

**Explanatory Memorandum to the Council Tax Reduction Schemes
(Prescribed Requirements and Default Scheme) (Miscellaneous Amendments)
(Wales) Regulations 2025.**

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.

Minister'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 2025. I am satisfied the benefits justify the likely costs.

Mark Drakeford MS
Cabinet Secretary for Finance and Welsh Language
10 December 2024

PART 1

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 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 uprates 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 None.

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 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 statutory instrument amends the 2013 CTRS Regulations to uprate 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 2025-26 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 42% 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 2025-26

- 4.14 This 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 statutory instrument seeks to 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 (2024) which is 1.7%.
 - 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 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.

Use of Universal Credit data as an intention to claim

4.17 The Welsh Government consulted between 12 March and 6 June 2024 on proposed changes to the Council Tax Reduction Scheme with the aim of making it easier to access and simpler to administer. The majority of respondents to the consultation agreed with the proposal that a person in receipt of Universal Credit may be recognised by a local authority as having made an application for a council tax reduction. The proposed amendments will ensure that where a person is in receipt of Universal Credit, and where relevant information in relation to that entitlement has been shared with a local authority, then that authority may treat that as an intention to apply for CTRS and to process that application in accordance with the 2013 CTRS Regulations.

4.18 The Department for Work and Pensions has laid regulations to ensure that displaced persons arriving in the UK from conflict in Sudan are able to meet the residency conditions for income-related, disability and carer benefits.

4.19 The proposed amendments will allow displaced persons from Sudan access to the CTRS in Wales.

4.20 The consequential amendment is being made to ensure that this group of people are not exempt from those counted as persons not being in Great Britain. The same changes have been made to the scheme in England.

Displaced Persons from Israel, Palestine or Lebanon

4.21 The Department for Work and Pensions has laid regulations to ensure that displaced persons arriving in the UK from conflict in Israel, the Occupied Palestinian Territories or Lebanon are able to meet the residency conditions for income-related, disability and carer benefits.

4.22 The proposed amendments will allow displaced persons from Israel, Palestine and Lebanon access to the CTRS in Wales.

4.23 The consequential amendment is being made to ensure that this group of people are not exempt from those counted as persons not being in Great Britain. The same changes have been made to the scheme in England.

Victims of Overseas Terrorism Compensation payments

4.24 The Department for Work and Pensions has laid regulations to ensure that the Victims of Overseas Terrorism Compensation Scheme is added to the list of compensation schemes, for which payments are disregarded as capital for the calculation of income-related benefit entitlements. This will ensure compensation payments, including those paid to the family members of victims of terrorist attacks in Israel, are disregarded indefinitely as capital when calculating entitlements to income-related benefits.

4.25 The proposed amendments will ensure that no CTRS applicant living in Wales is negatively impacted because they have received a payment made under the Victims of Overseas Terrorism Compensation Scheme.

Removal of requirement to pay Class 2 National Insurance Contributions

4.26 From 6 April 2024 self-employed people with profits above £12,570 (the lower profits threshold) are no longer liable to pay Class 2 NICs and instead are treated as having paid Class 2 NICs. The Department for Work and Pensions has laid regulations to make various changes to legislation to remove references to Class 2 NIC contributions, including to the CTRS in England, to remove references to the lower profits threshold.

4.27 The proposed amendments will ensure that the provision mirrors the changes made in England to omit references to the Lower Profits Threshold for National Insurance Contributions.

4.28 The suggested changes will bring Wales in line with the adjustments made and implemented in England.

Migrant Victims of Domestic Abuse Concession

4.29 From 16 February 2024, the Home Office changed the name of the Destitution Domestic Violence Concession (DDVC) to the Migrant Victims of Domestic Abuse Concession (MVDAC). This concession allows individuals who were previously granted leave to stay in the UK as the spouse or partner of a British citizen or someone settled in the UK, and whose relationship has broken down due to domestic abuse, to apply for three months 'Leave Outside the Rules', which allows recourse to public funds. Amendments to the CTRS Regulations will be required to change references from DDVC to MVDAC.

4.30 The proposed amendments will ensure that they reflect the updated title of the Migrant Victims of Domestic Abuse Concession.

Minor technical and consequential amendments

4.31 A further minor technical amendment has been made to update a previous reference in relation to statutory parental bereavement pay.

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 uprate 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 **1.7%**, 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 in respect of pensioner and working age allowances would slightly increase the value of total reductions under CTRS. However, if the financial figures in relation to non-dependant deductions were also uprated, this would mitigate some of the increase in total reductions. Consequently, the total value of council tax reductions is not expected to increase significantly as a result of the uprating. It will only be possible to quantify the impact once local authorities have finalised their council tax levels and budgets in the first quarter of 2025.

There are no additional costs arising from removing references to Class 2 NICs which ceased from April 2024.

Introducing provisions to clarify that persons in receipt of UC can be automatically treated as having made an application for CTRS would be cost neutral for the Welsh Government but could result in a small increase in demand for CTRS locally, and result in a higher total of overall awards. However, those persons are eligible for CTRS and the change may also result in savings to councils by removing the costs of enforcement activities where there is no realistic prospect of debt recovery, and by reducing the need for drawn out contact with taxpayers to ascertain their eligibility and form-filling.

The number of people in Wales receiving payments under the displaced persons from Sudan and the displaced persons from Israel, Palestine or Lebanon schemes, the Victims of Overseas Terrorism Compensation payments and the Migrant Victims of Domestic Abuse Concession are unknown but are expected to be small, with little impact on the CTRS. However, the number of people eligible for CTRS will not change, rather, the disregards protect those people who are already entitled or in receipt of a reduction.

Annual increases in the value of reductions arising routinely from uprating, and from local decisions to raise council tax, are managed 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 (1.7%).

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 proposed amendments for 2025-26. 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 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 statutory instrument other than in relation to the treatment of Universal Credit as an application at paragraph 4.17 above. The 2013 CTRS Regulations were consulted upon, and details are provided in the Regulatory Impact Assessments accompanying those Regulations. 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 uprate the financial figures used to calculate entitlements to reductions. This provides an opportunity to review the legislation.