

## Contract Formation

# Activity 4: Independent Government Cost Estimate (IGCE)

*Techniques to building an independent Government cost/price estimate.*

**Related Flow Charts:** [Flow Chart 4](#)

**Related Courses:** FCL-A-0405: [ACC: Independent Government Cost Estimate](#)

**Related Tools:** [IGCE Tool](#) & [Data, Dashboards & Pricing Central](#)

Tasks	FAR Reference(s)	Additional Information
1. Determine whether an Independent Government Cost Estimate or an Independent Government Price Estimate is required.	General Practices.	<p>A cost estimate is a breakdown of costs anticipated in performance of the contract for services, construction, and noncommercial products. The cost estimates are broken down by cost elements.</p> <p>A price estimate is generally used for products, equipment, and simple services that are routinely available on the open market at competitive prices. The price estimate is not broken down into specific cost elements.</p>
2. Collaborate with the customer to ensure that the data collected is current, valid, and reliable for the Independent Government Cost Estimate or Price Estimate.	<p>FAR 15.404-1 Proposal analysis techniques [contract pricing].</p> <p>FAR 36.203 Government estimate of construction costs.</p> <p>FAR 36.605 Government cost estimate for architect-engineer work.</p>	<p>The IGCE will:</p> <ul style="list-style-type: none"><li>• Be used to evaluate acquisition proposals;</li><li>• Ensure contractor understands the requirement;</li><li>• Determine pre-negotiation objectives;</li><li>• Indicator of the resources required to perform the contract;</li><li>• Help determine cost realism;</li><li>• Help determine cost reasonableness; and</li><li>• Is required by law.</li></ul>

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3. Consult with the customer to ensure that any standards, practices, and procedures normally used in the applicable industry is applied in the Independent Government Cost Estimate or Price Estimate.	General Practices.	A simple estimate of current market prices or historical prices may be adequate for requirements up to the Simplified Acquisition Threshold (SAT). Above the SAT, a more complete cost or price estimate is required.
4. Assist the customer in determining which method would be most appropriate for building the Independent Government Cost Estimate or Price Estimate.	General Practices.	<p>Methods for building the IGCE include:</p> <ul style="list-style-type: none"> <li>• Lump sum cost estimating;</li> <li>• Top-down cost estimating; and</li> <li>• Bottom-up cost estimating.</li> </ul>
4a. Cooperate with the customer in determining whether lump sum cost estimating is the appropriate method.	General Practices.	<p>Lump sum cost estimating projects the cost on a “bottom-line” basis. This type of estimate may be useful when the ultimate award price can be determined without examining individual cost elements. Round table and comparison are the two types of lump sum cost estimating.</p> <ul style="list-style-type: none"> <li>• Round table estimating entails experts developing the estimate based on their technical expertise and knowledge of the market.</li> <li>• Comparison estimating entails using proposed costs based on previously completed contracts similar to the current requirement and adjusting the known costs by adding or subtracting elements of material, time, and economic or inflationary changes as necessary.</li> </ul>

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<p>4b. Collaborate with the customer in determining whether top-down cost estimating is the appropriate method.</p>	<p>General Practices.</p>	<p>Top-down cost estimating method is commonly called the “parametric” or “ballpark” approach and is based on pricing major measurable units, such as man-hours, number of trips/people/days for travel, cubic yards, etc., to determine and approximate estimate of the costs.</p> <p>Collecting and organizing historical data and relating it to the performance output being estimated is required.</p> <p>This method is normally used in the early planning stages of a project when the precise quantities are not yet known or when requirements are not fully known.</p> <p>Not all peripheral/incidental costs, such as travel and site preparation, will be detailed, but estimates of the cost of these items should be included and documented in the rationale for the estimate.</p>
<p>4c. Cooperate with the team in determining whether bottom-up cost estimating is the appropriate method.</p>	<p>General Practices.</p>	<p>This method is commonly called the “detailed estimate.” The total effort is separated into organized tasks/activities, and pricing can be applied to each element, such as labor, overhead, travel, equipment, other direct costs, and general and administrative expenses (G&amp;A). A well-defined requirements document—statement of work (SOW), performance work statement (PWS)/program description (PD), etc.—is required for this method.</p>
<p>5. Assist the customer in compiling the costs/price by primary elements based on the estimating method selected by the customer.</p>	<p>General Practices.</p>	<p>Examples of some of the primary elements are: labor, escalation burden on labor costs, other direct costs, indirect costs (overhead), G&amp;A, and profit/fee.</p>

Tasks	FAR Reference(s)	Additional Information
5a. Assist the customer in compiling and calculating the labor cost/prices for either the Independent Government Cost/Price Estimate.	General Practices.	<p>For the base labor costs, if an Independent Government Cost Estimate is required for this procurement, the labor consists of direct labor charge, such as labor rates wages/salaries and labor hours (level of effort to perform the work for each labor category).</p> <p>For the labor costs, if an Independent Government Price Estimate is required for this procurement, a loaded labor rate should be included in the estimate. A fringe benefit rate (5%) is applied to the direct labor rate (\$24.25). The summation of that computation (<math>\\$24.25 \times 1.05 = \\$25.46</math>) is then applied to the overhead rate (6%). The result of these calculations is the loaded direct labor rate (<math>\\$24.25 \times 1.06 = \\$26.99</math>).</p>
5b. Ensure that the customer applied the applicable escalation to the labor in either the Independent Government Cost/Price Estimate.	General Practices.	<p>Escalation is defined as changes in the cost or price of specific goods or services over a given period and normally includes general inflation. Normally, escalation is shown as a rate or factor.</p> <p>Regardless of the type of Independent Government estimate, an escalation factor or rate is applied to labor.</p>
5c. Ensure that the customer applied the applicable fringe benefit rate(s) to the labor costs in Independent Government Cost Estimate.	General Practices.	<p>Fringe benefits refer to the percentage rate that represents the cost of an individual employee's non-salary benefits. The rate is applied to an employee's base salary to calculate the burdened cost incurred by the company to employ an individual. An individual's base salary is multiplied by the applicable fringe benefit rate percentage.</p> <p>In the Independent Government Cost Estimate, a fringe benefit rate is applied to the base direct labor rate.</p> <p>In the Independent Government Price Estimate, a fringe benefit rate is included in the loaded direct labor rate.</p>

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<p>5d. Assist the customer in compiling the other direct costs accurately for the Independent Government Cost/Price Estimate.</p>	<p>General Practices.</p>	<p>Other direct costs consist of travel (airfare, per diem, visas, passport, etc.), tools/equipment, vehicles, subcontractors, supplies or commodities, overseas offices expenses (equipment, utilities, rent, etc.).</p> <p>These costs are considered incidental expenditures that are allowed as a direct charge because they are necessary to carry out the project.</p> <p>Regardless of the type of Independent Government estimate, compilation of other direct costs is similar.</p>
<p>5e. Ensure that the applicable overhead rate(s) was applied accurately in the Independent Government Cost Estimate.</p>	<p>General Practices.</p>	<p>Overhead refers to expenses that are incurred by an identifiable unit or activity of the contractor's organization, such as an engineering or manufacturing department, directly related to execution of the contract. Overhead is spread across all contracts. For example, if the program calls for an engineer, the total salary compensation proposed to the Government would include the overhead costs incurred by the company's engineering department.</p> <p>In the Independent Government Cost Estimate, the overhead rate is applied to the summation of the base direct labor rate plus the fringe benefit costs.</p> <p>In the Independent Government Price Estimate, the overhead rate is included in the loaded direct labor rate.</p>

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<p>5f. Ensure that the applicable G&amp;A rate is applied to all required costs in the Independent Government Cost/Price Estimate.</p>	<p>General Practices.</p>	<p>G&amp;A refers to costs necessary for the overall operation of the business as a whole, but for which a direct relationship to the specific program cannot be shown. Normally, it is represented as a percentage of some base that distributes the cost equitably among the contractor/recipient's projects. Typically, G&amp;A costs include human resources, accounting, finance, public relations, contract administration, legal, and an expense allocation from the corporate home office. G&amp;A is spread across all agreement/contracts.</p> <p>Regardless of the type of Independent Government Estimate, application of the G&amp;A rate is similar. Typically, the G&amp;A rate should be applied to total cost input excluding subcontractors and fees.</p>
<p>5g. Ensure that the applicable profit/fee is applied accurately in the Independent Government Cost/Price Estimate.</p>	<p>FAR 15.404-4 Profit [proposal analysis].</p>	<p>Profit/fee refers to an incentive provided to a contractor for ensuring that all relevant factors are considered.</p> <p>Regardless of the type of Independent Government Estimate, application of the profit/fee is similar. Typically, profit is applied to all costs.</p>
<p>6. Revise the Independent Government Cost/Price Estimate, if necessary.</p>	<p>General Practices.</p>	<p>Revision should be made when the customer or contacts office becomes aware of significant discrepancies, cost or price fluctuations or changes in the type of products or services required for this procurement.</p> <p>As a result, the Independent Government Cost/Price Estimate would be revised to ensure that the changes did not impede the Government from benefiting from this tool in proposal evaluation (fair and reasonable cost or price).</p>
<p>7. Determine if the Independent Government Cost/Price Estimate is an acceptable tool to use for proposal evaluation (fair and reasonable pricing).</p>	<p>FAR 15.404 Proposal analysis [contract pricing].</p>	<p>FAR 15 lists the IGCE as one of the tools that may be used to determine fair and reasonable cost/pricing.</p>