

Authority

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Defence staff and external agencies intending to use an associated *ASDEFCON* template will need to tailor that template to their specific procurement requirements and should seek appropriate professional guidance as required.

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Feedback

Feedback and suggestions should be sent to: procurement.ASDEFCON@defence.gov.au

Amendment Record

Version	Release Date	Description of Amendments
0.9	September 2021	Release of exposure draft to coincide with the Introduction of the enhanced AIC framework to ASDEFCON (Strategic Materiel).

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CHAPTER 1

INTRODUCTION

Purpose

The *Australian Contract Expenditure Guide for ASDEFCON* (this guide) complements the *ACE Measurement Rules*, introduced in 2021 as part of the enhanced Australian Industry Capability (AIC) framework for ASDEFCON templates.

The *ACE Measurement Rules* standardise the measurement of Australian Contract Expenditure (ACE) and Imported Contract Expenditure (ICE) for ASDEFCON contracts. The rules ensure consistency in tenders and when accounting for ACE as a percentage of Contract Price. ACE helps to assess the direct financial benefits of a contract for the Australian and New Zealand (ANZ) economies³.

ACE and ICE measurement applies to materiel contracts that exceed A\$20 million dollars, and which are required to implement an AIC program.

The purpose of this guide is to assist Defence and industry staff to understand and measure ACE and ICE when using ASDEFCON templates and resultant contracts.

Application of the *ACE Measurement Rules* is also supported by Microsoft Excel® workbooks that collect tendered pricing data and form part of the price and payments schedule for a resulting contract, when using the applicable ASDEFCON template.

References and Help

The *ACE Measurement Rules* may be downloaded from the following websites:

- <https://www1.defence.gov.au/business-industry/procurement/policies-guidelines-templates/procurement-guidance>

For guidance pertaining to the Enhanced AIC Framework more broadly, refer to the *Enhanced Australian Industry Capability Framework Guide for ASDEFCON*.

The following government policies are also applicable to the implementation of AIC and, consequently, the measurement of ACE:

ANZCERTA	Australia-New Zealand Closer Economic Relations Trade Agreement
CPRs	Commonwealth Procurement Rules (December 2020)
DPIP	2019 Defence Policy on Industry Participation

The meaning of the defined terms used within this guide are included in the glossary at Attachment M to the *ASDEFCON (Strategic Materiel)* template.

Defence personnel seeking further assistance may contact the following help desks:

- for the financial provisions within ASDEFCON templates – ASDEFCON and Contracting Initiatives: procurement.asdefcon@defence.gov.au

KEY CONCEPTS

Introduction

The AIC program for a contract may be considered as having two primary outcomes: industry capability and economic benefit. Industry Capability refers to the contribution that industry makes to providing and sustaining sovereign Defence capabilities. Economic benefit refers to the benefit that performing work in ANZ has on the local economy, and is measured by ACE.

³ The AIC program applies to both countries under the *Australia-New Zealand Closer Economic Relations Trade Agreement*. Australian Contract Expenditure Guide for ASDEFCON (V0.9)

Policy

“The Government is committed to building a stronger, more prosperous and resilient economy where Australian businesses can be competitive on a domestic and international level.”

- *Consideration of broader domestic economic benefits in procurement;*
Department of Finance, August 2020

In accordance with CPRs, government departments need to consider the economic benefit of their significant procurement activities. The Department of Finance provides directions for procurement officers when evaluating tenders for economic benefits to the Australian economy, for details refer:

<https://www.finance.gov.au/sites/default/files/2020-08/consideration-of-broader-economic-benefits-in-procurement.pdf>

Measurement and reporting of ACE and ICE assists to confirm success in the application of the DPIP. The DPIP includes the following principles:

- the primary goal of all Defence procurement is the delivery of capability through a value for money solution
- within the context of this primary goal, Defence will maximise opportunities for Australian industry participation, to the greatest practical extent, across all categories of Defence procurement

and, under section 4.2 of the DPIP:

- Industry is responsible for developing value for money solutions that maximise opportunity for Australian industry participation.

While not identifying the type of work performed, ACE is a key measure of the application of these policies in regard to economic benefit and industry participation.

Economic Benefit and Australian Content

Australian Contract Expenditure

Economic benefit could encompass a range of contributors, some of which can be hard to quantify (eg, the extent to which new skills might be applied throughout the economy). As a quantitative factor, ASDEFCON contracts measure ACE and ICE, and calculate ACE as a percentage of the total contract expenditure:

$$ACE\% = \frac{ACE}{ACE + ICE} * 100\%$$

Forecast expenditure for acquisition contracts can help to specify ‘Prescribed ACE Percentages’, noting that Prescribed ACE Percentages will be slightly lower than the calculated ACE percentage, depending on the risk profile (ie, as remedies may apply for underachievement). A number of key Milestones, including deliveries of major Supplies, can be used as ACE Measurement Points but should not be scheduled too frequently; for example, no more than one per year unless it makes sense to do so (eg, if two ships are delivered in the same year). Progress can then be measured and reported for each ACE Measurement Point in an ACE measurement report. Interim progress can also reported in Contract Status Reports (CSRs).

For large acquisition contract, ACE Measurement Points are nominated by the Commonwealth in the draft AIC attachment. Depending on the value and duration of the proposed contract, the Commonwealth may ask tenderers to propose an ACE amount and Prescribed ACE Percentage for any resultant Contract, or the Commonwealth may seek ACE percentages for a number of ACE Measurement Points. For the first option, Prescribed ACE Percentages are determined by the preferred tenderer(s) during Offer Definition and Improvement Activities (ODIA) or negotiations. In the second option, the Commonwealth nominates a number of ACE Measurement Points in the tender documents and each tenderer is to propose the Prescribed ACE Percentages for each identified ACE Measurement Point. Prescribed ACE Percentages and changes to ACE Measurement Points proposed by the successful tenderer can be, subject to negotiations, included in the Contract

(noting that, during negotiations, the overall ACE percentage tendered would be considered to be a minimum ACE percentage for the contract). The Prescribed ACE Percentages are included in the AIC attachment to the Contract and the ACE and ICE amounts (in dollar terms) are included in the pricing Attachment.

Importantly, the Commonwealth does not specify a required ACE percentage or a minimum ACE amount for any proposed contract; however, the ACE percentage submitted within tenders will be considered by the Commonwealth during tender evaluations.

For acquisition contracts, contract changes will change ACE and ICE values, and may change the Prescribed ACE Percentage for all ACE Measurement Points subsequent to the change.

In support contracts, with variable cost components such as Survey and Quote (S&Q) Services, ACE can only be forecast for certain price / payment categories. Most Services should be Recurring Services; however, even these change in response to Commonwealth needs (eg, changes in the annual rate of effort). As such, an ACE Percentage for Recurring Services may be forecast on an annual basis, measured and reported in the CSR, and considered at Contract Performance Reviews (CPRs).

ACE and ICE may also be forecast, measured and reported for high value S&Q Services, particularly major modifications and system upgrades when the Contractor has scope to select suppliers and, as a result, affect the location of work activities.

For a support contract, a contract change may apply to the forecast ACE Percentage for one year, or flow into the subsequent years' prices in the Price and Payments Schedule (eg, if a change in rate of effort is on-going).

The limited scope of ACE and ICE measurement under a support contract is an acknowledgement that much of the work scope varies according to Commonwealth requirements, and that more detailed measurement (with associated costs) is unlikely to identify further opportunities that would increase AIC.

Implementation and Enforceability

Industry Capabilities and economic benefits are interrelated but not fully correlated. Accordingly, within the enhanced AIC framework in ASDEFCON, the implementation of both are evaluated, and both allow mechanisms for enforceability.

Industry Capabilities required by the Commonwealth are identified as Australian Industry Activities (AIAs) in a contract. Work associated with AIAs and all other work performed in Australia and New Zealand (ANZ) should be identified (at a high level) in the Contractor's AIC Plan. All work in ANZ contributes to ACE.

For acquisition contracts, ACE Measurement Points and Prescribed ACE Percentages are included in the AIC attachment of the Contract, dollar amounts for ACE and ICE are included with the pricing information in Attachment B. ACE and ICE are measured from expenditure (not by Subcontracts / purchase orders issued) and achievement of Prescribed ACE Percentages is reported in ACE Measurement Reports. Underperformance identified in the ACE Measurement Reports may lead to remedies under the contract.

Additionally, to provide assurance and confirm the achievement of ACE, ASDEFCON includes an Independent AIC Audit Framework whereby the Contractor can be audited for compliance, and underperformance may be identified.

A key concept of the enhanced AIC framework is that of *enforceability*, to ensure that tendered proposals for AIC programs, including ACE as an Essential AIC Obligation, are implemented in resulting contracts. Underperformance may lead to:

- AIC Remediation Plans, to plan to remediate a failure and implement solutions that will achieve the Prescribed ACE Percentage;
- suspending payments, partially or in full; and/or

- termination of the Contract for Default.

Summary

Key concepts for AIC in *ASDEFCON* consider both Industry Capabilities and economic benefit. As a quantitative measure of economic benefit, the enhanced AIC framework measures a Prescribed ACE Percentage at ACE Measurement Points. Underperformance may lead to remedies under the Contract.

CHAPTER 2

APPLYING THE ACE MEASUREMENT RULES

Introduction and Section 1, Calculation of ACE and ICE

The introduction to the *ACE Measurement Rules* identifies the context and relevance of the document to policy and contracting processes.

Section 1 outlines the scope of the *ACE Measurement Rules*, for which guidance is included in the following sections.

Section 2, General Principles

A major objective of the *ACE Measurement Rules* is to ensure consistency across tenders and contracts for the calculation and measurement of ACE and ICE. As identified in the introduction to the rules, this should provide assurance to tenderers that they are competing on a 'level playing field'. In comparison to previous methods, this may result in a lower ACE percentage being calculated for a contract, however, the result will be significantly more accurate.

Definitions of ACE and ICE are included in clauses 2.2 and 2.3 of the ACE Measurement Rules. These definitions capture the scope of ACE and ICE. However, calculations can be simplified by using the deeming rates under clause 3, and further explanation is provided for example cost categories under clause 4.

An important concept is that ACE and ICE are measured by where an activity is undertaken, not by the ownership of the contractor or subcontractor entity performing the work (which is consistent with CPRs). Another important concept is that ACE and ICE are measured from actual expenditure, not the amount committed when a subcontract is signed or a purchase order is issued, only the payments made. These concepts are embedded within the General Principles described in clause 2 of the ACE Measurement Rules.

Base Date dollars need to be applied when developing CCPs for acquisition contracts. For contracts using ASDEFCON (Support), where ACE and ICE are calculated on an annual basis, amounts for CCPs and S&Q Services can be based on the annual adjusted amounts in Attachment B, rather than Base Date dollars.

Further guidance to be developed.

Section 3, Deeming for Certain Subcontracts

Subcontractors, as defined in ASDEFCON, can be at any level of the supply chain and includes entities that provide generic goods, services and raw materials. The further down the supply chain, then generally the lower the value of the contract and the cost of accounting for ACE and ICE becomes a disproportionate administrative burden. However, the attribution of ACE and ICE are still important to the calculation of ACE percentages for the overall contract. Accordingly, for purposes of efficiency, Subcontracts of a general nature, and under specified threshold values, can be deemed as a certain percentage of ACE and ICE. These are included in a tables in section 3, followed by some principles for their use.

If the Commonwealth wishes to add new deeming rates that relate to the scope of their draft contract, or otherwise alter the deeming rates listed in section 3, these can be included in the draft Attachment B, for price and payments.

If a tenderer or Contractor believes that a default deeming rate is not representative of the level of ACE applicable to their proposed Subcontracts, they can propose a revised deeming rate that, subject to confirmation by FIS, can be included in Attachment B and supersede the rate in the *ACE Measurement Rules*.

Section 4, Deeming for indirect costs (including overhead and general and administration costs)

Further guidance to be developed.

Section 5, Principles applicable to specific Cost Categories

The definitions of ACE and ICE are defined in [section 2](#) of the *ACE Measurement Rules*. These definition are the basis for determining ACE and ICE. However, to facilitate consistency in calculating ACE and ICE, the *ACE Measurement Rules* include examples of specific cost categories and explains how ACE and ICE should be attributed, including rates for deeming ACE and ICE in some categories. These example cost categories are not exhaustive and do not modify the definitions in section2, but they do provide useful guidance.

Explanations of Cost Categories

Further guidance to be developed.

CHAPTER 3

LIFE CYCLE OVERVIEW

This section follows a 'life-cycle thread' concept. In future, this may be further developed or removed, based on feedback and assessed utility.

ACE Measurement requirements in Tender Documents

A Request For Tenders (RFTs) developed using an applicable ASDEFCON template requires ACE and ICE data to be tendered. For consistency, and to facilitate a comparison of tenders, templates refer to the *ACE Measurement Rules* and request tenderers to prepare a Microsoft Excel® workbook as part of their financial response.

For acquisition contracts, drafters are to propose the ACE Measurement Points in the draft contract. ACE Measurement Points are a selection of major Milestones, including Final Acceptance. Once selected, these need to be identified in:

- a. the tender data requirements for the AIC program;
- b. the tender data requirements for pricing / financial data; and
- c. the Milestones schedule, by identifying which of the Milestones will be ACE Measurement Points.

If applicable, drafters may also identify alternate and additional deeming rates for the draft contract, to supersede the default values in the *ACE Measurement Rules*.

The pricing workbooks, such as the Strategic Materiel Pricing Workbook for ASDEFCON (Strategic Materiel), require initial preparation by the Commonwealth prior to releasing the RFT, to enable the consistent collection of tendered pricing data, including ACE and ICE. The pricing workbooks include instructions for drafters, which in summary include:

- a. contract / tender identification;
- b. a high-level pricing level structure, based on a Contract Work Breakdown Structure (CWBS) that is consistent with the summary CWBS in the Glossary;
- c. indices for price adjustments, if preferred indices are applicable; and
- d. descriptions of further quantities and optional extras for which prices will be sought.

Importantly, the Commonwealth does not specify an ACE percentage for the Contract or any ACE Measurement Point. ACE amounts and percentages are to be proposed by each tenderer, based on their individual tender submission.

Further guidance to be developed.

For support contracts, ACE and ICE

Commonwealth teams should seek assistance from FIS if intending to modify a pricing workbook.

Tender Response Preparation

In preparing their response, each tenderer needs to populate a pricing workbook. In general, the pricing workbook must be prepared as a single document. Embedded formulae makes it difficult to break up to give to separate parties and recombine later.

Basic instructions for tenderers are included in the pricing workbooks. Tenderers will need to develop the pricing levels down to levels 3 or 4 for each applicable worksheet, to decompose the proposed Contract Price and identify the ACE and ICE components (note that pricing level 1 is CWBS level 2, as CWBS level 1 equates to the whole contract). This process may also need to allow for more than one currency component in a single CWBS node, by using additional lines.

Tenderers may need to create data collection tools to gather data from proposed Subcontractors. The pricing workbook has individual worksheets for the top ten (by value) proposed Approved Subcontractors, which would be those with the higher

value proposed Subcontracts and, ideally, with potential to further promote AIC objectives, including through further subcontracting or transfer of technology from overseas to Australia. If there are more than 10 proposed Approved Subcontractors a 'Further Approved Subcontractors' worksheet is used to summarise pricing information. The data required from other proposed Subcontractors, including Subcontractor of proposed Approved Subcontractors, requiring only a minimal amount of data to be collected.

The full CWBS is duplicated across the prime and all Approved Subcontractor worksheets. Note that while the CWBS for the whole contract may have hundreds of nodes / lines, generally, a single proposed Approved Subcontractor would only be involved in a small portion of these. Hence, tenderers just need to collect data for the CWBS nodes applicable to each proposed Approved Subcontractor, which should be consistent with the draft CWBS for the tender and the work packages that would be assigned to the proposed Approved Subcontractor. The pricing data needs to identify the ACE and ICE components. Proposed Approved Subcontractor will also need to collect pricing data for their proposed Subcontracts, including ACE and ICE components. All ACE and ICE components need to be defined in accordance with the *ACE Measurement Rules*

Tenderers need to compile the pricing workbook with the data collected from the proposed Approved Subcontractors and other ('non-Approved') Subcontractors. Pricing data in prime and Approved Subcontractor worksheets is used to calculate the full 'pricing schedule' worksheet, with a breakdown of ACE and ICE.

With the 'pricing schedule' worksheet as a base, tenderers also need to develop the 'Milestone payment schedule', which will list the proposed Milestone Payments. When the other applicable worksheets are populated, tenderers should conduct an overall check, and prepare to submit the pricing workbook in their tender response.

For the successful tenderer the 'pricing schedule' worksheet, the 'Milestone payment schedule', 'specific prices', 'adjustments' and other worksheets will become the basis for the Annexes to Attachment B of the Contract.

A tenderer may propose alternate and additional deeming rates for the purposes of defining a breakdown of ACE and ICE for some Subcontracts and cost categories. Alternate deeming rates, for some companies, may already be confirmed from audits conducted by FIS. Alternate and additional deeming rates are proposed in response to the financial tender data requirements annex (ie, not the workbook).

Tender Evaluation

The pricing workbooks received from tenderers provides the bulk of the data required to evaluate tenders based on proposed contract price. The ACE proposed within a tender response is considered for the evaluation of AIC and economic benefit. Refer to the [policy](#) section above in regards to economic benefit.

ACE and ICE are quantitative measures in terms of prices but do not describe the relative value of different work. For example, a proposal with a lower ACE% but more highly skilled work may be judged as offering more valued and longer term benefit to the economy (eg, introducing a new robotics software development skill versus a larger number of people doing low-skill tasks that could be automated). Accordingly, a higher ACE percentage on its own may need to be determinate when selecting a preferred tender from a 'whole of AIC' perspective.

Contract preparation

In preparing a Contract for signature, a number of updates are required in relation to ACE and ICE. As noted above, several worksheets from the successful tenderer's pricing workbook will, subject to any clarifications and negotiated changes, form the annexes to Attachment B. The applicable worksheets may be saved in Portable Document Format (PDF) files, and filenames (with versions) added to Attachment B. Any agreed alternate and additional deeming rates, which have been verified and agreed, can be inserted directly into Attachment B.

For acquisition contracts, ACE and ICE values (in dollars) are included in a table in Attachment B, and used to identify a 'calculated ACE percentage' for each ACE Measurement Point. The Prescribed ACE Percentages (which may be different to the calculated figures) are added to a table in the AIC Attachment, against the applicable ACE Measurement Points.

Note that any agreed changes to the ACE Measurement Points will need to be updated in the Attachment for Price and Payments, Delivery Schedule, and AIC.

Further guidance to be developed for support contracts.

Establishing ACE measurement systems under the Contract

Further guidance to be developed with regard to earned value management systems and other collection methods.

ACE Measurement Points – Acquisition Contracts

At each ACE Measurement Point, the Contractor is required to determine the ACE and ICE and submit an ACE measurement report. Calculations of ACE and ICE are to include all expenditure from the Effective Date to the ACE Measurement Point. In addition to their own expenditure, the Contractor needs to collect expenditure data from all Subcontractors, even if the Milestone is not relevant to every Subcontractor.

The Contractor will also be required to submit an AIC Compliance Certificate with the ACE measurement report.

Payments made in foreign source currencies will need to be converted into Australian dollars, for the Base Date, in order to calculate ICE and any included ACE (ie, where a foreign Contractor / Subcontractor has paid a local Subcontractor). Base Date exchange rates are recorded in the Details Schedule of the COC and the 'constants' worksheet of the ASDEFCON Acquisition Pricing Workbook.

To ensure accuracy, expenditure in current Australian dollar amounts will need to be converted into Base Date amounts, in order to accurately calculate ACE and ICE and then the achieved ACE percentage. The indices from the Adjustments section of Attachment B, and the index weightings from the pricing workbook, can be used to calculate the recent ACE and ICE figures in Base Date amounts.

Each ACE Measurement Point is a Milestone and, theoretically at least, expenditure up to that Milestone includes payments for all previous Milestones in the 'Milestone Payment Schedule' in Attachment B. An accurate Prescribed ACE Percentage requires that all CCPs that effect expenditure, including design selection decisions, have been incorporated and that the Prescribed ACE Percentages have been updated.

The Milestone Payment Schedule lists firm prices for Milestones, but ACE and ICE are calculated from actual expenditure. Accordingly, an evaluation of achievement of a Prescribed ACE Percentage needs to consider variable costs that were estimated, such as travel and accommodation costs, utilities and interest payments (if subject to change), and Not-To-Exceed (NTE) prices if the full amount is not expended. Normally, differences in these items should not have significant influence on the achieved ACE percentage, however, this may be relevant in marginal cases.

If the Cost Reimbursement payment method is included in the Contract, this involves time and materials payments subject to a maximum or NTE price, which are not included in the original Contract Price. Accordingly, if some Cost Reimbursement payments have been made, but the Prescribed ACE Percentages have not been

updated in the AIC Attachment (via CCP), then the effect of the Cost Reimbursement payments on the achieved ACE percentage will need to be considered.

When evaluating the ACE measurement report, the Commonwealth will need to consider the above factors to ensure a fair comparison between the Prescribed ACE Percentage and the ACE percentage actually achieved.

CSRs also include an ACE Progress Report, which can be used to monitor the progress of ACE between ACE Measurement Points. The Contractor and AIC Subcontractors need to submit AIC Compliance Certificates with this CSR.

ACE Measurement – Support Contracts

For Recurring Services, ACE, ICE and an ACE percentage may be estimated for an annual period in advance. However, as the price for Recurring Services is firm but expenditure can vary depending on operational and seasonal factors, and changes in Commonwealth requirements. ACE and ICE results are measured and reported annually in the CSR, then reviewed at CPR, at which time any underperformance would be reviewed.

ACE and ICE are also to be measured for individual S&Q Services estimated at \$20m or above, including GST. These S&Q Services, which may not be applicable to every support contract, would typically include major modifications and system upgrades – essentially a project run under the umbrella of the existing Contract. These types of S&Q Services generally offer scope to influence the source of materials and location of work, including future sustainment work, with potential benefits for AIC.

Further guidance to be developed.

Audits

Further guidance to be developed.

Contract Changes

Most CCPs will affect the Contract Price and, as a consequence, have the potential to change the Prescribed ACE Percentages for all subsequent ACE Measurement Points.

Examples of CCPs in an acquisition contract that will almost certainly affect a change to Prescribed ACE Percentages are the incorporation of NTE prices, for spares, S&TE and Training equipment, into the Contract Price. These items, which can cost many millions of dollars, are not counted in the initial Contract Price and will only be included, by CCP, following the applicable provisioning preparedness review. In some cases, the procurement of Long Lead Times Items (LLTIs) will be required, which will bring forward some of this expenditure to earlier in the Contract, creating another CCP event that could change the subsequent Prescribed ACE Percentages.

Scope changes, whether pre-priced as optional extras or additional quantities, or as a result of design and development decisions unless the cost is negligible, will also generally change subsequent Prescribed ACE Percentages. A decision to change the location of a sizeable piece of work by selecting a Subcontractor in ANZ instead of overseas, or vice-versa, will almost certainly change the subsequent Prescribed ACE Percentages. Contract managers should also be aware of the effects of schedule changes, Excepted Risks and, if applicable, schedule recovery payments.

To keep an accurate account of changes in ACE and ICE requires all CCPs to be priced in Base Date amounts, in their applicable currency. The amount of ACE and ICE are calculated for each CCP and their effect on the Prescribed ACE Percentage must be considered and documented in the “Effect of proposed change” section of the CCP form.

Further guidance to be developed for support contracts.

Resource Requirements

Further guidance to be developed.

STRATEGIC MATERIEL PRICING WORKBOOK

Further guidance to be developed.

SUPPORT PRICING WORKBOOK

Further guidance to be developed.