

Management of privately operated prisons

Report 11: 2015–16



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February 2016

The Honourable P Wellington MP
Speaker of the Legislative Assembly
Parliament House
BRISBANE QLD 4000

Dear Mr Speaker

Report to Parliament

This report is prepared under Part 3 Division 3 of the *Auditor-General Act 2009*, and is titled Management of privately operated prisons.

In accordance with s.67 of the Act, would you please arrange for the report to be tabled in the Legislative Assembly.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Andrew Greaves', is written over a light grey rectangular background.

Andrew Greaves
Auditor-General

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Summary

Privately run prisons have been operating in Queensland since 1990 when the Borallon Correctional Centre (Borallon) near Ipswich became Australia's first. The prison continued to operate under private management until the then-government decommissioned it in 2012.

There are now two private prisons in Queensland—Arthur Gorrie Correctional Centre (AGCC) at Wacol and the Southern Queensland Correctional Centre (SQCC) at Gatton. Queensland currently holds 19 per cent of its prisoners in private prisons with the rest in public prisons.

The state owns, and Queensland Corrective Services (QCS) maintains, all its prison facilities. Private operators deliver prison services within these state-owned facilities. This includes managing and operating the prisons in compliance with performance standards. Private operators are responsible for supervising prisoners, monitoring and maintaining prison security and managing the welfare of each prisoner. Private prison operators deliver medical services to their prisoners, excluding mental health and dental services, which Queensland Health (QH) provides. QH delivers medical, mental health and dental services in all public prisons.

When government decides to outsource prison operations, it expects that this will deliver cost savings whilst maintaining an acceptable level of prison services.

We examined whether QCS's private operation of prisons has delivered cost efficiencies without compromising the quality of prison services. We also examined whether QH delivers the medical and dental services needed by prisoners.

Conclusions

The private provision of public services in the state's prison system is realising significant cost savings while providing a level of service commensurate with publicly run prisons.

With current policy settings limiting the number of privately run prisons to two, and at a time where the system is experiencing significant overcrowding, it is even more important that the state avail itself of the opportunity to garner insights from its privately run prisons and apply these across the entire prison portfolio.

A greater understanding by QCS of how their private sector service providers operate offers the prospect of establishing better practice process and quantitative benchmarks, particularly in relation to how they achieve their cost efficiencies. QCS also can extract potentially even greater value from its prison contracts by giving private operators appropriate incentives to innovate their service delivery. This, and a shift in emphasis away from monitoring their activities and towards measuring improvements in the outcomes they achieve, offer opportunities for further savings to the system. For example, a focus on measures such as their success in reducing the rate of reoffending will ultimately help to alleviate prison overcrowding.

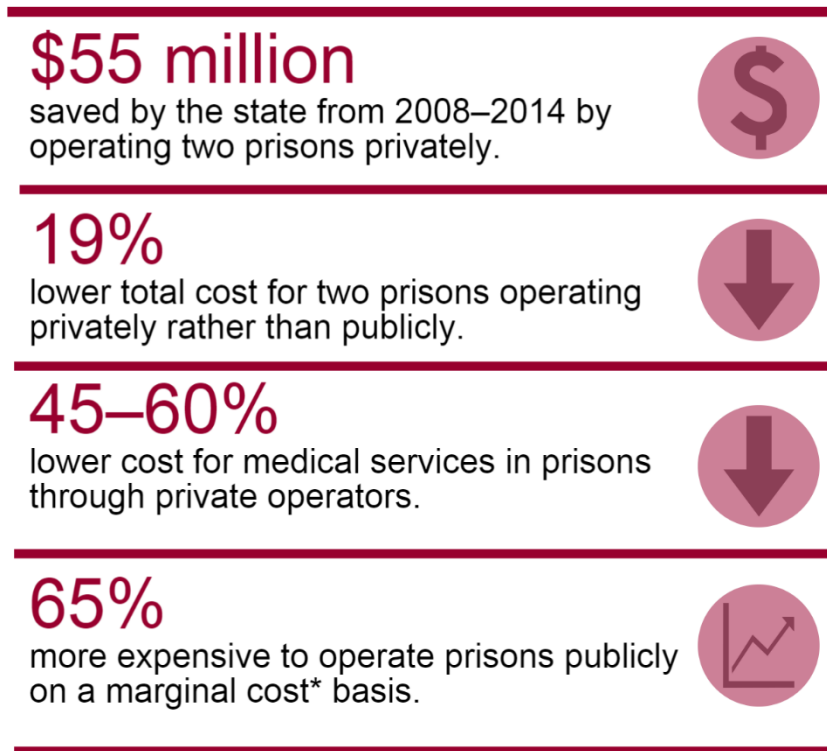
Another aspect that could benefit from this shift in emphasis relates to the difference in the cost of provision of medical services between private and public prisons. QH delivers its medical services in public prisons at a significantly higher cost than do the private operators.

QH also cannot demonstrate that it is meeting the demand for dental services, meaning prisoners are unable to get timely access to dental services, which places their health at risk. The private operators are unable to address this problem in their prisons because they are not responsible for dental services.

Outcomes of private prisons—cost and performance

Figure A shows the key findings from our examination of the cost-efficiency of Queensland's two private prisons.

Figure A
Cost efficiency of Queensland's private prisons



*Note: Marginal cost is the change in cost resulting from a change in the prison population

Source: Queensland Audit Office

Cost savings

To calculate the cost savings from operating the AGCC and SQCC privately, we compared the actual costs QCS incurred to operate these prisons through private operators against the public sector comparator for both prisons. The public sector comparator is the public sector's estimated cost to deliver prison services at the time the government decided whether to operate the AGCC and SQCC privately or publicly.

We estimate that QCS has delivered cost savings of \$55 million or 19 per cent from its privately operated prisons from 2008 to 2012 for the AGCC and from 2012 to 2014 for the SQCC.

Private operators can deliver prison operations at a lower cost than the public sector because their costs for labour, medical and overheads are lower. Their labour costs are lower because they do not employ as many staff as the public sector would to operate the prisons and they do not require as many relief staff.

Private operators' overheads (including their profit margin) are presently lower than the public sector's because the latter has a larger corporate structure and additional responsibility for managing the statewide operations of the prison system.

The cost of medical services is one of the greatest cost differentials between the public and private modes of prison operations. We compared the cost estimates QH and the private operators submitted to QCS for the operation of the SQCC and Borallon and identified that:

- if the state operated SQCC publicly, it would have cost \$2.8 million more to operate per year
- when Borallon is recommissioned as a public prison in 2016, it will cost the state \$1.6 million more per year to operate its medical services.

These differences represent about a 45-60 per cent lower cost for the private sector to deliver prison medical services.

The reasons for the significant cost differential in medical services are varied:

- QH employs more staff than private operators. In the SQCC public sector comparator, QH's estimated costs included more than double the number of medical staff to operate the prison compared to the private operator.
- The private sector operators have lower cost overheads—46.42 per cent less at the SQCC.
- The private sector's medical expenses is 52.80 per cent less than the public sector equivalent at the SQCC.
- QH cost estimates assume that prisons will overcrowd because unlike private operators, it does not receive additional funding when overcrowding occurs. A benefit of the private sector model is that the state only pays additional costs for overcrowding when the prison is overcrowded.

QH's medical cost estimates in its last two funding submissions for public-private prisons operating decisions were significantly higher than its actual medical costs to deliver services in other much larger publicly run prisons. This raises questions concerning the efficiency and equity in medical service delivery to all prisons. The funding allocated to deliver medical services in Borallon, and the dental and mental health service costs, are higher than what QH is funded to deliver in other prisons, and will mean prisoners in the Borallon prison will receive more timely access to health services than other prisoners.

For example, West Moreton Hospital and Health Service (HHS) will have enough funding to provide timely dental services at Borallon, but 30 per cent of prisoners it services at the SQCC are on the waiting list to see a dentist.

Cost comparisons of all private and public prisons

On a marginal cost basis, Queensland's eight public high security prisons are at least 65 per cent more expensive to operate than its two private prisons. The marginal cost is how much extra is required to be spent on each additional prisoner.

QCS's costs for its private prisons are mostly fixed, currently at 91 per cent of total costs. This gives it more certainty over the operating costs because costs that are variable for the public operators, such as food, personal hygiene and staff overtime, are included in the private operators' management fee as fixed costs. The costs of public prisons are more sensitive to changes in prisoner population, with 74.25 per cent of their costs classified as 'step-fixed' (costs that remain constant for a certain range of output and which change when output exceeds or falls below a certain threshold). These costs include staff salaries and fringe benefits. These costs are fixed only until prisoner numbers reach a certain threshold.

Performance of public and private prisons

QCS monitors the performance of its private operators at a more detailed level than what it does for its public prisons. This is especially in relation to the quality of food services and measuring the time prisoners spend in meaningful activities such as training and employment.

Both private operators have annual inspections of their food service operations and they have a dietician review of their menu annually. However, there is currently no similar requirement for publicly operated prisons. We reviewed two publicly operated prisons and identified that:

- Woodford Correctional Centre has not had a food safety inspection since 2012, and has not had a dietician review its food menu since 2009.
- Wolston Correctional Centre has not had a food safety inspection since 2012 and has not had a dietician review its food menu since 2013. At the time of our audit, a dietician was reviewing the food menu at Wolston Correctional Centre.

The lower staff numbers in private prisons is not because prisoners are kept in their cells longer than in the publicly run prisons. QCS measures the actual time prisoners spend in structured activity in its privately operated prisons, but does not do this for its publically operated prisons.

We did not identify any material anomalies with the private operators' performance in relation to security of their prisons. However, the rate of illicit drug use in Queensland's two private prisons is higher than the public sector average, noting the rate of illicit drug use at the Brisbane Women's Correctional Centre is the highest in the state.

When we examined available performance data for prisoner rehabilitation, we identified that the private prison operators performed above the public sector average for the percentage of Vocational Education and Training (VET) programs prisoners completed. They also achieved similar results as publicly operated prisons for the percentage of prisoners they employ in prison industries. Public and private prison operators provide eligible prisoners with employment opportunities (which generate profit) to assist them with their rehabilitation. However, private prison operators have less incentive to generate profit in prison industries compared to public prisons. The private operators do not get to keep their industry profits beyond what it contractually agreed, whereas public prisons offset all their profits from prison industries against their operational costs.

The private prison operators achieve a similar percentage of employed prisoners to public prisons, but they do this primarily by employing prisoners in non-commercial industries. Both private prisons generated below average industries revenue—the lowest and third lowest prison industries revenue of all high security prisons in 2014–15.

Private prisons performance management

QCS has not clearly defined the contract objectives of its private prison contracts. Because of this, the performance measures it uses to assess operators' performance focus on operational issues rather than on how well the operators deliver performance outcomes. It does not have appropriate measures for assessing how well private operators contribute to prisoner rehabilitation because it did not express its contract objectives in terms of expected outcomes.

QCS did not make innovation a contract objective nor give the operators significant financial incentives to innovate—innovation performance bonuses are worth less than 0.25 per cent of the operators' annual operational fee for both private operators. QCS's lack of emphasis on contractor innovation means that it does not actively identify practices that it can transfer to its public prisons to reduce costs and increase effectiveness.

QCS measures operator performance monthly, but it relies too much on operators recording all security-related incidents. There is a risk that operators may not record all security incidents so they can maximise their performance bonus. QCS has not documented this risk and what processes it has to prevent and detect it from occurring.

QCS rewards good performance of its operators through performance bonuses and it takes corrective actions when it has serious concerns. However, it does not have a structured process to agree and follow-up action items with private operators to improve performance. Private operators' proposed actions to address performance deficiencies are too generic and QCS does not ensure the actions are appropriate and follow up that they effectively address the performance deficiency.

Health services in public and private prisons

QH provides mental health and dental services in all Queensland prisons, and medical services in all public prisons.

The Memorandum of Understanding (MoU) between QH and QCS for the delivery of these services in prisons expired in June 2013. West Moreton HHS and Metro South HHS have not agreed to a new MoU, mainly because both HHS's are concerned that they are unable to meet QCS's requirement that they will provide prisoners with a community-type service without additional resources.

QH does not centrally govern statewide prisoner health services. This means the HHS's delivering services in prisons do not benefit from collective systems for delivery.

Medical services

An external consultant QCS engaged identified that both private operators deliver medical services according to community standards.

However, West Moreton HHS does not currently have reliable data to regularly report actual prisoner waiting times for its medical services to prisoners in the three high security public prisons it services. In November 2015, QH commenced a statewide project to deliver an electronic data collection system for prisons, which it expects to implement in the final quarter of 2016.

Dental services

The expectation that prisoners will receive a community-type dental service while in prison is unachievable with current prisoner numbers and available funding.

QH, responsible for dental services in public and private prisons is not satisfying the demand for prisoners' emergency dental care.

QH's annual funding for oral health services has increased annually since 2011–12 from state and federal government contributions. However, the current funding QH has allocated for dental services in at least five prisons is inadequate to meet demand for emergency care.

The timeliness of dental services in prisons has declined because supply has not increased commensurate with the rate of prison overcrowding. In 2015–16, Metro South Oral Health is reducing the number of dental service sessions it provides in prisons by 21 per cent because of funding constraints. This places prisoners' health at risk and could affect their behaviour in prison.

Procurement of private prison operators

QCS could not demonstrate at the time it decided to extend the private operator contract for the AGCC that it thoroughly evaluated whether continuing to operate the prison privately with the incumbent provider achieved value for money. Its submission contained several qualitative statements without detailed analysis.

QCS also could not demonstrate it is not paying more than needed for the SQCC, because it did not competitively tender the contract. When QCS closed the Borallon prison it terminated the operator's existing contract at Borallon, but awarded that operator a new five-year contract to operate the SQCC, with a five-year extension option.

This procurement approach did not comply with the State Procurement Policy. QCS fully disclosed to Cabinet in October 2010 that this approach did not comply with the State Procurement Policy, but it advised Cabinet that it would be easier to close ageing infrastructure operated by a private operator compared to a public prison. When QCS closed the Borallon prison, there was surplus capacity in Queensland's prison system by about 1 103 cells and the Borallon prison had a large number of cells that were not suicide resistant.

While the final price negotiated for the SQCC was lower than the cost of operating the prison publicly, because the procurement process lacked competitive tension, QCS cannot demonstrate that it achieved best value for money in this case.

Price is not the only indicator of value for money, and QCS can demonstrate that it considers non-price information when it makes major prison contract decisions. QCS reviewed the performance history of both private prison operators before it gave them a contract extension or variation, but both operators' performance declined against contract KPIs since their contracts were renewed in 2011 and 2012.

This does not detract from the fact that they are providing a comparable service to the public sector, but it does indicate there is scope for them to improve their performance to meet QCS's performance expectations.

Prison overcrowding since 2013 has made it more challenging for public and private prison operators to improve their performance.

Recommendations

We recommend that the Department of Justice and Attorney-General and Queensland Health:

1. complete a cost-benefit analysis of options for delivering medical services more cost-effectively in prisons
2. work together to agree terms for the delivery of health services in prisons.

We recommend that the Department of Justice and Attorney-General:

3. investigates ways to incentivise private operators to increase employment opportunities for prisoners
4. compares and contrasts the operating standards of public and private prisons and where gaps exist, implement better practice operating standards in all public prisons
5. develops an outcome-focused performance management system for private prison contracts which includes:
 - clearly defined contract objectives that are outcome-focused
 - performance measures that address outcome-focused contract objectives
6. enhances its management of operator performance by:
 - assessing the fraud risk that operators could overstate their performance and implementing preventive controls commensurate with the fraud risk profile
 - recording, agreeing and monitoring the effectiveness of actions to address any operator performance deficiencies.

We recommend that Queensland Health:

7. implements central governance over health services in all Queensland prisons.

Reference to comments

In accordance with s.64 of the *Auditor-General Act 2009*, a copy of this report was provided to the Department of Justice and Attorney-General and the Department of Health with a request for comments.

Their views have been considered in reaching our audit conclusions and are represented to the extent relevant and warranted in preparing this report.

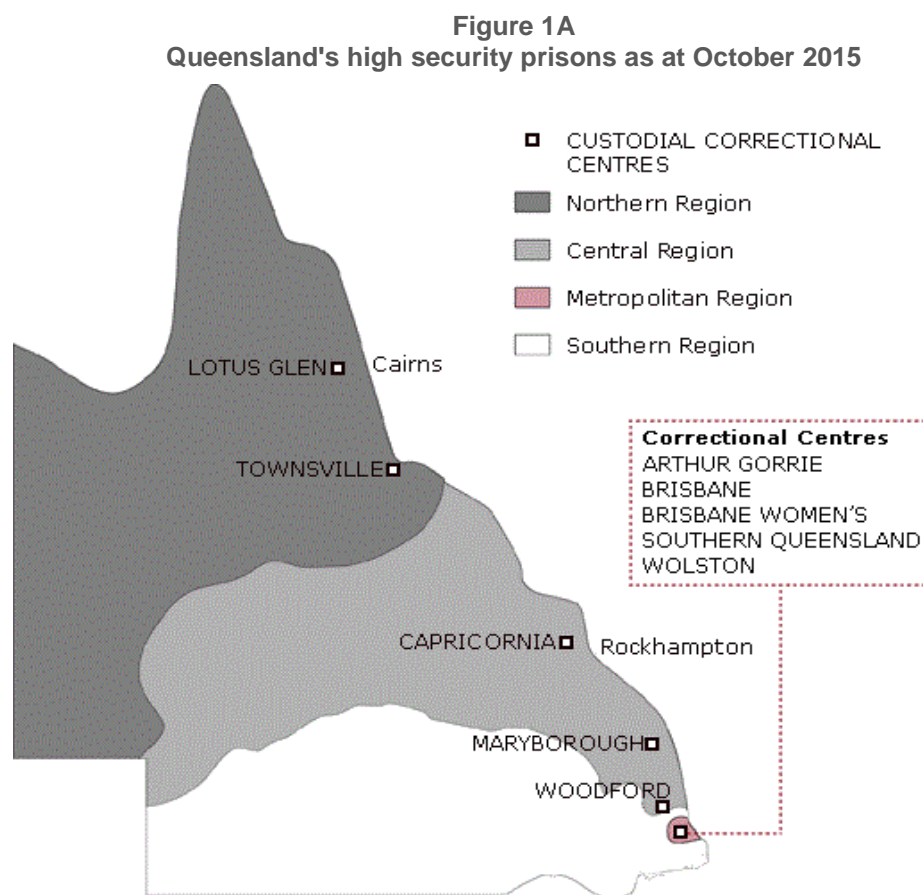
The comments received are included in Appendix A of this report.

1. Context

Queensland prisons

Queensland Corrective Services (QCS) manages the state's eight public and two private high security prisons. It cost QCS \$443 million in 2014–15 to operate and maintain these 10 prisons, or \$175 per prisoner per day.

A private prison is a prison that a third party operates on behalf of QCS. Figure 1A shows where Queensland's high security prisons are located.



Source: Queensland Corrective Services website

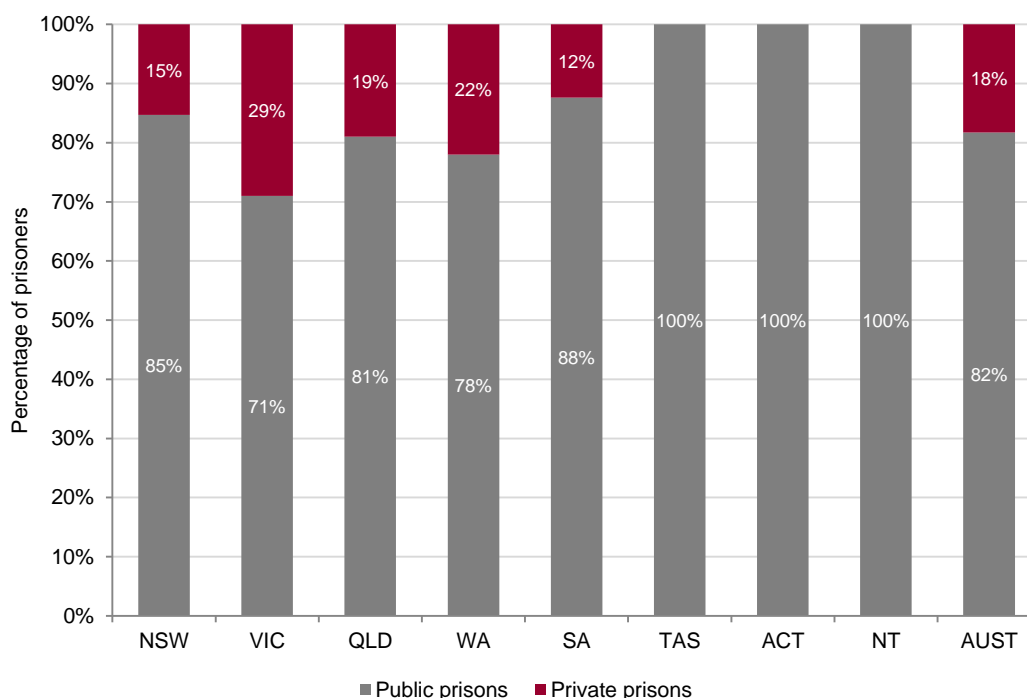
About 90 per cent of Queensland's incarcerated prisoners are located in high security prisons. These prisons have a secure perimeter to ensure containment. The remaining prisoners are located in Queensland's six low security prisons, three of which are attached to a high security prison. Prisoners can only be placed in a low security prison if QCS assesses they require a low security classification.

Private prisons in Queensland

Private prison operators in Queensland deliver prison services, which include the detention, security, supervision, custody, management, and welfare of each prisoner. They do not construct and maintain the infrastructure in which they deliver these services. The state owns and QCS maintains all its prison facilities.

Queensland has the third highest proportion of prisoners held in privately operated prisons compared to state run prisons of all states and territories. Figure 1B shows that Queensland holds 19 per cent of its prisoners in private prisons.

Figure 1B
Share of prisoners—public versus private, 30 June 2015



Source: Queensland Audit Office using Report on Government Services 2016

Queensland's first private prison

Private prisons have existed in Queensland since 1990 when the Borallon Correctional Centre (Borallon) became Australia's first private prison. The prison continued to operate under private management until the then-government decommissioned it in 2012.

Borallon, one of the state's oldest facilities, was a 492-bed male, medium and high security prison located near Ipswich in Queensland.

In 1990, the then-government decided to privatise the operation of Borallon to improve the efficiency of prison service delivery through competition. Additional benefits sought by the state included:

- more flexible workforce management arrangements for custodial officers
- greater innovation in service models and improvement in custodial programs.

In February 2012, the then-government formally decommissioned Borallon. The Government announced in July 2015 that it would reopen Borallon as a publicly run prison in early 2016.

Queensland's current private prisons

There are currently two privately operated prisons in Queensland—Arthur Gorrie Correctional Centre (AGCC) which commenced operations in 1992 and the Southern Queensland Correctional Centre at Gatton (SQCC). QCS commissioned SQCC in January 2012 to coincide with the decommissioning of Borallon.

Arthur Gorrie Correctional Centre

AGCC is located in Wacol, Queensland, 20 kilometres south-west of Brisbane. It is Queensland's second largest correctional centre. GEO Group Australia Pty Ltd (GEO) has continually managed AGCC on behalf of QCS since it opened in 1992. Key events in QCS's procurement of GEO to operate AGCC include:

- 1991—QCS awarded GEO a 10-year contract to operate AGCC
- 2002—QCS awarded GEO a five-year contract following a competitive retender process
- 2007—QCS awarded GEO a five-year contract from 1 January 2008 following a competitive tender process
- 2012—the then-Department of Community Safety exercised an option to extend the contract for a further five years until 31 December 2017.

AGCC's primary role is to safely and securely house 872 adult male remand prisoners (those awaiting trial or sentencing) for the period up to, and during, their trial. Consequently, a high number of prisoners move into and out of AGCC every day, and their average length of stay can be very short.

Southern Queensland Correctional Centre

SQCC is located near Gatton in the Lockyer Valley, 94 kilometres west of Brisbane.

SQCC provides secure placement accommodation for sentenced mainstream male prisoners classified as high or low security and has 104 secure and 196 residential beds.

Serco Australia Pty Ltd (Serco) manages and operates SQCC under a five-year contract. Department of Justice and Attorney-General (DJAG) has an option to extend this contract for a further five years by no later than 90 days prior to 1 January 2017.

Serco worked in partnership with the state government for approximately four years prior to the transfer of operations from Borallon to SQCC.

In 2006, QCS planned to operate SQCC as a women's prison. However when QCS commissioned SQCC in 2012, it did so as a male prison to address overcrowding issues for male prisoners at the time. Additional capacity for women prisoners is now a significant concern because the Brisbane Women's Correctional Centre is the most overcrowded prison in Queensland with 136 per cent utilisation.

Recommissioning of Borallon Correctional Centre

In October 2014, the then-government released an Invitation to Offer (ITO) for the private operation of Borallon. QCS expected the prison to be operating by mid-2015 with an initial contract term of five years and an option to extend for a further term of up to five years.

QCS gave tenderers until 16 December 2014 to submit offers. QCS received offers from four private operators.

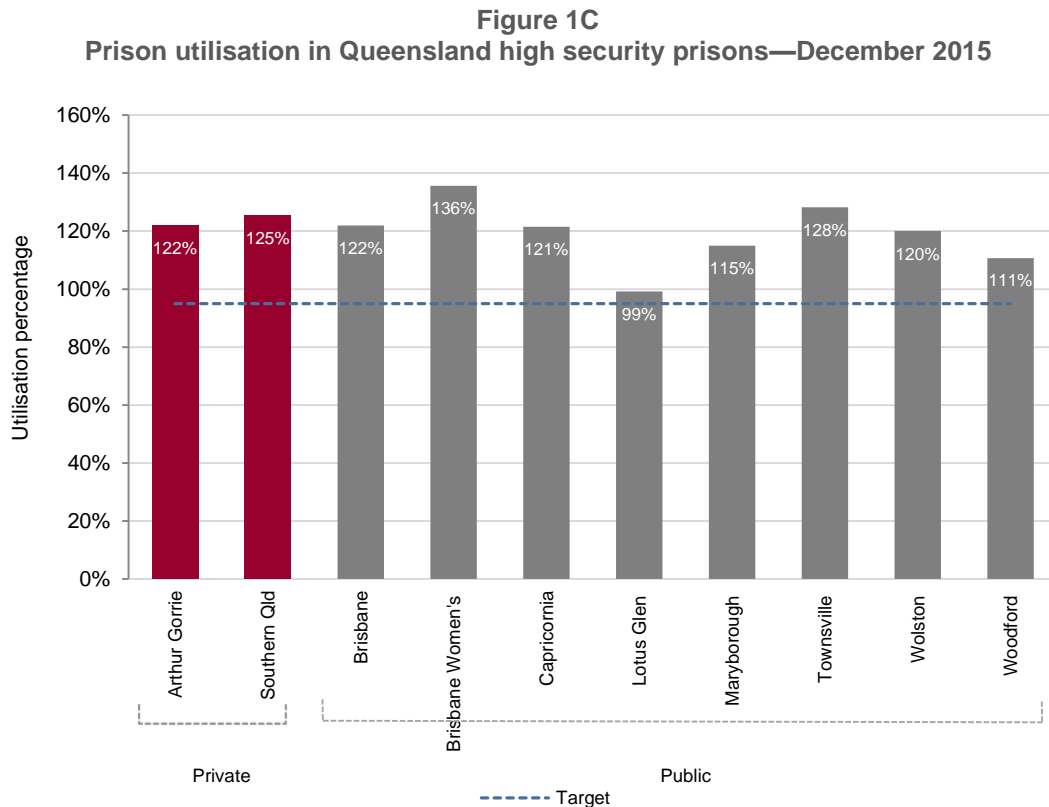
In May 2015, QCS obtained the government's approval to cancel the ITO and operate the prison publicly. It did this to implement the government's policy to operate only two prisons privately. QCS recommended that it operate Borallon as a public prison as there were already two prisons operating privately at that time.

Private and public prison utilisation

High utilisation of prison capacity, that is the number of beds available to the number of beds used, is desirable to ensure public prison infrastructure achieves value for money. If utilisation is too high then it indicates prisoner overcrowding. This can in turn negatively affect other performance measures of effectiveness such as prisoner assaults.

All public and privately run Queensland prisons are currently overcrowded. DJAG's annual target for prison utilisation is less than 95 per cent; however, none of Queensland's high security prisons met this target in 2014–15. Total utilisation in the 10 high security prisons was 113 per cent in 2014–15 and increased to 118 per cent in December 2015. There is clearly significant pressure on Queensland's prison system to meet current and future demand.

Figure 1C shows the prison utilisation rates for all of Queensland's high security prisons, whether publically or privately run.

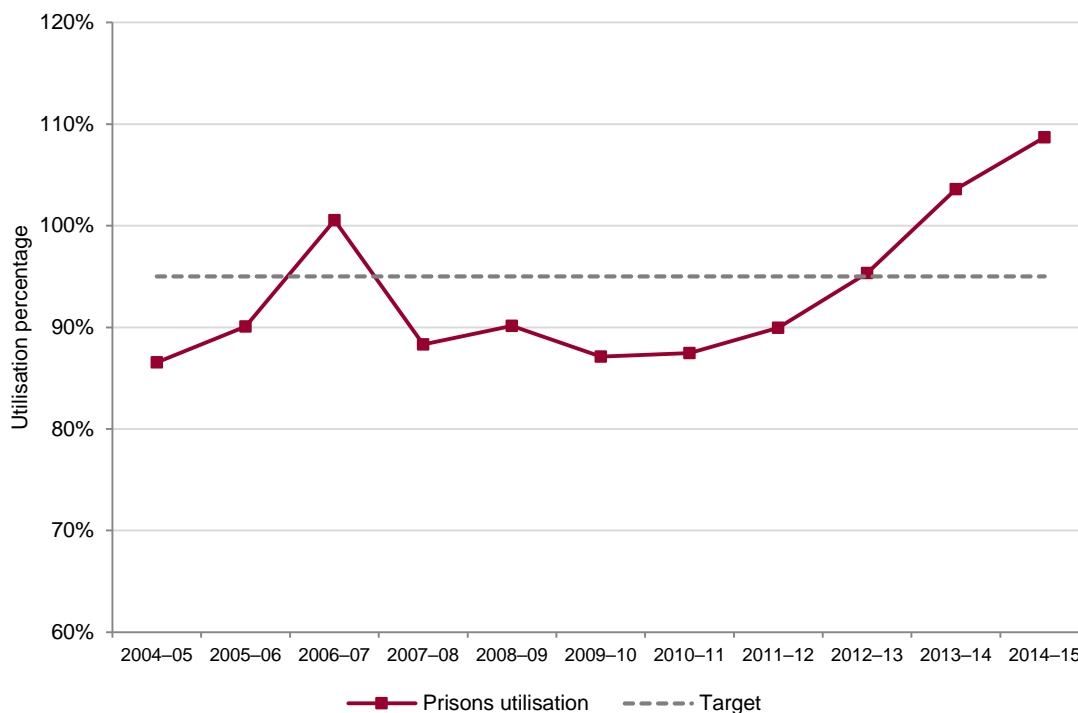


Source: Queensland Audit Office using data provided by the Department of Justice and Attorney-General

Queensland's current prison overcrowding problem commenced in 2012–13 when prison utilisation was at 95 per cent, and a sharp increase in demand over the following two years resulted in prison overcrowding.

Figure 1D shows prison utilisation rates in Queensland high security prisons from 2004–05 to 2014–15.

Figure 1D
Prison utilisation—Queensland high security prisons
1 July 2004 to 30 June 2015



Source: Queensland Audit Office using data provided by the Department of Justice and Attorney-General

Prison overcrowding has occurred because the number of prisoners increased by more than the increase in prison capacity. From 2011–12 to 2014–15, the number of prisoners increased by 1 838, but the number of prison cells the department was able to provide only increased by 665.

Many factors contribute to increasing prisoner numbers, including:

- more prisoners entering the prison system because of an increase in the number of crime incidents and/or tougher sentencing by Magistrates Courts
- more prisoners returning to the prison system for parole breaches and repeat offences
- less prisoners granted parole by Queensland's Parole Boards.

From 2012–13 to 2014–15, 27 per cent more convictions for assault offenses contributed most to increasing prisoner numbers. Figure 1E shows the number of prisoner offences per type of offence in the period 2010–11 to 2014–15 for prisoners in high security prisons.

Figure 1E
Prisoner offences—Queensland high security prisons
1 July 2010 to 30 June 2015

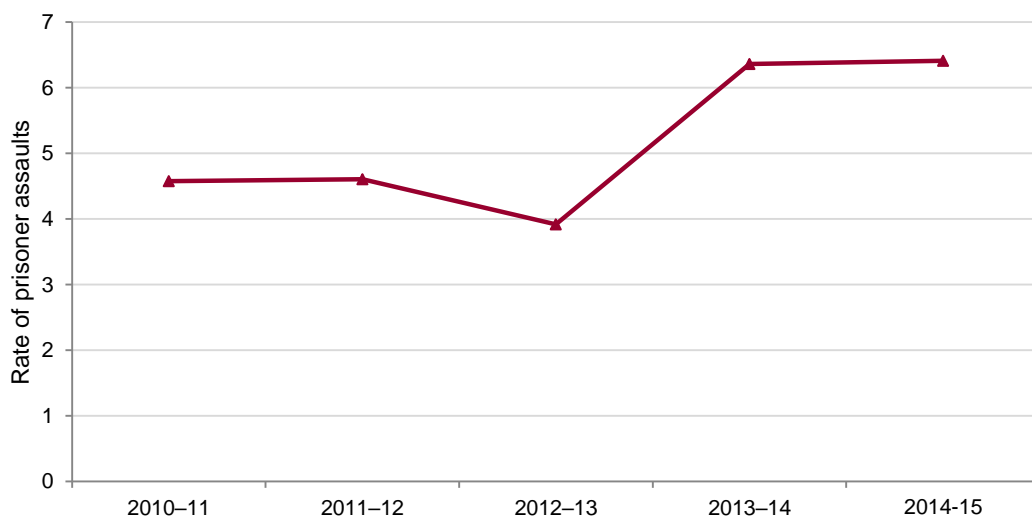


Source: Queensland Audit Office using data provided by the Department of Justice and Attorney-General

One of the key problems resulting from overcrowding is the increased risk of prison violence between prisoners or also by prisoners on custodial staff. In 2014–15, the rate of assault between prisoners was 6.4 per 100 prisoners, which increased from 3.9 assaults per 100 prisoners in 2012–13. This increase coincides with increasing prisoner numbers.

Figure 1F shows the rate of assaults between prisoners in Queensland prisons from 2010–11 to 2014–15.

Figure 1F
Rate of prisoner on prisoner assaults
1 July 2010 to 30 June 2015



Source: Queensland Audit Office using data provided by the Department of Justice and Attorney-General

QCS's approach for managing prison overcrowding in the short-term includes:

- Using bunk beds at AGCC, Townsville Correctional Centre and Brisbane Women's Correctional Centre—328 prisoners were using bunk beds in December 2015. QCS is planning to increase the number of bunk beds available in prisons—each bunk bed costs about \$10 000 to manufacture and install.
- Using "buddy cells" that have two beds—145 prisoners were using these in December 2015.
- Making excess prisoners sleep on the floor (on a mattress)—479 prisoners, or almost 7 per cent of prisoners, slept on the floor in Queensland's high security prisons in December 2015.

QCS propose to develop a range of demand management strategies to reduce the number of people in prison. QCS will report to government on these proposed strategies in early 2016.

Strategies to increase prison capacity are longer term and require significant capital expenditure and government approval. QCS finalised a business case for stage two of the SQCC precinct in December 2014 with Projects Queensland. Stage two includes a 1 000 bed prison at Gatton and a 200 bed expansion of Capricornia Correctional Centre. QCS did not submit this to government to consider, but could submit it in the future depending on Queensland Treasury's endorsement.

Roles and responsibilities

Figure 1G outlines the roles and responsibilities of each of the entities involved in private prison operations.

Figure 1G
Roles and responsibilities—private prisons

Entity	Roles and responsibilities
Cabinet Budget Review Committee (CBRC)	<p>The CBRC is a sub-committee of the Government's cabinet. CBRC approves:</p> <ul style="list-style-type: none"> ▪ whether a prison will be operated as a public or private prison, according to the Government's policy ▪ funds to be allocated to QCS and Queensland Health for prison operations ▪ awarding contracts to private prison operators.
Queensland Corrective Services (QCS)	<p>QCS is a business area of the Department of Justice and Attorney-General. Its role is to work in partnership with other key criminal justice agencies for community safety and crime prevention through the humane containment, supervision and rehabilitation of offenders.</p> <p>QCS is responsible for managing the state's contract with the private operators. This includes setting performance expectations, and assessing and managing the private operators' performance.</p>
Queensland Health (QH)	<p>QH assumed responsibility for prisoner health services from QCS on 1 July 2008. QH provides medical services in all public prisons, and mental health and dental services in private and public prisons.</p> <p>As of 2012, hospital and health services (HHS') became independent statutory bodies. HHS' deliver medical, dental and mental health services into prisons according to their service level agreement with QH.</p> <p>The West Moreton HHS currently delivers medical services into three out of eight public prisons, dental services into one private prison, and mental health services in two private and five public prisons. West Moreton HHS was involved in the last public-private prison decision by quoting for medical services for Borallon, which QCS will recommission in 2016.</p>
Private prison operators	<p>Private prison operators deliver correctional management services at the AGCC and SQCC on behalf of, and at the direction of QCS.</p> <p>The private operators' responsibilities include managing and operating a prison in compliance with contract standards, and for the detention, security, supervision, custody, management and welfare of each prisoner.</p>

Source: Queensland Audit Office

Relevant legislation

The *Corrective Services Act 2006*, the *Corrective Services Regulation 2006* and related legislation, governs QCS's prison service delivery.

Figure 1H shows key elements from the *Corrective Services Act 2006* relevant to this audit.

Figure 1H
Key elements from the Corrective Services Act 2006

Section	Description
s18 – Accommodation	Whenever practicable, each prisoner in a corrective services facility must be provided with his or her own room.
s43 – Drug test	If a prisoner gives a positive test sample— <ul style="list-style-type: none"> the test result may be considered when assessing the prisoner’s security classification; and the prisoner may be required to undertake a medical or behavioural treatment program.
s266 – Programs to help offenders	Prisons must establish programs or services: <ul style="list-style-type: none"> for the medical or religious welfare of prisoners to help prisoners reintegrate into the community after their release from custody, including by acquiring skills to initiate, keep and improve relationships between offenders and members of their families and the community to help rehabilitate offenders.

Source: Queensland Audit Office extracted from Corrective Services Act 2006

Audit objective and cost

The objective of the audit was to examine whether the intended benefits to the state of privately operated prisons are being realised.

The audit addressed this objective through the following sub-objectives:

- establish whether operating prisons through private operators has delivered the intended cost efficiencies
- establish whether the cost efficiencies intended from privately operated prisons has been realised with comparable quality of containment, supervision and rehabilitation services to publicly-run prisons.

The cost of the audit was \$218 000.

Report structure

We have structured the remainder of the report as follows:

Chapter	Description
Chapter 2	Analyses cost-efficiency of private prisons
Chapter 3	Evaluates performance of private and public prisons
Chapter 4	Examines contract management
Appendix A	Contains responses received on this report
Appendix B	Contains a glossary
Appendix C	Describes the audit methodology used

2. Cost-efficiency of private prisons

In brief

When government decides to outsource prison operations, it expects that this will deliver cost savings. It also challenges the public sector to deliver its services more efficiently.

Conclusions

Queensland Corrective Services (QCS) has achieved better value for money and more cost certainty in its private prisons than its public prisons.

The cost of medical services in public prisons is costing the state significantly more than what the private sector can deliver. The existing funding model for medical services in public prisons and the extent of overcrowding since 2012–13 created a misalignment between funding and service requirements. However, the funding allocated to deliver medical services in the Borallon Correctional Centre (Borallon) will mean prisoners at Borallon will get better access to medical services than prisoners at other public prisons.

Findings

- QCS has achieved total savings of \$55.4 million or 19 per cent from its privately operated prisons from 2008 to 2012 for the Arthur Gorrie Correctional Centre (AGCC) and from 2012 to 2014 for the Southern Queensland Correctional Centre (SQCC).
- On a marginal cost basis, the public prisons are at least 65 per cent more expensive than the private prisons. The state has more certainty over the cost of operating private prisons because fewer costs are variable to changes in prison population.
- QCS does not have visibility of the total costs the state incurs for delivering prison services because it does not have access to all prison cost data for other public sector agencies who deliver prisoner services.
- Private operators are able to deliver the AGCC and SQCC operations at a lower cost than the public sector because of lower: labour costs, medical costs, offender-related costs and overhead costs.
- The SQCC private operator delivers medical services \$2.8 million lower per year than the public sector would, or 58 per cent lower than the public sector. It will cost the state \$1.6 million more per year to operate these services publicly at Borallon when it is recommissioned in 2016.
- Queensland Health's significantly higher medical cost estimates in its last two funding submissions for public-private prison operating decisions bring into question the cost efficiency and equity in medical service delivery to all prisons.

Introduction

To determine whether Queensland Corrective Services (QCS) has achieved a cost-efficient outcome by operating the Arthur Gorrie Correctional Centre (AGCC) and Southern Queensland Correctional Centre (SQCC) as private prisons, we:

- assessed what cost efficiencies QCS achieved over the AGCC and SQCC current contract terms
- performed cost comparisons across all prisons—publicly and privately operated.

We also examined the public sector comparators developed during tender processes for privately operated prisons. They show how the public sector compares with the private sector on cost-efficiency. This includes public sector services provided by QCS and Queensland Health (QH) into public prisons.

Conclusions

QCS is realising the intended cost-efficiencies of operating two of its prisons privately. With the increasing demand for prison cells in Queensland since 2011–12, QCS achieved better value for money and more cost certainty in its private prisons than public prisons.

The state's most significant opportunity to improve the cost-efficiency of public prison operations is in medical costs. The cost differential of medical services in private and public prisons is higher than any other cost element in prison operations, but is a cost element that QCS has no ability to control.

The existing funding model for medical services in public prisons and the extent of overcrowding since 2012–13 created a misalignment between funding and service requirements. QH's approved funding allocation for Borallon is inconsistent with the cost of delivering medical services in other public prisons. However, it will mean that prisoners at Borallon will receive better access to medical services than prisoners in other public prisons.

Cost-efficiency achieved through private prisons

Savings realised

We estimate that QCS delivered cost efficiencies of \$55.4 million or 19 per cent from its privately operated prisons from 2008 to 2012 for the AGCC and from 2012 to 2014 for the SQCC. We calculated this by comparing what QCS paid the operators against what it would have paid to operate those prisons publicly as defined in its public sector comparators. We excluded from QCS's actual payments to the operators those costs it would have also incurred if it operated the prisons publicly—double up costs and cost recoveries.

"Double-up" costs are payments QCS makes to the private operators when they hold more prisoners than they contractually agreed to. Cost recoveries relate to work such as infrastructure upgrades which QCS asked the operators to complete, in addition to the contractually agreed works.

Figure 2A shows the cost efficiencies QCS has realised for the AGCC and SQCC.

Figure 2A
Private vs public prisons—cost efficiencies

Prison	Public sector comparator \$	Actual payments* \$	Variance \$	Variance %
Arthur Gorrie Correctional Centre (2008–2012)	209 375 153	171 926 699	37 448 454	17.9
Southern Queensland Correctional Centre (2012–2014)	83 986 652	65 998 951	17 987 701	21.4
Totals	293 361 805	237 925 650	55 436 155	18.9

*Note: We have excluded GST payments QCS made to the private operators from our analysis to support a valid comparison between private and public sector costs. QCS is entitled to input tax credits for GST payments to the private operators.

Source: Queensland Audit Office using data provided by the Department of Justice and Attorney-General

Payments versus contracts

QCS payments to the operator of AGCC (2008 to 2014) varied by 3.44 per cent against the contract. Payments to the operator of SQCC (2012 to 2014) varied by 6.37 per cent against the contract.

Three key reasons explain the variance between contractually agreed and actual payments. These include:

- Double-ups—QCS paid its private operators an additional \$9.5 million because of prison overcrowding—\$3.3 million over three years for the SQCC and \$6.3 million over four years for the AGCC. This accounts for 68 per cent on the payment variance for the AGCC and 72 per cent of the payment variance for the SQCC.
- Performance bonuses—payments QCS makes to operators for performance bonuses are in addition to the contractually agreed sums. QCS paid the AGCC and SQCC private operators \$1.9 million in performance bonuses from 2008 to 2014.
- Cost recoveries—this includes the costs for escorting prisoners and enhancements to infrastructure. The operators' claim cost-recovery for these costs. QCS paid the AGCC and SQCC private operators \$4.8 million relating to cost recoveries from 2008 to 2014.

QCS would have incurred additional costs because of overcrowding and activities related to the private operator's cost recoveries irrespective of whether it operated the prisons privately or publicly.

Cost comparisons across all Queensland high security prisons

Marginal cost

Australian jurisdictions use the average cost per prisoner to measure cost-efficiency of their prison systems. The average cost per prisoner per day is calculated by taking the total costs of the prison facility and dividing it by the number of prisoners held in custody in that facility.

Prisons have different characteristics, which can influence their operational costs such as the age, size and role and function of the prison. For this reason, the average cost per prisoner per day measure is a useful efficiency measure for the prison system as a whole, but not for comparing individual prisons.

To overcome this difficulty, we calculated the marginal cost of each prison. In the prison system context, marginal cost is the change in cost resulting from a change in the prison population. Marginal cost provides a more accurate efficiency measure for individual prisons where the number of prisoners each prison can keep in custody is significantly different.

This approach only includes those costs directly related to prisoners, which change immediately as prisoner counts increase or decrease. In contrast, the average cost per prisoner includes all costs—fixed and variable.

Figure 2B shows cost classifications we used to calculate marginal cost and examples of costs for those classifications.

Figure 2B
Prison costs—cost classification

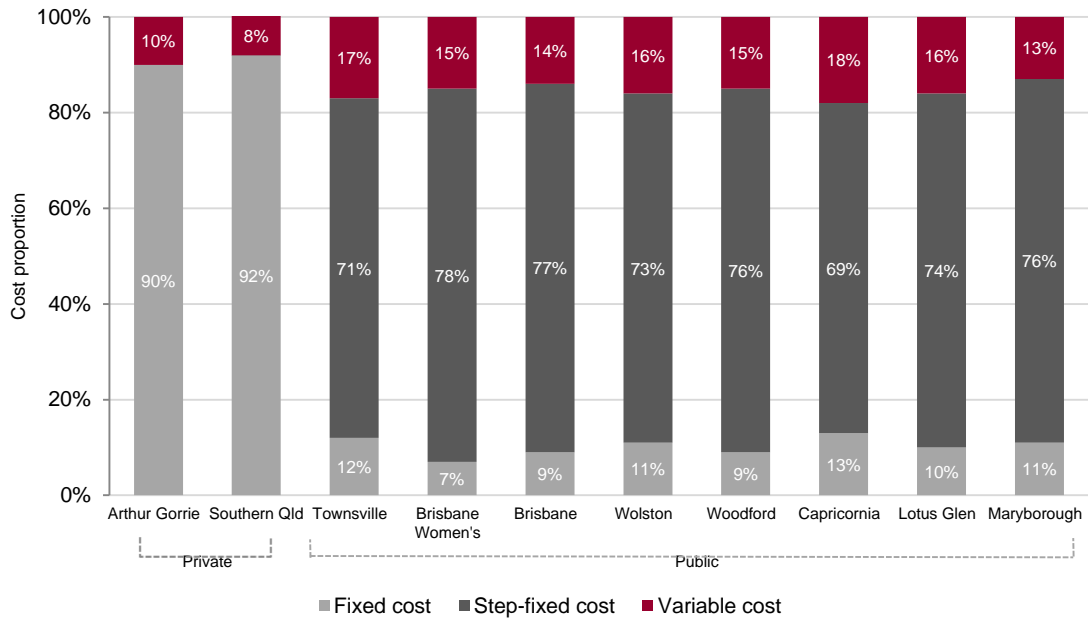
Cost classification	Definition	Cost examples
Variable	<ul style="list-style-type: none"> Costs that change directly in proportion to output. 	<ul style="list-style-type: none"> Food Supplies Overtime Laundry Travel
Step-fixed	<ul style="list-style-type: none"> Costs that remain constant for a certain range of output and changes when output exceeds or falls below a certain threshold. 	<ul style="list-style-type: none"> Staff salaries Fringe benefits
Fixed	<ul style="list-style-type: none"> Costs that remain constant, even when the output changes. 	<ul style="list-style-type: none"> Utilities Central administration (HR, legal, etc.) Equipment

Source: Queensland Audit Office adapted from 'A guide to calculating justice-system marginal costs', The Vera Institute of Justice, United States

QCS's costs for its two privately operated prisons are mostly fixed—90 per cent fixed for AGCC and 92 per cent fixed for SQCC. With private prison operators, the state has more certainty over the operating costs because fewer costs are variable to changes in prison population. The private prison operators have higher fixed costs because costs that are variable for the public operators, such as food, personal hygiene and staff overtime are included in the private operators' management fee as a fixed cost. The variable costs for the private operators include the agreed double-up fees and performance bonuses.

For publicly operated prisons, the average proportion of fixed costs was 84.5 per cent, of which 74.25 per cent relates to step-fixed costs. The high percentage of step-fixed costs in public prisons shows that public prisons' operating costs are more sensitive to prisoner numbers than private prisons—these costs are fixed only until prisoner numbers reach a certain threshold. Figure 2C shows the proportion of prison costs for Queensland high security prisons by cost type—variable and fixed costs.

Figure 2C
Proportion of cost types by prison—2014–15

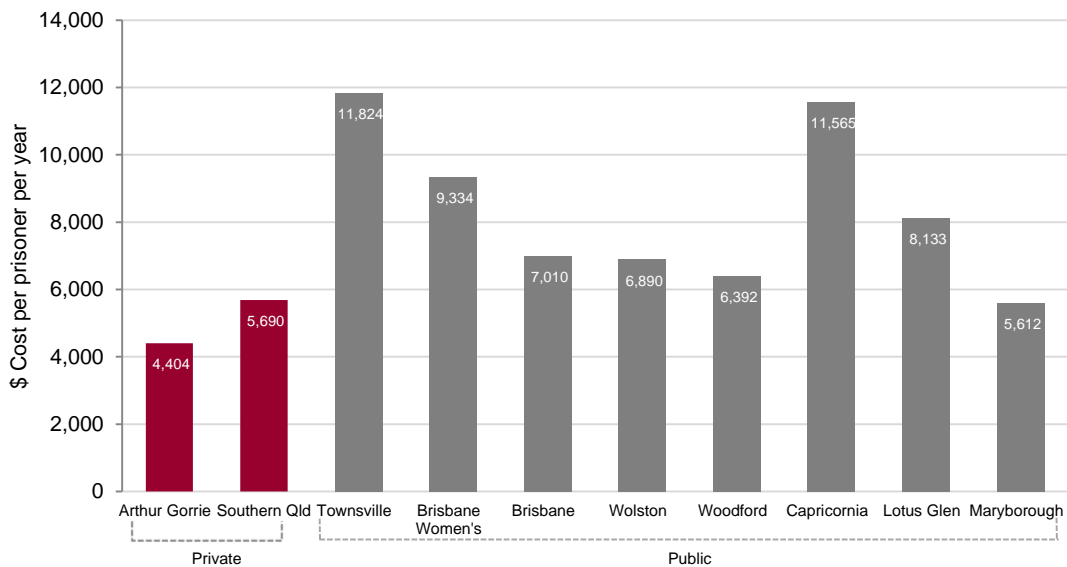


Source: Queensland Audit Office from data provided by the Department of Justice and Attorney-General

In 2014–15, both private prisons operated at a significantly lower marginal cost compared to the public prisons. The marginal cost per prisoner per year for AGCC and SQCC was approximately \$4 404 and \$5 690 respectively, while the average marginal cost per prisoner per year for publicly operated prisons was \$8 345, or at least 65 per cent higher than the average marginal cost of the privately operated prisons.

Figure 2D shows the marginal cost per prisoner per year for all Queensland high security prisons.

Figure 2D
Marginal cost per prisoner per year—2014–15



Note: We have excluded Queensland Health costs from our analysis—these costs add to the variable costs of public prisons for medical supplies, these costs are already included in the private operators' fixed costs.

Source: Queensland Audit Office using data provided by the Department of Justice and Attorney-General

Cost data

QCS does not have visibility of all prison cost-related data to enable it to assess whether the state can achieve further efficiencies beyond what it has already achieved through operating two prisons privately. It cost QCS \$443 million in 2014–15 to operate and maintain 10 high security prisons, but this does not include:

- medical costs incurred by QH who provide medical services in all publically operated prisons and dental services in all prisons—public and private
- vocational training costs in public prisons incurred by the Department of Education and Training (DET)
- funding provided to non-government organisations to deliver services in public prisons by the Department of Communities, Child Safety and Disability.

QH assumed responsibility for prisoner health services from QCS on 1 July 2008 and the associated funding. Because QCS does not have visibility of what QH spends on medical services in prisons, it cannot accurately validate QH's funding estimates in public-private prison operation decisions.

Up until 2013–14, DET provided a \$3.8 million grant to QCS annually to purchase vocational training in public prisons. In 2014–15, the funding model changed so that DET provides the funding directly to pre-qualified suppliers.

Cost element comparisons

Before QCS signed contracts with private operators for the AGCC in 2007 and SQCC in 2011, it completed public sector comparators to demonstrate that it was more cost-efficient to operate both prisons privately. In both instances, QCS expected savings of about 22 per cent in the first year of operation, and about 17 to 18 per cent over the five-year contract terms.

Figure 2E shows how the private sector bids for the two private prisons in 2007 (AGCC) and 2011 (SQCC) compare with the cost the public sector would incur to operate those prisons.

Figure 2E
Queensland privately-operated prisons—comparison with public sector

Cost element	Public Sector Comparator \$ m	Private sector submission \$ m	Variance \$ m	Variance %
Operating cost per annum				
Arthur Gorrie Correctional Centre (\$2 007)	39.50	30.96	8.54	21.62
Southern Queensland Correctional Centre (\$2 011)	27.06	21.10	5.96	22.03
Operating cost—5-year term				
Arthur Gorrie Correctional Centre (\$2 007 Net Present Value)	162.66	135.08	27.58	16.96
Southern Queensland Correctional Centre (\$2 011 Net Present Value)	121.76	100.24	21.52	17.67

Source: Queensland Audit Office from data provided by the Department of Justice and Attorney-General

The private sector is able to deliver the AGCC and SQCC operations at a lower cost than the public sector because:

- it does not employ as many staff as the public sector would to operate the prisons and does not require as many relief staff as the public sector does
- it incurs lower medical and catering expenses
- its overhead costs are significantly lower than the public sector.

Figure 2F shows the variance between the public sector costs for operating the AGCC and SQCC against the private sector's costs, by cost element.

Figure 2F
Queensland privately-operated prisons—comparison with public sector

Cost element	Public Sector Comparator \$	Private sector submission \$	Variance \$	Variance %
Arthur Gorrie Correctional Centre				
Labour related costs	29 468 972	22 445 121	7 023 851	23.83
Offender expenses	5 047 997	4 276 068	771 929	15.29
Non-labour costs	1 496 163	2 096 926	(600 763)	(40.15)
Net industries revenue	(75 000)	26 860	(101 860)	(135.81)
Profit and overheads	3 593 813	2 118 458	1 475 355	41.05
Total estimated costs	39 531 945	30 963 433	8 568 512	21.67
Southern Queensland Correctional Centre				
Labour related costs	16 838 026	15 317 281	1 520 745	9.03
Offender expenses	1 896 640	1 644 528	252 112	13.29
Non-labour costs	1 157 635	1 157 634	1	0.00
Medical costs*	4 767 842	1 999 105	2 768 737	58.07
Net industries revenue	-	(290 485)	(290 485)	-
Profit and overheads	2 398 127	1 284 839	1 113 288	46.42
Total estimated costs	27 058 270	21 112 902	5 945 368	21.97

* We did not compare medical costs for the AGCC because of insufficient data

Source: Queensland Audit Office from data provided by the Department of Justice and Attorney-General

Labour-related costs

The private sector's labour-related costs are 23.83 per cent (AGCC) and 9.03 per cent (SQCC) less than the public sector's because the private operators employ less staff to operate the same prisons than the public sector would. While at a staff classification level there are different variances in pay rates between the public and private operators, we did not find a significant variance in the overall staff pay rates—a -1.0 to 2.0 per cent variance between the private and public operators.

The public sector comparator for the:

- AGCC allocated 415.18 staff to work at the centre, compared to the private sector's 332.47, a variance of 19.92 per cent
- SQCC allocated 222.3 staff to work at the centre, compared to 200.9 staff employed by the private operator, a variance of 9.63 per cent.

Figure 2G shows a comparison between the public sector's staffing proposal for the AGCC and SQCC against the private sector's by shift and non-shift staff numbers.

Figure 2G
Private vs public prisons—staffing

Staff	Public Sector Comparator FTE's	Private sector submission FTE's	Variance %
Arthur Gorrie Correctional Centre			
Shift staff	344.90	263.66	23.55
Non-shift staff	70.28	68.81	2.09
Total FTE's	415.18	332.47	19.92
Southern Queensland Correctional Centre			
Shift staff	165.40	129.60	21.64
Non-shift staff	56.90	71.30	(25.31)
Total FTE's	222.3	200.9	9.63

Source: Queensland Audit Office from data provided by the Department of Justice and Attorney-General

The contracts do not permit the private operators to reduce their workforce size below what they presented in their proposals. If the private operators require more staff than what they indicated in their proposals, then they are responsible for meeting the additional costs. The advantage of this arrangement for QCS is that it has certainty over the operational fee as it relates to staff costs over a five-year term. QCS manages the risk that private operators' reduced staff numbers could compromise the quality of service delivery through performance monitoring.

Custodial officers are responsible for supervising prisoners and monitoring and maintaining prison security. Both private operators employ less custodial officers than in the public sector model. This indicates that QCS has a different risk appetite to the private operators who are prepared to accept a higher risk profile than the public sector. QCS is prepared to accept a higher risk for its privately operated prisons who utilise less custodial officers because it has contractual arrangements to manage the performance of the operators. Therefore, they ensure that accepting the higher risks does not negatively affect prison service quality.

Figure 2H shows how for both the AGCC and SQCC the number of staff employed by the private operators varies from the public sector model.

Figure 2H
Private vs public—staffing variance

Staff	AGCC—variance between public and private staff numbers	SQCC—variance between public and private staff numbers
Management	1.68	1.0
Admin and stores	0.85	(8.4)
Sentence management	0.84	(2.0)
Correctional supervisors	(2.15)	(0.7)
Custodial officers	85.49	9.5
Industries / catering	1.99	12.1
Intelligence	(0.36)	1.1
Programs	0.74	(6.1)
Medical	(6.36)	14.9
Total FTE's variance	82.72	21.4

Source: Queensland Audit Office from data provided by the Department of Justice and Attorney-General

While the total number of staff the public and private operators require differs significantly, the variance is less significant for the number of staff working on average per day. Figure 2I shows the variance between the total and average employees working per day for the AGCC and the public sector comparator.

Figure 2I
Arthur Gorrie Correctional Centre—employee numbers

	Public sector comparator	Private sector operator	Variance %
Total staff numbers	415.18	332.47	19.92
Average number of staff per day	250.0	225.50	9.80

Source: Queensland Audit Office from data provided by the Department of Justice and Attorney-General

QCS requires more full-time staff per work shift than the private operator does, primarily so it can call in relief workers when rostered staff are unavailable, or on leave or training. QCS requires 2.66 staff members to cover each work shift, whereas the private sector operator at AGCC requires 2.40 staff members for each work shift. Because public sector workers have more non-duty time in their industrial award than private sector workers, QCS requires more staff to cover shift workers. For example, public sector custodial workers receive 34 hours for "other leave" and have 42 hours allocated for training which QCS conducts offsite.

Medical costs

The SQCC private operator delivers medical services at a significantly lower cost than the public sector would, with a 58 per cent variance, or \$2.8 million lower per year. Figure 2J shows a comparison between the public and private sector medical costs for the SQCC.

Figure 2J
Southern Queensland Correctional Centre—medical costs

Cost element	Public Sector Comparator \$ m	Private sector submission \$ m	Variance \$	Variance %
Medical labour costs	3 458 000	1 266 790	2 191 210	63.37
Medical expenses	621 000	293 098	327 902	52.80
Direct non-labour costs	207 480	181 319	26 161	12.61
Profit and overheads	481 362	257 898	223 464	46.42
Total medical costs	4 767 842	1 999 105	2 768 737	58.07

Source: Queensland Audit Office from data provided by the Department of Justice and Attorney-General

QCS engaged an external practice management consultant to validate that the private operator's staffing proposal was satisfactory. The consultant agreed with the operator's proposed list of staffing resources.

The medical labour costs at the SQCC are significantly lower than the public sector comparator because they employ less medical staff. The public sector would employ more than double the number of medical staff to operate the prison—26 staff compared to the SQCC operator, which employs 11.1 staff, a difference of 14.9 staff. Consequently, the public sector's proposed labour costs for delivering medical services in the SQCC is 173 per cent more than the private sector model, or \$2 191 210 more per year.

Compared with the public sector model, the private sector also incurs lower medical overheads, 46.42 per cent less than the public sector's and lower medical expenses, 52.80 per cent lower than the public sector's. Medical expenses primarily includes the cost of medicines and pharmaceutical items provided to prisoners.

The recently completed public versus private sector analysis QCS and QH completed for the recommissioning of the Borallon Correctional Centre (Borallon) also shows a significant cost differential for medical services. This shows that the private prison model can deliver medical services \$4.9 million (47 per cent) cheaper over three years than the public sector at Borallon.

We used the medical cost estimates QH and the private operators submitted to QCS during the procurement process for the operation of the SQCC and Borallon to compare their medical costs. There was not enough information to indicate whether their cost estimates were based on like-for-like assumptions. However, the results indicate that QH and QCS need to conduct further analysis to determine why the cost differential is so high.

Queensland Health medical cost estimation for public sector comparators

The medical costs QH estimated for the SQCC public sector comparator was significantly higher than the actual medical costs of much larger publicly run prisons. QH's proposed medical costs for SQCC (302 cells) was \$5.1 million—36 per cent higher than Wolston Correctional Centre (716 cells), 34 per cent higher than Brisbane Correctional Centre (573 cells), and 75 per cent higher than Brisbane Women's Correctional Centre (401 cells). While other factors may affect medical costs, these significant cost variances bring into question the cost efficiency of QH's prison services.

In May 2015, Cabinet allocated QH \$5.583 million to operate medical, mental health and dental services at Borallon in 2016–17 increasing to \$5.877 million by 2018–19. QH's cost estimate for this funding allocation (through West Moreton Hospital and Health Service (HHS)) was more consistent with its actual costs in other publicly run prisons, but is still overstated. Unlike private operators, QH does not receive additional funding for any 'over-state' prisoners—i.e. when prisoners double-up in cells because of prison overcrowding. Therefore, QH overstated its cost estimate for Borallon because it does not receive additional funding for overcrowding.

A benefit of the private sector model is that the state only pays additional costs for overcrowding when the prison is overcrowded. When QH completed its cost estimate for the Borallon prison, it costed its operations for up to 600 prisoners compared to the private operator, which costed for 492 prisoners, the Borallon prison's built cell capacity. Therefore, to ensure it has enough funding for medical services if the Borallon prison overcrowds, it assumed the prison will be overcrowded from day one of prison operations at up to 122 per cent utilisation of the prison's built capacity.

Figure 2K compares QH's medical costs for SQCC and Borallon with the actual costs for three publicly run prisons in which West Moreton HHS operates medical services. The staffing profile QH proposed for the SQCC and Borallon prisons shows that it sought to achieve a lower prisoner to staff ratio than other public prisons.

Figure 2K
Actual annual medical costs compared to the public sector comparator—2014–15

	Wolston	Brisbane	Brisbane Women's	Southern Queensland	Borallon
Average daily number of prisoners	716	573	401	302*	492*
	Queensland Health – Actual			Public Sector Comparator	
Cost (excludes mental and dental health)	3 749 882	3 799 410	2 904 881	5 089 357**	3 857 467**
Number of Full-time Equivalent (FTE) staff (Queensland Health)	20	26	19	26	26
Prisoner to FTE staff ratio	35.8	22.0	21.1	11.6	18.9

Note: * Built cell capacity; ** Costs adjusted to reflect 2015 dollars

Source: Queensland Audit Office from data provided by Queensland Health

Over the last two financial years—2013–14 and 2014–15, West Moreton HHS has incurred prison medical expenses over their allocated funding levels by \$3.97 million. This correlates with prison overcrowding over these two financial years. Figure 2L shows West Moreton HHS's actual direct costs versus funding levels and the prison utilisation rates for 2012–13 to 2014–15.

Figure 2L
West Moreton HHS - medical services funding versus actual direct costs

	2012–13	2013–14	2014–15
Built capacity	1 456	1 456	1 456
Average daily population	1 430	1 597	1 690
Utilisation rate %	98.2	109.7	116.1
Funding \$	11 380 069	9 982 306	10 601 683
Actual direct costs \$	9 725 588	11 348 333	13 202 537
Variance \$	1 654 481	(1 366 027)	(2 600 854)
Variance %	14.5	(13.7)	(24.5)

Source: Queensland Audit Office from data provided by the Queensland Health

West Moreton HHS used its funding estimate for the Borallon prison to obtain sufficient funding to deliver more timely health services (which includes medical, dental and health services) than what QH has been funded to deliver in other prisons. This means that prisoners in the Borallon prison will receive more timely access to health services compared to prisoners in other public prisons. For example, in addition to being allocated at least \$3.9 million per year to deliver medical services at Borallon, West Moreton HHS will also be allocated at least:

- \$457 425 per year allocated to deliver dental health services at Borallon for up to 600 prisoners, while Metro South HHS has \$283 000 to deliver dental health services to almost 2 500 prisoners across five prisons.
- \$985 345 per year allocated to deliver mental health services at Borallon, while it has a funding pool of \$4 815 902 to service an additional seven prisons.

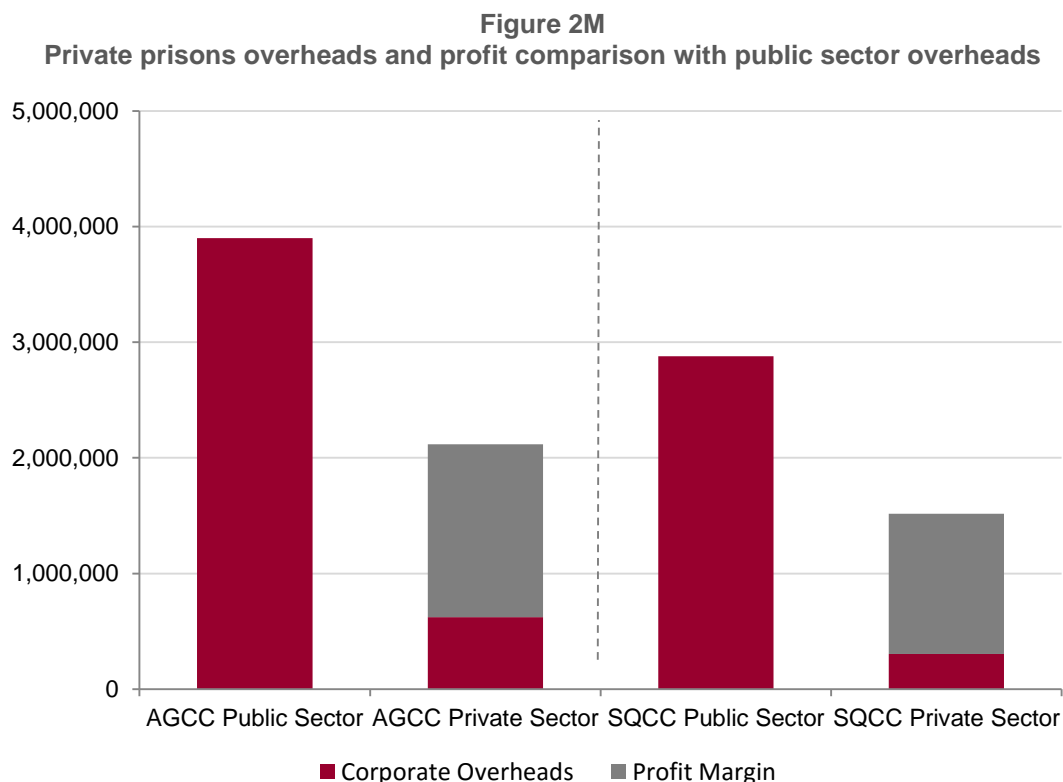
In 2015–16, QH is allocating an additional \$9.08 million in funding to HHS's for offender health services in response to the increase in prison population, a total of \$40.5 million for all prisons. It has also allocated an additional \$3.0 million in 2015–16 for additional prisoner mental health services.

Profit and overheads

The public sector's overhead costs is more than 45 per cent higher than the private sector's profit margin and overheads combined—45.70 per cent higher in the AGCC and 47.31 per cent higher in the SQCC. This results in the private sector's profit margin and overhead costs combined being more than \$1.4 million per year lower than the public sector in the SQCC, and almost \$1.8 million lower in the AGCC.

QCS allocates 10 per cent of the total cost of a prison's operating cost (excluding maintenance and depreciation) to overheads in the public sector comparators. This is an appropriate allocation because it is a conservative estimate compared to what QCS allocates to publicly operated prisons—an average of 23 per cent per prison in 2014–15. By allocating 10 per cent to overheads in the public sector comparators, QCS recognises that some of its corporate overheads will remain fixed irrespective of how many prisons it operates publicly.

Figure 2M shows a comparison between the public sector overhead costs QCS allocated to the AGCC and SQCC in the public sector comparator and the private sector's profit margin and overhead costs for the AGCC and SQCC.



Source: Queensland Audit Office from data provided by the Department of Justice and Attorney-General

The public sector has higher overheads compared to private operators because it has a larger corporate structure and additional responsibility for managing the statewide operations of the prison system. In 2013–14, QCS's overheads were about \$77 million per year and included:

- \$38 million for sentence management administration, statewide operations directorate, systems and records management to support prison operations, QCS Academy, Parole Board, intelligence and investigations, Prisoner Employment Assistance Program, Office of the Commissioner and Office of the Chief Inspector.
- \$10 million for Department of Justice and Attorney-General overheads.
- \$22 million for shared services, operational support services such as finance, HR and planning and information technology support.
- \$7 million for the state law building, Queensland Government Insurance Fund, and fringe benefits tax.

Offender expenses

The private sector's offender-related expenses for the SQCC and AGCC are between 13.30 and 16.35 per cent lower than the public sector's. Figure 2N shows a comparison between the public sector's offender expenses cost elements against the private operators'.

Figure 2N
Private vs public prisons—offender expenses

Cost element	Public Sector Comparator \$ m	Private sector submission \$ m	Variance \$	Variance %
Arthur Gorrie Correctional Centre				
Catering	2 321 235	1 827 705	493 530	21.26
Clothing, bedding and cleaning	284 800	220 331	64 469	22.64
Personal hygiene	462 800	354 016	108 784	23.51
Education and programs	142 400	260 500	(118 100)	(82.94)
Remuneration	626 962	565 749	61 213	9.76
Transport on discharge	5 000	5 060	(60)	(1.20)
Miscellaneous offender costs	17 800	480	17 320	97.30
Total offender expenses	3 860 997	3 233 841	627 156	16.24
Southern Queensland Correctional Centre				
Catering	1 015 007	787 904	227 103	22.37
Clothing, bedding and cleaning	105 000	142 084	(37 084)	(35.32)
Personal hygiene	171 600	118 111	53 489	31.17
Education and programs	48 000	207 845	(159 845)	(333.01)
Miscellaneous offender costs	6 000	6 622	(622)	10.37
Remuneration	496 033	381 962	114 071	23.00
Transport on discharge	55 000	-	55 000	-
Total offender expenses	1 896 640	1 644 528	252 112	13.29

Source: Queensland Audit Office from data provided by the Department of Justice and Attorney-General

Lower catering costs contributed 78.83 per cent (AGCC) and 87.70 per cent (SQCC) of the total savings in offender expenses.

The private operators' catering costs are lower because they are able to achieve a lower cost per plate, which we estimate is 16.8 per cent lower at the AGCC and 25.7 per cent lower at the SQCC.

Figure 2O shows our cost per meal analysis for catering expenses at the AGCC and SQCC.

Figure 20
Catering expenses—cost per meal

	Public Sector Comparator	Private sector submission	Public Sector Comparator	Private sector submission
	Arthur Gorrie Correctional Centre (\$ 2007)		Southern Queensland Correctional Centre (\$ 2011)	
Catering expenses	2 321 235	1 827 705	1 015 007	757 600
Number of prisoners	890	890	300	300
Number of shift staff / day	140.0	122.5	54.4	50.5
Number of non-shift staff	110.0	100.0	56.9	75.3
Cost per meal	\$2.10	\$1.75	\$2.65	\$1.97

Source: Queensland Audit Office from data provided by the Department of Justice and Attorney-General

The efficiencies the private sector can achieve in catering enables it to spend more than the public sector does in other areas. Most notably, the private operator spends more than three times the public sector would on education and programs in the SQCC and almost 83 per cent more than the public sector would in the AGCC. Even with this additional spend, the private sector achieves an overall 13.30 to 16.24 per cent saving on total offender expenses compared to the public sector comparator. Finding cost efficiencies is therefore one way to free up funding to improve prisoner-related outcomes in private and public sector facilities.

3. Performance of private and public prisons

In brief

Government expects that private prison operations minimise the cost of prison operations whilst maintaining an acceptable level of prison services. Queensland Corrective Services assesses both private and public prisons against the following types of performance measures: safety and security, prisoner rehabilitation and prisoner quality of life. We also assessed public and private operators' performance in relation to delivering health services to prisoners.

Conclusions

When compared against public prisons, the private operators' performance is comparable in almost all areas we examined, but QCS monitors the performance of its private operators at a more detailed level than what it does for its public prisons. The rate of illicit drug use is a key area of concern for both private and public prisons—QCS's current strategies have not been effective in reducing the rate of illicit drug use.

Queensland Health (QH) is not satisfying the demand for dental services. Prisoners cannot get timely access to emergency dental services, which is placing their health at risk. The private operators are unable to address this problem because they are not responsible for dental services.

Findings

- More security incidents have occurred at the Arthur Gorrie Correctional Centre (AGCC) than public prisons because it has remand prisoners only. It is also because the AGCC has more hanging points than any other prison in Queensland—30 per cent of its cells.
- Private prison operators have less incentive to generate profit in prison industries compared to public prisons. Private operators do not get to keep their industry profits beyond what it contractually agreed—public prisons offset all their profits against their operational costs.
- The private prison operators performed above the public sector average for the percentage of Vocational Education and Training (VET) programs completed by prisoners and achieved similar results as publicly operated prisons for the percentage of prisoners employed.
- The rate of illicit drug use in Queensland's two private prisons is higher than the public sector average, but the rate of illicit drug use at the Brisbane Women's Correctional Centre is the highest in the state.
- Public prison operators do not apply the same standards as private operators do for the quality of food services—they do not conduct annual food safety inspections nor have a qualified dietician review their menu annually.
- The Memorandum of Understanding (MoU) between QH and QCS for the delivery of health services in prisons expired in June 2013. West Moreton Hospital and Health Service (HHS) and Metro South HHS have not agreed to a new MoU mainly because they are unable to satisfy QCS's expectation of community-type services without additional resources.
- QH does not have central governance for coordinating prisoner health services.
- An external consultant QCS engaged identified that both private operators deliver medical services according to community standards.
- QH is not satisfying the demand for emergency dental care in public and private prisons and this is placing the health of prisoners at risk. The expectation that prisoners will receive a community-type dental service while in prison is unachievable with current prisoner numbers and available funding.

Introduction

The cost of prison operations should be minimised without lowering the quality of prison services. We compared public and private prisons to assess whether the provision of services in privately and publicly operated prisons is comparable. This includes prison services provided by Queensland Corrective Services (QCS) and Queensland Health (QH). We also examined whether QH provides an adequate level of dental service in prisons—public and private.

One of the key issues resulting from prison overcrowding is the increased risk of limited access to quality services in prisons, particularly health services. In December 2015, all Queensland high security prisons were overcrowded with an average utilisation rate of 120 per cent.

Conclusions

The performance of private and public prison operators is comparable based on available performance data for security, humane custody of prisoners and prisoner education, training and employment. However, QCS monitors the performance of its private operators at a more detailed level than what it does for its public prisons.

A notable exception to private operators' performance is the rate of illicit drug use. Both private operators have higher illicit drug use rates than public prisons, except for the Brisbane Women's Correctional Centre, which has the highest illicit drug use rate. This is one area where QCS's policy and strategies are not working effectively and is an area of concern for both private and public prisons.

QH is not satisfying the demand for dental services in prisons and lacks a governance framework to effectively manage all health services in all prisons. Prisoners cannot get timely access to emergency dental services, which is placing their health at risk. The private operators are unable to address this problem because they are not responsible for dental services.

Safety and security

The performance results for safety and security measures in private prisons do not indicate any material anomalies with the private operators' performance. The Southern Queensland Correctional Centre (SQCC) recorded less security and safety incidents than the public sector average, while the Arthur Gorrie Correctional Centre (AGCC) recorded more incidents than the public sector average, except for the performance measure on assaults, prisoner-on-staff, which both private operators reported slightly higher rates for. These results are consistent with the facts that the AGCC is Queensland's second largest prison and the only prison whose sole purpose is to function as a remand centre, while the SQCC is the state's second smallest prison.

Figure 3A shows how the privately operated prisons compare against the public sector prisons for performance measures relating to prisoner safety and security.

Figure 3A
Safety and security - private versus public prisons: 2010–11 to 2014–15

Measure	AGCC	SQCC/ Borallon	Public sector average
Unnatural deaths	6	1	1
Discharged in error	16	2	8
Assaults—prisoner on prisoner	6.4	3.7	5.7
Assaults—prisoner on staff	0.8	0.7	0.5
Self-injury	217	65	161
Attempted suicide	21	3	12

Source: Queensland Audit Office from data provided by the Department of Justice and Attorney-General

Unnatural deaths

Unnatural deaths in custody can be caused by suicide, drug overdose, accidental injury or homicide. Private prison operators will have \$100 000 subtracted from their potential annual performance bonus if an unnatural death occurs during a contract year.

QCS deducted \$100 000 from the AGCC operator's performance bonus for four out of six years between 2009 and 2014 because of unnatural deaths which occurred in the prison. Six deaths from unnatural causes occurred at the AGCC from 2009 to 2014, the highest of any high security prison in Queensland.

An investigation report by QCS's Chief Inspector stated the following in relation to an unnatural death that occurred at AGCC on 5 October 2010:

In the view of Inspectors, given (a) the current profile of the remand prisoners at AGCC, (b) the limitations of the infrastructure at AGCC, (c) the current approach to managing prisoner accommodation in light of the number of old cells at AGCC, and (d) the present configuration of units, suicides are likely to continue to occur in old cells at AGCC.

Four more deaths from unnatural causes occurred at the AGCC since the Chief Inspector issued this report. During the same period, there were four unnatural deaths across all other prisons. In October 2010, the findings of an investigation report into a suicide at AGCC demonstrate that factors outside the operator's control affects the risk of suicides at the AGCC.

No deaths have occurred at the privately operated SQCC since it opened in January 2012. However, one suicide event occurred at the formerly privately operated Borallon Correctional Centre in 2011. The presence of a hanging point in the prisoner's cell enabled the suicide event. A hanging point is a fitting or structure in a cell that a prisoner can use to tie something to.

The risk of prisoner deaths by hanging exists irrespective of whether QCS operates a prison through public or private operators. Because the state provides and maintains prison infrastructure, it is the state's responsibility to minimise the risk of suicide by removing hanging points in cells. QCS spent about \$28 million in 2013–14 to remove hanging points from 112 cells at the AGCC, which reduced the number of cells with hanging points to 268. More deaths from unnatural causes could occur if QCS does not remove the remaining hanging points from cells.

The presence of hanging points in cells also makes it difficult for QCS to objectively assess the performance of private operators in relation to unnatural deaths, because the risk of unnatural deaths at the two privately operated prisons is significantly different. The newly built SQCC has no hanging points, but 268 cells (30 per cent) at the AGCC have hanging points.

From early 2016, the number of prison cells in use with hanging points will significantly increase when QCS recommissions the Borallon prison. Of the 397 cells in secure units at Borallon, 244 (62 per cent) have hanging points. This will bring the total number of prison cells with hanging points in Queensland to 600 (including AGCC—268 and Townsville Men's—88). QCS intends to manage the risk of prisoner suicides in the recommissioned Borallon prison through prevention strategies such as accommodating the prisoners who are at risk of self-harm in suicide resistant cells.

Discharged in error

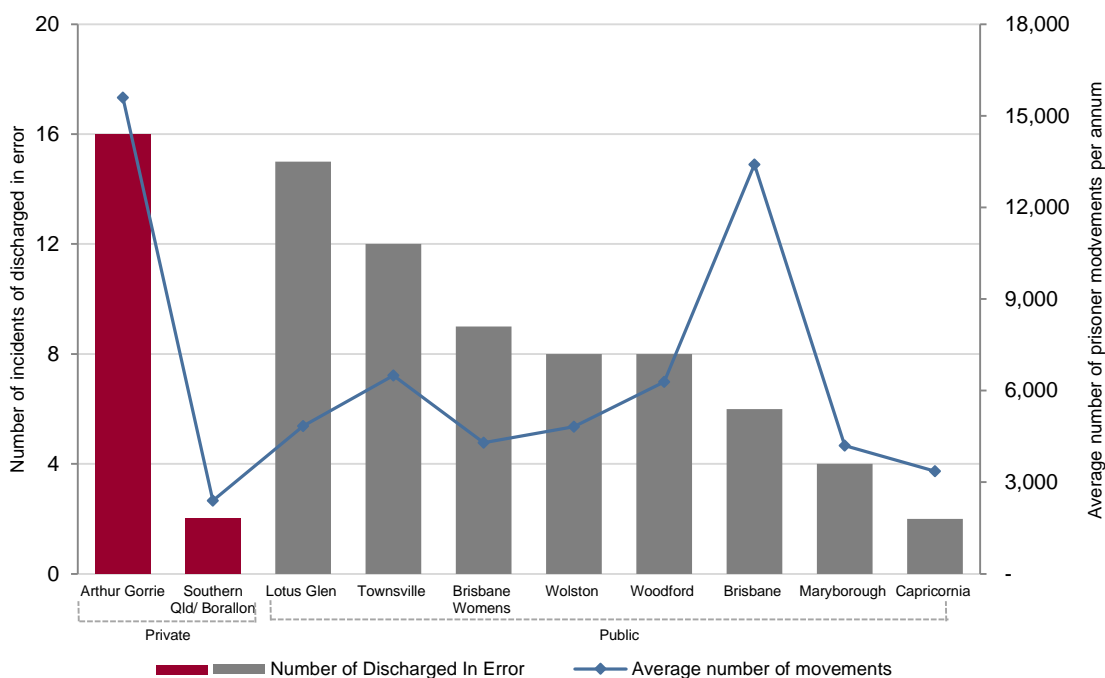
Discharges in error refers to either the actual discharge of a prisoner prior to lawful discharge date or retention of a prisoner beyond the lawful discharge date. Private prison operators will have \$25 000 subtracted from their potential annual performance bonus if a discharge in error occurs during a contract year.

A higher level of discharge errors is likely at the AGCC because it has the highest average prisoner movements per annum of all Queensland high security prisons, while SQCC has the lowest. Prisoner movements include prisoner entries, transfers to other prisons and discharges from prison.

The performance results for both privately operated prisons correlates with the average number of prisoner movements in those prisons. This is not the case for all publicly operated prisons. In particular, the Lotus Glen Correctional Centre had the second highest number of prisoners discharged in error from 2010 to 2015, but had the sixth lowest average prisoner movements per annum.

Figure 3B shows the number of incidents of prisoners discharged in error that have occurred in Queensland high security prisons over the 2010–15 period and the average number of prisoner movements per annum in each prison.

Figure 3B
Prisoners discharged in error versus prisoner movements—2010–15



Source: Queensland Audit Office from data provided by the Department of Justice and Attorney-General

Assaults

QCS has a duty of care to provide a safe environment for all prisoners. Performance measures on assaults provides an indication of how well a prison operator manages the risk of prison violence.

During the period from 2010–11 to 2014–15, there were 1 671 recorded incidents of prisoner assaults, an average of 28 assaults per month across the state. Overall, the rate of assaults in custodial facilities has increased from a rate of 4.6 per 100 prisoners in 2010–11 to 6.4 per 100 prisoners in 2014–15.

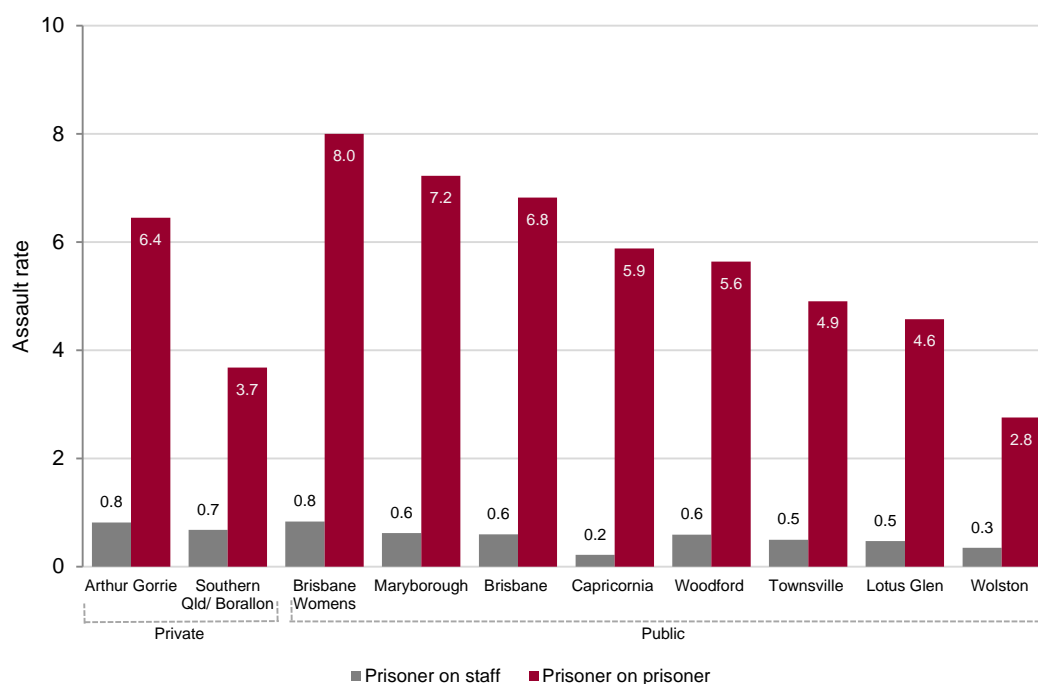
Over the period 2010–2015, the:

- AGCC had the fourth highest average rate of assaults on prisoners—6.4 compared to the state average rate of 5.6. SQCC/Borallon had the second lowest average rate of 3.7.
- AGCC had a prisoner on staff assault rate of 0.81, the second highest in the state. The SQCC has a prisoner on staff assault rate of 0.68, the third highest in the state.

AGCC's assault rate is higher than the state average, but it is the only prison with remand prisoners only. Remand prisoners are more likely to be distressed, mentally unsettled or still under the influence of drugs or other substances.

Figure 3C shows the average rate of prisoner-on-prisoner and prisoner-on-staff assaults over a five-year period. The Brisbane Women's Correctional Centre has the highest assault rate of all prisons, it is also the most overcrowded high security prison, currently operating at 136 per cent capacity.

Figure 3C
Rate of assaults by prison—2010–15



Source: Queensland Audit Office from data provided by the Department of Justice and Attorney-General

Self-harm

The incidence of self-harm by prisoners is affected by the loss of freedom, the potential loss of family and social support, uncertainty and fear about the future. Over time, imprisonment can also bring additional stress from conflicts with other prisoners or staff, legal frustration, and physical and emotional breakdown.

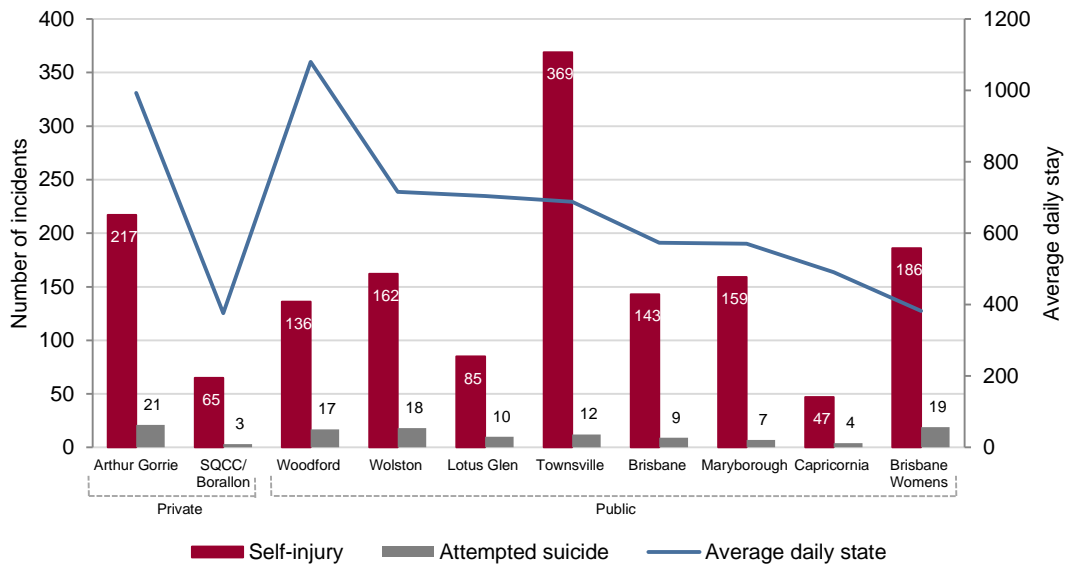
QCS divides the self-harm performance measure into:

- the number of incidents of self-injury
- the number of incidents of attempted suicide.

AGCC had the highest number of attempted suicides (21), while the other private prison, SQCC/Borallon had the lowest (three). AGCC has a higher risk of suicides occurring than the other high security prisons in Queensland because it is a remand only prison.

Figure 3D shows the number incidents of self-injury and attempted suicide recorded in Queensland prisons over the 2010–15 period. The number of self-injury incidents at AGCC over this period, 217, is above the state average of 157. SQCC/Borallon had the second lowest—65. Townsville Correctional Centre had the highest number of self-injury incidents for all high security prisons from 2010 to 2015. Twenty four per cent of self-injury incidents in high security prisons occurred in the Townsville Correctional Centre during this period.

Figure 3D
Self-harm incidents—2010–15



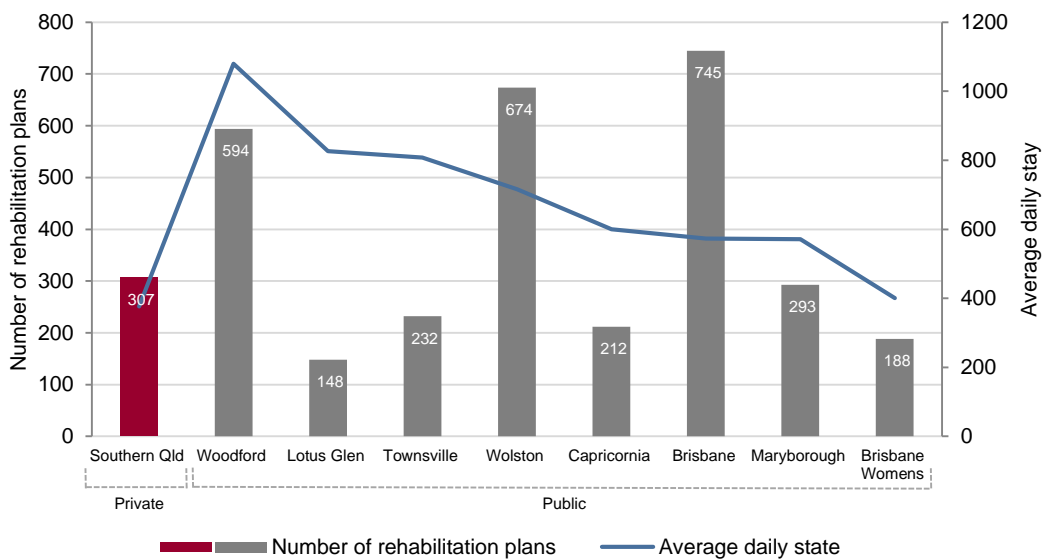
Source: Queensland Audit Office from data provided by the Department of Justice and Attorney-General

Prisoner rehabilitation

While SQCC had the lowest average daily state (average number of prisoners per day) of all high security prisons, it developed 307 rehabilitation plans—the fourth highest of all high security prisons. The state average was 377. Because all prisoners at AGCC are on remand and most have a short length of stay, no rehabilitation plans are developed.

The number of rehabilitation plans developed across all prisons varied and in some cases did not correlate with the average number of prisoners in each prison per day (average daily state). In particular, Lotus Glen prison had the second highest average daily state, but had the lowest number of rehabilitation plans developed. Figure 3E shows the number of prisoner rehabilitation plans developed over the 2012–15 period.

Figure 3E
Rehabilitation plans—2012–15



Source: Queensland Audit Office from data provided by the Department of Justice and Attorney-General

The private prison operators performed above the public sector average for the percentage of Vocational Education and Training (VET) programs completed by prisoners. They also achieved similar results as publicly operated prisons for the percentage of prisoners employed. However, the two privately operated prisons reported the second and third highest rate of positive drug tests of all prisons.

Figure 3F shows how the privately operated prisons compare against public sector prisons in performance measures relating to prisoner rehabilitation.

Figure 3F
Prisoner rehabilitation - private versus public prisons: 2013–14 to 2014–15

Measure	AGCC %	SQCC/ Borallon %	Public sector average %
Illicit drug use—percentage of prisoners tested who returned positive result positive (2014–15)	15.1	18.6	11.4
Education and training—percentage of completed VET programs (2013–15)	93	87	81
Employment—percentage of eligible prisoners employed (2014–15)	79	68	68

Source: Queensland Audit Office from data provided by the Department of Justice and Attorney-General

Illicit drug use

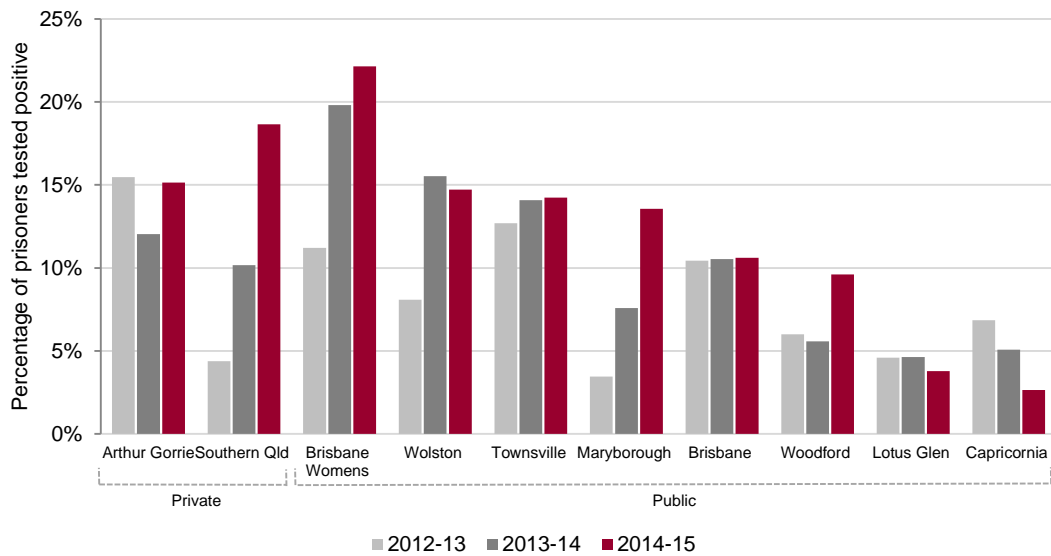
QCS directs that prison operators test a minimum of one per cent of prisoners randomly every week for illicit drugs in all Queensland high security prisons. The performance measure for the rate of illicit drugs identifies the percentage of prisoners that test positive from random urine sample analysis.

QCS through its *Drug and Alcohol Policy* aims to ensure prisons remain drug and alcohol free. This is done by holding offenders who abuse these substances accountable and providing them every opportunity to address these behaviours while in custody. Both private operators have also developed their own illicit drug use reduction strategies.

Despite these strategies, illicit drug use remains an area of concern in all Queensland prisons with an average of 12.5 per cent of prisoners testing positive in 2014–15 across Queensland high security prisons. Both privately operated prisons returned above average drug testing results in 2014–15. The SQCC had the second highest percentage of prisoners who tested positive to drugs in 2014–15, and had the highest percentage increase in drug testing results of all prisons over a three period from 2012–13 to 2014–15. The Brisbane Women's Correctional Centre had the highest rate of positive drug tests in 2014–15 of 22.2 per cent.

Figure 3G shows illicit drug test results from 2012–13 to 2014–15 for all high security prisons. In 2014–15, the rate of illicit drug use increased in seven out of 10 high security prisons from 2013–14.

Figure 3G
Drug testing—2012–15



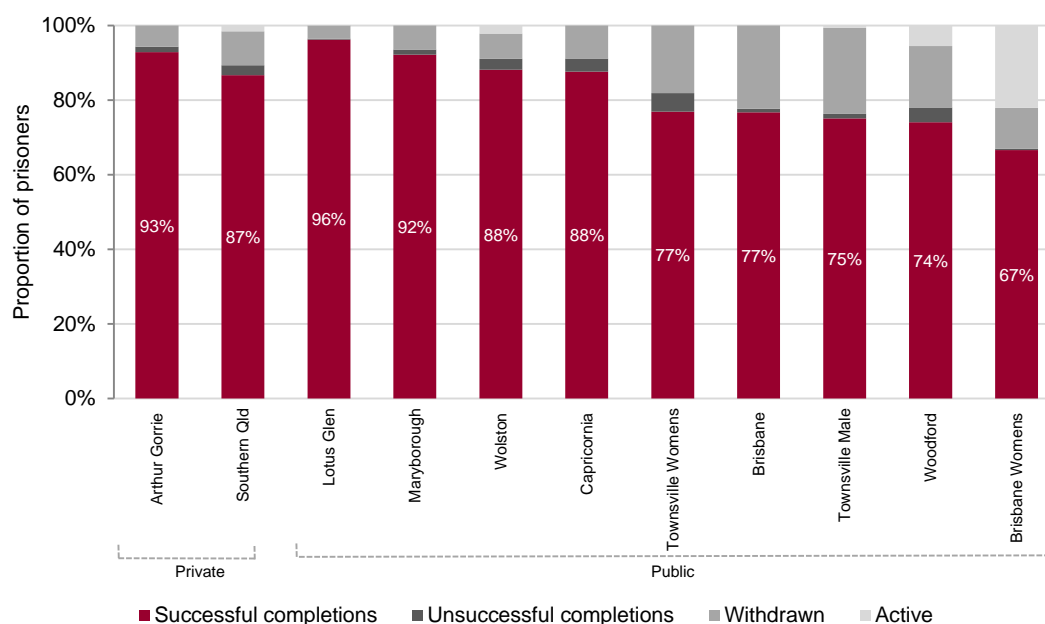
Source: Queensland Audit Office from data provided by the Department of Justice and Attorney-General

Education and training

AGCC primarily provides literacy and numeracy, and VET programs. AGCC does not generally offer tertiary level studies to prisoners because all their prisoners are on remand and most have a short length of stay. It does support prisoners who transfer from other prisons who were already enrolled in tertiary level studies.

We analysed the percentage of enrolled prisoners in each prison who successfully completed their VET program. The state average of successful VET program completions by prisoners was 81 per cent. Figure 3H shows both private operators achieved above average VET successful program completion results—AGCC achieved 93 per cent and SQCC achieved 87 per cent of successful VET programs completions.

Figure 3H
Vocational education and training status—2013–15



Source: Queensland Audit Office from data provided by the Department of Justice and Attorney-General

Both privately operated prisons provide comparable VET streams as offered in the public prisons. Figure 3I shows the number of VET streams each prison offers to prisoners. From 2013 to 2015, the average number of VET streams offered across all high security prisons in Queensland was 11, both privately operated prisons offered 12 VET streams.

Figure 3I
Vocational education and training streams—2013–15

Education stream	Arthur Gorrie	Southern Queensland	Lotus Glen	Wolston	Woodford	Maryborough	Capricornia	Townsville Male	Townsville Womens	Brisbane	Brisbane Womens
Arts		✓	✓	✓	✓	✓					
Asset Maintenance			✓	✓		✓	✓	✓		✓	✓
Automotive		✓	✓		✓	✓					
Business	✓	✓	✓	✓	✓	✓		✓	✓		✓
Community Services Work									✓		
Conservation	✓		✓		✓						
Construction	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
Engineering	✓	✓	✓	✓	✓	✓	✓	✓			
Fashion									✓		✓
First Aid	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Fitness	✓	✓	✓			✓					✓
Furnishing	✓	✓			✓		✓	✓			
General Education for Adults		✓									
Horticulture	✓		✓	✓	✓						
Hospitality	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Information Technology		✓	✓	✓		✓	✓	✓	✓	✓	
Laundry										✓	
Mining	✓		✓	✓	✓	✓	✓	✓		✓	
Rural	✓	✓	✓	✓	✓		✓		✓		
Textile Fabrication									✓		✓
Transport Distribution	✓			✓			✓			✓	
Work Readiness/Prep				✓	✓	✓	✓	✓	✓	✓	✓
Total	12	12	14	13	13	12	11	10	10	9	8

Source: Queensland Audit Office from data provided by the Department of Justice and Attorney-General

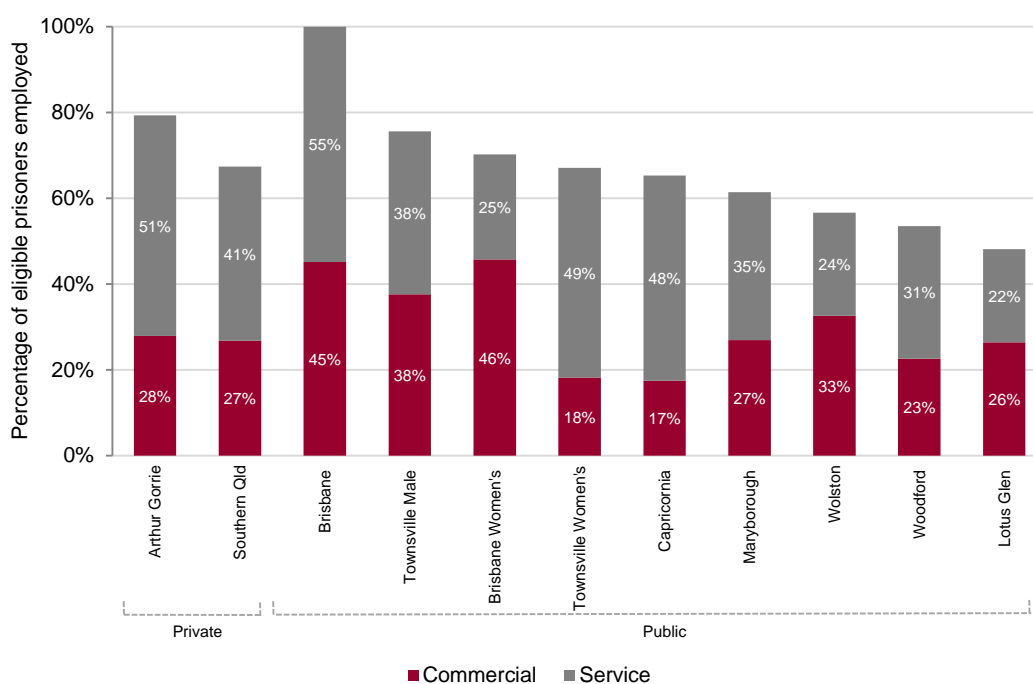
Employment

Prison industries such as textiles, woodwork and metal fabrication, play an important role in the whole prison system. It helps to:

- reduce the operational cost of prisons
- keep prisoners engaged by providing them with meaningful work
- provide the opportunity for associated vocational education and training opportunities that will assist prisoners to obtain employment post release
- contribute to the good order and effective management of a corrective services facility.

Figure 3J shows that in 2014–15, AGCC had 79 per cent of eligible prisoners employed while SQCC had 68 per cent. This is consistent with the state average of 68 per cent of eligible prisoners employed in 2014–15. In both private prisons, the majority of prisoners were employed in non-fee for service industries (AGCC—51 per cent and SQCC—41 per cent).

Figure 3J
Percentage of eligible prisoners employed—2014–15



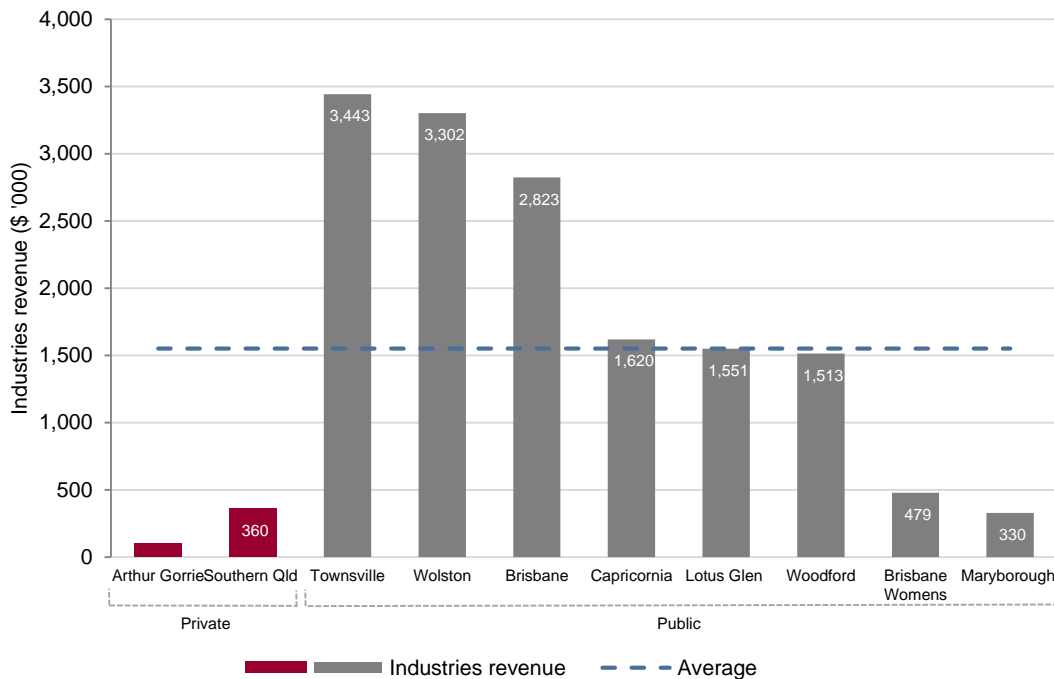
Note: QCS defines employment for prisoners as a percentage of those eligible to work —i.e. excluding those unable to participate in work programs because of full-time education and/or training, ill health, age, relatively short period of imprisonment or other reason.

Source: Queensland Audit Office from data provided by the Department of Justice and Attorney-General

Private prison operators have less incentive to generate profit from prison industries compared to public prisons. The private prisons do not get to keep the industry profits beyond what it contractually agreed, whereas the public prisons can offset their profits against their operational costs. The contracts require the private operators to pay QCS their profits from prison industries. Once QCS receives these funds, at its discretion it can use the funds to purchase additional industry equipment.

Consequently, while the private prison operators achieve a comparable percentage of employed prisoners to public prisons, they do this primarily by employing prisoners in non-commercial industries. Figure 3K shows that both private prisons generate below average industries revenue.

Figure 3K
Industries revenue—2014–15



Source: Queensland Audit Office from data provided by the Department of Justice and Attorney-General

It is important to acknowledge that factors outside a prison operator's control influence their potential industries revenue. This includes the size of the prison, available infrastructure, and the industry opportunities available in the geographical location of the prison.

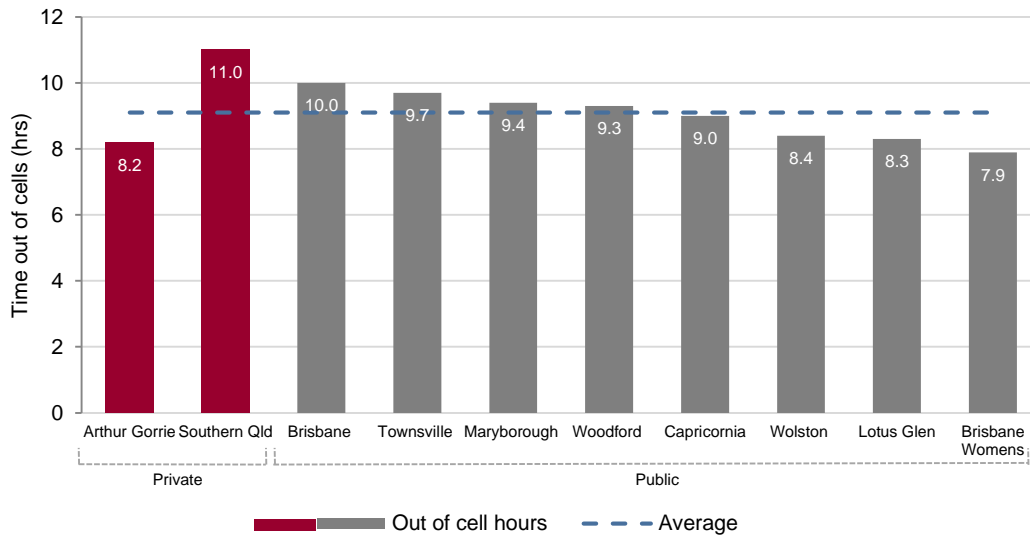
Prisoner quality of life

Time out-of-cells

Time out-of-cells is the average number of hours in a 24-hour period when prisoners are not confined to their cells or units. When prisoners are not confined to their cells or units, they have the opportunity to participate in a range of activities, which may include work, education and training, wellbeing, recreation and treatment programs, personal visits, and time to interact with other prisoners and staff.

Figure 3L shows that the amount of time prisoners spend outside of cells is comparable between privately and publicly operated prisons. Prisoners at the SQCC had on average 11 hours out of cell every 24 hours in 2014–15, the highest of all Queensland high security prisons. While over the same period, prisoners at the AGCC had on average 8.2 hours out of cell every 24 hours, the second lowest of all Queensland high security prisons. This is because QCS agreed with the private operator of AGCC in 2014 to reduce certain day shift posts from 12 to 11 hours. The maximum out-of-cell hours at AGCC achievable with 11-hour labour shifts is 10 hours per day.

Figure 3L
Time out-of-cells—2014–15



Source: Queensland Audit Office from data provided by the Department of Justice and Attorney-General

Time spent in structured activity

Structured activities include prisoner involvement in educational and training programs, employment and recreation and cultural activities. QCS measures the actual time prisoners spend in structured activity in its privately operated prisons, but does not do this for its publically operated prisons. This impedes its ability to compare and analyse a part of the performance of all its prisons.

Time spent in structured activity is one of QCS's Key Performance Indicators (KPIs) for the AGCC, while for the SQCC it is measured in three separate measures—hours spent in commercial industries, vocational education, and education and programmes.

Engaging prisoners in structured activity is one of the areas where both private prison operators have generally achieved consistent performance results. Between 2008 and 2014, the AGCC operator achieved its best practice targets for structured activity for four out of six times. The SQCC operator achieved its best practice targets for prisoner involvement in education and programs and vocational educational five times out of six from 2009 to 2014, and one out of six times for commercial industries.

It is not possible to determine if the private operators do this better than public sector operators because of the lack of comparable performance data. However, the performance results indicate that both operators have generally performed well against the contract in this area.

Quality of food services

The private operators of AGCC and SQCC achieve a lower catering cost than the public sector can in those prisons, but QCS has contract standards to ensure that the private operators do not compromise the quality of food service they provide because of lower costs. These standards include:

- Qualified Health Inspectors inspect food service operations at least annually. Inspection results and remedial actions (if required) are documented.
- All meals are nutritionally balanced and a qualified dietician approves menus and food portions at least annually.

We confirmed that both operators have annual inspections of their food service operations and that they have a dietician review their menu annually. However, the publicly operated prisons do not apply the same standards. There is currently no requirement for publicly operated prisons to engage a qualified dietician.

We reviewed two publicly operated prisons to determine when they last performed annual food safety inspections and had a qualified dietician review their menu annually as the private operators do. We identified that the:

- Woodford Correctional Centre has not had a food safety inspection since 2012, and has not had a dietician review its food menu since 2009.
- Wolston Correctional Centre has not had a food safety inspection since 2012 and has not had a dietician review its food menu since 2013. At the time of our audit, a dietician was reviewing the food menu at Wolston Correctional Centre.

QCS has developed food and nutrition standards and guidelines for all high security prisons, which describe the standards it expects in prison food service operations. It specifies that operators need to provide sufficient energy (kilojoules) and nutrients to prisoners. QCS has established that for male prisoners over the age of 30, sufficient energy intake is 12 000kj per day and for male prisoners under 30, it is 13 000kj per day.

Dietician reviews showed that the SQCC operator provided prisoners on average 13 840kj, above QCS's guideline, but the AGCC operator provided prisoners on average 12 495kj, below QCS's guideline. The dietician's report in relation to AGCC states that at AGCC

The energy provided from the menu is just under the recommended QCS target for prisoners under 20-years of age. Prisoners are able to order extra bread above rations that would help with meeting energy requirements.

The AGCC operator enhanced its menu following the dietician's review.

The dietician stated that:

- The AGCC operator demonstrated that:
The meals provided from the Catering Department will meet the protein, fibre, vitamins and mineral requirements based on the EARs for this population.
- For the SQCC:
The comparison of average nutrients available from meals and rations in Week 4 showed that prisoners could meet their energy, protein and mineral requirements if they chose the 1st or 2nd choices from the menu.

We were unable to obtain similar assurance that publicly operated prisons follow QCS's food and nutrition standards.

Prisoner health

A report in 2012 into the health of Australia's prisoners identified that prisoners have greater health needs than the general population. It reported that prisoners are more likely to have high levels of mental health disorders, illicit substance use, chronic disease, communicable disease and disability. It found that of all prisoners in Australian prisons:

- 37 per cent have a mental illness
- 32 per cent have a chronic illness
- 52 per cent use prescribed medications
- 22 per cent have hepatitis C+
- 19 per cent have hepatitis B+
- 84 per cent smoked in the 12 months prior to their imprisonment
- 70 per cent used illicit drugs prior in the 12 months prior to their imprisonment.

QCS's Healthy Prisons Handbook sets the expectation that correctional centres will provide prisoners with community-type level of health care. It states the following in relation to prisoner medical services:

Prisoners should be cared for by a health service that assesses and meets their health needs while in the centre which promotes continuity of health and social care on release. The standard of health service provided is equivalent to that which prisoners could expect to receive in the community.

Responsibility for medical and dental services in prisons

QH and QCS agreed to a Memorandum of Understanding (MoU) for the delivery of medical and dental services in prisons on 28 July 2008. The MoU expired on 30 June 2013. As at December 2015, West Moreton Hospital and Health Service (HHS) and Metro South HHS have not agreed to a new MoU with QCS. This is mainly because both HHSs are concerned that they are unable to meet QCS's requirement that they will provide prisoners with a health standard equivalent to what they would receive in the general community (community-type service) without additional resources. While the HHS's and QCS continue to negotiate on new MOU's, the previous MoU between QH and QCS continues to operate.

QH does not have central governance for coordinating the medical and dental services it provides in prisons. This means the HHSs delivering services in prisons do not benefit from collective systems for delivering those services.

Private operators and a number of different HHSs are currently responsible for delivering medical and dental services in prisons. The following irregularities exist in how QH has allocated these responsibilities:

- The private operators deliver medical services in their prisons, but not dental services.
- West Moreton HHS delivers medical services in three public high security prisons, but those prisons are located in the Metro South HHS catchment.

Figure 3M shows who is responsible for custodial services, medical services and dental services in five high security prisons.

Figure 3M
Allocation of responsibilities in prisons

Prison	Responsibility for custodial services	Responsibility for medical services	Responsibility for dental services
Arthur Gorrie	Private operator	Private operator	Metro South HHS
Southern Queensland	Private operator	Private operator	West Moreton HHS
Brisbane	QCS	West Moreton HHS	Metro South HHS
Brisbane Women's	QCS	West Moreton HHS	Metro South HHS
Wolston	QCS	West Moreton HHS	Metro South HHS

Source: Queensland Audit Office

Medical services

In April 2015, an audit conducted by an external consultant on behalf of QCS identified that

From the evidence collected during the audit process that the Health Centre at SQCC (and AGCC) is managed to a high standard in a reliable and professional manner.

It also confirmed that both private operators deliver medical services according to community standards and all other baseline contract requirements.

Figure 3N shows the prisoner waiting times by urgency at the two private prisons as at November 2015.

Figure 3N
Prisoner waiting times at private prisons—November 2015

	Criteria	Number of prisoners waiting	Criteria	Number of prisoners waiting
	Arthur Gorrie Correctional Centre		Southern Queensland Correctional Centre	
Category 1	Urgent review required at next Visiting Medical Officer (VMO)/Practicing Nurse (NP) clinic Prisoner will be seen within 3 days	0	Urgent review required at next VMO clinic Prisoners will be seen within 7 days	0
Category 2	Semi-urgent review Prisoner will be seen within 7 days for the VMO and 3 days for the NP	5 (VMO) 5 (NP)	Semi-urgent review Prisoners will be seen within 14 days	19
Category 3	Non-urgent review Prisoners will be seen within 8 weeks	17 (VMO)	Non-urgent review Prisoners will be seen within 6 weeks	38
Totals		27		57

Source: Queensland Audit Office from data provided by the Department of Justice and Attorney-General

In three high security public prisons where West Moreton HHS provides medical services, the HHS advised that its agreed waiting times for prisoners, was on average, up to seven days for semi-urgent medical cases and up to three to four weeks for non-urgent medical reviews. This is lower than the private operators and correlates with the higher staffing profile the QH uses in public prisons. However, there was no reliable data to indicate what the HHS's actual waiting times were over time because at the time of our audit, QH did not have a data collection tool to enable accurate and reliable data on prisoner waiting times. QH has funded a statewide project which commenced in November 2015 to deliver an electronic data collection system for prisons which it expects to implement in the final quarter of 2016.

Dental services

Prisoners cannot access timely dental services, but private operators have no ability to influence this, as it is not their area of responsibility. The cost of delivering dental services has remained constant in prisons, but the timeliness of service has declined because supply has not matched the increase in demand for services caused by prison overcrowding. This is despite the fact that QH's annual funding for oral health services has increased annually since 2011–12 from state and federal government contributions—a 30 per cent increase from 2011–12 to 2015–16.

QH HHS's are not satisfying the demand for emergency dental care in public and private prisons. According to QH's guidelines, a dentist should see emergency category one patients within 24 hours and emergency category two patients within three days. But Metro South Oral Health estimates that the actual waiting times for these emergency dental services is currently two to three weeks for emergency category one and six to eight weeks for emergency category two.

In November 2015, at the SQCC where West Moreton HHS provides dental services, 113 prisoners out of a population of 376 were waiting to see a dentist—30 per cent of the prison's population, but only eight prisoners per week could see a dentist.

In 2015–16, Metro South Oral Health is reducing the number of dental service sessions it provides in prisons by 21 per cent. Metro South Oral Health Service previously provided 272 sessions per year across five prisons in the Wacol precinct (including AGCC), but in 2015–16 will reduce this to 215 sessions per year following its review of the actual costs it incurs to deliver this service. It reallocated the number of sessions it provides on a pro-rata basis to each prison based on their respective prisoner populations. This reallocation method meant that Metro South Oral Health increased the number of services in the privately operated AGCC, but decreased the number of dental sessions it provides in the Brisbane, Brisbane Women's and Wolston prisons.

Figure 30 shows how Metro South Oral Health reallocated the number of dental services in the prisons it services for 2015–16.

Figure 30
Dental prison services—Metro South Oral Health

Prison	Population	Population %	Number of sessions in 2014–15	Number of sessions in 2015–16	Variance %
Arthur Gorrie	890	36.2	52	78	50
Brisbane	540	22.0	52	47	(10)
Palen Creek	170	6.9	12	15	25
Brisbane Women's	258	10.5	52	23	(56)
Wolston	600	24.4	104	52	(50)
Totals	2 458	100.0	272	215	(21)

Source: Queensland Audit Office from data provided by the Queensland Health

Metro South Oral Health's service schedule proposal states that it will only provide emergency dental care within the currently funded levels, and that not all prisoners will receive timely emergency care. Consequently, the waiting list for dental services in prisons will increase further, placing at risk the health of prisoners and potentially affecting their behaviour in prison. In October 2015, there were already 39 per cent of prisoners at the Brisbane Women's Correctional Centre on the waiting list to see a dentist—the number of dental sessions Metro South Oral Health provides in this prison decreased by 56 per cent in 2015–16.

QH provides funding for dental services in prisons to the HHS's responsible for delivering the services. Metro South Oral Health, part of the Metro South HHS, is currently allocated \$283 000 to deliver services in five prisons—this covers one dentist and two dental assistants to service about 2 700 prisoners in four high security prisons. This funding has not changed for about 10 years, but the number of prisoners located in these prisons has increased by 40 per cent since 2004–05. Metro South Oral Health estimates that it would require:

- \$735 800 to deliver adequate emergency care in which category one emergency patients are seen in 24 hours and category two emergency patients seen within three days.
- \$1 103 700 to deliver a community-type level of service. This includes at least one dental examination per year and about four to five follow-up appointments for restorative, prosthetics and preventative dental appointments. Metro South Oral Health expects this would reduce the number of emergency appointments by about 50 per cent.

Metro South Oral Health service has not signed a new MoU with QCS, which expired in June 2013 because it does not believe it can deliver a community-type service to prisoners with its current level of funding. The expectation that prisoners are entitled to community-type dental service while in prison is unachievable with the current funding and prisoner numbers because:

- Prisoners enter the prison system with a generally worse dental health than people of the general population. Research shows that prisoners:
 - have significantly more decayed and missing teeth and fewer restorations than the general population
 - have significant higher prevalence of periodontal disease than the general population
 - only become aware of their poor oral health when they enter the prison system because their illicit drug and alcohol use masks periodontal pain.
- It is more costly to provide prisoners with dental care while in prison than if they were in the general population. This is because prison dental services require two dental assistants rather than one. One assists the dentist and the other provides clinical support to sterilise equipment. QH needs a dental assistant to sterilise clinical equipment on site because the secure environment of a prison does not allow it to transport clinical equipment and supplies.

4. Private prisons contract management

In brief

Procurement of private prison operators needs to fulfil the Queensland Government's procurement principle of achieving value for money. To demonstrate this, Queensland Corrective Services (QCS) needs to consider both cost and non-cost factors to determine whether a private operator's offer represents value for money.

To ensure the state receives the service it expects from the private sector, public sector agencies need to use an effective performance management framework to drive performance improvement and innovation.

Conclusions

QCS uses price and non-price information to determine value for money when it competitively tenders a contract, but cannot demonstrate this when it extends or varies an existing contract. QCS cannot demonstrate that it is achieving the full potential of savings for the Southern Queensland Correctional Centre (SQCC) contract because it did not competitively tender the contract.

The private operators have not consistently met QCS's expectations for best practice performance against the contracted key performance indicators (KPI's). This shows the need for QCS to strengthen how it manages operator performance to drive continual performance improvement.

QCS has not maximised the value it achieves from private prison contracts because it designed its performance management framework to measure operational performance rather than outcomes. QCS has not given the operators sufficient incentive to innovate, which means that QCS has not benefited sufficiently from transferring innovative practices from private to public prisons to reduce costs and increase effectiveness.

Findings

- QCS's extension of the Arthur Gorrie Correctional Centre (AGCC) management contract demonstrates that it did not thoroughly assess whether value for money would be maximised.
- Because it did not competitively tender the SQCC contract, QCS is unable to demonstrate that they are not paying more than they need to for SQCC.
- QCS's sets base level and best practice KPI targets for private prison operator performance. Both private operators' performance against these targets declined after QCS renewed their contracts.
- QCS has not clearly defined the contract objectives in its private prison contracts.
- The performance measures QCS uses to assess private operators' performance is not robust enough to enable it to thoroughly assess how well operators deliver performance outcomes.
- QCS has not provided the private operators with a strong incentive to innovate—it is not a contract objective and there is no significant financial incentive for operators to innovate.
- The approach QCS uses for determining whether operators' fail to record incidents is ad hoc and based on trust. It has not documented how it addresses a fraud risk that operators may overstate their performance.
- QCS rewards good performance, and takes corrective action when it has serious concerns, but does not have a structured process to agree and follow-up well-defined action items with the private operators to improve performance.

Introduction

We examined whether Queensland Corrective Services (QCS) adequately assessed value for money when it procured prison services from private operators for the Arthur Gorrie Correctional Centre (AGCC) and the Southern Queensland Correctional Centre (SQCC) (in 2007 and 2011). We also assessed whether QCS implemented an effective performance management framework for its private prison contracts.

The Queensland Procurement Policy's primary principle is that "*we drive value for money in our procurement*". When agencies assess value for money, this policy requires them to consider cost related factors such as whole-of-life costs and non-cost factors such as quality, delivery and service.

Agencies that have a performance management framework for their contracts can measure whether they are realising the benefits they expected from a contractual arrangement. It can also prompt them to take corrective action if it is not getting what it paid for.

Conclusion

QCS can demonstrate that it tests value for money when it competitively tenders a contract, but cannot demonstrate this when it extends or varies an existing contract. In these instances, its analysis is not robust enough to demonstrate that it thoroughly tests it is getting the best price.

While QCS sets best practice performance targets for the private operators', they have not consistently met these and their performance against these contractual targets declined after their contracts were renewed. This shows that QCS needs to strengthen how it manages operator performance to drive continual performance improvement from its private operators.

QCS has not maximised the value it achieves from private prison contracts because it designed its performance management framework to measure operational performance and not for assessing how well operators deliver prisoner-related outcomes. This is important so prisoners are rehabilitated and equipped with the skills to reintegrate back into the community upon their release.

The current framework QCS uses does not give the private operators sufficient incentive to innovate. Less innovation means QCS has not benefited sufficiently from transferring innovative practices from private to public prisons to reduce costs and increase effectiveness. The framework is also open to potential manipulation—operators could overstate their performance by not reporting all security and compliance incidents. The risk of this happening is currently low because the potential performance bonuses are a low percentage of the operators' overall potential revenue.

Procurement of private prison operators

Departments need to consider cost and non-cost factors of a private sector proposal not only when they assess the results of a competitive tender process, but also when they consider whether to exercise an extension option for an existing contract. This is important so they can demonstrate that a decision to extend a contract represents better value for money than returning to the market for a new competitive tender process.

Cost evaluation

QCS established steering committees to provide broad oversight over the commissioning of the AGCC and the SQCC. Both committees included senior executives from QCS and representatives from Queensland Treasury and the Department of Premier and Cabinet. The AGCC committee's role was to determine which supplier offered the best value for money tender, taking into account reliability, quality and cost-effective operations. The SQCC committee's role was to determine whether Serco Australia Pty Ltd (Serco) offered value for money, and effective and efficient service delivery based on its evaluation criteria.

Arthur Gorrie Correctional Centre

QCS awarded GEO Group (GEO) the contract for the management of AGCC from 1 January 2008 following a competitive tender process in 2007. Three private operators competed in the tender process. QCS awarded GEO the contract because their tender offered the best value for money, taking into account reliability, quality and cost-effectiveness. QCS scored GEO the highest in the reliability and quality key criteria and equal first in cost effectiveness.

The AGCC contract was for an initial term of five years with the option to extend for a further term of up to five years. In 2012, the then-Department of Community Safety exercised the option to extend the contract for a further five years until 31 December 2017.

QCS's submission to extend the contract with GEO for the management of AGCC does not demonstrate that it thoroughly assessed whether continuing to operate the prison privately with the incumbent provider achieved value for money. Its submission contained several qualitative statements without detailed analysis. For example:

- It stated that GEO demonstrated its ability to conduct quality assessments efficiently, but did not document how it came to this conclusion or how their performance compares to publicly operated prisons.
- It did not explain why it was satisfied with the current mix of public/private mix of correctional management and performance outcomes.
- It stated that returning the centre to public operation would add recurrent costs of between \$2.5 million and \$5 million, but there was no detailed analysis to support this.
- It stated that it is unlikely the market could deliver a lower price than the existing contracted price. It did not explain how it came to this conclusion and what market analysis it performed to support this statement.

Southern Queensland Correctional Centre

QCS has realised actual savings by operating SQCC privately, but it has not achieved the full potential of savings because its procurement process lacked competitive tension.

In October 2010, QCS provided the then-government with three options for operating the SQCC.

- Option one (public operation)—operate the new SQCC publicly which would allow the government to decommission ageing infrastructure with hanging points and result in the least amount of time the prison would be unoccupied after practical completion.
- Option two (open tender)—conduct an open tender process which would comply with the State Procurement Policy, allow for lower operating costs resulting from private operation. This option would result in the prison being unoccupied for several months in 2012, at a maintenance cost of \$500 000 per month, and included a risk of industrial action because it would increase the number of privately operated prisons in Queensland to three.
- Option three (close Borallon Correctional Centre (Borallon) and negotiate with Serco)—this option allowed for a contract variation with an existing private operator in the correctional system, but would not comply with the State Procurement Policy. It would also be easier to close ageing infrastructure operated by a private operator compared to a public prison.

Cabinet decided to proceed with option three in QCS's submission. At the time, there was surplus capacity in Queensland's prison system—around 1 103 cells as at July 2010.

In December 2010, QCS recommended to the SQCC Commissioning Steering Committee that it invite the existing private operator of Borallon, Serco, to operate the new SQCC.

QCS subsequently agreed to a five-year contract, with a five-year extension option with Serco in July 2011. It did not invite any other providers to bid. QCS terminated Serco's existing contract to manage the Borallon prison one year early.

Apart from Cabinet's direction to negotiate with Serco, QCS did not approach the market for a prison operator for the SQCC because:

- Its contract with Serco required it to assist Serco with transitioning their staff if it terminated the contract early.
- It was satisfied with Serco's performance in operating the Borallon prison.
- It reduced the risk that it would not have an operator ready in time for the commissioning of the SQCC in January 2012.

QCS assessed the value of Serco's offer by comparing its proposed management fee of \$21 million with the public sector comparator estimated costs of \$27 million. Because it did not invite other providers to bid, QCS could not test Serco's proposal against other providers in the market. QCS could not therefore demonstrate that it obtained the best price.

In the Borallon competitive invitation to offer process, Serco's quote (2014–15) to operate the 492-bed Correctional Centre was 41 per cent less than what QCS is paying Serco to operate the 300-bed SQCC (2012–13) on a cost per prisoner per day basis. While other factors can explain why the cost of operating the two prisons is different, the size of this variance nevertheless demonstrates that the state can obtain a better price when competitive tension exists in the procurement process.

Review of private operators' performance history

QCS reviewed the performance of GEO before extending the AGCC contract. QCS also reviewed Serco's performance when it awarded the new SQCC contract.

QCS's contracts establish base level and best practice key performance indicator (KPI) targets for private prison operator performance. In both instances, the operators' performance against these targets declined after QCS made these contract decisions. However, prisoner numbers increased significantly after these contract decisions which made it more challenging for the operators to achieve QCS's best practice targets.

Arthur Gorrie Correctional Centre

QCS conducted a three-year performance review of GEO when it recommended in November 2011 that it extend its contract with GEO for the management and operation of AGCC for a further five-year term.

QCS's three-year performance review stated:

- *The contractor's performance against the KPIs throughout the three year period covered by this report has been varied and on occasion failed to meet QCS' high expectations of its private providers.*
- *GEO's overall average to low level performance is reflected in the Performance Bonuses QCS has paid GEO to date. Against a possible annual payment of \$650,000, GEO achieved: \$410,045 over a three year period out of a potential payment of \$1,950,000. This represents 21% of the maximum potential bonus over the three years.*
- *While the beginning of the contract might be described as problematic, since the major Remediation Project and change in centre leadership in 2009, GEO has demonstrated a quantifiable improvement in performance which could reasonably be expected to continue.*

The operator's performance against QCS's expectations improved over the five-year term following the public tender process in 2007. The number of KPIs where it did not achieve base level performance decreased from around 54 per cent to 25 per cent. The number of KPIs where the operator achieved best practice increased 23 per cent to around 47 per cent.

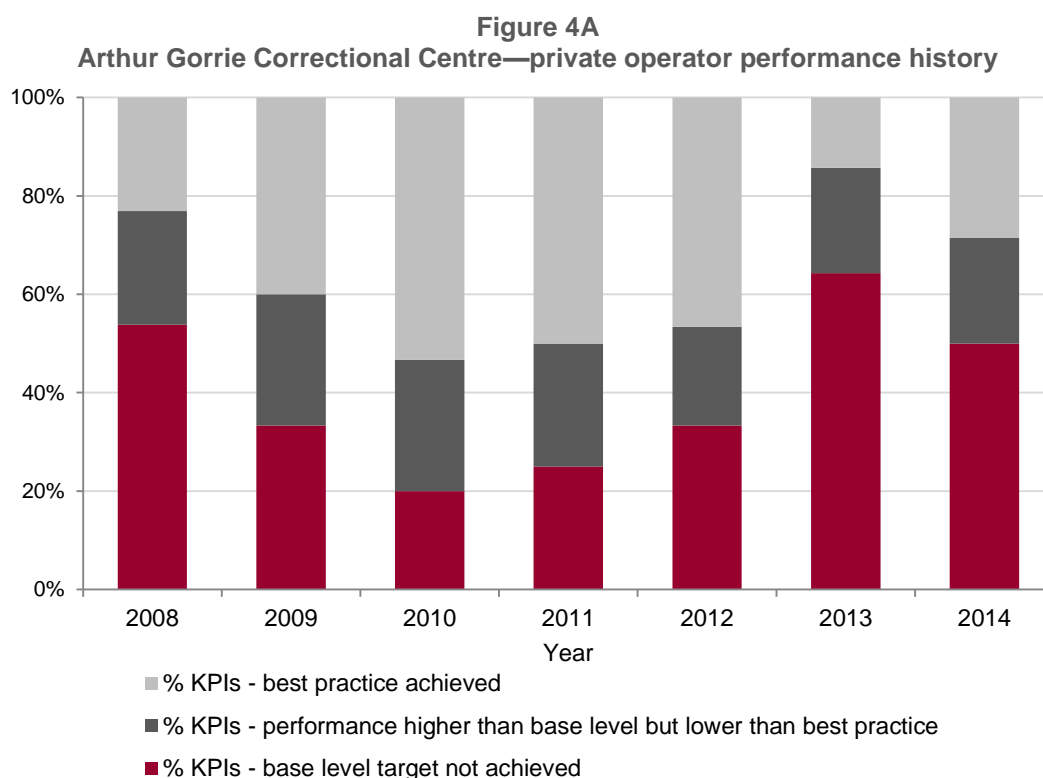
On 11 January 2012, the Director-General of the Department of Community Safety, approved the extension of the management and operation of the AGCC for five years to 31 December 2017, subject to GEO achieving positive performance outcomes during 2012.

On 31 October 2012, at the third quarterly performance review meeting for 2012, QCS endorsed GEO Group's performance for the period 1 January 2012 to 30 September 2012 as satisfactory. QCS subsequently sent a letter to GEO advising,

QCS has reviewed GEO Group's performance for the period 1 January 2012 to 30 September 2012 and found it to be satisfactory.

The performance data however, contradicts this conclusion. In 2012, the operator's performance decreased from the previous year—the number of KPIs where the operator did not meet base level performance increased from 25.00 to 33.33 per cent. Following the five-year contract extension, the operator's performance in 2013 and 2014 declined from its performance in 2011 when QCS exercised the extension option.

Figure 4A shows the performance history of the AGCC operator in terms of the number of KPI's where it did not achieve base level performance, where it exceeded base level performance and where it achieved best practice performance.



Source: Queensland Audit Office from data provided by the Department of Justice and Attorney-General

Southern Queensland Correctional Centre

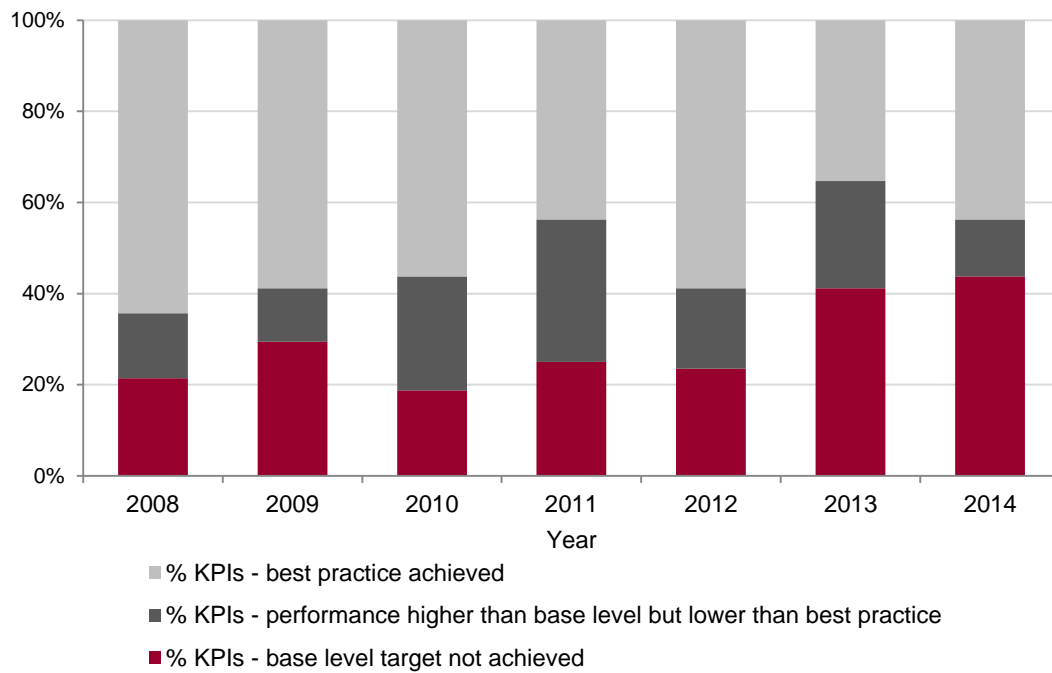
In December 2010, QCS recommended that Serco be awarded the contract for the management and operation of the SQCC stating,

From January 2007 until now, Serco continues to perform well in the provision of correctional services and has demonstrated innovation in terms of managing drug offenders and Aboriginal and Torres Strait Islander offenders.

The performance data supports QCS's conclusion that Serco performed well. In 2010, Serco met or exceeded the base level performance for 81.25 per cent of its KPIs. However, after QCS offered it a new contract to operate the SQCC in 2012, its performance declined in the following years. In 2011, Serco did not meet base level targets for 25 per cent of its KPIs, and it did not meet base level targets for 41 per cent and 44 per cent of its KPIs in 2013 and 2014 respectively.

Figure 4B shows the performance history of the SQCC and Borallon operator in terms of the number of KPI's where it did not achieve base level performance, where it exceeded base level performance and where it achieved best practice performance.

Figure 4B
Borallon/Southern Queensland Correctional Centre—private operator performance history



Source: Queensland Audit Office from data provided by the Department of Justice and Attorney-General

Performance management of private prison operators

A well-structured performance management framework can motivate private operators to innovate their practices, which public sector agencies can then transfer into publicly operated services. Agencies can learn from the private sector ways to reduce the cost and increase the effectiveness of publicly delivered services.

An effective performance management framework will include:

- **Setting performance expectations**—well defined contract deliverables supported by KPIs that enable an agency to measure contractor performance against those deliverables. Agreed targets for KPIs that define what the agency considers is satisfactory performance.
- **Measuring performance**—agreed methods for data collection for performance measurement, including who should collect it, and how and at what frequency of reporting.
- **Assessing performance**—the agency will assess whether the contractor is meeting its expectations.
- **Managing performance**—this can include rewarding an operator for strong performance, taking corrective action for deficient performance, or modifying the contract if the agency's needs change.

Setting performance expectations—contract deliverables

Agencies that clearly define contract deliverables and align them with outcomes can develop outcome-focused performance measures to evaluate whether they are achieving value for money. The Australian National Audit Office better practice guide *Developing and Managing Contracts* states that:

A common approach is for the contract deliverables to be described in terms of the results or outcomes required, particularly in relation to services. The emphasis on results and outcomes rather than on inputs and processes used by the contractor can allow the opportunity for operational flexibility and innovation. This can increase the possibility of achieving the same results at lower cost than if the acquiring entity specified the detailed processes to be used or followed.

QCS's contracts with private prison operators do not:

- clearly define the objectives of the contractual arrangements
- state the contract deliverables in terms of outcomes to be achieved
- set an expectation that the private operators should contribute to enhance the broader operation of QCS to help improve the effectiveness and efficiency of prison operations.

In contrast, we observed that the publicly available private prison contract for the Ravenhall prison in Victoria states the project objectives in terms of desired outcomes. It also sets the expectation that the contractors should bring innovation to the broader strategies and operations of the Victorian department responsible for corrective services.

Setting performance expectations—key performance indicators

QCS's performance measures are not sufficient to enable proper assessment of the private operators' performance. QCS has not performed a holistic review of the private operators' performance measures to assess whether it has the best measures in place to assess prison operator performance. It has not changed the private operators' performance measures since at least 2008, except for changing some annual targets. During this audit, it commenced a review of its existing performance measures.

The Economic Regulation Authority in Western Australia's final report on *'Inquiry into the efficiency and performance of Western Australia prisons'* suggests four areas of prison performance that should be measured. These include:

- **Safety and security**—prison operators are effective in preventing escapes that can pose a threat to community safety, and prison staff and prisoners are safe from harm.
- **Rehabilitation**—prison operators make a positive contribution to the rehabilitation of prisoners in their care to decrease the likelihood that they reoffend upon release.
- **Quality of life for prisoners**—prison operators treat prisoners humanely and decently, reflecting that this leads to better outcomes in prisoner rehabilitation and safety and security.
- **Prison management**—prison operators deliver prison services as efficiently as possible to ensure that public funds are not wasted.

Safety and security

QCS places strong emphasis on measuring whether private operators maintain a safe and secure prison—almost half of its KPI's relate to prisoner safety and security. The current measures however, do not include the rate of assaults by staff on prisoners or the use of solitary confinement. Implementing these measures would enable QCS to assess whether it should investigate the conduct of the prison operator's staff, or they could prompt further enquiries on whether the operator's use of solitary confinement is appropriate.

Prisoner rehabilitation

QCS's performance measures relating to prisoner rehabilitation lack sufficient rigor to enable it to assess how well the operators contribute to prisoner rehabilitation. This is a consequence of the contract deliverables not specifying the expected outcomes. Specifically, QCS:

- does not have a performance measure to assess how the prison operators provide support to prisoners who test positive to drugs
- does not have any performance measures for assessing how well the operators manage prisoner health
- assesses whether prisoners are enrolled in vocational education and education and programs, but not what the level of participation and completion in those programs are
- assesses whether its prisoner industries program delivers a set number of hours per year, but it does not measure the availability of employment to prisoners.

Prisoner quality of life

QCS measures the time prisoners spend out of cell each day, and the time prisoners spend in structured activities at the AGCC. It does not measure the amount of time prisoners spend in structured activities at the SQCC. QCS bases its measure for SQCC on the total hours the prison operator delivers in prison activities including education, training and employment, but not the amount of time each prisoner on average spends on structured activities.

Prison management

QCS has two performance measures for assessing prison operators' management of their prison—rate of specified incidents and accuracy of reporting. These measures enable QCS to assess whether any specific incidents have occurred in the prison which it should factor into the operator's performance assessment and whether operators accurately report incidents.

QCS lacks performance measures to assess whether the operators comply with contract standards and with non-compliance notices. The contracts enable QCS to issue the operators a non-compliance notice if it finds evidence that the private operator has not complied with a contract standard.

Setting performance expectations—performance bonus

QCS established both private prison contracts with a performance bonus fee, which it pays to the operators at the end of each contract year depending on their performance against the KPIs.

There are four security related KPIs where QCS deducts a corresponding amount from the operator's eligible performance bonus if the operator registers an incident against that KPI. This includes a \$100 000 deduction for each incident of escape, loss of control or death in custody, and a \$25 000 deduction for each incident of a discharge in error.

QCS calculates the performance bonus by deducting any penalty from the security related KPIs from the total performance bonus (SQCC—\$500 000; AGCC—\$625 000). It then calculates the performance bonus by assessing the operator's performance against each remaining KPI as follows:

- full percentage of bonus allocated where the operator achieves a performance level at or above the best practice target specified for the KPI
- partial percentage of bonus allocated where the operator achieves a performance level between the base level target and the best practice target specified for a KPI
- no bonus where the operator achieves the base level target or below for a specified KPI.

QCS agrees the base level and best practice targets with the operators on an annual basis.

There is no financial penalty for the operator if the number of deductions in a year results in a negative balance. This arrangement, known as an "at risk" component is acceptable across a range of sectors. The performance bonus is not a significant proportion of the operators' potential fee—2.37 and 2.01 per cent of the annual operational fee for the SQCC and AGCC respectively. Figure 4C shows the performance bonuses in relation to the annual operation fees for the SQCC and AGCC.

Figure 4C
Queensland privately-operated prisons—performance bonus

	Southern Queensland Correctional Centre	Arthur Gorrie Correctional Centre
Annual operational fee	\$21 112 902	\$31 123 533
Performance bonus	\$500 000	\$625 000
% performance bonus of operational fee	2.37	2.01

Source: Queensland Audit Office from information provided by the Department of Justice and Attorney-General

The weakness of the performance bonus arrangement is that it does not provide the private operators with sufficient incentive to innovate their prison operations or demonstrate innovative practices that are transferrable to other prisons. Both private operators have an innovation KPI in their contract with QCS which is worth 10 per cent of their total performance bonus—\$50 000 per year for SQCC and \$62 500 for AGCC. This is worth 0.24 per cent of the SQCC's operator's annual operational fee and 0.20 per cent of the AGCC's operator's annual operational fee. Over a seven-year period from 2008 to 2014, the SQCC/Borallon operator exceeded its annual innovation KPI on three occasions, while the AGCC operator exceeded it once.

In contrast, we observed that the Western Australian Acacia private prison contract provides the operator with an incentive to innovate with a potential \$250 000 per year innovation bonus. The operator of Queensland's SQCC also operates Western Australia's Acacia prison.

Measuring performance

Agencies can achieve effective performance measurement by implementing a contract management plan that defines what it needs to measure, how it will be measured, who is responsible for measuring, and at what frequency.

QCS completed contract management plans for both private prison contracts in March 2015. These plans articulate for each KPI that QCS will measure: the purpose, target, responsibility, acceptable score, and consequence of variance from an acceptable score.

The operators self-assess and report their performance against the contract KPI's from data contained in QCS's Integrated Offender Management System (IOMS). QCS has a performance measure in its contract with both private operators to ensure that the operators' self-reporting is accurate. This performance measure is worth 15 per cent of the operators' performance bonus and calculates:

- The number of critical reporting failures where: the operator failed to record an incident on the QCS Information System, failed to notify QCS within the agreed timeframes, or where QCS identified a material or substantive error or inaccuracy in the operator's Quarterly Performance Report.
- The percentage of compliant incident reports—an incident report that complies in all respects with the QCS Incident Reporting Procedure, including recording the incident within the established timeframes.

QCS's Contract Management Unit reviews incidents the private operators' record in IOMS on a daily or weekly basis. It compiles a monthly incident report which identifies all incidents it reviewed during the month, including how the operators coded incidents in IOMS, the timeliness of their incident reporting and the actions it required the operators to address to correct any anomalies.

The gap in QCS's review process is that it does not enable it to identify where the operator failed to record an incident. Because the self-assessment process relies on the operator recording incidents in IOMS, QCS places trust in the operator that it will record all incidents. QCS conducts occasional spot checks, and can become aware of cases of unrecorded incidents through alternative sources of intelligence, but it does not have a structured process to determine if this occurs.

There is a fraud risk that the operators may not record all incidents so they maximise their potential performance bonus. QCS has not documented this fraud risk in its contract management plan and the processes it has to prevent and detect it from occurring.

Assessing and managing performance

Once performance is measured, the next step in a performance management framework is to assess whether the performance meets the agency's expectation. Once an agency has established whether private operators have met their expectations, they then need to manage the private operator's performance to ensure they achieve value for money.

In QCS's contract management framework, prison operators are eligible for a performance bonus if they exceed base level performance. QCS assesses whether the private operators meet the set performance targets on a quarterly basis and as part of an annual review.

QCS manages operator performance by reviewing quarterly performance reports from the two private operators and discussing the results at quarterly meetings with the private operators. The contract management plans set out the scope of these meetings. Key discussion areas include performance trends, operational issues, impending contract events and similar matters affecting the operation of the contract.

We reviewed the performance history of both operators from 2008 to 2014 to identify trends in their performance history. We noted that collectively, both operators did not consistently meet the contract definition of best practice during this period in all measures except for prisoner escapes. No escapes have occurred in any high security Queensland prison since 1998.

QCS has taken the following actions to manage private operators' performance:

- rewarded good performance by paying performance bonuses where the operators' performance exceeded the agreed best practice targets
- discussed actions where performance was deficient in quarterly meetings, but it did not follow up how well the private operators implemented those actions
- issued a non-compliance notice for an operator's failure to complete a good health check on the morning a prisoner committed suicide
- modified the role of an operator to address a concern with its management of the maximum security unit at the AGCC.

Performance bonus payments

Over a seven-year period, QCS has paid the AGCC operator around 34 per cent of its potential performance bonus, while it has paid the SQCC/Borallon operator around 47 per cent of its potential performance bonus. These results indicate a low to average level of performance over this period when QCS assessed the operators' performance against the contract targets. Figure 4D shows the potential performance bonus and actual performance bonus payments for both private prison operators.

Figure 4D
Performance bonus payments to private prison operators

Year	Potential bonus \$	Actual bonus \$	Bonus achieved %	Potential bonus \$	Actual bonus \$	Bonus achieved %
	Arthur Gorrie Correctional Centre			Borallon Correctional Centre (2009–2011)/ Southern Queensland Correctional Centre (2012–2014)		
2008	650 000	82 304	12.66	500 000	261 073	52.21
2009	650 000	295 085	45.40	500 000	291 811	58.36
2010	650 000	244 266	37.58	500 000	235 247	47.05
2011	650 000	292 924	45.07	500 000	213 731	42.75
2012	650 000	283 971	43.69	500 000	313 833	62.77
2013	625 000	133 384	21.34	500 000	176 503	35.30
2014	625 000*	181 405	29.02	500 000	166 174	33.23
Totals	4 500 000	1 513 339	33.63	3 500 000	1 658 372	47.38

*Note: In 2013, QCS reduced the AGCC's operator's potential performance bonus to \$625 000 after it removed the maximum security unit from AGCC.

Source: Queensland Audit Office from information provided by the Department of Justice and Attorney-General

Performance meetings

QCS has documented the quarterly performance meetings well which provides evidence that QCS discusses performance issues with the operators. Discussions include how the private operators plan to improve in areas where they underperform to QCS's standards. However, subsequent meeting minutes demonstrate that QCS did not effectively track whether the operators implemented the action items the private operators listed in their quarterly reports.

We observed the operators' proposed actions were generic and did not effectively state what they committed to do to improve their performance. QCS did not ensure that the actions were well defined and agreed to. There was not enough information contained in the operators' performance reports to show that the operators' planned actions were appropriate and timely. Case Study 1 shows how this occurred in relation to a problem with the use of illicit drugs at the SQCC.

Case Study 1

Managing underperformance

The *rate of illicit drug use* performance measure refers to the percentage of positive results in total random prisoner urine analysis samples.

From 2012 to 2014, the SQCC operator did not achieve its best practice target in any quarter. In 2014, the rate of illicit drug use was 8.9 per cent, well above the best practice target of 2 per cent. This increased from 3.9 per cent in 2012.

The SQCC committed to the following action items in its end of year performance reports for 2012 and 2013:

- The development of a framework for a regular Security and Intelligence Meeting to focus on the identification of Identified Risk and prominent/developing nominal offenders.
- The development of a Substance Abuse Management Plan.
- In response to an increase in positive substance tests, SQCC Senior Management directed a significant increase in Target Urinalysis testing. Currently SQCC conducts target testing of not less than 80 offenders per month.
- In response to specific intelligence, SQCC runs regular search operations targeting areas within the centre and groups of offenders.
- SQCC Barrier detection is compliant with relevant QCS policies and procedures with 100 per cent of visitors to the centre subjected to electronic scanning and/or Passive Alert Drug Detection Dog Search.

In 2014, the SQCC operator stated in its annual performance report that its Senior Management Team continues to closely monitor the rate of illicit drug use within the centre.

SQCC's actions between 2012 and 2014 have not positively affected the illicit drug use results. This shows that apart from developing strategies and actions items to address performance issues, it is also essential to effectively track whether they work.

Illicit drug use remains an area of concern not only for SQCC, but for other Queensland prisons as well.

Source: Queensland Audit Office

Managing non-compliance events

QCS mostly manages operator performance through performance monitoring and review meetings with the operators, but uses appropriate corrective measures when it has serious concerns regarding an operator's performance. These measures include issuing a non-compliance notice and modifying an operator's contract.

QCS can issue the private prison operators a written non-compliance notice if it has a serious concern with a non-compliance event. As at August 2015, from 2007, QCS has used this measure once for the AGCC.

QCS issued the non-compliance notice in relation to a death in custody of a prisoner on 20 February 2010 at AGCC. QCS advised the then-Minister for Police, Corrective Services and Emergency Services in November 2010 that,

An investigation coordinated by the Office of the Chief Inspector found that GEO failed to undertake a 'good health check' on the morning of [the prisoner's] death.

While this failure was unlikely to have altered the outcome for the prisoner, it was of serious concern to QCS.

On 26 July 2010, QCS issued GEO a non-compliance notice that required GEO to develop an action plan to remediate the identified performance shortfalls. On 17 August 2010, GEO submitted a detailed remedial plan mapping the outcomes to ensure compliance with the contract standards.

QCS approved GEO's remedial plan and audited the action items contained in the plan. It found that GEO finalised the action items in a timely manner and were effective.

QCS also managed an operator's performance by modifying its contract when it was concerned with the operator's performance. QCS modified its contract with GEO on 1 March 2013 to close the maximum security unit at the AGCC after a number of significant incidents occurred. Some of the key incidents included a prisoner suicide in January 2013 and a serious staff assault in June 2012.

QCS and GEO agreed to reduce the operational fee and performance bonus, proportionate to the reduction in risk occasioned by closure of the maximum security unit.

Appendices

Appendix A— Comments	70
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Appendix A—Comments

In accordance with s.64 of the *Auditor-General Act 2009*, a copy of this report was provided to the Department of Justice and Attorney-General and Queensland Health with a request for comment.

Responsibility for the accuracy, fairness and balance of the comments rests with the head of these agencies.

Comments received from Director-General, Department of Justice and Attorney-General



Department of Justice and Attorney-General
Office of the Director-General

In reply please quote: 555157/5, 3129077, 00890-2016

04 FEB 2016

Mr Andrew Greaves
Auditor-General
Queensland Audit Office
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ABN 13 846 673 994

Dear Mr Greaves

Thank you for your letter dated 18 January 2016 regarding the Queensland Audit Office's proposed report to Parliament on the management of privately operated prisons.

As requested, please find enclosed the Department of Justice and Attorney-General's (DJAG) response to the proposed audit report. I can confirm DJAG supports all of the recommendations contained in the report.

Should you require further information, please contact Mr Chris Udemans, Director, Finance and Contracts, DJAG, on (07) 3227 6317, or at Chris.Udemans@dcs.qld.gov.au, who will be pleased to assist.

I trust this information is of assistance.

Yours sincerely

David Mackie
Director-General

Enc.

Responses to recommendations



Department of Justice and Attorney-General, Management of privately operated prisons (Report No. 11: 2015–16)

Response to recommendations provided by Director, Finance and Contracts, Queensland Corrective Services on 28 January 2016.

Recommendation	Agree / Disagree	Timeframe for Implementation (Quarter and Year)	Additional Comments
We recommend that the Department of Justice and Attorney-General and Queensland Health:			
1. complete a cost-benefit analysis of options for delivering medical services more cost-effectively in prisons	Agree		Timeframes are uncertain but both the Department of Justice and Attorney General and Queensland Health have undertaken to work together on implementation of this recommendation.
2. work together to agree terms for the delivery of health services in prisons	Agree	In Progress	All major points of negotiation have been resolved and the finalised agreement is with appropriate delegates for consideration and approval.
We recommend that the Department of Justice and Attorney-General:			
3. investigates ways to incentivise private operators to increase employment opportunities for prisoners	Agree	Q4 2017	New outcomes focused contracts are currently being developed for implementation by 1 January 2018.
4. compares and contrasts the operating standards of public and private prisons and where gaps exist, implement better practice operating standards in all public prisons	Agree	Ongoing	Some private operating standards, for example staffing levels, may attract industrial resistance and may prove impossible to implement. It is requested that this recommendation be amended with the words, "where practicable."
5. develops an outcome-focused performance management system for private prison contracts which includes: <ul style="list-style-type: none"> – clearly defined contract objectives that are outcome-focused – performance measures that address outcome-focused contract objectives 	Agree	Q4 2017	New outcomes focused contracts are currently being developed for implementation by 1 January 2018.
6. enhances its management of operator performance by: <ul style="list-style-type: none"> – assessing the fraud risk that operators could overstate their 	Agree	In progress	

1

Response to recommendations



Recommendation	Agree / Disagree	Timeframe for Implementation (Quarter and Year)	Additional Comments
performance and implementing preventive controls commensurate with the fraud risk profile – recording, agreeing and monitoring the effectiveness of actions to address any operator performance deficiencies	Agree	In progress	

Comments received from Director-General, Queensland Health



- 8 FEB 2016

Enquiries to: Ms Sharon Kelly
Executive Director
Mental Health and Specialised
Services
West Moreton Hospital and
Health Service
Telephone: 3271 8554
File Ref: DG079193

Mr Andrew Greaves
Auditor-General
Queensland Audit Office
PO Box 15396
CITY EAST QLD 4002

Dear Mr Greaves *Andrew*

Thank you for your letter dated 18 January 2016, regarding the performance audit on the management of privately operated prisons.

I acknowledge receipt of the proposed report to Parliament, for my information and comment. I also acknowledge receipt of the acquittal document outlining issues and queries raised by Queensland Health in response to the preliminary report.

I very much appreciate the opportunity to provide you with further comments in relation to the proposed report to Parliament. To this end, please find attached Appendix 1 – Comments on Audit Report to Parliament for your consideration.

In addition to seeking further comment on the proposed report to Parliament, you are also seeking clear indication about whether I agree or disagree with each of the recommendations put forward for Queensland Health. In response, please find attached Appendix 2 – Queensland Health: Management of privately operated prisons.

Thank you again for bringing this matter to my attention.

Should you require any further information in relation to this matter, I have arranged for Ms Sharon Kelly, Executive Director, Mental Health and Specialised Services, West Moreton Hospital and Health Service, on telephone 3271 8554, to be available to assist you.

Yours sincerely

Michael Walsh
Director-General
Queensland Health


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Response to recommendations


West Moreton
Hospital and Health Service

Appendix 1

Comments on Audit Report to Parliament		
Audit Page	Audit Statement	Comment
3	For example, West Moreton HHS will have enough funding to provide timely dental services at Borallon, but 30 per cent of prisoners it services at the SQCC are on the waiting list to see a dentist.	a) It is unclear as to the source of information for West Moreton Hospital and Health Service in relation to "30 per cent of prisoners it services at the SQCC are on the waiting list to see a dentist". Currently, 98 prisoners are waiting for a dental exam at SQCC, and QCS data identifies a total current state of 378 prisoners in SQCC (source data dated 28/01/16). Also, as with community dental services, booking an examination is normal practice.
5	The Memorandum of Understanding (MOU) between QH and QCS for the delivery of these services in the prisons expired in June 2013.	b) Until the new MOU is agreed to by all parties, Queensland Health Hospital and Health Service's work off the expired MOU. The new MOU is in the final stages of completion, with all major points of negotiation resolved and the document in the final stages of approval.
5	QH does not centrally govern statewide prisoner health services. This means the HHS's delivering services in prisons do not benefit from collective systems for delivery.	<p>c) There is a difference between local service delivery and state wide coordination and policy consistency. The use of the term "govern" does not recognise these differences. This comment does not acknowledge the benefits of the current system. For example, under the decentralised governance model, a number of improvements have been achieved in patient safety, clinical governance and local collaboration across services.</p> <p>d) It is noted that there is centralised statewide governance for health information management (by West Moreton HHS).</p> <p>e) While not a formal governance role, West Moreton HHS has a lead role in coordinating a range of prison health activities/functions for the State. For example, representation at QCS Interdepartmental Committees and coordination of Queensland's participation in The Health of Australia's Prisoners Report (Australian Institute of Health and Welfare).</p>

WMHHS Response – Management of Privately Owned Prisons. Contact – Sue McKee, Chief Executive, Ph 3810 1126
Page | 1



Queensland
Government

Response to recommendations

5	<p>However, West Moreton HHS does not currently have reliable data to regularly report actual prisoner waiting times for its medical services to prisoners in the three high security public prisons it services.</p>	<p>f) West Moreton HHS utilises a range of data collection tools (for example, paper based clinic appointment schedules and activity scorecards) that provide information on prisoner waiting times and triaging of medical cases, but acknowledges there is currently no statewide electronic data collection system.</p> <p>g) QH has funded a statewide Information and Communications Technology Project for Prison Health Services, with West Moreton HHS as the project lead. This project commenced November 2015, and will achieve the implementation of a statewide electronic data collection system in the final quarter of 2016.</p>
6	<p>Recommendations for Department of Justice and Attorney-General and QH</p> <ol style="list-style-type: none"> 1. complete a cost-benefit analysis of options for delivering medical services more cost-effectively in prisons. 2. work together to agree terms for the delivery of health services in prisons. 	<p>h) An in-depth cost-benefit analysis has the potential to identify opportunities for greater efficiencies.</p> <p>i) The MOU (West Moreton and QCS) is near completion, with all major points of negotiation now resolved. It is noted that there are a range of forums (formal and informal) and other agreements shared by QCS and QH / West Moreton HHS that have enabled the ongoing delivery and oversight of health services in prisons, while the MOU was being negotiated.</p>
7	<p>Recommendation for QH</p> <ol style="list-style-type: none"> 7. implements central governance over health services in all Queensland prisons 	<p>j) This point does not differentiate between corporate, service level or clinical governance.</p> <p>k) It is acknowledged that centralised corporate and policy governance for the provision of prison health services across Queensland may have benefits for QH and its service partners and users, and that a revision of the governance framework will be beneficial.</p> <p>l) QH is planning to review the current governance framework, in line with this recommendation.</p>
27	<p>In May 2015, Cabinet allocated QH \$5.583 million to operate medical services at Borallon in 2015-16 increasing to \$5.877 million by 2018-19.</p> <p>Therefore, QH overstated its cost estimate for Borallon because it does not receive additional funding for overcrowding.</p>	<p>m) Funding for the commissioning and operating of health services in Borallon equates to \$2.967M in 2015/16; \$5.583M in 2016/17; \$5.728M in 2017/18; and \$5.877M in 2018/19. The funding received was for medical, mental health and oral health services (not just medical services).</p> <p>n) West Moreton HHS did not overstate the cost estimates for Borallon. Cost estimates were based on the advised operating model and prisoner numbers for the facility at the time of request and were developed utilising approved budget and resourcing principles. This includes use of the Business Planning Framework.</p>

Response to recommendations

27	Therefore, to ensure it has enough funding for medical services if the Borallon prison overcrowds, it assumed the prison will be overcrowded from day one of prison operations at up to 122 per cent utilisation of the prison's built capacity.	o) QCS provided relevant information at the time to West Moreton HHS regarding the built cell numbers, and the maximum number of prisoners that the prison may house if 'over-state'. Both needed to be taken into consideration in the costing process.
32	The Memorandum of Understanding (MOU) between QH and QCS for the delivery of health services in prisons expired in June 2013. West Moreton HHS and Metro South HHS have not agreed to a new MOU mainly because they are unable to satisfy QCS's expectation of community-type services without additional resources.	p) Refer to comment b) above. q) QH provided additional funding in 2015-16 for both prison health services and prison mental health services.
32	QH does not have central governance for co-ordinating prisoner health services.	r) Refer to comments c), d), e), j), k) and l) above.

Response to recommendations



Appendix 2

Queensland Health - Management of privately operated prisons

Report No. 11: 2015–16

Response to recommendations provided by:

Ms Sue McKee, Chief Executive, West Moreton Hospital and Health Service

Recommendation	Agree / Disagree	Timeframe for Implementation (Quarter and Year)	Additional Comments
We recommend that the Department of Justice and Attorney-General and Queensland Health:			
1. complete a cost-benefit analysis of options for delivering medical services more cost-effectively in prisons	Agree	Q3: 2016/17	QH and QCS have commenced discussion about this recommendation and aim to develop a shared action plan.
2. work together to agree terms for the delivery of health services in prisons	Agree	Q3: 2015/16	The new Memorandum of Understanding (MoU) is in the final stages of completion, with all major points of negotiation resolved. The final document has been submitted for delegate approval.
We recommend that Queensland Health:			
3. implements central governance over health services in all Queensland prisons	Agree	Q2: 2016/17	A revision of the governance framework will be beneficial, and consideration is being given to a policy coordination role as part of the review.

Comments received from Minister for Health and Minister for Ambulance Services and Member for Woodridge



Minister for Health and
Minister for Ambulance Services
Member for Woodridge

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Website www.health.qld.gov.au

9 FEB 2016

Dear Mr Greaves *Andrew,*

Thank you for your letter dated 18 January 2016, in relation to the performance audit on management of privately operated prisons.


I very much appreciate the opportunity to provide you with further comments in relation to the proposed report to Parliament. I have enclosed Appendix 1 – Comments on Audit Report to Parliament, for your consideration.

Thank you again for bringing this matter to my attention. Should you require any further information in relation to this matter, I have arranged for Ms Sharon Kelly, Executive Director, Mental Health and Specialised Services, West Moreton Hospital and Health Service, on telephone 3271 8554, to be available to assist you.

Yours sincerely

CAMERON DICK MP
Minister for Health
Minister for Ambulance Services


Response to recommendations


West Moreton
Hospital and Health Service

Appendix 1

Comments on Audit Report to Parliament		
Audit Page	Audit Statement	Comment
3	For example, West Moreton HHS will have enough funding to provide timely dental services at Borallon, but 30 per cent of prisoners it services at the SQCC are on the waiting list to see a dentist.	a) West Moreton HHS is unclear of the source of information for "30 per cent of prisoners it services at the SQCC are on the waiting list to see a dentist". Currently, 98 prisoners are waiting for a dental exam at SQCC, and QCS data identifies a total current state of 378 prisoners in SQCC (source data dated 28/01/16).
5	The Memorandum of Understanding (MOU) between QH and QCS for the delivery of these services in the prisons expired in June 2013.	b) Until the new MOU is agreed to by all parties, West Moreton HHS works off the expired MOU. The new MOU is in the final stages of completion, with all major points of negotiation resolved and the document has been submitted for delegate approval.
5	QH does not centrally govern statewide prisoner health services. This means the HHS's delivering services in prisons do not benefit from collective systems for delivery.	c) This comment does not acknowledge the benefits of the current system. For example, under the decentralised governance model, a number of improvements have been achieved in patient safety and clinical governance. d) It is noted that there is centralised statewide governance for health information management (by West Moreton HHS). e) While not a formal governance role, West Moreton HHS has a lead role in coordinating a range of prison health activities/functions for the State. For example, representation at QCS Interdepartmental Committees and coordination of Queensland's participation in The Health of Australia's Prisoners Report (Australian Institute of Health and Welfare).
5	However, West Moreton HHS does not currently have reliable data to regularly report actual prisoner waiting times for its medical services to prisoners in the three high security public prisons it services.	f) West Moreton HHS utilises a range of data collection tools (for example, paper based clinic appointment schedules and activity scorecards) that provide information on prisoner waiting times and triaging of medical cases, but acknowledges there is currently no statewide electronic data collection system. g) QH has funded a statewide Information and Communications Technology Project for Prison Health Services, with West Moreton HHS as the project lead. This project commenced November 2015, and will achieve the implementation of a statewide electronic data collection system in the final quarter of 2016.

WMHHS Response – Management of Privately Owned Prisons. Contact – Sue McKee, Chief Executive, Ph 3810 1126
Page | 1



Response to recommendations

6	<p>Recommendations for Department of Justice and Attorney-General and QH</p> <ol style="list-style-type: none"> 1. complete a cost-benefit analysis of options for delivering medical services more cost-effectively in prisons. 2. work together to agree terms for the delivery of health services in prisons. 	<p>h) An in-depth cost-benefit analysis has the potential to identify opportunities for greater efficiencies.</p> <p>i) The MOU (West Moreton and QCS) is near completion, with all major points of negotiation now resolved. It is noted that there are a range of forums (formal and informal) and other agreements shared by QCS and QH / West Moreton HHS that have enabled the ongoing delivery and oversight of health services in prisons, while the MOU was being negotiated.</p>
7	<p>Recommendation for QH</p> <ol style="list-style-type: none"> 7. implements central governance over health services in all Queensland prisons 	<p>j) This point does not differentiate between corporate, service level or clinical governance.</p> <p>k) It is acknowledged that centralised corporate governance for the provision of prison health services across Queensland may have benefits for QH and its service partners and users, and that a revision of the governance framework will be beneficial.</p> <p>l) QH is planning to review the current governance framework, and plans to establish a policy coordination role.</p>
27	<p>In May 2015, Cabinet allocated QH \$5.583 million to operate medical services at Borallon in 2015-16 increasing to \$5.877 million by 2018-19.</p> <p>Therefore, QH overstated its cost estimate for Borallon because it does not receive additional funding for overcrowding.</p>	<p>m) Funding for the commissioning and operating of health services in Borallon equates to \$2.967M in 2015/16; \$5.583M in 2016/17; \$5.728M in 2017/18; and \$5.877M in 2018/19. The funding received was for medical, mental health and oral health services (not just medical services).</p> <p>n) West Moreton HHS did not overstate the cost estimates for Borallon. Cost estimates were based on the advised operating model and prisoner numbers for the facility at the time of the request (noting, this operating model has changed since that point in time), and were developed utilising approved budget and resourcing principles. This includes use of the Business Planning Framework.</p>
27	<p>Therefore, to ensure it has enough funding for medical services if the Borallon prison overcrowds, it assumed the prison will be overcrowded from day one of prison operations at up to 122 per cent utilisation of the prison's built capacity.</p>	<p>o) QCS provided relevant information at the time to West Moreton HHS regarding the built cell numbers, and the maximum number of prisoners that the prison may house if 'over-state'. Both needed to be taken into consideration in the costing process.</p>
32	<p>The Memorandum of Understanding (MOU) between QH and QCS for the delivery of health services in prisons expired in June 2013. West Moreton HHS and Metro South HHS have not agreed to a new MOU mainly because they are unable to satisfy QCS's expectation of community-type services without additional resources.</p>	<p>p) Refer to comment b) above.</p> <p>q) QH provided additional funding in 2015-16 for both prison health services and prison mental health services.</p>
32	<p>QH does not have central governance for co-ordinating prisoner health services.</p>	<p>r) Refer to comments c), d), e), j), k) and l) above.</p>

Response to recommendations

33 - 45	Safety and Security Prisoner Rehabilitation Prisoner Quality of Life	s) West Moreton HHS did not provide information (health or mental health related) into these sections of the report.
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Appendix B—Glossary

**Figure B1
Glossary**

Term	Definition
Health services	All primary health services that Queensland Health provides in prisons, including all multidisciplinary health services.
Medical services	Primary health services provided in prisons excluding mental health and dental services.
Prison overcrowding	Prisons are considered be overcrowded when the number of prisoners held in that facility exceeds the built capacity.
Double-ups	<p>When prison overcrowding occurs, cells designed for single occupancy are used to accommodate more than one prisoner, typically two.</p> <p>Queensland Corrective Services uses mattresses on the floor to accommodate additional prisoners in single occupancy cells.</p>
Marginal cost	The change in cost resulting from a change in the prison population.
Average daily state	The average number of prisoners held in custody in a prison facility per day.

Appendix C—Audit methodology

Audit objective

The objective of the audit was to examine whether the intended benefits to the state of privately operated prisons are being realised.

The audit addressed the objective through the sub-objectives and lines of inquiry set out in Figure C1.

Figure C1
Audit objective

Sub-objectives		Lines of inquiry	
1	Operating prisons through private operators has delivered the intended cost efficiencies	1.1	Queensland Corrective Services (QCS) and Department of Health achieves cost-efficiency in prison operations
		1.2	The public-private decisions on prison operations are based on a value for money assessment and follow sound procurement practices
		1.3	The cost of delivering prison services through private operators is consistent with what QCS expected when contracts were agreed to
2	The cost efficiencies intended from privately operated prisons has been realised with comparable quality of containment, supervision and rehabilitation services to publicly-run prisons	2.1	Performance expectations are defined by clear, objective and meaningful measures that provide incentives for performance improvement
		2.2	Operators' performance is assessed and managed through a performance management framework
		2.3	The quality of prison operations has not been compromised through the use of private operators

Source: Queensland Audit Office

Reason for the audit

Privatisation of correctional facility operations in Australia started with Queensland's Borallon Correctional Centre in 1990. Currently, two of the state's ten custodial centres are operated by private providers: Arthur Gorrie Correctional Centre and Southern Queensland Correctional Centre.

Privatisation of correctional facility operations is intended to deliver cost efficiencies and greater value for money than can be realised through state operated centres. The search for cost efficiencies and greater value for money needs to be balanced against the state's obligation to provide community safety and crime prevention through the humane containment, supervision, and rehabilitation of offenders in correctional centres.

Performance audit approach

We conducted this audit in accordance with the Auditor-General of Queensland Auditing standards, which incorporate Australian Auditing, and Assurance Standards.

We conducted it between June and December 2015. The audit consisted of:

- interviews with officials from
 - Department of Justice and Attorney-General
 - Department of Health
 - West Moreton Hospital and Health Service
 - Metro South Hospital and Health Service
- analysis of documentations including private prison operator contracts, briefs to Directors-Generals and Ministers and performance reports
- analysis of financial and non-financial data relating to prison operations and procurement of prison operators.

Auditor-General Reports to Parliament

Reports tabled in 2015–16

Number	Title	Date tabled in Legislative Assembly
1.	Results of audit: Internal control systems 2014-15	July 2015
2.	Road safety – traffic cameras	October 2015
3.	Agricultural research, development and extension programs and projects	November 2015
4.	Royalties for the regions	December 2015
5.	Hospital and Health Services: 2014-15 financial statements	December 2015
6.	State public sector entities: 2014-15 financial statements	December 2015
7.	Public non-financial corporations: 2014-15 financial statements	December 2015
8.	Transport infrastructure projects	December 2015
9.	Provision of court recording and transcription services	December 2015
10.	Queensland state government: 2014–15 financial statements	December 2015
11.	Management of privately operated prisons	February 2016

www.qao.qld.gov.au