



Paul Gregory
Development Management
Swale Borough Council
Swale House
East Street
Sittingbourne
Kent ME10 3HT

United Kingdom House
55 Wells Street
London W1T 3PT
T: 020 7198 2000

SENT BY EMAIL ONLY

Your ref: 19/502969/FULL

05 October 2022

Dear Mr Gregory

**RETAIL APPRAISAL: PROPOSED ALDI FOODSTORE, QUEENBOROUGH ROAD,
QUEENBOROUGH (REFERENCE: 19/502969/FULL)**

1. Introduction

- 1.1. This letter sets out LSH's review of additional supporting retail evidence prepared by Planning Potential ('PP') on behalf of the applicant (Aldi Stores Ltd) for the above proposal. The additional evidence was submitted in response to the appraisal ('the Appraisal') undertaken by LSH in December 2021 of the Planning, Economic and Retail Statement ('PERS') that was also prepared by PP and submitted in support of planning application.
- 1.2. LSH's Appraisal of the PERS considered the sequential and impact tests and whether PP had robustly assessed these two tests. The Appraisal concluded that the sequential test was passed but deferred a final view on whether the impact test was passed until further information was provided on key areas of the supporting retail impact assessment.
- 1.3. To recap paragraph 9.3 of the Appraisal, LSH highlighted concerns that PP had not fully explored impact of the proposed scheme, and further clarity and/or further assessment was requested on the following:
 - the sales densities applied to estimate the uplift in convenience goods floorspace, which we consider to be undervalued;
 - no attempt to estimate the total comparison goods turnover of the proposed store and associated trade diversion and impact;
 - no consideration on the potential for the proposed store to draw trade from other centres in the retail catchment through an uplift in market share; and

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- not undertaking a new assessment on the impact of the proposal on linked trips with town centre businesses.
- 1.4. The RIA contained in the PERS assessed impact separately for two different elements: Assessment A) impact associated with the uplift in turnover of the proposed new Aldi store; and Assessment B) impact associated with the diversion of expenditure captured from the existing Aldi at Millennium Way, Sheerness ('Aldi Sheerness') to the proposed new store and the uplift in floorspace (Assessment A).

2. Further Evidence

- 2.1. PP submitted two documents in response to LSH's Appraisal. The first document titled "*Retail Addendum May 2022*" ('RA') sought to respond to the queries highlighted by LSH and was informed by the findings of a new household telephone interview survey (HTIS) commissioned by the applicant and conducted by NEMS market research in March 2022.
- 2.2. The HTIS was focused on a study area that comprised Zones 1A, 1B and 2 of the adopted study area for the Council's retail evidence base; the Swale Borough Council Retail and Leisure Needs Assessment 2018 ('RLNA'). The updated HTIS allows for further consideration of shopping patterns on the Isle of Sheppey and the new survey provided the opportunity to gauge linked shopping trips with food shopping.
- 2.3. An initial review was undertaken by LSH on the RA, which raised further questions by LSH on the methodology employed by PP in their updated assessment of impact. Questions were put to PP via an email (dated 27 June 2022) to you, the case officer. In response, PP submitted a further note titled "*Response to Comments on the Retail Addendum*" in August 2022 ('Response Note').
- 2.4. This review focuses on the evidence presented in the RA and draws on further evidence submitted in PP's Response Note where required.

3. New Household Telephone Interview Survey (HTIS) – Key Findings

- 3.1. We welcome the applicant's decision to commission a new HTIS to provide a more up to date assessment on shopping patterns, which will have taken account of any changes to shopping habits as a result of the COVID-pandemic.
- 3.2. From a review of the HTIS we have noted the following points of relevance to the applicant's proposal and PP's revised RIA:

Use of Limited Assortment Discounters (e.g. Lidl/ Aldi)

- 3.3. 72% of respondents in Zone 1a indicated that they currently visit a discounter, while 68% of respondents in Zone 1b (rest of Isle of Sheppey) visit a discounter. Over 85% of respondents in each zone use the Aldi store in Sheerness.
- 3.4. The survey findings indicate Zone 1a and Zone 1b broadly reflects a primary catchment area for Sheerness. Zone 2 makes up a secondary catchment but the findings suggest that residents are primarily visiting Sheerness Town Centre to visit Aldi or are visiting Neatscourt for food shopping.
- 3.5. Aldi Sheerness is chosen by 14.4% of catchment area respondents as their household's first choice destination for main food shopping, increasing to 21.9% of Zone 1a respondents, and

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20.3% of Zone 1b respondents. The store is not as popular with Zone 2 respondents and was not identified as the preferred store for main food shopping.

- 3.6. The most frequently cited reasons given by respondents for choosing the named store as the first choice destination for main food shopping related to the store being 'close to home' and 'lower prices'.
- 3.7. The response to Q04 was filtered down in Appendix 3 of the Response Note August 2022 to identify the main reason why customers choose Aldi, which was revealed to be 'lower prices' and 'value for money'. Compared to responses given by all respondents to this question, proximity to home is not as big a factor for Aldi customers.
- 3.8. Aldi is identified by 19.5% of catchment respondents as a secondary destination for main-food shopping increasing to 28.1% and 23.9% of Zone 1a and Zone 1b respondents, respectively.
- 3.9. In respect to top-up shopping, the survey findings show that Aldi Sheerness is an important foodstore for this form of shopping for respondents in Zone 1a, with close to a third of respondents choosing the store over others. Some 14% of respondents in Zone 1b choose the store for top-up shopping.

Linked Trips

- 3.10. Zone 1a and 1b respondents are more likely than not to undertake linked shopping trips. The most popular type of linked trip is non-food shopping. Respondents from Zone 1b are then more likely to state window shopping/ browsing, while for Zone 1a the second most popular linked trip is further food shopping.
- 3.11. The linked trip activity question indicates that respondents from Zone 1a are more likely to engage in linked trip activities in Sheerness Town Centre, such as non-food shopping, visiting services, visiting food and beverage establishments, and window shopping/browsing. This is further supported in the response to Q06 where it is confirmed that over half (51.7%) of respondents that engage in linked trips do so in Sheerness. Only 3.1% undertake linked trips at Neatscourt.
- 3.12. When we look at the responses for Zone 1b, the evidence suggests that while over a third of respondents choose to carry out linked trips in Sheerness Town Centre, a much higher proportion of respondents (compared to Zone 1a) prefer to do follow on trips at Neatscourt, which reflects a higher propensity of Zone 1b respondents to visit foodstores at Neatscourt. For example, when considering first choice foodstores, over a third of Zone 1b residents choose Morrisons Neatscourt compared to 7.5% from Zone 1a. Similarly, 16.6% of Zone 1b respondents identify Morrisons Neatscourt as their second choice foodstore compared to 6.9% from Zone 1a. Respondents from Zone 1b overwhelmingly access foodstores by car with only 3.4% accessing by foot. In contrast, over a third of respondents from Zone 1a normally travel by foot. It is reasonable to conclude that shoppers who use Aldi as their first choice destination for main food shopping and follow up with trips to Morrisons will be less inclined to visit the town centre. This could establish new patterns of linked food shopping trips whereby those who currently visit Aldi followed by other stores in the town centre will instead do follow up shopping at Neatscourt. In other words, it is natural to expect that shoppers will choose linked trips with other shops that are conveniently accessible and for that reason we

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expect that there will be strong relationship between the proposed Aldi store and shopping facilities at Neatscourt.

Robustness of Survey Sample / Aldi Sheerness Market Share

- 3.13. PP has sought to caveat the robustness of the HTIS by drawing attention to the market shares (responses) identified for Aldi Sheerness, which results in what PP and Aldi consider to be an overestimate of market share derived turnover. PP highlight that the HTIS has a margin of error of 5% meaning that 1 on 20 responses may not be true. NEMS were asked by PP to provide a view on this and their response is set out in Appendix 3 of the RA. Here, NEMS state the very same explanation that is stated in every survey report they produce: *“The standard error can be estimated using statistical calculations based on the sample size, the population size and the level of response measured. To help understand the significance of this error, it is normally expressed as a confidence interval for the results. The usual confidence interval used is 95% - this means that you can be confident that in 19 out of 20 instances the actual population behaviour will be within the confidence interval range.”*
- 3.14. In respect to the new HTIS, NEMS has sought to reconcile PP’s concern that the market share turnover is over estimated, which is based on an alternative turnover level put forward by Aldi. Here NEMS state that taking account of the standard margin of error that Aldi’s market share of responses for identifying the first choice location for food main shopping is somewhere between 10.7% and 18.1% compared to 14.4%, and that there is a 1 in 20 chance that the actual value is outside of this range.
- 3.15. The question of whether Aldi’s main food market share has been over estimated cannot be accurately resolved. However, both the new HTIS and the HTIS that informed the 2017 Study identify a very similar value for survey derived turnover. Thus even considering a 1 in 20 likelihood of error (which could be a value higher or lower than what is identified) and given the evidence available, we consider that the market share data is a more robust method for assessing the store’s turnover. Whilst Aldi has offered an alternative turnover estimation, this can only be appropriately considered if the offered turnover value can be fully scrutinised rather than just a figure simply presented in report.

4. The Value of Linked Shopping Trips

- 4.1. PP has sought to quantify the monetary value of linked trips made by customers visiting Aldi to other businesses in the town centre. PP highlight the difficulty in accurately assessing the value of linked trips, a point that we acknowledge.
- 4.2. The assessment of linked trip value is set out in Table 5.1 in the Response Note. The assessment is based on the following responses identified in the filtered survey data contained in Appendix 3 of the Response Note:
- The response to Q01 identified that 14.4% of the catchment area undertake their main food shop at Aldi Sheerness.
 - The response to Q06 identified that 37.7% of those that visit Aldi for main food shopping combine that with a linked trip.
 - The response to Q07 identified that of those who visit Aldi and combine a link trip 48.4% do their linked trip in Sheerness Town Centre.

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- Based on responses given to Q06 and Q07 of the HTIS PP quantify that 18.2% of Aldi customers undertake a linked trip elsewhere within Sheerness town centre.
- 4.3. These percentage figures are taken as statistics in quantifying the proportion of the catchment population that will be undertaking linked shopping trips (1,780 persons) in 2027 and by applying a mean spend (£25.09 per person), PP estimate a weekly and annual linked trip value of £44,660/week and £2.3m/pa. This value is then incorporated into PP's revised RIA as summarised in Table 5.2 and Table N11 of the Response Note.
 - 4.4. The assessment is an appropriate first step in quantifying the value of linked trips made by Aldi customers to other businesses in the town centre. However, PP's assessment does not represent the full picture on linked trip value as it is only focused on linked trips associated with those whose first preference for main food shopping is Aldi Sheerness.
 - 4.5. As highlighted earlier in this review, 19.5% of respondents from the catchment identified Aldi Sheerness as their second preference store for main food shopping increasing to well over a quarter of respondents from Zone 1a and nearly quarter of respondents from Zone 1b. In respect to top-up shopping, 13.9% choose Aldi as their preferred store increasing to close to a third of respondents from Zone 1a and 14% from Zone 1b. It is therefore reasonable to assume that a proportion of these two customer bases (i.e. those choosing the store as their secondary main food shopping destination and as their primary top up shopping destination) will generate sales for other town centre businesses via linked trips.
 - 4.6. It is unfortunate that the HTIS did not assess the linked trip shopping patterns with those who use Aldi as a secondary main food shopping location and for top-up shopping. In the absence of this evidence, we must conclude that the linked trip value associated with customers visiting Aldi Sheerness and other town centre businesses is undervalued by PP on the basis that the assessment is only based on those who use the store as their first choice location for main food shopping.

5. Revised Impact Assessment

- 5.1. The findings of the HTIS, namely the more up to date shopping patterns are applied to a revised RIA prepared by PP. The shopping patterns have informed the distribution of convenience and comparison goods expenditure which identify a survey share derived turnover for stores and centres across the catchment area (Zones 1a, 1b and 2).
- 5.2. A revised RIA was first contained in the RA which updates the assessment contained in the PERS using the results of the HTIS. The revised RIA also provides an alternative scenario to retail impact based on the potential for current Aldi Sheerness store to be occupied by Home Bargains. Evidence of Home Bargain's interest in acquiring the site was provided to LSH and it is reasonable to assume that the deal will follow through if Aldi cease trading from the site.

Notes on Methodology, Population and Expenditure

- 5.3. The revised RIA contained in the RA at first follows the same approach taken in the original RIA contained in the PERS.
- 5.4. The calculations on catchment population and expenditure are set out in Appendix 4 of the RA. We note that PP has made adjustments to the population by discounting prison

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populations on the Isle of Sheppey, an adjustment that we confirmed to be reasonable with Experian who generated the data on catchment population.

- 5.5. Forecast expenditure per head for convenience retail is derived from Experian MMG3 software for the three catchment zones and is projected to the design year using annual growth rates identified in Retail Planner Briefing Note 19, January 2022.
- 5.6. Available catchment expenditure for convenience goods is split between first and second choice in spend on main and top-up food shopping. The ratios are set out in the note accompanying Table 5 (Appendix 4) of the RA.

Market Share Turnover

- 5.7. On applying market shares identified for main and top up shopping (Table 5, Appendix 4, RA May 2022) to catchment expenditure PP have been able to estimate how expenditure is distributed across the catchment's stores and centres. The monetary values are set out in Table 6, Appendix 4 of the RA and in Table N11 of the Response Note.
- 5.8. Of relevance to this application, the market share assessment identifies a survey derived turnover for Aldi Sheerness of £22.25m in 2022, increasing to £23.23 by 2027. By comparison, PP's estimation of survey derived turnover in 2021 in the PERS RIA which was based on the RLNA 2018 market share data was £20.7m; increasing to £21.5m by 2026. Therefore, we have two different market research data sets that provide very similar turnover estimations and projections for Aldi Sheerness.
- 5.9. Yet, PP and the applicant maintain that the turnover is an over estimate and as previously highlighted PP has sought to query the robustness of the survey data by pointing to inaccuracies in survey data. Instead, PP has offered an alternative turnover estimate for the Aldi store of £14m which is based on a figure promoted by the applicant (Aldi). Without the benefit of scrutinising Aldi's figure on turnover and to ensure the impartiality it is more appropriate to rely on the survey derived data particularly given it is backed up by two household surveys.
- 5.10. Turning to turnover estimates for other stores in the catchment the market share assessment identifies an overall turnover for Sheerness Town Centre of £59.94 in 2022, increasing to £62.66m by 2027.
- 5.11. Out of centre, the market share assessment identifies Neatscourt Retail Park's market share turnover at £26.04m, the majority of which is generated by Morrison. The Retail Park's turnover is projected to increase to £27.19m by 2027. By comparison, turnover estimates provided in PERS, which was informed by the RLNA 2018 market share analysis identified a turnover of £21m in 2021 and £21.8m in 2026, which is broadly in range with the updated market share estimations for 2022 and 2027.

Turnover of the Proposed Extension

- 5.12. PP set out the turnover estimates of the proposed new Aldi store and the uplift in turnover associated with a larger store compared to the current store size in Sheerness. The estimates are set out in Tables 10a to 10c.
- 5.13. The estimated turnover of Home Bargains is estimated in Table 10d, which we return to later in this review.

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Trade Diversion and Impact

- 5.14. PP set out their trade diversion and impact estimates in Table 11 of the RA for convenience goods turnover and in Table 12 for comparison goods turnover. The calculations in both tables take account of expenditure captured by Home Bargains trading from the Aldi Sheerness site. LSH raised queries on how the trade diversion and impact was quantified in this table, which we considered difficult to verify.
- 5.15. In response, PP provided another version of the trade diversion and assessment table for convenience goods turnover, which excluded the Home Bargains scenario. The assessment is contained in Table N11 of the Response Note.
- 5.16. For ease, we have considered Table N11 first.
- 5.17. As was estimated in the original RIA contained in the PERS, PP have stripped out convenience goods turnover in Table N11 that was previously identified for Aldi Sheerness and have repositioned this turnover to out of centre. They then revise Sheerness's turnover to allow for 15% of Aldi's turnover to be redistributed to other stores in the town centre. This is the same approach taken in the PERS RIA.
- 5.18. This revised turnover in 2027 for Sheerness Town Centre (£42.91m) identified in Table N11 serves as the benchmark for assessing impact associated with the proposed scheme.
- 5.19. PP have assessed the impact of the Aldi store based on two elements:
- Assessment A) the impact associated with the difference in floorspace between the existing and proposed Aldi store; and
 - Assessment B) the impact associated with Assessment A and the reduction in convenience goods turnover that would occur with the relocation of Aldi to Queenborough Road.
- 5.20. The resulting impacts for the revised assessments identified by PP in Table N11 (Appendix 1) of the Response Note are summarised below, and focus on Sheerness Town Centre only:
- Assessment A (impact from additional floorspace for proposed Aldi): -2.9%
 - Assessment B (impact from loss of retained town centre expenditure): -48.31%
- 5.21. On testing the impact figures in a replica retail model we have identified an error in how PP calculate impact. PP appear to calculate impact as the reduction of the post development turnover. The correct approach is to calculate impact based on the pre-development turnover.
- 5.22. We have set out a revised impact table based on the Assessment B approach (impact from uplift in floorspace for proposed Aldi and displacement of existing Aldi turnover) in the accompanying Appendix A. The assessment is informed by figures quoted for various assessment variables in PP's evidence documents. The following impacts are identified for Sheerness (excluding Home Bargains and loss of turnover associated with linked trips):
- Impact on Sheerness Convenience Goods Turnover: -33.1%
 - Impact on Sheerness Comparison Goods Turnover: -6.7%
 - Impact on Sheerness Convenience Goods Turnover: -23.3%

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- 5.23. The impact figures are considerably lower than those identified by PP and on which we appraised PP's previous RIAs. Nonetheless, the levels of impact identified are still significantly high in terms of percentage values.

Home Bargains Scenario

- 5.24. In a considering the potential for Home Bargains to mitigate impact from the relocation of the Aldi store we have taken turnover data identified in the RA RIA and factored this into the trade diversion and impact assessment set out in Table N11 of the Response Note.
- 5.25. PP set out Home Bargain's turnover in Table 10c (Appendix 4) of the RA. Here, Home Bargain's turnover is estimated to be £5m in 2027 of which £2.25m (45%) is assumed to be generated from convenience goods sales and the remainder (£2.75m/ 55%) generated by comparison goods sales. Turnover is based on an equivalent sales density of £5,112.47/sqm.
- 5.26. It should be noted that the turnover generated by Home Bargains will not equate to additional retained expenditure for the town centre. This would only be the case if Home Bargains was able to generate 100% of its turnover from new customers coming to the town centre and/or expenditure clawed back from out of centre retailers and the relocated Aldi store. Instead, LSH has assumed that 70% of the store's turnover would be drawn from other discount convenience and comparison goods retailers in the town centre, notably Iceland and Poundstretcher. The remaining 30% would be drawn from comparable out of centre retailers at Neatscourt Retail Park, such as B&M and Poundland. This 30% of turnover would be treated as additional new turnover for town centre.
- 5.27. PP states in the RA the potential for Home Bargains to retain expenditure captured by Aldi. However, given that Home Bargains has an assessed convenience good floorspace footprint of 440 sqm net sales (akin to convenience store) and focuses on store cupboard goods the potential to capture market share expenditure will be very limited.
- 5.28. The revised RIA contained in the RA takes account of the Home Bargains store, however, LSH has been unable to verify a number of the calculations in the assessment table. It should be noted that there is some divergence in turnover figures quoted in Table 11 of the RA May 2022 and Table N11 of the Response Note.
- 5.29. Instead, LSH has modelled the Home Bargains scenario using figures quoted in Table 5.2 and Table N11 (Appendix 1) of the Response Note. We have then relied on the impact assessment tables for comparison goods turnover contained in Table 12, Appendix 4 of the RA.
- 5.30. Even when the town's convenience turnover is uplifted by Home Bargains capture of Aldi turnover this has a minimal impact on mitigating the impact of the store's relocation in percentage impact terms.
- 5.31. Based on our assessment, the Home Bargains scenario will only reduce the impact of Aldi's relocation to Queenborough on Sheerness' convenience goods turnover by less than half a percentage point; reducing from -33.1% to -32.7%. Against total retail turnover, impact reduces from -23.3% to -22.9%.
- 5.32. If PP's estimations on the loss of linked trips are included then total town centre impact increases to -25.6% reducing to -25.2% if Home Bargains opens. As highlighted before, the

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value for loss of linked trips is likely to be higher as PP has not assessed the value of linked trips generated for all Aldi customers.

6. Interpretation of Impact

- 6.1. In LSH's Appraisal we highlighted that Sheerness Town Centre serves an important food shopping role. At the time, the market share evidence from the RLNA 2017 showed that convenience goods turnover accounted for 61% of the town's total retail turnover in 2021. PP's updated market share assessment informed by a new HTIS shows that convenience goods turnover accounts a higher proportion of total retail turnover in 2022 at 64%.
- 6.2. Foodstores have a very important role in supporting footfall in town centres and there are many examples where the loss of foodstore anchors to out of centre locations has undermined the vitality and viability of a town centre.
- 6.3. We do not accept PP's position that the displacement of Aldi Sheerness's turnover from Sheerness Town Centre does not represent an impact. This turnover or catchment expenditure captured by Aldi forms part of the town's overall economy. It represents retained expenditure that could move between different stores.
- 6.4. The HTIS has identified linked trips, but only assessed those linked to trips made by respondents who choose Aldi as their first choice store for main food shopping. It does not take account of linked trips made by other customers and it does not take account of the value that other businesses place on having Aldi as trading partner in the town centre. The relocation of Aldi to an out of centre location some 2.5 miles from the town centre could impact investor confidence in the town centre. The intention for Home Bargains to open in the town centre will provide some mitigation in respect of investor and shopper confidence but it does not have the same brand impact and does not make up for the town centre losing a top four grocery retailer.
- 6.5. It has been highlighted that based on data contained in the revised RIA in the RA that the relocation of Aldi will result in an impact of a around third on Sheerness' convenience goods turnover even after allowing for potential uplift in town centre turnover from Home Bargains. Given that the majority of town centre's retail turnover is supported by convenience retail it is material to consider impact on the town's convenience turnover separate from total turnover. On that basis we consider that impact associated with the relocation of Aldi to Queenborough Road will have a significant adverse impact on Sheerness Town Centre.
- 6.6. Turning to impact on total turnover, the level of impact remains significantly high and reducing only slightly if Home Bargains occupies Aldi's existing unit.
- 6.7. Aldi has stated their intention to close their store in Sheerness if planning permission is not obtained. While this would still result in an impact on the town centre's retained turnover it is reasonable to expect there would be a better opportunity for existing stores in Sheerness to capture Aldi's market share of catchment expenditure than if Aldi relocates to Queenborough Road.
- 6.8. While Sheerness Town Centre appears to be performing adequately based on the findings of the health check assessment (contained in the PERS), the application is being considered at a time when town centre economies are particularly vulnerable to economic uncertainties. Many businesses are still recovering from the impact on trade from the Government's

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response to the COVID-19 pandemic, while the cost of living crisis and rise in interest rates is impacting household expenditure. Even putting these cautions aside, we consider that the monetary and percentage impact levels on Sheerness's total retail turnover (and particularly more critically on convenience goods turnover) represents a significant adverse impact on consumer choice and threatens the vitality and viability of Sheerness Town Centre.

- 6.9. Therefore, on balance we recommend that planning permission is refused on the basis that the proposal would lead to an unacceptable and significantly adverse impact on Sheerness Town Centre in line with paragraph 90b and 91 of the NPPF.
- 6.10. Finally, as the decision-taker in this case the local planning authority will have to apply the planning balance and weigh our advice against any wider impacts and/or benefits arising from the planning application.
- 6.11. I trust our advice set out in this letter is clear. However, if you do require further clarification and/or advice please do not hesitate to me directly.

Yours sincerely,

A black rectangular redaction box covering the signature of Bláthnaid Duffy.

Bláthnaid Duffy
Director, Planning