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Review of the Tram Funding Strategy

Report to City of Edinburgh Council

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1.0 Introduction

DTZ was appointed by City of Edinburgh Council (CEC) in November 2007 to review the Council's funding strategy for the Edinburgh Tram Project. This review took place following a Council meeting to approve the Final Business Case for the Tram. The aim of the review is to provide an independent opinion on the achievability of the Council's contribution to the total project costs.

Tram lines one and two received Royal Assent in March and April 2006 respectively. Line 1 is a northern loop while Line 2 runs east-west. The two lines have been split into the following phases:

- Phase 1a – Edinburgh Airport to Newhaven (via Princes Street)
- Phase 1b – Haymarket to Granton Square (via Roseburn corridor)
- Phase 2 – Granton Square to Newhaven
- Phase 3 – Edinburgh Airport to Newbridge

Phases 1a and 1b are the subject of the current review. Project costs for Phase 1a as at September 2007 are £498 million. The project is to be funded 8.26% by CEC and 91.74% by Transport Scotland. Transport Scotland's contribution is capped at £500m with the Council meeting all costs above this level. Total funding available is £545 million. A separate decision will be made about Phase 1b.

The Council aims to raise its share of the tram funding from the sources shown in Table 1. These sources indicate a mixture of Council cash, development land and developer contributions. More than half the money is to come from developer contributions.

Table 1: Sources of funding for the Council's contribution to the Tram Project

Contribution	September 2007 (£m)
Council Cash	2.5
Council Land	6.2
Capital Receipts (inc Development Gains)	9.7
Developer Contributions – Cash Developer Contributions - Land	25.4 1.2
Total	**45**

Source: City of Edinburgh Council

The purpose of DTZ's report is as follows:

- to review the achievability of the levels of contribution in the table
- to assess the risks associated with the funding strategy
- to review the Council's approach in dealing with the various risks
- to draw conclusions on the overall funding strategy.

The remainder of this report discusses the points above in discrete sections.

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2.0 Review of Funding Sources

This section reviews each different funding source as part of the overall funding strategy and comments upon the main assumptions used and the achievability of the totals put forward. The funding sources are reviewed in order of scale of contribution according to Table 1 above.

Council Cash (£2.5m)

The Council contribution of cash is split between last financial year (£1m) and the current financial year to March 2008 (£1.5m). This cash amount has been allocated from the Council's capital investment programme towards preparatory costs of the Tram project. It is in addition to Council staff costs. There is therefore little risk associated with the cash contribution and it is a small part of the overall Council contribution at 5.5%. We conclude that this amount is achievable at low risk.

Council Land (£6.2m)

The planned tram route will run along a mixture of adopted roads, acquired land and Council-owned land that has been safeguarded for transportation. The areas of Council land safeguarded for transport have been valued by the District Valuer under Compulsory Purchase Orders on a 'no-scheme' basis (in other words, there has been no increase or decrease in valuation of the land to reflect its proximity to the tram).

The value of these areas of land amounts to £6.2m. This sum forms an in-kind contribution from the Council. Post tram construction, should any of these areas of land not be required, they may be sold for development and will transfer to the 'Capital Receipts' heading below. DTZ has not reviewed the individual site valuations nor tested assumptions with planning officials. However, this sum has been arrived at on a professional valuation basis by the District Valuer. DTZ considers that this opinion will be broadly correct based on available assumptions.

Capital Receipts (£9.7m)

In addition to the 'Council Land' heading above, the Council has identified sites in its ownership that will be released for development as a result of tram construction. The plan is to release most of these sites for residential development in order to achieve maximum value.

DTZ has reviewed each of the sites relevant to Phase 1a including the assumptions put forward by the Council. The table below lists each site, its area and the Council's assumptions on densities and gross values. Alongside is DTZ's opinion of gross values. DTZ assumes that all of these sites have been discussed informally with the planning department. DTZ's view is as follows:

- We agree with the densities put forward except for Balgreen Nursery where further work would be required to validate the density. There will be noise issues given its location beside the railway plus there are substantial flood risk and access issues. Having visited the site, we conclude that it would benefit from consideration of a combined redevelopment with the bowling greens (CEC ownership) and the Balgreen Primary School. At the current time we have reduced the total site capacity to 48 units, but a combined redevelopment would unlock more value.

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- We believe the gross unit values put forward for Broomhouse, Constitution Street Yards, and Leith Garage 1 could all be exceeded. The Council has been conservative in the values allocated.

- We believe that the Bankhead Drive site would be ideal for affordable homes delivered by a registered social landlord and our gross value is made on this basis -- above the level made by the Council.

- We believe that an office development at Greenside is too speculative to include in the figures without further investigation due to the complexity of the site. . However, we do agree that there is scope to consider an iconic building of some kind as 'Top o' the Walk'. This would lend itself to a design competition.

Table 2: Council land forming potential development sites along with DTZ values

No. (Plot)	Site Name	Area (acres)	Density per acre	CEC Gross Unit value (£)	CEC Gross Value (£m)	DTZ Gross Value (£m)	DTZ Gross Unit Value (£)	DTZ assumed unit size (sq ft)
1 (162)	Broomhouse	3.17	60	25,000	4.755	6.09-6.66	32,000-35,000	700
2 (36)	Constitution Street Yards	1.81	80	25,000	3.62	5.79	40,000	650
3 (15)	Leith Garage 1	1.43	80	48,000	5.76	5.95	52,000	700
3a (15)	Leith Garage Listed building	-		-	0.60	0.60	-	-
4 (174)	Bankhead Drive	1.06	-	-	0.10	0.2-0.3	10,000-15,000	650
5 (120)	Balgreen Nursery	3.13	25	50,000	3.91	2.40	50,000	700
6 (2)	Greenside	0.62		-	5.02	0	-	-
	TOTAL		-	-	23.765	21.03-21.7	-	-

Source: City of Edinburgh Council adapted by DTZ

In arriving at net figures, the Council has included for affordable homes, tram and other contributions. In addition, a substantial risk factor has been applied. This means that the £9.7m

figure is net of risk and in DTZ's view it should be achievable even without any development at Greenside.

DTZ's view is subject to the following caveats:

- Development model testing should be undertaken to verify values
- Planning gain beyond affordable homes remains to be identified
- Residential sites are subject to market demand fluctuations. Possible changes to policy such as affordable homes requirements will alter the valuation basis.
- Flood risk, noise and ground conditions would all need further investigation

Developer Contributions – Cash (£25.4m) and Land (£1.2m)

The bulk of developer contributions (£25.4m) will be in cash. This amount will be generated through developer contributions on, or after, planning permission being awarded on sites within the vicinity of the tram.

The Council has developed a detailed set of guidance specifically for tram contributions. This guidance has been in existence since 2004 and has been amended several times to provide clarification and to update the contribution levels in line with the BCIS all-tender price index. The key points to note with regard to achievability of the amounts forecast are:

- Contributions will only apply to developments within 750 metres of the tram
- There is a sliding scale of contributions from 250m, 500m and 750m reflecting the fact that developments closest to the tram will pay more but receive more benefit.
- The contributions requested are not excessive, for example, a 70 unit development within 250 metres of the tram will contribute £132,000, or £1,885 per unit.
- Major developments across the city will negotiate tram contributions on a case by case basis.
- The guidance is already in operation. The Council has already received funding of £2.2m in cash with a further £6.5m in the planning pipeline.
- Crucially, legal advice given to the Council allows it to go on collecting contributions as long as the need can be justified by borrowing costs. This time period can be beyond completion of tram construction as long as the Council is still paying off the costs of the tram.
- At the current time, the Council has budgeted to receive the £25.4m in cash over a 20 year period to 2028. Excluding the £5.4m received or in concluded legal agreements, this equates to £1m per year.
- £935k was measured by Dundas & Wilson as the annual level of developer contribution to the tram in 2004/05 with Colliers estimating a potential annual contribution of up to £1.25m

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for both lines one and two over the next 15 to 20 years. The £1m annual contribution is therefore supported by two independent parties outside the Council.

We believe that the guidance on tram contributions is likely to be a robust instrument through which to collect developer contributions.

In terms of developers land, the £1.2m budgeted is already concluded in legal agreements (Section 75). This amount can therefore be considered achievable and relatively low risk. It forms only 2.7% of the Council contribution.

The city has historically seen around 1,200 residential units coming forward per year rising to 1,800 up to 2005. Given that most housing supply is forecast to come forward from the waterfront area and 96% of sites are brownfield, the performance of the brownfield land cycle will be critical. Edinburgh could be in a down cycle for the next 3-7 years after which a recovery might be expected. On this basis, a 20-25 year time horizon is the right timescale over which to consider contributions.

The performance of the construction cycle is also important with construction price inflation currently running at 9% and more for complex buildings. Many of the waterfront buildings are complex and we have seen instances of costs increasing by 18%.

The Leith Docks Development Framework (LDDF) anticipates 28,000 houses over a 20-30 year period predicated on high density, sea wall repair, tram investment and a level of value adequate for Forth Ports plc. In the past, this value has been £50k per unit land sales based on 750 sq ft units. A more realistic value is now £35k due to higher build costs. Going forward, it is likely that Forth Ports will need to sell smaller parcels of land to control costs and maintain values.

On this basis, there is some risk attached to the figures put forward by the Council for the LDDF. These account for nearly 70% of the anticipated potential future developer contributions.

DTZ has reviewed the developer cash contribution assumptions put forward by the Council and these are analysed in the Table below excluding the LDDF. From our own knowledge of the developments happening across Edinburgh, we conclude that the likelihood of achieving the totals set out here is high or very high. Most of the amounts here are likely to be secured within the next 5 years with the exception of WEPF, Princes Street and 'other development' which will take longer.

Table 3: Tram Developer Contributions analysed by likelihood (excluding LDDF)

Developer Contributions	Amount (£m)	Likelihood
Cash in the bank	2.2	Confirmed
Amounts in the planning pipeline (legal stage)	3.2	Very high
Amounts in the planning pipeline (MTG)	3.4	High
St James Centre redevelopment, Haymarket, Princes Street, Tynecastle, WEPF	11.4	High
Other development	1.9	Very high
Total	**22.1**	-
Target	**25.4**	

Source: City of Edinburgh Council adapted by DTZ

Given that Table 3 excludes the LDDF, the Council can take comfort from the fact that:

- £9m is almost collected already comprising over a third of the target
- A further £7m is well on the way (St James, Haymarket, Tyncastle and some other developments)
- The balance of £9m should be achieved from a combination of WEPF, LDDF and other speculative developments.

We conclude that the £25.4 million will be achievable over the 20 year horizon, with much achieved in the early years and that the Council has taken a prudent approach to calculating the likely level of contributions.

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3.0 Risks associated with the Funding Strategy

This section reviews the main risks associated with the funding strategy and the Council's approach to dealing with these risks.

3.1 Construction Costs

The most obvious risk for any major construction project is cost overruns. Cost overruns would have a major impact on the Council contribution as it is the funder of last resort above the £500m level. Overruns can result from a number of sources, the two obvious ones being unexpected design or delivery problems which may lead to unexpected costs and secondly, delays in the construction programme. With construction price inflation currently running around 9% per annum, a delay of a year could add almost £50m to the project cost.

Construction cost overruns have become such a problem that the UK government has conducted extensive research into the source of overruns and identified guidance to deal with what it calls 'optimism bias' – the tendency to under-estimate costs and be over-optimistic about major project delivery.

It is clear that the Tram Project has been subjected to a very high degree of scrutiny with regard to costs. A number of actions have been taken to minimise the likelihood of cost overruns and to provide for overruns should they occur.

In particular, we would highlight the following steps:

- Procurement strategy was approved by the Auditor General for Scotland and took account of the National Audit Office report on the effectiveness of light rail schemes (2004).
- Costs of the Edinburgh Tram project were based on cost outturns for other major similar projects across the UK.
- Tram vehicle and infrastructure costs are based on fixed bids, though further design work on infrastructure is yet to be finalised and this may impact slightly on costs.
- Utility diversions are based on the MUDFA contract which contains measured rates.

The major unknowns at this stage are the final levels of compensation, finalised infrastructure costs and final utility diversion costs. The project costs include for all of these items.

In terms of risk allowances, the project includes £49m which is 10% of Phase 1a. In addition, Phase 1b is being treated as an additional risk allowance. On current cost estimates, there are enough funds to complete Phase 1a and half of Phase 1b. A decision on Phase 1b will be made at a later date.

It is outwith DTZ's remit to review the actual project costs. However, a prudent approach has been taken to minimise the potential for cost overruns and to ensure that the project can be afforded by the Council.

3.2 Cashflow

Given the size of sum required, the timing of construction and the uncertainty of the exact timing of cash receipts, the Council will borrow to fund its share of the tram contribution. Clearly the Council needs to be able to make repayments on any borrowing.

The peak construction cost and borrowing requirement is scheduled to occur in 2009/10 at around £12.9m gross. This will result in annual interest payments peaking at £1.6m in the following year.

Peak revenues are expected in the period 2011-2013 through a mixture of capital receipts and developer contributions. Ongoing developer contributions are then anticipated until the costs of the project are fully repaid.

The Council has taken a very prudent approach in forecasting revenues from developer contributions etc. in the early years. It is possible that contributions will be received sooner and interest payments reduced. However, we believe that the scenario presented is realistic.

3.3 Economic Prospects

The long term growth prospects for Edinburgh are strong despite the current credit crisis. Growth is based on expected expansion of financial and business sectors with 2 out of 3 new jobs created in Scotland to 2020 expected to be in the central belt.

Most commentators are agreed that the limiting factors on the Edinburgh economy will be housing and public transport. The tram has the potential to play a key role in improving access across the whole of the city, reducing congestion, commuting times and supporting economic growth.

3.4 Residential Demand

Edinburgh has seen strong demand for housing of all types on the back of a growing economy. House prices are well above the Scottish average of £166,000 at £237,000. Over the period 2001-2005 housing completions in Edinburgh were around 1,800 per annum. This compares to an annual increase in new households of 1,700 per annum. It is likely that the level of housing completions in Edinburgh has held back household growth and fuelled house price inflation. This situation has been exacerbated by speculation by investors.

Over the period 2006 to 2024 the General Register Office for Scotland anticipates population growth of 33,800 (7.3%) and 42,300 new households. Actual figures are already ahead of projections.

It is migration, and its secondary impact upon the birth rate, that is fuelling this exceptional growth. Over the last 3 years, net migration from overseas and rest of UK has averaged 4,800 per annum. More than two-thirds of migrants are 16-34 years of age and, in 2006/07, nearly 40% of 13,090 overseas migrants to Edinburgh were from Poland.

This projected growth will result in an annual household formation rate of 2,300 per annum creating increased demand for housing above the level delivered to date. In other words, there is likely to be strong ongoing demand for housing in Edinburgh creating a substantial level of tram contributions.

3.5 Land Values

Pricing of land in Edinburgh has been kept at a premium due to lack of supply. Notwithstanding the strong demand projected above, land values have dropped back from peak levels, especially in the waterfront area, where developers have struggled to produce profitable appraisals in current market conditions.

Release of any surplus Council-owned land will be beneficial to supply, although this has to be balanced so as to avoid a significant price fall, particularly if house values start to fall.

The market needs to be able to provide enough incentive for developers to bring forward schemes. However, our analysis in the previous section highlights that a substantial level of tram contributions can be brought forward even if the waterfront is slow to build out.

3.6 Planning Policy

Edinburgh's planning policy seeks to deliver the required housing and other development growth within the context of a World Heritage Site, Green Belt, limited availability of brownfield land and significant commuting from other local authority areas. The council has introduced new sustainable design standards and an affordable homes policy.

The Edinburgh waterfront area is identified as the major area of housing growth in the city and the tram is key to delivering that sustainably. At the current time, oversupply of two bedroom flats and undersupply of family homes represents a challenge for the planners and developers in the context of land values and delivering what the market wants.

There has been considerable leakage of 3-4 bed family housing to surrounding counties from Edinburgh. Removal of the Forth Bridge tolls could see leakage to Fife increasing. The Green Belt Review could identify additional land around the city for two storey family home development at lower density.

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4.0 Conclusion

DTZ's conclusion on the review of the Council's tram funding strategy is as follows:

Council Cash (£2.5m) - this amount is achievable and low risk

Council Land (£6.2m) - this sum appears to have been arrived at on a sensible basis, it should be achievable and is low risk being an in-kind contribution.

Capital Receipts (£9.7m) – we are in general agreement with the Council's assumptions but highlight two sites for further investigation; the Balgreen Nursery site and the Greenside site. The risk factor applied by the Council means that the £9.7m should be achievable without any development at Greenside and a conservative level of development at Balgreen.

Developer Contributions – Cash (£25.4m) and Land (£1.2m) - We believe that the guidance on tram contributions is likely to be a robust instrument through which to collect developer contributions. It is transparent and if equitably applied should be acceptable to developers. The amounts to be generated are in line with what can be achieved from the market.

The £1.2m budgeted for developers land is already concluded in legal agreements so can be considered achievable and relatively low risk.

The challenges facing the Leith Docks Development Framework (LDDF) have led us to initially review the developer cash contribution assumptions without the LDDF. We conclude that £22.1m can be achieved with high or very high likelihood.

We conclude that the £25.4 million will be achievable over the 20-year horizon, with the Council having taken a prudent approach to the likely level of contributions.

We have considered the major risks facing the project and conclude the following:

Construction costs - a prudent approach has been taken to minimise the potential for cost overruns and to ensure that the project can be afforded by the Council. The project includes £49m risk allowance which is 10% of Phase 1a. In addition, Phase 1b is being treated as an additional risk allowance.

Cashflow - The Council has taken a very prudent approach in forecasting revenues from developer contributions etc. in the early years. It is possible that contributions will be received sooner and interest payments reduced. However, we believe that the scenario presented is realistic.

Economic Prospects - The long term growth prospects for Edinburgh are strong. The tram will improve access across the whole of the city, reduce congestion, commuting times and support economic growth.

Residential Demand - Projected growth in populations and households will result in strong ongoing demand for housing in Edinburgh creating a substantial level of tram contributions.

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Land Values - While land values in the waterfront area may have dropped back our analysis highlights that a substantial level of tram contributions can be brought forward even if the waterfront is slow to build out.

Planning Policy – we have assumed that planning policy will permit the level of development required to release Council owned sites and we know that the LDDF is within policy. Whilst the tram contributions represent another cost to developers, we believe that they are set at an affordable level that will not restrict development.

In conclusion, we believe that the Council's tram funding strategy is realistic, based on sound assumptions and achievable within the timescales suggested.

~~Appendix 2 Executive Summary of FBCv1~~
~~Appendix 3 Project Risks~~
The risks fall into the following broad categories

a Project Risks (risks affecting the timeous completion of the project within time and budget and to the desired quality)
b Operational Risks (risks affecting the long-term viability of TEL)

Project Risks

1. Between now and financial close there is a risk that the preferred bidder may withdraw from negotiations for a number of reasons, including the potential refusal to accept a novated contract for SDS or Tramco. Tie are working to minimise this risk through negotiations with the final bidder prior to Financial Close.

2. The most significant risks affecting the timeous completion of the project within budget are identified in the FBC as those arising from the advance utility diversion works (MUDFA); changes to project scope or specification; and obtaining consents and approvals.

3. The main risk in respect of utilities is that delays from MUDFA in handing over sites to the infrastructure contractor could lead to claims from the infrastructure contractor and significant additional costs. tie staff are working to minimise this risk by working with both infraco and MUDFA on their respective programmes. There is a further risk regarding the interface between MUDFA and the Scottish Utilities Companies (SUCS). If SUCs fail to approve designs on time, this could delay MUDFA works, which in turn could delay Infraco, leading to claims.

4. The Infraco contract is a fixed price contract, so any scope changes post financial close will have to be implemented using a variation order, which will add costs to the project. It is therefore important that changes are kept to a minimum and to that end; the Tram Project Board has a clearly defined tight change control procedures.

5. It is recognised that designs are not yet complete and some design assumptions may prove to be unworkable (eg using existing materials will only work if these materials are of the right quality). If poor quality designs are built into the contract at contract close and need to be changed at a later date, this will lead to additional costs and potential delay. In order to reduce this risk, further work will be done on the tram designs prior to contract close.

6. Linked to this risk is that designs are of an insufficient quality that Planning Approval is not given and designs have to be reworked and a variation order made to the contract leading again to additional cost and delay. The planning prior approvals programme is expected to be complete by March 2008, which is post contract close. To minimise the risk of planning approval being withheld post contract close, SDS and tie are involving planning staff in the design process so that concerns can be addressed at an early stage.

7. As noted in paragraph 4.3 Value Engineering savings have been built into the cost estimates. If these cannot be achieved, there is a risk that the Infraco will have to be changed, leading to additional costs. To reduce this risk, further work will be done on Value Engineering prior to contract

close, so that only achievable savings will be included within the employers requirements section of the contract.

8. TRO hearing is mandatory requirement under current legislation and financial allowance has been made for this under the risk register. It should be noted that the Scottish Government is consulting on potential changes to the legislation, which if approved would remove the mandatory requirement to hold a hearing, where a project has been subject of Parliamentary Approval.

9. There is a proposed NATO conference in November 2009 in Edinburgh City Centre. Security requirements are likely to result in disruption to the infrastructure works. Hence it would prudent to make some allowance for complying with the as yet unspecified security requirements and disruption to the programme. It therefore proposed to recover any additional costs from the Scottish Government. However there is no guarantee that the cost will full recovered.

10. As noted in the Report to Council in December 2006 that , on the recommendation of tie that the Council is taking a long lease of land rather than outright compulsory purchase on two sites, one owned by Network Rail the other by BAA. There is a small risk that these landowners may seek to impose conditions on the operation of Tram at some future date.

11. There are risks associated with capital costs and with funding. The procurement strategy aims to minimise risk to works costs by placing risks with those best suited to manage those risks. The risk contingency is designed to cover additional unforeseen costs, but it is recognised that there is an element of residual risk of costs exceeding current estimates. It should also be notified that the risk contingency does not cover major changes to scope. The scope of such changes will be reviewed after completion of the Tram works and commencement of Tram operations.

12. In the context of potential cost overruns, it should be noted that the cost of phase 1a (inclusive of risk contingency) is £47m less than the total available funding. This gives additional headroom to manage cost increases in phase 1a. Only when further cost certainty has been achieved for phase 1a and further sources of funding found for phase 1b will a decision be made on whether to commence phase 1b. In order to capitalise on economies of scale a decision on 1b is likely to be made in late 2008/early 2009.

13. It should also be recognised that any decision by the Council or Scottish Ministers to cancel the trams is not free from costs, as costs including compensation to contractors and redundancies at tie, it is estimated this could be between £20m/£30m (dependant on the timing of cancellation) . Transport Scotland has also indicated that should the Council cancel the tram for other than purely commercial reasons, the Council would be liable for the full cost of that decision. Conversely, should Scottish Ministers cancel the project for similar reasons, it is assumed that they would pay for the project termination costs. Transport Scotland have acknowledged this in discussions.

14. The £545m of approved funding also is not completely free of risk. In particular contributions to Tram from developers are of course subject to development activity. However Agreements under Section 75 of the Town and Country Planning (Scotland) Act total some £6.77m to date, with a number of further major contributions in the pipeline.

15. It should also be noted that since tie has no assets that the Council will be called upon to give some form of formal guarantee of tie's contractual obligations. Operating agreements are currently being developed.

Operational Risks

16. Future risks arising from the forecasting process have been examined by the JRC. After recapping on the central or reference case forecasts and the assumptions in these forecasts the Revenue and Risk Report tests the sensitivity of Tram to alternative planning and growth assumptions. The JRC also tested assumptions on the attractiveness of Tram to potential users and on the possible impact of bus competition. The analysis of the JRC illustrates the sensitivity of Tram to development assumptions. The interdependence of Tram and development – especially in north Edinburgh should be noted.

17. A detailed statistical analysis has also been carried out that allows the assessment of the impact of a variety of relevant factors within assumed ranges. The analysis notes the sensitivity of the FBC financial projections. It also re-emphasises the fundamental relationship between the Tram and the continued growth of the City and associated movement demand, and consequently the sensitivity of Tram revenues to planning and economic growth.

18. In mitigation, it should be noted that Lothian Buses' extensive knowledge of the local transport market has been used to inform and validate the modelling process. Passenger growth assumptions are significantly lower than growth Lothian Buses has experienced in recent years.

19. While Council policy can influence planning and economic development there are decisions in the power of the Council and TEL which have a bearing on the outcome for Tram. In this regard the JRC examined the impact of partial completion of Phase 1, the effect of the Edinburgh Airport Rail Link (EARL) and of various detailed operational factors such as the quality of interchange, tram run-times, and bus service integration plans. The recent decision of Parliament to shelve EARL and the associate proposals for a new station at Gogar have not been included in the financial analysis for the FBC but will be positive.

20. The JRC concludes that the most significant risk to Tram arises from the planning growth assumptions (this applies especially to Phase 1b) but that TEL could manage its operations and reduce costs in response. However the most recent data available shows a continuing strong growth in development in areas close to the route of the Tram in north Edinburgh. The highest growth rates in the number of dwellings the City are to be found in Leith and Leith Walk where growth rates of approximately 8% from 2003 to 2005 have be recorded (Source Scottish Neighbourhood Statistics). Confidence can also be drawn from the continued growth in Lothian Buses patronage levels which continues at around 5% per annum – a figure well above the projections of the JRC report.