

Assessing cost-effectiveness in building a safer Victoria

A Framework for Cost Benefit Analysis of Programs to Reduce Crime & Criminal Justice Costs in Victoria

1. Summary

Using the most recently available data, the cost of crime in Victoria in 2009-10 is conservatively estimated at \$9.8 billion. This estimate includes the costs of the criminal justice system; costs of victim assistance; the costs of specific crimes to victims and others in the community; and other associated costs of crime. (Section 2)

The purpose of this paper is to argue that public policy which seeks to reduce crime and increase community safety should be considered within a broad cost benefit framework, taking into account both the long and short term economic and social impacts.

This may require that alternative ways of achieving a safer and more just Victoria are examined. This is consistent with a Justice Reinvestment approach, which focuses on investments that address the causes of crime, or foster rehabilitation, where the savings to the criminal justice system are re-invested into the community to further reduce crime and re-offending (section 3).

This paper outlines an approach to cost benefit analysis that can be applied to compare the cost/benefit of programs to prevent and reduce crime and recidivism with the cost of the current system. Section 4 provides an explanation of Cost Benefit Analysis and how it is used to compare the costs of maintaining the current system, with introducing alternative policies and programs. This framework is recommended to be applied to programs that aim to prevent and reduce crime and increase public safety.

2. The 'Base Case' - Current System and Social Costs

A critical starting point for considering the cost and benefit of investment in the criminal justice system or alternative programs is to establish current costs.

The costs of the criminal justice system can be determined with some degree of accuracy based on publicly available information and records. However, to examine only the costs of the criminal justice system is to gain only part of the full picture of what cost impact crime and the justice system have on the community.

When the goal is to determine the benefits of the money spent we need to also consider the wider impact on the community. This fuller information, in turn, provides a basis for determining what relative benefits alternative investments of the available money (such as increasing the number and scope of crime prevention programs and programs to improve social equality) may have for the community.

While there is no definitive or comprehensive information available on all of the costs of crime to the community, there is reliable information available to identify or estimate many of these costs using widely accepted methods that have been applied many times internationally and also a number of times within Australia for looking at past (already incurred) costs of crime. This economic methodology was used by Mayhew (2003) and Rollings (2008) to establish the cost of crime across Australia in 2001-02 and 2005 respectively. Their work drew on previous



work in New Zealand (Roper & Thompson, 2006) and the UK (e.g. Dubourg *et al.*, 2005), and also built on the methodology used for earlier estimates by Walker (1992 and 1997) of costs in Australia.

In his 2011 paper *Costs of Crime in Victoria*, Russell Smyth from Monash University used the same approach as Mayhew (op. cit.) and Rollings (op. cit.) to estimate the costs of crime in Victoria for the 2009-10 financial year. Drawing on data from a range of sources, including cost data on the criminal justice system provided by the Australian Productivity Commission in its *Report on Government Services 2011*, and using a conservative approach that is likely to understate the real cost, Smyth (2011, p.2) estimates that the cost of crime in Victoria in 2009-10 was over \$9.8 Billion.

Based on the categories used in Smyth's (2011) study, the costs of crime and the criminal justice system can be broken down into several broad components:

- Costs of the criminal justice system;
- Costs of victim assistance;
- Cost of specific crimes to victims and others in the community; and
- Other associated costs of crime.

Using Smyth (2011, pp.2-18) and the Productivity Commission (op. cit.), the costs of crime and the criminal justice system in Victoria in 2009-10 can be summarised as follows:

- Total cost over \$9.8 billion, comprising:
- \$2.7 billion cost of the criminal justice system, which includes:
 - \$0.48 billion Corrective Services costs (prisons and community corrections);
 - \$0.85 billion Police costs (assuming 70% of Police time spent on crime);
 - \$0.16 billion Criminal Court costs (including Supreme, County, Magistrates and Children's Courts);
 - \$0.9 billion Commonwealth Agencies (agencies are Attorney General's Department, Australian Crime Commission, Australian Federal Police, Australian Institute of Criminology, AUSTRAC, Criminology Research Council, CrimTRAC and the Commonwealth DPP apportioned to Victoria on a population-based share and drawn from 2009-10 budget statements);
 - \$0.15 billion Juvenile Justice (due to no available costing from Victoria this is based on an estimate for New South Wales in 2001, inflated to 2010 prices); and
 - \$0.13 billion Legal Aid costs (2009-2010 cost of legal aid in Victoria from the Legal Aid Victoria Annual Report, 2009-2010);
- \$5.8 billion costs attributed to specific offences, covering crimes against the person, property crimes and drug offences (see Appendix A for more detail); These costs include medical costs, property losses, lost output and intangible losses (which include the quality of life a person has been denied and the pain, grief and suffering of relatives and friends - Bureau of Infrastructure, Transport and Regional Economics 2009)
- \$1.3 billion other associated costs including victim assistance, insurance and security industry costs (see Appendix A for more detail).

As implied earlier, there are costs not included in the above estimates, for example, the cost data for Corrective Services does not appear to include an apportionment of the capital costs of prisons or community corrections capital costs, which would increase the total. There are also costs that are difficult to quantify, sometimes intangible and unquantifiable, and which are also not included in the above estimates. These latter costs fall into a number of areas including, but not limited to, the following:



- The economic and personal costs to the families of prisoners
- The opportunity costs of prisoners not being able to participate in the workforce
- The personal and social costs to prisoners of their crime, time and experience within the criminal justice system;
- The intangible costs of harm caused by crime to society, e.g. reduced community safety, and the opportunity cost of disinvestment in areas of high-crime rates.

In considering the costs of the criminal justice system it should also be noted that it is highly likely that new prisons will need be built in the next few years, at substantial cost, to alleviate evident current overcrowding and accommodate an expanding prison population. The cost of building new prisons roughly equates to \$500,000 per prison bed (Government of Victoria, 2011) and, when taken into account, will increase the average daily operating cost per prisoner. COAG figures show that the average operating cost of prisons is currently approximately \$90,000 per prisoner per annum. (Quoted in Department of Justice 2011b).

3. An overview of costs of crime in Victoria – Seeking cost-effective solutions

On any reasonable assessment, the overall annual costs of crime in Victoria are very high and, at nearly 28% of the total, the cost of the criminal justice system is a substantial component of those costs.

In monetary terms alone there is a lot to be gained from reducing crime and recidivism, and decreasing imprisonment. Home Office modelling in the United Kingdom has suggested that it would require a 15% increase in the prison population to achieve a short-term reduction in crime of only 1% (cited in Papalia, 2010). Given the high cost of building prisons and keeping prisoners, this is an indicator that locking up more people is clearly not the answer to significantly reducing crime and increasing public safety.

In Victoria the daily average number of prisoners over 2010-2011 was 4,586 (Department of Justice, 2011a) and this is projected to rise in coming years (see Rood, 2 Sept. 2011). It must be noted that certain local communities and groups of people are over-represented in our prisons and in the criminal justice system generally. In particular, imprisonment rates of Aboriginal people are very much higher than for non-Aboriginal groups (Australian Human Rights Commission 2009).

Nationally in 2009-10, Indigenous adults were 14.3 times more likely to be imprisoned than non-Indigenous people (Productivity Commission, 2011) and 2008 figures show that Indigenous juveniles were 23.9 times more likely to be placed in detention than their non-Indigenous counterparts (Richards, 2011).

Recidivism rates in Victoria are also high, with data from the Department of Justice (2011) indicates the 2009-10 rates of return to the prison system and to community orders as 33.7% and 13.6% respectively. While these figures show a decrease in proportion of recidivism from previous years, they still represent a significant proportion and large numbers of offenders, especially in the relatively high-cost prisons.

In the past decade justice reinvestment has emerged as an alternative approach to the 'tough on crime' policies that are leading to increasing prison populations and the associated costs of crime to government and society.

Justice reinvestment is a criminal justice policy approach that focuses on programs and services that address the underlying causes of crime. The savings (the money that would have been spent on imprisonment, etc.) is reinvested in programs and services that address the underlying causes of crime in specific communities, in the prison population and across



society. As crime and incarceration rates fall, the money saved from building and expanding prisons and other elements of the criminal justice system is further invested in diversionary strategies and crime prevention.

As reported by the Australian Senate Legal and Constitutional Affairs Committee (2009), the concept of justice reinvestment originated in the United States in 2003 where it was developed by the Open Society Institute and has since been taken up in 10 states (now 14 states in 2011) in the USA. The concept has now also been picked up in Canada and the UK.

Some States in the USA that have had justice reinvestment policies and programs in place for several years report significant reductions in the prison population, significantly decreased reconviction rates for parolees and decreases in the number of parole revocations. The experience in Kansas (Senate Legal and Constitutional Affairs Committee, 2009), for example, led to cancellation of plans to build a new prison, which has saved a net \$80 million after the cost of alternative programs was accounted for. (See Appendix B for an outline of the steps involved in the development of a justice reinvestment program.)

This international experience indicates that investing in preventative and rehabilitative programs provides great potential for reducing crime and reducing the cost of the criminal justice system, thus providing significant improvements to community safety and the overall health of society.

4. Cost Benefit Analysis Framework

In the context of considering strategies to increase community safety in Victoria, Cost Benefit Analysis (CBA) is a critical tool to identify and assess the relative costs and benefits of any new or different approaches to preventing and reducing crime and recidivism vis-à-vis continuation of current policies and programs.

The principles and practice of CBA are well established and are detailed in a huge array of international and Australian literature. The following outline of a CBA approach to assessing various criminal justice programs draws from the work published mainly in the last decade in the USA and Australia.

CBA is a quantitative analytical tool to assist in assessing and making decisions about the efficient allocation of resources between different options. It identifies and quantifies, in monetary terms, the costs and benefits of the outcome of a program or activity (e.g. Cohen 2000) and helps answer questions such as:

- Does a proposal or program provide a net benefit to the community as a whole?
- Which of various alternative programs should be undertaken?
- Should a program or policy be undertaken or continued?

In short, CBA is used to assess the net benefits to society from a program or policy. Moreover, to be most useful to decision-makers, a CBA should compare one program to another rather than solely focus on the value of a single program's benefit-to cost ratio. According to Dossetor (2011), the quantification and comparison of costs and benefits through the CBA process leads to a quantitative assessment of the net benefit of comparative programs, as follows:

“After the cost of inputs and outcome benefits have been quantified in monetary terms, a comparison of alternate interventions can be made. The result is expressed in terms of a benefit/cost ratio which is calculated by dividing the monetary value of outcomes by the input costs. This ratio indicates the benefit received for every dollar contributed. For example, the benefit/cost ratio of 1.35:1 for a burglary prevention program indicates that for every dollar



spent on this program, \$1.35 of benefits is received (e.g. by the avoidance of future burglaries)." Dossetor (2001, p.2)

It should be noted that while CBA assesses the monetised value to society of particular programs and policies, it does not evaluate their effectiveness. Other methods are required to construct a full evaluation of programs, and CBA forms a part of an overall evaluation methodology. For example, a CBA was done as part of the evaluation of a program to prevent back injury in nurses in Victoria (Department of Human Services, 2004).

In conjunction with information from the base case detailed in Section 2 above, the process outlined in this section provides a model for undertaking cost benefit analyses on prevention and early intervention programs that may be introduced including the estimating cost impacts and benefits for the criminal justice system and also the costs and benefits to the wider community due to resulting reductions in crime in Victoria.

Following Aos (2002), the Commonwealth Department of Finance & Administration (2006) and Dossetor (2011), a framework for conducting a CBA in a criminal justice context includes the following six steps:

1. Define the scope of the analysis;
2. Obtain or develop estimates of program outcomes (effects), or benefits;
3. Quantify the monetary costs and benefits;
4. Calculate the present value and assess profitability;
5. Identify the distribution of costs and benefits; and
6. Use a sensitivity analysis to test the riskiness of the conclusions.

Note that a CBA will be most valuable when it is measured or calculated over an extended period, ideally the projected life of a program, rather than over a short timeframe in which the benefits may not be able to be fully measured or fully offset against initial start-up costs.

The six step approach can be explained as follows:

1. Define the scope of the analysis

Provide relevant information on the background, context and rationale for the program or proposal which will be analysed, and specify the programs and benefits to be compared, for example, for a CBA on justice reinvestment programs comparison options could be a 'do nothing' option and an option of building more prisons to cater for increasing demand for prison beds under present policies. Also, identify the limits of the comparison and any constraints (e.g. financial, distributional constraints, etc.).

2. Obtain estimates of program outcomes/benefits

What are the outcomes or expected outcomes of the program, who benefits, how much do they benefit and over what period of time? The benefits are obtained from the outcomes of the program.

Note that in relation to crime reduction programs, for benefits to be calculated those who bear the cost of crime need to be identified. The costs and benefits of crime reduction accrue to groups including victims of crime, potential victims of crime, taxpayers and government agencies (Cohen 2000). These need to be identified so that the distribution of benefits and costs can be determined.

3. Estimate the monetary value of all costs and benefits

Estimating the monetary value of program costs and benefits is the central component of a CBA. Note that the inherent complexities involved in this step and the next step will



normally require input from economists, accountants and other relevant specialists to ensure valid results.

Typical costs include:

- initial capital costs;
- capital costs of any buildings, equipment, or facilities that need to be replaced during the life of a program;
- operating and maintenance costs over the period of a program; and
- intangible costs that cannot easily be valued in money terms.

Typical benefits include:

- tangible benefits that can easily be valued in money terms, either revenues, cost savings or non-market outputs; and
- benefits that cannot be valued in money terms (also described as 'intangibles').

4. Calculate the present value and assess the benefit/cost ratio

The difference between total benefit and total cost is represented by the net present value (NPV) of the proposal. Calculating this is a technical process requiring specific expertise. Valuing each alternative program option by calculating NPVs enables comparison between programs. Programs with a positive NPV generally indicate an efficient use of resources.

These calculations apply a 'discount rate' (or 'social discount rate') to discount the stream of all costs and benefits, to allow for inflation and the changing value of money over time. The same data used to establish the NVP can also be used to develop a benefit/cost ratio for each program that also enables comparisons to be made.

5. Describe the distribution of costs and benefits

Although a positive NPV or benefit/cost ratio tells us that the program was profitable for society overall, it does not indicate who actually gains and loses. An allocation to the different groups identified in Step 2 in relation to who bears the cost and who benefits and to what extent, provides a more complete picture of the impact of a program.

In the criminal justice context, Aos (2002) provides this example: "... to whom do the benefits of a reduction in recidivism accrue? Many cost-benefit analyses examine this from two perspectives: the taxpayer and the crime victim. If a program can reduce the future rate of offending, then benefits will flow to taxpayers who do not have to pay for the criminal justice system that would have processed those offences. Benefits will also accrue to people and communities who would otherwise have been the victims of those crimes, and these benefits need to be estimated as well. Some analysts may also try to estimate the benefits of reduced recidivism from a third perspective: the program participants themselves."

CBAs of existing or proposed crime prevention and early intervention programs using the above process can be compared, for example, to the option of making no change to current policies and programs (i.e. doing nothing), and also the option of reforms which potentially increase reliance on prisons, to identify the relative benefits of implementing different policies and programs to those currently in place.



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Appendix A

2009-10 Crime Costs in Victoria

Extract from Table 1: Summary of Costs of Crime in Victoria 2009-2010, (Smyth, 2011, p.2):

Crime type	Estimated Cost in 2010 (\$m)
Crimes Against the Person	
Homicide	397.6
Assault	204.0
Sexual Assault	73.4
Robbery	82.0
Sub-Total	757
Crimes Against Property	
Burglary	364.8
Theft of Vehicles	133.5
Theft from Motor Vehicle	149.1
Theft from Shop	287.9
Other Theft	64.4
Property Damage	365.6
Arson	1090.6
Deception	2143.5
Sub-Total	4599.4
Drug Offences	
Drug Offences	468.8
Other Costs	
Criminal Justice	2689.7
Victim Assistance	311.1
Security Industry	838
Insurance Administration	165
Sub-Total	4003.8
TOTAL	9829

Extract from Table 16: Other Costs of Crime in Victoria, 2009-2010 (Smyth, 2011, p.18):

Costs associated with criminal justice system	\$ million
Police Costs	850
Court Costs	158.5
Corrective Services	480.3
Commonwealth Agencies	916.3
Juvenile Justice	153.6
Legal Aid Victoria	131
Sub-Total	2689.7
Victim Assistance	
Criminal Injury Compensation	37.6
Victim Support Services	4.8
Value of Volunteer Time	21.6
SAAP Expenditure for Domestic Violence	24.1
Child Protection	223
Sub-Total	311.1
Security Industry	838
Insurance Administration	165
Total	4003.8

Appendix B

Process to Introduce Justice Reinvestment

Based on Papalia (2010); Justice Centre (2011); and the Aboriginal Legal Service of WA (2011)

The process for introducing justice reinvestment involves four steps as follows:

Step 1: Data Mapping & Analysis

Government, in conjunction with all relevant key stakeholders:

- Analyses crime, arrest, conviction, jail, prison, and probation and parole data;
- Maps specific communities and neighborhoods where large numbers of people under criminal justice supervision live and cross-reference this information with where criminal activity occurs and the need for various services (e.g. drug abuse and mental health programs) and resources (such as unemployment or other benefits); and
- Assesses available services critical to reducing crime and recidivism.

Step 2: Develop Policy Options

Using the information from Step 1, develop practical, data-driven policies that reduce spending on corrections to reinvest in strategies that can improve public safety.

- Quantify savings to reinvest in identified high stakes communities to improve public safety.
- Implement a whole-of-government approach, with a high level committee of stakeholders taking responsibility for looking at any measures that might prevent and reduce crime and recidivism.
- This task would necessarily result in unique solutions for each of the target
- communities identified in step one. Initiatives address not just location, but also why people are incarcerated, as no two communities are identical and so no single program can meet all of the needs of every community.

Step 3: Adopt and Enact Reinvestment Policies and Strategies

Based on the (ideally bi-partisan) decisions made in Step 2 government:

- Implements the agreed policy initiatives via budget decisions and any necessary legislative or regulatory changes.
- Develops and implements new diversionary, rehabilitative and targeted preventative programs as well as expanding pre-existing programs that have proven results.
- Steps must be taken to verify that the policies are adopted effectively, and to ensure related programs and system investments achieve projected outcomes.

Step 4: Evaluate the Impact of Programs

The impact of new and expanded initiatives need to be measured and evaluated through:

- Ongoing data gathering and analysis on crime, the justice system and other agreed measures, to monitor effectiveness and changes.
- Reporting to the community and Parliament.
Implementing a constant cycle of improvement, and supporting programs that are proven to work.