

ASSESSMENT FOR THE PRISON REFORM TRUST OF THE FINANCIAL OUTLOOK FOR HM PRISON SERVICE, 2017-25

Spending review 2015 outcome

In the Spending Review and Autumn Statement (SRAS) 2015, the Government:

1. stated the intention to build nine new prisons providing 'around' 10,000 new places (the number of places does not appear in SRAS 2015 but was announced by the Government on 9 November 2015);
2. five of these prisons would be built 'in this Parliament' i.e. by May 2020, the other four 'shortly after' that;
3. these prisons would replace existing old prisons which would be sold to provide 'over 3,000' homes;
4. the new prisons would be cheaper per place, saving £80m a year;
5. and would enable 90,000 cases to be heard by video conferencing rather than court production, so saving money on escorting (that appears to be a tenth of current volumes, so implying saving pro rata of about £12m a year.).

Funding:

1. capex was provided of £1.3bn over five years i.e. to 2020-21; SRAS 2015 did not show a separate line with Ministry of Justice overall provision, but it is apparent from that profile that it was assumed most would be spent in 2017-20;
2. £1.3bn would be sufficient to build 10,000 places assuming the capital per place cost of HMP Berwyn (=£119k);
3. it appears that no assumption was built into the settlement for the flow of receipts from sale and development of old sites (this may be simply a matter of timing – receipts could be expected to fall beyond the Spending Review (SR) period – or it could be receipts are to be taken directly by HM Treasury);
4. no provision was made for running costs of the new prisons, which are assumed to generate £80m a year saving over the running costs of the old prisons they replace ¹;
5. the settlement did not fund any period of double running i.e. it assumed the old prisons would close precisely as the new ones open;
6. it also appears that no provision was made for transitional costs e.g. redundancy, or for start up costs before the new prisons opened, or before they reached full capacity.

Additional pay costs already incurred since SR 2015

2500 additional staff, announced 3 November 2016, costed £104m p.a.

Additional cost in this SR	2018-19	2019-20	2020-21	2021-22
	104m	104m	104m	104m

¹ The cost per place in public prisons in 2016-17 was £38k; thus a 1100 place prison costs around £42m a year; nine such prisons cost around £380m year; £80m saving implies new 1100 place prisons will cost £33m a year or £30k/place. Of course, the result may be fewer but bigger prisons than those closed.

The pay cap of 1% a year has ended, and an award made of 1.7%, was announced 12 September 2017, the 0.7% costed at £29m a year. This implies pay inflation of at least that much going forward, although the assumption that with rising inflation, and the public sector pay cap ended, pay increases can be held to 1.7%, is optimistic. Accumulating cost of 0.7% pay award over the 1% cap:

Additional cost in this SR	2018-19	2019-20	2020-21	2021-22
	58m	87m	116m	145m
Total additional pay cost (<u>already incurred</u>)	2018-19	2019-20	2020-21	2021-22
	162m	191m	220m	249m

Slippage in building programme

In SR 2015 it was announced that nine new prisons would be built, of which five would be open by May 2020. The programme is massively delayed. Sites for four prisons were announced in Parliament on 22 March 2017 when ministers said they 'would be' submitting planning applications. The elapsed time from planning application to *partial* opening of HMP Berwyn was just under three and a half years. On that assumption, the first of these prisons cannot open before the very end of 2020, at earliest.

Omission of transitional costs from SR 2015 settlement

Opening a new prison is a risky business. Start up must be phased, especially with very big prisons. HMP Berwyn opened in February 2017 with capacity for 2106 prisoners; but by October 2017, only 740 places were available and only 732 prisoners were in the prison. A similar rate of build up must be assumed for the nine new prisons.

In addition, start up costs will be incurred ahead of first reception of prisoners; HMP Berwyn started recruitment in late 2015, 18 months before opening.

Similarly, if old prisons are being closed, there will be a period when staff have to be retained at the old prison despite falling prisoner numbers, so a neat trade off between staff starting at the new prison and staff quitting at the old prison is impossible. There will also be redundancy costs: the last prison closure programme cost £56m in just one year (BBC News, 18 February 2015).

None of these transitional costs were recognised in the SRAS 2015 settlement.

Population projections

Prison population projections are notoriously subject to multiple uncertainties, and actual numbers are often very different. Annual projections four years ahead have varied by over 6%, just from one year's projections to the next. For this reason, planning tight operating margins on the basis of projections is likely to result in short-term emergency fixes later on (which are generally poorer value).

Table 1: projected numbers in italics, actual in bold, June

	Population projection SR2015	Population projection 2016	Variation 2015-2016 projections %	Population projection 2017	Variation 2016-2017 projections %
2016	<i>86700</i>	84323	-2		
2017	<i>87400</i>	<i>84600</i>	-3.2	85047	0.5
2018	<i>88200</i>	<i>83700</i>	-5.1	<i>86400</i>	3.3
2019	<i>89000</i>	<i>83800</i>	-5.8	<i>86500</i>	3.2
2020	<i>89600</i>	<i>84000</i>	-6.3	<i>86800</i>	3.3
2021				<i>87400</i>	

The latest 2017 projections assess the probability of the various projections as follows

	Central assumption	35% probability	20% probability	5 % probability
2018	86400	86900	87600	88900
2019	86500	87200	88200	89800
2020	86800	8770	88800	90700
2021	87400	88500	89700	91800

Modelling demand and capacity to 2026

Numbers are currently very close to maximum capacity ('useable operational capacity'): within 1.3% in November, but less than 1% in July and August.

The following table models capacity v demand on the following assumptions:

1. the nine new prisons each take 1,100 prisoners, reaching half capacity after six months and full capacity at 12 months: this is optimistic, given the slow rate of build up at HMP Berwyn;
2. no closures assumed;
3. opening assumed at
 - 2020 Q4
 - 2021 Q1; Q2; Q3
 - 2022 Q1; Q3
 - 2023 Q1; Q3
 - 2024 Q1
4. this timing is extremely optimistic, given that sites for prisons 4-9 are not yet announced, that during the fastest building programme in history in the 1990s and 2000s, the Service never opened more than two new prisons in one year - and that was using PFI, which contractually guaranteed opening dates and required contractors to pay if the dates were missed, and with longer lead in from site aquisition to building start;
5. total capacity is for June each year, to match population projections in June;
6. the population is assumed to follow the 2017 central projection to 2021, and thereafter

increase at the same rate i.e. 0.7% a year; the alternative of the 20% probability case is also modelled;

7. this modelling assumes no loss of existing accommodation due to riot or fire, which given the recent history of violent disorder, is optimistic.

Table 2: population v capacity, June

Year	Pop – central case	Useable Op Cap	Headroom	Pop – 20% upper case	Headroom
2017	85863	86850	987		
2018	86400	86850	450	87600	-750
2019	86500	86850	350	88200	-1350
2020	86800	86850	50	88800	-1950
2021	87400	87950	550	89700	-1750
2022	88020	91250	3230	90600	650
2023	88630	93450	4820	91500	1950
2024	89250	96200	6950	92400	3800
2025	89875	96750	6875	93225	3525
2030	93050	96750	3700	97980	-1230

Table 3: opening and closure programme based on above table, assuming closing prisons also average 1,100 capacity

	Headroom on central projection, after building programme, but before closures (<i>from previous table</i>)	Prisons closed in each year	Capacity closed, cumulative	Remaining headroom
2020	50			
2021	550			
2022	3230	1	1100	2130
2023	4820	1	2200	2620
2024	6950	2	4400	2550
2025	6875		4400	2475
2026	6250		4400	1850
2027	5610		4400	1210
2028	4975		4400	575
2029	4330		4400	-70
2030	3685		4400	-715

Implications for this SR

Even on the many optimistic assumptions set out above:

1. the Prison Service is very unlikely be able to manage to 2020 without additional emergency capacity of some kind;
2. it will be necessary to provide for phased start up of new prisons, phased closure of old prisons, and redundancy costs, none of which was funded in SR2015;
3. it will not be safe to close any existing prison before 2022 at earliest;
4. even when the nine prison programme is complete, it will not be possible to close even half the existing capacity, that it was supposed to replaced;
5. on the central projections, on which MoJ plans, it would necessary to start *another* building programme in 2026, to open more new prisons in 2028;
6. on the 20% higher probability case, it would never be possible to close more than 2 prisons, and it would be necessary to start another building programme in 2025, to open new prisons in 2027.

Additional estate costs in this SR and beyond

Assuming the central case of the population projections, the following additional costs are unavoidable in this SR, but much bigger unavoidable costs will arise in the years just after this SR. Assumptions are given in Appendix 1.

table 4: net estate costs in SR and beyond

	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Short term emergency programme							
capex		10					
running costs		24	24				
New prison start ups, before opening (10m each)		11	33	33	33		
Old prison closures eg redundancy			20	20	20	5	
Net increase in running costs (ie mismatch between opening and closure programmes)			19	100	132	158	119
TOTAL		45	96	153	185	163	119

The history of building to meet demand, 1980-2017

When it comes to major capital programmes and their consequences, the SR horizon is very short term. We suggest that a longer term view of prison building.

We have been building prisons continuously now for over a third of a century. Since 1980, it appears that there have been only four years when we have *not* been building prisons. In 37 years, we have opened 31 new prisons. On top of that, an estimated 25,000 new places have been created within existing prisons ².

We invite the Government to consider these four points:

1) the costs - and opportunity costs - are staggering

capital costs	3,700 m ³
running costs	1,500m a year ⁴

Enough to build maybe 25,000 homes. And to recruit 50,000 nurses or teachers.

2) yet we are no nearer eliminating overcrowding

Building to reduce overcrowding has never worked. As quickly we have built extra capacity, the system has filled it up⁵.

Significantly, the **only** time we managed to improve the mismatch between demand and capacity was in the early 1990s - when the Conservative Government and senior judiciary led a concerted effort to influence sentencing practice. Overcrowding *can* be reduced by moderating demand. Not by increasing capacity.

See fig.1 on the following page.

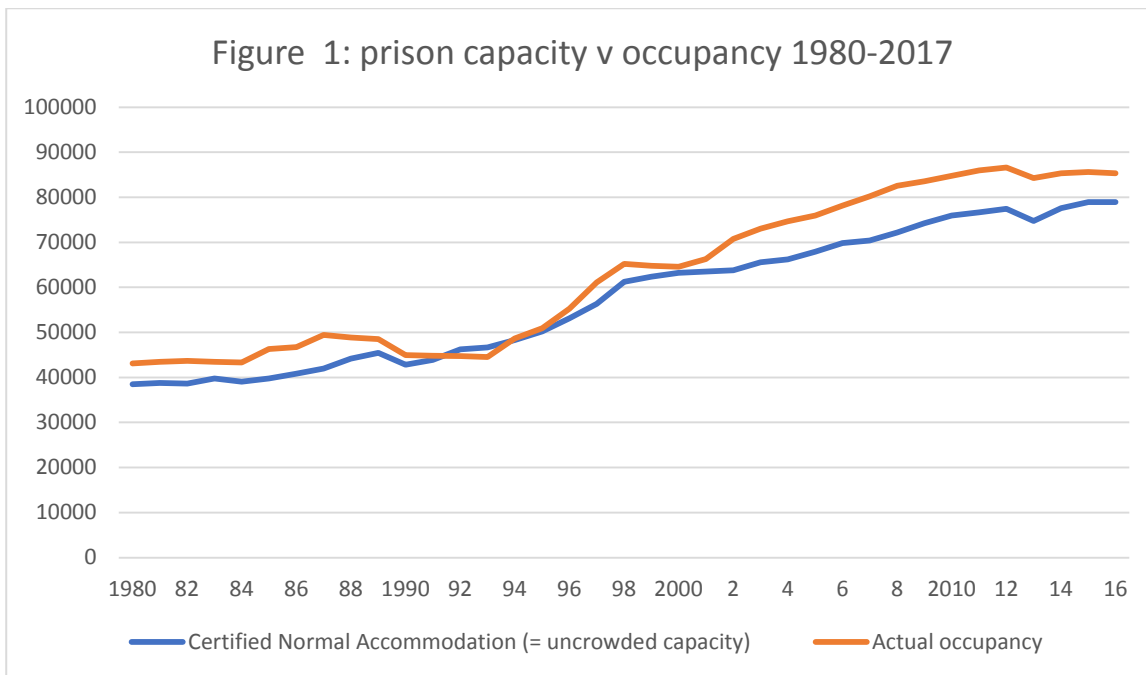
² 13,120 places were built inside existing prisons April 1997-April 2007 - Hansard WA col 860 11.07.07. CNA has increased by 39,360 since 1980 (Oct 2017); say 31 new prisons @ 700 each = 21,700, then about 18,000 must be through building new units inside prisons/cell reclamation. Much CNA has been lost due to previous closure programmes, so estimate total build/reclaimed inside prisons since 1980 = 25,000.

³ 31 new prisons @ 700 places @125k place (historically unit cost much higher than now); 25,000 places within prisons @40k For the purpose of this exercise. PFI prisons are treated as though conventionally funded.

⁴ We have (Oct 2017) 43,000 more prisoners than in 1980. Running cost/prisoner in publicly managed prisons was 35.7k in 2016-17. Comparable running costs in privately managed prisons are not published. So say 1.5bn a year extra running costs.

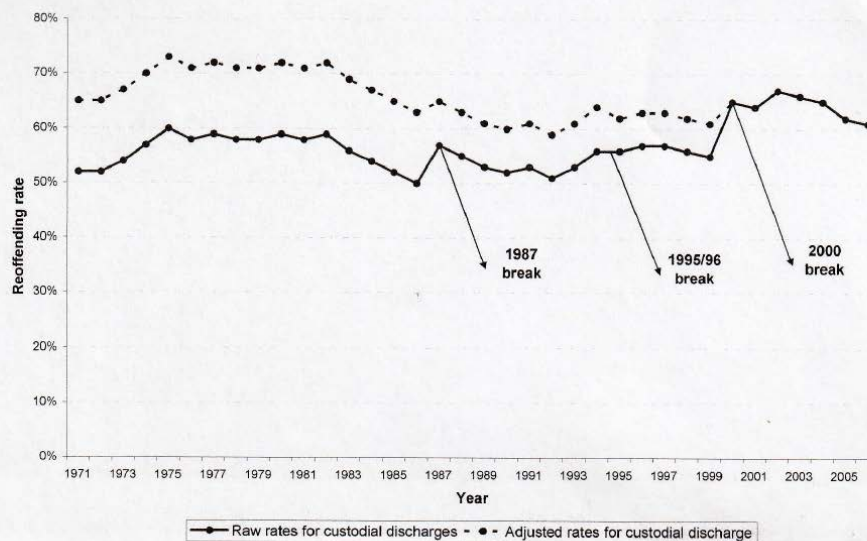
⁵ There is an academic literature suggesting that this is a worldwide phenomenon. Certainly it appears true of the UK 1980-2017.

Figure 1: prison capacity v occupancy 1980-2017



3) and no nearer reducing re-offending

Figure 2: Raw two-year reoffending rate and break adjusted reconviction rate for offenders discharged from custody, 1971 to 2006



Reoffending rates of prisoners have continued to fluctuate around the same mid-point down the decades. Providing 9,900 new places with better facilities cannot affect the overall rate for all prisoners, especially if staffing levels remain unsafe and overcrowding remains so high.

4) yet there has been no effort whatsoever to assess the benefit, if any, from locking up twice as many offenders as a generation ago

Since 1995, crime has halved. That is **not** the effect of locking more offenders up – crime fell across the whole of the developed world. So why are we spending so much more on prisons? Nor, we know, is more incarceration reducing future re-offending.

So what we *are* getting for the money? It is high time Government asked itself that question – before embarking on yet another prison building spree.

Summary of extra costs for this SR

	2018-19	2019-20	2020-21	2021-22	2022-23
pay	162	191	220	249	278
capacity		45	96	153	185
total	162	236	316	402	463

APPENDIX 1: COSTING ASSUMPTIONS IN TABLE 4

No assumptions are made about capital receipts.

Emergency programme – rental and running of prison ship, 300 places, £80k/place running cost inc rental, £10m fitting out, shore security etc

New prison start up – SR 2015 settlement implies cost of new 1100 place prison = £33m a year, assume one third full year cost before opening, see footnote 1 above

Closure cost: in 2013 staffing in prisons fell by 5,000 and redundancy cost that year was £56m, see above. Assume 9 1,100 place prisons close, based on Liverpool implies 570 jobs lost at each such prison or just over 5,000 in total, but cost likely to be higher than 2013 since these jobs at nine prisons will all go, while 2013 programme used natural wastage across whole estate. Say £65m.

Net running cost: assumes opening and closures as above, each closure saves £42m a year, opening costs are two thirds in first year after opening as numbers increase.