

## REPORT OF THE COUNCIL'S SELECT COMMITTEE CHAIRS AND VICE CHAIRS GROUP

### DEVOLUTION AND LOCAL GOVERNMENT REORGANISATION (D&LGR)

29 APRIL 2025

1. Through March and April 2025 the Chairs and Vice Chairs of the Council's scrutiny Select Committees met several times to be briefed on the development of Surrey County Council's interim and final Devolution and Local Government Reorganisation (D&LGR) proposals. The group was asked:

- **To act as a sounding board**, to provide insight and challenge and a Member steer as the proposal progresses.
- To work with officers to develop a good understanding of the options being considered/developed and **input into policy development**.
- **To provide insight and challenge on the changes** and potential impacts on residents and services and to identify matters of public or political significance.

2. The group met with the Leader, the Deputy Chief Executive and Director of Corporate Strategy & Policy twice in April to discuss the final D&LGR proposal. During these sessions information was shared with the group on

- Government feedback on the interim submission
- Analysis to inform unitary geography selection
- Proposals for managing debt
- Community Boards model
- Council Tax Harmonisation

3. The group fulfilled the functions set out above to the extent that it was able to given the constraints placed on it including that information was in large part presented at meetings and not shared in advance. Although the group requested access to base data, assumptions and weighing information, this was not made available to the group so the summary conclusions presented could not be investigated. The group did not have sight of the final draft submission to scrutinise although aspects of the thinking and analysis that informed the final proposal were shared.

4. This note records the key findings and recommendations of the group for consideration by Cabinet and is intended to highlight those issues the group wishes to bring to the attention of members and the public, and to provide constructive input to the implementation phase for future areas of focus and prioritisation.

5. The group wishes to pay tribute to the hard work of officers of the council, and in District & Borough Councils, working to the challenging government timelines and notes that considerable work that has been undertaken in a short period of time to pull together and agree datasets, conduct analysis and stress test options with the aim of

ensuring that sound proposals are made to government that fulfil the requirement for unitarisation whilst ensuring that no new unitary authority is set up to fail.

#### The preferred geographic solution:

6. The interim proposal to government made the case that a two unitary model was preferable in meeting the governments criteria for a population of 500,000 or more, delivering the benefits of unitarisation through more efficient services and minimising disaggregation risk and cost. It also ensures the benefits of further devolution of funding and powers to Surrey can be unlocked through the creation of a Surrey Mayoral Strategic Authority (MSA).<sup>1</sup>

7. An important measure of the future financial sustainability of the different unitary geographies is the correlation between the available taxbase, being the key source of funding, and the demand for services as indicated by current costs.

8. Based on analysis of the council tax base and existing service demand data, **the group is advised that an East-West split provides a more sustainable basis for funding and delivering critical services to residents than a North-South geographic divide**<sup>2</sup>. The group heard that the East-West split delivers a more even split of annual housing delivery requirement, with housing pressures split across urban and rural geographies, and a more equitable distribution of innovation clusters to support economic growth.

#### Government assistance on Debt:

9. Resolution of the debt position in Surrey is critical to the success of local government reorganisation and to ensuring that whichever unitary model is implemented is financially sustainable into the long term. Without a sustainable solution to Woking's unsupported debt, *Exceptional Financial Support* (EFS) will most likely be required for whichever new unitary includes Woking within its boundary. The group shares the belief of the Leader and the administration that an acceptable and sustainable solution to Surrey's debt problem must include government assistance to ensure that all new unitaries are financially sustainable and that no unitary is set up requiring EFS with the associated capital financing requirement.

- I. **The group recommends continued lobbying of government for a solution on debt which includes government assistance, so that Surrey residents do not have to unfairly bear the burden of debt run up in specific district and borough areas. This is vital to ensure that both shadow authorities are financially sustainable from Vesting Day and that critical services are not impacted by historic debt.**

#### Implementation Costs & IT:

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<sup>1</sup> Under government policy the criteria for this is that two or more upper-tier local authorities combine to form a Mayoral Strategic Authority

<sup>2</sup> This is based on analysis of adult social care package costs and children social care and Home to School Transport costs where achieving close correlation will avoid any one unitary being over or under funded.

10. Estimated implementation costs have increased from the interim submission. The total estimated implementation costs of transition to a two unitary model are -£32m for the existing authorities to fund (up to 2027) and -£53m for new authorities to fund between 2027-2031/32 giving total implementation cost estimate of -£85m. Costs have increased primarily due to higher updated IT costs. These have been developed on the assumption that existing upper tier services IT systems (including Surrey County Council ERP system) will be replicated in any new authorities rather than being replaced with new IT infrastructure and systems, which would be significantly more costly. Notwithstanding the fact that this is a decision for the new Shadow Authorities, the group can see benefits in a shared service approach to IT hosted by one Council to reduced duplication and cost.

11. Surrey County Council's experience implementing a new Enterprise Resource Planning (ERP) system provides a cautionary tale of the potential escalation of costs with IT and data change programmes. The group believes this is an area of huge risk which needs to be carefully managed and that costs may ultimately prove far more significant than currently estimated.

- II. The lessons learned from Surrey's implementation of the ERP replacement project were well documented in the report of the Digital Business and Insights (DB&I) Task Group, which made 18 recommendations for future IT or change programmes. **The group recommends that these should be revisited as part of implementation workstream planning to ensure all those involved, including Districts & Borough partners, understand the cost and other risks involved including to service users and their data.**
- III. **The group recommends that the Executive prioritise implementation resource to support planning for effective transition of IT systems and data and seeks specific additional financial resource from government, recognising that managing the aggregation or disaggregation of IT systems and data is likely to present one of the most significant challenges to local government reorganisation in Surrey.**

Special Educational Needs and Disabilities (SEND):

12. The group understands that SEND costs have not been included in the analysis and modelling which underpins the final submission. SEND provision is not considered a key determinant for the preferred unitary geography on the basis that provision is funded by the Dedicated Schools Grant (and High Needs Block) which, with the agreement of the Department for Education, will need to be split appropriately between the new unitaries in line with SEND expenditure, and is therefore not material to the financial business case. However, the group is concerned that funding aside, the sufficiency of SEND provision and the ability of parents to find appropriate places for their children within their unitary geographies, is critical.

- IV. **The group recommends that work to understand sufficiency of supply for SEND in the proposed geography is prioritised by the executive during the implementation phase, so that shadow authorities can be fully informed early on of the demand for critical services in their areas and**

**where there may be gaps and pressures in supply which is likely to impact capital and revenue budgets, particularly around Home to School Transport and schools places.**

13. The group notes that government reforms to SEND are expected and may help improve provision particularly in the mainstream sector. Any reform will need to address the pressures and deficits faced by all Councils on SEND which are crucial to ensuring long term financial sustainability in local government. With the expiry of Surrey County Council's SEND (Special Educational Needs and Disabilities) High Needs Block (HNB) Safety Valve agreement in 2026, urgent clarification is needed on whether or how this will be rolled over by government to ensure that new unitaries are able to manage the ongoing SEND HNB pressures and deficit.

The Financial Challenge ahead:

14. There are clear intended benefits and efficiencies from local government reorganisation through the aggregation of services particularly at District and Borough level. However, the scale of the financial challenge facing Surrey in terms of its collective debt position, the potential impacts of the government Fair Funding Review, which will likely to lead to significant reduction in government funding for Surrey, plus the growing demand pressures for Adults and Childrens social care means that any significant financial benefit from LGR is unlikely. The moderate ongoing annual net benefit that is estimated following reorganisation of the current 12 councils into two new unitary authorities (£27m) will be insufficient to meet the budget gap and debt burdens of existing authorities alongside the additional pressures expected due to Fair Funding Reform.

**V. The group is deeply concerned about the future financial picture for Surrey and the pressures that may be placed on residents including from Council Tax harmonisation and urges continued efforts by the Executive to lobby government to mitigate the impact of any funding reforms including the Fair Funding Review and subsequent Council Tax equalisation, and to address the debt position by writing off Woking's existing stranded debt.**

Community Boards – Strengthening Local Engagement:

15. Strengthening local engagement is a key driver behind local government reorganisation. Given the uncertain financial benefits to be derived from LGR by residents, improved local engagement must be seen as the main and most important impact. The loss of District and Borough Councils will be a concern where this is perceived to result in a greater gap between governing institutions and people on the ground. Surrey County Council is proposing the creation of community level boards to provide that local link between communities and public services and to ensure that the voice of local people is heard. The importance of getting these Boards right cannot be overstated. Elected Members, community groups, town & parish councils, health, police and other partners will need to work collectively to ensure they are a success.

**VI. The group recommends that resourcing future work on the Community Boards model is prioritised by the Cabinet during the implementation**

phase to ensure that SCC is best placed to put forward sound recommendations to shadow authorities on the approach to local engagement, and to ensure the Boards are able to perform a meaningful role delivering real results and improvements for residents.

16. This work should address the concern of this group around how the Boards will operate in practice and the need for the boards to be able to deliver real results to avoid becoming talking shops. Further work is required to resolve how local initiatives will be funded, the role of leading Councillors and issues of democratic control. Clarity is also needed around the administrative arrangements for the Boards to ensure the boards function effectively and deliver value without becoming overly bureaucratic, burdensome and costly.

VII. The group recommends that the pilots planned later in the year prioritise the development of solutions to address these points and that the model is developed to include spending *powers for the Boards to make decisions on allocation of monies* (such as Community Infrastructure Levy (CIL)) in order that they can deliver results for local people on the ground.

VIII. The group further requests that Councillors are actively involved in the pilots given the principle that Boards should be '*Councillor-led as part of a strong model of democratic local community leadership*' and that outcomes and lessons learned from these pilots are reported back to scrutiny for review.

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