

**SURREY COUNTY COUNCIL****CABINET****DATE: 7 MAY 2025****REPORT OF CABINET MEMBER: TIM OLIVER, LEADER OF SURREY COUNTY COUNCIL****LEAD OFFICER: TERENCE HERBERT, CHIEF EXECUTIVE OF SURREY COUNTY COUNCIL****SUBJECT: DEVOLUTION AND LOCAL GOVERNMENT REORGANISATION**

**ORGANISATION STRATEGY PRIORITY AREA: HIGH PERFORMING COUNCIL / NO ONE LEFT BEHIND GROWING A SUSTAINABLE ECONOMY SO EVERYONE CAN BENEFIT / TACKLING HEALTH INEQUALITY / ENABLING A GREENER FUTURE / EMPOWERED AND THRIVING COMMUNITIES**

<b>Purpose of the Report:</b>
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Following the publication of the English Devolution White Paper on 16 December 2024, all councils in Surrey have been invited onto an accelerated pathway for local government reorganisation (LGR), paving the way to unlock further devolution and create more sustainable, effective local government for the county. This report summarises the council's Final Plan for LGR in Surrey due to be submitted to government on 9 May 2025 subject to Cabinet approval. The Final Plan (Annex 1) makes the case for two unitary councils on an East/West geography, underpinned by a robust options appraisal and thorough financial analysis. Two unitary councils will help ensure the future of local government in Surrey is cost effective, simplified and strengthened whilst unlocking further devolution for the county.

<b>Recommendations:</b>
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It is recommended that Cabinet:

1. Approves the Council's Final Plan for Local Government Reorganisation in Surrey.
2. Agrees the Leader of Surrey County Council submits the Final Plan to government for the 9 May deadline.
3. Delegates authority to make any final amendments to the Final Plan (and other associated information) for Local Government Reorganisation in Surrey to the Chief Executive, in consultation with the Leader of the Council, before submission within the deadline given by the Secretary of State.

**Reason for Recommendations:**

On 18 March 2025 Surrey County Council submitted an [Interim Plan](#) for LGR, which set out the council's preferred option to reorganise the existing 12 councils into two new unitary authorities. A shortlist of four potential geographical configurations was included.

Following submission of the Interim Plan, extensive work has taken place to develop a robust evidence base and clear vision for strengthened, simpler and more cost-effective local government in Surrey. This Final Plan (Annex 1), due to be submitted to government on 9 May 2025, proposes an East and a West unitary council, working in conjunction with a Surrey Mayoral Strategic Authority.

Reorganising to East and West Surrey will unlock devolution on a Surrey footprint whilst creating two new unitaries that are large enough to deliver effectively the full range of services currently offered by councils. Two councils will also deliver higher ongoing net annual benefits when compared to three unitaries.

Our analysis shows this geography creates councils with equitable starting points across population, land area, flooding risk, educational responsibility, total miles of public highways and number of birth and death registrations. It also shows a strong correlation between the Adult Social Care and Children's Social Services budgets and key funding sources, better enabling both East and West Surrey to continue to deliver high quality social care.

This is an historic moment for Surrey. Our vision is a future where East and West Surrey unitary authorities deliver quality, cost effective public services to residents. The Mayoral Strategic Authority will work closely with local and regional partners to deliver strategic priorities, and communities will thrive with an engagement model that strengthens preventative activity. Local neighbourhoods will remain at the core of public services, empowered and informed within this new, enhanced structure.

**Executive Summary:****Context**

1. On 16 December 2024, the government released the English Devolution White Paper, setting out ambitions for deepening and widening devolution across England. The paper also signalled the start of a programme of LGR to simplify and streamline local government.
2. The White Paper establishes a new tier of local government: Strategic Authorities (SAs). The enhanced Devolution Framework details the powers and responsibilities that government will devolve to SAs, with the most extensive powers and funding being granted to Mayoral and Established Strategic Authorities (MSA and ESA). Powers available to a Mayor span local transport, infrastructure, strategic housing, planning, skills, economic growth and climate change.

3. Given the opportunity presented for greater powers and funding to sit at a more local level, the Leader of Surrey County Council wrote to the Minister for English Devolution and Local Government on 8 January 2025 expressing an interest in pursuing LGR and devolution to the government's accelerated timeline. All correspondence is included in Annex 2.
4. On 5 February 2025 the Minister wrote to the Leaders of all Surrey councils inviting them to submit proposals for a single tier of local government and confirming that Surrey is part of the accelerated pathway to unlock further devolution.
5. Government also confirmed that to enable this ambitious timeline, instead of holding Surrey County Council elections in May 2025 as planned, there will be elections for the new shadow unitary councils in May 2026, and a Mayoral election most likely in 2027. This will enable detailed work for reorganisation and devolution to take place.
6. Subsequently, the [Interim Plan](#) was submitted to government on 21 March 2025, which consisted of a joint narrative from the County Council and District and Boroughs in Part A, and the County Council's recommendation for a two unitary model in Part B.
7. This report introduces our Final Plan for LGR in Surrey (Annex 1). This Plan puts forward an evidence-based case for the most effective local government configuration to meet the government's criteria, unlock devolution, and ensure that the future of local government across Surrey is cost-effective, simplified and strengthened. It also responds to elements of the feedback government provided to all Surrey councils (Annex 2) that were relevant to Part B of the Interim Plan submitted by the County Council.

### **Unlocking Deeper Devolution for Surrey**

8. Deepening devolution into the county is a key objective for the council. It is also one of government's criteria for LGR. Building on our existing County Deal, which was agreed in March 2024, further devolution will enable better alignment of public services, greater funding and powers brought closer to residents and enhanced local leadership through a directly elected Mayor.
9. To form an SA and access further devolution, two or more upper-tier or unitary authorities must cover the proposed SA geography. In the Southeast of England government have progressed a number of authorities onto the Devolution Priority Programme with proposed footprints for SAs under development. Surrey is not currently included in any of these footprints and although conversations with neighbours remain open, we must look to the county boundary of Surrey as a potential footprint for a Mayoral Strategic Authority (MSA) to avoid becoming a 'devolution island'.

10. Surrey is a robust, sensible economic area with a Gross Value Added (GVA) of just over £51 billion (2022). With a population of 1.2m Surrey is average among existing Combined Authority (CA)<sup>1</sup> sizes with the smallest, Tees Valley CA, at 688k population, and the largest, West Midlands CA, at 2.9m population. However, even with an average population size, our strong economy will mean that a Surrey MSA would rank number one amongst existing CAs in GDP per Capita at £46.6k.
11. Forming an MSA on a Surrey footprint would also present an important opportunity to unify public services across the county. The government has specified that the Police and Crime Commissioner and the Fire and Rescue Service (which already operate on a countywide footprint) will move into the SA under the Mayor.
12. In addition, the Mayor will have a seat on the Integrated Care Partnership Board and will be considered for the role of Chair or Co-Chair. This will build on the existing foundations of local join up and delivery across Surrey's blue light services and the health system, as well as with the Mayoral functions set out in the devolution framework.
13. The Devolution Framework (2024) allows for powers of established MSAs to be expanded after a number of years in operation. As such an MSA covering Surrey would lead to both short and long-term benefits for residents and partners as it embeds and matures.

### **LGR Options Appraisal**

14. A high-level options appraisal of one, two and three unitaries was included in the Interim Plan. Early analysis showed that a single unitary across Surrey would be the most financially sustainable with the least amount of risk to vital social care services currently delivered countywide. However, a single unitary authority does not unlock devolution on a Surrey footprint.
15. Our analysis therefore focused on two and three unitary options, and evidences that a two unitary East/West model is considered the best option for Surrey to unlock devolution.
16. Assessing the two and three unitary models against government criteria, two unitaries significantly outperform three. Both the two and three unitary options would establish a single tier of local government and unlock devolution. However, under the two unitary model, the new councils would be the right size to achieve efficiencies, have better alignment between key areas of service expenditure and funding and therefore better able to withstand financial shocks, as well as better prioritise the delivery of high quality sustainable public services.

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<sup>1</sup> A combined authority (CA) is a legal body set up using national legislation that enables a group of two or more councils to collaborate and take collective decisions across council boundaries. The English Devolution White Paper says future CAs will be called Strategic Authorities.

- 17. The three unitary model offers less financial resilience when needing to manage key areas of demand, in particular social care. Smaller sized authorities are less able to absorb the inherited debt, are likely to spend a greater proportion of revenue on debt servicing costs, and have less agility to redeploy resources in response to growing service demands. There would also be higher costs associated with the need to disaggregate services across three new authorities.
- 18. Beyond the financial risks, analysis of the three unitary model showed there would be greater disparities between the authorities across population, housing stock and targets, land mass and land purpose, flood risk and responsibility for mitigation, homelessness, miles of public highways inherited and road maintenance backlogs.
- 19. When looking at the costs of social care services against council tax income, there is a weak correlation across the three unitary model, meaning that at least one authority would be underfunded to respond to the demands on their services.
- 20. This, compounded with the likely unstable financial footing of the three new unitaries, would result in an unsustainable, weakened and struggling local government sector across Surrey, most likely resulting in low-quality service provision to residents.
- 21. A two unitary model is considered the preferred option as it meets the criteria of unlocking devolution whilst creating new authorities with the scale to best deliver financial sustainability and high-quality services. Since publishing the Interim Plan, which included four shortlisted two unitary geographies, our analysis concludes that an East/West model is preferable over a North/South model.
- 22. The East/West 2.1 geography showed strong results in qualitative, quantitative and financial analysis and is our preferred option, however the 2.2 geography shares many of the same benefits.



Figure 1: East/West 2.1

23. The East/West 2.1 option delivers a strong correlation between Adult Social Care and Children Social Services budgets and key funding sources, indicating that the geography will create authorities that are the best placed to deliver high quality services to residents
24. The new councils will also experience comparable levels of population, land area, total household numbers, homelessness, house building targets, waste collection, business activity, pupil distribution, number of birth and death registrations, and total miles of public highways.

### **A Vision for Unitary Local Government in Surrey**

25. Our online residents panel<sup>2</sup> showed that as a result of LGR, residents want better value for money, clearer accountability and a more financially resilient council.
26. Establishing two new unitary councils offers less disruption than establishing three while maintaining financial benefits, ensuring councils work closely with residents and partners to deliver responsive, outcome-focused solutions. Overall, it represents the opportunity that is most likely to strengthen, save money and simplify local government in Surrey.
27. The Final Plan proposes strategic principles and opportunities that are open to the new local authorities to adopt, to ensure that residents and businesses retain access to high quality services. Ultimately it will be for the elected members of the new authorities to set strategies and operating models, and the thinking included in the proposal is intended as a starting point for this decision making that will begin during the shadow period.
28. To enable strong democratic representation and close ties to the community for East and West Surrey, the proposal suggests a minimum of two councillors per division. Countywide, this would lead to 162 councillors across the Surrey footprint with an average of 5,542 electors (or voters) per councillor based on current 2025 data from the electoral roll. This would result in 36 electoral divisions with 72 councillors in East Surrey and 45 electoral divisions with 90 councillors in West Surrey. The final number of councillors will be decided by the Boundary Commission for England.
29. Our preferred East/West 2.1 model does not require a boundary review, allowing implementation to progress at pace.

### **Stronger Community Engagement**

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<sup>2</sup> Surrey County Council facilitates an online panel of around 1,400 residents that are broadly representative of Surrey's population. This tool is used to seek their views on a range of topics on county council services. Between 12 and 26 February 2025, 558 of those residents told us what outcomes they wanted to see from the LGR process.



30. Our proposed community engagement model will see East and West Surrey working closely with partners and residents to deepen collaboration in localities, so public services remain locally responsive, joined up and effective in prioritising and delivering the outcomes that matter most to communities
31. The model will be tested and further developed in the coming months, drawing on national examples, learning from work in Surrey, engagement with residents and partners, and insights from local councillors.

### **Financial Sustainability**

32. Surrey's LGR will be taking place in the context of significant financial challenges: service demand and cost pressures, potential funding reductions as part of the Fair Funding Reforms, and high levels of debt held by some authorities.
33. Although the East/West 2.1 model is more viable than the three unitary model, even this option is likely to face financial challenge if support is not secured from government.
34. Two key requests of government are included in the Final Plan to avoid the need for immediate Exceptional Financial Support for at least one of the new unitaries. We are asking government to write off the existing stranded debt that the new unitaries would inherit from Woking, and for government to provide adequate funding to cover the material level of Surrey's LGR implementation costs. LGR implementation will come with significant costs for all Surrey councils, estimated for 2 unitaries to be around £85m.
35. Without assistance from the government, especially on the first of these two requests, then the scale of the financial challenge becomes insurmountable and is likely to impact on the broader sustainability of local government across Surrey.
36. A further consideration for ensuring financial sustainability of the new councils is the level of council tax income they require, and how this affects what residents will be required to pay in future. Currently council tax band Ds differ between Surrey's eleven district and borough councils. As part of LGR in Surrey, the combined current council tax band Ds for district and borough councils and Surrey County Council will need to be harmonised to a single set of charges for each unitary within seven years after vesting day.
37. The new unitary authorities will need to decide how to harmonise council tax for their areas. Modelling has been done to illustrate the options open to those authorities. Until rates are harmonised in an area there will be a degree of difference in the increases to council tax between the districts and boroughs in each new unitary area.

## Implementation

38. To deliver against the ambitious timescales, preparations have begun to plan for the implementation of the LGR programme. The Final Plan currently focuses on our proposed approach to implementation, but we would expect this to combine with district and borough council programme arrangements as the transition progresses.
39. The proposal identifies five phases:
- Phase 1: Development of the business case and mobilisation
  - Phase 2: Preparation for implementation
  - Phase 3: Shadow authorities
  - Phase 4: Launch of the new councils
  - Phase 5: Launch of Mayoral Strategic Authority
40. The disaggregation and transition of county council services will require careful handling to minimise any disruption for residents and enable service quality to be maintained. It is vital that the transition is undertaken effectively and with positive resident outcomes at the forefront of the changes.
41. In particular the proposal flags risks around the disaggregation of children's and adults social care, contact centres, cultural services, highways and waste services. Different approaches and models will need to be explored during the implementation and shadow phases of this transformation to ensure the two new unitaries are able to deliver safe and legal services from day 1.

<b>Consultation:</b>
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42. The engagement of residents, staff, the voluntary and community sector, local businesses, community groups and councils, and public sector providers such health, police and fire has been central to our work in shaping the future of local government in Surrey.
43. An extensive programme of insight, communications and engagement has been carried out to inform the development of this business case, and to understand what matters most to residents. This insight will also help future unitary councils set their direction and values.
44. Staff and residents have been engaged through a series of in-person and online mechanisms, including staff briefings, events in libraries and tailored questions to our residents' panel. FAQs, explainer videos and social media responses have been developed to help staff and residents understand the complexities of LGR.
45. A key mechanism for partner engagement has been through the Combined Health and Wellbeing and Integrated Care Partnership Board who have met regularly to discuss the development of proposals. Membership includes the



NHS, voluntary sector, Surrey Police, Surrey Fire and Rescue and district and borough councils.

46. A number of dedicated partner briefings were led by the Leader of Surrey County Council, updating partners on the implications of the White Paper, the opportunities presented by the two unitary model, and the model for community engagement through local community boards.
47. Items have been taken to existing or focused partner meetings, presenting on the developments of this work and the potential implications on specific partners. Dedicated sessions with Surrey Association for Local Councils, Surrey Heartlands, voluntary sector infrastructure organisations and the Surrey Charities Forum have taken place.
48. Surrey County Council elected members were regularly engaged through All Member Briefings which updated members on the development of the Interim Plan, the Final Plan and the community engagement model.
49. The Select Committees Chairs and Vice Chairs group was engaged throughout the development of the Final Plan, enabling scrutiny of the analysis informing the final proposal.
50. Both the Interim and the Final Plans have been taken to full Council, and to Cabinet for the executive decision to submit the plans to government.
51. District and borough Leaders and Chief Executives were engaged as part of the joint submission for the interim plan. Following the interim plan submission the county council and some district and borough councils focused on the development of their respective preferred options. However, communication between local authorities in Surrey continued during this period through existing forums such as communications, monitoring officer and financial officer meetings.
52. Effective partnership working with key stakeholders is instrumental in the delivery of our vision for Surrey and our residents. As such we recognise the importance of close collaboration with our partners on the development and implementation of our final plan to ensure that local government reorganisation results in the greatest possible alignment with the work of our partners. We are therefore pleased that a number of our key partners have offered their support for our proposal, outlined in Annex 2.

#### **Risk Management and Implications:**

53. The Final Plan highlights the key LGR risks areas along with high level mitigations. These risks are based on 6 key themes, taken from the LGR Programme Risk Register, around (1) scale, complexity and pace of change, (2)

stakeholder support, (3) decision making and governance, (4) performance, (5) staffing and (6) finance.

54. LGR risks continue to be reviewed at the programme level but also at the service, directorate and corporate level. This aligns with the Council's Risk Management process which is designed to:
- Strengthen accountability – through clear risk ownership, risk monitoring, escalation of risks and oversight
  - Make best use of resources – through relevant and proportionate treatment of risks
  - Build stakeholder trust – by demonstrating that risks are consistently identified, assessed, managed, and monitored
  - Give confidence – that appropriate actions are being taken to manage risks in a timely manner
  - Make informed decisions – with reliable information on risks.
55. As the LGR programme develops over time, additional engagement will take place with key stakeholders, such as districts and boroughs, to further detail and manage the risk position.

#### **Financial and Value for Money Implications:**

56. Following the submission of SCC's Interim Plan in March 2025, extensive work has been undertaken to refine the financial appraisal of moving to one, two or three unitary authorities in Surrey. The County Council's Finance team has worked collaboratively with Section 151 Officers and finance teams from district and borough councils to ensure base data used for modelling is as robust as possible and aligned across all authorities. The assumptions applied in SCC's Interim Plan have been reviewed, sense checked against LGR that has taken place in other areas and refined using the enhanced base data.
57. Since the Interim Plan submission, all of SCC's directorate leadership teams have also been consulted about the financial implications of LGR for their services to inform refinement of SCC's LGR modelling. A key aspect of this has been seeking views from services about the implications and costs of splitting services that are currently operated on a county footprint into two or three new unitary authorities. Services including Adult Social Care, Children, Families & Lifelong Learning, Place and Resources all agree that there will be additional costs if services are split across two or three new unitary authorities. This has been used to refine the assumptions included in the Interim Plan for SCC disaggregation costs. SCC services also recognise the benefits that LGR can bring in terms of synergies of service delivery by integrating services such as social care and housing into the same authorities and reducing duplication.
58. SCC's Final Plan therefore now contains an updated set of modelling assumptions that are considered more robust covering:
- The initial benefits that would derive from reorganisation of the current local authorities in Surrey.

- Opportunities to deliver further benefits through transforming services once the new unitary authorities have been established.
- In the case of creating two or three unitary authorities the costs of disaggregating services currently operated by the County Council on a countywide footprint.
- Implementation costs related to both creating the new authorities and delivering the changes required to achieve the transformation benefits.

59. Further information about the updated financial appraisal can be found in SCC's Final Plan and the supporting financial appraisal appendix (Annex 2) which sets out in detail the base data used for modelling, the modelling assumptions applied, and the changes made to SCC's LGR modelling between Interim and Final submissions.

60. Benefits and costs have been estimated over the period 2025/26 through to 2033/34, seven years after when it is expected the new authorities will have been established. Modelling for a single unitary is included as a benchmark for the other options in line with the Ministry of Housing, Communities and Local Government (MHCLG) feedback. For each option of one, two or three unitaries, modelling has been carried out on base (more prudent) and stretch (more ambitious) scenarios. The table below summarises the updated modelled ongoing annual net benefits once a new steady state position has been reached for the mid-point between the base and stretch scenarios for each option.

	1U	2Us	3Us
Annual reorganisation benefits	£28m	£19m	£10m
Annual transformation benefits	£54m	£42m	£30m
Annual disaggregation costs		-£38m	-£57m
Total ongoing annual net benefits/(costs) after the creation of the new authorities	£82m	£23m	-£16m

61. Recognising that a single unitary would not unlock devolution, then the updated modelling clearly shows that creation of two unitaries is more favourable with an ongoing net saving of £23 million per year modelled at mid-point. In contrast, the updated modelling shows that the three unitaries at mid-point is estimated to lead an ongoing additional cost of £16m per year due to reduced savings through aggregation and increased costs of SCC disaggregation.

62. The cost of establishing the new authorities and delivering the changes required to achieve the transformation benefits has also been refined as part of the updated financial appraisal. This includes redundancy and early retirement costs, programme and delivery team, IT consolidation and change, branding and communications, costs for election to and operation of the new authorities in their shadow year and costs associated with closing down the old authorities and creating the new authorities. Given the level of uncertainty, contingency has been included for all costs with the exception of redundancy costs which are directly linked to the level of workforce savings that have been estimated in each

scenario. A summary of the updated mid-point estimated implementation costs for each unitary option is set out in the table below.

	1U	2Us	3Us
Total estimated implementation costs 2025/26 – 2026/27 at mid-point	£26m	£32m	£36m
Total estimated implementation costs 2027/28 – 2031/32 at mid-point	£44m	£53m	£59m
<b>Total initial estimated implementation costs</b>	<b>£70m</b>	<b>£85m</b>	<b>£95m</b>

63. Implementation costs are higher for creating two or three unitaries primarily due to the need for additional implementation and programme delivery team resources being required and higher anticipated costs for IT consolidation and change costs, for instance to establish three sets of new systems for many service areas. Further information about implementation costs including changes between SCC's Interim and Final submissions can be found in the financial appraisal appendix accompanying SCC's Final Plan (Annex 2).
64. As set out earlier in this report, one of SCC's asks to government in its Final Plan is for a material contribution from government towards these implementation costs to limit the need for reserves across Surrey's local authorities to be used to fund these costs so reserves can be maintained to support future sustainability. Costs beyond any funding provided by government for the period 2025/26 – 2026/27 will need to be funded by Surrey's existing local authorities, subject to any capacity funding that may be provided by government. It is expected that the 12 current local authorities will work collaboratively on implementation and agree an equitable basis for sharing the costs of implementation. Costs from 2027/28 onwards will need to be funded by the new authorities and will therefore need to be incorporated into their financial plans.
65. Updated estimated benefits and costs have also been profiled over the seven-year period from the base year 2025/26 through to 2033/34, seven years after the anticipated creation of the new authorities. The cumulative net cash benefits or costs of each unitary option at mid-point are summarised in the table below. The payback period is an estimate of the number of years required for total cumulative benefits to surpass cumulative costs. Where this is displayed as "N/A" this means the modelling of an option shows it does not pay back by the end of the seventh year following Vesting Day of the new authorities.

	1U	2Us	3Us
Mid-point cumulative net cash benefit/(costs) after seven years of new organisation(s) including implementation costs	£397m	£22m	-£229m
Payback period within seven years post go live	1.3 years	6.1 years	N/A

66. Modelling shows a small cumulative net cash benefit of £22m over the seven-year period at mid-point for two unitaries, factoring in a lower level of savings

compared to a single unitary and SCC disaggregation costs which are profiled to be incurred at an early stage as they are necessary to enable effective operation of the new unitaries, and more quickly than it is possible to achieve the transformation benefits. Modelling of three unitaries at mid-point shows a cumulative net additional cost of £229m over the seven-year period, due to lower savings and higher SCC disaggregation costs modelled for three unitaries than for two unitaries.

67. Since the Interim Plan SCC's Finance Team has worked closely with District & Borough Councils to build a clearer picture of the current and future financial sustainability across Surrey's current twelve local authorities. This has highlighted the scale of the financial challenge faced by local government in Surrey including service pressures, potential funding reductions as part of the government's Fair Funding Reforms (FFR), the high level of debt, in particular the stranded debt relating to Woking Borough Council, and pressures related to Special Educational Needs and Disabilities (SEND). An annual budget gap of £263 million collectively across all local authorities in Surrey is currently estimated by the end of 2029/30 based on service pressures, current identified efficiencies and potential FFR funding reductions. An additional budget gap of £151m is estimated for Woking Borough Council in this period, primarily driven by the very high level of costs for servicing Woking's stranded debt related to historic commercial activities. The combined annual budget challenge faced by the end of 2029/30 is therefore £415m, equivalent to 28% of the total 2025/26 net revenue budget across Surrey's twelve existing local authorities.
68. Further information about the future financial sustainability picture in Surrey is set out in SCC's Final Plan, including an appendix summarising the debt position across Surrey that has been agreed by Leaders of all Surrey's local authorities (Annex 2). This demonstrates that even when both the modelled LGR benefits for two unitaries and potential additional Council Tax income assuming maximum increases per year are factored in (included for modelling purposes only, recognising that decisions on Council Tax changes will be for new unitaries to make), the annual budget challenge by 2029/30 is still £267 million, 18% of the total 2025/26 net revenue budget across Surrey. Although Surrey's existing authorities and future new unitaries will work to identify further efficiencies and other mitigations to reduce the budget gap, realistically it is not going to be possible to address a budget challenge of this scale locally on a sustainable basis.
69. This is why, as set out earlier in this report, one of SCC's key asks in its Final Plan is for government to write off stranded debt related to historic commercial activities as the only viable option to ensure the financial sustainability of new unitary authorities and avoid ongoing Exceptional Financial Support. This conclusion is in line with the conclusion of the commissioners for Woking Borough Council. Without this, whichever new unitary that has Woking located in it would require immediate Exceptional Financial Support, and the broader financial sustainability across local government in Surrey would be undermined.

70. In addition to the work undertaken to refine the modelling of LGR benefits and costs, and to build a clearer picture of overall financial sustainability for local government in Surrey, analysis has been undertaken of the relative financial sustainability of different potential new unitary geographies. A key focus of this has been on the largest and most volatile areas of SCC's General Fund expenditure that would need to be split across two or three unitaries, in particular Adult Social Care, Children's Social Care and Home to School Transport. This shows that there is significantly better alignment collectively between key funding sources, Council Tax income and social care grant funding, and how it is estimated service expenditure would be split for an East/West two unitary model than either for a North/South two unitary model or a three unitary model. Further information can be found in SCC's Final Plan (Annex 1) and the supporting appendix (Annex 2). There is not a substantial difference in overall cost vs funding alignment for key SCC services between the preferred option 2.1 (with Spelthorne in the West unitary) and option 2.2 (with Spelthorne in the East unitary).
71. While there is not a substantial difference between the cost vs funding split for key SCC services for the East/West 2.1 and 2.2 options, it is important to note that there are also significant risks in relation to historic debt held by Spelthorne Borough Council, as highlighted by MHCLG appointed Inspector's March 2025 Best Value report. As such, option 2.1 would mean the two areas of greatest risk related to debt, Woking and Spelthorne, would be in the same new unitary and this would need to be managed accordingly.
72. In summary:
- The benchmark of a single unitary authority is modelled as delivering the greatest financial benefits but is not being considered as it would not unlock devolution on a Surrey footprint.
  - Two unitaries is recommended over three unitaries as it is modelled to deliver a net financial return to help contribute towards the significant financial challenges faced by local government in Surrey and offers greater potential for financial sustainability in the longer term, whereas a three unitary model is modelled to cost more than the current local authorities in Surrey, principally due to the anticipated costs of disaggregating SCC services across three new unitary authorities.
  - An East/West split is recommended as the optimum geography from a financial perspective due to closer correlation between the estimated split of expenditure for key SCC services and funding sources.
  - Local government in Surrey faces a huge financial challenge in the years ahead including existing service pressures, potential funding reductions when the local government funding system is expected to be reformed in 2026/27 and the burden of a high level of stranded debt. This makes it even more important to ensure LGR delivers savings to mitigate pressures and help reduce the current medium-term gap identified across the existing local authorities in Surrey.



- Work conducted across Surrey's local authorities has determined that this financial challenge cannot be resolved locally without write off by government of the stranded debt associated with historic commercial activities. Without this, ongoing Exceptional Financial Support would be required in at least one unitary whatever geography is selected.
- Should proceeding with two unitaries be the government's preferred option, action will be needed to minimise disaggregation costs as far as possible and seek to maximise the benefits achieved through unitarisation in order to help address the medium term budget gap identified for local government in Surrey.

#### **Chief Executive Officer Commentary:**

73. The Final plan is an evidence-based case for the most effective local government configuration to meet government's criteria and unlock devolution. It is noted that a single unitary across Surrey would be the most financially sustainable with the least amount of risk to vital social care services currently delivered countywide. However, a single unitary authority does not unlock devolution on a Surrey footprint.
74. Surrey County Council has a strong track record of delivering efficient and effective services for residents, which has been externally validated. Our adult social care services are rated good by the Care Quality Commission and our children's services have made significant progress in recent years and are on track to build on this with OFSTED shortly due to announce their findings from the recent ILACS visit. Moving to a model of multiple unitaries in Surrey, and disaggregating upper tier services in particular, will present risks, especially to safeguarding and social care services. We will seek to ameliorate these through the implementation process, though we will not be able to remove all of the risk. Given the current scale of these services, the more they are required to disaggregate the greater the risks are likely to be. Risk mitigations could include consideration of partnership and shared services arrangements, but these will need careful consideration and learning from elsewhere will be factored into implementation planning, recognising that such arrangements in other areas have been dissolved or withdrawn due to cost, governance and other challenges.

#### **Director of Adult Social Services Commentary:**

75. It is a statutory requirement for each top tier local authority to appoint a Director of Adults Social Services (DASS). This individual must report directly to the Chief Executive (Head of Paid Service). The DASS holds professional accountability for the leadership, strategic direction, and overall effectiveness of adult social services within the local authority, they often hold a professional qualification in social care, such as a social work qualification. They are responsible for ensuring the local authority meets its statutory duties under various legal frameworks including, but not exclusive to, the Care Act and the Mental Health Act. It is their role to oversee the performance of functions related to the safeguarding and care and support of adults, particularly

focusing on those who are most disadvantaged and vulnerable, as well as their families and carers. This includes a duty to ensure that the social care market locally is sustainable.

76. The analysis is clear that the fewer councils we disaggregate services into, the lower the risk is for Adult Social Care services. As such, a single unitary would be favourable but in order to unlock devolution we must look to disaggregate the current countywide function into at least two authorities. The disaggregation of Adults Social Care carries with it significant risks and costs which must be mitigated or lessened through careful, evidence-based planning. Some of the service provision currently offered to support individuals who are frail, elderly and those who have a sensory impairment by the County Council are delivered in localities, which could remain the same through the process of LGR, however some services are delivered on a County Wide footprint, such as Mental Health and Learning Disability and Autism Services alongside managerial staffing and highly specialist services such as the Deprivation of Liberty Safeguard Team, Emergency Duty Team and the Approved Mental Health Practitioner Team. These services will either need to be duplicated, or specialist arrangements between the new unitary authorities will need to be explored.
77. Many of the contracts which are jointly held with Health via the Better Care Fund and those which are in place to ensure a strong social care market also operate on a County Wide footprint and extensive work will be required to disaggregate these under the LGR process.
78. Central to the work ahead is the desire for minimal impact on service users, carers and providers. Through the implementation of this programme it will be vital to engage and update residents, providers and stakeholders so they are brought along in the process and understand what, if any, implications these organisational changes may have for them.

#### **Director of Children's Services Commentary:**

79. Section 18 of the Children Act 2004 requires every top tier local authority to appoint a Director of Children's Services, who should report directly to the Chief Executive (Head of Paid Service). The DCS has professional responsibility for the leadership, strategy and effectiveness of local authority children's services and is responsible the performance of local authority functions relating to the education and social care of children and young people, including the most disadvantaged and vulnerable, and their families and carers.
80. Although a single unitary would be the most financially sustainable and least risky option for the continued delivery of high-quality education and social care functions in Surrey, the requirement to unlock devolution necessitates a disaggregation of these functions, which must be conducted in a way that minimises disruption to their safe operation. This will require strong corporate support for children's services, joined up and fully resourced financial planning, a

well-regarded, stable workforce with low turnover, strong relationships with statutory safeguarding partners and other relevant organisations, leadership which impacts positively on children’s outcomes through clearly articulated practice models which are child and family-centred and which deliver the hundreds of statutory duties of a children’s service to a standard which meets the requirements of the law and relevant inspectorates.

81. Although many of the teams engaged in direct work with children and families are already operating on a locality footprint, more specialised services are currently delivered countywide. To maintain clear lines of accountability and appropriate governance over service delivery, a range of senior roles and specialist services will have to be duplicated in each successor authority. Disaggregation of some existing countywide services will inevitably remove or limit access to a range of provision or functions that have been hitherto available to service users from across the county of Surrey, but which in future will be ‘in-house’ provision in one or other of the successor authorities because of their geographical location. In order to address these disparities in provision, local agreements for shared use may be developed.

**Section 151 Officer Commentary:**

82. Surrey County Council, like all local authorities, continues to operate in a very challenging financial environment, with significant budgetary pressures and future funding uncertainty. Despite coming from a position of strong financial resilience, the Council is not immune to the impact of increasing demand and costs of service delivery. The Council has a duty to ensure its expenditure does not exceed the resources available and therefore it is vital that we continue to place significant importance on financial management, the delivery of efficiencies and reducing spending, to protect service delivery and achieve a balanced budget position each year.
83. In addition to delivering services within a balanced budget, the Council needs to consider the medium-term financial outlook beyond 2025/26. With little clarity on the Council’s funding in the medium term, our working assumption is that financial resources will continue to be constrained. This, coupled with the impact of Local Government Reorganisation, places an onus on the Council to continue to consider issues of medium term financial sustainability as a priority, in order to ensure the stable provision of services both for the remaining term of Surrey County Council and that of future unitary authorities into the medium term.
84. Given the short time scale, the assumptions used have been tested as far as feasibly possible, (including through liaison with other counties which have gone through restructure of local government already and those also preparing business cases). Work undertaken in collaboration with District & Borough Councils has enabled the assumptions used in SCC’s Interim Plan to be further tested and refined.

85. The modelling shows that a single unitary for Surrey would be the most financially advantageous but will not unlock devolution under current government policy. Under these circumstances, the analysis for two unitary authorities shows this is the optimum option financially.
86. Further work undertaken since the Interim Plan demonstrates that an East/West split is the most financially preferable option due to closer correlation between how it is anticipated expenditure and key funding sources would be split across the new unitaries.
87. Debt is a key consideration within Surrey, and whilst there are known positions with respect to Woking Borough Council there are potentially further areas to be clarified with respect to unaudited accounts. Significant work has been undertaken in the limited time available since the Interim Plan to gather more information about the borrowing position across local government in Surrey which is set out in SCC's Final Plan (Annex 1) and the supporting appendix (Annex 2). While a lot more work will be required on debt as part of planning for LGR implementation, the analysis undertaken since the Interim Plan has clearly identified that the cost of financing the collective debt is too high for local authorities in Surrey to fund without Exceptional Financial Support. The request to government to write off the stranded debt associated with historic commercial activities would still leave local government in Surrey with a very significant financial challenge, but without a write off by government then Exceptional Financial Support will be required in at least one unitary in any geographical option selected for LGR in Surrey.
88. Disaggregation costs relating to the splitting of upper tier services e.g. adults and children's social care, will also be a significant challenge and therefore risk. Whilst these will look to be ameliorated during the implementation, the modelling has assumed a significant level of cost, given the need for each sovereign council to have resources that look after safeguarding, quality assurance and performance of outcomes for our most vulnerable residents, which will be in addition to the front line social work functions. Disaggregation costs have been refined following consultation with SCC Directorate Leadership Teams since the Interim Plan and are considered as robust as can be estimated in the time available.
89. Local Government Reorganisation will present a significant challenge, and therefore risk, to the Council in continuing to deliver services to residents whilst maintaining a balanced budget in the remaining financial years, with the anticipated Fair Funding Review likely to land in SCC's last financial year (2026/27) and expected to present further reductions in Government funding to the Surrey local government footprint. In addition, the resourcing and funding of the programme up to the vesting day (1 April 2027) will need to be met, and at this stage it is unclear how much will be needed to be funded by SCC, noting that a request has been in SCC's Final Plan for a material contribution from government towards these costs.

### **Legal Implications – Monitoring Officer**

90. Local government reorganisation is governed by the Local Government and Public Involvement in Health Act 2007. The Secretary of State can at any time invite proposals for a single tier of local government from local authorities and also has the power to direct authorities to submit proposals.
91. The Council has submitted an Interim Plan for Local Government reorganisation and feedback has been provided on this from MHCLG (Annex 6). A Final Plan is required to be submitted by 9 May 2025.
92. The Final Plan is provided (Annex 7) and the approval of this proposal is an executive function in accordance with the Local Government Act 2000 Section 9D(2). Members are advised to consider all the information contained in the report and the Appendices in order to make an informed decision on the Final proposal.
93. There may be a need for amendments to the Final Plan to be made at short notice and therefore delegation to make such changes is needed as set out in the recommendations above.
94. Following submission of the Final Plan, the Secretary of State may implement the proposal, with or without modification, or decide to take no action. The Secretary of State may not make an order implementing a proposal unless he consults every authority affected by the proposal (except the authority or authorities which made it), and such other persons as he considers appropriate.
95. The best value duty is contained in s3 of the Local Government Act 1999 as a result of which the Council is under a duty to make arrangements to secure continuous improvement in the way in which functions are exercised, having regard to a combination of economy, efficiency and effectiveness. The report sets out the financial and other implications of the recommended model in the Final plan which members are advised to consider in full.

### **Equalities and Diversity:**

96. Annex 8 provides an overview of the potential implications of the proposed approach to LGR on residents and staff. The analysis indicates that changes to services resulting from LGR could disproportionately affect certain user groups. While some council services are available to all residents, such as libraries, impacts may fall disproportionately on residents who are more likely to access them. Additionally, our targeted services, such as adult and children's social care, mainly serve residents who are more likely to need these services, such as older adults, younger children, and people of all ages who are vulnerable or have disabilities. Individuals may, therefore, experience both positive and negative impacts due to the nature of the services provided and the demographics of service users.

97. The implications of LGR also extend to Surrey County Council staff. Most staff at the council are over the age of 45, and over 70% of roles are filled by women, particularly operational staff in non-management positions. Over 5% of staff have declared they have a disability, which means that changes to staffing structures, working policies and locations could have implications on those who require additional adjustments.
98. The overarching Equality Impact Assessment acknowledges that there are gaps in our data, due in part to limitations in internal reporting and the lack of comprehensive data available from district and borough councils at this point in time. As implementation plans for LGR are developed, further work will be undertaken to strengthen the evidence base. This will support a more detailed understanding of the implications of disaggregating and aggregating services, as well as the potential impacts on staff that may occur through the TUPE process.
99. More detailed analyses for different LGR workstreams will also be completed and mitigations will be developed to ensure compliance with Section 149 of the Equality Act (2010) and to uphold our commitment to have due regard. We will support residents through this process, implementing necessary policies and conducting the required consultation and engagement activities for the benefit of both residents and staff.

#### What Happens Next:

- a) On 9 May 2025 councils in Surrey will submit their full proposal(s) for LGR to government for consideration.
- b) In Summer 2025 government will consult with relevant local stakeholders on the LGR proposal(s) for Surrey.
- c) In Autumn 2025 government will make their decision on the way forward for Surrey LGR, with government laying the legislation needed to begin LGR implementation at the start of 2026.
- d) In May 2026 elections to the new shadow authorities will take place, which starts the 'shadow period'.
- e) In April 2027 the new unitary councils will go live on vesting day, and the County Council and 11 District and Borough councils in Surrey will cease to exist.
- f) It is anticipated that the Mayoral Election to a Mayoral Strategic Authority will take place in May 2027.

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#### Consulted:

Cabinet

Member Reference Group / Select Committee Chairs and Vice Chairs

Corporate Leadership Team



Leaders of all Surrey District and Borough Councils

Partners (as set out in main report)

**Annexes:**

- Annex 1 – Surrey County Council’s Final Plan for LGR, May 2025
- Annex 2 – Surrey County Council’s Final Plan for LGR - Appendix
- Annex 3 – Equality Impact Assessment

**Sources/background papers:**

English Devolution White Paper (2024)

<https://www.gov.uk/government/publications/english-devolution-white-paper-power-and-partnership-foundations-for-growth/english-devolution-white-paper>

18<sup>th</sup> March 2025, SCC Cabinet Paper – Devolution and Local Government Reorganisation -

<https://mycouncil.surreycc.gov.uk/documents/s101810/March%2018%202025%20Cabinet%20Report%20Devolution%20and%20Local%20Government%20Reorganisation.pdf>

Surrey County Council, Interim Plan (Part A) – Devolution and Local Government Reorganisation - <https://www.surreycc.gov.uk/council-and-democracy/lgr/interim-a>

Surrey County Council, Interim Plan (Part B) – Devolution and Local Government Reorganisation - <https://www.surreycc.gov.uk/council-and-democracy/lgr/interim-b>

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