APPLICABILITY OF LINKING FACTOR FOR WHOLESALE PRICE INDEX
FOR ALL COMMODITIES/FUEL FROM SERIES 2011-12 TO 2004-05
WITH EFFECT FROM APR 2017

1. Reference this HQ letter No 66546/Manual/19/E8 dated 28 Sep 2018 (Copy enclosed for ready reference).

2. In this connection, Ministry of Defence (MoD) letter No SB/5/555/IIA/MWC-01/Contracts(PC)/83/2020/DMA(Works-II) dated 09 Jul 2020 alongwith its Appendix is enclosed. For all the cases where the issue of linking factor is involved to work out the indices on old series using indices of new series, including those mentioned in Para 2(b) of this HQ letter referred above, instructions contained in Para 2 of the aforesaid letter of Ministry of Defence shall be followed. Accordingly, the indices on old series (Base Year 2004-05) will be worked out in the manner explained/illustrated in the enclosed Appendix to the letter.

3. Necessary amendment shall be carried out in individual contracts for using the methodology as approved by MoD vide letter referred above and no separate sanction of next Engineer Authority, if applicable, will be required.

4. This letter supercedes all previous instructions issued on the subject matter.

Encl : As above
(04 Sheets)
Government of India  
Ministry of Defence  
New Delhi, the 09 July 2020

To  
The Chief of the Army Staff  
The Chief of the Air Staff  
The Chief of the Naval Staff  

CHANGE OF BASE YEAR OF ALL INDIA WHOLESALE PRICE INDEX (WPI)  
AND ITS EFFECT ON PVC IN DEFENCE CONTRACTS

1. The matter relating to modality for adjustment of Wholesale Price Index on 2004-05 series beyond Mar 2017 has been engaging the attention of the Ministry of Defence for some time now. This has been due to the base year of All-India Wholesale Price Index (WPI) having been revised from 2004-05 to 2011-12, with effect from April 2017. Discontinuation of Indices with base year 2004-05 has rendered existing escalation evaluation (based upon 2004-05 series) in existing contracts of Ministry of Defence unworkable.

2. In order to workout escalation as per revised WPI (2011-12) series, in the existing contracts (wherein Indices of 2004-05 base year are applicable), following procedure shall be adopted:

   (a) Upto Mar 2017, indices with base year 2004-05 shall be used to operate price variation clause.

   (b) The price index of Mar 2017 on 2004-05 series shall be updated as per proportionate variation of indices of 2011-12 series for the period April 2017 onwards.

3. Application of methodology to be adopted is illustrated in Appendix.

4. This issues with the concurrence of MoD (Fin/Works) vide their ID No 218/Fin/W-III/19 dated 30 Sep 2019.

Enclosure: Appendix  

Under Secretary to the Government of India  

Distribution:-

1. Dir (Works), QMG’s Branch, New Delhi  
2. Director (Fin/Works), AFA (Works-II)  
3. CGDA, Ulan Batar Road, Palam, Delhi Cantt  
4. E-in-C’s Branch/F8, Kashmir House, Rajaji Marg, New Delhi-110011  
5. MGO (Master General of Ordnance)  
6. Director Works (Air Force)  
7. Director Works (Navy)  
8. DG Project Sea Bird (Indian Navy)  
9. Statistical Officer, MoD  
10. DG Combat Engineer  
11. DRDO  
12. D (Acquisition)  
13. D (Hindi)
Appendix

ILLUSTRATION ON CONVERSION OF WHOLESALE PRICE INDEX 2011-12 TO 2004-05 SERIES FOR THE PERIOD FROM APR 2017 ONWARDS, FOR CONTRACTS HAVING PRICE VARIATION CLAUSE ON 2004-05 SERIES BUT CONTINUING BEYOND MAR 2017

1. The illustration below is for Wholesale Price Index (WPI) for all Commodities. Similar procedure shall be adopted for other price indices as stipulated in the contracts:-

(a) WPI for 'All Commodities' on 2004-05 series for Mar 2017—185.50

(b) The derived WPI for all Commodities on 2004-05 series from Apr 2017 onwards considering proportionate variation of indices of 2011-12 series shall be as under:-

<table>
<thead>
<tr>
<th>Srl No</th>
<th>Month</th>
<th>WPI on 2011-12 Series</th>
<th>Derived WPI on 2004-05 Series</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Apr 2017</td>
<td>113.20</td>
<td>$185.50 \times \left(1 + \frac{113.20 - 113.20}{113.20}\right) = 185.50$</td>
</tr>
<tr>
<td>2</td>
<td>May 2017</td>
<td>112.90</td>
<td>$185.50 \times \left(1 + \frac{112.90 - 113.20}{113.20}\right) = 185.01$</td>
</tr>
<tr>
<td>3</td>
<td>Jun 2017</td>
<td>112.70</td>
<td>$185.50 \times \left(1 + \frac{112.70 - 113.20}{113.20}\right) = 184.68$</td>
</tr>
<tr>
<td>4</td>
<td>Jul 2017</td>
<td>113.90</td>
<td>$185.50 \times \left(1 + \frac{113.90 - 113.20}{113.20}\right) = 186.65$</td>
</tr>
</tbody>
</table>

2. For the month Aug 2017 and onwards the Index shall be calculated similar to above.
28 Sep 2018

APPLICABILITY OF LINKING FACTOR FOR WHOLE SALE PRICE INDEX FOR ALL COMMODITIES/FUEL FROM SERIES 2011-12 TO 2004-05 W.E.F APRIL 2017

1. Reference this HQ letter No 66454/Manual/744/E8 dated 11 Jan 2018

2. The formula for working out escalation in cost of materials and fuel in our contracts are based on Whole Sale Price Index for all commodities (WPI) and Whole Sale Price Index for fuel and power. In old contracts, these indices are incorporated with base year 2004-05. From April 2017, only indices of the base year 2011-12 are available. It has been represented by MES BAI and some of the MES formations that despite increase in price index, escalation calculation for the period beyond Apr 2017 is working out minus which is irrational. If such recoveries are made from contractors, there will be delay in completion of works due to dispute between the parties to the contract. In addition, there will be arbitration and litigation on this account which is not desirable. Accordingly, following interim directions are issued:

(a) Contracts Where the Price Index Base Year has been Inadvertently Mentioned as 2004-05. Even though Wb Based on Base Year 2004-05 is Not Available (since OEA has stopped publishing the same w.e.f. 01 Apr 2017) :- For WPI, the conversion factor given by OEA shall be used. Since this factor will be applied both in numerator and denominator, it will have no impact and indirectly parties will switch over to 2011-12 series.

(b) Contracts Where the Price Index Base Year is Mentioned as 2004-05, Wb with Base Year 2004-05 is Available but Wf with Base Year 2004-05 is Not Available for Certain Quarter(s) (since OEA has stopped publishing the same w.e.f. 01 Apr 2017): Price indices of 2004-05 series will be used till 31 Mar 2017. For period subsequent to 31 Mar 2017, the price indices upto and including 31 Mar 2017 (Wf) as applicable shall continue to be used for subsequent quarters till further instructions. This instruction shall be appropriately implemented so as to comply with relevant contract provisions with regard to payment of escalation.

(c) Undertaking :- The escalation payment in accordance with Para 2 (b) above shall be PROVISIONAL. Undertaking shall be taken from the contractors on non-judicial stamp paper (worth minimum Rs 100/-) that if finally the escalation works out to be less than in accordance with Para 2(b) above, the amount shall be deducted/recovered from any amount payable to them.

(d) Advisory :- It is highlighted that the WPI with base year 2011-12 for the period from April 2012 to Mar 2017 is for research and study purpose only and not to be applied.
3. You are requested to provide views and inputs by 31 Oct 2018 along with calculations including copy of relevant orders of Railways and such other departments basing escalation formula on WPI, to arrive at final decision on Para 2(b) above.

Copy to:
MES Builders Association of India
HQ Office
807-808, Sahyog 58,
Nehru Place,
New Delhi - 110019

For similar action please.

(Bhagirathi Pani)
Dir (Contracts)
For Engineer-in-Chief