

No. RM-21 (3)/75

Dated the 2nd May, 1978

To

The Secretaries dealing with roads in the States of A.P./Assam/Bihar/Gujarat/Haryana/Madhya Pradesh/J & K/Kerala/Karnataka/Himachal Pradesh/Maharashtra/Meghalaya/Manipur/Nagaland, Orissa/Punjab/Rajasthan/Tamil Nadu/Uttar Pradesh and West Bengal.

Subject : Calculation of hire charges for Central Machinery allotted to states and procedure of accounting for the same

I am directed to refer to Ministry's Circular letter of even number dated 1.10.77 wherein procedure for accounting various component of hire charges, including the Heads of accounts were communicated to the States. In para 3 (a) (ii) of this letter, it has been indicated that whenever the machine is given to contractor, the recovery made towards operational, overhead and running components of hire charges may be credited to the Major head "137-Roads/Bridges-other receipts".

2. While re-examining this position from the works angle, it is observed that the States would be drawing money from the works or debiting to the works account for the procurement of POL and for the payment of wages of staff, as states may not have any separate funds for this purpose. At the same time, the payment for the works executed by the contractor, on the basis of unit rate of work indicated in the contract agreement, which naturally includes total hire charges (Usage charges) of machinery, is also paid from the works (against sanctioned works estimates). This might result in duplicate debiting to the works account with the running charge component of hire charges.

3. In order to obviate such an eventuality it has been decided to issue this letter in supersession of this Ministry's letter of even number dated 1.10.77 clearly indicating instructions for accounting of each component of hire charges, namely ownership operational, running and overhead charges both when the machines are used departmentally, and also when the machines are given to the contractor for use on Central Works. The revised instructions are as under :

1. *For use of machinery departmentally*

(a) *Ownership charges*

The component of ownership charges is to be calculated for each machine by the State PWD as indicated in Ministry's letter No. RM-21 (3)/75 dated 4.6.1976 and debited to the works. The corresponding credit should be afforded to the Major Head "537-AA Capital Outlay on Roads and Bridges — AA I -National Highways-AA. 1 (2)-Tools and Plants" as this credit is to be afforded to the estimate sanctioned for the purchase of machinery.

(b) *Operational charges*

The operational charge component of hire charges meant for the maintenance and repairs of machinery is to be calculated as indicated in Ministry's letter No. RM-21 (3)/75 dated, 4.6.1976 and debited to the works. The corresponding credit is to be given to the Major Head "137-Roads/Bridges-Other Receipts". As per the system already in vogue, Ministry would be providing separately actual funds required for the maintenance and repairs of Central equipment against sanctioned estimates. The funds for the same are being released from M&R Grants of machinery separately.

(c) *Running charges*

The present practice of debiting the actual running charge components of hire charges directly to the work on which the machinery is actually used will be continued which would mean that the expenditure on procurement of POL etc. and towards the wages of staff shall continue to be directly debited to the work.

(d) *Overhead charges*

The overhead charge component of ownership and operational charge components of hire charges are to

be worked out as indicated in Ministry's letter No. RM-21 (3)/75 dated 4.6.1976 and debited to the work. The corresponding credit is to be given to the Major Head "137-Roads/Bridges-Other Receipts".

(The overhead charge component of running charges (if any expenditure for it is incurred) is also debited directly to the works on actual basis.)

II. *Accounting of hire charges when the machinery is given to contractor for execution of Central Works*

The hire charges for each Central machinery when given to the contractors for execution of Central works should be calculated as indicated in Ministry's letter No. RM-21 (3)/75 dated 4.6.1976 and indicated in the N.I.Ts. The Bills of the contractors for the entire work prepared on the basis of unit rate of work incorporated in the contract agreement (which naturally include unbuilt total hire charges of the machinery) will be adjusted against/paid against the sanctioned works estimates. In other words, the works will thus get debited with the total hire charges of the machinery. The amount recovered from the bills of the contractors towards usage/hire charges of Central machinery should be credited as follows :

- (i) The ownership component of hire charges is to be credited to the Capital Head of account against which the purchase of machinery was sanctioned namely Major Head "537-AA. Capital Outlay on Roads and Bridges-AA. I-National Highways-AA. 1 (2)-Tools and Plants".
- (ii) The operational charge component is to be credited to the Major revenue head "137-Roads-Bridges-other receipts".
- (iii) The overhead charge component of the ownership and operational charges components is to be credited to the Major Head "137-Roads/Bridges-other Receipts"
- (iv) The running charges component including overheads for running charges is to be credited to the concerned works on which the machinery was used.

4. Even when the equipment are given to the contractors on hire basis the department should continue to preferably to arrange the actual quantity, and proper quality POL, required for the operation and maintenance of the equipment and supply for the operation and maintenance of the equipment and supply for the use of the machinery to be suitably regulated and governed by the terms to be provided as stipulations in the original NIT. Similarly, the departmental operators should be engaged in the machinery to ensure proper operation and timely maintenance to be similarly stipulated through the NIT Provisions. As such, the expenditure incurred on running charges and overhead charges of running charges i.e. on crew wages, POL etc. will be incurred by the Department themselves, and the actual expenditures on this account would be charged directly to the works on which the machinery is engaged.

5. The above procedure is essential to ensure that the works are not debited twice with the running charges and overhead charges of running charge component of the hire charges.

6. As already stated, this supersedes Ministry's earlier letter of even number dated 1.10.1977. This issues with the concurrence of the Finance Division vide their U.O. No. 4489/TF. II/78. dated 28.4.1978.
