

# The 2012 Olympics- Time to pick up the pace?



July 2006

**July 6 marks the first anniversary of London's announcement as the host city for the 2012 Olympic Games. The initial flurry of excitement has died down and with one year gone and just six to go before the big day arrives, the industry is asking whether London will be able to deliver a truly world-class event and what major hurdles will need to be tackled along the way.**

## Progress to date

While construction work on the principal projects has yet to get underway, significant progress has been made in several areas. First and foremost, the Olympic Delivery Authority (ODA), responsible for the planning and delivery of the venues and facilities, has been established by the London Olympic Games and Paralympic Games Act 2006 and is now nearly at full operating complement. The ODA will act as a thin client for the construction programme and will be supported by a Delivery Partner - a programme management organisation with the skills and resources to lead and manage the overall programme. This organisation is currently being procured and an appointment is anticipated in late August.

Land acquisition is well underway and around 90% of the required land in the Olympic Park is now either publicly owned or on the way to public ownership. Work has started on the first major project, to transfer the two high-tension power cables that cross the Olympic Park into deep bored tunnels, and contracts have been let for the remediation of the contaminated land that is widespread across the site.

The Park master plan has been revised and measures are now being put in place to procure the design teams to tackle the various venues and other facilities needed, not only in the Olympic Park, but also at the many other venues across London and the UK.

With the people and organisation in place, by September the ODA should be in a position to start procuring the venue design and we anticipate seeing a significant volume of business coming to market from September onwards.

While timescales are undeniably short it is unthinkable that London will not deliver the Olympic venues and infrastructure on time. In our view, the real risks faced by ODA are cost, quality and functionality.

# London 2012

## Cost

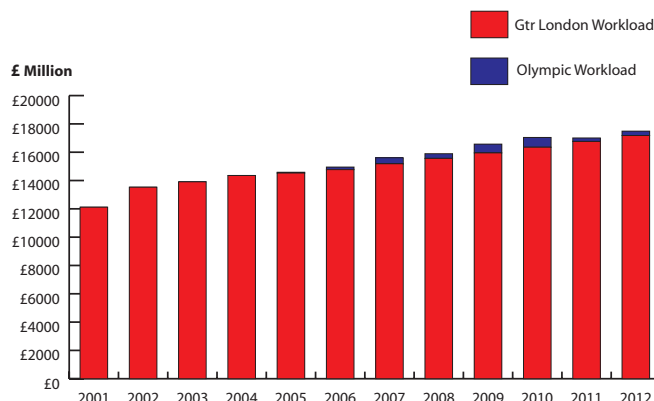
We believe that cost escalation is the biggest single risk. Experience of other games and similar events indicates that as time progresses, increasing volumes of resources have been applied to overcome obstacles and costs have risen accordingly. We believe that the ODA will need to apply very sophisticated cost control methods to keep budgets on track. Our experience of major projects such as Heathrow Terminal 5 has shown that this is not only possible, but essential.

Our current view of the impact of the Olympics on the construction market is that there will be pressure on skilled labour resources and materials supply in the south east, leading to higher tender prices, but we do not believe there will be significant inflation of construction costs.

The additional construction workload arising from the Olympics has been calculated to be some £2 to £2.8 billion, to be delivered between 2007 and 2012. This should be compared with the £80 billion of output from the construction industry in 2005, approximately 30 per cent of which was in south east England. In terms of volume, therefore, the Olympics will effectively add around 1.5 to 2 per cent to workload in the south east region, see Figure 1.

Whilst we should not be complacent about these figures, it should be borne in mind that a number of major schemes currently on site will have come to an end as the Olympics construction programme is starting up. These include the £3.5 billion Channel Tunnel Rail Link - due for completion in 2007,

and Heathrow's £4.5 billion Terminal 5 - due for delivery in 2008. The completion of these schemes does not, however, create a void in activity since the industry has a number of other long-term schemes in the pipeline, including the M25 widening (£1.3 billion), Thameslink (£3 billion) and the East London River Crossing (£0.4 billion). Meanwhile, the development of the Thames Gateway is programmed to last until 2016 and cost £6 billion.



**Figure 1.**  
*The graph above shows London workload projected at an annual rise of 2.5% p.a. with the effect of the Olympics workloads superimposed on the normal workload pattern. The Olympics workload peaks in 2010, falls considerably in 2011; there is then a substantial increase in the first months of 2012, mainly based around the provision of temporary facilities.*

## Labour and Materials

Labour skills shortages are a perennial problem in the construction industry and the RICS has calculated that the Olympics will create 150,000 jobs - although not all in construction - over the next seven years. Despite an apparent ready source of Eastern European labour, constraints on the supply of suitably skilled workers may create problems in delivering the Olympics programme - although skills training programmes for local people will help to alleviate this.

Recent experience with building large scale schemes to a fixed deadline, such as the Jubilee Line and Wembley Stadium, have demonstrated the kinds of problems that can be experienced in labour supply and industrial relations. On the other hand, the Terminal 5 project has shown that it is possible to address these issues effectively. There, the policy was to enter into constructive engagement with the unions and trade representatives from the start. As a result, there was a proactive approach to resolving issues and minimal hours have been lost in dispute. Given the size and complexity of the Olympics projects, a similar approach to labour is desirable.

Shortages of skilled labour are a problem that has dogged the industry for years. Apart from the odd hiccup, materials supply, on the other hand, has created few insurmountable problems. The pull on resources due to the Olympics will almost inevitably create some short-term materials shortages that will lead to price spikes. To put this into context, however, although estimates that the Olympics will use some 250 - 300,000 tonnes of steelwork sound dramatic, this

translates into approximately 2.1 - 2.5 per cent of total UK steelwork demand.

Similarly, the estimated demand for 200,000 m<sup>3</sup> of concrete sounds considerable but it is less than one per cent of current total UK demand.

While the procurement process for venues construction is not yet known, it is to be hoped that modern methods of construction will be adopted for the delivery of the Olympics programme. Given the buying power inherent in a scheme of this size, setting up some form of centralised logistics system should be one of the first requirements. There are likely to be up to 7,000 people on the main site during peak construction, and this, coupled with the huge volume of equipment and materials that need to be moved on and off the secure site, means that procurement and logistics will need very sophisticated and careful planning. This will deliver certainty of supply through centralised buying, bulk purchasing, establishment of key suppliers, securing the supply chain and securing component supply.

We believe that off-site assembly and other innovative solutions will make a valuable contribution to overall efficiency. Construction of the 5,000 plus accommodation units for the Olympic village is a prime candidate for some form of manufacturing system building, and the many temporary and demountable facilities should provide extensive scope for pre-fabrication.

## Effect on construction prices

Although some enabling contracts have already been placed, workload around the Olympics will really start to kick in from mid-2007 and the workload profile shows that most of the work will be finished by mid 2011, before a late surge in late 2011/early 2012 to deliver the temporary facilities - the "overlay".

Prior to the announcement that London had won the Games, the expectation had been that pressures in the economy generally would lead to a slowdown in the rate of construction tender price escalation. However our view now is that the London Games will lift tender price inflation in London and the South-East by some 1 to 1.5 per cent, to show increases of approximately 5.5 - 6 per cent over the next five years, with little chance of a slowdown thereafter until after 2012.

## Delivering the legacy

The emphasis on the legacy benefits derived from the Games played a large part in the London bid and this has become a central theme for Olympic and other games projects world-wide.

The impact of the Games and the Olympic Park on the local community - currently one of the most deprived in the UK - is potentially very positive. The difficulty, however, is to ensure that the legacy is socially inclusive rather than exclusive, and that it meets the needs of the community in terms of employment, housing, infrastructure and economic growth.

In delivering this, the ODA must build venues to meet the requirements of the legacy use in the long term that can be converted to Olympics format in the short term, rather than the other way around. Wonderful though they may be as Olympic showpieces, venues such as Olympic-sized swimming pools and an 80,000 seat stadium in their legacy mode are both too expensive to operate and too large for local use.

The ODA and DCMS are adamant that the legacy benefits must be delivered, but many hurdles lie ahead to work out how to do this cost effectively. To put it in simple terms, our industry must work out how to construct a 30,000 capacity stadium for the long term that can be converted easily and cheaply in the short term to be a well-designed and attractive 80,000-seat Olympic stadium? Whilst we are convinced that designing for the legacy use and then converting temporarily for the Games is the right approach, the two modes present a technical and design enigma.

It would be all too easy to deliver a world-class Olympics but in so doing alienate local people by excluding them from the benefits - the employment opportunities and the economic investment in the area. ODA are looking at ways to include local small businesses in the whole process, so that as much benefit as possible can be derived for local communities. This is no mean feat and will require the extensive involvement of local stakeholders and business groups to design an effective solution.



## Down at the Village

The Olympic Village at the heart of the Park is currently commanding much thought. The issue is not so much how to build the 5,000 or so units for the Village, but how best to convert these following the Games and then release them into the local residential market. Flooding this with new properties could cause imbalances that might impact prices and void rates. Given the long-term use of the Village, the government is keen to involve private sector developers and off-balance sheet funding - perhaps through a joint venture partnership - that will take a longer-term view on realising the value of the new housing.

All this is yet to be finalised and there will probably be a blend of solutions, but whatever the final decision it is crucial that all the possibilities are considered now and the legacy requirements are factored in at the design stage.

## The finishing line

So, will we make the finishing line in good shape? Good progress has been made so far, but we must not become complacent. The scale of the overall programme, the volume of work and the short timescales involved present obstacles that should not be underestimated. We are in little doubt that our industry will rise to the challenge and will deliver the venues and facilities on time, but this will tax us all and to do so at a realistic price will require extensive innovation and teamwork.

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