Options appraisal

In this part we set out our options appraisal for LGR in Surrey, assessing the relative advantages and disadvantages of each option against the government's criteria and principles for reorganisation. We also set out a financial appraisal of the costs and benefits for each option.

Based on our assessment, we believe that **reorganising the current 12 councils into two new unitary authorities** is the best option for Surrey to unlock devolution, realise improved services, create more financially sustainable local government and to lay the foundations for future public service reform.

Options appraisal criteria

We have combined qualitative and quantitative data sources to support our appraisal against the **criteria** set by government. Each criteria has between two and six sub criteria (found in the link above) which have also been considered:

- A proposal should seek to achieve for the whole of the area concerned the establishment of a single tier of local government.
- Unitary local government must be the right size to achieve efficiencies, improve capacity and withstand financial shocks. As a guiding principle, the government has said that new councils should aim for a population of 500,000 people or more. They should also deliver financial efficiencies.
- Unitary structures must prioritise the delivery of high quality public and sustainable public services to citizens.
- Proposals should show how councils in the area have sought to work together in coming to a view that meets local needs and is informed by local views.
- New unitary structures must support devolution arrangements.
- New unitary structures should enable stronger community engagement and deliver genuine opportunity for neighbourhood empowerment.

We also assessed these options against our own principles of the need for them to be coterminous – contained within the existing Surrey County boundary with potential to align with the footprints of other public sector partners – and contiguous – making sure existing district and borough boundaries were not split. This is also in line with government's request that existing district and borough areas are viewed as the building blocks for proposals.

A further key principle is that no new council should be set up to fail. The new organisations should have relative equity and parity of financial resilience and sustainability, service demand levels and economic prospects from day one.

Reviewing the options

In the context of the above, the options we have considered are:

- A single unitary authority, which covers the existing county footprint of Surrey and the population of over 1.2 million people.
- Two unitary authorities, covering populations in excess of 500,000 people in each. In our Interim Plan, we put forward four potential geographies. We have refined our analysis since then and our preferred geography is titled 2.1 West/East. Our rationale for this is set out further in this section.
- Three unitary authorities, covering populations of upwards of 370,000 people each. We consider the preferred geography that Surrey's district and borough councils are advocating for in their alternative proposal.

Why we are ruling out a single unitary authority

Early on, we ruled out pursuing a single unitary authority option as it will not unlock the benefits of further devolution for Surrey residents.

The financial analysis in Appendix 1 benchmarks a single unitary model covering the Surrey footprint alongside two and three unitary scenarios.

A single unitary authority would have offered consistency of services across the whole county footprint and created a foundation for a 'one public sector' response. This would align closely with Police and Fire and Rescue services and with the Surrey Heartlands Integrated Care System, as well as averting the need to separate services already provided across the county footprint, such as Adult and Children's Social Care.

One unitary would also have built on Surrey County Council's strong track record of delivery. In recent years, the council has built a reputation for sound financial management, innovation and continued improvements in critical services, such as social care. Bringing district and borough services together with county services across the existing Surrey County Council footprint would have supported integration of services countywide, enabling improved outcomes and streamlined service delivery.

However, government criteria mean that a single unitary council and Mayoral Strategic Authority cannot be established on the same geographical footprint. With opportunities for MSAs with neighbouring authorities currently not an option for Surrey, to access the many opportunities of further devolution set out earlier, reorganising local government into multiple unitary authorities is the only viable option to unlock devolution.

Overview of our assessment

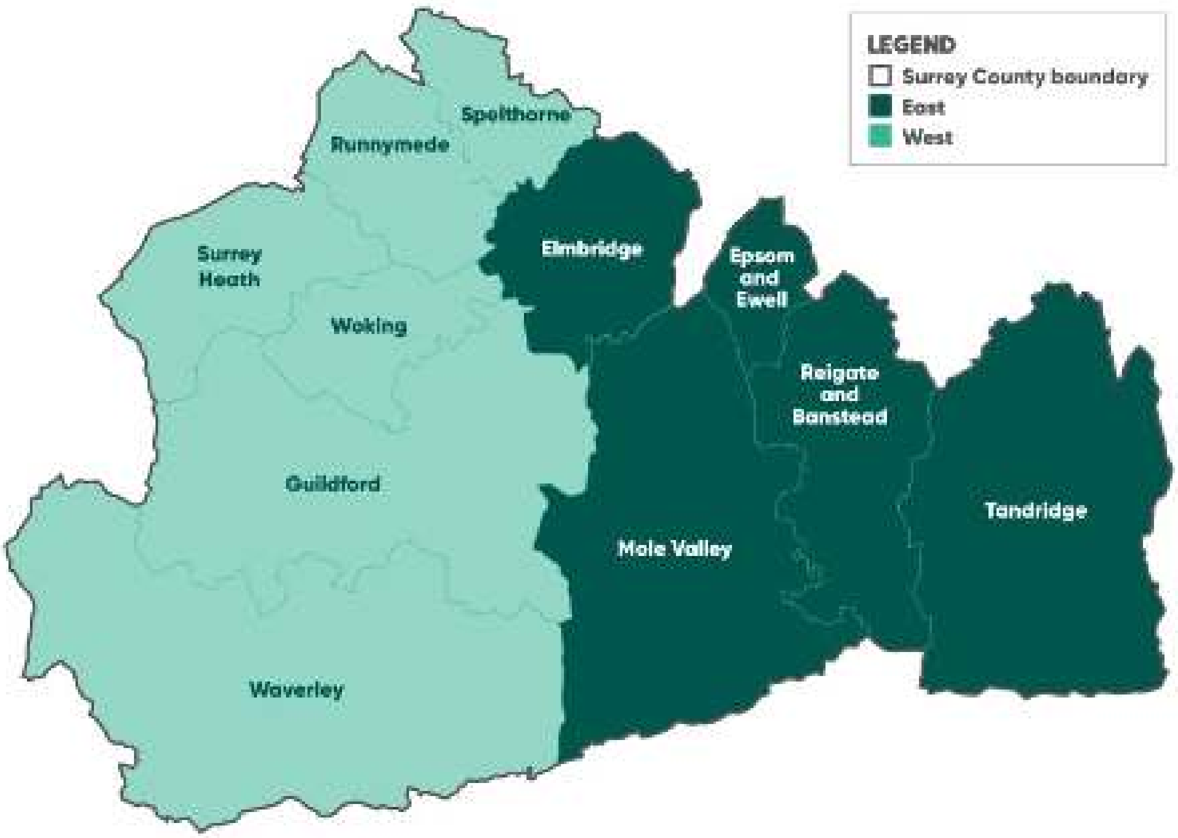
Below is a summary of our options appraisal for two and three unitary models, highlighting how each arrangement performs against the criteria. Where possible the assessment looks at the performance of our preferred 2 unitary geography (East/West) and the 3 unitary geography we have used for benchmarking and analysis. This assessment incorporates the results of the financial assessment, which are described in detail later in this proposal.

We have scored the criteria for the remaining options between one and three – one meaning it meets very few or none of the criterion's requirements, two meaning it meets some of the requirements and three meaning alignment to most or all of the criterion. In the interim proposal we weighted the criteria based on perceived relevance to the success of LGR. Following government's feedback on Surrey's interim plans we have aligned the options appraisal more closely with the government's criteria and removed the weighting.

The government criteria include a number of sub-criteria, some of which are addressed in more detail elsewhere in this document:

- Criteria 1c – evidence underpinning our proposals is attached as Appendix 2, costs and benefits are further detailed in the financial appraisal, and we set out further detail on how we have engaged local stakeholders later in this proposal and in Appendix 5.
- Criteria 1d – our section on a vision for unitary local government in Surrey discusses how local outcomes for residents will be improved.
- Criteria 2b – our proposals are for unitaries with over 500,000 people in each, so this criteria does not apply.
- Criteria 2e and 2f – we address these issues of financial sustainability, including debt management, in the financial sustainability section.
- Criteria 4a – detail on how Surrey's councils have been working together are outlined in our partner and stakeholder engagement section.
- Criteria 5a – Surrey is not part of, or has, a Combined Authority so this does not apply.
- Criteria 5c – population size as it relates to the MSA is discussed in the devolution section.

Two unitary councils (2.1 West/East)



(1) A proposal should seek to achieve for the whole of the area concerned the establishment of a single tier of local government (sub-criteria a and b)

Strengths

- Creates sensible economic areas, with growth potential across both unitary footprints, similarity in business survival rates and similar size Council Tax bases. Two authorities encourage more balanced growth across the county
- Will deliver economies of scale and financial efficiencies through the consolidation of existing service arrangements that are currently duplicated across the districts and boroughs
- Will provide clarity for residents and make it easier for them to access services
- Unitary councils operating on a larger scale are better positioned to identify suitable sites for future housing development and to overcome delivery challenges, including area restrictions, natural landscapes, and flood zones. Both councils cover similar land areas, with 46% in the East and 54% in the West
- Will benefit from closer working between services that are currently divided between the two tiers
- Resident data will be consolidated which would be more secure, enable predictive service delivery and improved insight to commission and deliver services aligned to local need

Weakness

Risk that West Surrey's economy continues to be disproportionately more productive than the East. This is explained largely by innovation assets and connections to our universities (University of Surrey, Royal Holloway and UCA)

Score (1 to 3)

3 - alignment to most or all of the criterion

(2) Unitary local government must be the right size to achieve efficiencies, improve capacity and withstand financial shocks (sub-criteria a, c and d)

Strengths:

- Estimated populations for the new authorities will be between 500,000 and 700,000 and will offer the most equitable population split (45% in the East and 55% in the West)
- Delivers some financial efficiencies
- Less costly to reorganise and transform compared to three unitaries
- Implementation costs lower than three unitaries
- Larger unitary councils would have increased contract buying power and a more pronounced say in shaping the market compared to a three unitary model

Weaknesses:

- Risk of one authority requiring immediate Exceptional Financial Support due to inherited debt from Woking Borough Council (unless solution agreed with government)
- Costs of disaggregating countywide services
- Inequity in business rates income between authorities (39% in the East, 61% in the West)

Score (1 to 3)

2 - meets some of the requirements

(3) Unitary structures must prioritise the delivery of high quality and sustainable public services to citizens (sub-criteria a– c)

Strengths:

- Multiple council touch points, but fewer than current 12 councils
- Offers more resilience than three unitaries
- Enhanced partnership working if delivery footprints align, such as coterminosity (ability to be contained within the existing Surrey county boundary with potential to align with the footprints of other public sector partners) with local police and health service footprints
- Offers the most equitable split between population demographics and future population projections which could impact on future service demand
- Offers an equitable split of households (45.6% in the East and 54.4% in the West) as well as having the closest similarity for owned or shared ownership households

- Offers the most equitable split of demand for homelessness services between both authorities (50.1% in the East and 49.9% in the West)
- Offers similar split in total pupil numbers between both authorities (45.1% in the East and 54.9% in the West)

Weaknesses:

- Disaggregation of, and disruption to, crucial services including Adults Social Care and Children's Services
- Risk of disparity in service provision due to uneven distribution of staff with the right knowledge, skills and experience
- Risk that two unitary councils may take very different approaches to service delivery, which may create inconsistencies in residents' experiences living in different parts of the county

Score (1 to 3)

2 - meets some of the requirements

(4) Proposals should show how councils in the area have sought to work together in coming to a view that meets local needs and is informed by local views (sub-criteria b and c)

Strengths:

- Scale of new unitaries supports flexible deployment of resources to support partners and communities to work together to bring improvements and change to towns and villages residents identify with
- An East and West unitary cover places local stakeholders identify as functional economic geographies, using towns and villages as the focal points for a strengthened community engagement approach
- Engagement with residents, partners and staff in the available time has underlined the value people place on efficient and effective services for their local area – and a willingness to be part of establishing improved approaches to engagement and involvement

Weakness:

Tight timescales have limited the amount of engagement at this stage of the process, but further engagement is planned

Score (1 to 3)

2 - meets some of the requirements

(5) New unitary structures must support devolution arrangements (sub-criteria b)

Strength:

Two unitary authorities would enable a Strategic Authority across the county footprint

Score (1 to 3)

3 - alignment to most or all of the criterion

(6) New unitary structures should enable stronger community engagement and deliver genuine opportunity for neighbourhood empowerment (sub-criteria a – b)

Strengths:

- Since 2023 towns and villages have been the scale that the county council, health and other partners have recognised as optimum to address local priorities
- Two unitaries, underpinned by a strengthened community engagement model using the towns and villages approach, will build on existing work to grow participation and engagement with the formalisation of non-precepting community boards

Weakness:

Two unitaries could be perceived as more remote compared to three unitary councils – mitigations are detailed in the community engagement section

Score (1 to 3)

2 - meets some of the requirements

Total score

14

Conclusion

Preferred option - most likely to meet government requirements

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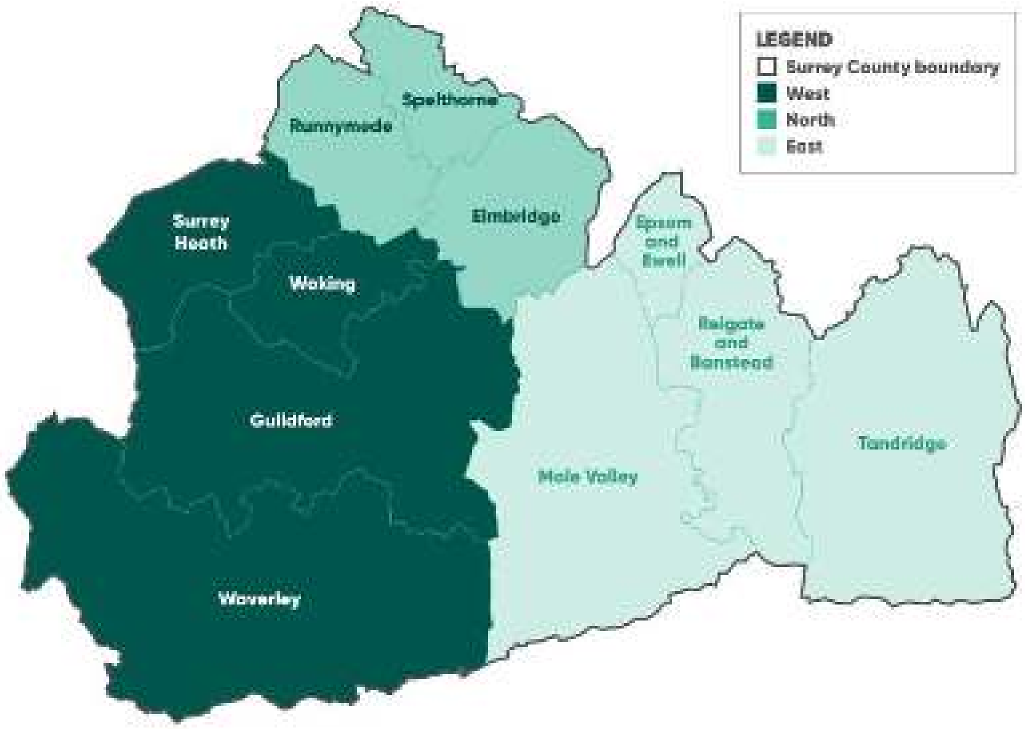
Three unitary councils



(1) A proposal should seek to achieve for the whole of the area concerned the establishment of a single tier of local government (sub-criteria a and b)

Weaknesses:

- Polycentric nature of Surrey means centres of employment are more dispersed – three unitary councils may become overdependent on single economic drivers, for example East Surrey reliant on Gatwick
- Risk of furthering economic disparities across Surrey, with at least one authority disadvantaged from having a lower council tax base relative to the other two
- Greater risk of uneven asset split, such as employment centres and innovation clusters
- Income split across councils means fewer resources for local government to support investment in the East of the county, which has historically underperformed economically against the West
- Three unitary councils operating within smaller geographical areas would face greater difficulties in identifying suitable sites for future housing development and in overcoming delivery constraints. The proposed northern unitary would encompass just 14% of Surrey's total land area, while the western unitary would cover 46%. This would put Surrey's contribution to delivery of national housing targets at risk
- Smaller authorities based on currently 'dominant' business sectors would reinforce the current productivity within those areas, but also significantly limit opportunities to drive growth on a larger scale across several sub-sectors

Score (1 to 3)

1 - meets very few or none of the criterion's requirements

(2) Unitary local government must be the right size to achieve efficiencies, improve capacity and withstand financial shocks (sub-criteria a, c and d)

Weaknesses:

- Estimated populations for new authorities will be between 350,000 and 450,000 which will be split unevenly (39% in the West, 27% in the North and 34% in the East)
- Offers less financial resilience compared to two unitary authorities
- High risk reorganisation would lead to net costs long term and unlikely to lead to financial efficiencies
- Risk of at least one authority requiring immediate Exceptional Financial Support due to inherited Woking Borough Council debt (unless solution agreed with government)
- More costly to reorganise and transform than two unitaries
- Disaggregation costs will be greater compared to two unitaries
- Higher implementation costs than two unitaries
- Operational delivery contracts will need to be duplicated/ multiplied. Less likely to achieve volume and delivery efficiencies and reduced ability to provide resilience and provide additional delivery linked to council priorities
- Smaller unitary councils may lack the purchasing power to negotiate competitive prices for services, materials and contracts which could lead to higher costs for both the council and taxpayer
- Results in an unequal split of business rate income across the proposed authorities (40% in the West, 33% in the North and 27% in the East)

Score (1 to 3)

1 - meets very few or none of the criterion's requirements

(3) Unitary structures must prioritise the delivery of high quality and sustainable public services to citizens (sub-criteria a – c)

Strengths:

- Multiple council touchpoints, but fewer than current 12 councils
- District and borough services can be combined to create scale

Weaknesses:

- Greater disaggregation and disruption compared to two unitary authorities
- Duplication of effort for former countywide public services
- Disaggregation of crucial services including Adults Social Care and Children's services required – additional complexity compared to two unitary authorities

- Risk of disparity in service provision due to uneven distribution of staff with the right knowledge, skills and experience – this would be more acute compared to a two unitary arrangement
- Presents operational resilience challenges
- The benefit from closer working between services that are currently divided between the two tiers would not be maximised compared to two unitary councils
- Three unitary councils would benefit from resident data consolidation compared to a two-tier model, but this would be spread across three separate organisations which may create difficulties for partners in accessing data and insight across the Surrey footprint
- Three unitary councils may take very different approaches to service delivery, which may create greater inconsistencies in residents' experiences living in different parts of the county
- Creates a more fragmented approach to transport systems, with bus and road infrastructure varying across council borders in terms of standards and resident experience, causing confusion for users and inefficiencies in travel
- Risk that the uneven population age and demographic split between three unitaries will present increased future demand pressures
- Results in the least equitable split of total households across the proposed authorities (38.5% in the West, 26.9% in the North and 35.2% in the East). This could impact on a variety of service demands, such as kerbside waste collection. There are also considerable variations in the percentage split of social rented households and privately rented households
- Results in a more unequal percentage split in homelessness across the proposed authorities (27.6% in the West, 38.6% in the North and 33.8% in the East)
- Will face variations in the total number of pupils across the proposed authorities (38.5% in the West, 27.1% in the North and 34.4% in the East)

Score (1 to 3)

1 - meets very few or none of the criterion's requirements

(4) Proposals should show how councils in the area have sought to work together in coming to a view that meets local needs and is informed by local views (sub-criteria b and c)

Strengths:

- Ability to concentrate resources on the needs and priorities of the geographies they serve.
- Unitary councils cover towns and villages that residents recognise as focal points, though there would be additional costs, and less flexibility in how resources can be used, to support community engagement across three unitaries.
- Engagement with residents, partners and staff in the available time has underlined the value people place on efficient and effective services for their local area – and a

willingness to be part of establishing improved approaches to engagement and involvement.

Weakness:

Risk that Surrey's voice on a national scale will be diluted by three unitary councils that may have opposing views

Score (1 to 3)

2 - meets some of the requirements

(5) New unitary structures must support devolution arrangements (sub-criteria b)

Strengths:

Three unitary authorities would enable a Strategic Authority across the county footprint

Score (1 to 3)

3 - alignment to most or all of the criterion

(6) New unitary structures should enable stronger community engagement and deliver genuine opportunity for neighbourhood empowerment (sub-criteria a – b)

Strengths:

Opportunity to adopt the community board model to potentially mitigate the decreased scale of support and resources on offer to convene and deliver local improvements in partnership with communities

Weaknesses:

Less scale to provide support and resources to convene and deliver local improvements in partnership with communities

Score (1 to 3)

2 - meets some of the requirements

Total score

10

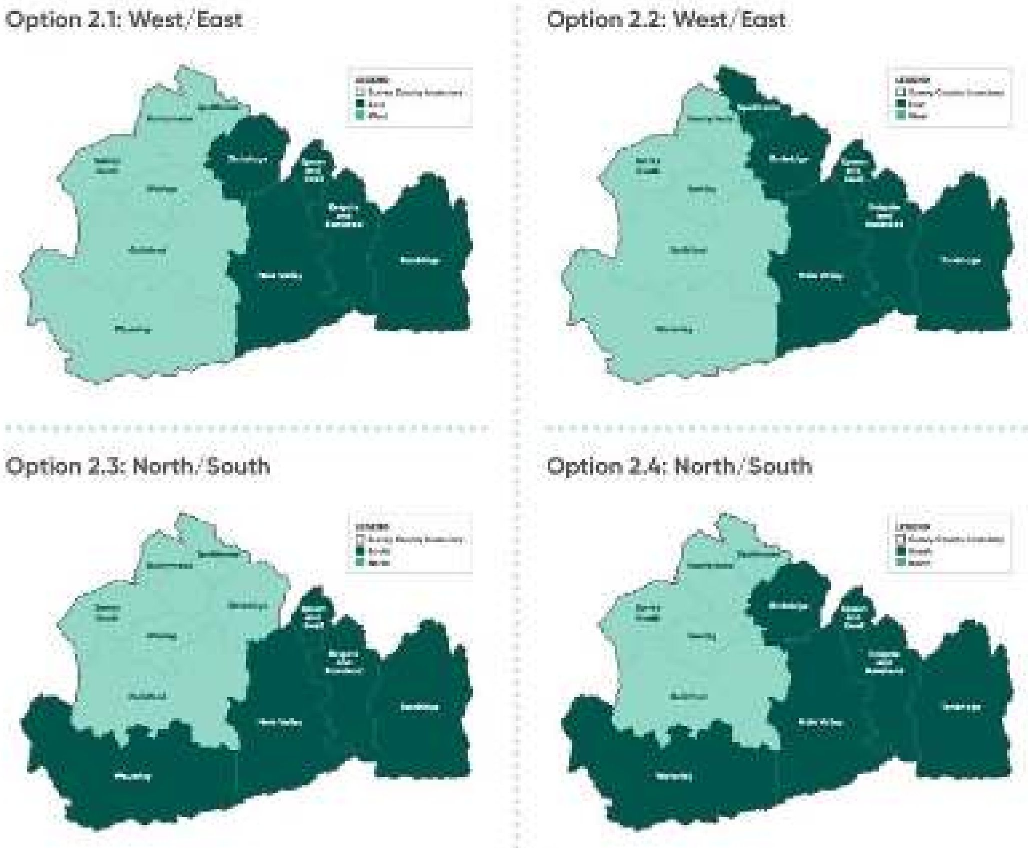
Conclusion

Not viable - least likely to meet government requirements

Two unitary authorities

Our options appraisal demonstrates that the two unitary model stands up as consistently favourable against both the government's criteria and our local priorities for LGR.

To inform our preferred model we assessed the shortlisted geographies for two unitaries set out in our Interim Plan.

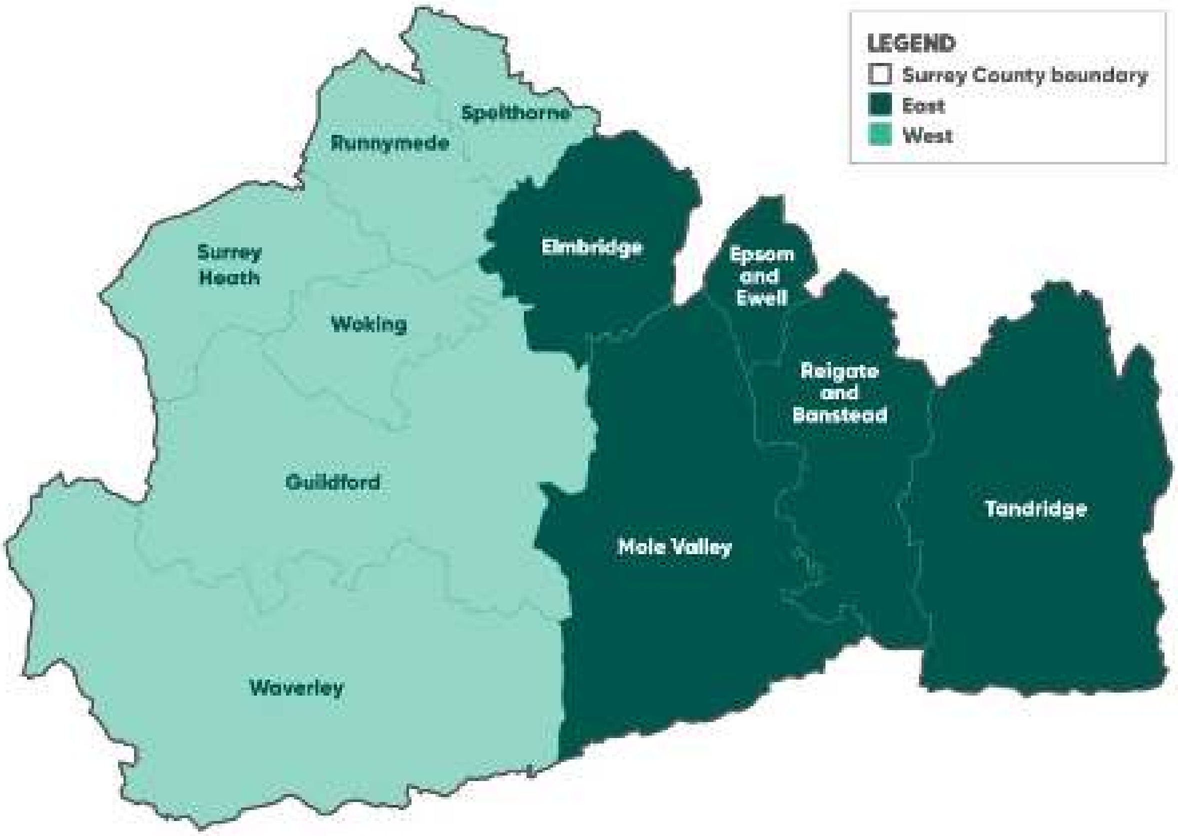


This analysis exercise (set out in Appendix 2) looked at the following factors:

- How the cost of providing key county services, such as Adults and Children's Social Care, aligns with available funding in each unitary area.
- Projected housing delivery against National Planning Policy Framework targets, and implications for council tax growth.
- The prospects for economic growth across the different geographies, using indicators such as economic inactivity and the split of key economic assets, such as innovation clusters.
- Surrey's debt, and the implications for each proposed unitary configuration.

The analysis of the scenarios found that the majority of evidence suggests the **2.1 West/East option** would create two unitary councils for Surrey that enable a combination of lower-tier functions and simpler disaggregation of upper-tier functions so that each new authority is well situated to deliver services effectively, safely and legally from vesting day onwards, and will be best placed to continue to adapt to the county's needs going forward. The 2.2 West/East model shares many of the same benefits.

Option 2.1 West/East - Preferred LGR geography for Surrey



Analysis undertaken shows that the 2.1 West/East geography should create new councils that are set up with a broadly equitable distribution of key services and funding sources, while minimising the risks that would adversely affect a larger number of unitaries.

This East/West geography enables both unitaries to survive independently, to make use of the neighbouring economic powerhouses of London, Heathrow airport, and Gatwick airport, and to have a similar mix of the urban and rural landscape that makes our county a beautiful place to live and work. An MSA would then be well placed to coordinate strategic responsibilities on a county footprint to the benefit of both East and West Surrey.

Population

Population size is a key determinant for the predictable demand for many local government services. Calculating the current (and projected future) volumes of potential need is important to ensure the appropriate allocation of budgets and other resources to each new unitary, and for each new unitary to understand the communities they will be serving.

Although the population is measured every 10 years through the census, mid-year population estimates give us a more up to date reflection of the current population. In terms of total population size across all ages, 2.1 West/East offers an equitable split, with population being split 55%/45% between the two unitary councils. Based on Census 2021 population data, this would see East Surrey with a population of 545,798 and West Surrey with a population of 657,309, both meeting the government's criteria that "new councils should aim for a population of 500,000 or more".

Place

Land area and population density considerations are key determinants for the ability to develop land and to operate services that will be within easy reach of potential service users. 2.1 West/East showed the most equitable balance in population densities.

We can break down the land use of the total land area in each proposed geography by purpose, showing us the proportion of land used for things such as community, residential, industry and transport. With this metric, both East/West geographies show similar levels of variation between East and West – meaning each unitary would inherit a similar proportion of land used for community, residential, industry and transport.

The areas of Surrey most at risk of flooding lie primarily in the northwest of the county, along the rivers Thames, Wey and Mole. Flood risk is a significant challenge, especially for future land development for homes and businesses. To alleviate the flood risk in the northwest corner of the county, partners, including the county council, are working on the River Thames Scheme across an area that runs through Runnymede, Spelthorne and Elmbridge. This means under both East/West geographies, both unitaries, alongside the MSA, would have a role in coordinating and completing this national scheme.

Housing

Government have set annual house building targets for each local authority, which will be adopted in aggregated form by the unitary authorities. Although it is important to understand how a geographical unitary split will impact the housing targets for the new councils, it should be noted that these are targets which can change based on the ability to deliver against those targets. In this analysis, 2.1 West/East is the most equitable split. For this metric 2.2 West/East has one of the larger inequity variations with East Surrey estimated to drive 56.7% of the annual delivery target and West Surrey 43.3%.

In the current two-tier system, lower-tier authorities assess people presenting as homeless and determine whether they are threatened with homelessness or already homeless. This duty would be assumed by the new unitary authorities who would be tasked with supporting these residents as appropriate for their circumstances. 2.1 West/East scored the most equitable with the lowest degree of variation between residents presenting as already homeless and at risk of homelessness, meaning both authorities may experience similar demands for services to support them.

Economy and skills

The economy of the new unitary authorities will be influenced by conditions both within and outside the county.

Internal influences include the skills and training of residents as well as internal business operations and sectors influenced by the landscape, urban development, and operating businesses. External influences include London, Heathrow airport and Gatwick airport.

The health of the business sector is critically important to the local economy, as employers, providers of services, and payers of Non-Domestic Rates. The health of the sector can be determined by the number of businesses started, ended and active. Using this metric, 2.1 West/East is the most equitable model with the lowest variation between the two unitaries.

Business rates are one of the funding streams used to fund local government. They are collected by lower-tier councils and are often a strong indication of the nature and size of businesses within each area. In our analysis of the division of business rates across the new unitaries, 2.1 performed better for overall business sector health, while 2.2 West/East had the most equitable split in sizes and strength of businesses.

Service delivery

Local authorities deliver a range of services which will be amalgamated from the district and boroughs and disaggregated from the county council to be delivered across the new geographies. The analysis looked at the geographic distribution of certain resident groups and service delivery volumes.

Adult Social Care and Children, Families and Lifelong Learning are Surrey County Council's two biggest areas of expenditure, representing 63% of Surrey County Council's 2025/26 net revenue general fund budget. The two biggest funding sources for this expenditure are council tax income and social care grant funding. Work has been undertaken with services to estimate how the most significant and volatile areas of general fund expenditure for these services, Adults Social Care package, Children's Social Care and Home to School Transport, are likely to split across potential new unitary geographies, so this can be compared to the split of Council Tax income and social care grant funding.

This analysis has found that across both East/West geographies, there are similar correlations between the estimated split of expenditure against the split of council tax income and social care funding. 2.1 shows a difference of 0.9% between total expenditure for all three service areas against Council Tax income, while 2.2 shows a difference of 0.7%.

Waste collection (currently delivered by district and boroughs) and waste disposal (currently delivered by Surrey County Council) will be managed by each of the unitaries across their geography. Our analysis shows that the division of waste collected will be close to 46% of current levels in the East and 54% in the West.

The new unitary councils will take on the support of state-maintained schools across their geography. Both East and West geographies would be supporting similar pupil numbers taking current student population and geographical location of schools into account.

The analysis looked at the division between registration of deaths, births and ceremonies. When combining both birth and death registration each two unitary split would have at least two legacy register offices within their geography.

Lastly, the new unitaries will both be designated as Highways Authorities. They will inherit a share of over 3,000 miles of public highways that is currently managed by Surrey County Council. Under 2.1, East Surrey will inherit 1,355 miles and West Surrey will inherit 1,666 miles. While this does not factor in the current backlog of maintenance, it is a long term predictor of maintenance requirement.

Three unitary authorities

As demonstrated in the options appraisal, a three unitary council model for Surrey does not sufficiently meet either the government's criteria or our own priorities for LGR.

Although three unitaries will still allow Surrey to unlock further devolution through the creation of an MSA, three unitary authorities both negate any potential savings from aggregating district and borough services and increase the costs of disaggregating countywide services.

This scenario is also unlikely to deliver well on efficiencies and cost savings and does not meet the government's targeted 500,000 population.

The three unitary model would create three very distinctive new communities with significant variations in key metrics and characteristics, setting the new councils off on unequal and unsustainable footings.

Under the three unitary model, imbalances in land size and density create challenges - smaller areas, such as the northern unitary, may struggle to find housing sites and meet national targets, while lower-density authorities face hurdles in delivering essential services like Home to School Transport, which is a significant budget pressure for the county council.

Flood risk and the River Thames Scheme under the three unitary model would see the proposed northern unitary face a disproportionately higher flood risk compared to the rest of the county, as well as sole local authority responsibility for contributing to the completion of the scheme, which would likely be financially unviable.

Three unitaries would also lead to uneven delivery requirements across the authorities for housing. For example, the northern authority would have double the housing target compared to the East and West authorities while contending with significant development constraints, including greenbelt and flood zones. It would also be more reliant on the Mayoral Strategic Authority to support delivery and infrastructure investment.

The three unitary structure also leads to greater disparities in homelessness rates across the proposed authorities with the variation in the total number of cases where Prevention and Relief Duty is owed is particularly pronounced, resulting in the least alignment amongst the three proposed authorities.

Regarding the health of the business sector, a three unitary scenario has notably higher variations in the sectors' health when compared to both East/West models. The three-unitary model also struggles with business rate income equity, with the western unitary projected to receive nearly £75 million more than the eastern unitary.

The three-unitary model has a much less favourable correlation between total expenditure for Adults Social Care packages, Children's Social Care and Home to School Travel Assistance against Council Tax income.

Although the correlation is close for the West authority (only a 0.6% difference), the North authority shows a position whereby relative Council Tax income is 4.5% higher than combined Adults Social Care, Children's Social Care and Home to School Travel Assistance expenditure, whereas collective expenditure for these services for the East authority is 5.1% higher than Council Tax income. This would mean that two of the new unitaries would be relatively under or over funded for the biggest areas of social care expenditure, adversely affecting the financial sustainability across all the new unitaries.

The three-unitary model also results in a disproportionately higher volume of waste collection in the western unitary compared to the northern and southern authorities. This disparity is evident in total tonnage collected, including both household and non-household waste, as well as waste sent for recycling and waste that is not recycled.

Finally, the three unitary model leads to substantial disparities in road miles inherited and maintenance backlog. Under this structure, the western and northern unitaries face a difference of £64 million in maintenance backlog, along with a 719-mile gap in road inheritance.

Financial appraisal

A financial appraisal has been undertaken of creating unitary authorities in Surrey with benefits and costs calculated based on published 2025/26 planned expenditure across Surrey's current authorities. Where information from previous years has been used for certain areas of the modelling, this has been inflated to 2025/26 to ensure a consistency across all data points.

Modelling has been refined from the Interim Plan including utilising updated budget information provided by district and borough councils and consultation with the county council's directorate leadership teams. A full breakdown of the updated modelling can be found in Appendix 1, including a summary of the changes from the Interim Plan.

The following have been appraised:

Reorganisation benefits – savings assessed as achievable in the shorter-term from consolidating leadership and senior management across the 12 councils, initial wider workforce savings and non-staffing expenditure savings due to consolidation, and savings from reducing the number of councillors and local elections in Surrey.

Transformation benefits – savings that will take longer to realise, as they are more reliant on changes to be delivered after the new unitary authorities are established. These include wider workforce and reduction in non-staffing expenditure savings beyond the lower level of initial savings achieved through reorganisation alone, reduction in property revenue costs through consolidating Surrey's existing local authority operational estate and a modest increase proposed for sales, fees and charges income.

Disaggregation costs – these apply to scenarios where Surrey's local authorities are consolidated into two or three unitary authorities. They represent the estimated additional cost of splitting services across the new unitary geographies that are currently provided or commissioned by Surrey County Council on a county footprint.

- Directorate leadership teams have been consulted to understand the likely impacts of splitting services into two or three new unitaries and it is considered that even after mitigations it will be necessary to duplicate a relatively small proportion of current county council staffing roles, in particular for management below tiers 1-3, specialist statutory roles/teams and business partnering support functions.
- There will also be a small degree in proportionate terms of unavoidable non-staffing costs due to loss of economies of scale and additional costs of re-procurement, either initially or when contracts expire and need to be renewed or recommissioned. Further information about the areas where it is anticipated disaggregation costs will be incurred is set out in Appendix 1.

Implementation costs – these represent the estimated costs to both enable the effective creation of the new unitary arrangements and delivery of the changes required to achieve the transformation benefits once the new authorities have been set up. These costs are summarised in the implementation section.

All the above areas have been modelled to assess the scale of benefits achievable and costs resulting from creating unitary local authorities in Surrey. The following scenarios have been considered for each unitary option:

- **Base scenario –** these are more conservative estimates of potential savings, and a higher estimated level of implementation costs.
- **Stretch scenario –** these represent more ambitious scenarios with a higher level of achievable potential savings but come with a higher level of risk, together with a lower level of estimate of implementation costs based on taking action to limit these where possible.
- **Mid-point –** these represent the mid-point between the base and stretch scenarios and are considered a reasonable estimate balancing prudence and ambition.

Modelling for each unitary option is set out in the tables below. A single unitary has been modelled as a benchmark, as requested by government. The tables show the estimated ongoing annual net benefits or costs seven years after the creation of the new authorities, by when it is anticipated a new steady state should be reached. Positive figures in black represent benefits, while negative figures in red represent costs. All of the base data used and modelling assumptions are set out in Appendix 1.

A summary of the cumulative net cash flows for each option and scenario is provided, covering the base year (2025/26) up to seven years post-implementation (2033/34). The payback period is an estimate of the number of years required for total cumulative benefits to surpass cumulative costs, including implementation costs. Where this is displayed as “N/A” this means an option has been modelled as not paying back by the end of the seventh year following vesting day of the new authorities.

1 Unitary summary modelling (for benchmarking)

Financial model	Base scenario	Stret scen
Annual reorganisation benefits	£25m	£30m
Annual transformation benefits	£41m	£67m
Total ongoing annual net benefits / costs after five years	£66m	£97m
Total implementation costs	-£74m	-£67
Cumulative net cash benefits / costs after five years of new organisation(s) including implementation costs	£309m	£484
Payback period within seven years post go live	1.6 years	1.1 y

2 Unitaries summary modelling

Financial model	Base scenario	Stretch scenario
Annual reorganisation benefits	£16m	£22m
Annual transformation benefits	£32m	£53m
Annual disaggregation costs	-£47m	-£29m
Total ongoing annual steady state net benefits / costs	£1m	£46m
Total implementation costs	-£94m	-£76m
Cumulative net cash benefits/costs after seven years of new organisation(s) including implementation costs	-£118m	£162m
Payback period within seven years post go live	Not applicable	3.2 years

3 Unitaries summary modelling

Financial model	Base scenario	Stret scen
Annual reorganisation benefits	£8m	£13m
Annual transformation benefits	£23m	£28m

Financial model	Base scenario	Stret scen
Annual disaggregation costs	-£71m	-£43
Total ongoing annual steady state net benefits/costs	-£41m	£8m
Total implementation costs	-£105m	-£85
Cumulative net cash benefits / (costs) after five years of new organisation(s) including implementation costs	-£385m	-£72
Payback period within five years post go live	N/A	N/A

Two unitaries are estimated to deliver ongoing net annual benefits of between £1 million to £46 million and a cumulative net cash position after seven years ranging from a net additional cost of £118 million in the base scenario, to a net benefit of £162 million in the stretch scenario.

The three unitaries option is the least favourable financially, with modelling estimating an ongoing annual net additional cost of £41 million in the base scenario, up to an ongoing annual net benefit of £8 million in the stretch scenario.

Due to the lower savings and higher costs estimated for the creation of three unitaries, the cumulative cashflow position is significantly less favourable, ranging from an additional cost of £72 million to £385 million after seven years.

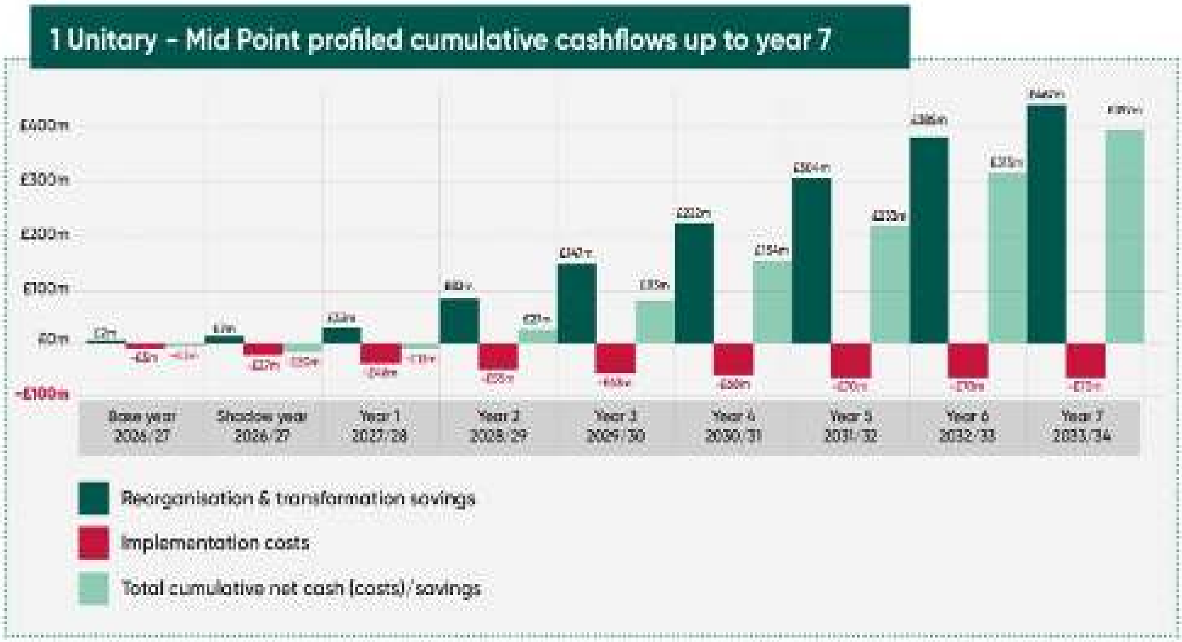
The mid-point position for each option is summarised in the table below to demonstrate the scale of difference between the three options:

Midpoint costs

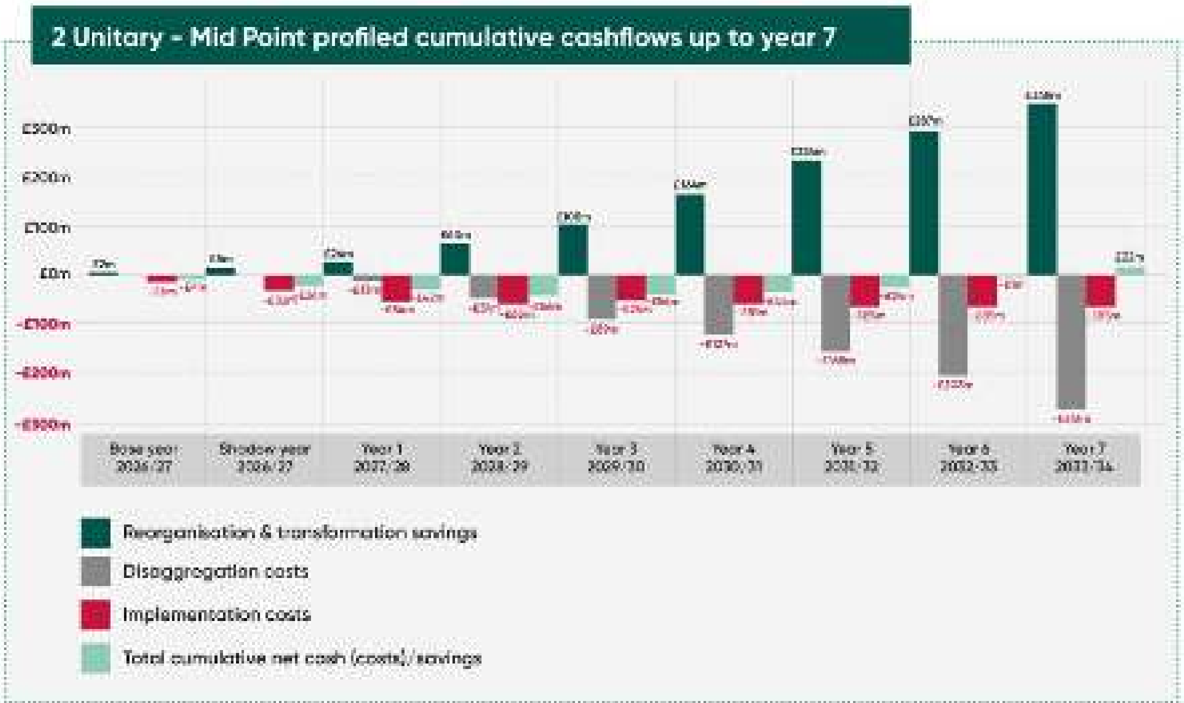
Financial model	1 unitary	2 unitaries
Annual reorganisation benefits	£28m	£19m
Annual transformation benefits	£54m	£42m
Annual disaggregation costs	N/A	-£38m
Total ongoing annual net benefits / (costs) after five years	£82m	£23m
Total implementation costs	-£70m	-£85m
Cumulative net cash benefits/costs after seven years of new organisation(s) including implementation costs	£397m	£22m
Payback period within seven years post go live	1.3 years	6.1 years

In addition to considering the annual ongoing net impact of the creation of the new unitary authorities, we have assessed how quickly benefits will be delivered and costs incurred. The table above summarises the modelled cumulative net cash position up to seven years following the launch of the new authorities for the mid-point of each option, with the position for a single unitary included as a benchmark.

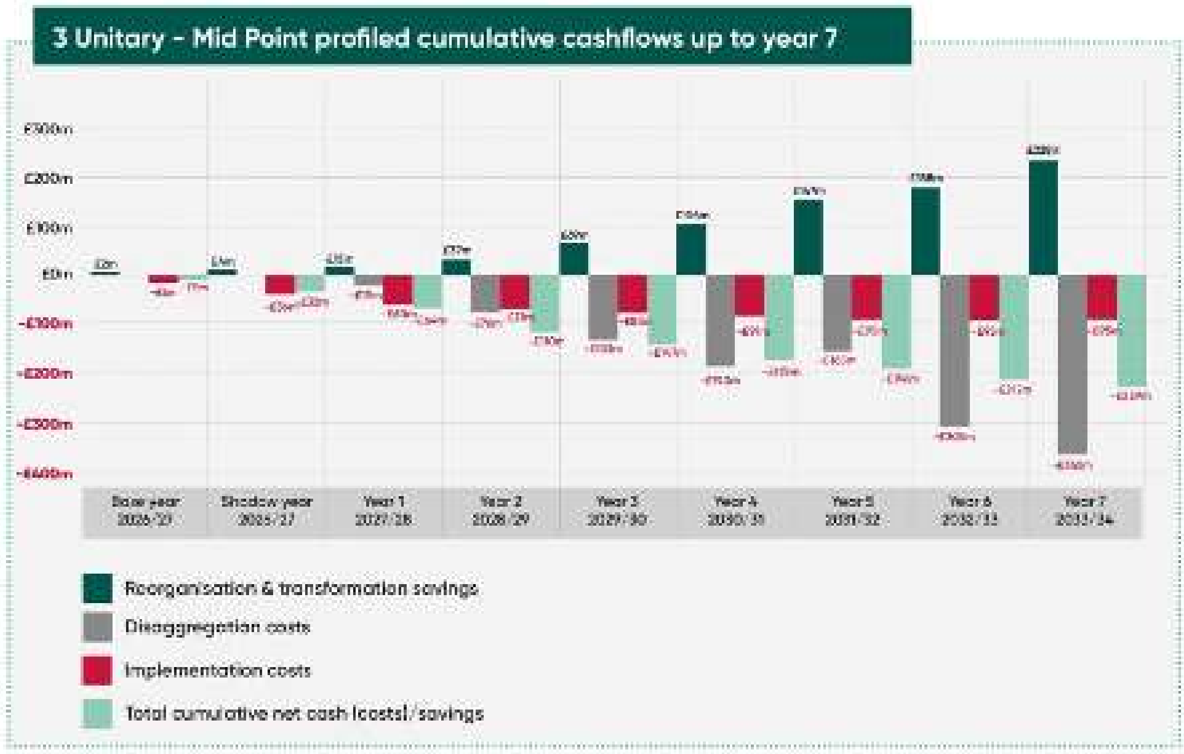
There are two main reasons for the difference between the different unitary options. Firstly, the scale of benefits and secondly, transformation benefits will take longer to realise than reorganisation benefits and costs for implementation and disaggregation. Therefore, the models for multiple unitaries show a reduced cumulative cash flow and lower net savings.



Graph 1: cumulative cash flow 1 unitary



Graph 2: cumulative cash flow 2 unitaries



Graph 3: cumulative cash flow 3 unitaries

It is important to note that the financial appraisal is based solely on the implications of creating one, two or three authorities and does not consider the direct financial implications of the creation of a Mayoral Strategic Authority (MSA). Implications for the creation of an MSA for Surrey will be reviewed when greater clarity is provided by government about the benefits, costs and timing.

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 are estimated to deliver ongoing net annual benefits of between £1 million in the base scenario to £46 million in the stretch scenario and a cumulative net cash position after seven years ranging from a net additional cost £118 million in the base scenario, to a net benefit of £162 million in the stretch scenario.
- The mid-point of modelled ongoing annual net benefits for creating two unitaries between the base and stretch scenarios is £23 million. In creating two unitaries it will therefore be important to seek to minimise disaggregation costs as far as possible and maximise savings in order to get as close as possible to the delivery of the £46 million net benefits in the stretch scenario.
- As set out in the financial sustainability commentary below, 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, alongside government support on resolving the debt issue.

Options appraisal conclusion

In conclusion, reorganising to two new unitary authorities is our preferred option for local government in Surrey. Two unitary authorities would support a key objective to unlock further devolution for Surrey by supporting establishment of a new Strategic Authority on the current county footprint. It is also the only option that will achieve this while also meeting the government's criteria that new unitary councils are financially sustainable.

Within the two unitary model, our preference is for the 2.1 West/East model. The evidence shows that 2.1 West/East model will create equitable unitary authorities. They will benefit from equitable division of overall population, land area and land purpose, flooding risk and mitigation, total household numbers, business rate collection, pupil split, number of birth and death registrations and total miles of public highways.

If, following government's consultation on LGR options for Surrey, they are minded to accept our proposition for the 2.1 West/East split, careful planning will be required to mitigate risks and disruption from the disaggregation of countywide services, particularly considering the needs of vulnerable residents that depend on them. We cover this in more detail in the implementation section.