

20 April 1990

Works Branch Technical Circular No. 9/90

Adjustment of Consultants' Remuneration for Uncharacteristic Tenders

Introduction

This circular describes the method of dealing with uncharacteristic tenders and supersedes Lands and Works Branch Technical Circular No. 10/89 for all new agreements and, subject to mutual agreement between Government and the consultants, to all new contracts in existing agreements. This circular rectifies the typographical errors of the following figures in the Lands and Works Branch Technical Circular No. 10/89 :-

- (1) Page 1, para 2(5), line 3, "0.162" should read "0.612",
- (2) Page 3, Appendix A, the formula for standard deviation should read

$$\sigma = \sqrt{\frac{\sum (p(i) - \bar{p})^2}{n}}$$

- (3) Page 5, Appendix C, Procedure (1) line 3, "0.162" should read "0.612".

The Method

2. For the purpose of calculating fees, adjustment to an uncharacteristic tender can be made as follow :-

- (1) Inspect the corrected tender prices for a contract and exclude those tenders which do not meet contract provisions,
- (2) Calculate the average tender price ( $\bar{p}$ ) and the standard deviation ( $\sigma$ ) of the tender prices based on the corrected tender prices,
- (3) Calculate the characteristic factor, CF(T), of the accepted tender based on the corrected tender price of the accepted tender ( $p(t)$ ).
- (4) If  $CF(T) > 1.922$ , then the accepted tender is considered as uncharacteristically low. Then CF is taken as 1.922 for calculation of the adjusted tender price in (6) below.

- (5) If  $CF(T) < 0.612$ , then the accepted tender is considered as uncharacteristically high. Then CF is taken as 0.612 for calculation of the adjusted tender price in (6) below.
- (6) For an uncharacteristic tender identified by (4) or (5) above, Adjusted tender price (p) = Average tender price ( $\bar{p}$ ) - CF  $\times$  standard deviation ( $\sigma$ ),
- (7) Adjustment factor = Adjusted tender price (p)/Accepted tender price (p(t)),
- (8) Adjusted Cost of Works = Adjustment factor  $\times$  Cost of Works.

The mathematical derivation of the Characteristic Factor (CF(T)) for the accepted tender and worked examples illustrating the application of the proposed method to uncharacteristically low and high tenders can be found in [Appendices A, B](#) and [C](#).

#### Application

3. The method applies to engineering Investigation, Design and Construction (IDC) agreements signed on or after 1 July 1989.
4. Subject to mutual agreement between Government and the consultants, the method also applies to existing agreements for those contracts whose tender closing date is on or after 1 July 1989. The above method and the remuneration method using the Civil Engineering Works Index as described in Lands and Works Branch Technical Circular No. 9/89 "Adjustment of Consultants' Remuneration by the Civil Engineering Works Index" shall be applied as a package in existing agreements.
5. A standard Clause ([Appendix D](#)) should be included in all **new** agreements and to supplements to **existing** agreements for those contracts described in paragraph 4 above, requiring that this method of dealing with uncharacteristic tenders be adopted.
6. The existing method of dealing with uncharacteristic tender as promulgated in LWBTC Nos. [9/84](#) and [2/85](#) will continue to be applied to contracts under existing agreements other than those described in paragraph 4 above.

( K W K Kwok )  
Secretary for Works