

Submission
No 341

**INQUIRY INTO THE PRIVATISATION OF PRISONS AND
PRISON-RELATED SERVICES**

Name: Mr Francis Breen
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To: The Chair
General Purpose Standing Committee No.3

I would like to address the terms of reference concerning the comparative economic costs of operating public and private prisons.

My concern is the basis on which the cost of operating public agencies, such as the prisons, is calculated and the economic nature of essential services.

My understanding is that the cost of operating the agency for comparative purposes commences with assembling historical information of the costs of the agency and then taking into account any foreseeable changes that may influence these costs in future.

This is then adjusted for the amount of risk associated with such an investment on the basis of a private investors perspective and a further amount is added which represents an estimate of the return on investment that would be considered appropriate for private investors.

This combination of actual costs and hypothetical costs is then made public and is used as the comparator for considering private sector expressions of interest or tenders.

I suggest that it is not appropriate to include these last two hypothetical amounts in the public sector comparator as the State will always ultimately bear the risk where failure occurs and the State does not operate essential public services on a 'for profit' basis. It is evident also that private sector investors will pitch their bid below the comparator figure.

In addition widespread experience with contracting out or privatisation of essential government services leads to higher costs for the State. This is inevitable as essential services are in effect a public monopoly business and privatisation leads to these becoming private monopolies. Private monopolies are able to extract higher profits because of the inflexible market for the supply of their services.

Essential public services, such as the prisons and associated services, must be conducted by the State to prevent monopolistic exploitation by private investors and to ensure the continued standards of service and lower costs as compared to that of private monopolies.

It may be argued that the State is able to legislate to regulate the behaviour of private monopolies supplying public services, but the historical evidence shows that this is much more difficult than public ownership of essential services. The evidence is that Government is often obliged to pay additional amounts to the private monopolies to keep the services operating.