

a b c d

E: dgej@gov.scot

Richard Leonard MSP
Convener
Public Audit Committee
The Scottish Parliament
EDINBURGH
EH99 1SP

9 November 2022

Dear Convener

The Scottish Prison Service Public and Private Prisons Cost Comparison

I write regarding the request for detailed analysis of the comparative costs of private prison places to that of public prison places. As the Committee will be aware, this was a request from the Public Audit and Post-legislative Scrutiny Committee in 2020 following their Report on the 2018/19 audit of the Scottish Prison Service (SPS).

Given the complexity of the ask, in particular in ensuring an objective and properly comparative analysis, SPS sought specialist input and commissioned a detailed report. This work has taken some time – SPS' commissioning capacity was impacted by prioritising the necessary operational response to the COVID 19 pandemic and more recently their procurement team have faced significant pressures dealing with rising inflation and the cost crisis.

I am now able to share the report, prepared for SPS by Deloitte, which compares the cost of Scotland's two privately operated prisons (HMP Kilmarnock and HMP Addiewell) with the cost of prisons operated by the public sector. As you will see in the report, the cost of prisons, and prisoner places, in Scotland varies widely across the prison estate regardless of the ownership and management model. A large factor in this variation is economies of scale, whereby larger prisons have overheads split across a larger number of places. Other factors highlighted in the report include the population type held in a particular prison, and the regime available within the prison. Each population group requires access to differing activities and interventions, as well as different levels of supervision, all of which impact on the cost profile of the prison. There are public prisons operating at both higher and lower cost than the private prisons.

The difference between the two private prisons is noteworthy and I thought it might be helpful to set out some background and information on the nature of these contracts.

HMP Kilmarnock

HMP Kilmarnock is currently contracted to provide 548 prisoner places, on a 25 year contract which expires on 16 March 2024. The contract with Kilmarnock Prison Services

OFFICIAL

St Andrew's House, Regent Road, Edinburgh EH1 3DG
www.gov.scot

abc abc a

Limited (KPSL) was signed in 1997 and the prison opened in March 1999. The contract under the UK Government's 'Private Finance Initiative' (PFI) was for the design, construction, management and finance of the prison throughout its 25-year term. KPSL subcontracts the operation of the prison to Serco plc.

The cost comparison report shows that the operating cost to the public sector of the current HMP Kilmarnock contract is low relative to similarly sized prisons elsewhere in the estate. Analysis of the cost of other PFI prisons has also shown that the cost of HMP Kilmarnock's contract is relatively low in comparison to other PFI prisons in the UK. As the first private prison in Scotland, the cost of HMP Kilmarnock is a function of the market conditions in 1997 when private actors were looking to establish a market here. It is unlikely that a similar price could be obtained by tendering for management of the prison at the end of the current contract.

The management of the transfer of HMP Kilmarnock into public ownership and management will take place at the expiry of the current contract, and is being undertaken in a project managed by SPS. As part of this work SPS is liaising with key partners, relevant stakeholders and third sector service providers to ensure the transfer is successfully concluded. SPS is in continued dialogue with the contractor KPSL, and their sub-contractor, Serco Justice Services. A key priority in this work is how the Serco employees, who are currently working at HMP Kilmarnock, are treated and supported.

HMP Addiewell

HMP Addiewell is currently contracted to provide 724 prisoner places, on a 25 year contract which expires in December 2033. This contract with Addiewell Prison Limited (APL) was signed in June 2006 and commenced operation in December 2008.

The cost comparison shows that the operating cost of SPS of the contract for HMP Addiewell is high relative to similarly sized prisons elsewhere in the SPS estate. Part of the reason for this is the indexation mechanism in the contract which increases part of the cost by inflation (RPI(X)), and part of the cost by inflation plus 1.5% each year. This, for example, will add £4.2m to the annual cost of HMP Addiewell for the contract year commencing in December 2022.

In particular, in the context of the current high rates of inflation, this is a very challenging situation. While SPS are in discussion with Addiewell Prison Limited (APL) and will continue to explore options to mitigate costs, there are currently no viable options for changing the contractual framework or indexation mechanism within which HMP Addiewell operates.

I hope this additional information is helpful. I am sorry for the time it has taken to produce it.

Yours sincerely

JOE GRIFFIN
Director General Education and Justice

OFFICIAL

St Andrew's House, Regent Road, Edinburgh EH1 3DG
www.gov.scot



Deloitte.



Scottish Prison Service (“SPS”)
SPS Public and Private Prisons Cost Comparison
04 April 2022

Table of Contents

Important Notice.....	3
1. Executive Summary.....	4
2. Introduction	9
2.1 Background.....	9
2.2 Data Provided.....	9
3 Methodology.....	10
3.1 Public Prison Methodology	10
3.2 Private Prison Methodology.....	13
3.2.1 UP vs Operating Costs	13
3.2.2 Indexation	14
4 Cost comparison of public and private prisons	16
4.1 Summary costs comparison by prison	16
4.2 Summary costs comparison per prisoner place	18
4.3 Cost Comparison of Comparable Prisons	21
4.3.1 Comparable Prisons	21
4.3.3 Perth and Kilmarnock	23
4.3.4 Cost per Prisoner including income	26

Important Notice

Deloitte LLP (“Deloitte”) is acting for Scottish Prison Service (the “Client”) on the terms set out in the engagement letter dated 12 April 2021 in connection with the proposed SPS Public and Private Prisons Cost Comparison Project.

No other party is entitled to rely on this document for any purpose and we accept no responsibility or liability or duty of care to any other party whatsoever in respect of the contents of this document.

This document, which has been prepared by Deloitte, has been prepared for the sole purpose of providing the Client with a cost comparison of the SPS Public and Private Prisons on the basis set out in this document. It is made available to the Scottish Government and / or the Public Audit and Post-legislative Scrutiny Committee of the Scottish Parliament (“the Recipients”) on condition that they understand and accept that:

- It is treated as strictly confidential and the Recipients do not distribute either it, or any derivative thereof, to any other party without Deloitte’s prior written consent;
- It is provided for the use of the Recipients solely for the purpose of a cost comparison between public and private prisons and must not be used for any other purpose;
- Deloitte does not warrant its suitability for the needs of the Recipients;
- If the Recipients choose to rely on it, they do so at their own risk and without recourse to Deloitte; and
- Deloitte neither owes nor accepts any duty of care to the Recipients in connection with it and shall not be liable to the Recipients for any loss, damage, cost or expenses whatsoever caused by their use of or reliance on it.

This document includes certain statements, estimates and projections provided by the Client with respect to anticipated future performance. Such statements, estimates and projections reflect various assumptions concerning anticipated results and are subject to significant business, economic and competitive uncertainties and contingencies, many of which are or may be beyond the control of the Company. Accordingly, there can be no assurance that such statements, estimates and projections will be realised. The actual results may vary from those projected, and those variations may be material. No representations are or will be made by any party as to the accuracy or completeness of such statements, estimates and projections or that any projection will be achieved.

The information contained in this document has been compiled by Deloitte using published sources which Deloitte use regularly but has not been verified. This document also contains confidential material proprietary to Deloitte.

This document and its contents are confidential and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person in whole or in part without the prior written consent of Deloitte.

1. Executive Summary

The Scottish Prison Service (“SPS”) owns and manages 13 prisons in Scotland. It also has contracts for two private prisons which are run by private prison operators: Kilmarnock prison which is operated by Serco and Addiewell prison which is operated by Sodexo. The purpose of this Report (the “Report”) is to provide a comparison of the costs of SPS’s public and private prisons.

Basis of Comparison

Costs of public and private prisons need to be considered carefully in any comparison, not least as the private prisons include capital charges relating to the original cost of construction of the private prisons but the public prisons do not.

In this Report we have therefore compared the cost of public and private prisons in the financial year to 31 March 2020 through (see also Section 4):

- Identifying costs and income for public prisons that also relate to the services provided under the private prison contracts;
- Excluding costs for public prisons (e.g., catering income, depreciation, etc) that are not included in the services provided under the private prison contracts; and
- For private prisons including all of the costs of operation of the prisons but excluding costs that relate to the capital costs and financing of the prison, such as financing and returns to shareholders in relation to the capital invested in construction and operation of the prisons.

For the Private prisons, the total unitary payment, which includes all costs of operating and financing the private prisons, in the financial year to 31 March 2020 was:

- £36,194,960 for Addiewell (of which £24,539,050 represents the operating costs, excluding financing and similar charges, taken into account for the purposes of this Report); and
- £15,520,380 for Kilmarnock (of which £14,297,630 represents the operating costs, excluding financing and similar charges, taken into account for the purposes of this Report).

The analysis in this Report uses two metrics for prisoner places, average population and design capacity. Average population is the average number of prisoners held in each prison during the financial year 2019/20, and design capacity is the maximum number of prisoners that can be held in a prison at any time. The metrics provide similar results, and it has been agreed with SPS to use both.

Findings

The analysis in this Report concludes on the basis described above in the financial year to 31 March 2020, is shown below. This shows the relative cost of public and private prisons. SPS

has also identified that the most comparable public prisons to Kilmarnock and Addiewell are Low Moss (Addiewell) and Perth (Kilmarnock). A cost comparison is also shown in the table below to this comparator group.

Table 1 Cost of Public and Private Prisons (per prisoner place in the year to March 2020)

Financial year to March 2020	Cost per Prisoner Place	Cost relative to all prisons	Cost relative to comparator prisons
All prisons	£31,649	£0	N/A
Addiewell	£36,034	£4,385	£11,671
Kilmarnock	£24,010	-£7,639	-£4,234
Comparator for Addiewell – Low Moss	£24,363	-£7,286	N/A
Comparator for Kilmarnock – Perth	£28,244	-£3,405	N/A

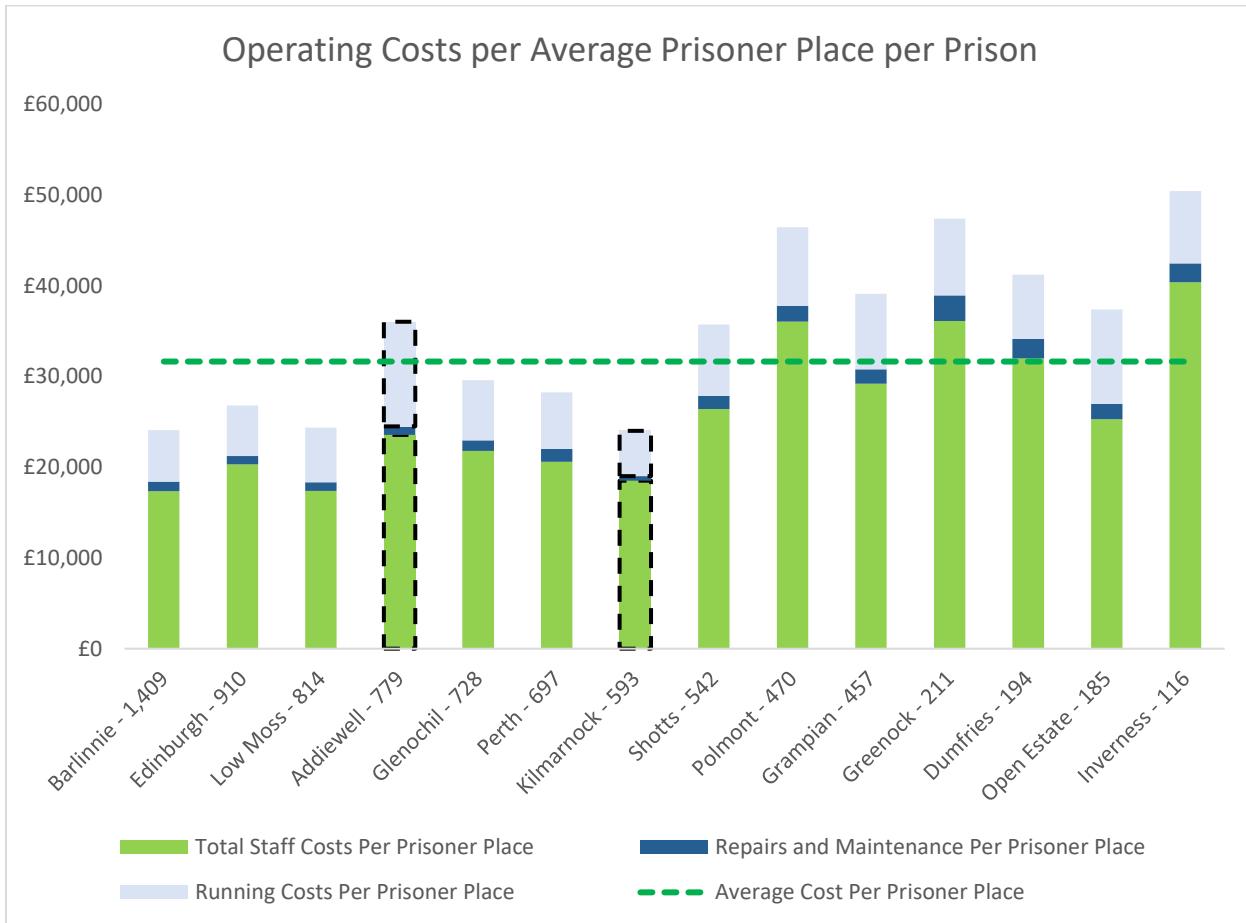
Source: SPS Annual Reports and Accounts 2019-2020, Prisons (sps.gov.uk), SPS Trial Balance 19-20 , Financial Close Models for both Addiewell and Kilmarnock

Table 2 Cost of Public and Private Prisons (per Design Capacity Prison numbers in the year to March 2020)

Financial year to March 2020	Cost per Prisoner Place	Cost relative to all prisons	Cost relative to comparator prisons
All public prisons	£32,921	£0	N/A
Addiewell	£39,987	£7,066	£14,723
Kilmarnock	£28,420	-£4,501	-£2,778
Comparator for Addiewell – Low Moss	£25,264	-£7,657	N/A
Comparator for Kilmarnock- Perth	£31,198	-£1,723	N/A

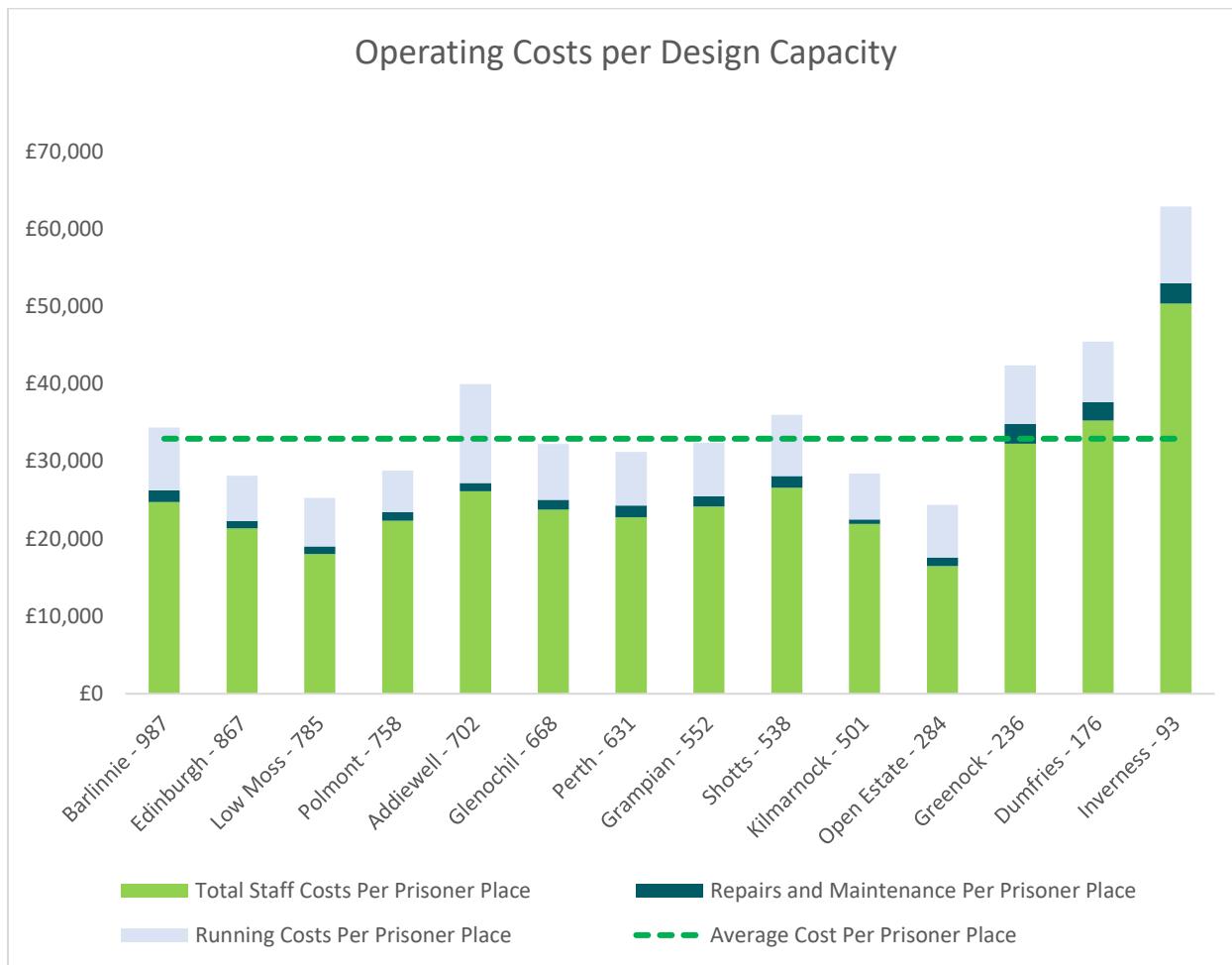
Source: SPS Annual Reports and Accounts 2019-2020, Prisons (sps.gov.uk), SPS Trial Balance 19-20 , Financial Close Models for both Addiewell and Kilmarnock

Chart 1 Operating Costs per Average Prisoner Place



Source: SPS Annual Reports and Accounts 2019-2020, Prisons, SPS Trial Balance 19-20, Financial Close Models for both Addiewell and Kilmarnock

Chart 2 Operating Costs per Design Capacity



Source: SPS Annual Reports and Accounts 2019-2020, Prisons, SPS Trial Balance 19-20, Financial Close Models for both Addiewell and Kilmarnock

The analysis in this Report concludes that:

- There is a significant range of cost of public prisons in Scotland, with the cost per average prisoner place being £24,086 per annum for Barlinnie and £50,428 per annum for Inverness. There are a variety of issues that affect the underlying cost of running each prison. However, two key factors identified relate to:
 - o The number of prisoners in each prison, where the data above indicates that smaller prisons are generally more expensive to run on a per prisoner basis; and

- The type of prison and its underlying regime and the services made available to prisoners with for example, learning prisons such as Addiewell perhaps having higher costs prisons which do not offer training or similar activities.
- The average cost per prisoner place for all prisons is £31,649 per annum. This compares to annual per prisoner private prisons operating costs as follows:
 - For Addiewell, a cost of £36,034, being £4,385 more than the average cost; and
 - For Kilmarnock a cost of £24,010, being £7,286 less than the average cost.
- There are public prisons operating at both higher and lower cost than the private prisons.
- SPS has identified comparator prisons, being Low Moss prison for Addiewell and Perth prison for Kilmarnock:
 - Addiewell has an annual cost per prisoner of £36,034, which compares to the equivalent cost for Low Moss of £24,363 (i.e. Addiewell has a cost per prisoner of £11,671 more than Low Moss); and
 - Kilmarnock has an annual cost per prisoner of £24,010, which compares to the equivalent cost for Perth of £28,244 (i.e. Kilmarnock has a cost per prisoner of £4,233 less than Low Moss)
- It is worth noting that the private finance contracts have a payment mechanism that is set out in the underlying contractual documentation. This provides an availability regime, where places are only paid for when they meet availability standards, and a performance regime, where deductions can be made for more minor performance breaches. Neither of these deductions' regimes exist for public prisons. In addition, private prisons have contractually agreed indexation provisions where elements of the cost per prisoner place index on a fixed formula: by annual increases in retail price index inflation plus a fixed percentage (generally representing wage related costs) or retail price index inflation (generally representing non-wage related operating costs). Further analysis of these costs and indexation could be undertaken in due course in considering the value for money available from the private prison contracts.

It is also worth noting that Cornton Vale is an all-female prison used at half-capacity and had significant repairs and maintenance costs due to its infrastructure being built around a bigger prison. Therefore, its high costs are completely artificial and are not comparable with the rest of the SPS prison estate. Consequently, for completeness, it was not included in the analysis on the SPS prison estate.

2. Introduction

2.1 Background

The Scottish Prison Service (“SPS”) is an Executive Agency of the Scottish Government and was first established in April 1993. As an Executive Agency, the SPS is funded by the Scottish Government. SPS currently operates 13 prisons across Scotland, with 2 further prisons managed by private sector operators under contract to the SPS. HMP Kilmarnock (“Kilmarnock”) and HMP Addiewell (“Addiewell”) were constructed under the Private Finance Initiative (PFI) as a Public Private Partnership (PPP). Each prison has a 25-year contractual term and operations commenced in line with the completion of construction in 1999 and 2008 respectively.

The rising costs of private prisons in Scotland were noted after the 2018/19 Audit of the Scottish Prison Service carried out by the Public Audit and Post-Legislative Scrutiny Committee (PAPLS). SPS provided a high-level indication of the cost per prisoner based on the contract costs for Kilmarnock and Addiewell. The committee required, however, a more detailed analysis of comparative costs of private prison places to that of public prison places. It was therefore recommended that SPS and the Scottish Government undertake such an analysis in collaboration with the private prisons. This Report considers a cost comparison of public and private prisons.

2.2 Data Provided

The analysis contained within this Report is based on data from the following sources, in each case provided to us by SPS:

- SPS Annual Report and Accounts 2019-20;
- SPS Trial Balance 2019-20, which provides underlying costs for operating each of SPS's prisons including the total unitary charge paid for the private prisons;
- Financial Close Models for both Addiewell and Kilmarnock;
- PFI Accounting Model for both Addiewell and Kilmarnock; and
- Unitary Payment Analysis (completed by SPS).
- Population and Accommodation Report 2020

The SPS Annual Report and Accounts 2019-20 reflects the financial information and other qualitative information which summarises the average and maximum prison population for each prison (both public and private). The Annual Report and Accounts were audited by Azets Audit Services.

The SPS Trial Balance 2019-20 (“Trial Balance”) provides a granular breakdown of the information contained with the Annual Report and Accounts. Both the income statement and balance sheet were provided, however, only the information contained within the income statement has been used throughout this Report. Additionally, a number of irrelevant income and expenditure lines were excluded from our analysis, which is documented within Section 3.

The financial close models are the contractual models provided as an appendix of the Project Agreement in relation to the private prisons under PFI. These are the primary data sources for

the analysis in this report for both private prisons, with all cost data relating to private prisons extracted from here.

The PFI Accounting Model for both Addiewell and Kilmarnock is a working document maintained by SPS, used to manage the accounting treatment for PFI prisons, such as contingent rent.

The Unitary Payment Analysis is also prepared by SPS and highlights the most recent indexation factors and clauses in different unitary payments, availability fee and population.

The Population and Accommodation Report 2020 provides the capacity and distribution of prisoners per prison.

In all of the analysis below, 2019-20 data is used rather than 2020-21. At the time of writing this Report, the SPS 2020-21 Annual Report and Accounts were yet to be published. To ensure the most comparable data as possible was used, the 2019-20 figures were used throughout, including the analysis of private prisons.

It should be noted that no further diligence or assurance services have been undertaken by us to consider or confirm the accuracy of information contained within the data sources above. We have therefore, assumed for the purposes of our work, that this information is accurate for the basis of our analysis.

3 Methodology

3.1 Public Prison Methodology

This Section describes the methodology used in the analysis of public prison costs. There are various adjustments made to the data provided by SPS which are described below.

As discussed in Section 1, within the Trial Balance there are a number of income and expenditure lines that were not applicable to private prisons, and as such were removed from the analysis in this Report. Deloitte engaged directly with SPS to discuss and agree the applicable cost lines for the public prisons, see Table 3 below for a summary of included and excluded costs, and analysis following for the logic behind each. These income and costs lines were then removed from the analysis. Below, in Table 3, is a summary of the costs that have been included or excluded in the costs analysis of public prisons described in this Report.

Table 3 List of Included and Excluded Income and Expenditure from the Trial Balance

Trial Balance Line Item	Exclude/Include	Reasoning
Income from sales	Exclude	
Rental income - garages	Exclude	
Rental income - quarters	Exclude	
General revenue	Exclude	
Profit on Sale of Fixed Assets	Exclude	Non-cash item which is not relevant to private prisons
Prisoners Canteen Income	Exclude	All income excluded from the main body of our analysis as this solely relates to public prisons
Wages and salaries	Include	Cost line included in both public and private prisons
Temp	Include	Cost line included in both public and private prisons
Social security costs	Include	Cost line included in both public and private prisons
Other pension costs	Include	Cost line included in both public and private prisons
Repairs and Maintenance	Include	Cost line included in both public and private prisons
Depreciation and impairment	Exclude	Non-cash item which is not relevant to private prisons
Loss on sale of assets	Exclude	Non-cash item which is not relevant to private prisons
Other Staff Related Costs	Include	Cost line included in both public and private prisons
Heat, Light, Telephone etc.	Include	Cost line included in both public and private prisons
Payments in lieu of Council Tax	Exclude	Direct pass-through cost for private prisons
Rentals in operating leases - land	Exclude	Only relevant to public prisons
Rentals in operating leases -other	Exclude	Only relevant to public prisons
Finance Lease	Exclude	Only relevant to public prisons
PFI Service Charge	Exclude	Annual Unitary Payment made to private prisons therefore not a relevant cost to private prisons
PFI Contingent Rent	Exclude	Annual Unitary Payment made to private prisons therefore not a relevant cost to private prisons
Prisoner escort and court custody service	Exclude	Direct pass-through cost for private prisons
General Expenditure	Include	Cost line included in both public and private prisons
Notional Charges	Exclude	Non-cash item which is not relevant to private prisons

Movement in provisions	Exclude	Non-cash item which is not relevant to private prisons
Victualling and Other Supplies	Include	Cost line included in both public and private prisons
Prisoner Earnings	Include	Cost line included in both public and private prisons
Other Costs	Include	Cost line included in both public and private prisons
Bank and other Interest payable	Exclude	Relates to debt therefore excluded
Finance Lease Interest	Exclude	Relates to debt therefore excluded

Source: *Trial Balance 19-20*

In addition to the income and expenditure lines that do not relate to public prisons, there were a number of overhead costs within specific cost lines that were not directly attributable to a public prison, e.g., costs relating to the operation of SPS headquarter buildings and activities. Costs which related solely to a public prison were identifiable by a unique cost centre identifier, e.g., any data that related solely to Barlinnie began with a 21. Deloitte extracted the relevant data based on the unique identifiers and agreed the final costs for inclusion within our analysis with SPS. Table 3 below highlights the final data set for the cost comparison analysis for public prisons. See Appendix 1 for total costs per the Trial Balance.

Table 4 Public prisons final data set

Prison	Total Costs	Staff Costs	Repairs and Maintenance	Non-Staff costs	Average Population	Design Capacity
Barlinnie	£33,936,497	£24,433,438	£1,484,150	£8,018,909	1,409	987
Edinburgh	£24,407,821	£18,500,760	£819,913	£5,087,148	910	867
Low Moss	£19,831,857	£14,167,827	£765,520	£4,898,509	814	785
Polmont	£21,838,369	£16,934,136	£819,617	£4,084,616	470	758
Glenochil	£21,546,626	£15,869,770	£844,218	£4,832,638	728	668
Perth	£19,685,895	£14,367,651	£963,095	£4,355,148	697	631
Grampian	£17,883,035	£13,342,553	£724,339	£3,816,143	457	552
Shotts	£19,368,666	£14,314,376	£795,221	£4,259,069	542	538
Open Estate	£6,918,486	£4,675,430	£316,901	£1,926,154	185	284
Greenock	£10,001,069	£7,621,192	£593,753	£1,786,124	211	236
Dumfries	£7,997,385	£6,208,875	£416,977	£1,371,533	194	176
Inverness	£5,849,640	£4,685,924	£241,352	£922,363	116	93

Source: *SPS Annual Reports and Accounts 2019-2020, SPS Trial Balance 19-20, Financial Close Models for both Addiewell and Kilmarnock*

The analysis in this report uses two metrics for prisoner places, average population and design capacity. Average population is the average number of prisoners held in each prison during the financial year 2019/20, and design capacity is the maximum number of prisoners that can be held

in a prison at any time. The metrics provide similar results and it has been agreed with SPS to use both.

3.2 Private Prison Methodology

This Section describes the methodology used in this Report for the analysis of private prison costs. There are various adjustments made to the data which is detailed below.

3.2.1 UP vs Operating Costs

One of the main differences between public and private prisons is that private prisons include debt financing and other charges in relation to the construction of the prisons. Equivalent costs are not included in the public prisons. The Unitary Payment can be split via:

1. Fixed (generally but not exclusively costs of capital);
2. Indexed Fee (Indexed at RPI – generally but not relating to repairs and consumables);
3. Indexed Cost Fees (Indexed at RPI + K, with K being 1.5% - generally but not exclusively wage and wage related costs).

The total of the Indexed Fee and RPI + K fee is closely aligned to the total costs in private prisons, excluding debt, as demonstrated below. The analysis in this report compares the actual costs of public and private prisons and not the UP, as the actual costs provide more granular analysis.

Table 5 Cost Comparison of UP and Total Costs Addiewell

Addiewell Unitary Payment & Operating Costs			
Indexed Costs Fee (RPI + K)	£15,501,174	Staff Costs	£15,501,174
		Non-Staff Costs	£6,704,098
		Change of law costs paid	£4,800
		Life-cycle costs	£645,318
		SPV costs	£1,680,260
Indexed Fee (RPI)	£9,037,876	Total non-staff costs	£9,034,476
RPI & RPI + K	£24,539,050	Total	£24,535,650
Fixed	£11,655,909		
Total Unitary Payment	£36,194,960		

Source: Financial Close Model for Addiewell

Table 6 Cost Comparison of UP and Total Costs Kilmarnock

Kilmarnock Unitary Payment & Operating Costs			
Indexed Costs Fee (RPI + K)	£10,382,359	Staff Costs	£10,381,881
		Non-Staff Costs	£3,439,769
		Change of law costs paid	£0
		Life-cycle costs	£248,654
		SPV costs	£227,266
Indexed Fee (RPI)	£3,915,271	Total non-staff costs	£3,915,689

RPI & RPI + K	£14,297,630	Total	£14,297,570
Fixed	£1,222,750		
Total Unitary Payment	£15,520,380		

Source: Financial Close Model for Kilmarnock

3.2.2 Indexation

In a PFI-managed prison, the cost paid per prisoner place is calculated before indexation and indexation over time is calculated in accordance with the payment mechanism in the project agreement for each prison. There are three elements of costs within the financial close models analysed within this Report, fixed costs which are not indexed at any point (representing debt), RPI costs which are indexed by RPI annually (primarily relating to Facilities Management (“FM”) costs such as catering) and RPI + K costs which indexed by RPI plus K which in both Addiewell and Kilmarnock is an additional 1.5% (relates to staff costs).

The financial close models, where the UP and costing data is derived, were created in 1999 and 2008 respectively, and as such estimates for indexation were made for the life of the contract. The first step in the analysis of this Report was to reverse the forecast indexation from RPI and RPI + K costs and then reapply the actual indexation, using 2019-20 figures.

In order to make this adjustment to the costs shown in the financial models for the private prisons, we have adjusted the costs shown in the financial models for assumed inflation in the financial model (i.e. to calculate costs before indexation) and increased these by the current indexation (allowing for actual inflation) of RPI or RPI + 1.5% as appropriate.

3.2.2.1 Addiewell Indexation

Table 7 Addiewell Indexation Calculation

2019-20 costs per Addiewell Financial Close Model		
Cost Line	Assumed Indexation from the Financial Model	Adjustment to reflect actual indexation from SPS payment mechanism calculation
Staff costs	£15,501,174	£18,353,580
Non-staff costs	£6,704,098	£7,623,135
Change of law costs paid	£4,800	£5,458
Life-cycle costs	£645,318	£733,782
SPV costs	£1,680,260	£1,910,600
Total Costs	£24,535,650	£28,626,555

Source: Financial Close Model for Addiewell

3.2.2.2 Kilmarnock Indexation

Table 8 Kilmarnock Indexation Calculation

2019-20 costs per Kilmarnock Financial Close Model		
Cost Line	Assumed Indexation Included	Adjustment to reflect actual indexation from SPS payment mechanism calculation
Staff Costs	£10,381,881	£10,822,772
Non-Staff Costs	£3,439,769	£3,481,265
Change of law costs paid	£0	£0
Life-cycle costs	£248,654	£296,671
SPV costs	£227,266	£230,008
Total Costs	£14,297,570	£14,830,716

Source: *Financial Close Model for Kilmarnock*

3.2.2.3 Adjustments to Data

Within the Addiewell Project Agreement there is a gainshare mechanism in relation to insurance premium savings. This amounted to £1,111,745 for the period 2018 – 2020, equating to £555,827 per annum as per a Joint Insurance Cost Report provided by JLT. As this is not reflected in the financial close model, we have adjusted the SPV costs within our analysis to reflect this gainshare.

Additionally, within the Kilmarnock financial close model there is a cost line for escort costs, which are no longer paid by the SPV, rather, the escort service is provided by the SPS. As such, for the purposes of our analysis in this Report we have not included escort service fees, as can be seen in the tables above. Deloitte enquired with SPS as to any other arrangements which could potentially impact the analysis in this Report, with none noted.

4 Cost comparison of public and private prisons

In this Section we compare the cost of public and private prisons based on:

- i. The total annual cost on a per prison basis;
- ii. The cost per prisoner on an annual basis;
- iii. The cost per prisoner place on an annual basis, including an adjustment for income received at some prisons (e.g. catering and other income).

4.1 Summary costs comparison by prison

Chart 3 below highlights the split of total costs per prison for both public and private prisons. As the number of prisoners in each prison is commonly understood to be a factor in the overall cost of running each prison, the prisons in this chart are shown in by reducing prisoner population (i.e. the prisons are organised largest to smallest).

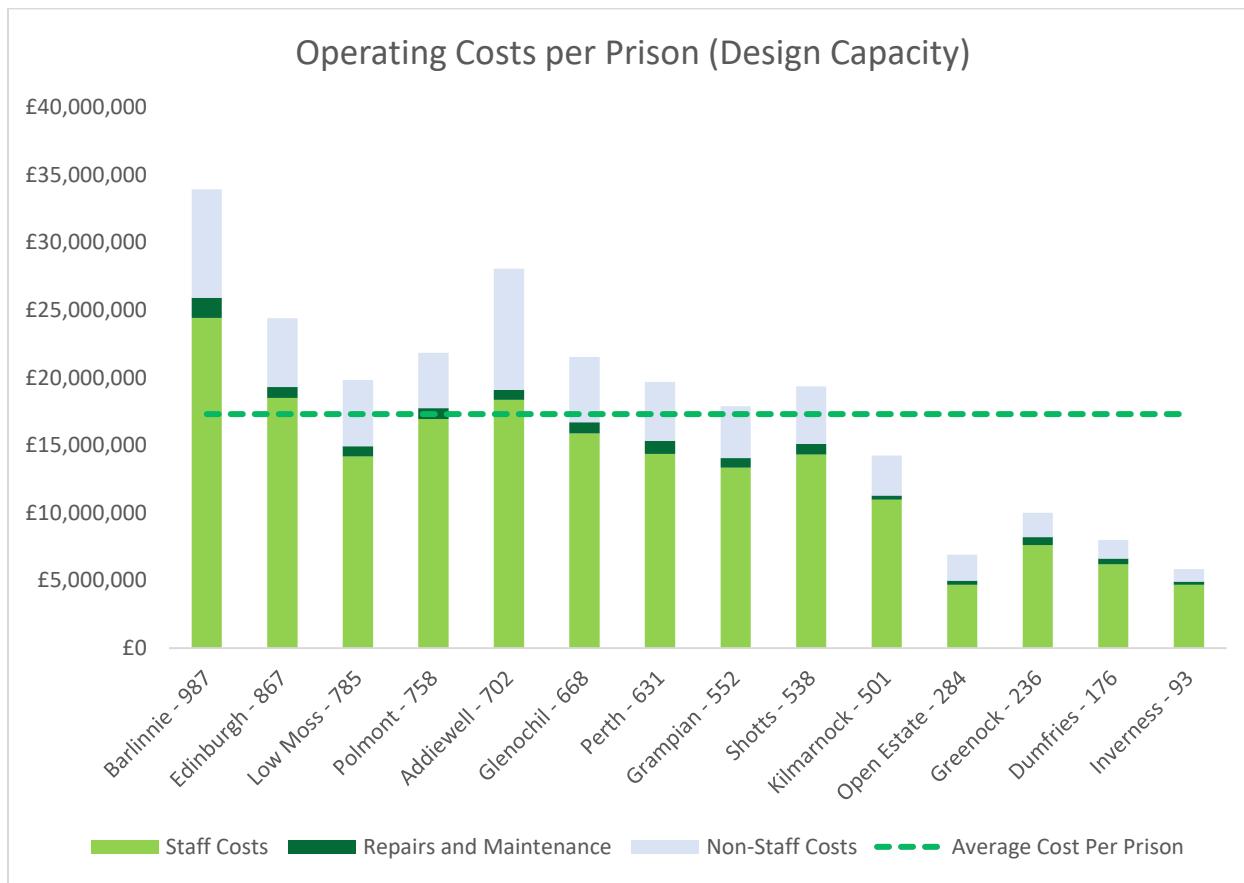
The total cost for each prison is split via the three primary cost categories, staff costs, non-staff costs and repairs and maintenance (“R&M”). The average cost per prison (not per prisoner) is also shown.

Chart 3 Total Operating Costs per Prison



Source: SPS Annual Reports and Accounts 2019-20, Trial Balance 19-20, Financial Close Models for both Addiewell and Kilmarnock

Chart 4 Operating Costs per prison (Design Capacity)



Source: SPS Annual Reports and Accounts 2019-20, Trial Balance 19-20, Financial Close Models for both Addiewell and Kilmarnock

4.2 Summary costs comparison per prisoner place

Chart 5 below shows the split of staff costs, non-staff costs and repairs and maintenance costs of each prison per average prisoner place. This suggests that prisons with a smaller number of prisoners generally operate at a higher cost per place per year.

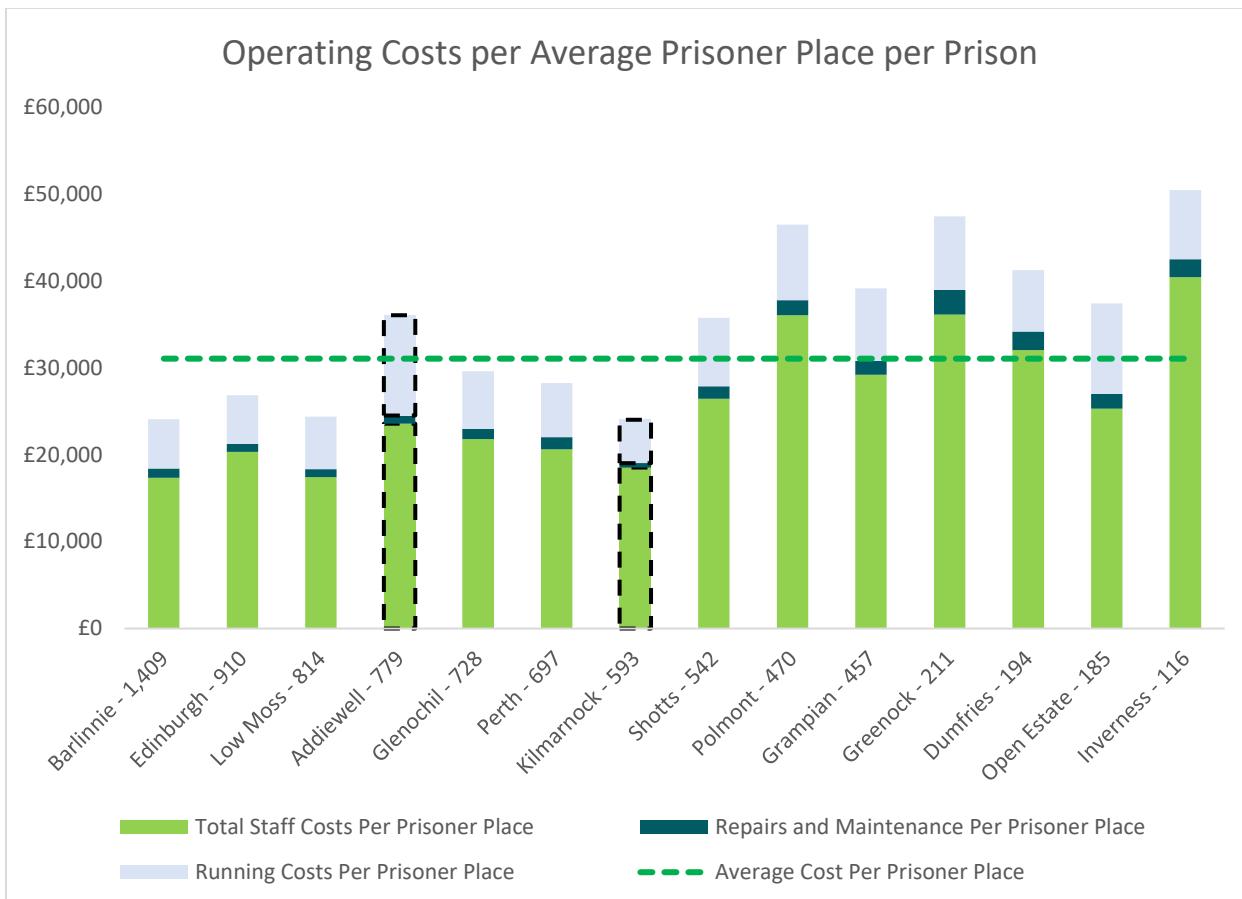
Inverness has the highest cost per average prisoner place, at £50,428, and also the lowest average prisoner population of 116, compared to the average cost per prisoner place of £35,067 (Table 9).

Chart 6 below highlights the split of staff costs, non-staff costs and repairs and maintenance costs of each prison per design capacity. This also suggests that prisons with a smaller number of prisoners generally operate at a higher cost per place per year.

Inverness again has the highest cost per design capacity, at £62,899, and has the lowest design capacity of 93, compared to the average cost per design capacity of £34,214 (Table 10). The cost

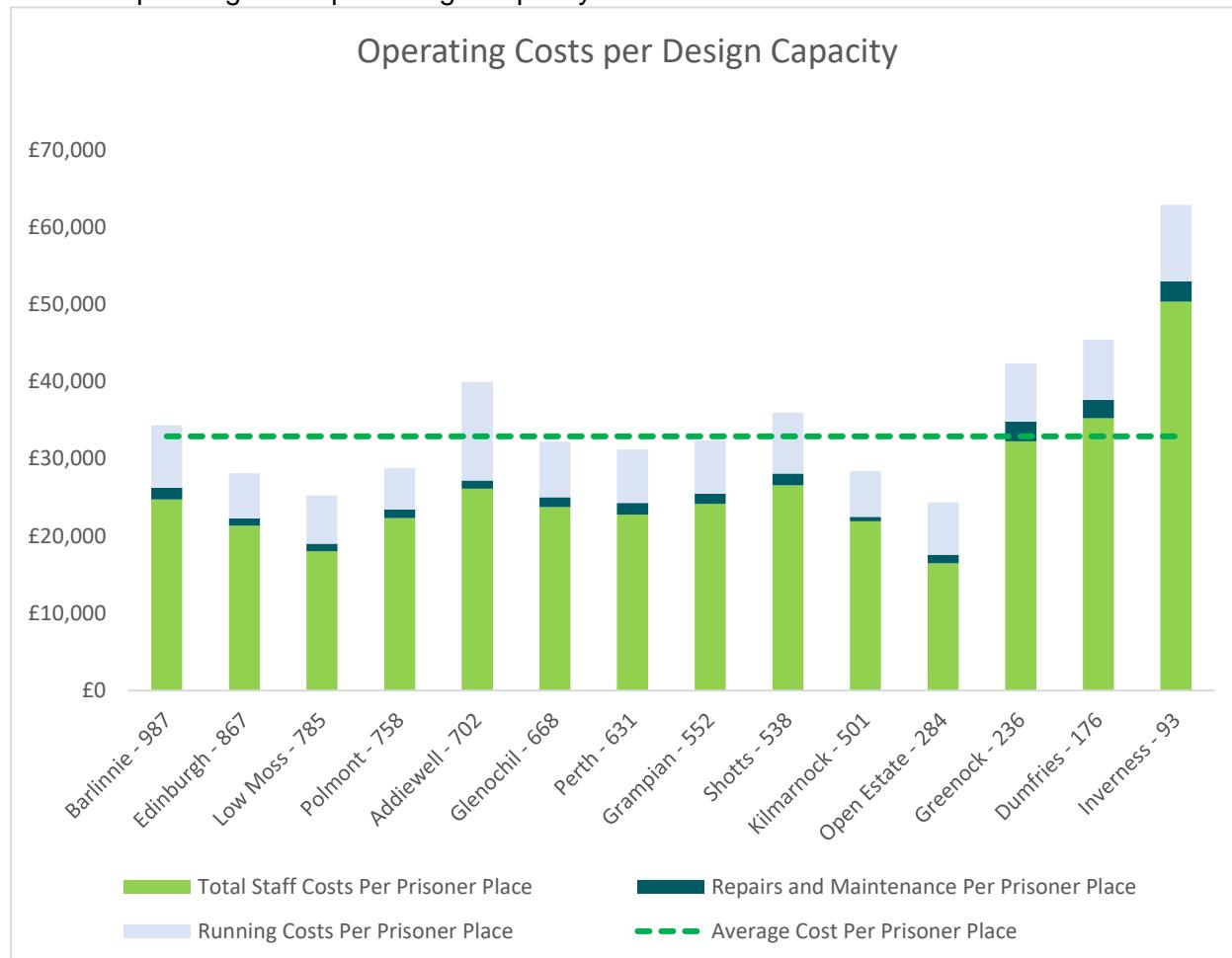
per prisoner at Inverness is significantly higher than any other prison which again suggests a link between having a smaller number of prisoners and high costs per place per year.

Chart 5 Split of Operating Costs per Average Prisoner Place



Source: SPS Annual Reports and Accounts 2019-20, Trial Balance 19-20, Financial Close Models for both Addiewell and Kilmarnock

Chart 6 Operating Costs per Design Capacity



Source: SPS Annual Reports and Accounts 2019-20, Trial Balance 19-20, Financial Close Models for both Addiewell and Kilmarnock

Table 9 Analysis of Prison Estate Analysis

	Average Prisoner Population	Total Costs	Cost per Prisoner Place
Barlinnie	1,409	£33,936,497	£24,086
Edinburgh	910	£24,407,821	£26,822
Low Moss	814	£19,831,857	£24,363
Addiewell	779	£28,070,683	£36,034
Glenochil	728	£21,546,626	£29,597
Perth	697	£19,685,895	£28,244
Kilmarnock	593	£14,238,217	£24,010
Shotts	542	£19,368,666	£35,736
Polmont	470	£21,838,369	£46,465

Grampian	457	£17,883,035	£39,131
Greenock	211	£10,001,069	£47,398
Dumfries	194	£7,997,385	£41,224
Open Estate	185	£6,918,486	£37,397
Inverness	116	£5,849,640	£50,428
Weighted Average	547	£17,969,589	£35,067

Source: SPS Annual Reports and Accounts 2019-20, Trial Balance 19-20

Table 10 Cost per Design Capacity Place

	Design Capacity	Total Costs	Cost per Prisoner Place
Barlinnie	987	£33,936,497	£32,788
Edinburgh	867	£24,407,821	£27,228
Low Moss	785	£19,831,857	£24,146
Polmont	758	£21,838,369	£28,262
Addiewell	702	£28,070,603	£39,987
Glenochil	668	£21,546,626	£30,898
Perth	631	£19,685,895	£29,872
Grampian	552	£17,883,035	£31,590
Shotts	538	£19,368,666	£34,410
Kilmarnock	501	£14,238,217	£28,420
Open Estate	284	£6,918,486	£23,710
Greenock	236	£10,001,069	£41,536
Dumfries	176	£7,997,385	£44,495
Inverness	93	£5,849,640	£61,647
Weighted Average	526	£17,969,583	£34,214

Source: SPS Annual Reports and Accounts 2019-20, Trial Balance 19-20

4.3 Cost Comparison of Comparable Prisons

4.3.1 Comparable Prisons

The comparable group of prisons was identified by SPS, where Kilmarnock is comparable to Perth and Addiewell is comparable to Low Moss. In the following section we have compared the costs in both public prisons to the corresponding comparable private prison.

4.3.2 Low Moss and Addiewell

Table 11 Total Costs and Costs per Prisoner for Low Moss and Addiewell

Prison	Average Population	Cost per prisoner	Staff Costs per Prisoner	R&M per Prisoner	Non-staff Costs per Prisoner
Low Moss	814	£24,363	£17,405	£940	£6,018
Addiewell	779	£36,034	£23,560	£942	£11,532
Difference		-£11,671	-£6,155	-£2	-£5,514

Source: SPS Annual Reports and Accounts 2019-20, Trial Balance 19-20, Addiewell & Kilmarnock Financial Close Models

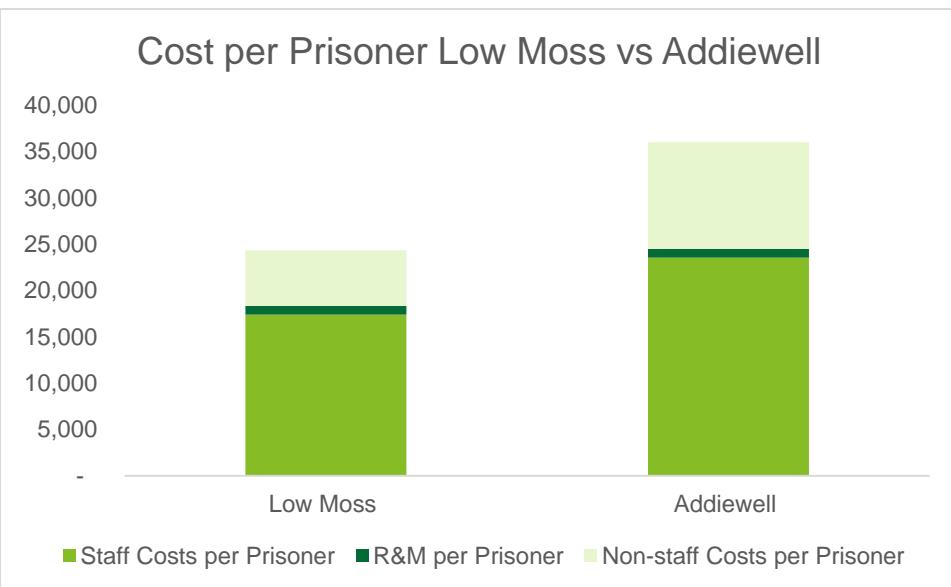
Table 12 Total Costs and Costs per Design Capacity for Low Moss and Addiewell

Prison	Design Capacity	Cost per prisoner	Staff Costs per Prisoner	R&M per Prisoner	Non-staff Costs per Prisoner
Low Moss	785	£25,264	£18,048	£975	£6,240
Addiewell	702	£39,987	£26,145	£1,045	£11,532
Difference		-£14,723	-£8,097	-£70	-£5,292

Source: SPS Annual Reports and Accounts 2019-20, Trial Balance 19-20, Addiewell & Kilmarnock Financial Close Models

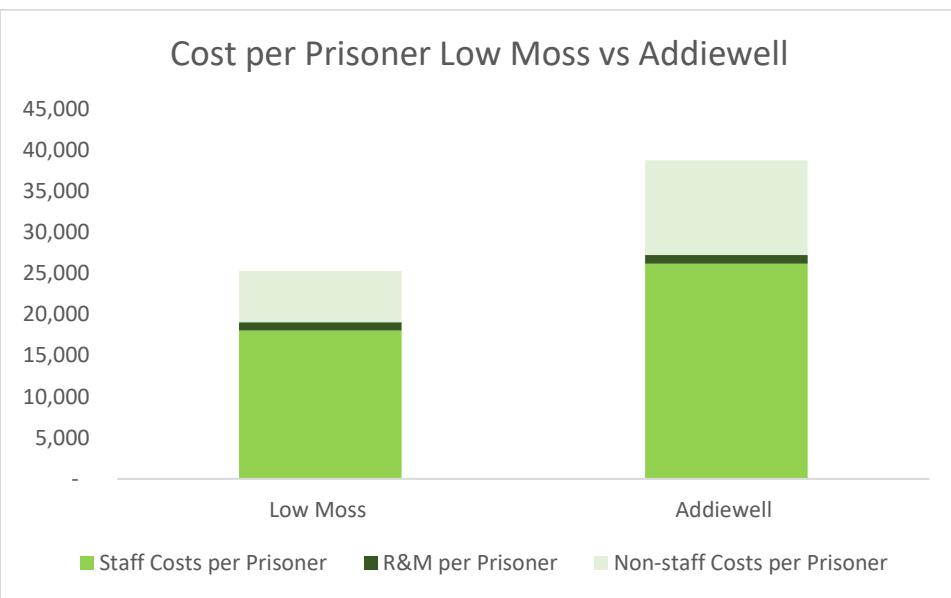
Both staff costs and non-staff costs at Addiewell are higher than Low Moss. It is worth noting that Addiewell is a learning facility, where prisoners can attend educational courses in their downtime. While there is no direct evidence from the data provided, the costs associated with a learning facility could be higher than a traditional prison (i.e. Low Moss). Further value for money analysis may provide an explanation for this, whether this is as a result of indexation or other factors.

Chart 7: Cost per Prisoner for Low Moss and Addiewell



Source: SPS Annual Reports and Accounts 2019-20, Trial Balance 19-20, Addiewell & Kilmarnock Financial Close Models

Chart 8 Cost per Prisoner Design Capacity



Source: SPS Annual Reports and Accounts 2019-20, Trial Balance 19-20, Addiewell & Kilmarnock Financial Close Models

4.3.3 Perth and Kilmarnock

The total cost per annum for a prisoner at Perth is £28,244 compared to £24,010 at Kilmarnock, a difference of £4,233 per prisoner per annum.

The total annual cost per prisoner between the Perth and Kilmarnock is closer than Low Moss and Addiewell, and the results below indicate that the total cost per prisoner is less in Kilmarnock than Perth. The difference in total cost can then be split further via the various cost categories introduced earlier in this report below in Table 10.

Table 13 Costs per Prisoner for Perth and Kilmarnock

Prison	Average Population	Cost per prisoner	Staff Costs per Prisoner	R&M per Prisoner	Non-Staff Costs per Prisoner
Perth	697	£28,244	£20,614	£1,382	£6,248
Kilmarnock	593	£24,010	£18,517	£500	£4,993
Difference		£4,233	£2,096	£881	£1,256

Source: SPS Annual Reports and Accounts 2019-20, Trial Balance 19-20, Addiewell & Kilmarnock Financial Close Models

Table 14 Costs per Prisoner Design Capacity for Perth and Kilmarnock

Prison	Design Capacity	Cost per prisoner	Staff Costs per Prisoner	R&M per Prisoner	Non-Staff Costs per Prisoner
Perth	631	£31,198	£22,770	£1,526	£6,902
Kilmarnock	501	£28,420	£21,918	£592	£5,910
Difference		£2,778	£852	£934	£992

Source: SPS Annual Reports and Accounts 2019-20, Trial Balance 19-20, Addiewell & Kilmarnock Financial Close Models

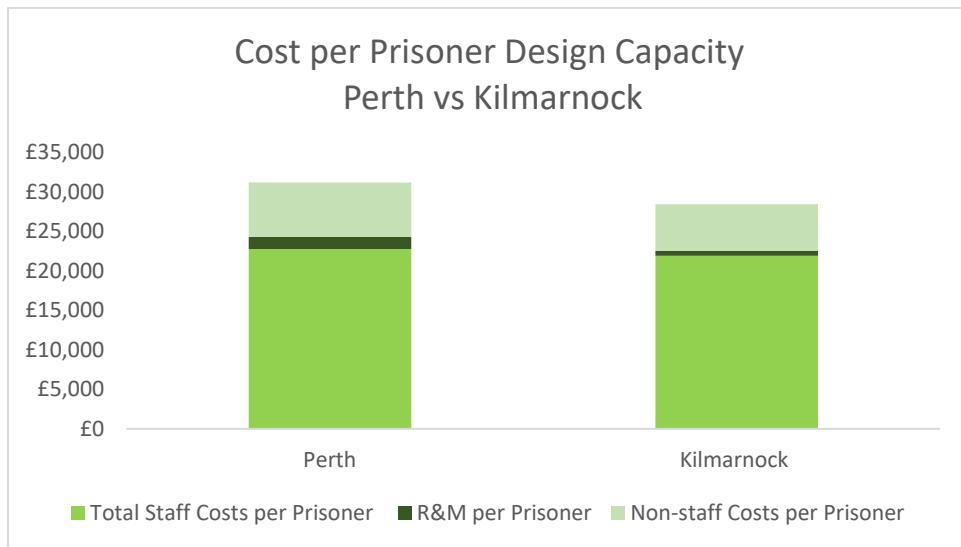
Repairs and maintenance costs for Perth is £1,382 per annum and £500 per annum for Kilmarnock, a difference of £882 per annum. Perth received a full refurbishment of its facilities in 2007, whereas Kilmarnock was constructed in 1999.

Chart 9: Cost per Average Prisoner Perth vs Kilmarnock



Source: SPS Annual Reports and Accounts 2019-20, [Prisons \(sps.gov.uk\)](#), Trial Balance 19-20, Addiewell & Kilmarnock Financial Close Models

Chart 10: Cost per Prisoner Design Capacity Perth vs Kilmarnock



Source: SPS Annual Reports and Accounts 2019-20, [Prisons \(sps.gov.uk\)](#), Trial Balance 19-20, Addiewell & Kilmarnock Financial Close Models

Staff costs per prisoner total £20,614 for Perth and £18,517 for Kilmarnock, a difference of £2,096. The results here are the reverse of the above comparison for Low Moss and Addiewell, where the former was clearly more expensive.

SPS has informed us that on average staff in the public sector were paid higher bandings than private sector staff, which may explain why the Kilmarnock staff costs are lower than Perth, although this is not the case when comparing Addiewell and Low Moss.

4.3.4 Cost per Prisoner including income

As noted, in Section 3, we have excluded the income generated in public prisons from our analysis as similar income is not generated in Kilmarnock or Addiewell. Any income generated from Kilmarnock is included in a fund to improve amenities for prisoners, whereas Addiewell is a learning prison. Nevertheless, the table below provides a comparison of costs taking account of income received in the public prisons.

Table 15 Average Population, Total Costs and Income per Comparable Prison

Prison	Average Prison Population	Total Costs	Income	Total Cost less Income	Cost per prisoner Including Income	Cost per Prisoner not including Income
Addiewell	779	£28,070,683	£0	£28,070,683	£36,034	£36,034
Low Moss	814	£19,831,857	£877,193	£18,954,664	£23,286	£24,363
Difference		£8,238,826	-£877,193	£9,116,019	£12,748	£11,671
Kilmarnock	593	£14,238,217	£0	£14,238,217	£24,010	£24,010
Perth	697	£19,685,894	£835,559	£18,849,336	£27,044	£28,244
Difference		-£5,447,677	-£835,559	-£4,611,119	-£3,034	-£4,234

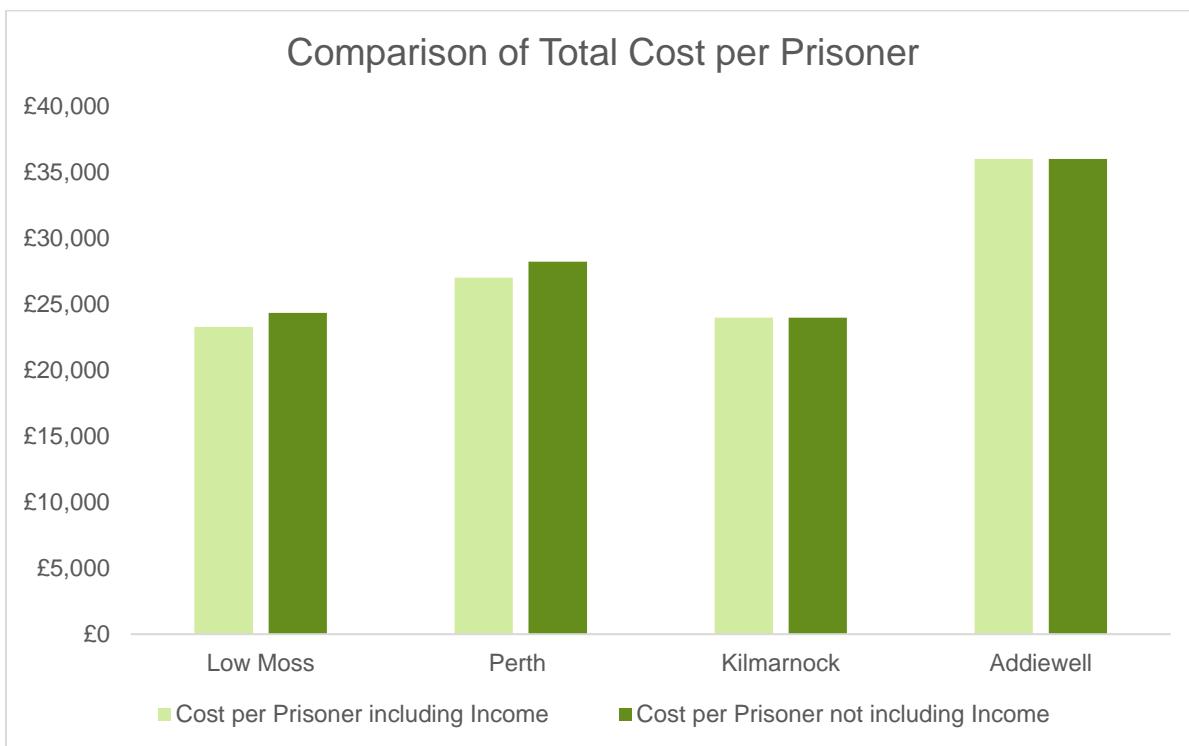
Source: SPS Annual Reports and Accounts 2019-20, Trial Balance 19-20, Addiewell & Kilmarnock Financial Close Models

Table 16 Design Capacity, Total Costs and Income per Comparable Prison

Prison	Design Capacity	Total Costs	Income	Total Cost less Income	Cost per prisoner Including Income	Cost per Prisoner not including Income
Addiewell	702	£28,070,683	£0	£28,070,683	£39,987	£39,987
Low Moss	785	£19,831,857	£877,193	£18,954,664	£24,146	£25,264
Difference		£8,238,826	-£877,193	£9,116,019	£15,841	£14,723
Kilmarnock	501	£14,238,217	£0	£14,238,217	£28,420	£28,420
Perth	631	£19,685,895	£836,559	£18,849,336	£29,872	£31,198
Difference		-£5,447,677	-£836,559	-£4,611,119	-£1,452	-£2,778

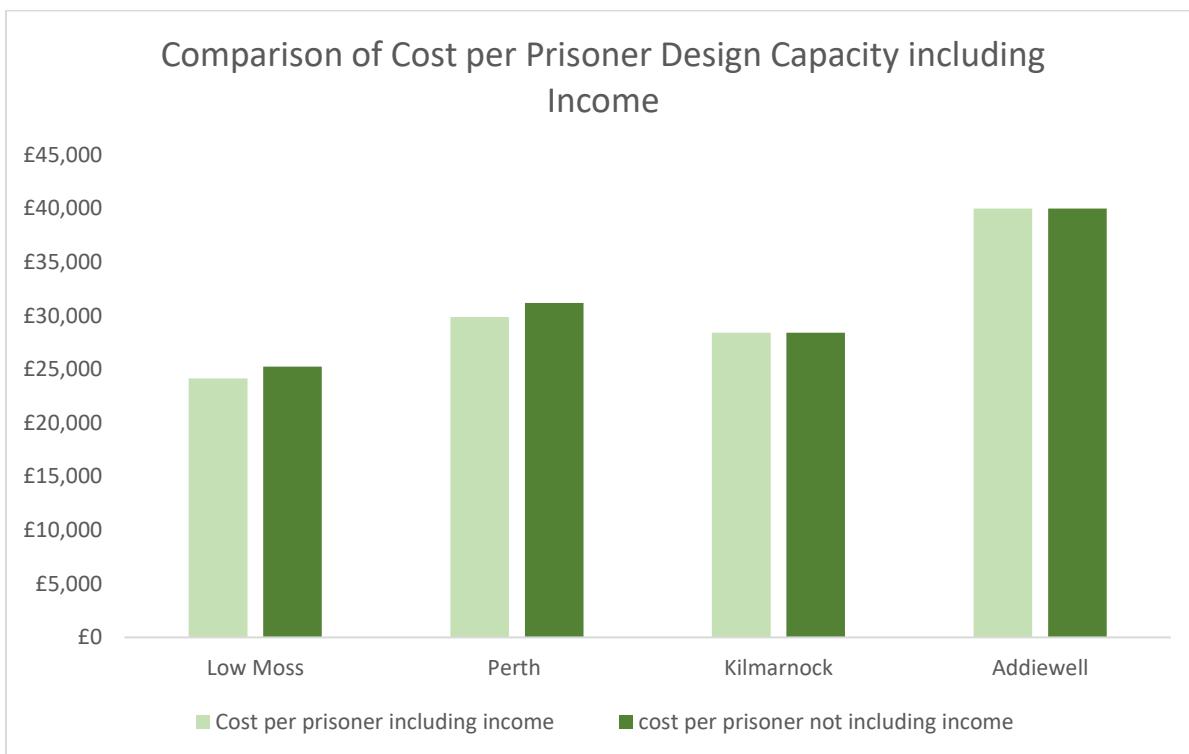
Source: SPS Annual Reports and Accounts 2019-20, Trial Balance 19-20, Addiewell & Kilmarnock Financial Close Models

Chart 11: Comparison of Total Cost per Average Prisoner Including Income



Source: SPS Annual Reports and Accounts 2019-20, Trial Balance 19-20, Addiewell & Kilmarnock Financial Close Models

Chart 12: Comparison of Total Cost per Average Prisoner Including Income



Source: SPS Annual Reports and Accounts 2019-20, Trial Balance 19-20, Addiewell & Kilmarnock Financial Close Models

Appendix

Appendix 1 Public Prisons Data set including Total Costs

Prison	Total Costs
Barlinnie	£33,936,497
Edinburgh	£24,407,821
Low Moss	£19,831,857
Glenochil	£21,546,626
Perth	£19,685,895
Shotts	£19,368,666
Polmont	£21,838,369
Grampian	£17,883,035
Greenock	£10,001,069
Dumfries	£7,997,385
Open Estate	£6,918,486
Inverness	£5,849,640
Total	£209,265,346
Total per Trial Balance	£363,442,790
Difference	£154,177,444



In this document references to Deloitte are references to Deloitte LLP. Deloitte LLP is the United Kingdom affiliate of Deloitte NSE LLP, a member firm of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"). DTTL and each of its member firms are legally separate and independent entities. DTTL and Deloitte NSE LLP do not provide services to clients. Please see www.deloitte.co.uk/about to learn more about our global network of member firms.

© 2022 Deloitte LLP. All rights reserved.

Deloitte LLP is a limited liability partnership registered in England and Wales with registered number OC303675 and its registered office at 1 New Street Square, London EC4A 3HQ, United Kingdom

