



Pakistan Engineering Council

(Constituted under Pakistan Engineering Council Act, 1976 enacted by the Parliament)

Secretary / Registrar

Engr. Dr. Nasir Mahmood Khan

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NOTIFICATION

No. PEC/M&E/SBDs/PA/2023: In exercise of the powers conferred under Section 2(XXV)(i) and Section 8(l, p & q) of PEC Act 1976, Pakistan Engineering Council is pleased to make the amendments in "Criteria and Procedure for Incorporation of Price Adjustment Provisions in the Ongoing Contracts' August 2022", notified vide PEC Letter No. PEC/TT/SBDC/PA/2022 September 19, 2022.

The amended version of the above cited document as per endorsement of Ministry of Planning, Development & Special Initiatives vide their letter No. 04(647)PC/T&C/2023 dated August 9 2023, with the revised title "Criteria and Procedure for Incorporation of Price Adjustment Provisions in the On-Going Contracts, August 2022 (Amended June 2023)", is available on PEC Website: <https://www.pec.org.pk/downloads-documents/pec-bidding-documents>, for implementation by all concerned.

This issues with the approval of competent authority.

Engr. Dr. Nasir Mahmood Khan
Secretary/ Registrar

Distribution:

- All concerned/ Public-at-Large

**CRITERIA AND PROCEDURE FOR
INCORPORATION OF PRICEADJUSTMENT
PROVISIONS IN THE ON-GOING CONTRACTS**

**AUGUST 2022
(AMENDED JUNE 2023)**



**PAKISTAN ENGINEERING COUNCIL
ISLAMABAD**

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PREFACE

Pakistan Engineering Council; the Statutory Regulatory body entrusted to regulate the engineering profession of Pakistan, has been undertaking among others, the standardization of "Country specific" documents to regulate and streamline the hiring of engineering consultancy services and procurement of works. STANDARD PROCEDURE AND FORMULA FOR PRICE ADJUSTMENT (SECOND EDITION) MAY 2022 is one such document prepared by a team of experts comprising Employers, Constructors and Consultants. This document is meant for use in forthcoming construction contracts to provide a reasonable basis for calculating price adjustment.

The Constructors Association of Pakistan (CAP) and Association of Consulting Engineers Pakistan (ACEP) complained regarding the unprecedented inflation and recession of economy in the country, coupled with the pandemic COVID-19 outbreak, since January, 2020. It has also been reported that such situation has crippled the construction activities in the country and cast negative effects on the Engineering Consultancy Sector. PEC, as a statutory regulatory body, carries a responsibility to address and resolve all the issues faced by the Construction Industry. Accordingly, PEC notified its document vide No. PEC/TT/SBDC/PA/2022 dated September 19, 2022 to address the Price Adjustment in On-Going Contracts, August 2022 due to unprecedented price hike.

In the same perspective, Planning Commission through its minutes of meeting circulated vide its letter No. 04(419) PC/T&C/2022 dated May 15, 2023 conveyed PEC to submit the revised/final proposal of Standard Procedure for Price Adjustment (SPFPA) 2022, based on 30:70 (fixed vs adjustable cost ratio) to MoP&SI. It was further deliberated with the representative of the MoP&SI and was concluded that Criteria and Procedure for Incorporation of Price Adjustment Provisions in the On-Going Contracts, August 2022 shall be revised as a self-contained, stand-alone document effective enough for evaluating Price Adjustments pertaining to On-Going Projects / Contracts. Accordingly, a team of experts comprising Employers, Constructors and Consultants have prepared a special, one-time, Price Adjustment document (this document) titled "CRITERIA AND PROCEDURE FOR INCORPORATION OF PRICE ADJUSTMENT PROVISIONS IN THE ON-GOING CONTRACTS, AUGUST 2022 (AMENDED JUNE 2023), to provide a reasonable basis for calculating price adjustment in On-Going construction contracts for a limited period of time as per criteria prescribed in this document.

Procuring Agencies/Engineering Organizations and Departments shall use this document for calculating price adjustment in On-Going contracts.

Registrar
Pakistan Engineering Council
Ataturk Avenue (East)
Sector G 5/2
Islamabad
Tel: +92-51-9201203
Fax: +92-51-9217995
E-mail: registrar@pec.org.pk

ACKNOWLEDGMENT

Pakistan Engineering Council (PEC) is grateful for the valuable contribution of the experts in compiling this important document. This document is a reflection of the excellent teamwork of a number of engineers, who have worked diligently to materialize this document, using the best of their abilities and professional expertise.

INSTRUCTIONS TO USERS

A. BACKGROUND

This document is a revision of previous document i.e. Criteria and Procedure for Incorporation of Price Adjustment Provisions in the On-Going Contracts, August 2022 and has been prepared on instructions of Planning Commission, MoP&SI, GoP.

B. OBJECTIVES

This document is intended to make reasonable price adjustment in the billed amount for On-Going contracts, which by virtue of its being restricted to listed adjustable elements (as per amendment to the contract as prescribed herein below), is an approximation. The objectives of this document are to:

1. Make price adjustment as a reasonable compensation against unprecedented price hike in construction inputs.
2. Set out a simple procedure.
3. Minimize ambiguities.
4. Support the Construction sector by forging out a solution to the problems caused by unprecedented price hike.
5. Make the On-Going contract more equitable and workable in order to enable the early completion for reaping the intended benefits of the On-Going contracts.

PART-1: PROCEDURE

A. CRITERIA

1. On-Going contracts/projects for the purpose of this document are the contracts whose bids were submitted upto 30-09-2022, and the Price Adjustment under this document shall be applicable to these project only.
2. All On-Going projects shall be considered for Price Adjustment, regardless of their financial value as well as the point whether price adjustment clause was incorporated in the contract or not.
3. The Price Adjustment shall only be applicable to the part of the Works executed w.e.f. 01-01-2021.
4. The price adjustment shall be worked out as per the Formula for Price Adjustment under Part-2 hereof.
5. Price Adjustment shall be applicable to all specified items (meeting the selection criteria given in the Formula for Price Adjustment under Part-2 hereof) of the balance works of the respective contract.

B. IMPLEMENTATION

1. Amendment to the Contract

The following amendments to the Contract may be adopted depending upon the type of Contract:

1.1 Fixed Price Contracts/Contracts without Price Adjustment Clause

- 1.1.1 Price Adjustment clause be incorporated in to the fixed price contract, in accordance with the procedure laid down in Formula for Price Adjustment under Part-2 hereof and provisions of paragraph C.9 regarding change in foreign currency exchange rates, by way of signing an Amendment to the Contract.
- 1.1.2 The newly incorporated Price Adjustment provisions shall be applicable to the remaining/ balance work of the contract executed w.e.f. 01-01-2021.
- 1.1.3 An escalation equal to 10% of the adjustable amount of the respective IPC of the remaining Works shall be deducted from the total worked out price adjustment of the contract.

1.2 Contracts with Price Adjustment Clause

- 1.2.1 The existing Price Adjustment clause be replaced with the relevant provisions from Formula for Price Adjustment under

Part-2 hereof by way of signing a mutually agreed amendment to the contract.

- 1.2.2 The newly incorporated Price Adjustment provisions shall be applicable to the remaining/ balance work of the contract executed w.e.f, 01-01-2021.

1.3 Consultancy Contracts

- 1.3.1 This section shall be applicable to all On-Going consultancy contracts, whether with or without price adjustment provisions.

Remunerations paid in local currency pursuant to the billing rates agreed for each item/activity shall be adjusted w.e.f. 01-01-2021, to be computed with the following formula:

$$RI = RIo \times II/Ilo$$

Where RI is the adjusted billing rate, RIo is the billing rate payable on the basis of the agreed billing rate in local currency as on July (i.e. the financial year in which the Consultants submitted its financial proposal to the Client). II is the Combined Consumer Price Index (CPI) "General" as published by the Pakistan Bureau of Statistics, Government of Pakistan for the month of July for which the adjustment is to have effect, and Ilo is the Consumer Price Index "General" as published by the Pakistan Bureau of Statistics Government of Pakistan for the month of July (i.e. the financial year in which the Consultants submitted its financial proposal to the Client).

2. Mode of Payment of the Determined Price Adjustment

- 2.1 The mode of payment of escalation amount may be adopted as under:

- 2.1.1 Any suitable method of payment mutually agreed by the parties; OR
- 2.1.2 Total escalation amount may be paid after obtaining suitable reducing Bank Guarantee from the payee, which Bank Guarantee shall be released within 28 days of issuance of Taking Over Certificate; OR
- 2.1.3 The total amount of such additional Price Adjustment may be released progressively up to second last certified invoice and such condition may be made part of the Amendment to the contract; OR
- 2.1.4 The Contractor/Consultant may be paid 25% of the escalation amount after its computation/evaluation while 75% of the amount may be spread over, as mentioned in sub Para (2.1.3).

- 2.2 The condition precedent to this procedure is the unprecedented price hike in construction inputs since 01-01-2021. The condition of

unprecedented price hike in construction inputs shall be deemed to discontinue when the price adjustment falls to 10% or below. Upon occurrence of this condition, the amended contracts shall revert back to the earlier (un-amended/ original) state. The individual Procuring Agencies/ Employer Departments shall monitor their contracts for occurrence of such a condition and take action apropos to that.

3. Mode of Implementation

- 3.1 The respective Head of a Procuring Agency shall constitute Special Cells comprising concerned professionals for invoking Price Adjustment Provisions in the On-Going contracts. The entire process shall be well-documented and transparent
- 3.2 These Special Cells may also ensure that the Project Directors (PDs) also accomplish the following:
 - 3.2.1 Obtain Total Financial Implications on the project cost by introduction of the Price Adjustment provisions.
 - 3.2.2 Obtain necessary approvals and complete all the departmental codal formalities, if any.
 - 3.2.3 Also, the Provision of Funds for payment of Price adjustment may be made in PC-I, so that there are no restraints in payment of the Price Adjustment to the Contractor

C. APPLICABILITY

1. Revised Construction schedule should be provided by the Contractor as required in the Contract. Price Adjustment shall be applicable as payable in full for Completion Period.
2. In the event the completion of contract exceeds the Completion Period:
 - 2.1 In case of default on the part of the Contractor causing delay in Completion Period, the rate of Price Adjustment will be frozen at the date of Completion; however Price Adjustment will be applicable till actual completion. While computing Price Adjustment beyond the Completion Period, in the event the rate is reduced, then that reduced rate will be applied.
 - 2.2 The Price Adjustment will be payable in full for the extended period if the Contractor has been granted an extension of time for no fault on the part of the Contractor, duly approved by the Employer.
3. Formula for Price Adjustment provided herein will be applicable for all the contracts such as Civil, Electrical, Mechanical, etc.
 - 3.1 A list of commonly known elements subject to Price Adjustment is provided under Section 3 (Elements of Price Adjustment) under Part-2

hereof.

- 3.2 Users of the formula may include any element meeting the criteria of 30:70, in the Amendment to the Contract.
4. Financial compensation for the elements classified as above shall not be considered again due to provision of subsequent legislation, if separately specified in the contract.
5. There shall be no Price Adjustment for the elements which the Employer has either supplied free of cost or at fixed prices or elements fall under Clause (9) hereunder as well as for those elements for which an umbrella ex gratia or escalation cover is provided by the Government through an Executive Order or Statutory Regulatory Order (SRO). All the items containing above elements shall be deducted from the total contract value while calculating price adjustment under Clause D.
6. This document will be applicable to all On-Going contracts including Item Rate Contracts, Lump Sum Contracts and Schedule Rate Contracts.
7. This document will not be applicable to those On-Going contracts wherein the weightage of fixed portion is less than 30 percent.
8. This document will be applicable only for Price Adjustment in local currency (PKR). Price Adjustment in foreign currency is not in purview of this document.
9. For imported Plant & Equipment specified in the BoQ as imported item quoted in local currency (PKR), foreign currency exchange rates shall be fixed at the respective interbank currency exchange rates, 28 days prior to the tender opening date. The change in foreign currency exchange rate will be applicable to the foreign currency component stated in the Letter of Credit (LC) established by the Contractor and his Vendor. Difference in import duties & taxes due to change in foreign currencies exchange rates will be reimbursed at actual. In case the LC opened by the Contractor or Vendor is not provided / available then foreign currency component will be taken as 60% of the quoted amount in PKR.

D. PARAMETERS

1. Price Adjustment Ratio and Weightage

Fixed portion shall be 30% and adjustable portion shall be 70 % of the contract value.

- 1.1 Base Date Price alone of an element based on Contract/ BoQ rate shall be considered excluding cost of construction/ installation, overheads and profit.
- 1.2 Appropriate Rate Analysis of the items provided in the Contract/ BoQ shall be made to determine costs of the basic elements.
- 1.3 Each cost element determined as above, shall be divided by the Contract Price after deducting the costs of the items described in Clause C-5 and

C-9, to determine various weightages.

- 1.4 For such cost elements having various types of a particular element, individual cost of such family of the element used in the contract to be determined and added to work out the element cost. For example, in a particular contract various types of steel such as sheet steel, Grade-40 and Grade-60 steel are used. In such a case, respective base prices of all three types of steel are to be considered and added up to come out with the single steel cost component. Similar case may be for different types of cement used, etc. It is clarified that while computing Price Adjustment, base and current prices of the representative elements have to be used in the same way as are mentioned in this document. For example Grade-40 half inch dia Steel is the representative cost element for all types of steel; similarly un-skilled labour is the representative cost element for all types of labour, etc.
- 1.5 Price Adjustment shall be applicable to the cost elements of both on-site and off-site work items.
- 1.6 In case total weightage of the cost elements including HSD and labour exceeds 70 percent, the element(s) having lowest weightage(s) other than HSD and labour, shall be excluded in considering the adjustable costs elements.
- 1.7 Sum of fixed portion, “A” and weightages of specified items b, c, d, etc., of the adjustable portion, as described under Part-2 ‘Formula’, shall always be one (1.00).

2. Base Date Price

The base date price (or base date index) of any element shall be the price of the element for the month on the day falling 28 days prior to the latest day for submission of bid.

3. Current Date Price

The current date price (or current date index) of any element shall be the price of the element for the month falling on the day 28 days prior to the last day of the period to which the particular Payment Certificate relates.

4. Sources of Prices

The prices of elements subject to Price Adjustment shall be to the extent possible as given in the Statistical Bulletins published by Pakistan Bureau of Statistics (PBS), Statistical Division Government of Pakistan. Statutory notifications and official price from public sector organizations, where available, may be used at the option of the Employer. In case such sources are not available, reputable private sector organizations may be selected at the option of the Employer. The source for prices of High Speed Diesel (HSD) shall be either Statistical Bulletins or Pakistan State Oil (PSO) or Oil and Gas Regulatory Authority (OGRA).

However, for a particular adjustable element, the same source should be used throughout the currency of contract.

E. WORK PROCESS

1. The billed amount of the Works for each calendar month will be obtained from the checked bills submitted by the Contractor. In case the billed amount is for more than one month, the amount of the bill shall be segregated for actual work done in each month.
2. The Base Date Prices and the Current Date Prices shall be as per procedure D-2 and D-3 provided hereinbefore.
3. The Source of Prices will be as per procedure D-4 provided herein before.
4. The Price Adjustment in the billed amount will then be calculated for the month under consideration in accordance with Formula as laid down in Part-2.

PART-2: FORMULA

A. Formula for Price Adjustment

1. The formula mentioned below is in its generalized form. The Employer/user shall determine the proportions of A, b, c, d, by appropriate rate analysis following the procedure enumerated herein below:

$$P_n = A + b \frac{L_n}{L_o} + c \frac{M_n}{M_o} + d \frac{E_n}{E_o} + \dots$$

where,

“**Pn**” is the Price Adjustment factor for the work carried out in the period “n”.

“**A**” is a constant or the Non-Adjustable Portion of the Price Adjustment Factor to be specified in Appendix-C to Bid, representing the Non-Adjustable Portion of the Contract Price.

“**b, c, d.....**” are Coefficients or weightages of the order of 0.xx (i.e., fractions rounded off to two decimals) for each specified element of adjustment in the Contract.

The sum of **A, b, c, d**, etc., shall be one.

“**Lo, Mo, Eo.....**” are the Base Date Prices/Indices for the specified (adjustable) elements.

“**Ln, Mn, En.....**” are the Current Date Prices/Indices of the specified (adjustable) elements for the period “n”.

If “**P**” is the amount payable (prior to adjustment) at the rates entered in the Price Schedule of the work carried out in period “n” then, Adjusted amount payable to the Contractor for the work carried out in the period “n” shall be equal to **Pn×P**.

For the purpose of calculating **Pn**, the coefficient for each element shall be used irrespective of the actual constituents of the work performed during the billing period.

2. Base Date Prices and Current Date Prices

The Base Date Prices and Current Date Prices of the specified elements shall be obtained from the sources specified in the Amendment to the contract.

3. Elements for Price Adjustment

The Specific Elements for highway and bridge construction would typically be:

- (i) POL (HSD);
- (ii) Labour;
- (iii) Cement;
- (iv) Steel;
- (v) Bitumen;
- (vi) Aggregate ; and

(vii) Other major elements depending on the nature of the project.

Similarly, the specified elements for building construction would typically be:

- (i) POL (HSD);
- (ii) Labour ;
- (iii) Cement;
- (iv) Steel;
- (v) Bricks;
- (vi) Tiles;
- (vii) Cables;
- (viii) Conduits (all types);
- (ix) Pipes (all types);
- (x) Steel Sheet (all types);
- (xi) Steel Sections (all types);
- (xii) Aluminum Sections (all types);
- (xiii) Electric Switch Gears; and
- (xiv) Other major elements depending upon the nature of the project.

Similarly, major specified elements for other types of projects can be specified in the Amendment to the Contract in addition to or instead of the specified elements as enumerated above.

4. Coefficients or Weightages

The coefficient for each specified adjustable element shall be determined by the user proportionate to its ratio in the Contract Price, in accordance with the procedure D-1 given under Part-1. The sum of these coefficients shall form the adjustable portion of the Contract, which shall be 0.70.

5. Adjustable Portion of the Contract

The adjustable portion of the Contract shall be computed as provided in foregoing Procedures.

6. Sources of Prices

Sources of Base Date Prices and Current Date Prices shall be as stipulated at item D-4 under Part-1. The sources shall be clearly stated in the Amendment to the Contract.
