CABINET - SUBJECTS FOR CONSIDERATION, 28 AUGUST 2006 11:00 AM

1 New Initiatives/Policy Matters

Not relevant

106 TF06/066CS Treasurer's Item (Kevin Foley)
WITHDRAWN

Not relevant

106

LOCKED

CABINET COVER SHEET

1. TITLE: New Male, Female Prisons and a New Youth Detention Centre

2. MINISTER: Kevin Foley MP
DEPUTY PREMIER
TREASURER

3. PURPOSE

3.1 For Cabinet to note the requirement for new male and female prisons and that it is intended to progress these through new collocated infrastructure at Mobilong.

3.2 For Cabinet to note the requirement for a new 90 bed Youth Detention centre (YDC) and that it is intended to progress this development as a stand-alone development at Cavan.

3.3 To seek Cabinet approval for the Prisons project to be progressed as a Public Private Partnership (PPP) up to the completion of the tendering stage (Stage 1). Proponents would be required to tender on the basis of:

3.3.1 a 'full service' PPP, whereby the operator will design, finance, build, maintain and operate the prisons by providing the full range of correctional services, including custodial services; and/or

3.3.2 a 'serviced infrastructure' PPP, whereby the operator will design, finance, build, maintain and operate the prisons and provide all correctional services except for custodial services, which will be retained in the public sector.

3.4 To seek Cabinet approval for the YDC project to be progressed as a Public Private Partnership (PPP) up to the completion of the tendering stage (Stage 1). Proponents would be required to tender on the basis of a 'serviced infrastructure' PPP, whereby the operator will design, finance, build, maintain and operate the YDC and provide all correctional services except for custodial services, which will be retained in the public sector.

3.5 For Cabinet to note that the outcome of the tender process will be referred to Cabinet for a further decision on whether the prisons project and YDC should proceed as a PPP.

4. IDENTIFY THE RELEVANT GOVERNMENT POLICY AND/OR SA's STRATEGIC PLAN TARGET

The construction of new correctional services infrastructure will assist in implementing the State Strategic Plan across a number of areas including improving wellbeing and building communities.

The State Infrastructure Plan for South Australia 2005-06 –

2014-15 includes discussion of the prison system.

5. **ICT COMPONENT**

Does the submission have a material ICT Component?
☐ Yes ☒ No

6. **RESOURCES REQUIRED FOR IMPLEMENTATION**

The required resources are set out in full in the Cabinet Submission. In short, the proposal for a PPP prison would have an adverse impact on the Net Operating Balance of $1,251,000 in 2006-07; $2,503,000 in 2007-08; $1,622,000 in 2008-09 and $2,371,000 in 2009-10.

As outlined in the submission the project has substantial other cost implications beyond the end of the forward estimate period.

Treasury and Finance agrees with the basis of the assessment of costs contained in this submission.

7. **COMMUNITY AND ENVIRONMENTAL IMPACT**

Potentially short term economic benefits in the form of increased employment in regional areas.

Does the submission have an impact on business?
☐ Yes ☒ No

8. **RISKS**

A comprehensive risk management strategy will be developed as part of the PPP procurement process.

9. **CONSULTATION**

Due to the sensitivity of this project, consultation on this submission has been limited to the Department for Correctional Services, Department for Families and Communities and the Department of Treasury and Finance.

Key stakeholders including Murray Bridge Local Council, SAPOL, Department of Health and Planning SA were consulted in the development of the final business case.

10. **COMMUNICATION STRATEGY**

This project would be announced as part of the 2006-07 State Budget.

11. **URGENCY**

Urgent

12. **RECOMMENDATIONS**

It is recommended that Cabinet:

12.1 Note the requirement for new male and female prisons and that it is intended to progress these through new collocated infrastructure at Mobilong.

12.2 Note the requirement for new 90 bed Youth Detention Centre (YDC) and that it is intended to progress this

development as a stand-alone development at Cavan.

12.3 Approve that the prisons project be progressed as a PPP and that DCS develops a project brief to be issued to prospective proponents with the first stage of the PPP tendering process, to be completed by December 2007, on both:

12.3.1 A 'full service' PPP whereby the operator will design, finance, build, maintain and operate the prisons by providing the full range of correctional services, including custodial services; and

12.3.2 A 'serviced infrastructure' PPP whereby the operator will design, finance, build, maintain and operate the prisons, and provide all correctional services except for custodial services, which will be retained in the public sector.

12.4 Approve the YDC project to be progressed as a PPP up to the completion of the tendering stage (Stage 1). Proponents would be required to tender on the basis of a 'serviced infrastructure' PPP, whereby the operator will design, finance, build, maintain and operate the YDC and provide all correctional services except for custodial services, which will be retained in the public sector.

12.5 Approve additional appropriation and expenditure authority be provided for this purpose (including amounts held in contingencies) as indicated in the 'Economic, Financial and Budgetary implications' section of this submission.

12.6 Consistent with the Partnerships SA Guidelines, the outcome of the initial tendering process will be brought to Cabinet to approve proceeding with the project, including on whether the final PPP would include custodial services.

12.7 Note that under any procurement option significant staffing level adjustment will be required as the new facilities enable lower staff to prisoner ratios.

I declare that I have no actual or potential conflict of interest in relation to the proposals contained in this submission.

Kevin Foley MP
DEPUTY PREMIER
TREASURER

23/8/2006

MINUTE

MINUTES forming **ENCLOSURE** to T&F06/66CS

To The Premier For Cabinet

Re **NEW MALE, FEMALE PRISONS AND A NEW YOUTH DETENTION CENTRE**

1 PROPOSAL

1.1 For Cabinet to note the requirement for new male and female prisons and that it is intended to progress these through new collocated infrastructure at Mobilong.

1.2 For Cabinet to note the requirement for a new 90 bed Youth Detention Centre (YDC) and that it is intended to progress this development as a stand-alone development at Cavan.

1.3 To seek Cabinet approval for the Prisons project to be progressed as a Public Private Partnership (PPP) up to the completion of the tendering stage (Stage 1). Proponents would be required to tender on the basis of:

1.3.1 a 'full service' PPP, whereby the operator will design, finance, build, maintain and operate the prisons by providing the full range of correctional services, including custodial services; and/or

1.3.2 a 'serviced infrastructure' PPP, whereby the operator will design, finance, build, maintain and operate the prisons and provide all correctional services except for custodial services, which will be retained in the public sector.

1.4 To seek Cabinet approval for the YDC project to be progressed as a Public Private Partnership (PPP) up to the completion of the tendering stage (Stage 1). Proponents would be required to tender on the basis of a 'serviced infrastructure' PPP, whereby the operator will design, finance, build, maintain and operate the YDC and provide all correctional services except for custodial services, which will be retained in the public sector.

1.5 For Cabinet to note that the outcome of the tender process will be referred to Cabinet for a further decision on whether the prisons project and YDC should proceed as a PPP.

1.6 Note that a significant staffing level adjustment will be required, as the new facilities enable lower staff to prisoner ratios.

2 BACKGROUND

2.1 A final business case for the replacement of the Yatala Labour Prison and Northfield Women's Prison has been completed (refer Executive Summary at Attachment 1). DCS's preferred option is for the development of a new 150 bed female prison and 760 bed male prison on a greenfield site at either Mobilong or Monarto.

2.2 The business case has assessed three alternative procurement options for the new prisons:

2.2.1 traditional procurement funded through State borrowing;

2.2.2 PPP delivery, whereby the private operator would be responsible for the delivery of all accommodation and correctional services, including custodial services; or

2.2.3 a PPP for the design, construction, maintenance and operation of the facilities through the provision of accommodation and correctional services, but excluding custodial services.

2.3 DFC has completed an outline business case that canvasses a number of options for the development of a new Youth Detention Centre (YDC). Of these, the most efficient solution is the provision of a new 90-bed facility at Cavan, which will replace the existing facilities at Cavan and Magill. Bringing the two facilities together will provide significant operating efficiencies.

3 DISCUSSION

New Male and Female Prison

3.1 Prison costs are forecast to increase significantly due to a growing prison population. Funding in the current forward estimates is not sufficient to meet these cost pressures.

3.2 The DCS business case forecasts that current operational capacity (including doubled up cells) of 1,727 beds will be 100% occupied by 2008-09. Table 1 summarises the forecast cost increases from 2006-07 to 2011-12.

Table 1 - Forecast increase in annual correctional services cost ($m)

	2006/07 $m	2011/12 $m	Increase $m	%
Yatala	17.6	31.1	13.5	76%
Northfield	4.3	7.9	3.6	84%
Total	21.9	39.0	17.1	78%

3.3 The expected acceleration in correctional services costs is due mainly to the inefficiencies in the Yatala and Northfield facilities. Both facilities are well past their useful life and do not comply with nationally recognised standards. In view of the extremely poor physical condition of the facilities, a significant investment by way of capital maintenance and upgrading is not justifiable.

3.4 Investment in new, more efficient facilities will mitigate the expected cost escalation. The prisoner cost per day estimate for the new prison and the PPP option (full service) is summarised in Table 2 below:

Table 2: Cost per prisoner for new male and female prisons ($/day)

	Yatala & Northfield	New Male and Female prison (DCS build)	PPP
Male Prison	$144	$100	$85
Female prison	$149	$154	$131

3.5 The reduction in per prisoner costs is due largely to expected staffing efficiencies in the new male prison. The new male prison will accommodate 760 prisoners, which DCS estimates can be efficiently supervised by 313 correctional services staff, a prisoner to staff ratio of 2.4. Yatala, which currently houses 405 prisoners, operates

with a prisoner to staff ratio of 1.5, or 270 staff. An equivalent staffing ratio at the new male prison at full capacity would require around 500 staff, which would eliminate the expected savings.

3.6 These savings are estimated at roundly $11.9 million per annum. However, the savings can only be achieved if DCS is able to rationalise its workforce to reflect the efficiencies of the new facilities, which will arise through improved automation, particularly remote monitoring technology, and optimising the design of the physical layout of the prison.

3.7 A further source of savings is the avoided cost of maintenance at Yatala and Northfield. Backlog maintenance is a significant problem at both facilities and costs are rising sharply.

3.8 No savings are expected from the female facilities. Custodial costs are expected to increase slightly, as DCS expects to improve services to female inmates in the new facility.

3.9 A new male and female prison will enable the state to accommodate growth in prisoner numbers in more efficient facilities, which will enhance DCS' rehabilitation efforts and reduce the adverse consequences of overcrowding (ie 'doubling-up' prisoners).

3.10 The DCS savings assumption is critically dependent upon its management of industrial relations issues. This is a key risk to the justification for building a new prison, compared to a refurbishment program or other lower cost options.

3.11 Additional savings will be achieved through collocating the female prison with the male prison. These savings come from construction efficiencies, which should reduce costs up to 5% on capital expenditure and potential operational savings through shared infrastructure and facilities, such as security monitoring, stores infrastructure, transport and administration.

Public Private Partnership

3.12 As noted in 2.2 above, the business case for the prisons presents a number of delivery options, including traditional procurement and PPP.

3.13 The PPP options that would be tendered are:

3.13.1 a 'full service' PPP, whereby the operator will design, finance build, maintain and operate the prisons by providing the full range of correctional services, including custodial services; and

3.13.2 a 'serviced infrastructure' PPP, whereby the operator will design, finance, build, maintain and operate the prisons, and provide all correctional services except for custodial services, which will be retained in the public sector.

Full Service PPP (i.e. including custodial services)

3.14 PPPs are contracts for services, not simply for the construction of infrastructure. The private sector is required to design, construct and maintain the infrastructure in a fit-for-purpose condition to support the range of services to be provided to the State. It is the transfer of risk to the private sector that justifies paying the rate of return required by private sector proponents. The responsibility for service provision is the

most effective way of transferring risk to the private sector. Unless a material level of services is performed by the private sector it is hard to justify a PPP approach.

3.15 Value for money is maximised through a private sector operator taking greater responsibility for the operation of the prison. This could include hotel services, waste management, education and work programs, health and medical services, security systems and, importantly, custodial services.

3.16 Private operation of the prisons will achieve the DCS staff-related savings ($11.9 million per annum) as well as additional savings through more efficient operations.

Serviced Infrastructure PPP

3.17 It is possible to allocate some services to the private sector while retaining other services for public sector provision. Custodial services tend to be the most sensitive in terms of passing responsibility to the private sector, but are also the area where significant savings can be delivered.

3.18 Historically PPP prisons are run more efficiently than public sector prisons. The expected capital cost of the facilities under a PPP would be in the order of $349 million compared to $411 million (2011-12 prices) under a traditional design and construction contract. Savings from operational costs typically range from 10-20% due mainly to more efficient work practices and management of lifecycle costs, and better use of technology, particularly security technology.

3.19 The cost comparison between traditional procurement and the PPP options is summarised in Table 3 below (2011 -12 nominal values).

Table 3: Cost comparison of all prison options

	DCS prison funded by borrowing	PPP - serviced infrastructure	PPP - including custodial services
	($m)	($m)	($m)
Capital investment	411.5	349.0	349.0
Expenses	($m pa)	($m pa)	($m pa)
Facilities management	10.0		
Financing	32.2		
Correctional services [1]	45.2	45.2	38.4
PPP service payment [2]	-	36.8	36.8
Total operating expenses	87.4	82.0	75.2

1. Includes DCS savings of $11.9m pa for the prisons.
2. Unitary charge for financing and operations, exclusive of custodial services.

3.20 These estimates are before avoided costs. DCS estimates that operating costs would increase to $39 million by 2011-12, as summarised in Table 1 above.

3.21 Net of avoided costs, the net operating cost increase for the three options is $48.4 million, $43 million and $36.2 million per annum respectively. The cost of these options reflects the fact that the current infrastructure is wholly inadequate and would be unable to cope with an increased prison population at anywhere approaching acceptable standards.

3.22 In regard to the 'serviced infrastructure' PPP, recurrent savings are lower if custodial services are excluded. The capital cost for a PPP including custodial services would

not impact on the State budget. If custodial services were excluded from the PPP, there is a risk that the accounting treatment would require that the capital costs impact on the budget even though they are funded by the private sector.

3.23 Despite the net lending impact, the facilities should nevertheless be offered to the market as a PPP, even if custodial services are to be excluded. Empirical evidence from similar prison developments in Australia and overseas indicates that the private sector is capable of delivering value for money in the construction and operation of prison facilities, even though the lifecycle savings are lower than full service provision.

3.24 If custodial services are included, the PPP provider would be required to manage significant operating risks in terms of custodial service delivery, in addition to the ongoing management of the facility. Penalties would apply for poor performance of key deliverables, which is a strong incentive for the operator to meet delivery standards. For example prison PPPs in the United Kingdom have been structured to impose financial penalties where:

- Educational outcomes are not achieved;
- Drug control standards are not achieved;
- Behavioural standards are not met; and
- Large penalties are imposed for any escapes.

Comparison of lifecycle costs

3.25 While the analysis in the DCS/DFC business cases reflects the estimated recurrent savings of the delivery options, it is useful to compare these outcomes in present value terms over the project horizon (25 years). A comparison of the net present value of the savings under the three options is provided in Table 4 below:

Table 4: Net present saving from all delivery options

	Annual saving ($m)	NPV ($m)
Traditional procurement	11.9	152.1
PPP serviced infrastructure	17.3	221.0
PPP with custodial services	24.1	308.8

Youth Detention Centre

3.26 The existing facility at Magill is well past its useful life. The facility is inefficient to operate, unable to meet its service standards and is located in an area that is no longer suitable for this type of facility.

3.27 The options for the replacement of Magill are:

3.27.1 Option 1 – development of a new 54 bed facility at Goldsborough Road for adolescents and the upgrading of the existing **36** bed facility at Cavan for mature inmates; or

3.27.2 Option 2 – development of a 90 bed facility at Cavan by integrating a 54 bed facility with the existing facility; or

3.27.3 Option **3** - replacing the existing Cavan centre with a new 90 bed facility.

3.28 While the 54 bed facility under Option 1 can be delivered as a PPP, the existing facility would need to remain in the public sector and the upgrade be funded from the capital program. Operating costs and risks would also need to be apportioned between the private and public sector, with a significant duplication of lifecycle costs. Option 1 is not an optimal solution.

3.29 Experience overseas and in Australia indicates that the redevelopment of brownfield sites under a PPP contract has proven to be considerably more expensive than greenfield developments. Generally financiers will not accept responsibility for the performance of existing infrastructure due to latent defect risk, or will require a significant risk premium if required to do so.

3.30 Operating savings under Option 1 are estimated at around $420,000 per annum. Options 2 and 3 savings are estimated at around $836,000 per anum.

3.31 Option 1 is not recommended for PPP delivery.

3.32 Option 2 can also not be delivered effectively as a PPP, for the same reasons as Option 1, and is also not recommended for PPP delivery.

3.33 Option 3 can be delivered as a PPP. Residents would remain in temporary accommodation in the existing facility until the new facility is completed. The existing facility would then be replaced by a new facility to accommodate residents from Magill. The Magill site would be remediated and sold.

3.34 The YDC is of sufficient size to proceed as a stand alone PPP. However, it is envisaged that the YDC will be tendered as part of the prisons tender. This approach may be changed if feedback from the market suggests that a stand alone PPP would present a better solution for the State.

3.35 The estimated finance and operating costs of Option 3 under a PPP delivery would be in the order of $6.9 million per annum, as summarised in Table 5 below.

Table 5: Cost comparison of YDC delivery options

	YDC funded by borrowing	PPP - serviced infrastructure
	($m)	($m)
Capital investment	79.2	67.3
Expenses	($m pa)	($m pa)
Facilities management	1.3	
Financing	6.2	
Correctional services	14.4	14.4
PPP service payment	-	6.9
Total operating expenses	21.9	21.3

Cost of PPP Procurement Options

3.36 Table 6 below summarises the cost of the PPP procurement options over the term of the project. These costs are net of current funding in the forward estimates. However, the forward estimates do not currently recognise the cost pressures anticipated by DCS, and would need to be adjusted to reflect the cost pressures discussed earlier in the submission. If adjusted, the impact on the Net Operating Balance would reflect the estimates in 3.20 above.

Table 6: Cost of Alternative PPP Options (Male, Female Prisons and YDC)

	2006-07 ($m)	2007-08 ($m)	2008-09 ($m)	2009-10 ($m)	2010-11 ($m)	2011-12 ($m)
PPP Serviced Infrastructure						
Net Operating Balance	-1.3	-2.5	-1.6	-2.4	-10.9	-62.5
Net Lending	-1.3	-2.5	-1.6	-2.4	-10.9	-411.5
PPP Serviced Infrastructure and Custodial Services						
Net Operating Balance	-1.3	-2.5	-1.6	-2.4	-9.4	-55.7
Net Lending	-1.3	-2.5	-1.6	-2.4	-9.4	-55.7

3.37 The large net lending impact in 2011-12 for the PPP serviced infrastructure option reflects an assumption that the capital cost of the prisons will impact on the budget at the completion date. This may not be the case.

Industrial Relations Management Strategy

3.38 As noted in 3.5, the expected savings are critically dependent upon the new prisons achieving a higher prisoner to staff ratio. Under a State-funded project, the proposed strategy would be to commence negotiations with the PSA as soon as practicable to reach agreement on the maximum staffing levels for the new prisons and the YDC.

3.39 Redundant staff could be managed through TVSPs and achieving greater flexibility in the replacement of staff retiring over the project development period.

3.40 Under a PPP approach, the private sector would be required to manage and resolve industrial relations issues, which would be a key risk transferred to the private sector under the PPP contract. The State may have some redundant correctional services staff that would need to be managed through TVSPs.

3.41 Any proposal for a TVSP scheme would be the subject of a separate Cabinet submission closer to the time of commissioning the new prison.

Land Values

3.42 The preliminary estimate of the value of the properties to be vacated as a consequence of this project is $56.3 million, assuming demolition and remediation costs of $5 million. This comprises $23.0 million for the Grand Junction Road site (if the PRC remains) and $38.8 million for Magill.

3.43 Revenue from land sales is not expected to be realised until 2012-13.

Pre-release Centre (PRC)

3.44 The DCS business case also canvasses a new female PRC and the conversion of the Adelaide Remand Centre into a Transition Centre. Further scoping is required to determine the detail and timing of the DCS requirements.

3.45 The current 2006-07 budget decision set already includes funding for kitchen upgrades, including $1.2 million for the Adelaide Remand Centre. The requirement for the new facilities would need to be the subject of a separate funding submission to Cabinet.

Options to Proceed

PPP for Male, Female Prisons and YDC

3.46 The next step in developing the PPP option is to complete a services specification and project brief as a basis for the first stage of the tender process, which encompasses the expression of interest and the shortlisting of preferred bidders. DTF's Projects and Government Enterprises Branch will work with DCS and DFC in developing the PPP project brief and associated tender documentation.

3.47 It is estimated that Stage 1 of the PPP procurement process would be completed by December 2007. DCS and DFC will be provided project team costs for 18 months and the remaining estimated PPP costs would be held in central contingencies pending a decision to proceed.

3.48 This option is recommended.

No action

3.49 As noted at the beginning of this submission, on current trends there is insufficient prison capacity and prison costs would be expected to increase sharply in the near term. A decision not to proceed implies a substantial restructure and refurbishment of the existing ageing facilities to meet demand.

3.50 This is not a viable alternative. Action will need to be taken on new prison infrastructure. A decision not to proceed at this time would only be a deferral of this matter.

3.51 Economic, financial and budgetary implications

3.51.1 Proceeding with the procurement of new male, female prisons and a YDC as a PPP has the following budget impacts.

Table 7: Budget impact from PPP procurement (Male, Female Prisons and YDC)

	2006-07 ($m)	2007-08 ($m)	2008-09 ($m)	2009-10 ($m)
Dept for Correctional Services				
Operating	-0.105	-0.269	-	-
Dept for Families and Communities				
Operating	-0.146	-0.158	-	-
Central Contingency				
Operating	-1.000	-2.076	-1.622	-2.371
Investing	-	-	-	-
Total Budget Impact				
Net Operating Balance	-1.251	-2.503	-1.622	-2.371
Net Lending	-1.251	-2.503	-1.622	-2.371

3.51.2 The 2006-07 Budget Decision Set already includes $400,000 in 2006-07 for project team costs of DCS. The budget impact of this decision is net of this amount. That is, DCS will in total receive $505,000 for project costs in 2006-07.

3.52 Required Resources

3.52.1 The Departmental funding is for the management of these projects up to the conclusion of Stage 1, which will be completed by December 2007. The subsequent project team and other costs would be held in central contingency pending a decision to proceed. This funding includes the

establishment of a project team, consulting costs, and transitional, relocation and commissioning costs from 2009-10.

3.52.2 The estimates of required resources do not make any provisions for court, health, transport or emergency service facility upgrades to service the new prison at Mobilong. Any additional funding for these facilities would need to be considered within agencies existing resources or brought forward in future budget processes.

3.53 South Australia's Strategic Plan

3.53.1 The construction of new correctional services infrastructure will assist in implementing the State Strategic Plan across a number of areas including improving wellbeing and building communities.

3.53.2 The Strategic Infrastructure Plan states: "currently the South Australia prison system is based on nine relatively small prisons spread across the state. Reconfiguration of the prison system will result in a more cost-effective prison system and a safer community through better rehabilitation outcomes. It would also enable a range of significant operational risks to be better addressed."

3.54 Information and Communication Technology Requirements

3.54.1 Not applicable.

3.55 Staffing implications

3.55.1 There will be short term staffing increases as a result of continuation of the project team to undertake the market phase of the project.

3.55.2 Longer term, significant staffing level adjustment will be required as new facilities enable lower staff to prisoner ratios. The potential implications of this are outlined in the body of the submission.

3.56 Impact on the community and the environment

3.56.1 Potentially short term economic benefits in the form of increased employment in regional areas.

3.57 Risk Management Strategy

3.57.1 A comprehensive risk management strategy will be developed as part of the PPP procurement process.

3.58 Consultation

3.58.1 Due to the sensitivity of this project, consultation on this submission has been limited to the Department for Correctional Services, Department for Families and Communities and the Department of Treasury and Finance.

3.58.2 Key stakeholders including Murray Bridge Local Council, SAPOL, Department of Health and Planning SA were consulted in the development of the final business case.

3.59 Implementation Plan

3.59.1 The proposal funds a project team to implement the decision.

3.60 Communication Strategy

3.60.1 To be announced as part of the 2006-07 State Budget.

3.61 Executive Council

3.61.1 Not applicable.

4 RECOMMENDATIONS

It is recommended that Cabinet:

4.1 Note the requirement for new male and female prisons and that it is intended to progress these through new collocated infrastructure at Mobilong.

4.2 Note the requirement for new 90 bed Youth Detention Centre (YDC) and that it is intended to progress this development as a stand alone development at Cavan.

4.3 Approve that the prisons project be progressed as a PPP and that DCS develops a project brief to be issued to prospective proponents with the first stage of the PPP tendering process, to be completed by December 2007, on both:

4.3.1 A 'full service' PPP whereby the operator will design, finance, build, maintain and operate the prisons by providing the full range of correctional services, including custodial services; and

4.3.2 A 'serviced infrastructure' PPP whereby the operator will design, finance build, maintain and operate the prisons, and provide all correctional services except for custodial services, which will be retained in the public sector.

4.4 Approve the YDC project to be progressed as a PPP up to the completion of the tendering stage (Stage 1). Proponents would be required to tender on the basis of a 'serviced infrastructure' PPP, whereby the operator will design, finance, build, maintain and operate the prisons and provide all correctional services except for custodial services, which will be retained in the public sector.

4.5 Approve additional appropriation and expenditure authority be provided for this purpose (including amounts held in contingencies) as indicated in the 'Economic, Financial and Budgetary implications' section of this submission.

4.6 Consistent with the *Partnerships SA* Guidelines, the outcome of the initial tendering process will be brought to Cabinet to approve proceeding with the project, including on whether the final PPP would include custodial services.

4.7 Note that a significant staffing level adjustment will be required as the new facilities enable lower staff to prisoner ratios.

Kevin Foley MP
DEPUTY PREMIER
TREASURER

23/8/2006

ATTACHMENT 1

ABCD

"CABINET IN CONFIDENCE"

South Australian Department for Correctional Services

Future Prison Infrastructure Project
Full Business Case - Cabinet in Confidence

KPMG Corporate Finance (Aust) Pty Ltd
May 2006
This report contains 221 pages
SAUDCS-06PIPFBCBusCaseV50616-MFR

Contents

Important Notice

This Full Business Case (FBC) is a confidential document that has been prepared by KPMG Corporate Finance (Aust) Pty Ltd (KPMG Corporate Finance) for the Department for Correctional Services (DCS). This FBC is prepared by KPMG Corporate Finance in its capacity as financial and commercial advisor in accordance with the scope and subject to the terms associated with the DCS Brief[1].

In preparing this FBC, KPMG Corporate Finance has relied upon information supplied by DCS and its advisers, along with publicly available information. KPMG Corporate Finance has not attempted to verify the accuracy or completeness of the information provided.

Neither KPMG Corporate Finance, KPMG, its affiliated companies nor their respective officers and employees undertakes any responsibility arising in any way whatsoever to any person or organisation, except DCS, in respect of information set out in this FBC, including any errors or omissions therein through negligence or otherwise however caused.

This FBC is provided to assist the SA Cabinet to determine a preferred solution for the redevelopment of correctional facilities in South Australia (the Future Prison Infrastructure Project).

The information contained in this FBC is strictly confidential and must not be copied, reproduced, distributed, disseminated or used, in whole or in part, for any purpose other than as detailed in our proposal, without express written permission.

DR

[1] DCS Brief for the Engagement of a Consultant for Preparation for a Business Case for Prison Infrastructure Project.

1 Executive Summary

1.1 Introduction

The South Australian Department for Correctional Services (DCS) currently operates nine prison facilities. The prison infrastructure suffers from inadequate capacity and poor physical conditions in a number of prisons which contribute towards operational inefficiencies limiting DCS's ability to provide the correctional services aimed at safe and secure custody. The following issues have been identified in the current prison system:

- Existing facilities Adelaide Women's Prison (AWP) and Yatala Labour Prison (YLP) are inadequate and outdated and require replacement or significant redevelopment. Over 75% of cells are too small for permanent occupation by one person, let alone doubling-up and the majority do not comply with the nationally recognised Safe Cell Standards. Current facilities are severely limiting DCS's ability to operate efficiently and provide safe and secure custody which contributes to prisoner rehabilitation.

- The current system cannot meet prisoner demand numbers. DCS had to resort to doubling up to accommodate prisoners. This approach exacerbates a number of risks associated with accommodating prisoners in over-crowded conditions and exposes the Government to potential litigation for unhealthy conditions.

- Of particular concern is the fact that recent studies here and elsewhere in Australia indicate that the health of prisoners is considerably below that of the general population. For example, for male prisoners:

  - 75% have alcohol or drug problems;
  - 21% have previously attempted suicide;
  - 37% are hepatitis C antibody positive; and
  - 31% are hepatitis B core positive.

  For women prisoners their health situation is even worse:

  - 81% have post traumatic stress disorders;
  - 75% have been physically or sexually abused;
  - 38% have drug related problems;
  - 39% have previously attempted suicide;
  - 23% are on psychiatric medication;
  - 36% have been previously admitted to a psychiatric or mental health unit;

- 66% are hepatitis C antibody positive;
- 42% are hepatitis B core positive, and
- Abnormal pap smears are ten times higher than the general population.

- Part of DCS's role is to provide flexibility for Government to introduce new law and order policies. When the prison system is running at or near capacity, DCS is unable to fulfil this role.

- Future prisoner numbers are projected to increase due to population growth and a tougher law and order policy of Government. DCS is at maximum capacity for women prisoners and is likely to reach maximum capacity for male prisoners (including doubling up) in 2008/09. **Beyond these dates the Government will have to change its current policies on sentencing or provide for temporary accommodation.**

Investment in new infrastructure will allow the Government to:

- Increase capacity allowing the flexibility to maintain existing and impose changes to prison law and order policies.
- Improve physical conditions to meet 'Duty of Care' requirements.
- Improve efficiency of DCS operations. The AWP and YLP suffer from poor design creating inefficiencies in staffing, lifecycle and facilities maintenance costs. New facilities will deliver a significant reduction in operating costs. DCS custodial services costs can also be managed more efficiently in re-designed new prisons. **The marginal custodial services cost savings are estimated to equate to approximately $9 million real per annum (assuming 100% utilisation and expanded capacity of the prison system).**
- Reduce indirect costs associated with the consequences of inappropriate and overcrowded infrastructure, such as self-harm, suicides and legal claims made by prisoners.
- Reduce staffing costs associated with inappropriate infrastructure, such as Workcover claims, recruitment and retention costs[2].
- Be better prepared to manage future expansion, through the introduction of facilities designed to accommodate such works.
- Improve DCS ability to rehabilitate prisoners, and therefore achieve cost savings through reducing recidivism – the Government currently incurs in excess of $50,000 per annum to accommodate a single prisoner.

[2] By way of an example, DCS estimates that 33 worker's compensation claims, costing approximately $3.2 million resulted from a riot at YLP in 1996.

- Provide an additional 924 cells that meet the Safe Custody Standards.

This FBC details the Future Prison Infrastructure Project (the Project) and considers a number of potential development options. The recommended solution (Option 2) identifies that DCS requires approximately $326 million (net present cost (NPC)) or $431 million (nominal) of capital to provide new women's and men's prisons (excluding temporary accommodation).

These prisons could be procured concurrently or sequentially, however if sequentially, construction of the women's prison plus some additional men's infrastructure would be DCS's first priority.

This Full Business Case (FBC) recommends that:

1 Cabinet support the proposal to construct a new women's prison (NWP) (to replace the existing AWP) and a new men's prison (NMP) (to replace the YLP) and create a Women's Pre-release Centre (WPC) – defined as Option 2;

2 The land at Mobilong (the Greenfield Site which has been identified as a suitable alternative site to the current AWP and YLP site) be reserved as the site upon which the prison/s may be constructed;

3 $326 million NPC or $431 million (nominal) of capital funding be allocated to the Project, for the construction costs associated with the Project. (This will enable DCS to ensure the procurement of the Project proceeds without delay, due to the criticality to provide new prison beds);

4 The Project (Option 2) be procured under a combination of the BOT procurement approach (for the NWP and NMP) and Traditional procurement approach (for the Women's Pre-release Centre);

5 A comprehensive communications exercise (particularly with Local Government) be undertaken for the Project; and

6 Comprehensive inter-agency consultations to continue to confirm the scope of this proposal on other government and non-government agencies.

This document has been prepared by KPMG Corporate Finance (Aust) Limited (KPMG Corporate Finance), with assistance from DCS and its other advisers. This document is endorsed by DCS.

1.2 Project Objectives

The Project Objectives are to:

- Provide prison infrastructure which maximises the ability of DCS to achieve the Correctional Service Outcomes (refer Section 1.2.1).

- Enable cost efficient correctional service delivery.

- Provide flexibility to the Government in relation to:

- Changed law and order policies;
- prisoner numbers and composition; and
- expanding facilities.

- Ensure consistency with DCS and policy objectives.

The analysis DCS has performed indicates that Government should invest in the improvement and expansion of the current prison system capacity by constructing two new prisons, to best achieve the above objectives. This will allow closure of the AWP and YLP.

1.2.1 Correctional Service Outcomes

The Correctional Service Outcomes are to:

- Carry out the decisions of the Courts;
- Provide a safe and secure environment which gives the whole community trust in our prison system;
- Provide a safe and secure environment for prisoners; and
- Provide education and rehabilitation programmes, which aim to maximise rehabilitation opportunities for prisoners.

1.3 Project outline and background

This FBC identifies and quantifies the cost of a number of development options which look to satisfy the outlined Project Objectives and Service Needs. The Project identifies options to replace the out-dated AWP and the nineteenth century and cost inefficient YLP and expand South Australia's prison capacity to meet future long term needs of the State of South Australia (the State).

DCS have already undertaken a considerable body of work associated with the Project or elements of the Project. This includes:

- Preparation of a business case which recommended the development of a NWP. The procurement of the NWP was delayed due to Government concerns in relation to the potential site chosen for the NWP (and a juvenile detention centre). DCS subsequently undertook further investigations to determine a suitable site for the NWP and a NMP. This work has identified the Greenfield Site included in this FBC.
- In 2003/04, DCS prepared a discussion paper regarding the feasibility of replacing the YLP. The evidence was sufficient to support DCS's subsequent request for funding to undertake detailed investigations into the replacement of the YLP.

- In the 2004/05 Budget, funding was approved to enable DCS to undertake investigations into the future infrastructure needs for prisoners in SA and to prepare an Outline Business Case (OBC) incorporating the findings from those investigations. The OBC identified the need for redevelopment of existing facilities and expansion of the State's prison infrastructure.

- During 2004/05 investigations were undertaken into a number of sites on the fringe of metropolitan Adelaide and near regional locations. Following a Cabinet direction a site near the existing Mobilong Prison has been determined as acceptable to DCS given its proximity to the existing Mobilong Prison (co-located). Operating costs efficiencies may arise from this co-location.

The investigation work has resulted in the preparation of this FBC, which considers the need and approach associated with providing the additional/new infrastructure.

1.4 Service needs

1.4.1 DCS existing facilities

As indicated above, a number of DCS prison facilities are poorly designed and have outdated infrastructure. These conditions are affecting the ability of DCS to meet its objectives in relation to management of prisoners. DCS has not undertaken any significant capital redevelopment or expansion since the late 1980's and early 1990's when the Adelaide Remand Centre, Mobilong and Mount Gambier Prisons were constructed.

DCS was able to cope with increased numbers of offenders over the last decade by vigorously implementing alternative supervisory options such as home detention and community corrections orders. The numbers of prisoners who can be accepted in these ways has now reached saturation which means prisoner numbers have once again began to rise, mirroring events in the eastern states.

The two worst affected facilities are the AWP and the YLP.

Adelaide Women's Prison (AWP)

The AWP houses all categories of women prisoners, which includes remand, high, medium, low security and protectees. It has an original Design Capacity[3] of 82 prisoners but has been operating well above this level for a number of years (currently holding an average of 97 women prisoners).

When compared to current benchmark standards for correctional practices, the design, age and condition of this facility severely limits the ability to provide appropriate supervision and services. Effective programs, focusing on personal development, health, education, work and re-socialisation are impeded due to a lack of physical facilities.

[3] Design Capacity refers to the number of prisoners a facility is designed to accommodate (not allowing for doubling-up).

Women prisoners currently are not being treated to an equal standard to that provided to male prisoners. For example, most cells for women have no toilet or shower facilities. Therefore, DCS cannot secure women in these cells at night. Given the age and design, no economic solution is available to retrofit such facilities.

Yatala Labour Prison (YLP)

YLP is the oldest currently operating men's prison in SA with the high security 'B Division" building dating back to 1855. YLP has been expanded a number of times over its operational life. This has resulted in a disparate prison not designed to take account of the operation of the whole facility or of contemporary good practice in prisoner management.

The current facility is not conducive to effective or efficient management of prisoners due to the floor plan, absence of support facilities and inefficient mechanical services. Without the capacity to empty entire wings or whole buildings, the logistics of carrying out further major works in an operational prison would be a logistical challenge and add significantly to any redevelopment costs.

The B Division buildings' useful life has been exceeded far beyond reasonable expectations. DCS and DAIS agree it would not be good value for further funds to be spent on upgrades to buildings that will continue to demand high maintenance, be expensive to operate and present a range of unacceptable operating risks. For example, parts of the B Division have sewerage pipes crossing the ceiling of lower cells. These pipes are obvious ligature points and have been used as such on a number of occasions. These pipes cannot be economically removed or made safe.

1.4.2 Major issues facing DCS

Doubling-up and overcrowding

Doubling-up involves accommodating two prisoners within a cell designed for one. Doubling-up is considered an efficient means of overcoming a temporary, short term, shortage of prison accommodation. However, due to the limited number of prison cells SA has had to adopt doubling-up as a permanent policy.

DCS currently have the capacity to double-up to 284 cells (20% of DCS's total Design Capacity of 1,443 cells). In 2005/06 DCS had an average daily occupancy of 1,548 prisoners (107.3% of Design Capacity) and a peak of 1,596 on 26 March 2006, (110.6% of Design Capacity)..

Correctional services throughout Australia traditionally strive to operate at an average of 90% of Design Capacity[4] (the desirable or Optimum Capacity). This allows for a 10% buffer to assist corrections to manage peak periods of demand. The number of prisoners can vary considerably based on factors outside the control of DCS, including seasonal fluctuations, police and court clearance rates and Government law and order policies.

[4] Design Capacity refers to the number of prisoners a facility is designed to accommodate.

Permanent use of beds above the Optimum Capacity indicate that the system is overcrowded.

Operational capacity is defined as the Design Capacity plus the approved number of additional beds – usually achieved by "doubling-up".

Table 1-1 summarises the current Design Capacity and the Operational Capacity of SA prison infrastructure.

Table 1-1: Capacity of SA prison infrastructure

	Current Design Capacity	Operational Capacity (included approved double-ups)	Beds in excess of Design Capacity
Total Men	**1,343**	**1,624**	**281**
Total Women	**100**	**103**	**3**
Total	**1,443**	**1,727**	**284**

SA has been identified as having the highest secure custody utilisation rate of all States and Territories in Australia[5].

Doubling-up can result in the following effects of overcrowding which impact DCS's ability to achieve the Project Objectives:

- Increased tension between prisoners. Doubling-up reduces the ability for DCS to separate incompatible prisoners or rival groups and also results in increases in prisoner violations.
- Negative effects on some prisoners, including idleness and fear. It is widely accepted that crowded prisons are more likely to result in aggression, less cooperation and social withdrawal.
- Reduced ability of DCS staff to achieve the objectives of prisoner management. Staff are less able to identify inappropriate prisoner behaviour and have less capacity to provide rehabilitation programs due to stretched staffing and physical resources.
- Increased tension between prisoners and staff.
- Increased staff stress and flow on effects on sick leave and Workcover claims.

DCS have identified an additional maximum 64 cells where future doubling-up is possible. This would require capital expenditure to modify the current cells. It would only increase the men's Total Capacity as reflected in Table 1-1. If these cells are doubled up, DCS will have no further capacity to accommodate any additional prisoners. DCS would then need approval for the provision of temporary facilities at a cost of

[5] Identified by the Productivity Commission in its Review of Government Service Provision 2005, page 7-33.

approximately $150,000 (real) per cell, or require Government to change policies impacting prisoner numbers[6].

The Project seeks to remove doubling-up from the prison system as a permanent solution to accommodating prisoners, whilst acknowledging that in peak demand periods doubling-up for short periods may still be required.

Future Demand

An analysis of the projected future prisoner numbers was undertaken by an independent expert consultant (John Walker – Crime Trends Analyst). The summary of his analysis is included in Appendix H.

The analysis indicates that the current Total Operational Capacity (including current cells able to be doubled-up) (male and female) of 1,727 beds, across the whole corrections system, will be 100% occupied at peak demand during the 2008/09 financial year. This provides three years' lead time prior to reaching maximum capacity. NB Even if approval was granted immediately to procure these two new prisons, DCS estimate that maximum capacity will be achieved prior to their completion, therefore some temporary beds will be required.

This situation is further compounded because as the system nears maximum capacity, DCS must manage different categories of prisoners (low, medium, high and maximum as well as remandees, protectees, crown witnesses, separation of gangs, etc) within remaining available cells.

Within these figures maximum female capacity has already been reached. This situation is being managed by placing mattresses on the floors of living areas and placing some high security women prisoners in the male prison at Port Augusta. Both these strategies are considered unhealthy for the treatment of women.

If the Government was to give immediate approval to construct a new women's and men's prison, it is estimated that four years will elapse before the new facilities will be ready for occupancy. DCS will need to closely analyse how it immediately manages female prisoners and how it will manage male prisoners as it gets closer to maximum capacity prior to the redevelopment being completed.

Two options are available:

- Additional temporary cells could be installed at a cost of approximately $150,000 (real) per cell. Victorian Corrections underwent such a program to obtain additional capacity.

- Early release programs may be implemented to reduce the demand on the women's and men's prisons.

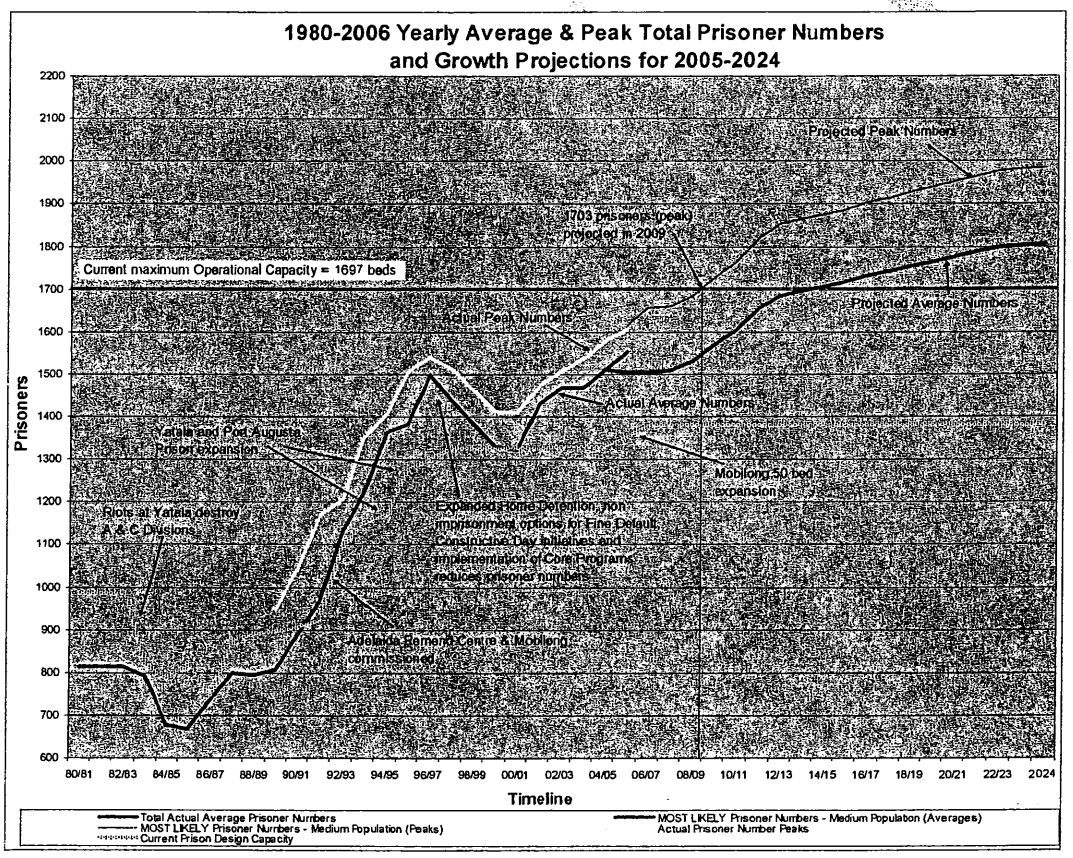
[6] The cost of $150,000 per cell only applies to small quantities on any site because it fails to add any additional supporting infrastructure, i.e. kitchens, storage, admissions, utilities, etc and only minor numbers could be accommodated within the existing major perimeter security fences.

DCS acknowledge it is difficult to estimate future prisoner numbers because of the significant impact, which a small change in Government policy can introduce. However, all available information indicates that numbers of prisoners will continue to increase over the next 20 years.

Figure 1-1 identifies the forecast peak and average prisoner numbers. It also includes current Design and maximum Operational Total Capacity. It shows the critical time when maximum capacity is reached (2009) and when average prisoner numbers equal maximum capacity.

It should be noted that actual numbers are already higher than these projections anticipated. The projections also do not take account of recent and proposed Government changes impacting prisoner numbers such as increasing police numbers, sentencing for breaches of bail and prison for 'hoon drivers'. Therefore there is a real risk that maximum capacity will be reached earlier than Figure 1-1 illustrates.

Figure 1-1: Forecast future prisoner numbers (peak and average) relative to Design Capacity



Cost efficiency

Neither the AWP or YLP allow for efficient and effective use of DCS staff. Both facilities involve a number of small units which are poorly laid out, increasing the required staffing levels relative to a newly designed facility. New and redesigned facilities would allow DCS to:

- reduce the staff to prisoner ratios (though not reducing the level of supervision); and
- improve the level of service offered to prisoners.

Women prison facilities

The AWP does not provide a secure environment and is limited in its ability to provide services which assist in the rehabilitation of women prisoners.

The prison system currently does not include a dedicated women's pre-release centre. DCS currently operates a men's pre-release centre with the role to assist prisoners integrate back into society when they are nearing the end of their sentence. Lack of a women's pre-release centre reduces the opportunities for women to effectively re-enter the general community.

1.5 Project Options analysis

1.5.1 Project Options considered

This FBC considers six Project options (Project Option). Each Project Option meets the Project Objectives to differing degrees. All options, except the Do Minimum, provide DCS and Government with the same volume of permanent prison cells. The Project Options considered are:

- **Do Minimum** – assumes the Project does not occur. Therefore there is no major development or redevelopment. DCS continue to operate from their existing prison facilities. Capacity is only increased to the extent that further doubling-up may be achieved (through minimal expenditure). DCS perceive this option as providing not even a short term remedy, which whilst delaying the major project it does not address the needs post the next 4-5 years, which co-incidentally is the lead time required to deliver a major prison project. **This option, therefore, completely fails to meet DCS's medium or long term requirements and is not recommended for further serious consideration.**
- **Option 1 - Existing Redevelopment Option** – This Project Option involves expanding and building onto existing infrastructure. The approach taken was to expand the YLP to the maximum extent possible (e.g. 360 new beds) and to allocate additional beds to other sites without significantly modifying the main services infrastructure on any sites. Due to the condition of the AWP it is replaced (and expanded) on its existing site.
- **Option 2 – Greenfield Option** – This Project Option involves building a NWP (150 beds) and a NMP (754 beds) on the Greenfield Site. The NWP and NMP would replace some existing prison facilities (AWP (82 beds) and YLP (341 beds)) which would be closed and the majority of the land at Grand Junction Road realised for disposal. This Project Option also involves developing a women's pre-release centre

to be co-located with the existing men's pre-release centre on the Grand Junction Road Site. The Adelaide Remand Centre would be converted into a Transition Centre.

- **Option 3 – Staged Greenfield Option** – This Project Option is similar to Option 2 though spread over two stages. Stage 1 entails the construction of the NWP north of the existing Mobilong Prison with concurrent expansion of Mobilong Prison by 120 high security male beds. Stage 2 is delayed by five years and entails construction of the NMP on Mobilong South (construction begins in early 2013) and the NMP is consequently reduced from 754 beds to 634 beds (due to the previously mentioned expansion at Mobilong Prison).

- **Option 4: Combination Option** – This Project Option involves building the NMP on the Greenfield Site. The AWP and the Men's Pre-release Centre both are redeveloped though remain on the existing (Grand Junction Road) site. A women's pre-release centre is co-located with the Men's Pre-release Centre. As with Option 2, the Adelaide Remand Centre would be converted into a Transition Centre.

- **Option 5 – Monarto Option** – This option is the same as Option 2 except that an alternative greenfield site (Monarto) is considered. This site is within the vicinity of Murray Bridge, similar to the preferred Greenfield Site. This option was investigated in case the Murray Bridge Council strongly opposed the Greenfield site. The capital cost has been estimated as the same as option 2 except for additional public utility costs of $3 million.

Table 1-2 summarises the key aspects of each Project Option.

Table 1-2: Summary of Project Options

	Do Minimum	Option 1	Option 2	Option 3	Option 4	Option 5
Male Design Capacity	1,361	1,713	1,714	1,714	1,714	1,714
Female Design Capacity	82	169	169	169	169	169
Construction period	5yrs	7yrs	5yrs	10 yrs	5yrs	5yrs
Capacity (peak) reached – men's[1]	All years	All years	2012	All years	2012	2012
Permanent doubling up of male prisoners[3]	All years	2006 - 10	2006 - 09	2006 - 14	2006 - 09	2006 - 09
Capacity (peak) reached – women's[1]	All years	2025	2025	2025	2025	2025
Includes upgrade of existing facilities	X	✓	X	X	X	X
Use of a greenfield site	X	X	✓	✓	✓	✓
Continued use of the Grand Junction Road Site[2]	Full	Full	Minimal	Minimal	Partial	Minimal
Women's prison based in Adelaide	✓	✓	X	X	✓	X
New men's pre-release centre	X	✓	X	X	✓	X
New women's pre-release centre	X	✓	✓	✓	✓	✓

Note 1 – Reflects the first year (post construction) peak prisoner projections exceed prison Design Capacity (therefore DCS are required to double-up peak prisoners).

Note 2 – Under Option 2 and 5 the Grand Junction Road Site continues to be used for the men's and women's pre-release centres and in Options 3, 4 and 6, for the women's prison and the pre-release centres, however in all of these options the NMP is built on the Greenfield Site.

Note 3 – Calculated based on the years where the average prisoner projections exceed the Design Capacity, therefore DCS are doubling up permanent prisoners for the period to 2025.

Capacity, over-crowding and doubling-up

Under the Do Minimum Option, the Design Capacity never allows DCS to achieve its operational objective of one prisoner to each single cell or provide the capacity to meet projected increases in prisoner numbers. As a consequence, this option can only be seen as a very short term solution, which would still require a major development to be undertaken in parallel with its timetable to increase bed numbers to meet the projected demand of male prisoners.

In Options 2, 4 and 5 the proposed men's Design Capacities will be exceeded around the year 2009 based on current peak projections. Post these dates DCS will need to manage peak capacity through doubling up. Whilst this is not DCS's preference, DCS can adopt this approach on the basis it is applied temporarily to prisoners. However, importantly DCS will not need to double up its permanent prisoners until post 2025 (based on current average projections).

Option 3 requires doubling up of permanent male prisoners for a longer period of time (until the NMP is commissioned in 2015). The five year delay will however allow the Government to reassess whether the current Stage 2 bed number projections are accurate or require variation.

Operating Cost Efficiency

Table 1-3 identifies the estimated operating costs per day, per prisoner at 100% occupancy of the two critical physical facilities for each Project Option.

Table 1-3: Operating costs per day under each Project Option at 100% occupancy (real $)

	Do Minimum	Option 1	Option 2 & 5	Option 3	Option 4
Male Prisoners					
Yatala Labour Prison	$140	$140			
New Male Prison			$110	$120	$110
Female Prisoners					
Adelaide Women's Prison	$149				
New Female Prison		$153	$154	$154	$153

Under the Do Minimum Option, the operating costs for the YLP remain high due to the inherent inefficiencies of the existing facilities which are retained.

Under Option 1 the operating costs for the YLP remain unchanged.

Under Options 2, 4 and 5 the major high security men's prison is replaced with a new facility designed to maximise staffing efficiencies through staffiprisoner ratios more in line with other states in Australia. **Significantly the operating cost per prisoner per day would decrease from the current vicinity of $140 to around $110, which equates, at maximum enhanced capacity, to a total reduction of almost $9 million (real) per annum at maximum capacity.**

Option 3 is slightly higher than Option 2 and 4 because the NMP under Option 3 is of a smaller scale (634 cells rather than 754 cells) will cause some cost inefficiency.

Under Options 1, 2, 3, 4, and 5, the women's prison is redeveloped and the slight increase in operating costs reflects the ability of DCS to allocate additional resources, consistent with approaches in other Australian states, in order to deliver more rehabilitation services, in accord with those already provided in men's prisons throughout South Australia. No economies of scale will be achieved from the operations of the women's prison due to it's small size (150 beds), which is well below the optimum minimum capacity cost efficient prison of 500-600 beds.

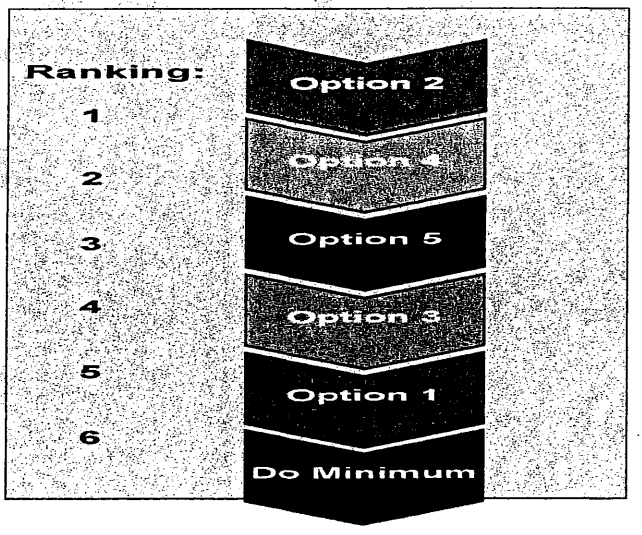
Flexibility

All options, except the Do Minimum, allow DCS to offer the Government additional flexibility, due to the additional cells provided. However, Option 1 and 3 do not do this until 2011 and 2015 respectively, and hence only provide limited flexibility up to this date, relative to Options 2, 4 and 5.

1.5.2 Project Option recommendation

The business case analysis identifies the options below in relation to each option's ability to meet the Project Objectives and address the DCS service need (though not taking into account the relative cost of each option – refer Section 1.8):

Figure 1-2: Project Option Rankings



However, DCS have ranked Options 2, 4 and 5 relatively closely and therefore are not adverse to adopting any of these three options.

The basis for the above ranking is:

- Option 2 was marginally preferred relative to Option 4 due to the potential efficiencies which may occur through co-locating of the NMP with the NWP and close proximity

to Mobilong Prison. Option 4 locates the NWP in Adelaide which assists DCS in its rehabilitative objectives, however, DCS are of the view that with modern transport systems, this issue can be overcome in Option 2 (and 5).

- Option 5 is rated slightly lower than Option 2 (and 3). Option 2 benefits from its closer proximity to the town of Murray Bridge and the services it offers, such as police and court access. In addition, public utility infrastructure capital costs will be higher by $3m. Therefore DCS have a preference for Option 2 over Option 5, though if the site location is likely to cause any significant issues or delay DCS are able to revert to Option 5.

- Option 2, 4 and 5 are the only options that allow the Government to continue with its current law and order policies post completion of the new facilities.

- Option 3 suffers from the delayed impact of completing the NMP, resulting in further doubling up and overcrowding over the intervening five years. This also results in a delay in relocating YLP from the Grand Junction Road Site. However, the five year delay provides a benefit in that the Government can reconsider the number of beds required based on updated male prisoner numbers.

- Option 1 is not the preferred Project Option and DCS do not recommend this option. DCS advise Option 1 does not correct existing operational inefficiencies and exposes DCS to future increased maintenance and a maximisation of Safe Cell Upgrade costs.

- DCS has a strong preference not to proceed with the Do Minimum Option. This option does not satisfactorily meet any of the Project Objectives or address the DCS service needs and is seen as only a very short term solution.

Under all Project Options DCS has assumed the pre-release centre remains on the Grand Junction Road Site. DCS has a strong preference for the existing and/or redeveloped pre-release centre/s to remain in metropolitan Adelaide. This is essential to enable the facility to fulfil its role of providing education and employment opportunities to long-term prisoners to enable them to better integrate into the general community, upon their release.

Should a Government decision be made to completely vacate the Grand Junction Road Site, DCS will be required to contemplate a relocation of the pre-release centre elsewhere within metropolitan Adelaide. This FBC has not investigated alternate sites and this task is expected to be very difficult given the strong "not in my backyard" mentality in Adelaide. Should this be required, it is likely DCS would need to acquire an alternative site and would incur an additional capital cost of approximately $10m plus the cost of land.

1.6 Stakeholder consultation

DCS will develop a communications strategy and stakeholder consultation approach for the Project, should it receive approval to proceed with the Project. DCS are aware there are a number of key stakeholders and have initiated discussions with them. The results of the discussions are illustrated in the Implementation Section (Section 1.10).

1.7 Financial analysis

1.7.1 Estimated Project costs

The estimated Project costs have been identified based on a three step process. This is due to the impact of the Project on a number of different factors. This section contains three tables illustrating the estimated financial impact of each option.

Total Project costs

The following tables provide the total Project cost. These take account of the Total DCS Cost (refer to Table 1-4) plus the cost of temporary accommodation (refer to Table 1-5), should Government adopt this approach to managing the increasing prisoner numbers prior to completion of the redevelopments.

Table 1-4: Project costs for all Options (NPC $'000) – risk adjusted

Cost - Option	Do Minimum	Option 1	Option 2	Option 3	Option 4
Total Construction cost*	$49,182	$295,258	$329,015	$325,797	$334,662
Total Recurrent cost	$1,273,208	$1,500,019	$1,383,411	$1,392,505	$1,374,464
Total Project Cost	**$1,322,390**	**$1,795,276**	**$1,712,425**	**$1,718,301**	**$1,709,126**

Note: Option 5 capital costs are assumed to be the same as Option 2 illustrated above, except for additional public utility costs of $3m

** – A reconciliation of the construction costs to those costs supplied by the quantity surveyor is contained below (Table 1-6 or Table 8-3 with more detail).*

The following table reflects the NPC of estimated temporary accommodation costs and the associated temporary accommodation operating costs and the sub-total of these costs with the Total Project (DCS) Costs included above. These costs have been calculated based on the assumptions contained in Appendix D.4.4.

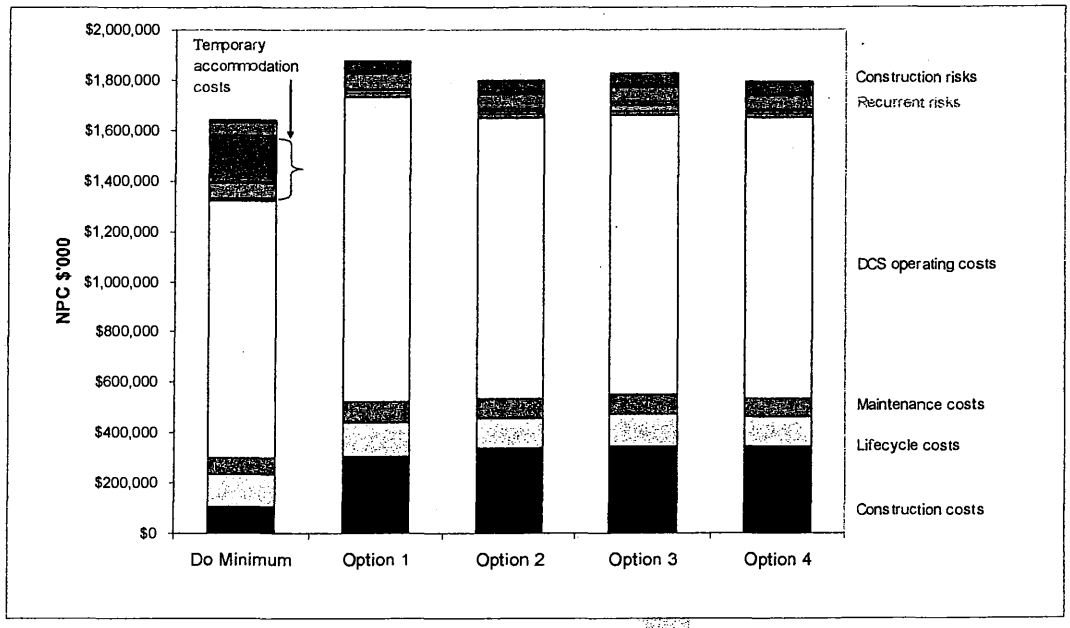
Table 1-5: Temporary accommodation costs for all Options and combined with Total DCS Cost (NPC $'000)

Cost - Option	Do Minimum	Option 1	Option 2	Option 3	Option 4
Total temporary accommodation cost	$252,475	$19,616	$19,616	$37,010	$19,616
add: total project cost	$1,322,390	$1,795,276	$1,712,425	$1,718,301	$1,709,126
Total Project Cost including temporary	**$1,574,865**	**$1,814,893**	**$1,732,042**	**$1,755,311**	**$1,728,743**

Note: Option 5 costs are assumed to be the same as Option 2 illustrated above, except for additional public utility costs of $3m

Figure 1-3 below provides a graphical analysis of the NPC of the Total Project Costs (including temporary accommodation) for each Project Option.

Figure 1-3 – NPC of Total DCS Cost (including temporary accommodation) for each Option



Direct cost to DCS

The estimated direct Project costs to DCS (Total DCS Cost) have been determined for each Project Option, assuming a Traditional Approach (refer Section 1.9). Table 1-4 provides the NPC of the estimated Total Construction Costs of the Project and also of the Total DCS Costs for the entire prison system (assuming a Project Term of 25 years). The Total DCS Costs for the entire prison system have been considered because of the interrelatedness of some options (particularly the Do Minimum and Option 1) to DCS operating costs across a number of facilities.

The estimated costs of construction and lifecycle and maintenance of just the redeveloped facilities over a 27 year modelling term, for Option 2 (i.e. the costs that could be included in a BOT Approach to the Project), are $438.5 million (NPC). However, this is not the incremental cost to DCS, because under this Option DCS receives the recurrent benefits of the closure of the AWP and YLP.

The Do Minimum Option is the lowest cost Project Option. This is due to the difference in scope reflected in the reduced Design Capacity it delivers. This option fails to provide DCS with sufficient permanent beds to meet the projected prisoner numbers. This Project Option severely limits DCS's ability to achieve the Correctional Service Outcomes and most likely requires Government to fund temporary accommodation (refer below) and/or introduce alternative law and order policies due to insufficient prison capacity for expected increases in prisoner numbers. Also the Do Minimum cost is likely to be understated due to the simplifying approach adopted in relation to its recurrent costs and risks (which do not reflect, to the full extent, the financial impact of the ageing and overcrowded infrastructure).

The Do Minimum cost is also likely to be understated because DCS see it as a very short term solution. Under this option the Government is likely to be required to undertake, in

the future, a development similar in scope to those being considered in the other options. DCS advise that this Project Option can only be described as extremely high risk, whilst failing to satisfy the Project Objectives, therefore is not recommended for serious consideration by the Government.

Of the other Options, the Total DCS Cost associated with Options 2, 4 and 5 do not significantly differ and therefore these options are considered to have a similar financial impact.

Option 1 has a slightly lower Construction Cost due to its approach of expanding existing facilities and fewer new cells are provided. However it incurs a higher operating cost associated with maintenance and upkeep of YLP and the limited ability to improve the staff:prisoner ratio in existing facilities.

Option 3 has a marginally lower Total Construction Cost and a similar Total DCS Cost (relative to Option 2). This is because this option delays the development of the NMP by five years, resulting in a lower NPC construction impact (due to construction costs being discounted to dollars of today). However, this lower construction cost is reversed by the recurrent costs which are higher than Option 2. This is due to net impact of the lower cost because of the delay in the prison system expansion net with the increased costs of retaining YLP for a longer period of time and the reduced operating efficiencies (relative to Option 2) associated with the expansion at Mobilong Prison and the smaller NMP.

This option also consists of two stages, one including the NWP, pre-release centre and Mobilong Prison expansion and two including the NMP. The NPC cost of each of these stages is Stage One: $131.5 million and Stage Two: $194.3 million.

Construction cost reconciliation

The following table provides an analysis of the construction costs utilised within this FBC. This is provided to summarise and reconcile the construction costs used in this FBC with those included avoid in the Davis Langdon Australia (DLA) Order of Cost Estimate Report. Table 1-6 illustrates:

- The risk adjusted NPC of construction, as reflected in Table 1-7
- The nominal cost of the risk adjusted construction cost, as illustrated in Table 1-8.
- The real cost of the risk adjusted construction cost.
- The reconciling items between the real risk adjusted construction cost and the real construction cost included in the DLA report. The costs differ due to the approach of replacing the contingency included in the DLA costs with the outcome from the risk quantification exercise discussed in Section 9 (design and construction risks only).

Table 1-6: Reconciliation of FBC construction costs to DLA construction costs, real $ '000

	Do Minimum	Option 1	Option 2	Option 3	Option 4
DLA capital costs including contingency, excluding ARC upgrade (Real)	$39,307	$299,237	$327,200	$353,507	$332,570
FBC capital costs including ARC upgrade plus risk (Nominal)	$60,516	$386,104	$435,674	$530,642	$444,416
FBC capital costs including ARC upgrade plus risk (NPC)	$49,182	$295,258	$329,015	$325,797	$334,662

Temporary accommodation costs

A key difference between each option is that cell availability can differ at any one time. The Do Minimum provides 481 fewer permanent cells and Option 1 and 3 stagger the introduction of new cells relative to Option 2, 4 and 5. To equalise this approach, temporary accommodation costs have been considered as part of the financial analysis.

Each option results in DCS having a shortage of cells to house average prisoner numbers, both male and female. In the case of female prisoners this occurs immediately. In the case of male prisoners, this occurs in 2009, prior to the completion of the redevelopment. The Government and DCS can manage this shortage by providing temporary accommodation facilities. However, this is not consistent with Government law and order policy.

The only alternative would be for Government to relax the sentencing approach and hence would avoid these costs. It should be noted that temporary accommodation is not DCS's preferred approach to managing prison demand as it is not an effective or efficient way to manage prisoners.

The following table reflects the NPC of estimated temporary accommodation costs and the associated temporary accommodation operating costs. These costs have been calculated based on the assumptions contained in Appendix D.4.4.

Table 1-7: Temporary accommodation costs for all Options and combined with Total DCS Cost (NPC $'000)

Cost Option	Do Minimum	Option 1	Option 2	Option 3	Option 4
Construction	$58,656	$11,791	[illegible]	$18,181	$11,791
Salaries and Wages	$142,158	$5,986	[illegible]	$13,816	$5,986
Goods and Services	$51,662	$1,839	[illegible]	$5,013	$1,839
Total temporary accommodation cost	$252,475	$19,616	[illegible]	$37,010	$19,616

(Note: Option 5 capital costs are assumed to be the same as Option 2 illustrated above, except for additional public utility costs of $3m)

As indicated in the above table, the Do Minimum Option will require provision of a significant amount of temporary accommodation. There is also a risk the costs reflected are understated, because it assumes DCS can utilise temporary accommodation for the full 25 years and that the temporary accommodation can be housed in existing prisons without any cost impact on the existing infrastructure.

Table 1-7 above also indicates the additional cost of Option 3, due to the delay in the introduction of new men's cells in the NMP.

Indirect DCS net costs and total NPC results

This section summarises the previous two financial tables. It also reflects the indirect financial impact of the Project on:

1 The ability of Government to realise value from the sale of part of the Grand Junction Road Site. This has been identified separately on the basis the cash flows will be received directly by DTF.

2 The impact of the Project on the capital costs associated with the Safe Cell Upgrade Program. This is a separate project identified by DCS, to upgrade existing non-compliant cells to address safe cell standards. Funding for the Safe Cell Upgrade Program is not being requested in this FBC. It is assumed that the Safe Cell Upgrade Program is subject to a separate funding request by DCS. Each Project Option impacts, to differing degrees, the number of cells that are compliant with the Safe Cell Upgrade Program. However, Options 2 to 5 deliver to the Government 924 new cells which will be built to the safe cell standard.

Table 1-8: Total Direct and Indirect Net Financial Cost (NPC $ '000)

Cost Option	Do Minimum	Option 1	Option 2	Option 3	Option 4
Total Project Cost	$1,322,390	$1,795,276	$1,712,425	$1,718,301	$1,709,126
Temporary accommodation	$252,475	$19,616	$19,616	$37,010	$19,616
Safe Cell Upgrades	$48,254	$48,254	$39,265	$39,265	$39,265
Land Sale Proceed	$0	$0	($21,403)	($18,549)	($16,687)
Net cost to Government	$1,623,119	$1,863,147	$1,749,904	$1,776,027	$1,751,321

Option 5 capital costs are assumed to be the same as Option 2 illustrated above except for additional public utility costs of $3m

This table illustrates that the Do Minimum Option has the ,lowest Net Cost to Government (by approximately $120 million, relative to Option 2). However, DCS have advised this

approach is unsatisfactory from an operational perspective. This option is also possibly understated due to the assumptions adopted in the calculation of risk and temporary accommodation and will incur a higher ongoing operational cost post the modelled term.

Options 2, 3, 4 and 5 all have a relatively similar Net Cost to Government, given the scale of the costs modelled. Option 1 has the highest Net Cost to Government as a result of the recurrent cost inefficiencies that exist under this option and the inability to realise any of the Grand Junction Road Site.

Due to the similarity in costs of Options 2, 3, 4 and 5, the ranking of options in terms of operational preference (refer Section 1.5.2) remains unchanged when the costs of each option are taken into consideration. Therefore, Option 2 remains the DCS preferred option.

1.7.2 Budget analysis and funding

Nominal Total Construction Costs – Traditional Procurement

Table 1-9 illustrates the time series of nominal Total Construction Costs over the construction period should the Project be procured under a Traditional Approach. This information is provided to allow identification of the level of capital funding required under each Project Option.

Table 1-9: Nominal Total Construction Costs $'000 (including project management costs and risks)

Y/E	Do Minimum	Option 1	Option 2	Option 3	Option 4
Jun-07	$335	$18,181	$8,900	$7,398	$10,392
Jun-08	$5,864	$61,598	$29,848	$37,551	$36,312
Jun-09	$39,374	$99,562	$85,001	$60,699	$76,582
Jun-10	$6,999	$76,235	$180,386	$55,792	$163,851
Jun-11	$0	$75,362	$126,736	$427	$152,476
Jun-12	$0	$31,501	$4,803	$12,209	$4,803
Jun-13	$0	$23,665	$0	$49,589	$0
Jun-14	$0	$0	$0	$148,014	$0
Jun-15	$0	$0	$0	$153,123	$0
Jun-16	$0	$0	$0	$5,838	$0
Total	**$52,573**	**$386,104**	**$435,674**	**$530,642**	**$444,416**

(Note: Option 3 Stage One relates to the period to June 2011 (approximately $161 million nominal), and Stage Two (approximately $369 million nominal) is the period thereafter.

The Project Options developed in this FBC focus on concurrent development of men's and women's facilities (except Option 3) in order to address the immediate issues faced by DCS in regards to delivering the Correctional Service Outcomes.

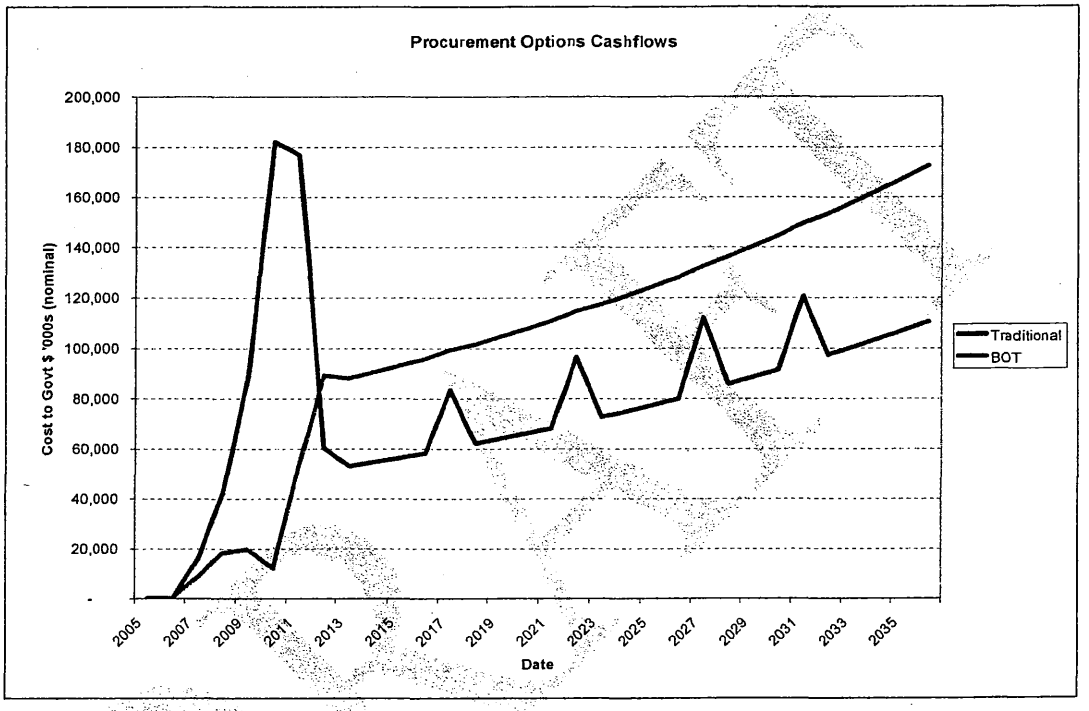
Total Costs – Traditional and BOT Procurement – Option 2

As part of the procurement analysis process (refer Section 1.9) a BOT Proxy was developed for Option 2. This is a financial model of the estimated costs that a consortium

would bid should the Project be procured as a BOT (refer Section 1.9). This is subject to a number of simplifying assumptions listed in Appendix D.5. The BOT Proxy resulted in a real annual Service Fee of $35.0 million, the nominal service fee is illustrated in Table 1-10 and Figure 1-4 below.

The following graph indicates the relative cash flow profile of the Traditional Approach and the BOT Approach (including construction, lifecycle, facilities maintenance and associated risks), based on the assumptions adopted.

Figure 1-4 – Option 2 Procurement Cash Flows – Traditional v BOT ($'000 nominal)



(Note: The profiles above include Temporary Accommodation costs for illustrative purpose to allow comparison across the different procurement options. The funding for Temporary Accommodation will be subject to a separate funding request.)

The following table provides an analysis of the different nominal cash flows illustrated above and the difference between them:

Table 1-10 - Comparison of nominal cash flows between Option 2 Traditional and BOT Approaches over eight year ($ nominal '000).

	Jun-07	Jun-08	Jun-09	Jun-10	Jun-11	Jun-12	Jun-13	Jun-14
Traditional cashflows (Nominal $'000)	$15,215	$41,830	$88,912	$181,867	$176,653	$60,163	$52,880	$54,570
BOT cashflows (Nominal $'000)	$8,122	$17,992	$19,402	$11,975	$52,478	$89,107	$87,930	$90,496
Difference on BOT	($7,092)	($23,837)	($69,510)	($169,891)	($124,175)	$28,944	$35,050	$35,926

(Note: The cashflows above include Temporary Accommodation costs for illustrative purpose to allow comparison across the different procurement options. The funding for Temporary Accommodation will be subject to a separate funding request.)

As indicated by Figure 1-4 the BOT Approach results in reduced cash flows prior to the commissioning of the facilities, which consist mainly of temporary accommodation and procurement costs. Payment of the service fee is generally a function of satisfactory commissioning of facilities. Thereafter the BOT approach results in a higher per annum cost, reflecting the repayment of the funding costs associated with the redevelopment and the operating expenditure (lifecycle and maintenance).

1.8 Preferred Project Option

This section identifies DCS's preferred Project Option. It considers DCS's operational preference (included in Section 1.5.2) and combines this assessment with the financial cost and impact of each option (included in Section 1.7).

Based on the similarities in net financial impact between Option 2, 4 and 5, DCS still rate Option 2 as the preferred option, followed by Option 4 and then 5.

However, the previous work identified that these options are costly due to the amount of infrastructure required. If the Government is unable to select either of Options 2, 4 or 5, then Stage One of Option 3 would provide the best solution, rather than Option 1 or the Do Minimum.

DCS do not recommend proceeding with the Do Minimum Option. DCS do not believe this provides Government value for money and the cost is likely to be understated due to some of the simplifying assumptions adopted.

1.9 Procurement analysis

1.9.1 Procurement Approaches considered

A range of procurement approaches were considered and a conclusion was made as to which approach is most likely to offer DCS and Government value for money (VFM) for the preferred Project Option, Option 2.

The potential procurement approaches considered are the:

- Traditional Procurement Approach;
- Partnerships SA (Build Own/Build Own Transfer – BO/BOT) Procurement Approach[7]. Because the transfer of the asset back to DCS (i.e. the "T") is more relevant for this Project, this method will be referred to as the BOT Approach.
- Build Own Operate (BOO) / Build Own Operate Transfer (BOOT) (as per above, referred to as the BOOT Approach)[8]; and
- Alliancing Procurement Approach.

1.9.2 Procurement Recommendation

Under Option 2, all procurement approaches were found to enable DCS to meet the Project Objectives and all are able to deliver functional facilities. However, it is recommended that a combination of the BOT and Traditional Approaches is able to provide Government VFM for Option 2.

The NWP and NMP – Option 2

The BOT Approach is likely to provide VFM in relation to the procurement of the NWP bundled with the NMP. This is due to:

- The extent of risk transfer this approach offers in relation to design, construction and whole of life risks.
- The significant scale of the Project, providing the opportunity to generate VFM. The BOT Proxy, referred to in this Section 10.3, quantified the financial saving as 2.92% (including DCS operating costs)[9], or approximately $26 million (NPC) over a 30 year Project term
- The rigour this approach imposes on defining all requirements upfront and prior to contractualisation, to ensure Project affordability.
- The timetable implications of adopting this approach did not significantly delay the delivery of the NWP or NMP.
- The potential to enhance VFM through the inclusion of additional services (other than lifecycle and facilities maintenance) under a BOT Approach.

A BOT can also be put to market including a range of services. The BOT Proxy costing included the provision of lifecycle expenditure and facilities maintenance services as part of the Project put to market. It would appear that there is scope to go to market with all

[7] Also referred to as the Facilities Only Public Private Partnership (PPP)
[8] Also referred to as the "Full PPP" approach
[9] 2.92% reflects the saving of BOT relative to Traditional inclusing custodial services in the cost base. If custodial services are removed the saving equates to approximately 6%.

other infrastructure related services, such as waste management, fire services etc. In relation services that involve increased prisoner interface, e.g. catering, health and vocational programs, given the importance of the timeline and the market preference to avoid complication of the contract, DCS may be best placed to exclude these from the BOT Approach. However, if it is identified that the infrastructure provision is significantly interrelated with provision of the service then these specific services should be further considered for inclusion as part of the BOT Approach.

The Traditional Approach is able to deliver the Project and does offer some benefit associated with a slightly reduced delivery timeframe. However, it does expose Government to risks associated with both unexpected cost increases and delays to the completion of the Project. Should the Traditional Approach be considered, it is recommended that value can be enhanced by utilising a fixed price design and construct structure, given the significance of design and construction risks to this project. Whilst it is unlikely these risks could be transferred to the same extent as a BOT a significant proportion of these risks should be transferable.

The Alliance Approach offers a partnership approach which all procurement approaches can benefit from. However, in relation to this project, this approach is unlikely to provide the same value it would provide on a more difficult project where Government significantly benefits from the collective advice an alliance can provide. DCS have advised they, with the assistance of some consultants, can identify the output specifications associated with the Project and hence are not as reliant on the additional advice an alliance can provide. Also an alliance does expose Government to some price related risk because the final price is not generally agreed until certain project development work is jointly undertaken.

The BOO/BOOT Approach is likely to offer value to the Government because it encourages efficient management of both infrastructure and custodial services (operations) risks. This report contains a financial analysis which indicates that additional financial savings could be made under this approach (relative to the Traditional and BOT Approaches). This would also transfer the responsibility of agreeing staffing levels with unions to the private sector operator. However, we are advised that Government is currently unlikely to contemplate this type of procurement approach. Also the procurement under this approach is likely to be complicated on this Project due to having the Government run Mobilong Prison in such close proximity to the NWP and NMP and the lack of depth in the Australian prison operator market. This is likely to add to the delivery timetable for the NWP and NMP.

The Women's Pre-Release Centre

The Traditional Approach is likely to provide VFM in relation to the procurement of the development of the Women's Pre-release Centre. This work is of a relatively small scale, involves working around an existing operational facility (the Men's Pre-release Centre) and working with existing infrastructure. These complexities would indicate an alliance could generate significant value. However, the scale of works is relatively small and is therefore likely to be more suited to a Traditional Approach.

Other Project Options

Should a Project Option other than Option 2 be selected, the procurement approach that is likely to offer VFM will differ in some circumstances:

- Option 4 is similar, from a procurement perspective, to Option 2, however includes the complete redevelopment of the pre-release centres' (men's and women's), hence additional value could be generated by including it in the bundled works. A differentiating factor is the NWP is on an alternative site to the NMP which raises the question of whether these two facilities can be procured separately. The scale of works associated with the NWP and pre-release centres' is in excess of $100 million NPC and hence this still is suitable to generate VFM under a stand alone BOT Approach (i.e. will result in significant risk transfer). However, separating the NWP/pre-release centres' from the NMP may negatively impact on the extent of VFM able to be generated.

- Option 3 involves a number of distinct elements. The NWP, as a standalone project, approximates $100 million (NPC) (including non-core recurrent costs) and therefore is of a suitable scale to generate VFM under a BOT Approach. The expansion at Mobilong Prison will involve the same interface issues as the redevelopments under Option 1 and may therefore be more suited to an Alliance Approach (refer below). However prior to any procurement decision being made for this option, additional market testing is recommended to determine whether there would be greater efficiencies offered should both the NWP and Mobilong Prison expansion be bundled together under either of these procurement approaches (Alliance or BOT). The delayed NMP is a significant project and similar in nature to the bundled Option 2 projects and hence the BOT Approach would appear to offer VFM.

- The Do Minimum and Option 1 are complicated by a number of operational and infrastructure interface issues. Therefore, the joint development approach of an Alliance is likely to offer VFM. However, this is on the basis that the private sector alliance partner will be prepared to bear some financial risk associated with DCS managing the operational interfaces during construction, and in the case of the Do Minimum, that the scale of works is not too small to be inefficient for an Alliance.

1.10 Implementation issues

DCS has put in place a Project Governance Structure reflecting a two-tiered approach i.e. a Steering Committee and Project Control Group. Each group has been allocated operational responsibilities to ensure that appropriate authorisations obtained and the Project can benefit from the collective advice of each group's participants.

DCS has identified some key implementation issues and developed strategies and timelines for their resolution, to ensure there is no undue delay or major unforeseen impact on the Project. These are discussed in Section 11. In summary the key implementation issues DCS have identified are:

- *Temporary accommodation*: The build period associated with all options will result in the SA prison system reaching maximum capacity prior to completion of new cells.

As indicated in the financial analysis DCS has incorporated a cost for temporary accommodation, though DCS and the Government will need to agree whether to incur this cost or implement alternative law and order policies.

- *The Greenfield Site* – The preferred option involves DCS securing the Greenfield Site (Mobilong South). DCS have undertaken initial discussions with Planning SA and the local council in relation to obtaining agreement to secure the site. Whilst Planning SA have not identified any significant issues, the local council has indicated they had intended to keep the identified land available for the future expansion of the city of Murray Bridge. DCS intend to hold further discussions with the council in relation to alternative potential growth options explored with Planning SA.

- *Unions* – DCS have redesigned the NMP to enable a reduction in the staff:prisoner ratios to levels comparable with new prisons in other Australian States. Implementation of these ratios will require union agreement. Should the Project receive approval, DCS intend to initiate negotiations with unions, using interstate benchmarks as a comparative analysis. DCS believe negotiations will involve union consideration of the design and hence the comments within this FBC indicating that certain aspects of the design may be input based.

1.11 Recommendations and next steps

The analysis contained in this FBC recommends:

- The SA prison system requires new, improved and expanded facilities for both female and male prisoners.

- Project Option 2 as the preferred Project Option. However, DCS rate Options 2, 4 and 5 highly in relation to their ability to achieve the Project Objectives.

- That Government fund the cost of Project Option 2 (Total Construction Cost of $329.0 million NPC (or $435.6 million nominal).

- Financial VFM of approximately 3% (including custodial services) or 6% (excluding custodial services) [Mark – are these % in the correct order –JC]is likely to be achieved if the BOT Approach is applied to the NWP and NMP and the Traditional Approach is applied to the pre-release centre. This outcome has been calculated based on conservative assumptions that recurrent costs and construction costs under the BOT Approach would remain the same as estimated under the Traditional Approach. In reality, the BOT Approach is expected to achieve significant savings in construction and recurrent costs over the Traditional Approach, suggesting that the expected VFM may be higher. Therefore the combined BOT and Traditional Approach is recommended.

The key next steps, should the Project receive approval include:

- *Greenfield Site.* DCS will need to secure the Greenfield Site and obtain approval from the Murray Bridge Local Council. DCS will need to further advance its stakeholder consultation process to ensure agreement.

- *Confirm the location of the pre-release centre.* Should the existing men's pre-release centre be required to relocate from the Grand Junction Road Site, there will be an additional cost to Option 2 (approximately $15 million (real) for construction) and potentially an amount for land acquisition.

- *Capacity constraints* – Agreement within Government on how to handle the current women's capacity constraints and the future men's capacity constraints, through either a change in law and order policies or the provision of temporary accommodation.

- *Unions.* DCS will need to obtain union agreement on the staff:prisoner ratios anticipated.

- *Further operating efficiencies.* DCS note that additional cost efficiencies may accrue through co-locating the two facilities (NWP and NMP) adjacent to the existing Mobilong Prison. Further investigations will be undertaken to quantify these operating costs savings.

- *Project Team and consultants.* DCS will need to develop a procurement team which has all the necessary skills to implement the Project within the envisaged timeframes. A number of these skills currently exist though it is likely DCS will need to obtain advice from a range of consultants.

- *Procurement.* Continue to develop the Project, including compilation of an Expression of Interest document.