

# Cumberland Council Audit Progress Report and Sector Update

25 March 2024



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# 1. Introduction

## Your key Grant Thornton team members are:

### Michael Green

Key Audit Partner & Engagement Lead

T 0161 953 6382

E michael.green@uk.gt.com

### Matt Derrick

Engagement Senior Manager

T 0141 223 0656

E Matt.F.Derrick@uk.gt.com

### Hannah Foster

Engagement Manager

T 0141 223 0735

E Hannah.R.Foster@uk.gt.com

### Edward Blackburn

Engagement In-Charge Auditor

T 0161 214 6332

E Edward.jf.blackburn@uk.gt.com

This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a local authority; and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)

Members of the Audit Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications <https://www.grantthornton.co.uk/en/services/public-sector-services/>

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either Michael, Matt or Hannah.

## 2. Progress as at March 2024

### Impact of legacy audits

The audits of 2022-23 accounts for the legacy bodies have taken longer to complete than initially anticipated. We temporarily paused the audit of Allerdale Borough Council 2022-23 from 12 February 2024 to allow time for the Council to respond to the outstanding audit requests and queries. We have resumed the audit from 04 March 2024 and aim to finalise work by early April.

As a result, our planning and interim work for the Cumberland 2023-24 audit had to be pushed back a little and is now scheduled to take place from April, with our Audit Plan scheduled to be presented to the Audit Committee in July.

We do not expect to receive the 2023-24 draft financial statements for Cumberland by the national publication deadline of 31 May and expect to begin work in late summer/autumn, targeting completion of the accounts audit by early 2025, which would be ahead of the proposed statutory deadline of 31 May 2025. We have started our VFM review and plan to report in this area by September 2024.

### Consultation on the 'Backstop'

As Members will be aware, there are a significant number of outstanding local authority audits across the country. Discussions have been ongoing for some time in terms of how this national issue is resolved in order to reset the system in local authority audits.

The cross-party Levelling Up, Housing and Communities (LUHC) Committee published its report on Financial Reporting and Audit in Local Authorities on 20 November 2023.

The Minister for Local Government wrote to the Chair of the Levelling Up, Housing and Communities Committee on 9 January 2024 setting out arrangements for resetting the system. Arrangements include an initial backstop date for local authorities and auditors of 30 September 2024 for all outstanding local audits in England up to and including the financial year 2022-23. These proposals are subject to the outcome of consultation. A copy of the letter is attached at Appendix A.

### The Implications of the 'Backstop'

Subject to consultation and legislation to implement the Backstop proposals being introduced, any audit relating to 2022-23 or earlier years not concluded by 30 September 2024, would automatically have the backstop applied.

These proposals would mean that those authorities where audits have not yet started for 2022-23 or earlier years would have the Backstop applied and no audit work would be undertaken. An audit opinion would be issued indicating audit work has not taken place and using a form of words which has yet to be determined.

Similarly, where audits are on-going and are not completed by 30 September 2024 for 2022-23 or earlier years, audit work would stop and the Backstop applied.

### Implications of the 'Backstop' for Allerdale 2022-23, Carlisle 2022-23 & Copeland legacy accounts

The Carlisle City Council 2022-23 draft accounts are yet to be published but due to the anticipated late receipt of the draft financial statements for Cumberland, we believe there may be scope to complete the audit in early summer with the support of the council finance team. We are discussing this with management but there is a possibility this audit would be backstopped if completion by the end of September cannot be guaranteed.

We continue to work with the Council's finance team with the aim to complete the Allerdale 2022-23 accounts audit by early April. This is subject to adequate capacity being made available within the finance team to work with the audit team and respond to remaining requests for information in a timely manner.

We issued the Copeland 2018-19 Audit Findings Report in March 2024 and plan to issue the audit opinion shortly. We anticipate the subsequent accounts for 2019-20, 2020-21, 2021-22 and 2022-23 will be concluded under the backstop arrangements. It is important that the accounts for these years' are produced and published by the Council to enable this. If this does not happen, it would mean the audit of Cumberland Council may not be able to be progressed.

## 2. Progress as at March 2024

### Financial Statements Audit – Cumberland Council

We will continue to engage with officers and we have met with the Director of Resources and Monitoring Officer in February. Regular meetings will continue to take place throughout 2024.

Our initial planning for Cumberland Council 2023-24 audit will take place from April 2024.

Our risk assessment and planning work includes:

- Gaining an understanding of the Authority's control environment
- Updated understanding of financial systems
- Review of Internal Audit reports on core financial systems
- Understanding how the Authority makes material estimates for the financial statements
- Early work on emerging accounting issues.

Our work to understand your financial systems and processes has commenced. The legacy financial systems of the district councils remain in use. This will present challenges and increased complexity for preparation of the financial statements and audit of multiple key financial systems and the related IT controls. Due to the scale of this work, we anticipate this will be an area of increased risk for the audit and we will be supported by our IT audit specialist team.

Additionally, in the first-year audit, we expect to perform additional audit procedures to obtain assurance for the opening balances in the financial statements, particularly where items have been disaggregated from the former Cumbria County Council.

Our Audit Plan will set out our proposed approach to the audit of the Council's 2023-24 financial statements audit. We aim to present the Audit Plan to the Audit Committee in July.

The deadline for publishing audited local authority accounts for 2023-24 is currently 30 September 2024, however, this is expected to be extended to 31 May 2025 per the proposed 'backstop' consultation. At present, we are targeting sign off of the 2023-24 Cumberland accounts in early 2025.

### Events

We provide a range of workshops, along with network events for members and publications to support the Authority. Your officers attended our Accounts Workshop in January and February 2024, where we highlighted financial reporting requirements for local authority accounts and gave insight into elements of the audit approach.

Further details of the publications that may be of interest to the Authority are set out in our Sector Update section of this report.

## 2. Progress as at March 2024

### Value for Money arrangements review

Under the 2020 Audit Code of Practice, we are required to undertake sufficient work to satisfy ourselves that the authority “has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.”

Our initial risk assessment will build on our understanding of your arrangements, taking into account any findings from previous work on value for money. We will report our risk assessment to you at your July Audit Committee against the three following reporting criteria:

1. **Financial sustainability:** how the body plans and manages its resources to ensure it can continue to deliver its services
2. **Governance:** how the body ensures that it makes informed decisions and properly manages its risks
3. **Improving economy, efficiency and effectiveness:** how the body uses information about its costs and performance to improve the way it manages and delivers its services.

We will keep our risk assessment under continuous review. Where appropriate, we will update our risk assessment to reflect emerging risks or findings and report this to you. Our final commentary in the Auditors’ Annual Report will include:

- a summary of our findings on any risks identified during our work;
- our judgements on the adequacy of the Trust's arrangements for each of the three reporting criteria, as set out above;
- any recommendations made to management as a result of our work; and
- a follow up of progress against any recommendations raised in previous audits.

We aim to keep our VFM reporting as timely as possible. As such, we are targeting issuing our 2023-24 Auditor’s Annual Report on your VFM arrangements in September 2024.

Our VFM audit work will be led by our specialist VFM auditors, working alongside Michael, Matt and Hannah. We have already held an initial discussion session with our VFM colleagues and the following areas are likely to be key areas of focus at Cumberland during our 2023-24 VFM work:

- Financial planning arrangements, including budget monitoring and delivery of savings
- Arrangements for timely preparation of financial statements
- Capital programming, project management, actions against slippage and delivery
- Management of Cyber security risks, business continuity arrangements disaster recovery
- How the Council ensures it has the right skills and capacity to deliver statutory services, deliver improvements and achieve transformational change
- Arrangements for monitoring and improving performance of key services
- Procurement and contract managements, including review of progress with issues identified in predecessor authorities and management of major contracts and partnerships.

We will consider the Council’s arrangements in these and other areas, liaising with relevant senior officers of the Council during our work. Our review will culminate in our VFM Report to be presented in September 2024.

# 3. Audit Deliverables

2023-24 Deliverables:	Planned Date	Status
<p><b>Audit Plan</b></p> <p>We are required to issue a detailed audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Authority's 2023-24 financial statements and to issue a commentary on the Authority's value for money arrangements in the Auditor's Annual Report.</p>	July 2024	Not yet due
<p><b>Auditor's Annual Report on your VFM arrangements</b></p> <p>This report communicates the key outputs of the audit, including our commentary on the Authority's value for money arrangements across the three VFM themes, together with any resulting recommendations.</p>	September 2024	Not yet due
<p><b>Audit Findings (ISA260) Report</b></p> <p>The Audit Findings (ISA260) Report will be reported to the Audit Committee. This report will summarise all the key issues arising from our audit of your 2023-24 accounts, including any adjustments and recommendations.</p>	March 2025	Not yet due
<p><b>Auditors Report</b></p> <p>This is the opinion on your 2023-24 financial statements.</p>	March 2025	Not yet due

# Appendix A – Letter from Minister of Local Government



Department for Levelling Up,  
Housing & Communities

**Simon Hoare MP**  
Minister for Local Government  
2 Marsham Street  
London  
SW1P 4DF

Clive Betts MP  
Chair, Levelling Up, Housing and Communities Committee  
House of Commons  
London  
SW1A 0AA

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January 2024

*Dear Clive*

Thank you for your considered report on *Financial Reporting and Audit in Local Authorities*, published by the Levelling Up, Housing and Communities Committee on 24 November 2023.

The Government recognises the vital role played by our systems of local authority financial reporting and audit. Accurate and independently audited financial information, delivered on time, enables local bodies to effectively plan, make informed decisions and manage their services. This aids transparent and accountable local democracy which engenders public confidence and trust.

In July my predecessor, Lee Rowley MP, wrote to you providing a cross-system statement on proposals to clear the backlog of local audits. He set out that there exists a shared resolve and commitment amongst the organisations which comprise the local audit system to take action to tackle the exceptional circumstances of the current backlog and ensure a return to timely delivery of high-quality financial reporting and external audit in local bodies. This resolve remains strong and considerable. Detailed development of the proposals, alongside engagement with stakeholders across the sector, has taken place since the Summer. I am pleased that the Committee have acknowledged that “a resetting of the system through a limited series of statutory deadlines... represents a necessary first step...”.

I can now confirm that the Department, supported by the FRC, alongside the National Audit Office, will launch consultations on these proposals soon. Our proposals will include an initial backstop date for local authorities and auditors of 30 September 2024 for all outstanding local audits in England up to and including the financial year 2022-23. Subject to the outcome of the consultations on necessary legislative changes as well as changes to the Code of Audit Practice, we intend to bring forward legislation to implement the backstop proposals. While these consultations take place, preparers and auditors should continue undertaking existing work to produce and audit local authority financial statements to ensure the system is in the best place possible to implement any final package of measures.

The Government is carefully considering the Committee’s report, and its content is helping to inform our work with key system partners to develop solutions to the challenges in the local authority financial reporting and audit system. The Committee’s report makes a wide range of recommendations for both the backlog and the future of local financial reporting and audit and I agree that important questions concerning systemic challenges must be addressed.

**SIMON HOARE MP**  
Minister for Local Government

Note: The report from the cross-party Levelling Up, Housing and Communities Committee is available at:  
<https://committees.parliament.uk/publications/42279/documents/210125/default/>



# Appendix B - Sector Update

Authorities continue to try to achieve greater efficiency in the delivery of public services, whilst facing challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider local government sector and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- [Grant Thornton Publications](#)
- [Insights from local government sector specialists](#)
- [Reports of interest](#)
- [Accounting and regulatory updates](#)

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

A teal rectangular button with the text "Public Sector" in white, sans-serif font, centered within the button.

Public Sector

A dark purple rectangular button with the text "Local government" in white, sans-serif font, centered within the button.

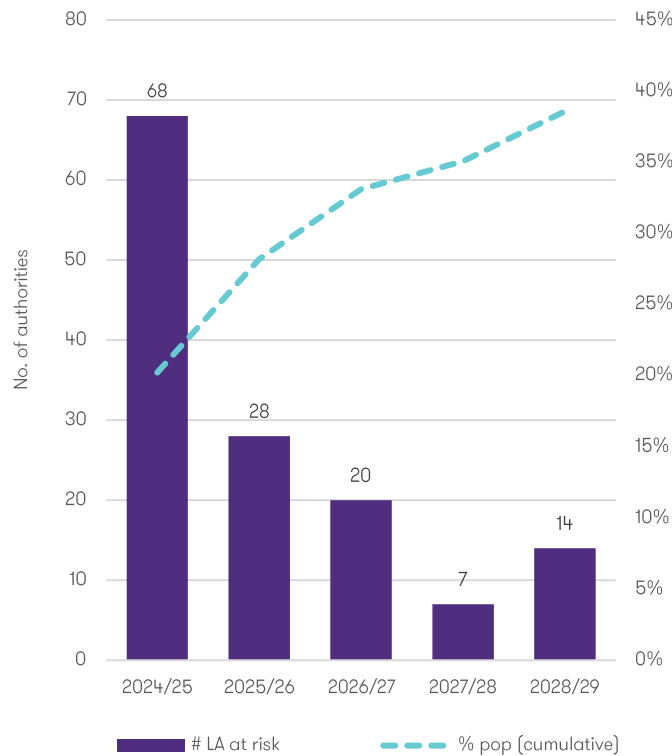
Local  
government

# The financial trajectory of the sector

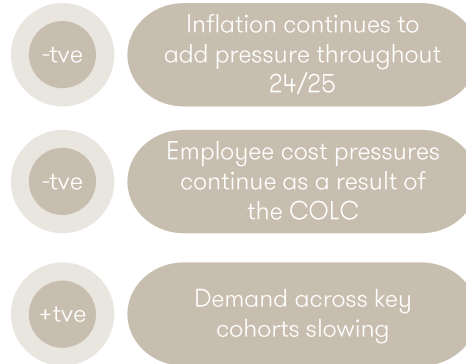
This is taken from the Grant Thornton/CIPFA Financial Foresight model, which provides long-term forecasts (revenue income and expenditure) for all councils in England. These forecasts are based on multiple assumptions relating to financial, demographic and economic factors. Councils at risk are defined by the level of usable reserves being less than 5% of net revenue expenditure.

The year at risk graph on the left represents the most recent update of the assumptions including the impact of the Autumn Statement and draft 2024/25 finance settlement. The graph on the right provides the position before this most recent update. This highlights that the year at risk for many councils has moved forward to 2024/25. The graph at the bottom of the page highlights the forecast depletion of reserves nationally, as councils manage ongoing financial pressures.

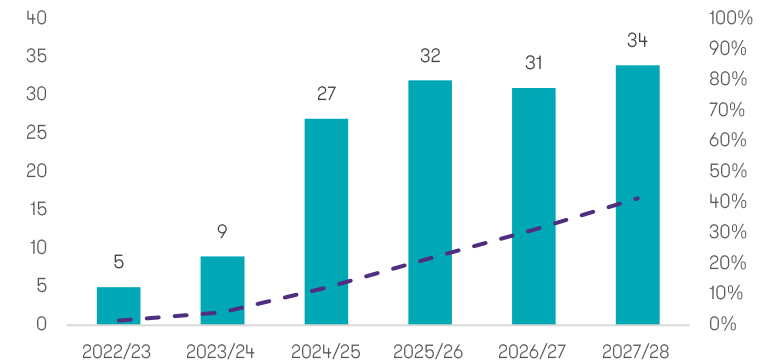
**Year at risk (based on Jan 2024 forecast)**



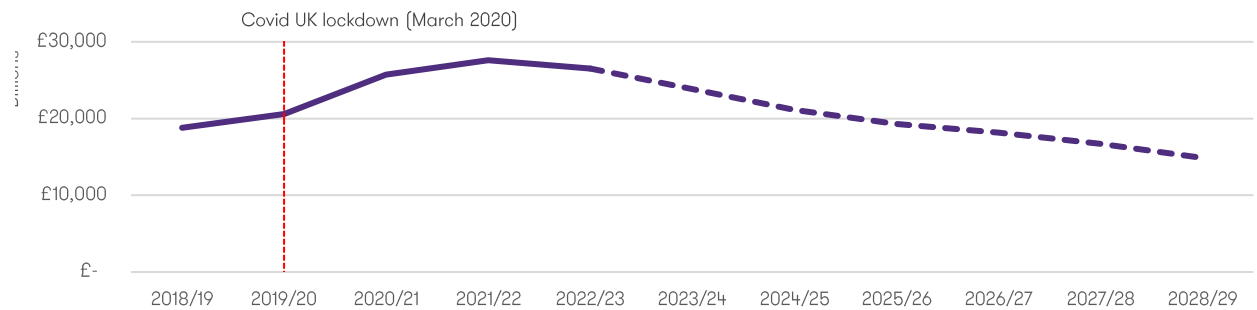
**Assumptions**



**Year at risk (Historic Position)**



**Level of reserves**



Source: Financial Foresight (Grant Thornton and CIPFA)

# Addressing the delay in local audit

Nationally there have been significant delays in the completion of audit work and the issuing of audit opinions across the local government sector. Only 12% of local government bodies had received audit opinions in time to publish their 2021/22 accounts by the extended deadline of 30 November 2022. There has not been a significant improvement since, and the situation remains challenging. We at Grant Thornton have a strong desire and a firm commitment to complete as many audits as soon as possible and to address the backlog of unsigned opinions.

Over the course of the last year, Grant Thornton has been working constructively with DLUHC, the FRC and the other audit firms to identify ways of rectifying the challenges which have been faced by our sector, and we recognise the difficulties these backlogs have caused authorities across the country. We have also published a report setting out our consideration of the issues behind the delays and our thoughts on how these could be mitigated: [About time?: key challenges in local audit accounting](#).

Since 2019 Grant Thornton have increased our public sector audit team from 340 people to circa 470 which reflects both the additional work required by new accounting and auditing standards as well as the NAO Code of Practice requirements on value for money.

On 8th February 2024, DLUHC and the NAO both issued consultations on measures to address the delay in local audit. Consultations are open until 7th March 2024 and relate to:

- DLUHC - changes to the Accounts and Audit Regulations 2015 to introduce a backstop date of 30 September 2024 for the publication of audited accounts up to and including 2022/23, and a series of future backstop dates covering the remainder of the PSAA appointment period; and

- NAO - changes to the Code of Audit Practice to support auditors to meet backstop dates and promote more timely reporting of their work on value for money arrangements.

The FRC, as shadow system leader, is facilitating the consultations. CIPFA/LASAAC are expected to go live on their proposals for time limited changes to the Financial Reporting Code for English bodies shortly.

**To have your say**, navigate to the consultations here:

The DLUHC landing page is here - [Addressing the local audit backlog in England: Consultation - GOV.UK \(www.gov.uk\)](#)

The NAO landing page is here - [Code of Audit Practice Consultation - National Audit Office \(NAO\)](#)



# Grant Thornton report: preventing failure in local government

Grant Thornton's December 2023 report Preventing Failure in Local Government offers prescriptions for remedies to support better health across the local government sector. The report looks at the opportunities that councils and their key internal and external players have to prevent failure, noting that the chain (of good governance) is only as strong as its weakest link.

The Audit Committee is listed as one of the key internal bodies with a role to play in preventing failure, along with the Executive, the Overview and Scrutiny Committee and the golden triangle of Chief Executive Officer; Finance Director; and Monitoring Officer. **Opportunities for the Audit Committee to make a difference surround:**

- focusing on risk management alone (not having multiple roles);
- independence (having an independent chair and at least one independent member);
- specialist training and support for members of the committee;
- direction over internal audit (setting the standard for strategic risk focus and timeliness); and
- curiosity and asking the right questions.

Sharing the Auditor's Annual Report with full council is also listed as important. The challenge for Audit Committees will be not only to maximise their own opportunities to prevent failure, but knowing the right questions to ask about whether the Executive and other committees and the three key statutory officers are making the most of their opportunities as well.

For insight into effective questions to ask, read the full report from Grant Thornton here: [How can further local authority failures be prevented? \[grantthornton.co.uk\]](https://www.grantthornton.co.uk)



# Mitigating financial distress in Local Authorities

On 29th January 2024, a report by the Levelling Up, Housing and Communities Committee highlighted that in the last six years, eight local authorities have issued a section 114 notice, whereas none had done so in the eighteen years before that.

Income related issues were highlighted in the report around the below-inflation cap on increasing council tax rates (referendum thresholds) and formulaic weaknesses with the business rates retention scheme. Council tax especially was singled-out as regressive, long overdue for reform, and contributing to a disproportionately negative impact on funding levels in the most deprived areas of the country.

Expenditure related issues were listed in the report as surrounding social care; special educational needs and disabilities; and homelessness. The report highlighted that for children's social care, even the Competition and Markets Authority has recognised that the level of competition in the market is "not working as well as it should be" at maintaining prices at reasonable levels for local authority purchasers.

The report shows that nearly one in five Leaders and Chief Executives of other local authorities who have not already issued a s114 notice do assess themselves as being at "tipping point" due to lack of funding.

Whilst most of the recommendations in the report are aimed at Government, there are some **key takeaways for local authorities while they wait for any change that may come:**

- have we set Council Tax at the highest level possible without a referendum? Future changes could see referendum thresholds increased or removed. Are Councils doing all they can now to maximise this source of income?
- are we collaborating as effectively as we can with other local authorities to influence market prices for the services we buy in?

For insight into effective questions that Audit Committees can ask, read the full report here [\\*Financial distress in local authorities \(parliament.uk\)](https://www.parliament.uk/publications/2024/1/financial-distress-in-local-authorities)



# Learning from the Office for Local Government

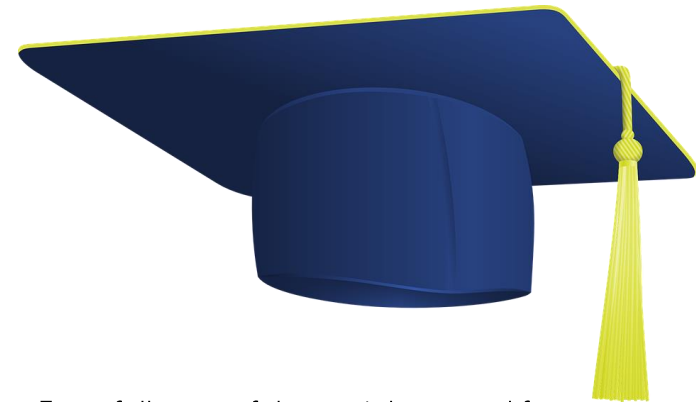
On 15th February 2024, the Secretary of State for Levelling up, Housing and Communities set out, in an open letter to the Chief Executive of Oflog, the strategic remit for Oflog for the financial years 2024 to 2027, and the Office's priorities for the financial year 2024/25. The priorities are to:

- inform;
- warn;
- support; and
- engage.

Using the new Local Authority data explorer tool (launched in July 2023), the Office can currently use metrics on waste management, planning, adult social care, roads, adult skills and corporate/ finance to compare any one authority with the English median, CIPFA nearest neighbours and trends over time. The Office is expected to develop a new early warning system to identify local authorities that are at risk of serious failure (but have not raised the alarm themselves) and to conduct 'early warning conversations' with local authorities at risk. It will be also be offering a programme of webinars to share best practice between local authorities, and to help improve performance, productivity and value for money.

Local Authorities and their members can familiarise themselves now with the data explorer metrics already publicly available. **Challenge questions for Audit Committees to ask include:**

- are the metrics consistent with our own benchmarking?
- are we showing early warning signs?
- what arrangements will we be making to make best use of the learning that will be on offer?



For a full copy of the remit letter and for access to data explorer metrics for your Local Authority see here:

[Remit letter from DLUHC Secretary of State to the Oflog Chief Executive - GOV.UK \[www.gov.uk\]](#)  
[About - Local Authority Data Explorer](#)

# New workbook to support councillors in their work on community leadership

On 8<sup>th</sup> February 2024, the Local Government Association published a new workbook for Councillors, covering community leadership.

Effective community leadership matters because communities that are engaged tend to have happier, healthier people and lower levels of crime and anti-social behaviour. Declining voting and increased social detachments from local areas are also a concern. Councillors are in the unique position of being able to interface between citizens and the council and demonstrate directly what they have achieved for the people they represent.

The workbook shows that for effective community leadership, councillors need to:

- listen to and involve their local communities;
- build vision and direction;
- work effectively with partners;
- make things happen;
- stand up for communities;
- empower communities;
- be accountable; and
- use resources effectively.

With challenge questions; case studies; guidance, hints and tips; and a dedicated section for the opposition, the workbook makes for interesting reading for any councillor – new or already established.

[A councillor's workbook on community leadership | Local Government Association](#)



# Making the most of levelling-up funds to local government

In November 2023, the National Audit Office published its report on whether the Department for Levelling Up, Housing and Communities' levelling up funds are likely to deliver value for money. The three significant funds are the Towns Fund (Town Deals and Future High Streets Fund programmes); the Levelling Up Fund (local priorities with a visible impact); and the UK Shared Prosperity Fund (to increase life chances and build pride in place). Between them, these funds are worth up to £10.6 billion and aim to allocate £9.5 billion to local places to be spent by 31 March 2026. However, less than half of the monies given to local places across the three schemes by 31 March 2023 had been spent. Because under current arrangements the funds are time limited, there is a risk that some projects may never be started and others, in the haste to complete, may include sub-optimal decisions.

Many of the delay factors are beyond Local Authorities' control: Rising costs, skills shortages and supply issues in the construction industry. However, the report does highlight that there are things Local Authorities can do to help with unblocking.

## Key questions that Audit Committees can ask are:

- do we know which of our projects are on track and which are at risk?
- have all projects got their main contractor in place?
- has full advantage been taken of the ability to move money between sub-projects within individual bids?
- is advantage being taken of the ability to make changes to the scope and scale of projects without seeking approval if the changes do not exceed a 30% threshold?
- are projects being prioritized? So that those that can complete to time, do complete to time?

For the full report and an insight into wider recommendations for the Department, see [\\*Levelling up funding to local government \(nao.org.uk\)](https://www.nao.org.uk/publications/2023/levelling-up-funding-to-local-government)

<b>£10.6bn</b>	total amount announced through the Towns Fund, Levelling up Fund and UK Shared Prosperity Fund, to support the government's levelling-up agenda across the United Kingdom between 2020–21 and 2025–26
<b>£9.5bn</b>	the amount the Department for Levelling Up, Housing & Communities (DLUHC) has allocated to local places to be spent by 31 March 2026
<b>£2.0bn</b>	the amount DLUHC has given to local places so far across the three funds at 31 March 2023
<b>£0.9bn</b>	the amount spent by local places at 31 March 2023



# Helping to avoid the “doom loop” for adult social care

In October 2023, the annual Institute for Government / Chartered Institute of Public Finance and Accountancy (CIPFA) public services stocktake revealed that adult social care services are likely to be performing worse in 2027/28 than they were on the eve of the Covid-19 pandemic, and much worse than they were in 2009/10. The report describes the impact across nine different public services of successive governments’ short-term policy making; under-investment in capital; and workforce crisis. For adult social care, it highlights that under current funding arrangements, a return to pre-pandemic levels of performance seems unlikely. The report describes a “doom loop” for adult social care, resting on:

- staffing problems and capacity being worse than they were before the pandemic: Vacancy rates in 2022/23 sat at 9.9%. They were 6.7% in 2019/20;
- growing demand: Since 2015/16, the number of requests for adult social care support from new clients has increased by 22.1% for 18–64-year-olds;
- erosion of cash settlements: Settlements announced in 2021 and 2022 have been eroded over time, due to higher than anticipated pay awards and national inflation; and
- sector-specific inflation: Unit costs of adult social care packages are now much higher than they were before the pandemic. According to a survey of directors of adult social services, this has been driven by increasing complexity of care needs, staffing costs and wider inflationary pressures.

There has been no immediate sign of relief from central government. The Autumn Statement in November 2023 made no new funding available for public services, and spending increases beyond April 2025 of less than 1% in real terms are expected.

**Audit Committees can help by asking the right questions.** What steps do their entities take to make sure staff costs are managed effectively – with as high a ratio as possible being on substantive staff, for stronger consistency and continuity? What assumptions about future funding are their entities making in their budgets? What are the procurement and brokerage arrangements for purchasing care packages in what is, at present, a supplier’s market?

Service	Performance on the eve of pandemic v 2009/10	Performance now v on the eve of pandemic	Funding adequate to	
			Return to pre-pandemic performance levels by the end of 2024/25	Maintain performance levels between the end of 2024/25 and 2027/28
Adult social care	↓ Much worse	↘ Worse	No	Maybe

For the full report and a sense of how other public services are faring as well, see [Performance Tracker 2023 | Institute for Government](#)



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