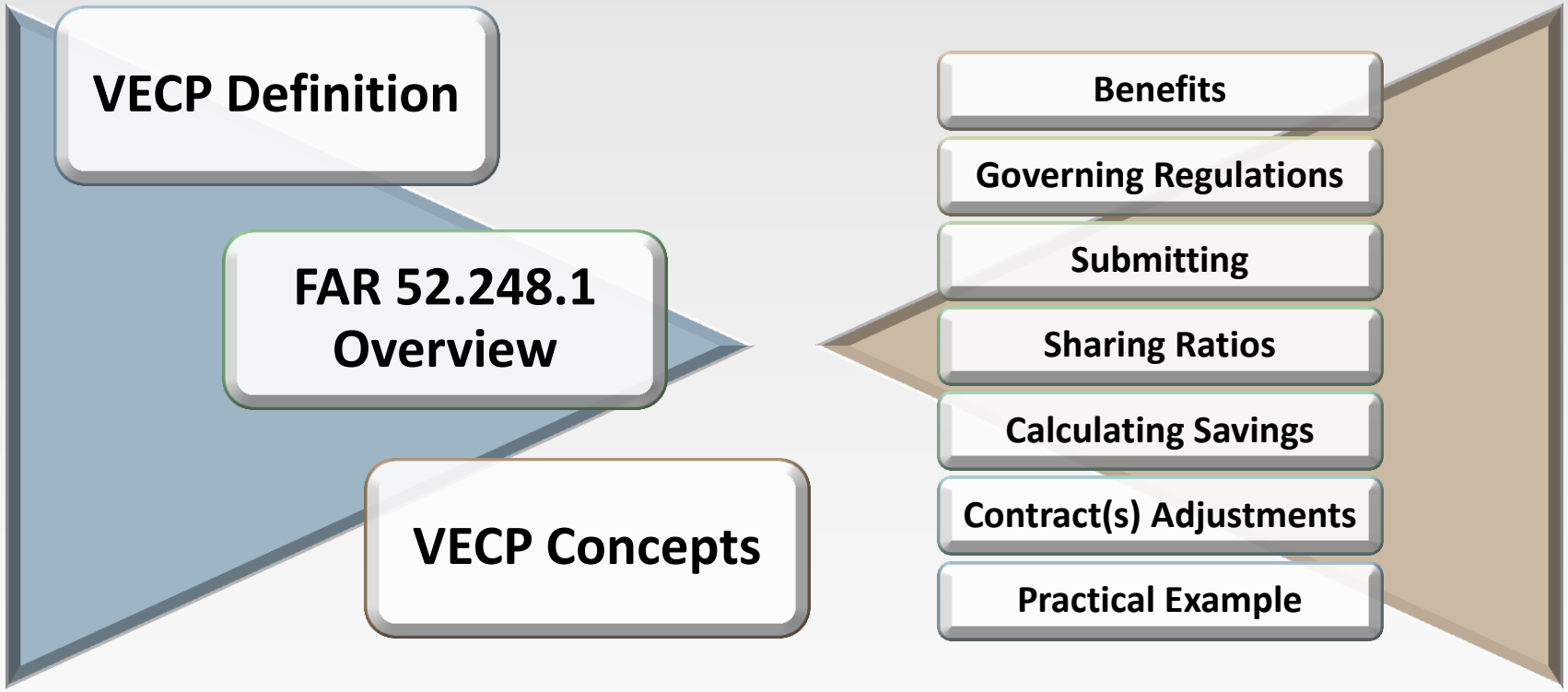
Value Engineering Change Proposal (VECP) Training Course

AMCOM Command
AMRDEC Engineering Directorate
Industrial Operations Division
Value Engineering Office

Overview

VALUE ENGINEERING CHANGE PROPOSAL (VECP)



Value Engineering Change Proposal (VECP)

A VECP is a Value Engineering Study Submitted by a Contractor

The contractor participation program allows contractors to submit Value Engineering Change Proposals (VECPs) to the Government through a VE clause in their contract, as stated in the Federal Acquisition Regulation (FAR)

A Value Engineering Change Proposal (VECP) is a formal proposal which must meet the criteria below

1. **Requires a change to the Instant Contract to implement (*Change may be to a design, a specification or design objective, a test process, qualified supply source, etc. If the customer must approve the change, generally it qualifies as a VECP*);**
2. **Results in reducing the over-all projected cost to the customer (Government) without impairing essential functions or characteristics, provided that it does not involve a change:**
   a) **In deliverable end item quantities only;**
   b) **In Research and Development (R&D) quantities or test quantities due solely to results of previous testing under the instant contract or;**
   c) **To the contract type only.**

VECP Benefits

GOVERNMENT

Reduces Program Cost

Incentive to contractors

Opportunity to address part obsolescence

Opportunity to incorporate new technologies

Essentially free Development and Implementation (D&I) cost of *changes* (default is royalty payments)

- ***VECP must make a change to the contract***
- ***And must save the Government $s***

VECP Benefits

Contractor

Opportunity for

- Additional profit
- Future profits (royalties)
- To incorporate new technology

Recoverable D&I cost

Enhance image as ‘Quality’ contractor

Governing Regulations

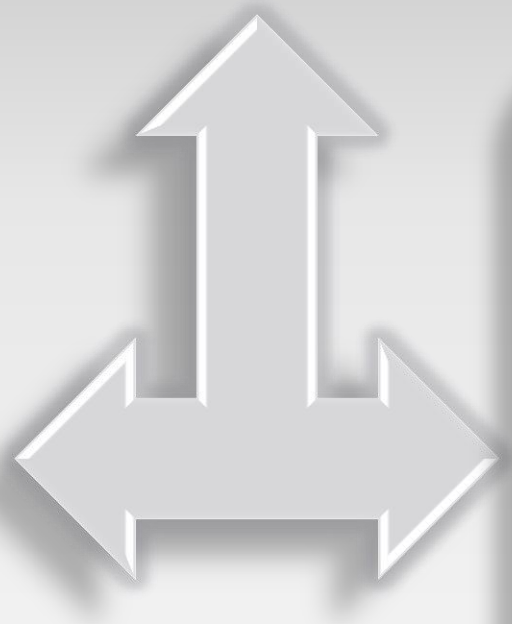
Government

FAR PART 48

Value Engineering

48.1 Policies and procedures (for using and administering VE techniques in contracts)

48.2 Contract Clause (for Supply or Service contracts)



Contractor

FAR PART 52 *Solicitation Provisions and Contract Clause*

52.248-1 Value Engineering

52.248-2 Value Engineering Program Architect-Engineering

52.248-3 Value Engineering Program Construction

VE Clauses

Incentive

- Standard *FAR 52.248-1* clause
- Voluntary Participation
- Contractor uses own money to develop VECPs
- Non-allowable expense (until VECP accepted)

Pre-sell

Or Letter Of Intent

Value Engineering Program Requirements (VEPR) Clause – Alternate I or II

- Modification to standard clause
  - Alternate I *(100% VEPR): no guarantee of Instant Savings*
  - Alternate II *(Mixed VEPR & Voluntary): More flexibility*
- Funded line item in contract
  - S.O.W.
  - CDRL

Subcontractor Clause

Subcontractor's contractual relationship is with the Prime Contractor only, not the Gov't

Subcontractor's VE Clause should be different from the Prime's FAR 52.248-1 clause

- **DO NOT flow down the Prime's clause – It will cause confusion**
- **Clause should be structured so that the "Buyer" (Prime) equates to Gov't on the FAR Clause**
- **Share rates on savings should be delineated**
- **Statement that Subcontractor's share of any CCS or FCS will be based on what Buyer receives from the Gov't**
- **Statement as to any sharing on the CSS received by the Buyer**

VECP Savings Payments

Default Method IS Royalty

Shares are paid as units are delivered

- **Instant Contract: As Units are DD250'd**

Keep Instant Contract Open

- **Concurrent Contracts**
  - **As negotiated with other suppliers**
  - **From concurrent contracts with same contractor**
    - ✓ **With same Contractor or**
    - ✓ **Another Contractor**
- **Future Contracts**
  - **Contractor Invoice Share**
  - **Government pay (through Instant) as Futures (or Options) are executed**

Through Instant Contract

Alternate Sharing Methods

No-Cost Settlement **52.248-1(i)(5)** **Also 48.104-4**	**(i) Prime keeps all savings on Instant Contract and their own Concurrent Contracts**
	(ii) Government keeps all savings from other Concurrent Contracts, Future Contracts & Collateral Savings
Lump-sum payment **52.248-1(i)(4)** **Also 48.104-2(6)**	**Must be mutually agreed to by the Prime & Government**
	Applies to Future Contract Savings only
	Based on forecasted units within share period
	Not subject to subsequent adjustment

Other FAR Provisions

VECP Relationship to other incentives	**52.248-1(k) Only those benefits of an accepted VECP not rewardable under performance, design-to-cost (production unit cost, operating and support costs, reliability and maintainability), or similar incentives shall be rewarded under this clause**	
	48.105 Contractors should be offered the fullest possible range of motivation, yet the benefits of an accepted VECP should not be rewarded both as value engineering shares and under performance, design-to-cost, or similar incentives of the contract.	
Incentive Type Contracts	**Targets of such incentives affected by the VECP shall not be adjusted because of VECP acceptance**	
	If this contract specifies targets but provides no incentive to surpass them, the value engineering sharing shall apply only to the amount of achievement better than target.	**Example -- No VECPs on CIP or PIP programs** **Example – VECP exceeds target, value above target is rewardable**
VECP Data and Supporting Data	**52.248-1(m) Contractor may restrict Government's right to use any part of a VECP or supporting data by including a specific legend on the affected parts of the VECP**	
	Generally, the Contractor grants unlimited rights to data in accepted VECP and supporting data. Some limited rights are acceptable with proper markings.	**Except with respect to data qualifying and submitted as limited rights technical data** **Limited technical data must be delineated in the contract mod**

Summary of Steps For Evaluating A VECP

I. Contractor
- »Generate Idea
- »Sell idea to Government
- »Obtain resources
- »Perform study
- »Write/submit proposal to Government

II. Procurement Contracting Officer (PCO)
- »Log the receipt date
- »Assign the VECP to someone
- »Check for appropriate submission under contract clause
- »Read proposal for initial understanding
- »Check for 8 minimum req'ts (FAR 52.248 paragraph C)
- »Ask PMO for technical approval/evaluation of the price (within 45 days; 90 days if dual source)

III. Program Management Office (PMO)
- »Read proposal for initial understanding
- »Ask CCB chairperson for recommendation to approve/disapprove VECP

IV. Configuration Control Board (CCB)
- »Send copies to AMCOM functional areas to establish functional CCB position
- »Perform technical evaluation of cost proposal
- »Hold meeting w/ functional areas to determine recommendation
- »Identify affected concurrent and future contracts
- »Send recommendation to PMO

V. PMO
- »Make decision to technically approve/disapprove
- »Send technical decision to PCO asking that it be incorporated into the contract if approved
- »Whether approved or disapproved PCO notifies contractor (& VE Office) in writing of technical decision

VI. PCO
- »Determine method of settlement
- »Arrange for pricing and audit if necessary
- »Write Business Clearance Memorandum (BCM)
- »Inform contractor; negotiate terms
- »Prepare contract modification
- »Sign mod/get contractor signature
- »Perform financial adjustment(s)
- »Send copy to PMO, Cont'r, & VE Office

PCO sends copy of proposal/decisions to VEO for reporting throughout process

VII. Implement Change

Common Obstacles

- Contractor workers not profit centers
- VECPs require effort to process
- Ripple Effect

Value Engineering Change Proposal

Why Would A Contractor Want To Do A VECP?

Currently, Bonuses Are Based on Increased Orders.

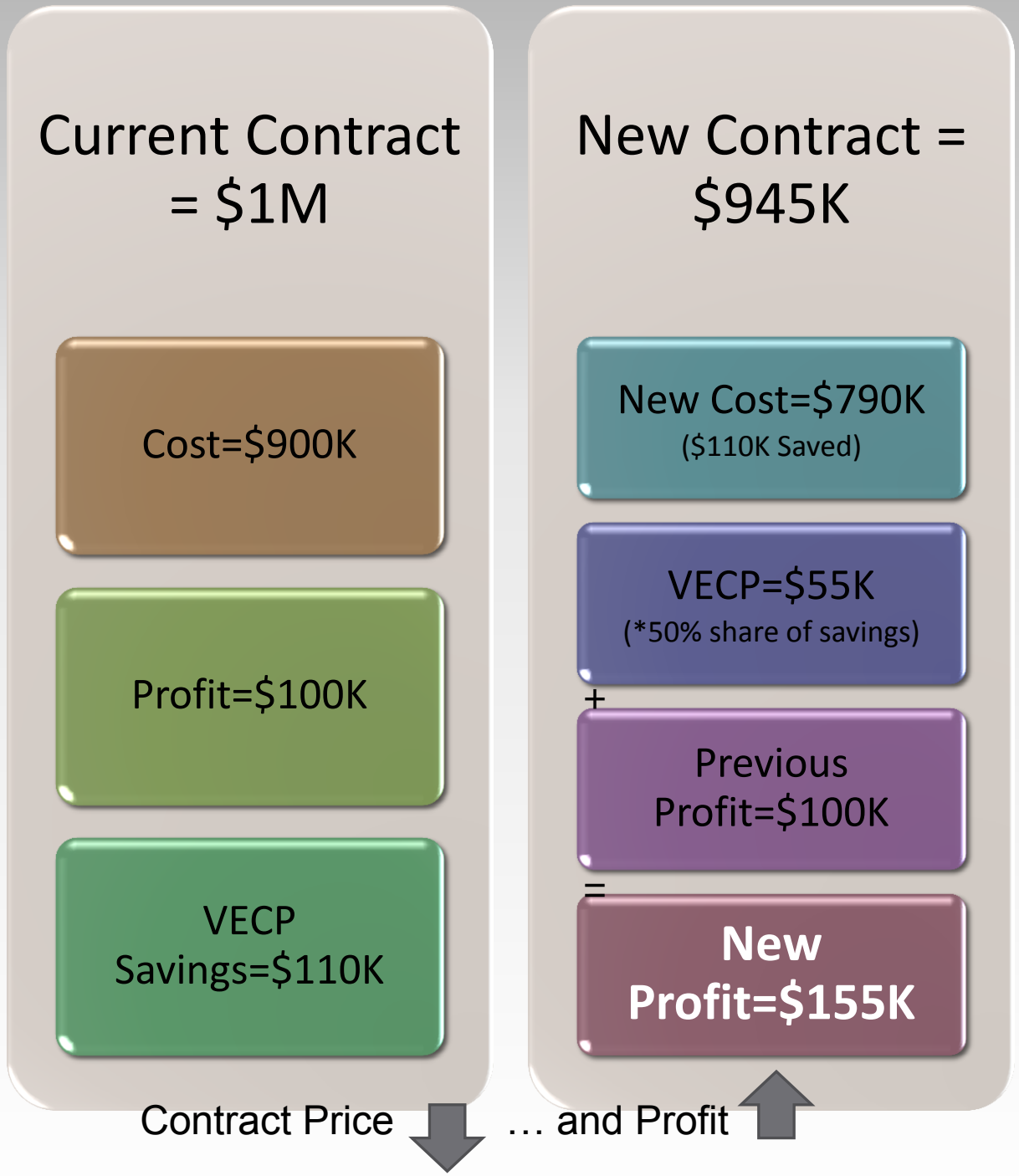
But, The Truth Is That The VECP Will Increase The Companies Profit.

Which In Turn Will Increase Bonuses!!

Value Engineering Change Proposal

Provides CTR an opportunity to increase profit

*Assume 50/50 sharing ratio btw Gov and CTR



Contractual Aspects of Value Engineering

Government Sponsored and Participation is Free

At SAIC Odyssey Drive, Research Park

CAVE Course

24 CLPs

Scheduled for Feb 28–Mar 2 2017

Register today by contacting Nancy Sims
nancy.r.sims4.civ@mail.mil

VECP Example
FFP
and
Additional Slides

Firm Fixed Price

BACKGROUND

The Air Force has awarded and negotiated a **Firm Fixed Price** (FFP) contract to Fly-High Enterprises (F-H) to supply **500** Ground Power Units (GPU) used by Air Force Flying organizations during aircraft ground operations and maintenance. This is the first buy of GPUs since 2001(F-H had been the contractor for earlier buys). The contract value is **$2,400,000**. This is a production contract and contains the Value Engineering Incentive (VEI) clause, FAR 52.248-1. Delivery of the units is per the contract schedule, spread over four years; 50 units in year one, 100 units in year two and 175 units in years three and four. Because of anticipated wear and tear on these units in the field, the Air Force anticipates procuring additional GPUs in the future; 50 per year for five years, starting in year three of the current buy. Shortly after production began, Fly-High was notified by Old Iron Company, a long time qualified supplier that the equipment used to build the frame assembly for the GPUs has begun to fail. Investment needed by Old Iron to purchase new or repair the equipment is beyond their capability. Fly-High has researched the industrial base and found a company, Hi-Tech, that could build the frame assembly out of new materials that would be more durable while meeting all performance specs. In addition, Hi-Tech's price is $800 less per unit than Old Iron's price. F-H has submitted a VECP which indicates a UCR on the IC of **$700** per unit. If promptly accepted by the Air Force, the VECP could apply to **450** of the **500** units called for on the IC. Fly-High has determined that the cost to qualify Hi-Tech as an approved supplier will be **$20,000**. This amount will be F-H's CADIC cost. Fly-High has suggested that the FUCR would be **$700** per unit. Fly-High has reviewed the sharing rate and time criteria in the FAR and have suggested, as part of their VECP submittal, a **50/50** sharing rate and a **48 month** share period.

The Government Contracting Officer has concurred.

Example

...Continued

Firm Fixed Price

SUMMARY OF BACKGROUND INFORMATION	
ORIGINAL FFP CONTRACT PRICE	$ 2,400,000
NUMBER OF UNITS ON CONTRACT	500
NUMBER OF IC UNITS AFFECTED BY THE VECP	450
INSTANT UNIT COST REDUCTION (IUCR)	$ 700
CADIC	$20,000
FUTURE UNIT COST REDUCTION (FUCR)	$700
SHARING RATE	50/50
SHARING PERIOD	48 Mos.

Example

...Continued

Firm Fixed Price

1. WHAT IS THE CONTRACTOR'S (FLY-HIGH's) DOLLAR SHARE OF SAVINGS ON THE INSTANT CONTRACT? [See definitions of: ICS and NAS in FAR 52-248-1(b) and calculate contractor's share using paras. (g)(2) and (f)]

IUCR: [para. (b)]	$	**700.00**
TIMES: # UNITS AFFECTED	x	450
EQUALS:"GROSS VECP"	$	315,000.00
LESS: CADIC [para. (b)]	$	(20,000.00)
EQUALS: ICS [para. (b)(1)]	$	295,000.00
LESS: GOVERNMENT'S COSTS [para. (b)]	$	(0.00)
EQUALS: NAS [para. (b)]	$	295,000.00
TIMES: CONTRACTOR SHARE RATE [para. (f)]	x	0.50
EQUALS: CONTRACTOR'S SHARE	$	**147,500.00**

Example

...Continued

Firm Fixed Price

2. WHAT IS THE GOVERNMENT'S DOLLAR SHARE OF SAVINGS ON THE INSTANT CONTRACT?

NAS [FAR 52-248-1(b) (g)(2) and (f)]	$	**295,000.00**
TIMES: GOVERNMENT SHARE RATE	x	0.50
EQUALS: GOVERNMENT'S SHARE	$	147,500.00
Or…		
NAS	$	295,000.00
LESS: CONTRACTOR'S SHARE	$	(147,500.00)
EQUALS: GOVERNMENT'S SHARE	$	**147,500.00**

Example

...Continued

Firm Fixed Price

3. HOW IS THE PRICE ON THE FLY-HIGH CONTRACT TO BE ADJUSTED AS A RESULT OF THE SAVINGS ON THE INSTANT CONTRACT? [See FAR 52-248-1(h)(1) & (h)(5)(i)]

ORIGINAL CONTRACT PRICE	$	**2,400,000.00**
LESS: ICS [Para (h)(1)]	$	(295,000.00)
"REMAINDER"	$	2,105,000.00
PLUS: FLY-HIGH'S SHARE OF SAVINGS	$	147,500.00
EQUALS: REVISED CONTRACT PRICE	$	2,252,500.00

Example

...Continued

Firm Fixed Price

4. TO SHOW THAT THE VECP IS A GOOD DEAL FOR FLY-HIGH:

ORIGINAL CONTRACT PRICE	$	2,400,000.00
ASSUMED ORIGINAL COST	$	(2,212,000.00)
ASSUMED ORIGINAL ESTIMATED PROFIT [8.5%]	$	188,000.00
ORIGINAL COST ESTIMATE	$	2,212,000.00
LESS: ICS	$	(295,000.00)
REVISED COST ESTIMATE	$	1,917,000.00
REVISED CONTRACT PRICE	$	2,252,500.00
LESS: REVISED COST ESTIMATE	$	(1,917,000.00)
REVISED ESTIMATED PROFIT [17.5%]	$	335,500.00

5. NOTICE THAT THE REVISED PROFIT IS COMPOSED OF:

ORIGINAL ESTIMATED PROFIT	$	188,000.00
PLUS: FLY-HIGH'S SAVINGS SHARE	$	147,500.00

TOTAL PROFIT **335,500.00**

Firm Fixed Price

MORE INFORMATION

The same Air Force procurement office is contemplating awarding a follow-on contract to Fly-High for additional units. This contract will incorporate the VECP but is not expected to be awarded until two years after the VECP was accepted on the IC. The future contract will be for an additional **100** units, all of which are scheduled to be delivered within the sharing period. When the VECP was accepted, a Future Unit Cost Reduction (FUCR) of **$700** was negotiated, which assumed there would be no break in production.

Example

...Continued

Firm Fixed Price

6. WHAT WILL BE FLY-HIGH'S DOLLAR SHARE OF THESE FUTURE SAVINGS?

[See FAR 52.248-1 (i)(3) and then para (i)(1)]

FUCR: [para. (b)]	$	**700.00**
TIMES: # UNITS AFFECTED [para. (i)(3)(i)]	x	100
EQUALS: TOTAL FUTURE SAVINGS	$	70,000.00
LESS: GOVERNMENT'S COSTS [para. (i)(3)(ii)]	$	(0.00)
"INTERIM TOTAL"	$	70,000.00
LESS: NICS [para. (i)(3)(ii)]	$	(0.00)
EQUALS: NET FUTURE SAVINGS	$	70,000.00
TIMES: F-H's SHARE RATE [para. (f) & (i)(3)(iii)]	x	0.50
EQUALS: F-H's SHARE OF FUTURE SAVINGS	$	**35,000.00**

7. WHAT ARE THE TWO WAYS F-H's FUTURE SHARE COULD BE PAID TO THEM

[FAR 48-104-2 (a)(6)]

A. **AS FUTURE CONTRACTS ARE AWARDED**
B. **LUMP SUM PAYMENT**

Firm Fixed Price

FINAL INFORMATION

Because of the new materials used in the frame, the Air Force will avoid corrosion control maintenance it has experienced on previous GPUs. Fly-High and the Government agree that $20,000 of collateral savings will accrue to the Government over a typical year of service life.

8. WHAT WILL BE FLY-HIGH'S DOLLAR SHARE OF THESE SAVINGS?

[see FAR 52.248-1 (j)]

COLLATERAL SAVINGS (*One Typical Year*)	$	**20,000.00**
TIMES: CONTRACTOR'S SHARE RATE (%)	x	0.20
EQUALS: CONTRACTOR'S SHARE OF CS	$	4,000.00

9. HOW WILL FLY-HIGH'S SHARE BE PAID TO THEM?

[see FAR 52.248-1 (j) & (h)(5)(i)]

A. **ADD TO THE CONTRACT PRICE**

Firm Fixed Price

SUMMARY OF VECP SHARES

SHARE SOURCE	GOVERNMENT SHARE	FLY-HIGH SHARE
INSTANT CONTRACT	$ 147,500.00	$ 147,500.00
FUTURE CONTRACT(S)	35,000.00	35,000.00
COLLATERAL SAVINGS*	56,000.00	4,000.00
TOTAL SAVINGS	**$ 238,500.00**	**$ 186,500.00**

* INCLUDES THE GOVERNMENT'S 80% SHARE FOR ONE TYPICAL YEAR OF COLLATERAL SAVINGS AND 100% OF TWO TYPICAL YEARS.

ANY COLLATERAL SAVINGS BEYOND THREE YEARS ARE GENERALLY CONSIDERED TO BE "SOFT SAVINGS" AND, WHILE CONSIDERED IN ANALYZING THE LIFE CYCLE BENEFITS OF THE VECP, ARE TYPICALLY NOT INCLUDED IN VALIDATING THE GOVERNMENT'S "NET SAVINGS".

Acronym	Term
AVS	Associate Value Specialist
BCM	Business Clearance Memorandum
CADIC	Contractors Allowable Development and Implementation Cost
CC	Concurrent Contract
CCB	Configuration Control Board
CCS	Concurrent Contract Savings
CD	Concept Design
CIP	Component Improvement Program
CO	Contracting Officer
CPAF	Cost Plus Award Fee
CPFF	Cost Plus Fixed Fee
CPIF	Cost Plus Incentive Fee
CS	Collateral Savings
CTR	Contractor
CVS	Certified Value Specialist
D&I	Development and Implementation
ECP	Engineering Change Proposal
EMD	Early Manufacturing Development
FAR	Federal Acquisition Regulation
FC	Future Contract
FCS	Future Contract Savings
FFP	Firm Fixed Price
FPI	Fixed Price Incentive
FPI	Fixed Price Incentive Fee
FUCR	Future Unit Cost Reduction
Gov	Government
IAW	In Accordance With
IC	Instant Contract
ICS	Instant Contract Savings
IUCR	Instant Unit Cost Reduction
NAS	Next Acquisition Savings
NCCTA	Non Change in Contract Target Approach
NICS	Negative Instant Contract Savings
PCO	Procurement Contracting Officer
PIP	Production Improvement Program
PMO	Program Management Office
R&D	Research and Development
RPA	Resonable Person Approach
UCA	Undefined Contract Action
UCR	Unit Cost Reduction
VECP	Value Engineering Change Proposal
VEI	Value Engineering Incentive
VEP	Value Engineering Proposal
VEPR	Value Engineering Program Requirement

VE Clause Requirements

FAR 52.248-1, 2, or 3

a) ***General:*** **Clause is inserted on contracts when the contract amount is expected to exceed the simplified acquisition threshold ($100K)…**

EXCEPT:

1) **For research and development other than full-scale development; Concept Design (CD) &** ***Dem Val - NO ---- Early Manufacturing Development (EMD) & Prod. - Yes***
2) **For engineering services from not-for-profit or nonprofit organizations**
3) **For personal services**
4) **For contracts like… unless VE incentive application**
   - **Production Improvement Program (PIP)**
   - **Component Improvement Program (CIP)**
5) **For commercial products**
6) **When the agency head has exempted the contract**

VECP Submission Process

CONTRACTOR

Prepare VECP – 52.248-1(c)(1) through (c)(8)

Submit to Primary Contracting Officer – 52.248-1(d)

Provide copies to:

- **Appropriate Technical POC(s)**
- ***Contracting Officer* (required)**
- **Government Value Engineering Office (as a courtesy)**

CONTRACTING OFFICER

Communicate w/ and provide copies to Government Value Engineering Office *(beginning at receipt and thru settlement)*

Process VECP – 52.248-1(e)(1) through (3)

- **Contracting Officer will notify CTR within 45 days after receipt**
- **If rejected, Contracting Officer will notify contractor in writing the reasons; Contractor may withdraw whole or part of the VECP**
- **When accepted, in whole or part, Contracting Officer will award a mod to the contract within a reasonable period of time before contract performance is complete**

52.248-1(c)(1)-(c)(8)

Preparing VECP

1. Difference between existing and proposed

2. List of contract requirements that must change

3. Identification of the Unit (will incorporate the change)

4. Separate, detailed cost estimate for:

- The affected portion of existing contract
- The VECP (including Contractor Allowable Development & Implementation (CADIC) and any subcontractor VECP)

5. Description and estimated Government costs

6. Predicted impact on collateral costs

7. Estimate of time to accept VECP to achieve maximum savings

8. Identification of any previous submission(s) of this VECP

- Dates
- Agencies
- Contract Numbers
- Government actions

9. Suggested Share Rate and Share Period (& Why?)

52.248-1(f)

Sharing Ratio

Contract Type	Voluntary	VEPR
Fixed Price - IC, CC, FC (Other than Incentive)	**50 - 75**	**25**
Incentive - IC (FP or Cost) **- CC, FC** (Except Award Fee)	***** **50 - 75**	***** **25**
Cost-reimbursement - IC, (Includes CPAF) **- CC, FC** (Other than incentive)	**25 - 50** **25 - 50**	**15** **15**

CO's Decision

*** Same Sharing Arrangement as Adjustment Formula**

Collateral savings

the instant contract amount must be increased **by a rate from 20 to 100 percent, as determined by the Contracting Officer,** of any projected collateral savings to be realized in a typical year of use after subtracting any Government costs not previously offset. However, the Contractor's share of collateral savings shall not exceed (1) the contract's firm-fixed-price, target price, target cost, or estimated cost, at the time the VECP is accepted, or (2) $100,000, whichever is greater. The Contracting Officer shall be the sole determiner of the amount of collateral savings, and that amount shall not be subject to the Disputes clause or otherwise subject to litigation under 41 U.S.C.601-613.

Acquisition & Collateral Savings

Acquisition Savings are savings resulting from a unit cost reduction of goods and services acquired by the contract. Acquisition Savings may be either…

- **Instant Contract Savings**
- **Concurrent Contract Savings**
- **Future Contract Savings**

Collateral Savings are any quantifiable savings to the Government resulting outside of Acquisition Savings.

What is the purpose of the contract?

<u>To Acquire Items</u>
Savings claimed on
Items (Supply Contract)
are
Acquisition Savings

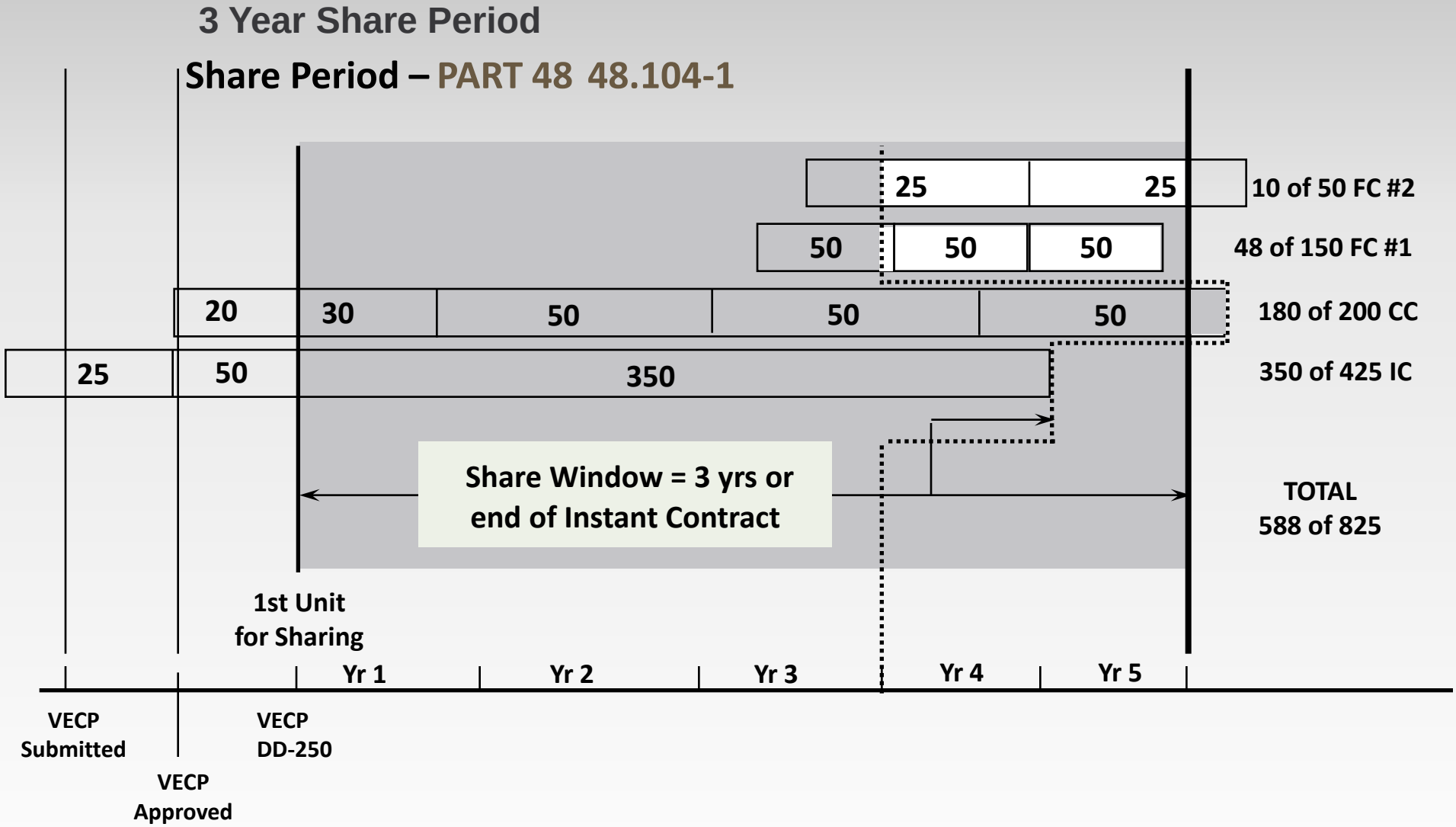
Savings claimed on
Maintenance for those items
are
Collateral Savings

Or?

<u>To Perform Maintenance</u>
Savings claimed on
Maintenance Contract
are
Acquisition Savings,

Not Collateral Savings

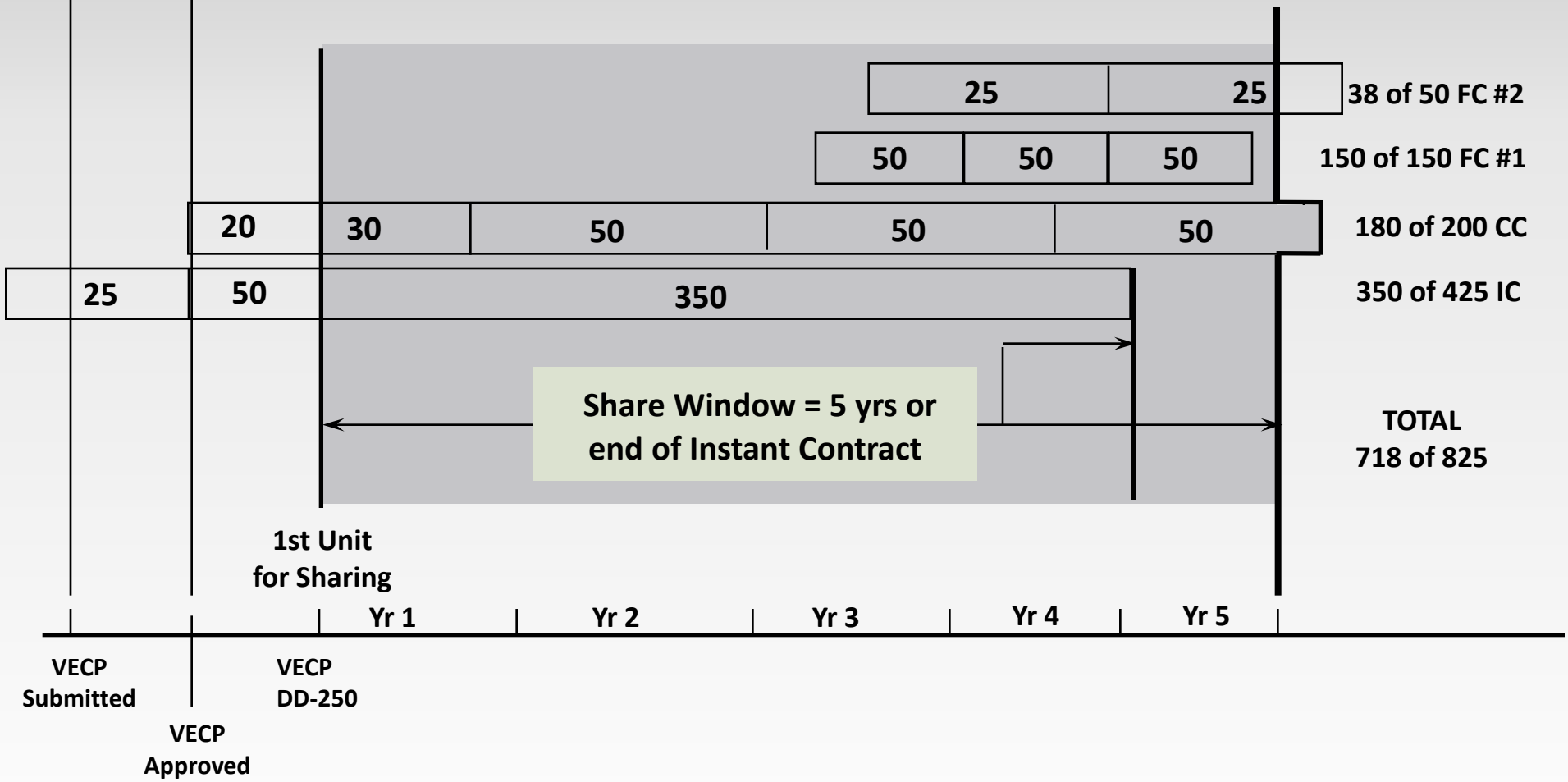
Sharing Window



Sharing Window

5 Year Share Period

Share Period – PART 48 48.104-1



VECP Calculations

- **ALL VECPs are calculated the same way 52.248-1(g)**
  - **Instant Contract Savings (ICS) are realized**

    (Instant Unit Cost Reduction X # Units) – CADIC

    May be positive or negative savings (NICS)
  - **Concurrent Contract Savings (CCS) are negotiated**
    - ✓ **With same Contractor or**
    - ✓ **Another Contractor**
  - **Future Unit Cost Reductions (FUCR) are identified or an agreement is reached for a lump-sum payment for future savings**
  - **Government costs are subtracted**

=

Net Acquisition Savings (NAS)

total acquisition savings, including instant, concurrent, and future contract savings, less Government costs

Contract Adjustment

Instant Contract

ALL contract adjustments are made on the Instant Contract

52.248-1(h) The modification accepting the VECP (or a subsequent modification issued as soon as possible after any negotiations are completed) shall --(1) Reduce the contract price or estimated cost by the amount of instant contract savings, *unless this is an incentive contract…*

Instant Contract Savings

Reduce the Instant Contract (price or cost) by the amount of the ICS

If ICS is negative, increase the IC (price, targets or estimated costs) by the NICS amount – CAUTION: NEW FUNDING OBLIGATION MAY BE REQUIRED

Specify Contractor's $ share per unit of FC or provide lump-sum payment

Specify any Government costs or NICS to be offset

Add Contractor's NAS share

Fixed Price Contract – add to contract price

Cost-reimbursement Contract – add to contract fee

Concurrent Contract Savings, Future Contract Savings & Collateral Savings

Payments of the Contractor's share of concurrent and future contract savings shall be made by a modification to the instant contract in accordance with subparagraph (h)(5)

(h)(5) Provide the Contractor's share of any net acquisition savings under the instant contract in accordance with the following:

(i) Fixed-price contracts -- add to contract price.

(ii) Cost-reimbursement contracts -- add to contract fee.

Contract Adjustment

Incentive Contract	**ALL contract adjustments are made on the Instant Contract**
	52.248-1(h)(3) If this is an incentive contract, recovery of Government costs on the instant contract shall be deferred and offset against concurrent and future contract savings…
Incentive Structure	**Contractor shares through the contract incentive structure**
	IF NICS, add to target cost or to the target price and ceiling price
	Offset any Negative Instant Contract Savings against Concurrent and Future Contract Savings
Concurrent Contract Savings, Future Contract Savings & Collateral Savings	**For incentive contracts, savings shares are added as separate firm-fixed-price line items on the Instant Contract**
	The Contractor shall maintain records adequate to identify the first delivered unit for 3 years after final payment under this contract.

Subcontractor Clause

Subcontractor VECPs, calculated per 52.248-1(l) and Subcontractor's VE Clause

- ICS = (Instant Unit Cost Reduction X # Units) – SubCADIC
  - *May be positive or negative savings (NICS)*
- Apply the Instant Contract Savings sharing rate percentage
  - May be anywhere from 0 to 100% of the ICS
- Prime Contractor's submittal to the Gov't will include:
  - Subcontractor's CADIC
  - Subcontractor's Incentive Payment (ICS Share)
  - Prime Contractor's CADIC

Gov't shares first on any CCS or FCS

- Subcontractor's share of CCS & FCS come from Prime Contractor's share

Subcontractor may or may not share on any Collateral Savings (CS)

Subcontract Adjustment

Subcontractor Clause

are made on IAW the prime's VECP clause flowed to the Subcontractor

52.248-1(l) The Contractor shall include an appropriate value engineering clause in any subcontract of $100K or more and may include one in subcontracts of lesser value. In calculating any adjustment in this contract's price for instant contract savings (or negative instant contract savings)…

The Contractor's allowable development and implementation costs shall include any subcontractor's allowable development and implementation costs, and

any value engineering incentive payments to a subcontractor, clearly resulting from a VECP accepted by the Government under this contract.

The Contractor may choose any arrangement for subcontractor value engineering incentive payments; provided, that the payments shall not reduce the Government's share of concurrent or future contract savings or collateral savings.

Subcontractor Savings

Subcontractor's ICS share is paid the same way the Prime's is adjusted by the Gov't

Subcontractor's CCS, FCS and CSS are paid by adding to the contract price or, if an incentive type contract, added as a separate line item on the contract

Payments are made upon receipt by the Prime of their corresponding share

Primes may further incentivize Subcontractors by paying VECP shares early, before all Prime's shares are received from the Gov't