

ANNISTON ARMY DEPOT COMMANDER'S STATEMENT

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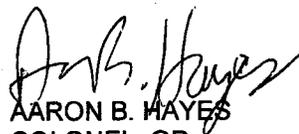
VALUE ENGINEERING IN CONTRACTS

Anniston Army Depot has consistently maintained a policy of assuring the highest quality product and performance in support of our Armed Forces and Allies throughout the free world. In addition, we have a deep commitment toward ensuring that the public gets full value for every "Tax Dollar" we spend.

To assist us in the achievement of high quality products/services at a reasonable cost, we urge our contractors to review our designs and requirements in your contracts with a critical eye. Utilizing your knowledge of the products/services you are providing, we solicit changes that would reduce cost of construction, production, and performance without sacrificing quality of the product or services ordered.

The "Value Engineering Incentive Clause" in your contract provides you with a way of sharing in savings that accrue, when we use your proposed changes in our contract requirements.

I urge you to take full advantage of this incentive clause. To do so can mean substantial direct rewards for your company as well as savings for the government and thereby yourself as a taxpayer.


AARON B. HAYES
COLONEL, OD
COMMANDING

FORWARD

This pamphlet is intended for use by contractors who may not be familiar with the Department of Defense Value Engineering Program and to explain the new "Value Engineering Incentive Clause" contained in the general provisions of Depot contracts. This is not a complete text on Value Engineering; however, this pamphlet does give a general description of principles and application of the Value Engineering Program.

The purpose of this literature is to discuss the role of a contractor in the Value Engineering Program and to explain the purpose and intent of the "Value Engineering Incentive Clause."

Essential ingredients of a good value engineering proposal that will enable a prompt review and decision on contractors' proposals are discussed in the pamphlet.

Many of the Depot's contracts contain a "Value Engineering Clause" with requirements for inclusion in your subcontracts. Use of this clause coupled with the exercising of your technical knowledge, ingenuity, and basic know-how will result in higher income for you and more value for your "Tax Dollar."

VALUE - The term value is used in many different ways and has several classes. Economic value is frequently confused with monetary price or cost of an item. Value as used in the Value Engineering Job Plan is generally broken down as follows:

USE VALUE - The properties and qualities which satisfactorily and reliably accomplish a use.

ESTEEM VALUE - The properties, appearance, or other qualities that create a desire to own the item.

COST VALUE - The sum of labor, materials, and other costs required to procure the item.

EXCHANGE VALUE - The properties or qualities that enable us to exchange the item for something else we want.

ANALYTICAL TECHNIQUES - Techniques characterized by a logical step-by-step approach.

THE VALUE ENGINEERING JOB PLAN

A definite plan of action for accomplishment of Value Engineering studies including implementation of recommendation. As used by the Depot, the Value Engineering Job Plan consists of five phases and follow-up to assure implementation of the proposal. The five phases of the plan are shown on Figure 1-1. In addition, a comparison between the scientific method of problem solving and the Value Engineering Job Plan is shown on Figure 1-2.

The five phases of the Value Engineering Plan are: (1) **INFORMATION** - function analysis; (2) **SPECULATION** - for generating alternatives (here, you brainstorm and create); (3) **ANALYSIS** - for evaluating the alternatives; (4) **DEVELOPMENT** - for building a firm proposal; (5) **PRESENTATION** - submitting the recommendation for implementation, and all the time, retain the intended FUNCTIONS.

PURPOSE AND INTENT OF VALUE ENGINEERING INCENTIVE CLAUSE

To a contractor, the Value Engineering Clause requires both a contract change and a resultant savings to the government without impairing the essential functions and characteristics of the item - such as service life, reliability, economy of operation, ease of maintenance, and necessary standardization features. We must also consider the environmental impact, safety, and esthetic qualities when preparing a proposal.

The Value Engineering Incentive Clause has three primary purposes: (1) to take advantage of the contractor's knowledge; (2) to improve our basic criteria and standard designs; and (3) to provide a contractual way of sharing the savings while maintaining functional needs. Furthermore, resources are finite and we must conserve materials and manpower. As taxpayers, all of us should do all we can to save Government dollars.

WHAT IS VALUE ENGINEERING?

In order to fully understand the definition of Value Engineering it may be necessary to say what Value Engineering is not. Value Engineering is not a glorified suggestion or cost reduction program, and it is not by any means a cheapening process. We do seek to eliminate those features that add cost to a contract without providing comparable utility. Any contract feature that results in added performance cost is a potential opportunity for Value Engineering savings.

The formal definition of Value Engineering is: "Value Engineering is an organized effort directed at analyzing the function of the construction, equipment, supplies, and provision of services for the purpose of achieving these functions at a reduced life cycle cost without sacrificing quality, utility or operation and maintenance capability." We deliberately set about the business of (1) selecting high cost areas to study; (2) determining the basic function of the item; (3) "brainstorming" the problem and developing a list of many alternative ways of performing the function; (4) selecting the best possible alternative to perform the function at the lowest cost consistent with requisite quality; and (5) presenting and selling the proposal.

DEFINITIONS

Definitions, as related to Value Engineering, are furnished for your use to promote a better understanding of the function and program.

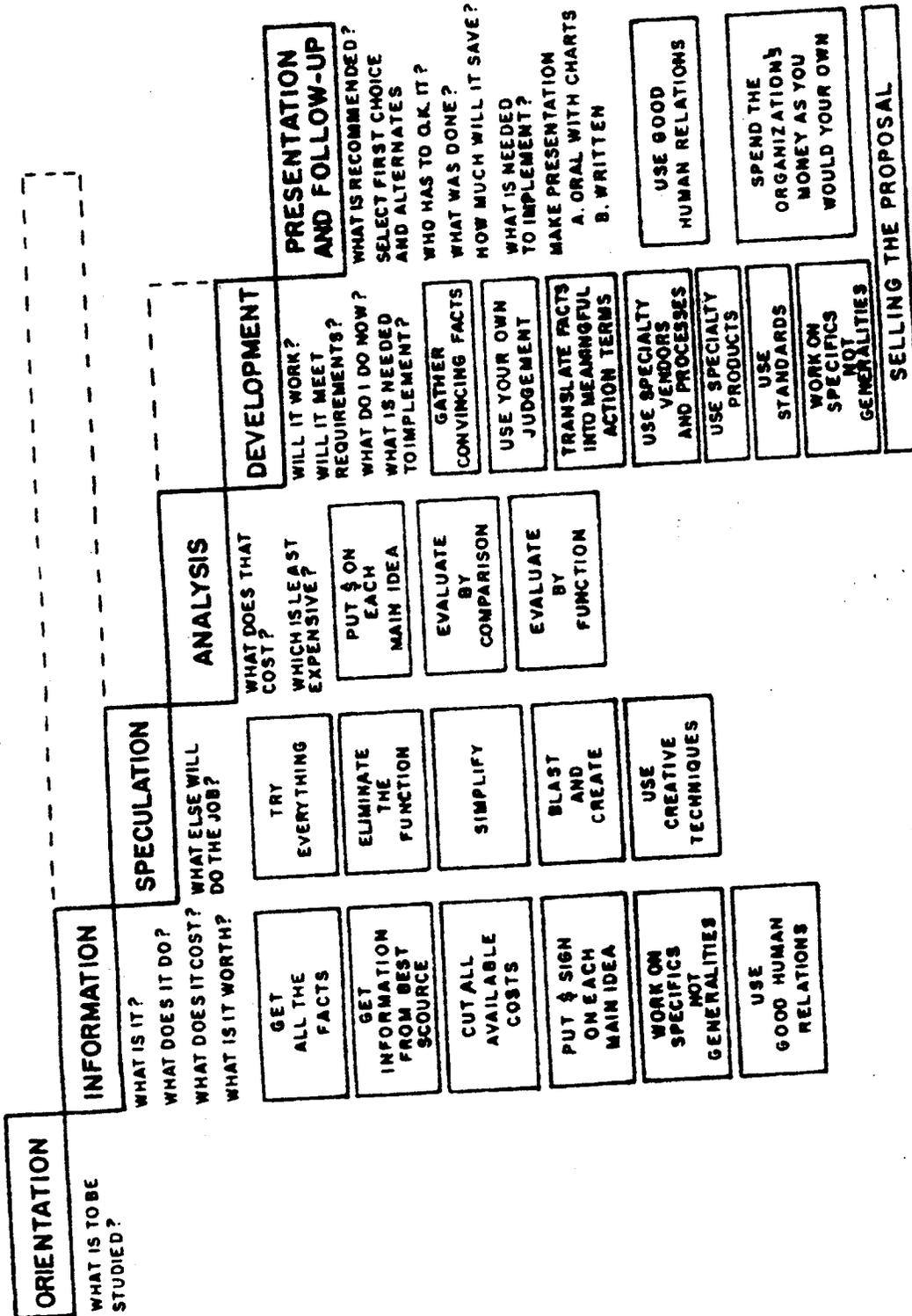
FUNCTION - In Value Engineering, "Function" is defined as the specific purposes or use intended for an item. It is the term used to describe the utility of an item.

BASIC FUNCTION - A performance feature that must be attained if the total item is to work or perform.

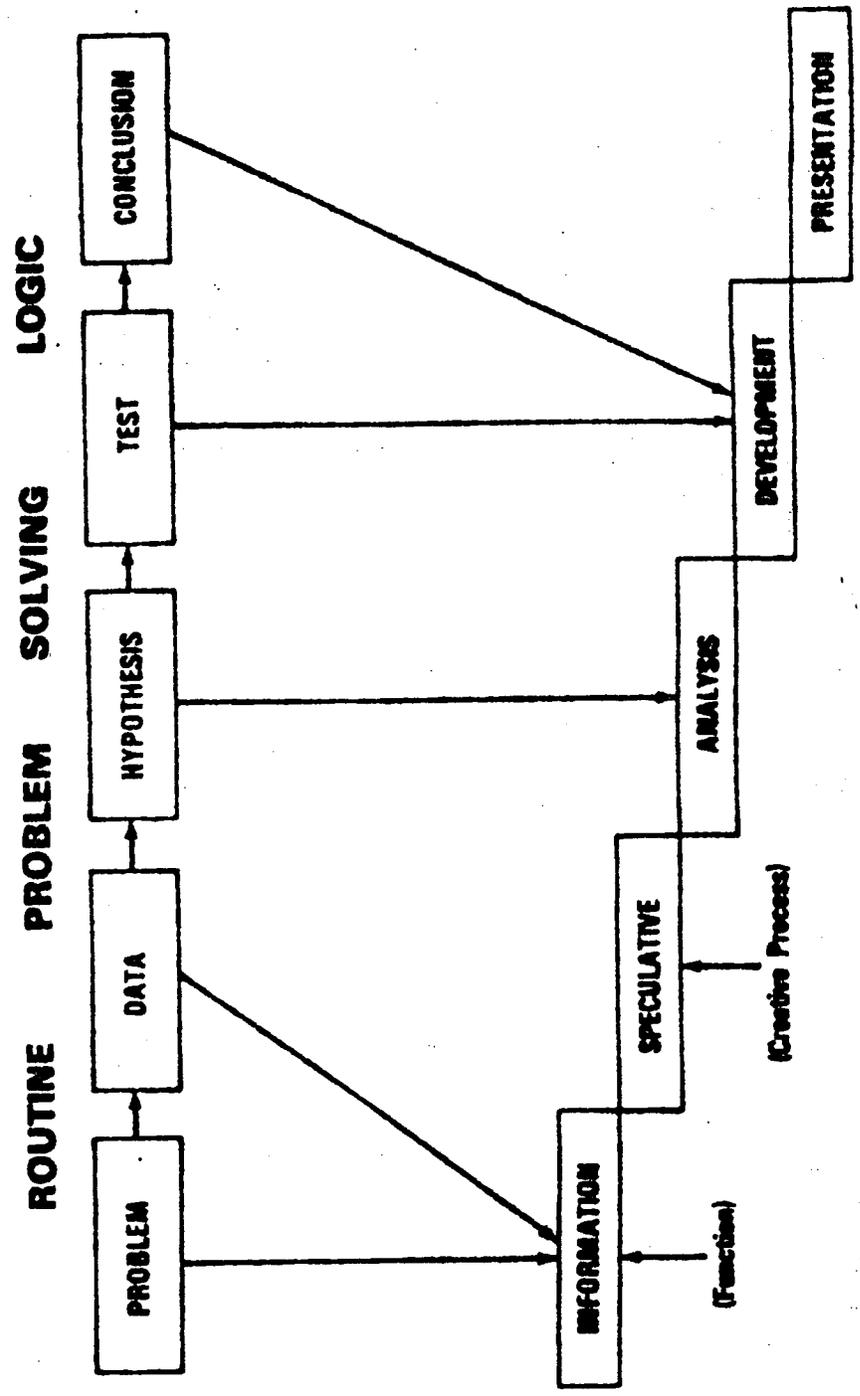
SECONDARY FUNCTION - Performance features other than those that must be accomplished. In some cases, they represent features that are nice to have, but not necessary. In other cases, they represent features that are necessary because of the particular method selected to accomplish a basic function.

A rule in Value Engineering is that the function being discussed should be defined in two words -- a verb and a noun; more specifically a transitive verb and a direct object. The object may be either a noun or a gerund (a verb form typically ending in "ing" used as a noun). The verb answers the question what does it do and the noun tells what it acted upon. For example: The function of a water service line to a building could be defined as "provide service." This functional description is inaccurate because service not being readily measurable does not enable us to seek alternatives intelligently. If we define the function of the line as "transports water" the noun in the definition is measurable, and acceptable alternatives, being dependent upon the quality of water being transported, can be determined.

V.E. JOB PLAN CHART



SCIENTIFIC METHOD



THE VE JOB PLAN

Now, why should a contractor try to make changes under the Value Engineering Incentive Clause? Your main objective is to complete the contract on time at a profit. Well, you won't try unless you are reasonably sure you can make money with a Value Engineering Change Proposal (VECP). As can be seen, the incentive clause allows the contractor up to 50% of the net savings as a result of your proposal and profit is not reduced when a proposal is approved.

HIGH COST AREAS TO LOOK FOR

What should you look for in a contract to get an idea that can be sold at a profit? We have listed some possibilities.

1. Items that are expensive.
2. Items that are repeated many times.
3. Parts that can be eliminated without altering a basic function.
4. Materials that are critical and expensive.
5. Required tolerances that are too tight.
6. Specifications that contain unneeded costly requirements.
7. Items that are difficult to construct.
8. Items that are costly to maintain. (The contractor has little incentive to reduce these costs under a contract except the incentive to save the taxpayers' dollars; however, in many cases it is less costly to construct if it is less costly to maintain.)
9. Total cost simply appears to be out of line. (Your estimator is probably best qualified to find likely subjects for VECPs.)

WHAT IS YOUR ROLE IN THE VALUE ENGINEERING PROGRAM?

We recognize that competition between contractors is keen, and that this condition often results in paring profit to a minimum. It follows then that every opportunity that permits you to increase your return on investment after contract award should be good news to you.

The Value Engineering Incentive Clause - discussed in more detail later in Part 48 of the FAR, included in this pamphlet - permits you to propose changes to the contract that will "get the job done", at least as well as the original design, but at lower cost.

We know that you are obligated to yourself and to your firm to obtain maximum profits while maintaining your reputation for high quality contracting. We also know that you feel an obligation to your government to provide a dollar's value for every tax dollar we spend on our requirements. Doesn't it make good sense for you, the contractor, to increase your income by submitting changes to your contract and, at the same time, making your tax dollar go further? The Value Engineering Incentive Clause provides you with an opportunity to do both.

YOUR OPPORTUNITY

We may wonder why a good engineer does not always produce a design or specification that will yield "dollar's value for every dollar spent". There are many good reasons why this may happen. The two most outstanding reasons are (1) lack of time and (2) a tendency to follow the previously approved and used design/specification. Even the best designer can improve his design if he is given sufficient time to develop more cost-effective alternatives.

You are often in a better position to keep up-to-date on advances in the state-of-the-art than we are. In fact, you have the advantage of being in much more direct contact with every day problems involved in our requirements. Therefore, you can provide a fresh approach to reduce costs associated with our requirements that will improve contract sequence and completion time.

You are also in a better position to get new and innovative ideas for improving quality and reducing costs from sub-contractors and suppliers. Put a Value Engineering Incentive Clause in your contracts with sub-contractors to broaden the base of your participation. Submission by your sub-contractor or supplier means added income to you with minimum effort and investment.

REMEMBER: Use Value Engineering to increase your profit by developing changes which do not affect the basic function of the requirement. Also, take the time to follow standard Value Engineering methodology instead of submitting suggestions. Your profits may increase even more. If you need more information or help in developing a Value Engineering Proposal, you may contact the Value Engineering Program Manager (VEPM) at Anniston Army Depot, 7 Frankford Avenue, DPE-MED, Anniston, Al 36201-5056, ATTN: Aubrey Adams, telephone (205) 235-6008.

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VEP/VECP SUBMISSION

Note that the original VECP is submitted to the Contracting Officer with a copy immediately forwarded to the Depot VEPM. The purpose of this statement is to expedite a decision by simultaneous submission of the VECP. This paragraph also (1) absolves the Government from liability for delay in processing even though expeditious processing is directed; and (2) gives the contractor the right to withdraw a VECP at any time before the Government accepts the VECP.

The remainder of this pamphlet is Part 48 of the Federal Acquisition Regulation (FAR) dated May 16, 1997.

DP(DAR)

April 10, 1997

MEMORANDUM FOR DIRECTOR OF DEFENSE AGENCIES DEPUTY FOR ACQUISITION AND BUSINESS MANAGEMENT, ASN(RDA)/ABM DEPUTY ASSISTANT SECRETARY OF THE AIR FORCE (CONTRACTING), SAF/AQC ASSISTANT DEPUTY ASSISTANT SECRETARY OF THE ARMY (PROCUREMENT)/DIRECTOR FOR CONTRACTING DEPUTY DIRECTOR (ACQUISITION), DEFENSE LOGISTICS AGENCY

SUBJECT: Class Deviation--Value Engineering Change Proposals

I authorize all military departments and defense agencies to deviate from the requirements of Federal Acquisition Regulation(FAR) 48.001, 48.102, 48.104, 48.201, and the clause at 52.248-1, Value Engineering, when providing value engineering incentives to contractors.

FAR 48.001, 48.102, 48.104, and the clause at 52.248-1 provide for a fixed sharing period and fixed sharing and collateral savings rates when using value engineering techniques in contracts. FAR 48.201 requires the use of the clause at 52.248-1 when providing a value engineering incentive.

This class deviation authorizes contracting officers to use the attached revised FAR language when administering value engineering techniques. The revised FAR language changes the sharing period from the current 3 years to a range of 3 to 5 years; the incentive sharing arrangement from the current fixed rate for the contractor of 50 percent to a range of 50 to 75 percent; and the current fixed contractor shared collateral savings rate of 20 percent to a range of 20 to 100 percent. Further, the class deviation allows contracting officers to use the attached revised 52.248-1 clause.

This class deviation is approved for a 2-year period ending March 31, 1999, or until the FAR is revised, whichever occurs first.

o/s/b
Eleanor R. Spector
Director, Defense Procurement

Attachment

Value Engineering Change Proposals
Class Deviation

The following changes are made to the Federal Acquisition Regulation:

PART 48 -- VALUE ENGINEERING

48.001 Definitions

"Sharing period," as used in this part, means the period beginning with acceptance of the first unit incorporating the VECP and ending at the later of (a) (strike through: 3 years) [the end of a sharing period of 3-5 years set at the discretion of the contracting officer for each VECP,] after the first unit affected by the VECP is accepted * * *

SUBPART 48.1--POLICIES AND PROCEDURES

48.102 Polices

(g) * * * For engineering-development and low-rate-initial production contracts, the future sharing shall be on scheduled deliveries equal in number to the quantity required over the highest (strike through: 36) [designated number of] consecutive months of planned production, based on planning or production documentation at the time the VECP is accepted. [The number of months shall be established at the discretion of the contracting officer for each VECP. The range that shall be used is 36-60 months. In determining whether to extend the period beyond 36 months, the contracting officer shall consider the following and insert supporting rationale in the contract file:

- (1) Extent of the change;
- (2) Complexity of the change;
- (3) Development risk (e.g., contractor's financial risk);
- (4) Developmental cost;
- (5) Performance and/or reliability impact;
- (6) Production period remaining at time of VECP acceptance; and
- (7) Number of units affected.]

48.104 Sharing Arrangements

48.104-1 Sharing Acquisition Savings

(a) Supply or service contracts. * * *

Instant contract
rate

Concurrent and
future rate

Fixed-price (other (strike through: 50/50) than incentive)

Incentive (fixed-price (strike through: 50/50) or cost)

Cost-reimbursement (strike through: 75/25) (other than incentive) ++

+ Same sharing arrangement As the contractor's profit or fee adjustment formula.
++ Includes cost-plus-award-fee contracts.
[+++ A rate between 50 and 75 percent set by the contracting officer for each VECP, See 48.102(g) (1)-(5). ++++ A rate between 25 and 50 percent set by the contracting officer for each VECP. See 48.102(g) (1)-(5) .]

48.104-2 Sharing collateral savings.

(strike through: (b))The contractor's share of collateral savings (strike through: is 20 percent) [may range from 20 to 100 percent] of the estimated savings to be realized for each VECP during an average year of use but 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 contractor's share percentage is determined by the contracting officer for each VECP.] ***

PART 52 SOLICITATION PROVISIONS AND CONTRACT CLAUSES

52.248-1 Value Engineering.

*** For engineering-development and low-rate-initial -production solicitations and contracts, the contracting officer shall modify subdivision (i)(3)(i) and the first sentence under subparagraph (3) of the definition of acquisition saving by substituting for "the number of future contract units scheduled for delivery during the sharing period,?" a number equal to the quantity required over the highest (strike through: 36) [designated number of] consecutive months of planned production, based on planning or production documentation at the time the VECP is accepted. [The number of months shall be established at the discretion of the contracting officer for each VECP. A range of 36-60 months shall be used.]

VALUE ENGINEERING (MAR 1989) [(DEVIATION)]

(b) Definitions .

"Sharing period, as used in this clause, means the period beginning with the acceptance of the first unit incorporating the VECP and ending at the later of (1) (strike through: 3 years) [the end of a sharing period of 3-5 years, set at the direction of the Contracting Officer,] after the first unit affected by the VECP is accepted or (2) the last scheduled delivery date of an item affected by the VECP under this contract's delivery schedule in effect at the time the VECP is accepted [The contracting of Officer's determination of the sharing period is final and shall not be subject to the Disputes clause or otherwise subject to litigation under 41 U.S.C. 601-613.]

(f) Sharing rates .

Instant contract
rate

Concurrent and
future rate

Fixed-price (other (strike through: 50) than incentive)

Incentive (fixed-price (strike through: 50) or cost)

Cost-reimbursement (strike through: 25) (other than incentive) ++

+ Same sharing arrangement As the contractor's profit or fee adjustment formula.

++ Includes cost-plus-award-fee contracts.

[+++ A rate between 50 and 75 percent set by the contracting officer for each VECP. This decision is final and shall not be subject to the Disputes clause or otherwise subject to litigation under 41 U.S.C. 601-613.

++++ A rate between 25 and 50 percent set by the contracting officer for each VECP. This decision is final and shall not be subject to the Disputes clause or otherwise subject to litigation under 41 U.S.C. 601-613.]

(j) Collateral savings. If a VECP is accepted, the instant contract amount shall be increased, as specified in subparagraph (h)(5) above, by (strike through: 20 percent) [between 20 and 100 percent, as determined by the Contracting Officer,] of any Collateral savings determined to be realized in an typical year of use ***

PART 48
VALUE ENGINEERING

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FAR -- Part 48

Value Engineering FAC 90-46

May 16, 1997

48.000 -- Scope of Part.

This part prescribes policies and procedures for using and administering value engineering techniques in contracts.

48.001 -- Definitions.

"Acquisition savings," as used in this part, means savings resulting from the application of a value engineering change proposal (VECP) to contracts awarded by the same contracting office or its successor for essentially the same unit. Acquisition savings include --

- (a) Instant contract savings, which are the net cost reductions on the contract under which the VECP is submitted and accepted, 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;
- (b) 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
- (c) Future contract savings, which are the product of the future unit cost reduction multiplied by the number of future contract units scheduled for delivery during the sharing period (but see 48.102(g)). If the instant contract is a multiyear contract, future contract savings include savings on quantities funded after VECP acceptance.

"Collateral costs," as used in this part, means agency costs of operation, maintenance, logistic support, or Government-furnished property.

"Collateral savings," as used in this part, 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," as used in this part, 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 part, 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 part, 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

- (a) throughout the sharing period, unless the contracting officer decides that recalculation is necessary because conditions are significantly different from those previously anticipated, or
- (b) to the calculation of a lump-sum payment, which cannot later be revised.

"Government costs," as used in this part, 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 instant contract cost or price resulting from negative instant contract savings.

"Instant contract," as used in this part, means the 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 the contract is a multiyear contract, the term does not include quantities funded after VECP acceptance. In 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 the instant contract. In service contracts, the instant unit cost reduction is normally equal to the number of hours per line-item task saved by using the VECP on the instant contract, multiplied by the appropriate contract labor rate.

"Negative instant contract savings" means the increase in the instant contract cost or price 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 part, means the number of affected end items on contracts of the contracting office accepting the VECP.

"Sharing period," as used in this part, means the period beginning with acceptance of the first unit incorporating the VECP and ending at the later of

- (a) 3 years after the first unit affected by the VECP is accepted or,
- (b) the last scheduled delivery date of an item affected by the VECP under the instant contract delivery schedule in effect at the time the VECP is accepted (but see 48.102(g)).

"Unit," as used in this part, means the item or task to which the contracting officer and the contractor agree the VECP applies.

"Value engineering," as used in this part, means an analysis of the functions of a program, project,

system, product, item of equipment, building, facility, service, or supply of an executive agency, performed by qualified agency or contractor personnel, directed at improving performance, reliability, quality, safety, and life-cycle costs (Section 36 of the Office of Federal Procurement Policy Act, 41 U.S.C.401, et seq.).

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

- (a) Requires a change to the instant contract to implement; and
- (b) Results in reducing the overall projected cost to the agency without impairing essential functions or characteristics; provided, that it does not involve a change --
 - (1) In deliverable end item quantities only;
 - (2) In research and development (R&D) items or R&D test quantities that are due solely to results of previous testing under the instant contract; or
 - (3) To the contract type only.

"Value engineering proposal," as used in this part, means, in connection with an A-E contract, a change proposal developed by employees of the Federal Government or contractor value engineering personnel under contract to an agency to provide value engineering services for the contract or program.

Subpart 48.1 -- Policies and Procedures

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AFARS

48.101 -- General.

- (a) Value engineering is the formal technique by which contractors may
 - (1) voluntarily suggest methods for performing more economically and share in any resulting savings or
 - (2) be required to establish a program to identify and submit to the Government methods for performing more economically. Value engineering attempts to eliminate, without impairing essential functions or characteristics, anything that increases acquisition, operation, or support costs.
- (b) There are two value engineering approaches:
 - (1) The first is an incentive approach in which contractor participation is voluntary and the contractor uses its own resources to develop and submit any value engineering change proposals (VECP's). The contract provides for sharing of savings and for payment of the contractor's allowable development and implementation costs only if a VECP is accepted. This voluntary approach should not in itself increase costs to the Government.
 - (2) The second approach is a mandatory program in which the Government requires and pays for

a specific value engineering program effort. The contractor must perform value engineering of the scope and level of effort required by the Government's program plan and included as a separately priced item of work in the contract Schedule. No value engineering sharing is permitted in architect engineer contracts. All other contracts with a program clause share in savings on accepted VECP's, but at a lower percentage rate than under the voluntary approach. The objective of this value engineering program requirement is to ensure that the contractor's value engineering effort is applied to areas of the contract that offer opportunities for considerable savings consistent with the functional requirements of the end item of the contract.

48.102 -- Policies.

- (a) As required by Section 36 of the Office of Federal Procurement Policy Act (41 U.S.C.401, et seq.), agencies shall establish and maintain cost-effective value engineering procedures and processes. Agencies shall provide contractors a substantial financial incentive to develop and submit VECP's. Contracting activities will include value engineering provisions in appropriate supply, service, architect-engineer and construction contracts as prescribed by 48.201 and 48.202 except where exemptions are granted on a case-by-case basis, or for specific classes of contracts, by the agency head.
- (b) Agencies shall
- (1) establish guidelines for processing VECP's,
 - (2) process VECP's objectively and expeditiously, and
 - (3) provide contractors a fair share of the savings on accepted VECP's.
- (c) Agencies shall consider requiring incorporation of value engineering clauses in appropriate subcontracts.
- (d)
- (1) Agencies other than the Department of Defense shall use the value engineering program requirement clause (52.248-1), Alternates I or II) in initial production contracts for major system programs (see definition of major system in 34.001) and for contracts for major systems research and development except where the contracting officer determines and documents the file to reflect that such use is not appropriate.
 - (2) In Department of Defense contracts, the VE program requirement clause (52.248-1), Alternates I or II), shall be placed in initial production solicitations and contracts (first and second production buys) for major system acquisition programs as defined in DoD Directive 5000.1, except as specified in subdivisions (d)(2)(i) and (ii) of this section. A program requirement clause may be included in initial production contracts for less than major systems acquisition programs if there is a potential for savings. The contracting officer is not required to include a program requirement clause in initial production contracts --
 - (i) Where, in the judgment of the contracting officer, the prime contractor has demonstrated an effective VE program during either earlier program phases, or during other recent comparable production contracts.
 - (ii) Which are awarded on the basis of competition.

- (e) Value engineering incentive payments do not constitute profit or fee within the limitations imposed by 10 U.S.C.2306(d) and 41 U.S.C.254(b) (see 15.903(d)).
- (f) Generally, profit or fee on the instant contract should not be adjusted downward as a result of acceptance of a VECP. Profit or fee shall be excluded when calculating instant or future contract savings.
- (g) In the case of contracts for items requiring an extended period of production (e.g., ship construction, major system acquisition), agencies may prescribe sharing of future contract savings on all future contract units to be delivered under contracts awarded for essentially the same item during the sharing period, even if the scheduled delivery date is outside the sharing period. For engineering-development and low-rate-initial-production contracts, the future sharing shall be on scheduled deliveries equal in number to the quantity required over the highest 36 consecutive months of planned production, based on planning or production documentation at the time the VECP is accepted.
- (h) In the case of contracts for architect-engineer services, the contract shall include a separately priced line item for mandatory value engineering of the scope and level of effort required in the statement of work. The objective is to ensure that value engineering effort is applied to specified areas of the contract that offer opportunities for significant savings to the Government. There shall be no sharing of value engineering savings in contracts for architect-engineer services.
- (i) Agencies shall establish procedures for funding and payment of the contractor's share of collateral savings and future contract savings.

48.103 -- Processing Value Engineering Change Proposals.

- (a) Instructions to the contractor for preparing a VECP and submitting it to the Government are included in paragraphs (c) and (d) of the value engineering clauses prescribed in Subpart 48.2. Upon receiving a VECP, the contracting officer or other designated official shall promptly process and objectively evaluate the VECP in accordance with agency procedures and shall document the contract file with the rationale for accepting or rejecting the VECP.
- (b) The contracting officer is responsible for accepting or rejecting the VECP within 45 days from its receipt by the Government. If the Government will need more time to evaluate the VECP, the contracting officer shall notify the contractor promptly in writing, giving the reasons and the anticipated decision date. The contractor may withdraw, in whole or in part, any VECP not accepted by the Government within the period specified in the VECP. Any VECP may be approved, in whole or in part, by a contract modification incorporating the VECP. Until the effective date of the contract modification, the contractor shall perform in accordance with the existing contract. If the Government accepts the VECP, but properly rejects units subsequently delivered or does not receive units on which a savings share was paid, the contractor shall reimburse the Government for the proportionate share of these payments. If the VECP is not accepted, the contracting officer shall provide the contractor with prompt written notification, explaining the reasons for rejection.
- (c) The following Government decisions are not subject to the Disputes clause or otherwise subject to litigation under the Contract Disputes Act of 1978 (41 U.S.C.601-613):
 - (1) The decision to accept or reject a VECP.

- (2) The determination of collateral costs or collateral savings.
- (3) The decision as to which of the sharing rates applies when Alternate II of the clause at 52.248-1, Value Engineering, is used.

48.104 -- Sharing Arrangements.

48.104-1 -- Sharing Acquisition Savings.

(a) *Supply or service contracts.*

- (1) The sharing base for acquisition savings is normally the number of affected end items on contracts of the contracting office accepting the VECP. The sharing rates (Government/contractor) for net acquisition savings for supplies and services are based on the type of contract, the value engineering clause or alternate used, and the type of savings, as follows:

**Government/Contractor Shares of Net Acquisition Savings
(Figures in Percent)**

Contract Type	Sharing Arrangement			
	Incentive (Voluntary)		Program Requirement (Mandatory)	
	Instant Contract Rate	Concurrent and Future Rate	Instant Contract Rate	Concurrent and Future Contract Rate
Fixed-price (other than incentive)	50/50	50/50	75/25	75/25
Incentive (fixed-price or cost)	*	50/50	*	75/25
Cost-reimbursement (other than incentive)**	75/25	75/25	85/15	85/15

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

** *Includes cost-plus-award-fee contracts.*

- (2) Acquisition savings may be realized on the instant contract, concurrent contracts, and future contracts. The contractor is entitled to a percentage share (see subparagraph (1) above) of any net acquisition savings. Net acquisition savings result when the total of acquisition savings becomes greater than the total of Government costs and any negative instant contract savings. This may occur on the instant contract or it may not occur until reductions have been negotiated on concurrent contracts or until future contract savings are calculated, either through lump-sum payment or as each future contract is awarded.
 - (i) When the instant contract is not an incentive contract, the contractor's share of net acquisition savings is calculated and paid each time such savings are realized. This

may occur once, several times, or, in rare cases, not at all.

- (ii) When the instant contract is an incentive contract, the contractor shares in instant contract savings through the contract's incentive structure. In calculating acquisition savings under incentive contracts, the contracting officer shall add any negative instant contract savings to the target cost or to the target price and ceiling price and then offset these negative instant contract savings and any Government costs against concurrent and future contract savings.
 - (3) The contractor shares in the savings on all affected units scheduled for delivery during the sharing period (but see 48.102(g)). The contractor is responsible for maintaining, for 3 years after final payment on the contract under which the VECP was accepted, records adequate to identify the first delivered unit incorporating the applicable VECP.
 - (4) Contractor shares of savings are paid through the contract under which the VECP was accepted. On incentive contracts, the contractor's share of concurrent and future contract savings and of collateral savings shall be paid as a separate firm-fixed-price contract line item on the instant contract.
 - (5) Within 3 months after concurrent contracts have been modified to reflect price reductions attributable to use of the VECP, the contracting officer shall modify the instant contract to provide the contractor's share of savings.
 - (6) The contractor's share of future contract savings may be paid as subsequent contracts are awarded or in a lump-sum payment at the time the VECP is accepted. The lump-sum method may be used only if the contracting officer has established that this is the best way to proceed and the contractor agrees. The contracting officer ordinarily shall make calculations as future contracts are awarded and, within 3 months after award, modify the instant contract to provide the contractor's share of the savings. For future contract savings calculated under the optional lump-sum method, the sharing base is an estimate of the number of items that the contracting officer will purchase for delivery during the sharing period. In deciding whether or not to use the more convenient lump-sum method for an individual VECP, the contracting officer shall consider --
 - (i) The accuracy with which the number of items to be delivered during the sharing period can be estimated and the probability of actual production of the projected quantity;
 - (ii) The availability of funds for a lump-sum payment; and
 - (iii) The administrative expense of amending the instant contract as future contracts are awarded.
- (b) **Construction contracts.** Sharing on construction contracts applies only to savings on the instant contract and to collateral savings. The Government's share of savings is determined by subtracting Government costs from instant contract savings and multiplying the result by
- (1) 45 percent for fixed-price contracts or
 - (2) 75 percent for cost-reimbursement contracts. Value engineering sharing does not apply to incentive construction contracts.

- (c) **Architect-engineering contracts.** There shall be no sharing of value engineering savings in contracts for architect-engineer services.

48.104-2 -- Sharing Collateral Savings.

- (a) The Government shares collateral savings with the contractor, unless the head of the contracting activity has determined that the cost of calculating and tracking collateral savings will exceed the benefits to be derived (see 48.201(e)).
- (b) The contractor's share of collateral savings is 20 percent of the estimated savings to be realized during an average year of use but 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. In determining collateral savings, the contracting officer shall consider any degradation of performance, service life, or capability. (See 48.104-1(a)(4) for payment of collateral savings through the instant contract.)

48.104-3 -- Sharing Alternative -- No-Cost Settlement Method.

To minimize the administrative costs for both parties when there is a known continuing requirement for the unit, consideration should be given to the settlement of a VECP submitted against the VE Incentive clause of the contract at no cost to either party. Under this method of settlement, the contractor would keep all of the savings on the instant contract, and all savings on its concurrent contracts only. The Government would keep all savings resulting from concurrent contracts placed on other sources, savings from all future contracts, and all collateral savings. Use of this method must be by mutual agreement of both parties for individual VECP's.

48.105 -- Relationship to Other Incentives.

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. To that end, when performance, design-to-cost, or similar targets are set and incentivized, the targets of such incentives affected by the VECP are not to be adjusted because of the acceptance of the VECP. Only those benefits of an accepted VECP not rewardable under other incentives are rewarded under a value engineering clause.

Subpart 48.2 -- Contract Clauses

DFARS

48.201 -- Clauses for Supply or Service Contracts.

- (a) **General.** The contracting officer shall insert a value engineering clause in solicitations and contracts when the contract amount is expected to be \$100,000 or more, except as specified in subparagraphs (1) through (5) and in paragraph (f) below. A value engineering clause may be included in contracts of lesser value if the contracting officer sees a potential for significant savings. Unless the chief of the contracting office authorizes its inclusion, the contracting officer shall not include a value engineering clause in solicitations and contracts --

- (1) For research and development other than full-scale development;
- (2) For engineering services from not-for-profit or nonprofit organizations;
- (3) For personal services (see Subpart 37.1);
- (4) Providing for product or component improvement, unless the value engineering incentive application is restricted to areas not covered by provisions for product or component improvement;
- (5) For commercial products (see Part 11) that do not involve packaging specifications or other special requirements or specifications; or
- (6) When the agency head has exempted the contract (or a class of contracts) from the requirements of this Part 48.

(b) ***Value engineering incentive.*** To provide a value engineering incentive, the contracting officer shall insert the clause at 52.248-1, Value Engineering, in solicitations and contracts except as provided in paragraph (a) above (but see subparagraph (e)(1) below).

(c) ***Value engineering program requirement.***

- (1) If a mandatory value engineering effort is appropriate (i.e., if the contracting officer considers that substantial savings to the Government may result from a sustained value engineering effort of a specified level), the contracting officer shall use the clause with its Alternate I (but see subparagraph (e)(2) below).
- (2) The value engineering program requirement may be specified by the Government in the solicitation or, in the case of negotiated contracting, proposed by the contractor as part of its offer and included as a subject for negotiation. The program requirement shall be shown as a separately priced line item in the contract Schedule.

(d) ***Value engineering incentive and program requirement.***

- (1) If both a value engineering incentive and a mandatory program requirement are appropriate, the contracting officer shall use the clause with its Alternate II (but see subparagraph (e)(3) below).
- (2) The contract shall restrict the value engineering program requirement to well-defined areas of performance designated by line item in the contract Schedule. Alternate II applies a value engineering program to the specified areas and a value engineering incentive to the remaining areas of the contract.

(e) ***Collateral savings computation not cost-effective.*** If the head of the contracting activity determines for a contract or class of contracts that the cost of computing and tracking collateral savings will exceed the benefits to be derived, the contracting officer shall use the clause with its --

- (1) Alternate III if a value engineering incentive is involved;
- (2) Alternate III and Alternate I if a value engineering program requirement is involved; or
- (3) Alternate III and Alternate II if both an incentive and a program requirement are involved.

- (f) *Architect-engineer contracts.* The contracting officer shall insert the clause at 52.248-2, Value Engineering -- Architect-Engineer, in solicitations and contracts whenever the Government requires and pays for a specific value engineering effort in architect-engineer contracts. The clause at 52.248-1, Value Engineering, shall not be used in solicitations and contracts for architect-engineer services.

48.202 -- Clause for Construction Contracts.

The contracting officer shall insert the clause at 52.248-3, Value Engineering -- Construction, in construction solicitations and contracts when the contract amount is estimated to be \$100,000 or more, unless an incentive contract is contemplated. The contracting officer may include the clause in contracts of lesser value if the contracting officer sees a potential for significant savings. The contracting officer shall not include the clause in incentive-type construction contracts. If the head of the contracting activity determines that the cost of computing and tracking collateral savings for a contract will exceed the benefits to be derived, the contracting officer shall use the clause with its Alternate I.

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Subpart 248.2 -- Contract Clauses

248.270 -- Supplemental Clause.

When one of the clauses prescribed by FAR Subpart 48.2 is used and the contracting officer wants value engineering change proposals submitted in the format prescribed by MIL-STD-973, use the clause at 252.248-7000, Preparation of Value Engineering Change Proposals.