

**Department of the Environment**

2 Marsham Street London SW1P 3EB

Direct line 01-212  
Switchboard 01-212 3434

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The Town Clerk	Your reference
The Chief Executive Officer	
The Greater London Council	Our reference
County Councils	CON 9/19/077
District Councils	Date
London Borough Councils	30 May 1975
The Common Council of The City of London	

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Dear Sir

**HIGHWAY WORKS CONTRACTS  
CONTRACT PRICE FLUCTUATIONS CLAUSE**

1. Doubts have been expressed about the interpretation of the term "Effective Value" as defined in sub-clause 2(d) of the Contract Price Fluctuations Clause applicable in respect of highway works contracts let under the 4th and 5th Editions of the ICE Conditions of Contract which are subject to the Baxter formula price adjustment.
2. The crux of the problem lies in the meaning of sub-clause 2(d)(i) as to whether any amount that the Engineer considers is properly payable for goods and material stored on or off the Site should be regarded as "other items based on actual cost or current prices". In order to arrive at the "Effective Value" to which the price adjustment factor is applied, other items based on actual cost or current prices, together with amounts for Day Works and Nominated Sub-contracts should be deducted from the sum representing the amount due to the Contractor under Clause 60. Where the Engineer's assessment of the value of goods and materials is based on actual or invoiced prices, the Contract Price Fluctuations Clause does not allow the Price Fluctuation Factor to be applied to that valuation.
3. To ensure that a uniform practice is applied on trunk road and motorway contracts it is suggested that the Engineer's Valuation of goods and materials included in interim certificates should be based on actual or current prices and that for the purposes of calculating the "Effective Value" under sub-clause 2(d) of the Contracts Price Fluctuations Clause, this valuation should therefore be deducted from the sum which is due to the Contractor under the provisions of Clause 60.
4. The same criterion should be applied where a variation of the Works ordered under Clause 51 of the Conditions is valued by reference to a cost current at the time the varied work is carried out, but not where the value of the variation is based on billed rates.
5. Additional copies of this circular may be obtained on application to HLL/HMB Room P2/017A, 2 Marsham Street, London SW1P 3EB - telephone 01 212 4944. Enquiries concerning the content of the circular may be made to CON (H) Division Room S3/05 - telephone 01-212-7725.

Yours faithfully

L E HENDERSON  
Head of Contracts (Highways) Division

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The Town Clerk	Your reference
The Chief Executive Officer	
The Greater London Council	Our reference
County Councils	CON 9/19/077
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Dear Sir

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CONTRACT PRICE FLUCTUATIONS CLAUSE**

6. To avoid any misunderstanding, please add the following as the final sentence of paragraph 3:-

“When, however, these goods and materials are incorporated into the Permanent Works they will form part of the estimated value of the Permanent Works (Clause 60(1)) and will therefore become part of the “Effective Value” for that month to which the price adjustment factor will apply”.

7. Any enquiries on this addendum should be addressed to Room S3/05, 2 Marsham Street, Tel. 01-212-7725.

Yours faithfully

L E HENDERSON  
Head of Contracts (Highways) Division