

LETTER NO. IDA/W-25 (10)/63, DATED THE 28TH DECEMBER 1965 FROM THE MINISTRY OF TRANSPORT AND SHIPPING (ROADS WING), NEW DELHI ADDRESSED TO THE SECRETARY TO THE GOVERNMENT OF BIHAR/ORISSA/WEST BENGAL AND MAHARASHTRA (DEPARTMENT DEALING WITH ROADS).

Subject : Adjustment of hire charges of machinery supplied by the Government of India for works covered by the IDA Credit 3-IN

I am directed to refer to this Ministry's letter No. IDA/W-25 (10)/63, dated the 5th April, 1965 on the subject noted above and to request that the hire charges for the use of machinery given by the Government of India for use on works covered by the International Development Association Credit 3-IN may kindly be adjusted as quickly as possible. As the works covered by the International Development Association programme are now coming to a completion stage, early adjustment of hire charges is necessary firstly because the Government of India have to finalise the accounts with the International Development Association and secondly because the machinery will be transferred to other works after completion of the International Development Association works. The Government of India is, therefore, anxious that the accounts pertaining to the use of machinery are cleared as soon as possible.

2. For the purpose of calculating hire charges on a uniform basis, a formula was prescribed by the Government of India and forwarded to the State Governments for adoption with this Ministry's letter under reference. According to this formula the total "usage" charges to be recovered for an equipment cover the following elements :

- (i) *Ownership Charges* : These include depreciation and storage charges.
- (ii) *Operational Charges* : These include repairs, maintenance and replacement of tyres etc.
- (iii) *Running Charges* : These cover expenses incurred on P.O.L. consumed, servicing of equipment and personnel employed for operating equipment.

For calculating the hires charges, ownership and operational charges have to be assessed on the basis of capital cost, while running charges will be debited directly to the works on which the machinery is actually used. For each machinery the ownership charges for a particular working period would be in direct proportion to the total economic life as assumed in the formula referred to above, after deducting 20% of the capital cost as salvage value of the machinery and allowing 1% extra for storage charges.

3. As regards operational charges, as suggested in the formula referred to in this Ministry's circular mentioned above, these may be taken as $1\frac{1}{2}$ times the capital cost spread over the economic life of the machinery.

The following example will illustrate how the hire charges for any particular item of machinery are to be calculated :

1. Name of the Equipment	Tractor Dozer
2. Cost per unit :	Rs 1, 35, 586 (c.i..)
3. Ownership charges :	
(i) <i>Depreciation</i> :	
(a) Total investment at site of work	Rs 1,50,000
(b) Deduct salvage value, 20% of (a)	Rs 30,000
(c) Total investment to be depreciated (a-b)	Rs 1,20,000
(d) Economic life of the machine in hours (average)	Hours 10,000

$$(e) \quad \text{Depreciation per hour c} = \frac{1,20,000}{10,000} = \text{Rs } 12$$

(ii) *Storage:*

$$(f) \quad \text{Storage charges per hour (1% of c) spread over the economic life} = \frac{1}{100} \times \frac{1,20,000}{10,000} = \text{Rs } 0.12$$

(2) *Operational Charges:*

$$(g) \quad \text{Repair Charges per hour including maintenance and replacement of tyres (150% of c) spread over economic life} = \frac{1.5 \times 1,20,000}{10,000} = \text{Rs } 18$$

4. It will be seen from the above illustration that the hire for a Tractor Dozer for an hour will be Rs 30.12 (Rs 12.00+Rs 0.12+Rs 18= 30.12). If a Tractor Dozer has been used on a particular work for say 10 hours, the total hire charges to be recovered from that work will be Rs 301.20 païse (Rs 30.12 × 10 hrs).

5. According to this formula, the operation charges per hour come to Rs 18. As the economic life of a Tractor Dozer is 10,000 hours, the total operational charges for this through out its economic life would come to Rs 1,80,000 (Rs 18 × 10,000 hrs.).

6. The hire charges accruing from the use of machinery will be calculated on the basis of the number of hours worked in the State. The "ownership" charges will be debited to the works and corresponding credit afforded to the estimate sanctioned for the purchase of machinery. The "operational" charges recovered from works on the basis of the formula, should be credited to a Reserve which would be specifically intended for repairs etc.

7. When machinery is transferred from one State to another, the following procedure is suggested for adoption for adjustment of accounts :—

- (i) When the machinery is diverted to another State at the very initial stage without its having been used in the State for which it was sanctioned, the first State may close the estimates while the second State should take over all the liabilities incurred by the first State and get an appropriate estimate covering the capital cost of the machinery approved by this Ministry.
- (ii) When the machinery transferred after use, the first State should for each item of machinery so transferred, account for
 - (a) Ownership and average charges for the number of hours for which the machinery has actually been used in that State.
 - (b) Operation charges at the prescribed rates minus the amount actually spent.

After this has been done, the machinery will be transferred to the second State with its depreciated estimate and also the balance, if any, remaining unspent in respect of operational/charges.

It may in this connection be stated that the first State is also expected to carry out, before transferring the machinery, maintenance and repairs to the extent laid down on the basis of working hours. If for any reason the repairs to the extent necessary are not carried out, the first State will pass on to the Second State the unspent balance of this reserve to enable the latter to take up necessary repair work.

8. The adoption of the above procedure will enable each State to clear up all the accounts of each item of machinery at the time of its transfer to the other State and avoid any subsequent complications.

9. When the hire charges of the machinery in question have been adjusted, i.e. the debit of the hire charges has been given to the works and relevant credits thereof afforded, the rates resulting from the utilisation of this equipment will be reflected in the estimate for each work. The revised estimates for such works would, therefore, have to be framed after taking these adjustments into consideration.

10. The work of preparation of revised estimates should also be proceeded with expeditiously and concluded by February 1965 as was agreed to at the last International Development Association Chief Engineers' Conference.