

# interim

report & financial statements 28 weeks ended 10th August 2019

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 10th August 2019

### To the Members

**Your Board of Directors has the responsibility to report to you on your Society's performance for the interim period, covering 28 weeks to 10th August 2019.**

### Trading Review

In our last report to members covering the year ending 26th January 2019, we referred to 2018 being a difficult year for retail, and that the Board was under no illusions that 2019 would be any easier, given the ongoing uncertainty that Brexit generates.

During the first half of the year, the economy's growth has been volatile and has slowed in part because of Brexit preparation. Notwithstanding the uncertainty over Brexit, the Society continues to review and work with our buying partners to ensure that disruptions to stock and supplies are minimalised as much as possible, in the event of a no-deal Brexit.

Consumer confidence remains low, given the expectation of uncertainty and price increases.

Your Directors are pleased to be able to demonstrate that your Society continues to show resilience to these challenges. After 28 weeks, your Society has recorded 1.7% growth in gross takings or 3.0% on a "like for like" basis.

### Food

Despite strong "year on year" comparatives, our Food business continues to generate "year on year" growth, with core sales, excluding fuel recording an increase of 3.7% on a "like for like" basis.

During the first half of the year, the EPOS system has been used to improve on-shelf availability, ordering routines and stockholding within the business. Work continues in these areas to deliver consistency across the estate.

The budget for the Food business forecasted a new store would have been trading by this point, which has not materialised. The Society continues to look for new sites and acquisitions to add to the estate.

Investment into energy efficiency continues, with three Food stores having had Voltage Optimisation units installed this year. Investment has been coupled with a renewed focus on good housekeeping and energy saving within the stores.

Your Society is trialling compostable bags within five stores. Compostable bags have a secondary use after customers have carried home their shopping, as a food waste bin liner. If supported by customers and members, the bag will be introduced into the Society's range of alternative options to single-use plastic bags.

Within the 2018/2019 Annual Report, Directors referred to an increased cost to the business via theft. During the year, undercover store detectives have been used to help prevent in-store thefts. The service is continuing to be utilised, and the impact assessed.

Despite the efforts of our Food colleagues, your Society's Food business, including Fuel, has recorded a "year on year" reduction in trading profitability of 5.4%. Trading profit is lower than anticipated in the business plan. A major change programme shall be implemented during the second half of the year to mitigate the variance to plan and ensure that processes are efficient, effective and are embedded within the operation.

### Department Stores

Our Departmental Store business again reports a decline, with a "year on year" reduction in gross takings of 2.3%. Your Society endures the challenges of operating a high street brand and location.

Turnover generated by the own brought departments continues to exceed expectations, whereas turnover generated from concession partners continues to decline, where the pool of partners available is diminishing.

The performance of the Society's furniture business has reversed the previous year's trend, recording "year on year" growth, boosted by inhouse furniture clearance events.

During the period, the Head of Department Stores left the business. Responsibility of the Department Store business is now divided between the Chief Executive Officer and the Head of Membership & Marketing.

Your Board continues to monitor the trading losses of the Department Store business closely and continues to explore mitigating opportunities. Trading losses in the 28 weeks at £185k are marginally better than the level expected within the business plan and are lower than last year.

### Travel

Our Travel business' gross takings recorded growth of 8.8% "year on year", with bookings recording remarkable growth of 12.9%.

With the failure of Superbreak during the period, all customers affected by the collapse either continued with their original plans or received a full refund. Situations like this remind customers of the importance of booking through a reputable Travel Agent who can provide financial protection and support when things do go wrong.

During the period, our Travel branches have offered customers the opportunity to meet numerous suppliers at jointly held events and evenings, providing exclusive offers to our customers. Further events are planned for the remainder of the year.

Within the period, your Society has reviewed the 500 Club scheme, resulting in the allocation of charges to the Society's business being analysed. This analysis showed that over time our Travel business awarded the lion's share of the benefits from the scheme and yet was allocated a disproportionately small charge, to the detriment of the other trading businesses. This has been realigned, and ultimately sees a "year on year" reduction in profitability for the Travel business. The review of the 500 Club has resulted in the scheme remaining closed to new members, and the reward rates earned on travel bookings being reduced, given the profit margins achievable on holiday bookings nowadays.

Given the growth in Travel bookings, trading profitability of the business is comfortably ahead of budget, with the budget anticipating the changes to the 500 Club charges.

### Funerals

Our Funeral business has seen a "year on year" decline in turnover of 3.0%. During the period, evidence would suggest that there is a national reduction in funerals conducted.

To an extent, the Board anticipated a decline in the death rate. Trading profitability in the 28 weeks is below last year, however ahead of the expectation of the business plan by 10.4%.

### Investment Property

Our investment portfolio in the main consists of flats above our shops. The Society does have a commercial

property at Duke Street, Chelmsford. During the period under review, a tenant has been found for the second floor, which has remained vacant for several years.

During the period under review, gross income is on par with last year. Trading profit achieved exceeds last year and is ahead of the expectation of the business plan.

### Financial Review

The turnover mix of the Society varies "year on year"; in the period under review, the core Food business, core Department Store business and Travel exceeded expectations. The mix of turnover will impact the gross profit achieved. Gross profit of £13,245k was achieved in the period, compared to £13,415k last year, a "year on year" reduction of 1.3%.

Operating costs within the period totalled £11,654k representing a "year on year" reduction of 1.4%, and well within the budgeted level.

Trading profit of £597k has been achieved in the 28 weeks, a level 0.7% below last year and 1.0% below the expectation of the business plan.

Net profit, or surplus before distributions amounts to £488k, a level ahead of expectation. This compares to £507k last year, which included the benefit of the realised profit for the sale of Southchurch Road for £35k.

After meeting the costs of all distributions, the Society achieved a retained profit of £143k, exceeding the expectation of the business plan.

### Membership

Members are rewarded annually by a share of the profit's payment. In May 2019, the conversion rate of £5.00 per 1,000 points was approved by members at the Annual General Meeting. Members also benefit from weekly coffee mornings, discounted member trips, opportunities to attend exclusive events and participate to win vouchers monthly.

Our members are part owners of the Society and can have the opportunity to have a say in how the Society is run. This can be demonstrated by attending members' meetings or standing for election.

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

### Charity of the Year

Thanks to colleagues and customers, £60,790 was raised for the Alzheimer's Society through skydives, store raffles and sales of the Alzheimer's Society's lottery.

Your Directors would like to express their appreciation to all that supported and contributed to raising this remarkable sum.

Following a colleague ballot, this year's Charity of the Year is Essex & Herts Air Ambulance.

### Prospects for the Remainder of the Year

The performance in the first 28 weeks is positive, although caution will continue into the second half of the year, to protect trading profitability.

During the second half of the year, the Board has agreed to a major programme of change within the food business. This will provide greater grass-root support for the food operations team.

Your Board understands the Society must continue to adapt and react to the challenges that face the Society, to ensure that the Society continues to prosper for years to come.

### The Board of Directors August 2019

# Statement of Trading Activities

28 Weeks Ended 10th August 2019 compared with 28 weeks to 11th August 2018

## SUMMARY CONSOLIDATED REVENUE ACCOUNT

	Note	28 weeks 10th August 2019 £000	28 weeks 11th August 2018 £000
<b>Gross Takings</b>		<b>62 610</b>	61 539
less Agency and Concession Turnover excluded	<b>1(a)</b>	<b>11 183</b>	11 320
<b>Sales</b>		<b>51 427</b>	50 219
less Value Added Tax		<b>(4 904)</b>	(4 776)
<b>Turnover</b>	<b>1(b)</b>	<b>46 523</b>	45 443
Cost of Sales		<b>(33 278)</b>	(32 028)
<b>Gross Surplus</b>		<b>13 245</b>	13 415
Trading Expenses excluding Depreciation		<b>(11 654)</b>	(11 816)
<b>Trading Surplus before Depreciation</b>		<b>1 591</b>	1 599
Depreciation		<b>(994)</b>	(998)
<b>Trading Surplus</b>		<b>597</b>	601
Investment Income		<b>37</b>	37
Exceptional Income		<b>-</b>	35
<b>Surplus before Interest</b>		<b>634</b>	673
Net Interest Payable		<b>(79)</b>	(98)
Other Finance costs		<b>(67)</b>	(68)
<b>Surplus before Distributions</b>		<b>488</b>	507

### 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 10th August 2019 £000	28 weeks 11th August 2018 £000
Bill Payments – Food		<b>7 265</b>	7 513
Concession Takings including VAT and bill payments – Non Food		<b>1 526</b>	1 695
Agency turnover less commission – Travel		<b>2 392</b>	2 112
Amount excluded from 'Turnover' per FRS 102		<b>11 183</b>	11 320
<b>Note 1(b) Net Sales</b>	<b>£000</b>		<b>£000</b>
Food	<b>46 263</b>		45 634
less Bill Payments	<b>7 265</b>		7 513
<b>Food Stores</b>		<b>38 998</b>	38 121
Department Stores	<b>3 979</b>		4 072
less Concession Sales	<b>1 265</b>		1 403
<b>Department Stores</b>		<b>2 714</b>	2 669
<b>Funeral Services</b>		<b>1 139</b>	1 177
Travel	<b>5 376</b>		5 376
less Sales as Agent	<b>2 339</b>		2 066
<b>Travel</b>		<b>3 506</b>	3 310
<b>Property - Rental Income</b>		<b>166</b>	166
		<b>46 523</b>	45 443

# Statement of Trading Activities

28 Weeks Ended 10th August 2019 compared with 28 weeks to 11th August 2018

## CONSOLIDATED NET ASSETS

	As at 10th August 2019	As at 11th August 2018
	£000	£000
Fixed Assets	24 363	25 684
Current Assets	9 953	9 447
Current Liabilities	(10 216)	(10 015)
Long Term Liabilities – Loans	(3 198)	(4 004)
Net Pension Liability	(1 838)	(2 156)
Provisions – Liabilities and Charges	887	979
NET ASSETS	<u>19 951</u>	<u>19 935</u>

## CONSOLIDATED MEMBERS' FUNDS

Share Capital	10 204	10 206
Reserves	9 747	9 729
MEMBERS' FUNDS	<u>19 951</u>	<u>19 935</u>

## CONSOLIDATED CASH FLOW

Net Cash Flow from Operating Activities	2 532	2 752
Servicing of Finance and Returns on Investment	(325)	(369)
Capital Expenditure, Disposals & Financial Investment	(87)	(399)
<b>Net Cash inflow before Management of Liquid Resources and Financing</b>	<b>2 120</b>	<b>1 984</b>
Management of Liquid Resources	(1)	(1)
Financing	(872)	(1 127)
<b>Increase/(Decrease) in Cash</b>	<b><u>1 247</u></b>	<b><u>856</u></b>

## CONSOLIDATED NET DEBT

Cash at Bank and in Hand	1 703	1 005
Short Term Deposits	19	16
	<u>1 722</u>	<u>1 021</u>
Loans	(3 476)	(4 214)
Finance Leases	(743)	(1 061)
	<u>(2 497)</u>	<u>(4 254)</u>

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 26 January 2019.

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

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