

Construction File –

Fair Markups on Changes to the Work

The impact of changes in the scope of work – both time and money – is probably the single most disputed issue in construction. Therefore, in order to keep the project moving toward completion, the contractual provisions governing changes must be fair as well as effective in encouraging the timely resolution of cost and time issues.

However, feedback from contractors is that change order markups are a major issue. Two decades ago, the discussion about markups on changes to the work was not as intense as it is today. What has changed?

Although incomplete drawings and specs are not the sole cause for there being changes on construction projects, contractors today estimate that 20-30% of their end contract is comprised of change orders for that reason. This is borne out in reports provided by independent consultants as identified in our previous Construction File on the [Pitfalls of Incomplete Contract Documents](#).

When providing a price, contractors expect that the contract documents are complete and accurately reflect the project requirements, and that any changes, errors or omissions will lead to a change order with commensurate adjustment to both the contract price and project duration. The competitive environment means contractors and their subcontractors are understandably reluctant to add allowances to their tendered price, recognizing that adding any costs increase the risk that they will not be low bidder.

Complete contract documents are the responsibility of the owners, but the contractors are often negatively impacted by a lack of adequate mark-ups on changes to the work specified in Contract Documents. In some cases, the specified artificially-low mark-ups do not even cover the cost of putting together change order pricing. Also, keep in mind that when changes do not proceed, the contractors receive no compensation for work done to price the proposed change.

Contractors are sometimes seen as being aggressive in the pursuit of change orders, while the reality is most contractors would much prefer not to have any.

What are fair mark ups on changes to the work?

In discussions with Owners, Design Professionals and Contractors through the BC Documents Committee, BCCA has agreed in BCDC 2, 2013 on the following as a Supplementary Condition to CCDC 2, 2008; GC 6.2 Change Order, add a clause 6.2.3:

The following shall determine Contactor markup on Change Orders by percentage:

1. To the cost of the *Work* performed by the *Contractor* directly, the *Contractor* may add a maximum of 20% markup for overhead and profit combined.
2. To the cost of the *Work* performed by *Subcontractors* for the *Contractor*, before the *Subcontractor's* markup, the *Contractor* may add a maximum of 10% markup for overhead and profit combined.

3. On Work deleted from the *Contract*, not covered by unit prices, the credit to the *Owner* shall be the cost of the Work as set out in GC 6.3 – CHANGE DIRECTIVE, article 6.3.7.
4. For a detailed list of what the *Contractor* may include in the cost of the work before adding markups, refer to GC 6.3 CHANGE DIRECTIVE, article 6.3.7.

How are Subcontractor and Supplier mark-ups determined?

CCDC 2, 2008, GC 3.7.1.2 says that *‘the Contractor shall incorporate the terms and conditions of the Contract Documents into all contracts and written agreements with Subcontractors and Suppliers’*. Hence, the Subcontractors and Suppliers would merit the same markups as noted above.

It is unreasonable to assume that a contractor can survive at a low markup. As the market continues to evolve, the contractors will evaluate the state of the tender documents, the owner history and Supplementary General Conditions (in particular markups on changes to the work) and may opt not to bid, or to bid with margins that include contingencies to ensure profitability.

The result may be inflated bids intended to minimize risk, resulting in contract prices which will not benefit an owner. Hence, unfair bidding conditions such as unreasonable markups are not in the best interest of the tax payers. Implementing fair practices for changes to the work is sound policy.