

UNPRECEDENTED PRICE HIKE IN CONSTRUCTION INPUTS
CRITERIA AND PROCEDURE FOR INCORPORATION OF PRICE
ADJUSTMENT PROVISIONS IN THE ON-GOING CONTRACTS

August 2022

In the wake of complaints from the Contractors Association of Pakistan (CAP) and Association of Consulting Engineers Pakistan (ACEP) regarding the unprecedented inflation and recession of economy in the country, coupled with the pandemic COVID-19 outbreak, since January, 2020, crippling the construction activities in the country and casting negative effects on the Engineering Consultancy Sector, as a statutory regulatory body, PEC carries a responsibility to support the Construction sector by forging out a solution to the subject problem.

Para (1) of Section (A) APPLICABILITY of Part-1: PROCEDURE of “*Standard Procedure and Formula for Price Adjustment, Second Edition, May 2022*”, provides that in any case the contracting parties need to mutually agree and incorporate Price Adjustment clause in the ongoing contract by way of signing an amendment to the contract.

While keeping in view the above provisions and prudent engineering practices, PEC has formulated the following procedure of Price Adjustment which shall be incorporated in the on-going contracts.

1. PROCEDURE

1.1 CRITERIA

- (i) All ongoing 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.
- (ii) The Price Adjustment shall only be applicable to the part of the Works executed w.e.f. 01-01-2021.
- (iii) The price adjustment shall be worked out as per the Pakistan Engineering Council *Standard Procedure and Formula for Price Adjustment, Second Edition, May 2022*.
- (iv) Price Adjustment shall be applicable to all specified items (meeting the selection criteria given in the *Standard Procedure and*

Formula for Price Adjustment, Second Edition, May 2022) of the balance works of the respective contract.

1.2 Amendment to the Contract

1.2.1 Fixed Price Contracts/ Contracts without Price Adjustment Clause

- (i) Price Adjustment clause be incorporated in to the fixed price contract in accordance with the procedure laid down in the *Standard Procedure and Formula for Price Adjustment, Second Edition, May 2022*, by way of signing an Amendment to the Contract.
- (ii) The newly incorporated Price Adjustment provisions shall be applicable to the remaining/ balance work of the contract executed after the cut-off date mentioned in para 1.1 (ii).
- (iii) 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.

1.2.2 Contracts based on PEC Construction Document with Price Adjustment Clause

- (i) The existing Price Adjustment clause be replaced with the relevant provisions from *Standard Procedure and Formula for Price Adjustment, Second Edition, May 2022*, by way of signing a mutually agreed amendment to the contract.
- (ii) The newly incorporated Price Adjustment provisions shall be applicable to the remaining/ balance work of the contract executed after the cut-off date mentioned in para 1.1 (ii).

1.2.3 Consultancy Contracts

- (i) This section shall be applicable to all 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:

$$RI = RI_0 \times II/II_0$$

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 year in which the Consultants submitted its financial proposal to the Client). II is the Combined Consumer Price Index (CPI) "General" for Government employees as published by the Federal Bureau of Statistics, Government of Pakistan for the month of July for which the adjustment is to have effect, and IIo is the Consumer Price Index "General" for Government employees as published by the Federal Bureau of Statistics Government of Pakistan for the month of July (i.e. the Year in which the Consultants submitted its financial proposal to the Client).

2. MODE OF PAYMENT OF THE DETERMIND PRICE ADJUSTMENT

- (i) The mode of payment of escalation amount may be adopted as under:
 - (a) 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
 - (b) 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 (i), ante; OR
 - (c) 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
 - (d) Any suitable method of payment mutually agreed by the parties.
- (ii) The condition precedent to this procedure is the unprecedented price hike in construction inputs since January, 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

- (i) 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.
- (ii) These Special Cells may also ensure that the Project Directors (PDs) also accomplish the following:
 - (a) Obtain Total Financial Implications on the project cost by introduction of the Price Adjustment provisions.
 - (b) Obtain necessary approvals and complete all the departmental codal formalities, if any.
 - (c) 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.