

# **16.306 Cost-plus-fixed-fee contracts.**

(a) *Description.* A cost-plus-fixed-fee contract is a cost-reimbursement contract that provides for payment to the contractor of a negotiated fee that is fixed at the inception of the contract. The fixed fee does not vary with actual cost, but *may* be adjusted as a result of changes in the work to be performed under the contract. This contract type permits *contracting* for efforts that might otherwise present too great a risk to contractors, but it provides the contractor only a minimum incentive to control costs.

(b) *Application.*

(1) A cost-plus-fixed-fee contract is suitable for use when the conditions of 16.301-2 are present and, for example-

(i) The contract is for the performance of research or preliminary exploration or study, and the level of effort required is unknown; or

(ii) The contract is for development and test, and using a cost-plus-incentive-fee contract is not practical.

(2) A cost-plus-fixed-fee contract normally *should* not be used in development of *major systems* (see part 34) once preliminary exploration, studies, and risk reduction have indicated a high degree of probability that the development is achievable and the Government has established reasonably firm performance objectives and schedules.

(c) *Limitations.* No cost-plus-fixed-fee contract *shall* be awarded unless the *contracting officer* complies with all limitations in 15.404-4(c)(4)(i) and 16.301-3.

(d) *Completion and term forms.* A cost-plus-fixed-fee contract *may* take one of two basic forms—completion or term.

(1) The completion form describes the scope of work by stating a definite goal or target and specifying an *end product*. This form of contract normally requires the contractor to complete and deliver the specified *end product* (*e.g.*, a final report of research accomplishing the goal or target) within the estimated cost, if possible, as a condition for payment of the entire fixed fee. However, in the event the work cannot be completed within the estimated cost, the Government *may* require more effort without increase in fee, provided the Government increases the estimated cost.

(2) The term form describes the scope of work in general terms and obligates the contractor to devote a specified level of effort for a stated time period. Under this form, if the performance is considered satisfactory by the Government, the fixed fee is payable at the expiration of the agreed-upon period, upon contractor statement that the level of effort specified in the contract has been expended in performing the contract work. Renewal for further periods of performance is a new *acquisition* that involves new cost and fee arrangements.

(3) Because of the differences in obligation assumed by the contractor, the completion form is preferred over the term form whenever the work, or specific milestones for the work, can be defined well enough to permit development of estimates within which the contractor can be expected to complete the work.

(4) The term form *shall* not be used unless the contractor is obligated by the contract to provide a specific level of effort within a definite time period.

**Parent topic:** [Subpart 16.3 - Cost-Reimbursement Contracts](#)