

The Victorian Government's prison privatisation project (1992-2010): The pathway to cost efficiency? A longitudinal analysis

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ABSTRACT

This article evaluates the operational efficiency of the Victorian prison system since the introduction of the neoliberal prison privatisation policy in 1992 through to the period of the next Government (from 1999), ending in 2010. The analysis explores the origin of the Victorian prison system's reform, before focussing on an evaluation of the prison privatisation policy and the prison system's consequent transition from a public to a mixed public-private system. This partially-privatised system comprised various combinations of public and private management and infrastructure. One of the Government's dominant pro-privatisation promises was that introducing private sector competition to the prison system would ensure a more cost-efficient prison system. This study investigates the policy claim that competition and privatisation would yield cost savings for the prison system. The findings indicate that whilst significant cost savings were achieved in the period shortly after privatisation reforms occurred, longer term costs rose significantly as well. Overall, then, Government policy promises about efficiency gains associated with prison privatisations were not realised in the long-term.

Key words

Public sector reform, prison privatisation, operational or recurrent costs, expenditure efficiencies, policy evaluation

Introduction

It is two decades since the introduction of the Victorian Liberal-National Party (LNP) Coalition's trail-blazing prison privatisation policy. Over this time there has been continuing debates about the policy's efficacy. The arguments used to convince decision-makers that market-based solutions could solve the prison-system problem have been many: at the top of most lists of reasons for introducing privatisation is the promise of cost savings. For instance, Andrew and Cahill (2009) point to neoliberal-influenced policy making when they draw attention to the NSW Government who proceeded with privatisation solutions in its prison system, despite only limited and partial cost accounting information. Further, studies such as Pratt and Maahs (1999) analysed 33 cost-effectiveness evaluations of private and public prisons and concluded that private prisons were no more cost-efficient than public prisons. Other studies found similar results with 'researchers in the United States and the United Kingdom... conduct[ing] numerous comparisons between public and private prisons... findings... tended to be inconclusive' (Pozen, 2003: 271). However, a comparison study of prison costs in US public and private prisons (Blumstein & Cohen, 2003) did claim that the cost of public prisons is lower if the prison system includes private prisons. At a more general level of the privatisation debate, there have been similarly diverse conclusions, with research such as that from Megginson, Nash and Randenborgh (1994) and D'Souza and Megginson (1999) finding some improvements in financial and operating performance of firms privatised in the early 1990s.

Studies such as these no doubt contributed to the momentum and rationale for governments to pursue neoliberal agendas, including in Victoria where a privatisation preference prevails today in its prison system. Nevertheless, a range of studies have found far more mixed results for the purported economic gains and service improvements. These studies have included the meta-analytic work of Hodge (2000), and the work of Martin and Parker (1997), Parker (2004), Cook and Kirkpatrick (2003), and Grimsey and Lewis (2005). It is therefore timely to assess cost-efficiency outcomes of Victoria's prison system privatisation initiatives.

However, assessments made about prison performance, are sometimes surrounded by a plethora of subjectively-based commentary, or, alternatively, marginalised by the exposé of some spectacular event or crisis. One such event was the failure and subsequent rescinding of the former Melbourne Metropolitan Womens Prison contract in 2000 after it was found that the private contractor had not met its contractual obligations (ABC, 2000; George, 2000; Kirby, Roche & Greaves, 2000; and Russell, Waterman & Seddon, 2000; Victorian Auditor-General [VAGO], 2010).

Importantly, this study does not investigate public and private prisons independently of each other, but it does examine the *prison system in aggregate* over three periods. These periods are the 'pre-privatisation' stage before commission of any private prison, and 'post-privatisation' stage – which is divided into 'early' and 'late' periods. Thus there are three distinct periods for comparison.

It is evident that prison privatisation is a highly vexed issue, often involving deeply held convictions as to the role of government, the legitimacy of private sector involvement in prison operations, the role of prisons in society as well as debates about quality, efficiency, productivity and accountability (Andrew, 2007; Cabral & Azevedo, 2008; Clutterbuck, Kernaghan & Snow, 1991; Harding, 2001; Pratt et al, 1999; Sands, 1995). At the same time however, it can also be argued that the prison

privatisation debate has matured and shifted from one which looks abstractly at the proper role of government (Sturgess, 1996), towards debates about how best to involve the private sector. In other words the debate has shifted from an era of 'public *versus* private' towards an era of 'public *and* private'. But there remain strong debates around how this can be best achieved.

Additionally, this paper does not engage with ideological objections to private sector involvement in prison services *per se*. Nor are issues of effectiveness, prison accountability, prison conditions or service delivery dealt with in this current research study. These issues are dealt with by one of the authors in a series of studies (Sands, 2004a, 2004b, 2004c, 2004d, 2006; 2014 & 2015). Further, this research study did not evaluate capital, set-up, fixed or transaction costs.

The main task of this paper was to evaluate the case of the Victorian prison system over the past two decades, with a focus on operational (recurrent) costs. Therefore, the research question asked is 'did operational costs of Victoria's prison system decrease with the introduction of privatisation over the period 1992-2010?'

To answer this question, the paper is structured in the following way. First the paper establishes the historical context of Victoria's prison system including an articulation of the policy dynamics of prison privatisation debates around Australia and the drive to introduce competition into the Victorian prison system. Second, the article maps Victoria's public sector reforms and notes how this agenda, including cost-saving arguments, led to prisons being a privatisation target. The paper next outlines details of the actual prison privatisations. The fourth task undertaken by the paper is to describe the method including identifying some research design issues and defining the pre- and post-privatisation periods. Fifth, a comparison and analysis of the operational costs of Victoria's prison system over time is undertaken. Finally, the article outlines a number of speculative conclusions.

Historical background

The initial years of Victoria's prison system were fraught with problems and it was investigated by a number of high-level enquiries, including a royal commission. One of the first was the *Select Committee of Inquiry into the Administration of the Penal Department* (1857), followed by the *Royal Commission on Prison and Penal Discipline* (1870) which has been conducted after a decade where the Inspector-General of Penal Establishments had produced no Annual Reports (Broome, 1988). In 1885 the *Enquiry into Brutalities and Corruption at Pentridge Prison* was conducted (Pratt, 2002: 143) with the title betraying the tenor of the prison culture of the time. A further enquiry was held in 1920 to investigate warders' (officers') pay and conditions after security concerns were raised about poor pay and conditions (Broome, 1988). In the mid-1940s, proposals initiated by the Penal Reform Association of Victoria, pressured the Cain (Snr) Labor Government to conduct another enquiry into prison conditions (Broome, 1988). This was followed in 1947 and 1951 by Inspector General Alexander Whatmore's reports into prison reform (Freiberg, Ross & Tait, 1996). These reports included recommendations to introduce more humane approaches, and 'constituted a blueprint for the development of the Victorian prison system for the next thirty years' (Vinson, n.d.: 8) or 'the beginning of the modern era in sentencing in Victoria' (Freiberg et al, 1996: 28).

Whatmore was 'critical of the way the prisons had been underfunded and instituted a range of measures aimed at improving the living conditions of prisoners'. In the 1960s two new prisons were commissioned to help alleviate the overcrowding – Wron Wron Reforestation Prison opened in 1963 (Victorian Public Records Office, n.d.), and Ararat Prison opened in 1967 (O'Toole, 2006).

The 1970s were punctuated by a number of prison incidents and investigations including the 1973 Board of Inquiry (Freiberg et al, 1996). At this time, the prison system had many out-of-date and neglected buildings and '[i]nsufficient funding for decades had finally exposed the system as inadequate' (O'Toole, 2006: 209). Hence, Victoria had to deal with a number of problems including the expense and housing of an increasing number of prisoners – which had risen from 1,484 in 1977 to 2,206 in 1989 (Freiberg et al, 1996: 47).

While some improvements did occur during the 1970s and 1980s, the 10-year Corrections Master Plan (Neilson Associates, 1983) called for further modernisation of prisons. Despite the initiatives taken prior to the 1990s, it was difficult to defend the Victorian prison system as efficient, effective, answerable and transparent. Costs were high, conditions were questionable, minimum standards were non-enforceable and, at best, were 'guiding principles... intended to show the spirit in which correctional programs should be administered and the goals towards which administrators should aim' (Conference of Correctional Administrators, 1996: n.p.).

Australian context for Victoria's prison reforms

Until the 1990s, Australia's prison systems had been mostly in the hands of the public sector, with the first significant transition of prison services from the public to the private sector in Queensland (Moyle, 2000). This followed the 1988 Kennedy Review of corrective services which identified a number of flaws and weaknesses in Queensland's prison system, recommending that the private sector become involved in the management of its prisons. Kennedy (1988: ii) put it bluntly in the Review's eighth finding, claiming that '[t]he concept of the Crown providing all corrective services in Queensland is neither cost effective nor sound'.

Elsewhere in Australia, the New South Wales (NSW) Government contracted out the design, construction and operations at Junee in 1993; Tasmania investigated the possibility of privatising its Risdon prison in 1999 (Harding, 1998; Parliament of Tasmania, 1999), but decided not to proceed; and South Australia in 1995 and Western Australia in 2001 entered the privatised prison arena, each with one privatised prison.

It was a different story in Victoria where prison privatisation had been strongly rejected by the Australian Labor Party (ALP) Premier, John Cain (Jnr) in the late 1980s when opening the (former) Melbourne Remand Centre. At this time, Premier Cain outlined opposition to the idea of private sector involvement in prison services (VACRO, 1989). However, in 1992, there was a major turnaround with the election of a new State government under the leadership of Premier Jeffrey Kennett who had fundamentally different sentiments on this issue.

During the 1992 election, the Victorian Liberal Party had identified the prison system as a target for market-based solutions. Soon after the election, the new Government established the Victorian Commission of Audit (CoA) to prepare a report which subsequently recommended a

privatisation policy to reform and reorganise much of the public service (Officer, Christensen & Walker, 1993). This CoA Report gave the newly-elected Government a green light to commence its prison privatisation project – it already had a strong political mandate, and now it had a politically favourable narrative to support its case.

The impetus for the recommended reform was buried within the neoliberal, free-market movement dominant at the time. This ideology, which had gained traction in New Zealand (NZ) and the United Kingdom (UK) during the 1980s, translated into new public management (NPM) strategies in Victoria which were used to transform the structures, and conduct of the public sector.

In the first years of the NPM reform program, VAGO (1995: 13-14) carried out a study of international privatisation programs, identifying reasons to justify privatisation, which mostly translated into a prescription for NPM. The articulated reasons included

(1) the 'transference of business risk' from the government, (2) the 'clarific[ation of] accountability... to the market-place', (3) better efficiency because the private business will not be 'constrained... by the imposition of non-commercial obligations' imposed under government ownership, (4) the opportunity... to retire debt, (5) the capacity to stimulate 'the economy, and deliver more cost-effective businesses... (as) supported by... the National Competition Policy legislation', (6) the ability to 'introduc[e]... incentives and disciplines' which promote efficiency, and (7) the 'free[ing up of] public resources for investment in infrastructure and social programs'.

The Government subsequently implemented these NPM reforms in the Victorian public sector including into the prison system. These reforms were a radical initiative, and at the time were deemed by both party and business supporters as being a huge political riskⁱⁱ. They were strongly opposed by the public service union and many in the broader public. However, Australia was a willing privatisation reformer, ranking second in the world throughout the 1990s on the basis of privatisation proceeds as a proportion of gross domestic product (Hodge, 2003: 163). But, within Australia, Victoria was the most ardent privatising state by far. Within this context, the Victorian prison reforms applied the NPM 'blueprint', which included strategies to introduce competition – in this case, privatisation.

Victoria's public sector reform and prison system privatisation

The above conditions provided the ideal platform from which to launch a program of public sector reform in Victoria and these managerial principles (Kettl, 1993, 2002, & 2005; Pollitt, 1993; Pollitt & Bouckaert, 2011) were applied across the public sector in the form of NPM. The dominance of the neoliberal agenda at the time was an ideal fit for Victoria's financial and other problems.

Further, in the case of the State's infrastructure, much was outdated and rundown across a number of industry sectors including power generation (Quiggin, 2004; Ward & Hodge, 2004), rail, road and prisons (ABC, 2000; Daly, 1997; Moyle, 1994; Officer et al, 2003; Van Groningen, 1995; Wilson & Cave, 1996). In the prison case, there was an increasing realisation that the prison facilities were obsolete. This was in addition to the perception of a problematic culture undermining performance, plus evidence that the prison system was costly to run (Kirby et al, 2000; New Prisons Project, 1996; Russell et al, 2000).

The confluence of these circumstances provided the opportunity for the incoming Kennett Government to undertake the prison reform. The Victorian prison system was, in retrospect, ripe for ideological picking.

Prisons as a privatisation target: models of prison privatisation

It was one thing to identify the problem and propose a generic NPM solution, but it was another to decide on a specific strategic initiative and operational structure for the prison system. There was a requirement to decide on what service delivery option to adopt – from status quo to radical transformation – for Victoria’s prison system. The public sector reform literature identifies a number of common models of service delivery including privatisation (Hart, Shleifer & Vishny, 1997; Kessides et al, 2004; OECD, 1995 & 2001; Reason Public Policy Institute, 2002). One possible approach for Victoria’s prison system involved options that included the ‘total’ privatisation of some individual prisons, including ‘bundling’ the design, construct, finance and manage (DCFM) model (or more recently and commonly referred to as the build, own, operate and transfer [BOOT] model). A second approach was to contract out components of service delivery within the prison system such as private provision of specific services like medical or transport services. A third model for consideration was the public private partnership (PPP) approach, which provides room to negotiate with the private and non-government sectors to provide the design and/or infrastructure and/or finance and/or prisoner management components of the packageⁱⁱⁱ. A further model, briefly considered at the time for the Victorian prison system, was continued public ownership with corporatisation. The DCFM (BOOT) model was selected for the first tranche of prison privatisations commissioned in 1996 and 1997.

However, no matter which model might have been adopted, there were many points of debate about delivery of prison services, and especially privatisation of the politically-controversial and heavily-debated prisoner *management* component. Debates here revolved around propriety, quality, accountability, and cost (Foley-Jones, 1992; Gilbert, 2000; Morgan, 1989; Morriss, 2001; Volokh, 2002). The debates, concerns and arguably the risks were put aside, when the Government made unequivocal assertions that the Victorian prison system would become more cost-efficient after the introduction of the chosen part-privatised service-delivery model. It is to this issue that we now turn.

The cost-saving argument behind prison privatisation

The crucial point of the prison privatisation debates eventually ‘boiled down’ to the question of would the public sector or the private sector be more cost-efficient in delivering prison services. However, the Government had a strong political mandate to introduce privatisation and had no appetite to engage in these debates. As noted earlier, studies had provided conflicting results for effectiveness, quality and cost efficiency.

In the early 1990s the Government developed a business case to determine whether to proceed with the prison privatisations (New Prisons Project, 1996). However, the business case used the only cost data available to it, which was crude and unreliable^{iv}.

By the late 1990s and into the 2000s, when the second tranche of prison privatisations which used the PPP model were in planning, the notion of a public sector comparator (PSC) was used for major

proposals. The PSC has been claimed as a sophisticated analytical tool, taking into account project benefits, costs and risks to establish relative value-for-management (VfM). In practice, however, the veracity of the PSC has also been heavily contested (Hodge, 2010: 103), and this appraisal method is criticised as being 'biased in favour of policy expansion', 'almost entirely subjective' and clearly subject to 'manipulation'. So, whilst the PSC was initiated in the late 1990s in Victoria as a predictive financial-economic tool for business cases to assess the worth of market-based solutions (Fitzgerald, 2004), it is clear that it had doubtful legitimacy and accuracy. As Burger and Hawkesworth (2011) put it, the VfM objective in practice can become blurred in the face of strong ideology.

The paucity of relevant evaluative studies and the use of questionable predictive tools left a space for the current study to determine the empirical situation *ex post facto* in the Victorian prison system since introducing market-based reforms. In summary, proponents of the prison system privatisation argued a positive outcome from the privatisation process would emerge, with one anticipated outcome being an improvement in cost-efficiencies. On the other hand, critics argued that the privatisation process was more costly, especially when externalities and transaction costs were included. But neither the open-ended optimism about the benefits that might arise from privatisation nor concerns about cost over-runs were supported at this time by any detailed and reliable local empirical evidence.

Prison privatisation 'in action'

As identified above, Victoria's first tranche of prison privatisations occurred in the mid-1990s and included contracting out the prison management to the private sector. In 1992 there were 15 prisons, all government-owned and managed, but by 1999 three prisons had been privatised under the DCFM (BOOT) model. Soon after its election in 1999, the Bracks Government appointed an administrator for the (former) Deer Park Metropolitan Women's Correctional Centre due to contractual anomalies. Ownership and management was consequently transferred to the public sector in November 2000, leaving only two prisons in private hands (Kirby et al, 2000).

The second tranche of prison privatisations occurred in the mid-2000s under the auspices of the Bracks Labor Government. Unlike the Kennett-led conservative Coalition Government, the Bracks Government was more cautious in its approach to prison privatisation, introducing the 2000 *Partnerships Victoria* policy, which became the framework for the subsequent PPPs in Victoria. The PPP program included two additional prisons, which were operating by 2006^v. These two PPP prisons were negotiated to allow the public sector to retain the prison *management* and for the private sector to provide infrastructure and ancillary services. Consequently, as at 2010, out of a total of fourteen prisons operating in Victoria, including the 25-bed Judy Lazarus Transition Centre, ten were government-owned, and four were part or fully privatised.

In summary, the 1990s was a period of significant and rapid reform for the Victorian prison system. These changes were strongly aligned to the neoliberal NPM reforms as debated by academics (Bevir, Rhodes & Weller, 2003; Davis & Rhodes, 2000; Dunleavy & Hood, 1994; Frederickson, 1996; Kettl 1993, 2002 & 2005; Meier & O'Toole, 2009; Osborne, 1993; Pollitt et al, 2011; Zifcak, 2004). At

the same time, there was an undercurrent of anxiety about the ability of government prisons to manage the facilities efficiently and fulfil their VfM responsibilities. It was here that ideology, theory, concerns and reassurances were conflated to create an environment open to a multi-dimensional public sector reform process. In the Victorian prison system this included remodelling the culture and practices, restructuring the bureaucracy, securing private sector involvement in service delivery, and replacing dilapidated infrastructure.

The evaluation process challenges

The flurry of privatisation activity during the 1990s did deliver many innovative, if challenging outcomes for prison design, management and financing, and included changes such as specification of services and minimum standards. However, few if any systematic non-partisan attempts were made to measure these claimed performance improvements in the prison system. This is surprising in the light of the Kennett Government's assertions that, if nothing else, privatisation would do what previous prison management systems were not able to do, which was to control costs.

This current study was constrained by a number of research design issues including one highlighted by the Productivity Commission (2007: 7.21), about measuring operational efficiency

The unit cost per prisoner... provides a measure of efficient resource management by corrective services. A low unit cost suggests better performance towards achieving efficient resource management. 'Cost per prisoner...' is defined as the average daily cost of providing corrective services per prisoner...

[Therefore] efficiency indicators are difficult to interpret in isolation and should be considered in conjunction with effectiveness indicators. A low cost per prisoner, for example, may reflect less emphasis on providing prisoner programs to address the risk of re-offending. Unit costs are also affected by differences in the profile of the prisoner and offender populations, geographic dispersion and isolation factors that limit opportunities to reduce overheads through economies of scale.

As a consequence, undertaking an evaluation of a public policy of this type can be an imprecise task, and poses many methodological problems. This is especially the case for the analysis of Victoria's prison system.

With these limitations in mind – including the aforementioned limitation to confine the analysis to cost only and not to measure effectiveness or other variables – the annual Departmental and Productivity Commission prison system cost data for the period 1992 to 2010 was used for this evaluation of prison operational costs.

Methodology

To analyse change in the Victorian prison system, cost data for an 18-year period beginning in 1992 and ending in 2010 was collected and tabulated to provide a set of estimates showing operational costs of Victoria's prison system pre- and post-privatisation reforms. The study was divided into Period 1 'pre-privatisation lead-in' period (1992/93 to 1997/98), Period 2 'post-privatisation-early' period 1998/99 to 2002/03, and Period 3 'post-privatisation-late' period 2003/04 to 2009/10.

The data by which costing estimates were made were secured from the Department of Justice (2000 & 2007-2011) and the primary research data available in the Review of Government Services (ROGS), originally compiled under the auspices of the Council of Australian Governments (COAG) by the Productivity Commission (1995-2011). These reports 'provide information on the effectiveness and efficiency of government services in Australia' (Productivity Commission 2004: 1.1). The data contained in these documents, which were shown as nominal costs at the time reported, was then adjusted to take into account increases in prices and the cost-of-living using the Reserve Bank of Australia's (n.d.) inflation calculator^{vi}. This provided a set of unit cost estimates measured in 2010 dollars for comparison^{vii}.

Findings and Discussion

As noted above, the analysis of operating costs covered three periods since the 1992 Government announcement introducing competition into Victoria's prison system. Table 1 summarises movements in annual operating costs for each of these three operating periods – see Appendix 1 for more detail.

Table 1: Summary of the range of average operating costs per prisoner, per annum (2010 \$) (1992-2010)

	Nominal Baseline: 1992/93	Period 1: 1992/93 to 1997/98 (Pre-Privatisation lead-in)	Period 2: 1998/99 to 2002/2003 (Post-Privatisation- early)	Period 3: 2003/2004 to 2009/10 (Post- Privatisation-late)
Range of average operating costs per prisoner, per annum	\$86,651	\$72,938 – \$86,651	\$59,681 – \$66,788	\$74,324 – \$89,064

Sources: Productivity Commission (1995-2011)

Period 1: 1992/93 to 1997/98 (Pre-Privatisation lead-in)

The first period – the 'pre-privatisation lead-in' stage – was the period where the prison system was preparing for privatisation and the private providers' first year of operations^{viii}. It ran from 1992/93 to 1997/98. At this time, there was much discussion about privatisation and preparation for the introduction of competition. In 1992/93, the first year of the Kennett Government, the average operational expenditure per prisoner was estimated at \$86,700 or \$237 per day^x, providing a baseline for analysis.

Throughout this period, prisoner average operating costs fell to between \$200 and \$237 per day. But as no private prison was actually commissioned until August 1996, why might this fall have happened? The answer comes from previous studies of privatisation projects, where authors such as Hodge (1996) and King (2003) argued that a central underlying driver of efficiencies was the competitive climate surrounding operators rather than the ownership change *per se*. In this case of prison privatisation, the Kennett Government had created a culture that expected efficiencies to be followed through. For instance, staff were progressively placed on workplace agreements, pay was linked to performance, accrual accounting systems were put in place and in general

senior managers became more accountable for their decisions. In other words, NPM had been embedded in the Victorian Government's operating systems, and it appeared to deliver efficiency improvements of its own accord.

Period 2: 1998/99 to 2002/03 (Post-Privatisation-early)

The second period, the post-privatisation (early) stage ran from 1998/99 to 2002/03. At the beginning of this period, there were three private operators^x, but by the end of the period this had reduced to two. This period exhibited visibly lower unit costs than the previous 'pre-privatisation lead-in' period, with average operational cost in the range of \$164 to \$183 per day. One crucial question here is whether these costs in the second period were statistically different to costs in the first period, or whether such lower costs could simply have arisen through the random variation of this cost data.

For this purpose a courageous researcher might propose the use of a non-parametric test, the Kruskal-Wallis 'H' test (Spiegel & Stephens, 1999: 404-405)^{xi}. This statistic reveals whether it is likely that two (or more) samples come from the same population or not. It provides a non-parametric analysis of variance, from which generalisations can be made. When applied to the first two periods, the H test reveals that the 'after' costs are significantly different to those costs 'before' (H = 7.5, and is significant at the 95% confidence level). In other words, this variation in costs could not have arisen by chance. The cause of this variation, however, is up for discussion.

Period 3: 2003/04 to 2009/10 (Post-Privatisation-late)

The final period in this analysis ran from 2003/04 to 2009/10. During this time there were two private prisons operating as well as two new PPP arrangements which had been announced in October 2003, and commenced operations in 2006. The two DCFM (BOOT) private prisons were *privately managed*, while the two PPPs were *publicly managed*.

This expansion of private sector involvement was accompanied by a reversal in the previous downward movement in the operating unit costs of Victoria's prison system. Whereas the real recurrent (operational) cost per prisoner in 2003/04 was \$74,324 or \$203 per day, it had escalated to \$89,700 or \$246 per day in 2008/09, before settling at \$87,800 or \$241 per day in 2009/10. This was an increase of \$1,190 per annum when compared to the 1992/93 baseline.

Again, on the basis of the Kruskal-Wallis H test, the change between periods two and three is statistically significant at the 99% level (with H statistic = 8.08). In other words, a real increase occurred between these two periods and it could not have arisen by chance variation alone^{xii}.

These Period 3 (post-privatisation-late) results are perplexing, since they fail to establish any sustained decline in operating costs.

So whereas, Period 2, the period immediately after the introduction of privatisation, showed the anticipated correlation between privatisation and cost-efficiency – that is, as privatisation impacted on the prison system, cost-efficiencies improved, the opposite occurred in Period 3. This is illustrated in Figure 1.

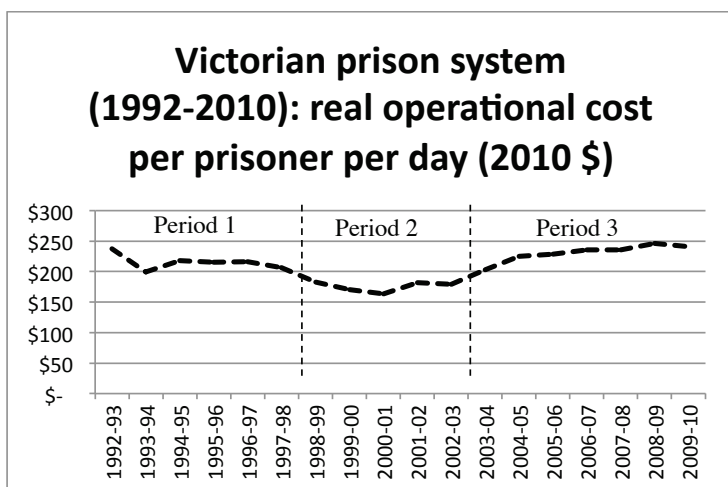


Figure 1: Trend of real operational costs per prisoner, per day (1992-2010)

Source: Productivity Commission (1995-2011)

So, what may we conclude? The first observation is that Period 1 and Period 2 data show that the *introduction* of competition and privatised operations was associated with a significant decrease in average daily operational cost per prisoner in Victoria. On the other hand, an analysis of costs in Period 3 revealed a significant increase in operating costs per person.

When the above annualised datasets are consolidated, we find that over the 18-year period of the study, there was no overall long term improvement in operational costs. If the 1992/93 baseline amount of \$86,651 is compared to the 2009/10 efficiency measure of \$87,841, what we see is an increase of \$1,190 (or 1.4%) in average operating costs per prisoner per year. This finding confirms that a short-term operational efficiency did occur alongside the privatised operations, but it also fails to support any claim that the privatisation process generated any sustainable operational cost-efficiencies in the longer term.

Of course there is a legitimate concern about the reliability of data for prison costs. However, the figures adopted in this analysis were probably the best available, and were vetted and standardised by the Productivity Commission, as well as adjusted for likely effects of inflation by converting estimates to real dollar terms using the Reserve Bank’s (n.d.) inflation calculator. Whilst ‘dirty’, this data was therefore likely to provide reasonable legitimacy for an inter-year comparison^{xiii}.

Conclusions and Recommendations

This paper analysed and evaluated the operational cost-efficiency of the Victorian prison system since the introduction of the Kennett Government’s prison privatisation policy in 1992. The analysis began with an exploration of the beginning of its modern-day reform. This sets the scene for the focus of this study, which centred on an evaluation of the Victorian Government’s 1992 prison privatisation policy against the Victorian prison system’s transition from a public to a mixed – that is, public-private – system. The study specifically addressed the policy claim that competition and privatisation would lead to a substantial fall in operating costs and would therefore ensure sustainable productivity and efficiency gains.

In order to test these policy claims, the authors interrogated Productivity Commission data for the period 1992-2010 and undertook a longitudinal analysis. The data suggests that there is little evidence to support the view that competition and privatisation provided any long-term cost-efficiency gains in Victoria's prison system. Interestingly, however, the data suggests that a significant reduction in system-wide average operating cost per prisoner did occur immediately after the introduction of privatised operations, but that this was also followed by a significant increase in system-wide average operating cost in the medium and longer term.

First, we might speculate on the explanation for this counter-intuitive set of results for the late post-privatisation period (2003/04 to 2009/10) in a number of ways. The first explanation might be that the privatisation contracts provided for significantly more prisoner support systems and, as a result, costs were forced up, irrespective of any efficiency gains in other aspects of prison operations. This leaves us with a number of questions, one of which is, did the cost rise because perhaps there was more emphasis on providing prisoner programs to address the risk of re-offending? In a recent study (Sands 2014) did not find this to be the case. Therefore, any explanation that the operational costs were higher due to extra prisoner programs can be discarded as the higher operating cost did not mirror any substantial improvement in prison conditions or service delivery.

The second possible explanation for the rise of operational costs might be that the Bracks-Brumby Labor Government, which was in power during the 2003-2010 period, had lost enthusiasm for the prison privatisation project. For example, its behaviour may have defaulted to pre-NPM systems of governance which, in one case, resulted in a decision to cancel a private prison contract. This could suggest that a form of neo-institutionalisation (Di Maggio & Powell, 1983; Leiter, 2005) was at work here, such that the old models of public sector management and the values that underpinned them had not lost their resonance. The change of government may also have signalled to the marketplace that a new game was being played, which was less about NPM and competition and more about government monopoly over delivery of services. Or the explanation could have been about responding to efforts by lobbyists to undermine the Kennett Government's credibility and especially its centrepiece, the privatisation project. Therefore, an alternative reading of the findings for higher operational costs might lead proponents of competition and privatisation to claim that productivity and efficiency gains did in fact result, but that they can only be sustained if they have the full commitment of the government of the day.

A third possible explanation for the rise in operational costs might be that the profile of the prisoner population changed. For instance, if the prisoner population in the more costly periods had higher needs, they would have required more intensive levels of supervision and support corresponding to the periods of cost increases. However, there is no evidence to support any significant change in prisoner profile during this period.

A fourth explanation might be that there may have been fewer opportunities to reduce overheads through economies of scale. This argument does not stand up as there should have been more opportunities to gain from economies of scale due to the higher numbers of prisoners incarcerated.

In summary, there is no evidence at present to support the above four propositions as possible explanations for the higher operational costs.

Nonetheless, no matter what the explanation is for the higher operational costs, the results show unequivocally that the main policy rationale given for privatising Victoria's prisons ie cost savings, needs to be questioned. In other words, a first reading of these results suggests that the Government claims about the long-term economic benefits of prison privatisation are excessively ambitious. To this extent, then, critics could legitimately say that, while there may be many good reasons for implementing a privatisation policy, the results of this study suggest that minimising operational costs is not necessarily among them.

In view of the different interpretations that can be put on the results, these findings should be treated cautiously. These conflicting interpretations of the data highlight difficulties faced in assembling evidence and the multiple causal factors at play (including the number and quality of services and programs provided, prisoner mix, and prison conditions to name a few). This complexity means that an analysis is rarely likely to incontrovertibly support one position or another. As such, this study should be seen as merely a first step in building a database and baseline that can inform future policy makers. Indeed, the entire issue of competition, privatisation and prison system performance needs further analysis before definitive conclusions can be drawn on the matter.

Finally, it should be noted that the claims and counter-claims surrounding privatisation are often embedded with strong ideological positions and political viewpoints. This study signals the crucial need for more impartial analysis that goes beyond belief systems and the qualitative PSC in use in business cases today, and towards quantitative indicators that can provide a more rational, systematic and balanced analysis.

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Appendix 1: Average operating costs¹ for Victoria's Prison System: 1992-2010

YEAR	1992/93 ²	1993/94 ³	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
Years used in RBA calculation	1993 / 2010	1994 / 2010	1995 / 2010	1996 / 2010	1997 / 2010	1998 / 2010	1999 / 2010	2000 / 2010	2001 / 2010	2002 / 2010	2003 / 2010	2004 / 2010	2005 / 2010	2006 / 2010	2007 / 2010	2008 / 2010	2009 / 2010	2010 / 2010
Real recurrent cost per prisoner per day (2010 \$)	\$ 237.40	\$199.83	\$217.76	\$215.64	\$215.90	\$206.83	\$182.98	\$170.32	\$163.51	\$181.88	\$179.08	\$203.07	\$225.10	\$228.68	\$235.86	\$235.23	\$245.85	\$240.66
Real recurrent cost per prisoner per year (2010 \$)	\$86,651	\$72,938	\$79,482	\$78,924	\$78,804	\$75,493	\$66,788	\$62,337	\$59,681	\$66,386	\$65,364	\$74,324	\$82,162	\$83,468	\$86,089	\$86,094	\$89,735	\$87,841
Average daily prison population	2,271	2,521	2,456	2,432	2,478	2,692	2,856	3,062	3,276	3,446	3,644	3,669	3,596	3,648	4,044	4,177	4,299	4,492
YEAR	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
Imprisonment rate for all prisons per 100,000 population (ratio)	66.8	73.9	71.8	69.9	70.6	76.2	79.1	83.6	88.1	91.7	95.6	95.1	92.0	93.3	101.6	103.2	103.6	105.2

Sources: Productivity Commission, Commonwealth of Australia, Review of Government Services (1995-2011)

¹ Adjusted using Reserve Bank of Australia Inflation Calculator to 2010 dollars.

² Figures for 1992/93 may be slightly high as they include costs/fees which were 'cleaned' in figures calculated later.

³ Figures for 1993/94 may be slightly high as they include costs/fees which were 'cleaned' in figures calculated later.

Endnotes

ⁱ This Blumstein & Cohen (2003) study was funded by CCA and APCTO, who are both service providers in the private prison industry.

ⁱⁱ See Ward and Hodge (2004: 51).

ⁱⁱⁱ Hodge and Greve (2013) note that long term infrastructure contracts (commonly labelled PPPs) 'generally involve planning, designing, financing, building, maintaining, operating, and paying for a facility'. They reason that if each of these seven activities can in concept be undertaken by either the public or the private sector, then, 'from first principles, there are 128 different ways (ie 2⁷) of organising these several tasks between the two sectors'. In practical terms, therefore, there are a wide range of possible combinations of structuring how the two sectors can work together in contracts. Furthermore, there are multiple ways of structuring individual contracts to emphasise whatever dimension either party wishes to pursue in terms of the degree of finance from each sector; project specification; risk bearing; incentives for performance; performance measurements; and well as issues of transparency, accountability and governance. Notwithstanding this, states such as Victoria have quite specific requirements colouring what is and what is not viewed as a government PPP.

^{iv} One of the authors (Sands) was part of a team preparing business cases for market-testing other programs within the Department. The practice at the time was to benchmark existing services. No reliable cost data was available, and advice given at the time was to 'make it up'.

^v Expressions of interest had been called for the Ravenhall Prison Project. This PPP project, which will increase the capacity of the prison system, had been allocated funding in the 2012-13 State Budget. In September 2013, the capacity of the new prison was increased from a 500 to a 1000-bed facility (ABC 2013), with a further 395-bed expansion to other existing facilities. The private sector will be responsible for design, construction, maintenance and operations (including custodial services). This returns to the private sector management model of the first tranche of prison privatisations. the expected completion date is 2017. www.dtf.vic.gov.au/Infrastructure-Delivery/Public-private-partnerships/Projects/Ravenhall-Prison-Project

^{vi} Reserve Bank of *Australia Inflation Calculator* can be found at www.rba.gov.au/calculator/annualDecimal.html. Data for this study was adjusted to 2010 dollars.

^{vii} Transaction, capital, set-up, and fixed costs, which would add to the overall cost, are excluded from these calculations.

^{viii} Private operators commenced business in the (former) Melbourne Womens Correctional Centre in mid-1996 and Fulham and Port Phillip prisons in mid-1997. Costs were not available for these prisons until completion of at least one year's operations.

^{ix} Figures in this section have been both rounded as well as adjusted with the *Inflation Calculator* to 2010 dollars.

^x In 2000, shortly after election of the Bracks Government, which had a mandate to roll back the privatisations, cancelled the contract with the private operators of the erstwhile Melbourne Womens Correctional Centre. The Government then employed its own staff to run the renamed Dame Phyllis Centre.

^{xi} Spiegel & Stephens (1999: 404-405) presents the Kruskal-Wallis 'H' test as a test in which k samples of data, of sizes, N₁, N₂, N₃,... are pooled together and then ranked with sums of the ranks for the k samples as R₁, R₂, R₃ ... The H statistic is defined as:

$$H = 12/[N(N+1)] \sum_{j=1}^k R_j^2/N_j - 3(N+1)$$

Where:

H = Kruskal-Wallis statistic

N = total size of all samples taken together

(= N₁+N₂+N₃...N_k)

R_j = sums of the ranks for each of the k samples

k = number of samples.

^{xii} A further confirmation of the important relationship between these three periods is the fact that testing these three periods with the Kruskal-Wallis H statistic reveals an $H = 11.83$ which is significant at the 99% level. In other words, it is highly unlikely that these three periods (or samples) came from the same population – they are heterogeneous. As well, if we analyse the difference between the first period alone, against the combined second and third periods (treated as one larger sample), then the $H = 0.08$ which is nowhere near significant at the 95% level. In other words, there is so much variation in cost performance data in the combined after period that it swamps any shorter term variation between the 'pre-privatisation' and 'post-privatisation early' periods.

^{xiii} As Hodge (2000: 164) noted, the available data on enterprise performance before and after privatisation is usually somewhat 'dirty'. Indeed, he notes that from a strictly scientific perspective, privatisation performance data could typically be regarded as 'filthy!' The reality, however, is that we must also usually work with the empirical data we have to glean clues as to real world performance if we are to progress past ideological arguments or critiques of privatisation against some perfect ideal.