52.248-1 Value Engineering.

As prescribed in 48.201 , insert the following clause:

Value Engineering (Jun 2020)

(a) *General*. The Contractor is encouraged to develop, prepare, and submit *value engineering* change proposals (VECP's) voluntarily. The Contractor *shall* share in any *net acquisition savings* realized from accepted VECP's, in accordance with the incentive sharing rates in paragraph (f) of this clause.

(b) *Definitions*.

Acquisition savings, as used in this clause, means savings resulting from the application of a VECP to contracts awarded by the same *contracting office* or its successor for essentially the same *unit*. *Acquisition savings* include-

(1) *Instant contract* savings, which are the net cost reductions on this, the *instant contract*, and which are equal to the *instant unit cost reduction* multiplied by the number of *instant contract units* affected by the VECP, less the Contractor's allowable development and implementation costs;

(2) Concurrent contract savings, which are net reductions in the prices of other contracts that are definitized and ongoing at the time the VECP is accepted; and

(3) Future contract savings, which are the product of the *future unit cost reduction* multiplied by the number of future contract *units* in the *sharing base*. On an *instant contract*, future contract savings include savings on increases in quantities after VECP acceptance that are due to *contract modifications*, exercise of *options*, additional orders, and funding of subsequent year requirements on a multiyear contract.

Collateral savings, as used in this clause, means those measurable net reductions resulting from a VECP in the agency's overall projected collateral costs, exclusive of *acquisition savings*, whether or not the *acquisition* cost changes.

Contracting office includes any *contracting office* that the *acquisition* is transferred to, such as another branch of the agency or another agency's office that is performing a joint *acquisition* action.

Contractor's development and implementation costs, as used in this clause, means those costs the Contractor incurs on a VECP specifically in developing, testing, preparing, and submitting the VECP, as well as those costs the Contractor incurs to make the contractual changes required by Government acceptance of a VECP.

Future unit cost reduction, as used in this clause, means the *instant unit cost reduction* adjusted as the *Contracting Officer* considers necessary for projected learning or changes in quantity during the *sharing period*. It is calculated at the time the VECP is accepted and applies either-

(1) Throughout the *sharing period*, unless the *Contracting Officer* decides that recalculation is necessary because conditions are significantly different from those previously anticipated; or

(2) To the calculation of a lump-sum payment, which cannot later be revised.

Government costs, as used in this clause, means those agency costs that result directly from developing and implementing the VECP, such as any net increases in the cost of testing, operations, maintenance, and logistics support. The term does not include the normal administrative costs of processing the VECP or any increase in this contract's cost or price resulting from *negative instant contract savings*.

Instant contract, as used in this clause, means this contract, under which the VECP is submitted. It does not include increases in quantities after acceptance of the VECP that are due to *contract modifications*, exercise of *options*, or additional orders. If this is a multiyear contract, the term does not include quantities funded after VECP acceptance. If this contract is a fixed-price contract with prospective price redetermination, the term refers to the period for which firm prices have been established.

Instant unit cost reduction means the amount of the decrease in *unit* cost of performance (without deducting any Contractor's development or implementation costs) resulting from using the VECP on this, the *instant contract*. If this is a service contract, the *instant unit cost reduction* is normally equal to the number of hours per line-item task saved by using the VECP on this contract, multiplied by the appropriate contract labor rate.

Negative instant contract savings means the increase in the cost or price of this contract when the acceptance of a VECP results in an excess of the Contractor's allowable development and implementation costs over the product of the *instant unit cost reduction* multiplied by the number of *instant contract units* affected.

Net acquisition savings means total *acquisition savings*, including instant, concurrent, and future contract savings, less *Government costs*.

Sharing base, as used in this clause, means the number of affected end items on contracts of the *contracting office* accepting the VECP.

Sharing period, as used in this clause, means the period beginning with acceptance of the first *unit* incorporating the VECP and ending at a calendar date or event determined by the *contracting officer* for each VECP.

Unit, as used in this clause, means the item or task to which the *Contracting Officer* and the Contractor agree the VECP applies.

Value engineering change proposal (VECP) means a proposal that-

(1) Requires a change to this, the *instant contract*, to implement; and

(2) Results in reducing the overall projected cost to the agency without impairing essential functions or characteristics;*provided*, that it does not involve a change-

(i) In deliverable end item quantities only;

(ii) In research and development (R&D) end items or R&D test quantities that is due solely to results of previous testing under this contract; or

(iii) To the contract type only.

(c) *VECP preparation*. As a minimum, the Contractor *shall* include in each VECP the information described in paragraphs (c)(1) through (8) of this clause. If the proposed change is affected by contractually required configuration management or similar procedures, the instructions in those procedures relating to format, identification, and priority assignment *shall* govern VECP preparation. The VECP *shall* include the following:

(1) A description of the difference between the existing contract requirement and the proposed requirement, the comparative advantages and disadvantages of each, a justification when an item's function or characteristics are being altered, the effect of the change on the end item's performance, and any pertinent objective test data.

(2) A list and analysis of the contract requirements that *must* be changed if the VECP is accepted, including any suggested specification revisions.

(3) Identification of the *unit* to which the VECP applies.

(4) A separate, detailed cost estimate for (i) the affected portions of the existing contract requirement and (ii) the VECP. The cost reduction associated with the VECP *shall* take into account the Contractor's allowable development and implementation costs, including any amount attributable to subcontracts under the Subcontracts paragraph of this clause.

(5) A description and estimate of costs the Government *may* incur in implementing the VECP, such as test and evaluation and operating and support costs.

(6) A prediction of any effects the proposed change would have on collateral costs to the agency.

(7) A statement of the time by which a *contract modification* accepting the VECP *must* be issued in order to achieve the maximum cost reduction, noting any effect on the contract completion time or delivery schedule.

(8) Identification of any previous submissions of the VECP, including the dates submitted, the agencies and contract numbers involved, and previous Government actions, if known.

(d) *Submission*. The Contractor *shall* submit VECP's to the *Contracting Officer*, unless this contract states otherwise. If this contract is administered by other than the *contracting office*, the Contractor *shall* submit a copy of the VECP simultaneously to the *Contracting Officer* and to the Administrative *Contracting Officer*.

(e) Government action.

(1) The *Contracting Officer* will notify the Contractor of the status of the VECP within 45 calendar days after the *contracting office* receives it. If additional time is required, the *Contracting Officer* will notify the Contractor within the 45-*day* period and provide the reason for the delay and the expected date of the decision. The Government will process VECP's expeditiously; however, it will not be liable for any delay in acting upon a VECP.

(2) If the VECP is not accepted, the *Contracting Officer* will notify the Contractor *in writing*, explaining the reasons for rejection. The Contractor *may* withdraw any VECP, in whole or in part, at any time before it is accepted by the Government. The *Contracting Officer may* require that the Contractor provide written notification before undertaking significant expenditures for VECP effort.

(3) Any VECP *may* be accepted, in whole or in part, by the *Contracting Officer*'s award of a modification to this contract citing this clause and made either before or within a reasonable time after contract performance is completed. Until such a *contract modification* applies a VECP to this contract, the Contractor *shall* perform in accordance with the existing contract. The decision to

accept or reject all or part of any VECP is a unilateral decision made solely at the discretion of the *Contracting Officer*.

(f) *Sharing rates*. If a VECP is accepted, the Contractor *shall* share in *net acquisition savings* according to the percentages shown in the table below. The percentage paid the Contractor depends upon-

(1) This contract's type (fixed-price, incentive, or cost-reimbursement);

(2) The sharing arrangement specified in paragraph (a) of this clause (incentive, program requirement, or a combination as delineated in the Schedule); and

(3) The source of the savings (the *instant contract*, or concurrent and future contracts), as follows:

Contractor's Share of *Net Acquisition Savings* (Figure in Percent)

Contract Type	Incentive (Voluntary)		Program Requirement (Mandatory)	
	Instant Contract Rate	Concurrent and Future Contract Rate	*Instant Contract* Rate	Concurrent and Future Contract Rate
Fixed-price (includes fixed-price-award-fee; excludes other fixed-price incentive contracts)	*50	*50	25	25
Incentive (fixed-price or cost) (other than award fee)	(**)	*50	(**)	25
Cost-reimbursement (includes cost-plus-award-fee; excludes other cost-type incentive contracts)	***25	***25	15	15

* The *Contracting Office may* increase the Contractor's sharing rate to as high as 75 percent for each VECP.

** Same sharing arrangement as the contract's profit or fee adjustment formula.

*** The *Contracting Office may* increase the Contractor's sharing rate to as high as 50 percent for each VECP.

(g) Calculating *net acquisition savings*.

(1) *Acquisition savings* are realized when (i) the cost or price is reduced on the *instant contract*, (ii) reductions are negotiated in concurrent contracts, (iii) future contracts are awarded, or (iv) agreement is reached on a lump-sum payment for future contract savings (see paragraph (i)(4) of this clause). *Net acquisition savings* are first realized, and the Contractor *shall* be paid a share, when *Government costs* and any *negative instant contract savings* have been fully offset against *acquisition savings*.

(2) Except in incentive contracts, *Government costs* and any price or cost increases resulting from *negative instant contract savings shall* be offset against *acquisition savings* each time such savings are realized until they are fully offset. Then, the Contractor's share is calculated by multiplying *net acquisition savings* by the appropriate Contractor's percentage sharing rate (see paragraph (f) of this clause). Additional Contractor shares of *net acquisition savings shall* be paid to the Contractor at the time realized.

(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. The Contractor *shall* share through the contract incentive structure in savings on the *instant contract* items affected. Any *negative instant contract savings shall* be added to the target cost or to the target price and ceiling price, and the amount *shall* be offset against concurrent and future contract savings.

(4) If the Government does not receive and accept all items on which it paid the Contractor's share, the Contractor *shall* reimburse the Government for the proportionate share of these payments.

(h) *Contract adjustment*. 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;

(2) When the amount of *instant contract* savings is negative, increase the contract price, target price and ceiling price, target cost, or estimated cost by that amount;

(3) Specify the Contractor's dollar share per *unit* on future contracts, or provide the lump-sum payment;

(4) Specify the amount of any *Government costs* or *negative instant contract savings* to be offset in determining *net acquisition savings* realized from concurrent or future contract savings; and

(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.

(i) Concurrent and future contract savings.

(1) 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 paragraph (h)(5) of this clause. For incentive contracts, shares *shall* be added as a separate firm-fixed-price *line item* 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.

(2) The *Contracting Officer shall* calculate the Contractor's share of concurrent contract savings by-

(i) Subtracting from the reduction in price negotiated on the concurrent contract any *Government costs* or *negative instant contract savings* not yet offset; and

(ii) Multiplying the result by the Contractor's sharing rate.

(3) The *Contracting Officer shall* calculate the Contractor's share of future contract savings by-

(i) Multiplying the *future unit cost reduction* by the number of future contract *units* scheduled for delivery during the *sharing period*;

(ii) Subtracting any *Government costs* or *negative instant contract savings* not yet offset; and

(iii) Multiplying the result by the Contractor's sharing rate.

(4) When the Government wishes and the Contractor agrees, the Contractor's share of future contract savings *may* be paid in a single lump sum rather than in a series of payments over time as future contracts are awarded. Under this *alternate* procedure, the future contract savings *may* be calculated when the VECP is accepted, on the basis of the *Contracting Officer*'s forecast of the number of *units* that will be delivered during the *sharing period*. The Contractor's share *shall* be included in a modification to this contract (see paragraph (h)(3) of this clause) and *shall* not be subject to subsequent adjustment.

(5) *Alternate no-cost settlement method*. When, in accordance with section 48.104-4 of the Federal *Acquisition* Regulation (FAR), the Government and the Contractor mutually agree to use the no-cost settlement method, the following applies:

(i) The Contractor will keep all the savings on the *instant contract* and on its concurrent contracts only.

(ii) The Government will keep all the savings resulting from concurrent contracts placed on other sources, savings from all future contracts, and all *collateral savings*.

(j) *Collateral savings*. If a VECP is accepted, the *Contracting Officer* will increase the *instant contract* amount, as specified in paragraph (h)(5) of this clause, by a rate from 20 to 100 percent, as determined by the *Contracting Officer*, of any projected *collateral savings* determined 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* will not exceed the contract's firm-fixed-price, target price, target cost, or estimated cost, at the time the VECP is accepted, or $100,000, whichever is greater. The *Contracting Officer* will be the sole determiner of the amount of *collateral savings*.

(k) *Relationship to other incentives*. 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. However, the 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.

(l) *Subcontracts*. The Contractor *shall* include an appropriate *value engineering* clause in any subcontract-valued at or above the *simplified acquisition threshold*, as defined in FAR 2.101 on the date of subcontract award, 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*.

(m) *Data*. The Contractor *may* restrict the Government's right to use any part of a VECP or the supporting data by marking the following legend on the affected parts:

These data, furnished under the *Value Engineering* clause of contract _____, *shall* not be disclosed outside the Government or duplicated, used, or disclosed, in whole or in part, for any purpose other than to evaluate a *value engineering change proposal* submitted under the clause. This restriction does not limit the Government's right to use information contained in these data if it has been obtained or is otherwise available from the Contractor or from another source without limitations.

If a VECP is accepted, the Contractor hereby grants the Government unlimited rights in the VECP and supporting data, except that, with respect to data qualifying and submitted as limited rights *technical data*, the Government *shall* have the rights specified in the *contract modification* implementing the VECP and *shall* appropriately mark the data. (The terms "unlimited rights" and "limited rights" are defined in part 27 of the Federal *Acquisition* Regulation.)

(End of clause)

Alternate I (Apr 1984). If the *contracting officer* selects a mandatory *value engineering* program requirement, substitute the following paragraph (a) for paragraph (a) of the basic clause:

(a) *General*. The Contractor *shall* (1) engage in a *value engineering* program, and submit *value engineering* progress reports, as specified in the Schedule and (2) submit to the *Contracting Officer* any resulting *value engineering* change proposals (VECP's). In addition to being paid as the Schedule specifies for this mandatory program, the Contractor *shall* share in any *net acquisition savings* realized from accepted VECP's, in accordance with the program requirement sharing rates in paragraph (f) of this clause.

Alternate II (Jan 2015). If the *contracting officer* selects both a *value engineering* incentive and mandatory *value engineering* program requirement, substitute the following paragraph (a) for paragraph (a) of the basic clause:

(a) *General*. For those *line items* designated in the Schedule as subject to the *value engineering* program requirement, the Contractor *shall* (1) engage in a *value engineering* program, and submit *value engineering* progress reports, as specified in the Schedule and (2) submit to the *Contracting Officer* any resulting VECP's. In addition to being paid as the Schedule specifies for this mandatory program, the Contractor *shall* share in any *net acquisition savings* realized from VECP's accepted under the program, in accordance with the program requirement sharing rates in paragraph (f) of this clause. For remaining areas of the contract, the Contractor is encouraged to develop, prepare, and submit VECP's voluntarily; for VECP's accepted under these remaining areas, the incentive sharing rates apply. The decision on which rate applies is a unilateral decision made solely at the discretion of the Government.

Alternate III (Apr 1984). When the *head of the contracting activity* determines that the cost of calculating and tracking *collateral savings* will exceed the benefits to be derived in a contract calling for a *value engineering* incentive, delete paragraph (j) from the basic clause and redesignate the remaining paragraphs accordingly.

Parent topic: 52.248 [Reserved]