

## LFC REPORT 0052x- Appendix 2 – (OFFICIAL-SENSITIVE): Babcock costs and pricing

### Babcock apprenticeship pricing

1. The costs provided in 'Appendix 2 – Babcock Costs' show the maximum cost the Brigade will incur, which is expected to be reduced. Procurement department will be finalising the costing structure and pricing prior to the contract change protocol being implemented.
2. The additional costs incurred by Babcock to implement apprenticeships for trainee firefighters will be met by levy and co-investment income. The Brigade and Babcock have adopted a pricing structure that has fixed and variable costs which is in line with the pricing structure in the main Babcock training contract. This helps minimise disproportionate costs for the Brigade and Babcock should there be particularly high or low recruitment which now impacts apprenticeship spend, levy recovery and co-investment income. The costs are as follows:
  - Annual apprenticeship fixed costs = £154,214
  - Variable apprenticeship cost per cohort of 12 trainees over an 18-month period = £63,907
3. It should be noted that the Brigade and Babcock may be delivering cohorts of 14 trainees until August 2019, this may result in a variable price increase for individually associated apprenticeship costs. However, the financial impact in tables 2 and 3 are based on an estimation of 14 per cohort by increasing the variable price proportionally.
4. The cost training an individual firefighter without an apprenticeship is currently £21,786. This price based on a throughput of 204 in a single year in cohorts of 12 trainees, and comprises of a combination of fixed and variable costs as set out in the training contract. Should annual throughput reduce, the cost per firefighter will increase, as the fixed costs are apportioned to a lower number of trainees, and vice versa.
5. Table 1 below shows the maximum annual costs based on predicted annual firefighter establishment needs:

Table 1: Babcock firefighter apprenticeship - annual incremental costs

Item	(October) 2018/19 £k	2019/20 £k	2020/21 £k	2021/22 £k	2022/23 £k
*Predicted firefighter establishment	210 (from Oct)	218	204	192	192
Total variable cost	191	1,259	1,227	1,051	1,040

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Fixed cost	64	154	154	154	154
<b>Total</b>	<b>255</b>	<b>1,413</b>	<b>1,381</b>	<b>1,205</b>	<b>1,194</b>

\*People Services are currently establishing the impact of an upcoming Crew Manager promotion process. This may increase the need for more trainee firefighters, which will have an overall positive impact on levy recovery and Brigade budgets in 2019/20 and 2020/21. See paragraphs 26–27.

### Levy recovery and co-investment income

6. The Brigade pays approximately £1.1m annually (in monthly instalments) into the Digital Account through the apprenticeship levy, and the government tops this up by an additional 10%.
7. It is currently forecast as part of the Brigade's budget projections that £1.115m will be recovered from the digital account from annually from 2019/20. This was on the assumption that the new arrangements would have no financial net impact.
8. Once accrued levy funds are spent within 2019/20, the Brigade's monthly apprenticeship bill will exceed the monthly levy payment. The government then provide co-investment funding, where they pay 90% of the shortfall each month, the Brigade pays the employer contribution of 10%. However, in practice, the employer contribution costs have already been paid as part of existing firefighter training.
9. The impact on the Training Budget and Central Budget will be predicted annually in line with the Brigade budget setting process in November, based on the following years firefighter recruitment throughput. Table 2 below sets out the impact on the cost of the Babcock training contract and table 3 shows the resulting impact on the Brigade's budget position, including the impact of the savings that have already been forecast.

Table 2: Impact on Cost of Babcock Training Contract

	<b>2018/19 £k</b>	<b>2019/20 £k</b>	<b>2020/21 £k</b>	<b>2021/22 £k</b>	<b>2022/23 £k</b>
<b>Babcock Contract Budget</b>	<b>17,761</b>	<b>16,932</b>	<b>17,108</b>	<b>17,848</b>	<b>18,318</b>

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Additional Costs Incurred by Babcock for Apprenticeship	255	1,413	1,381	1,205	1,194
Drawing from the Digital Account	(343)	(2,300)	(2,984)	(2,240)	(2,223)
Co-investment	0	0	(92)	(115)	(113)
<b>Revised Payments to Babcock</b>	<b>17,673</b>	<b>16,045</b>	<b>15,413</b>	<b>16,698</b>	<b>17,176</b>
<b>Reduction in Contract Cost</b>	<b>88</b>	<b>887</b>	<b>1,695</b>	<b>1,150</b>	<b>1,142</b>

Table 3: Impact on Brigade Budget Forecasts

	2018/19 £k	2019/20 £k	2020/21 £k	2021/22 £k	2022/23 £k
Saving Forecast in Brigade Budget	0	(1,115)	(1,115)	(1,115)	(1,115)
Reduction in Contract Cost	(88)	(887)	(1,695)	(1,150)	(1,142)
<b>Net impact on Brigade Budget Forecasts</b>	<b>(88)</b>	<b>228</b>	<b>(580)</b>	<b>(35)</b>	<b>(27)</b>

10. Table 3 shows that there will be a forecast surplus of £88k in 2018/19, then a £225k pressure in 2019/20 and potential surpluses in the following financial years.

### Risks

11. A future reduction in firefighter recruitment will have reduced costs, and reduced levy spend and co-investment income, so budgets are now impacted by recruitment throughput. Therefore, future establishment needs will be part of the annual budget setting process. For example, a reduction of trainee recruitment by one cohort of 12 trainees will have the following impact over an 18-month period:

- A reduction of £63,907 variable costs, and
- a reduction of £144,000 levy spend.

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12. It should be noted that levy spend linked to firefighter trainee throughput should be maintained to avoid levy loss, and also to maintain the saving forecast in the central budget.
13. Should firefighter apprenticeship start date be delayed past October 2018, it would have the following impact:
- February 2019 is the latest start date to avoid levy loss. If the apprenticeship started in March 2019, the Brigade would lose approximately £180,000 of levy funds from April to September 2019 and a subsequent delay in levy recovery.
  - A year's delay starting in October 2019 would result in a loss of approximately £1.2m levy funds.

### Babcock Full Costs Schedule

Item	Fixed	Variable	Cost breakdown		Rationale
	<b>154,214</b>	<b>63,907</b>			
<b>End Point Assessment</b>	-	28,000	Estimated at 20% of maximum funding cap (£12,000 x 20% per learner = £2,400) exact price to be determined with the EPA organisation. It is expected to be less than the 20%, therefore the price will be adjusted accordingly.		Required as a mandatory part of the contract – Funding rules state that the total cost of EPA must not exceed 20% of the total agreed price per Apprentices, although it is expected this will be less when known. EPA organisations are currently establishing prices as they are all new to the market.
EPA	-	28,000			
<b>Coach &amp; coach manager</b>	66,334	22,650	<b>Coach annual salary costs</b>		Apprenticeship coaches will be providing on-going support for the duration of the 18 month programme. Each coach will be responsible for a maximum of 48 learners at any one time.
			Salary	46,389	
			On-Costs	2,899	
			NI, pension & apprenticeship levy	7,260	

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			Total cost per employee	56,548	Apprenticeship coaches will be liaising with the apprentice and Brigade to ensure progression through their development, deliver aspects of the apprenticeship requirements and ensuring the knowledge, skills and behaviours are being met.
			Per cohort (caseload 1:48 trainees)	14,137	
Coach	-	21,206	<b>Over 18 months</b>	<b>21,206</b>	
			<b>Coach associated costs</b>		Travel costs are based on TFL travel card rates for 2 days per week and a 1 day mileage claim between training centres.  CPD costs are based on Coaches receiving a Coaching and Mentoring qualification, and an Award in Education and Training (AET) qualification. Courses will be refreshed every 3 years.  Company clothing is standard Babcock corporate wear and safety boots.
			Travel costs	3,200	
			Continuous Professional Development (CPD)	290	
			Company clothing / PPE	363	
			Total cost per employee	3,853	
			Per cohort	963	
Coach associated costs	-	1,445	<b>Total cost over 18 months</b>	<b>1,445</b>	
			<b>Coach manager salary costs</b>		
			Salary	54,644	
			On-costs	2,910	
			NI, pension & apprenticeship levy	8,760	
Coach manager	66,334	-	<b>Total cost</b>	<b>66,334</b>	

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<b>Quality assurance</b>	<b>53,277</b>	<b>-</b>	<b>Quality assurance salary costs</b>		The QA role is to QA all aspects on the apprenticeship to ensure Ofsted and ESFA rules are being met. This includes apprentices progression, evidenced learning, funding returns, administration, reporting. It is anticipated this will be a full time post for the early stages of the apprenticeship, however this cost and function will be reviewed once the programme is established.
			Salary	43,662	
			On-costs	2,862	
			Ni, pension & apprenticeship levy	6,753	
			<b>Total cost</b>	<b>53,277</b>	
<b>Irrecoverable VAT</b>	<b>-</b>	<b>8,840</b>	% of revenue attributable to apprenticeships	20.3%	
			Amount of VAT to be reclaimed each year	1,043,617	
			Portion that becomes irrecoverable	212,161	
			Cost per apprentice on programme per month	41	
			Cost per apprentice over 18 month programme	737	
			<b>Cost per cohort over 18 month programme</b>	<b>8,840</b>	
<b>Apprentice sign-up and admin</b>	<b>34,602</b>	<b>3,618</b>			

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Central processing centre charge	-	3,479			This cost is associated with administering ESFA paperwork per person at Babcock's Central Processing Centre.
Administration employee	34,602	-	<b>Administration salary costs</b>		
			Salary	28,712	This post will facilitate all apprenticeship administration from sign-up to end point assessment and award of apprenticeship.
			On-costs	2,157	
			Ni, pension & apprenticeship levy	3,733	
			<b>Total cost</b>	<b>34,602</b>	
Induction costs	-	139			Associated additional costs for administrator travel, refreshments and welcome packs for the apprentices.
<b>ICT costs</b>	-	<b>712</b>			
eLearning		290			Additional prior skills check and LMS portfolio eLearning.
eTrack		195			Individual licence cost for tracking learner progress which is audited by the ESFA for funding governance.
ForSkills		111			ForSkills is an individual licence cost for functional skills assessment, diagnosis and tailored eLearning packages.

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Printing and stationary		116			
<b>Additional curriculum</b>	-	<b>1,005</b>			
Learning support	-	188			Functional Skills assessments are expected to uncover further learning needs with apprentices, additional resources allocated to ensure timely progression through the programme.
Additional HAZMAT training	-	304			Additional HAZMAT training included in the programme to meet the apprenticeship standard requirements. Pricing is in line with existing contract course pricing.
Apprenticeship gateway	-	304			A 1 day gateway all apprentices must pass to progress to take the End Point Assessment (EPA). Pricing is in line with existing contract course pricing.
Passing out certificate	-	209			The Brigade have requested that formal framed certificates are presented to trainees after initial training.
<b>Saving of Breathing Apparatus input</b>	-	<b>1,715</b>			



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removed and delivered separately					
BA courses	-	1,715			BA elements of existing courses have been removed to allow time for HAZMAT and progress reviews. All trainees will attend a 1 day BA course in its place which provides a greater learning experience.