



# Independent Government Cost Estimate Guide and Template

A Mandatory Reference for ADS Chapter 300

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# INDEPENDENT GOVERNMENT COST ESTIMATE GUIDE AND TEMPLATE

**BUREAU FOR MANAGEMENT (M)**  
OFFICE OF ACQUISITION AND ASSISTANCE  
TEMPLATES SERIES

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## Introduction

The Independent Government Cost Estimate (IGCE), commonly referred to as the USAID Budget, is the U.S. Government's estimate of costs that a contractor/recipient may incur in performing services and/or providing supplies to achieve the Government's objectives. It serves as the basis for reserving funds during acquisition planning; it provides the basis for comparing costs or prices proposed by offerors/applicants; and it serves as an objective basis for determining price reasonableness in cases in which one Offeror/Applicant responds to a solicitation.

The guidance in this document provides general information on roles and responsibilities, types of estimates, methodologies for developing an estimate and a template that can be used to create an estimate. IGCE costs typically include direct costs: such as labor, fringe benefits, FICA, supplies, equipment, or transportation; and indirect costs such as, labor overhead, material overhead, general and administrative (G&A) expenses, and profit or fee (contracts only).

## Audience

- |   |  |
|---|--|
| <input type="checkbox"/> Agreement Officer    | <input checked="" type="checkbox"/> Agreement Officer's Representative   |
| <input type="checkbox"/> Contracting Officer  | <input checked="" type="checkbox"/> Contracting Officer's Representative |
| <input type="checkbox"/> Contract Specialist  | <input checked="" type="checkbox"/> Program Analyst/Activity Manager     |
| <input type="checkbox"/> Agreement Specialist | <input checked="" type="checkbox"/> Budget Officer                       |

## Acronyms

A&A	Acquisition and Assistance
AO/CO	Agreement/Contracting Officer
DC	Direct Cost
FAR	Federal Acquisition Regulation
G&A	General and Administrative Expenses
IGCE	Independent Government Cost Estimate
IC	Indirect Cost
ODC	Other Direct Cost
OH	Overhead
FTE	Full Time Equivalent
SME	Subject Matter Expert
SOW	Statement of Work

## Roles and Responsibilities

**Activity Manager/Contracting Officer Representative/ Agreement Officer Representative** is responsible for planning and drafting the procurement request, including the statement of work, performance work statements and/or statement of objectives/program descriptions, and preparing the IGCE. The activity unit itself is the principal source of data to develop the IGCE from its familiarity with program design philosophy and previous/related program executions and their metrics,

**Contracting Officer (CO)/Agreement Officer (AO)** is responsible for coordinating with and supporting the Activity Manager to define the acquisition/assistance award requirements.

**Cost/Price Analysis Staff** assists both the Activity Manager and CO/AO to prepare the IGCE.

## Definitions

**Commercial Items:** Any item, other than real property, that is of a type customarily used for nongovernmental purposes and that (i) has been sold, leased, or licensed to the general public; or (ii) has been offered for sale, lease, or license to the general public.

**Cost:** is a component of price. Cost is a monetary measure of the expenditure for capital and labor required to complete contract performance.

**Cost Estimating Relationships:** Using rough yardsticks (ratios) such as dollars per pound or per hour and cost per square foot as in construction.

**Cost Analysis:** is the review and evaluation of the separate elements including profit and/or fee of the Applicant/Offeror's proposal to determine if the projected cost is a fair and reasonable price based on the Applicant/Offeror's assumptions.

**Direct Cost:** are those costs that are directly charged to activities or services that are necessary to specific performance and required for and easily traced to a particular project. The costs for these activities are usually charged to projects on an item-by-item basis e.g., salaries and fringe benefits for project staff, travel, supplies, etc.

**Fringe Benefits:** are non-salary compensations for employees. Examples of fringe benefits are group health or dental insurance, paid vacation and sick leave, housing, retirement benefits, unemployment insurance, tuition reimbursement, daycare, profit sharing etc.

**Fringe Benefit Rate:** is 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 (money earned by the employee) to calculate the burdened cost (total salary cost/compensation)

incurred by the company to employ an individual. As such, to determine the amount of an individual's compensation in a proposal budget the base salary is multiplied by the applicable fringe benefit rate percentage.

**Fulltime Equivalent (FTE):** is a unit to measure employed persons in a way that makes them comparable although they may work or study a different number of hours per week. FTE is often used to measure a worker's involvement in a project. For example a FTE of 1.0 means that the person is equivalent to a full-time worker, while an FTE of 0.5 signals that the worker is only half-time. Typically a daily FTE is 8 hours and a yearly FTE is 2080 hours (40 hours per week for 52 weeks).

**General and Administrative (G&A) Expenses:** is the cost of activities necessary to the overall operation of the business as a whole, but for which a direct relationship to the specific program cannot be shown. It is usually expressed as a percentage of some base which distributes the cost equitably among the contractor/recipient's projects. G&A includes human resources, accounting, finance, public relations, contract administration, legal, and an expense allocation from the corporate home office. The expense is spread across all agreement/contracts.

**Indirect Cost:** are costs for activities or services that benefit more than one project. Their precise benefits to a specific project are often difficult or impossible to trace. For example, it may be difficult to determine precisely how the activities of the Director of an organization benefit a specific project. General and Administrative (G&A) expenses and Overhead expenses are indirect costs.

**Other Direct Costs:** are costs that refer to expenditures which are allowed as a direct charge to a sponsored project, such as travel, consultants, supplies or materials that are incidental but necessary to carry out the project.

**Overhead Rate:** is the percentage rate that represents expenses that are incurred by an identifiable unit or activity of the Applicant/Offeror's internal organization, such as an engineering or manufacturing department, directly related to execution of the sponsored program. The expense is spread across all agreements/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.

**Price:** the amount of money that a buyer pays a seller for the delivery of a product or the performance of a service.

**Price Analysis:** is the process of deciding if the asking price for a product, service or program is fair and reasonable, without examining the specific cost elements and profit the vendor used in arriving at the price.

## **Guidance**

An Independent Government Cost Estimate is the U.S. Government's own estimated cost/price of the proposed acquisition or assistance activity. The estimate (including work sheets) remains confidential between the Activity Manager and the Contracting/Agreement Officer. The U.S. Government may not provide this information to Contractors/Recipients.

A well-constructed and supported IGCE serves as the basis for budgeting and reserving funds for future requirements. It provides a base-line for comparing costs or prices proposed by Applicants/Offerors and it is an objective basis for determining price reasonableness in cases in which only one Applicant/Offeror responds to a solicitation. IGCE's demonstrate that due diligence was executed to reasonably estimate the cost of performance. Also, a comprehensive IGCE leads to more accurate projections of the government's budget requirements for its program.

The extent and depth of the preparation of the IGCE is determined by:

- Availability of price/cost data and assumptions
- Estimator's skills
- Time constraints
- Type of item/program/service purchased
- Type of contractual/assistance action
- Agency/department policy and procedures

The Activity Manager is responsible for preparing the IGCE with support from the CO or AO, as well as other specialists. The estimate should include the basis to develop the IGCE, i.e., supporting calculations, specific currency, data source used, assumptions and rationale. The estimator should match the projected amounts to budget elements (labor, fringe benefits, travel, other direct costs, overhead, etc.) of individual task requirements, program periods of performance, etc. Common quantitative measures that can be used to project costs are:

- (1) Direct Labor Charge for tasks to be performed. This includes labor rates (wages/salaries), fringe benefits for labor (i.e., vacation, sick leave, pension etc.), labor hours (level of effort to perform the work for each labor category)
- (2) Escalation or "Economics" to take into consideration the place of performance

- (3) Other Direct Costs. This includes travel (airfare, per diem, visas, passport, etc.), tools/equipment, vehicles, subcontractors, supplies or commodities, overseas offices expenses (equipment, utilities, rent, etc.)
- (4) General and Administrative Expenses (G&A)
- (5) Profit/Fee

In developing the estimate, the Activity Manager must estimate the reasonable costs that a Contractor/Recipient may bear in performing the required services or providing the supplies. A cost is considered "reasonable" if it reflects the action that a prudent business person would have taken at the time the cost was incurred.

The IGCE is not set in stone and should be revised when necessary to reflect new price/cost information, the revision of government requirements, changed budgetary amounts or changes in source material that support price reasonableness benchmarks used to determine the estimate. Each period of performance requires an IGCE (base award, and all option periods require an IGCE)

**Tips for preparation of the IGCE:**

- Ensure that all cost elements for goods and services for each task/requirement or development outcome is included in the IGCE.
- Employ proper data collection and estimating methodology.
- Document data sources, assumptions, constraints, methodology, and subject matter expert (SME) inputs.
- Use salient characteristics as opposed to brand name to obtain quotations;
- IGCE should be revised based on new price/cost information and revised/new requirements.
- DO NOT share the IGCE with anyone outside the designated procurement team. The document is procurement sensitive and access is on a "need-to-know" basis and must be safeguarded as required by 12 FAM 544.
- DO NOT reveal information which may give any one organization an unfair competitive advantage.
- DO NOT use a preferred organization's quotation as the IGCE
- When unsure, seek CO/AO guidance.

An IGCE is not the lowest or the highest possible estimated cost/price for performance; it is the Government's projection of the cost of the program. Upon receipt of application/proposals there may be a significant difference between the IGCE and proposed costs by the Applicant/Offeror.

There should be sufficient information (rationale and assumptions) in the IGCE to allow for the explanation of differences between the IGCE and an offered price. Significant discrepancies between the IGCE and the Applicant/Offeror's proposal should be documented.

### **Types of Estimates**

**Price Estimate:** The price estimate is generally used for supplies, equipment, and simple services that are routinely available on the open market at competitive prices. The price estimate is required on all requirements and must be "independently" developed based on a comparison and analysis of factors such as published catalogs prices, historical prices paid, market survey information, vendor price quotes, etc. The price estimate does not break down into the various cost elements but depends more upon bottom line prices paid or available in the market place. When developing the price estimate, focus should be placed on:

- Prices and quotes, such as published or current catalog prices;
- Previous prices and quantity purchased;
- Quantity of items to be purchased; and
- Market Surveys and other miscellaneous source of pricing data.

**Cost Estimate:** Cost is a component of price. The cost estimate is a detailed projection of expenditures the Applicant/Offeror may incur in performance and requires a review of all cost elements anticipated in performance of the contract. A detailed estimate is required for services, construction, and non-commercial supplies estimated to exceed the simplified purchase threshold. Costs are generally divided into the primary cost elements of labor, payroll additives (burden or fringe), other direct costs, indirect costs (overhead), general and administrative costs (G&A), and profit/fee (contracts primarily but may include assistance requirements). For the purposes of this guide, discussions will be focused on Cost Estimating.

### **Common Methods Used to Build an Independent Government Cost (IGCE)**

Every cost estimate will be based on projections and cannot be predicted with absolute certainty. Generally speaking, there are three common cost estimating methods, (1) Lump Sum (Roundtable and comparison), (2) Top-Down (Parametric/Ball-Park), and (3) Bottom-Up (Engineering/Detailed). In many instances a combination of these methods may be used.

#### **(1) Lump Sum Cost Estimating**

A lump-sum estimate 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. Two methods of lump-sum estimating are "round table" and "comparison":



- **Roundtable estimating:** Experts develop the estimate based on their technical expertise and knowledge of the market. The degree of accuracy is dependent on the expertise of the participants.
- **Comparison estimating:** Proposed costs based on previously completed A&A program costs that are similar to the current requirement. The known costs are adjusted by adding or subtracting elements of material, time, and economic or inflationary changes as necessary. This method is used when relatively few adjustments are needed to develop the estimate. (Whenever a record of prices previously paid for a similar requirement is available, attach a copy of this record to the current estimate.)

## **(2) Top-Down Cost Estimating**

Top-Down is commonly called the “parametric or ballpark” approach and is based upon pricing major measurable units such as man-hours, number of trips/people/days for travel, cubic yards, the number of moves, number of immunizations, number of laboratory tests or number of computers, major computer systems requirements, etc. to determine an approximate estimate of the costs. It requires collecting and organizing historical data and relating it to the performance output being estimated. When making any estimates based on historical data, adjustments have to be made for the specific work required and for cost increases/decreases due to differing requirements, economic conditions, etc. Cost projections may be made based on the use of formulas or cost/price estimating relationships.

The Top-Down method would be used in the early planning stages of a project when the precise quantities or needs are not yet known or when requirements are not fully known or detailed specifications are not available. The estimate would result in an “order-of-magnitude” projection of costs, and would have to be refined as the work product becomes more defined. The top down approach may not detail all peripheral/incidental costs, such as travel, site preparation, cost for regulatory permits, specific professional license requirement, hardware or software costs, but estimates of the cost of these items should be included and documented in the rationale for the estimate.

## **(3) Bottom-Up Cost Estimating**

The Bottom-Up approach is commonly called the detailed estimate and represents the opposite end of the cost estimating spectrum. It presumes that the total effort can be separated into organized tasks/activities, and pricing can be applied to each element such as labor, overhead, travel, equipment, other direct costs and G&A. The data for a bottom-up estimate has to be very detailed and represents the accumulated experiences of previous and similar projects. Adjustments will still have to be made (i.e. economic adjustments based on cost of living, etc.) and you should never depend entirely upon any historical data. However,

there may be sufficient in-house experience and prior contracts/programs for similar work/services which will provide information to assist you in using this method.

The Bottom-Up type of estimate is prepared whenever the needs are well defined. Each program should have as a top priority preparing well defined requirements documents (statement of work (SOW), performance work statements (PWS)/program description (PD), etc.) prior to even considering a solicitation. In this scenario, fairly complete knowledge of the work to be done is assumed, and exact work steps or tasks and subtasks have been developed. Typically, SOW/PWS/PD documents address "what is required", not "how to do it." Therefore, Applicant/Offerors may propose different methods of "how to do it" than anticipated by the cost estimator.

Use **seven easy steps** to develop a bottom-up estimate:

1. Isolate All Program/Project Required Tasks or Task by Deliverables for the activity/project.
2. Identify the Resources Required to Complete All Tasks
3. Ascertain Dependencies/Reliance's among Tasks within the activity/project
4. Estimate Costs for All Tasks (labor, travel, supplies/commodities, subcontractor, other direct costs, etc)
5. Determine When Tasks should be completed
6. Check to ensure you have included all task and their projected costs for an activity.
7. Roll up the costs to an aggregate amount to establish you program estimate.

Step 1: A breakdown of the required tasks or work to be performed into concrete units is the root source for the bottom-up estimating.

Step 2 and 3: Estimate the costs by the project task and identify task dependencies (reliance) to obtain in more comprehensive estimate. Identifying dependencies/reliance among tasks will help identify critical task that affect task and project completion. This essentially creates a budget projection for each task/activity within your program.

Step 4: Estimate Costs elements for each task/activity by adding the costs of the labor and materials (labor, travel, supplies/commodities, subcontractors other direct costs, etc) it require, include consideration for cost that may result from risk associated with the activity.

Step 5: Determine when each task/activity should be completed.

Step 6: Check to ensure that

- cost for each task was included in the estimate

- cost was projected correctly
- all estimates are included in activity cost subtotals
- the total for activity costs were calculated correctly

Step 7: Establish the estimate by rolling up the cost for each task into an aggregate amount for each of the budget components (labor, travel, supplies/commodities, sub-contractors other direct costs, etc.) in the activity/project.

This bottom-up estimation process is the most accurate because it involves estimating costs for each task.

## **Templates**

1. Independent Government Cost Estimate, with instructions
2. Travel Worksheet

## 1. INDEPENDENT GOVERNMENT COST ESTIMATE (IGCE) TEMPLATE

PROJECT TITLE				
ACTIVITY MANAGER	Period of Performance			
	FROM		TO	
<b>DESCRIPTION OF COST ELEMENTS</b>				
1. DIRECT LABOR (List Labor Categories)	ESTIMATED HOURS	RATE PER HOUR (\$)	ESTIMATED COST (\$)	TOTAL ESTIMATED COST (\$)
	TOTAL DIRECT LABOR			
2. MATERIALS/SERVICES				
Subtotal Direct Labor and Materials/Services				
3. OVERHEAD	RATE (%)	TOTAL BLOCKS 1+2		
			ESTIMATED OH COST	
Other Direct Costs				
4. INFORMATION TECHNOLOGY SUPPORT				
5. TRAVEL				
6. SUBCONTRACTOR (S) CONSULTANT (S)				
7. Other Costs				

PROJECT TITLE				
<b>8. Total Costs before G&amp;A</b>				
9. G&A	RATE (%)	Total Block 8		
			ESTIMATED G&A	
<b>10. Total Costs before Profit/Fee</b>				
11. FEE/PROFIT				
<b>12. TOTAL ESTIMATED PRICE/ COST PLUS FEE (Blocks 10 + 11)</b>				
TYPED NAME AND TITLE			SIGNATURE	
MISSION			DATE	

## **Instructions**

### **BLOCK 1. Direct Labor**

Enter all proposed labor categories for the project, e.g., project director, economist, senior analyst, scientist, engineer, clerical, media specialist, business enterprise specialist, attorney, contract/grant manager, administrative support etc., and the estimated hours for each related Tasks/Subtask. The estimated cost for each labor category equals the estimated hours, multiplied by the hourly rate for the labor category. Determine the estimated cost for each entry and place the sum in the column marked Estimated Cost. Total the Estimated Cost Column and place it in the Total Direct Labor row in the Total Estimated Cost column.

### **BLOCK 2. Materials/Services**

List all supplies, equipment, and services, such as printing, necessary to complete the project.

### **BLOCK 3. Overhead/Fringe**

Overhead percentages and the bases to which the rates are applied will vary with each organization. When preparing the cost estimate, use known commercial contractor rates if available from recent proposals, the CO or AO may assist with this. This information may be obtained from review of a current proposal from a commercial contractor on another project. Place the result of the direct labor times the overhead and fringe rates in the total estimated cost column.

### **BLOCK 4. Information Technology Support**

List supplies, equipment, software, maintenance services, commodities and support services necessary for performance of the project.

### **BLOCK 5. Travel**

Itemized travel can be estimated using the separate schedule attached (IGCE Travel Worksheet). Use an overall estimated cost for travel combining such elements as air fare (coach), per diem, local travel and related expenses such as passports, visas, inoculations etc. It may be useful to arrive at an average cost per trip and multiply this cost by the number of estimated trips. Current per diem rates are found at:

<http://www.gsa.gov/portal/category/21287>

**BLOCK 6. Subcontractor (s)/ Consultant (s)**

List any items, tasks or services that might be subcontracted, if applicable. Drawing on past experience, you may deduce that a particular Task of Subtask may be subcontracted because of the highly specialized nature of the work or perhaps special equipment or facilities may be required that the prime Recipient/Contractor may not have. If consultants are likely to be utilized, itemize estimated costs for specific consultant services and place the sum in the total estimated cost column. A current range of consultant fees is GS-15 Step 2 per day depending upon the level of expertise of the consultant.

(see <http://www.opm.gov/oca/11tables/index.asp> for current GS Pay Schedule)

**BLOCK 7. Other Costs**

Itemize any additional other Direct Costs on a separate sheet. These costs may include items such as supplies, special test equipment, reproduction costs, preparation of reports, telephone charges, taxes (e.g. VAT), insurance, allowances, local office set-up costs for the specific program, etc. Enter the total in the total estimated cost column.

**BLOCK 8 Total Costs Before G&A**

Enter total cost.

**BLOCK 9. General & Administrative (G&A)**

General and administrative (G&A) rates, which represent an Applicant/Offeror's costs, such as supervisory quality control, that are difficult to assign to specific contracts, but are necessary for the Applicant/Offeror to remain in business. Again, the CO or AO may assist with this, or OAA's Overhead and Special Costs and Contract Closeout Branch can provide guidance. The G&A rate is normally applied to the sum of all direct and indirect costs elements.

**BLOCK 10. Total Costs Before Profit/Fee**

Enter total cost after adding G&A



**BLOCK 11. Fee/Profit (Contracts Only)**

Profit is generally regarded as remuneration for the risk involved in undertaking the contract tasks. Profit is expressed as a dollar amount which equates to a percentage of the estimated cost. Profits for cost reimbursement contracts must not exceed 10% (FAR 15.404-4(c)(4) with 5% to 7% being the average for cost-reimbursement contracts. As indicated in 22 CFR 226.81, it is USAID policy not to pay fee/profit under assistance instruments (grants/cooperative agreements) for work performed to implement program objectives. Fee is permissible for procurement contracts awarded under assistance to acquire goods and services to satisfy the needs of the Recipient and does not equate to execution of program tasks.

**BLOCK 12. Total Estimated Price/Cost Plus Fee**

Total the amounts in the total estimated cost column.

