASSESSMENT

Compensation for cattle slaughtered because of bovine TB in Wales is currently determined by individual on-farm valuation in accordance with the Tuberculosis (Wales) Order 2010 on the basis of 100% of market value. Compensation is paid on the principle of equivalence i.e. compensation is based on the market value and the value is neither added to nor reduced to reflect the fact that the animal is being compulsorily acquired. This means that the owner should be no worse off in financial terms after the acquisition than before. Likewise the owner should not be any better off. Compensation is not paid for any consequential losses, such as lower milk production or the costs of keeping additional cattle, due to TB movement restrictions. Defra estimates that the additional cost to the farmer is £10,000 (average in a confirmed TB breakdown).

TB compensation is demand led and the total amount of compensation paid is heavily dependant on the number of cattle slaughtered per year. In total, over the last ten financial years in excess of £140 million has been spent by the Welsh Government on TB compensation. The compensation budget for the financial year 2014/15 was £11,660,000. The following table shows a breakdown of the compensation costs paid by the Welsh Government in the last ten financial years. As shown in the table, salvage cost is recouped.

Table 1: Costs of compensation

Year	Compensation	Haulage / Slaughter	Valuers fees/T&S	Disposal	Salvage	Total
2005/06	£13,627,000	£222,000	£134,000		-£1,252,000	£12,731,000
2006/07	£11,642,000	£318,000	£139,000		-£420,000	£11,679,000
2007/08	£15,973,000	£339,000	£158,000		-£495,000	£15,975,000
2008/09	£23,986,000	£489,000	£273,000		-£1,001,000	£23,747,000
2009/10	£18,488,000	£629,000	£387,000	£40,000	-£1,256,000	£18,288,000
2010/11	£12,172,000	£322,000	£369,000	£80,000	-£1,533,000	£11,410,000
2011/12	£13,284,000	£268,000	£401,000	£157,000	-£2,173,000	£11,937,000
2012/13	£17,024,000	£255,000	£429,000	£151,000	-£2,737,000	£15,122,000
2013/14	£11,761,000	£170,000	£350,000	£99,000	-£1,520,000	£10,860,000
2014/15	£10,905,000	£294,000	£349,000	£69,000	-£2,521,000	£9,096,000

## Objectives

It is important that we continue to ensure that the TB compensation system is financially sustainable and incentivises farmers to engage effectively in TB prevention measures. To meet all of these objectives the intention is for a compensation system that aims to:

- a. compensate farmers fairly for the loss of their cattle
- b. avoid TB compensation being paid at rates above 100% of the animal's value
- c. ensure that the valuation mechanism is cost effective and financially sustainable
- d. ensure that compensation payments incentivise farmers to engage effectively in TB prevention measures

## Options

This section of the RIA evaluated three potential alternative compensation options against the baseline of the current policy (Do Nothing option):

Option 1 – Do nothing (current policy)

Option 2 – table valuations

Option 3 – hybrid system – on farm valuations and table valuations

Option 4 – enhancing the current system.

These options are assessed in terms of how far they would achieve the objectives and in terms of their costs and benefits, and their respective annual costs compared against those of the do nothing option.

At this stage a system funded by the sector itself (via a levy or equivalent) has been discounted. It is recognised that for a vast majority of industries costs of various hazards are met from business revenues which is not the case currently in TB. However a change in the current climate could put the farming sector in Wales at a comparative disadvantage compared to other parts of the UK.

### Option 1: Do nothing (current policy)

It is important that we continue to ensure that the TB compensation system is financially sustainable and incentivises farmers to engage effectively in TB prevention measures. The do nothing option fails to address some of these issues and the concerns raised by the European Commission.

### Option 2: Table valuations

In a table valuation system, as currently used by the Department for Environment, Food and Rural Affairs (Defra) in England, compensation for

cattle slaughtered because of bovine TB is determined primarily through table valuations which are based on average market prices for pre-determined cattle categories. Table value rates are updated monthly and published on the Defra website. Where sales data for a particular category in any particular month is inadequate, compensation is determined using a previously ascertained market average or, if this is not possible, through individual valuation.

Rates for the 51 cattle categories are determined using sales data of disease free cattle. Sales data for around 1.4 million cattle is collected each year by the Agriculture and Horticulture Development Board (AHDB), through its Market Intelligence division, to support the table valuations. For non-pedigree table values one month's sales data is used to best reflect the fluctuations in market value. Six months' data is used to determine table values for pedigree cattle to ensure that data from either of the two key sales periods (in spring or autumn) is included in the calculation. The values in the table of categories are derived from sales information obtained from store markets, prime markets, rearing calf sales, breeding sales and dispersal sales in Great Britain. The sales information is not complete for all sales – coverage is almost complete for the regular markets and is described by the AHDB as being 'good' for irregular sales at main markets. The sales information does not include data from private sales or cattle sold direct to slaughter.

### Option 3: Hybrid system – on farm valuations and table valuations

One of the alternative options is for commercial cattle to be valued using a table valuation system with individual on-farm valuations retained for pedigree cattle. Many of the respondents to the first consultation felt that a table valuation system is better suited to commercial cattle as their value is primarily based on age with less disparity of values across and within breeds. This is corroborated by our analysis of TB compensation levels which shows that TB valuations for non-pedigree cattle are more in line with average market values than for pedigree animals. However, cattle are often cross-bred to benefit from 'hybrid vigour' i.e. to improve upon the traits of two separate breeds. Cross-breeding can result in cattle that perform better than pedigree animals in certain locations or in a certain production system. In these circumstances the cattle may have a high value that is not adequately reflected in the tables.

### Option 4: Enhanced current system

There were many suggestions in the responses to the first consultation on ways of enhancing the current valuation system to ensure that it better meets the objectives. These included:

- Penalising risky practices – as suggested in some of the responses to the first consultation; the rules that can affect the amount of compensation that a cattle keeper can receive for any animal slaughtered for TB could be tightened and expanded. The aim would be

to better incentivise cattle keepers to comply with disease control measures, for cattle keepers to take action to minimise the risks of disease spread and to reduce risky practice by reducing compensation.

- A cap on payments – some respondents to the first consultation suggested continuing the current individual valuation system but to introduce a cap on the level of compensation that can be paid. Compensation would be either the individual valuation or the cap, whichever is lower. The cap suggested in responses to the first consultation was £15,000 for pedigree cattle.
- Lowering the threshold at which warranted valuers have to justify the valuations of cattle – lowering the justification threshold to bring a greater number of values under scrutiny.
- Reducing the number of warranted valuers and/or how they are monitored – a number of changes to the current system of using valuers were recommended as part of the responses to the first consultation. As an alternative, the warranted valuers could be formally procured by the Welsh Government under a framework contract and employed under set terms and conditions.

## **Cost and benefits of the options**

### Option 1: Do nothing (Current Policy)

This option has not been assessed against the 4 objectives in the same way as the other 3 options. An RIA for the existing system has been drafted previously.

### Option 2: Table valuations

#### a. Compensate farmers fairly for the loss of their cattle

Under the table valuation system farmers are paid the average market value for the type of animal being slaughtered, broken down into 51 categories based primarily on age. By taking an average value, some farmers will be underpaid for their animals whilst others will be overpaid. One of the most common issues raised by respondents to the first consultation, in particular by pedigree breeders, was that animals of high genetic merit could be undervalued in a table valuation system.

Our analysis of compensation payments compared compensation paid in Wales with compensation that would have been paid for the same animals if the table valuations system had been used. It found that compensation for non-pedigree cattle would have been 18% lower and for pedigree cattle would have been 41% lower with an average reduction of 30% across both. In the financial year 2014/15, this would have resulted in the total amount of compensation paid reducing from £10,995,000 to £7,696,500 (a lower transfer from the taxpayer to compensation recipients). Although it is difficult to determine what proportion of these lower payments would result in the animals being

undervalued it is likely that at least a proportion of cattle, particularly high value pedigree cattle, would be undervalued. Any such individual undervaluation would constitute a net cost to the farm businesses equivalent to the difference between the valuation and the true market value.

**b. Avoid TB compensation being paid at rates above 100% of the animal's value.**

It is highly likely that, by taking an average value, some farmers will be overpaid for their animals. Many respondents to the first consultation highlighted that poorer grade stock would attain a compensatory value higher than what would have been received when sold on the market. These overvaluation of poor quality stock constitute an "excess" payment from the Welsh Government (and by extension taxpayers) equivalent to the difference between the valuation and the true market value.

**c. Ensure that the valuation mechanism is cost effective and financially sustainable.**

One of the benefits of the table valuation system is the reduced cost of administration. The annual cost of the data collection contract with the AHDB, which serves the table valuation system in England, is commercially sensitive and is therefore not being published in this RIA but it is lower than the cost of the Welsh Government's individual valuation system which in 2014-15 was £349,000 (this includes valuers' fees and travel and subsistence costs). If the table valuation system was used the Welsh Government would need to contribute to this cost annually, through entering in to our own contract with the AHDB or re-negotiating the current contract. Individual on-farm valuations are also carried out in certain circumstances i.e. where sales data for a particular category in any particular month is inadequate. In terms of the overall number of valuations, less than 1% is individual on-farm valuations and the cost in terms of payments to valuers is less than £10,000 per annum. A table valuation system would therefore be more cost effective than the current system in terms of administration costs.

The majority of the respondents to the first consultation did not think that the 51 cattle categories that are currently used for table values in England are suitable to provide accurate valuations. In particular, there was concern that the categories used in England do not take in to account differences in breed, pedigree status or organic status. The data collection contract specifically serves the particular categories used by Defra. If the valuation tables are expanded to include extra categories it is likely to incur higher costs for the sales data. Without entering in to discussion regarding re-negotiating the data collection contract, it is unknown how much higher the cost would be. Some of the respondents to the first consultation also thought that, in order to better represent the market values in Wales, the table valuation system should only use sales data from Wales. Using Wales only data or expanding the 51 cattle categories used by Defra is unlikely to be practical to implement as it could result in insufficient data to fully populate all the categories.

**d. Ensure that compensation payments incentivise farmers to engage effectively in TB prevention measures.**

It is difficult to evaluate the potential impact this system would have in incentivising farmers to engage in TB prevention measures. Lower compensation rates could offer a greater incentive for farmers to engage with disease prevention measures as they either stand to gain less or lose more if their animals are infected than they would do under the current valuation system. However, the poorest quality stock could attain a compensatory value higher than what would have been received when sold on the market. This could create a perverse incentive that could discourage some farmers from taking effective disease preventative measures.

**Option 3: Hybrid system**

**a. Compensate farmers fairly for the loss of their cattle**

A hybrid system, whereby commercial cattle are valued using a tabular system with individual on-farm valuations retained for pedigree cattle, was recommended by some of the respondents to the first consultation. The respondents felt that the table valuation system should be better suited to commercial cattle as their value is primarily based on age with less disparity of values across and within breeds. Commercial cattle are also sold more frequently and at greater volumes than pedigree cattle, which should result in the market data better reflecting the animal's value.

As is the case for using the table valuation system for all cattle, by taking an average value, some farmers will be underpaid for their animals whilst others will be overpaid. Although pedigree animals of high genetic merit would not be significantly undervalued as individual valuation would remain for pedigree cattle, animals that are difficult to replace, not yet recognised as a pedigree breed or of high production value would be undervalued. Any undervaluation will constitute a net cost to the farm businesses equivalent to the difference between the valuation and the true market value. However, a smaller proportion of cattle are likely to be undervalued compared to the table valuation system.

**b. Avoid TB compensation being paid at rates above 100% of the animal's value.**

It is likely that, by taking an average value, some farmers will be overpaid for their animals. As respondents to the first consultation highlighted that poorer grade stock would attain a compensatory value higher than what would have been received when sold on the market. Any overvaluation of poor quality stock constitutes a net cost to the Welsh Government equivalent to the difference between the valuation and the true market value.

**c. Ensure that the valuation mechanism is cost effective and financially sustainable.**

It is envisaged that the cost to the Welsh Government of operating this system would be comparable to the current individual valuation system. We would need to share the, likely increased, cost of the data collection contract which serves the table valuation system in England. The warranted valuers would be maintained although having fewer values to undertake would result in a saving to the cost of operating the current individual valuation system (currently £349,000). This saving would be partly or fully offset by the cost of the data collection contract required to populate the data in the table values for commercial cattle.

**d. Ensure that compensation payments incentivise farmers to engage effectively in TB prevention measures.**

It is difficult to evaluate the potential impact this system would have in incentivising farmers to engage in TB prevention measures. There are potential problems with operating a hybrid system which could inadvertently jeopardise TB prevention measures. Pedigree and commercial cattle would need to be accurately defined, with a clear distinction between the two, to ensure that this does not cause confusion for farmers, the warranted valuers or the Animal and Plant Health Agency (APHA). In order to remove diseased animals as quickly as possible APHA aims to arrange for on-farm valuation and removal of reactor cattle within 10 working days of the disclosure of the breakdown. Any delay in the arrangement of the valuation, whilst a farmer disputes whether cattle should be classified as pedigree or commercial, could result in the 10 day target not being met. This could potentially jeopardise our TB Eradication Programme.

**Option 4: Enhanced current system**

**a. Compensate farmers fairly for the loss of their cattle**

Because animals are valued based on their individual attributes the individual valuation system operates on the basis that it should provide a reasonable assessment of the animal's value at the time of valuation if it were not affected by TB or suspected of being affected. As individual valuations of animals are subjective any instances of TB compensation above the market value of the animal would constitute an "excess" transfer from the Welsh Government to the compensation recipient equivalent to the difference between the valuation and the true market value (across the number of animals on which compensation is paid). To mitigate against overvaluation taking place the warranted valuers need to be suitably qualified and experienced and subject to an appropriate level of scrutiny and incentives.

Whilst a cap on compensation would go some way to protecting the Welsh Government from the cost of compensation for the highest value animals it could penalise those animal keepers with higher value animals:

- In the financial year 2013/14 six animals were valued at £15,000 or above. The total compensation paid for these animals was £153,500.

- In the financial year 2014/15 eight animals were valued at £15,000 or above. The total compensation paid for these animals was £185,000.

The difference between the cap and the valuation and the true market value will constitute a net cost to the farm businesses. In the 2014/15 would have been £63,500. This can be mitigated against through the owner insuring the animal against the relevant losses as a result of animals slaughtered due to bovine TB. Insurance schemes are available and insuring an animal will be a commercial decision for each animal owner. In comparison, the maximum in Defra's table valuation system is £4,273<sup>1</sup> for a beef bull (although individual valuations can also take place which may be higher).

**b. Avoid TB compensation being paid at rates above 100% of the animal's value.**

As at present, such a scheme would continue to be subject to the potential for some farmers to be overcompensated for TB reactor cattle. This overvaluation constitutes a net cost to the Welsh Government equivalent to the difference between the valuation and the true market value. Since the measures introduced in 2007 valuation levels have reduced and are now more in-line with market prices, although there remains a gap. However, whilst there may be some scope to further narrow this differential, it may not be possible for valuation levels and market prices to be the same because higher value cattle tend to be kept on farm, for milking and breeding, rather than being included in the market sales data.

Formally procuring valuers and lowering the valuation threshold, would allow for the warranted valuers and their valuations to be further scrutinised to ensure as far as possible that overcompensation does not occur. Having a framework contract in place would enable the Welsh Government to set formal terms and conditions for valuers undertaking work under the Framework Contract. This would provide the Welsh Government with a formal procedure to suspend or remove valuers from the Framework in the event of overvaluation or other performance issues. This would ensure the Welsh Government is able to monitor the warranted valuers and scrutinise their valuations more rigorously than it is able to do under the current arrangements.

**c. Ensure that the valuation mechanism is cost effective and financially sustainable.**

The cost of the current individual valuation system to the Welsh Government in 2014-15 was £349,000. We estimate that the cost of formally procuring valuers is likely to be on par with this cost.

**d. Ensure that compensation payments incentivise farmers to engage effectively in TB prevention measures.**

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<sup>1</sup> As at February 2016

In general, the current arrangements are supported by cattle keepers in Wales. Reducing compensation for those undertaking risky practices is likely to incentivise farmers to engage in TB prevention measures (though further evidence is required to establish the likely scale of such effects). Such incentives could result in a reduction to the overall compensation paid, particularly through any reduction of the number of animals slaughtered due to TB.

## Summary

The table below sets out high-level estimates of annual administrative and compensation costs between the considered options. Differences in the annual compensation costs largely reflect variations in the scale of transfers between the taxpayer and compensation recipient, and will cumulate over future periods of scheme operation.

All of the options have potential benefits as well as limitations and none of them fully meet all the objectives. It has not been feasible at this point to estimate the scale of potential differences in benefits across these options arising specifically from the incentive effects to improve TB control practices.

All of the options are estimated to result in some cost savings (with the costs for the current system based on 2014/15 costs). The basis of calculation between the current system and a table valuation system is calculated based on the costs and savings estimated by Defra. The Hybrid System represents an approximate annual cost based on available data. Actual costs cannot be quantified as its dependant on the number of breakdowns and the type of animal. The enhanced system is estimated based on the measures outlined below this table.

Option	Annual administrative cost	Annual compensation cost
1. Current system	£349,000	£10,995,000
2. Table valuation	Lower than current system	£7,696,500
3. Hybrid system	Assumed on par with current system	£10,021,200
4. Enhanced current system	£349,000	£8,401,505

The following cost reductions were estimated as a result of the enhancements to the current system:

- lower the threshold to which warranted valuers have to justify the valuations of pedigree cattle to £3,000 (from £4,000) = £550,000 (10% reduction in pedigree values)

- formally procure warranted valuers (who carry out the valuations) under a framework contract = unknown (insufficient data to quantify)
- introduce a cap of £15,000 per animal on compensation payments for cattle = £63,500
- amend the Order to expand and tighten the rules governing the amount of compensation that a cattle keeper can receive for any animal slaughtered for TB = £1,979,995 (average compensation of £1,718 reduced by 50% for 2,305 cattle).

A review will take place to evaluate the accuracy of these cost estimates, and to consider the extent to which the implemented option is likely to meet the scheme objectives and address the previous issues identified regarding compensation payments and arrangements

### Analysis of options

#### Option 1: Table Valuations

The table valuation system best addresses the concerns of the European Commission that the two different valuation systems used for the compensation of the animals slaughtered in Wales and in England results in higher valuations for animals in Wales compared to England. The cost to the Welsh Government of operating the system is also likely to be lower. However, the table valuation system as it currently stands may be inadequate to accurately reflect the market value of the full range of cattle in Wales. In particular, by taking an average value, a proportion of compensation requests will result in underpayments for some of their animals whilst others will be overpaid.

#### Option 2: Hybrid System

A hybrid system could offer potential benefits – many of the respondents to the first consultation felt that a table valuation system is better suited to commercial cattle with individual on-farm valuations retained for pedigree cattle. However, operating two different systems to value cattle would be difficult to implement and cause confusion whilst offering very little savings.

#### Option 3: Enhanced current system

Under the individual valuation system animals are valued based on their individual attributes. Because of this the current arrangements are generally supported by cattle keepers in Wales. As this value is subjective to help prevent overvaluation the warranted valuers need to be suitably qualified and experienced to value cattle and appropriately scrutinised. Formally procuring valuers and lowering the valuation threshold would allow for the warranted valuers and their valuations to be further scrutinised to ensure as far as possible that overcompensation does not occur. As well as this the rules that can affect the amount of compensation that a cattle keeper can receive for any animal slaughtered for TB can be tightened and expanded to incentivise farmers to comply with disease control measures and penalise those

undertaking risky practices. Along with the cap on payments, these changes go some way to protect the taxpayer from the cost of overvaluations.

#### Preferred option – option 4: Enhanced current system

Despite being compensated for the loss of animals the Welsh Government recognises that TB has a financial impact on farm businesses and with implications for the well-being of farmers and their families. A table valuation system could significantly reduce the annual compensation costs to the Welsh Government (reducing transfers to compensation recipients). However, a significant change to the compensation system could jeopardise the recent momentum of the TB Eradication Programme in Wales which has seen the lowest number of new incidents since 2008. With momentum remaining consistent and annual TB compensation costs reducing it would not be suitable to introduce table valuations at this stage.

As a result, in the financial year 2014/15, the nominal compensation cost to the Welsh Government was the lowest for 10 years (see table 1) and the cost in real terms is estimated to be the lowest since the financial year 2001/02. Option 4 (enhanced current system) is therefore the preferred option.

However, the impact and changes will be monitored and will feed-in to a post-implementation review which will take place within two years to further quantify the costs benefits of the changes introduced. The impact of these measures will be evaluated to make sure that the compensation system is fair to farmers and is financially sustainable to the taxpayer.

## Annex A - Consultation

Following a review of the existing TB compensation arrangements and having considered alternative schemes the then Minister for Natural Resources and Food decided to seek views on the possible introduction of a system of table valuations in Wales based on average market prices for a number of pre-determined cattle categories. A twelve week consultation was launched on 28 January 2014 and closed for responses on 22 April 2014. The consultation exercise sought views on the introduction of a table valuation system for TB compensation.

There were 70 responses to the consultation. Almost all responses were received from organisations, businesses, groups and individuals either representing, or directly involved in, the cattle industry. Almost all respondents did not think that a table valuation system for TB compensation, as proposed in the consultation, should be introduced. Some of the other issues raised by the respondents included:

- The majority of respondents do not think that the 51 cattle categories that are currently used for table values in England are suitable to provide accurate valuations.
- One of the most frequent issues raised by respondents, in particular by pedigree breeders, was that animals of high genetic merit would be significantly undervalued in a table valuation system.
- Some respondents were in favour of a system that would penalise 'risky' practices and/or reward good practice.
- Some respondents agreed to a cap on valuations (although at a higher level than outlined in the consultation document). Suggestions were also provided on lowering the justification threshold.
- Potential hybrid systems were recommended by some respondents, whereby commercial cattle are valued using a tabular system with individual on-farm valuations retained for pedigree cattle.
- A number of enhancements to the current system were recommended, including to the number of valuers used in Wales and the way they are appointed.
- Many respondents said that it is rare to find the best animals at markets because herd owners keep their better animals within their herd so table valuations, based on market averages, would not be representative of livestock values generally.

Based on the feedback from the responses to the consultation and after considering the options further it was decided not to introduce a table valuation system at this time and to instead keep the current system of individual on-farm valuations but with the following changes:

- lower the threshold to which warranted valuers have to justify the valuations of pedigree cattle to £3,000 (from £4,000)
- formally procure warranted valuers (who carry out the valuations) under a framework contract
- introduce a cap of £15,000 per animal on compensation payments for cattle
- amend the Order to expand and tighten the rules governing the amount of compensation that a cattle keeper can receive for any animal slaughtered for TB.

These proposals are aimed at striking a balance between compensating farmers fairly for the loss of their animals whilst also incentivising cattle keepers to minimize the risks of the disease spreading and penalising risky behaviour. It is based on the suggestion made in the consultation that we should be stricter on those farmers who do not follow the rules.

The proposals on the circumstances in which compensation is reduced, where a person has not complied with the rules, were subsequently consulted on. The consultation was launched on 14 August 2015 and closed for responses on 6 November 2015. The consultation ran for 12 weeks and 18 responses from a range of organisations, businesses and individuals who set out their views on the proposals.

After considering the responses, the Deputy Minister decided to change our legislation to introduce measures which will penalise people who are undertaking risky practices which can contribute to the spread of TB. In certain circumstances, the animal's owner may receive less than the market value for the animal (these are listed in Annex B).

Lowering the threshold to which warranted valuers have to justify the valuations of pedigree cattle to £3,000 and formally procuring warranted valuers under a framework contract do not require a change in legislation and will therefore be taken forward concurrently alongside the changes to the Order.

### **Competition Assessment**

Because no competition effects are anticipated for any of the proposals there is no risk of a significant detrimental effect on competition and there are no anticipated significant benefits for competition.

### **Post implementation review**

The impact the changes will be reviewed within two years to further quantify the costs benefits of the changes introduced. The impact of these measures will be evaluated to make sure that the compensation system is fair to farmers and is financially sustainable to the taxpayer.

## Annex B – market value multipliers

The value of an animal slaughtered for TB will be calculated using the following formula:

- if  $SV < (M \times MV)$  then  $C = (M \times MV)$ , otherwise  $C = SV$
- SV is the salvage value of the animal, M is the multiplier, MV is the valuation of the animal and C is the amount of compensation paid.

<b>Circumstances where a multiplier will be less than 1</b>	<b>Multiplier applied</b>
Non-compliance with an isolation notice or other notice under Article 10(3)	0.5
Unpasteurised milk from a suspected animal has been fed to calves or other mammals	0.05
Unlicensed move of a restricted animal	0.05
Veterinary Requirements Notice: 1 <sup>st</sup> breach	0.5
subsequent breach	0.05
Biosecurity Improvement Notice: 1 <sup>st</sup> breach	0.5
subsequent breach	0.05
Failing to comply with a notice restricting the storing, spreading or movement of manure or slurry	0.75
Non-compliance with an other notice under Article 18(1) i.e. isolation notice or cleansing & disinfection notice: 1st breach	0.5
subsequent breach	0.05
Failure to test an animal (interval between the specified test date and the test is):	

More than 60 days but not more than 90 days	0.5
More than 90 days	0.05
Failure to abide by the conditions of an AFU or EFU	0.05
An animal is slaughtered because of TB after it has been brought, under licence, onto premises subject to movement restrictions and before the herd regains its officially TB free status	0.5
Delaying the removal an animal to be slaughtered. Interval between the specified test date and the removal is:	
More than 0 working days but not more than 10 working days	0.75
More than 10 working days but not more than 20 working days	0.5
More than 20 working days	0.25
Enforced TB test i.e. where the test is carried out under Art 12(5) of the Order	0.05
The animal is slaughtered because of a failure to test i.e. wild or unmanageable	0.05
Failure to comply with the requirements of Article 12 (2) i.e. hiding the identity of a reactor/failing to present the correct reactor	0.05
Breaching a prohibition i.e. use of a TB vaccine, treating an animal for TB, performing an unauthorised test, interfering with the test	0.05