

interim

report & financial statements 28 weeks ended 12th August 2017

**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 12th August 2017

To our Members

Your Board of Directors are pleased to present their Interim Report for the 28 week period, which ended 12th August 2017.

Trading Review

The Society's overall trading performance is beginning to show signs of growth after a number of challenging years. The Society's acquisition and refurbishment strategy in Food is delivering growth in turnover, aided by operational improvements and inflation. The challenge however, is achieving growth in all trading divisions.

Whilst inflation is currently assisting growth, it will ultimately impact consumer spending, squeezing household income and spending power. In addition, the continued Brexit related uncertainty means that the positive start to the year in terms of turnover growth cannot be taken for granted.

Within the period under review, 28 weeks to 12th August 2017, your Society has recorded "year on year" growth in sales of 7.4%. On a "like for like" basis excluding Fuel, growth of 1.7% has been achieved.

After a number of challenging years, our Food division has recorded a "like for like" increase in core categories of 4.6%, whilst service payments, i.e. bill payments and lottery sales have declined by 6.6% as consumers use alternative methods to purchase these services.

Food

The Food estate has been further enhanced with six stores undergoing a refurbishment within the period. These stores: Portsea Road, Tilbury; Nevendon Road, Wickford; Challis Lane, Braintree; Bridge Street, Writtle; Barnard Road, Galleywood and Spreadeagle Place, Ingatestone have all closed for a period of up to fourteen days in order for the refurbishment works to be completed.

A further store was added to the Society's estate during the year, Woodford Green. The Food team continue to work to incorporate the three acquisitions from 2016 into the existing estate.

The Board continues to assess the success of the business site by site and, where necessary, identify remedial strategies or take the difficult decision to close sites where they fail to achieve the required benchmark. The sad decision to sell the Meppel Avenue store on Canvey Island has been taken. The Society's management team are supporting our colleagues during this period.

Your Society's Food business, including Fuel has recorded a "year on year" decline in trading profitability. This however represents a result 5.4% ahead of the business plan, which had anticipated a higher increase in operating costs.

Department Stores

Our Departmental Store business has seen a "year on year" decline of 4.3% in sales. Despite improved efficiencies and cost control, the business's trading loss has increased to 2.5%, a level greater than last year and than that envisaged within the business plan.

The Departmental Store business continues to review its operation and review trading partners and brands that may be attractive to our members and customers.

Travel

Our Travel business has again had a mixed performance; turnover has increased 11.8% "year on year", with currency being the main driver of growth. Due to the change in turnover mix, with lower margin products such as currency delivering growth, the trading profitability of the business has been ultimately affected, falling £13k or 11.3% below last year.

Funerals

Our Funeral business has faced growing competition over the past few years and this year is no different, with sales 14.7% below last year. Given the significant drop in sales, trading profit has reduced by £112k or 51.4% on that achieved last year, which falls well below the level envisaged within the business plan. Your Board has conducted a strategic review of the business, which will be implemented in the latter part of the year.

Investment Property

Our Investment Property portfolio in the main consists of flats above our shops. During the period under review, gross income totalled £169k, a 5.4% increase "year on year".

Financial Review

The turnover mix achieved in the period under review varies from last year, with Food core categories, Fuel, Travel and Investment Property currently delivering growth. The level of gross profit amounted to £12,863k compared to £12,069k last year, representing growth of 6.6%.

The turnover mix ultimately impacts the profitability, compounded by increased cost pressures associated with the National Living Wage, Apprenticeship Levy and Brexit. Trading profit falls just outside expectation by 0.8% at £534k, and represents a "year on year" decline of £243k.

Operating costs within the period total £12,329k, which is below the level forecast by the business plan, but represents a "year on year" increase of £1,037k, this is reflective of the cost pressures detailed above plus the additional trading sites and refurbishment costs. It is therefore no surprise that trading profit is below the level achieved last year.

Net profit or profit before distributions amounts to £401k, representing an improvement on the business plan by 1.5%. "Year on year" net profit is down, impacted by the decline in trading profitability, explained above.

Net debt at week 28 amounted to £4,850k compared to £3,940k last year. The Society's debt has increased "year on year" as a result of the Food acquisition and refurbishment strategy.

During the period under review, the Society has moved its banking facilities to Santander, and has consolidated loans from the Co-operative Bank and Clydesdale Bank.

The Society's gearing level at 26.0% remains comfortable, having sufficient headroom for future investment.

Membership

With 2017 marking the Society's 150th anniversary, the Board were keen that 2017 should be the best year ever to be a member. To date, a temporary exhibition has been installed in Chelmsford Museum, a celebratory book of the Society's history and a commemorative Fairtrade chocolate bar have been commissioned. In addition, the big grocery giveaway sees members on a weekly basis having the opportunity to win back the value of their shopping.

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

Charity of the Year

A total of £34,320 was raised for the Society's Charity of the Year, Kids Inspire. 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 Little Havens Hospice.

Prospects for the Remainder of the Year

The Society's overall performance in the main is in line with the expectation of the Board and business plan, however the challenge for the second half of the year will be to reverse the trend of the under-performing trading divisions, which if left unaddressed could undermine the Society's result.

A number of strategies are in the process of being implemented to address these areas, the efforts of which should be evident come year end.

Your Society continues to react, adapt and evolve to the challenges that we face.

The Board of Directors

Statement of Trading Activities

28 Weeks Ended 12th August 2017 compared with 28 weeks to 13th August 2016

SUMMARY CONSOLIDATED REVENUE ACCOUNT

	Note	28 weeks 12th August 2017 £000	28 weeks 13th August 2016 £000
Gross Takings		59 228	55 146
less Agency and Concession Turnover excluded	1(a)	11 626	11 763
Sales		47 602	43 383
less Value Added Tax		(4 441)	(4 007)
Turnover	1(b)	43 161	39 376
Cost of Sales		(30 298)	(27 307)
Gross Surplus		12 863	12 069
Trading Expenses excluding Depreciation		(11 357)	(10 432)
Trading Surplus before Depreciation		1 506	1 637
Depreciation		(972)	(860)
Trading Surplus		534	777
Investment Income		37	38
Surplus before Interest		571	815
Net Interest Payable		(105)	(103)
Other Finance costs		(65)	(67)
Surplus before Distributions		401	645

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 12th August 2017 £000	28 weeks 13th August 2016 £000
Bill Payments – Food		7 996	8 273
Concession Takings including VAT and bill payments – Non Food		1 644	1 767
Agency turnover less commission – Travel		1 986	1 723
Amount excluded from 'Turnover' per FRS 102		11 626	11 763
Note 1(b) Net Sales	£000		£000
Food	43 523		40 102
less Bill Payments	7 996		8 274
Food Stores		35 527	31 828
Department Stores	4 325		4 524
less Concession Sales	1 357		1 460
Department Stores		2 968	3 064
Funeral Services		891	1 044
Travel	5 553		4 965
less Sales as Agent	1 947		1 685
Travel		3 606	3 280
Property - Rental Income		169	160
		43 161	39 376

Statement of Trading Activities

28 Weeks Ended 12th August 2017 compared with 28 weeks to 13th August 2016

CONSOLIDATED NET ASSETS

	As at 12th August 2017	As at 13th August 2016 As Restated
	£000	£000
Fixed Assets	26 502	25 547
Current Assets	9 520	8 952
Current Liabilities	(9 870)	(9 123)
Long Term Liabilities – Loans	(4 932)	(3 980)
Net Pension Liability	(3 782)	(2 762)
Provisions – Liabilities and Charges	1 209	1 336
NET ASSETS	18 647	19 970

CONSOLIDATED MEMBERS' FUNDS

Share Capital	10 288	10 479
Reserves	8 359	9 491
MEMBERS' FUNDS	18 647	19 970

CONSOLIDATED CASH FLOW

Net Cash Flow from Operating Activities	2 664	2 322
Servicing of Finance and Returns on Investment	(412)	(385)
Capital Expenditure, Disposals & Financial Investment	(1 589)	(1 340)
Net Cash inflow before Management of Liquid Resources and Financing	663	597
Management of Liquid Resources	(1)	(1)
Financing	(698)	(287)
Increase/(Decrease) in Cash	(36)	309

CONSOLIDATED NET DEBT

Cash at Bank and in Hand	1 456	1 216
Short Term Deposits	14	12
	1 470	1 228
Bank Overdraft	-	-
Loans	(5 120)	(3 842)
Finance Leases	(1 200)	(1 326)
	(4 850)	(3 940)

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 28 January 2017.

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Since 1867

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