

# Extraordinary Council

**Tuesday 6 May 2025**



<b>Title</b>	Local Government Reorganisation in Surrey
<b>Purpose of the report</b>	To make a decision
<b>Report Author</b>	Daniel Charles Mouawad, Chief Executive
<b>Ward(s) Affected</b>	All Wards
<b>Exempt</b>	No
<b>Exemption Reason</b>	Not Applicable
<b>Corporate Priority</b>	This item is not in the current list of Corporate Priorities but still requires a Council decision.
<b>Recommendations</b>	<p><b>Council is asked to:</b></p> <ol style="list-style-type: none"><li>1. Consider the two proposals for a single tier of local government in Surrey, as outlined in Appendix 1 and Appendix 2; and</li><li>2. Endorse the submission to MHCLG of the preferred proposal for 3 unitary authorities in Surrey as outlined in Appendix 2.</li></ol>
<b>Reason for Recommendation</b>	<b>Local Authorities in Surrey have been invited to submit full proposals for Local Government Reorganisation by 9 May 2025</b>

## Summary of the report

What is the situation	Why we want to do something
<ul style="list-style-type: none"><li>On 16 December 2024 the Government published its English Devolution White Paper. This outlined a very clear ambition for every area in England to move towards setting a strategic authority led by an elected Mayor.</li></ul>	<ul style="list-style-type: none"><li>Government has indicated in its White Paper that it was seeking a new model for local government. Part of that new model is the reorganisation of the existing two-tier structure in Surrey.</li><li>The Council has been provided with an opportunity to submit, along with the other Surrey Councils, proposals as to what that new structure should look like.</li></ul>
This is what we want to do about it	These are the next steps
<ul style="list-style-type: none"><li>The Council will consider the proposed two final submissions to MHCLG and make a decision.</li></ul>	<ul style="list-style-type: none"><li>Local Authorities are to submit final proposals for Local Government Reorganisation by 9 May 2025.</li></ul>

## 1. Key issues

- 1.1 On 18 March 2025, the Council approved the Joint Interim Local Government Reorganisation Plan. This Plan, drawn up by all councils in Surrey (county, districts and boroughs), was subsequently submitted to the Ministry of Housing, Communities and Local Government (MHCLG).
- 1.2 At its meeting on 6 February 2025 the Council expressed a preference for three unitary authorities regarding the future structure of local government across Surrey.
- 1.3 Since that time Surrey County Council (SCC) has focused on developing a proposal for two unitary councils across Surrey [**Appendix 1**], while the eight Districts and Boroughs (D&Bs) which did express a preference have focused on developing a proposal for three unitary councils [**Appendix 2**].
- 1.4 Spelthorne Borough Council Leader has sat on the Surrey Leaders Local Government Steering Group overseeing the development of the Interim and

Final submissions. The Chief Executive, Section 151 Officer (Chief Finance Officer), the Monitoring Officer and Head of Communication have met regularly with counterparts across Surrey, being heavily involved in the composition of the Plans.

- 1.5 Spelthorne Borough Council has a stated ambition to “review our ways of working to make us more efficient, effective, and to improve customer satisfaction”. The Government has stated that Local Government Reorganisation (LGR), whereby new unitary councils will replace county and district/borough councils in two-tier areas such as Surrey, will be more efficient and effective, in addition to improving customer satisfaction.
- 1.6 Spelthorne Borough Council, alongside all other Surrey authorities, is asked to consider the detailed proposals outlined in this report and make a decision.

## **2. Report background and options**

- 2.1 On 18 March 2025, the Council considered a report on Local Government Reorganisation (LGR) and approved the Joint Interim Local Government Reorganisation Plan. This Plan was subsequently submitted to the Ministry of Housing, Communities and Local Government (MHCLG) on behalf of Surrey County Council and the eleven District and Borough Councils.
- 2.2 Since that time the Leader, the Chief Executive, Section 151 Officer and other senior officers have had regular meetings with both SCC and D&Bs to support the development of a detailed proposal for the creation of two unitary councils by SCC [**Appendix 1**] and another for three unitary councils by the D&Bs [**Appendix 2**].
- 2.3 In developing these proposals, authorities have had regard to the guidance issued by the Minister of State in his letter of invitation of 5 February 2025 [**Appendix 3**]. They have also had regard to feedback provided by MHCLG in April 2025 [**Appendix 4**].
- 2.4 Two final proposals are presented for consideration. The first proposal [**Appendix 1**] for the creation of two unitary councils and the second for the creation of three unitary councils [**Appendix 2**].
- 2.5 Both proposals are based on a range of assumptions including the configuration of the new councils, the number of councillors, allowances, election cycles, degree of disaggregation of key services etc.
- 2.6 It is expected that both proposals will be submitted to the Ministry by 9 May 2025 in response to the invitation of 5 February 2025. Council is being asked to consider both detailed proposals and endorse the submission of a preferred proposal.

## **3. Options**

- 3.1 Both SCC who are promoting a two unitary proposal and the majority of D&Bs leading the development of the three unitary proposal have made it clear that other authorities are welcome to support their respective proposal.

- 3.2 On 6 February 2025 the Council expressed its strong preference for a three unitary configuration in Surrey. It is therefore recommended that the Council endorse the submission of the D&Bs three unitary proposal as outlined in Appendix 2.
- 3.3 The Council could decide that:
- (i) it supports one of the two final proposals and wishes to submit it jointly with other named authorities, or
  - (ii) it decides not to express a preference at this stage, noting that, as an authority affected by any order to be made by the Secretary of State, Spelthorne Borough Council will be consulted prior to the implementation of any proposal, or
  - (iii) it does not support either proposal and writes to the Secretary of State for Housing, Communities and Local Government to confirm this and outline the clear rationale for this decision.
- 3.4 The final decision regarding which, if any, of the proposals will be implemented will be made by the Secretary of State. They can choose to do this with or without modifications.
- 3.5 Prior to making an order to implement a proposal all local authorities affected by the proposal will be consulted, along with other persons considered appropriate by the Secretary of State.
- 3.6 While the Secretary of State has not confirmed when a final decision is expected, the letter of invitation of 5 February 2025 indicated that, if a decision was made to implement any proposal, MHCLG officials would work with organisations across Surrey to move to new shadow unitary councils as soon as possible. It is currently anticipated that elections for these new shadow councils could be held in May 2026.
- 3.7 A shadow authority is one that is elected to carry out the preparatory functions of a new unitary council until the day that it formally comes into effect. This is commonly called “vesting day.” At this stage it is envisaged that vesting day would be 1 April 2027. All existing councils across Surrey would continue to operate and deliver services until vesting day.

#### **4. Financial management comments**

- 4.1 At the time of writing this report the respective final proposals have not yet been finalised and signed off by the Leaders of the Surrey LGR Steering Group. The Financial implications will be set out in **Appendix 1** for the two unitary council proposal and **Appendix 2** for the three unitary council proposal.

##### **Areas where both proposals’ assumptions are the same**

- 4.2 Both proposals have aligned and used the same financial base data to calculate the financial implications of the two and three unitary council proposals. The base data uses the 2025/26 detailed budgets of each authority. The data for Spelthorne within both proposals has been verified by the S151 Officer as being consistent with the 2025/26 Budget, Outline

Budget (Medium Term Financial Plan) approved by Council on 27th February 2025.

4.3 Both proposals in Appendix 1 and Appendix 2 (to follow) use the same assumptions to calculate the impact of the two and three unitary proposals in relation to:

- Council Tax Harmonisation – the proposals assume that harmonisation takes place as quickly as possible in year one to ensure equity across the new unitary councils and to maximise council tax income whilst keeping within the referendum limits on a weighted average council tax basis.
- Future Financial Sustainability – both proposals use the aggregated amount of each Council's budget gaps, currently included within medium term financial plans, and the same assumptions as to the impact of the Business Rates Reset and Local Government Funding Reform (due to commence in 2026-27) on each council to calculate the potential financial sustainability (budget gap) challenge that each new unitary council is likely to face prior to savings from Local Government Re-organisation (LGR) being taken into account. The combination of Business Rates Reset and Local Government Funding Reform are anticipated to significantly reduce the funding retained by local government in Surrey and will pose a very substantial financial sustainability challenge for any of the unitary councils options.
- Debt and Borrowing – both proposals acknowledge that, with the exception of Woking BC, **all** councils in Surrey have set balanced budgets for 2025/26 which include debt financing costs and relevant commercial income. The proposals acknowledge that there will need to be further discussions with Government post submission on options around managing debt in Surrey. In particular, the proposals both repeat the position outlined by Surrey Leaders in letters to the Government, that there is a requirement to write off the 'stranded' debt identified in relation to Woking BC as part of the Government's forthcoming spending review. The proposals conclude that without Woking's stranded debt write off, any unitary created as part of the LGR process that includes the area of Woking within its boundaries will require ongoing Exceptional Financial Support (ESF) from Government.
- Elections – both proposals assume that the new unitary councils will have elections every four years.

#### **Areas where the proposals are different**

4.4 The main areas where the proposals for two unitary councils in Appendix 1 and three unitary councils in Appendix 2 have made different assumptions, and therefore show significantly different financial implications, are outlined below:

- Disaggregation costs of SCC services
- Senior staff structures and associated savings
- Service Aggregation and Transformation savings

- Implementation and Transformation costs
  - Cost of Democracy and associated savings
- 4.5 Further detail around the differences in the assumptions used, their impact on the financial implications and the S151 officer's view of the reasonableness of the assumptions used in each proposal are inherently presented as part of the two Appendices.
- 4.6 Councillors should note, that based on the assumptions made in SCC's proposal at Appendix 1 (to follow), they conclude that three unitary councils would cost more per annum than the existing two tier model of local government in Surrey and that there would be no payback for the cost of implementing LGR for three unitary councils in Surrey. The predominant reason for this relates to the suggested additional costs of disaggregating SCC's services across 3 unitary councils. In contrast, the eight D&Bs proposal at Appendix 2 (to follow) sets out that they think three unitary councils in Surrey would cost less than the existing two-tier system, based on the assumptions they have made, and that the benefits from LGR will pay back the implementation costs over the medium term.
- 4.7 This significant difference in financial outcomes between the two proposals highlights the significant risks surrounding the approach taken to disaggregation of County services, which will be a matter for the new unitary councils to decide.

### **Debt**

- 4.8 As noted above, both proposals make the same assumptions in relation to debt and the impact of financing debt on the revenue budgets of the new unitary councils.
- 4.9 It is worth noting that the default position is that the assets and liabilities (such as debt) remain locally managed by councils and that proposals for LGR in Surrey should set out the extent to which the implications of debt can be managed locally by the new unitary councils, including as part of efficiencies possible through re-organisation.
- 4.10 What the default position means is that the assets and liabilities (including the debt) will follow the relevant local authority into whichever new unitary authority that local authority ends up part of. This position will only change if any other proposal for managing the debt can be both agreed locally and with Government. As stated above, both proposals in Appendices 1 and 2 (to follow) recommend that Government writes off the stranded debt in relation to Woking BC.
- 4.11 Under the three unitary combination the Council has already expressed its preference for Spelthorne would be combined with Elmbridge and Runnymede and so that unitary would not directly be exposed to the stranded debt of Woking.
- 4.12 Under the proposals for two or three unitary councils Surrey, there are three options within which Spelthorne would be with Woking. A fourth potential option, where Spelthorne would be absorbed into the same unitary authority as Woking is if one unitary authority was created for Surrey. This option has

been ruled out in both proposals included within the Joint Interim Plan submitted to Government by both SCC and the District and Borough Councils and remains ruled out in the proposals expected to be submitted in Appendices 1 and 2.

- 4.13 In the modelling for the proposals outlined in Appendices 1 and 2 (to follow), the allocation of Surrey County Council's Net Revenue Budget and capital financing costs is based on weighted population for illustrative purposes only. Final allocations will require significant further work and decisions made by Shadow Authorities on capital and revenue budget allocations.
- 4.14 The debt modelling undertaken for both proposals in Appendix 1 and Appendix 2 (to follow) shows that in all options (including Option 2.2) the key financial resilience indicator 'Ratio of gross financing costs as a percentage of Net Revenue Budget' for any unitary council including Spelthorne would be between 19% and 41% (note the latter is the 2 unitary permutation 2.4 in which Spelthorne is in same North unitary as Woking ) based on the 2025/26 net revenue budget. In comparison, the ratio of gross financing costs as a percentage of Net Revenue Budget for Spelthorne alone is 225% based on our 2025/26 net revenue budget. However, gross financing cost does not take into account income being generated by assets associated with the debt finance which may be supporting the cost of services, in the case of Spelthorne there is £50m gross rental derived from the assets being financed. In the medium to longer term the net estimated annual revenue subsidy any unitary would inherit from the assets would be approximately £5m per annum. As has already been highlighted to the other Surrey councils, the £5m represents a halving of the current annual net subsidy generated by the Spelthorne commercial assets. This is one factor, feeding into the significant overall medium term financial sustainability challenges faced by the Surrey councils.
- 4.15 In the unitary modelling for 2 unitaries there are three options in which Spelthorne and Woking are in the same unitary. These are:
- East/West 2.1- West – gross financing cost for unitary as a whole 35%
  - North/South 2.3 - North – gross financing cost for unitary as a whole 34%
  - North/South 2.4 - North – gross financing cost for unitary as a whole 41%
- Whilst gross financing cost of 34-41% may not sound too severe this includes £171m of Woking financing cost, which when combined with the other financial pressures highlighted in this report would make it difficult for options 2.1 West unitary; 2.3 North unitary or 2.4 North unitary to be viable. In contrast the 3 unitary north option including Spelthorne with Elmbridge and Runnymede has a 19% gross financing cost. As has been highlighted to other Surrey Councils this is £5m lower than the current subsidy generated and feeds into the medium term financial sustainability challenges faced by all the Surrey councils.

## **Future Financial Sustainability of the new unitary Councils**

- 4.16 Both proposals for two and three unitary councils set out significant potential budget gaps and therefore challenges to the future financial sustainability of the new Councils. The budget gaps arise due to:-
- Existing budget pressures and increasing demand across all services, but particularly Housing/Homelessness (including Temporary Accommodation), Adults and Childrens Social Care, Education (particularly special educational needs) and home to school transport
  - Local government funding reform and the business rates reset
  - Inflation, interest rates and economic market uncertainty
  - Increasing cost of financing debt, particularly for those Councils who hold a significant proportion of short-term debt which will need to be refinanced at potentially higher rates than currently held. Spelthorne's debt is nearly all fixed on a long-term basis so this is negligible risk for Spelthorne, but is a risk for the Surrey unitaries, even if the stranded debt in relation to Woking BC is written off by Government or exceptional financial support for it is provided extending beyond 2026-27.
- 4.17 The above issues are common to the majority of authorities in local government, particularly upper and single tier authorities. All proposals in the appendices show that the financial benefits of LGR will be fully utilised in addressing the financial sustainability challenges outlined. It is the case, however, that the greater the level of savings that can be achieved through LGR, the more the new unitary Councils will be able to cope with these challenges and the more likely they are to be financially sustainable.

## **5. Risk management comments**

- 5.1 There is a risk that neither proposal is in the best interests of the Spelthorne community. While Spelthorne Borough Council is not legally required to submit a bid (alone or jointly) this would not prevent those who do support the bids from submitting them. As no individual authority holds a veto, the Minister can proceed to consult on a proposal and make an order to implement it. The Council has tried to mitigate against this risk by meeting with both SCC and the other D&Bs to try to influence both bids, and ensure, as far as possible, that both bids reflect the interests of the Spelthorne community.
- 5.2 There is a risk that a preferred proposal contains elements that are not in the best interests of the Spelthorne community. This could be mitigated by clearly identifying the issues and outlining these, alongside a rationale and an assessment of the implications of any proposed modifications. This would need to be submitted as a Spelthorne Borough Council proposal by 9 May. Given that Council meets on the 6 May there is a risk that there will be insufficient time to prepare such a submission.
- 5.3 There is a risk that the proposal which Spelthorne Borough Council decides is in the best interests of the Spelthorne community is not chosen by the Secretary of State for implementation. Spelthorne Borough Council, as an authority impacted by any proposal, will be consulted on any bid which it has not submitted (alone or jointly). As a result, there would be an opportunity for Spelthorne Borough Council to raise any concerns or propose modifications.



However, these may not result in a change in the proposed way forward. As above, this risk is mitigated as Spelthorne Borough Council has continued to work with both SCC and the Ds and Bs to try to influence both bids, and ensure, as far as possible, that both bids reflect the interests of the Spelthorne community.

- 5.4 There is a risk that Spelthorne Borough Council, while not opposed to either proposal, does not have a strong preference for any specific proposal. Spelthorne Borough Council is not required to submit a proposal (alone or jointly) and could choose not to do so, preferring to wait for the formal consultation and deciding at that point whether or not to express a view on the proposed option for implementation. While this is an option it is not recommended as Spelthorne Borough Council would have lost an opportunity to shape the outcome of this important process which will influence how local government services are provided to the Spelthorne community for years to come.
- 5.5 Each proposal poses a significant number of risks. Many of these are identified and addressed in the Appendix 1 and Appendix 2 draft submissions. They include financial risks, service risks (also referenced in 4.14), public safety risks and employment and resourcing risks.
- 5.6 Employment and resource risks are inherent in both proposals for all local authorities in Surrey. Should the Secretary of State agree to implement a proposal, significant preparatory work will have to be carried out in order to ensure that the appointment and/or transfer of staff into the new authorities is legally compliant and in line with relevant guidance and best practice.
- 5.7 There will be a need for support and advice to staff in the lead up to, and post implementation of the new authorities, especially for those at potential risk of redundancy.
- 5.8 In the lead up to the go live date for the new authorities there is a risk that staff turnover increases as staff seek to secure alternative roles elsewhere. Where vacancies exist, it may become increasingly difficult to fill these roles. This will be kept under review.
- 5.9 It may be possible to enter shared arrangements with relevant authorities to fill posts, particularly where this would be likely to avoid a potential redundancy situation in the future. It may be necessary to consider incentives for some key roles where it would be in the best interests of Spelthorne to encourage existing postholders to remain in post until go live.
- 5.10 Following the making of an order a clear implementation and project plan will have to be developed. This will include a risk register which will need to be kept under ongoing review.

## **6. Procurement comments**

Not applicable.

## **7. Legal comments**

- 7.1 The English Devolution White Paper sets out an expectation that all two-tier areas such as Surrey will develop proposals for reorganisation.
- 7.2 In his letter to council leaders of 5 February 2025, the Minister for Local Government and English Devolution outlined that the Secretary of State for Housing, Communities and Local Government, in exercise of his powers under Part 1 of the Local Government and Public Involvement in Health Act 2007 ('the 2007 Act'), invited any principal authority in the area of the county of Surrey, to submit a proposal for a single tier of local government.
- 7.3. This may be one of the following types of proposal as set out in the 2007 Act:
- Type A – a single tier of local authority covering the whole of the county
  - Type B – a single tier of local authority covering an area that is currently a district, or two or more districts
  - Type C – a single tier of local authority covering the whole of the county concerned, or one or more districts in the county; and one or more relevant adjoining areas
  - Combined proposal – a proposal that consists of two or more Type B proposals, two or more Type C proposals, or one or more Type B proposals and one or more Type C proposals.
- 7.4 Proposals must be submitted in accordance with criteria set out in the Annex to the letter dated 5 February 2025, namely:
- Any proposal must be made by 9 May 2025.
  - In responding to this invitation and authority must have regard to the guidance from the Secretary of State set out in the Schedule to letter of 5 February 2025 [**Appendix 3**] and to any further guidance on responding to this invitation received from the Secretary of State.
  - An authority responding to this invitation may either make its own proposal or make a proposal jointly with any of the other authorities invited to respond.
- 7.5 In support of that formal invitation, Local Authorities were asked to submit an Interim Plan on or before 21 March 2025, in line with guidance in the annexe attached to the letter of 5 February 2025.
- 7.6 Part 1 of the 2007 Act (Section 7) explains that, where the Secretary of State has received a proposal in response to an invitation he may, by order, 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 has consulted every authority affected by the proposal

(except the authority or authorities which made it), and such other persons as he considers appropriate.

## **8. Other considerations**

### **S151 Officer commentary**

- 8.1 The financial implications have been outlined above. More detail around the financial implications of the differences in assumptions used between the two proposals can be made once the final proposals have been received. The Section 151 officer's view of reasonableness of the assumptions made in each proposal will be covered in the scheduled All-Councillor pre-ECM Briefing.

## **9. Consultation**

- 9.1 Weekly meetings of council leaders of the D&Bs across Surrey have been taking place. Several meetings have also been held with the Leader of SCC.
- 9.2 Regular meetings of chief executives and other key officers, for example, Section 151 officers, human resources and monitoring officers have also been held.
- 9.3 Within Spelthorne, the cross-party Reorganisation and Transformation Board has met fortnightly to receive and provide feedback to and from the Leader, Chief Executive and other senior officers.
- 9.4 Both proposals include details of the engagement carried out with residents and other stakeholders.
- 9.5 On 1st May, an informal All-Councillor Briefing for has been scheduled to systematically present the two and three unitary proposals.

## **10. Communications**

- 10.1 Spelthorne has actively supported communications regarding LGR through its own channels, including:
- Corporate Website: A dedicated landing page has been created to outline Spelthorne's position on LGR, complete with Frequently Asked Questions.
- Following the launch of the LGR D&Bs communications hub: a link to this page has been added to the corporate landing page and included in the Leader's Statement.
- 10.2 Social media and Newsletter: Updates have been regularly shared with residents via Spelthorne's social media channels and the residents' e-newsletter.
- 10.3 Leader's Statements and video: The Leader has issued statements and a video to share the latest updates and reaffirm Spelthorne's position on LGR.
- 10.4 Resident and Business engagement sessions: Spelthorne Partnership Assembly in April and the Spelthorne Business Forum annual budget briefing in February.

- 10.5 Internal communications for staff cohort: Dedicated staff meetings and intranet hub.
- 10.6 Surrey wide survey: promoting the survey for residents to have their voices heard via an online survey seeking feedback on the two or three unitary proposals. 63% of Spelthorne residents opted for the three unitary model preference (broadly reflecting the result across Surrey).
- 10.7 Stakeholder engagement: To gather insights on the proposed local government reorganisation from key stakeholders in the Borough, in Spelthorne 21 organisations submitted a response.

## **11. Equality and Diversity**

- 11.1 It is not anticipated that this decision, in itself, will result in a change to the range or nature of services currently provided across Surrey. While changes will inevitably be made, these are likely to be a matter for the shadow or unitary council. As a result, the impact of any changes on vulnerable and protected characteristic groups will be an important consideration in the planning and implementation of services as we move through the implementation and transformation phases of the project.
- 11.2 It is recognised that the proposals will be underpinned by a range of assumptions, some of which, if implemented, could have impacts (both positive and negative) on individuals including those in our communities, members and staff. As above, it will be essential that there is ongoing analysis in order to identify and mitigate potential negative impacts and identify any opportunities to promote fairness and improve outcomes as we move through the implementation and transformation phases of the project.

## **12. Sustainability/Climate Change Implications**

- 12.1 There are no direct implications as a result of this report.

## **13. Timetable for implementation**

- 13.1 The indicative timetable for this initiative is as follows:
  - Submission of interim proposals – 21 March 2025
  - Submission of full plans – 9 May 2025
  - Decision by Government – Summer/Autumn 2025
  - Legislation laid before Parliament – Winter 2025/Spring 2026
  - Elections for shadow authority – May 2026
  - New Unitary authority go live – April 2027

## **14. Contact**

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**Background papers:**

English Devolution Whitepaper

**Appendices:**

**Appendix 1 – Final Plan from Surrey County Council (to follow)**

**Appendix 2 – Final Plan from Districts and Boroughs (to follow)**

**Appendix 3 – Letter of invitation from MHCLG of 5 February 2025**

**Appendix 4 – Feedback letter from MHCLG of 4 April 2025**