3. Cost Reimbursement Contracts

These are sometimes referred to as ‘cost plus’ contracts. The contractor undertakes to carry out an indeterminate amount of work and he is paid based on the actual cost of labour, plant and materials (‘honestly and properly’) plus an agreed fee to cover overheads and profit.

Checking the prime costs which are directly related to the works is relatively straightforward. The variable is the fee, which should be agreed beforehand and establishing precisely what it covers.

There are three types:

- **Cost plus percentage fee**: The fee charged is directly related to the prime cost. It is a percentage of the prime cost. The contractor has no incentive to work at maximum efficiency.

- **Cost plus fixed fee**: The fee is a fixed lump sum usually based upon an agreed estimated cost. This is mostly used for works that are largely foreseeable. The contractor has an incentive to work efficiently so as to remain profitable within agreed fee.

- **Cost reimbursement based on a target cost**: The Employer and the contractor agree the most likely cost of the contract, the ‘target’, together with an associated fee. If the Contractor’s costs exceed the target, his fee is reduced and vice versa.

Procurement method

1. Traditional procurement
2. Design and build procurement
3. Private Public Partnership (συμπραξές δημοσίου και ιδιωτικού τομέα)
4. Concessions

1. Traditional procurement

With the traditional procurement method, there are the following types of Contract:

- Lump sum contract
- Measurement contract
- Cost reimbursement contract
Procurement method

1. Traditional procurement

2. Design and build procurement

Design and Build

- The Contractor is responsible to design and build the project according to the Employer’s requirements.
- In theory, there is a single point of responsibility. Therefore the Employer has the advantage of only one firm to deal with – and one firm to blame if things go wrong. In practice, however, the client’s requirements are often detailed to the extent that the contractor’s design contribution, and therefore liability, is diminished.
- The client lacks control over detailed aspects of design; however, this might be acceptable where the broad lines of the scheme are satisfactory and the detail relatively less important.

- Construction work can be started early as a great deal of detailed design work can proceed in parallel.
- Responsibility for completing on time rests wholly with the contractor. There should be little risk of claims because of allegations that information from the client is late. This obligation on the contractor to be responsible for the flow of his necessary information, is one of the most attractive features of design and build.
- There is greater certainty of cost, even to the extent that, if required, responsibility for investigating site and sub-soil conditions can be made entirely the contractor’s. Any significant changes in the client’s requirements will affect the Contract Sum and are likely to be costly.

- It is always advisable to ask information about who the contractor intends to use as designer. Adequate indemnity insurance should always be a requirement.
- The client should appoint consultants to advise on the preparation of the requirements.
- The requirements might include specific items, or even provisional sums, but generally it is sensible to prescribe performance criteria, so that a high degree of reliance is placed on the contractor.
- Valuation of changes by the client is entirely the responsibility of the contractor, and the client has no quantity surveyor to intervene on his behalf.

- It is difficult to evaluate design and build tenders objectively where both schemes (design) and prices are submitted. Tenderers should be informed of the criteria to be used, and whether price is likely to be the prime consideration.

Procurement method

1. Traditional procurement

2. Design and build procurement

3. Private Public Partnership (συμπράξεις δημοσίου και ιδιωτικού τομέα)
**Private Public Partnership (Συμπράξεις Δημοσίου και Ιδιωτικού Τομέα)**

- This procurement method refers to the collaboration between public and private sector in order to achieve financing, management or maintenance of a project or the provision of services.

- Public and Private sectors cooperate in the following sectors:
  - transport,
  - public health,
  - education,
  - safety,
  - waste management,
  - water supply and energy

- A PPP project is not different from the others. It is the financing of the project that is different.

- The Private sector:
  - is responsible to provide the whole, or part of the project financing
  - is responsible for the risks that are related to the construction or operation of the project.
  - Has long term benefits from the project

- The Private sector is responsible for:
  - design of the project (or part of the design)
  - construction of the project
  - financing of the project
  - management and operation or maintenance
  - Return of project to the public after the completion of the contract period

**Procurement method**

1. Traditional procurement

2. Design and build procurement

3. Private Public Partnership (Συμπράξεις Δημοσίου και Ιδιωτικού Τομέα)

4. Concessions

**Concessions (παραχωρήσεις)**

- It is really a division of the PPP

- PPP Projects:
  - The private financing is paid with the 'use of the project' by the private sector for a specified period (e.g. The use of payment by users of a road to pay off the cost of the project)
  - The construction of public buildings such as schools where the private sector cannot 'use the project' in order to gain profit to pay off the financing of the project.

- The difference between a PPP and Concessions is that with the latter, the private sector is using the project in order to make money to pay towards the financing of the project.

- The private sector (businessman) gets his profit by ‘using the project’.

**Contract type**

<table>
<thead>
<tr>
<th>Contract type</th>
<th>Risk</th>
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<tbody>
<tr>
<td>Design and build</td>
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<tr>
<td>Traditional lump sum Fixed price</td>
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<tr>
<td>Traditional lump sum Fluctuations</td>
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<tr>
<td>Traditional measurement Bill of Quantities</td>
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<tr>
<td>Traditional cost reimbursement Cost plus fixed fee</td>
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<tr>
<td>Traditional cost reimbursement Cost plus percentage fee</td>
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<tr>
<td>Advantages Disadvantages between Procurement methods</td>
<td>Traditional procurement method</td>
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<tr>
<td><strong>Advantages</strong></td>
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<tr>
<td>1. The Employer can control and determine at each stage of the design, the final design – outcome.</td>
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<tr>
<td>2. Very high standards in relation to architectural design and quality of materials used for the project.</td>
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<tr>
<td>3. There is a lot of experience with this type of procurement method.</td>
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<tr>
<td><strong>Disadvantages</strong></td>
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</tr>
<tr>
<td>1. It takes a long time before the project can start due to the selection of the consultant engineer, the time needed to carry out the design, selection of contractor.</td>
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<td>2. High risk for the Client if there are mistakes in the design of the project.</td>
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<td>3. Often, there are delays in the project and it exceeds the budget.</td>
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<thead>
<tr>
<th>Advantages Disadvantages between Procurement methods</th>
<th>Design and build method</th>
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<tbody>
<tr>
<td><strong>Advantages</strong></td>
<td></td>
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<tr>
<td>1. It usually takes less time to complete a project due to only having 1 selection process (designer and contractor being the same) and also due to the fact that design and construction may overlap.</td>
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<tr>
<td>2. The designer has an incentive to produce an economical design.</td>
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<td>3. Gives the opportunity to introduce new technologies and innovative design.</td>
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<td>4. The contractor is responsible for the risk related to the design.</td>
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<td>5. There are fewer changes and ‘demands’ from the designer at the construction phase.</td>
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<td>6. It does not usually exceed cost and/or time.</td>
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<tr>
<td><strong>Disadvantages</strong></td>
<td></td>
</tr>
<tr>
<td>1. More difficult to achieve high standards in architectural design and general appearance of the project.</td>
<td></td>
</tr>
<tr>
<td>2. The contract price may be higher due to the high risk the contractor has.</td>
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<tr>
<td>3. More than one design since the design is done by all the tenderers.</td>
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</table>
Advantages Disadvantages between Procurement methods

Public Private Partnership

Advantages
1. The Public sector gains the advantages the private sector offers such as: ability to design, construct, manage and finance a project.
2. Public money is better used and at difficult economic periods for a government, this method is good.
3. They promote and help the innovation in the public sectors with the transfer of knowledge and new techniques.
4. Better quality infrastructure and better operation throughout the life of the project (maintenance of the project by the private sector).

Advantages
5. More efficient and more economical maintenance of the project.
6. Reduction of the construction cost and maintenance of the project.
7. Use of private sector in areas where there are ‘weaknesses’ in the public sector such as:
   - Lack of expertise and qualified employees, no ability to promote new technoeconomical solutions.
   - Lack of efficient and effective use of human resources
   - Lack of sensitivity and knowledge and expertise in the use available energy sources

Disadvantages
1. The ‘use’ of the project by the private sector (for example payment by users of a new bridge every time they go through the bridge) is difficult for low income people. However, this way has the advantage that only the users pay and not the tax payer.
2. In some cases, there may be in the contract some clauses or provisions which may:
   - not aim at the public interest but at the increase of the profit of the private investor
   - allow monopoly
   - Allow the private sector to alter/increase the price of a service or a product after completion of a project
3. Vital infrastructure or important operations are operated by the private sector.
4. By reducing the cost of a project, there is a danger that the quality of the works may be affected.
5. Generally, the public sector can get cheaper loans than the private sector.