

CHANGE IN COST –PRICE ADJUSTMENT.

ISE-44: This clause is applicable to the contracts where

- i) The stipulated period of completion is 12 months or more and
- ii) The tender cost of the work exceeds Rs.100 lakhs or more.

Contract price shall be adjusted for increase or decrease in rates and prices of labour materials fuels and lubricants in accordance with the following principles and procedures and as per the formula given here under.

- a) The price adjustment shall apply for the work done from the date of {commencement} opening of tender (original or extended) up to the end of the original period of completion or extensions granted by the employer and shall not apply to work carried out beyond the stipulated period of completion for reasons attributable to the contractor.
- b) The price adjustment shall be determined during each quarter from the formula given under.
- c) Following expressions and meanings are assigned to the work done during the quarter.
R= Total value of work done during the quarter. It would **include** the amount of secured advance for materials paid for (if any) during the quarter **less** the amount of the secured advance recovered during the quarter. It will **exclude** value of works executed under variations for which price adjustment (if any) will be worked out separately based on the terms mutually agreed.
- d) The extent of full compensation for any rise or fall in costs to the contractor is not covered by the provisions of this or other clauses in the contract, the unit rates included in the contract shall be deemed to include amounts to cover the contingency of such other rise or fall in costs.
- e) Cost of materials supplied by the Nigam at fixed rates as specified in Schedule-A of the contract shall be excluded from the scope of the price adjustment.

PRICE ADJUSTMENT FORMULA¹.

- (i) Price adjustment for increase or decrease in the cost due to labour shall be paid in accordance with the following formula.

$$V_L = 0.85 \times P_L / 100 \times R \times (L_i - L_0) / L_0 \text{ Where}$$

V_L = Increase or decrease in the cost of work during the quarter under consideration due to changes in rates for local labour,

L_0 = The average consumer price index² for industrial workers for Dharwad centre for the quarter preceding the date of opening of tenders as published by the Labour Bureau Ministry of Labour Government of India,

L_i = The average consumer price index for industrial workers for Dharwad centre for the quarter under consideration as published by the Labour Bureau Ministry of Labour Government of India,

P_L = Percentage of labour component of the work.

¹. The formula has some normal components. It should be changed if need be to suit the nature of work.

². The index numbers are available in the website <http://labourbureau.nic.in/indiab.html>

³. Insert the name of the centre. The centers for which the indices presently available for the Karnataka are Bangalore, Belgaum, Hubli / Dharwad, Mercara. Choose the center nearest to the work for the tenders are invited.

ADJUSTMENT FOR CEMENT COMPONENT.

(ii) Price adjustment for increase or decrease in the cost of cement component procured by the contractor shall be paid in accordance with the following formula.

$$V_c = 0.85 \times P_c / 100 \times (C_i - C_0) / C_0 \text{ Where,}$$

V_c = Increase or decrease in the cost of the work during the quarter under consideration due to changes in rates for cement,

C_0 = The all India average whole sale price index⁴ for cement (ordinary Portland cement) for the quarter preceding the date of opening of tenders as published by the Office of the Economic Advisor, Ministry of Commerce and industry Government of India, New Delhi.

C_i = The all India average whole sale price index for cement (ordinary Portland cement) for the quarter under consideration as published by the Office of the Economic Advisor, Ministry of Commerce and industry Government of India, New Delhi.

P_c = Percentage of cement component of the work.

Note: For application of this clause index of Ordinary Portland cement⁵ has been chosen to represent cement group.

ADJUSTMENT FOR STEEL COMPONENT:

(iii) Price adjustment for increase or decrease in the cost of steel procured by the contractor shall be paid in accordance with the following formula.

$$V_s = 0.85 \times P_s / 100 \times R \times (S_i - S_0) / S_0 \text{ where}$$

V_s = Increase or decrease in the cost of the work during the quarter under consideration due to changes in rates for steel,

S_0 = The all India average whole sale price index for steel (MS bars and rods) for the quarter preceding the date of opening of Bids as published by the Office of the Economic Advisor, Ministry of Commerce and industry Government of India, New Delhi.

S_i = The all India average whole sale price index for steel (MS bars and rods) for the quarter under consideration as published by the Office of the Economic Advisor, Ministry of Commerce and industry Government of India, New Delhi.

P_s = Percentage of steel component of the work.

Note: For the application of this clause index of the M.S. bars and rods⁶ has been chosen to represent steel group.

ADJUSTMENT OF BITUMEN COMPONENT.

(iv) Price adjustment for increase or decrease in the cost of bitumen procured by the contractor shall be paid in accordance with the following formula.

$$V_B = 0.85 \times P_B / 100 \times R \times (B_i - B_0) / B_0 \text{ where}$$

⁴ The index numbers are available in the website <http://eaindustry.nic.in>

⁵ This may be changed depending on the major type of cement used depending on the nature of work.

⁶ This may be changed depending on the major material used depending on the nature of work

V_B = Increase or decrease in the cost of the work during the quarter under consideration due to changes in rate for Bitumen,

B_o = The official retail price of bitumen at the IOC/ HPCL/ BPL or other depot at⁷ on the day 30 days prior to the date of opening of Bids.

B_i = The official retail price of bitumen at the IOC/ HPCL/ BPL or other depot at for the 15th day of the middle calendar month of the quarter under consideration.

P_B = Percentage of Bitumen component of the work.

ADJUSTMENT OF FUEL AND LUBRICANT COMPONENT:

(v) Price adjustment for increase or decrease in the cost of Fuel and Lubricants component shall be paid in accordance with the following formula.

$V_F = 0.85 \times P_F / 100 \times R \times (F_i - F_o) / F_o$ where

V_F = Increase or decrease in the cost of the work during the quarter under consideration due to changes in rates for Fuel and Lubricants

F_o = The official retail price of High Speed Diesel (HSD) at the IOC/ HPCL/ BPL or other consumer pump at Haveri.⁸ on the day 30 days prior to the date of opening of Bids.

F_i = The official retail price of High Speed Diesel (HSD) at the IOC/ HPCL/ BPL or other consumer pump at Haveri for the 15th day of the middle calendar month of the quarter under consideration.

P_F = Percentage of Fuel and Lubricant component of the work.

Note: For the application of this clause the price of HSD⁹ has been chosen to represent Fuel and Lubricant group.

ADJUSTMENT FOR PLANT AND MACHINERY SPARE COMPONENT:

(vi) Price adjustment for increase or decrease in the cost of plant and machinery spares procured by the contractor shall be paid in accordance with the following formula.

$V_P = 0.85 \times P_P / 100 \times R \times (P_i - P_o) / P_o$ where

V_P = Increase or decrease in the cost of the work during the quarter under consideration due to changes in rates for plant and machinery spares

P_o = The all India average whole sale price index for Heavy machinery and parts for the quarter preceding the date of opening of bids as published by the Office of the Economic Advisor, Ministry of Commerce and industry Government of India, New Delhi.

P_i = The all India average whole sale price index for Heavy machinery and parts for the quarter under consideration as published by the Office of the Economic Advisor, Ministry of Commerce and industry Government of India, New Delhi..

P_P = Percentage of Plant and Machinery component of the work.

Note: For the application of this clause index of the Heavy machinery and Parts¹⁰ has been chosen to represent Fuel and Lubricant group.

⁷ Insert the nearest location of POL depot.

⁸ Insert the location of the nearest POL consumer pump.

⁹ This could be approximately changed to any other item depending on the nature of work.

¹⁰ This could be approximately changed to any other item depending on the nature of work

ADJUSTMENT FOR OTHER MATERIALS:

(viii) Price adjustment for increase or decrease in the cost of other materials other than cement, Bitumen, and Fuel and Lubricants¹¹ procured by the contractor shall be paid in accordance with following formula.

$$V_M = 0.85 \times P_M / 100 \times R \times (M_i - M_o) / M_o \text{ where}$$

V_M = Increase or decrease in the cost of the work during the quarter under consideration due to changes in rates for local materials other than cement, steel, Bitumen, and Fuel and Lubricants

M_o = The all India average whole sale price index for all commodities for the quarter preceding the date of opening of bids as published by the Office of the Economic Advisor, Ministry of Commerce and industry Government of India, New Delhi.

M_i = The all India average whole sale price index for all commodities for the quarter under consideration as published by the Office of the Economic Advisor, Ministry of Commerce and industry Government of India, New Delhi..

P_M = Percentage of other material (other than cement, steel, Bitumen, and Fuel and Lubricants) component of the work.

The following percentages¹² will govern the price adjustment for the entire contract.¹³

1	Labour-	P_L
2	Cement-	P_C
3	Steel-	P_S
4	Bitumen-	P_B
5	Fuel and Lubricants-	P_F ¹⁴
6	Plant and machinery & spare-	P_P ¹⁵
7	Other materials-	P_M

TOTAL

¹¹. Add, delete or change depending on the nature of work.

¹². The percentages have to be approximately worked out on the estimates of cost and incorporated in the tender document before issue. It shall not be changed of even if there is change of scope of work during execution.

¹³. The components could be added or deleted or changed depending on the nature of work.

¹⁴. This could vary from 5% for normal works to 10% for highly mechanized operations in the work.

¹⁵. This could vary from 15% for normal works to 30% for highly mechanized operations in the work.

¹⁶. The total of the percentages for the various components of the works should be 100.

PROCEEDINGS OF THE GOVERNMENT OF KARNATAKA

Subject: Provision for price Adjustment for specified materials for works - Revision Reg.

Read : Govt. Order No. FD 59 PRO CELL 2004, dated: 26-11-2004

Preamble :

In Government Order No. FD 59 PRO CELL 2004 dated: 26th November 2004 read above, the following instructions were issued about price adjustment.

- (a) A Price Adjustment clause shall be included in all Works contracts whose estimated cost put to tender is Rs.100 lakhs or more and the period of completion is 12 months or more. The Price Adjustment clause and the formulae for adjustment shall be as per Annexure-1 of the said G.O.
- (b) In works contracts where, Price Adjustment Clause is provided the Price Adjustment shall be admissible from the date of opening of tenders (original or extended).
- (c) Price Adjustment Clause shall not be included in Goods and Equipment tender documents. However in respect of tender documents for procurement of electric cables, transformers, generators, motors, that have raw material component subject to price fluctuations, appropriate Price Adjustment clauses may be incorporated by the Tender Inviting Authority in the tender documents, with the specific approval of the concerned Head of the Department or Managing Director of the Public Undertaking/Board.

The PWD has requested for certain modifications in the above conditions as the Department is facing problem in procurement of agencies for implementation of various works due to rapid fluctuation of rates of construction materials especially cement, steel and bitumen. This has resulted in poor response to the tenders floated by the department and also slowdown or stoppage of on-going works by the agencies. Further, the tender premiums being quoted by the agencies are very high which creates an opinion that the Schedule of Rates or the estimates are defective. Hence, P.W.D has requested to resolve this problem suitably by modifying the existing contract agreement to absorb the fluctuation in the market prices of major construction viz.,

cement, steel and bitumen.

In the procurement Reforms Standing Committee Meeting held on 2-8-2008, the proposal of PWD for effecting certain changes in the price adjustment clause in the Tender Documents was discussed in detail and considering the frequent fluctuations in the basic rates of construction materials i.e. Cement, Steel, Bitumen, it was recommended by the Committee to modify the Government Order dated: 26.11.2004 referred to above.

The Government has considered the issue in detail and accordingly the following orders are issued.

Government Order No. FD 3 PCL 2008, Bangalore, dated: 21-11-2008.

In the circumstances explained in the preamble, in modification of the Government Order dated: 26-11-2004, it is directed that the following price adjustment methods are applicable hereafter.

- a) For all works costing more than Rs.50 lakhs, if the period of execution is more than 12 months, the price adjustment will be calculated as prescribed in Annexure to G.O. No: FD 59 PRO Cell/ 2004, dt: 26.11.2004.
- b) If the period of execution is more than 6 months but less than or equal to 12 months for work costing more than Rs.50 lakhs, star rates in respect of specified materials (cement, steel and bitumen) only shall be payable to the contractor based on the all India average wholesale price index for the said materials. The star rates adjustment shall be as per the increase or decrease in the index as applied to the said materials between the last date for receiving bids and the date of execution as per the approved programme of works submitted by the contractor at the time of execution of agreement which shall mandatorily be a part of the agreement.
- c) If the period of execution is less than or equal to 6 months, for all works irrespective of the cost of the works, price adjustment or star rates shall not be applicable.
- d) In works contracts where price adjustment clause is provided, the price adjustment shall be admissible from the date of opening of tenders (Original or extended).

e) Price adjustment clause shall not be included in Goods and Equipment tender documents. However, in respect of tender documents for procurement of Electric Cables, Transformers, Generators, Motors that have raw material component subject to price fluctuations, appropriate price adjustment clauses may be incorporated by the Tender Inviting Authority in the tender documents, with the specific approval of the concerned Head of the Department or Managing Director of the Public Sector Undertaking/ Board.

2. The above mentioned methods of price adjustment clause are subject to the following conditions:

i) The price adjustment clause or the star rates shall not be admissible if the contract period is extended due to lapse on the part of the contractor.

ii) For the cases (a) and (b) above, if the contract period is extended due to no fault of the contractor, the modified programme shall be approved by the competent authority and shall become a part of agreement for which price adjustment/star rates will be applicable.

iii) For the purpose of working out price adjustment and star rates, the price index issued from time to time by the Ministry of Commerce and Industry, Government of India should be adopted.

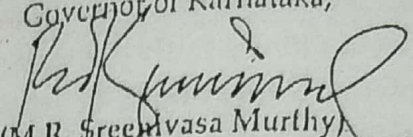
iv) The formulae for price adjustment shall be as prescribed in Annexure-1 to the G.O. No: FD 59 PRO.Cell/2004 dated: 26.11.2004, which is appended.

3. The above instructions will only be applicable prospectively and shall not be applicable for contracts concluded in the past or being concluded presently or for tenders already invited.

4. The above instructions shall apply to all Procurement Entities as defined in Section 2(d) Chapter I of the Karnataka Transparency in Public Procurement Act, 1999.

5. The above instructions should be appropriately incorporated in the Standard Tender Documents.

By order and in the name of the
Governor of Karnataka,


(M.R. Sreenivasa Murthy)
Principal Secretary to Government,
Finance Department

To:

The Compiler, Karnataka Gazette for publication in the next issue of the Gazette and
to supply 500 copies to Finance Department

Copy to:

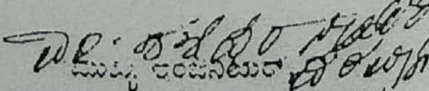
The Chief Secretary / Additional Chief Secretaries to Government
The Principal Secretaries and Secretaries to Government
The Principal Secretary to Hon'ble Chief Minister
The Accountant General (A&E), Karnataka, Bangalore
The Secretary to Government (Expenditure), Finance Dept.
The Secretary, Karnataka Legislative Assembly / Council
The Registrar, Karnataka High Court, Bangalore
The Registrar, Karnataka Lokayukta, Bangalore
The Secretary, Karnataka Public Service Commission, Bangalore
All the Deputy Commissioners
All the CEOs of Zilla Panchayats
All the Heads of Departments
All the CEOs of Boards and Corporations
All Internal Financial Advisors
Joint Secretaries / Deputy Secretaries / Special officers / Under Secretaries to Govt.,
Finance Department.

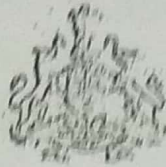
} With a covering letter

1/3
ಸಂಖ್ಯೆ: 3895.1 2 DEC 2008
ಕರ್ನಾಟಕ ಸರ್ಕಾರದ ಆದೇಶ: 05/12/2008-09/

ಪ್ರತಿಪಕ್ಷ, ಈ ಕೆಳಕಂಡಿರುವ ಕಛೇರಿಗಳಿಗೆ ಮಾಹಿತಿಗಾಗಿ ಹಾಗೂ ಮುಂದುವರಿದ ಕ್ರಮಕ್ಕಾಗಿ
ಪ್ರಾರ್ಥಿಸಲಾಗಿದೆ.

- 1) ಸಾರ್ವಜನಿಕರ ಸಂಪನ್ಮೂಲ, ಕರ್ನಾಟಕ, ಸರ್ಕಾರಿ ಮಾಹಿತಿ ಮತ್ತು ಸಂಪನ್ಮೂಲ ಸಚಿವರು.
- 2) ಸಾರ್ವಜನಿಕರ ಸಂಪನ್ಮೂಲ, ಕರ್ನಾಟಕ, ಭದ್ರಾ ಯೋಜನಾ ಸಚಿವರು, ಬೆಂಗಳೂರು.
- 3) ಸಾರ್ವಜನಿಕ ಸಂಪನ್ಮೂಲ, ಕರ್ನಾಟಕ, ಸುರಾ ನಿಯಂತ್ರಣ ವಿಭಾಗ, ಬೆಂಗಳೂರು.
- 4) ಕರ್ನಾಟಕ ಸರ್ಕಾರದ ಆದೇಶ: 05/12/2008-09/ 4, ಯೋಜನೆ 1 ರಿಂದ 10 ಹಾಗೂ ಬಡ್ತಿ ಶಾಖೆಗೆ.


ಮುಖ್ಯ ಸಂಪನ್ಮೂಲ ಸಚಿವರು
ಕರ್ನಾಟಕ ಸರ್ಕಾರದ ಆದೇಶ: 05/12/2008-09/



Proceedings of the Government of Karnataka

Sub: Provision for Price Adjustment for Specified
Materials for works - Clarification - reg.

Read: 1. G.O. No.FD 59 PRO CELL 2004, dated:26.11.2004
2. G.O. No.FD 3 PCL 2008, dated:21.11.2008

Preamble:

In Government Order reference at (1) above the instructions regarding Price Adjustment methods applicable were specified. Clarification are being sought on the method of computing Price Adjustment, whenever the contract period is extended due to lapse of part of the contractor and also when the contract period is extended due to no fault of the contractor. The rationale behind admissibility of Price Adjustment is to compensate the contractor on price fluctuations when extensions of time is given beyond the stipulated date of completion for reasons not attributable to the contractor. However, while extending such benefits it should be ensured that this will not result either in additional financial burden to Government or result in undue benefit to the contractor. Therefore after examining all aspects Government issues the following orders.

Government Order No:791 Exp-12/2015, Bangalore,
Dated:26.02.2016

In the circumstances explained in the preamble and in partial modification of the Government Order referred at (2) above, the following method, of price adjustment is applicable.

Case-1, When time extension is granted for the reasons not attributable to the contractor.

Price Adjustment is admissible as per terms of contract for the work carried out during the extension of the time granted for completion of work.

-2-

Case-2. When the time extension is granted for reasons attributable to the contractor

Price Adjustment is admissible upto the original contract period only and for the period of extension, price adjustment is not admissible and payment for such extension shall be at tendered rates only.

Case-3. When extension of time is granted for the reasons attributable to employer followed by reasons attributable to the contractor

Price Adjustment is admissible as per terms of contract for the work carried out during the original period of completion and during the extension of time granted for completion of work for reasons attributable to employer. For the work carried out during the extension of time granted due to delay attributable to the contractor Price Adjustment is not admissible and the contractor shall be paid only at the Tendered rates.

Case-4. When delay occurs initially attributable to contractor and later attributable to Employer

Extension of time in such cases is to be granted by first appending extension of time due to delay by employer to the original contract period, although the delay is initially due to contractor and later by the employer. The extension of time granted due to delay by the contractor shall be considered as the last phase after extension due to delay by employer is added to the original contract period.

Price Adjustment is admissible to the delay attributable to the employer. The Price Adjustment for the initial delay attributable to the contractor is not admissible and the contractor shall be paid only at the Tendered rates.

General Clarification:

I - By way of abundant caution, it is also clarified that 'quarter' in this G.O. and G.O. at reference (1) and (2) above means a period of three consecutive months as detailed below:

(i) For reckoning the average base price index

Three consecutive calendar months preceding the calendar month of opening the Tender.

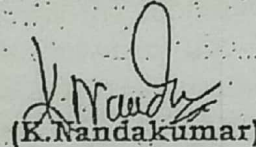
(ii) For reckoning the value of 'R'

Three consecutive Calendar months including the calendar month in which work was started in the first instance and thereafter next quarter shall be consecutive three months following the preceding quarter.

II - The value of R defined in Government order referred at (1) above is redefined as below:

R = Total value or work done during the quarter. It would include the amount of secured advance for materials paid for (if any) during the quarter, less the amount of the secured advance recovered during the quarter. It will exclude value for works executed under variations for which Price Adjustment (if any) will be worked out separately based on the terms mutually agreed. It will also exclude the value of work done during the quarter which was programmed to be done prior to this quarter as per the work schedule in the agreement.

By Order and in the name of the
Governor of Karnataka


(K. Nandakumar)

Special Officer and Ex-officio
Deputy Secretary to Government
Finance Department (PWFC)

25/12

To:

The Compiler, Karnataka Gazette for publication in the next issue of the Gazette and to supply 500 copies to Finance Department.

Copy to:

The Chief Secretary / Additional Chief Secretaries to Government.
The Principal Secretaries and Secretaries to Government.
The Accountant General (A&E), Karnataka, Bangalore.
The Secretary, Karnataka Legislative Assembly/Council.
The Registrar, Karnataka High Court, Bangalore.
The Registrar, Karnataka Lokayukta, Bangalore.
The Secretary, Karnataka Public Service Commission, Bangalore.
All the Deputy Commissioners.
All the CEOs of Zilla Panchayats.
All the Heads of Departments.
All the CEOs of Boards and Corporations.
All Internal Financial Advisors.
Joint Secretaries / Deputy Secretaries / Special officers / Under Secretaries Govt., Finance Department.
Section Guard File / Spare Copies.

Dated: 30-9-2010

NO. PWD 159 CRM 2009

CIRCULAR

Sub : Guidelines Instructions for computation of STAR rates reg.

Ref : (1) Govt. Order No. FD 03 PCL 2008 dated : 21.11.2008.

(2) Chief Engineer, National Highways, Bangalore letter No. CNH /TA-

2/
AE-8 /STAR rates/Clry 2009-10/1134 dated : 18.6.10

- (1) The STAR rates are applicable for Cement, Steel and Bitumen used in the works costing more than Rs. 50 lakhs and having period of execution more than 6 months but less than 12 months.
- (2) The STAR rates shall be computed in conformity with the provisions of the para(b) of the Government Order cited at ref. (1) above which is reproduced below :
"If the period of execution is more than 6 months but less than or equal to 12 months for work costing more than Rs. 50 lakhs, STAR rates in respect of specified materials (cement, Steel and bitumen) only shall be payable to the contractor based on the all India average wholesale price index for the said materials. The star rates adjustment shall be as per the increase or decrease in the index as applied to the said materials between the last date for receiving bids and the date of execution as per the approved programme of works submitted by the contractor at time of execution of agreement which shall mandatorily be a part of the agreement."
- (3) If the period of execution is less than or equal to 6 months for all works irrespective of the cost of the works, STAR rates shall not be applicable.
- (4) The star rates shall not be admissible if the contract period is extended due to lapse on the part of the contractor.
- (5) If the contract period is extended due to no fault of the contractor, the modified programme shall be approved by the Competent Authority and shall be a part of the agreement for which STAR rates shall be applicable.
- (6) For the purpose of working out price adjustment and STAR rates, the price index issued from time to time by Ministry of Commerce and Industry, Government of India should be adopted.
- (7) The formula for computation of STAR rates for Cement, Steel and Bitumen should be as follows:

$$V_c = S \times \frac{(M - M_c)}{M_c} \times T$$

Where V_c = Adjustment to the Contract Price.

S = Basic Price of Cement/ Steel/ Bitumen at the time of last date of receipt of bids (Original or extended)

Mc = Basic cost index prevailing at the time of last date of receipt of bids
(Original or extended)

M = Current cost index relevant to the period in which the material is delivered to the site for use.

T = Actual quantity of material delivered to the site for use

- (8) The price adjustment shall be calculate as prescribed in Annexure to Government Order No. FD 59 PRO Cell/2004 dtd. 26.11.2004 for all works costing more than 50 lakhs,

having period of execution more than 12 months.

- (9) The above instructions shall apply to all procurement entities as defined in Section 2(d) Chapter I of Karnataka Transparency in Public Procurement Act 1999.

- (10) This circular instructions are issued in concurrence with Finance Department Vide Note NO. PWD 587 FC-1/10 dated : 17.9.2010

(Approved by Secretary to Government)

S/d

(M. DEVIPRASAD)

Under Secretary to Government,
Public Works, Ports and Inland
Water
Transport Department (E.A.P)