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CIL Draft Charging Schedule
Planning Policy
Worthing Borough Council
Portland House
44 Richmond Road
Worthing
BN11 1HS

16 April 2014

Our Ref: RS/14/2105

Dear Sir / Madam,

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

Introduction

We write on behalf of our client, ALDI Stores Ltd, in respect of the Community Infrastructure Levy Draft Charging Schedule (DCS), which is open for consultation between 6 March and 17 April 2014.

The DCS for Worthing proposes a blanket charge of £150 per sq. m for all retail development (Class A1-A5).

ALDI has a long-standing requirement for a new foodstore in Worthing, and is working hard to identify suitable opportunities to deliver a significant investment in the borough, in the process providing a range of associated benefits to the local community. Although no site-specific opportunities have been identified to date, our client envisages presenting a retail development proposal to the Council in the future.

However, ALDI is concerned that the proposed CIL charge rate detailed in the DCS may jeopardise the viability of new proposals being delivered, and hereby raise issue with the evidence base and methodology used to calculate the proposed charge rate for retail development. It is noted that the draft rates previously referred to may be subject to change following comments received through public consultation and in light of future Government guidance, and we urge the Council to review the draft rates accordingly.

ALDI Stores Ltd

In respect of introducing our client, ALDI first entered the UK food retail market in 1990 and over the past 24 years has opened in excess of 500 'discount' foodstores, serving local communities throughout the country and employing 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, with the aim of delivering new foodstores to improve and enhance their existing portfolio, creating many new employment opportunities in the process. Accordingly, it can be seen that 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 has 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.

The ALDI store format does not include a specialist butcher, fishmonger, bakery, delicatessen or chemist, which are commonplace with larger supermarket chains. This is an important distinction with ALDI and crucial to understanding how stores operate. In practice this means that, unlike larger supermarket formats, ALDI is not a 'one-stop-shop' meaning that customers also have to visit other shops and services to complete their shopping trip.

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 an efficient and effective operation. This is recognised by the Competition Commission, which categorises ALDI as a Limited Assortment Discounter (LAD), providing an important distinction between discount food operators and larger convenience operators.

<u>Representations</u>

We note that the DCS has been derived following a Viability Assessment undertaken by the Nationwide CIL Service (NCS) in December 2012, which we have reviewed accordingly.

We raise concern with the proposed blanket charge of £150 for all retail types. Paragraph 8.18 states: *"the differential between food supermarket and general retail viability is not considered significant and therefore a single CIL rate is recommended for all forms of retail development".* We do not consider that a single charge rate is appropriate for retail development, given this would encompass a wide range of development types, which each operate differently.

Moreover, we support an approach of setting differential charge rates for CIL, in accordance with the Community Infrastructure Levy Regulations (As Amended), and we would advocate clear differentiation between the size and type of retail developments. In accordance with paragraph 13.2 of the CIL Regulations (2010), we remind the Council that *"in setting differential rates, a charging authority may set supplementary charges, nil rates, increased rates or reductions"*.

In deriving a single charge for retail development, the viability study has assessed two forms of retail development: a 3,000 sq. m supermarket, and a 300 sq. m roadside unit. Neither of these models reflects the distinct operation of Limited Assortment Discounters such as ALDI, and we would therefore encourage greater differentiation between retail development types, to be reflected in variable charge rates.

As previously noted, our concern lies in how the blanket charge may implicate the viability of development proposals for our client, which may ultimately prevent them from investing in Worthing. There appears to be a perception that national food retailers can afford to pay high CIL rates and the viability of developments would be unhindered. Whilst it may be viable for the 'Big 4' operators to absorb these significant costs into their development, this is not the case for discount operators. ALDI in particular operates on low profit margins, and their model is based on high levels of efficiency and low overheads to enable cost savings to be passed onto its customers.

Discount operators provide a valuable role in the convenience market, extending the local retail offer and delivering choice for those suffering from social exclusion: a key issue within the NPPF. In respect of viability, the excessive CIL rate of £150 may jeopardise the ability of discount convenience operators to deliver such benefits, in conflict with Paragraph 14 (1b) of the CIL Regulations 2010, which states that Councils should consider *"the potential effects (taken as a whole) of the imposition of the CIL on the economic viability of development across its area"*.

Furthermore, paragraph 173 of the NPPF clearly states: *"To ensure viability, the costs of any requirement likely to be applied to development...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"*.

We consider that a 'like for like' comparison between convenience retail formats – let alone all Class A1-A5 retail as is currently proposed – is not possible, and this generalised approach is a significant flaw when assessing financial viability. It is entirely unreasonable to expect discount operators to pay a CIL charge which is largely based on a business model materially different to their own.

In considering the two forms of retail development modelled in the Viability Assessment, we note that neither the 3,000 sq. m nor the 300 sq. m formats bear any resemblance to a typical discount convenience operation such as ALDI, which are typically around 1,500 sq. m to 1,700 sq. m gross floorspace. It is unreasonable that 'medium' sized foodstores such as ALDI should be expected to pay a CIL charge that has only been proved as viable for developments substantially different in form and operation to their own.

In proposing a single charge rate, the DCS would directly prejudice against discount operators – and other retailers besides. We fundamentally disagree with this strategy and urge the Council to review their methodology accordingly.

The widely reported success of discount operators has, perhaps, led to the assumption that such developments, and moreover all convenience retail developments, could be targeted to deliver substantial CIL payments alongside larger retail developments by the 'Big 4'. However even convenience retail growth has slowed in recent times and many of these assumptions are outdated, given the advent of internet shopping for example. It is not the intention of CIL to generate unviable, high charge rates; moreover encouraging sustainable development should be the greater priority for Local Planning Authorities, in accordance with guidance in the NPPF.

In considering the value that convenience retail development can have in ensuring the vitality and viability of town centres, the subsequent effect of deterring such development could be severe, with adverse impacts on the communities and neighbourhoods they serve possible. This argument was highlighted in the Examiner's report on Trafford Borough Council's Draft Charging Schedule, dated 31 January 2014. The report concluded that, in order to ensure that a CIL charge would not harm the vitality and viability of Sale Town Centre, by making a supermarket development proposal unviable, town centre supermarket developments should be exempt from the levy.

The creation of a physical retail destination comprises a number of benefits, including enhancing retail choice, stimulating competition, creating employment opportunities, and generating spin-off trade through stimulating linked trips and increased footfall, in some cases facilitating other development nearby.

In acknowledging that the imposition of excessive CIL charges has the potential to jeopardise potential development opportunities and significantly deter inward investment, we request that the Council differentiates between retail development types and amends charge rates accordingly, to reflect the range of convenience retailers who would wish to invest in Worthing.

We therefore propose the introduction of a floorspace threshold of 2,000 sq. m gross floorspace, with CIL charges to vary above and below this figure. A discount food retail format would comfortably fit within this threshold, whilst the larger formats - with greater turnover potential and scope to afford a greater CIL charge - would exceed this.

Proposed differential retail charge rates based on floorspace thresholds are increasingly common amongst local planning authorities, including the London Boroughs of Hillingdon and Waltham Forest, and Dartford Borough Council. Norwich City Council use a 2,000 sq. m threshold for convenience retail developments to trigger variable CIL rates, levied on chargeable development since July 2013. Furthermore Lambeth Council's draft Charging Schedule proposes a charge per sq. m of £115 on retail development in excess of 2,500 sq. m, and a nil charge below the threshold. These approaches are considered to be more reflective of the differing nature of respective retail formats.

We also consider that, in view of the findings of the Examiner of Trafford Borough Council's Draft Charging Schedule, more consideration is given to excessive charges in designated town centres, and the potential harm this can cause in respect of vitality and viability.

At paragraph 37 the CIL Guidance (April 2013) states *"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.

In light of the representations received, we note that there is scope for the Council to make amendments to the charging schedule to make CIL charges more commercially realistic. It is respectfully asked that the Council carefully considers the points raised, since without amendment, the appetite for investors such as ALDI to bring new development to the borough will be diminished.

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

Yours sincerely

P Galgey

PAUL GALGEY

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