

Dirk von Plessen

**The procurement strategies for  
the Olympic Stadium and  
the Aquatic Centre for  
the London 2012 Olympic Games**



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## **Nomenclature**

<b>ODA</b>	–	Olympic Delivery Authority
<b>CLM</b>	–	CH2MHill, Laing O'Rourke and Mace
<b>OGC</b>	–	Office of Government Commerce
<b>NAO</b>	–	National Audit Office
<b>LOCOG</b>	–	London Organising Committee for the Olympic Games

# **1 Introduction**

The introduction of this thesis details the background information to the subject area, my motivation for the study and the research objectives. It also defines the limitations and the significance of the study and finally, an overview of each chapter is presented.

## **1.1 Background information**

The International Olympic Committee announced on the 6<sup>th</sup> July 2005 that the Games of the 30<sup>th</sup> Olympiad in 2012 will take place in the city of London.

Three years later, a lot of preparation work has already been done to get London ready for hosting the world's most prestigious sporting occasion. Over 192 buildings have been demolished, one million cubic metres of soil excavated, two six kilometre tunnels and 200km of cabling are completed, and most of the contractors for the new sporting facilities are appointed.

The Olympic Park will be at the centre of this large development project and spans two million square metres of the Lower Lea Valley in East London. Most of the new build venues and sporting facilities will be sited here; amongst them are the two flagship venues the Olympic Stadium and the Aquatics Centre.

At the heart of the park will be the Olympic Stadium. The brief for the stadium published by the Olympic Delivery Authority (ODA) outlines the venue as a spectacular 80,000-seat arena for the Olympic and Paralympic games, which is to be designed to host the athletics competitions and the opening and closing ceremonies. The masterplan for the stadium calls for the conversion of this structure into an athletics-led venue with capacity for 25,000 spectators after the games.



Graphic No 1-1: The Olympic Stadium for the London 2012 Olympics (Building 2008)

The Aquatic Centre, to the southeast of the park, contains two 50m pools and a 25m diving pool with seating for approximately 20,000 people. After the games, the capacity will have to be reduced to 3,500 seats and the centre's facilities made available to the local community. The building will then have to house a new health and fitness centre as well as facilities for nearby sports clubs.



Graphic No 1-2: The Aquatic Centre for the London 2012 Olympics (Building 2008)

The construction and operation of these sports facilities for the Games will be undertaken by the London Organising Committee of the Olympic Games (LOCOG). The delivery of the venues in time, within budget and to the required standard, however, is the responsibility of the Olympic Delivery Authority (ODA). The ODA is a non departmental public body and acts in essence as the delivery organisation for all the construction activity.



## **1.2 Motivation for the study**

The rather difficult task which the ODA is facing is to deliver the above-mentioned facilities to an immovable deadline, to stay within budget, and at the same time to deliver the venues with astonishing design and build quality. These are the main criteria against which the success of this project will be measured.

Additionally, this enormous project is exposed to great political pressures and regulations. EU & National regulations for procuring the venues apply and commitments such as 'Value for Money' are to be considered by the ODA when making its procurement decisions.

With this in mind, the ODA have decided to procure the Olympic Stadium and the Aquatic Centre under the Design & Build route. For both venues the ODA has announced to use the New Engineering Contract (NEC) target cost contract.

Based on these procurement decisions and on the comments made by Tessa Jowell, the Olympics Minister, that the main schemes in the Olympic Park will not be designed a debate has started between leading architects and the ODA. The argument is about the role of the design in the procurement of the Olympic venues and the way the ODA goes about selecting its preferred contractors.

Jack Pringle, the RIBA president, states that the use of Design & Build contracts would compromise the quality of design (Building 2006). He openly criticised the ODA strategy for the use of Design & Build contracts and said that "It is important that the process is not contractor-led, the crude old Design & Build....let's not sacrifice games excellence on the altar of the crudest form of reliable delivery" (Building 2006). Jack Pringle further argues that the ODA is acting too cautiously and by putting risk factors ahead of design at this early stage does not show a great deal of confidence (Building 2006).

In addition, Lord Rogers declares that the Design & Build contracts will lead to venues without design flair. He claims, "Every Olympic Stadium I can think of went through a design-led procurement process and I don't know why London is not doing the same. There is no proof that Design & Build contracts are cheaper in terms of value." (Sherwood 2006)

The other unpopular decision made by the ODA was to scrap the shortlist of contractors for procuring the Olympic Stadium and to go with only one bidder. The original plan for procuring the stadium was to select a preferred contractor via a short list of 3 to 6 bidders, which would help the ODA to work out the design and scope of the project.

However, the ODA decided not to go with this shortlist. Many consultants argue that this procurement decision will not only lead to a compromised design for the stadium but also to raising costs due to the absence of competition.

When looking at the procurement process for the Aquatic Centre a similar situation can be found. Despite the fact the ODA entered into a competitive dialogue with a short list of three contractors, two of them have abandoned the negotiations before any tenders could be submitted, leaving the ODA again with only one bidder for this project.

Matthew (2006) supports the above argument concerning costs by saying that it is unimaginable that London will not deliver the Olympic venues and infrastructure in time. He suggests that the real risks faced by the ODA are cost, quality and functionality and says that “Cost escalation is one of the biggest single risks. Experiences of other games and similar events indicate that as time progresses, increasing volumes of resources have been applied to overcome obstacles and costs have risen accordingly.” For that reason, not having any competition in terms of price and quality seems to be a controversial decision in what is regarded one of the largest and most complex construction projects in the UK.

An auditor of the National Audit office (NAO) also shares the concerns about rising costs for the infrastructure spending in the pre-games period and says that uncertainty remains over price inflation and how much contractors will charge for the construction of the venues (NCE 2007). The Public Accounts Committee report, published in April 2008, agrees with the above and suggests that contracts should have been awarded based on effective competition between suppliers (NCE 2008).

This debate about rising costs is not unfounded under the light of the development of the total budget for the Games in the recent past. The overall budget for the Olympic Games submitted with the bid to the International Olympic Committee (IOC) was £2.4bn, back in 2004. The figure then rose to £6bn just one year after the games were

awarded to London in 2005. In December 2007, Tessa Jowell has announced the final figure of £9,325bn.

These spiralling costs are also reflected in the development of the budgets for the individual projects. At the bidding stage for the Olympic Games in 2005 the Aquatic Centre was estimated at £73 million. Two years later the budget figure rose to £215 million. Balfour Beatty, as the sole bidder, then submitted costs totalling £230 million and now the cost is agreed at £242 million. The Olympic Stadium was originally priced at £280 million in London's bid document in 2005. In 2007 a final figure of £496 million was announced and only a few months later this estimate has risen to £525 million.

These debates and cost developments have paved the way for this dissertation. The scope of this study, the hypothesis and the main research objectives are outlined below.

### **1.3 Scope and aim of present work**

It is clearly apparent from the above paragraphs that in the Pre-Olympic phase (2005-2011) the construction of the Olympic venues will be at the centre of public attention, and scrutiny. Construction industry practices will be placed under the microscope in the time leading up to the Games, especially the ODA's developed and introduced strategy for procuring the infrastructure.

The study aims to determine [hypothesis] whether the procurement strategies chosen by the ODA are the right choice for delivering the two main venues in the Olympic Park in time, on budget and to the required quality.

In order to answer this question, the approach of this study is to undertake extensive research in the subject area of construction procurement and to identify best practice in making procurement decisions for a project. In particular, the procurement strategies chosen by the ODA will be researched and their shortcomings identified.

Based on this theoretical framework, the author will be able to undertake a systematic analysis of the decisions made by the ODA to procure the two most prestigious venues in the Olympic Park. As a main part of this analysis the author will conduct semi-structured interviews with key people involved in the Olympics and with experts of

the industry. Both the literature review and the interviews will help to achieve the main research objectives of this study, which are summarised below:

- Obtain a better understanding of construction procurement and the key areas affecting the project success
- Identify best practice in selecting a procurement method and to make out the pitfalls and the shortcomings of the procurement strategies that are used for both venues
- Understand why these procurement decisions were made and identify if best practice was followed by the ODA during its procurement process and if the pitfalls of the chosen strategies were counteracted
- Determine if the chosen procurement strategies fit the client & the project

#### **1.4 Limitations of the study**

Despite the above objectives it is understood by the author that whilst the procurement strategy is an important determinant for project success, other factors, such as construction performance, client-contractor relationships, transaction cost and supply chain management will also play an important role in delivering these projects within the set parameters. Such factors could not be taken into consideration due to the university guidelines that apply to the scale of this study.

#### **1.5 Significance of the study**

The significance and importance of this study cannot be underestimated, as this study will effectively test the procurement decisions made by the ODA. The author feels that it is important to question the approach to such projects taken by the government, especially when a large amount of taxpayers' money is spent. Recent national and international examples that have experienced underperformance and as a result have wasted large amounts of public money are the Quebec Olympic Stadium, the 2004 Olympics in Athens or the Scottish Parliament building in Holyrood. It is therefore believed that this study will help to increase the understanding for the procurement decisions made by the ODA and to establish their effectiveness in helping to deliver the two main venues successfully. This has not been done before for these two projects.