



National Audit Office

Report

by the Comptroller
and Auditor General

Ministry of Justice, HM Prison & Probation Service

Improving the prison estate

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Report by the Comptroller and Auditor General

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Gareth Davies
Comptroller and Auditor General
National Audit Office

27 January 2020

This report examines the condition and capacity of HM Prison & Probation Service's prison estate, its approach to maintaining prisons and progress it has made in transforming the estate.

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Key facts

98%

proportion of adult prison places in use in December 2019 (around 82,300) against HM Prison & Probation Service's (HMPPS's) usable operational capacity of around 84,200

60%

proportion of adult prisons in England and Wales which were crowded, as at December 2019

41%

estimated proportion of prisons needing major repair or replacement in the next three years to remain operational, as at January 2019, with 2% of prisons running a serious risk of 'imminent breakdown'

Maintaining the estate

1,730	prison cells taken permanently out of use between 2009-10 and 2019-20
£450 million	estimated annual investment needed in the public sector estate over the next 25 years, as at January 2019 (in 2018-19 prices)
63,200	maintenance jobs outstanding in prisons, as at April 2019
£143 million	payments to facilities management providers by 2018-19 for reactive maintenance jobs above HMPPS's expectations at business case stage in real terms (in 2018-19 prices)

Transforming the estate

3,566	new prison places HMPPS expects to deliver by 2023-24 against its target of 10,000 new-for-old prison places by 2020
£104 million	sales receipts achieved by HMPPS by 2018-19, out of an original target of £321 million by 2020-21
13%	of the Prison Estate Transformation Programme's capital budget spent (£119 million) by end of 2018-19, against its original budget of £928 million in real terms (in 2018-19 prices)
10,000	new prison places announced by the government in August 2019, in addition to the 3,566 planned to date

Summary

1 HM Prison & Probation Service (HMPPS) is the executive agency of the Ministry of Justice (the Ministry) responsible for managing the prison estate in England and Wales. The Ministry is responsible for allocating HMPPS's budget, balancing financial pressures across its portfolio which also includes, among other areas: courts and tribunals; legal aid; and youth justice. In 2018-19, HMPPS spent around £1.69 billion to operate prisons and £184 million on capital spending, comprising of £113 million on maintenance and £71 million on constructing prisons and reorganising the estate. The prison estate comprises 117 prisons, of which 104 are publicly operated.

2 Since 2015, against a backdrop of worsening living conditions for prisoners, HMPPS changed the way in which it maintains prisons and launched a programme to improve the condition and suitability of prison accommodation. It opted to contract out facilities management, create 10,000 new-for-old prison places and reconfigure the estate to better meet the needs of prisoners.

3 This report examines how HMPPS handled these changes and what it achieved. Our report:

- sets out the condition of the estate and the capacity within prisons to accommodate the prison population (Part One);
- examines HMPPS's approach to managing the maintenance of its prisons (Part Two); and
- assesses HMPPS's performance in transforming its estate by building new prisons, selling unsuitable prisons and reorganising prison places (Part Three).

4 This report builds on our 2013 report *Managing the prison estate*, where we concluded that while HMPPS's (then the National Offender Management Service) capital investment had provided good-quality accommodation, its strategy resulted in the closure of several high-performing prisons whose performance was not yet matched by new establishments.¹

¹ Comptroller and Auditor General, *Managing the prison estate*, Session 2013-14, HC 735, National Audit Office, December 2013.

Key findings

The condition and capacity of the prison estate

5 Prisoners are being held in unsafe and crowded conditions. HM Inspectorate of Prisons rated more than 40% of inspected prisons as 'poor' or 'not sufficiently good' for 'safety' between 2015-16 and 2019-20. Research commissioned by HMPPS found that the prison environment, including the condition of accommodation, plays a role in how prisoners behave. Between 2015 and 2018, among adult prisoners, key indicators of poor safety in prisons reached all-time highs. There was:

- a 110% increase in prisoner assaults on staff;
- a 63% increase in prisoner-on-prisoner assaults; and
- a 73% increase in self-harm incidents.

In addition, between 2015 and 2018, there were 378 self-inflicted deaths in prison custody (paragraphs 1.4 to 1.6, Figures 2 and 3).

6 HMPPS faces prison population and capacity pressures because of increased demand for prison places. As at December 2019, the prison population was around 82,300, equating to 98% of the usable operational capacity of the estate, but the population is distributed unevenly. HMPPS considers that 60% of prisons are crowded with the remainder at or close to capacity. The 10 most crowded prisons are running at or above 147% of their uncrowded capacity, meaning that prisoners are sharing cells designed for fewer people. Demand for places is largely driven by external pressures, which include a shift towards longer sentences. But demand is also shaped by factors partly within HMPPS's influence such as the fall in the use of community sentences (paragraphs 1.7 to 1.9, Figure 4).

7 Many prisoners are held in inappropriate settings without access to the services they need. There is a mismatch between supply and demand for different types of prison places, with a surplus of 18,700 places in local prisons serving local courts and a shortfall of 15,000 training and resettlement places. Local prisons are intended to accommodate prisoners serving short sentences or those on remand awaiting sentencing. However, they are increasingly holding longer-sentenced prisoners because of shortfalls in places to support prisoners' transition into the community. This means that many prisoners live in unnecessarily stringent security conditions while others live in low-security environments relative to their higher risks. HMPPS is attempting to reconfigure its estate so that prisons are better suited to the needs of the population (paragraph 1.10 and Appendix Three).

8 HMPPS has not maintained its estate to the necessary standard, which is impacting on available capacity.

Between 2009-10 and 2019-20, HMPPS took 1,730 cells permanently out of use, losing 939 of these in the past three years. It expects to lose 500 places a year because of the scale of disrepair. There are severe maintenance backlogs and HMPPS estimates that:

- 41% of the estate needs major repair or replacement in the next three years; and
- 2% of prisons are running a serious risk of ‘imminent breakdown’.

As at April 2019, there were 63,200 outstanding maintenance jobs and, as at November 2019, HMPPS estimates it could cost £916 million to address its major works backlog (paragraphs 1.12 and 1.13).

9 HMPPS’s capital budget allocations for prisons have been well below the level needed. It spent £78 million annually, on average, on maintenance between 2016-17 and 2018-19 and had a net £24 million underspend against its budgets across the period. However, it estimates that it needs to spend £194 million on maintenance in the public sector estate each year for 25 years. To date, HMPPS has focused its limited funds on improving statutory compliance and safety by addressing issues such as fire safety, water hygiene and asbestos (paragraphs 1.13 to 1.15, 2.11 and 2.12, Figure 8).

Maintaining the prison estate

10 HMPPS did not have a clear picture of facilities management services in prisons before outsourcing the service. In 2015, HMPPS opted to outsource facilities management in prisons. HMPPS expected to achieve savings of £79 million by contracting-out to Amey and Carillion but has failed to achieve these. Its approach contained common mistakes made in first-generation outsourcing. It had an inaccurate and incomplete understanding of its assets, their condition and required services. Due diligence was not sufficiently robust and HMPPS severely underestimated the demand for reactive maintenance work arising from vandalism and failing assets. It expected to pay providers £17.7 million for variable costs (reactive maintenance costs above an approved threshold of £750 for each job, excluding vandalism) by 2018-19 – the fourth year of the contracts – but has paid £160.4 million, a difference of £142.6 million (paragraphs 2.1, 2.2, 2.5 to 2.7, 2.9 and 2.10, Figure 7).

11 Providers’ performance against targets has been below HMPPS’s expectations. HMPPS measures Amey’s (and prior to its collapse, Carillion’s) performance against 16 key performance indicators. For the two areas which have the biggest impact on prison maintenance – high-priority planned and reactive maintenance jobs – they did not meet HMPPS’s expectations. However, Amey performed the strongest overall and its performance is improving. Carillion’s performance was poor and highly variable. Gov Facility Services Limited (GFSL) was set up by the Ministry following Carillion’s collapse. It has focused on establishing its operations and transferring staff, ensuring continuity in service delivery and addressing shortcomings inherited from Carillion (paragraphs 2.4 and 2.5, Figure 6).

12 HMPPS is acting to improve its asset information and recorded compliance.

It started an asset survey programme in April 2019, nearly four years after its facilities management contracts commenced. By July 2019, it had completed pilot surveys across three prisons (2.5% of the estate) and expects to complete the programme by August 2020. HMPPS has also recently developed a set of standards setting out mandatory and statutory requirements and is undertaking audits to improve compliance across the estate. As at December 2019, rates of compliance vary considerably, from 48% to 98% (paragraphs 2.12 to 2.14, Figure 8).

Transforming the prison estate

13 Changes in the operating environment combined with wider financial pressures in the Ministry meant that HMPPS could not deliver the Prison Estate Transformation Programme (the programme) as planned.

It was slow to start new prison construction because of delays agreeing funding with HM Treasury. Ultimately, the wider financial pressures in the Ministry resulted in it surrendering £235 million of its capital budget for 2017-18. This meant HMPPS had to scale back on the number of new places and, with rising prisoner populations, it was unable to close old prisons. The programme ran from 2016 until August 2019 when it was superseded by a government announcement for 10,000 new prison places. HMPPS spent £119 million in real terms (in 2018-19 prices), just 13% of the original planned capital spend of £928 million by 2018-19, although more will be spent to complete ongoing projects (paragraphs 3.3 to 3.17 and Figures 10, 11 and 12).

14 The programme's performance was well below expectations mainly because of reduced and uncertain funding:

- **HMPPS expects to create 3,566 new prison places by 2023-24, against a target of 10,000 new-for-old places by 2020.** So far, it has built 206, with a further 3,360 under construction. This excludes plans for 10,000 new places in response to the government's announcement in August 2019. The funding model for new prisons changed four times between October 2016 and December 2018, which reduced public capital funding and delayed the programme. HMPPS is now due to complete two new prisons which will provide 3,360 new places, plus the 206 places already created by a new residential block. It spent around £99 million on creating new prison places by 2018-19 (paragraph 3.3, Figure 12 and Appendix Three).
- **HMPPS sold one prison site, generating receipts of £104 million by 2018-19 against a target of £321 million by 2020-21.** Lack of sales receipts further reduced the funds available to invest in the programme. HMPPS could not dispose of unsuitable accommodation as planned because of the lack of new prison places becoming available, and prison population and capacity pressures. HMPPS initially identified 20 possible prison closures. This assumed new prisons replacing some closures. However, the rising prison population meant HMPPS could not close or repurpose accommodation. For example, it changed its decision to close HMP Hindley and HMP Rochester, and it paused further prison closures until there was space in the estate to meet demand (paragraphs 3.3, 3.14 and 3.15).

- **HMPPS had reconfigured two prisons with the rest due two years later than planned.** As at November 2019, it had reconfigured 2,208 places, against an original target of 37,000 places by the end of 2020 (6%). The project aimed to rebalance prison places for men by reducing the surplus of local places and increasing the number of training and resettlement places. HMPPS underestimated the complexity of this task in a challenging operational environment and was slow to approve building works. It spent around £21 million on reconfiguration work by 2018-19 (paragraph 3.3, Figure 12 and Appendix Three).

Challenges to delivering an effective prison strategy

15 HMPPS's focus on reacting to immediate maintenance problems and population pressures meant it was slow to develop a long-term strategy for the prison estate. In December 2018, it began to develop a long-term strategy for the prison estate but this is not yet approved. HMPPS is yet to determine how it will secure sustainable funding, or how it will balance the need to maintain existing prisons against plans to construct new ones (paragraphs 1.16 and 1.17).

16 The continued uncertainty around how new prisons should be funded impacts on HMPPS's ability to plan and start construction. Between 2016 and 2018, while HMPPS was attempting to secure public capital funding for new prisons – committed by HM Treasury in the 2015 Spending Review – the policy on capital financing changed. HMPPS moved from a public funding model to considering private financing. The subsequent withdrawal of the Private Finance Initiative in late 2018 created further uncertainty. HM Treasury is currently consulting on private finance through the Infrastructure Review and expects to publish results alongside the National Infrastructure Strategy (paragraphs 3.6 to 3.10, Figures 10 and 11).

17 HMPPS now faces a significant challenge to meet the new commitment to create 10,000 additional prison places. In August 2019, the government committed to create an additional 10,000 places to meet expected higher demand caused by the planned increase of 20,000 police officers. It has not yet announced the timetable for delivering the 10,000 new places, which are additional to the 3,566 new prison places planned under the programme. HMPPS has carried out analysis to understand the operational impact of this policy. The forecasts are highly uncertain but suggest that, without intervention beyond new places under construction, demand for prison places could exceed supply between October 2022 and June 2023. Government also plans to increase the minimum sentence length for the most serious offences which will likely place further pressure on prison capacity (paragraphs 1.11, 3.16, 3.17 and Figure 5).

Conclusion on value for money

18 HMPPS has committed to providing a safe, secure and decent prison estate, but its plans to achieve this are failing. It has not been able to provide enough prison places, in the right type of prisons, and at the right time, to meet demand. The Prison Estate Transformation Programme's plans to create up to 10,000 new prison places to replace ageing, ineffective prisons proved undeliverable and outsourcing prison facilities management has not delivered expected efficiencies. If successful, these initiatives could have made a difference, but as it stands the prison estate is not meeting the needs of prisoners or those working in the prison system. It represents poor value for money.

19 HMPPS is taking welcome steps to improve its understanding of the condition of the prison estate, and now better understands the significant gap between its ambitions and the available resources. Learning lessons from its experience in delivering the programme will be crucial as it responds to the government's new commitment to create 10,000 new prison places. But HMPPS must resist a reactive approach and put its long-term plans on a secure footing. Achieving value for money will ultimately depend on HMPPS working with the Ministry and HM Treasury to develop a long-term, deliverable strategy that will provide a prison estate that is fit for purpose.

Recommendations

- a** HMPPS should develop a coherent, long-term strategy for the prison estate that extends beyond in-year and Spending Review budget cycles. This should include setting out:
- a clearer articulation of expected conditions for prisoners and facilities;
 - minimum levels of capital investment needed to ensure a safe, decent and compliant estate, balancing future maintenance needs against constructing new prison places;
 - how its estates strategy aligns with its other strategies to ensure its plans are supported by the right resources and skills;
 - how it can reduce demand for prison places in areas within its influence; and
 - how it will monitor the operational consequences of emerging policies and practices, as well as its capacity and capability to respond.

- b** HMPPS should use this strategy to work with HM Treasury to agree in principle a multi-year funding envelope for the prison estate, to provide stability for longer-term planning by:

 - establishing long-term funding commitments for the prison estate beyond the current Spending Review period; and
 - clarifying the position on alternative financing options as soon as possible.
- c** HMPPS should apply the learning from its facilities management contracts in the lead-up to Amey's contract coming to an end in May 2020. Specifically, if it decides to re-let contracts, it should assure itself that it:

 - has a detailed understanding of asset volumes and conditions;
 - allows enough time for due diligence;
 - uses appropriate data to estimate future maintenance liabilities; and
 - establishes its risk appetite for variations in providers' performance and compliance.

Part One

The condition and capacity of the prison estate

The prison system

1.1 HM Prison & Probation Service (HMPPS) is the executive agency of the Ministry of Justice (the Ministry) responsible for managing the prison estate in England and Wales. It aims to protect the public from the harm caused by offenders and to rehabilitate offenders by ensuring that prisons are decent, safe and productive places to live and work. To achieve these objectives, HMPPS aims to:

- provide enough prison places, in the right type of prisons, and at the right time, to meet demand;
- create environments that support prisoners' and staff safety and well-being; and
- maintain and renew its estate to promote prisons' operational effectiveness and value for money.

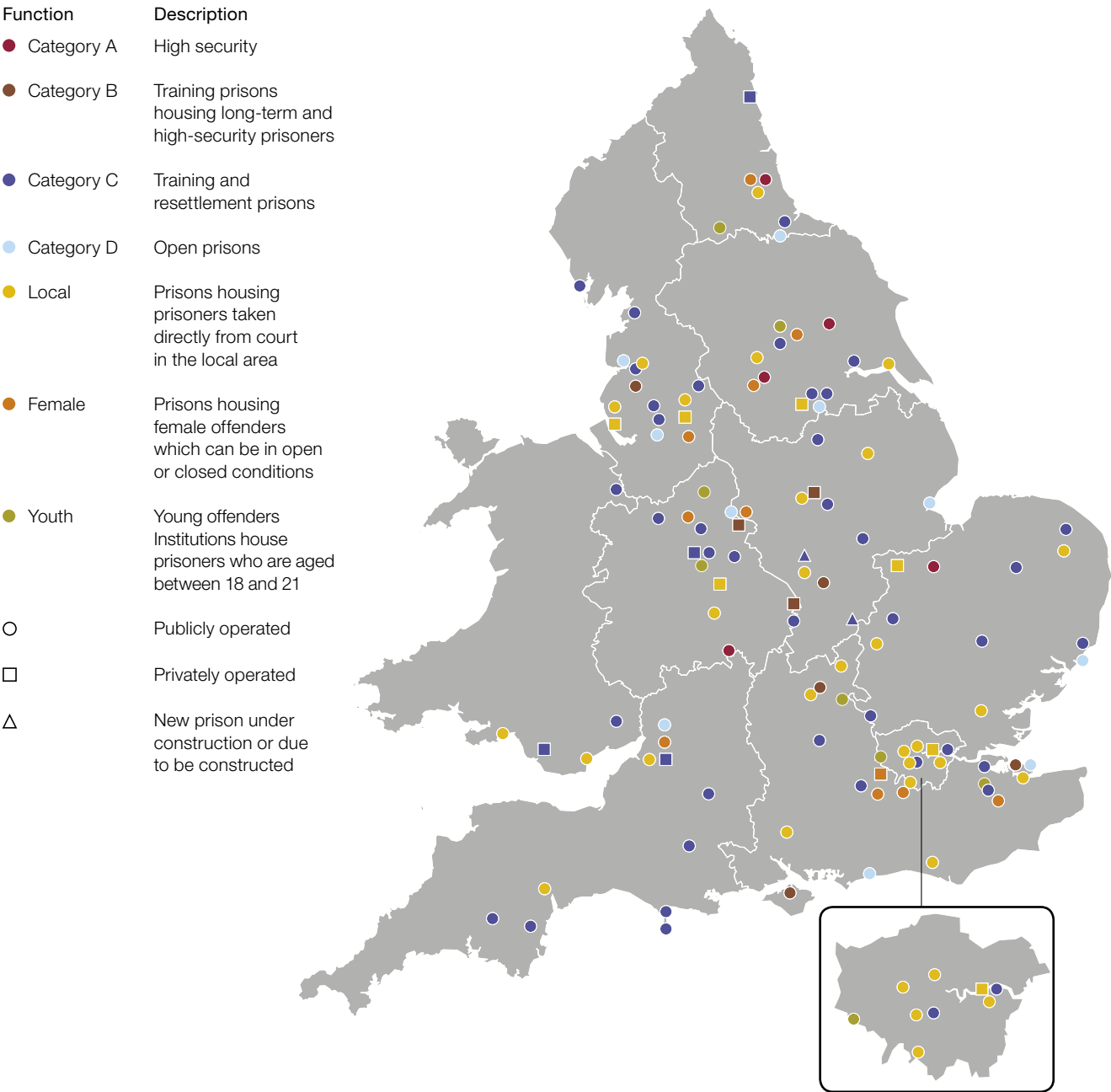
1.2 In 2018-19, HMPPS's net spending was around £4 billion, of which £1.67 billion was to operate public sector prisons. It spent around £183 million on capital, comprising £113 million on maintenance and £71 million on constructing prisons and reorganising the estate. The Ministry is responsible for allocating HMPPS's budget, balancing financial pressures across its portfolio which also includes, among other areas: courts and tribunals; legal aid; and youth justice. As an unprotected department, the Ministry was subject to budget cuts over the past 10 years. In practice, this meant less money was available for prisons.

1.3 The prison estate is the legacy of more than 200 years of prison expansion to meet demand for places. Although many prisons have been substantially modified or rebuilt since their opening, 62% opened before 1979, while 28% opened before 1900. HMPPS permanently closed 19 prisons between 1997 and 2018. Prisons vary considerably by size and purpose, from Category A (high-security prisons) which accommodate the most seriously convicted prisoners, to Category C (training prisons) and Category D (open prisons), which aim to support prisoners in their preparations for release back into the community. As at January 2019, there were 117 prisons in England and Wales, of which 104 were publicly operated (**Figure 1**).²

² This figure excludes local authority secure children's homes for offenders aged between 15 and 17 and Morton Hall, an immigration removal centre run by HMPPS on behalf of the Home Office.

Figure 1
Map of prisons in England and Wales by function, as at October 2019

There were 117 prisons in England and Wales as at October 2019, of which 104 were publicly operated; two prisons are under construction



- Notes**
- 1 We have adjusted some prison locations by up to several millimetres to prevent exact overlaps and improve visual clarity.
 - 2 We have added data points for two prisons under construction: Wellingborough and Glen Parva. HM Prison & Probation Service (HMPPS) has obtained planning approval for a new Category C prison at HMP Full Sutton, which will be adjacent to the existing Category A prison at this site.
 - 3 We have recorded HMP Belmarsh, HMP Manchester and HMP Woodhill as local prisons. These prisons serve local courts and also accommodate Category A prisoners.

Prison conditions

1.4 It is widely reported that conditions within prisons are deteriorating. This is largely driven by population factors – growing availability of drugs, vandalism, and increasing violence and self-harm – and issues related to the complexity of the estate, specifically historical under-investment in maintenance. The reasons for violence in prisons are complex and several factors play a role. HMPPS-commissioned research found that the prison environment, including the condition of buildings and facilities, plays a role in how prisoners behave.³ Between 2015 and 2018, among adult prisoners, key indicators of poor safety in prisons reached all-time highs. There was:

- a 110% increase in prisoner assaults on staff;
- a 63% increase in prisoner-on-prisoner assaults; and
- a 73% increase in self-harm incidents (**Figure 2**).

In addition, between 2015 and 2018, there were 378 self-inflicted deaths in prison custody.

1.5 HM Inspectorate of Prisons (the Inspectorate) has consistently reported that too many prisoners endure unsafe, poor and overcrowded living conditions. It rated more than 40% of inspected prisons as 'poor' or 'not sufficiently good' for 'safety' between 2015-16 and 2019-20, while 27% or more had the same ratings for a test of respect over the same period (**Figure 3** on page 16). HMPPS and the Inspectorate introduced an urgent notification protocol in November 2017 amid rising concerns around conditions in prison. The chief inspector has so far issued urgent notifications to six prisons, including one young offenders' institution (YOI), with concerns including: unclean accommodation; broken cell windows and observation panels; leaking and unscreened toilets; overcrowding; maintenance backlogs; and pest control issues.⁴

1.6 HMPPS has given 'decency in prisons' its worst risk ratings in its internal reporting because prison conditions fail to meet acceptable internal and external standards. In response to concerns, HMPPS started a rolling programme of audits against its standards for cleanliness and decency in January 2019.

³ HM Prison & Probation Service, *Understanding prison violence: A rapid evidence assessment*, analytical summary, 2018.

⁴ These were: HMP Nottingham; HMP Exeter; HMP Birmingham; HMP Bedford; HMP Bristol; and HMYOI Feltham A.

Figure 2
Prisoner assaults on staff, prisoner-on-prisoner assaults and self-harm incidents (adult prisoners), 2013–2018
By 2018, key indicators of poor safety in prisons reached all-time highs

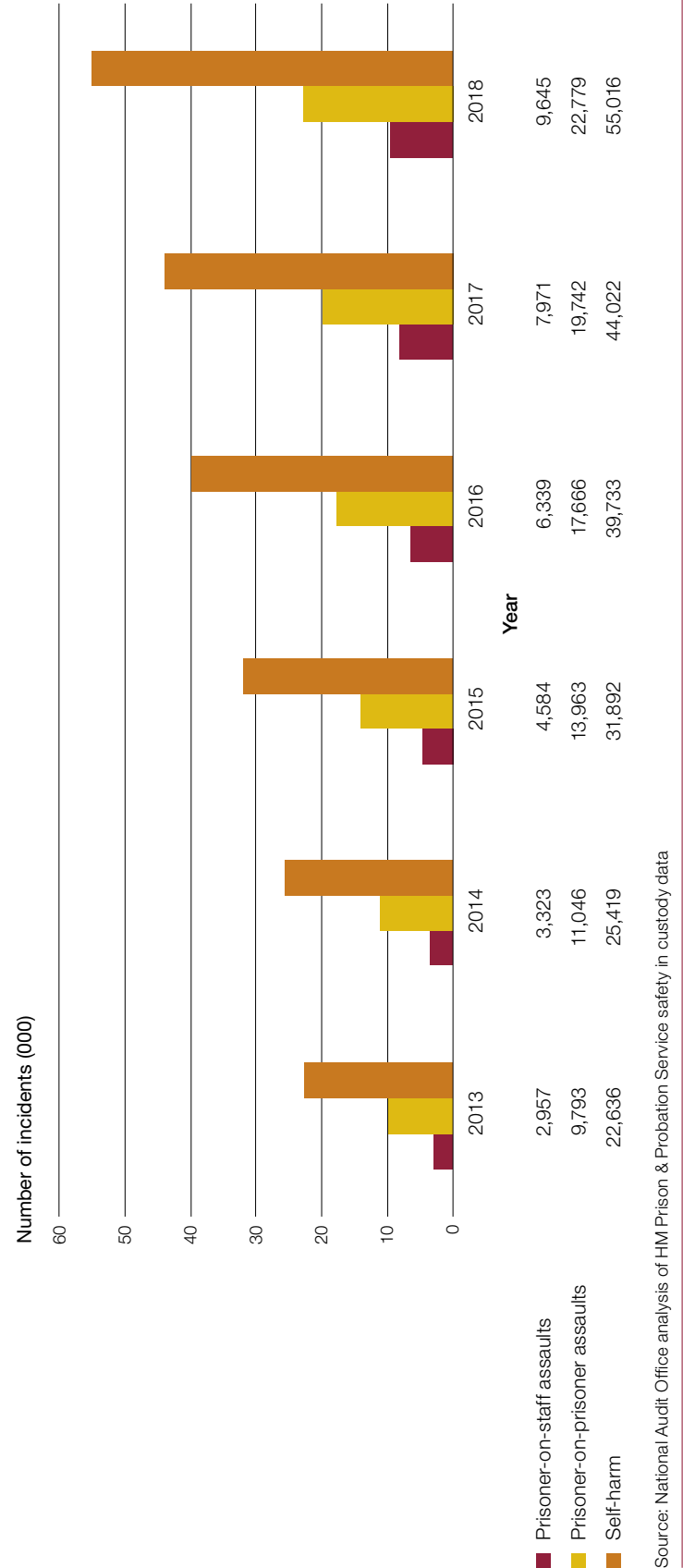
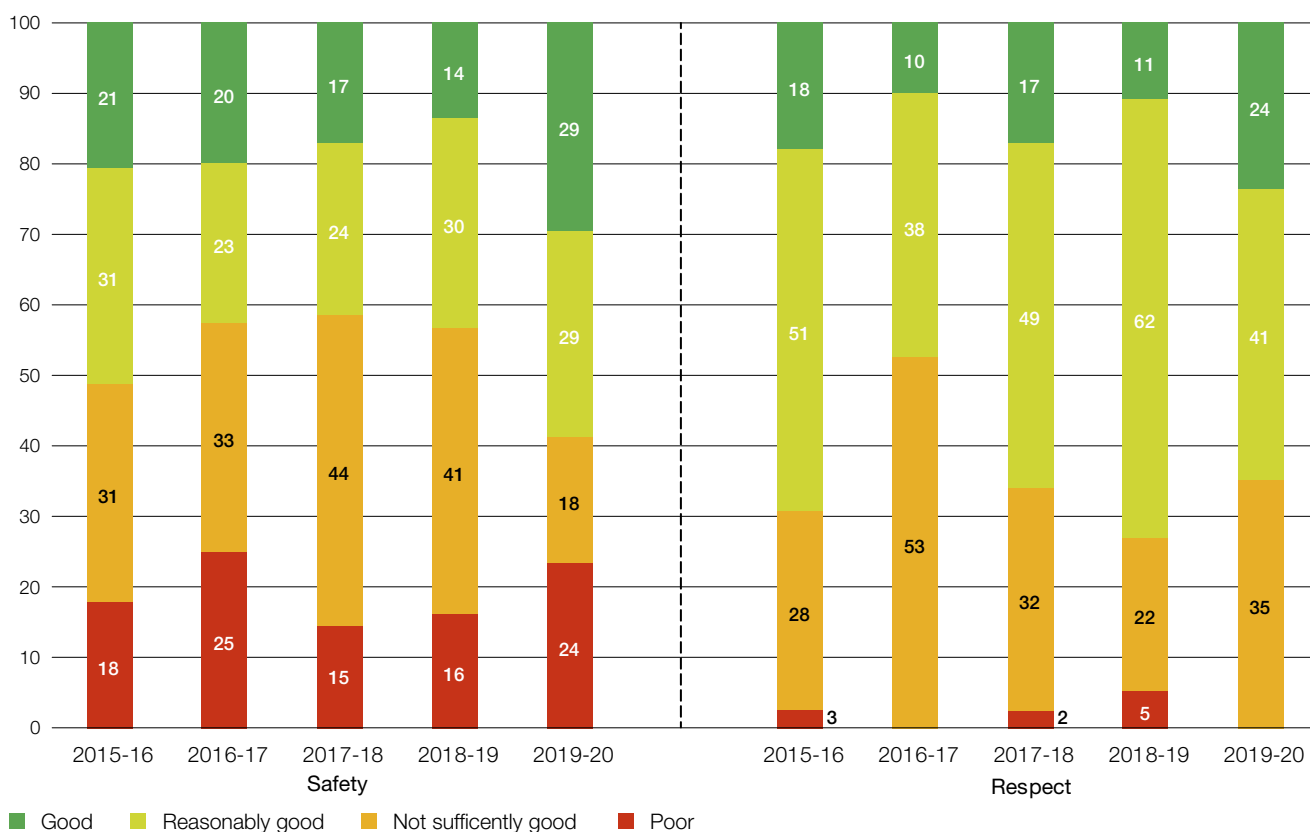


Figure 3

HM Inspectorate of Prisons' (the Inspectorate's) healthy prison tests for 'safety' and 'respect' in adult prisons, 2015-16 to 2019-20

More than 40% of inspected prisons had 'poor' or 'not sufficiently good' ratings for 'safety' for all five periods, while 27% or more had the same ratings for 'respect'

Percentage of reports (%)



Number of reports

	2015-16	2016-17	2017-18	2018-19	2019-20
Good	8	8	7	5	5
Reasonably good	12	9	10	11	5
Not sufficiently good	12	13	18	15	3
Poor	7	10	6	6	4
Total	39	40	41	37	17

Number of reports

	2015-16	2016-17	2017-18	2018-19	2019-20
Good	7	4	7	4	4
Reasonably good	20	15	20	23	7
Not sufficiently good	11	21	13	8	6
Poor	1	0	1	2	0
Total	39	40	41	37	17

Notes

- Each inspection report includes ratings (poor, not sufficiently good, reasonably good and good) for each of its four healthy prison tests. Five inspections had two ratings for each healthy prison test. Our analysis presents both ratings for each test.
- The Inspectorate's healthy prison tests are assessments of the condition and treatment of prisoners. 'Safety' assesses whether prisoners, including the most vulnerable, are held safely. 'Respect' assesses whether prisoners are treated with respect for their dignity. The other tests are 'purposeful activity', which assesses whether prisoners can and are expected to take part in beneficial activities; and 'rehabilitation and release planning', which assesses whether prisoners can sustain relationships with family and friends, are supported to reduce their likelihood of reoffending, and are prepared for their release.
- The Inspectorate inspects every prison at least once every five years, although it expects to inspect most establishments every two to three years. The timing of its inspections is also risk-based.
- As at early January 2020, the Inspectorate was three-quarters of the way through its 2019-20 inspection period. Our analysis is based on inspection reports published up to 7 January 2020. We have reported on a comparatively lower number of ratings than for previous periods.
- The percentages may not sum due to rounding.

Source: National Audit Office analysis of HM Inspectorate of Prisons reports

Prison population and supply of prison places

1.7 One of the drivers of poor conditions has been the significant rise in the prison population. Between 1993 and 2012, the population grew by an average 3.6% annually but in the past seven years it has declined. A range of factors have contributed to this long-term growth. Some factors are external and relate to the changing nature of crime. Prisoners are serving longer prison sentences because the courts are hearing more serious cases, with 11% of all imprisoned adults serving four years or more in the year ending March 2019, up from 9% in 2009. Others relate to sentencing policies, for example:

- sentence lengths for serious offences have increased over time, from 16.3 months on average by March 2009 to 20.2 months by March 2019; and
- sentences where prisoners have no fixed release date because of public protection concerns were introduced in 2005 and abolished on human rights grounds in 2012. As at June 2019 there were still 2,315 prisoners with no fixed release date in the prison system.

1.8 However, some factors are partly within the Ministry's influence. For example:

- the proportion of offenders being sentenced to community sentences is declining, from 17% of all sentences in 2009 to 11% in 2019. While this reflects increasing proportions of more seriously convicted offenders entering the prison system, the decline is also in part due to the low confidence sentencers have in probation services.
- In addition, increasing numbers of offenders are being recalled to prison for breaching the terms of their licenses, with a 45% increase to around 6,200 offenders between quarter four 2014-15 and quarter four 2018-19. The main reason for this was the Ministry's decision to extend statutory supervision to short sentenced offenders.⁵
- Finally, increasing numbers of prisoners are having additional time added to their time in custody for proven breaches of prison rules. HMPPS attributes this to increasing levels of violence and 'unauthorised transactions' in prisons.⁶ It does not collect data on actual additional time served, so does not know the true impact on demand for prison places. However, it commissioned research that found while prisoners' personal histories and characteristics are an important factor in understanding violence and rule breaking, poor conditions and restrictive regimes also play a role in how prisoners behave.⁷ In addition, the research found that when prisoners are engaged in purposeful activities like workshops or education, this can reduce violence and aggression.

⁵ The Ministry extended supervision through the Offender Rehabilitation Act 2014.

⁶ Unauthorised transactions refer to a set of offences that deal with the purchase, sale, possession, consumption, transportation or other unauthorised or illegal articles.

⁷ HM Prison & Probation Service, *Understanding prison violence: A rapid evidence assessment*. Analytical summary, 2018.

1.9 HMPPS faces capacity pressures because of increased demand for prison places, places falling out of use and delays in building new prisons (Part Three). As at December 2019, the prison population was around 82,300, equating to 98% of the usable operational capacity of the estate. In addition, 60% of adult prisons were crowded, with the top 10 most crowded prisons operating at between 147% and 163% of their uncrowded capacity (**Figure 4**).⁸ For prisoners living in crowded conditions, this means sharing prison cells designed for fewer prisoners.

1.10 Population pressures mean that prisoners are not always held in prisons that meet their needs. HMPPS expects local prisons to accommodate prisoners on remand or serving short sentences, but they are increasingly accommodating longer-sentenced prisoners because of shortfalls in prison places designed to support offenders' transition into the community. This means that many prisoners live in unnecessarily stringent security conditions while others live in low-security environments relative to their higher risks. As at November 2018, there was a surplus of 18,700 places in local prisons serving local courts, and a shortfall of 15,000 places in prisons which provide training and resettlement support.⁹

1.11 HMPPS expects demand for prison places to rise because of the government's August 2019 announcement to recruit an additional 20,000 police officers (**Figure 5** on pages 20 and 21). Based on existing forecast operational capacity in September 2019 (excluding plans for the 10,000 new places), it may need new prisons to be ready from late 2022. However, these forecasts are highly uncertain and do not include plans to increase sentence lengths for the most serious offences, which will likely lead to a faster and larger increase in demand, placing further pressure on available capacity.¹⁰ In addition, actual demand will also be influenced by: future legislation; changes in crime; the speed at which police forces recruit and train new police officers; how police forces choose to prioritise their resources and deploy new officers; the speed at which the courts and Crown Prosecution Service process cases; and how defendants opt to plead and are sentenced.

The current condition of the prison estate

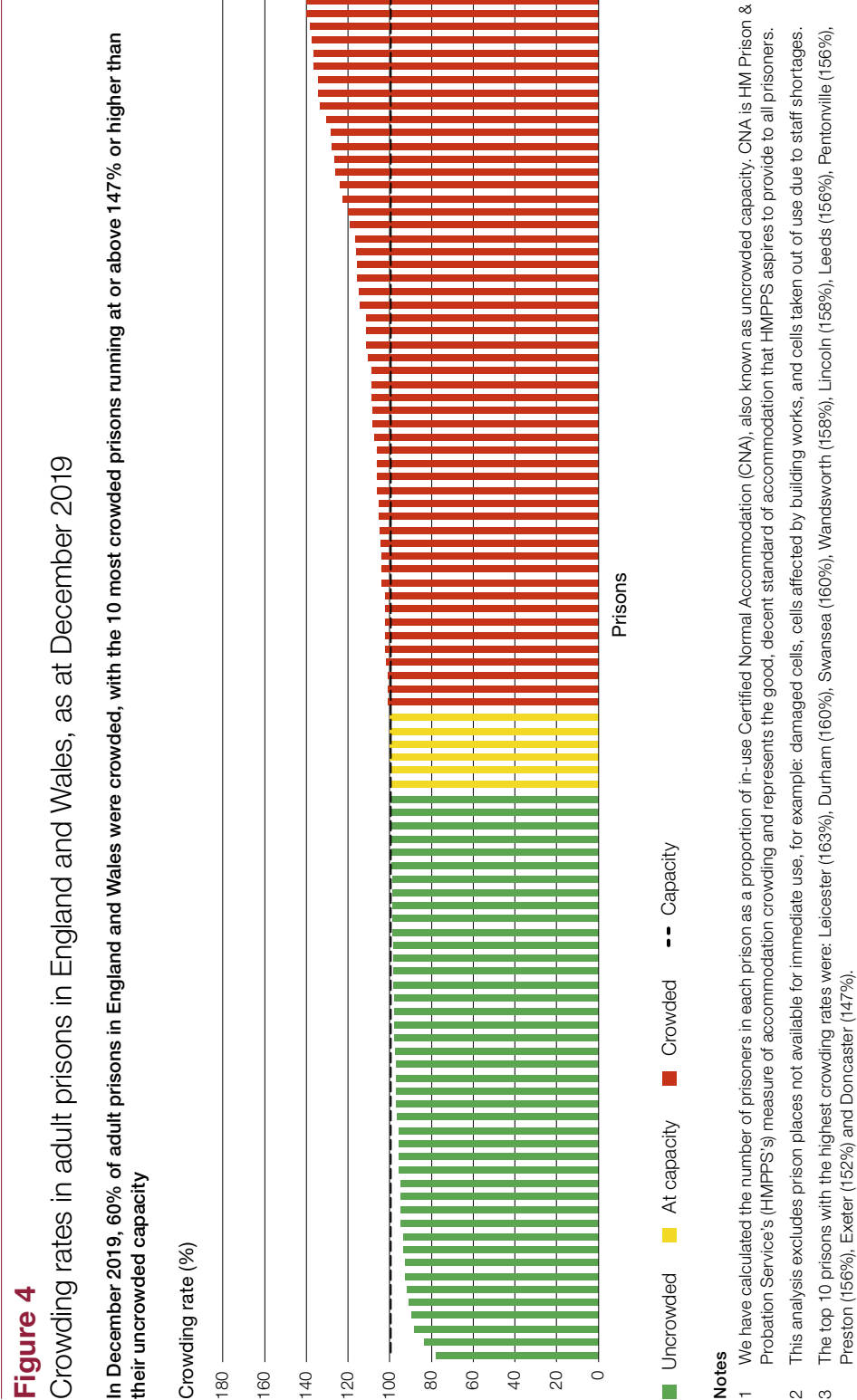
1.12 Managing population pressure is made more challenging by the deteriorating condition of the estate. Between 2009-10 and 2019-20, HMPPS took 1,730 cells permanently out of use for failing to meet its legislative and prison standards for space, light, heating and ventilation as well as statutory obligations for health, safety and fire prevention.¹¹ The rate of losses has increased in recent years, with HMPPS taking 939 cells out of use since 2017-18 (54%). It expects to lose a further 500 places annually owing to the scale of disrepair, based on recent trends.

⁸ Prison capacity can be measured in two ways: **uncrowded capacity** is the number of prisoners a prison can hold while providing a good, decent standard of accommodation. This is known as Certified Normal Accommodation. Prisons holding more prisoners than this threshold are crowded. **Operational capacity** is the total number of prisoners that a prison can hold without risk to control, security and the proper operation of the planned regime.

⁹ Its analysis compared demand and capacity data from November 2018, based on new prison functions under its Reconfiguration Project (Appendix Three).

¹⁰ The Ministry updated its analysis in December 2019 but it was not ready for inclusion in this report (see Appendix Two).

¹¹ In addition, the Ministry announced in October 2019 that it would be taking a 206-place category D unit at HMP Hewell out of use, with prisoners leaving by March 2020.



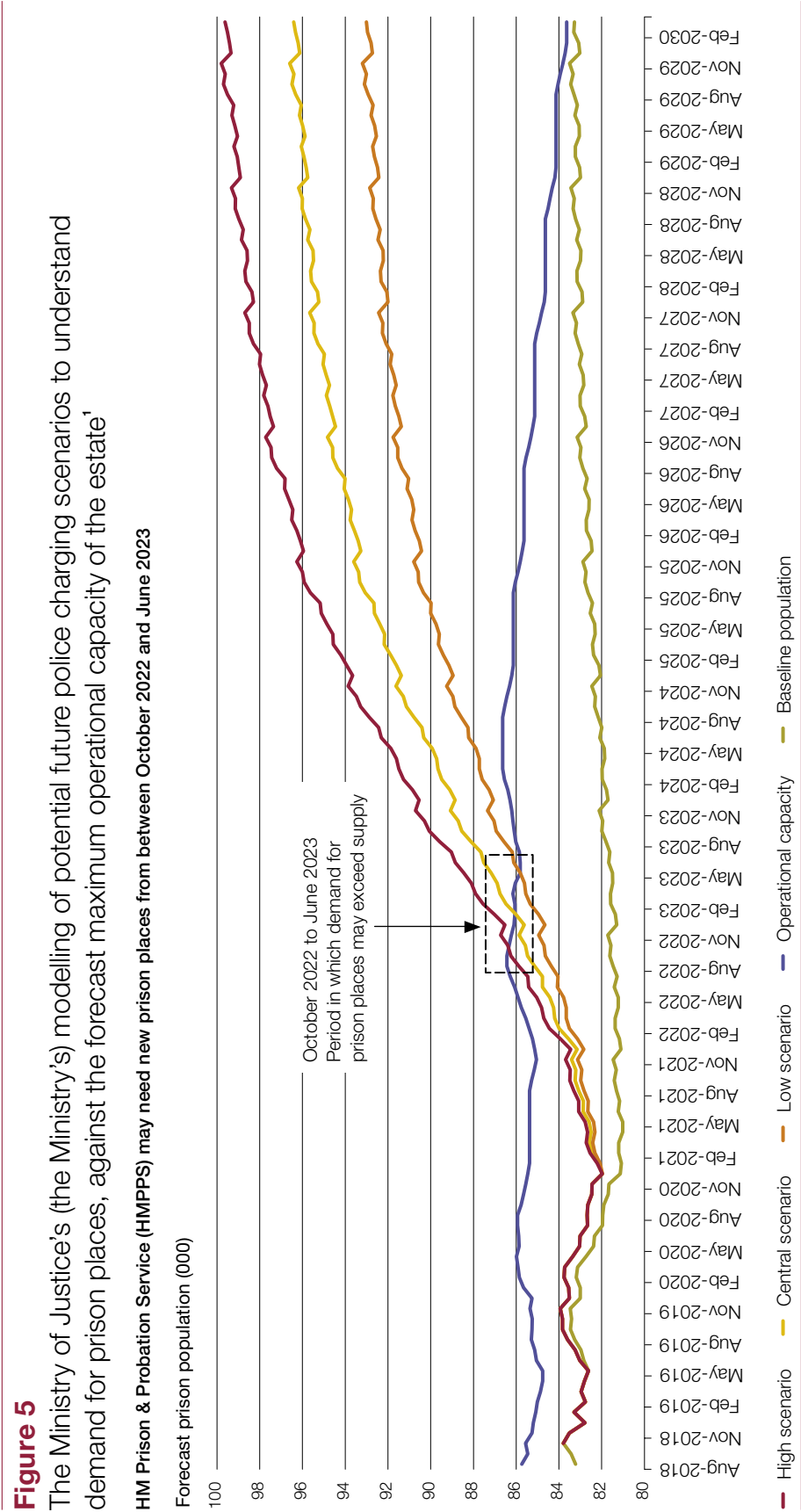


Figure 5 continued

The Ministry of Justice's (the Ministry's) modelling of potential future police charging scenarios to understand demand for prison places, against the forecast maximum operational capacity of the estate¹

Notes

- 1 HMPPS's forecast maximum operational capacity assumptions include accommodation coming out of use for planned maintenance projects, its assumptions around the onboarding of new prisons, prison constructions approved by HM Treasury and projected losses of 500 places per year due to deterioration in the estate. It does not reflect new places from the government's recent commitment to create an additional 10,000 prison places.
- 2 HMPPS's forecast maximum operational capacity does not include its operational 'buffer' comprising 1,500 places reserved to absorb short-term increases in the prison population and facilitate maintenance work.
- 3 This figure represents the results of the Ministry's analysis carried out on behalf of HMPPS in September 2019 to inform operational planning. We did not audit the Ministry's analysis.
- 4 The Ministry's model assumes that police recruitment commenced in September 2019 and that new officers would be recruited in annual cohorts over three years: 30% in the first year; 40% in the second year; and 30% in the third year.
- 5 HMPPS's population baseline is what it would expect to occur without the recruitment of an additional 20,000 police officers. This forecast assumes a 50% probability that the prison population will be higher than this level.
- 6 HMPPS modelled a range of scenarios. These assume low, central and high rates of police charges and with the existing mix of criminal offences brought to charge.

Source: National Audit Office analysis of Ministry of Justice and HM Prison & Probation Service data

1.13 As at April 2019, HMPPS had around 63,200 outstanding maintenance jobs. The nature of its jobs varies by local circumstances, but examples include repairs and replacements for: electrical, water, sewerage and heating systems; fire safety controls and equipment; cell windows and furniture; and kitchen equipment. On top of this, HMPPS estimates that it will cost £916 million to address its backlog of major capital works. HMPPS spent £53 million on maintenance in 2016-17, £68 million in 2017-18 and £113 million in 2018-19. Over the same period, it had a net underspend of £24 million against its capital maintenance budgets as it had to postpone major maintenance work due to population pressures and to manage its wider financial position. The government committed £150 million in additional maintenance funding for 2019-20.

1.14 HMPPS lacks detailed information on the condition of its estate and its assets. However, it commissioned external forecasting and survey work to understand its potential long-term financial exposure for both replacing prisons and major assets, and ongoing maintenance costs. As at January 2019, it estimates that its public sector estate needs annual average investment over the short, medium and long-term of:

- £337 million over the next five years (£1.7 billion);
- £375 million over the next 10 years (£3.8 billion); or
- £450 million over the next 25 years (£11.3 billion), of which 57% (£256 million) relates to replacing prisons and other major assets, with 43% (£194 million) relating to maintenance costs.¹²

1.15 The analysis found that 41% of the prison estate (49 prisons) was below acceptable standards and needs major repair or replacement in the next three years to remain operational, with 2% (two prisons) running the serious risk of ‘imminent breakdown’. Common issues include the state of assets such as roofs, windows, heating systems and sanitary spaces for prisoners. However, its estimates excluded the costs associated with inflation, decanting prisoners to alternative accommodation during major works, future vandalism and works on sites hosting unique or large-scale civil engineering infrastructure.

Developing a strategy for the prison estate

1.16 Given the scale of the challenge, it is vital that HMPPS has a coherent long-term strategy to bring together how it intends to address these challenges and balance the need to maintain existing prisons against plans to construct new ones. In December 2018, HMPPS began to develop a long-term strategy for the prison estate, but this is not yet approved.

1.17 In the absence of an approved long-term strategy, HMPPS has focused on the immediate needs of the prison estate, investing its resources on addressing prison population pressures and deteriorating prison conditions. HMPPS sought to address some of these issues by changing the way it manages its estate by contracting-out maintenance (Part Two) and launching the Prison Estate Transformation Programme in 2016 to create new-for-old prison places (Part Three). The rest of this report examines the impact of these changes.

¹² These estimates are in 2018-19 prices. The increase in average costs over the longer term is due to a growing proportion of the estate requiring renewal over time.

Part Two

Maintaining the prison estate

Delivering facilities management services

2.1 HM Prison & Probation Service (HMPPS) outsourced facilities management services in public sector prisons in 2015. Prior to that, it delivered facilities management services itself through local prison works departments, drawing on around 450 contracts to procure specialist services.

2.2 HMPPS's decision to outsource facilities management was driven by the need to make savings and meet spending reduction commitments made by the Ministry of Justice (the Ministry). In 2014, HMPPS explored potential savings from re-tendering and rationalising the existing contracts, which it considered were costly and inefficient to maintain. It estimated that maintaining the existing service would have cost £553 million between 2014-15 to 2020-21. HMPPS considered four options and chose to offer the services to the outsourcing market based on projected savings of £79 million.

2.3 HMPPS told bidders that it expected to reduce costs by 15%–20% through competition. In 2015 it awarded four regional lots across England and Wales to Amey and Carillion. Following Carillion's collapse in January 2018, the Ministry established Gov Facility Services Limited (GFSL), a not-for-profit government company, to assume responsibility for its work.

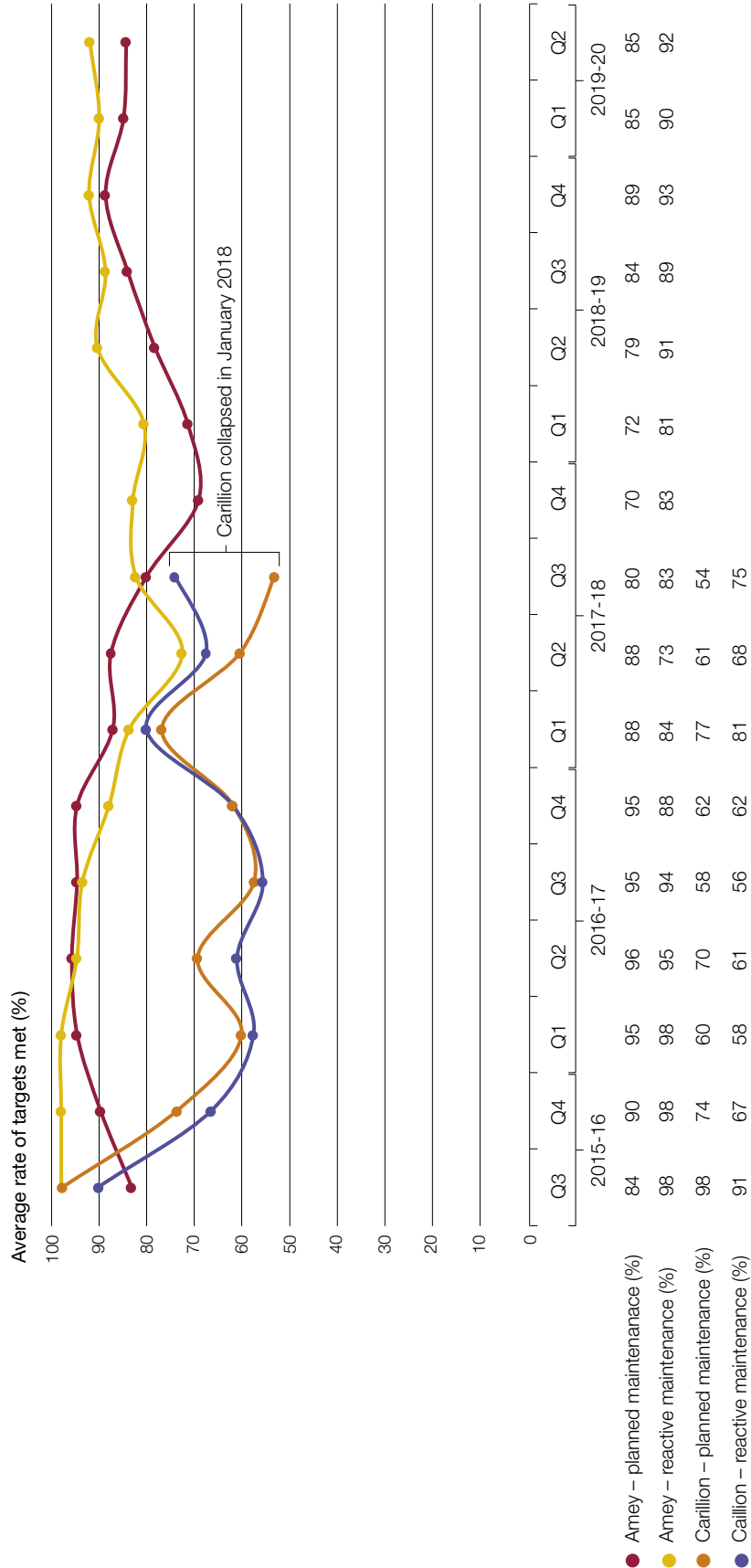
Performance against contract

2.4 HMPPS measures Amey's (and prior to its collapse, Carillion's) performance against 16 indicators. For those indicators which have the biggest impact on prison conditions – the completion of high-priority planned and reactive maintenance jobs – they did not meet their targets (**Figure 6** overleaf):

- by mid-2019-20, Amey achieved 85% and 92% of its prison-level targets for planned and reactive maintenance jobs respectively, which followed sustained falls in performance between late 2016-17 and early 2018-19 before a period of improvement; and
- prior to its collapse, Carillion achieved 54% and 75% of its prison-level targets, with significant variations in performance since it started delivering services.

Figure 6
Amey and Carillion's average performance in achieving targets for high-priority planned¹ and reactive² maintenance jobs, quarter three 2015-16 to quarter two 2019-20

Carillion's performance was poor and highly variable while Amey's performance has been stronger



Notes

- 1 High-priority planned maintenance jobs are those which relate to HM Prison & Probation Service's (HMPPS's) statutory and legislative obligations, and mandatory requirements for the operation of prisons.
- 2 Reactive maintenance jobs are those which are unforeseen, such as carrying out a job in response to vandalism.
- 3 Providers are expected to achieve 100% of their targets for high-priority planned maintenance jobs and 90% of their targets for reactive maintenance jobs. We have measured providers' performance against these targets across individual prisons and derived average quarterly performance rates.
- 4 HMPPS started measuring providers' performance from December 2015. Therefore, quarter three 2015-16 data are based on December 2015 only.
- 5 For Amey, quarter two 2019-20 data are based on performance in July and August only.

Source: National Audit Office analysis of HM Prison & Probation Service performance data

2.5 GFSL focused on establishing its operations and transferring staff, ensuring continuity of service delivery and addressing shortcomings inherited from Carillion. Specifically, it has worked to address inherited maintenance backlogs and, working with HMPPS, assuring the compliance of prison assets. By mid-2019-20, GFSL had sustained improvements in its achievement of targets for planned maintenance (from 82% in early 2018-19 to 89% in mid-2019-20).¹³ Its performance in meeting targets for reactive maintenance has declined since it assumed responsibility for services in 2018-19 (from 85% in early 2018-19 to 74% in mid-2019-20).¹⁴ It attributes this decline to higher demand for reactive maintenance.

Shortcomings in the contracts

2.6 HMPPS's approach to contracting contained mistakes common in first-generation outsourcing. It had:

- inaccurate and incomplete data to inform assumptions around the volume of assets and required work;
- insufficiently robust due diligence on levels of vandalism leading to an underestimate of maintenance volumes;
- weak processes for assuring compliance against requirements; and
- inefficient operational processes.

Inaccurate and incomplete data

2.7 HMPPS did not have a clear picture of its assets and service levels before it awarded contracts. It relied on service information recorded in its facilities management ICT system to inform its assumptions about likely volumes of work and expected providers to verify assets in the first year of the contract, but we were unable to review these arrangements.¹⁵ HMPPS identified in 2016-17 that the subsequent identification of high volumes of additional assets meant that providers had set their prices too low.

2.8 HMPPS launched an asset survey to:

- produce accurate asset registers across prisons, including the volumes of assets and their condition;
- inform ongoing maintenance liabilities, investment planning and future commercial decisions;
- test assets' compliance against legislative standards; and
- enable the comparison of assets' performance and costs.

¹³ In 2018-19, HMPPS measured GFSL's performance against higher- and lower-priority planned maintenance in a combined measure. From quarter one 2019-20, it measured GFSL's performance for higher-priority planned maintenance in a single measure.

¹⁴ HMPPS measures GFSL's performance on a different basis to its measurement of Amey's (and prior to its collapse, Carillion's) performance. HMPPS measures GFSL's performance against individual maintenance jobs, while it measures Amey's relative performance between prisons.

¹⁵ Due to turnover in staff since HMPPS awarded the contracts and the limited availability of documents, we did not evaluate HMPPS's or its providers' management of the early mobilisation or transition phases of the contracts. This includes providers' handling of the asset verification exercise stipulated under the contracts.

2.9 HMPPS expected to start the survey in January 2019 but faced challenges in finding providers to do the work. It started a pilot survey in two prisons using its own staff in April 2019 and plans to complete the programme by August 2020 at an estimated cost of £4 million. It expects to identify significantly more assets than are currently recorded, which will increase demand for planned and reactive maintenance.

Lack of due diligence

2.10 HMPPS significantly underestimated demand for reactive maintenance. Both HMPPS and its providers failed to perform sufficient due diligence to estimate future financial exposure. For example, vandalism is a routine feature of the prison environment and we reported in 2008 that the prison service lacked reliable information to identify the overall amount and cost of maintenance resulting from vandalism and disturbances by prisoners.¹⁶ In 2015, before awarding the contracts, HMPPS still did not have local or central records of the incidence of vandalism or its consequential costs. An internal review of one of HMPPS's contract areas found that responding to vandalism corresponded to an annual £2.4 million overspend by HMPPS.

2.11 HMPPS estimated that 5% of its contract costs, excluding contract management, would be for variable costs to cover reactive maintenance jobs over the value of £750.¹⁷ It expected to pay providers £17.7 million for variable costs by 2018-19 – the fourth year of the contracts – but has paid £160.4 million, a difference of £142.6 million (**Figure 7** on pages 27 and 28). We estimate that HMPPS could pay £179.6 million more than expected for variable costs over the life of the contract, although this will depend on the extent of further dilapidation, failing assets and vandalism.

Weak compliance against requirements

2.12 Although HMPPS's contracts required Carillion and Amey to provide evidence of compliance against mandatory and statutory requirements, there were limitations with the existing systems in place to provide assurance. Working with Amey and GFSL, HMPPS developed a set of 52 standards to establish its expectations for recording compliance. In November 2019, it completed its audits across prisons against these standards ('level-one' audits) alongside focused audits against areas of significant concern, including high voltage systems, asbestos, emergency lighting, water hygiene, fire alarms and fire protection equipment ('level-two' audits).

16 Comptroller and Auditor General, *Maintenance of the prison estate in England and Wales*, Session 2008-09, HC 200, National Audit Office, May 2009, p. 19.

17 Any reactive maintenance jobs below this value are treated as fixed costs in Amey and Carillion's contract because HMPPS allowed its providers to self-approve jobs below this limit. GFSL can self-approve reactive maintenance jobs under the value of £2,000.

Figure 7

HM Prison & Probation Service's (HMPPS's) cumulative forecast costs of facilities management outsourcing at business case stage (September 2014), actual costs (2015-16 to 2018-19) and estimated costs (2019-20 and 2020-21), by cost type¹ in real terms (in 2018-19 prices)²

HMPPS expected variable costs to be £17.7 million by 2018-19 at business case stage, but by 2018-19, variable costs were £160.4 million, a difference of £142.6 million

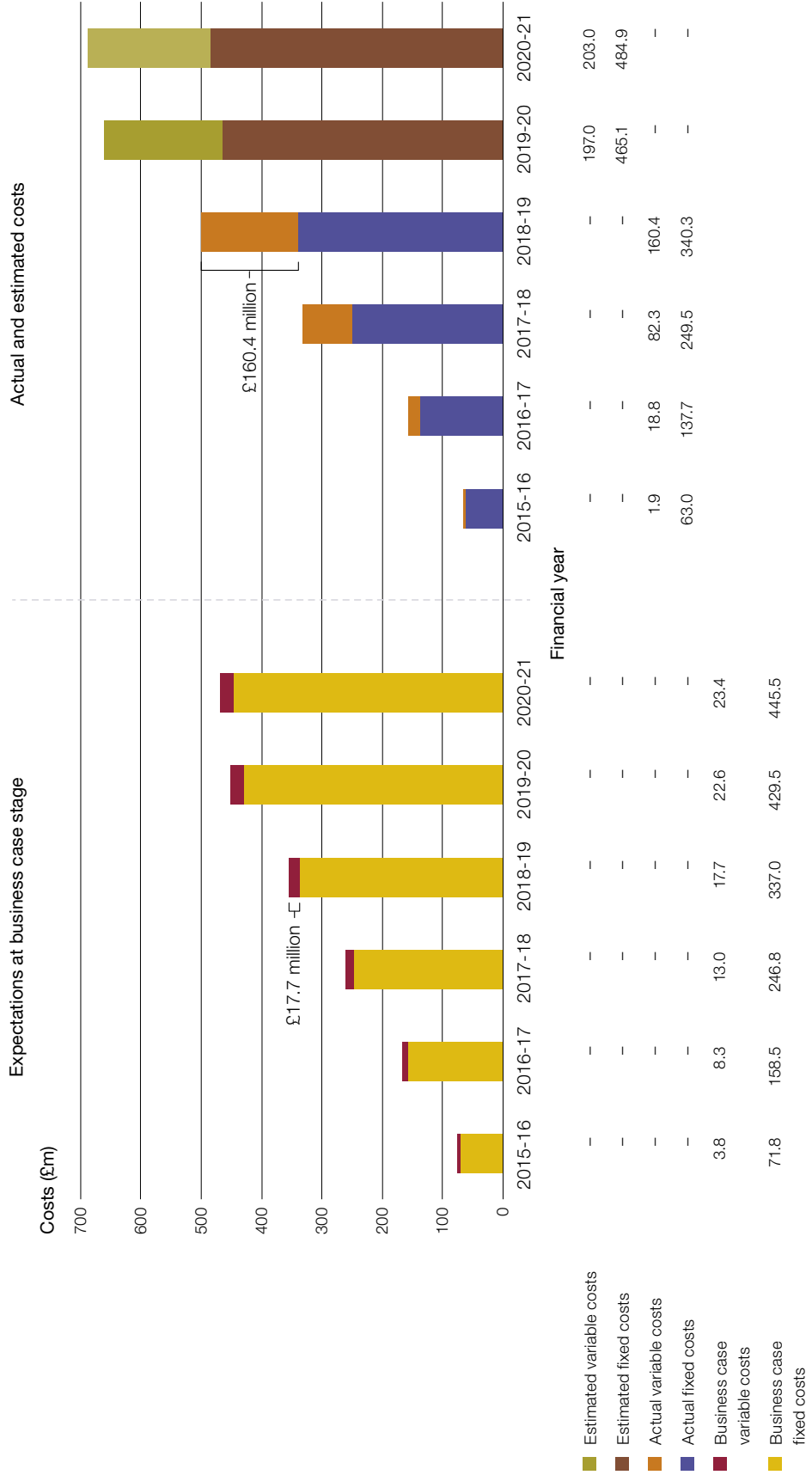


Figure 7 *continued*

HM Prison & Probation Service's (HMPPS's) cumulative forecast costs of facilities management outsourcing at business case stage (September 2014), actual costs (2015-16 to 2018-19) and estimated costs (2019-20 and 2020-21), by cost type¹ in real terms (in 2018-19 prices)²

Notes

- 1 Fixed costs cover providers' planned maintenance and pre-approved reactive maintenance jobs (excluding those relating to vandalism) under the value of £750 for Amey and Carillion, and under £2,000 for Gov Facility Services Limited (GFSL). These are HMPPS's delegated approval thresholds. Variable costs cover vandalism and other ad hoc or unforeseen maintenance jobs.
- 2 Actual costs are in real terms, inflated to 2018-19 prices, using the Office for National Statistics Quarterly National Accounts Gross Domestic Product (GDP) deflators at market prices, September 2019. Estimated costs are in real terms deflated to 2018-19 prices, using the Office for Budget Responsibility's GDP deflator forecasts, March 2019.
- 3 Our analysis excludes: payments to reimburse Amey and Carillion for contract mobilisation costs due to data availability; contract management costs; and accruals for services received by HMPPS but not billed at the point the data were provided.
- 4 For estimated payments to Amey in 2019-20, we produced an annualised estimate based on fixed cost payments made in April 2019 (comprising payments on account and management fees) and indexation and contract regularisation payments made in 2019-20. For variable costs, we produced an annualised estimate based on variable payments covering the period April to July 2019. The final costs will vary depending on the volume of variable maintenance jobs raised. For estimated payments to Amey in 2020-21, we divided estimated payments in 2019-20 by six, covering estimated payments in April and May 2021.
- 5 For estimated payments to GFSL, we used its budget settlement figure of £73 million to cover fixed costs and HMPPS's provisional budget for variable costs of £18 million. As with Amey, final costs will vary depending on the volume of maintenance jobs raised. For estimated payments to GFSL in 2020-21, we extrapolated costs from its 2019-20 budget settlement. The Ministry of Justice has not yet agreed GFSL's 2020-21 budget.

Source: National Audit Office analysis of HM Prison & Probation Service and Ministry of Justice documents and data

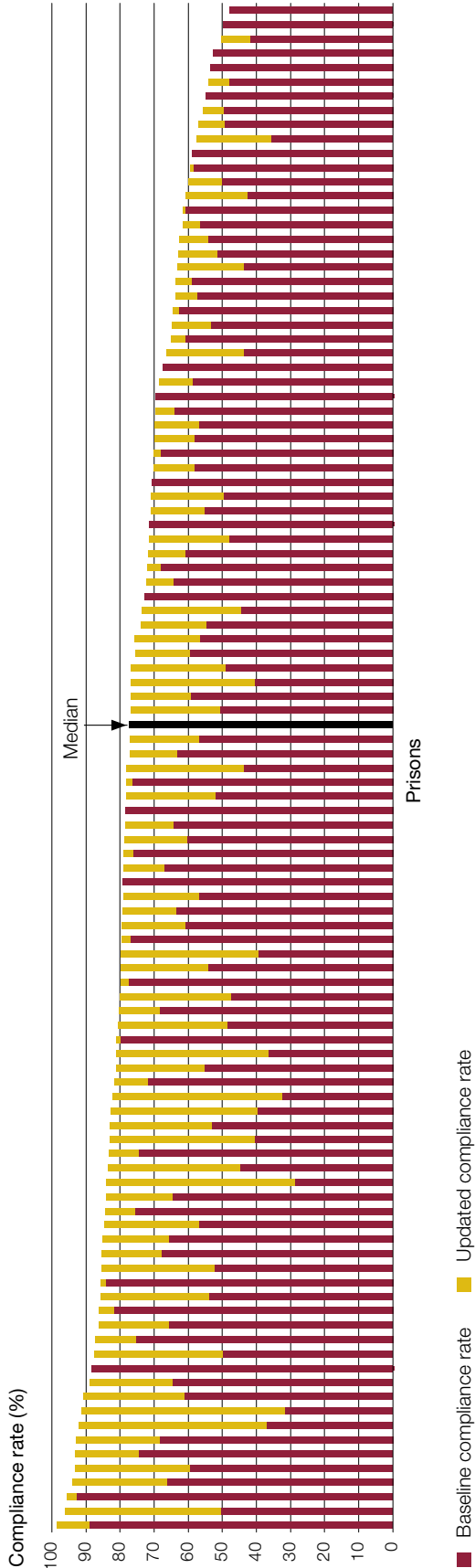
2.13 HMPPS's audits have confirmed poor and variable record-keeping to provide assurance on compliance, although its activity has prompted improvements. Its audits established initial positions. After these audits, providers respond to action plans and submit further evidence, which HMPPS then validates, to evidence improved positions. Rates of recorded compliance vary considerably, from 48% to 98% (**Figure 8**). Its 'level-two' audit compliance rates were higher, although HMPPS cannot yet demonstrate full compliance against the areas of significant concern. The lowest compliance rates related to asbestos (78%) and the highest related to water hygiene (91%).

Inefficient operational processes

2.14 HMPPS's operational arrangements and ICT, in particular its main facilities management system, place pressure on facilities staff. Staff we spoke to described being unable to find the information they needed and used the system inconsistently because of a lack of standardisation in data entry and poor functionality. Paper-based processes are still used and management information is unreliable. Local estates managers in prisons and maintenance staff told us that the system is outdated, slow and creates administrative burdens. HMPPS is working to improve the system and users' engagement with it.

Figure 8 Prisons’ initial and improved recorded compliance rates against mandatory and statutory compliance standards,¹ as at December 2019

HM Prison & Probation Service’s (HMPPS’s) compliance audits are prompting improvements in prisons’ recorded compliance, from a low base



- Notes**
- 1 Mandatory compliance relates to HM Prison & Probation Service’s (HMPPS) standards for prisons, while statutory compliance relates to standards set out in legislation.
 - 2 HMPPS carried out its audits between September 2018 and November 2019. This analysis presents a snapshot of current recorded compliance, valid at December 2019.
 - 3 HMPPS assesses compliance against 52 standards.
 - 4 Initial compliance rates are the results of HMPPS’s on-site audits. Improved compliance rates are the outcome of facilities management providers’ responses to its action plans, which are verified by local HMPPS staff.

Source: National Audit Office analysis of HM Prison & Probation Service compliance data

Part Three

Transforming the prison estate

3.1 HM Prison & Probation Service (HMPPS) launched the Prison Estate Transformation Programme (the programme) in 2016 to address concerns about crowded and unsafe prison conditions. It also sought to tackle the surplus of prison places serving local courts and the shortfall of places to support prisoners' rehabilitation (paragraph 1.10). The programme was to be part-funded by closing and disposing of old prisons and aimed to make annual savings of £80 million from operational efficiencies.¹⁸ The original objectives were to:

- improve prison conditions, reduce crowding and align capacity to demand; and
- reconfigure the HMPPS estate and improve technology in reception prisons (**Figure 9**).

3.2 The programme ran for almost three years before it was superseded in August 2019 by a government announcement committing to build a further 10,000 prison places, in addition to those expected to be built under the programme. Projects that were already approved – the construction of a prison in Wellingborough and HMP Glen Parva – will continue. However, another ongoing project, HMP Full Sutton, will contribute towards delivering the 10,000 further prison places. HMPPS is committed to continuing work on reconfiguring its estate.

Progress

3.3 HMPPS did not deliver its original programme objectives:

- **Aligning prison capacity to meet demand and improve prison conditions**

It expects the programme to deliver fewer new prison places and later than planned. It now plans to create a total of 3,566 new places by 2023-24 from building two new prisons and a residential block, against an original target of 10,000 new-for-old prison places by 2020. As at January 2020, HMPPS has built 206 places with a further 3,360 under construction (see Appendix Three for an overview of plans for new prison places, 2015 to 2025). HMPPS had identified 20 possible closures, almost 20% of the public sector prison estate. However, it only sold one prison, HMP Holloway, between 2016-17 and 2018-19.

¹⁸ This calculation includes HMP Berwyn. HM Treasury also approved for part of the £1.3 billion ringfenced budget to be used to complete construction of HMP Berwyn. HMP Berwyn was completed as a separate project. It was not part of the programme.

- **Reconfiguring the estate**

Its Reconfiguration Project is more than two years behind schedule and not expected to complete before February 2023. As at November 2019, HMPPS had changed the function of two prisons with a combined operational capacity of 2,208 (6% of its 37,000 target). In addition, it installed video conference centres (VCCs) in seven of its 17 priority prisons but had originally identified 22 prisons that needed this technology. It scaled back plans when the programme board reduced the project's budget by 20% in 2016 (from £79 million to £59 million) to bring the overall programme costs within budget (see Appendix Three for an overview of the Reconfiguration Project).

Figure 9

HM Prison & Probation Service's (HMPPS's) original objectives for the Prison Estate Transformation Programme (the programme)

Objectives	Activities to deliver objectives
Improve prison conditions, reduce crowding and align capacity to meet demand	<p>Create 10,000 new prison places by 2020, while disposing of old places not fit-for-purpose by:</p> <ul style="list-style-type: none"> ● building five new prisons by 2019-20; ● building four new prisons by 2020-21; ● building two residential blocks in 2017-18; and ● selling unsuitable prisons.
Reconfigure 37,000 places in the prison estate and improve technology in reception prisons	<p>It aimed to do this by:</p> <ul style="list-style-type: none"> ● reducing the number of prison places serving local courts; ● increasing the number of places to support prisoners' rehabilitation; and ● introducing video conference centres (VCCs) to reduce: the time and cost of taking prisoners to court, the risk of escape, and prisoners' time away from work and training opportunities.

Note

- 1 HMPPS removed plans to build new places for female prisoners, as its Female Offender Strategy, launched in June 2018, superseded the programme's plans. This strategy aims to reduce demand for female prison places by emphasising earlier intervention and community-based rehabilitation, so there are fewer women in the criminal justice system and serving custodial sentences.

Source: National Audit Office analysis of HM Prison & Probation Service documents

3.4 HMPPS has, however, delivered some parts of the programme successfully although it is too early to assess their impact. For example:

- HMPPS expects the prison in Wellingborough and HMP Glen Parva to be privately operated. In November 2018 HMPPS started a competition for a framework of private prison operators and awarded the framework to six providers in June 2019; and
- HMPPS has also developed toolkits to support prisons with reconfiguration.

Reasons for underperformance

3.5 There are three principal causes of the programme's failure:

- delayed and uncertain funding;
- prison population and capacity pressure; and
- an over-ambitious scope.

Delayed and uncertain funding

3.6 HM Treasury approved a ringfenced funding envelope of £1.3 billion for the programme in the 2015 Spending Review (SR). Of this, £321 million was to come from selling old prisons and the remainder from public capital funding.¹⁹ To access this funding, HMPPS needed to submit business cases for HM Treasury's approval and close prisons as expected. But delays in the approval of the business case due to challenges with the Ministry of Justice's (the Ministry's) wider budgets, a reduction in available public capital funding for the programme, and uncertainty around alternative financing, meant HMPPS could not advance the programme as intended.

3.7 HMPPS originally intended to build all new prisons using public capital funding, in line with the 2015 SR Settlement. But between 2016 and 2018, HMPPS had to change its funding proposals four times, submitting four business cases. HM Treasury did not approve HMPPS's first business case because it considered the programme unaffordable within the Ministry's wider budget (**Figure 10**).

3.8 In parallel with discussions with HM Treasury about programme funding, the Ministry was discussing ways to address wider financial pressure in its budget arising from shortfalls in probate fees and increased demand for legal aid. These created a substantial gap between forecast costs and available funding. The Ministry and HM Treasury agreed, through the supplementary estimate process, to transfer funds initially allocated for capital investment to its resource budget to help address the pressures. In March 2018, HM Treasury approved transfer of £235 million capital funding to the Ministry's resource budgets for 2017-18. In the Autumn 2016 statement, £160 million was moved from capital to resource covering 2018-19. A further £150 million was transferred in 2018-19.

19 HM Treasury also approved for part of the £1.3 billion budget to be used to complete construction of HMP Berwyn. HMP Berwyn was completed as a separate project. It was not part of the programme.

Figure 10**Summary of business cases on the Prison Estate Transformation Programme (the programme)**

The programme team revised its funding model for new prison constructions four times between October 2016 and December 2018

Business case submitted to HM Treasury	Business case approved by HM Treasury	Main focus of business case	Proposed funding model for new prisons	Net present value (NPV)
Outline business case (OBC) submitted in October 2016	Not approved	Seeking approval to: deliver preferred option from the 2015 Spending Review (SR) Settlement, including six publicly funded new prisons; spend £63 million capital funding and £7 million resource funding; and review capital funding from the SR Settlement.	Six prisons from public capital funding.	NPV for the programme: £1,202 million over a 60-year period, compared to 'Do Nothing'. ^{1,2}
Refreshed OBC (ROBC) submitted in November 2017	Approved in December 2017 (13 months between submitting the OBC and approval of the ROBC)	Seeking approval to: spend £52 million capital and £10 million resource to deliver activities on the programme until summer 2018, such as early work on new prison sites and the Reconfiguration Project.	Four privately financed prisons and two from public capital funding.	NPV for the programme: £597 million over a 60-year period, compared to 'Do Nothing'. ^{1,2}
Programme business case 1 submitted in August 2018	Approved in September 2018	Seeking approval to: proceed with a revised funding model for new prison constructions; build a prison in Wellingborough from public capital; finalise HMP Glen Parva plans; complete the Reconfiguration Project by 2021; and complete HMP Stocken houseblock.	Five privately financed prisons and one from public capital funding.	NPV for the programme: offered better value for money against the counterfactual ³ of £560 million over a 60-year period. ¹
Programme business case 2 submitted in December 2018	Approved in March 2019	Seeking approval to: build HMP Glen Parva from public capital.	One additional prison from public capital funding.	NPV for Glen Parva: HM Prison & Probation Service (HMPPS) expected HMP Glen Parva to be better value for money compared to the counterfactual ⁴ option by £10 million over 60 years ⁵

Notes

- Costs and benefits are calculated in nominal prices over 60 years, then deflated to the current day prices and then discounted. These are then summed to calculate the NPV.
- HMPPS included the benefits associated with opening HMP Berwyn in its estimates. We have excluded these figures because its construction of HMP Berwyn was not part of the programme and HMPPS incurred the capital costs of the construction in previous years.
- HMPPS's counterfactual aimed to provide an illustrative view of the costs of the action it would need to take in the absence of the programme to meet its minimum capacity requirements. This included spending on repairing prison cells which were out of use and building houseblocks to increase capacity. The NPV of its counterfactual was -£2,050 million in real terms (2018-19 prices).
- HMPPS's counterfactual aimed to provide an illustrative view of the costs of the action it would need to take if it did not build a new prison at HMP Glen Parva. This included spending on repairing prison cells which were out of use and building houseblocks to increase capacity. The NPS of its counterfactual was -£1,210 million in real terms (2018-19 prices).
- The 60-year NPV represents the benefits and costs of the proposed funding model for building HMP Glen Parva, calculated in nominal prices over 60 years, then discounted to the present day. It is presented in 2018-19 prices.

Source: National Audit Office analysis of HMPPS's business cases

3.9 Although HMPPS developed both private and public capital financing options early in the programme, it had to proceed with private finance when public funding for the programme was reduced. In November 2016, HM Treasury had asked HMPPS to revisit private finance. This would be more affordable in the short term because the cost of private finance would be spread over a longer period. HMPPS provided an appraisal in February 2017, which showed using private financing was possible, but higher risk, and offered lower value for money. HMPPS:

- estimated the long-term savings (over 60 years) from building six prisons from public capital as £1.2 billion, compared with £560 million for building five prisons from private financing using PF2 and one from public capital (see Figure 10);
- showed that private financing had additional procurement costs and needed intensive market engagement;
- showed that switching to private financing would delay the programme; and
- highlighted the risk that the cost of construction may have to be included upfront in HMPPS's capital budgets.²⁰

3.10 Up to September 2018, HMPPS examined the feasibility of private financing, before HM Treasury withdrew the Private Finance Initiative in autumn 2018. HM Treasury is currently consulting on private finance through the Infrastructure Review and expects to publish results alongside the National Infrastructure Strategy.

3.11 For the first 13 months of the programme, HMPPS's capital spending was restricted to £30 million until HM Treasury approved a refreshed outline business case in November 2017. This approval still only permitted HMPPS to spend £52 million of public capital and £10 million of day-to-day resource funds on the programme through to summer 2018.

3.12 Ultimately, HMPPS revised the number of prisons it planned to build by 2020 from five to two, to match the reduced public capital funding for the programme. In 2018, HMPPS submitted two programme business cases (PBC1 and PBC2) to build two prisons from public capital and was granted HM Treasury approval in September 2018 and March 2019 respectively (Figure 10 and **Figure 11** on pages 36 and 37).

²⁰ Under PF2, a private finance company is set up and borrows to construct a new asset. The taxpayer then makes payments over the contract term (typically 25 to 30 years) to cover debt repayment, financing costs, maintenance and other services provided. In September 2016 new guidance was issued by Eurostat to provide clarification on the National Accounts balance sheet treatment of private finance projects, such as PF2. The guidance made it more difficult to classify these projects as off-balance sheet. If a PF2 project was not classified as off-balance sheet, then the cost of construction would have to be included upfront in HMPPS's capital budgets. For further details see Comptroller and Auditor General, *PFI and PF2*, Session 2017–2019, HC 718, National Audit Office, April 2016, para 3.16 to 3.18.

3.13 By 2018-19, HMPPS had spent only £119 million (13%) of its original planned capital spend of £928 million on the programme, which it spent on:^{21,22}

- the Reconfiguration Project (£21 million); and
- building a houseblock, starting demolition and construction of the prison in Wellingborough, and the design and demolition of HMP Glen Parva (£99 million on creating new prison places) (**Figure 12** on page 38).

Prison population and capacity pressure

3.14 Delays in building new prison places combined with an increase in the prison population above original forecasts left HMPPS unable to close and sell old prisons. HMPPS was therefore unable to secure expected receipts to fund the programme. It secured £104 million in sale receipts by 2018-19, including the proceeds from HMP Holloway, overage payments, surplus land and other property sales.^{23,24} The majority of the money (£82 million – 78% of the total) came from the sale of HMP Holloway in March 2019.

3.15 The Programme Board reversed its decision to close and redevelop two prisons – HMP Hindley and HMP Rochester – in July 2017 as the prison population increased by 1,200 more than HMPPS projected. HMPPS’s supply of places was already restricted as major disturbances in 2016 – at HMP Birmingham, HMP Lewes and HMP Bedford – cost HMPPS 928 places. During our visit to HMP Hindley, staff told us that staff recruitment and capital investment was stopped following the closure announcement, adversely impacting the running of the prison. It took the prison 12 months to return to normal staffing levels after HMPPS reversed its decision. In January 2019, HMPPS decided to pause further sales until there was sufficient headroom in the estate, but it had not identified how it would fill the funding gap.

Over-ambitious scope

3.16 HMPPS’s original programme timetable was already ambitious given the many interdependent projects within the programme and tight timeline to deliver. It initially planned to build and open five prisons by 2020, however, it had little contingency in its timetable and successful delivery was dependent on being able to procure new sites quickly and the prison population remaining stable. The Infrastructure and Projects Authority (IPA) warned against the programme’s “ambition for pace” in 2016 and advised allowing more time for the individual prison constructions. Opening just one new prison is complex, let alone multiple prisons and related projects. A new prison build requires commercial expertise to engage the market and procure design and construction partners. Post-build, the prison operator also needs a recruitment strategy to fully staff and train a workforce.²⁵

21 This is gross expenditure as it does not include receipts from sale of assets.

22 Our analysis excludes funding allocated to HMP Berwyn.

23 An overage payment is a sum in addition to the original sale price, which is linked to future events, such as buyer agreeing planning permission that increases the land value.

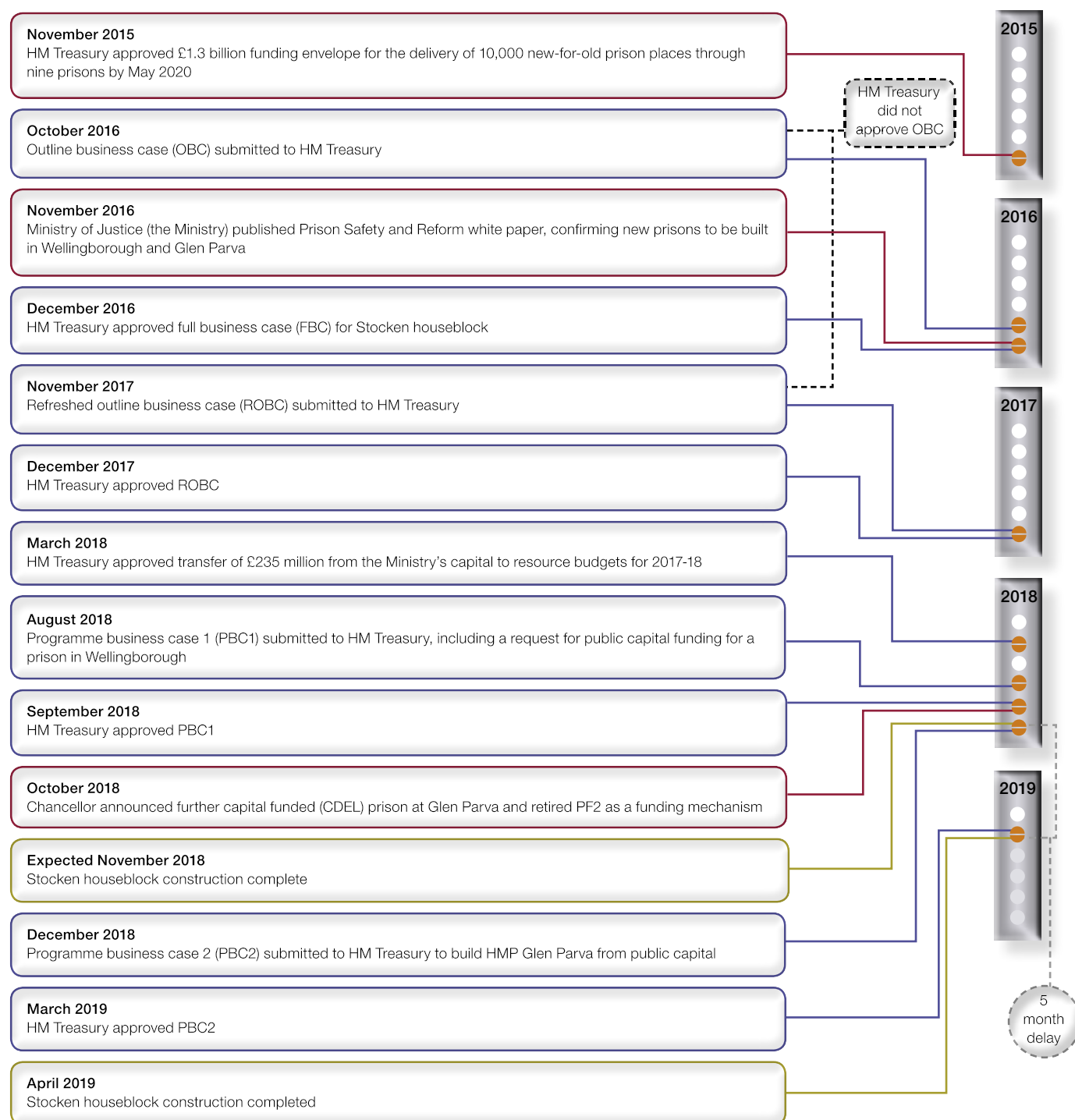
24 ‘Other property sales’ includes prison officers’ quarters and probation property.

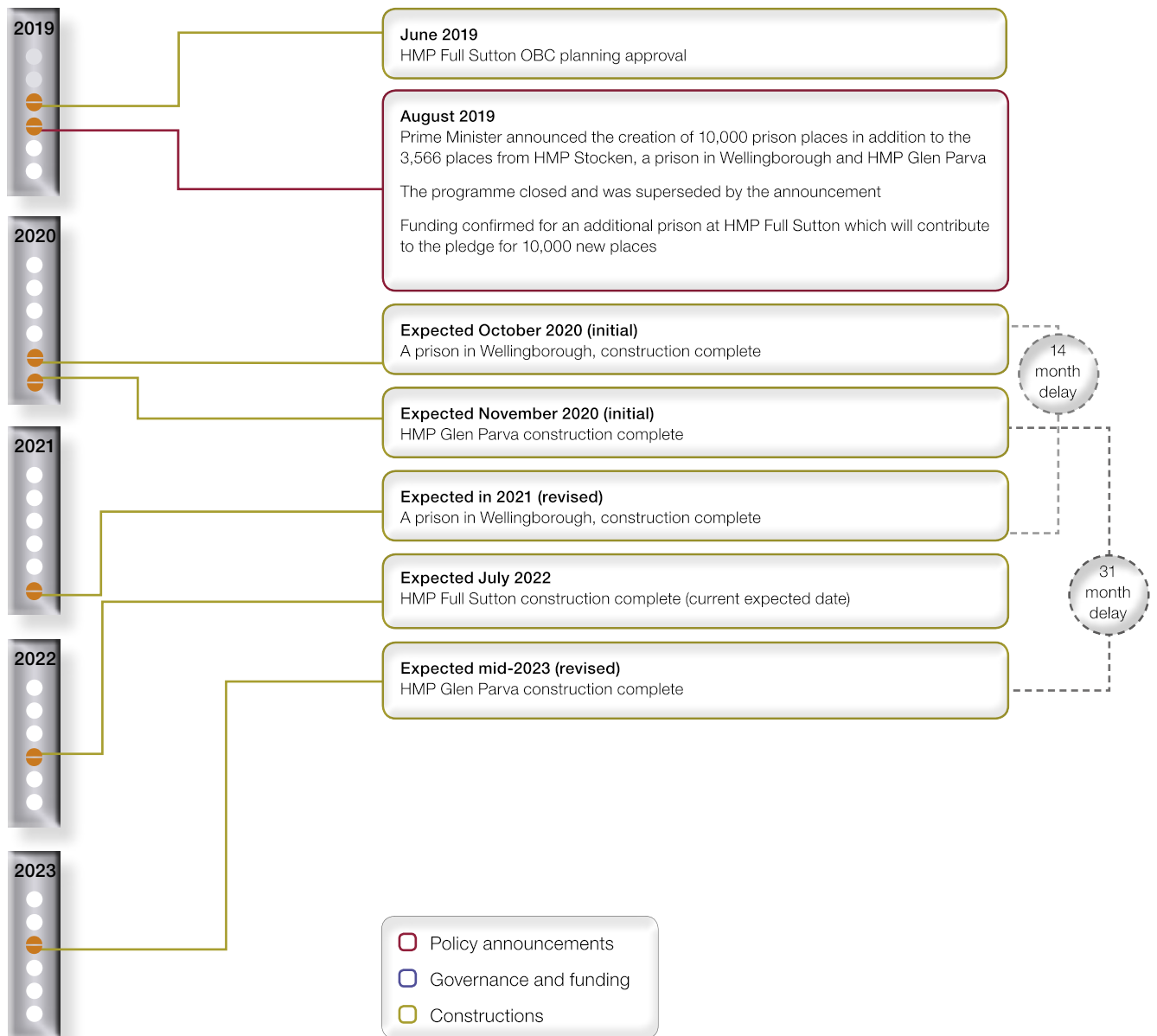
25 HMPPS decided that the prison in Wellingborough and HMP Glen Parva will be privately operated. However, HMPPS is ultimately responsible for ensuring service provision, so it retains the risk if an operator fails to resource adequately.

Figure 11

Prison Estate Transformation Programme (the programme) timeline

The programme team revised its funding model for new prison constructions four times between October 2016 and December 2018 before the programme was superseded by announcements for 10,000 new places in August 2019





Notes

- 1 HM Treasury approved part of the £1.3 billion budget to be used to complete construction of HMP Berwyn, which was completed as a separate project. It was not part of the programme.
- 2 Under private financing (PF2), a private finance company is set up and borrows to construct a new asset. The taxpayer makes payments over the contract term to cover debt repayment, financing costs, maintenance and other services provided.

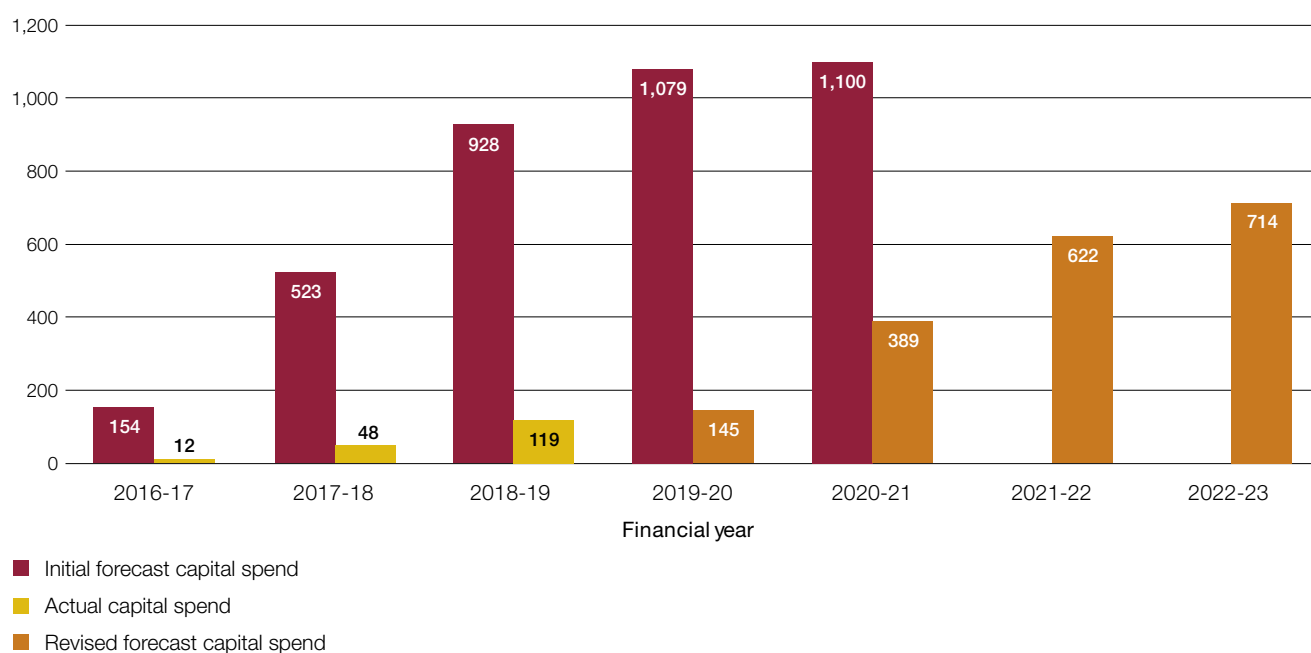
Source: National Audit Office analysis of Her Majesty's Prison and Probation Service documents

Figure 12

Cumulative forecast capital spending by the Prison Estate Transformation Programme (the programme), between 2016-17 and 2022-23, in real terms (2018-19 prices)

The programme has spent £119 million by 2018-19, against an original assumption of £928 million by 2018-19 (13%)

Capital spend (£m)

**Notes**

- 1 The initial forecast capital spend refers to the 2015 Spending Review Settlement, which is in real terms (inflated to 2018-19 prices, using the Office for National Statistics Quarterly National Accounts Gross Domestic Product (GDP) deflators at market prices, September 2019).
- 2 The revised forecast capital spend is as at August 2019, which is in real terms (deflated to 2018-19 prices, using the Office for Budget Responsibility's GDP deflator forecasts, March 2019).
- 3 Actual and forecast capital spend does not include receipts from HM Prison & Probation Service's (HMPPS's) sale of assets.
- 4 Analysis excludes funding allocated to HMP Berwyn.

Source: National Audit Office analysis of HM Prison & Probation Service data

3.17 HMPPS also underestimated the complexity of reconfiguring 37,000 prison places by 2020 while maintaining operations at a time of instability across the estate. In February 2019, in recognition of the challenges, the project team sought a two-year extension and new approach (see Appendix Three).

Planning for the future

3.18 In August 2019, the programme was superseded by the government's new commitment to create 10,000 additional prison places, in response to its announcement to recruit an additional 20,000 police officers. It has not announced the timetable for delivering the 10,000 new places, which are on top of the 3,360 new prison places under construction and the 206 places already built. The government's plans do not include prison closures. However, HMPPS is still committed to closing unsuitable accommodation if opportunities arise. It is also committed to continuing to reconfigure its estate, but it is not yet clear how the timetable and scale of the Reconfiguration Project will be affected by recent announcements.

3.19 HMPPS undertook preliminary analysis to assess the impact of the additional police officers on prisons. Its analysis suggests that the proposed 10,000 new places may not be enough to meet the anticipated higher demand (Figure 5 on page 20). Its current plans, as at September 2019, do not account for further increases in the prison population flowing from its plan to increase the minimum sentence length for the most serious offences.

3.20 HMPPS told us it had reflected on its experience from delivering the programme. For example, in response to the IPA's and its own concerns, HMPPS restructured the programme from April 2019 to make interdependent projects across its estate easier to manage.

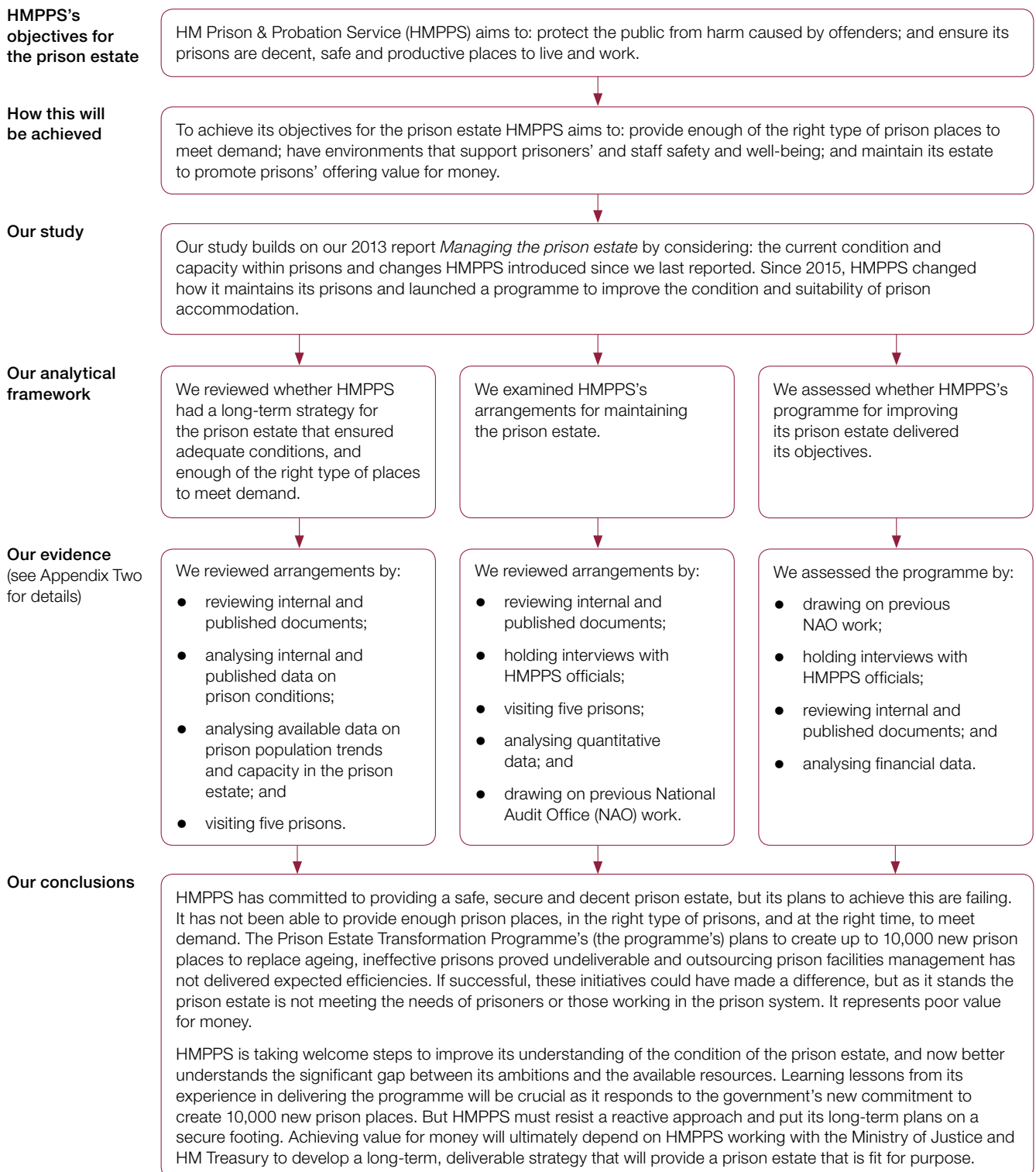
Appendix One

Our audit approach

1 This report builds on our 2013 report *Managing the prison estate*. Since 2015, HM Prison & Probation Service (HMPPS) changed how it maintains its prisons and launched a programme to improve the condition and suitability of prison accommodation. Our report reviewed:

- the condition of the estate and capacity within prisons;
- examined HMPPS's approach to maintaining its prisons; and
- assessed HMPPS's performance in delivering its transformation programme to improve prison accommodation.

2 Our audit approach is summarised in **Figure 13**. Our evidence base is described in Appendix Two.

Figure 13**Our audit approach**

Appendix Two

Our evidence base

- 1 Our independent conclusions on whether HM Prison & Probation Service's (HMPPS's) arrangements for maintaining and improving its prison estate have delivered value for money were reached following analysis of evidence collated between May 2019 and January 2020. Our audit approach is outlined in Appendix One.
- 2 We assessed whether HMPPS had a long-term strategy for the prison estate that ensured adequate conditions, and enough of the right type of places to meet demand:
 - we reviewed internal and published documents from a range of sources including from HMPPS, HM Inspectorate of Prisons (the Inspectorate), the Ministry of Justice and the House of Commons Justice Committee;
 - we analysed published data on prison conditions, trends in prison assaults and the Inspectorate's assessments;
 - we analysed trends in the prison population and the supply of prison places; and
 - we held interviews with officials at HMPPS.
- 3 We examined HMPPS's arrangements for maintaining the prison estate:
 - we analysed HMPPS's business case for outsourcing facilities management in prisons;
 - we analysed internal and external reviews of the contracts;
 - we analysed financial, operational and performance data relating to the contracts; and
 - we visited five prisons (HMP Wakefield, HMP Guys Marsh, HMPYOI Hindley, HMP Exeter and HMPYOI New Hall) and interviewed prison governors, and finance and estates staff. We also held focus groups with facilities management staff, including tradespeople and administrative staff. These visits allowed us to explore local experiences of the facilities management contracts.

4 Our audit of HMPPS's prison facilities management contracts (Part Two) focused on: its objectives and assumptions at business case stage; its understanding of its assets; and performance, costs and compliance under the contracts. Due to turnover in staff since HMPPS awarded the contracts and the limited availability of documents, we did not evaluate HMPPS's or its providers' management of the early mobilisation and transition phases of the contracts. This includes providers' handling of the asset verification exercise stipulated under the contracts (paragraph 2.7).

5 We assessed whether HMPPS's programme for improving its prison estate delivered its objectives (Part Three):

- we drew on previous National Audit Office (NAO) work on programme management;
- we held interviews with officials at HMPPS and HM Treasury;
- we analysed financial data on programme funding;
- we reviewed internal and published documents held by HMPPS on its future plans for improving the prison estate; and
- we reviewed internal and published documents held by HMPPS, the Infrastructure and Project's Authority (IPA) and HM Treasury on the programme. HM Treasury was not able to provide some of the information we requested, such as formal decisions regarding the outline business case (OBC) and the refreshed OBC.

6 We consulted with our internal experts from the programme delivery and commercial communities of practice, and our methods network.

7 As part of our work, we reviewed the Ministry's September 2019 analysis of police charging assumptions to estimate future demand for prison places against the maximum forecast operational capacity of the estate (Figure 5 on page 20). HMPPS produced more up to date population forecast data in December 2019. However, the Ministry informed us that it was still exploring the methodological basis of its new forecasts and we have therefore chosen not to include the analysis in our report.

Appendix Three

Further details on programme delivery

New prison places

1 **Figure 14** summarises HM Prison & Probation Service's (HMPPS's) plans for new prison places, 2015 to 2025.

The Reconfiguration Project

2 HMPPS's Reconfiguration Project aims to match the supply of places with the demands of the prison population, so prisoners are in places that meet their needs. It seeks to do this by:

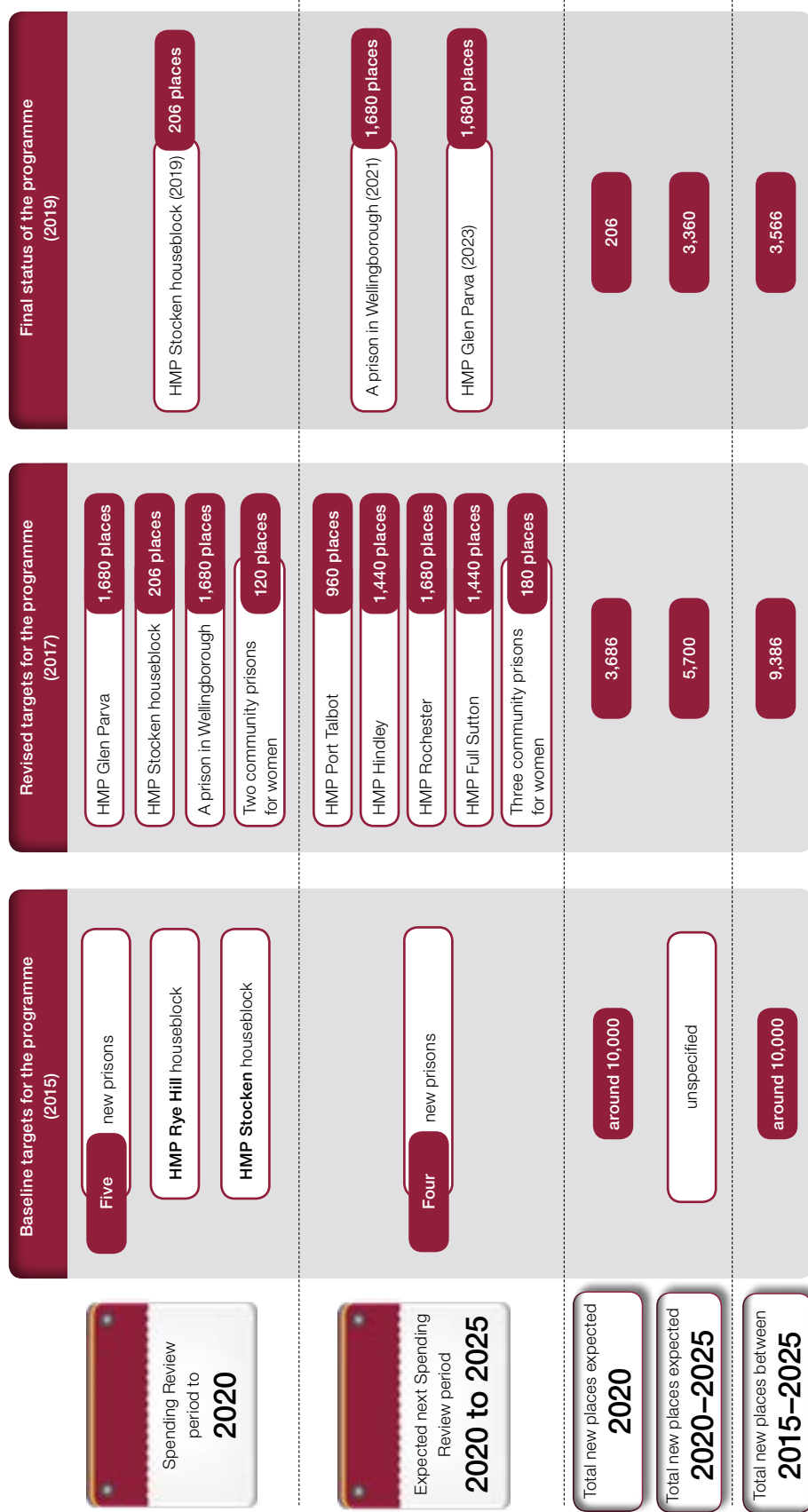
- addressing the national shortfall of 15,000 places in prisons which provide training and resettlement support to prisoners, and the surplus of 18,700 places in local prisons serving local courts (paragraphs 1.10 and 3.1);²⁶ and
- installing video conference centres (VCCs) in reception prisons, to reduce: the time and cost of taking prisoners to court, the risk of escape, and prisoners' time away from work and training opportunities (**Figure 15** on page 46).

²⁶ Local places are meant for prisoners who are awaiting trial or sentencing on remand, newly sentenced, or on short sentences. Training prisons provide rehabilitative services for longer-sentenced prisoners, and resettlement prisons are to prepare prisoners for release.

Figure 14

HM Prison & Probation Service's (HMPPS's) plans for new prison places, 2015 to 2025

HMPPS expects to create 3,566 new places by 2025 against an original target of 10,000 new places replacing old places by 2020. It expects to create a further 10,000 new places on top of this



Notes

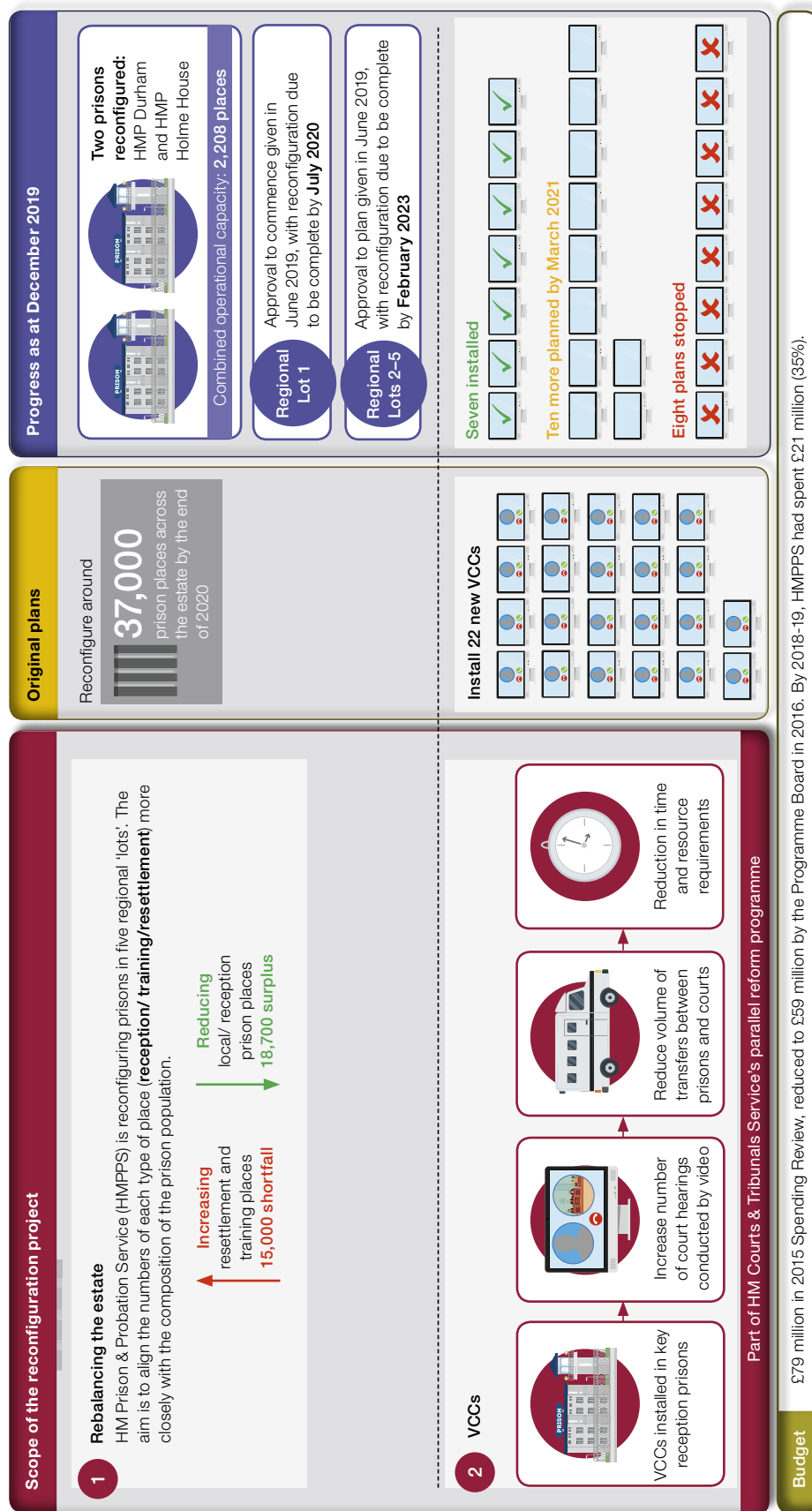
- 1 Baseline targets for the programme were set in the 2015 Spending Review.
- 2 Revised targets for the programme reference the 2017 refreshed outline business case.
- 3 The final status of the programme references a HMPPS internal report, October 2019.

Source: National Audit Office analysis of HM Prison & Probation Service documents

Figure 15

HM Prison & Probation Service's (HMPPS's) Reconfiguration Project's progress against plans

Reconfiguration of all prisons is due to finish two years later than planned, while seven out of 17 prisons have video conferencing centres (VCCs) installed and five VCCs were discontinued, as at November 2019.



Notes

- 1 **Reception prison:** for prisoners who are awaiting trial on remand or sentence, newly sentenced prisoners awaiting an onward allocation, and those with 28 days or less to serve upon sentencing.
 - 2 **Training prison:** for prisoners with a minimum of 16 months left to serve. These prisons will accommodate long-term prisoners and provide opportunities for rehabilitation.
 - 3 **Resettlement prison:** for prisoners with a maximum of two years left to serve, to prepare prisoners for release and facilitate their resettlement into the community.
- Reception, training and resettlement is the future model for prison's post-reconfiguration.

Source: National Audit Office analysis of HM Prison & Probation Service documents and data

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