

OFFICIAL



Australian Government  
Department of Defence

# Australian Contract Expenditure Measurement Rules



Version 1.1

OFFICIAL

## Copyright

Commonwealth of Australia 2021



With the exception of the Commonwealth Coat of Arms, this publication is provided under a [Creative Commons Attribution-NonCommercial 4.0 International Licence](https://creativecommons.org/licenses/by-nc/4.0/)<sup>1</sup>.

This publication should be attributed as *Australian Contract Expenditure Measurement Rules*.

## Use of the Coat of Arms

The terms under which the Coat of Arms can be used are detailed on the [Department of the Prime Minister and Cabinet website](https://www.pmc.gov.au/government/commonwealth-coat-arms)<sup>2</sup>.

## Feedback

All feedback on this publication and suggestions for improvement should be sent to:

[procurement.ASDEFCON@defence.gov.au](mailto:procurement.ASDEFCON@defence.gov.au).

### AMENDMENT LIST

Version Number	Updates	Release Date
Version 1.0	Initial Release	25 August 2021
Version 1.1	Update to Supplies, plant, equipment, tools and vehicles cost category for Services for release of ASDEFCON (Support) v5.0	5 October 2021

---

<sup>1</sup> <https://creativecommons.org/licenses/by-nc/4.0/>

<sup>2</sup> <https://www.pmc.gov.au/government/commonwealth-coat-arms>

## **INTRODUCTION**

These Australian Contract Expenditure (ACE) Measurement Rules have been developed to standardise the way in which Australian Contract Expenditure is measured across Defence procurements. The rules provide confidence to potential suppliers that they are competing on a level playing field when making commitments to include Australian and New Zealand businesses in their supply chains and facilitate Australian Contract Expenditure being measured and reported consistently across Defence contracts.

The rules form part of Defence's Australian Industry Capability Program and support Defence industry policies including the 2019 Defence Policy for Industry Participation. They promote the Australian Government's commitment to building a stronger, more prosperous and resilient economy where Australian businesses can be competitive on a domestic and international level.

By adopting these standardised rules, Defence can ensure that suppliers are treated equitably when assessing Australian Contract Expenditure proposals under tender responses.

The rules are relevant to:

- a. tender preparation enabling tenderers to calculate Australian Contract Expenditure and the Prescribed ACE Percentage for each ACE Measurement Point (where applicable) to be submitted as part of a tender;
- b. preparation of Contract Change Proposals (CCPs) when assessing and updating the Prescribed ACE Percentage in respect of each ACE Measurement Point (where applicable);
- c. calculating the Achieved ACE Percentage at each ACE Measurement Point to determine whether the Contractor has achieved the Prescribed ACE Percentage in respect of each ACE Measurement Point (where applicable); and
- d. conducting audits to ensure compliance with the Contractor's AIC Obligations.

Other than those terms that are defined within this document, defined terms used are defined in accordance with the Australian Standard for Defence Contracting (ASDEFCON) suite of tendering and contracting templates.

## ACE MEASUREMENT RULES

### 1. CALCULATION OF AUSTRALIAN CONTRACT EXPENDITURE AND IMPORTED CONTRACT EXPENDITURE

1.1 Australian Contract Expenditure (ACE) and Imported Contract Expenditure (ICE) shall be calculated subject to the following:

- a. the general principles in paragraph 2;
- b. the deeming provisions in paragraphs 3 and 4; and
- c. the principles applicable to specific cost categories in paragraph 5.

### 2. GENERAL PRINCIPLES

2.1 ACE and ICE shall be calculated in accordance with the following principles:

- a. **(Method of calculation):** ACE and ICE shall be calculated separately for the Contractor and each Subcontractor, against elements of the Contract Work Breakdown Structure, and then aggregated to determine the overall ACE and ICE for the Contract.
- b. **(Amounts to be expressed in AUD):** To the extent that amounts comprising ACE or ICE are not expressed in AUD, such amounts shall be converted into AUD using the applicable Base Date Currency Exchange Rate.
- c. **(Amounts to be expressed in Base Date dollars):** Amounts comprising ACE or ICE shall be de-escalated applying the indices within the applicable Annex to Attachment B so that they are expressed in Base Date dollars.
- d. **(Currency not determinative):** The currency in which payments are made to the Contractor or to a Subcontractor will not be determinative of whether the costs associated with those payments are ACE or ICE.
- e. **(No double counting):** There will be no double counting of costs or profit. An amount cannot be included as both ACE and ICE.
- f. **(Deeming of Imported Contract Expenditure):** If there is a conflict in the application of these ACE Measurement Rules in relation to whether an amount is ACE or ICE, such amount will be deemed to be ICE.
- g. **(Amounts exclusive of GST):** All amounts included in the calculation of ACE (other than in respect of paragraph 2.2d) or ICE (other than in respect of paragraph 2.3d) will be exclusive of GST and equivalent overseas consumption taxes.

**Note: ACE is calculated by aggregating costs which comprise ACE for the Contractor and each Subcontractor individually (ie, in calculating the Contractor's ACE, any Subcontractor ACE is excluded. In calculating a Subcontractor's ACE, any sub-Subcontractor's ACE is excluded and so on.). The Contractor's and each Subcontractor's ACE is then aggregated to determine total ACE. A similar approach is adopted for ICE.**

2.2 Australian Contract Expenditure means the sum of:

- a. direct costs incurred by:
  - (i) the Contractor (other than amounts paid by the Contractor to Subcontractors); or
  - (ii) a Subcontractor (other than amounts paid by the Subcontractor to other Subcontractors),to the extent those costs are incurred by an Australian Entity in performing work under the Contract or a Subcontract (as applicable) in Australia or New Zealand;
- b. subject to paragraph 4, indirect costs (including overhead and general and administration costs) incurred and appropriately allocated to the Contract or Subcontract (as applicable) to the extent that work performed in providing goods or services to the Contractor or Subcontractor (as applicable) in respect of such

indirect costs (including overhead and general and administration costs) was performed by an Australian Entity in Australia or New Zealand;

- c. amounts paid by:
  - (i) the Commonwealth to the Contractor;
  - (ii) the Contractor to a Subcontractor; or
  - (iii) a Subcontractor to another Subcontractor,in respect of:
  - (iv) budgeted costs which are not utilised by the Contractor or Subcontractor (as applicable);
  - (v) management reserve, contingencies, estimating uncertainty or similar amounts to the extent not utilised and expended by the Contractor or Subcontractor (as applicable);
  - (vi) incentive or similar payments; and
  - (vii) profit,where the recipient of such payment (ie, the Contractor or Subcontractor (as applicable)) is an Australian Entity; and
- d. GST and taxes equivalent to GST in New Zealand paid by the Commonwealth to the Contractor.

**2.3**

Imported Contract Expenditure means the sum of:

- a. direct costs incurred by:
  - (i) the Contractor (other than amounts paid by the Contractor to Subcontractors); or
  - (ii) a Subcontractor (other than amounts paid by the Subcontractor to other Subcontractors),(as applicable) to the extent those costs are incurred in performing work under the Contract or a Subcontract (as applicable) other than in Australia or New Zealand;
- b. subject to paragraph 4, indirect costs (including overhead and general and administration costs) incurred and appropriately allocated to the Contract or Subcontract (as applicable) to the extent that work performed in providing goods or services to the Contractor or Subcontractor (as applicable) in respect of such indirect costs (including overhead and general and administration costs) was not performed by an Australian Entity in Australia or New Zealand;
- c. amounts paid by:
  - (i) the Commonwealth to the Contractor;
  - (ii) the Contractor to a Subcontractor; or
  - (iii) a Subcontractor to another Subcontractor,in respect of:
  - (iv) budgeted costs which are not utilised by the Contractor or Subcontractor (as applicable);
  - (v) management reserve, contingencies, estimating uncertainty or similar amounts to the extent not utilised and expended by the Contractor or Subcontractor (as applicable);
  - (vi) incentive or similar payments; and
  - (vii) profit,where the recipient of such payment (ie, the Contractor or Subcontractor (as applicable)) is not an Australian Entity; and

d. overseas taxes equivalent to GST (other than taxes equivalent to GST in New Zealand) paid by the Commonwealth to the Contractor.

**2.4** A reference to “performing work” or “work performed” in paragraphs 2.2 and 2.3 is a reference to performing any work under the Contract or Subcontract (as applicable) including performing any obligations under the Contract or Subcontract (as applicable) and any work associated with the provision of the Supplies or Services (as applicable).

**3. DEEMING FOR CERTAIN SUBCONTRACTS**

**3.1** Amounts paid by the Contractor or a Subcontractor to Subcontractors which are an Australian Entity where the aggregate value of the Subcontract is less than the applicable threshold specified in the table below will be deemed to have the ACE and ICE specified in the table below unless the actual ACE is greater than the deemed amount as calculated in accordance with paragraph 2.2 in which case the Contractor may elect to rely on the actual ACE subject to the Contractor complying with paragraph 3.3:

Substantial Nature of Subcontractor work	Applicable Threshold (GST exclusive)	Deemed Australian Contract Expenditure and Imported Contract Expenditure	
		Australian Contract Expenditure	Imported Contract Expenditure
Supply of ICT equipment	\$1,000,000	20%	80%
Supply of Software	\$1,000,000	20%	80%
Supply of Consumables (other than bulk fuels)	\$1,000,000	40%	60%
Provision of utilities	\$1,000,000	100%	0%
Provision of labour/professional services (eg, legal, accounting, consultancy, engineering, project management and advisory services)	\$1,000,000	100%	0%
Other Subcontracts not referred to above	\$1,000,000	50%	50%

**3.2** Where there is more than one Subcontract with the same Subcontractor, the aggregate value of each of those Subcontracts shall be used for the purposes of assessing whether the monetary threshold for the purposes of paragraph 3.1 has been met.

**3.3** Where paragraph 3.1 applies in respect of a Subcontract and the Contractor elects to rely on the actual ACE, the Contractor shall, on request by the Commonwealth, demonstrate to the Commonwealth that the ACE in respect of relevant Subcontract is greater than the amount deemed in accordance with paragraph 3.1.

**3.4** A Contract to which these ACE Measurement Rules apply may specify additional or alternative Subcontract categories, thresholds and deemed ACE and ICE for the purposes of the application of this paragraph 3 provided that the applicable threshold in relation to any additional or alternative Subcontract categories shall not exceed \$4 million (GST exclusive).

**4. DEEMING FOR INDIRECT COSTS (INCLUDING OVERHEAD AND GENERAL AND ADMINISTRATION COSTS)**

**4.1** Subject to paragraphs 4.2 and 4.3, where indirect costs (including overhead and general and administration costs) are incurred and appropriately allocated to the Contract or Subcontract (as applicable) by an Australian Entity, such costs will be deemed to be:

- a. 70% ACE; and
- b. 30% ICE.

**4.2** Subject to paragraph 4.3, where indirect costs (including overhead and general and administration costs) are incurred and appropriately allocated to a Subcontract by an Australian Entity which, together with any Related Bodies Corporate, has fewer than 200 full-time equivalent employees, such costs will be deemed to be:

- a. 85% ACE; and
- b. 15% ICE.

**4.3** Where:

- a. the Commonwealth (through Financial Investigation Service (FIS)) has formally approved in writing a deemed ACE percentage and a deemed ICE percentage in respect of indirect costs (including overhead and general and administration costs) for the Contractor or a Subcontractor; and
- b. the deemed ACE percentage and ICE percentage in respect of the Contractor or Subcontractor (as applicable) is specified in the Contract,

any indirect costs (including overhead and general and administration costs) incurred and appropriately allocated to the Contract or Subcontract (as applicable) will be deemed to comprise ACE and ICE (as applicable) in accordance with the Commonwealth's approval.

**4.4** The deemed outcomes in accordance with this paragraph 4 apply regardless of how the indirect costs (including overhead and general and administration costs) are recovered by the Contractor or Subcontractor (as applicable). For example, the deemed outcomes in accordance with this paragraph 4 apply to the extent that such costs are recovered as part of labour rates.

**5. PRINCIPLES APPLICABLE TO SPECIFIC COST CATEGORIES**

**5.1** Subject to the application of paragraphs 3 and 4, ACE and ICE shall be calculated in accordance with the following principles:

Cost category	Specific rule
Salary and wages (including direct on costs including superannuation), bonuses and redundancies	<p>Amounts incurred by the Contractor or a Subcontractor for salary and wages (including direct on costs including superannuation), bonuses and redundancies for officers and employees (excluding any indirect costs):</p> <ul style="list-style-type: none"> <li>a. will be ACE where the employees or officers are:                             <ul style="list-style-type: none"> <li>(i) employed by an Australian Entity where the relevant employees and officers are performing work in Australia or New Zealand;</li> <li>(ii) employed by an Australian Entity where the relevant employees and officers are temporarily performing work outside of Australia or New Zealand for the purpose of transferring skills or technology to Australia; or</li> <li>(iii) employed by a non-Australian Entity where the relevant employees and officers are performing work in Australia or New Zealand for a period in excess of six (6) continuous months for the purpose of transferring skills or technology to Australia; or</li> </ul> </li> <li>b. will otherwise be ICE.</li> </ul>

<b>Cost category</b>	<b>Specific rule</b>
Travel	<p>Amounts incurred by the Contractor or a Subcontractor for meals, allowances and accommodation:</p> <p>a. will be ACE where the amounts incurred relate to travel within Australia or New Zealand; or</p> <p>b. otherwise will be ICE.</p> <p>Amounts incurred by the Contractor or a Subcontractor for air travel:</p> <p>a. will be ACE where the travel is within Australia or New Zealand or between Australia and New Zealand and the airline is an Australian Entity; and</p> <p>b. subject to paragraph a, will be deemed to be 30% ACE and 70% ICE where the flight originates or terminates in Australia or New Zealand; or</p> <p>c. will otherwise be ICE.</p>
Lease of plant, equipment, tools, vehicles	<p>Amounts incurred by the Contractor or a Subcontractor as rent for plant, equipment, tools or vehicles (whether under an operating lease or a financing lease):</p> <p>a. will be ACE to the extent that:</p> <p style="padding-left: 20px;">(i) the capital cost of acquiring the plant, equipment, tools and vehicles would otherwise be ACE under these ACE Measurement Rules;</p> <p style="padding-left: 20px;">(ii) interest and borrowing expenses would otherwise be ACE under these ACE Measurement Rules; and</p> <p style="padding-left: 20px;">(iii) other costs (such as establishment costs) would otherwise be ACE under these ACE Measurement Rules; or</p> <p>b. will otherwise be ICE.</p>
Lease of facilities	<p>Amounts incurred by the Contractor or a Subcontractor as rent for facilities:</p> <p>a. will be ACE to the extent that the facilities are located in Australia or New Zealand; and</p> <p>b. will otherwise be ICE.</p>
Supplies, plant, equipment, tools and vehicles used in connection with the provision of the Supplies or Services	<p>To the extent that the Supplies, plant, equipment, tools and vehicles used in connection with the provision of the Supplies or Services comprise physical products, equipment, hardware, software, materials, parts or components and such items would otherwise be ICE (whether in whole or in part) under these ACE Measurement Rules, any amounts incurred in respect such items will be ICE.</p>
Purchase of facilities	<p>Amounts incurred by the Contractor or a Subcontractor for the acquisition of facilities:</p> <p>a. will be ACE to the extent that the facilities are located in Australia or New Zealand; and</p> <p>b. will otherwise be ICE.</p>
Insurance premiums	<p>Amounts incurred by the Contractor or a Subcontractor as a premium for insurance required by the Contract:</p> <p>a. will be ACE where paid to an Australian Entity; or</p> <p>b. will otherwise be ICE.</p>
Taxes, duties and government charges (other than GST and equivalent overseas consumption taxes)	<p>Amounts incurred by the Contractor or a Subcontractor as taxes, duties and government charges (other than GST and equivalent overseas consumption taxes):</p> <p>a. which are paid to the Australian Federal or State Government or the New Zealand Government will be ACE; or</p> <p>b. will otherwise be ICE.</p>



Cost category	Specific rule
Depreciation and amounts written off	<p>Amounts incurred by the Contractor or a Subcontractor:</p> <ol style="list-style-type: none"> <li>for depreciation on costs of a capital nature related to plant, equipment, tools, vehicles or facilities (including for information technology) owned and funded by the Contractor or Subcontractor (as applicable); or</li> <li>for an amount written off by the Contractor or a Subcontractor (as applicable) in respect of plant, equipment, tools, vehicles or facilities owned and funded by the Contractor or Subcontractor (as applicable), will:</li> <li>be ACE to the extent that the capital cost of acquiring the plant, equipment, tools, vehicles and facilities would otherwise be ACE under these ACE Measurement Rules; or</li> <li>will otherwise be ICE.</li> </ol> <p><b>Note: Depreciation cannot be claimed to the extent that the capital cost of the item has been reimbursed upfront by the Commonwealth, the Contractor or Subcontractor (as applicable).</b></p>
Amortisation	<p>Amounts incurred by the Contractor or a Subcontractor in respect of amortisation will:</p> <ol style="list-style-type: none"> <li>be ACE to the extent that the cost of acquiring the item being amortised would otherwise be ACE under these ACE Measurement Rules; or</li> <li>will otherwise be ICE.</li> </ol>
Revaluation	<p>Amounts incurred by the Contractor or a Subcontractor which arise as a result of a revaluation of land, plant, equipment, tools, vehicles and facilities will not be ACE or ICE.</p>
Interest and borrowing expenses	<p>Amounts incurred by the Contractor or a Subcontractor as interest and borrowing expenses:</p> <ol style="list-style-type: none"> <li>will be ACE where paid to an Australian Entity; or</li> <li>will otherwise be ICE.</li> </ol>
Damages, indemnity, compensation	<p>Amounts paid by the Contractor or a Subcontractor:</p> <ol style="list-style-type: none"> <li>under or in connection with the Contract or a Subcontract as damages or compensation;</li> <li>under an indemnity in the Contract or Subcontract, will not be ACE or ICE.</li> </ol>
Costs of defending or prosecuting a claim (including litigation and dispute resolution)	<p>Amounts incurred by the Contractor or a Subcontractor in:</p> <ol style="list-style-type: none"> <li>defending Claims by the Commonwealth, the Contractor or a Subcontractor; or</li> <li>prosecuting Claims against Commonwealth, the Contractor or a Subcontractor,</li> </ol> <p>including any legal proceedings, alternative dispute resolution, investigations, advice and other inquiries in relation to such Claims, will not be ACE or ICE.</p>
Royalties or licence fees in respect of licences of Intellectual Property including Copyright, Patents, Registrable Designs, Circuit	<p>Amounts incurred by the Contractor or a Subcontractor in respect of licences of Intellectual Property including Copyright, Patents, Registrable Designs, Circuit Layouts or Trade Marks:</p> <ol style="list-style-type: none"> <li>will be ACE where paid to an Australian Entity and the relevant Intellectual Property including Copyright, Patents, Registrable Designs, Circuit Layouts or Trade Marks to which the payment relates is owned by or the subject of an exclusive licence to the Australian Entity; or</li> <li>will otherwise be ICE.</li> </ol>

**OFFICIAL**

<b>Cost category</b>	<b>Specific rule</b>
Layouts or Trade Marks	
Credits	<p>Any amounts comprising:</p> <ul style="list-style-type: none"><li>a. discounts, offsets, rebates, commissions, international, Federal, State or Territory and local grants and price reductions of any kind received by the Contractor or a Subcontractor in respect of the purchase of plant, equipment, tools, vehicles, facilities, materials, services or Intellectual Property;</li><li>b. costs which are recoverable from any source other than the Commonwealth under the Contract (including under an insurance policy); and</li><li>c. net gains (after expenses and taxes) arising from the sale, retirement or exchange of plant, equipment, tools, vehicles and facilities,</li></ul> <p>will not be ACE or ICE.</p>