

Mrs Janet Davies AM
Chair
Audit Committee
National Assembly for Wales
Cardiff Bay
CARDIFF CF99 1BA

24 November 2004

Update on the Welsh Assembly Government Response to the Audit Committee Report on Compensating Farmers for Bovine Tuberculosis

At the meeting of the Audit Committee of 6 May, which considered the Welsh Assembly Government's response to the Audit Committee report on 'compensating farmers for bovine tuberculosis', I undertook to provide an update on progress made by the Assembly in implementing the Committee's recommendations. The Permanent Secretary also wrote to the Clerk to the Committee on 22 October with a specific update on progress implementing recommendation viii.

The Welsh Assembly Government has generally made good progress in implementing the Committee's recommendations. However, incidence of the disease remains high; consequently, more valuations are taking place and expenditure has continued to rise since my report was published in July 2003. For 2004-05, projected expenditure on compensating farmers for bovine tuberculosis is £12 million compared with £8 million in 2002-03 as set out in my report. This is partly the result of increased testing and incidence of bovine tuberculosis, as well as rising prices in the livestock market.

The Assembly is consulting further on rationalising compensation payments for notifiable diseases, including bovine tuberculosis. A second consultation was launched on 5 November 2004 following the original consultation initiated in October 2003 with a view to introducing by the summer of 2005 a set table of valuations for different categories of animals. This would make the valuation of affected animals more consistent. It is also likely to reduce the Welsh Assembly Government's total expenditure both on valuation fees and compensation payments. The Permanent Secretary's letter of 22 October provides more detail on the Welsh Assembly Government's progress in rationalising compensation arrangements.

In the meantime, the Welsh Assembly Government has progressed the implementation of the Audit Committee's recommendations, as set out in Appendix 1. There is one recommendation – recommendation vii – where the Welsh Assembly Government has accepted the Committee's view that it should require more justification for particularly high valuations, but has decided, on reflection, to

tackle this issue in a different way to that recommended. Rather than introduce a threshold above which valuers are routinely required to give a more detailed justification of the animal's market value, the Welsh Assembly Government has introduced a system in which it queries ten per cent of all valuations, and any overtly high valuations, based on a non-random sample selected by its Liaison Valuer. In his letter to the Committee, the Permanent Secretary states that this system provides greater flexibility and judgement in deciding which cases to query. He also comments that there is a risk that thresholds would prevent monitoring of possible over-valuation of poorer quality stock. Systematic over-valuation of poorer quality stock has significant inflationary potential because of the number of lower-value commercial animals. On this basis, I am content that the approach adopted by the Welsh Assembly Government will address the Committee's concern about the need to monitor high valuations more closely. And, as the Permanent Secretary points out, the introduction of table valuations will obviate the need for such monitoring.

In conclusion, the Assembly has and is continuing to take action to control the process of valuing animals affected by bovine tuberculosis. Unfortunately the incidence of the disease remains high and expenditure on compensating farmers for bovine tuberculosis continues to grow and remains a serious financial risk for the Assembly. The introduction of table valuations in the summer of 2005 should provide better value for money and a more consistent basis for compensation. In the interim, the Welsh Assembly Government has taken steps to seek to manage the risks inherent in the valuation process which your report identified.

Colleagues in the National Audit Office Wales will, of course, continue to monitor progress made by the Welsh Assembly Government in gripping this issue.

JOHN BOURN

(Approved by Sir John

and signed in his absence)

Appendix 1 – Schedule of progress implementing the Audit Committee's recommendations

Number	Recommendation	Progress
---------------	-----------------------	-----------------

- i The Assembly and State Veterinary Service (SVS) continue their efforts to eradicate the backlog of overdue tests
- Although the backlog of overdue tests is being reduced at the UK level, the number of overdue tests in Wales has increased from 600 at the end of September 2003 to 695 at the end of September 2004. This is due to increasing incidence; the changing pattern of bovine tuberculosis in Wales; and to seasonal factors that discourage farmers from making their cattle available for testing. A more rigorous testing regime was announced on 1 November 2004 as part of a package of short-term measures to place the onus on cattle owners to arrange testing. Failure to do so within a prescribed ‘testing window’ will result in restrictions on the movement of animals. The Welsh Assembly Government believes that this will accelerate testing and quickly reduce the backlog of tests in Wales.
- ii The Assembly develops links with key stakeholders, such as the main breeding societies, in order to deliver sustainable improvements in its control and understanding of the valuation process
- The Welsh Assembly Government has made good progress in this area. Its Liaison Valuer regularly meets the representative bodies to discuss valuations and associated issues. Meetings are scheduled to discuss the recent consultation document on rationalising compensation.
- iii The Assembly works more closely in the future with those valuing animals to ensure that the Assembly’s requirements are clear
- Again, the Welsh Assembly Government has made good progress. The letter of engagement sent to valuers emphasises the requirements of valuers, referring to the findings of my report; stating that the taxpayer funds compensation payments; and stressing that, in setting valuations, it is unlawful to take into account any consequential losses arising from the outbreak of bovine tuberculosis. The monitoring of ten per cent of valuations each month means that there is more regular communication between the Welsh Assembly Government and those carrying out valuations. Finally, the Welsh Assembly Government collates information about underlying market prices each month, and sends this to those valuing animals on its behalf. This ensures that valuers are aware of the market benchmarks on which the Liaison Valuer will base his monitoring.

Number	Recommendation	Progress
iv	The Assembly establishes clear procedures to monitor levels of compensation paid	The Liaison Valuer appointed by the Welsh Assembly Government is a practising livestock valuer. He queries ten per cent of valuations each month, requesting additional information and discussing the valuation with the relevant valuer. Although this has not led to any reductions in individual valuations, the Liaison Valuer informed NAO staff that he believed that valuations are more consistent with market prices than they were when my original report was published in July 2003, and that the monitoring process has had a significant deterrent effect. Although average compensation payments have risen, he believes that this relates to the relative strength of the market.
v	SVS and the Assembly take early action to review the administrative systems for compensating farmers to ensure that they are consistent and fit for purpose	The forms used to record valuations have been amended to record more information about the animals valued. This is a national development, heavily influenced by the Welsh Assembly Government following the publication of the Audit Committee's report. The State Veterinary Service is currently engaged in a business change programme in which the national information technology system, known as VETNET, will be replaced.
vi	The Assembly establishes a robust framework to monitor and manage the performance of valuers, including a procedure for preventing valuers from carrying out valuations when their performance has been proved defective	The Liaison Valuer queries ten per cent of valuations each month (see above). In addition, the Welsh Assembly Government no longer employs dual valuation, whereby it appoints a valuer to represent its interests alongside the farmer's valuer. This has reduced the amount the Welsh Assembly Government spends on valuation fees. Instead, where the cattle owner has not agreed a valuation with the State Veterinary Service, or where it has not been possible to agree on a single jointly appointed valuer, valuations will be performed by a valuer nominated by the Royal Institution of Chartered Surveyors. Additionally, from 4 August there is now rotation of valuers. Effectively a 'taxi rank' system now exists to prevent the same valuer valuing all stock for a particular farmer.

The monitoring process has not led to the removal of any valuers. However, the Liaison Valuer works closely with any valuer about whom he has concerns.

Number	Recommendation	Progress
vii	The Assembly introduces thresholds, above which valuers are routinely required to provide a more detailed justification of the valuations given	In the light of the progress of querying ten per cent of all valuations, the Welsh Assembly Government believes that it is better to query a ten per cent monthly sample, rather than introduce thresholds, given the risk of missing systematic over-valuation of poorer quality stock.
viii	The Assembly, having considered carefully any responses to the consultation, ensures that the revised arrangements are consistent with the Auditor General's report, and reports back to this committee on the outcome of this process	The Permanent Secretary's letter of 22 October provides a full update to the Committee on progress in rationalising compensation arrangements. This has considerable potential to achieve better control of expenditure on compensation payments in the longer-term.