

1961-62
VICTORIA

REPORT

FROM THE

COMMITTEE OF PUBLIC ACCOUNTS

ON

THE APPLICATION OF A DESIGN, SUPERVISION
AND ADMINISTRATION CHARGE (ONCOST) IN
RELATION TO WORKS CARRIED OUT UNDER
THE SUPERVISION OF THE PUBLIC WORKS
DEPARTMENT

TOGETHER WITH

APPENDICES

Ordered by the Legislative Assembly to be printed, 20th March, 1962.

By Authority:

A. C. BROOKS, GOVERNMENT PRINTER, MELBOURNE.

D.—No. 13.—2703/62.—PRICE 1s.

EXTRACTED FROM THE VOTES AND PROCEEDINGS OF THE
LEGISLATIVE ASSEMBLY.

TUESDAY, 1ST AUGUST, 1961.

25. PUBLIC ACCOUNTS COMMITTEE.—Motion made, by leave, and question—That Mr. Divers, Mr. Gibbs, Mr. Holden, Mr. Moss, Mr. Ring, Mr. Taylor, and Mr. Trewin be members of the Committee of Public Accounts and that the Committee have power to send for persons, papers, and records, to move from place to place, and to sit on days on which the House does not meet; three to be the quorum (*Mr. Rylah*)—put and agreed to.

REPORT

The Committee of Public Accounts have the honour to report as follows:—

1. The Auditor-General at page 61 of his report for the year 1960-61 under the heading "Public Works" states this:—

"This Department is the principal designing and constructing authority for all Government Departments other than the Railways, Water Supply, and Forests. It is also responsible for maintaining, fitting, and furnishing buildings and for the renting of additional accommodation. One section of the Department is in charge of harbour works and improvements not under the control of harbour trusts or municipalities. Considerable sums of money are expended on these works from revenue, loan, and other sources.

Expenditure from revenue under the principal divisions in each of the past two years is set out hereunder:—

	1959-60.	1960-61.
	£	£
Public Works Administration—		
Salaries	1,074,356	1,143,509
Overtime and Penalty Rates	64,417	63,990
Travelling and Subsistence	110,965	102,343
Other Administrative Expenses	119,915	130,251
Total Administration	1,369,653	1,440,093
Works and Buildings—Maintenance, Repairs, &c.	1,050,440	1,089,895
Rents and Allowances	208,207	255,663
Other Services	329,417	341,362
	2,957,717	3,127,013
Ports and Harbours Administration—		
Salaries	100,359	141,481
Overtime and Penalty Rates	29,819	32,145
Travelling and Subsistence	9,996	12,922
Other Administrative Expenses	2,439	11,655
Total Administration	142,613	198,203
Wharves and Jetties—Maintenance, Repairs, &c.	40,642	41,280
Contribution to Portland Harbour Trust	192,800	324,000
Ligherage of explosives—Expenses, &c.	49,503	43,613
Other Services	113,290	38,300
	538,848	645,396
Total Public Works Department	3,496,565	3,772,409

Works financed from Loan Fund or from Trust or Special Funds and carried out under the supervision of the Department were charged, as in the previous year, with an oncost of 12½ per centum to cover the departmental expenses involved in the design, supervision, and administration of the works.

Recoups on the basis of these and other oncost charges paid to Consolidated Revenue rose from £1,289,592 in 1959-60 to £1,470,785 in 1960-61. In connexion with the figure for 1960-61, it is pertinent to make the following observations.

The administrative expenses of the Department and its Ports and Harbours Branch, particulars of which are summarized above, amounted to £1,638,296. On assessment, it would appear that, of this amount, £1,450,814 is the sum of the expenses directly associated with the Department's works programme. However, this programme included works financed from Consolidated Revenue which are not subject to oncost charges. Accordingly, to arrive at the amount recoverable by way of oncost, it is necessary to reduce the sum of £1,450,814 by the amount of expenses therein attributable to revenue works, which amount is calculated to be £161,937. Therefore, on over-all assessment, the amount properly recoverable from works financed from Loan and other funds subject to oncost is £1,288,877, whereas, as already indicated, the amount of £1,470,785 was actually recovered. It is understood, that the Treasury and the Department have under consideration a reduction in the rate of oncost with effect as from the 1st July, 1961."

2. In the course of their examination of the Report of the Auditor-General, the Committee, having considered these statements of the Auditor-General, decided to undertake an enquiry into the application of oncost. Having taken evidence from the Director of Finance, the Secretary of the Public Works Department, the Auditor-General, and other officers of the Departments concerned, the Committee considered this matter one worthy of a report to your Honorable House, particularly in order to clarify some of the issues involved.

3. It appears to the Committee that a consideration of the subject of oncost involves an examination of several features of the subject, some of which are matters of principle and others of which are matters of detail such as the accounting aspects, the quantum, and questions of terminology.

4. To understand oncost and its impact on the public finances of Victoria, it is helpful to examine its history and the changes which have been made since its inception in Victoria.

HISTORY.

5. Oncost charges have existed in some form or other in Victoria since at least 1935 in relation to the operations of the Public Works Department. In 1959 in the course of their enquiry into the Estimates of Expenditure 1957-58, Estimating and Budgetary Control, the Public Accounts Committee examined these charges in some detail. In their report (Victorian Parliamentary Paper D No. 1 of 1959), the Committee found that a number of features of oncost charges as they then existed, were undesirable.

6. At the time of the Committee's Report the Contingencies vote of the Public Works Department had been used partly as a suspense or clearing account. The arrangement is described in the Report of the Committee as follows:—

“ 209.....

Thus while Parliament appropriated by way of Estimates and Supplementary Estimates the amount of £285,203 for the purposes of Contingencies expenditure of the Public Works Department in 1957-58, in fact the total expenditure charged against the vote during the course of that year amounted to £485,354. The difference, of course, represents the amount cleared to other heads of expense during the course of the year.

210. The suspense account role of the vote has had two aspects. Not only has it been used to accumulate expenses legitimately charged against a Contingencies vote prior to their being cleared to other heads of expenditure, it has also been used to accumulate, prior to clearance, expenses which are not a legitimate charge against a Contingencies vote. The former are some of the items listed in the Contingencies Statement as the purposes of expenditure of the Contingencies vote and for which Parliament appropriated the sums

specified in the Estimates and Supplementary Estimates. These expense items are those other than Unproductive Wages shown as recouped in Column 5 of Table 5 and are usually referred to as Oncost. The latter is the item Unproductive Wages which is referred to in Columns 1, 4, 5, and 6 of Table 5* but which does not appear in the Contingencies Statement which is the document presented to Parliament for information purposes."

7. The Committee continued as follows:—

"211. Referring in the first instance to the oncost items legitimately accumulated in the vote under the headings listed in the Contingencies Statement it should be pointed out that the vote has been specifically provided to meet these particular types of expenses. That is, the department under the Public Works Act is, through the medium of the Board of Land and Works, the authority concerned with all matters relating to public works and buildings in Victoria and its salaries and contingencies votes are provided by Parliament to allow it to perform its statutory functions. Parliament would, therefore, be entitled to assume that the amounts voted for these purposes would be the total costs of this performance. In fact the amounts voted directly to Contingencies represent only part of the expenses incidental to the operation of the department, so that Parliament is neither fully informed of, nor does it have the opportunity to directly approve, the full cost of the department's operations.

212. In fact, in every year from about 1935 up to and including the year under review, it has been the practice to clear the vote of approximately two-thirds of the costs accumulated under the items referred to by charging them directly as an oncost charge to various selected jobs. This transfer was claimed to be based on a convention formulated by the department and acquiesced in by the Treasury, without any Parliamentary approval, that the moneys provided under these headings were only to be applied to oncost charges incurred in respect of public works and buildings expenditure financed from revenue. Public works and buildings carried out under the auspices of the Department may be financed from any of three sources—Consolidated Revenue, Loan Fund or Trust Fund. The department, on the assumption that only incidental expenditure relating to revenue financed works was to be met from Division 67/2, adopted the practice of transferring the cleared charges to works and buildings financed from loan and trust funds. Therefore, in these years a large proportion of the cost of the Public Works Department's performance of its statutory functions has been borne not directly by the vote specifically provided for the purpose by Parliament but indirectly by loan and trust funds.

213. The department maintained, in evidence before your Committee, that this practice arose because of the growth in the volume of works undertaken by the department which were financed from loan or trust funds and the consequent growth of Contingencies expenditure. Despite this growth the total vote for Contingencies expenditure was not increased commensurately. Consequently in 1935 the department, with the tacit approval of the Treasury, began relieving the vote in the manner outlined and continued to do so until 1958-59. The effects of this transfer are not altogether apparent from Table 5 since the items which are the subject of recoup are shown in the Contingencies Statement at the total figure charged against the vote during the whole of the course of the year. On the other hand the item Stores and Incidentals, which is one of the few items not considered subject to recoup, is approximately only 50 per cent. of the total amount charged against the vote in respect of that item during the course of the year. This is because, for some reason not now clearly known, the credits resulting from the recoups in respect of the apportioned items were shown in the Contingencies Statement as having been credited against the item Stores and Incidentals only. Thus not only has Parliament been uninformed regarding the practice adopted but it has also been misinformed regarding the results.

214. There were a number of aspects of this practice which your Committee considered were open to criticism. In the first place of course there was the unauthorized relieving of the vote and the non-disclosure of this practice to

*NOTE.—The table referred to included such items as maintenance of motor cars, overtime, and travelling expenses, all of which were partly recouped.

Parliament. In the second place there was the innate inconsistency of a practice which purported to justify its use by the argument that an oncost charge should be legitimately borne by loan and trust fund works in order that a reasonable approximation of total cost might be arrived at, but which did not apportion all overhead costs, salaries being omitted altogether from the apportionment. This strengthens the view that the transfers were not a matter of accurate accounting but simply of expediency devised to overcome the limitations of the vote due in turn to the growth of the works and buildings programme and Treasury resistance to the recognition of this growth by adequate provision in the Contingencies vote. Finally your Committee is critical of the Treasury's lack of concern for, in fact acquiescence in, these departures from the accepted principles of public accounting except after prolonged audit criticism.

215. As a result of continued audit pressure eventually resulting in surcharges being levied on the transfers relieving the vote of this proportion of the total expenses, a new procedure has been instituted which has operated from the 1st July, 1958. The new arrangement is such that the vote in 1958-59 was not relieved of any of the expenses legitimately charged against it, that is those which are listed in the Contingencies Statement. This meant an increase in the amount voted for Contingencies in 1958-59 to £420,000 as compared with the expenditure in 1957-58 of £258,203. On the other hand, to recognize the legitimacy of loan and trust fund financed works carried out under the auspices of the Public Works Department bearing a percentage of the cost associated with design, supervision, and administration, such works are now to be charged with an oncost of 7½ per cent. Receipts from this source are to be credited direct to revenue and not recouped to the Public Works Department Contingencies vote. In the opinion of your Committee this is a much more desirable practice since the dealing in all these respects are brought to the attention of Parliament. Parliament now knows the full extent of the Contingencies expenditure incurred incidentally to all works carried out under the supervision of the Public Works Department, whether financed from loan, vote or trust moneys.

216. There remains, however, another obscure aspect of the use of this vote. The department incurs expenditure in respect of public works and buildings financed from all sources on account of annual leave, sick leave, wet pay, and public holidays. These expenses are classified as non-productive wages since they are not directly attributable to any particular job carried out under the supervision of the department. They are accumulated in the first instance as a charge against the Contingencies vote and are subsequently apportioned during the year to the various works and buildings projects. The departmental representatives advised the Committee that the expenditure on non-productive wages is charged in the interim pending recoup against the item Stores and Incidentals.

217. These amounts are not legitimate charges against the Contingencies vote. Moreover, an examination of the Contingencies statement, which outlines the nature of the expenditure met, gives no indication that payments of this nature are made from the vote or through the vote. In addition, for various reasons it is impossible in any one year to completely clear from the vote the total amount of non-productive wages charged against it. These are not recouped in subsequent years. This means that at the end of every year, as Table 5 indicates in respect of 1957-58, there remains charged against the Contingencies vote, concealed in the item Stores and Incidentals, some amount of unproductive wages which is quite outside the authority given by Parliament regarding expenditure from this vote.

218. Your Committee is of the opinion that items of unproductive wages should not be charged against this vote at all, since there is clearly no authority to regard this as a Contingencies expense. The Auditor-General has consistently disallowed the charges on these grounds. It would appear that a special vote should be provided for the purpose of meeting these costs pending their being spread among the relevant jobs. Recoups should be credited direct to revenue as with the new scheme for oncost charges, and not to the vote. The Treasury advised your Committee that it was planned to remedy this situation in 1959-60.

8. It appears that the position, as the Committee found it in 1959, could be summarized as follows:—

- (a) That the Contingencies vote (as it then was) of the Public Works Department from 1935 onwards had been used partly as a suspense or clearing account.
- (b) Approximately two-thirds of the costs accumulated under the items in that vote had during that period, been cleared by charging them directly as an oncost charge to various selected jobs.
- (c) During these years, salaries were omitted in the estimate of cost of loan and trust fund works for the purpose of apportioning that cost.
- (d) From the 1st July, 1958, this practice of relieving the vote of such expenditure ceased, and instead an oncost charge of $7\frac{1}{2}$ per cent. for design, supervision, and administration was to be charged on works carried out under the auspices of the Public Works Department and paid for out of loan and trust funds. Further, this oncost charged was to be credited direct to revenue and not recouped to the Public Works Department Contingencies vote.
- (e) In addition, expenditure incurred by the Department on account of annual leave, sick leave, &c. (referred to as non-productive wages) in respect of public works and buildings financed from all sources was accumulated as a charge against the Contingencies vote and subsequently apportioned to various works and building projects.

9. Since the Committee's Report, the following changes have occurred:—

- (a) The arrangement referred to, whereby a charge for design, supervision, and administration has been imposed on a percentage basis, has led to the bringing to account in the Estimates of Revenue and Expenditure on the revenue side of the item "Public Works Department—Recoup on account of amounts paid from Revenue in connexion with Loan Works, &c." (e.g., see page 4 of the Estimates for 1961–62 under heading "Revenue, Part 1 No. 4 Public Works" where this recoup appears). This recoup is determined by the Treasury and is generally referred to as "oncost" or, to be more specific, "Treasury oncost".
- (b) The percentage which was $7\frac{1}{2}$ per cent. in the initial year of the new arrangement (1958–59) was raised to $12\frac{1}{2}$ per cent. for the succeeding two years and for the current year (1961–62) it has now been lowered to 11 per cent.
- (c) Non-productive wages now appear in the Estimates with an entry which indicates that they are to be recouped. The estimates for 1961–62 at page 69 under the heading "Division No. 60. Public Works 2. General Expenses" contain the following entry:—

		£
"5. Holiday and sick pay, &c., in respect of employees engaged on constructional and other works pending allocation to the works concerned	200,000	
<i>Less</i> amount to be recouped	200,000."	

PRINCIPLE OF ONCOST.

10. The justification for an oncost charge in respect of design, supervision, and administration rests on the principle that these items are a cost of the work. Some system such as this is applied in private enterprise. The Committee have been advised that the Public Works Department acts in various capacities as consultant, architect, clerk of works, and inspector of works, and that, if the Department was not there to do this, someone outside would need to be engaged for the purpose. Further, the Committee have been informed that a similar charge is made in the public finances of the various States in Australia to ensure that the full cost of work is borne by the fund from which the work is financed, although the techniques differ in their application.

11. That oncost is charged in respect of works from loan funds and trust funds only and not works financed from revenue is understandable. It would be possible to charge oncost in respect of revenue works, but this would only operate as a type of transfer of amounts between various headings in the Estimates and the over-all position of the revenue budget would be unaffected. The Committee agrees with the view that what would result would be an accounting exercise of no great value.

12. The effect of oncost in relation to amounts issued and applied by Parliament in various loan application Bills has been examined. In practice when an item appears in the Public Works Loan Application Bill, and it sets aside a certain sum for particular building purposes then this sum includes the percentage oncost charge, as a part of the total. Within the limits authorized by the Parliament in such a Bill, the Treasurer then allocates cash sums from the Loan Fund to various departments. It is understood the practice has been for departments to be advised by the Treasury of the allocation of loan funds in terms of this sum less oncost charge.

CONFUSION OF TERMINOLOGY.

13. It appears to the Committee that a certain amount of confusion exists in relation to oncost because the term "oncost" is used in different senses. "Oncost" appears to have been used on various occasions to describe two separate and distinct items which are treated quite differently in the Estimates. The term has been used to describe the Treasury oncost charge for design, supervision, and administration; it is also used to describe the wage loading which is taken into account by the Public Works Department in determining its own labour cost. This latter charge is to cover what may be described as "dead time", i.e., wage payments, such as holiday and sick pay, &c., necessarily incurred by the Department but which are unproductive and are not directly attributable to any particular job. The wage loading charge is applied by the Public Works Department in cases where the project is carried out by Public Works Department day-labour. It does not apply in the case where a project is carried out by contract. The oncost charge relating to design, &c., is applied as has already been mentioned in paragraphs 8 and 11 to projects carried out either from loan or from trust funds. It is applied whether the project is executed under contract or by Public Works Department day-labour. The application of these two quite separate charges is shown on the chart which was supplied to the Committee by the Public Works Department and which is appended to this Report (Appendix A).

14. The Public Works Department's wage loading charge is imposed on the labour content of a project only, so that if a project, for example, involved a breakdown of cost whereby half could be attributed to labour and half to materials, then a wage loading of 15 per cent. would in effect be a loading of $7\frac{1}{2}$ per cent. on the total works cost. The oncost charges in appropriate cases, i.e., cases of works from loan or trust funds, is then applied to this total works cost to arrive at the total cost to the Department of the project concerned.

15. It appears to the Committee that confusion would be avoided if the term "design, supervision, and administration charge" was to be consistently used to describe oncost to this respect.

DETERMINATION OF RATE OF ONCOST CHARGE.

16. As had previously been stated the Treasury oncost charge is designed to recover to revenue the actual cost of design supervision and administration. The method whereby the percentage is arrived at is described in the notes supplied by the Director of Finance and appended to this Report (Appendix B). It is apparent that two alternatives are available in applying an oncost charge. Firstly, each job could be costed, the actual cost of supervision, &c., arrived at, and this charged against the individual projects. Secondly, an estimate could be arrived at and applied as a fixed rate to the total volume of works. This latter course is the one which is adopted for the practical reason that the costing process involved in the former would be too expensive to implement. The Committee considers this reason quite a sound one. The rate is fixed at the beginning of the financial year on facts and estimates as they then exist, and that rate is applied for the whole of the year. It follows, of course, that the recoup will vary if, during the year there is an increase or decrease in the volume of works projects involving the Public Works Department

carried out from loan and/or trust funds. In a particular year the administrative expenses of the Department would be fairly rigid and would be provided for by the Estimates and the Supplementary Estimates. The volume of loan works involving the Department would not necessarily bear a direct relationship to these administrative expenses, hence it follows that the application of a percentage of the present basis can at best only lead to an approximation of the desired result. The evidence given to the Committee indicates, that although in the year 1960-61 there was an excess recoup, in the year 1958-59 there was an under-recoup of £426,000, whilst in the year 1959-60 the recoup achieved approximately the desired result.

17. The Committee considers that it will be necessary for the Treasury to keep the rate of oncost under constant review and it appears that this is in fact being done as indicated by the adjustment of the rate to 11 per cent. for this current year. The basis on which the percentage is arrived at has regard to the following broad principles:—

- (1) All salaries are charged to the salaries vote.
- (2) All items of expense are examined with a view to the exclusion of the expenditure incurred by the Department in the performance of work to which the addition of oncost should not be applicable, e.g., the work of the Ports and Harbours Branch.
- (3) Regard is had as to items which are already recouped from other sources.
- (4) The amount recovered by way of oncost is shown in the Treasurer's statement as a sub-head of Consolidated Revenue.

These principles which were referred to in evidence are explained more fully in the words of the Auditor-General and the Director of Finance at pages 208-209 of the Transcript.*

CONCLUSIONS AND RECOMMENDATIONS.

18. Since the report of the Committee in 1959, there have been changes which have overcome the main criticisms of that Committee in relation to the application of oncost charges. The Estimates now show on the revenue side the recoup on account of design, supervision, and administration which, prior to 1958-59, was processed within the Contingencies vote of the Public Works Department without any full disclosure to Parliament. Further, the recoup on account of non-productive wages is now clearly shown in the Estimates although this recoup is not credited direct to Revenue, as the Committee suggested in 1959, but it is a recoup to the vote. The Estimates have disclosed to Parliament in each case the recoups. It must be possible to be more consistent in the manner of bringing these two charges to account in the Estimates on the revenue side and it is considered that this is a matter which should receive the consideration of the Treasury and the Auditor-General.

19. The existence of oncost charges in the Public Finances of this State was highlighted by the excess recoup referred to in the Auditor-General's Report. This does not necessarily indicate that the principle of oncost is not a legitimate one. It rather indicates that the percentage requires adjustment and this has in fact been done. If the principle of oncost is accepted and the revenue budget is relieved, from loan and trust funds, of certain expenditure on account of design, supervision and administration, then the question may be posed as to where should the line be drawn in the application of an oncost charge. In this respect the Committee considers that the present basis already referred to (see paragraph 17) is a fair and reasonable one.

20. The Committee, having carefully considered the matter, feel that the design and supervision charge is properly a cost of the project and is properly included as such, but that care should be taken to see that excess recoups such as that reported upon by the Auditor-General do not take place in future, for it can be said, if one considers the operations of the year 1960-61 by itself, that Loan Fund and Trust Funds, in effect, subsidized the administration of the Public Works Department to a point which cannot be justified. In effect, this meant that operations of the Department in the course of its normal functioning were partly paid for from Loan Funds and Trust Funds without proper justification. If the operation of oncost over previous years is considered, however,

* *Minutes of Evidence not printed.*

it appears that in the aggregate the recoups have been less than the actual cost to the Department of design, supervision, and administration in respect of the loan and trust fund works.

21. In the ultimate it does not appear that the levying of a charge for design, supervision, and administration can affect the over-all finances of the State, since it merely involves a recoup of funds to Revenue from Loan and/or Trust Funds.

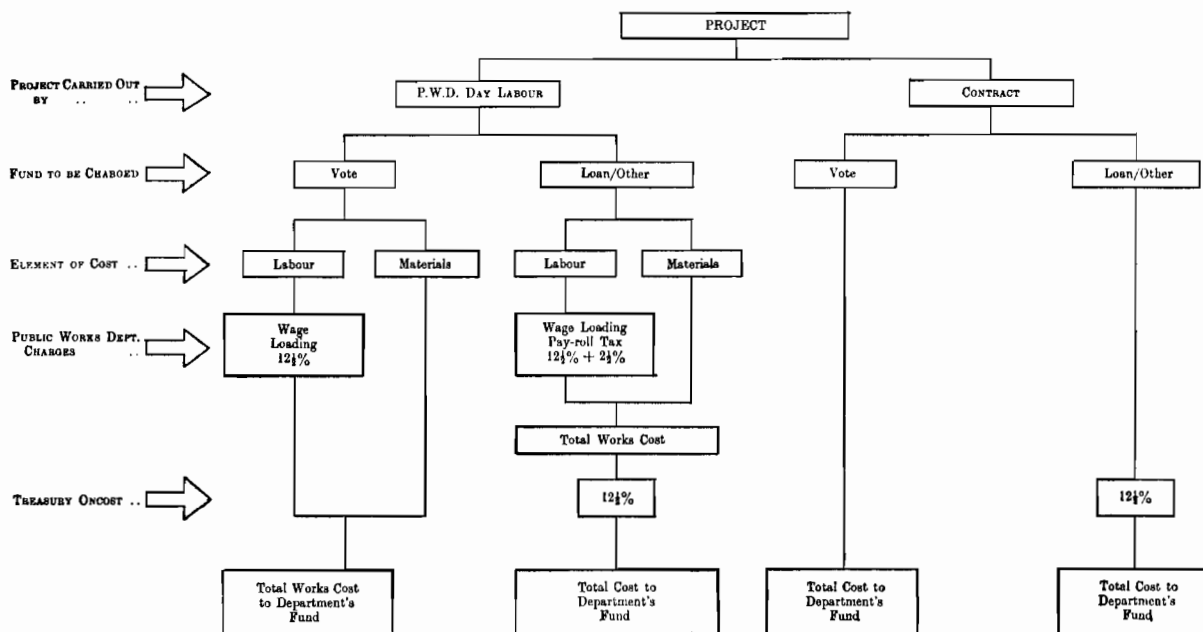
The costs of the operations of the Public Works Department in regard to design, supervision, and administration must be financed from some source or other. If amounts were not to be recouped to Revenue from Loan and/or Trust Funds in respect of appropriate works projects, then the Revenue side of the Estimates of Revenue and Expenditure would be adversely affected. To bridge the resulting gap it would be necessary to reduce other expenditure out of Consolidated Revenue, or, alternatively, to increase Revenue from other sources

In general terms it may be said that the State of Victoria has in the Public Account various sums which may be expended out of the various Funds which constitute that Account. Whether design, supervision, and administration remains wholly as a charge against the Public Works Department Vote or whether it is partly met from other Funds does not seem to greatly matter. The important aspect as it appears to this Committee, is that what is done is disclosed in the documents which are placed before your Honorable House, and can be the subject of debate and criticism if the House is so disposed.

Committee Room,
Parliament House,
Melbourne.
15th March, 1962.

APPENDIX "A".

CHART SHOWING THE APPLICATION OF WAGE LOADING AND TREASURY ONCOST TO PROJECTS UNDERTAKEN BY THE PUBLIC WORKS DEPARTMENT AS FROM 1st JULY, 1959.



PUBLIC WORKS DEPARTMENT.

EXPLANATORY NOTES TO ACCOMPANY CHART SHOWING APPLICATION OF WAGE LOADINGS AND TREASURY ONCOST TO PROJECTS UNDERTAKEN BY PUBLIC WORKS DEPARTMENT.

- (i) Wage Loading includes payments under Awards, Determinations, and Government directions for annual and sick leave, holidays, wet pay, National Service Training, apprentice leave, jury service, long service leave, and is chargeable to work funds provided by Treasury, for projects, carried out by Public Works Department Day-labour Force.
- (ii) Oncost of 12½ per cent. determined by Treasury, is chargeable to Loan works from an allocation specially provided for the purpose. Its application, therefore, does not absorb Loan funds allocated for works.
- (iii) The Public Works Department charges and Treasury oncost are charged in total and not against individual projects except in special cases, e.g., Trust Funds.
- (iv) The fund to which a project is to be charged is determined by the Public Works Department after consideration of the nature of the project.
- (v) ALL ESTIMATES of projects to be carried out by day-labour are initially loaded with 20 per cent. (i.e., 7½ per cent. Public Works Department on total cost, 12½ per cent. Treasury oncost) being the average charge to cover Public Works Department charges and oncost, whilst ESTIMATES on projects to be carried out by contract are loaded with 12½ per cent. only.
- (vi) Oncost charges are finally determined by the Treasury Fund from which works are authorized and whether undertaken by day-labour or contract, i.e., this charge may vary from nil to 20 per cent.

APPENDIX " B ".

NOTES ON DESIGN AND SUPERVISION CHARGE.

(SUPPLIED BY THE DIRECTOR OF FINANCE.)

The design and supervision charge on works carried out by the Public Works Department was introduced as from 1st July, 1958, following a detailed examination by a Committee comprising officers of the Treasury, Audit Office, and Public Works Department.

This examination followed comments by the Auditor-General that the previous arbitrary method of dealing with costs of design and supervision were not acceptable for audit purposes.

The Committee arrived at a basis for charging the over-all actual cost of design and supervision to the various works undertaken by the Department. This principle is in accordance with standard accounting practice and normal business procedure, as well as being consistent with the methods used by the construction departments and also by other governments.

The basis of assessment following the Committee's investigations has been adhered to consistently in following years.

In the first year, 1958-59, the data available for the purposes of the calculations adopted by the Committee was imperfect and it was necessary to rely on estimated figures. A standard rate of $7\frac{1}{2}$ per cent. was used in 1958-59 but this percentage failed to cover actual design and supervision costs. In the light of the actual result in 1958-59, a rate of $12\frac{1}{2}$ per cent. was adopted for the year 1959-60 in order to cover actual costs.

It is the practice to fix the rate at the beginning of each financial year in the light of the actual expenditure and cost of the previous year and an estimate of the position for the new financial year. The rate so determined applies for the whole of the year as expenditure is incurred.

The actual result of a particular financial year is not known until late in July. Whether there is an over or under recovery of actual cost will depend on the total works programme undertaken, variations in numbers of staff employed on design and supervision duties, the distance of the various building projects and works from the headquarters, and the size and complexity of the structures under erection.

In considering the design and supervision charge for 1960-61 in August last year the true charge for 1959-60 was shown to have been 12.35 per cent.

For convenience of accounting and calculations generally, the rate of $12\frac{1}{2}$ per cent. which applied in 1959-60 was adopted again for 1960-61.

In the light of the information now available in respect of 1960-61, it has been established that the rate for the current year's programme should be 11 per cent. and this reduced rate has been adopted from 1st July, 1961, and is being applied to works costs as expenditure is incurred.