

What very frequently happens is that a Department having once ascertained what its total overhead expenses are in respect of particular groups of stores expresses such expenses in the form of a percentage on the value of the goods and thereafter adds that percentage when supplying goods on repayment either to outside customers or to other Exchequer Departments. The percentages are in practice revised at very infrequent intervals. Is it to the interest of the taxpayer that these percentages, which are intended to bring out the full cost of the articles or services supplied, should be charged by one Exchequer Department to another?

Suppose Department A happens to require particular goods at some station or place at which such goods are habitually obtained by Department B for its own purposes. It is clear that the goods required by Department A ought to be obtained by that method which is the cheaper when account is taken both of the price paid and of the incidental expenses incurred in the purchase. If Department A has obtained a tender from an outside contractor at 43s. a ton, whereas Department B has mentioned 46s. a ton for the same goods supplied from its stores, Department A may be tempted to regard the outside offer as more favourable, particularly if it underestimates its own expenses. But the fact may very well be that Department B's price represents, say, 40s. paid for the goods plus overheads of 15 per cent. The overhead charge may have been properly calculated, but what it represents at best is the average overhead charge on *all* the similar goods purchased by Department B for its own use or for supply to other Departments or customers. It is not necessarily true at all that Department B would incur an overhead charge of as much as 6s. a ton on the particular additional consignment required by Department A. In determining the choice of the source of supply, what ought to be considered is the differential or extra cost to Department B of meeting Department A's requirements; and the existence of the percentage charge may lead to a decision which is not in the taxpayer's interest.

These considerations suggest the question: Will not the right solution be found in the principle of applying the differential or extra cost? But before this question can be answered there are some important points which must be taken into account.

In the first place, while a percentage addition is something concrete, known and easily applied, the differential cost varies with every transaction and would frequently be difficult to ascertain. It would clearly be impossible in practice and pedantic to apply the differential cost principle to every trifling transaction which took place. Further, it cannot be assumed that additional work can always be taken on by any Department without some addition sooner or later to the expense of that Department. A Department may for some time execute orders for another Department without any proportionate increase in