Planning Potential
Planning Regeneration and Development

Magdalen House
148 Tooley Street
London SE1 2TU
T: 020 7357 8000
F: 020 7357 9865
www.planningpotential.co.uk
info@planningpotential.co.uk

Planning Policy and Delivery Team,
Suffolk Coastal District Council,
Melton Hill,
Woodbridge, IP12 1AU

30th June 2014

Our Ref: 2105/LT

Dear Sir / Madam,

COMMUNITY INFRASTRUCTURE LEVY PRELIMINARY DRAFT CHARGING SCHEDULE CONSULTATION – RESPONSE BY ALDI STORES LIMITED

Introduction

We write on behalf of our client, ALDI Stores Limited (ALDI) in respect of the Community Infrastructure Levy Preliminary Draft Charging Schedule (PDCS), which is open for public consultation until 2nd July 2014.

ALDI foodstores are a predominantly convenience retail destination and provide valuable choice and competition within the UK main food (i.e. 'weekly shopping') market. ALDI have a future requirement for the Suffolk Coastal area and are keen to invest in the District, creating considerable new job opportunities.

The PDCS suggests that new convenience retail would be subject of £100 per sqm and £0 per sqm for comparison retail development. ALDI are concerned the suggested Levy is unreasonable and potentially in conflict with guidance for setting charging thresholds and, if pursued, could prevent future beneficial development from progressing.

It is noted that the draft rates referred to both below and within the PDCS are subject to change following analysis of comments received and we urge the Council to review accordingly.

ALDI Stores Limited

It is useful to set out a background to ALDI in order to understand the context of the representations.

ALDI first entered the UK food retail market in 1990 and over the past 23 years has opened more than 500 'discount' foodstores, which serve communities throughout the country. ALDI currently employs over 13,000 people, with many more as part of its wider supply chain.

ALDI is committed to continuing its strong investment in the UK economy and is currently undertaking a nationwide floorspace expansion programme, which will secure new stores, improve and enhance the existing portfolio, as well as many more new jobs. Accordingly, it can be seen that ALDI is an important employer at a national level and a significant investor in the UK economy.

In retailing terms, ALDI's philosophy is to provide high quality products at discounted prices and within a pleasant shopping environment. Discounted prices are achieved through considerable bulk buying power, specialisation in the number of lines offered and maximising efficiency within the operation of the stores. ALDI does not necessarily sell goods at the lowest possible prices, but rather retail the highest quality goods at the lowest possible prices

Stores are medium sized, typically 900sqm – 1,300sqm (net) and stock only a limited range of predominantly own-branded products. ALDI have only a limited amount of non-food floorspace (15%-20%), which mostly contains weekly specials. This is a significant difference to larger 'Big 4' supermarkets, which can have between 30%-50% comparison floorspace

On this basis ALDI complements, rather than competes with, existing local traders and generates considerable propensity for linked trips and associated spin-off trade.

However, crucial to this is a tried and tested business model to ensure efficient and effective operation. This is recognised by the Competition Commission, which categorises ALDI as a Limited Assortment Discounter and indeed the concept is recognised within the planning process and appeal decision.

In light of ALDI's growth strategy, the comments put forward in these representations relate to the proposed CIL rates and the evidence base used to calculate the proposed rates. This is a particularly important issue for ALDI, given future aspirations within the District.

<u>Representations</u>

We note the PDCS has been derived following a Viability Study (Peter Brett Associates, May 2014), which we have reviewed accordingly.

We also note that no retailers (convenience or comparison) were consulted prior to the production of the PDCS, which is somewhat concerning given the proposed CIL charge for convenience retail development is high in comparison to other uses. Indeed, paragraph 37 of the April 2013 CIL Guidance states that '*...charging authorities should consider the views of developers at an early stage*'.

We acknowledge the Council's approach in setting variable rates for CIL, which is in line with The Community Infrastructure Levy Regulations (As Amended). However, we consider the proposed rate for convenience retail floorspace to be excessive at £100 per sqm, especially when levied on discount foodstore development.

Indeed, discount operators' business model, such as ALDI, is designed to deliver discounted goods for a localised catchment. ALDI in particular operate on low profit margins; their model is based on high levels of efficiency and lower overheads to enable cost savings to be passed onto their customers.

In this context, it is welcomed that the Council's Viability Study considers scenarios for three different sizes of store; 465sqm, 2,000sqm and 4,000 sqm (gross floorspace). Of the three scenarios, a store of 2,000sqm best represents discount formats, albeit is slightly larger than an ALDI store. The appraisals for each of the three scenarios are based on comparable evidence for convenience retail, which is included at Appendix C of the Viability Study. It is confirmed that the appraisals are based on four existing Tesco stores of between 2,600-5,063sqm and two Sainsbury's stores of 4,951-13,657sqm. It is therefore unclear how 465sqm and 2,000sqm stores can be modelled on the basis of this information, as no stores under 2,600sqm have been used to inform the assessment.

Furthermore, these operators' formats are markedly different to ALDI's and a like for like comparison is simply not possible. This is a significant flaw when assessing financial viability, with a generalised approach having been adopted. It is therefore unreasonable to expect discount operators to pay a CIL charge, which is based on a business model materially different from their own. Consequently, it is clear that deriving chargeable rates based on average costs is entirely unreasonable.

Notwithstanding and without prejudice to our concerns regarding differentiation, this approach may have relevance if, in every instance, the site in question was able to deliver a retailer's optimum requirements and was able to achieve a 'standard' business model. This would include, for example, optimum car parking levels, retail floor area, accessibility of the site, build costs etc. However, the instances where all of these can be achieved are few and far between. Firstly, the 'average' approach fails to recognise the price a retailer would be prepared to pay given the above constraints, whilst, increasingly, many LPAs are not prepared to accept 'standard' models, which significantly increase development costs and, necessarily, profitability.

It is recognised by the Government that viability is influenced by the size of the development, and the amendments to the CIL Regulations that came into force in February 2014 allow charging authorities to set a differential rate within use classes by reference to the intended gross internal floorspace of development. Given that the NPPF sets a threshold of 2,500sqm for assessing potential retail impacts, this may make sense to provide an upper level of CIL charge, with commensurately lower figures being derived as floorspace reduces. This approach would take account of differing levels of viability, with larger formats with greater turnover potential exceeding the threshold and discount operators falling within it.

We therefore request that the Council considers the introduction of a 2,500sqm threshold, above which will be an upper charging level, with commensurately lower figures derived as floorspace reduces. This approach would take account of differing levels of viability, with larger formats with greater turnover potential exceeding the threshold, and discount operators falling within it.

As set out above, discounters comprise a notable proportion of the convenience retail market and it is important to consider the viability of this type of convenience retailer in accommodating CIL. Indeed, the CIL Guidance, states at paragraph 37 that *'charging schedules should not impact disproportionately on particular sectors or specialist forms of development...'*. Furthermore, paragraph 35 of the Guidance states that charging authorities can articulate different rates by reference to intended uses where this is justified on the grounds of economic viability. For these purposes 'use' does not tie to the classes of development in the Town and Country Planning Act (Use Classes) Order 1987, and therefore our proposals for a floorspace threshold are in accordance with the Guidance. We therefore remind the Council that in setting differential rates, a charging authority may set supplementary charges, nil rates, increased rates or reductions (paragraph 13(2) of the CIL Regulations 2010).

We also note that a number of Council's have placed plans to introduce CIL on hold amid concerns about the impact the charges will have on viability. This includes one of the 'front runner' Council's picked by the government in 2011 to demonstrate the benefits of the levy. This serves as a stark warning that in the absence of careful consideration on CIL, unjustifiable rates are counterproductive and dangerous, preventing any development from coming forward, which is not in anyone's interests. It is therefore essential that the introduction of a CIL charge will not prevent development from coming forward.

Furthermore, in considering the Draft Charging Schedule for Trafford Council, the Examiner concluded that the risks to viability were such that supermarket development in the defined town centres should be exempt from CIL charges. Indeed, it was recommended the rate should be reduced from the proposed £225 to £0. This therefore demonstrates the importance of a thorough review of the evidence base in order to ensure that the viability of development in designated centres is not prejudiced.

We also note that, as a result of the recent amendments to the CIL Regulations, authorities are now required to strike an appropriate balance between desirability of funding infrastructure through CIL and impacting development viability. The previous regulations had only said that Councils 'must aim' to strike this balance, and in light of this it is necessary for Councils to ensure a robust viability assessment has been undertaken.

This is supported by the NPPF, which states at paragraph 173 that "to ensure viability, the costs of any requirement likely to be applied to development, such as requirements for affordable housing, standards, infrastructure contributions, should, when taking account of the normal costs of development and mitigation, provide competitive returns to a willing landowner and a willing developer to enable development to be deliverable".

Summary

ALDI have an active interest in delivering investment in the Suffolk Coastal area; however, if the current high CIL rate for convenience retail is pursued, we are extremely concerned this will severely prejudice delivery of future schemes and, indeed, appetite for investment in the District. Without revision and amendment, this will simply discourage investors, such as ALDI, from locating within the area, and prevent the benefits associated with their developments from being realised. We do not consider this to be in anyone's interests.

Again, we realise the suggested Levy is at present only in draft form, with scope for review in light of representations received. It is respectfully requested that the Council carefully consider responses and adopt CIL that is more commercially realistic.

We would be grateful if we could be kept informed of progress. Should the Council wish to discuss this matter in greater detail please do not hesitate in contacting the undersigned.

Yours faithfully

Leigh Thomas
PLANNING POTENTIAL