

No RM-21 (3)/75-Pt

Dated the 22nd March, 1979

Subject : Calculation and accounting of hire charges, Clarifications etc.

Ministry have issued instructions for calculation and accounting of hire charges of Central machinery. Some queries/doubts have been raised by a few State Public Works Departments and Regional Superintending Engineers (Mechanical) of this Ministry. The queries/doubts and clarifications thereon, are forwarded herewith in the enclosed statement for your information and necessary action.

To .

1. The Chief Engineer, National Highways and Projects, Bhubaneswar, Orissa, with reference to his letter No. PUR-VII-ME-1/76/34832/NH, dated the 10th August, 1976, addressed to the Ministry's Regional Superintending Engineer (Mechanical), Calcutta.
2. The Engineer-in-Chief, Public Works (Roads), Directorate. Writers' Building, Calcutta, with reference to the letter No. 3988 MC/E-19, dated the 28th September, 1976 of Superintending Engineer, Mechanical, Circle, Public Works (Roads) Directorate, Calcutta.
3. The Chief Engineer, Public Works Department, Roads and Buildings, Chandmari, Gauhati, Assam, with reference to his letter No. CEM/TECH/30/77/1032, dated the 5th April, 1978.
4. The Chief Engineer, National Highways Chepauk, Madras-600 005, with reference to his letter No. 13512/DI/NH/77-10, dated the 15th May, 1978.

Copy with enclosures also forwarded for information to :

1. Secretaries dealing with Roads in the States of Andhra Pradesh, Assam, Bihar, Gujarat, Haryana, Himachal Pradesh, Jammu and Kashmir, Kerala, Karnataka, Madhya Pradesh, Maharashtra, Manipur, Meghalaya, Nagaland, Orissa, Punjab, Rajasthan, Tamilnadu, Uttar Pradesh, West Bengal and Director General Works (Public Works Department).
2. Chief Engineers and Additional Chief Engineers, concerned with roads in the States of Andhra Pradesh, Bihar, Gujarat, Haryana, Himachal Pradesh, Jammu and Kashmir, Kerala, Karnataka, Madhya Pradesh, Maharashtra, Manipur, Meghalaya, Punjab, Rajasthan and Uttar Pradesh.
3. Chief Engineer, Ministry of Shipping and Transport, (Roads Wing), Bamuni Maidan, Gauhati-781 021 (Assam).
4. Superintending Engineer, (Mechanical), Ministry of Shipping and Transport, (Roads Wing), 8, Lindsay Street, IIIrd Floor, Calcutta-700 016 (West Bengal), with reference to his letter No. SEM/Cal/HC/76, dated the 3rd September, 1976.
5. The Superintending Engineer, (Mechanical), Ministry of Shipping and Transport, (Roads Wing), D-38, A, Ashok Marg, 'C' Scheme, Jaipur, with reference to his letter No. SE (M)/J/76/G-1/4017, dated the 24th August, 1977.

6. The Superintending Engineer, (Mechanical), Ministry of Shipping and Transport, (Roads Wing), A-11/-H, Sector 'A', Mahanagar, Lucknow.
7. Superintending Engineer, (Mechanical), Ministry of Shipping and Transport, (Roads Wing), No. 101-Diagonal Road, Vissve-wrapuram, Bangalore-560 004, (Karnataka),
8. All Regional Officers/Executive Engineer (Mechanical) Gauhati/Assistant Executive Engineer (Mechanical), Patna and Engineer Liaison Officers.
9. P.S. to D.G. (R.D.) and Additional Secretary/P.As. to Additional Director General (Bridges)/Additional Director General (Roads)/C.E. (M)/S.E. (M) I/II/III and IV/RM Section/All Under Secretaries/All Sections in the Roads Wing.
10. Finance Division with reference to their U.O. No. 208. TF. II/79, dated the 19th January, 1979.
11. All Accountant Generals of the above mentioned States.
12. Accountant General, Central Revenues and Accountant General, Commerce, Works and Miscellaneous, New Delhi-110011.
13. Controller of Accounts, Ministry of Shipping and Transport, (Roads Wing), IDA Building, Jamnagar House, New Delhi-110011.

REFERENCE RM-21 (3)/75 dt. 4.6.76, 1.10.77, 2.5.78 & 4.5.78

QUERIES/POINTS RAISED REGARDING WORKING OUT AND ACCOUNTING OF HIRE CHARGES AND CLARIFICATIONS THEREON

| Sl. No. | Query/Point | Clarification |
|---------|---|--|
| (1) | (2) | (3) |
| 1. | The life of some categories of machines like (i) Pile Driving Sets (ii) Arc Welding sets (iii) Pay Loaders (iv) 6-10 TPH Hot Mix Plants (v) Marboats & RPL barges has not been stated. | <p>The life of these equipments may be taken as under :</p> <p>(i) <i>Pile Driving Equipments</i> R.B.M.C. in Appendix 19 has recommended a life of 12 years for pile Driving Equipments. Assuming a regular working of 1000 hrs. per year, a total life of 12,000 hrs. may be considered.</p> <p>(ii) <i>Arc welding sets</i> A life of 6 years has been recommended by RBMC as indicated in Appendix (19) of the RBMC's report. This item of machinery has been covered in the category of small items, the cost of which is to be charged to the works.</p> <p>(iii) <i>Pay loaders</i> The pay loader may be considered similar to motorised scraper or Pusher (Dozer). The life of these equipments as recommended by the RBMC in Appendix (19) of the Report is 12,000 working hours. Similarly, life of Pay Loader may also be taken the same i.e. 12,000 hours.</p> <p>(iv) <i>Hot Mix Plants (6-10 TPH)</i> RBMC in Appendix (19) to their report at item (32) has recommended a life of 10,000 hours for Bitumen Mixer of 8-10 TPH capacity. The Mini Hot Mix Plant '6-10 TPH' capacity purchased by the Ministry recently are similar to those. As such, life of 10,000 hours may be assumed for 6-10 TPH Hot Mix Plants.</p> <p>(v) <i>Marboats and RPL barges</i> It has been ascertained from Director (Mech) Transport Wing of this Ministry that normally, a depreciation of 7% annually for Marboats, RPL barges and other similar vessels, is considered. Hence a life of approximately 14½ years, say 15 years, may be assumed for marboats/RPL barges etc.</p> |
| 2. | It has been stated that a minimum of 1/8th of the expected annual depreciation of machinery should be charged to the Central works towards the hire charges if equipment is used for less than 1/8th of expected working hours in any particular year. The head of a/c to which the amount so recovered would be credited, has not been indicated. Also it has been assumed that a machine will be used only on one work for less than 1500 hrs. in a year. If the machine is used on more than one work during a year and the scheduled 1500 hrs. are not achieved then it should be clarified as to which work will bear the cost of the remaining working hours. | <p>Since the minimum charges consists of 1/8th of the Annual depreciation only, amount recovered against this item should be credited to the capital account head "537-AA. Capital Outlay on Roads and Bridges -AA. I-National Highways-AA. 1 (2)-Tools & Plants" as indicated in Ministry's letter No. RM-21 (3)/75 dated 1.10.77.</p> <p>Regarding the particular central work to which this minimum of 1/8th of expected annual depreciation of machinery is to be charged in case of under-utilisation of machinery, it may be pointed out that it is expected that all efforts will be made to ensure its utilisation throughout the</p> |

3. The question of machines which are idle throughout the year without being used on any works will have to be considered and if idle charges are to be recovered the head of a/c to which such will be debited will also have to be clarified.
4. No such instructions have been given about other categories of the equipment whose hire charges are fixed on Kilometres basis. It is presumed that procedure of charging 1/8th of average run in KM per annum will equally be applicable to these cases. This may be clarified.
5. It is felt that the running charges which are variable on account of pay and emoluments of the operating staff and also on account of variations in POL costs, should not become a part of the hire charges. In the example of calculation of hire charges, this element has been included and the total hire charges worked out. The Ministry may clarify the position in this regard.
6. It has been stipulated in Ministry's letter of 4th June, 1976 to review the hire charges periodically. But the period when to be reviewed, the contingencies under which the review is to be made, have not been specifically mentioned.
7. The formula given for calculating additional charges towards interest and insurance is not quite clear. This may be clarified.
8. In case expected working hours per year are not achieved due to one reason or another like rains, shortage of funds etc. then the cost of running charges which include Pay and Wages of the operators cannot be debited to the Construction Divisions as full working hours are not obtained in the year. The Civil Divisions will only accept the debit for the number of hours, the equipment has actually worked. But the payment for the whole year is to be made. Now the question arises who is to bear the cost if the plant is not fully utilized.

working season, and in case of anticipated non-utilisation of the plant, same should be declared surplus. However, in a stray case, if machine, in spite of all efforts, did not have the minimum 1/8th utilisation in the year, the same should be charged to different works in proportion to the quantum of those works indicated in the utilisation programme, but could not be taken up as per schedule anticipated.

The idle charges are recoverable only from contractors and that too in case of use of machinery on works other than Central/Centrally sponsored works as indicated in Ministry's letter no. RM-21 (3)/75 dated 4.6.76.

The idle charges of machinery consists of the following three components :

- (i) 1/4th depreciation of machinery.
- (ii) Interest
- (iii) Wages of work charged staff
- (iv) Overhead at 5% of the total charges.

The components of these charges should be credited to the head of Accounts concerned intimated in Ministry's circular letter No. RM-21 (3)/75 dated 2nd May, 1978.

However, to avoid improper assessment/recovery of idle charges, states have been requested to fix the minimum number of hours for which the hire charges will be recovered from contractor, irrespective of hours of actual use.

Average annual use of trucks/Tippers etc. may be assumed as 30,000 km (Average speed of 20 km/hour is assumed). For such vehicles also, minimum of 1/8th charges are to be recovered, in case of their under-utilisation.

Running charges of machinery are essentially needed to be taken into account mainly to assess the total usage charges to be included in works estimate, so that the realistic cost of works including the use of machinery is reflected therein.

If tenders are invited by any state indicating total usage rates, and if running charges are incurred by department and are debited to works separately, in that case running charges are to be calculated for watching recovery from contractor as per N.I.T. terms and conditions for crediting to Central works concerned. Thus the works will not be debited twice with running charge component of hire charges.

In practice, and as per instructions of the Ministry, the running charges are directly debited to the works and therefore need not become a part of hire charges to be indicated in N.I.T.

Hire charges may be reviewed, say once in three years, or earlier, if States P.W.D. finds that existing rates of hire charges are not realistic due to considerable increase or decrease in staff wages, cost of fuel and lubricants, repair expenditure (including cost of spares) etc.

Taking salvage value of 15% of the machine, average investment would work out to about 57.7% say, 60%.

The calculation of interest/insurance is always made on the average investment cost.

Regarding the mode of meeting the cost of wages of operators for the period when the plants cannot be utilised due to rainy season or any other reason, it may be stated that the wages of the staff for the whole year may be assessed and proportionately distributed to the works undertaken during the year. Efforts are however, to be made to utilise both the machines and staff to the optimum, without idling, by advance planning of works shifting during the slack season etc.