

PROCEEDINGS OF THE GOVERNMENT OF KARNATAKA

Subject: Procurement Reforms – Provision of Price Adjustment clause in the tender documents.

Preamble :

In the Country Procurement Assessment Report prepared for the State of Karnataka, the World Bank has made a set of recommendations for Procurement Reforms. One such recommendation is that Price Adjustment should be mandated in respect of all contracts of value more than Rs.20 lakhs and a completion period of more than 18 months and it should be made applicable from the date of opening tenders.

The State Government has examined the Recommendation. After considering all aspects in the matter, the Government issues following orders.

ORDER NO. FD 59 PRO. CELL 2004, BANGALORE

DATED 26TH NOVEMBER 2004

1. In super-session of all Standing Rules and Instructions, in respect of Price Adjustment clause in tender documents, the following instructions are issued for compliance.

- (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-I.
- (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 of Managing Director of the Public Undertaking/Board.

2. 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.

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

4. The above instructions should be appropriately incorporated in the Standard Tender Documents under Preparation.

By Order and in the name of
Governor of Karnataka

(K.P. Pandey)
Additional Chief Secretary and
Principal Secretary to Government,
Finance Department.

Annexure I

PRICE ADJUSTMENT CLAUSE FOR WORKS CONTRACTS**Price Adjustment:**

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 formula given hereunder.

- (a) The price Adjustment shall apply for the work done from the date of commencement up to the end of 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 hereunder
- (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 for works executed under variations for which price adjustment (if any) will be worked out separately based on the terms mutually agreed.

- (d) To the extent that 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.

Price Adjustment Formula¹ :

Adjustment for labour component:

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

$V_L = 0.85 \times PL/100 \times Rx(L_i - L_o) / L_o$ 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_o = The average consumer price index² for industrial workers for³ 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 Centre for the quarter under consideration as published by Labour Bureau, Ministry of Labour, Government of India.

P_L = Percentage of labour component of the work

Adjustment for Cement Component :

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

² The Index numbers are available in the web site <http://labourbureau.nic.in/indtab.him/>

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

- (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.

$$V_c = 0.85 \times PC/100 \times RX (C_i - C_o)/C_o, \text{ Where,}$$

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

C_o = The all India average wholesale price index ⁴for cement (Ordinary Portland cement) for the quarter preceding the date of opening of the tenders as published by the Office of 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 Economic Advisor, Ministry of Commerce and Industry, Government of India, New Delhi

P_c = Percentage of cement component of the work

Note: For the 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.

$$V_s = 0.85 \times P_s/100 \times RX (S_i - S_o)/S_o \text{ where,}$$

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

S_o = The all India average wholesale price index for steel (M.S. Bars and rods) for the quarter preceding the date of opening of Bids as published by the Office of Economic Advisor, Ministry of Commerce and Industry, Government of India, New Delhi

S_i = The all India average wholesale price index for steel (M.S. Bars and Rods) for the quarter under consideration as published by the Office of Economic Advisor, Ministry of Commerce and Industry, New Delhi

P_s = Percentage of steel component of the work

Note : For the application of this clause, index of M.S. Bars and Rods⁶ has been chosen to represent steel group.

- (iv) Price adjustment for increase or decrease in the cost of bitumen shall be paid in accordance with the following formula:

$$V_B = 0.85 \times P_B/100 \times RX (B_i - B_o)/B_o, \text{ Where}$$

⁴ The index number are available in the web site <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

Adjustment for steel component:

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

$$V_B = 0.85 \times P_B / 100 \times R_X (B_i - B_o) / B_o, \text{ Where,}$$

V_B = Increase or decrease in the cost of work during the quarter under consideration due to changes in the 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 cost of Fuel and Lubricants shall be paid in accordance with the following formula:

$$V_F = 0.85 \times P_F / 100 \times R_X (F_i - F_o) / F_o, \text{ Where,}$$

V_F = Increase or decrease in the cost of work during the quarter under consideration due to changes in the 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.....⁸ on the Day 30 days prior to the date of opening of Bids.

F_i = The official retail price of HSD t the IOC/HPCL/BPL or other consumer pump at..... 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 Spares 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:

$$V_p = 0.85 \times P_p / 100 \times R_X (P_i - P_o) / P_o, \text{ Where}$$

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

P_o = The all India average wholesale 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 wholesale 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_B = Percentage of Plant and Machinery Spares component of the work.

Note: For the application of this Clause index of Heavy Machinery and Parts¹⁰ has been chosen to represent the Plant and Machinery Spares Group.

⁷ Insert the nearest location of POL Depot

⁸ Insert the location of the nearest POL Consumer pump

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

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

Adjustment for Other materials:

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

$$V_M = 0.85 \times P_M / 100 \times RX (M_i - M_o) / M_o, \text{ Where}$$

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

M_o = The all India average wholesale 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 wholesale 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 component (Other than cement, steel bitumen and Fuel and Lubriviants) of the work.

The following percentages ¹² 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 – PF^{14}	%
6. Plant and Machinery Spares – P_p^{15}	%
7. Other materials – P_M	%
	TOTAL	100%¹⁶

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 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 the work.

¹⁴ This could vary from 5% for normal works and 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.