

CRITIQUE OF ALDI APPLICATION AT WELLINGBOROUGH ROAD, NORTHAMPTON

AECOM was instructed in March 2010 by West Northamptonshire Development Corporation (WNDC) to review the retail planning aspects of the documents supporting the planning application for a new Aldi discount supermarket at Wellingborough Road, Northampton. These documents were prepared by White Young Green (WYG), and comprise the following:

- 'Planning Supporting Statement Including Retail Assessment', dated August 2009.
- Letter to WNDC dated 5 November 2009, which includes amendments to the quantitative need and impact forecasts in the August 2009 report.
- 'Retail Assessment Further Update', dated February 2010; which provides an assessment of how the proposed development complies with PPS4.

We were asked to review and advise on whether or not WYG's documents demonstrate compliance with the requirements of PPS4, in particular the retail planning issues of whether or not there will be a significant adverse impact from the proposed discount supermarket, and whether or not it would comply with the sequential approach.

In undertaking our review, we have focused on the retail planning issues of consumer expenditure capacity, retail impact, and the sequential approach, as required by PPS4. We have not addressed compliance with the development plan, or local site planning issues, as these are matters which WNDC will be better placed than us to address. In our assessment, we have distinguished between convenience and comparison goods, as defined in Appendix A of 'Planning for Town Centres – Practice guidance on need, impact and the sequential approach', Communities and Local Government, December 2009 (hereinafter referred to as the 'Guidance').

Before setting out our findings, we must make the point that there is no longer a 'needs test' for proposed new retail developments, which are not in a town centre and not in accordance with an up-to-date development plan. It is therefore no longer necessary for applicants for planning permission to demonstrate quantitative (or qualitative) need for such developments. However, the new impact test in Policies EC10 and EC16 of PPS4 requires assessment of retail impacts on public and private investment in town centres (Policy EC16.1.a); on town centre vitality and viability (Policy EC16.1.b); and on *'in-centre trade/turnover and on trade in the wider area'* (Policy EC16.1.d).

In practice, it is not possible to assess these impacts without first assessing expenditure capacity and how well existing centres and stores are trading. This is why Policy EC16.1.d requires impact on trade/turnover to be assessed *'taking account of current and future consumer expenditure capacity in the catchment area'*. It is not that the existence of such capacity is a requirement for the grant of planning permission (as in the 'needs test' of the former PPS6), which is no longer the case. It is that the lower the expenditure capacity, the greater the likely impacts. Assessment of expenditure capacity is therefore still relevant and necessary to the application of the new impact test, as Policy EC16.1.d makes clear; although absence of sufficient expenditure capacity in itself is no longer a reason for refusal of planning permission. We therefore consider that WYG's amended assessment of expenditure capacity annexed to their letter of 5 November 2009 (which supersedes the version in their August 2009 report), although pre-dating PPS4, is still relevant; and we have reviewed it briefly as indicated below.

Expenditure Capacity

The approach taken by WYG may be summarised as follows:

- Define a Primary Catchment Area (PCA) surrounding the Aldi site, based on driving times.
- Estimate the current and future convenience and comparison goods expenditure of the residents of this area (Table 1).
- Identify the existing convenience goods shops and stores within the PCA, estimate their convenience goods sales assuming they are all trading at 'benchmark' company average sales densities, and assess the amount of such trade which these stores draw from the PCA (Table 2A).
- Estimate the likely sales in the proposed Aldi supermarket, and the amount which it would draw from the study area (Tables 3A for convenience goods and 3B for comparison goods).
- Compare forecast available convenience goods expenditure in the PCA with estimated convenience goods sales in existing stores and the proposed Aldi which would be drawn from the PCA, to assess whether or not there will be sufficient 'surplus' expenditure to support the proposed Aldi store (Table 4A).

In applying the method, WYG has undertaken calculations for a base year of 2009, for a design year of 2012, and for longer term future years of 2014 and 2016. If permitted, the new store extension would be likely to open by the end of 2010 or early 2011, so the 'design year' for assessing quantitative need and impact should be 2012 in accordance with the definition in Appendix A of the Guidance. WYG's forecasts for 2014 and 2016 are therefore too far ahead to be relevant and we have disregarded them.

Convenience Goods

The reliability of WYG's method depends substantially upon the data inputs and assumptions on which it is based. In this case, there are a number of flaws in WYG's convenience goods capacity analysis, the most important of which are as follows:

1. In Table 1, WYG has used too high a rate of growth in per capita expenditure on convenience goods (1.2%pa average from 2005 to 2012, derived from the now very out-dated MapInfo Information Brief 07/02). The latest information published by Pitney Bowes ('Retail Expenditure Guide 2009/2010', September 2009) indicates that growth from 2009 to 2012 is likely to be much less. Based on recent past trends and Oxford Economics' forecasts in that publication, we estimate that growth 2005 to 2009 will average about 0.77%pa; and from 2005 to 2012, about 0.53%pa. This means that WYG has over-estimated available expenditure in the PCA in 2009 and 2012.
2. Also in Table 1, WYG has made too small a deduction for expenditure on Special Forms of Trading (SFT) i.e. expenditure not made in retail shops. They have deducted only 1.9% for this; whereas based on information on internet shopping (which is a major component of SFT) published by Verdict Research Limited, we consider that deductions of 4.0% in 2009 and 4.7% in 2012 would be much more realistic. Again, this means that WYG has over-estimated available expenditure in the PCA in 2009 and 2012.
3. WYG has assumed that 80% of the available expenditure in the PCA will be available to shops and stores in the PCA itself, i.e. that there will be 20% leakage to convenience goods shops and stores elsewhere. No evidence is presented to substantiate this assumption. In

view of the location of Morrison's on the edge of the town centre, and Asda and Waitrose at Kingsthorpe, all of which are not far outside the west edge of the PCA, we consider that this 80% retention may be somewhat high.

4. The Total Net Floor-space for Tesco Extra in Table 2A is significantly larger than indicated by IGD in its 2009 database – although WYG's figure may include a more recently committed extension. Most of the convenience goods sales densities in Table 2A do not agree with our estimates based on detailed data published by Verdict Research Limited. Some are too high and some too low. The overall effect is that WYG has slightly over-estimated the total turnover drawn from the PCA, by about £0.9m.
5. WYG's calculation of the likely sales in the proposed Aldi is a hybrid calculation, which takes the convenience goods floor-space, and multiplies it by the combined convenience and comparison goods sales density. It also assumes that 85% of the net sales area will be used for convenience goods sales; whereas Verdict estimates that the company average for Aldi stores is 71% (which accords with our own observation of Aldi stores). Applying 71%, and the company average sales density for convenience goods alone (£5,334 per sq m net in 2005 prices) would result in estimated convenience goods sales of £4.27m of which 90% is assumed to be drawn from the PCA, or £3.84m, compared with WYG's £3.6m.

When these flaws are corrected (but retaining WYG's 80% assumption discussed in sub-paragraph 3. above), we estimate that convenience goods expenditure capacity before Aldi in 2012 (Table 4A) would be about £10.0m (compared with WYG's estimate of £17.3m); and post Aldi, would be about £6.16m (compared with WYG's estimated of £13.7m). Thus whilst WYG has over-estimated expenditure capacity for convenience goods in the PCA, our reduced estimates show that there will still be more than sufficient expenditure capacity to support the proposed Aldi store by 2012. As a result, we would not expect the overall impact of Aldi to be severe – except on some individual stores. We discuss this further below.

Comparison Goods

WYG have estimated available expenditure on comparison goods, and likely comparison goods sales in the Aldi store. However, they have not completed the capacity calculation by assessing sales in the existing comparison goods shops. Instead, they have concluded that Aldi's comparison goods sales (which they estimate at £0.6m drawn from the PCA) would be insignificant compared with available PCA expenditure (which they estimate as £261.1m). As a result, they conclude that the proposed Aldi would have no discernable impact on comparison goods sales in the existing centres.

We disagree with WYG's estimates in relation to comparison goods. In particular, they have used too high a growth rate for per capita expenditure; have made too low a deduction for expenditure on SFT; and have under-estimated comparison goods sales in the proposed Aldi. Nevertheless, we agree that the scale of comparison goods sales in Aldi compared with available comparison goods expenditure in the PCA would be insignificant; and that Aldi would have little or no discernable impact on the comparison goods sales in the existing centres.

Retail Impact

WYG set out their assessments of trade diversion and retail impact in Table 5A. This was prepared before PPS4 and the new impact test were published. However, in their February 2010 Update report they do not provide a further or updated assessment, but rely on that annexed to their 5 November

2009 letter. We have therefore examined Table 5A to assess whether the assumptions about retail impact are realistic.

Table 5A suffers from one fundamental flaw. This is that it does not include any assessments of the pre-impact actual sales in the existing shopping locations, but calculates impacts on sales levels based on 'benchmark' company average sales densities. If an existing store or centre is actually trading at above the 'benchmark' level, the impact will be less than WYG has forecast, but if it is actually trading at below the 'benchmark' level, the impact will be greater than forecast. WYG has not made use of existing household interview survey data, for example the CBRE survey undertaken in conjunction with their Retail Study for Northampton Borough Council, to model actual sales in the existing centres and stores. This means that the impacts estimated in Table 5A are somewhat hypothetical. However, our review of WYG's capacity assessment described above shows that there should be more than sufficient capacity for the convenience goods floor-space in the proposed Aldi store. This suggests that the existing stores and centres are currently trading at a little above the levels based on 'benchmark' company average sales densities. On average therefore, the impacts on the actual sales should, ceteris paribus, be a little less than WYG has indicated.

WYG's assessments in Table 5A are on the basis of total sales in Aldi of £4.7m. We consider that this is a small under-estimate. On the basis of 71% of the net sales area being convenience goods, and applying separate sales densities to the convenience and comparison goods floor-space, we estimate that the total sales would be about £5.1m (about £3.85m convenience goods and about £1.25m comparison goods).

Having reviewed Table 5A, we do not fully agree with the distribution of impacts assumed by WYG. In particular:

- They have assumed that 40% of Aldi's trade would be drawn from Tesco Extra at Weston Favell; whereas we consider that about 20% would be more realistic.
- They have allowed for 20% of Aldi's trade to be drawn from Lidl at Weston Favell. However, this store is the closest similar store to Aldi, and the only other discount supermarket in west Northampton. We therefore consider that at least 30% of Aldi's sales would be diverted from Lidl.
- Rather than the 5% assumed by WYG, we consider that it would be more realistic to assume that 10% of Aldi's sales would be diverted from the convenience goods retailers in Northampton Town Centre catchment— most of which would be clawback from the existing Aldi at St James.
- We would expect about 20% of Aldi's sales to be drawn from Morrison's at Kettering Road, rather than the 13% assumed by WYG, as this store draws much of its trade from the PCA.

On the basis of our assessments of the distribution of impacts, the impact on Northampton Town Centre would be slightly more, but still insignificant. The impact on Tesco at Weston Favell would be about half that estimated by WYG. The impact on Lidl at Weston Favell would be at least 50% greater than estimated, and the impact on Morrison's at Kettering Road would be about 50% greater than WYG estimate.

None of these impacts would be great enough to cause any existing food-store or centre to close, in our opinion. Neither would they be great enough to give serious cause for concern. Lidl at Weston Favell would undoubtedly suffer the greatest impact. However, we understand that this store is to be extended (or has recently been extended); and it should be well able to continue to benefit from the substantial attractive power of the Tesco Extra superstore and other shops and stores at Weston Favell District Centre.

Applying the impact tests in PPS4, Policy EC16, therefore (since the tests in Policy EC10 relate mainly to non-retail issues), we conclude as follows:

- **EC16.1.a:** We do not think the impacts would be sufficient to put at risk any existing, committed or planned public or private investment in Northampton.
- **EC16.1.b:** We do not think there would be any significant impacts on the vitality and viability of any town or district centre. There would be an increase in consumer choice and competition, as a result in introducing a second discount supermarket in east Northampton.
- **EC16.1.c:** We know of no such sites, and consider that this criterion does not apply.
- **EC16.1.d:** There will be substantial diversion of trade from Lidl in Weston Favell District Centre. However, we consider that this store should be able to withstand the likely impact and would not close. The impact on Weston Favell District Centre as a whole would not be high enough to give serious cause for concern.
- **EC16.1.e:** Although the proposed Aldi store would be on the edge of the Wellingborough Road (Parkway) Local Centre, this centre appears to comprise only a convenience store, a hairdresser and a public house; and is therefore only nominally a 'centre' for the purposes of the sequential approach. It is therefore stretching a point for WYG to describe the proposed Aldi as an edge-of-centre store, which would strengthen this local centre. In reality, Aldi would function mainly as an out-of-centre store, attracting much of its trade from vehicles using Wellingborough Road. This criterion is therefore of limited application in this case.
- **EC16.1.f:** We are not aware of any such locally important impact criteria.

In view of the foregoing, we conclude that the proposed Aldi store would pass the retail impact tests in Policy EC16 of PPS4.

The Sequential Approach

WYG have limited their sequential approach assessment to sites in east Northampton, because that is the catchment area which the proposed new store seeks to serve. They have not included sites in Northampton Town Centre, which is outside the PCA, for this reason. They have also dismissed it because there is already an Aldi store much closer to Northampton Town Centre. We consider that this is reasonable in this case.

Weston Favell District Centre is the principal centre in east Northampton; and therefore WYG has looked for sites in that centre capable of accommodating the proposed store. We consider that this is a realistic approach. The local planning authority should satisfy themselves that there are no available sites in or on the edge of the district centre. If no such sites are suitable, available and viable then it is considered that the sequential test would be passed.

Conclusions

Overall, we conclude that the proposed Aldi store would pass the retail aspects of the impact test in Policy EC16 of PPS4. It would have the beneficial effect of increasing local consumer choice and competition between retailers in east Northampton. As a discount supermarket, it would provide an additional opportunity for purchasing lower priced food and a limited range of discounted comparison goods, thus benefitting social inclusion. Subject to meeting the sequential approach we see no retail planning reason under PPS4 why it should not be granted planning permission.

Planning Conditions

In the event that WNDC resolves to grant planning permission for the proposed development we consider that permission should be subject to (inter alia) the following conditions:

The retail supermarket hereby permitted shall be not more than 1,635 sq m gross floor-space measured externally and no additional floor-space shall be created whether by internal alterations or any other means without the express permission in writing of the local planning authority.

Reason: To protect the vitality and viability of town and district centres.

The retail supermarket hereby permitted shall not be subdivided to form more than one separate retail unit without the express permission in writing of the local planning authority.

Reason: To protect the vitality and viability of town and district centres.

Not more than 15% of the net retail sales area of the retail supermarket hereby permitted shall be used for the sale of comparison goods as defined in Appendix A of 'Planning for Town Centres – Practice guidance on need, impact and the sequential approach', Communities and Local Government, December 2009.

Reason: To protect the vitality and viability of town and district centres.