

**Explanatory Memorandum to the Council Tax Reduction Schemes
(Prescribed Requirements and Default Scheme) (Miscellaneous Amendments)
(Wales) Regulations 2026.**

This Explanatory Memorandum has been prepared by the Council Tax Policy and Reform Division and is laid before Senedd Cymru in conjunction with the above subordinate legislation and in accordance with Standing Order 27.1.

Cabinet Secretary's Declaration

In my view, this Explanatory Memorandum gives a fair and reasonable view of the expected impact of the Council Tax Reduction Schemes (Prescribed Requirements and Default Scheme) (Miscellaneous Amendments) (Wales) Regulations 2026. I am satisfied the benefits justify the likely costs.

Mark Drakeford MS
Cabinet Secretary for Finance and Welsh Language
9 December 2025

PART 1: EXPLANATORY MEMORANDUM

1 Description

- 1.1 Council Tax Reduction Schemes (CTRS) are the mechanism by which local authorities in Wales provide support to low-income households in meeting their council tax liability.
- 1.2 This Welsh statutory instrument makes amendments to the Council Tax Reduction Schemes and Prescribed Requirements (Wales) Regulations 2013 and the Council Tax Reduction Schemes (Default Scheme) (Wales) Regulations 2013 (referred to collectively in this Explanatory Memorandum as “the 2013 CTRS Regulations”). It updates certain figures used to calculate an applicant’s entitlement to a reduction under a Council Tax Reduction Scheme, and the subsequent level of reduction, and makes certain technical and consequential amendments to ensure CTRS reflects changes to related social security benefits and other systems and remains fit-for-purpose.

2 Matters of special interest to the Legislation, Justice and Constitution Committee

- 2.1 This instrument has been prepared outside the new software for Welsh statutory instruments; it may be the case that minor formatting improvements need to be made during the registration process if this legislation is approved by the Senedd and made by the Welsh Ministers.

3 Legislative Background

- 3.1 Section 10 of, and Schedule 4 to, the Local Government Finance Act 2012 inserted a new section 13A and new Schedule 1B into the Local Government Finance Act 1992 (“the 1992 Act”). These provisions enabled the Welsh Ministers to introduce Council Tax Reduction Schemes (CTRS) in Wales via regulations.
- 3.2 This Welsh statutory instrument is made pursuant to powers in section 13A and Schedule 1B to the 1992 Act. The instrument is subject to approval of the Senedd (the draft affirmative procedure) by virtue of section 13A(4) and (8) of the 1992 Act.

4 Purpose and Intended Effect of the Legislation

- 4.1 This Welsh statutory instrument amends the 2013 CTRS Regulations to update certain figures in those Regulations used to calculate entitlement to a council tax reduction, and the amount of any reduction awarded to applicants in the 2026-27 financial year, to reflect increases in the cost of living. It also makes minor technical, presentational and consequential changes to the 2013 CTRS Regulations.

Background

- 4.2 The Welfare Reform Act 2012 contained provisions to abolish Council Tax Benefit from 31 March 2013. From 1 April 2013, responsibility for providing support for council tax was transferred to local authorities in England. Fixed funding, reduced by 10% compared to the 2012-13 costs, was passed to the Welsh Government and to the Scottish Government to allow the Devolved Governments to develop replacement schemes.
- 4.3 Following the UK Government's decision, the Welsh Government sought provisions in the Local Government Finance Act 2012 which amended the 1992 Act, to provide the Welsh Ministers with executive powers to introduce Council Tax Reduction Schemes in Wales via regulations.
- 4.4 The 2013 CTRS Regulations were approved by the National Assembly for Wales on 26 November 2013.
- 4.5 The value of award entitlements is met locally by each local authority. The Welsh Government provided £244m in the Local Government Settlement for CTRS in 2013-14 and each year since.

2013 CTRS Regulations

- 4.6 Aligned with the predecessor provisions that were in place in the 1992 Act, the 2013 CTRS Regulations govern the operation of CTRS in Wales. These regulations are closely based on the previous Council Tax Benefit rules to prevent low-income households facing sharp changes in the level of support they received. All eligible applicants were automatically transferred from Council Tax Benefit onto Council Tax Reduction Schemes from 1 April 2013. If an applicant receives Income Support, Income-Based Jobseeker's Allowance (JSA), Income-Based Employment and Support Allowance (ESA), Pension Credit, or Pension Credit Guarantee, they are entitled to the maximum, full, reduction in their council tax liability. Approximately 35% of CTRS applicants in Wales receive these passporting benefits.
- 4.7 If an applicant does not receive any of the passporting benefits, the weekly amount of money which they are judged to need to live on is calculated. This is known as the 'applicable amount' and consists of two components.
- The first is the personal allowance – the basic amount a person needs to live, which varies according to the household's circumstances. For example, the allowance for a couple with children is higher than that for a single person without children. These allowances are also set at higher rates for those who have reached State Pension Age.
 - The second component is the premium – additional amounts added to reflect any personal circumstances which increase the cost of living, such as a disability or a carer's responsibilities. Once the applicable amount has been determined, the applicant's level of income is calculated.

- 4.8 For CTRS, Universal Credit (UC) recipients are treated in a similar way to non-passported applicants. However, instead of an ‘applicable amount’ being calculated, the ‘maximum amount’ (calculated within their UC application) is used instead.
- 4.9 If the applicable amount or maximum amount is higher than an applicant’s calculated income, they are entitled to the maximum reduction in their council tax liability. If income exceeds the applicable amount, the weekly entitlement is reduced by 20p for each £1 of excess weekly income, until entitlement is withdrawn – this is known as the taper.
- 4.10 Adjustments can be made to the maximum amount of reduction a person can receive to take account of adults living in the dwelling who are not dependants of the applicant and who are therefore assumed to make a financial contribution to the household (non-dependant deductions).
- 4.11 Adjustments can also be made to take into account savings. If an applicant has capital of £6,000 (or £10,000 for pension age applicants) or less, this will be ignored when working out whether they are entitled to a reduction.
- 4.12 If a working-age applicant has capital of between £6,000 and £16,000, the local authority will treat it as income. This is known as tariff income. The local authority will assume an applicant has an income of £1 a week for each £250 of capital between £6,000 and £16,000. This will be added to other income to work out whether an applicant is entitled to a reduction and how much they are entitled to.
- 4.13 If a pension-age applicant has capital of between £10,000 and £16,000, the local authority will treat it as income. The local authority will assume an applicant has an income of £1 a week for each £500 of capital between £10,000 and £16,000. This will be added to other income to work out whether an applicant is entitled to a reduction and how much they are entitled to.

Uprating figures for 2026-27

- 4.14 This Welsh statutory instrument amends the 2013 CTRS Regulations to uprate financial figures used to calculate entitlement to a reduction in line with Welsh Government policy.
- 4.15 The amendments uprate a number of other figures included in the 2013 CTRS Regulations. These include the following:
- Personal allowances in relation to working age, and carer and disabled premiums: the financial figures in respect of these allowances have been amended and have increased in line with the cost-of-living rises. The convention is to uprate in line with the Consumer Price Index figure for September from the previous year (2025) which is 3.8%.
 - Personal allowances in relation to pensioners: the financial figures in respect of pensioner rates have been amended and are aligned with

Housing Benefit. These have been calculated with assistance from the Department of Work and Pensions and have been uprated by different mechanisms. For example, the Pension Credit Standard Minimum Guarantee is uprated by earnings, whereas the Additional Pension and increments are uprated by prices.

- Non-dependant deductions: the financial figures for the income bands and deductions made in relation to non-dependants have been uprated by the average increase in council tax. If amendments are not made, the deductions from CTRS awards would not be appropriate as the income thresholds would no longer reflect average earnings and the deduction would no longer reflect the overall cost of council tax.

Additional Amendments

4.16 In addition to uprating the financial figures, this Welsh statutory instrument makes a number of other amendments to the 2013 CTRS Regulations. These amendments make provision for technical, presentational and consequential changes to ensure the 2013 Regulations remain up-to-date and fit for purpose.

Definition of a ‘Pensioner’

4.17 With the closure of the Tax Credit system in April 2025, pension-age recipients were advised to apply for either Pension Credit or Universal Credit, based on their individual circumstances. However, those who transitioned to Universal Credit have become ineligible for pension-age CTRS, as current regulations exclude Universal Credit recipients of pension age from this support.

4.18 To ensure consistency and prevent financial disadvantage for pensioners in Wales, amendments have been made to the definition of “pensioner” within the CTRS regulations. These changes ensure that individuals migrating from Working Tax Credit to Universal Credit continue to qualify for pension-age CTRS, thereby safeguarding their entitlement and promoting equitable treatment across Wales.

Infected blood scheme payments (where left to an estate)

4.19 The Social Security (Infected Blood Capital Disregard) Regulations 2024 establish a new capital disregard aimed at supporting individuals affected by historic infected blood incidents. Under these regulations, for Housing Benefit purposes, any payment made from the estate of a deceased person, where that payment originates from an approved infected blood support scheme or the Scottish Infected Blood Support Scheme, is excluded from means-tested benefit calculations. This ensures such payments do not adversely affect benefit entitlement.

4.18 To ensure consistency across welfare support schemes, corresponding amendments have been made to the CTRS regulations to introduce an equivalent capital disregard. This measure guarantees that payments from the

estate of a deceased person who was infected are treated fairly and do not lead to financial disadvantage for surviving beneficiaries.

Neonatal Care Leave and Pay

4.19 The Neonatal Care (Leave and Pay) Act 2023 introduces new provisions for employees responsible for children undergoing neonatal care. These provisions build upon the existing framework of statutory family-related leave and pay entitlements, including maternity, paternity, adoption, shared parental leave and pay, and parental bereavement leave and pay.

4.20 To safeguard parents accessing these new entitlements from financial disadvantage and to ensure fair treatment in line with those receiving existing parental leave and pay, the CTRS regulations have been amended to incorporate references to Neonatal Care Leave and Neonatal Care Pay.

LGBT Veterans Redress Scheme

4.21 In May 2023, Lord Etherton published the LGBT Veterans Independent Review, which recommended the creation of a Recognition Scheme for individuals who were dismissed or felt compelled to resign from the Armed Forces due to official policies in effect between 1967 and 2000. The Ministry of Defence has since acted on this recommendation by introducing the LGBT Financial Recognition Scheme, with payments to eligible former service personnel scheduled to begin in March 2025.

4.22 To ensure that no veteran in Wales is financially disadvantaged as a result of receiving a payment under the LGBT Financial Recognition Scheme, amendments have been made to the CTRS regulations to disregard such payments. This change safeguards continued entitlement to the CTRS for affected individuals.

Displaced Persons from Israel, the West Bank, the Gaza Strip or East Jerusalem

4.23 The Department for Work and Pensions has laid regulations to ensure that displaced persons arriving in the UK from conflict in Israel, the West Bank, the Gaza Strip or East Jerusalem are able to meet the residency conditions for income-related, disability and carer benefits.

4.24 In line with these provisions, amendments have been made to extend access to CTRS in Wales for displaced individuals from these regions.

Generalised provisions to provide support for overseas crisis situations

4.25 In response to a crisis overseas there have been several occasions over the past few years where the UK Government has advised British nationals to leave an affected country or territory, help evacuate them, or allow foreign nationals to come to the UK through safe immigration routes. As a result, the DWP laid emergency regulations to help these people get benefits when they

arrived in the UK. The Welsh Government also made sure they could get help with CTRS in Wales.

4.26 The UK Government has now established generalised provisions to allow the DWP to provide support without the need for new legislation each time a similar overseas crisis arises. These provisions will apply automatically to future situations that meet the defined criteria. Once a crisis falls within scope of the legislation, DWP will work with other relevant areas of Government to identify whether any longer-term legislative framework is needed to enable affected persons to access additional support. This legislation does not extend eligibility to individuals who are in the UK unlawfully or whose immigration status restricts access to public funds.

4.27 In line with these provisions, amendments have been to exempt individuals within these categories from being classified as persons not residing in Great Britain. This would ensure that eligible individuals can access CTRS support during future overseas crises, and would reduce the need to introduce new, case-specific provisions each time such an incident occurs.

Miscarriage of Justice Compensation Payments

4.28 The Department for Work and Pensions has laid regulations to ensure that Miscarriage of Justice Compensation Schemes in England and Wales, Scotland and Northern Ireland, are disregarded indefinitely as capital and income when calculating entitlement to certain means tested benefits. This will ensure compensation payments are disregarded when calculating entitlements to income-related benefits.

4.29 To prevent any financial disadvantage for CTRS applicants in Wales who have received a Miscarriage of Justice Compensation Payment, a consequential amendment has been made to the CTRS regulations. This amendment ensures that these payments are excluded from the calculation of an applicant's income and capital under the scheme.

Universal Credit claimants

4.30 The DWP has introduced regulations enabling individuals receiving Universal Credit (UC) to be treated as meeting the requirements of the Habitual Residence Test for housing benefit purposes. This aligns with the existing approach for claimants of legacy benefits, including Income Support, income-based Jobseeker's Allowance, and income-related Employment and Support Allowance.

4.31 Amendments have been made to exclude individuals receiving Universal Credit from being classified as persons not residing in Great Britain. This change would mirror the treatment of legacy benefit claimants, removing the need for local authorities to duplicate the Habitual Residence Test. Claimants would only need to provide evidence once, via their UC application.

Minor technical and consequential amendments

4.32 Minor technical amendments have been made to correct omissions in relation to disregards for Windrush payments and Post Office compensation payments.

PART 2: REGULATORY IMPACT ASSESSMENT (RIA)

Options

- **Option 1 – Do nothing:** This option would mean that the financial figures used to assess household allowances in the council tax reduction means-test remain static. The criteria would be slightly less generous for non-passported applicants and would lead to small decreases in support in real terms.
- **Option 2 – Make amendments to the 2013 Regulations:** This option would mean that amendments would be made to update the financial figures in the 2013 CTRS Regulations in line with Welsh Government policy, cost-of-living increases and changes to qualifying benefits.

Costs and Benefits

Option 1 – Do nothing

The financial figures used to assess the eligibility of households with non-dependants would be out-of-date. The income thresholds would no longer reflect average earnings, and the adjustment made to the council tax reduction would no longer reflect the overall cost of council tax.

If consequential amendments are not made to the 2013 CTRS Regulations, this would mean that they would not take account of changes to related welfare benefits and other legislation. This could disadvantage some applicants by reducing or stopping their entitlement to support. It could also create confusion for applicants and increase the administrative burden for local authorities and advice providers.

If the amendments to disregard the range of compensation schemes set out are not made, an applicant in Wales could be negatively impacted by a reduction or loss of their entitlement to support.

Costs

If the financial figures for working age and pensioner allowances do not increase with the cost of living (as measured by CPI), CTRS recipients would be slightly worse off in real terms.

The financial figures used to assess the eligibility of households with non-dependants would also be out-of-date. The calculation would no longer make a fair assessment of the income of non-dependants or the overall cost of council tax. There is a risk that this aspect of the scheme would be viewed as unfair or inequitable.

If the technical and consequential amendments to the 2013 CTRS Regulations are not made, they would no longer align with Housing Benefit provisions and other related benefits. It would lead to references being out of sync with the overall benefits system and could disadvantage certain applicants by reducing their

entitlement to support. This could potentially lead to additional administrative burden on local authorities and advice providers. It may also lead to confusion for some applicants who, as a result, could be treated significantly differently under benefit schemes.

Benefits

Not uprating pensioner and working age allowance figures would help to limit any increases in the total value of reductions under CTRS, meaning local authorities could marginally reduce pressure on council tax levels. However, not uprating figures in relation to non-dependant deductions, would result in council tax reductions for relevant households being higher than they would otherwise be.

Option 2 – Make amendments to the 2013 Regulations

This option would mean that amendments would be made to uprate the financial figures in the 2013 CTRS Regulations in line with Welsh Government policy, cost-of-living increases and changes to qualifying benefits.

The financial figures in relation to working age, disability or carer rates will continue to increase in line with inflation, of **3.8%**, as measured by CPI. The personal allowances for all pensioners will be uprated to reflect the higher personal allowance provided within the Housing Benefit system. The increase would be aligned to the UK Government's Standard Minimum Guarantee (in Pension Credit) plus the maximum amount of Savings Credit (in Pension Credit).

The financial figures used to calculate the adjustment for non-dependant deductions would be uprated. The income thresholds in relation to non-dependants would be uprated to reflect average earnings and the non-dependant deduction from CTRS would reflect the average increase in council tax.

The necessary technical and consequential amendments would also be made.

The amendments would disregard the range of compensation schemes from the calculation of an applicant's entitlement and ensure any support they are entitled to would be maintained.

Costs

Uprating the financial figures for pensioner and working-age allowances is expected to result in a modest increase in the overall value of reductions provided under the Council Tax Reduction Scheme (CTRS). However, if the financial figures relating to non-dependant deductions are also uprated, this would help offset some of the increase in total reductions. As a result, the overall value of council tax reductions is not anticipated to rise significantly due to uprating alone. The precise impact will only be quantifiable once local authorities have set their council tax levels and budgets in the first quarter of 2026.

The number of individuals in Wales receiving payments from the Infected Blood Scheme, Neonatal Care Leave and Pay entitlements, the LGBT Veterans Redress

Scheme, and the Miscarriage of Justice Compensation Scheme is currently unknown but expected to be small. Accordingly, the impact on the CTRS is likely to be minimal. These disregards do not alter eligibility for the scheme; rather, they ensure that individuals already entitled to a reduction are not financially disadvantaged by receiving such payments.

Annual increases in the value of reductions, whether resulting from routine uprating or local decisions to raise council tax, are managed directly by local authorities.

Benefits

Uprating the financial figures in the 2013 CTRS Regulations will ensure that the personal allowance for working age applicants continues to increase in line with CPI (3.8%).

Uprating the financial figures in respect of the personal allowance for pensioners means the allowance continues to increase in line with the Standard Minimum Guarantee plus the Savings Credit. Maintaining the higher personal allowance for CTRS will help low-income households who reach state pension age to meet their council tax liability: they might otherwise receive less Housing Benefit compared to a pensioner who has already reached pension age.

If the financial figures in relation to non-dependant deduction rates are uprated, this will ensure the calculation used to assess the eligibility of non-dependant households remains up to date. The calculation would continue to make a fair assessment of the income of non-dependants and the cost of council tax. This will ensure the system remains fair and equitable.

As part of these Regulations, consequential and technical amendments are made that are associated with wider welfare changes made by the UK Government. This would ensure CTRS reflects changes made to interrelated social security benefits which often determine entitlement to a reduction. It would also avoid additional administrative burden for local authorities or advice providers arising from managing different regimes.

Option Selection

Option 2 is, therefore, the preferred option. This balances affordability in terms of resources and the Welsh Government's policy to continue to provide support to low-income households in meeting their council tax liability, ensuring a fair assessment and offering specific provision for vulnerable groups, and where possible to reduce the administrative burden for reasons of tax efficiency.

Engagement with stakeholders and sectors

Local government and representative organisations of the voluntary sector were consulted during the development of proposals to introduce CTRS in Wales. Local authorities have been informed of the amendments for 2026-27. This legislation will not affect the business sector.

Duties

Well-being of Future Generations (Wales) Act 2015: By promoting economic stability, reducing inequality, and improving health outcomes, the annual uprating of the CTRS supports three main goals: A Prosperous Wales, A More Equal Wales, and A Healthier Wales. This ensures financial support for low-income households, contributing to a more equal and prosperous society and contributes to a more prosperous, equal, healthy, and sustainable Wales.

UN Convention on Rights of a Child: By continuing to protect low-income households, including those with children, from their full council tax liability, CTRS has a positive impact on the standard of living of children in Wales, and helps to meet the Welsh Government's duty under the UNCRC to help families. Council tax revenue helps to fund essential public services from which children in Wales benefit, such as education and social care.

Welsh language: This Welsh statutory instrument is provided bilingually. CTRS is implemented and operated by local authorities who are under general duties to comply with Welsh language standards and sustainable development duties. Consideration has been given as to whether CTRS could be used to improve the opportunities of persons to use the Welsh language treating the Welsh language no less favourably than the English language. As the sole purpose of CTRS is to provide support to low-income households in meeting their council tax liability, it is considered there are no such opportunities.

Equalities: Maintaining full entitlements to CTRS will continue to help low-income households in meeting their council tax liability and, as such, will contribute to the Welsh Government's commitment to make council tax fairer.

Voluntary sector: No particular impact on the voluntary sector has been identified.

Justice: No specific impacts on the justice system have been identified.

Competition assessment

These Regulations have been scored against the competition assessment filter test which indicated that there will be no detrimental effect on competition.

Consultation

There is no requirement to consult, and no formal consultation has been undertaken in respect of this Welsh statutory instrument. Dialogue is maintained between Welsh Government officials and local authorities to continue to ensure that all the changes made benefit applicants. The Regulations cannot be finalised until the Department for Work and Pensions has provided figures in relation to uprating. This typically occurs shortly before laying which means that there is no opportunity to consult. The Regulations must be made prior to 31 January preceding the financial year as this is the date by which a local authority must make its scheme.

Post implementation review

Amendments are required on an annual basis to update the financial figures used to calculate entitlements to reductions. This provides an opportunity to review the legislation.