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MADRAS RECORD OFFICE.

Government of Madras.

Public works **DEPARTMENT.**

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Proceedings of the Madras Government, Public Works Department, 5th October 1866.

No. 128. Read the following Circular from the Secretary to the Government of India, Public Works Department, (Account,) dated Simla, 8th September 1866, No. 73 :—

Stock Rates.

1. Several instances have lately occurred of charges to profit and loss being submitted for sanction of the Government of India which were not properly debitable to that head. The Governor General in Council desires that the following remarks be recorded on the subject.

2. The charges in question have generally been for the difference of value at which articles stood on the books, and the amount realized on their being sold. And the loss has usually arisen either from the articles having become impaired by time, or by their being remnants of stock used up, or inferior samples of goods not up to the standard required. Thus, among the cases lately before the Government of India, there was one where a quantity of timber was purchased at so much per foot ; the scantlings used, after being cut down to a smaller size, were charged to works at the purchased rate ; and the remnants unused were kept on the books at the same rate, although being remnants they were really of much smaller value, and when sold fetched a mere trifle. Hence a charge to profit and loss.

3. Again in another case, where a quantity of bricks had been manufactured at a certain price, the best-burnt and whole bricks only were selected for use ; but these, instead of being charged at an enhanced rate, were charged at the average rate which the entire quantity cost, the consequence being that the under-burnt and broken pieces stood on the books at the same rate that had been charged for the good and perfect bricks, although worth little or nothing. When they were sold, a charge to profit and loss was raised to cover the deficiency.

4. Another cause of these charges arises in more stock than is actually required for a work being manufactured. The work is charged with only the quantity used on it, at the average rate of the whole.. But the residue is not wanted, and perhaps in the locality has no commercial value.

5. Another frequent cause of profit and loss charges is deterioration of stock. Almost all the stores used by the Department are perishable, some, as timber and lime, highly so ; and it seems clear that if the necessities of the case require that stores should be kept by the Department, due allowance should be made in the cost of work for the loss by deterioration which must inevitably occur. And just in the same way as provision is made in an estimate for contingencies which, though they cannot be specified beforehand, experience shows are certain to occur, so the rate charged for materials should always contain a margin to cover the value of stock which may not be used. In fact what are often termed "actual" rates, that is, rates which are merely sufficient to cover the cost of the materials used, without any provision for the loss and deterioration likely to occur in the surplus articles, seldom, if ever, represent the virtual cost of the work done.

6. And in the other instances cited, a charge to profit and loss ought not to have been necessary. If, for example, timber is bought in logs of twenty feet in length, and cut down for use to logs of eighteen feet, it is manifest that the

reduced scantlings ought to be charged at rates sufficient to cover the cost of the whole, because the pieces remaining are almost valueless. Again, if picked bricks or tiles are used, they ought to be charged at more than the average price of the whole. And if a manufacture of materials, say bricks and lime, takes place for a special work, the whole cost should usually be charged to that work, because the materials remaining surplus will seldom bear the cost of carriage to another place.

7. In fact, by proper management, charges to profit and loss should only be made for *bona fide* exceptional cases of loss in excess of the ordinary casualties that may be looked for in all manufacturing operations.

8. The rules of the old Code regarding Stock accounts provided for these conditions being observed, and the system of rating adopted by the Central Offices of Account provided for charges being made sufficient to keep the balance at debit of stock down to a figure which should not exceed the fair value of the materials remaining on hand. It used, indeed, to be often advanced in explanation of excesses over estimates that the rates charged by the Central Office were too high; but that this explanation was generally erroneous is sufficiently proved by the circumstance that when lately the Central Offices transferred the Stock accounts to the Executive Engineers, it was found everywhere that the debit balances were in excess of the value of the stock on hand, and large sums have had to be written off to adjust the account.

9. The fact was that the Central Offices were not always in a position to ascertain the proper rates; when bricks were issued to a work, or timber, it could not be told from mere inspection of the accounts that the bricks were selected ones, or that the timber remaining consisted merely of scraps; hence their charges were often too low. But now that the Stock accounts are in the management of the Executive Engineers themselves, these oversights can be guarded against; and the present seems to be a suitable time for drawing attention to the principle which should govern the adjustment of stock rates.

10. Except for very heavy losses from storm, flood and fire, and other causes which could not be foreseen, charges for profit and loss should not occur; and they are only to be prevented by charging materials at such an excess rate above cost price as will suffice to cover wastage, breakage, and deterioration, as well as such a proportion for losses from weather, as may be looked upon as of ordinary occurrence. If charges be made to profit and loss on these accounts, it shows that the account of *works* do not represent their full virtual cost.

11. It is no doubt impossible to lay down precisely the proper extra charge to be put upon the stock rates; it must vary according to circumstances. But until an Executive Engineer has ascertained this proper rate, it will probably be desirable to make an addition of from five to ten per cent. on the cost of manufacture or purchase, when the transactions are not very large, and when the stores are not issued directly to the works. At any rate, whenever he finds that owing to his rates a profit is accumulating on his stock, it is always easy to lower the rates.

12. The Governor General in Council requests that Superintending Engineers and Controllers may be enjoined to give careful attention to this important matter; and the former when making their inspection, should satisfy themselves by testing

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Proceedings of the Madras Government, Public Works Department, 5*th October* 1866.

in one or two items that the stock on hand really represents in value the amount at which it stands on the books; and that therefore the rate at which the Executive Engineer is charging off his stock to works is sufficiently high. This point should always be specially referred to in Inspection Reports.

Governments of Bengal, North-Western Provinces, and Punjab.
Governor, Straits Settlements.
Chief Commissioners of Central Provinces, Oudh, and British Burmah.
Resident at Hyderabad.
Commissioner of Mysore.
Agents, Governor General, for Central India and Rajpootana.

ORDER.—Ordered that the foregoing Resolution be forwarded to the Local Governments and Administrations noted in the margin, for information and guidance.

Ordered also that a copy be forwarded to the Governments of Madras and Bombay, and to the Financial Department, for information.

(Signed) C. H. DICKENS, Lieut.-Col., R. A.,
Secy. to the Govt. of India.

No. 129. ORDER THEREON, 5th October 1866, No. 3,172.

ACCOUNT, No. 18.

Communicated to the Superintending Engineers and the Controller of Public Works Accounts.

(True Extract.)

Colonel, R. E.,
Secretary to Government.

To the Superintending Engineers.
,, Controller of Public Works Accounts.

Exd. S. T. Augustin.

Incidents

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No 3172

Communicated
to the Surg Engineers
and the Contractors of O.
for Account

work

Hurst St George
5th Octr 1866

Contractors of O.

Depts 6: Octr.