

interim

report & financial statements 28 weeks ended 11th August 2018

**Chelmsford Star -
the Co-operative**

at the heart of our community

Since 1867



your local **independent** co-operative

Directors' Interim Report to Members

28 Weeks ended 11th August 2018

To our Members

Your Board of Directors are pleased to present their Interim Report for the 28 week period, which ended 11th August 2018.

Trading Review

The Society's overall trading performance has been creditable, with the investment in the past few years particularly in the Food and the Funeral division paying dividend.

The long hot summer has impacted the Society's businesses differently, driving people into their local convenience food store but limiting those who chose to spend a prolonged time on the high street or in a Department Store.

Within the period under review, 28 weeks to 11th August 2018, your Society has recorded "year on year" growth in sales of 3.9%. On a "like for like" basis excluding fuel, acquisitions and disposals, growth of 4.2% has been achieved.

Food

Our Food business continues to generate "year on year" increases, with core sales up 8.6% "like for like". The Food business is affected however by the ongoing national reduction in service payments, i.e. bill payments and lottery sales, which have declined by 2.5%.

We continue to invest into our Food business, this year there have been three further stores refurbished: Duke Street, Kings Road and Forest Drive with East Tilbury planned for the second half of the year. The refurbishments add valuable turnover growth to the business.

The Society had decided back in 2014 to sell its loss-making store at Southchurch Road and acted to mitigate its losses, before finally finding a buyer during the period under review. Within the Revenue Account there is an Exceptional income of £35k which represents the credit associated with the sale. The disposal of Meppel Avenue is still ongoing. Neither site was budgeted for in the 2018/19 business plan, which will impact comparisons of performance to plan.

The Board continues to review the cash return of each trading site on a regular basis.

Your Society continues to look for new sites and opportunities, fully aware of the need to absorb costs and to benefit from economies of scale.

In October 2017 the Society appointed a Head of Food Retail who is aiming to improve availability within the stores. The renewed focus has seen an increase in sales but an additional cost in wastage where stores continue to adapt and learn.

Your Society's Food business, including Fuel has recorded a "year on year" increase in trading profitability of 10.84%. Whilst the trading profitability is lower than anticipated in the business plan, the momentum built within the first half of the year should see the Food business ending the year in a better position.

Department Stores

Our Departmental Store business has seen a "year on year" reduction in sales of 6.0%. The decline is against the backdrop of the decline of the UK high street and the insolvency of big retail brands and concessions.

The reduction in Department Store turnover predominantly relates to the decline in the furniture business. The remainder of the business i.e. the remaining own-bought departments and concession partners as a whole are performing ahead of last year.

The Department store business faces a challenge to evolve and adapt, operating from just two large sites which require significant stock investment to merchandise. Your Society is aware of its ageing and reducing customer base and the social changes in consumer choices; traditional, quality, long-lasting furniture does not suit the needs of a throw-away generation.

The Department store business continues to monitor and, where necessary, introduce new concession partners into the stores, to increase sales, footfall and the appeal of the Quadrants as a shopping destination. New brands include the reintroduction of Brantano in Braintree and Van Dahl. There are however concession partners such as the Calvetron Group, now in administration, exiting the stores, leaving a big space on the ground floor of Chelmsford, with the removal of Jacques Vert, Precis Petit, Dash and Eastex in one go. The number of concession partners within the market continues to decline.

Your Society continues to monitor the trading losses of the Department Stores closely, and whilst the trading losses in the 28 weeks at £208k exceed that of the business plan and of last year, efforts are ongoing to reverse this trend.

Travel

Our Travel business' turnover is down 3.0% on a "year on year" basis, however the mix of turnover between travel bookings and currency tends to fluctuate "year on year". Travel bookings are in fact 6.6% up "year on year" whereas currency, a low margin product, is down.

There has been considerable change in personnel within the period, with 3 new members of staff joining the team. At times, staffing levels were below those desired.

Nonetheless, with an improved turnover mix and financial savings from lower staffing levels, the trading profitability of the Travel business has recorded a "year on year" increase of 49.0%. This level of profitability far exceeds last year and the expectation of the business plan.

Funerals

During the last financial year, a revised strategic plan was implemented within the Funeral business, against a backdrop of a decline in turnover and profitability. This plan has proved to be highly successful. In the period under review the Funeral business has recorded "year on year" growth in turnover of 31.9% and on a "like for like" basis (excluding George Yard), growth of 24.3% has been achieved.

In 2017 George Yard, a town centre branch in Braintree was added to the estate. This site has far exceeded the expectation of the Board and business plan. George Yard has strengthened the Society's presence in town.

With the significant increase in turnover, trading profitability of the Funeral division has far exceeded last year and the expectation of the business plan.

Investment Property

Our Investment portfolio in the main consists of flats above our shops. The flat located above our store in Southchurch Road was disposed of with the sale of the store. During the period under review, gross income totalled £166k a 1.8% decline.

Financial Review

The turnover mix of the Society varies "year on year"; in the period under review the core Food business and Funerals business performed well. The mix of turnover affects the level of gross profit achieved. Gross profit of £13,415k was achieved in the period, compared to £12,863k last year, an increase of 4.29%.

Operating costs within the period totalled £12,814k which represents a "year on year" increase of 3.93%. Operating costs currently exceed the level outlined in the business plan, as a result of increased distribution costs associated with the increased food turnover, the unbudgeted two stores still operating in the period, ongoing personnel costs pressures and greater than anticipated increases in energy prices.

Given the above, trading profit at £601k is below the level anticipated in the business plan, however this reflects an increase "year on year" of 12.3%.

Net profit, or profit before distributions amounted to £507k, a "year on year" increase of 26.1%. Within the net profit level, the realised profit from the sale of Southchurch Road is included.

Net debt at week 28 amounted to £4,254k compared to £4,850k last year. The Society's gearing ratio at 21.3% provides adequate headroom for future acquisitions.

Membership

Members are rewarded annually by a share of the profits payment. In May 2018 the conversion of £5.00 per 1,000 points was approved by members at the Annual General Meeting. The share of the profits payment is just one benefit of being a member, there are of course also the weekly coffee clubs, discounted member trips and excursions, exclusive discounts on local businesses goods and services, exclusive events and monthly opportunities to win gift vouchers.

Our Members, as part owners of the Society, have the opportunity to have a say in how the Society is run. This can be either via attending Members meetings in May and October or standing for election to one of our elected bodies.

For a full report on the membership activities please refer to the quarterly editions of Starlight, our members' magazine.

Charity of the Year

Your Society has been awarded 'Best for Community Impact' in the National Business Charity Awards. The award not only recognised our Charity work, but also the support that we continue to provide to the local economy.

Thanks to colleagues and customers, your Society raised its highest level of funds for our Charity of the Year, Little Havens Hospice. A total of £77,912 was raised for the charity through supporting the Little Havens lottery, raffles, marathons, book sales and walks.

Your Directors would like to express their appreciation to all colleagues, members and customers whose support and effort helped raise this remarkable sum.

Following a colleague ballot, this year's Charity of the year is the Alzheimer's Society.

Prospects for the Remainder of the Year

We move into the second half of the year with consumers facing a further squeeze on their income. For the first time in 5 years, shop prices entered inflationary territory, August broke the 63 month deflation cycle. Coupled with the bite of the interest rate rise, disposable income of our customers will be squeezed.

That said, your Board remains confident in the Society's business plan and the Society's management team in delivering this.

The Board of Directors

Statement of Trading Activities

28 Weeks Ended 11th August 2018 compared with 28 weeks to 12th August 2017

SUMMARY CONSOLIDATED REVENUE ACCOUNT

	Note	28 weeks 11th August 2018 £000	28 weeks 12th August 2017 £000
Gross Takings		61 539	59 228
less Agency and Concession Turnover excluded	1(a)	11 320	11 626
Sales		50 219	47 602
less Value Added Tax		(4 776)	(4 441)
Turnover	1(b)	45 443	43 161
Cost of Sales		(32 028)	(30 298)
Gross Surplus		13 415	12 863
Trading Expenses excluding Depreciation		(11 816)	(11 357)
Trading Surplus before Depreciation		1 599	1 506
Depreciation		(998)	(972)
Trading Surplus		601	534
Investment Income		37	37
Exceptional Income		35	-
Surplus before Interest		673	571
Net Interest Payable		(98)	(105)
Other Finance costs		(68)	(65)
Surplus before Distributions		507	401

Note 1(a) Gross Takings Adjustment

The Group has applied FRS 102 in reporting its Turnover.

The effect is to exclude the Takings (including VAT) disclosed in Note 1(a) from Turnover.

		28 weeks 11th August 2018 £000	28 weeks 12th August 2017 £000
Bill Payments – Food		7 513	7 996
Concession Takings including VAT and bill payments – Non Food		1 695	1 644
Agency turnover less commission – Travel		2 112	1 986
Amount excluded from 'Turnover' per FRS 102		11 320	11 626
Note 1(b) Net Sales	£000		£000
Food	45 634		43 523
less Bill Payments	7 513		7 996
Food Stores		38 121	35 527
Department Stores	4 072		4 325
less Concession Sales	1 403		1 357
Department Stores		2 669	2 968
Funeral Services		1 177	891
Travel	5 376		5 553
less Sales as Agent	2 066		1 947
Travel		3 310	3 606
Property - Rental Income		166	169
		45 443	43 161

Statement of Trading Activities

28 Weeks Ended 11th August 2018 compared with 28 weeks to 12th August 2017

CONSOLIDATED NET ASSETS

	As at 11th August 2018	As at 12th August 2017
	£000	£000
Fixed Assets	25 684	26 502
Current Assets	9 447	9 520
Current Liabilities	(10 015)	(9 870)
Long Term Liabilities – Loans	(4 004)	(4 932)
Net Pension Liability	(2 156)	(3 782)
Provisions – Liabilities and Charges	979	1 209
NET ASSETS	19 935	18 647

CONSOLIDATED MEMBERS' FUNDS

Share Capital	10 206	10 288
Reserves	9 729	8 359
MEMBERS' FUNDS	19 935	18 647

CONSOLIDATED CASH FLOW

Net Cash Flow from Operating Activities	2 752	2 664
Servicing of Finance and Returns on Investment	(369)	(412)
Capital Expenditure, Disposals & Financial Investment	(399)	(1 589)
Net Cash inflow before Management of Liquid Resources and Financing	1 984	663
Management of Liquid Resources	(1)	(1)
Financing	(1 127)	(698)
Increase/(Decrease) in Cash	856	(36)

CONSOLIDATED NET DEBT

Cash at Bank and in Hand	1 005	1 456
Short Term Deposits	16	14
	1 021	1 470
Loans	(4 214)	(5 120)
Finance Leases	(1 061)	(1 200)
	(4 254)	(4 850)

The Statement of Trading Activity has been prepared using the same Accounting Policies as were utilised to produce the Society's published Financial Statements as at 27 January 2018.

**Chelmsford Star -
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at the heart of our community
Since 1867

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