

Chapter 32 – Idle Facilities and Idle Capacity

Authoritative Sources

[FAR 31.205-17](#) Idle Facilities and Idle Capacity

The contractor's use of facilities will usually fluctuate over time as a normal course of business. It is when facilities are idle for an extended period of time that they become unallowable costs on Government contracts.

This chapter addresses the following topics:

32-1 Defining Idle Facilities and Idle Capacity

32-2 Allowability

32-1 Defining Idle Facilities and Idle Capacity

FAR 31.205-17(a) defines the terms facilities, idle facilities, idle capacity, and costs of idle facilities or idle capacity for use in determining the allowability of idle facility and idle capacity costs.

A facility is a plant or any portion thereof (including land integral to the operation), equipment, individually or collectively, or any other tangible capital asset, wherever located, and whether owned or leased by the contractor. Idle facilities are **completely unused** facilities that are in excess of the contractor's current needs.

Idle capacity is the unused capacity of partially used facilities. It is the difference between that which a facility could achieve under 100 percent operating time of a one-shift basis, less operating interruptions resulting from time lost for repairs, setups, unsatisfactory materials, and other normal delays, and the extent to which the facility was actually used to meet demand during the accounting period. A multiple-shift basis may be used in the calculation instead of a one-shift basis if it can be shown that this amount of usage could normally be expected for the type of facility involved.

Costs of idle facilities or idle capacity include costs such as maintenance, repair, housing, rent, and other related costs; e.g., property taxes, insurance, and depreciation.

32-2 Allowability

FAR 31.205-17(b) provides that costs of idle facilities are allowable for a reasonable period of time, usually not to exceed one year, depending upon the initiative taken to use, lease, or dispose of the idle facilities. The regulation provides the contracting officer with the flexibility to accept idle facilities costs for a period greater than one year.

In contrast, costs of idle capacity are normal costs of doing business and are a factor in the normal fluctuations of usage or overhead rates from period to period.

Usually such costs are allowable provided the capacity is necessary or was originally reasonable and is not subject to reduction or elimination by subletting, renting, or sale, in accordance with sound business, economics, or security practices. However, widespread idle capacity throughout an entire plant or among a group of assets having substantially the same functions may be idle facilities. Some of the indication of when idle capacity can be identified as idle facilities include:

- The facility is completely unused.
- No current need is foreseen or can be demonstrated for the completely unused facility.
- The facility and/or equipment have been excluded from regularly scheduled maintenance and/or calibration schedules.
- The facility has been sublet, rented or abandoned.

AUDIT GUIDELINES

The definition of the costs of idle facilities or idle capacity comprises more than just the cost for the facility. The definition also includes the associated costs, such as maintenance, repair, property taxes, insurance, and any other related cost incurred in retaining the facility. Therefore, the auditor should consider the entire amount associated with the costs of idle facilities in determining the significance of the questioned costs.

Callout

Advance Agreement – [FAR 31.109](#), Advance Agreements, identifies cost of idle facilities and idle capacity as a cost area for which an advance agreement may be particularly important to negotiate with a contractor. ([Return](#))

Frequently Asked Question

What if a contractor sublets an idle facility for a lesser amount than the actual costs incurred?

Answer: According to [FAR 31.205-23](#), “An excess of costs over income under any other contract (including the contractor’s contributed portion under cost-sharing contracts) is unallowable.”