

agreed upon by the Commissioner of Defence Construction and the master builders' associations. Each schedule sets out the unit rates for labour and material in the area or district to which it relates, and includes full allowances for workshop expenses and profit in the case of materials such as joinery, plumbers' requisites, electrical, metal, and similar supplies, whether produced on the contractor's own premises or furnished by a subcontractor. It was intended that schedules of quantities to be used should be prepared by quantity surveyors, but owing to a shortage of qualified men it has not always been practicable to carry out the intention. The contractor is allowed to add to the schedule a list of any adjustments which he wishes to claim as arising from any special circumstances, and if these are accepted the schedule is adjusted accordingly, and the contract price is settled by adding 5 per cent. for the contractor's profit and a further $2\frac{1}{2}$ per cent. of the total to cover his overhead expenses.

Timber required for the works to which these contracts have been applied has in most cases been ordered from mills and from timber-merchants by the Timber Controller, and his Department has paid the suppliers direct. Contractors have thus been relieved from the necessity for financing their timber-supplies, but the assessed value of the timber appears in the priced schedules of quantities, and contractors are allowed to receive the agreed percentages of 5 per cent. and $2\frac{1}{2}$ per cent. on the total price, including timber.

In these contracts the Crown has not insured directly or through contractors against fire, builders' risk, accident, or public risk, but has arranged that all claims under these headings should be settled through the Public Works Department. The Treasury estimates that substantial savings have accrued under this procedure.

In order to reduce delay in completing works the Public Works Department found it necessary in some cases to purchase for supply to contractors bulk supplies of certain materials which they would normally secure through their own organizations. The expenditure thus incurred by the Public Works Department was to be recovered from the contractors by deduction from payments due to them, but it now appears that in one district adequate records of deliveries were not maintained and that complete recoupment may not be possible. Also, it has not been possible to reconcile timber purchased by the Timber Controller with the timber actually built into camp buildings, hospitals, stores, and similar structures, and there is little doubt that some quantities will not be accounted for.

Investigation by the Public Works Department indicated that the original schedules gave contractors an unduly high rate of profit on certain types of buildings, and a reduction in rates was effected in September last. It is desirable that tests of the fairness of schedule prices should be made from time to time by reference to the actual profits earned by contractors as shown by their own records, and the contracts provide for such reference if it is desired. Representations were accordingly made to the Commissioner and the Public Works Department and these authorities have agreed that examination of the contractors' records will be made forthwith.

Shipbuilding Contracts.—These contracts have been the subject of comments in my reports since the outbreak of war. To New Zealand's requirements have now been added the local requirements of the United States' authorities. During the financial year a Controller of Shipbuilding was appointed by the Government to control all classes of Government shipbuilding, and his policy has been to retain the target-price type of contract. The essential point in this type of contract is that a "target" price is set as the estimated cost of constructing the vessel. Overhead charges are recouped to the contractor as a percentage of the target price, and his profit fee is fixed on the same figure. As an incentive to economy, the contractor receives a bonus if the final cost is less than the target price and receives no additional overhead charge or profit fee if the target price is exceeded.

The Audit Office has endeavoured to maintain a close and effective check on expenditure on shipbuilding activities, particularly at the main shipbuilding centres, but it has experienced difficulty in satisfying itself that capital charges to be borne by certain contractors and construction costs to be paid by the Crown have been charged correctly in terms of the relative subsisting contract. Where the Audit Office was of opinion that a payment did not fall within the terms of contract the attention of the Treasury and Marine Departments was drawn to the matter.

The question has also arisen as to whether certain admitted capital costs which it was intended should be borne by a firm of contractors should now be met by the Crown, which would, in the event of doing so, become the owner of the shipyard concerned.