

interim

report & financial statements 28 weeks ended 8th August 2020

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 8th August 2020

To the Members

Your Board of Directors has the responsibility to report to you the Society's performance for the Interim period, covering 28 weeks to 8th August 2020.

Trading Review & Covid-19 Response

In our last report to members covering the year ending 25th January 2020, we referred to the challenging trading conditions which we expected to face during the year.

However, we could not have predicted the events of 2020, the world facing a global pandemic, which would see not only the closure of international borders, but all non-essential retail, with the key message from government being to stay home.

The Society monitored the regularly changing government advice, taking appropriate actions to safeguard our colleagues and customers, whilst continuing to provide an essential service in our Food and Funerals businesses.

Whilst non-essential retail are now allowed to trade again, and international borders have re-opened, the Board is fully aware that it will take time for these businesses to resume to their former level.

The Board continues to review the Society's financial performance, regularly considering numerous scenario forecasts for the financial year end.

Directors present to members the Interim result which sees gross takings 8.3% below last year, impacted significantly by the Department Stores closed during 'lockdown' and inconceivable levels of holiday cancellations for the Travel business.

Food

With the Society's Food business purely trading within the convenience market, the Society's Food stores hugely benefitted during the pandemic, as many customers opted to stay local and shop in small stores. As a result, gross takings of core category products, excluding bill payments, lottery and fuel sales, grew 16.3% "year on year".

This growth has been achieved despite a period where supply issues impacted availability. The lasting effects of the pandemic are expected to impact availability for the remainder of the year as manufacturers struggle to replenish stocks.

The Society trades one petrol filling station, which during the period under review has seen a "year on year" reduction of 33.2% in gross takings, with the government's advice for people to stay home during the pandemic.

Our colleagues were all issued personal sanitisers and face coverings well before they became compulsory for customers. To keep colleagues safe, managers were given the discretion to limit customers in the stores and also to close the store for up to an hour, to allow cleaning and restocking safely.

The Food business continues to look at ways to improve and increase efficiencies, with installations of further energy saving equipment and also self-service checkouts having already been installed since the Interim period has passed.

Within the period, Joe Kerr has joined the Society as Head of Food Retail, bringing a wealth of retail experience and knowledge to the Food and Executive team, positioning our Food business for the future.

The Board anticipates that the second half of the year will be challenging for the Food business, as customers return to normal shopping routines.

With customers using the stores to shop a whole range of goods and the exceptional growth in sales, the Food business including fuel recorded a "year on year" increase in trading profitability of 118% to £2,383k.

Department Stores

With non-essential retailers being closed from 24th March 2020, Department Stores gross takings have been significantly impacted by Covid-19. Chelmsford quadrant re-opened its doors to shoppers on the 22nd June 2020, followed by Braintree

quadrant on the 6th July 2020. With the Department Stores closed for over 13 weeks, it is unsurprising that gross takings are 61.5% down "year on year".

During 'lockdown', our Department Store colleagues were either re-deployed where possible, otherwise furloughed, with the Society topping up payments to 100% for the first four week period.

Within the period, it has been a challenging time for our concession partners, with Bon Marche and Oasis changing ownership, and we are aware of further partners who have formally given notice to depart our stores.

The Society's Department Stores have been trading at an operating loss for many years, with the strategy to minimise trading losses as far as possible. The unprecedented year has resulted in trading losses accelerating to £471k compared to £185k last year.

Travel

Covid-19 saw the travel and tourism industry plummet within the year, with the FCO's advice being against travel. This advice and subsequent international border closures resulted in holidays being cancelled by Tour Operators, where travel was not possible, and by customers who wanted to postpone or defer holidays. This resulted in the Travel business's gross takings declining by 96.6% "year on year". Undoubtedly bookings have been affected more than currency, with gross takings of bookings 117% down "year on year".

Holiday bookings have been further impacted by the failure of Tour Operators; Cruise & Maritime (South Quay Travel & Leisure Ltd) and Shearings Holidays, with the travel industry suffering from the ongoing restrictions on travel.

Most of the Travel team were redeployed or furloughed, with both managers taking on the responsibility of managing clients' bookings and refunds, in an industry which in the main had shut down.

Given the level of cancellations, it is inevitable that the profitability of the Travel business has reached negative territory. Within the period a trading loss of £164k has been recorded.

Funerals

The impact of Covid-19 has resulted in the local death rate increasing by 13%. However, the increased imposed restrictions have seen the average funeral price decline, as families have been unable to receive the full service that we offer, including restrictions on limousines and attendees. This has resulted in gross takings increasing by just 2.7% "year on year", despite the quantity of funerals having been conducted having increased by 16% within the period under review.

As a result, the trading profitability of the Funeral business is marginally ahead of last year, and slightly behind budget.

Investment Property

Our investment property portfolio in the main consists of flats above the Food stores. The Society does have a commercial property at Duke Street, Chelmsford. Within the period under review, both floors of the commercial property have been occupied, although the first floor has since been vacated.

With both floors of the commercial property occupied, trading profit of the property portfolio is ahead of last year.

Financial Review

We always comment on the mix of turnover from the Society's businesses which varies "year on year", with the mix of turnover having a knock-on effect on the gross profit achieved.

Gross profit of £13,917k was achieved in the period, compared to £13,245k last year, a "year on year" increase of 5.0%.

Operating costs within the period totalled £11,814k, representing a "year on year" increase of £160k or 1.4%, with the increase coming purely from the Food business in personnel costs, food distribution as a result of the increased volumes and Covid related cleaning costs.

As have many businesses, the Society has benefitted from Government financial support during the pandemic, via the

furlough scheme, rate relief and subsidies. These have eased the pressure on the Society, especially during the periods where non-essential retail was forced to be closed.

Trading profit of £1,192k has been achieved in the 28 weeks, almost 100% greater than last year. Given the exceptional performance in the period, the Board awarded all colleagues who worked throughout the pandemic a well-deserved bonus of half a week's salary. The Board were keen to acknowledge the efforts of colleagues, wanting to thank them for their support and hard work.

Net profit, or surplus before distributions amounted to £1,086k.

After meeting the costs of all distributions, the Society achieved a retained profit of £732k, far exceeding last year and the expectation of the business plan.

The Board would like to draw member's attention to the Society's net debt position, which at the Interim was a surplus of £1,095k. This position is temporary, several factors assisted the Society's cash position short-term. These include, the deferment of VAT payments, higher profitability, reduced stock holding due to availability within the supply chain, and reduced capital expenditure. The Board took advantage of a loan payment holiday at the beginning of the pandemic, when the impact of Covid on the Society's profitability was unknown and unpredictable. Longer-term the Board expects the cash position to decline.

Membership

The Board took the decision to postpone the Annual General Meeting in May, given the ongoing government-imposed restrictions and social distancing. The Annual General Meeting is to be held in place of the Interim meeting and will be held virtually.

Members will be asked to approve the dividend conversion rate of £3.00 per 1,000 points, which applies to purchases up to 25th January 2020, and the reward rate is based on the financial performance up to January 2020.

Given Covid-19, membership activity has been limited, however, the Board agreed to a £16k donation across five local foodbanks. The unconditional donation provided much needed financial support to cover the day to day bills during these unprecedented times.

Charity of the Year

Thanks to the fundraising and donations of customers, £34,606 was raised for Essex & Herts Air Ambulance.

The Board was unable to fulfil its normal shortlisting duties for the 2020 Charity of the Year and therefore decided to support Essex Coronavirus Response & Recovery Programme, providing grants and support to many local charities who have struggled with funding during the pandemic.

Prospects for the Remainder of the Year

At the outset of the year, nobody could have foreseen the pandemic nor the implications on the country or retail.

The diverse nature of the Society's trading activities meant that the Society presents a respectable result. The Board is however aware that the second half of the year will be more challenging, where food convenience returns to a normal level and non-essential retail recovers very slowly.

The Board wishes to communicate its thanks to all colleagues who have supported the Society during the first half of the year, through these unprecedented times.

Your Board continues to monitor the Society's performance, ensuring appropriate actions are taken as and when. Your Board remains fully supportive and confident in the Society's management team to steer the Society through these difficult times.

The Board of Directors August 2020

Statement of Trading Activities

28 Weeks Ended 8th August 2020 compared with 28 weeks to 10th August 2019

SUMMARY CONSOLIDATED REVENUE ACCOUNT

	Note	28 weeks 8th August 2020 £000	28 weeks 10th August 2019 £000
Gross Takings		57 414	62 610
less Agency and Concession Turnover excluded	1(a)	5 636	11 183
Sales		51 778	51 427
less Value Added Tax		(5 045)	(4 904)
Turnover	1(b)	46 733	46 523
Cost of Sales		(32 816)	(33 278)
Gross Surplus		13 917	13 245
Trading Expenses excluding Depreciation		(11 814)	(11 654)
Trading Surplus before Depreciation		2 103	1 591
Depreciation		(911)	(994)
Trading Surplus		1 192	597
Investment Income		19	37
Exceptional Income		-	-
Surplus before Interest		1 211	634
Net Interest Payable		(59)	(79)
Other Finance costs		(66)	(67)
Surplus before Distributions		1 086	488

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 8th August 2020 £000	28 weeks 10th August 2019 £000
Bill Payments – Food		5 626	7 265
Concession Takings including VAT and bill payments – Non Food		418	1 526
Agency turnover less commission – Travel		(408)	2 392
Amount excluded from 'Turnover' per FRS 102		5 636	11 183
Note 1(b) Net Sales	£000		£000
Food	49 230		46 263
less Bill Payments	5 626		7 265
Food Stores		43 604	38 998
Department Stores	1 529		3 979
less Concession Sales	348		1 265
Department Stores		1 181	2 714
Funeral Services		1 171	1 139
Travel	208		5 376
less Sales as Agent	(399)		2 339
Travel		607	3 506
Property - Rental Income		170	166
		46 733	46 523

Statement of Trading Activities

28 Weeks Ended 8th August 2020 compared with 28 weeks to 10th August 2019

CONSOLIDATED NET ASSETS

	8th August 2020	Unaudited 10th August 2019
	£000	£000
Fixed Assets	22 496	24 363
Current Assets	11 470	9 953
Current Liabilities	(11 187)	(10 216)
Long Term Liabilities – Loans	(2 473)	(3 198)
Net Pension Liability	(2 798)	(1 838)
Provisions – Liabilities and Charges	128	887
NET ASSETS	17 636	19 951

CONSOLIDATED MEMBERS' FUNDS

Share Capital	9 476	10 204
Reserves	8 160	9 747
MEMBERS' FUNDS	17 636	19 951

CONSOLIDATED CASH FLOW

Net Cash Flow from Operating Activities	4 999	2 532
Servicing of Finance and Returns on Investment	(311)	(325)
Taxation	4	-
Capital Expenditure, Disposals & Financial Investment	(101)	(87)
Net Cash inflow before Management of Liquid Resources and Financing	4 591	2 120
Management of Liquid Resources	-	(1)
Financing	(1 333)	(872)
Increase in Cash	3 258	1 247

CONSOLIDATED NET DEBT

Cash at Bank and in Hand	4 583	1 703
Short Term Deposits	20	19
	4 603	1 722
Bank Overdraft	-	-
Loans	(3 015)	(3 476)
Finance Leases	(493)	(743)
	1 095	(2 497)

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 25 January 2020.

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

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