The Co-operative Group

Sustainability report 2006

£42.3m
of profits distributed

98%
of electricity sourced
from renewables

The **co-operative**
successful business
with integrity

26%
increase in
Fairtrade sales

The **co-operative**
good for everyone

THE QUEEN'S AWARDS
FOR ENTERPRISE:
SUSTAINABLE DEVELOPMENT
2007

About the Report

This Sustainability Report relates to the operations and stakeholders of The Co-operative Group ('the Group'). Unless otherwise stated, performance relates to the calendar year 2006 and is prior to the amalgamation with United Co-operatives on 29 July 2007. Where significant material events have occurred in the early part of 2007, these are also commented upon.

The Report has been prepared in accordance with the Global Reporting Initiative's (GRI) G3 Sustainability Reporting Guidelines, which provide a globally recognised framework for reporting on an organisation's economic, social and environmental performance.

The data and commentary in this Report is assured by **csr**network in accordance with the AA1000 Assurance Standard, This requires the Report to be considered in relation to the principles of completeness, materiality and responsiveness (page 14).

This is the fourth annual Co-operative Group Sustainability Report and can be downloaded at www.co-operative.coop/corporate/sustainability. Previous sustainability reports of the Group and CFS can be found at www.co-operative.coop/corporate/sustainability and www.cfs.co.uk/sustainability2005 respectively. Further information on the Group's financial performance is available in the Annual Report & Accounts 2006 (www.co-operative.coop/corporate).

Any queries regarding the Report should be directed to Jo Warburton, Social Accountability Manager (sustainability.report@co-operative.coop).

Amalgamation with United Co-operatives

On 29 July 2007, United Co-operatives amalgamated with The Co-operative Group to create the world's largest consumer co-operative.

The new Society, which continues to trade under the name 'The Co-operative Group', has over 4,500 stores – more than any other single UK retailer – employs some 87,000 people, and has four million members. An estimated 10 million customers every week contribute to a combined turnover of £9.4bn – 85% of co-operative trade in the UK.

The Societies were brought together via the transfer of the engagements of United Co-operatives into The Co-operative Group. This followed United members voting overwhelmingly in favour of the amalgamation at two rounds of members' meetings in April and May. Similarly, delegates from The Co-operative Group's regional boards and delegates of corporate members approved the merger and necessary rule changes at a Special General Meeting of the Group.

Staff have been kept appraised of developments since December 2006, when it was announced that the Boards were discussing the possibility of bringing the two societies together. A comprehensive brochure outlining the proposed way forward and 'next steps' was circulated to all employees in March 2007, with regular communication appearing on intranets.

The Society now operates in two main business areas – retailing and financial services – and has two Chief Executives, each responsible to the main Board for their respective businesses. Peter Marks, formerly Chief Executive of United Co-operatives, takes up the post of Chief Executive of the Trading Group[1], whilst David Anderson continues as Chief Executive of Co-operative Financial Services[2].

The Group remains committed to its role as the central federal organisation within the Co-operative Movement, providing goods and services to member societies. It will work to ensure effective, co-operative partnerships operate with other societies.

A far-reaching review of the Society's governance is now underway. A Review Board will consider a suitable and democratic model that brings together best practice from both businesses. The review process will be driven by a wide-ranging consultation, which will gather views from members at every level of both societies. Key areas of focus will be: establishing the size and make-up of a new Board; ensuring that the business is accountable to members nationally, regionally and locally; and clearly defining the role played by members in the new Society. The new constitutional arrangements are due to be in place by summer 2008.

1 With responsibility for the combined businesses of Food Retail, Funerals, Pharmacy, Travel, Property, E-store (non Food), Sunwin Motors, Sunwin Services (cash in transit), Shoefayre, Legal Services, Co-operative Farms and Mandate.

2 With responsibility for CFS, including The Co-operative Bank (including **smile**) and Co-operative Insurance.

Contents

The Co-operative Group during 2006 at a glance*

Trading Group

The Co-operative Food
www.co-operative.coop/food

The Co-operative Funeralcare
www.co-operative.coop/funeralcare

The Co-operative Legal Services
www.co-operative.coop/legalservices

The Co-operative Pharmacy
www.co-operative.coop/pharmacy

The Co-operative Travel
www.co-operative.coop/travel

The Co-operative Farms
www.co-operative.coop/farms

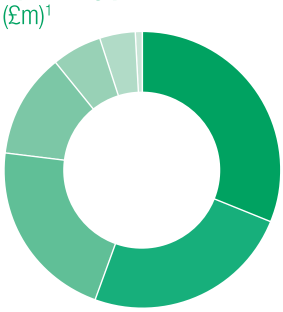
Co-operative Financial Services businesses

The Co-operative Bank
www.co-operativebank.co.uk

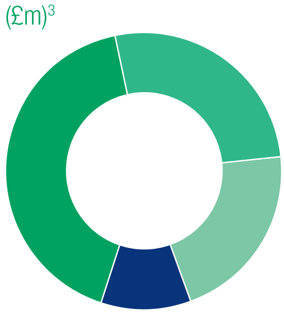
smile
www.smile.co.uk

Co-operative Insurance
www.cis.co.uk

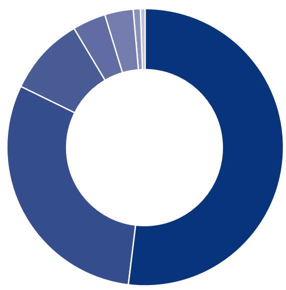
Operating profit
(£m)[1]



Net revenue
(£m)[3]



Other (breakdown) Net revenue (£m)[3]



1 Total operating profit of £418.3m (before significant items and Group operating costs) includes operating losses of £6.9m for The Co-operative Travel, £0.6m for The Co-operative Legal Services and £6.3m for Shoefayre.

2 Comprises: Corporate and Membership (£43.3m), inter-company eliminations (£8.5m), Mandate Clothing (£0.6m) and E-store (£0.2m).

3 Total net revenue of £7,271m (after premiums ceded to reinsurers) includes negative revenue of £2.9m from inter-company eliminations.

4 As a federal organisation for the Co-operative Movement, the Group provides a range of services to other societies. Through the Co-operative Retail Trading Group, the Group provides buying, marketing and distribution on behalf of its corporate members. The Group continues to support the development of Co-operative Travel Trading Group, a buying group for co-op travel businesses.

* A 'snapshot' of The Co-operative Group's principal businesses in 2006 and prior to the merger with United Co-operatives on 29 July 2007 (see inside front cover).

Vision and values

Our vision
To be the best co-operative business in the world

Our aims
- to strive for world-class levels of business performance
- to be open, responsible and rewarding, putting co-operative values & principles into everyday practice
- to enhance the lives of our people, members, customers and the communities in which we trade
- to work for the long-term success of the co-operative sector

Our objective
The core objective of The Co-operative Group is to optimise profits from businesses where our co-operative values give us a positive marketing advantage, allowing us to serve our members and to deliver our social goals as a successful co-operative, while making a reasonable financial return to our member-owners, both corporate and individual.

What is a co-operative?
A co-operative is an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly-owned and democratically controlled enterprise. (The International Co-operative Alliance Statement on the Co-operative Identity, Manchester 1995.)

Co-operative values & principles
Values Co-operatives are based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity. In the tradition of their founders, co-operative members believe in the ethical values of honesty, openness, social responsibility and caring for others.

Principles The co-operative principles are guidelines by which co-operatives put their values into practice. They are:

- voluntary and open membership
- democratic member control
- member economic participation
- autonomy and independence
- education, training and information
- co-operation among co-operatives
- concern for community

Chief Executives' overviews

Peter Marks
Trading Group Chief Executive

It gives me great pleasure to introduce The Co-operative Group's 2006 Sustainability Report and, following the recent amalgamation of The Co-operative Group and United Co-operatives, the first over which I preside as Trading Group Chief Executive. These are exciting times for me, the business and for modern co-operation. The amalgamation (see inside front cover) has created the largest consumer co-operative in the world. With a combined turnover of £9.4bn, 87,000 employees, four million members and serving an estimated 10 million customers a week in 4,531 trading outlets (the most of any UK retailer), we are a significant business by any standard. If we were a plc, you would find us in the top half of the FTSE100.

2006 was a year in which The Co-operative Group changed its emphasis from consolidation to expansion and new business opportunity. The focus of the next 12 months has to be successful integration of the societies to form one business. The co-ordination of social, ethical and environmental matters will be at the heart of this strategy, I want our customers to say that we're a great retailer, whether it be a pharmacy, a travel branch or a food store … that we're as good as the competition but, actually, they prefer to shop with us because we add something else. We are a responsible, ethical business doing more than most to reconcile our impacts on the environment, we do our bit for society in general and for the communities in which we operate, and we are different, because we are a co-operative.

With that in mind, I am delighted to say that this Report shows the business making steady progress with regard to its social and environmental responsibilities. In a year when climate change dominated the media and political spotlight, the Group reduced its energy-related carbon dioxide emissions by a further 20%.

Like all major businesses, we operate in a global marketplace, which, of necessity, places responsibilities upon us to make sure that our suppliers maintain decent labour standards, and we continue to monitor sound sourcing performance and pursue corrective actions. Last year, we extended our range of Fairtrade products to over 150, and increased our Fairtrade sales by 26% to £22m. Contributions to the community totalled £7.1m, or 2.2% of pre-tax profit – the UK's leading quoted companies give an average 0.79%. This investment supports a wide range of environmental and social programmes, from community health funds to consumer credit counselling services, often in some of the most deprived communities in the UK and beyond.

The fact that this and all the other pioneering work detailed in this Report has been recognised through a number of industry awards – most notably, the Queen's Award for Enterprise in the Sustainable Development category, the Renewable Energy Association's Pioneer Award and Business Commitment to the Environment's Peter Parker Award for environmental leadership – may come as the icing on the cake for the many staff whose efforts contribute to our sustainability programme. But this work is about more than just awards. It's about ensuring we are responding to stakeholder concerns on our key social and environmental impacts, it's about ensuring our co-operative values and principles underpin 'business as usual', and it's about moving further towards the ultimate goal of sustainable development.

David Anderson
CFS Chief Executive

This is the first year that the sustainability reporting of Co-operative Financial Services, which has, on a number of occasions, been recognised as being world leading, has been brought together with that of the Trading Group of businesses. The result is the most holistic review of the key social, ethical and environmental issues ever presented of the diverse range of operations of The Co-operative Group.

Within this, I am pleased to report that, during 2006, we have made significant progress with our plans to create a single, customer focused business and also towards our ten-year vision to become the UK's most admired financial services business. CFS' leading performance in Business in the Community's Corporate Responsibility Index, coupled with continuing high awareness of the bank and Co-operative Insurance as financial services businesses that take ethical and environmental issues into account, have supported the attainment of our targets for market leading social responsibility – one of five measures that underpin CFS' vision.

The bank's groundbreaking customer-led Ethical Policy – still all but unique in the British banking sector – again receives a clean bill of health from our auditors. Indeed, they have commended the quality of the work undertaken by the Ethical Policy Unit and the high level of awareness of the Policy in other areas of the business. In 2006, our Ethical Policy effectively 'cost' us £11.7m in terms of income foregone as a result of ethical screening, but we know that this cost is more than offset by the many customers who continue to bank with us for ethical reasons.

Meanwhile, we were proud to see the Co-operative Insurance ethical investment fund, the Sustainable Leaders Trust, emerging as the best performer of the 324 unit trusts in the UK All Companies sector – the first ethical fund to ever top investment performance tables and a fantastic achievement. Furthermore, Co-operative Insurance's commitment to being an active and assertive institutional investor was again evident throughout the year; voting on 7,691 UK resolutions tabled by management – 10% of which saw us voting in opposition.

Alongside the effective stewardship of our principal impact, the provision of finance, we have continued to make good headway in relation to our environmental responsibilities. With considerable progress already previously made towards tackling our relatively low net carbon emissions, a further reduction by 29% per employee of carbon dioxide emissions from energy use is a big achievement.

We have recently announced a £250m investment in the business, to support planned growth in areas such as retail and corporate banking and general insurance, with a view to significantly increasing our customer and membership base. In order to maximise the return on this investment and to ensure it serves customers in the most cost-effective way, we also plan to reduce our annualised operational costs by £100m by the end of June 2008. A number of measures are underway to achieve the cost reduction, but job losses are, regrettably, unavoidable, and we are partly through a programme to reduce our workforce by approximately 1,000 by the end of 2007. Whilst these are hard decisions to make, I believe that the business plan outlined is vital if CFS is to achieve its vision.

As we begin to deliver our investment plan, I will be seeking to ensure that our social, ethical and environmental responsibilities remain at the fore. The next 12 months will be both challenging and exciting, but I am confident that they will deliver a much more sustainable – in every sense of the word – model for CFS, that equips us with all the necessary means to realise our vision.

Sustainable Development Policy

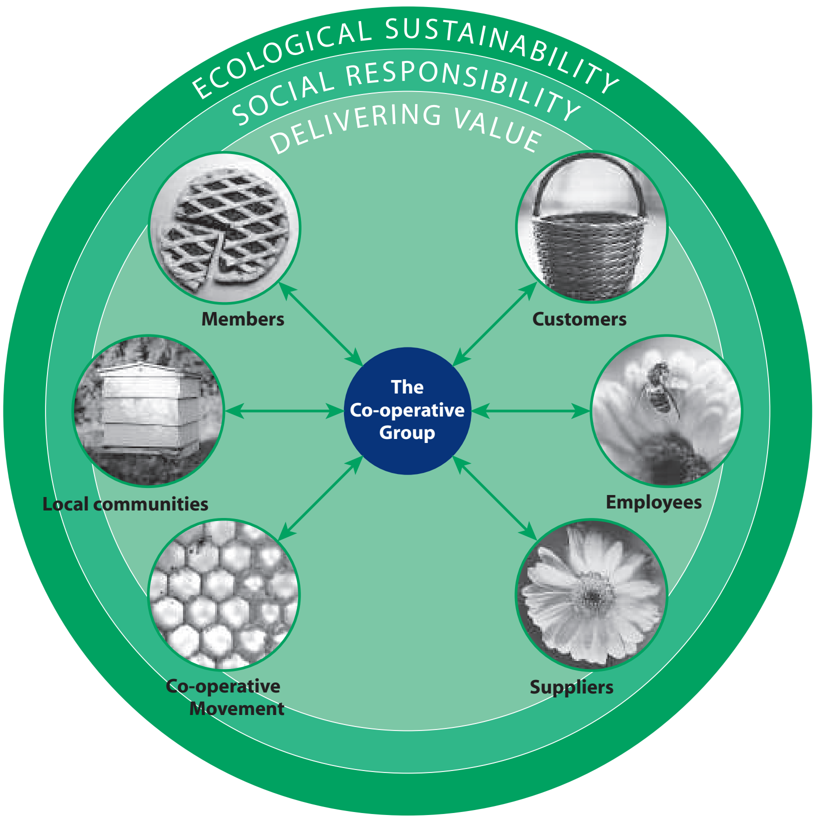
The Co-operative Group seeks to deliver value in an ecologically sustainable and socially responsible manner

The Co-operative Group (the Group) recognises the need to manage and develop its business in a sustainable manner – ie, business development that meets the needs of the present without compromising the ability of future generations to meet their own needs.

We recognise that there are physical limits to the resources of the Earth (both in terms of generating materials and absorbing wastes), and that any business activity that exceeds these limits is, by definition, unsustainable in the long term and will need to be reconstituted. Nature cannot withstand a progressive build-up of waste derived from the Earth's crust, nor can it withstand a progressive build-up of society's waste, particularly substances that cannot degrade into harmless materials. In addition, the productive area of Nature should not be diminished in terms of quality (diversity) or quantity (volume) and must be enabled to grow. These we recognise as the minimum conditions for ecological sustainability.

There are ethical components of sustainable development for which business should be accountable. These extend far beyond legislative compliance. Unlike for ecological sustainability, there exists much less consensus as to what constitutes socially responsible business practice. Therefore, when considering such matters, the Group will undertake stakeholder dialogue and be guided by the views arising – particularly those of members and customers, given their vital roles in governance and economic viability, respectively. More broadly, the Group will be guided by the long-established co-operative values of self-help, self-responsibility, democracy, equality, equity and solidarity, and the pursuit of legislative compliance.

We will seek to be transparent and accountable in our pursuit of sustainable development; reporting on progress (or the lack of it); securing independent verification; and setting clear priorities and targets for all material activities.



Approach to reporting

Indicators: The Report is structured around indicators. These are derived from three sources:

- Stakeholder engagement;
- Trading Group and CFS business strategy; and
- Ethical, sustainability and co-operative standards and guidelines.

Indicators appear in a green box at the start of each subject. A list of indicators, with details of derivation and page references can be found on pages 8–9.

Subject: Indicators are grouped together under a themed subject.

Benchmarks: Where possible, performance is benchmarked against that of other organisations to help the reader make sense of reported performance. This **BENCHMARK** symbol appears next to comparative information.

Targets: Targets for the prior year's activity, along with future targets, are detailed under each subject. Depending on the Group's performance and the evidence presented to its sustainability auditors, progress against targets from the prior year is classified as either 'achieved', 'substantial' (wherein progress is 75% or more attained), 'acceptable' (50% or more attained), 'partial' (25% or more attained) or 'not achieved'. Of the 48 targets set last year[1], the Group's progress against these is as follows:

Fully achieved	28
Substantial progress	4
Acceptable progress	6
Partial progress	5
Not achieved	5

In this Report, 68 new targets have been set for attainment in 2007 and beyond.

Footnotes: Used to detail the relative completeness of data, provide the sources of external data and convey detailed information.

Restatements: Where a review of previously reported data has identified inaccuracies, the information is restated and identified by the symbol **R**. Details of restatements are provided at: www.co-operative.co.uk/corporate/sustainability/restatements06

1 Additionally, a further target seeking a reduction in water consumption was set for attainment in 2006. As a result of the re-prioritisation of environmental activities (page 70), water use is no longer reported on.

Indicators of co-operative, social and environmental performance

Governance

	No.		Derivation[1]	Page
Sustainability management	1	Sustainability governance and management systems	Strategy/Standard	11
	2	Awards and recognition	Strategy	13
Modern co-operation	3	Member economic involvement: dividend payments	Standard	17
	4	Membership growth	Strategy	18
	5	Member democratic participation	Standard	20
	6	Membership diversity	Standard	21
	7	Member training and education	Standard	22
	8	Co-operation amongst co-operatives	Strategy	22

1 Stakeholder-derived indicators are based upon stated priorities as ascertained through consultation; strategy-derived indicators flow from the Trading Group and CFS' business strategy; and standard-derived indicators come from ethical, sustainability and co-operative standards and guidelines.

Social responsibility

	No.		Derivation	Page
Labour standards and human rights	9	Sedex registration: Food	Strategy/Stakeholder	28
	10	Supplier capacity building: Food	Strategy/Stakeholder	30
	11	Fairtrade range and volume: Food	Strategy/Stakeholder	31
Animal welfare	12	Assurance of food production	Strategy/Stakeholder	36
	13	Animal testing of toiletry and household products	Strategy/Stakeholder	39
Diet and health	14	Additives	Strategy/Stakeholder	43
	15	Nutritional content: salt	Strategy/Standard	43
	16	Nutritional content: fats	Strategy	44
	17	Nutritional labelling	Strategy/Standard/Stakeholder	46
	18	Promotions, marketing and information	Strategy/Stakeholder	46
Ethical finance	19	Socially responsible investment: Bank	Strategy/Stakeholder	50
	20	Socially responsible investment: Insurance	Strategy/Stakeholder	51
Social exclusion	21	Access to outlets and channels	Strategy	56
	22	Basic Bank Account provision	Strategy	57
	23	Support for credit unions	Strategy/Stakeholder	57
	24	Banking support for small business in deprived areas	Strategy	58
	25	Microfinance support	Strategy	58
	26	Tackling crime and re-offending	Strategy	58
Diversity	27	Workforce composition	Standard	60
	28	Accessibility of products and services	Standard	63
Community investment	29	Community financial contributions: percentage pre-tax profit	Standard	66
	30	Community volunteering contributions: days contributed	Standard	68

Ecological sustainability

	No.		Derivation	Page
Climate change	31	Energy: carbon dioxide emissions	Standard	73
	32	Energy usage	Standard	73
	33	Transport: distribution/business mileage	Standard	76
	34	Transport: carbon dioxide emissions	Standard	76
	35	Carbon offset: products and operations	Strategy	78
Waste and packaging	36	Waste disposed	Standard	83
	37	Waste re-used/recycled	Standard	85
	38	Proportion of waste re-used/recycled	Standard	85
Biodiversity	39	MSC-certified fish species sold	Standard	89
	40	MCS ‘fish to avoid’ species sold	Standard	89
	41	FSC-certified timber products sold	Standard	90
	42	Peat content of growing media sold	Standard	91
	43	Biodiversity initiatives: Farms	Standard	91
	44	Biodiversity enhancement: CFS	Strategy	92
Persistent, bioaccumulative and toxic (PBT) chemicals	45	PBT reduction: Food	Standard	93
	46	PBT reduction: Non-Food	Standard	97
	47	PBT reduction: Co-operative Group goods not for resale	Standard	97

Employees and customers

	No.		Derivation	Page
Employees	48	Colleague engagement	Strategy/Stakeholder	100
	49	Employee turnover	Standard	101
	50	Trade union recognition	Standard	101
	51	Organisational change	Stakeholder	101
	52	Personal development and training	Stakeholder	102
	53	Salary and benefits	Stakeholder/Standard	103
	54	Work/life balance	Standard	104
	55	Health and well-being	Standard	104
Customers	56	Customer satisfaction: Food, Pharmacy, Travel and CFS	Strategy/Stakeholder	107
	57	Corporate and business banking customer profile	Strategy	109

Governance

We have returned some £42.3m of our 2006 profits to our members. To join us visit www.co-operative.coop/membership or phone 0845 090 1456.

Sustainability management

1 Terms of Reference for elected committees can be found at: www.co-operative.co.uk/corporate/sustainability/areacommittees and www.co-operative.co.uk/corporate/sustainability/regionalboards

2 The Co-operative Group complies with the UK combined code on corporate governance as far as it is applicable to an industrial and provident society. Compliance is reported in the 2006 Annual Report and Accounts of The Co-operative Group, p45–51 and Co-operative Financial Services, p27–34.

3 The Co-operative Group Annual Report and Accounts 2006, p24–27 and Co-operative Financial Services' Financial Statements 2006, p17–18.

4 The Trading Group is currently further refining and developing its Balanced Scorecard, and a range of additional KPI measures are in development for 2007. The key measures for 2006 include some of those Balanced Scorecard measures already being tracked and targeted, along with other key measures that are used by the Executive and Board to monitor business performance, both financial and non-financial.

5 In 1987, the Brundtland Report, 'Our Common Future', defined sustainable development as 'development that meets the needs of the present without compromising the ability of future generations to meet their own needs'.

Sustainability governance and management systems

Awards and recognition

Target 2006

- Ensure that CFS' sustainability management and reporting systems continue to be recognised as being at the leading edge of best practice. Target achieved

Target 2007

- Consult members on the development of an Ethical Policy for The Co-operative Food for launch in early 2008.

Background

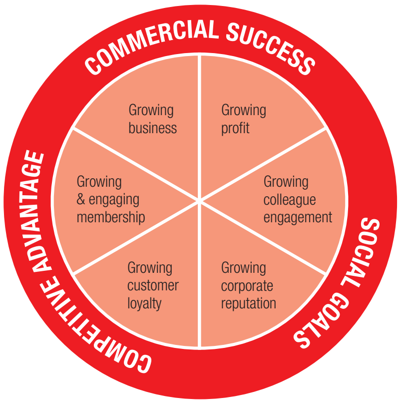
The Co-operative Group is a member-owned co-operative, and is registered in the UK under the Industrial and Provident Societies Act. As owners of the business, members of The Co-operative Group have a say in how it is managed, through their participation in its democratic governance structure, as detailed on page 19. Members' capacity to effect change within the business includes, but is not restricted to, the area of sustainability. Elected area committees and regional boards, which are drawn from the membership, consider issues as diverse as store closures and the allocation of Community Fund donations[1]. Working in parallel with the democratic governance structure, the business also operates more traditional governance structures, which include mechanisms to manage and oversee the Group's approach to sustainability[2]. These are detailed in the following section.

Vision and strategy

It is The Co-operative Group's vision to be the best co-operative business in the world. In pursuit of this, commercial success, competitive advantage and social goals have been identified as strategic imperatives, as set out in its new balanced scorecard.

Whilst The Trading Group and CFS have a common set of strategic priorities, the methodology for measuring these differs slightly in most cases, reflecting the differing nature of their respective markets and operations. In accordance with the requirements of the new Enhanced Business Review regulations, the key performance indicators underpinning strategy, together with progress, are now reported on for both The Trading Group and CFS[3].

The Co-operative Group's Balanced Scorecard[4]



In 2006, a new Group-wide Social Goals Strategy was developed. This was considered, refined and approved by the Executives of Co-operative Financial Services and the Trading Group, and subsequently the Group Values & Principles Committee, a senior Committee of the Group Board. The Strategy acknowledges that no business can lead on every aspect of sustainable development, and that issues need to be prioritised and resources focused. The Environment is singled out as a primary issue, and, within this, the fight against climate change and the necessity of solid waste reduction are seen as priorities (page 70). Community involvement and campaign activity will now focus on climate change, social inclusion, tackling crime, good with food and support for modern co-operation (page 65). The Strategy also sets out the need for the Group to improve the quality of its sustainability accounting, auditing and reporting and the need for better consideration of its material impacts (such as sound sourcing).

The need for the business to develop in a more sustainable manner[5] is central to the Group's social goals strategy. It is recognised that there are physical limits to the resources of the Earth, both in terms of generating materials and absorbing wastes, and that any business activity exceeding these limits is, by definition, ecologically unsustainable in the medium to long term. In its pursuit of the social element of sustainable development, the Group will continue to be guided by its stakeholders (and members in particular), by sustainability standards and the co-operative values of self-help, self-responsibility, democracy, equality, equity and solidarity.

Underpinning the Group's pursuit of sustainable development is an increasingly robust system of governance, management, accounting and internal control, together with a renewed commitment to provide leading edge openness and honesty.

Governance

Oversight of the Group's sustainability, community and membership strategies is undertaken by a senior committee of The Co-operative Group Board – the Group Values & Principles Committee[6]. The Committee is appointed by the Board and, during 2006, comprised one elected Director from each of the Group's eight regions (page 18), along with a Deputy Chair of the Board, who chairs the Committee[7].

That such authority should rest with a body made up entirely of non-executive directors, many of whom are drawn from the Group's ordinary membership[8], is significant, and is almost certainly unique amongst large businesses in the UK.

The term social accountability is gaining increased currency amongst businesses; however, its scope is usually restricted, at best, to stakeholders having a say in what issues a business measures and reports on (ie, the 'materiality' of the issues). This is good and proper, and an approach CFS has pioneered for nearly ten years, and for which it has received almost a dozen awards. However, given that, at the Group, members are firmly embedded in governance (both in general, and in sustainability governance specifically) and policy formulation (page 14), it is no longer considered as necessary for the business to devote valuable time and resource to the ratification with stakeholders of accounting systems and indicators. Rather, this, and future Reports, will explore anew how the Group's strategies, policies and performance respond to stakeholder concerns via its democratic structures (ie, the actual 'responsiveness' of the business).

More broadly, the majority of Co-operative Group Board members (17 of 27, or over 60%) are elected by the Group's 45 area committees, which, in turn, comprise individuals from the individual membership base (page 19). The remaining members are elected by, and from, the corporate membership of the Group, who represent societies to whom the Group provides services.

Each regional board has a Values & Principles sub-committee, which is tasked with ensuring that co-operative principles and social goals are pursued at a regional level. A region's V&P committee comprises elected members delegated from area committees and the regional board, and has the authority to escalate issues for the consideration of the Group V&P Committee.

Given the increasing depth and complexity of environmental issues, in 2007, the Group V&P Committee established an Environmental Advisory Committee[9] under the chairmanship of Brian Rees, a non-executive member of the Group Board. The Committee includes representation from management and six regional board designates (as put forward by the regions for the consideration of the Chair). Amongst other things, the Committee will monitor progress, make recommendations and consider the education of staff, members and customers in relation to environmental matters.

Risk management and internal control

The Group operates a diverse range of businesses and is, therefore, exposed to a complex array of risks (in this context, risks are considered material only in so far as they have the ability to impact the short and/or long-term value of the business). Separate risk registers exist for CFS and Trading and Corporate. These are reviewed at least quarterly, by bespoke risk management committees, and reported to both of the two Executives. On top of this, significant risks are combined for the whole business and recorded in a Group Risk Register, which is considered by a Group Risk Management Committee (as of 2006, this now includes representation from the Group's Ethics and Sustainability team) and, ultimately, the Board, via the Group's Audit & Risk Committee[10]. Brand damage is considered to be one of the seven most significant risks to face the Group, in terms of residual value.

The Group Board has overall responsibility for the business' system of internal controls, which aim to safeguard the Group's assets. A key part of the process in assessing internal control by the Audit & Risk Committee is an annual 'letter of assurance' process by which the Executive confirm the adequacy of their systems of internal financial and non-financial controls, their compliance with policies (including those relating to safety, health and the environment), local laws and regulations (including the industry's regulatory requirements), and reporting any control improvements required. The directors review the system of internal controls and believe it complies with the Turnbull Report guidance. The Committee considers that there have been no weaknesses that have resulted in any material losses or contingencies that have not been disclosed.

6 The Terms of Reference of the Group Values & Principles Committee can be found at: www.co-operative.co.uk/corporate/sustainability/vandptor

7 In 2006, the Group V&P Committee comprised 13 members, and, until 21 June, was chaired by a non-executive Board member – Robin Stewart, deputy chair of the Group Board. Following his appointment to the deputy chair on 21 June 2006, Stephen Watts, a non-executive director, became the new chair of the Committee. The Committee met five times during 2006 and, during the year, its effectiveness was reviewed by its members and the Board.

8 Anyone above the age of 16 who lives in the UK and agrees to invest at least £1 with the Society can become a member of The Co-operative Group.

9 Terms of Reference for the Environmental Advisory Committee can be found at: www.co-operative.co.uk/corporate/sustainability/envadvisorytor

10 As reported in The Co-operative Group Annual Report and Accounts (p46–47), the Committee has eight members and is chaired by one of the deputy chairs. Amongst other things, the Committee monitors the Society's Code of Business Conduct, which includes whistle-blowing procedures, ensuring that appropriate arrangements are in place for employees to be able to raise matters of possible impropriety in confidence, with suitable subsequent follow-up action. An alternative reporting channel has been created whereby concerns may be reported via telephone, email and post – anonymously if necessary.

Far left In accordance with the requirements of the new Enhanced Business Review regulations, the annual reports of both the Group and CFS disclose the principal risks and uncertainties faced by the businesses.

Left Members have been invited to have their say on the development of an Ethical Policy for The Co-operative Food.

On appointment, directors undertake an induction programme, designed to develop their knowledge and understanding of the Group, and, following a skills assessment, an individual development plan is agreed with each director. As detailed in the Annual Report and Accounts, throughout their period in office, directors are continually updated on the Group's business, its competitive and regulatory environments, corporate social responsibility matters and other changes affecting the Group and the industries in which it operates. Updates are provided by written briefings and via meetings with members of the Executive. Throughout 2006, the Group Board received quarterly progress reports on ethics and sustainability matters. In addition, the Group and CFS Executive teams receive monthly updates on progress, with an emphasis on matters arising and developments pending.

In accordance with the requirements of the new Enhanced Business Review regulations, in 2007, the Annual Report and Accounts of the Group[11] and Co-operative Financial Services[12] each provide a statement on the principal risks and uncertainties being faced. Previously, CFS and the bank prepared Social, Ethical and Environmental (SEE) Risk Statements as per the Association of British Insurers' guidelines on socially responsible investment[13] (see page 51 for details of how Co-operative Insurance seeks to encourage SEE risk reporting amongst UK investees via shareholder activism).

Management

Day to day management of the Group's social goals strategy is undertaken by the Ethics and Sustainability (15 full-time equivalent staff) and Community and Campaigns (11 full-time equivalent staff) Teams in the Group's Corporate Affairs and Social Goals department. The department came together in spring 2006, following the centralisation of a number of CFS and Trading Group corporate functions. Since spring 2006, the Director of Corporate Affairs and Social Goals has reported to the Group Marketing Director, who is a member of the Group Executive[14].

Responsible shareholding activities are additionally supported by a distinct team (ten full-time equivalent staff) within Co-operative Insurance's Investment Management function, and responsible retailing by a distinct team within Co-operative Food.

BENCHMARK In April 2007, a Queen's Award for Enterprise in the Sustainable Development category was conferred upon the Group. The Award recognised the Group's achievements in embedding sustainability across its operations and will run for five years. The official announcement stated: "The business has implemented an impressive range of initiatives across all aspects of its activities, reflecting a commendable corporate sustainability ethos. Key amongst these initiatives is its suite of impressive ethical investments and its laudable leadership on Fairtrade issues. Innovative schemes to reduce its transport impacts, coupled with pioneering research to reduce the impact of its own-brand packaging, and investment in projects to reduce energy consumption, also testify to the ambitious sustainability aims of the Group. The Group is also to be praised for its strong Co-operative Community Investment Foundation that provides direct financial support, as well as volunteer support, to a number of community organisations, and for its social goals agenda". The Group is the only major food retailer or major financial services provider to have been awarded the Queen's Award for Enterprise in the Sustainable Development category.

BENCHMARK In recent years, the Trading Group, Co-operative Insurance and The Co-operative Bank have all separately benchmarked their strategy, management, reporting and performance in the area of corporate responsibility via participation in Business in the Community's (BitC) annual Corporate Responsibility Index[15] – and, in 2006, the bank was ranked first, Co-operative Insurance tenth, and the Trading Group 61st. Later in 2006, the decision was taken to make a consolidated submission for CFS, and to defer a wider Group-wide submission until such a time as consolidated accounting systems were firmly embedded over at least three years (the amalgamation with United Co-operatives, see inside front cover, may push back a submission further still). In 2007, following BitC's decision to move to bandings from rankings, CFS was placed in the Platinum (highest) group of the 110 publicly participating companies, attaining a score of 98%, and emerged as sector leader. CFS was also ranked Platinum in the Environment Index[16] (with a score of 99.79%), which has been banded, and not ranked, for some time. In 2007, for the first time, BitC also introduced a Community Index, derived from the broader CR Index submission. CFS was, again, placed in the Platinum Group of companies, attaining a score of 99.08%. As set out in its Annual Report and Accounts, CFS' performance in the BitC indices is one of two key measures used to assess whether its KPI of 'market leading social responsibility' is being realised.

11 The Co-operative Group Annual Report and Accounts 2006, p34–37.

12 Co-operative Financial Services Financial Statements 2006, p41–42.

13 www.abi.org.uk/Display/File/85/SRI_Guidelines.doc

14 The Group Marketing Director has Executive responsibility for community and environmental strategy and performance across The Co-operative Group, and for marketplace strategy and performance in the Trading Group. Marketplace issues at CFS are the Executive responsibility of the Chief Operating Officer. Both Trading and CFS Executive teams have Directors of Human Resources with Executive responsibility for workplace issues, such as diversity, health and safety and well-being.

15 www.bitc.org.uk

16 Attracted 134 participants. Average score of 82%. www.bitc.org.uk/take_action/in_the_environment/getting_involved/the_environment_index/index.html

Policy

The Group's overarching approach to ethics and sustainability has been consolidated in a new Sustainable Development Policy (page 6). This outlines the Group's aspiration to deliver value to its stakeholders in an ecologically sustainable and socially responsible manner, along with its commitment to be transparent and accountable in the pursuit of sustainable development.

In addition, The Co-operative Bank and Co-operative Insurance operate customer-mandated ethical policies that govern, respectively, who the bank will and will not finance and Co-operative Insurance's approach to engagement with investees (pages 49–55). Similarly, in early 2007, a project was initiated to develop an analogous member-mandated Ethical Policy for Co-operative Food[17]. This will focus on responsible retailing and goods for resale, and will, ultimately, supersede the previous series of Viewpoints[18]. It is intended for launch early in 2008. The process to engage the Group's members began with focus groups and one-to-one discussions, which led to the development of an Ethical Policy questionnaire. The questionnaire was distributed to 1.2 million members as a supplement to the principal membership magazines, Network and Good for Everyone. To allow all members who wished to participate to have the opportunity to do so, online communication and in-store media supplemented the distribution of the questionnaire.

Following finalisation of The Co-operative Food Ethical Policy, the Group will have a suite of bespoke, customer/member-mandated ethical policies in place in connection with the majority of its business activity[19]. Consideration will be given to specialist retail businesses in 2008 and beyond.

A Group Health and Safety Policy seeks to ensure that the health, safety and welfare at work of all employees is safeguarded, and that non-employees are protected from any hazard created by the Group's operations. The Policy statement is signed by the Chief Executive, and is applicable to all Group businesses, their management and employees[20]. During 2006, the Group's fire risk assessment policies and procedures were reviewed and, where necessary, revised to bring them in line with the Fire Safety Reform Order 2005, which came into force in October 2006.

A host of specific policies have been developed in relation to issues such as sound sourcing and packaging, and these are detailed in relevant sections throughout the Report.

Reporting

The process of accounting, auditing and reporting on material social, ethical and environmental impacts is a central component of the Group's pursuit of sustainable development. It is a critical driver of performance improvement for management, and at the same time provides crucial data to stakeholders; not least members, who can use it to inform their custom and governance relationships.

This is the first Group Sustainability Report to fully consolidate sustainability reporting from across the Group's family of businesses. Previously, Co-operative Financial Services' sustainability reporting has ranked amongst the best in the world, whilst the Trading Group's reporting has been well regarded in the UK[21].

With regard to the Trading Group, this Report continues to build on the foundations laid in the 2005 Report, which saw much greater focus on those issues that are *material*, such as labour standards in the supply chain and animal welfare. Previously, the Trading Group's reporting centred upon a set of process and impact key performance indicators that were established in 2003. In 2006, these were re-tested against an up-to-date understanding of what is material to the business and to stakeholders. In many instances, the Group continues to report against these indicators (eg, carbon dioxide emissions); in others, they have been refocused (eg, sustainable purchasing, which now permeates a variety of new sections); and in others, they have been replaced, (eg, water usage has been replaced by biodiversity). The development and maintenance of accounting systems across a business as large and complex as the Group can, at times, be challenging and requires that resources are focused on measuring those things that are most important to the business and its stakeholders. This prioritisation continues to inform the information reported herein.

In addition to the detailed treatment of The Co-operative Bank's and Co-operative Insurance's ethical finance programmes (summarised on pages 49–55), this Report contains new *material* sections on social exclusion and chemicals, as well as much expanded disclosure in the area of biodiversity. Improvements in accounting systems advanced in 2006 have resulted in data becoming more *complete* in the Trading Group; however, a number of systems for collecting and processing data still remain manual. The business' *responsiveness* to stakeholders is now much better documented: in particular, focus has been given to the democratic influence exerted by the Group's elected members and to better explaining

17 www.co-operative.co.uk/food/foodethicalpolicy

18 www.co-operative.co.uk/corporate/ourviews

19 By way of comparison, in 2006, Co-operative Food and Specialist Retail had sales of, respectively, £3,037m and £712m.

20 www.co-operative.co.uk/corporate/healthandsafetypolicy

21 In its most recent biennial assessments of global sustainability reporting (2004 and 2006) the United Nations Environment Programme recognised CFS' reporting as first and second, respectively. Previously, in 2002, The Co-operative Bank had been ranked first. The Trading Group's Corporate Social Responsibility Reports 2003 and 2004 were shortlisted for the Best Social Report award at the ACCA Sustainability Reporting Awards in 2004 and 2005. Furthermore, in 2005, Retail Week commissioned **csr**network to review the sustainability reports of the UK's 15 leading retailers and to assess the degree to which responsible practices lay at the heart of their approach to business. The research found that the Trading Group 'led the field as the most accountable retailer in the UK', and noted it 'scored especially well in the governance and strategic intent domains'.

THE QUEEN'S AWARDS FOR ENTERPRISE: SUSTAINABLE DEVELOPMENT 2007


The UK's most ethical brands.

1. The co-operative
2. The Body Shop
3. Marks & Spencer
4. Traidcraft

Far left In April 2007, a Queen's Award for Enterprise in the Sustainable Development category was conferred upon the Group in recognition of its achievements in embedding sustainability across its operations.

Left A consumer survey carried out by independent researchers GFK NOP in early 2007 found The Co-operative to be the most ethical brand in Britain.

the inherently responsive nature of the co-operative business model (pages 19-21). A review of target attainment in 2006 and the inclusion of new targets from 2007 is detailed throughout the Report.

BENCHMARK ACCA UK Sustainability Reporting Awards – In February 2007, CFS was 'runner-up' in the Best Report category. The Judges' Report highlighted CFS' ability to 'walk the talk' when it comes to matters of sustainability, and its comprehensive reporting on the business' key material issues such as responsible lending and investment, resolution voting and ethical engagement with investees.

BENCHMARK United Nations Environment Programme Global Benchmark of Sustainability Reporting – In November 2006, the CFS Sustainability Report 2004 was ranked 'number two' in a global survey of the world's leading sustainability reports. CFS emerged amongst the top scorers in respect of its approach to management, performance, accessibility and assurance.

Audit and assurance

The Group remains committed to the AA1000 Assurance Standard (AS)[22] and, as previously described, considers its reporting now to be much more material, complete and responsive, and better in line with the three central tenets of the AA1000 approach. AA1000AS sets out the core elements of credible public assurance statements, and the requirements of the auditor in relation to their independence and competencies. In undertaking an audit based upon AA1000AS, the auditor assesses the degree to which:

- reporting contains the information that is important to stakeholders, as well as the reporting organisation;
- the reporting organisation knows its performance and stakeholders' views of this performance; and
- the reporting organisation has coherently responded to stakeholder concerns.

The Group appointed **csr**network in early 2007 to provide assurance in connection with the 2006 Sustainability Report, primarily on the basis of the high standing in which the principal auditors are held[23]. Given the generally low levels of trust in business, it is vital that those providing sustainability audit and assurance are viewed as being not just professional, but also challenging and sensitive to the aims of sustainable development. The scope and depth of the third-party independent audit extends to the verification of all key data and claims made within this Report, unless otherwise stated in the assurance statement (pages 111–113).

In early 2007, a revitalised internal audit programme was developed; partly informed by key issues identified in the last report cycle. Audit activity focused on a number of key social and environmental impact areas; namely, bank Ethical Policy implementation (page 50), The Co-operative Food's sound sourcing/labour standards programme, Group waste data and connected duty of care obligations, and Group transport emissions.

Influence and action

Financial reporting, UK

In March 2006, Co-operative Insurance responded to the UK Government's Mandatory Narrative Business Reporting Consultation[24], which was initiated following the repeal of the requirement on quoted companies to prepare an Operating and Financial Review (OFR). Co-operative Insurance argued that the disclosure of social, ethical and ecological (SEE) issues required by the OFR, would have provided a means by which the performance of quoted companies could be compared and assessed. The response maintained that the Business Review should include provisions that were originally part of the OFR requirements. Co-operative Insurance highlighted the need for the Review to include: company commentary on the main trends and factors underlying the development, performance and position of the company; the main trends and factors which are likely to affect the company's future development, performance and position; information about SEE issues affecting the company; information on the impact of the company on the environment; and a requirement that, if directors do not consider such information relevant, a statement explaining why this conclusion has been reached. Prior to the announcement of the Consultation on Mandatory Narrative Business Reporting, Co-operative Insurance signed a joint letter to Alan Johnson MP, then Secretary of State for the Department of Trade and Industry, which urged that positive action be taken to fill the void created by the abolition of the OFR requirements.

Global Reporting Initiative (GRI)

Over 2001/02, Co-operative Insurance and the bank acted as sponsors/contributors to an initiative that sought to augment the GRI Guidelines (2002) with sector-specific guidance for financial services in the area of social performance indicators[25]. A pilot version of the Sector Supplement was released in November

22 www.accountability21.net

23 Members of the **csr**network team have previously provided assurance on CFS' Sustainability Reports, which were rated by UNEP's biennial assessments as incorporating the best third-party audit and verification of any reporting in the world. Further information relating to the audit team, including Statements of Competencies and of Impartiality, can be found at www.csrnetwork.com

24 www.dti.gov.uk

25 CFS' Head of Sustainable Development acted as co-chair of the GRI-SPI Reporting Committee. See www.spifinance.com

2002[26], the first of any sector. Early in 2004, a similar project was initiated in collaboration with the UNEP Finance Initiative[27]; however, this time the focus was on environmental performance indicators. CFS was invited, and agreed, to act as an Expert Observer to the project. Initially, CFS was concerned that the proposed indicators were too focused on matters of policy and process, with far too little emphasis on disclosure of the degree to which financial products, services, assets and liabilities were actually subject to verifiable analysis and screening. To a degree, such feedback was incorporated and draft guidance was issued for consultation in March 2005. The extent to which the Group's reporting is in accordance with the GRI is available on the website[28].

AA1000 Assurance Standard

In 2006, CFS sponsored the production of guidance notes to accompany the further development of the AA1000 Assurance Standard. Guidance around the principles of materiality, completeness and responsiveness and, for the first time, levels of assurance and assurance statements[29] was developed, drawing from the body of experience that has emerged following the launch of the standard in 2003.

26 www.globalreporting.org

27 www.unepfi.org

28 www.co-operative.co.uk/corporate/sustainability/gri

29 www.accountability21.net

Modern co-operation

1 International Co-operative Alliance Statement on the Co-operative Identity, Manchester 1995.

2 The Co-operative Group has approximately 130 corporate members, who represent other co-operative societies to whom the Group provides services. These range from small workers' co-operatives, to farming co-operatives and other major retailers. Corporate members must demonstrate a commitment to co-operative values in their business practice and buy at least one share (costing £5) in the Group. This confers on them the right to participate in the Group's democratic affairs – a right that can be exercised at the AGM and in the nomination and election of corporate members to the Group Board. Corporate Board members are elected from and by the corporate membership. To that end, and most unusually, the interests of the co-operative businesses with whom the Group trades are represented on its board. At present, of the 130 corporate members of the Group, approximately 30 play an active role in its affairs.

3 With the exception of staff injury rates.

4 www.cooperatives-uk.coop/live/cme211.htm

5 www.ica.coop/coop/principles.html

Member economic involvement: share of profits

Membership growth

Member democratic participation

Membership diversity

Member training and education

Co-operation amongst co-operatives

Target 2006

- Grow trading membership to c5,000,000 by the end of 2009. Acceptable progress
- Increase the percentage of CFS' customers who are members of The Co-operative Group. Target achieved
- Renew elected member training in the areas of environmental and corporate social responsibility. Target achieved

Targets 2007

- Grow membership by 600,000 in 2007.
- On amalgamation, establish a Review Board to consider a suitable and equitable democratic model.
- Deliver a series of events to help develop members' understanding of the Group's businesses, values and co-operative heritage.
- Introduce accounting systems to ensure elected members' democratic influence can be more fully documented.

Background

A co-operative is defined as an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise[1]. There are more than 800 million individual co-operators worldwide, with co-operative businesses involved in everything from food retail, to housing, farming and education. The values that are at the heart of co-operation (page 3) are highly relevant to present-day concerns about responsible business practice, and the belief that business has a purpose and responsibilities beyond the pursuit of profit. The Co-operative Group is registered under the Industrial and Provident Societies Acts 1965 to 1978, and it is owned and democratically controlled by its members.

Unusually, for a UK consumer co-operative, the Group has both individual members and corporate members[2], the majority of the latter being drawn from the UK co-operative societies to whom it provides services.

Materiality and strategy

Growing a strong and committed membership base is integral to the Group's strategy, and key performance indicators (KPIs) for both Trading Group and CFS include the KPI of 'growing and engaging membership'. A target to grow membership by 600,000 in 2007 has been set for the Group as a whole. The Group reports against all[3] of the Co-operative, Environmental and Social Performance Indicators developed and promoted by Co-operatives[UK] as a robust starting point for sustainability accounting and reporting amongst co-operatives of all sizes[4] (page 23). Group performance against indicators 1–3, which cover member economic involvement, member democratic involvement and member training and education, is reported below. The Group seeks to deliver value to the rest of the Co-operative Movement, in line with the sixth co-operative principle 'Co-operation amongst co-operatives'[5]. This principle guides co-operatives towards strengthening the Co-operative Movement by working together through local, national, regional and international structures. The Group's Community and Campaigns Strategy (page 65), which has been agreed by its member-controlled Values & Principles Committee (page 12), stipulates 'modern co-operation' as one of five priorities, and seeks to encourage the consideration and growth of co-operative enterprises across the economy. In the most recent bank and Co-operative Insurance Ethical Policy reviews, 95% of customers expressed their wish for the bank to support co-operatives through the provision of financial services, whilst 92% of Co-operative Insurance customers expressed their wish for it to promote co-operative enterprises.

Member economic involvement: share of profits

Anyone who is aged 16 years or over, lives in the UK and agrees to invest at least £1 can become a member of The Co-operative Group, enabling them to share in the governance and profits of the business. In 2006, the Group relaunched its membership scheme. A card-based system now captures members' transactions across the Group's food, funeral, pharmacy and travel businesses. This, together with members' trade with the financial services businesses, which is determined separately, allows the Group, for the first time, to make annual dividend payments based upon transactions across a range of its businesses. At the end of 2006, The Co-operative Group had 1.5m economically active members (ie, members who actively traded with the Group in the year, and whose trade with the Group can be captured) – many of whom transferred from Co-operative Food's loyalty scheme.

A dividend payment of £27.6m for 2005 was approved at the Group's AGM in May 2006. A dividend payment of £42.3m for 2006 was approved at the Group's AGM in May 2007[6]. The significant increase in the amount of profits distributed to individual members resulted directly from the increased profits returned by the Group in 2006.

Profits for distribution

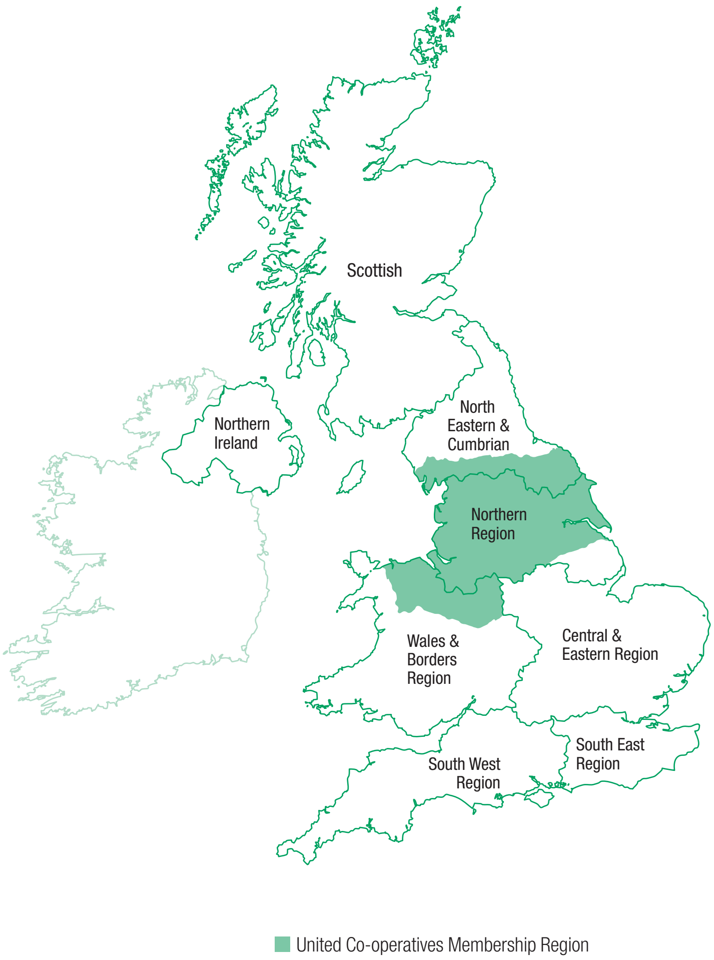
	In respect of 2005 (£m)	In respect of 2006 (£m)
Individual members	9.9	18.9
Corporate members	15	15.1
Community dividend	1	2
Employee dividend	1.7	6.3

Members transacting with the Group

2003	2004	2005	2006
613,000	613,000	796,000	1,500,000

6 This included a £4m interim dividend already paid.

The Co-operative Group regions



Regional membership teams

Northern Ireland Co-op
Carrickfergus Industrial Centre, 75 Belfast Road
Carrickfergus, County Antrim BT38 8PH
Tel: 0289 3357509
Email: membership.northernireland@co-operative.coop

Scottish Co-op
Membership Department, Robert Owen House
87 Bath Street, Glasgow G2 2EE
Tel: 0141 304 5400
Email: scottish.membership@.co-operative.coop

Northern Region
PO Box 53, New Century House, Manchester M60 4ES
Tel: 0161 246 2213/2226
Email: membership.northern@co-operative.coop

North Eastern & Cumbrian Co-op
Membership Department, Co-operative Group RDC, PO Box 1
Barley Mow, Chester-le-Street, County Durham DH2 1AA
Tel: 0191 4925137
Email: membership.northeast&cumbrian@co-operative.coop

Wales & Borders Region
Glansevern Hall, Berriew, Welshpool, Powys SY21 8AH
Tel: 01686 640779
Email: membership.walesandborders@co-operative.coop

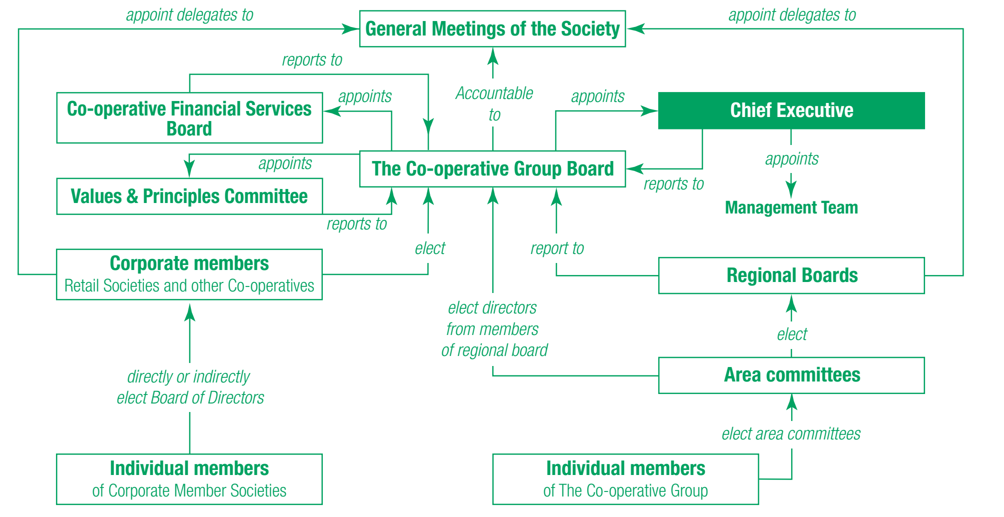
Central & Eastern Region
Membership Department, Suite 28 & 29, Challenge House
Sherwood Drive, Bletchley, Milton Keynes MK3 6DP
Tel: 01908 361500
Email: membership.central&eastern@co-operative.coop

South West Region
Limesfield, Broad Road, Dulford, Cullompton EX15 2DY
Tel: 08457 573130
Email: membership.sw@co-operative.coop

South East Region
1st Floor – Persimmon House, Anchor Boulevard, Crossways
Dartford, Kent DA2 6QH
Tel: Freefone 0800 015 1147
Email: membership.southeast@co-operative.coop

United Co-operatives Membership Region
Sandbrook Park, Sandbrook Way
Rochdale OL11 1RY
Tel: 01706 202030

Democratic structure in 2006[7]



7 Note: the structure does not represent all the sub-committees and Group subsidiaries for which the Board is responsible, as of July 2007. Staff have been kept appraised of developments since December 2006, when it was announced that the Boards were discussing the possibility of bringing the two societies together. A comprehensive brochure outlining the proposed way forward and 'next steps' was circulated to all employees in March 2007, with regular communication appearing on intranets.

8 The full responsibilities of the regional boards are detailed at: www.co-operative.co.uk/corporate/sustainability/regionalboards

9 The full responsibilities of the area committees are detailed at: www.co-operative.co.uk/corporate/sustainability/areacommittees

Regional boards and area committees

During 2006, the Group had eight democratic regions, covering the whole of the UK. Each of these has a regional board, which reports to the Group Board of Directors and comprises members elected from the Group's 45 area committees. Regional boards have a broad remit[8], which extends across the Group's regional commercial interests. These include: reviewing management proposals in respect of regional revenue and capital expenditure budgets; receiving and monitoring the sales and profitability of the region's core trading operations; making recommendations concerning the development of the region in line with core Group Board objectives and strategies; and considering regional capital expenditure proposals. Additionally, the regional boards have a number of key responsibilities in respect of constitutional arrangements and membership. Regional board members have the opportunity to seek election to the Group Board and, to this end, it is possible to progress from being a customer of The Co-operative Group to a Board Director through established, democratic channels.

Area committees have similar commercial responsibilities, but at a more local level. They are required to: monitor trading performance in the locality; make recommendations to the regional board and management regarding the development of the business in the area; be consulted regarding intended store closures, store or business disposals and new developments; and provide management and regional boards with local intelligence and knowledge[9]. Additionally, area committees allocate Community Fund (page 65) awards in line with national strategy, and work in partnership with local Group employees on membership activity and community initiatives.

The area committees also, significantly, elect the majority (17 of 27) of the Group's Board members (the remaining ten are elected by corporate members).

Supporting the elected members in each of the eight regions is a regional membership team, which is headed by a Regional Secretary. In total, some 70 colleagues support local democratic structures and facilitate the local delivery of national initiatives.

Annual general and half yearly general meetings

At the annual general meeting (AGM) and half yearly general meetings of The Co-operative Group, regions have the formal opportunity to table motions and questions. These must be submitted in advance in order that a management response can be provided from the platform. The number of regional delegates is determined by the amount of trade done in the region in the prior year, with at least one representative of each area committee in each delegation.

Corporate members, similarly, can table motions and questions. The voting strength of corporate members at the meetings is, similarly, determined by the amount of trade their business has conducted with the Group in the preceding year. Voting strength, in turn, determines the number of representatives that each corporate member can send to the AGM. In general, support for AGM motions is determined by a show of hands, with each representative being given one vote; however, for particularly contentious motions or proposed rule changes, block votes may be invoked, with the relative voting strength of a member being taken into account. Motions approved by the AGM are not binding upon management; however, the Board and/or management undertakes to consider the issues raised and provide a response on the day and an update at the next general meeting.

Member democratic participation

The degree to which members are active in the Group's affairs is a key indicator of co-operative well-being. In 2006, a total of 3,922 members attended meetings, and a total of 19,599 votes were cast in elections to area committees. 62% of elections were contested and 23 vacancies remained unfilled following elections.

Activism

	2003	2004	2005	2006
Democratically-active members	59,000	64,000	90,000	160,000
Contested area committee elections	23 (46%)	16 (32%)	27 (55%)	29 (62%)

Annual general meeting (May 2006) resolutions

Region	Motion	Response
South East	Registered disappointment on withdrawal from department store business and asked Board and senior management to make clear how it will use members' assets to provide new, improved and lasting co-operative trading services for members.	Board indicated its support for motion. Board and management indicated their commitment to the provision, going forward, of new, improved and sustainable services to members.
South West	Called on the Group to review trading practices to improve performance and bring it more into line with co-operative values. Argued that greater consideration be given to regionally-sourced products and that the brand should be synonymous with ethics.	Board indicated its full support for motion and outlined some of key steps being undertaken by the Food business to address these issues (page 14).
South West	Called for the new brand to more clearly reflect the mutual ownership of the business by its customer members and for the prominent communication of this message through outlets.	Board indicated its full support for motion and advised that it had made similar representations. The relaunch would provide all businesses with permanent materials that communicated Membership and the Co-operative difference.
Central & Eastern	Asked Board to join with local authorities and developers to enable as many of the Group's businesses as possible to be represented in new housing developments.	Board advised that this was recognised as an area of opportunity and indicated that opportunities were being actively pursued.
Scotland	In line with requirements of Disability Discrimination Act 1999 (DDA), asked that provision of portable induction loops for hearing aid users, and, where practical, the availability of a Stage 1 Sign Language Interpreter become available in stores.	The Board indicated its commitment to delivering its responsibilities in respect of the DDA. Since November 2003, all Food and specialist retail stores had been provided with portable induction hearing loops. Management committed to trialling further solutions. At the subsequent October half year general meeting, members were advised that trials now underway in 11 stores in Scotland, with specialist training provided to staff and induction loops fitted on kiosks.
Wales & Borders	Asked Board to call a Special General Meeting of the Society to discuss and debate a proposition that the Society amends its rules to remove the upper age limit to members serving on area committees.	The Board indicated that the Constitutional Review, already announced (see inside front cover), offered opportunity for members to debate such a way forward, and advised that a consultation paper on all aspects of the Society's constitution, including age, had already been circulated to members. A Special General Meeting was envisaged for 2007, at which members would be asked to vote upon age.

Half yearly meeting (October 2006) resolution

Region	Motion	Response
Wales & Borders	Asked the Board, as part of new ventures strategy, to examine prospect of The Co-operative Group becoming a supplier and installer of micro-generation products, such as solar panels, to members and householders.	Management responded that the new ventures team had assessed the potential of such a business proposition. Testing of the opportunity resulted in the development of a proposition in late 2006/early 2007. Further development of the concept is awaiting the completion of merger planning, and it is intended that the proposal be revisited in due course.

Far left All members are eligible to share in the profits of The Co-operative Group – £18.9m being distributed to individual members in relation to 2006 profits.

Left Following representations made by the Western Scotland Area Committee, it was announced, in October 2006, that charging would be removed from Co-operative Bank cash machines by the end of 2007.

Going forward, the Group intends to develop a consolidated accounting system that describes how members influence the direction of the business at all levels. This development was progressed in early 2007 when all eight democratic regions were asked to describe recent instances where elected members had initiated ideas, challenged the business to pursue a particular strategy or pushed the business for progress on a particular issue. A selection of these is provided below, with the learning from this data capture exercise going on to inform more exhaustive reporting in 2008.

- At its February 2006 meeting, the Western Scotland Area Committee raised concerns regarding the presence in The Co-operative Bank's ATM estate of cash machines that charged for cash withdrawals. Of particular concern was the potential impact of such charges on people living in rural areas and people on low incomes. The meeting moved a motion articulating these concerns, which was submitted to and, in turn, approved by the Scottish Board, and, subsequently, escalated to AGM. In October 2006, following the decision of the CFS Board, the Group Board announced that charging would be removed from Co-operative Bank machines by the end of 2007, and work is presently underway to achieve this (page 57).

- Following concerns raised in 2005, throughout 2006, the Northern Regional Board and East Coast Area Committee had ongoing discussions with management regarding two stores identified for possible closure. The regional board worked with area and regional food management, to effect a number of improvements at the stores – particularly with regard to the range of products sold. Performance improved to the extent that the stores were eventually withdrawn from the potential closure list. Their ongoing performance continued to be monitored by the regional board, with both stores demonstrating improvement and one, by November 2006, being removed from the 'at risk' list.

- At the Regional Central & Eastern AGM 2006, a member raised the issue of potential offence caused by the sale of magazines that had sexually explicit images on their covers. A similar point, concerning the sale of a newspaper that carried such imagery, was raised separately at the Herts and Essex Area Committee in July. Following representations to the business by the regional board, a three-month trial was instigated in 25 stores to assess the impact of removing the offending newspapers from the shelves.

  A 50-store trial was also introduced, which involved half of the stores being fitted with shelf devices that obscured the covers and half being supplied with covers for the magazines. The business also entered into dialogue with one publisher, who, following pressure from The Co-operative Group and other retailers, is taking several steps to tone down adult content on front and back pages.

- At its September 2006 meeting, the Central & Eastern Regional Board discussed the funding shortage that had developed at the emerging educational project at The Co-operative Farm's Oadby site in Leicestershire. The board made contact with the Corporate Affairs and Social Goals department, who, in turn, secured additional funding and support from the Group's Values & Principles Committee for the further development of the project. More details of the project are provided on page 47.

Membership diversity

A membership Diversity Working Group (DWG), reporting directly to the Group Values & Principles (V&P) Committee (page 12), oversees the implementation of diversity initiatives amongst the Group's membership. The Group is tasked with considering diversity issues in relation to members and their participation in the Group's governance and is required to provide relevant reports to the Group V&P. In 2006, the DWG drew representatives from across the membership structure, including the Group V&P, the regional V&Ps and the four membership diversity networks. Despite efforts to address the relatively poor representation of some groups in the democratically active and wider membership, including the creation of a women's and Black and Minority Ethnic (BME) network, the Group's democratic structure is still some way from being considered truly representative.

	2003	2004	2005[10]	2006
Total number of area committee members	627	634	630	532
Female elected members	39%	38%	40%	38%
Average age of elected members	56	58	56	57
Ethnic minority elected members	2%	2%	2%	2.4%

To provide greater strategic focus to the issue of diversity within membership, in 2006 the regional Values & Principles committees were each asked

10 A one-off survey conducted amongst elected members in 2005 generated additional diversity information as follows: 24% declared a disability, 8% described themselves as lesbian, gay or bisexual, and 26% said they were carers.

to set two diversity priorities for their region for the forthcoming two years, which would be incorporated into their action plans for 2007[11].

Member training and education

The Co-operative Group launched a Member and Director Learning Framework in 2002[12]. Created in partnership with the Co-operative College, the framework offers an accredited, stepped learning programme that enables members to develop their abilities and knowledge. There are three levels of learning:

- A national induction for newly-elected committee members is facilitated by representatives from regional membership teams. This introduces new members to the diverse aspects of their role, with the aim of them gaining an understanding of the skills and knowledge required to be effective committee members.
- Following this, area committee members can pursue a Certificate in Co-operation. This requires the successful completion of eight modules, covering subjects such as 'members and member involvement', 'ideals, principles and structures' and 'understanding management accounts'. Certification is not mandatory for area committee members, unless members wish to stand for a regional board. Since the programme's introduction, 110 members have graduated.
- Lastly, regional board members are required to complete a Diploma in Co-operation, which consists of nine modules and includes topics such as 'business and financial decision making' and 'understanding the governance code'. The Diploma is a mandatory requirement for both re-election to a regional board and election to the Group Board. A total of 25 members have now graduated.

Co-operation amongst co-operatives

Through partnerships with other co-operatives, the Group seeks to work for the long-term success of the Co-operative Movement. It seeks to actively promote co-operation – both nationally and internationally – through its support for/involvement with representative bodies, including the International Co-operative Alliance[13], Co-operatives^{UK}[14], Mutuo[15] and the Co-operative Party[16]. Additionally, it directly progresses a number of initiatives that support co-operatives and their members, as described below. Support for credit unions is outlined on page 57.

Financial services

A bespoke banking package – Co-operatives Directplus[17] – is available to all member organisations of Co-operatives^{UK}. Via Business Banking, the bank provided some £138.2m of lending to co-operatives and mutuals during 2006 (2005: £132.6m). Additionally, The Co-operative Bank offers a bespoke savings account and credit card for Co-operative members, further details of which can be found on the membership section of the website[18].

The Co-operative Fund

The Co-operative Fund[19] is financed by the Group, and was created to provide grants to promote, support and develop co-operative solutions and enterprises; expand the Co-operative Movement; and promote the co-operative advantage. In 2006, the Fund distributed grants totalling almost £308,795 to seven projects. These included supporting Energy4All to create new community-owned renewable energy projects (page 81); support for the Co-operative Family and Value Credit Unions (page 57); and support for Local Food Links, Bridport, to provide a new school meals co-operative (page 47).

Co-operative Schools

During 2006, The Co-operative Group continued to build its relationships with the ten Business and Enterprise Colleges it sponsors under the Government's specialist schools programme[20]. Alongside financial support, the Group's sponsorship has encouraged the development of the Co-operative Group Schools network, which brings teachers from all the schools together for mutual working and support. The sponsorship has also extended to curriculum development in the area of citizenship, with material being designed to educate pupils on modern day business practices, social history and co-operation.

Community involvement

Each region operates a Values & Principles Committee, made up of members from the regional board and area committees. Along with the regional membership teams, these committees work to deliver a programme of membership and community activities within an overall strategic framework agreed by the Group Values & Principles Committee.

Throughout 2006, activities focused on supporting the re-launch of the Group's membership proposition and on promoting the newly-established social goals agenda. Given the extent of regional activity, it is

11 Regional diversity priorities are as follows: Central & Eastern – BME communities and youth; North Eastern & Cumbrian – disability equality and carers; Northern – gender and BME; Northern Ireland – BME and carers; Scotland – disability equality and youth; South East – BME and youth; South West – gender and religion & faith; and Wales & Borders – rural isolation and lesbian, gay, bisexual & transgender.

12 www.co-op.ac.uk/memberanddirector.htm

13 www.ica.coop

14 www.cooperatives-uk.coop

15 www.mutuo.co.uk

16 www.party.coop

17 www.co-operativebank.co.uk/co-operativesdirectplus

18 www.co-operative.coop/membership/

19 Following a strategic review, The Co-operative Fund (formerly Co-op Action) re-opened to grant submissions in September 2006 with an opening capital of £2.3m. The aim of the Fund is to promote and expand the co-operative sector with the funding of projects considered under four streams: Start up; Co-operative solutions; Promotion of co-operation; and Co-operative support structures. The Co-operative Fund Board comprises of four Co-operative Group representatives (two of which are non-executive directors) and representatives from each of the Group's eight democratic regions. The Board determines the strategic direction and policy of the Fund. In 2006, the seven projects that received Fund distributed grants totalling £308,795 were: Farmcare Biomass Project, £50,000; Peak District Dairy Wagon, £50,000; Energy4All, £50,000; Local Food Links, £48,795; Co-operatives UK, £50,000; Co-operative Family and Value Credit Unions, £30,000; and Primepac Solutions Ltd, £30,000. For more information see www.co-operative.coop/fund

20 Andrew Marwell School, Humberside; Castle Manor Community Upper School, Suffolk; Cullompton Community School, Devon; Epinay Special School, Tyne & Wear; Forest Gate Community School, London; Fulston Manor School, Kent; St Benet Bishop Catholic High School, Northumberland; St Peter's Roman Catholic High School, Manchester; Sir Thomas Boughey High School, Staffordshire; Whalley Range High School, Manchester.

Far left Over 1,000 members attend 31 Fairtrade wine tasting events that were arranged to promote the Group's new Argentinian and South African Wines.

Left The Group took its Climate Challenge to 2006 Pride and Mardi Gras events in Manchester, Nottingham, Cambridge, Cardiff and Brighton.

not possible to describe in detail all of the initiatives delivered in 2006; however, a selection is presented below. The Group's magazine for active members – Network – which is published three times a year in each region, carries additional information on regional activities.

- In September, the Group launched its Climate Challenge to active members (page 80). Co-ordinated by the Wales & Borders Region, members were invited to make a pledge to change their behaviour with a view to reducing their individual impact on the environment. In total, 30 events and conferences were held to support the campaign in venues as diverse as the Eden Project and the Met Office in the South West. Over 1,000 members pledged to make a change.

- Climate change was also the theme for the Group's presence at the 2006 Pride and Mardi Gras events in Manchester, Nottingham, Cambridge, Cardiff and Brighton, where 'Climate Change Commandoes' were on hand to promote a green message.

- A number of initiatives took place during the year to support the new 'good with food' community and campaigns theme. The Group's North Eastern & Cumbrian team worked in partnership with a local community chef to take good food and cooking to communities throughout the region (page 47). The initiative has since been extended nationally.

- Support for Fairtrade continues to be a central element of membership activity. In 2006, the Northern Region coordinated the production of materials that supported 31 Fairtrade wine tasting events that were arranged by regional teams to promote the Group's new Argentinian and South African wines. Over 1,000 members attended the events, and resources produced to support the tastings were distributed onward to other campaigning and community groups – enabling a further 150 local events to take place.

- In Northern Ireland, the annual Balmoral Show provided an opportunity to bring all of the Group's businesses together to promote the co-operative message to a wide audience.

- Throughout the summer of 2006, the South East Region co-ordinated a programme of 'Respect' events, where local people were brought together with community leaders and representatives from the local police to discuss the impact of anti-social behaviour in their neighbourhood.

- The Central & Eastern Region worked throughout 2006 to develop a new range of member learning materials designed to bolster members' understanding of co-operation. Branded the 'Ripple Effect', the interactive resources are designed to work in conjunction with regular events held through the country, complementing the wider range of member learning opportunities available.

- September saw the appointment of the first Online Co-operative Affairs Officer, who is tasked with delivering activities for the Group's online membership community. Members have so far had access to e-learning modules, online web-chats and a live web-cast of the Scottish members' meeting.

Influence and action

Indicators for co-operative, environmental and social performance

In response to the recommendations of the Co-operative Commission[21], which concluded in 2001, a working group was established by Co-operatives^{UK} to devise and promote indicators of co-operative and social performance. In May 2004, Co-operatives^{UK} launched a basket of ten indicators. These are considered to cover all seven co-operative principles, and are promoted as a robust starting point for sustainability accounting and reporting amongst co-operatives of all sizes. The Co-operative Group has played a full part in the development of the indicators, and has chaired the Social and Co-operative Performance Working Group since its inception in June 2001. In 2006, a revised Guidance Document was released, along with further Good Practice Guides[22] that provide practical guidance to co-operatives on how to discharge the indicators. These include: 'how to measure employee and member training' (indicator 3)[23] and 'how to consider ethical issues in procurement and investment' (indicator 7)[24]. Additionally, CFS provided further input into the refinement of the overall reporting Guidance Document and Framework. In October 2006, the working group and the Co-operatives^{UK} Board agreed to change the name of the indicators to Co-operative, Environmental and Social Performance indicators, to more accurately reflect the performance areas measured. Promotion of the indicators continued throughout the year, with the Group's Head of Ethics and Sustainability leading a workshop on the indicators at the 2006 Social Enterprise Conference.

21 www.co-opcommission.org.uk/

22 www.cooperatives-uk.coop/live/welcome.asp?id=211

23 www.cooperatives-uk.coop/live/images/cme_resources/Public/kscpi/Training-Good-Practice-Guide.pdf

24 www.cooperatives-uk.coop/live/images/cme_resources/Public/kscpi/Procurement-Good-Practice-Guide.pdf

Social responsibility

We were the first supermarket to offer a Fairtrade cotton carrier bag for life. The bag is made from unbleached Fairtrade cotton and can be composted when it eventually wears out.

Approach to social responsibility

Approach to social responsibility

Taking a responsible approach to business has been a guiding focus of The Co-operative Group since its inception in 1863. Today, the Group's founding co-operative values and principles (page 3) resonate strongly with increasingly common contemporary ideas of corporate social responsibility. However, there are still areas where the co-operative difference is manifest, not least in terms of how the interests of ownership, control and beneficiary are vested with consumers, not capital (pages 17–23).

For more than a decade, UK retail co-operatives (of which the Group in 2006 accounted for over 50% of turnover) have been seen by many as the UK's leading ethical traders. A 2007 study on business ethics found that consumers ranked The Co-operative Group as 'the most ethical brand' in the UK[1]. In 2006, research commissioned by AccountAbility and the National Consumer Council found that the Group was the most trusted business in the UK, with key differentiation in the areas of honesty, the environment and treatment of employees[2].

The Co-operative Bank's Ethical Purchasing Index showed that ethical consumerism in the UK grew 11% in 2005, to stand at almost £30bn. In addition, over half of UK consumers state that they will deliberately avoid goods and services provided by companies they perceive as being unethical[3]. Alongside this growing market for responsibly produced goods and services, research points to other potential benefits, such as employee retention and motivation amongst a significant minority of businesses[4].

As a large and diverse business, The Co-operative Group has a wide range of social impacts – both positive and negative. Unlike for ecological sustainability, there exists much less consensus as to what constitutes socially responsible business practice. When considering such matters, the Group is responsive to the views of its stakeholders (particularly members and customers), whilst seeking to ensure its approach is aligned with co-operative values and principles and reporting standards.

Consumer research undertaken by The Co-operative Food[5] has endorsed sound sourcing[6], animal welfare[7], food integrity[8], health[9] and labelling[10] as priority areas for consideration. Extensive research with customers of Co-operative Insurance[11] and The Co-operative Bank[12] has endorsed ethical finance (and various elements therein) as a priority for Co-operative Financial Services (page 49). Key performance with regard to all these issues is outlined in the following section. In addition, the Group's new Social Goals Strategy (page 11), along with the co-operative principles of 'concern for community' and 'voluntary and open membership' and the value of 'equality' drive the inclusion of community investment, social exclusion and diversity as priority reporting areas in relation to social responsibility.

As previously described, performance indicators are derived from a combination of stakeholder dialogue and business strategy. In addition, reporting is, in part, influenced by the Global Reporting Initiative[13] and the sector-specific guidance that CFS helped develop for the financial services sector[14]. Community involvement reporting is consistent with the London Benchmarking Group guidelines[15] (page 66), and the approach to diversity reporting references Opportunity Now[16], Race for Opportunity[17], the Employers' Forum on Disability[18] and the Employers' Forum on Age in connection with gender, ethnicity, disability and age[19] respectively (page 60).

1 GfK NOP (2007) The Ethics Brand Survey, Jan/Feb 07.

2 Survey undertaken by Globsecan in May 2006 amongst a representative sample of 2,009 members of the UK general public. Respondents were asked to name, unprompted, two businesses they trusted and two they distrusted. From this a 'net trust' rating was derived.

3 www.co-operativebank.co.uk/ethicalconsumerismreport

4 www.theworkfoundation.com/Assets/PDFs/ethical.pdf

5 Some 30,000 trading customers were involved in two separate rounds (1994 and 2004) of responsible retailing research, undertaken by Gallup and NOP respectively. See Shopping with Attitude: www.co-operative.co.uk/corporate/reportsandpublications

6 Over four in ten consumers in the Shopping with Attitude 2004 survey (43%) voted this in their top three priorities. 13% say this is the number one issue. Eight in ten say retailers should stock more products that help people in developing countries improve their standard of living.

7 Half of consumers in the Shopping with Attitude 2004 survey (51%) voted animal welfare in their top three priorities. Two in ten (21%) say this is the number one issue. Nearly every consumer in the survey (98%) supports the humane treatment of animals. 71% say that it is very important that retailers buy from farmers who treat their animals well, whilst 70% say it is very important for retailers to support products which do not cause harm to wildlife.

8 Over half of consumers in the Shopping with Attitude 2004 survey (52%) considered food integrity to be one of their top three priorities. Eight out of ten consumers (82%) say they find it difficult to trust the food they buy, half (50%) say it is wrong to artificially enhance products for commercial gain, and nearly one in three (31%) say pesticide residues should be minimised.

9 Nine in ten consumers in the Shopping with Attitude 2004 survey want retailers to make it easier for them to provide a healthy diet for their families.

10 Over half of consumers in the Shopping with Attitude 2004 survey (56%) voted honest labelling in their top three priorities, and 24% said it was their top priority. 96% of consumers wanted clear labelling of ingredients, nutritional value and other relevant information.

11 Over 44,000 customers responded to a poll in 2004/05 that sought customers' views on how Co-operative Insurance should engage with investees with a view to influencing their behaviour. 98% of customers were in favour of the adoption of an Ethical Engagement Policy to guide the management of Co-operative Insurance's investments.

12 In the last review of the bank's Ethical Policy, 97% of the 70,000 customers taking part stated that they fully support the bank's policy, which prohibits the provision of banking facilities to businesses involved in a variety of activities.

13 www.globalreporting.org/ReportingFramework/G3Guidelines/

14 CFS' then Head of Sustainable Development acted as co-chair of the GRI-SPI Reporting Committee. See: www.spifinance.com

15 www.lbg-online.net

16 www.opportunitynow.org.uk

17 www.raceforopportunity.org.uk

18 www.employers-forum.co.uk

19 www.efa.org.uk

Recognition

In May 2007, Co-operative Financial Services was placed in the Platinum (leading) Group of the 110 companies that publicly participated in Business in the Community's Corporate Responsibility Index 2006. The Index is a voluntary self-assessment survey that benchmarks corporate responsibility strategy (and its integration), management, reporting and performance in a range of social and environmental areas. CFS attained a score of 98%, and emerged as sector leader amongst the six participating insurers against whom it was benchmarked. See page 13 for additional information.

Furthermore, in early 2007, the Group received a Queen's Award for Enterprise in the Sustainable Development Category, in acknowledgement of the comprehensive approach taken to its management of sustainability – in particular, its approach to ethical investment (page 13).

Business in the Community
COMPANIES THAT COUNT 2007
in association with THE SUNDAY TIMES

THE QUEEN'S AWARDS FOR ENTERPRISE: SUSTAINABLE DEVELOPMENT 2007

Labour standards and human rights

1 www.cfs.co.uk/sustainability 2005

2 Freedom House, 2002.

3 www.ilo.org/public/english/standards/relm/ilc/ilc95/pdf/rep-i-b.pdf

4 The ETI code of labour practice: 'Do workers really benefit?', Institute of Development Studies, University of Sussex, 2006.

Sedex registration: Food

Supplier capacity building: Food

Fairtrade range and volume: Food

Targets 2006

- Review The Co-operative Food's supply chain documentation and ensure that compliance with sound sourcing criteria is written into letters of agreement. Partial progress
- Further refine risk categorisations underpinning the sound sourcing auditing programme. Target achieved
- Deliver, via The Co-operative Food Quality Assurance Team, 220 site inspections in 2006. Partial progress
- Further improve the range and availability of Fairtrade products. Target achieved
- Review current sound sourcing workbooks, updating as necessary, and develop workbooks to cover South Africa, UK and Turkey. Target achieved
- Develop and implement an online sound sourcing site that will further develop supply chain capacity and assist in the self-assessment of Code compliance. Partial progress
- Develop the CFS Suppliers' website with case studies to disseminate best practice. Target not achieved

Targets 2007

- Review The Co-operative Food's supply chain documentation and ensure that compliance with sound sourcing criteria is written into letters of agreement.
- Continue to move the supply base towards the adoption of the Supplier Ethical Data Exchange (Sedex) and utilise its risk assessment tool to define the annual auditing programme.
- Work with The Co-operative College to develop training for a network of co-operative colleges in East and Southern Africa, to build capacity and deliver training on sound sourcing to suppliers.
- Deliver capacity building sessions to selected suppliers in high-risk countries.
- Recruit a new Ethical Trade and Sustainability Officer to further strengthen the ethical trade team.
- Develop and deliver training on sound sourcing issues to buyers in The Co-operative Food business.
- Maintain the widest Fairtrade food product range of any retailer.
- Develop a refined set of sound sourcing key performance indicators for Co-operative Food, that will better demonstrate the full range of activities covered by the sound sourcing programme.

Overview

When undertaken equitably, trade has an unparalleled capacity to lift people out of poverty and enhance the quality of lives across the world. 'Trade not aid' is still the starting point for much progressive thinking, and lay at the centre of The Co-operative's participation and prominent support of the UK's Trade Justice Movement in 2005[1]. However, notwithstanding this need for rich, developed countries to bring about a more ethical macro-economic international trading system, the day-to-day pressures of business competition and mainstream customer purchasing behaviour, together with the political, cultural and socio-economic back-drop of many countries, make progress on ethical sourcing and the assurance of decent labour standards (such as freedom of association and equal opportunities) very difficult. 42% of the world still cannot even participate in free and fair elections[2].

Against this background, there is, however, some evidence of progress on labour standards. In recent years, the International Labour Organisation (ILO) has noted that child labour, especially in its worst forms, is in decline for the first time across the globe[3]. Additionally, research undertaken during 2006 concluded that the last ten years have witnessed improvements in areas such as health and safety, although it equally highlighted the need for improvement with regard to other areas such as the provision of a living wage[4]. Such research illustrates the need for a sustained range of solutions, if meaningful change is to be effected.

Materiality and strategy

The Group's supply chain comprises an extensive global network of producers, manufacturers and distributors, making the management of product sourcing one of the Group's most significant challenges, especially at Co-operative Food. The Group is committed to addressing labour standards in the supply chain, and to the principles of sound sourcing; particularly in respect of the retail of own-brand products[5]. The Group uses the term sound sourcing to describe its approach to managing labour standards in the supply chain. Comprehensive research amongst customers has endorsed sound sourcing as a priority area for action[6].

Human rights and supply chain issues are also pertinent to CFS' core business activity – the provision of investment and financial services. In its approach to such matters, CFS seeks to be the leading retail bank and institutional investor in the world. The customer-led Ethical Policies of the bank and Co-operative Insurance contain a number of provisions relating to human rights. Via its provision of financial services, the bank seeks to support the principles of the Universal Declaration of Human Rights (UDHR). In line with the UDHR, and with the support of 98% of its customers, the bank will not support any government or business which fails to uphold basic human rights, or any business whose links to an oppressive regime are a continuing cause for concern. There are in the region of 70 countries classified as oppressive regimes around the globe. Within these, basic human rights (as set out in the UDHR) are denied in a systematic manner over time[7]. Co-operative Insurance customers have, similarly, signalled their concern about a range of human rights issues, and their wish to see Co-operative Insurance use its power as an institutional investor to promote human rights[8].

The Co-operative Food approach to sound sourcing

The Group was a founding member of the Ethical Trading Initiative (ETI)[9] – an alliance of companies, non-governmental organisations (NGOs) and trade unions established in 1997, who work together with the aim of improving working conditions in supply chains; be it regular employment, the provision of living wages or freedom of association. In 1999, the Trading Group established a Sound Sourcing Code of Conduct[10], developed with reference to the ETI Base Code and the ILO conventions[11]. This 'continuous improvement' code is issued to all own-brand suppliers, and requires them to commit to work towards minimum standards for working conditions. Ultimately, The Co-operative Food aims to demonstrate that all manufacturing sites producing own-brand products operate ethically and have a genuine commitment to the criteria set out in the Code of Conduct. To this end, going forward, the Group will be putting increasing emphasis on the use of the Supplier Ethical Data Exchange (Sedex)[12], an internet-based electronic database where suppliers can post details of labour standards realised. Sedex enables The Co-operative Food's suppliers to share ethical audits with multiple customers, and removes unnecessary duplication in the supply base. This, in turn, can free up resource to enable capacity building and corrective actions to be better pursued.

Accounting systems and reporting

The Co-operative Food makes an annual submission to the ETI, which rates and benchmarks its performance, and categorises it as 'beginner', 'improver', 'achiever' or 'leader'. In one of the five reviewed areas ('commitment'[13]), the Group's performance in 2006 is rated as 'leader', with the ETI commenting that it considers the Group to be at the leading edge amongst its members. In the remaining four areas ('monitoring, independent verification and reporting'[14], 'awareness raising and training'[15] 'corrective actions'[16] and 'management procedures, pricing and incentives'[17]), it is rated as 'achiever'. These ratings are consistent with the previous year, with the exception of 'corrective actions', which was previously rated as 'leader', and which is now the subject of renewed focus for the ethical trade team. Whilst the ETI does not independently verify the accuracy of submissions, it does assess activities in terms of the five principles underpinning the management indicators, and the submission is reviewed by NGOs and trade union members and feedback provided.

5 The Co-operative Food business provides 42% of total revenue within The Co-operative Group and 42% of that revenue is derived from sales of own-brand products.

6 Over four in ten consumers, in the 'Shopping with Attitude' 2004 survey (43%) voted this in their top three priorities, with 13% indicating that this is their number one issue. Eight in ten say retailers should stock more products that help people in developing countries improve their standard of living.

7 Ethical Investment Research Service (EIRIS), February 2005.

8 'Protecting workers from exploitation' and 'supporting poverty reduction' received the highest level of endorsement (from 95% of customers), and, even the policy position that attracted the lowest level of support – the manufacture or transfer of armaments to oppressive regimes – commanded the backing of 89% of Co-operative Insurance customers.

9 www.ethicaltrade.org

10 Subsequently updated in 2001. See www.co-operative.co.uk/corporate/sustainability/soundsourcingcodeofconduct

11 www.ethicaltrade.org/z/lib/base/index.shtml

12 www.sedex.org.uk

13 'The company is a leader in the field of ethical trade.'

14 'Produces comprehensive and credible reports on its supply chain.'

15 'Provides appropriate training to all involved in ethical trade and is improving awareness of suppliers and their workers.'

16 'Has well-established systems for identifying and following up corrective actions to ensure improvements are being made.'

17 'Has a well-established and systematic approach to ethical trading with clear responsibilities and incentives for staff and suppliers.'

Far left The Group was a founding member of the Ethical Trading Initiative – an alliance of companies, non-governmental organisations and trade unions that has come together to improve working conditions in supply chains.

Left The Group began participating in the Supplier Ethical Data Exchange (Sedex) during 2005. Sedex provides an internet-based electronic database for suppliers to post details of labour standards realised at their sites.

18 According to the ETI, major non-conformances are defined as systematic breaches and/or serious breaches of the base code. Note that all Sedex non-conformances are flagged as major as Sedex does not currently categorise into major and minor.

19 Where child refers to any person less than 15 years of age unless local minimum age law stipulates a higher age for work or mandatory schooling, in which case the higher age shall apply. See www.ethicaltrade.org

20 94 of the 112 assessments were undertaken directly by The Co-operative Group with the remaining assessments co-ordinated and shared via the Sedex system.

21 Suppliers are currently sent the Code of Conduct as part of the initial contract they are required to sign up to, and it is planned to write compliance with the Code of Conduct into supplier agreements during late 2007.

Major non-conformances arising from sound sourcing assessments, 2006

Code of Conduct provisions	Total number of major non-conformances found[18]	Total number of major non-conformances resolved	Detail of non-conformances resolved
Exploitation of labour	**9**	**6 (67%)**	Contract revised between Chinese factory and labour agent and wage-holding clause removed, and restrictions on movement and access progressed in Malawi.
Freedom of association and collective bargaining	**11**	**7 (64%)**	Typical issues resolved in China, Thailand and the UK included: improved provisions for collective bargaining and clarification of workers rights to join unions of their choice and to strike.
A safe and hygienic working environment	**225**	**136 (61%)**	Typical issues resolved included: improvements to fire safety and emergency evacuation (Malawi, Thailand, Ecuador, China, Pakistan, Italy and UK); the introduction of risk assessments and health and safety management systems (UK); improvements to the safety of chemicals storage (China, Malawi and UK); and the testing and maintenance of machinery, electrics and water (Malawi and Pakistan).
Child labour[19]	**8**	**2 (25%)**	Young person's policy and risk assessments for young people progressed with two UK suppliers. Note: in the majority of other cases, non-conformances related to procedural and administrative breaches, and did not involve evidence of actual child labour. The single supplier where two instances of child labour were witnessed has since been delisted; despite repeated efforts to remedy the situation, the supplier refused to engage.
Living wages to be paid	**44**	**26 (59%)**	Typical issues resolved included: cessation of monetary fines and the introduction of legally entitled benefits (Kenya and Ecuador); prompt and accurate payment of wages and overtime (China, Pakistan and UK); provision of contracts and payslips to workers (Ecuador and Pakistan); and the equitable treatment of agency/contract staff; for example, the provision of terms and conditions and holiday pay (Italy and UK).
Working hours are not excessive	**45**	**31 (69%)**	Typical issues resolved included: improvements to management systems to monitor hours worked and rest days (UK); measures to ensure that overtime is voluntary (Malawi, Pakistan, Italy and UK); and the installation of mechanisms, such as timeclocks, for the managing of attendance (Malawi and Pakistan).
No discrimination	**6**	**6 (100%)**	Resolutions progressed with two African suppliers in connection with the discrimination of pregnant workers and the preferential treatment of particular ethnic groups.
Regular employment	**37**	**23 (62%)**	Typical issues resolved included: providing employees with formal contracts (Pakistan, Kenya, Malawi and UK); working to ensure that personnel records maintained and that policies amended to include provision for entitlements, such as sick leave (Pakistan), posting information and providing worker training on factory policies and labour laws (Pakistan); and the delivery of measures, such as employee training, to prevent intimidatory behaviour (Malawi).
No harsh or inhumane treatment	**3**	**1 (33%)**	Standardisation and improvement of discipline and termination procedures progressed with supplier in Pakistan.
Total	**388**	**238 (61%)**	**Note: a further 62 (16%) relate to businesses delisted (or soon to be delisted).**

The Co-operative Food sound sourcing – audit and compliance

During 2006, 112[20] (2005: 304) assessments were progressed amongst The Co-operative Food suppliers to determine the degree of compliance with the Group's Sound Sourcing Code of Conduct[21]. Of these assessments, 37 were external full inspections (which involves a thorough inspection of a site against all code provisions undertaken by independent auditors) and 25 were internal full inspections (whereby a full site inspection against all provisions is undertaken by trained Co-operative Food Quality Assurance employees). Such inspections require an on-site presence of sufficient duration for an audit to be conducted, and unobstructed access to relevant facilities, documentation and staff. The proportion of full inspections in 2006 (55%) is in line with 2005 (56%). Of the remaining 50 assessments, 47 were internal limited inspections (which involves Co-operative Food Quality Assurance employees focusing on specific issues or provisions) and three were external limited inspections (whereby independent auditors focus on limited issues or provisions). The Co-operative Food does meet the cost of the site inspections and capacity-building exercises it commissions.

The marked decrease in assessments was influenced by resource constraints (now resolved) and a newly increased emphasis within The Co-operative Food Quality Assurance team on supplier capacity building, aided by an increased use of Sedex, which the food business began participating in during 2005. During 2006, all first tier production sites[22] (approximated to be some 900) were requested to join Sedex, and 170 of these sites have so far responded to this request. During 2007, an additional staff member will be recruited to assist the newly-recruited Ethical Trading Manager to increase The Co-operative Food's capacity to monitor sound sourcing performance and pursue corrective actions.

Of the 112 site inspections, 77 (69%) were undertaken in the UK or continental Europe and these were carried out in conjunction with standard technical/quality audits. Further afield, 14 were undertaken in China (where The Co-operative Food opened a representative office in 2005), 13 in South-East Asia, four in Africa, two in the Indian subcontinent, one in South America and one in North America. 81% of the 112 sites assessed were connected with food and fresh produce (2005: 86%) and 55% of assessments were of first tier production sites (2005: 88%).

Assessments are initiated via a process of dialogue and self-assessment questionnaires. These combine to indicate levels of compliance, whilst providing an opportunity to brief suppliers on code requirements and the importance attached by Co-operative Food to these issues. From here, site inspections progress, followed by the development of corrective action plans and agreements on monitoring. In a few instances, sites are revisited and third-party verification inspections are progressed.

At present, the selection of suppliers for assessment partially takes account of factors such as the country of production, the product type, the site profile and the manner in which suppliers complete self-assessment forms. A more comprehensive consideration of risk in the selection of suppliers for assessment is due to be implemented by the business during 2008.

Co-operative Food sound sourcing – findings and corrective actions

A total of 861 non-compliances emerged from the 112 site inspections undertaken in 2006. Of these, 388 were classed as major[23]. As expected, and in line with the previous year, sites inspected outside of Europe accounted for a disproportionate amount of major occurrences (with 31% of sites accounting for 71% of major non-conformances). Once again, and in common with other ETI members, the majority of breaches occurred in the areas of safe and hygienic working conditions, living wage and working hours[24], as well as in regular employment.

In all but exceptional circumstances, the business has a policy of not delisting suppliers on the basis of finding non-conformances, believing that it is usually better for all concerned (not least their employees) if a supplier is retained and its performance improved. When problems are found, a corrective action plan is agreed with the supplier; in some instances, actions are implemented as audits progress. The business contacted all suppliers where non-conformances were recorded in 2006, seeking an update on progress. Of the 388 major non-conformances detected in 2006, 238 (61%) have been resolved and 62 (16%) relate to businesses that have been (or soon will be) delisted. Of the remaining, follow-up work or confirmation of a positive outcome by a supplier is still awaited in connection with 61% (16%), and one supplier is disputing the audit findings (2, or < 1%) whilst another (responsible for 24 instances, or 6%) has so far refused to co-operate to address the issues detected.

During 2006, a supplier was delisted on the basis of lack of progress on labour standards[25]. This supplier accounted for a total of 52 (13%) of all major non-conformances arising. An African-based supplier accounted for the largest number of major non-conformances in 2006 – some 93, or 24% of the total in 2006[26]. A verification report issued in May 2007 reported that many of the significant non-conformances from 2006 had been addressed (with those still outstanding reported in a separate corrective action plan)[27]. A further supplier, accounting for 24 (6%) of major non-conformances arising in 2006, is currently refusing to engage with the Group to address the issues arising from audits undertaken in December 2005 and September 2006, discussions are ongoing to resolve the situation without recourse to delisting if possible. Together, these three suppliers account for over 40% of the major non-conformances arising in 2006.

Co-operative Food sound sourcing – capacity building

Supplier engagement

In addition to assessments, work has been undertaken to help suppliers build skills and knowledge via capacity-building workbooks. These allow sites to assess themselves against the Code of Conduct, identify areas of risk, consider corrective actions and

22 Defined as those with whom the business has a direct relationship.

23 As in the previous year, most focus is given to major non-conformances in this analysis, although resource has also been dedicated to helping address minor non-conformances.

24 ETI feedback, May 2007.

25 On the basis of inappropriate management of child labour issues. More broadly, of the 12 sites where major non-conformances were recorded in 2005 on the issue of child labour and young workers, nine are no longer being used due to changes in product requirements, two have recorded the resolution of corrective actions and the remaining one involved a young worker working a single additional hour of overtime.

26 The initial audit was undertaken as issues had been found the previous year in the audit of a supplier providing the same product from the same area.

27 The particular report writing style used in this instance also contributed to the significant number of non-conformances recorded.

Far left The Group has, arguably, been the UK's biggest supporter of Fairtrade since 1992 – the year the Fairtrade Foundation was established.

Left In 2006, The Co-operative Food became the first retailer in the world to sell Fairtrade peanuts.

28 Many farmers in developing countries have to contend with prices that fluctuate widely and may not even cover the costs of crop production. Fairtrade promises not only a stable price, but one which covers production costs, along with a premium that can be reinvested in the business or in local community schemes. For workers in factories and plantations, Fairtrade means decent wages, minimum health and safety standards, the right to join trade unions and access to good housing. See www.fairtrade.org.uk

29 Research GfK NOP, January/February 2007, www.gfk.com/imperia/md/content/gfk_nop/newsandpressinformation/ethicalbrands_march.pdf

pursue continual improvement and commitment to the Code. The workbook also serves as a useful information tool for suppliers, containing information on national and international legislation. The first workbooks were rolled out for use in China, India and Kenya/East Africa in 2001. Since then, suppliers in a further ten countries have been included in the initiative, and updates were made to the workbooks for South Africa, Turkey and the UK during 2006, to reflect legislative developments. In addition, during 2006, training seminars were delivered to suppliers located in France and Spain to provide guidance associated with delivery of workbooks. An online sound sourcing site to assist suppliers in capacity-building and cost compliance is under development.

Collaborative approach

Whilst the The Co-operative Food's auditing programme goes some way towards identifying and resolving issues at individual supplying sites, there are many instances where the complexity of the problems necessitates that solutions are progressed in collaboration with others. In 2006, the Group again worked with other retailers and stakeholders through fora such as the ETI, to develop improvements to working conditions and local resources in sourcing countries. In particular, in 2006 collaboration was progressed in connection with the working conditions for temporary and migrant workers in the mushroom industry (in Northern and Southern Ireland) and poultry industry (in the UK), with work still ongoing.

Fairtrade

In addition to its work on sound sourcing and membership of the ETI, the Group has been the UK's biggest supermarket supporter of Fairtrade since 1992 – the year the Fairtrade Foundation was established. The FAIRTRADE Mark appears on certain products, and acts as an independent guarantee that disadvantaged producers and workers in the developing world are getting a better deal[28]. Moreover, as the vast majority of Fairtrade producers are co-operatives themselves, support is consistent with the principle of co-operation among co-operatives. During 2006, the Group's pioneering work to promote Fairtrade helped contribute to it being named the UK's 'most ethical brand' in the eyes of consumers[29] and its receipt of a Queen's Award for Enterprise in the Sustainable Development category (page 13).

During 2006, the range of Fairtrade products for sale in The Co-operative Food stores was extended, with 151 being offered (up from 110 at the beginning of

Fairtrade firsts

1994 First major retailer to sell FAIRTRADE Mark Cafédirect.

1997 Bank announces that all coffee in vending machines will be Fairtrade.

1998 Established as leading retail supporter of Fairtrade Fortnight.

1999 Announce that the Group will stock Fairtrade tea and coffee in all stores.

2000 Bring Fairtrade bananas to the UK and launch first own-brand Fairtrade product – Co-op Divine Milk Chocolate.

2001 Launch own-brand fairly traded wine.

2002 All own-brand block chocolate converted to Fairtrade. Begin to sell Fairtrade mangoes and pineapples – a world first.

2003 All own-brand coffee converted to Fairtrade.

2004 36 new product lines launched, doubling The Co-operative's range of Fairtrade products, including the UK's first own-label Fairtrade Easter Egg. Launch Fairtrade Towns' guide.

2005 Launch 'Make Your School Fairtrade Friendly' interactive guide.

2006 Launch first ever Argentinian wine and begin to sell Fairtrade peanuts – a world first.

2007 Launch UK's first supermarket Fairtrade carrier bag and become first retailer to offer Fairtrade bananas in every store.

Typical sources of Co-op Fairtrade products

the year), of which 85 were own-brand. Sales of Fairtrade goods totalled £22m in 2006 (2005: £17.4m), an increase of 26%. This represents 7.6% of all UK Fairtrade sales, which stood at £290m in 2006[30]. Details of these and other Fairtrade products are provided on a dedicated website (www.co-opfairtrade.co.uk), along with details of producers and benefits arising. This website will be updated and re-launched in late 2007.

The range of Fairtrade South African wines was extended and the world's first Fairtrade wines from Argentina were launched by The Co-operative Food in 2006[31]. For wine originating from both of these countries, the 'social premium' resulting from Fairtrade certification is being matched by the business. For La Riojana, the Argentinian wine producer, this premium means that for every case of wine sold in store, an additional 82p goes back to the project. At La Riojana, a committee has been established, comprising representatives from the producers and winery workers, to discuss the allocation of the social premium. It decided that the first premium will pay for the renovation of an old water supply in Tilimuqui, a village in the Chilecito region and home to 97 people, and the installation of a well and pump so that each household will have access to clean water.

CFS and ethical finance

The Co-operative Bank screens finance opportunities that potentially conflict with its Ethical Policy (page 49). The Policy includes a commitment to support organisations that take a responsible position with regard to labour rights in company operations and through supply chains in developing countries. Four core themes have been identified by the ILO as being fundamental to the rights of human beings at work: freedom of association; the abolition of forced labour; equality; and the elimination of child labour. The bank considers adherence to these as a prerequisite for acceptable labour standards. In addition, the bank offers a range of affinity credit cards in support of a variety of development charities, including Action Aid[32], Christian Aid[33] and Oxfam[34].

Bank screening of finance

During 2006, 98 finance opportunities were referred to the Ethical Policy Unit in connection with human rights, of which six were declined at an estimated cost of £1,533,500 in terms of gross income foregone in 2006.

- Oppression In two instances, facilities were declined to businesses with links to state oppression. In contrast, inter-bank money market facilities were approved for a publicly listed bank based in an oppressive Middle Eastern regime.

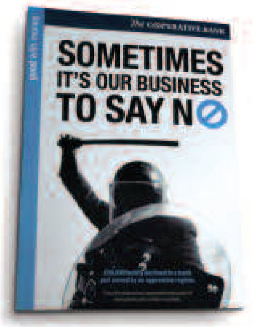
30 Additionally, the Group contributes to the Fairtrade strategy for the UK co-operative retail movement via the Co-operative Retail Trading Group (CRTG). The Co-operative Group co-ordinates new product development, distribution, shelf plans and marketing communications for Fairtrade products on behalf of the CRTG. In 2006, sales of Fairtrade goods across all co-operative retail societies totalled £41.5m; 14% of all UK Fairtrade grocery sales.

31 www.co-operative.co.uk/food/fairtrade/ourfairtradeproducts/beerswinesandspirits/

32 www.co-operativebank.co.uk/servlet/Satellite?c=Page&cid=1170748478192&pagename=CB/Page/tplStandard

33 www.co-operativebank.co.uk/servlet/Satellite?c=Page&cid=1170748478097&pagename=CB/Page/tplStandard

34 www.co-operativebank.co.uk/servlet/Satellite?c=Page&cid=1170748477984&pagename=CB/Page/tplStandard



Left During 2006, six finance opportunities were declined by the bank in connection with human rights issues, at an estimated cost of £1.5m income foregone in 2006.

Human rights and labour standards business declines, 2006	Estimated income foregone 2006
Clothing company £15m contribution to a syndicated loan facility for a global sportswear and jeanswear manufacturer. Business tolerated violation of both Mexican labour laws and the Fundamental ILO conventions on Freedom of Association and Collective Bargaining in its supply chain. A sub-contractor factory routinely dismissed workers who sought to secure independent trades union rights.	£430,000
Electrical equipment manufacturer £10m contribution to a syndicated loan facility for a kitchen appliance manufacturer. 20% of the business' operations were centred in the Guangdong province of China; a region renowned for poor enforcement of labour laws. Business failed to provide adequate assurance that it had policies and procedures to safeguard the welfare of its workforce.	£290,000
Container ports and ferries £25m contribution to a syndicated loan facility for the acquisition of an international transport and logistics company. The acquirer was a business wholly owned by a Middle Eastern government classified as an oppressive regime.	£270,000
Hotel operator £20m contribution to a syndicated loan facility for the acquisition of a UK-based hotel chain. The acquirer was an investment company wholly owned by a Middle Eastern government classified as an oppressive regime.	£520,000
Defence and aerospace company £1m asset finance facility supporting the acquisition of computer software. Business was one of the five largest arms-producing companies in the world, and involved in the design and manufacture of military aircraft, warships, fighting vehicles and guided missiles. For example, complete combat aircraft supplied to three Middle Eastern oppressive regimes between 2004 and 2006.	£23,000
Nuclear weapons consultancy Banking facilities for consultant to the UK's nuclear weapons programme. The business declined to detail the nature of its weapons work, citing the Official Secrets Act. In such circumstances a precautionary avoidance approach is applied.	£500

The bank does not decline facilities based on a business' presence in an oppressive regime, but on the extent of a regime's control or ownership of that business.

- Arms trade In two instances, facilities were declined to businesses involved in the manufacture of armaments, and where there was evidence of supply to oppressive regimes. In contrast, the provision of banking services was approved for a sub-contractor who supplied bolts, pins and pulley wheels to a business that manufactured combat bridges for the UK Ministry of Defence. Such manufacture was considered of negligible strategic importance.

- Labour standards In two instances, facilities were declined to businesses that failed to provide satisfactory assurance on basic labour standards in their supply chains. In contrast, a £20m syndicated loan contribution for a large department store was approved (but ultimately not progressed) and banking facilities were progressed for an own-brand clothing company sourcing from China. In both instances, the businesses evidenced supplier protocols that incorporated appropriate labour standards.

Co-operative Insurance engagement – oppressive regimes

Between 2000 and 2005, £1.2bn of armaments and military equipment was transferred from the UK to countries that fall within Co-operative Insurance's definition of an 'oppressive regime'. Armaments transferred included combat aircraft, military helicopters, tanks and mortars. In 2006, Co-operative Insurance attended the BAE Systems AGM to publicly enquire to what degree consideration is given to ethical concerns over the sale of weaponry to oppressive regimes. Co-operative Insurance registered the opinion that due consideration should be given by BAE Systems to the human and environmental costs of future contracts and whether they are in shareholders' interests. Acceptance of the company's 2006 Annual Report and Accounts was voted against and concerns registered on the reporting of export and corruption controls. BAE Systems expressed a willingness to further engage on the matter of reporting but no such commitment was forthcoming with regard to the sale of weaponry to oppressive regimes.

Co-operative Insurance engagement – labour rights

In 2006, Co-operative Insurance was alerted to allegations of anti-union practices by management in the US subsidiary of FirstGroup plc, the UK's largest public transport company. In response, Co-operative Insurance, alongside the TUC Superannuation Scheme, was invited by 115 FirstGroup plc employees to co-file a shareholder resolution requiring the implementation, across all operations, of a workplace labour policy (based on the ILO core conventions) and to provide an independently verified annual report of the company's performance. The resolution represented the first time in the UK that an institutional investor had co-filed a shareholder resolution on a Social Environmental and Ethical (SEE) issue. In advance of the AGM, Co-operative Insurance initiated a series of meetings with other UK institutional investors to garner support for the resolution and brokered a meeting between concerned investors and the company. At the AGM, the resolution was proposed by Co-operative Insurance and 6% of shares voted were cast in favour and 15% as abstentions. This was considered to be significant, as it is rare for shareholder resolutions to be supported at even these low levels in the UK. In response, FirstGroup plc adopted specific reference to freedom of association and collective bargaining within a new group-wide Corporate Social Responsibility Policy. Performance will be monitored in 2007 and assurance sought on the effective implementation of the Policy.

Sustainable procurement

Group – goods not for resale

Since February 2004, CFS has implemented a set of sound sourcing practices to address matters of ethics, the environment and corporate reputation, via its Sustainable Procurement and Supplier Policy (SPSP), as described in CFS' Sustainability Report[35]. To maintain the integrity of the SPSP, it also directs supplier relations relating to joint Co-operative Group and CFS procurement of goods not for resale. In line with this, at the end of 2006, an incumbent supplier of hotel accommodation for Co-operative Group and CFS staff was delisted following its acquisition by an investment company wholly owned by a Middle Eastern government classified as an oppressive regime. Total spend on hotel accommodation with this business was some £50k per annum.

In addition, The Co-operative Bank declined a customer promotion for a subscription television service, where there was evidence of anti-union activities and the threat of job losses should employees vote for union recognition. The bank also declined to purchase CCTV equipment from a supplier owned by a major American defence company. The company was engaged in the long-standing supply of armaments to a number of Middle Eastern states classified as oppressive regimes.

> *"Co-operatives, when performing efficiently, represent a private sector model that provide many benefits and opportunities to poor people. We hope that the resurgence of interest in co-operatives is not a passing fashion: co-operatives present a cost-effective way to support private sector development."*
> Source: Report of the UK House of Commons International Development Committee on Private Sector Development, July 2006.

Influence and action

Co-operative college work in East Africa

During 2006, work continued with a number of co-operative colleges located in East Africa (most notably Kenya, Tanzania and Ethiopia) to help improve understanding and capacity in the supply chain. Key representatives from these institutions received training designed to increase their knowledge of ethical sourcing and the Group's Sound Sourcing Code of Conduct, so that they are able to act as a local resource. This work is anticipated to benefit not only suppliers of Co-operative own-brand products, but also the wider business communities in the area and therefore hopefully impact an increasing proportion of the workforce through knowledge dissemination. In addition, representatives from Co-operative Food sit on a steering committee helping run a three-year project to raise consumer awareness about global food chains (funded by a three-year award from the Department for International Development (DFID)). This will fund a range of Co-operative College activities including: educational resources; work with members; and the production of web-based materials and accredited courses.

Fairtrade educational pack

In March 2005, following publication of the Co-op Fairtrade Towns' guide, the Group launched a free interactive Fairtrade educational pack and website for primary schools[36]. The pack, which was produced in partnership with the Co-operative College, provides teachers and pupils with insight into the benefits Fairtrade can bring to developing countries, and is aligned with the UK national curriculum. Distribution of the pack continued throughout 2006 and as at July 2007, over 15,000 schools packs had been distributed.

35 www.cfs.co.uk/sustainability 2005

36 www.co-operative.co.uk/en/food/fairtrade/getinvolved/makeyourschoolfairtradefriendly/

Animal welfare

1 www.ciwf.org.uk

2 Eurostat 2006. Food: From farm to fork statistics.

3 www.rspca.org.uk

4 www.eceae.org (based on 1999 figures).

5 Home Office 2006. Statistics of Scientific Procedures on Living Animals, Great Britain 2005. See www.homeoffice.gov.uk/rds/pdfs06/spanimals05.pdf

Assurance of food production

Animal testing of toiletry and household products

Targets 2006

- Increase to 100% the proportion of fresh beef (from 95%), pork (from 50%), and turkey (from 88%) sourced from the UK and Ireland. Maintain the proportion of fresh lamb and chicken sourced from the UK and Ireland at 50% and 70% respectively. Substantial progress

- Ensure continued compliance of own-brand toiletries and household products to the Humane Cosmetics Standard (HCS) and the Humane Household Products Standard (HHPS). Target achieved

Targets 2007

- Further improve the range and availability of Freedom Food products.

- Progress the phased introduction of free-range egg ingredients into all prepared products.

- Implement higher animal welfare standards for own-brand fresh turkey and chicken.

Background

Over 800 million broiler chickens[1] and 4.5 million pigs[2] are produced in the UK every year. In addition, there are around 30 million hens involved in egg production[3]. To meet this level of production, most modern farms operate intensive systems. Factors such as price still remain the priority for the majority of food shoppers; however, a growing number are concerned about intensive production methods and seek to support products that guarantee higher standards of animal welfare.

The UK has moved to stop animal testing for cosmetic purposes; however, the practice is continued elsewhere in the world and animal-tested products are still on sale in the UK. Around 38,000 animals continue to be used for the toxicity testing of cosmetics in mainland Europe every year[4]. Animal testing for household products, foodstuffs, food additives and a variety of other consumer products is still permitted in the UK and elsewhere – in 2005, 862 procedures were undertaken relating to food additives and 5,742 relating to other foodstuffs in Great Britain[5].

Animal welfare achievements

1990 Announce that no own-brand toiletry products, or ingredients, will contain items tested on animals after 1985.

1992 Launch of bank's Ethical Policy, includes commitment to not invest in, or provide financial services to, any organisation involved in exploitative intensive farming methods, fur farming or the trade in animal fur.

1994 First retailer to adopt the RSPCA Freedom Food scheme, which seeks to improve welfare standards for animals at all stages of the food chain.

1995 First retailer to label eggs 'intensively produced' (leads to change in the law, allowing eggs to be labelled 'from caged hens').

1996 Launch of 'Ending the pain', a campaign against animal testing in the toiletries industry.

1998 First retailer to be awarded right to use the new International Cruelty-Free 'rabbit and stars' symbol on toiletry packaging.

2003 Contribute to the development of the BUAV Humane Household Products Standard.

2004 First grocery retailer to be accredited to the Humane Household Products Standard.

2005 Awarded 'best buy for smaller stores' status by Ethical Consumer magazine; received best rating of all supermarkets for animal testing policy.

2005 Highly Commended by the RSPCA for commitment to improving animal welfare, with clear policy on animal transportation times singled out for praise.

2005 Commended by CIWF as the most improved supermarket 2005–06.

2007 Commended by CIWF following commitment to convert all own-brand shell eggs to free-range.

Materiality and strategy

Animal welfare is a priority for The Co-operative Food customers (page 25), and, in its approach to food production, The Co-operative Food seeks to avoid the unnecessary suffering of animals. The implementation of basic animal welfare standards are supported across own-brand meat and dairy produce.

In addition, for an increasing proportion of product ranges, higher animal welfare standards are incorporated (such as the RSPCA Freedom Food scheme (page 37)). The Co-operative Food operates one of the most stringent non-animal testing policies and is the only major retailer to prohibit such activities in connection with all own-brand cosmetic and household products.

Animal welfare is an integral part of the customer-mandated Ethical Policies of the bank and Co-operative Insurance; both of which identify intensive farming, animal testing for toiletries and household products, blood sports, and the fur trade as issues of concern[6].

Assurance of food production

The Co-operative Food sells in the region of 750 own-brand fresh and 100 own-brand frozen meat and poultry products. In the main, like other major UK retailers, basic animal welfare is assured via farm assurance standards, which are sometimes signified by a Red Tractor Mark or Quality Standard Mark[7]. In addition, for an increasing number of products, the business supports higher animal welfare standards via schemes such as RSPCA Freedom Food accreditation and free-range and organic production (detailed below).

Furthermore, The Co-operative Food designates additional standards across all operations in relation to live animal transport and slaughter. UK legislation permits livestock to be transported for up to eight hours at a time; however, The Co-operative Food stipulates a maximum of six hours from suppliers. This is, arguably, the lowest transportation time of any major national food retailer. A requirement is also made that all livestock is pre-stunned prior to slaughter, in accordance with the Humane Slaughter Association species specific codes of practice[8].

Base-level farm assurance standards

The Red Tractor Mark[9] was introduced in 2000 and seeks, amongst other things, to assure consumers that basic animal welfare standards have been met in food production. The retail value of food carrying the Red Tractor Mark reached £5.3bn in 2006, and now accounts for 60% of own-label fresh foods sold in UK supermarkets. Some 78,000 UK farmers are now accredited.

In the UK, nine farm assurance standards are covered by the Red Tractor Mark in connection with the production of beef, lamb, pork, chicken and dairy products[10]. The standards are designed to provide assurance that products have been produced, processed and packed to certain minimum requirements (not least, legislative compliance)[11]. Independent third-party auditors are used to check compliance with the requirements of the various industry-led standards in the UK and EU. A study commissioned by the UK Sustainable Development Commission recently concluded that on-site inspection 'seems to be both robust and effective and embeds legislative compliance'[12].

The Co-operative Food stipulates compliance with farm assurance standards, or national equivalent, for all own-brand fresh products[13]. Although the accreditation schemes do not extend outside the UK, suppliers are required (via technical product specifications) to ensure, through independent third-party audits, that non-UK producers apply equivalent standards. In 2006, compliance was assured for all fresh shell eggs, turkey, duck, beef, pig meat, lamb, chicken and milk.

Whilst compliance with farm assurance standards is similarly stipulated for frozen products, other meat and poultry products (eg, cooked meats), and products that contain meat or poultry ingredients (eg, ready meals), evidence of application is much more difficult to secure.

In addition to the audit and compliance regime underpinning the Red Tractor Mark, The Co-operative Food's Quality Assurance Team undertakes/co-ordinates additional meat and poultry inspections – some 49 in 2006 (2005: 33). Although these focus primarily on product quality, safety and legality, where possible, aspects of animal welfare are covered. In late 2006, two 'traceability investigations' were undertaken by external inspectors on behalf of The Co-operative Food. These tracked three own-brand bacon products (one from Denmark and two from the UK) and five own-brand cooked ham products (two from Denmark, two from Germany and one from Holland). Four processing plants were investigated (two in Denmark and two in Germany), together with two Danish farms supplying the Danish plants. Satisfactory standards were evidenced in connection with the UK, Dutch and Danish products, but not at either of the two German processing plants and, subsequently, they were removed from the supply chain.

6 The majority of bank customers (88%) have indicated that they do not want their money used to finance animal testing of cosmetic or household products or ingredients, and similar levels of support preclude the bank's investment in intensive farming, the fur trade and blood sports. Over 90% of customers have indicated their wish to see the bank supporting free-range farming and businesses involved in the development of alternatives to animal experimentation. Co-operative Insurance customers have, similarly, signalled their concern about a range of animal welfare issues, and their wish to see Co-operative Insurance use its power as an institutional investor to promote animal welfare. In the area of animal welfare, the development of alternatives to animal testing received the highest level of endorsement – from 89% of customers, and even the policy position that attracted the lowest level of support – for the end of blood sports – commanded the backing of two-thirds of Co-operative Insurance customers.

7 Quality Standard Marks are specifically applied to beef, lamb and pork products.

8 www.hsa.org.uk

9 www.redtractor.org.uk

10 Meat and dairy assurance schemes covered by the Red Tractor Mark include: Assured British Meat, Assured Chicken Production, Farm Assured Welsh Livestock, Northern Ireland Farm Quality Assurance Scheme, Quality Meat Scotland, Genesis Quality Assurance, Assured British Pigs, Soil Association Farm Assured, and National Dairy Farm Assured Scheme. Not all assured produce bears a logo, and two further standards cover cereals and fruit and vegetables.

11 The standards are base-level and do not challenge practices such as the intensive rearing of chickens or the use of narrow farrowing crates for breeding pigs.

12 www.sustainweb.org/pdf/06_04_05b.pdf

13 This is not the case for fresh pork, sausage and bacon sourced from the EU.

Far left Basic animal welfare is assured via farm assurance standards, which are sometimes signified by a Red Tractor Mark or Quality Standard Mark.

Left For a small, but increasing, number of products, the business supports higher animal welfare standards via schemes such as RSPCA Freedom Food.

RSPCA Freedom Foods

The Freedom Food scheme was introduced by the RSPCA in 1994 to improve animal welfare, and signifies higher animal welfare standards than the Red Tractor Mark or Quality Standard Mark. Five 'freedoms'[14] are guaranteed across the food chain, from birth to slaughter, and the Freedom Food certification mark can be used only on products that have been produced via an approved supply chain. The Co-operative Food offers the largest selection of Freedom Food-labelled products in the UK. In 2006, 47 product lines were sold (2005: 44), with sales totalling an estimated £17.2m, up 10% on the previous year. Egg sales accounted for 63% of all Freedom Food sales by value. In 2006, the composition criteria for the formulation of premium range products[15] were updated to stipulate that, wherever feasible, preference was to be given to Freedom Food ingredients.

Organic

Organically produced meat and dairy produce comes from animals reared without the routine use of drugs, antibiotics and wormers commonly used in intensive livestock farming. Organic products account for a small proportion of The Co-operative Food sales; 1% or less of chicken, turkey and beef, 2% of milk and 10% of total shell egg sales. Organic trout[16] accounted for 16% of total own-brand fresh fish sales in 2006.

Egg production

Own-brand shell eggs

% of shell egg sales	88%
Country of origin	100% UK
Freedom Food free-range eggs	74%
Farm assurance (Lion egg) standard[17]	16%
Organic (Organic Farmers and Growers/Organic Food Federation)	10%

In 2006, sales of free-range shell eggs accounted for 79% of branded and own-branded sales (2005: 75%). All own-brand free-range eggs are Freedom Food-accredited, which stipulates lower outdoor stocking densities (a maximum of 1,000 birds per hectare) than conventional free-range outdoor standards (a maximum of 2,500 birds per hectare)[18]. Organic standards offer enhanced animal welfare provision, including the prohibition of mutilations, such as beak trimming. In October 2006, The Co-operative Food transferred all own-brand egg production to free-range systems. Significantly, The Co-operative Food stipulates the use of free-range eggs in a number of its prepared product lines, and, from 2007, will begin to ensure that, where eggs are used as ingredients in prepared products, they are free-range eggs.

Milk production[19]

Own-brand fresh milk

% of fresh milk sales	88%
Country of origin	100% UK
National Dairy Farm Assured[20]	98%
Organic (Soil Association)	2%

The National Dairy Farm Assured Scheme represents some 80% of UK dairy farmers. Organic milk production specifies that cattle must spend the majority of their lives outside and be fed on a grass-based diet. In 2006, total organic fresh milk sales increased to 2% of all own-brand fresh milk sales (2005: 1%). The Co-operative Food is reviewing the expansion of milk products produced to higher welfare standards.

14 Freedom from fear, from pain, from injury, from discomfort and hunger, and freedom to behave in as natural a way as possible (www.rspca.org.uk).

15 The criteria have been applied to The Co-operative Food 'Truly Irresistible' range.

16 Co-operative Food organic trout is accredited to Soil Association standards which stipulate stocking densities approximately half of those for conventional fish farms.

17 www.britegg.co.uk

18 EU egg and poultry meat marketing standards stipulate minimum requirements for products to be labelled as free-range. These contain animal welfare provisions, which include: birds' daytime access to open-air runs with fixed indoor stocking densities; and, for birds produced for meat, minimum slaughter ages.

19 This does not include data on own-brand cheese, butter, yoghurt or dessert products.

20 www.ndfas.org.uk/pdf.asp

Poultry production

Own-brand fresh chicken

% of fresh chicken sales	86%
Country of origin	Whole chickens, breasts, thighs, drumsticks and premium products sourced from UK, and fillets sourced from either the UK or EU. These products account for between 40% – 60% of total fresh chicken sales.
Farm Assurance Standard[21]	99%
Freedom Food	1%

Own-brand fresh duck

% of fresh duck sales	92%
Country of origin	100% UK
Freedom Food	100%

Own-brand fresh turkey

% of fresh turkey sales	72%
Country of origin	100% UK
Farm Assurance Standard[21]	98%
Freedom Food	2%

In 2005, The Co-operative Food took the decision to transfer all fresh duck production to Freedom Food standards. Whilst the Freedom Food standards permit indoor rearing systems, they stipulate that ducks be given access to open water sources that provide the opportunity to engage in natural behaviours, such as preening and the reconditioning of feathers.

In 2006, the decision was taken to transfer all own-brand turkey production to the UK (in 2005, 12% was sourced from other EU countries). In 2006, Freedom Food accounted for a much lower proportion (2%) of total turkey sales (2005: 13%) owing to the discontinuation of a number of product lines. A review of Freedom Food lines in 2007 is expected to redress this issue.

Pig meat production

Own-brand fresh pork

% of fresh pork sales	70%
Country of origin	90% UK 10% EU (Denmark/Holland)
Assured British Pig/UK Contract[22]	99%
Freedom Food	1%

Own-brand fresh bacon

% of fresh bacon sales	68%
	45% UK 55% EU (Denmark/Holland)
Assured British Pig/UK Contract[22]	95%
Freedom Food	5%

Own-brand fresh sausage

% of fresh sausage sales	53%
Country of origin	65% UK 35% EU (Denmark/Holland)
Assured British Pig/UK Contract[22]	88%
Freedom Food	12%

UK legislation and UK farm assurance standards currently exceed EU legislation; for example, sow stalls and tethers have been illegal in the UK since 1999. In 2006, pig meat for all premium products was sourced in the UK. Ingredients for Truly Irresistible[23] products were sourced from pigs born and weaned outdoors without the use of farrowing crates. In 2006, The Co-operative Food took the decision to transfer all fresh pork production to the UK[24]. For all pig meat sourced outside the UK, The Co-operative Food requires production to comply with UK Contract Standards, which comply with Assured British Pig Standards wherever possible (eg, prohibition of sow stalls), although with regard to certain practices (eg, castration) this is not always possible.

The introduction of new Freedom Food sausage lines meant that, in 2006, sales of Freedom Food pig meat products increased to 12% (2005: 5%) of total own-brand sales.

21 The Assured Chicken Production (www.assuredchicken.org.uk) and Assured British Turkey farm assurance standards cover chicken and turkey production respectively.

22 www.assuredpigs.co.uk

23 www.co-operative.co.uk/food/ourproducts/trulyirresistible

24 The transfer is dependent on UK suppliers being able to produce pigs in line with The Co-operative Food's GM-free feed policy. See: www.co-operative.co.uk/corporate/ourviews/animalfeed

Left All Co-operative own-brand toiletries are accredited to the Humane Cosmetics Standard – an independent assurance mark that identifies cosmetics and toiletries that have not been tested on animals.

Beef production

Own-brand fresh beef	
% of fresh beef sales	97%
Country of origin	95% UK 5% EU (Ireland)
Farm Assurance Standard	100%

The overwhelming majority of fresh beef is sourced from the UK and complies with Assured British Meat Standards. All own-brand fresh beef is reared outdoors during the summer, and the animals given shelter during inclement weather. In 2006, The Co-operative Food discontinued 'barley beef'[25] products.

Lamb production

Own-brand fresh lamb	
% of fresh lamb sales	99%
Country of origin	50% UK 50% New Zealand
Farm Assurance Standard	100%

Fresh lamb is sourced on a seasonal basis from the UK and New Zealand to Assured British Meat and New Zealand farm assurance scheme standards. All UK fresh lamb is reared outdoors during the summer and animals given shelter during inclement weather.

Animal testing

Toiletries and household products

In 1998, the British Union for the Abolition of Vivisection (BUAV)[26] launched the Humane Cosmetics Standard (HCS), with a view to providing consumers with an independent assurance mark that identifies cosmetics and toiletries that have not been tested on animals. The Co-operative Group has been accredited to the HCS since 1990, and 100% of own-brand toiletries carry the 'rabbit and stars' logo, although it does not sell own-brand colour cosmetics, such as lipstick and mascara. As part of its accreditation, a fixed cut-off date of 1985 was agreed. This means that no own-brand toiletry products, or their ingredients, have been tested on animals since 1985.

Toiletries[27]	2004	2005	2006[28]
Range of own-brand BUAV-accredited products	78	116	108
Sales of BUAV-accredited products £m	2.4	3.6	4.1

The Group subsequently worked with BUAV on the development of the Humane Household Products Standard (HHPS), with the intention of providing similar assurance to consumers purchasing household products. The HHPS was published in 2003, and The Co-operative Food agreed a fixed cut-off date of 1997 for ingredients where primary use was in household products – this takes into account testing that falls outside the control of the Group and its product and ingredient suppliers (ie, testing for industrial, legislative and safety purposes – much of which took place in the 1990s). As of 2003, all of the Group's own-brand household products are accredited to the HHPS and carry the 'rabbit and stars' logo.

Household[29]	2004	2005	2006[28]
Range of own-brand BUAV-accredited products	71	87	86
Sales of BUAV-accredited products £m	6.0	8.4	9.0

The Group is independently audited by BUAV every three years to ensure its continued conformance with both standards, with the next audits scheduled for early 2008. Audits focus on company policy, purchasing and supply chain management and monitoring and control of ingredients/products. The latter emphasises the need for companies to have a documented and traceable system in place to ensure that products and their ingredients are not tested on animals. To this end, the Group requires that its toiletries and household products suppliers, of which there are six each, receive annual declarations from their suppliers, stating that all raw ingredients supplied for end-use in Co-operative own-brand products have not been tested on animals. Similar declarations are also required of suppliers with regard to the testing of final products. No non-compliances were identified in the last round of audits, which took place in late 2003 and early 2004, and the management systems underpinning this process for both the HCS and HHPS were judged by BUAV's auditor to be robust.

25 Young male cattle ready for slaughter at 10–12 months of age. These cattle are fed a mainly cereal diet (eg, cereals plus a protein supplement) and housed indoors throughout their lives.

26 www.buav.org

27 Toiletries are classified as cosmetics under the EU Cosmetic Directive 76/768. This defines a cosmetic product as any substance or preparation intended for placing in contact with the various external parts of the human body with a view exclusively or principally to cleaning them, perfuming them or protecting them in order to keep them in good condition, change their appearance or correct body odours.

28 This does not include the low number of sales generated by discontinued toiletry lines.

29 Humane Household Product Standards define household products as: disinfectant, bleach, dishwasher products, floor and furniture polish, cleanser and cleaner, toilet products, washing-up liquid, air freshener, washing powder, laundry tablets, liquid detergent and fabric conditioner.

Failure or refusal by an ingredients manufacturer to provide necessary confirmation, after rigorous pursuit, will result in delisting from the supply of ingredients for use in Group products. If a suitable alternative ingredient cannot be sourced, a product will be delisted.

In 2006, sales of BUAV-accredited products totalled £13.1m (2005: £12m), a year-on-year increase of 9%. All new own-brand toiletry and household products are required to conform with HCS and HHPS respectively.

CFS and ethical finance

In its response to issues of animal welfare, CFS seeks to be the leading retail bank and institutional investor in the global financial services industry. The customer-led Ethical Policies of the bank and Co-operative Insurance contain a number of animal welfare provisions. Amongst others, these address animal testing, the fur trade and intensive farming methods. The two former positions are consistent with the wider Co-operative Group approach to these issues; however, the positions relating to intensive farming extend further.

Bank screening of finance

During 2006, 48 finance opportunities were referred to the Ethical Policy Unit in connection with animal welfare, of which eight were declined at an estimated cost of £696,000 in terms of gross income foregone in 2006.

Animal testing

In four instances, facilities were declined to businesses involved in the manufacture of cosmetics and household products, where the businesses did not stipulate the use of a fixed cut-off date for animal testing to ingredient suppliers. Facilities were approved for a business involved in the development of software for use in metabolism prediction, toxicology and related sciences. The business developed and marketed a range of toxicology programmes that could replace the need for animal testing.

Intensive farming

In three instances, facilities were declined to businesses involved in the indoor, intensive rearing of poultry and pigs. In contrast, provision of banking facilities was approved for five organic producers, two free-range farms and eight beef, dairy and sheep farms.

Animal welfare business declines, 2006	Estimated income foregone 2006
Pig producer £15m contribution to a syndicated loan facility for a global business involved in the intensive indoor production of 16 million pigs per annum.	£410,000
Household cleaning product manufacturer (three instances) Provision of banking facilities to businesses involved in the manufacture of household cleaning products. In sourcing product ingredients, businesses did not stipulate the use of a fixed cut-off date to suppliers. As such, there was no guarantee that the ingredients were compliant with bank's animal testing policy.	£278,000
Chicken factory Provision of banking facilities to business involved in production of 780,000 chickens per annum. The business did not pre-stun animals prior to slaughter. The Farm Animal Welfare Council considers an 'effective process which induces immediate unconsciousness or insensibility, or an induction to a period of unconsciousness' to be a basic principle of animal welfare that must be observed at slaughter or killing. Whilst UK legislation stipulates that all animals must be insensible prior to slaughter, slaughter by a religious method is exempt from this legislation.	£4,000
Food manufacturer (two instances) Provision of asset finance facilities to businesses involved in turkey meat production. In first instance, £100,000 asset finance facility supporting the acquisition of computer equipment to a business involved in the production of over 15 million turkeys per year. In second instance, £200,000 asset finance facility supporting the acquisition of warming units for business involved in the production of two million turkeys per year. In both instances, production methods were based on indoor, intensive rearing systems.	£2,500
Cosmetic product manufacturer £200,000 asset finance facility for a cosmetic product manufacturer. As the business did not stipulate the use of a fixed cut-off date in the sourcing of its product ingredients, there was no guarantee it was compliant with the bank's Policy.	£1,500

Far left Whilst banking facilities were declined to three businesses involved in the indoor, intensive rearing of poultry and pigs in 2006, banking was approved for five organic producers, two free-range farms and eight beef, dairy and sheep farms.

Left The Group has an active anti-fur policy and, in September 2006, restated its opposition to the fur trade when it signed up to the Respect for Animals 'Fur Free Retailer' initiative.

Co-operative Insurance engagement – fur trade

Global fur sales increased for the eighth consecutive year in 2006, rising by 6% on the previous year[30]. In 2005, Co-operative Insurance initiated an engagement programme to ascertain retailers' policies in connection with the sale of fur. In 2006, this matter was further pursued with two businesses. Burberry reported that it sought to avoid fur from China, given heightened animal welfare concerns, but indicated that it was not fundamentally against the use of fur. This led Co-operative Insurance to vote against the acceptance of Burberry's 2006 Annual Report and Accounts. The French Connection Group plc reported that it did not have a policy addressing the use of fur and did not intend to develop one. In response, Co-operative Insurance voted against the acceptance of the 2006 Annual Report and Accounts, for the third consecutive year. Given the lack of responsiveness to Co-operative Insurance's serious concerns on governance matters at French Connection Group plc, and, to a lesser extent, the company's failure to engage on the issue of fur, in early 2007, Co-operative Insurance divested of its interest in the company.

Sustainable procurement

In line with CFS' Sustainable Procurement and Supplier Policy (page 34), a customer promotion for a falconry centre was declined. The centre offered customers the opportunity to hunt rabbits with hawks, a practice that contravened the bank's definition of a blood sport.

Influence and action

Fur Free retailer initiative

From 2003, the Fur Farming (Prohibition) Act has prohibited the breeding of animals for their fur in the UK; however, London remains the world trade centre for fur. The Group has an active anti-fur policy and, in September 2006, restated its opposition to the fur trade when it signed up to the Respect for Animals 'Fur Free Retailer' initiative and committed not to sell 'any apparel, accessory or other item that contains real animal fur'.

30 www.iftf.com

Diet and health

Additives prohibited

Nutritional content: salt

Nutritional content: fats

Nutritional labelling

Promotions, marketing and information

Targets 2006

- Implement a new nutrient signposting scheme that meets the Food Standards Agency (FSA) criteria. Acceptable progress
- Work with suppliers to ensure hydrogenated vegetable oil is removed from all own-brand products manufactured after 1 March 2007. Target achieved
- Ensure FSA salt targets are met across all own-brand product categories by the end of 2009. Substantial progress

Targets 2007

- Develop and seek Executive approval for a new Diet and Health Action Plan.
- Recipes for all products in the Co-operative Economy range to have nutritional levels no lower than those of standard and premier equivalents by the end of 2008.
- Continue to roll out nutrient signposting scheme that meets the FSA criteria.
- Ensure FSA salt targets are met in all relevant own-brand product categories by end 2009.
- Review and revise the Group's approach to the reduction of saturated fat and sugar in own-brand products.
- Review and revise the Group's approach to the removal of additives from all own-brand product lines.

Materiality and strategy

Today's consumers are presented with a choice of foods and products on a scale unimaginable a century ago. Whilst the majority welcome this improvement in choice, many consumers are concerned about food production methods and their impact on health, the environment and animal welfare. The Co-operative's commitment to these issues can be traced back to the Rochdale Pioneers, who sought to sell good quality produce at a time when items such as milk, flour and bread were regularly adulterated with the likes of alum and ground limestone. The Group's Community and Campaigns Strategy (page 65), which has been agreed by its member-controlled Group Values & Principles Committee (page 12), stipulates 'good with food' as one of five priorities for the business. Food integrity is still a priority for consumers (page 25), although the issues of concern are, today, somewhat different. Additive use, product formulation and informative labelling are now to the fore, and guide the Group's reporting in this area. Additionally, information on pesticide use is reported on pages 94–96.

Milestones

1994 First retailer to provide a Freephone Careline number and a Freepost address on Co-op own-brand products for customer enquiries.

1995 Introduces 'Suitable for Vegans' (as well as Vegetarians) labels on appropriate products, commits to clear labelling (eg, the percentage of each key ingredient and the country of origin are declared on own-brand products), and challenges suppliers to reduce amount of fat and salt in own-brand products to help achieve Nutrition Task Force targets.

1999 Only retailer to label the ingredients in wine, despite the fact that the move is technically illegal (lobbies the Government to change the law) and bans GM ingredients from own-brand food products.

2000 Reduces salt in own-brand bread range and publishes 'Blackmail' report on parental concerns about the advertising of salty, fatty and sugary foods to children.

2001 Initiates ban on yolk colourants and GM ingredients in feed of hens laying own-brand eggs and first major retailer to ensure all own-brand fresh pork comes from pigs fed on non-GM diet.

2005 Includes information on the amount of caffeine per serving in coffee, tea, cola and chocolate.

2006 Commits to adopt a 'traffic light labelling' scheme that meets the FSA's criteria.

2007 Removes hydrogenated vegetable oils from all own-brand products.

Far left The Group worked with suppliers of shell eggs to remove Canthaxanthin – used to give a deep golden colour in egg yolk – from the diets of chickens.

Left The Group has committed to meeting Food Standards Agency salt targets across all own-brand product categories, as designated, by the end of 2009.

Basic assurance

All Co-operative own-brand fruit, vegetables and salad produced in the UK meet the terms of the Assured Produce Scheme (APS)[1], which promotes basic standards of horticultural practice regarding the use of pesticides and fertilisers. It is one of the schemes covered by the Assured British Farm Standard and, like other products falling under the standard, is identified by the 'Red Tractor' symbol (page 36). Standards in relation to meat and poultry are detailed on pages 36–39.

Additives

Many customers are concerned that artificial food additives could be harmful and/or unnecessary[2]. The Co-operative Food has operated an Additives Policy since 1985, and seeks to use them as little as possible, whilst recognising benefits in areas such as food safety. Where possible, and providing the resultant product is safe and acceptable to consumers, Co-operative Food will use natural or nature-identical additives in preference to artificial ones. When additives are used in own-brand products, their full name, rather than E-number, is displayed on the product label for the purposes of clarity. Where sweeteners are used, their use is clearly labelled on the front of packaging.

Additives eliminated from own-brand products include 22 food colours (see box below), such as tartrazine E102 – an azo-dye often associated with hyperactivity. Additionally, significant restrictions are placed on the use of a further two colours[3]. In 2001 the Group worked with suppliers of shell eggs, to remove the artificial colour Canthaxanthin from the diets of chickens. This has resulted in a paler yolk colour, as the artificial colours were used to give a deep golden coloured yolk. No additional additives were banned/restricted in 2006.

Prohibited colours

Colours banned by The Co-operative Food for use in own-brand foods: Tartrazine (E102), Sunset Yellow FCF/Orange Yellow S (E110), Azorubine/Carmoisine (E122), Amaranth (E123), Ponceau 4R/Cochineal Red A (E124), Red 2G (E128), Allura Red AC (E129), Brilliant Black BN/Black PN (E151), Brown FK (E154), Brown HT (E155), Aluminium (E173), Silver (E174), Gold (E175), Quinoline Yellow (E104), Cochineal/Carminic Acid/Carmines (E120), Erythrosine (E127), Patent Blue V (E131), Indigotine/Indigo Carmine (E132), Brilliant Blue FCF (E133), Green S (E142), Canthaxanthin (E161g), Litholrubine (E180).

The Group also prohibits the use of flavour enhancers, such as monosodium-glutamate (E621); certain antioxidants, including the gallates, propyl gallate (E310), octyl gallate (E311) and dodecyl gallate (E312) and also BHT (E321) and BHA (E320) (though these are used, by exception, in food supplements)[4] from its own-brand products.

The Group has, furthermore, investigated the possibility of removing the preservatives benzoic acid, benzoates, nitrites and nitrates, which have been associated with intolerance, from its own-brand products; however, their removal and/or replacement proved to be impractical. To this end, use of these preservatives is clearly stated on the product, with the statement: 'Contains X, which has been associated with intolerance.'

Nutritional content

The Government's food and health action plan[5] seeks to improve the nutritional balance of the average person's diet in the UK. The Co-operative Food has progressed a number of initiatives that support this healthy eating agenda, particularly in relation to salt reduction, and, alongside the reformulation of products with a view to making them more healthy, seeks to provide customers with comprehensive, reliable advice on a healthy diet and lifestyle and equip them with the knowledge to make informed choices (pages 46–48).

Salt

Following the publication of the Food Standards Agency's salt model in 2003[6], The Co-operative Food sought to reduce the amount of sodium in its own-brand products, and has committed to meeting FSA salt targets across all own-brand product categories, as designated, by the end of 2009. The main focus of this activity is the priority areas identified by the FSA: pies, pizzas, pasta sauces, sandwiches and ready meals, as detailed in the table overleaf. In addition, FSA targets for salt have already been met across other product ranges; notably, cereals, chilled soups, bacon, tomato ketchup, and savoury snacks.

1 The Assured Produce Scheme (APS) is designed to give consumers confidence in the safety and integrity of fruit, vegetables and salad produce. Growers must follow production advice contained in the crop-specific protocols that form the basis of the scheme, which is independently assessed. The Group is represented on the APS Technical Committee. See www.assuredproduce.co.uk

2 Research undertaken by NOP on behalf of The Co-operative Food in 2005 revealed that 69% of parents harboured concerns regarding additives and a third linked their children's diet to hyperactivity, naughtiness, anger and lack of concentration.

3 The Group would like to ban Vegetable Carbon/Carbon Black (E153) and Annatto/Bixin/Norbixin (E160b), but recognises that they have specific uses eg, Annatto is used in the colouring of red cheeses. To that end, the two colours are allowed where specific permission is sought and their use is clearly identified below the ingredients list using the statement: 'Contains X which has been associated with food intolerance'.

4 www.co-operative.co.uk/corporate/ourviews/additives/

5 Department of Health (2005) Choosing a Better Diet: a food and health action plan. The plan focuses on the following set of objectives: increasing the average consumption of a variety of fruit and vegetables to at least five portions per day; increasing the average intake of dietary fibre to 18 grams per day; reducing the average intake of salt to six grams per day by 2010; reducing the average intake of saturated fat to 11% of food energy; and reducing the average intake of added sugar to 11% of food energy.

6 www.food.gov.uk/healthiereating/salt/saltmodel#h_1

Progress against FSA sodium targets in priority areas

FSA Priority Category	2006
Pizzas – high salt toppings	50% compliance across range
Pizzas – low salt toppings	40% compliance across range
Chinese/Thai/Indian ready meals	Range complies
Chinese/Thai/Indian meal centres	Range complies
Italian/traditional/other ready meals	Range average of 257mg sodium against target of 250mg
Italian/traditional/other meal centres	Range complies
Sandwiches – high salt fillings	Range complies
Sandwiches – low salt fillings	Range complies
Pasta sauces	Range complies
Meat pies	77% compliance across range

One of the indicators captured by the National Consumer Council's Health Responsibility Index (page 47) is supermarkets' progress towards the FSA's salt targets for a basket of ten standard own-brand goods. The Co-operative Food scored 7.5 out of 10 for salt reduction against an average retailer score of 7.4. 2007 and 2008 will see the reformulation of all products in the NCC's basket of goods that presently do not meet FSA sodium targets, with a view to them achieving, or moving towards, the target.

Progress against NCC Health Responsibility Index basket of goods

Product	Sodium grams per 100 grams 2006	Sodium grams per 100 grams FSA target[7] BENCHMARK
Co-op baked beans (standard)	0.4	0.3 (maximum)
Co-op cream of tomato soup	0.4	0.25 (average)
Co-op cornflakes	0.6	0.3 (average)
Co-op pasta sauce – Tomato and Herb Pasta Sauce	0.5	0.43 (average)
Co-op Chilled Stonebaked Three Cheese Pizza	0.5	0.4 (maximum)
Co-op thick pork sausages	0.5	0.55 (maximum)
Co-op salt and vinegar crisps (6 pack)	1.1	1.2 (average)
Co-op sunflower spread	0.4	0.6 (average)
Co-op tomato ketchup	0.7	1.0 (maximum)
Co-op white sliced bread (medium)	0.4	0.43 (average)

Fats

Through 2006, the Group focused attention on the removal of trans-fatty acids in own-brand products, following increased concern about their links to chronic health conditions, such as coronary heart disease. They occur naturally, in small quantities, in meat and dairy products from ruminants, but most trans-fats consumed today are created industrially through the partial hydrogenation of plant oils. They are used in food as they are relatively cheap, increase product shelf-life, decrease refrigeration requirements and displace animal fats (thus making them suitable for vegetarian foods). The food business has, as of March 2007, met its long-term target to remove hydrogenated vegetable oils (HVOs) from all own-brand products, which involved the reformulation of over 500 products in the seven preceding months.

The Co-operative Food has committed to ensuring that product reformulation yields no increases in the proportion of unhealthier fats, such as saturated fat, whilst seeking to reduce the fat content overall. For example, the range of five own-brand quiches was reformulated with a view to fat, saturated fat and salt reduction. Overall fat content was reduced by 24% and saturated fat by 20% across the range. In 2007, the Group will review and revise its approach to the reduction of saturated fat and sugar in own-brand products, taking into account the recommendations made in the FSA Draft Saturated Fat and Energy Intake Programme (March 2007)[8].

Sugar

In line with FSA targets on saturated fat and energy reduction, The Co-operative Food is focusing on reducing sugar in savoury products that have high sugar levels, and is looking to develop a policy for sugar reduction going forward. For example, in 2006, a maximum sugar level of 5% was set for all savoury products in the 'Healthy Living' range (page 45).

7 For maximum targets, the salt content for all individual products must not exceed the maximum salt content for that range. For average targets, the average salt content of all products in a particular range (eg, canned soups) must not exceed the average target.

8 www.food.gov.uk/multimedia/pdfs/fatenergyprog.pdf

9 'Simply' products may contain ingredients such as bacon, ham or wine, where the presence of a preservative is unavoidable.

10 By exception, approval may be given to have one nutrient coloured 'red' in relation to the FSA signposting criteria.

New products

Simply

A new 'Simply' collection consisting of 31 easy-to-prepare ready meals, soups and vegetable dishes that do not contain any preservatives[9], stabilisers, emulsifiers, artificial colours or flavours was launched by The Co-operative Food in September 2006. All products in the range meet the salt target levels set by the Food Standards Agency (FSA) (page 43) and contain only free-range eggs. The 'Simply' products are the first within The Co-operative own-label range to feature the new FSA front-of-pack traffic light labelling (page 46) to help customers understand the nutritional value of foods.

Healthy Living

January 2007 saw the rebrand and relaunch of the 'Healthy Living' range of products under three different labels, each with distinct characteristics. It is the Group's intention that all lines be priced no higher than standard equivalents.

- 'Healthy Living' products have been formulated using strict criteria to give a more healthy nutritional balance. This has been achieved by ensuring the balance of priority nutrients (fat, saturated fat, sugars and salt) is such to allow their classification as 'green' or 'amber' in accordance with the FSA's traffic lights signposting (page 46).
- The 'Reduced' range of products has been formulated on the basis of a significant (at least 50%) reduction in either fat, sugar or salt, relative to the average of a range of equivalent 'standard' products, and, in all but exceptional circumstances[10], meet green and amber classifications.
- 'Naturally Healthy' products provide specific, essential nutrients in a balanced dietary format. The majority of these consist of natural lines rather than formulated products; for example, fresh fruit and vegetables, dried fruit, nuts, pasta, rice etc.

A total of 193 products are provided across all three ranges.

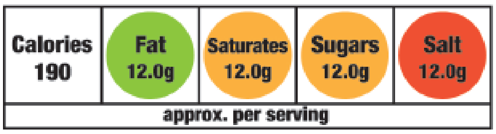
Labelling

In a recent study, 43% of consumers indicated that they considered product packaging to be a very important source of information on companies' products and services[11]. The Co-operative Food seeks to be open and honest in its approach to labelling, and provide information in a way that allows customers to make informed purchasing decisions about food products. A Code of Practice on Honest Labelling is adhered to for all own-brand food products[12].

The Co-operative Food's policy is to display the information requirements stipulated by the Food Labelling Regulations 1996[13] on the front of packaging (its selling face). The regulations state only that the information (which includes the product's legal name, weight and storage instructions) should be in the same field of vision, but does not specify that this should be on the front of pack. Other companies choose to communicate the information on a less visible panel.

The Group has introduced a series of packaging innovations designed to help customers understand a product's nutritional makeup. Since 1985, The Co-operative Group has provided full nutritional labelling on all food products and, in 1986, it became the first retailer to include the terms 'HIGH', 'MEDIUM' and 'LOW' in panels, to describe nutritional content. In 1995, the Group began to label calories and fat content per serving on the front of packaging and provide grams of salt per serving in the nutrition panel. Front-of-pack information was subsequently amended to include an indication of the amount of salt per serving and was further updated in 2006 for use on those products which do not fall within FSA priority areas for traffic light labelling (see below).

In September 2006, with the launch of the 'Simply' range of products (page 45), the Group began to implement the FSA's recommendations on nutrient signposting[14]. This 'traffic light' approach enables customers to quickly discern whether the food has high, medium or low amounts of fat, saturated fat, salt and sugars. The labelling has since been introduced on the Healthy Living and Reduced ranges (page 45), and is being incorporated into all packaging redesigns and packaging for all new products in the FSA priority list for traffic lights. The major re-branding exercise at The Co-operative Group, which also commenced in September 2006, has served to accelerate the inclusion of signposting on products, as packaging is redesigned along new brand guidelines. As the new signposting is rolled out, some products on the shelf will continue to show the old 'HIGH', 'MEDIUM' and 'LOW' descriptors.



In 2006, front-of-pack, simple, healthy eating messages, including 'High fibre', 'Rich in Omega 3' and 'Source of calcium', were introduced on packaging to encourage consumption of certain foods, such as starchy carbohydrates, oily fish and milk. '5 a day' front-of-pack labelling is also used to encourage consumption of fruit and vegetables. The criteria for use of the '5 a day' message is based upon guidance from the Department of Health.

Consumption of alcohol in excess has been linked to a variety of physical and psychological health issues, and, to that end, the Group seeks to provide clear labelling that carries sensible drinking advice. Following guidance from a consumer jury, all own-brand drinks are labelled to indicate the number of units they contain per glass, can or bottle, and, in the case of spirits and wine, the number of glasses per bottle is indicated. Since 1999, the Group has listed wine ingredients on own-brand wine, despite this being technically against the law.

Promotions, marketing and information

In a recent study[15], 20% of consumers indicated that they considered in-store promotional material to be a very important source of information on companies' products and services. Like other retailers, the Group highlights healthy eating options in-store, using devices such as shelf-edge labelling, whilst its website carries information on diet and health[16], including 'Get Cooking, Get Shopping' – a resource pack for developing community-based cooking and shopping skills[17]. Additionally, the Group's Customer Relations team (page 108) acts as a first point of contact for all customer queries relating to products and their ingredients. The team can be contacted via Freepost letter, Freephone (0800 0686 727), Minicom (0800 0686 717) or email (customer.relations@co-op.co.uk).

The Group has a policy that prohibits the marketing or advertising to children of products that are high in fat, sugar or salt[18]. The policy extends to advertising that is directly aimed at children during children's viewing hours; free samples at in-store demonstrations and promotions; and the use of popular children's characters on the packaging of own-brand products that are high in fat, sugar or salt.

11 AccountAbility/National Consumer Council (July 2006) What assures Consumers? Product packaging emerged first in a list of potential sources that consumers consult for such information.

12 www.co-operative.co.uk/food/responsibleretailing/righttoknow/honestlabelling/

13 www.opsi.gov.uk/Si/si1996/Uksi_19961499_en_1.htm

14 www.food.gov.uk/foodlabelling/signposting/

15 Accountability/National Consumer Council (July 2006) What assures Consumers?

16 www.co-operative.co.uk/food/responsibleretailing/healthanddiet/

17 www.co-operative.co.uk/food/responsibleretailing/healthanddiet/getcookinggetshopping/

18 www.co-operative.co.uk/corporate/ourviews/marketingtochildren

Far left In 2006, 36 primary school classes visited The Co-operative Farms' Stoughton Estate near Leicester to gain a better understanding of where their food comes from.

Left North Eastern & Cumbrian region enlisted the help of a community chef to promote cooking and healthy eating to schoolchildren and their families.

Healthy living and weight management advice is also provided by The Co-operative Pharmacy.

BENCHMARK In November 2006, The Co-operative Group was ranked joint fifth (2005: first) of the eight supermarkets rated in the National Consumer Council's (NCC) Health Responsibility Index[19], attaining a score of 4.5 out of 10 (2005: 6.5). The Index is designed to examine how supermarkets help their customers shop, cook and eat more healthily, through price promotions, salt content of own-brand foods, prevalence of snacks at checkouts, labelling and advice. The lower score recorded in 2006 can partly be explained by the fact that, at the time of the NCC review, despite a commitment to do so, the Group had yet to roll out new nutrient signposting. Going forward, the Group has undertaken to report its performance against the key performance indicators monitored by the NCC in future Sustainability Reports.

Community involvement

Food education

In September 2005, Co-operative Farms launched a food education project on The Co-operative Farms Stoughton Estate, Oadby, near Leicester[20]. The 'Farm to Fork' project is designed to enable children from local primary schools to visit a working farm, providing a learning experience that gives primary school children a better understanding of where their food comes from. These visits are intended to encourage children to make more informed food choices and give them a passion for good food. The programme caters for children from reception class up to year six. In 2006, the farm hosted 36 class visits, with 1,080 children participating in the programme. A further 150 teachers and parents have also visited the farm. In October 2006, the Group's Values & Principles Committee (page 12) allocated additional funding to enable the development of an eco-barn on the farm, which will incorporate features to reduce its greenhouse gas emissions, including microgeneration (page 21). The feasibility of extending the Farm to Fork project into a national programme with links between local primary schools, Co-operative Food stores and Co-operative Farms is presently being investigated.

In support of the 'good with food' theme, the North Eastern & Cumbrian Region enlisted the assistance of community chef, Mark Earnden, to promote to local people – particularly schoolchildren and their families – cooking and healthy eating. The emphasis is on nutritious food being fun, affordable and easy to prepare. Thousands of schoolchildren, their families and co-operative members saw Mark's cookery demonstrations in the first year. The Group supported the publication of 5,000 copies of a children's book, 'Mark and the Dragon', that is intended to promote healthy eating amongst schoolchildren.

Community Health Fund

In 2006, following successful pilot schemes in Plymouth and Swansea, The Co-operative Pharmacy launched two £20,000 Community Health Funds – one in West Yorkshire[21] and one covering Cardiff and Newport[22]. The Funds are designed to support health-related causes in the two areas with awards of up to £2,000. Application forms are available from pharmacy stores, and applicants are encouraged to detail how their project would make a difference in the local community. In March 2007, panels (which included representatives from local area committees) were convened in each of the two areas to determine distribution of the funds, with £40,000 being distributed amongst 24 groups.

Support for food redistribution charity

Throughout 2006, Co-operative Food continued to be a corporate supporter of FareShare[23], a national charity that works with the food and drink industry to fight food poverty through the redistribution of surplus food to organisations working with disadvantaged people. Alongside its corporate membership fee of £5,000, support in 2006 included a donation of £3,000 towards FareShare's Christmas Meal Appeal.

School meals co-operative

In 2006, The Co-operative Fund (page 22) provided £48,795 to Local Food Links in Bridport[24] – a network of organisations active in supporting healthier and more sustainable local food systems – to establish a new school meals co-operative. The project seeks to develop a school and parent-led model of school food provision that prioritises healthy eating. The project will enable six primary schools to source healthy school meals from the co-operative.

Promoting exercise

In July 2006, the Group provided sponsorship to Jogscotland[25]; an initiative that promotes five 5km runs in Scotland, which are designed for runners of all abilities. The Group's funding also supports a resource pack for Junior Jogscotland, which aims to encourage young Scots to become fit and active. In 2007, the Group will seek to increase the number of colleagues participating in races and further leverage the fundraising opportunities of Jogscotland, in support of The Co-operative Group's Charity of the

19 www.ncc.org.uk/research_policy/food/pubs.php

20 www.co-operative.co.uk/farms/responsiblefarming/farmtofork

21 www.co-operative.co.uk/media/news/pharmacy/makingadifferenceinwestyorkshire

22 www.co-operative.co.uk/media/news/pharmacy/makingadifferenceinsouthwales

23 www.fareshare.org.uk

24 www.foodlinks-uk.org/Localfood.asp

25 www.jogscotland.org.uk

Year 2007 (page 68). Some 3,200 runners took part in the five races in 2006, and it is hoped that over 5,000 runners will take part in 2007.

In 2006, Co-operative Insurance invested over £160,000 of cash and in-kind support in a programme of grassroots sports initiatives throughout the country. The 'kits for kids' sponsorship included the provision of almost 200 kits for junior teams.

Influence and action

Traffic light labelling

The Group has made ongoing contributions to industry-wide discussions on the development of nutritional signposting information and is fully supportive of the FSA traffic lights model, which it has committed to rolling out across all FSA priority own-brand products as and when they are launched or re-launched. In 2003, the Group responded to the FSA consultation on a Review of EC Regulations on Nutrition Labelling, highlighting its use of simple descriptors (ie, 'High', 'Medium' and 'Low' – based on the documents produced by the Coronary Prevention Action Group) to assist customers in understanding nutritional information. The response also emphasised the usefulness of packaging displaying 'per portion', as well as 'per 100g' information. In 2005 and 2006, the Group met with the FSA to share information on the system used by the Group to determine the High, Medium and Low descriptors and the implications for implementation of the new signposting on own-brand products. The Co-operative Group believes that the introduction of front-of-pack traffic light colour-coding will make it easier for consumers to eat more healthily and encourage consumers to look for and demand healthier foods. The Group continues to support the development of the FSA's traffic lights signposting through its membership of the FSA Adopters and Supporters Group.

Ethical finance

1 www.co-operativebank.co.uk/ethicalpolicy

2 www.cis.co.uk

3 Ibid.

Socially responsible investment: Bank

Socially responsible investment: Insurance

Targets 2006

- In connection with the bank's Ethical Policy, consider and progress further improvements to training materials and to the monitoring of compliance records. Target achieved
- Expand and evidence that processes of corporate governance and SEE risk analysis and investment decision-making are systematically integrated across Co-operative Insurance's UK equities by the end of 2006. Substantial progress

Targets 2007

- Consider and, if merited, progress a further round of consultation with customers and members on the bank's Ethical Policy.
- In connection with the bank's Ethical Policy, embed newly developed training materials into staff induction programmes and make available to all bank staff.
- The bank to launch a financial product that will support ethical consumerism.
- Devise and implement a communications programme to raise internal and external awareness of Co-operative Insurance's socially responsible investment (SRI) processes.

Materiality and strategy

Co-operative Financial Services' core business is the provision of financial services – banking, insurance and investments – to corporate, business and personal customers. In 2006, CFS had an operating profit of £134.7m and total assets at year end of £40.7bn. The average bank customer lending and deposits were each £7.7bn. CFS' investments totalled £28.2bn, including Co-operative Insurance listed equities of £7.2bn. In relation to the provision of ethical finance, CFS seeks to be the leading retail bank and institutional investor in the global financial services industry.

The Co-operative Bank launched its Ethical Policy[1] in 1992, with the latest review taking place in 2001. The Ethical Policy is formulated on the basis of an extensive programme of customer consultation.

The Policy stipulates who the bank will and will not finance, as directed by customers. It covers all of the bank's assets (eg, retail and syndicated loans, and corporate leasing) and liabilities (eg, retail deposits and savings, and treasury dealings), and the investment of all retained balances. The bank's Ethical Policy is currently all but unique in UK retail banking, in so far as it contains explicit clauses that are influenced by customers and that restrict the provision of financial services to certain activities and sectors.

In 2003, a project was progressed that aimed to substantially reconcile the historically different approaches of Co-operative Insurance and the bank to socially responsible investment. Reconciliation focused on establishing a clear customer mandate for Co-operative Insurance's approach to matters of ethics and sustainability. In total, some 44,000 customers responded to the Co-operative Insurance Ethical Policy poll, 98% of whom were in favour of such an approach. The Co-operative Insurance Ethical Engagement Policy[2] was launched in June 2005, and now guides Co-operative Insurance's approach to engagement with investees. In 2002, Co-operative Insurance was the first UK investor to disclose its entire UK voting record via its website[3], and this was extended to overseas companies in 2005.

Assurance

The bank's Ethical Policy implementation and Co-operative Insurance's responsible shareholding activity are, like the rest of this Report, subject to rigorous third party verification (page 15). Whilst many financial services organisations now produce social and environmental reports, few, if any, subject their core business activity – the provision of finance – to independent scrutiny or assurance. The Co-operative Group's sustainability auditors, **csr**network, directly investigate, on a sample basis, the veracity of policy implementation; reviewing case files and assuring themselves of the integrity of the process and outcome.

Bank screening of finance

During 2006, the bank's Ethical Policy Unit reviewed 300 potentially problematic financial opportunities. Referrals are made by business development managers seeking to ensure that prospective business opportunities are Policy compliant. Of these, 29 (10%) were found to be in conflict, and the business opportunity declined (2005: 28, or 8%). In 2006, the annualised gross income foregone by the bank as a result of ethical screening was £11,684,000 (2005: £9,914,500)[4].

On the basis of customer confidentiality, the bank is generally unwilling to name businesses found to be in conflict with its Policy. However, all referrals to the bank's Ethical Policy Unit are subject to independent third party scrutiny. The Co-operative Group's sustainability auditors, **csr**network, directly investigate the veracity of the Ethical Policy implementation programme; reviewing, on a sample basis, the Ethical Policy Unit's case files. They also liaise with CFS' Internal Audit function to pursue a broader level of assurance on the quality of the referral process in operation across the business. In 2006, Internal Audit reviewed the processes at five[5] Corporate Banking Centres, and concluded that, in each instance, the quality of control evidence was 'satisfactory' (ie, at the highest level of control). Amongst key controls tested in relation to the bank's Ethical Policy were:

- that appropriate, up-to-date procedures and clearly assigned responsibilities are in place, and that managers and staff understand them; and
- that, for relationship accounts, ongoing compliance is reviewed on an annual basis.

In addition, in response to the merger of various CFS and Trading Group functions (not least the Ethics and Sustainable Development Teams) and parallel structural changes within CFS, in 2006, Internal Audit devoted five days to a review of high level internal controls. They concluded that the quality of control evidence was 'satisfactory' (ie, at the highest level of control).

BENCHMARK Research undertaken by the Ethical Consumer Research Association[6] concluded that, of the 28 providers of cash and current accounts in the UK, only The Co-operative Bank provided a credible Ethical Policy and, therefore, merited 'Best Buy' status. Indeed, the report stated, "The Co-op's lending policies are way ahead of any of the other banks covered in this report."

Bank – all business declines by issue, 2006

	Estimated income foregone 2006
Human rights and development 98 finance opportunities were referred to the Ethical Policy Unit in connection with human rights and development, of which six were declined. Issues of concern included: support for oppressive regimes, the transfer of armaments to oppressive regimes and the failure to comply with basic labour standards. For further details see pages 32–33.	£1,533,500
Animal welfare 48 finance opportunities were referred to the Ethical Policy Unit in connection with animal welfare, of which eight were declined. Issues of concern included: testing cosmetic or household products on animals, the use of intensive farming methods, and animal slaughter without pre-stunning. For further details see page 40.	£696,000
Ecological impact 86 finance opportunities were referred to the Ethical Policy Unit in connection with ecological impact, of which ten were declined. Issues of concern included: support for fossil fuel extraction and production, unsustainable harvesting of fish and production of unsustainable chemicals. For further details see pages 79–80, 92 and 96.	£587,500
Diversity Five finance opportunities were referred to the Ethical Policy Unit in connection with diversity, of which one was declined. The issue of concern was the protection of women and children. For further details see page 64.	£500
Financial inclusion Eight finance opportunities were referred to the Ethical Policy Unit in connection with financial inclusion, of which four were declined. For further details see page 58.	£101,000
Other On occasion, the bank will decline business in areas not explicitly covered by its Ethical Policy, but where there are pressing ethical/sustainability concerns. 55 finance opportunities were referred to the Ethical Policy Unit in connection with potential ethical/sustainability issues, none of which were declined.	–

	Total gross income foregone
2006 business declines	**£2,918,500**

4 Relates to those financial opportunities foregone following referral to the Ethical Policy Unit. Figure comprises the first year of income foregone as a result of business turned away in 2006 (£2,918,600) and declines originating in the years 2000–2005 (£8,765,300), on the basis that financial services provision will have retention beyond 12 months and up to 15 years.

5 Leeds, Liverpool, Manchester, North East and North Midlands.

6 Ethical Consumer (May/June 2005). Issue 94.

Far left The Co-operative Bank Ethical Policy was last reviewed in 2001. The Policy stipulates who the bank will and will not finance, as directed by customers.

Left The Co-operative Insurance Ethical Engagement Policy was launched in June 2005 and now guides Co-operative Insurance's approach to engagement with investees.

7 Commissioned by The Co-operative Group as one of the two measures supporting CFS' KPI of market leading social responsibility (page 13).

BENCHMARK UK general public's SEE rating of financial providers[7]

Ranking — 'Name a financial provider who takes ethical and environmental issues into account'

2004	2005	2006	2007	
1 (11%)	1 (12%)	1 (12%)	1 (11%)	The Co-operative Bank
2 = (2%)	2 = (3%)	3 = (2%)	2 (4%)	HSBC
2 = (2%)	3 = (2%)	2 (6%)	3 (3%)	Co-operative Insurance

Source: NOP World (February 2006)
Survey of UK general public's unprompted awareness of CSR. Representative sample, all adults aged 18+.

Co-operative Insurance investment strategy

Co-operative Insurance Investment Management recognises that a company's corporate governance and the way it manages its social, ethical and environmental (SEE) risks are important indicators of the long-term value of the company. For this reason, every stock recommendation produced by Co-operative Insurance investment analysts contains, along with analysis of financial performance and prospects, an overview of the quality of corporate governance and SEE risk management. These recommendations aim to inform the stock selection decisions of Co-operative Insurance fund managers.

Fund managers recognise that some companies, which have unacceptable corporate governance or are highly vulnerable to SEE risks that are not being well managed, do not represent investments that will provide good long-term value for customers. A process has been incorporated into overall portfolio management procedures that seeks to identify companies with the most serious governance and SEE risks. Reports on such companies are reviewed by a committee of fund managers and members of the Responsible Shareholding Unit. The committee considers whether, as a matter of prudent portfolio management, such stocks are suitable for initial or continued investment and whether the position at the companies could be improved through a programme

Co-operative Insurance – ethical & sustainability engagement, 2006

Concern	Companies	Push for change
Human rights (labour standards) The International Labour Organisation (ILO) core conventions are the most widely accepted standards for minimum labour rights, amongst other issues, covering collective bargaining and freedom of association.	**Travel** FirstGroup plc	Co-filed a shareholder resolution requiring the implementation of a workplace human rights labour policy based on ILO core conventions (page 34).
Human rights (the arms trade) Between 2000 and 2005, £1.2bn of armaments and military equipment was transferred from the UK to 'oppressive regimes'. Armaments transferred included combat aircraft, military helicopters, tanks and mortars.	**Defence** BAE systems	Asked to cease sale of weaponry to oppressive regimes and improve reporting on export controls, political donations and corruption controls (page 33).
Animal welfare (fur trade) Use of animal fur in garments remains a contentious issue.	**Retailers** Burberry French Connection Group plc	Asked to cease trading in fur and to publicly confirm policy (page 41).
Energy (climate change) Demand currently outstrips available supply for on-shore wind energy. Businesses are a major source of CO_2 emissions and the UK Government will struggle to meet its 20% reduction in CO_2 emissions by 2012.	**Energy users** Alliance Boots, Scottish and Southern Energy, Reckitt Benckiser, BAT, Imperial Tobacco, Johnson Matthey, Slough Estates, St Modwen, Sainsbury's and Kingfisher	Asked to endorse better planning regime in UK to enable greater growth of wind power (page 80).
Biodiversity (palm oil) Palm oil and its derivatives are used as ingredients in a wide range of products. Rainforest destruction through conversion of land to palm oil plantation impacts on biodiversity and displaces indigenous people.	**Retailers/manufacturers** Tesco, Morrisons, Johnson & Johnson and Royal Dutch Shell	Companies encouraged to join the Roundtable on Sustainable Palm Oil (page 92).

of engagement. If a stock is considered unsuitable for investment on the grounds of poor governance or SEE risk management, and it is not considered that new or additional engagement is likely to prove successful, the Head of Equities will instruct an orderly divestment from the stock across all portfolios. In the period under review, this has taken place in five instances[8], primarily due to a lack of responsiveness to serious governance concerns, though in one instance SEE risk issues were a factor: French Connection Group plc (see page 41). The stock will be regularly reviewed, but no new investment will take place without improvements in standards.

During 2005/06, Internal Audit devoted 15 days to the review of the provision of SEE information for investment analysts' consideration (and its subsequent use). The review concluded that, overall, evidence was 'satisfactory' (ie, at the highest level of control), but recommended (a 'minor enhancement') that awareness be raised of these processes internally and externally.

Co-operative Insurance engagement

During 2006, Co-operative Insurance's engagement activity again focused on corporate governance and SEE issues. Corporate governance activism is primarily driven via voting at the general meetings of investee companies (as summarised in the tables on UK voting and overseas voting on pages 53 and 55 respectively). Engagement on specific areas of corporate governance concern (for example, short-termism in remuneration policy) is undertaken on a case-by-case basis, following on from voting outcomes. For reporting purposes, SEE 'engagement' is restricted to instances where Co-operative Insurance has pressed a point of difference with a company or where it has lent weight to a significant positive initiative. Engagement is not taken to cover endorsements of corporate behaviour that are essentially the sector norm, or close to it. Research, letters of enquiry and seminar attendance are not reported upon as engagement.

Co-operative Insurance – UK voting

At the outset of 2006, 81% of Co-operative Insurance's equity holdings by value were listed on the UK stock exchange (2005: 79%). A UK Corporate Governance and Voting Policy sets out positions with respect to voting outcomes[9]. Co-operative Insurance will vote against a resolution where it 'is inconsistent with its guidelines, does not accord with best practice, and is not in shareholders' long-term interests'. However, in the first instance, and where the issue is not considered fundamental, an abstention will tend to be registered, and a vote against a company only registered when responsiveness has failed to emerge from previous engagements. Resolutions will also be abstained on where performance falls short of best practice, but is not considered to be significantly material. Where there are plans not to support a company's Board, the affected company is informed in writing in advance of concerns. In 2006, 375 notifications were issued detailing an intention to vote against, or to abstain on, a management resolution, or to support or abstain on a shareholder resolution. In 80 instances, a response from the company was forthcoming and, in 17 cases, this resulted in a change to the proposed vote.

In 2006, Co-operative Insurance voted on 7,691 UK resolutions tabled by management (2005: 9,058), and was represented at 13 annual general meetings (2005: 24). Opposition to management voting (whereby votes were cast against a resolution or an abstention was cast) accounted for 760 of the votes cast, or 10% (2005: 1,100, or 12%), and confirmed Co-operative Insurance's status as one of the most active and assertive institutional investors in the UK. The major areas of opposition continue to be Board independence (289 votes), executive remuneration (223 votes) and annual reporting (99 votes). Between them, these accounted for 80% (611) of opposition voting.

Annual reporting

As of April 2004, Co-operative Insurance has assessed the degree to which UK-listed companies meet the Association of British Insurers (ABI) guidelines on socially responsible investment[10]. These stipulate that companies should report annually on the business risks arising from the way they handle SEE issues. In 2006, the report and accounts of companies who failed completely in respect of SEE risk disclosure, and who operated in sectors deemed to be medium or high SEE risk, were voted against. Where there was limited disclosure (or no disclosure in low risk sectors)[11] an abstention was registered. This approach was refined in April 2006; from when only the poorest performing companies[12] within the medium and high-risk SEE categories were considered. In addition, previous voting history and engagement on SEE issues would, henceforth, be factored into voting decisions.

In 2006, Co-operative Insurance considered the reporting of 605 UK companies (2005: 686) and, in 99 instances, voted against, or abstained on, the acceptance of report and accounts (2005: 190). Of these 99 votes, 58 related to instances where a vote against was registered, of which 40[13] related to SEE matters (2005: 74) and 41 related to instances where a vote to abstain was appropriate, of which 38 related

8 Amstrad plc, £276,499; French Connection Group plc £749,862; Kazakhmys plc £3,670,108; N Brown Group £1,308,178 and Euromoney Institutional Investor plc £403,688.

9 www.cis.co.uk/images/pdf/voting_guide.pdf

10 www.abi.org.uk/Display/File/85/SRI_Guidelines.doc

11 The Co-operative Insurance Responsible Shareholding Unit considers that there are instances warranting flexible implementation of these policies; for example, should a company pledge to report more fully in future years, or demonstrate improvement from previous years, then Co-operative Insurance may still vote in favour of the acceptance of the report and accounts.

12 As determined by EIRIS, who identify bottom decile performers, based on SEE risk reporting and environmental reporting, and produce a universe of companies to which the voting policy is now applied.

13 Amstrad plc, Anglo Pacific Group plc, Arena Leisure plc, Ark Therapeutics Group plc, BAE Systems plc, Beazley Group plc, BSS Group plc, Burberry Group plc, Caffe Nero Group plc, Care UK plc, Carnival plc, Catlin Group Ltd, Charter plc, Chaucer Holdings plc, Chemring Group plc, Clarkson plc, Clinton Cards plc, CLS Holdings plc, Cranswick plc, Dana Petroleum plc, Eaglet Investment Trust plc, EasyJet plc, Enodis plc, Fenner plc, French Connection Group plc, Gyrus Group plc, James Fisher and Sons plc, Jardine Lloyd Thompson Group plc, JKX Oil & Gas plc, Kazakhmys plc, Mapelev Limited, Petrofac Ltd, Rok Property Solutions plc, ScS Upholstery plc, Sondex plc, Stanelco plc, Ultraframe plc, Umeco plc, Warner Estate Holdings plc, Wilson Bowden plc.

Far left In 2006, Co-operative Insurance voted on 7,691 UK resolutions tabled by management; voting in opposition to management in 10% of instances.

Left In 2006, executive remuneration continued to be a principal area of Co-operative Insurance's voting in opposition to management. Of 571 remuneration resolutions, Co-operative Insurance voted against 113 and posted abstentions in a further 110 cases.

to SEE matters (2005: 95). Votes against mainly related to instances where a vote to abstain was registered in 2005 and no progress was made in 2006. Of the abstentions, 11 related to low risk companies with no disclosure and 27 to high and medium risk companies with inadequate disclosure.

Of the 74 companies voted against in 2005, improvements in SEE reporting progressed at 15, and Co-operative Insurance was able to support the resolution on the report and accounts in 2006. However, in 17[14] instances, persistent SEE concerns meant that votes continued to be registered against these companies' report and accounts in 2006. Of the 95 companies where abstentions were registered in 2005, 17 companies improved their disclosure in accordance with ABI guidelines sufficiently for Co-operative Insurance to subsequently support the resolution to receive their report and accounts; whereas 21 did not make any improvements, and a vote against was registered in 2006.

BENCHMARK Research undertaken by KPMG LLP (UK) and Lintstock[15] has observed that "If many institutional investors would like to see better disclosure of companies' SEE performance, few are prepared to vote against the receipt of a company's annual report and accounts because they are unhappy with the level of disclosure provided. The notable exception to this rule, however, is the Co-operative Insurance Society… the use of the ballot box by Co-operative Insurance was in marked contrast to that of other 'activist' investors."

Executive remuneration

In 2006, share option schemes decreased in popularity[16] and were replaced by a range of alternatives. Co-operative Insurance voted against the adoption of schemes that sought to use the opportunity to increase awards, whilst lowering risk to directors. Furthermore, in contrast to other institutional investors, increased attention was focused on the actual size of total pay packages, when judged against market norms. Ex-gratia payments and bonuses paid on the success of a merger or acquisition were evident only in exceptional cases, as many companies seem to have been responsive to previous oppositional voting on such matters. In 113 cases, the remuneration resolution was voted against (2005: 138) and, in 110 cases, an abstention was posted (2005: 166). In three instances, the re-election of members of the Remuneration Committee was opposed[17].

Board independence

In line with the Combined Code, Co-operative Insurance considers that, generally, at least half the Board, excluding the Chairman, should comprise independent non-executive directors (NEDs) – except for smaller companies, which it is believed should have at least two independent NEDs, with the Chairman being independent upon appointment. Votes against

14 Amstrad plc, Anglo Pacific Group plc, BAE Systems plc, Beazley Group plc, BSS Group plc, Carnival plc, Charter plc, Clinton Cards plc, CLS Holdings, Cranswick plc, Dana Petroleum plc, French Connection Group plc, Gyrus Group plc, Jardine Lloyd Thompson Group plc, Town Centre Securities plc, Umeco plc and Warner Estate Holdings plc.

15 The Corporate Governance Report: Investor Policies and Corporate Practice (2004). KPMG LLP (UK) and Lintstock. Research examines the governance policies and voting records of the UK's leading investment institutions.

16 This was due primarily to a change in accounting for share options; whereby, for the first time, the direct costs of options was to be recognised.

17 Northern Foods plc, iSoft Group plc and Town Centre Securities plc.

Co-operative Insurance – UK voting

	Resolutions tabled by management			CIS votes against resolution and management			CIS abstains on resolution and against management		
Category	2004	2005	2006	2004	2005	2006	2004	2005	2006
Report and accounts	704	746	619	28	87	58	168	103	41
Board independence – director election	2,520	2,747	2,330	185	207	120	159	176	169
Remuneration report: executive	666	711	571	94	138	113	155	166	110
Shares: executive incentives	297	288	229	43	53	63	45	69	12
Political donations	114	146	173	3	9	7	0	0	0
Other governance	3,922	4,420	3,769	44	49	28	16	43	39
Total	**8,223**	**9,058**	**7,691**	**397**	**543**	**389**	**543**	**557**	**371**

Co-operative Insurance – votes in 'opposition' to acceptance of report and accounts on basis of poor social, ethical and environmental risk reporting

	2003	2004	2005	2006
Votes against	9	20	74	40
Abstentions	28	161	95	38

were registered in 120 cases (2005: 207) and votes to abstain registered in 169 cases (2005: 176). In the majority of instances, oppositional voting was driven by a lack of NED independence.

BENCHMARK In 2006, PIRC determined that 52% of FTSE 100 and 46% of Mid-Cap companies had a Board which was one half independent, excluding the Chairman[18].

BENCHMARK In 2006, just 61% and 58% of shares were voted at UK company meetings in relation to the FTSE 350 and FTSE All-Share respectively[19].

Co-operative Insurance – overseas voting

At the outset of 2006, 19% of equity holdings were listed outside of the UK; principally, in the United States, continental Europe and Japan (2005: 21%). During 2006, Co-operative Insurance voted against, or abstained on, 295 overseas resolutions tabled by management (2005: 541). Voting continues to be publicly disclosed on its website on a quarterly basis[20].

Independent shareholder resolutions

In the UK, it is uncommon for shareholders to table independent resolutions owing to the large number of shares required, and a general aversion amongst large UK institutional investors to such practices. Co-operative Insurance was faced with 14 such resolutions in 2006, and voted against 10, none of which were connected with sustainability issues. Of the remaining four, two resolutions concerned sustainability issues: FirstGroup plc (co-filed by Co-operative Insurance, as described on page 34) and Royal Dutch Shell (on which an abstention was registered[21]).

In contrast, the United States has a more advanced culture of shareholder activism; independent groups frequently secure the required number of shares to enable a resolution to be tabled, although these are framed as advisory resolutions, where the outcome or request is not binding on the company. When considering such resolutions, as of April 2005, the 'burden of proof' is considered to rest with companies and not independent shareholders. In 2006, Co-operative Insurance was presented with 162 independent resolutions (2005: 218). Of these, 22 were opposed (2005: 84) and 140 supported (2005: 134). In 45 cases (2005: 58), resolutions had ethical or sustainability components, of which 44 (98%) were supported (2005: 40, or 73%)[22]. In two cases, Co-operative Insurance inadvertently supported resolutions that sought to remove policies that prevent workplace discrimination on the basis of sexual orientation (JP Morgan & Chase and Microsoft Corp).

- In eight cases, resolutions were supported relating to animal welfare: five related to general improvements in animal welfare standards and reporting[23]; two called for improved methods of chicken slaughter in suppliers' operations (The Kroger Co and Yum Brands); and one to reporting on the justification for animal testing (Pfizer Inc).

- In three cases, resolutions were supported relating to consumer protection: one called for reporting on pharmaceutical product availability in Canada (Wyeth); one related to prescription drug price controls (Pfizer Inc); and one supported product re-formatting and the removal of chemicals banned by the EU (CVS Corporation).

- In nine cases, resolutions were supported in connection with environmental sustainability: four[24] called for better sustainability reporting; two supported more rigorous climate change reporting (FedEx Corporation and Ultra Petroleum Corp); and the remaining three instances related to Exxon Mobil Corp and more explicit social and environmental criteria in the evaluation of executive performance, better reporting on drilling in protected areas and the company's accountability for environmental impacts arising from its operations.

- In three instances, resolutions were supported in the area of genetic modification: two called for the labelling of genetically modified ingredients (Safeway Inc and Yum Brands); and one for reporting on genetically modified organisms (Archer-Daniels-Midland Company).

- In relation to human rights, four resolutions were supported: one supported the cessation of product sales that can be used in violation of human rights (Microsoft Corp); one related to reporting on practices to promote and protect human rights in China and Tibet (Nortel Networks Corporation); one to reporting on depleted uranium weapons components (Lockheed Martin Corp); and one to reporting on racial and ethnic discrimination in lending (Wells Fargo).

- In 15 cases, resolutions were supported in the area of trade and labour rights: five[25] supported adoption of the ILO Code of Conduct; three[26] related to reporting on pay disparity; two supported the adoption of policy prohibiting discrimination based on sexual orientation (Exxon Mobil Corp and Micron Technology Inc); one to reporting on equal opportunities (Lockheed Martin Corp); one to reporting on workplace

18 Corporate Governance Annual Review 2006, Pension & Investment Research Consultants Ltd.

19 Ibid.

20 www.cis.co.uk

21 Resolution related to the company's operational impacts on local communities and the environment. Co-operative Insurance was sympathetic to the issues raised, but opposed the resolution on the basis of its wording.

22 Co-operative Insurance opposed a resolution connected with reporting on pay disparity as it called for a cap on executive salaries, which would disadvantage the company (AT&T).

23 Bristol-Myers-Squibb Co, Merck & Co Inc, Pfizer Inc, Wal-Mart and Wyeth.

24 Dean Foods Company, Safeway Inc, The Kroger Co and Wal-Mart.

25 AP Moeller-Maersk, Archer-Daniels-Midland Company, Costco Wholesale Corporation, Dell Inc and Time Warner Inc.

26 Cisco Systems Inc, Exxon Mobil Corp and Wal-Mart.

Far left Co-operative Insurance supported nine independent shareholder resolutions relating to ecological sustainability. They included calls for better sustainability reporting and more rigorous climate change reporting.

Left In 2006, Co-operative Insurance's Sustainable Leaders Trust was ranked the top performer in the UK All Companies sector; the first ethical fund to top the investment performance tables.

Co-operative Insurance – overseas voting

			Resolutions tabled by management				Resolutions tabled by independent shareholders					
	Total		CIS against resolution and management		CIS abstain on resolution and against management		CIS for independent resolution and against management		CIS abstain on independent resolution and for management		CIS against independent resolution and for management	
Category	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006
Board composition and election of Directors	181	114	71	58	51	2	34	48	0	0	25	6
Remuneration	186	100	131	69	4	1	23	21	0	0	28	9
Other governance	317	192	277	168	7	0	19	18	0	0	14	6
Political contributions	20	9	0	0	0	0	18	9	0	0	2	0
Ethics and sustainability	58	45	0	0	0	0	41	44	6	0	11	1
Total	**762**	**460**	**479**	**295**	**62**	**3**	**135**	**140**	**6**	**0**	**80**	**22**

diversity (Yum Brands Inc); one to the implementation of the McBride Principles to eliminate employee discrimination in Northern Ireland based on religion (Yum Brands Inc); one to the implementation of the US Business Principles for Human Rights of Workers in China (Illinois Tool Works Inc); and one to stock option distribution by race and gender (Wal-Mart).

Co-operative Insurance – ethics and sustainability overseas voting, 2006

Ethical Engagement Policy category	Number of resolutions
Animal welfare	8
Consumer protection	3
Environmental sustainability	9
Genetic modification	3
Human rights and armaments	4
Trade and labour rights	18
Total	**45**

Products and services

Sustainable Leaders Trust

Re-launched in 2005, Sustainable Leaders Trust (SLT)[27] employs, in the main, a 'Best in Class' approach to ethical investment, whereby it places an increased emphasis on holding shares in businesses that are considered corporate responsibility leaders in a particular sector. In addition, SLT withholds investments from certain proscribed activities: armaments, animal testing for cosmetics, nuclear power, tobacco and companies that operate in countries where human rights are systematically violated. Since its re-launch, SLT has significantly outperformed the UK equity market. **BENCHMARK** Over a three-year period ending December 2006, SLT delivered a total return of 91.1%, against 60.8% for the UK FTSE all-share index[28]. In 2006, SLT was ranked the top performer in the UK all-companies sector; the first time an ethical fund had topped the investment performance tables[29].

Influence and action

Company Law Reform and Disclosure

In 2002, Co-operative Insurance became the first institutional investor to make its voting record public on its website and is still one of a small number of investors to make this voluntary disclosure. In 2005, Co-operative Insurance welcomed the proposal for the introduction of enabling legislation within the Company Law Reform Bill for mandatory disclosure of voting by institutional investors. In 2006, letters were sent to members of the standing committee on the Company Law Reform Bill, setting out the case for mandatory disclosure. In November 2006, the Bill was passed with a reserve power to enact mandatory disclosure. In response, the Institutional Shareholders' Committee (ISC)[30], which represents the UK's largest investment and pension fund managers, has agreed to develop a 'comply-or-explain' code on voting disclosure, and will consult members during 2007. Co-operative Insurance maintains support for mandatory disclosure on the basis that, to date, the voluntary disclosure approach has proven ineffective in holding institutions to account in the exercise of their voting rights.

27 SLT represented a reformulation of Environ Trust, which had previously concentrated on a negative exclusion approach to ethical investment.

28 Produced using Hindsight 5 by CFS Management Services.

29 Over the one-year period to January 2007, SLT delivered a total return of 29.7%, against 13.2% for the UK FTSE all-share index. Ranking produced using Hindsight 5 by CFS Management Services.

30 www.napf.co.uk/Publications/Downloads/PolicyPapers/SectionI/2005/ISC_Statement_of_Principles.pdf

Social exclusion

Access to outlets and channels
Basic Bank Account provision
Support for credit unions
Banking support for small business in deprived areas
Microfinance support
Tackling crime and reoffending

Target 2006

- Work with the Association of British Credit Unions Limited (ABCUL) and other key stakeholders to pilot a banking service at nine credit unions in 2006. Target achieved

Targets 2007

- Evaluate success of the Financial Education in Prisons project with a view to national roll-out.
- Work with Liverpool John Moores University to launch a professional development education module on financial exclusion for community workers.
- Deliver a project to bring high quality sports coaching and activities to young people in deprived communities.
- Successfully complete the pilot phase of the Credit Union Current Account project and proactively support ABCUL in rolling out the account to other credit unions.

Background

Social exclusion is something that can happen to anyone, but some people are significantly more at risk than others. Research has found that people with certain backgrounds and experiences are disproportionately likely to suffer social exclusion. The key risk factors include: low income; family conflict; school problems; being an ex-prisoner; being from an ethnic minority; living in a deprived neighbourhood in urban and rural areas; mental health problems; age; and disability[1]. Financial exclusion is considered a key component of social exclusion, and, since 1998, has occupied a firm foothold on the UK Government's political agenda. To date, a major focus has been the provision of 'Basic Bank Accounts', such as The Co-operative Bank's Cashminder account, to ensure that all individuals have access to a broad range of banking services.

Materiality and strategy

The Group can impact upon social inclusion in many ways, but particularly as an employer, as a provider of goods and services and via its community investment programme. Co-operatives are, by their very nature, potentially much more inclusive than other forms of business organisation. The Co-operative Group, and other co-operatives, explicitly recognise equality, equity and solidarity in their values[2]. The Group's Community and Campaigns Strategy (page 65), which is agreed via its member-controlled Group Values & Principles Committee (page 12), stipulates 'social inclusion' and 'tackling crime' as two of five priorities. The latter is of particular relevance to co-operative retail businesses, given they suffered 30,000 incidents of crime in 2005/6[3]. Matters of diversity, such as age, ethnicity and disability are discussed on pages 60–64. CFS' commitment to financial inclusion has been endorsed by customers as part of the most recent Ethical Policy reviews: 95% of Co-operative Bank customers expressed their wish to see the bank supporting credit unions, whilst 87% of insurance customers indicated their wish to see Co-operative Insurance using its power as an institutional investor to promote greater access to financial services.

Access to outlets and channels – Food

The Co-operative Food is committed to maintaining high street and neighbourhood stores, trading from sites within developed areas and providing communities with a local service. The Group is obliged to consult member-controlled area committees (page 19) on intended store closures, store disposals and new developments, and a detailed process involving the committees and regional boards is invoked if a store is considered to be under-performing or loss-making. An analysis of the location of The Co-operative Food and Pharmacy outlets reveals that 14% and 28% respectively are located in deprived areas[4]. Additionally, over 200 Post Offices are located in Food stores throughout the country; further contributing to the range of services customers can access through The Co-operative Food stores.

1 Cabinet Office (2001) Preventing social exclusion: report by the Social Exclusion Unit, p11.

2 www.ica.coop/coop/principles.html

3 www.co-operative.co.uk/corporate/reportsandpublications/

4 Deprived areas correspond with the top 20% of areas identified in the Indices of Deprivation 2004 (www.neighbourhood.gov.uk/page.asp?id=1057).

Far left Over a quarter of Co-operative Pharmacies are located in deprived areas.

Left The Credit Union Current Account, piloted by the bank and ABCUL at nine credit unions, represents a 'step change' in credit unions' ability to promote financial inclusion.

5 www.bba.org.uk/bba/jsp/polopoly.jsp?d=145&a=6932

6 The nine credit unions are: Capital, Glasgow, Hull and East Yorkshire, Leeds City, Scottish Postal Workers, Scotwest, Southwark, Voyager Alliance and White Rose.

7 www.abcul.org/page/news.cfm?mode=current#top

Access to outlets and channels – CFS

Co-operative Insurance and the bank offer access to financial products and services through a variety of channels, including: branches, the internet, telephone, Post Offices and a network of Financial Advisers. This approach enables customers to access many services from home. At a time when many other financial services providers have moved away from offering a 'home service' option via Financial Advisers, this channel continues to enable CFS to provide products to individuals who may struggle to overcome some of the physical barriers that contribute to financial exclusion.

A Retailer Financial Services (RFS) Steering Group was established in July 1998 with the aim of increasing the distribution of financial services to retail customers of the UK Co-operative Movement. To date, progress has concentrated on the provision of cash machines, with 53 installed in The Co-operative Food stores in 2006, of which 52 are free to use and one is charging. This takes the net number of ATMs installed as part of the RFS project to 2,174 at end 2006, of which 155 (7%) are charging. In October 2006, the CFS Board agreed that charges would be removed from The Co-operative Bank ATMs by the end of 2007 – either by way of conversion to free, or physical removal of the ATM from the site. Work is ongoing in partnership with other retail societies to identify which charging ATMs will be converted to free and which will be removed, with removals anticipated in late 2007.

In 2006, the bank entered into a partnership with Places for People, one of the UK's largest housing associations, in a bid to help first-time buyers onto the property ladder. The partnership will allow residents at 57,000 Places for People properties to purchase part or all of their homes using a mortgage from The Co-operative Bank. Working together, the bank and Places for People agreed bespoke terms and conditions for the mortgage product, to take into account the variety of personal circumstances of potential customers, many of whom might otherwise struggle to access home ownership.

CFS and ethical finance

Basic Bank Account provision

The bank offers a Basic Bank Account, Cashminder, to any adult regardless of status. Features of the account include: an option to pay bills by direct debit (which often yields bill reductions); the ability to have pensions and benefits paid directly in; and access to money via a cash card. Research commissioned by the British Bankers' Association in 2006 showed that over three-quarters of adults who had recently opened a basic bank account felt more confident in dealing with money as a result.[5] A 68% increase, to 80,231 (2005: 47,628), in the number of Cashminder accounts provided by the bank was seen in 2006. **BENCHMARK** As at March 2007, there were over 6.7 million operational accounts in the UK with basic functionality.

In 2006, work continued on a pioneering project that seeks to enable prisoners to open a bank account whilst still in prison. The provision of a bank account can be a vehicle to facilitate employment and housing for offenders leaving prison, which are considered key to the reduction of re-offending. Prior to release, prisoners at the Category B Forest Bank Prison at Pendlebury, Greater Manchester, will be offered the opportunity to open an account, which will be ready for use when they leave.

Support for credit unions

The bank is the largest provider of banking to the credit union sector, providing facilities to over 60% of the British movement. Credit unions are financial co-operatives that offer savings and low-cost loans to members, many of whom are unable or unwilling to utilise more traditional services. The bank has invested over £900,000 in 'behind the scenes' IT development, administration and training to facilitate the pilot and launch of a Credit Union Current Account. The account became operational at nine credit unions in November 2006[6], enabling their members to: withdraw cash from their credit union account at any ATM machine in the LINK network; use direct debits and standing orders to pay regular household bills; and to use a Visa debit card at Visa locations worldwide. As a development, the Credit Union Current Account is considered to represent a 'step change' in the ability of credit unions to promote financial inclusion. The account has received the backing of the Treasury Select Committee, which, in November 2006, called on the Government to actively support the development of the Credit Union Current Account through the Financial Inclusion Fund, to enable more credit unions to offer an alternative to basic bank accounts in areas of financial exclusion[7]. The Government, similarly, welcomed the development of the account and acknowledged its role in tackling exclusion. As at February 2007, over 1,500 new accounts had been opened. In 2006, The Co-operative Fund (page 22) supported The Co-operative Family and Value Credit Unions with a grant of £30,000.

Banking support for small business[8] in deprived areas[9]

	2003	2004	2005	2006	Industry average 2006[10]
Business current accounts	8.8%	8.6%	9.7%	9.1%	4.7%
Overdrafts	5.8%	8.8%	8.8%	9.1%	4.4%
Loans	7.3%	7.8%	7.6%	9.0%	4.0%
Loan and overdraft balances	10.4%	12.4%	9.0%	16.2%	4.4%
Deposit and current account balances	16.9%	12.2%	9.1%	12.2%	Not available

BENCHMARK The bank's support for small business in deprived areas continues to be greater than the banking average. For example, at June 2006, 9.1% of business current accounts and 9.0% of business loans were provided to small businesses in deprived areas. This compares to industry average figures of 4.7% and 4.0% respectively. This may be partially explained by the location of the majority of the bank's Corporate Banking Centres in metropolitan areas[11].

Microfinance support

Microfinance is the means by which western financial institutions can provide finance to fund high volume, low value loans for the working poor, to enable them to increase their economic security. In 2005, the bank committed $5m (£2.6m) to the $75m Global Commercial Microfinance Consortium (GCMC). In addition to this initial investment, the bank's Head of Structured and Asset Management is a member of the Executive Committee and chairs the Fund's Audit Committee. The Consortium will lend to Microfinance Institutions (MFIs) either directly or in partnership with commercial banks, subject to a maximum loan size of $3m. These MFIs will, in turn, provide credit to the working poor. Since the launch, total funding of $61m has been approved to 25 institutions in Central and South America, Africa, Asia and Eastern Europe. It is estimated that, when fully invested, the Fund will support 300,000 individuals with an average loan of $266. The Consortium is due to run for five years, until 2010.

Bank screening of finance

The bank's Ethical Policy includes a commitment to promote access to financial services. During 2006, eight finance opportunities were referred to the Ethical Policy Unit in connection with this area, of which four were declined at an estimated cost of £101,000 in terms of gross income foregone.

Financial inclusion declines, 2006

Home-collected credit providers (two instances) Provision of debt payment facilities. Businesses charged interest at rates considered extortionate. Research indicated that these businesses could charge interest in the region of 177% or 400% respectively.	£100,000
Cheque encashment facility (two instances) Concerns relating to the exploitative charges attached to these services.	£1,000

Community involvement

Tackling crime and re-offending

Throughout 2006, the Group continued to work with Credit Action to provide financial education to prisoners with the aim of assisting them to better understand money matters. It is believed that half of all the UK's prisoners have poor literacy and numeracy skills[12]. Over-indebtedness can present a problem for many prisoners and their partners and effective budgeting can be an important factor in enabling ex-offenders to secure and maintain accommodation, employment and good family relationships – factors key to preventing re-offending. The project is being piloted in six prisons in the North East of England, and, as at March 2007, over 60 prisoners had undertaken the course.

In 2006, the Group launched a national pilot programme to help young people with Asperger's syndrome learn about the risks of crime. The 'Keeping Safe' programme is designed to specifically address the problems that young people with Asperger's syndrome have with crime and the criminal justice system. This group is seven times more likely than peers to come into contact with the criminal justice system, as a victim of, or a suspect to, crime. The 12-week pilot programme is being delivered in eight schools across the UK. The Group is exploring, with the National Autistic Society, the possibility of extending the pilot to more schools and using the findings from the pilot as an information campaign for criminal justice system professionals.

8 Refers to business with an annual debit turnover of up to £1m.

9 Where deprived areas correspond to the UK Government's 1998 Index of Local Deprivation, and account for approximately 5% of all postcode sectors by number.

10 British Bankers' Association (March 07), Lending to Small Businesses in Deprived Areas. www.bba.org.uk

11 www.co-operativebank.co.uk/businesscentres

12 www.literacytrust.org.uk/database/stats/keystats3.html

Far left The Group is pressing Government to ensure that town centres are at the heart of future planning policy.

Left The Group's work with Credit Action seeks to provide financial education to prisoners.

Influence and action

Local shops

In 2006, the Group facilitated a series of fringe meetings at the annual party conferences of the UK's three major political parties. The meetings brought together MPs, the Association of Convenience Stores, Friends of the Earth, local councillors and delegates to discuss planning policy and its impact on people's shopping choices. In particular, the meetings sought to consider the threat of further large store development and how the Government could do more to promote the vibrancy and vitality of local community shops. The Co-operative Group supports reform to the UK planning system, such that it produces a stronger and more effective test on the need for new developments. It is pressing the Government to ensure that town centres and convenience locations are at the heart of future planning policy and is working with a number of campaign organisations to promote sustainable communities and access to local services.

Basic banking

The bank supports the British Bankers' Association's opposition to the UK Government's position on establishing a target for people who are unbanked. This is based on a belief that the industry is doing all it reasonably can to facilitate access at this time.

ATM charging

In May 2006, in advance of the UK Government's ATM summit, CFS called on the UK banking industry to do more to ensure financially excluded areas of the UK had access to a free cash machine. CFS proposed that the costs of providing ATM services in the UK's financially excluded areas should be met by the members of LINK, the cash machine network, rather than recovered from charges to customers. At present many ATMs in geographically remote locations, or in areas of poverty and high unemployment, are infrequently used. The cost of providing the service in these low usage locations is often only viable if a fee is levied for customers withdrawing cash. The impact of charges on people in rural areas was also raised as an issue of concern by members of the Western Scotland Area Committee (page 21). In December 2006, the LINK Network Members Council agreed the introduction of a new financial inclusion premium, which will effectively provide incentives to ATM operators to deploy free cash machines in financially excluded target communities. The bank and LINK identified 20 machines that have since become free to use as a result of this decision. In addition, 35 free ATMs, already installed in financially excluded areas, were also identified as eligible for the increased premium, thereby protecting the 'last ATM in town', which was also one of the key concerns of the ATM Working Group chaired by John McFall MP, Chair of the Treasury Select Committee.

Diversity

Workforce composition

Accessibility of products and services

Targets 2006

- Evidence improvements in Trading Group Race for Opportunity and Opportunity Now benchmarking scores. Target achieved
- Demonstrate best practice in relation to age diversity in employment. Target achieved
- Finalise and launch the new CFS Diversity Strategy, including CFS Diversity and Dignity at Work Policies, and develop a priority diversity action plan for 2006/07. Target not achieved
- Achieve accreditation for the management of pregnant staff and new mothers at CFS via the 'Tommy's Pregnancy Accreditation Programme'. Target achieved

Targets 2007

- Design and deliver 'Respect works' training to Trading Group Executive and senior management employees during 2007.
- Gather data around Trading Group recruitment methodology, community engagement and issues faced by ethnic minority staff and develop plans to address priority issues in 2007/08.
- In partnership with Victim Support, develop call-handler training for customer-facing CFS staff to help improve the service delivered to customers affected by a range of crimes.
- Launch the 'Tommy's Room' facility at Co-operative Insurance Head Office, to assist expectant colleagues and new mothers.

Background

The population of the UK is becoming increasingly diverse, making consideration of diversity issues an imperative for any forward-looking business. For example: disabled people are estimated to have an annual spending power of £50bn[1]; by 2010, the UK's workforce will increase by 300,000 – with women accounting for over 80% of this growth[2]; and, by 2020, the number of people aged 50 and over is expected to increase by 20% or 4.7 million[3].

Materiality and strategy

The Co-operative Group's commitment to diversity is long-standing, as set out in the co-operative value of 'equality' and the co-operative principle of 'Voluntary and Open Membership'. During 2006, The Trading Group and CFS agreed a set of Group-wide Diversity Principles to shape the business' approach to diversity. These principles embody the Group's commitment to address diversity across employees, customers, membership and community involvement.

Accounting

CFS has a reasonably complete (>85%) understanding of the gender, age, ethnicity and disability profile of employees. The Trading Group has an accurate picture of the gender and age profile of its workforce. However, employee profile in relation to ethnicity and disability is incomplete, with information being held for 34% (2005: 25%)[4] and 68% (2005: 71%) of employees respectively. Both CFS and the Trading Group have now revised application and diversity monitoring forms to request information on sexual orientation and religion and belief, with effect from July 2006 and January 2007 respectively.

Workforce composition

Workforce – gender

Women account for 63% of Trading Group employees and 54% of managers. However, the proportion of female employees varies significantly across the different businesses: ranging from over 80% at The Co-operative Travel and Pharmacy to 29% at The Co-operative Farms.

1 www.drc-gb.org/businessandservices/index.asp

2 www.theworkfoundation.com

3 Office for National Statistics (January 2006) Labour Market Trends, Projections of the UK Labour Force, 2006 to 2020.

4 Since May 2004, the Trading Group's application and diversity monitoring forms have requested ethnicity information from applicants, which continues to progressively improve the completeness of data.

Far left In 2006, the Trading Group participated in the Race for Opportunity benchmarking survey; attaining a score of 94%, which saw its performance move from 'silver' rating to 'gold'.

Left In early 2007, CFS received accreditation from Tommy's, the baby charity, in recognition of its commitment to providing a safe and positive environment for expectant colleagues and new mothers.

Proportion of female employees and female managers

	Female employees	Female managers[5]
Trading Group		
2005	61%	52%
2006	63%	54%
CFS		
2005	45%	38%
2006	47%	39%

In July 2006, the Trading Group responded to an invitation by Opportunity Now and signed up to the 'Exemplar Employer Initiative'. This initiative, launched by the Rt Hon Ruth Kelly MP (then Minister for Women), seeks to showcase employers that are successfully facilitating the return of women to the labour market. It follows the findings of the Women and Work Commission, which recommended that more effort be extended to address the gender pay and opportunities gap in the UK. The Group has been recognised as an exemplary employer in the area of equal pay and has undertaken an equal pay review and 'job family modelling' (which seeks to aid comparison of salary levels with market equivalents) in recent years, to help improve the grading structure for management jobs and optimise links with market rate data.

In March 2007, in recognition of the business' commitment to providing a safe and positive environment for expectant colleagues and new mothers, CFS achieved accreditation from Tommy's, the baby charity. Accreditation means CFS employees can access an information helpline and written guidelines on any pregnancy-related queries.

BENCHMARK Women account for 46% of the UK's general workforce[6]. In 2006, the performance of Trading Group was again submitted to Opportunity Now for assessment and benchmarking[7]. Its score increased from 79% ('silver' rating) to 94% ('gold' rating), for the first time exceeding the retail sector average score of 80%. The Group scored particularly well in relation to strategy, management commitment and resource, with potential for improvement evident around monitoring[8].

Workforce – ethnicity

According to the Trading Group's management information systems (34% complete), 10%[9] of the Trading Group's employees are from ethnic minority groups[10]. In 2006, the proportion of CFS employees from ethnic minority groups increased to 5.8% (2005: 5.5%): this marks the sixth year of consecutive increase[11].

Proportion of employees and managers from ethnic minority groups

	Employees from ethnic minority groups	Managers from ethnic minority groups[12]
Trading Group		
2005	10%	7%
2006	10%	10%
CFS		
2005	5.5%	2.5%
2006	5.8%	2.8%

To help better understand some of the challenges faced by ethnic minority colleagues and jobseekers in the short term, and to improve engagement with the Group's diverse customer and employee base in the long term, a Trading Group race plan project was initiated in January 2007. At the Group Head Office complex in Manchester, work is underway with the Jobcentre and local community groups to broaden the appeal of the Group as an employer to a full range of communities.

5 Trading Group: reported as % of female managers/all managers and where manager is taken to be any employee with 'manager' in their job title. CFS: reported as % of female managers/all managers and where manager is taken to be any employee paid £20,000 or more (excluding Co-operative Insurance Financial Advisers who receive the majority of remuneration on the basis of commission).

6 Office for National Statistics (January 2007) Labour Market Trends.

7 Opportunity Now is a business-led campaign that works with employers to realise the potential of women in the workplace. The Opportunity Now benchmark is a voluntary, self-assessment survey that benchmarks management, measurement and reporting in connection with gender equality in the workplace.

8 Due to resource constraints, CFS did not submit an Opportunity Now benchmarking return in 2006. In 2005, it scored 83% and a 'gold' rating (which exceeded the then sector average of 'silver').

9 It should, however, be noted that 7.7% of the 76% of employees who responded to Trading Group's 'Talkback' employee attitude survey identified themselves as being from an ethnic minority group.

10 The majority of records (98%) relate to Co-operative Food employees, where records are held for 41% of employees. There are limited records (covering <11% of employees) for other Trading Group businesses.

11 In 2000, 2.3% and 2.5% of Co-operative Insurance and Co-operative Bank staff respectively were from an ethnic minority group.

12 Trading Group: where 'manager' is taken to be any employee with 'manager' in their job title. Based on an assessment of 12% of all managers. 77% of these records relate to Co-operative Food managers. There are limited records (covering <15% of managers) for all Trading Group businesses. CFS: reported as % of ethnic minority managers/all managers and where 'manager' is taken to be any employee paid £20,000 or more (excluding Co-operative Insurance Financial Advisers who receive the majority of remuneration on the basis of commission).

Within Co-operative Food, two pilot stores in Huddersfield are measuring the impact of interventions such as targeted recruitment strategies and wider community engagement. Research on the views of ethnic minority colleagues on their roles in The Co-operative Food has been undertaken and is due to be repeated with managers in different areas of the business. It is hoped this will offer insights into the under-representation of ethnic minorities in senior management and at Trading Group Head Office, and help identify priority issues for focus, which will feed into an action plan in 2007/08.

During 2006, the Group's then Chief Executive, Martin Beaumont, was involved in a National Employment Panel, launched by Gordon Brown MP, then Chancellor of the Exchequer, to develop a response to the challenge of the 15% employment gap in the UK between ethnic minority groups and their non-ethnic minority counterparts. A full report was published in October 2007[13].

BENCHMARK In 2006, Trading Group's performance was again submitted to Race for Opportunity (RfO) for assessment and benchmarking[14]. Its score increased from 68% to 72% ('silver' rating), with recognition given for: policies around diversity; fair treatment of employees and customers; continued work on Fairtrade; the Community Fund; and the work undertaken in The Co-operative Funeralcare with collaboration from The Black and Minority Ethnic (BME) network[15].

Workforce – disability

0.3% (2005: 0.4%) of Trading Group employees have declared a disability (based on the 68% of employees for which such information is held). CFS records show 2.8% of employees to have declared a disability in 2006, which is an increase on 2005 levels (2.2%).

The Group welcomes applications from people with disabilities. Disabled employees are encouraged to discuss their requirements for workplace reasonable adjustments with the Occupational Health Support Team. Recorded workplace adjustments were undertaken for 78 (2005: 165) CFS staff in 2006, and included: changes to duties, working location, hours and equipment. The Trading Group and CFS are both members of the Employers' Forum on Disability[16], which advises on recruiting and retaining disabled employees and on serving disabled customers.

Proportion of employees declaring a disability

	2005	2006
Trading Group	0.4%	0.3%
CFS	2.2%	2.8%

Workforce – age

Employment Equality (Age) Regulations came into effect in October 2006, making age discrimination in the workplace illegal. The Age Regulations make any normal retirement age in employment contracts of less than 65 unlawful[17]. During 2006, four business-wide working groups operated; covering recruitment, redundancy, retirement and pensions. As of October 2006, both the Trading Group and CFS removed contractual retirement ages completely. This means employees now have an option to continue working beyond 65, which will help the Group to retain talented employees, irrespective of age. Employees can continue to contribute to The Co-operative Group Pension (Average Career Earnings) Scheme, and are able to draw their pension and continue to work beyond the age of 65. The Trading Group and CFS have introduced new age discrimination and retirement policies and have briefed managers on the impact of the legislation at all stages of the employment relationship. The Group has been commended as an employer that has adopted good employment practice in relation to age diversity as part of the 'Age Positive' campaign led by the Department for Work and Pensions[18]. Trading Group and CFS are both members of the Employers' Forum on Age[19], which supports employers on age and employment issues. 22% of Trading Group's and just over 15% of CFS' employees are over 50 years of age. **BENCHMARK** Over 25% of economically active people in the UK are over 50 years of age[20].

Proportion of staff in each age band

		<24	25-34	35-49	50-65	65+
Trading Group	2005	29%	18%	31%	22%	
	2006	29%	18%	31%	21%	1%
CFS	2005	15%	27%	43%	15%	
	2006	18%	27%	40%	15%	<1%

13 www.nationalemploymentpanel.gov.uk/publications/nep/2007/BusCommissionReport.pdf

14 RfO co-ordinates a voluntary, self-assessment survey that examines how organisations are diversifying their workforce, customer base and suppliers, in respect of ethnic minority representation.

15 Due to resource constraints, CFS did not submit a Race for Opportunity benchmarking return in 2006. In 2005, Co-operative Insurance and The Co-operative Bank entered separate submissions that scored 57% and 58% respectively.

16 www.employers-forum.co.uk

17 Unless it can be objectively justified.

18 www.co-operative.co.uk/media/news/theco-operativereceives agepositiveaward

19 www.efa.org.uk

20 Office for National Statistics (January 2006) Labour Market Trends.

Far left The Group has been commended as an employer that has adopted good employment practice in relation to age diversity as part of the 'Age Positive' campaign led by the Department for Work and Pensions.

Left In 2001, the Group became the first retailer to introduce Braille labelling on medicines.

Workforce – sexual orientation

BENCHMARK The Trading Group was ranked 77th (2006: 94th) in Stonewall's[21] Workplace Equality Index 2007[22] with a score of 67% (2006: 52%)[23]. This improvement was achieved despite more stringent criteria and an increase in the number of organisations participating[24]. The Trading Group was recognised for its policies, benefits, membership activity, diversity training initiatives, monitoring and sponsorship activity. The Trading Group continues to be the only retailer listed in the Top 100.

Accessibility of products and services

Websites

People with disabilities can experience difficulty using websites as a result of how web pages are developed and information is presented, or as a consequence of browser specifications. The Web Accessibility Initiative's (WAI) Web Content Accessibility guidelines[25] are the globally-accepted standard for website accessibility, taking into account the specific problems encountered by people with physical, visual, hearing and cognitive or neurological disabilities. Websites are rated as 'A', 'AA' or 'AAA' in relation to their level of accessibility (where 'AAA' is the most accessible).

The Co-operative Group considers that the Group's, Co-operative Insurance's and **smile** main websites all meet level 'A'; and an 'accessibility page', providing guidance for site users, is available on the Group's website[26]. A new CFS website was developed and launched in March 2007 and The Co-operative Bank website was updated and launched in May 2007, both with accessibility requirements in mind. Both websites exceed the WAI 'AA' standard and feature a number of facilities to help the realisation of 'AAA' standard[27].

The new membership website – www.co-operative.coop – has accessibility features comparable to the CFS and bank websites and has also been awarded the RNIB's 'See it Right' accessible website logo, which provides an additional third party certification of best practice website accessibility[28]. The RNIB's website accessibility team were involved at various stages of the site's development, thereby ensuring that best practice accessibility considerations were to the fore throughout the process.

Corporate literature and labelling

Since 1999, the Trading Group has provided information, on request, in Braille, in large print and on audio cassette. During 2006, approximately 3,000 such requests for information were fulfilled by the Trading Group and CFS (2005: 1,700). The Group uses an 'Access for all' statement in its customer-facing and internal literature which provides details of how to request information in an alternative format. In 2001, the Group became the first retailer to introduce Braille labelling on medicines and to include Braille labels on selected own-brand alcoholic drinks. In 2002, this initiative was extended to include chilled and frozen ready meals. During 2006, Braille packaging appeared on approximately 650 own-brand product lines, which cover a wide range of products – from disinfectant to kitchen foil, and from pet food to fish.

Funerals

During 2006, The Co-operative Funeralcare furthered a multi-faith funeral project that aims to develop its ability to meet the funeral needs of different faiths. The Co-operative Funeralcare team in the South of England has been researching different faiths, visiting places of worship and engaging with different organisations. The Black and Minority Ethnic (BME) membership network (page 21) has been acting as adviser to the project and facilitating contact with local religious communities, alongside involvement from the Group's Diversity team. A staff training programme has been put in place to provide practical guidance for Co-operative Funeralcare employees and to improve awareness of the needs of different religions to help ensure appropriate services are offered. During 2006, The Co-operative Funeralcare upgraded a funeral home in Hounslow which involved consultation with different community faith groups. The multi-faith project has already yielded results, with a 15% increase being seen in the number of different faith funerals in 2006, compared to a 3% drop overall in the South. The Co-operative Funeralcare website currently provides details of services in Hindi, Gujarati, Punjabi and Urdu[29].

21 www.stonewall.org.uk Established in 1989, Stonewall campaigns for equality for lesbians, gay men and bisexuals.

22 www.stonewall.org.uk/workplace1477.asp The Index features the top 100 employers in Britain for gay people.

23 CFS did not submit an entry to the Workplace Equality Index 2007.

24 A total of 201 organisations participated.

25 www.w3.org

26 www.co-operative.co.uk/help/accessibility/

27 For instance, the sites have been built using a cascading style sheet format, making it easier for screenreaders to access; table labels and tags have been introduced; and skip navigation has been coded in, aiding navigation for users with poor motor skills.

28 The 'See it Right' standard sets a level of website accessibility that exceeds the WAI 'A' standard and is close to 'AA'.

29 www.co-operativefuneralcare.co.uk/organiseafuneral/multifaithfunerals

CFS and ethical finance

Bank screening of finance

The bank's Ethical Policy includes a commitment to support the principles of the Universal Declaration of Human Rights. During 2006, five finance opportunities were referred to the Ethical Policy Unit in connection with discrimination. In one instance, a business connected to what is commonly called the 'sex industry' was declined. This is an area where the bank does not have a defined Ethical Policy position. However, the bank would normally decline such business, unless there is overwhelming evidence that women and minors are protected.

Diversity business declines, 2006	Estimated income foregone 2006
Internet retailer Provision of banking facilities to internet retailer. Business unable to provide assurance that satisfactory controls were in place to ensure that minors could not gain access to sexually explicit content on its site (ie, not registered with a content-rating agency).	£500

Help the Aged credit cards

In 1988, the bank launched a range of Help the Aged credit cards[30]. Money raised during 2006 would be sufficient to cover the costs of buying around 20 bath lifts. These are designed with both user and carer in mind to assist with safe, independent bathing.

Community involvement

Victim support

In June 2006, in partnership with Co-operative Insurance, Victim Support published a major new research report, Crime and Prejudice[31]. The report describes the experiences and support needs of people who have suffered attacks because of their ethnic origin or sexual orientation. It received significant media coverage and has subsequently been used to inform Victim Support's development of a national service framework for people affected by hate crime. The three-year partnership (2005–07) with Victim Support is also informing the development of specialist call handler training for employees of Co-operative Insurance's claims handling services, with a view to improving the service offered to customers who are the victims of crime of all types.

Women in enterprise

The Group facilitated a 'women in enterprise' day in November 2006, which sought to raise the aspirations of young women attending the co-operative enterprise schools. Some 78 pupils attended, with 19 women from the Co-operative Movement participating and talking to the pupils.

30 www.co-operativebank.co.uk/affinitycards

31 www.victimsupport.org/vs_england_wales/about_us/publications/hate_crime/crime_prejudice.pdf

Community investment

1 CFS launched a new Community Strategy in 2005, following consultation with customers, staff and opinion formers. Three themes underpinned the Strategy, namely: crime reduction and support for the victims of crime; financial education and capability; and diversity and inclusion.

2 www.co-operative.co.uk/communityfund/

3 www.co-operative.co.uk/fund

4 www.co-operativebank.co.uk/cwc

Community financial contributions: percentage pre-tax profit

Community volunteering contributions: days contributed

Targets 2006

- Review grants programmes across the business with a view to increasing the community impact and business benefits of The Co-operative Group's community contributions. Target achieved
- Review CFS' community activities with a view to aligning them across the wider Co-operative Group. Target achieved

Targets 2007

- Organise 50 team volunteering events across the country involving members and colleagues across the family of businesses.
- Establish and launch a programme of individual volunteering for colleagues in Manchester.
- Establish and launch a programme of individual management volunteering in Manchester, with a view to roll-out across the country in 2008.
- Raise £1m for The Co-operative Group's Charity of the Year, The Children's Society, and its UK partners.

Materiality and strategy

The seventh co-operative principle, 'concern for community', guides co-operatives to work for the sustainable development of communities. A Group-wide Community and Campaigns Strategy was approved by the member-led Group Values & Principles (V&P) Committee (page 12) and launched in 2006. Five themes direct the Group's approach to community investment: climate change, social inclusion, tackling crime, good with food and modern co-operation. Another co-operative principle, 'education', underpins activities in all five areas. These themes are considered to resonate particularly well with the Group's core business activities and its co-operative heritage, whilst accommodating the three priority areas identified by CFS and its stakeholders[1]. Information on specific community projects that support the strategy is detailed throughout this report, but, principally, in the following sections: climate change (pages 80–81), social exclusion (page 58), diet and health (pages 47–48) and modern co-operation (pages 22–23).

Management

A Group-wide Community and Campaigns team, comprising 11 full-time equivalent staff, was created in 2006, bringing together staff from Trading Group and CFS. Alongside the delivery of almost 30 projects that support the strategy, the team is responsible for the management of two Limited Companies – the Co-operative Community Fund[2] and the Co-operative Fund[3] (page 22) as well as the bank's Customers Who Care programme[4] (page 110).

Community Fund

The key objective of the Community Fund is to support self-help voluntary and community groups. The Fund is made up of donations made by members from their twice-yearly share of profits. The fund is overseen by a group of trustees, with the Group's 45 area committees (page 19) having responsibility for allocating Community Fund awards and assessing applications within their areas. Applicants must demonstrate that their project benefits a local community in which at least one Co-operative Group business trades, has a charitable purpose, and is in line with the Group's values and principles.

Community Fund requests and awards

	2005	2006
Number of requests	3,586	4,381
Number of awards	2,016	2,163
Total disbursed	£1,437,663	£1,242,479
Average request	£1,727	£1,684
Average award	£713	£574

In 2006, 19% of funding went to projects operating in the area of 'citizenship', which includes groups who meet primarily for the purpose of enhancing community well-being. Health was another issue widely supported, with almost 20% of funding given to projects that dealt with issues such as mental health, counselling, healthy eating, and drug and alcohol support.

Inputs

The Group measures and reports on its community contributions using the London Benchmarking Group[5] model, which provides a set of measures to capture inputs, such as cash, time and in-kind donations, as well as the management costs associated with running a community programme. The model also captures the outputs and longer-term impacts of community involvement activity on society and business, as described below. The LBG undertakes a detailed assessment of the Group's stated community contributions and verifies that they have been prepared in accordance with LBG guidelines.

In 2006, the Group's contributions to the community, as recognised by the LBG, totalled £7.1m (2005: £7.2m), or 2.2% (2005: 2.8%) of pre-tax profit. Tightening of the LBG criteria agreed by LBG members in 2006 (which included, for example, new guidance on the inclusion of carbon offset monies) has contributed to this depreciation. A further £308,795 was invested in the Co-operative Movement, via The Co-operative Fund (page 22) and £900,000 was invested in financial inclusion projects with the credit union movement (page 57). Taken together, along with the Group's full carbon offset contributions, this raises the Group's total contributions to £8.5m or 2.7% of pre-tax profit.

The LBG model categorises contributions by their underlying motivation. In line with this classification, in 2006, 44% of LBG-verified community contributions was classified as 'community investment' (long-term strategic involvement in community partnerships to address social issues), 45% as 'commercial initiatives in the community' (community activities that directly support the success of the company and promote its brand) and 11% as 'charitable gifts' (support for charitable and community organisations in response to needs and appeals).

5 www.lbg-online.net

6 Comprises contributions 'spent' in the calendar year.

Total community contributions[6]

	2003	2004	2005	2006 (CFS) LBG	2006 (Group)* LBG	2006 (CFS) Total	2006 (Group)* Total
Contributions	8.1	7.3	7.2	3.8	7.1	4.9	8.5
As % pre-tax profit	2.5	3.2	2.8	2.9	2.2	3.7	2.7

Breakdown of community contributions

	2003	2004	2005	2006 (CFS) LBG	2006 (Group)* LBG	2006 (CFS) Total	2006 (Group)* Total
Cash	5.2	4.4	4.4	2.7	4.4	3.3	5.3
Employee time	0.6	1.3	1.7	0.1	0.6	0.6	1.1
Gifts in kind	0.2	0.6	0.4	0.1	0.2	0.1	0.2
Management costs	2.1	1.0	0.7	0.9	1.9	0.9	1.9
Total	**8.1**	**7.3**	**7.2**	**3.8**	**7.1**	**4.9**	**8.5**

* Includes CFS

Left In 2006, the bank contributed more than £1.5m to over 20 national charities/NGOs, on behalf of whom it issued branded credit cards.

Top ten community[7] contributions: origin

	Contribution
Bank affinity cards[8] In 2006, the bank issued branded credit cards to approximately 20 national charities/NGOs. Affinity partners receive a donation from the bank for each new card and a margin on the use of the card thereafter.	£1,554,000
Group profit distribution Every year, the Group Board sets aside a percentage of profits that are directed to community activity. In 2006, a community contribution of £1m was agreed from 2005 profits, of which £500,000 was drawn down.	£500,000
Bank Customers Who Care (CWC) programme[9] The bank donates 1.25p per £100 spent by personal customers on its credit and debit cards, and by business customers on its business charge card, to CWC campaigns. Campaigns are chosen that support the bank's Ethical Policy and, during 2006, campaigning activity focused on Climate Change (page 81).	£277,000
Bank 'fair share' debt counseling contributions The bank provides 'fair share' contributions to industry-wide debt counselling bodies.	£212,000
CIS sponsorship of grassroots sport[10] CIS sponsorship supports a programme of grassroots sports initiatives throughout the UK, including football coaching and the provision of kits and equipment to junior teams.	£162,607
Group carbon offset payments[11] The Group makes payments to offset a proportion of the carbon dioxide emissions associated with mortgage customers' homes and some motor insurance customers' vehicles (page 78).	£88,000
Co-operative Food One water[12] For every bottle of 'One' water sold, The Co-operative Food makes a payment to One, which contributes to the purchase and installation of water pumps in Africa.	£52,000
smile marketing communications **smile** has 'click through' advertising on a number of NGO websites. **smile** will make a payment to the NGO for every account that originates from a 'click through'.	£46,000
The Co-operative Pharmacy Community Health Fund The fund makes awards of £100–£2,000 to health-related causes in West Yorkshire and South Wales (page 47).	£40,000
Bank Community Directplus Customer Fund[13] For every £100 increase in collective balance held in Community Directplus accounts, the bank ads 20p to a Customer Donation Fund, which supports the projects and fundraising activities of Community Directplus customers.	£21,000

Community contributions: top ten recipients

	Mechanism	Category	Contribution
RSPB[14]	Bank affinity credit card payments, plus sponsorship.	Environment	£518,000
Oxfam[15]	Bank affinity credit card payments, plus monies raised by The Co-operative Food and Travel phone recycling schemes.	Development	£471,000
Consumer credit counselling services[16]	Fair share contribution	Social exclusion	£208,000
Amnesty International[17]	Bank affinity credit card payments	Human rights	£258,000
Woodcraft Folk[18]	Corporate donation	Co-operative	£112, 000
Greenpeace[19]	Bank affinity credit card payments	Environment	£108,000
Tearfund[20]	Bank affinity credit card payments	Social exclusion	£103,000
International Co-operative Alliance[21]	Corporate donation	Co-operative	£100,000
Climate Care[22]	Carbon offset payments associated with mortgage, car insurance and travel products.	Climate change	£88,000
Practical Action[23]	Bank Customers Who Care programme	Climate change	£66,000

7 Additionally, The Group funds the Co-operative Fund, which provides grants to promote, support and develop co-operative solutions and co-operative enterprises; expand the co-operative sector; promote the co-operative advantage and demonstrate its relevance in the UK today. More details of the Fund are provided on page 22.

8 www.co-operativebank.co.uk/affinitycards

9 www.co-operativebank.co.uk/cwc

10 www.cis.co.uk/servlet/Satellite?cid=1123829648971&pagename=ClSv2/Page/tplClSv2PageStandard&c=Page&loc=l

11 A total of £256,506 was paid to Climate Care in 2006 (2005: £267,000). Of this, £87,889 was judged by LBG to meet their new criteria regarding corporate support for carbon offset schemes.

12 www.we-are-one.org.uk/index.html

13 www.co-operativebank.co.uk/communitydirectplus

14 www.rspb.org.uk

15 www.oxfam.org.uk

16 www.cccs.co.uk

17 www.amnesty.org.uk

18 www.woodcraft.org.uk

19 www.greenpeace.org.uk

20 www.tearfund.org

21 www.ica.coop

22 www.climatecare.org

23 www.practicalaction.org

Volunteering

Employees are encouraged to volunteer for the benefit of the community. During 2006, 7,345 employees registered that they had taken part in volunteering activities, contributing the equivalent of 42,466 hours. This equates to a donation of time worth £575,187. This figure is not considered complete, since it results from a much less rigorous process of data capture than in previous years. In 2006, the Group plans to launch a business-wide volunteering policy with the aim of increasing the volunteering opportunities available to all staff, and pilot a structured volunteering program for members. It is hoped that the roll-out of the new policy will provide the Group with an opportunity to more systematically capture employee volunteering going forward.

	2006[24]
Number of employees volunteering in work time	7,345
Number of days in work time[25]	5,662
Value of staff time (£)	575,187

BENCHMARK The Co-operative Group continues to meet the Business in the Community PerCent Standard, based on its contribution of more than 1% of pre-tax profits to community causes. By comparison, according to The Giving List[26], the UK's leading quoted companies give an average of 0.79% of pre-tax profit to charities, voluntary organisations and community projects. The Group's community contribution of 2.2% would see it ranked 6th in a list of FTSE100 companies.

Outputs and impacts

The LBG methodology encourages organisations to consider three types of short-term outputs from community involvement programmes: community benefits, business benefits and leverage. Impact measurements assess the effectiveness of community investment programmes, though some impacts may take several years to fully emerge. In 2007, work will focus on more systematically integrating output and impact analysis into the management of key community investment initiatives.

Leverage

In addition to community investment made by the business directly, the Group also operates a number of programmes that leverage additional monies from customers and members, such as The Co-operative Community Fund (page 65). The Fund is made up of donations made by members from their twice-yearly share of profits. Additionally, in 2006, the Group made a donation of £300,000 to the Fund. Total leverage of £1.1m was facilitated by the Group in 2006 (2005: £3.6m), principally, through the mechanisms that support the Fund (£745,0000) and through payroll giving schemes (£118,000 of which £68,000 was attributable to CFS).

	2005	2006
Total leverage	3.6	1.1

Charity of the Year

In October and November 2006, over 92,000 members and employees voted to nominate the 2007 Charity of the Year. The Children's Society[27], in partnership with Aberlour in Scotland[28], Extern in Northern Ireland[29], and Tros Gynnal in Wales[30], emerged as the winning charity. The partnership, which will run until December 2007, is seeking to raise over £1m. The Children's Society, and its partners, continue to support more than 60,000 children in local projects, including young runaways, children in trouble with the law, disabled children and child refugees. To publicise the launch of the Charity of the Year, colleagues and members of the Executive team were encouraged to dress up in the uniform/workwear of the occupation they wanted to pursue when they were younger in a bid to communicate the fact that not all children are given the same life chances. The Group's previous Charity of the Year, Shelter, was presented with a cheque for £1m in January 2006.

The Children's Society

24 The 2006 employee volunteering figure was based upon staff responses to an intranet request for information on individual volunteering, and is not considered to be complete.

25 Where a day is considered to represent 7.5 hours.

26 http://society.guardian.co.uk/givinglist

27 www.childrenssociety.org.uk

28 www.aberlour.org.uk

29 www.extern.org

30 www.trosgynnal.org.uk

Ecological sustainability

The Co-operative has launched the world's lightest whisky bottle – the first 70cl spirits bottle to break the 300g weight barrier. This means less resource use, less waste and lower carbon emissions.

Approach to ecological sustainability

Strategy

2006 saw a dramatic increase in the range of business sectors attracting attention for their environmental performance. Most obviously, the food retail sector started to aggressively compete on the basis of environmental performance and initiated a plethora of commitments and targets to reduce environmental impact. Elsewhere, aviation and the wider travel industry found itself exposed to criticism for its greenhouse gas emissions on a widespread basis for perhaps the first time. This shift in attention from the more traditional, industrial sectors to incorporate the wider service sector clearly has implications for The Co-operative Group.

As a large and diverse business, The Co-operative Group has a wide range of environmental impacts – both positive and negative. The issues of climate change, waste, biodiversity and persistent, bioaccumulative and toxic chemicals have been identified as reporting priorities. This approach has been influenced by an emerging understanding of the environmental imperatives facing society, the business and its customers: millions of CFS customers have been consulted as part of bank and Co-operative Insurance's Ethical Policy consultations[1]. Some 30,000 consumers have, additionally, been consulted as part of two rounds (1994 and 2004) of responsible retailing research[2].

In terms of priorities, the Group aims to maintain its leadership in the area of climate change and attain/maintain at least median positioning in other environmental areas.

Management

The Group's Environmental Strategy was approved at a meeting of its Group Values & Principles Committee in June 2006. An Environmental Advisory Committee (EAC) has now been formed as a sub-committee of the Group Values & Principles Committee and will inform environmental strategy across the whole of The Co-operative Group going forward[3].

Following the combination of the environment teams of Trading Group and CFS in 2006, a new four-person unit was established to deliver day-to-day implementation and management of the Group's environmental strategy. The Natural Step Framework[4] is utilised as a set of guiding principles when evaluating complex environmental issues across the Group's businesses.

In August 2006, CFS' environmental management systems were re-certified to the ISO14001 standard at its annual audit inspection – CFS was the first financial services organisation in the world to secure certification for all of its business activities[5]. Also in 2006, ISO14001 certification for the Group's Services Function was maintained following its six-monthly audit schedule. This environmental management system covers operational activities at the Manchester Head Office complex. Ongoing maintenance of existing ISO14001 certifications will be sought.

Recognition

The Group's leadership in a number of environmental areas was recognised in independent surveys published throughout 2006 and early 2007. In early 2006, a survey of 2,000 shoppers conducted for The Grocer found that consumers ranked The Co-operative as the top supermarket for 'being green'[6]. The Environment Agency's 'Your Environment Vote 2006' also saw the Co-op named as the high street retailer doing the most for the environment[7], and, in May 2007, a survey for Marketing Week ranked the Co-op in the top five most 'environmentally friendly' UK brands[8].

The 11th Business in the Community (BitC) Environment Index was released in May 2007[9]. Co-operative Financial Services was ranked in the 'Premier League' of companies scoring more than 95% (along with 26 others). CFS was ranked first amongst the six participating insurance providers against which it was benchmarked.

Furthermore, the Group received the Queen's Award for Enterprise (Sustainable Development Category) (see page 13), Business Commitment to the Environment's Peter Parker Award and the Renewable Energy Association's Pioneer Award (see page 72).

1 www.cfs.co.uk/sustainability2005

2 www.co-operative.co.uk/corporate/reportsandpublications

3 For the Environmental Advisory Committee's Terms of Reference and membership. See www.co-operative.co.uk/sustainability/envadvisorytor

4 The Co-operative Bank was the first UK-based business to incorporate The Natural Step methodology in 1996, and it is considered to have been vital to the substantive improvements in performance realised to date. See www.naturalstep.org.uk

5 CFS' certification extends to the 'complete range of operations, activities, products and services (personal and corporate banking, insurance, investments and pensions) of Co-operative Financial Services, CIS, The Co-operative Bank and its internet bank, **smile**'.

6 The Grocer (16 September 2006) Shoppers turn green.

7 Environment Agency (2007), The dash for green cash – Why business is at last waking up to the environment.

8 Marketing Week (20 May 2007) Brands show true colours.

9 Business in the Community's (BitC) Environment Index is a voluntary, self-assessment survey that benchmarks environmental strategy (and its integration), management, reporting and performance in a range of areas. It is open to the FTSE100, FTSE250, sector leaders from the Dow Jones Sustainability Index and BitC's national members. 134 businesses publicly participated in the Index in 2006. See www.bitc.org.uk

Climate change

1 Connor, S (2006) Review of the year: Global warming. 'The Independent' 29 December.

2 www.nasa.gov/centers/goddard/news/topstory/2006/seaice_meltdown.html

3 Stern, N (2006) The Stern Review on the economics of Climate Change.

4 www.ipcc.ch

Energy: carbon dioxide emissions

Energy usage

Transport: distribution/business mileage

Transport: carbon dioxide emissions

Carbon offset: products and operations

Targets 2006

- Investigate and develop further microgeneration projects. Acceptable progress
- Expand the range of carbon offset products. Target achieved
- Lobby the UK Government for binding annual reductions of carbon dioxide (CO_2) emissions of c3% per annum. Target achieved
- Pilot the installation of micro-wind turbines at Co-operative Group-sponsored specialist schools. Target achieved
- Maintain CFS CO_2 emissions from energy use at less than 0.5 tonnes per employee, and at less than 0.7kg per customer account. Target achieved
- Launch a new ecoinsurance motor product. Target achieved

Targets 2007

- Reduce energy consumption by 20% by 2010 and by 25% by 2012, based on 2005 levels.
- Generate 15% of energy requirements from sustainable energy sources by 2012, based on 2005 levels.
- Progress carbon footprinting pilot project with the Carbon Trust.
- Expand the range of energy efficient products for sale within The Co-operative Food's stores.
- Achieve carbon neutrality across CFS by offsetting all of its remaining operational and business travel emissions during 2007.
- Continue to campaign on climate change, in partnership with Friends of the Earth, to support a strong Climate Change Bill.

Background

The Co-operative Group has, arguably, done as much as any other UK business to tackle its contribution to climate change. 2006 proved to be a watershed year in the understanding and awareness of climate change in the UK:

- evidence that the impacts of climate change are already with us – for example, melting permafrost[1] and the reduction in permanent ice cover in the Arctic[2] became apparent;
- publication of the Stern Review[3] highlighted the economic imperative of dealing with climate change;
- public concern over the issue galvanised, with 25,000 people gathering in Trafalgar Square for the Stop Climate Chaos rally; and
- the film, 'An Inconvenient Truth', was shown at cinemas around the world.

Early in 2007, the United Nations Intergovernmental Panel on Climate Change Fourth Assessment Report[4] highlighted the scale of scientific consensus that now exists around mankind's influence on the climate. Key findings included:

- the atmospheric concentration of CO_2 in 2005 (380 ppm) exceeds, by far, the natural range over the last 650,000 years (180 to 300 ppm) as determined from ice cores;
- warming of the climate system is unequivocal, as is now evident from increases in global average air and ocean temperatures, widespread melting of snow and ice, and rising global average sea level;
- the understanding of man-made warming and cooling influences on climate has improved since the Third Assessment Report, leading to very high confidence that the globally averaged net effect of human activities since 1750 has been one of warming; and
- continued greenhouse gas emissions at or above current rates would cause further warming and induce many changes in the global climate system during the 21st century that would very likely be larger than those observed during the 20th century (scenarios for temperature increases this century range from 1.8C to 6.4C).

Materiality and strategy

The Group has a number of operations that emit significant quantities of greenhouse gases (GHGs). Of greatest significance is The Co-operative Food, which is responsible for CO_2 emissions from energy consumption in over 1,600 outlets and fuel use associated with its UK-wide distribution network and staff business mileage. The Co-operative Food is indirectly responsible for GHG emissions related to the products it sells that are grown, processed, manufactured and transported around the world. In addition, The Co-operative Food also emits hydrofluorocarbons (HFCs) and hydrochlorofluorocarbons (HCFCs) from its refrigeration activities. Within the Group's specialist retail operations, CO_2 emissions are, again, associated with energy and fuel consumption across nearly 1,700 premises, its distribution and business mileage activities and, indirectly, from products sourced from around the world. The Co-operative Travel also has significant, indirect GHG emissions associated with the travel element of holiday packages it sells. CFS is also responsible for GHG emissions relating to energy consumption from its 116 premises, from business travel by its staff and, indirectly, through the companies in which it invests.

The Group's Environmental Strategy, which is agreed via its member-controlled Group Values & Principles Committee (page 12), identifies climate change as the Group's top environmental priority. Furthermore, CFS' commitment to tackling climate change has been endorsed by customers as part of the most recent Ethical Policy review: 70% of The Co-operative Bank's customers signalled that they do not wish to see their money invested in businesses that extract fossil fuels, whilst 94% of Co-operative Insurance's customers want it to use its influence as an institutional investor to encourage businesses to reduce their reliance on fossil fuels, increase renewable energy usage and promote energy efficiency.

The Group's approach to addressing the issue of climate change is five-fold, focusing on energy efficiency, renewable energy consumption and generation, carbon offsetting, the provision of finance and public policy lobbying.

Performance overview

Overall greenhouse gas emissions connected with premises, transport and refrigerants

	2003	2004	2005[5]	2006[6]
Total greenhouse gas emissions (tonnes of CO_2e)[7]	451,696**R**	340,903**R**	254,102**R**	237,792[8]
Accounting systems	(94% complete)	(94% complete)	(90% complete)	(90% complete)

Highlights in 2006 and early 2007 included:

- final commissioning and 'switch on' of the Group's first wind farm at Coldham, Cambridgeshire;
- final commissioning and 'switch on' of Co-operative Insurance's Solar Tower;
- installation of 19 micro-wind turbines on Co-operative Insurance's Portland Street building;
- launch of carbon dioxide offset products by The Co-operative Travel and Co-operative Insurance;
- initiation of photovoltaic (PV) pilot programme with eight Co-operative enterprise schools, followed by launch of a £2m Green Energy for Schools Scheme; and
- CFS being awarded the EDF Environmental Impact Award for its management of climate change at Business in the Community's Awards for Excellence 2006[9].
- In June 2007, at the Business Commitment to the Environment Awards, the Group was presented with the Peter Parker Award for environmental leadership, in recognition of its work towards dealing with climate change. The development of renewables at CFS, the roll-out of green electricity across the Trading Group and the involvement of members in climate change campaigns were all singled out for recognition.
- In June 2007, at the Renewable Energy Association Awards, the Group received the Pioneer Award in recognition of its leading approach to the promotion of renewable technologies, its business ethics, onsite renewables generation projects and 'green energy for schools' programme. The award is presented to the UK organisation from outside the renewables industry judged to have contributed most to the industry's development.

5 Data includes The Co-operative Food refrigerant losses equivalent to 87,666 tonnes of CO_2.

6 Data includes The Co-operative Food refrigerant losses equivalent to 80,306 tonnes of CO_2.

7 Carbon dioxide equivalent (CO_2e) is used to compare the Global Warming Potential (GWP) of different greenhouse gases (Methane (CH_4), Nitrous Oxide (N_2O), Hydrofluorocarbons (HFCs), Perfluorocarbons (PFCs), Sulphur Hexafluoride (SF_6)) relative to CO_2. For example, CO_2 has a GWP of one, while N_2O has a GWP of 310.

8 Overall CFS greenhouse gas emissions connected with premises, transport and refrigerants amounted to 13,633 tonnes of CO_2e in 2006 (2005: 16,833; 2004: 21,380; and 2003: 23,879).

9 www.bitc.org.uk/resources/case_studies/afe1130envcfsclim.html

Far left HRH Prince Charles presents CFS with the Environmental Impact Award in recognition of its management of climate change impacts at Business in the Community's Awards for Excellence 2006.

Left Installation of 19 micro-wind turbines was completed on Co-operative Insurance's Portland Street building in 2006 – the largest ever commercial application of wind turbines in the UK.

10 Includes the vast majority of the Group's energy-related consumption, with the exception of oil (data available only for CFS) and certain gas (no data for the Group's Trafford Plaza offices). Data considered to be 99% complete.

11 www.carbontrust.co.uk

Energy usage of premises, type and associated carbon dioxide emissions[10]

	2003	2004	2005	2006
Fossil fuel electricity (kWh)	641,634,689	531,009,739	16,902,000	15,819,689
Renewable electricity (kWh)	97,729,675	228,158,558	680,414,437	743,170,286
Fossil fuel gas (kWh)	408,826,396	201,708,750	221,797,592	172,227,655
Energy consumption (kWh)	**1,148,190,760**	**960,877,047**	**919,114,029**	**931,217,630**
Total CO_2 emissions (tonnes)	**354,474**	**226,411**	**49,159**	**39,233**

Energy usage

As a result of the increased use of renewable electricity, the Group's net CO_2 emissions from energy consumption have decreased by 20% compared with 2005 and by 89% compared with a 2003 baseline. During 2006, energy consumption across the Group increased by 1% compared with 2005. There was a 9% increase in electricity usage and a 22% decrease in gas usage. CFS' target to maintain CO_2 emissions from energy use at less than 0.5 tonnes per employee, and at less than 0.7kg per customer account was achieved. Compared with 2005, CO_2 emissions per employee and per customer account at CFS have reduced by 29% and 26% respectively.

The Co-operative Bank, Co-operative Insurance and Trading Group have reported on their energy consumption and CO_2 emissions since 1998, 2000 and 2003 respectively. During 2006, significant steps were taken to ensure that robust management information became increasingly available across Trading Group businesses. Half-hourly metering has now been installed at more than 1,400 Co-operative Food sites. This self-financing programme has identified considerable opportunities for tariff/ procurement savings. In summary, the Group's energy-related carbon dioxide accounting systems are now considered to be 99% complete.

Energy reduction

Following a study undertaken in conjunction with the Carbon Trust[11], The Co-operative Group has committed to reduce its energy consumption by 25% by 2012, and to generate 15% of its energy from its own renewable sources (such as the wind farm in Coldham, Cambridgeshire, page 74). The strategy will focus on The Co-operative Food's stores, distribution and Head Office operations, which comprise over 90% of the Group's energy use. Within The Co-operative Food, there will be three areas of focus: the encouragement of staff behavioural change and better housekeeping; amendments to the standard ongoing refit programme; and a retrofit programme designed to reduce energy at the 300 most energy intensive stores. Capital expenditure of £7m will support the 2007 retrofit programme, based on demonstrable energy reductions of c14% at a trial of six stores, which will save in excess of £2m each year. Initiatives include:

- Installation of a combination of fridge cabinet blinds and freezer trim controls, together with refrigeration pack controls in high consuming stores. At a cost of £3.5m, it is anticipated that these measures will provide a 7% reduction in overall energy consumption in The Co-operative Food stores.

- Many of The Co-operative Food's stores still use fluorescent lamps in either twin or single fittings. A programme of work will replace these with more energy efficient lamps and fittings. At the same time, occupancy control equipment in service areas will also be installed. At a cost of £0.9m, it is anticipated that these measures will provide a 2% reduction in overall energy consumption.

- Enhanced heating, ventilation and air conditioning (HVAC) control equipment, which will be more efficient than those switching heating, hot water, ventilation, cooling, lighting and appliances on and off when not required. The use of remote communication will ensure that the equipment is commissioned correctly and is appropriately maintained. At a cost of £2.3m, it is anticipated that these measures will provide a 5% reduction in overall energy consumption.

Green electricity procurement

During 2006, virtually all (98%) of the electricity supplied to the Group (some 743,170,286kWh, or 743GWh) was sourced from good quality renewable sources – exclusively wind, hydro and biomass technologies[12]. This makes the Group one of the largest purchasers of green electricity in the world, and supports annual CO_2 savings of 320,000 tonnes. In addition, the Group has negotiated equivalent green electricity contracts (179GWh) on behalf of a number of independent co-operative societies. Securing good quality green electricity contracts is becoming increasingly difficult, as more and more organisations look to reduce their environmental impacts. In addition, there is a growing concern that the good intentions of green electricity procurers may not prompt further growth in the UK's renewable generation capacity – some suppliers charge a premium for green electricity that they are effectively obliged to generate anyway due to legislative requirements. With this in mind, in September 2004, CFS agreed an innovative £4m eight-year green electricity purchase agreement. This long-term off-site commitment – the first of its kind – enabled green electricity generator, ecotricity, to finance the construction of six new wind turbines in Lincolnshire. The supply arrangement meets a quarter of CFS' electricity requirement (some 9GWh each year) and results in 3,870 tonnes of annual CO_2 savings.

In 2003, Co-operative Insurance became the first institutional property investor to transfer all contracts held for its £2bn investment property portfolio to green electricity. Co-operative Insurance believes it is still the only institutional property investor to have done this. Electricity from large-scale hydro and Climate Change Levy-exempt sources is purchased. In 2005, Co-operative Insurance outsourced its £2bn investment property portfolio; however, the appointed investment managers have been instructed to maintain the utilities accounting systems developed in 2004 and to continue with the purchase of renewable electricity – some 11.1GWh in 2006 (2005: 13.6GWh).

On-site renewables generation

The Co-operative Group has made significant progress in the development of its own renewables capacity. In July 2006, an eight-turbine wind farm on Group farming land at Coldham, Cambridgeshire began operating. It is anticipated that this will generate 38.5GWh each year, sufficient to provide electricity for the equivalent of 9,000 homes and to yield CO_2 savings of 36,000 tonnes each year. All output is paired with the Group's Head Office in Manchester, and other locations. Local community groups in Cambridgeshire have benefited from a one-off £45,000 payment and by £6,000 each year as a result of the development, and will be provided with good access to the facilities. Having established this as a viable business model, the Group's Property Division is working to develop a 14-turbine, 71GWh per annum project on the Group's land at Goole.

The Group is also actively developing micro-generation scale renewable energy projects across its estate. At present, micro-generation is generally not cost-effective in most circumstances in the UK; however, if this infant industry is ever to realise its enormous potential[13], then far-sighted supporters are needed, and The Co-operative considers itself to be one of these.

- The Solar Tower project, completed in May 2006, is the UK's largest-ever solar power installation and was visited by the UK's then Prime Minister, the Rt Hon Tony Blair MP, in 2005. This £5.5m project has transformed the 400ft, 25-storey landmark Co-operative Insurance tower into a facility capable of producing on-site renewable energy. The building now has over 7,000 photovoltaic cell panels with the potential to create 181MWh of renewable electricity each year and save 78 tonnes of CO_2 emissions. The solar panel cladding was considered to be the most cost-effective solution to repairing the deteriorating façade of the building, whilst respecting heritage concerns (the building is Grade II listed) and aligning with CFS' sustainability requirements.
- In addition, 19 micro-wind turbines have been installed on the roof of the 13-storey Portland Street building in Manchester. This is the largest-ever commercial application of micro-wind turbines in the UK. The UK's then Environment Minister, Elliot Morley MP, launched the project in January 2006; however, for much of the year the turbines were not fully operational and an upgrade to a new turbine model was completed in the latter half of 2007. It is anticipated that the turbines will generate 44MWh of renewable electricity each year, just over 3% of the electricity needs of the building and save 19 tonnes of CO_2 emissions per year.

During 2006/07, a third micro-generation technology was advanced. A biomass boiler and supply chain was sourced for use in the Group's Recycling Centre. As is the case with photo-voltaics and micro-wind,

12 In 2006, the Group purchased fossil fuel-generated electricity at some sites where the utilities are selected by the landlord. In addition, there were 26 sites in Northern Ireland where no renewable electricity was available to purchase, and two sites in the Isle of Man and one site in Guernsey where a suitable supplier could not be identified.

13 Projections completed by the Energy Saving Trust in 2006 suggest that micro-generation could supply up to 40% of the UK's electricity by 2050 (www.berr.gov.uk/files/file27559.pdf) and could therefore play an essential role in driving down emissions from the UK's building stock, which only replaces at 1–2% per annum (www.sustain.co.uk/categories/insight/insight_Quarterly_2/).

Far left An eight-turbine wind farm on Group farming land at Coldham, Cambridgeshire, began operating in July 2006. It is anticipated that this will generate almost 40GWh each year.

Left The UK's largest-ever solar power installation was completed at Co-operative Insurance's headquarters in Manchester in May 2006. The 7,000 photovoltaic cells have the potential to create 181MWh of electricity each year.

14 www.climatecare.org

15 Includes 17kg housed within water dispensers and vending machines.

16 Hydrocarbons, ammonia and lithium bromide.

operational efficiency will be monitored and further opportunities developed if viable.

Refrigeration

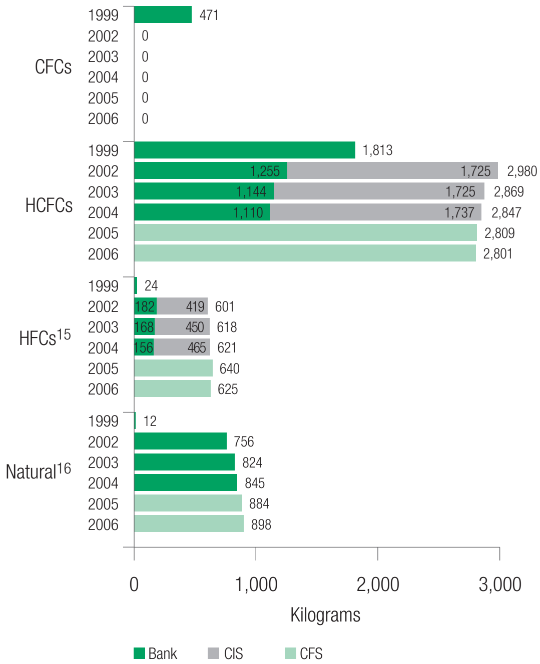
CFS air conditioning

Prior to 2000, CFS' air conditioning systems were dominated by chlorofluorocarbons (CFCs), hydrochlorofluorocarbons (HCFCs) and hydrofluorocarbons (HFCs). These organohalogens are either potent ozone depletors or greenhouse gases, and, in some cases, both. As air conditioning systems are replaced, it is preferred that systems based on ammonia, lithium bromide or hydrocarbons are introduced. In all cases, the global warming potential of these chemicals is substantially less than that of organohalogens, such as HFCs, with ozone depletion being similar. All HFCs and HCFCs removed are passed to third parties for recycling or destruction.

During 2006, six HCFC/HFC air conditioning units were upgraded, within CFS' branch network, leading to the removal of gas with a global warming potential (GWP) of 45 tonnes of CO_2. At five branches, new hydrocarbon systems were installed with a GWP of just 0.04kg of CO_2. During 2006, and in breach of CFS' policy, 4.5kgs of HFC R407 were introduced to systems at Liverpool Branch (with a GWP of 7.25 tonnes of CO_2), as part of a refurbishment.

During 2006, 26kg of refrigerant gases (including 3.75kg of organohalogens) were released at CFS' premises. In total, the GWP of the gases released was equivalent to 37 tonnes of CO_2. CFS has a commitment to offset the greenhouse gas emissions arising from air conditioning in its business accommodation. To this end, a payment has been made to Climate Care[14].

CFS air conditioning – refrigerants by type (kg)



The Co-operative Food refrigerants

Early in 2006, the decision was taken to specify entirely new refrigeration equipment for roll-out across The Co-operative Food stores where new refrigeration is required (at a budgeted cost of £24m per annum for four years). A sizeable proportion (48%) of existing cooling equipment relies on HCFCs, which are potent ozone depletors; however, legislation requires that usage of these be phased out by 1 January 2010. It is proposed that energy efficient HFC units should now be used, with research continuing into more benign non-HFC cooling technologies. For example, in July 2007, a new flagship food store was opened in Manchester and this was the first in the UK to utilise solely carbon dioxide as a refrigerant in fridge and freezer cabinets (and air conditioning also utilised hydrocarbon refrigerants). It is anticipated that the new HFC refrigeration could create savings of between 5% and 10% (up to £1m) on both electricity and the heating required in the surrounding environment. A target for leakage reduction is currently being established in conjunction with the HCFC phase-out programme.

The Co-operative Food refrigerant gas 'leaks' and net global warming potential (GWP)

	2005	2006
Refrigerant gas 'leaks' (tonnes)	33.32	29.49
Net GWP (tonnes of CO_2e)	87,666	80,306

Transport

Distribution/business mileage and emissions

The Co-operative Bank, Co-operative Insurance and Trading Group have reported on their transport impacts since 1997, 2000 and 2003 respectively. Detailed accounting systems connected with road distribution now capture The Co-operative Food and The Co-operative Funeralcare, as well as CFS (external mail freight). Detailed information is also captured for rail, air, company car and hire car journeys undertaken by the Group's office-based employees. This year, for the first time, an account is also provided of the mileage and CO_2 emissions associated with journeys undertaken in employees' own cars. Data for 2006 covers all Group businesses, with the exception of Co-operative Legal Services and Shoefayre. The Group's transport-related CO_2 accounting systems are now considered to be 90% complete.

The Group cannot yet evidence, over time, systematic mileage or CO_2 reductions in connection with transport, although a number of projects to reduce this impact have been progressed.

Across the Group, CO_2 emissions connected with transport increased slightly by 1% and total mileage increased by 12% (some 14.9 million miles) during 2006. The low increase in CO_2 relative to the increase in mileage is largely due to the addition of The Co-operative Funeralcare's fleet for the first time, and an increase in data captured for Group employee car use, which masks a reduction in mileage associated with The Co-operative Food's distribution. As The Co-operative Funeralcare's fleet and Group employee cars emit lower levels of CO_2 per mile when compared with the CO_2 per mile produced by The Co-operative Food's distribution fleet, CO_2 emissions have only slightly increased relative to a much larger increase in mileage.

In 2003, The Co-operative Food converted 60 Foden articulated lorries to allow them to run on both compressed natural gas (CNG) and diesel. The dual fuel scheme operates from two distribution depots (Alferton and Cumbernauld) and, in 2006, 686 tonnes of CNG were utilised, displacing 906,000 litres of diesel and saving 565 tonnes of CO_2. At its inception, the pilot was the largest of its type in the UK; however, the subsequent erosion of CNG tax benefits and the curtailment of conversion grants has meant that it has not been extended to the remainder of the fleet of 900 vehicles. The fleet is supported by 700 trailers, and includes 40 double-decker trailers – each fitted with a pair of solar panels. These charge the batteries that power the moving deck and reduce the need for charging at the distribution depot.

During 2006, CFS' business mileage increased by 4% compared with 2005, but was still 25%, or 4.6 million miles, lower when compared with 2000[17]. External mail freight (measured in tonnage) decreased by 2% or 42 tonnes compared with 2005. Co-operative Insurance Financial Advisers' reported mileage and associated CO_2 emissions reduced by 28% and 26% respectively. Overall CO_2 emissions[18] at CFS remained static compared with 2005, and were 17%, or 1,096 tonnes, lower when compared with 2000.

In 2006, job-requirement cars for c130 (Co-operative Bank) employees were exclusively either Peugeot or Ford Focus clean diesel (ie, fitted with a particulate trap), or Honda Civic or Toyota Prius petrol hybrid vehicles. All models were chosen for their lower CO_2 emissions.

Also in 2006, 276 interest-free loans (with a value of £254,000) were taken up by Group employees for public transport season tickets.

17 Excludes external mail freight and business mileage associated with Co-operative Insurance Financial Advisers (FAs). The accounting systems connected with the business mileage of FAs are based on estimates and therefore are not consolidated within total business mileage. The reported impact of Co-operative Insurance FAs' mileage is extrapolated from the 15% (2005: 17%) who supplied an estimate of miles travelled in 2006 whilst undertaking Co-operative Insurance business.

18 Excludes CO_2 emissions associated with Co-operative Insurance FAs.

Far left The Group's fleet of distribution vehicles includes 40 double-decker trailers – each fitted with solar panels that charge the batteries that power the moving deck.

Left The Co-operative Farms has just under a quarter of its farming committed to oilseed rape. Approximately 18,000 tonnes were produced in 2006 for use in biodiesel.

Transport, mileage and carbon dioxide emissions

		2003[19]	2004[20]	2005[20]	2006[21]
Road: distribution	(miles)	52,508,000	61,449,000	65,563,000	74,638,000[22]
	(tonnes CO_2)	81,520R	95,163R	101,442R	100,722
Road: hire car	(miles)	484,000	1,146,000	1,303,000	1,466,000[23]
	(tonnes CO_2)	131	329	355	397
Road: company car	(miles)	45,753,000	58,806,000	44,660,000	44,762,000[24]
	(tonnes CO_2)	12,717	15,280	12,633	12,913
Road: employee car	(miles)	7,067,000	7,129,000	5,655,000	9,771,000[25]
	(tonnes CO_2)	2,202	2,203	1,629	2,751
Air[26]	(miles)	1,229,000	2,775,000	2,491,000	2,821,000[27]
	(tonnes CO_2e)	520R	1,310R	1,060R	1,241
Rail	(miles)	1,362,000	2,149,000	2,433,000	3,561,000[28]
	(tonnes CO_2)	132	207	158	229
Mileage		**108,403,000**	**133,454,000**	**122,105,000**	**137,019,000**
Total CO_2e emissions (tonnes)		**97,222R (80% complete)**	**114,492R (85% complete)**	**117,277R (85% complete)**	**118,253[29] (90% complete)**

19 Data for 2003 relates to The Co-operative Food road distribution mileage and total CFS mileage only.

20 Data is considered to be 85% complete. Major omissions are fleet mileage connected with The Co-operative Funeralcare, and employee business mileage across the Group (with the exception of CFS) when own car used.

21 Data is considered to be 90% complete.

22 Data for 2006 covers The Co-operative Food, The Co-operative Funeralcare and CFS external mail freight and is considered to be 85% complete.

23 Data for 2006 covers all Group business (with the exception of The Co-operative Legal Services and Shoefayre) and is considered to be 95% complete.

24 Data for 2006 covers all Group businesses, with the exception of The Co-operative Pharmacy, The Co-operative Legal Services and Shoefayre and is considered to be 90% complete. Note, data for The Co-operative Food is extrapolated from 24% of expenses claim form returns. Data for CFS includes, company cars, Co-operative Insurance Financial Advisers' mileage (extrapolated from 15% driver returns) and mileage from nine pool cars and six vans.

25 Data for 2006 covers all Group businesses, with the exception of The Co-operative Legal Services and Shoefayre and is considered to be 95% complete. Note, data for The Co-operative Food is extrapolated from 4% of expenses claim form returns.

26 Aviation is different from other energy-using activities as the majority of emissions occur at altitude, are responsible for other atmospheric chemical processes that also have atmospheric warming consequences, and are comprised of N_2O as well as CO_2. In addition to the conversion factors for long haul and short haul flights of 0.11kg CO_2 per passenger km (pkm) and 0.15kg CO_2 per pkm published by Defra, The Co-operative Group has chosen to use a multiplier of two to attempt to account for the enhanced effects of aviation.

27 Data for 2006 covers all Group businesses, with the exception of The Co-operative Travel, The Co-operative Legal Services and Shoefayre and is considered to be 80% complete.

28 Data for 2006 covers all Group businesses, with the exception of The Co-operative Travel, The Co-operative Legal Services and Shoefayre and is considered to be 90% complete. Rail data for 2006 extrapolated from an average of January to May data.

29 CO_2/CO_2e emissions are calculated by applying relevant 'conversion factors' for each mode of transport to the distance travelled.

Biofuels

As one of the UK's largest farmers, The Co-operative Farms has just under a quarter of its farming (5,300 hectares) committed to oilseed rape. Its output in 2006 of 18,000 tonnes is used in biodiesel production. At present, support is provided via the trading of equivalent amounts in other countries; however, as soon as significant new UK biodiesel production comes on stream, it is hoped that the crops will directly feed UK refineries.

Sustainable sourcing

In 2007, the Group will aim to improve its understanding of sustainable sourcing issues, with a view to exploring further developments.

In 2006, The Co-operative Food's sustainable sourcing priorities were concentrated on procuring more UK products from primary suppliers and increasing the range of products sourced from The Co-operative Farms (eg, 80% of potato requirements will be met by The Co-operative Farms by the end of 2007 and all fresh beef, pork and turkey is now sourced from the UK and Ireland). A Scottish regional sourcing initiative is now progressing following the appointment of a local sourcing development manager for Scotland. Additional Scottish product ranges, including biscuits, honey and preserves, cooked meats, ales and spirits, will be added in 2007. In Cornwall, a new regional range will include preserves, biscuits, confectionery, meads and ales.

In Northern Ireland, Wales, and the East of England, work is underway to identify suppliers of local products for sale in stores for 2007. In most instances, local lines are delivered direct to the stores, but where products are required in more than one or two stores, distribution is centralised at local hubs.

The term 'food miles' has been widely used in discussions about food sustainability, and is sometimes assumed to be synonymous with total carbon footprint. However, a wide range of research has shown that when the whole product lifecycle (ie, production, processing, transport, use, etc) is taken into account, there can be some counter-intuitive results. For example, when sheep feeding regime, as well as transport to the UK, is taken into account, New Zealand lamb, fed on grass throughout the year rather than food concentrates during the winter, can have a lower overall CO_2 impact than sheep reared in the UK[30]. In addition, for some products, food miles can have ethical as well as environmental impacts. The UK Department for International Development has argued that more than one million people in Africa rely on fruit and vegetable exports to British shops, with around £7m a day going to developing countries from supermarket sales. Not only do many of these air-freighted products have relatively low carbon footprints (eg, Kenyan flowers), the UK market for such exports represents a significant economic development opportunity for farmers in developing countries that have very low per capita CO_2 emissions[31].

In consequence of the above, The Co-operative has voiced its opposition to ill-informed initiatives such as air-freight labelling.

Carbon offset – products and operations
In 2006, the Group extended its range of products and services with a carbon offset element. Carbon offsetting has been a standard feature of all of The Co-operative Bank's mortgages since 2000 and accounts for the bulk of the Group's offset payments in 2006. Every year that a customer holds a mortgage, the bank pays to offset a fifth of a typical UK home's CO_2 emissions. All mortgage customers are also offered a free home energy rating when purchasing a house. This advises how energy efficient a property is and identifies potential areas of improvement.

In May 2006, Co-operative Insurance introduced ecoinsurance, the UK's first motor insurance policy to include carbon offset as standard. For each year that a policy is held, Co-operative Insurance will offset 20% of the car's CO_2 emissions, based on an average UK car travelling an average number of miles.

In October 2006, The Co-operative Travel began selling carbon offsets at its branches. Customers can elect to offset 20% (this being the UK Government's target for CO_2 reduction by 2010), or 100% of their flights' emissions[32]. Offsets are sold in a series of bands, based on distance flown. For example, a return flight to mainland Spain would fall into band one and cost £3 or £0.60 (depending on the level of offset chosen), whilst a return flight to Australia would fall into band eight and cost £50 or £10. Following a successful pilot, offsets are now available at all of The Co-operative Travel branches.

During 2006, a total of 58,200 tonnes of CO_2 offset were purchased (2005: 50,300). Reductions were realised via the following projects delivered by Climate Care[33].

- The funding of improvements to household thermal efficiency in the Yasin Valley, Pakistan. This project improves household living conditions by offering a range of energy efficiency measures, including household insulation, fuel-efficient stoves and water heaters, whilst reducing unsustainable deforestation. Over 300 households have benefited from this project to date. The project will avoid emissions of 14,000 tonnes of CO_2 over its four-year lifetime.

- The reforestation of 59 hectares in the Kibale Forest National Park, Uganda was supported. Chimpanzees and forest elephants have begun to migrate into areas previously reforested by the bank. This brings the total area of supported replanting to 216 hectares, equivalent in area to 8,270 tennis courts. The 59 hectares reforested in 2006 will, ultimately, sequester 23,750 tonnes of CO_2. Further details of the Kibale project are provided on page 90.

- The partial funding of six 225 kW and two 250 kW wind turbines in Tamilnadu, India. The funding consisted of a contribution towards the capital cost of the turbines and will avoid emissions of 20,400 tonnes of CO_2 over seven years.

30 Saunders, C, Barber, A, Taylor, G, (2006), Food Miles – Comparative Energy/Emissions Performance of New Zealand's Agricultural Industry, Lincoln University Research Report 285, July 2006.

31 Melamed, C (2007) Sometimes it's ethical to buy air-freighted goods, The Guardian, 2 March 2007.

32 For all flights, distance travelled is calculated using the greater circle distance between airports. For long haul flights (Bands 4 to 6), customers' CO_2 emissions are calculated using average fuel burn figures for a Boeing 747 and Airbus A340, whereas for short haul flights (Bands 1 to 3), fuel burn figures from a Boeing 737 are used. These figures are divided by the typical number of seats in each case, deducting the average amount of freight when necessary. A metric of two is then applied to attempt to account for the enhanced impact of aviation upon the climate and give a CO_2 equivalent figure. For further information, please refer to www.climatecare.org/living/calculator-data

33 CO_2 offset by Climate Care has not been included within calculations of the Group's CO_2 emissions on page 72 as, in 2006, offsets were sold to the Group's customers and were not purchased to reduce its corporate carbon footprint.


Far left As part of its move to go beyond carbon neutrality, CFS is helping to fund treadle pumps in West Bengal, India. These displace the use of diesel generators by smallholder farmers for irrigation.

Left The Group's support of carbon offset projects includes the reforestation of Kibale National Park, Uganda. Rangers tend 30 species of local trees and shrubs in a nursery until they are large enough to plant out.

34 Stern, N (2006) The Stern Review on the economics of Climate Change. Also see Global Canopy Programme (May 2007) 'Forests First in the Fight Against Climate Change' – The Vivocarbon Initiative.

35 Energy Savings Trust (2006) The Rise of the Machines.

36 Assuming 2006 sales levels and the replacement of the following levels of white goods: 4,000 'C' rated tumble driers moving to 'A' rated; 7,300 cold appliances rated at 'B' or below improved to 'A' rated; 246 dishwashers rated at 'B' or below improved to 'A' rated, 1,899 electric cookers rated at 'B' or below improved to 'A' rated. The great majority of washing machines sold in 2006 were 'A' rated and have been excluded from this calculation of electricity and CO_2 savings.

37 www.carbon-label.co.uk

Going forward, The Co-operative Group will place c80% of its offsetting portfolio into energy efficiency and renewable energy projects. However, it is intended that the remaining 20% will be delivered through rainforest reforestation, such as that taking place in the Kibale Forest National Park, Uganda. This reflects the typical level of global greenhouse gas emissions attributable to deforestation[34].

In March 2007, CFS announced its intention to go beyond carbon neutral by offsetting all of its remaining operational and business travel emissions, together with an extra 10% to cover legacy issues. Around 80% of offset monies will be invested in treadle pumps in the state of West Bengal, India (which displace the use by smallholder farmers of diesel generators for irrigation) and 20% in rainforest reforestation.

Other products and services

Energy inefficient goods

White goods and domestic lighting account for 56% of all domestic electricity consumption in the UK[35]. Early in 2007, The Co-operative Food became the first major food retailer to commit to only stocking white goods (eg, fridges, freezers and washing machines) with an energy rating of at least 'A'. This policy necessitated the removal of 12 models and is projected to result in savings of 13GWh of electricity and 5,500 tonnes of CO_2 over the lifetime of these products (based on their displacement of less energy efficient equivalents)[36]. The Co-operative Food also pledged to pilot the phase-out of tungsten incandescent light bulbs at 50 stores. In 2007, it is intended that phase-out will be further extended across The Co-operative Food, pending customer acceptance and sufficient availability of more energy efficient alternatives, with phase-out complete no later than 2010. In parallel, The Co-operative's range of energy efficient lighting products has been doubled, the depth of distribution increased and the price differential with less efficient traditional models reduced. Furthermore, a series of 'buy-one-get-one-free' promotions will be delivered to encourage uptake. If all retailers were to follow these two initiatives, CO_2 emissions would be reduced by over six million tonnes per annum – the equivalent of taking 1.7 million cars off UK roads.

Carbon footprinting

In early 2007, The Co-operative Food agreed to work with the Carbon Trust to ascertain the carbon impact of one of its product ranges, and at the same time to participate in the development of the Trust's new carbon footprinting methodology[37].

CFS and ethical finance

Bank screening of finance

The bank's Ethical Policy includes a commitment not to invest in businesses that are integral to the extraction and/or production of fossil fuels. During 2006, 20 finance opportunities were referred to the Ethical Policy Unit in connection with these areas, of which eight were declined, at an estimated cost of £584,700, due to their activities being intrinsic to the extraction and production of fossil fuels. In contrast, a £17m loan to a property investment company for the acquisition of petrol stations was approved. The bank's policy on fossil fuels extends only so far as extraction and production, and does not prohibit investment in the retail of fossil fuel-derived products. A loan facility was approved, although not ultimately progressed, in support of the production of electricity from methane at abandoned coal mines, given that this gas has 21 times more global warming potential than CO_2. The provision of banking services were approved to a business involved in the production of biodiesel derived from waste cooking oil and to a business involved in the installation of engines that can run on recycled cooking oil.

Climate change related business declines, 2006	Estimated income foregone 2006
Supply chain management £15m contribution to a syndicated loan facility and, separately, a £282,000 asset finance facility for the acquisition of vehicle tracking units. Business engaged in global supply chain management services (eg, vessel management and freight handling services) for the international oil and gas sector.	£292,200
Plant and equipment hire £10m contribution to a syndicated working capital facility for a wholly owned subsidiary of a global oil and gas services business. Services included construction of oil and gas field facilities, refineries and petrochemical plants and pipelines.	£290,000
Engineering (four instances) Banking facilities to four businesses engaged exclusively in the provision of engineering services to the oil and gas industry. In three instances, businesses engaged in the provision of general engineering services. In one instance, business engaged in the provision of pipeline engineering.	£2,000
Oil exploration Banking facilities to a geological exploration business involved in research and fieldwork, which facilitate the identification of new oil and gas fields.	£500

During 2006, The Co-operative Bank provided £9m of finance in support of the installation of combined heat and power units at the Natural History Museum, and at Southport & Ormskirk and Royal Devon & Exeter NHS Trusts. CO_2 emissions will be reduced by approximately 20% in comparison to standard electricity and gas supply. An additional £190,000 of finance supported the installation of software for a wind farm company, and the bank agreed to provide £4m of loan finance to Westmill Wind Farm Co-operative[38] in connection with a five 1.3MW turbine development in Oxfordshire.

Co-operative Insurance engagement

In 2005, Co-operative Insurance wrote to 38 large UK energy users, urging them to consider long-term power purchase agreements in support of onshore wind power (as per CFS' own electricity supply arrangements, page 74), of which nine agreed to meet to take matters further. In 2006, a roundtable was convened at which interested parties set out the principal regulatory impediments to the rapid development of onshore wind farms. The outcome, developed by Co-operative Insurance and endorsed by ten major UK companies, was a 'wish list'[39] of potential solutions, which was presented to the Secretary of State for Trade and Industry and Secretary of State for Communities and Local Government in May 2007.

Community involvement

Green energy for schools

In December 2006, the Group launched a £2m 'Green Energy for Schools' scheme. This will enable 100 schools across the UK to typically install a 3.8 kilowatt peak photovoltaic system in 2007. The Group will fund 50% of the anticipated £20,000 costs, with the remaining 50% being sought from the Government's Low Carbon Buildings programme. The scheme will be delivered by solarcentury[40], who will guide schools through the necessary feasibility and funding processes. The identification of suitable schools is largely led by the Group's members and regional membership teams: in February 2007, an initial 38 nominations were forwarded, with a further 166 following in May 2007. In addition to the renewable power (c3,240kWh per annum) and CO_2 reductions (c two tonnes per annum), schools will benefit from education and teaching materials on renewable energy and climate change. In October 2006, the desirability and feasibility of the Green Energy for Schools Scheme was tested with the network of ten co-operative enterprise specialist schools, one of which – Fulston Manor School, Kent – went live in March 2007.

Membership climate challenge

The Group has been active in raising awareness of climate change through its membership teams and regions across the UK. In 2006, all two million co-operative members were invited to sign up to the Climate Challenge[41]. The challenge asked members to complete seven small steps to make a change to their impact on the environment (such as only boiling enough water in their kettle) and also linked to the Friends of the Earth's Big Ask campaign. The challenge has been supported with web-based information and advice, details of community initiatives and the creation of member climate champions – ordinary members and their families who have agreed to make changes and let members know their progress online.

The Co-operative Membership has also supported funding of the Low Carbon Lifestyle Tour[42], which is designed to promote low carbon lifestyles as a low energy boat tours around the coast of the UK organising environmental events, talks and workshops.

In late 2006, 30 events were held across the UK on the theme of climate change. These debates engaged members in the issues and were supported by local environmental groups and Friends of the Earth.

Early in 2007, the Co-operative Membership launched a carbon offsetting scheme 'Show Some Love'. The scheme allows Co-operative Membership to offset the journeys made by members to group events and activities throughout 2007. The system is managed in conjunction with Climate Care and also includes additional information on how members can cut their carbon footprint by choosing more sustainable methods of transport.

Green car show

In March 2007, Co-operative Insurance sponsored the world's first-ever 'Sexy Green Car Show' at The Eden Project in Cornwall. Leading motor manufacturers from across the industry demonstrated and launched new eco-friendly models at the show, which attracted 64,000 visitors. Furthermore, Co-operative Insurance sponsored Channel 4's internet site '4Cars Detox'[43] which provides motorists with daily 'green' tips on how to reduce their environmental impact. The site also reviews the best hybrid/electric cars on the market and explores the future of green driving.

Walking buses

The Group has also supported walking buses, which consist of an organised line of children walking to school with the aid of volunteer adult helpers. Both adults and children benefit from regular exercise, while reducing peak-hour traffic and CO_2 emissions from unnecessary car journeys. Since 2005, the Group has supported the set-up of walking buses

38 www.westmill.coop

39 www.cfs.co.uk/servlet/Satellite?c=Page&cid=1169450733460&pagename=Corp/Page/tplCorp&currart=1179298985097&currmth=5

40 www.solarcentury.co.uk

41 www.co-operative.coop/beingamember/helpchangetheworld/

42 www.lowcarbonlifestyle.org/

43 www.channel4.com/4car/feature/environment/?noforward=true

Far left Fulston Manor School in Kent became the first to install solar power systems as part of the Group's £2m 'Green Energy for Schools' initiative.

Left The first Co-operative walking bus was launched in April 2007 at Kingsthorpe Grove Primary School in Northampton. The Group plans to roll out a series of further pilots throughout the UK to measure the impact and success of such schemes.

44 www.energy4all.co.uk

45 www.tyndall.ac.uk/general/about.shtml

46 www.foe.co.uk/campaigns/climate/big_ask/about.html

47 www.official-documents.gov.uk/document/cm70/7040/7040.pdf

48 Donation based on The Co-operative Bank's debit and credit card spending from 1 October to 31 December 2006.

49 www.climatechallenge.gov.uk

50 www.dti.gov.uk/energy/review/implementation/renewables-obligation/ro-order-cons-responses/a-c/page36770.html#co_operative_group

51 www.defra.gov.uk/corporate/consult/carbonoffsetting-cop/consultation.pdf

in Kent through the Community Fund. In April 2007, the first Co-operative walking bus was launched at Kingsthorpe Grove Primary School in Northampton. Support was provided in the form of high-visibility vests and snap bands for the children and adult helpers, a launch breakfast, vouchers for use in The Co-operative Food stores for the parent volunteers and Fairtrade bags. The Group now plans to roll out a series of further pilots throughout the UK to measure the impact and success of such schemes.

Renewable energy co-operatives

The Co-operative Fund made a grant of £50,000 in 2006 in support of Energy4All[44] and the creation of new community-owned energy projects in Scotland. Funding enabled the appointment of a new member of staff.

Influence and action

Early in 2006, The Co-operative Bank and Friends of the Earth commissioned the Tyndall Centre for Climate Change at the University of Manchester[45] to produce a research report that would demonstrate how renewable technologies and energy efficiency measures could deliver the necessary (c80%) significant CO_2 reductions required by 2050, whilst at the same time accounting for the realities of economic growth and energy security. The research, which was fully funded by the bank (£40,000), was published in September 2006 and precipitated substantial media coverage and debate.

In addition to The Co-operative Bank mobilising its customers to take action on climate change, the Group's membership teams and regions encouraged members throughout the country to support Friends of the Earth's Big Ask[46] campaign. More than 16,000 Co-operative customers and members lobbied their MPs and, in November 2006, the Government agreed to introduce a Climate Change Bill. However, whilst the Draft Bill[47] proposes a legally binding target to reduce the UK's greenhouse gas emissions by 60% by 2050, it does not propose the annual 3% reduction target advocated by the Big Ask campaign. To this end, The Co-operative will continue to campaign with Friends of the Earth as the Bill passes through Parliament in 2007.

In July 2006, more bank customers than ever before (over 20,000 customers – a 3% response rate) took part in the annual 'Customers Who Care' charity vote, on the issue of 'combating climate change'. From the 100 climate change charities nominated by customers earlier in the year, four charities were short-listed and put to a customer vote. The donation of £130,000[48] was subsequently split proportionately between the charities, based on the number of customer votes each received. Practical Action received £66,300; the Centre for Alternative Technology received £28,600; Sustrans received £22,100; and The Climate Outreach Information Network £13,000. These donations will support new areas of work in 2007.

During 2006, The Co-operative Group worked with the National Energy Foundation and abc media on a Defra-funded project – Tomorrow's Climate, Today's Challenge[49]. The project aimed to raise awareness of climate change issues across a broad cross-section of society, and to stimulate a positive attitude amongst shoppers to energy efficiency and the use of sustainable energy sources. Shoppers at 1,500 Co-operative Food stores were targeted with in-store radio and leaflets, which encouraged them to log on to a website and join the campaign. The Co-operative Food stores also supported the 'National Energy Saving week', highlighting energy saving products with various 'buy-one-get-one-free' offers.

The Group also responded to the following in 2006 and early 2007:

- a consultation on the reform of the Renewables Obligation[50], wherein the Group suggested that the obligation should not be banded to the detriment of onshore wind power and that capital grants should be increased to support emerging renewables technologies;
- the North West Regional Development Agency's consultation on a Climate Change Action Plan for the North West, wherein it was suggested that more focus was required in the region and that aviation growth and nuclear power required much more consideration; and
- a Defra consultation on the establishment of a Code of Best Practice for carbon offsetting[51] in the UK, wherein it was suggested that the proposed standard was ill considered in many areas and could endanger a range of African projects. Also, following submission of written evidence to the House of Commons Environmental Audit Committee's inquiry into the Voluntary Carbon Offset Market, The Co-operative Group gave oral evidence to the Committee in February 2007.

Waste and packaging

Waste disposed
Waste re-used/recycled
Proportion of waste re-used/recycled

Targets 2006

- Improve accounting systems for general and recycled waste streams such that a complete and accurate account can be provided across The Co-operative Group. Partial progress

- In line with the Courtauld Commitment, support efforts to:
  - 'design-out' packaging waste growth by the end of March 2008;
  - deliver absolute reductions in packaging weight by the end of March 2010;
  - tackle the amount of food consumers throw away by the end of March 2010. Partial progress

- Increase paper recycling at The Co-operative Travel. Target not achieved

- Extend The Co-operative Group/Oxfam mobile phone recycling scheme. Target achieved

- Investigate the increased usage of natural, biodegradable materials in packaging. Acceptable progress

- Maintain a downward trend in total waste arisings across Co-operative Financial Services' main offices (excluding one-off disposals associated with office closure). Target achieved

- Maintain a 70% re-use/recycling rate across Co-operative Financial Services' main offices. Target not achieved

Targets 2007

- Consider consolidation of waste management contracts to facilitate an improvement in accounting systems for general and recycled waste streams.

- Initiate projects to support reduction in primary packaging on own-brand food products by 15% by 2010.

- Reduce the environmental impact of carrier bags by 25% by 2008.

- Investigate the environmental impacts of a variety of packaging materials to identify the most sustainable packaging options for The Co-operative Food's own-brand products.

- Increase paper recycling at The Co-operative Travel.

- Launch an educational facility at the Manchester Head Office complex recycling centre.

- Maintain a downward trend in total waste arisings (excluding one-off disposals associated with office closure) and achieve a 70% re-use/recycling rate across Co-operative Financial Services' main offices.

- Extend The Co-operative Group/Oxfam mobile phone recycling scheme to The Co-operative Bank.

Far left 2006 saw a nine per cent increase in the amount of general waste the Group disposed to landfill.

Left Following a refit in 2006, the recycling centre at the Group's Manchester Head Office complex can now handle plastic bottle, cups, cans, CDs and uniforms, as well as paper and cardboard.

Background

Each year, the UK produces 70 million tonnes of Industrial and Commercial (I&C) waste[1]. The retail sector is the largest contributor, generating some 13 million tonnes[2]. In addition, the sector contributes 4.3 million tonnes[3] of packaging waste to the 35 million tonnes of municipal waste generated annually[4]. In 2006, waste disposal costs continued to rise, due to decreasing landfill capacity and the application of the landfill tax escalator, which increases the cost of landfill tax by £3 per tonne each year. In 2006, landfill tax was £21 per tonne and increased to £24 per tonne in 2007. From 2008, the landfill tax escalator will increase by £8 per tonne each year[5]. There is also a growing public awareness of waste issues. This is evident in the 3% fall in municipal waste generated since 2004/05, the increase in municipal recycling to 27% in 2005/06[6], and the results of an ICM poll conducted in 2006, which found that packaging reduction and waste minimisation dominated consumers' views of the main things retailers could do to reduce the environmental impact of shopping[7].

In May 2007, the Department for Environment, Food and Rural Affairs (Defra) published the new Waste Strategy for England. This replaces the strategy published in 2000 and increases the targets set for the recycling and composting of household waste to 40% by 2010, 45% by 2015 and 50% by 2020[8].

Materiality and strategy

The Co-operative Group's responsibilities in respect of waste management are found in both the waste produced directly – through the activities of its individual businesses – and indirectly – through the waste passed on to customers in the form of packaging. The majority of the Group's waste arisings are associated with The Co-operative Food. Co-operative Financial Services and the Group's Head Office complex are the main generators of office waste.

The Group's Environmental Strategy, which is agreed via its member-controlled Group Values & Principles Committee (page 12), identifies better waste management as one of the Group's top two environmental priorities. Furthermore, CFS' customers have indicated that they would like it to be responsive to waste and recycling issues. As part of the most recent Ethical Policy consultations, 98% of The Co-operative Bank's customers wish to see their money supporting businesses involved in recycling and sustainable waste management, whilst over 90% of Co-operative Insurance's customers wish to see it encourage the businesses in which it invests to reduce pollution and their environmental impact and to consider more sustainable natural products and services.

The Group's approach to improving its waste management focuses on waste reduction (both internally and in terms of packaging passed on to its customers), increasing re-use and recycling rates, improving the degradability and biodegradability of waste, and the provision of finance to more sustainable waste management options. Investigation into the feasibility of consolidating waste management contracts will be a priority in 2007 to improve the accuracy of waste reporting. In addition, processes in place to ensure compliance with all relevant waste legislation will be reviewed.

Waste arisings

	2005[9]	2006[10]
Total waste arisings (tonnes)	72,473R	74,255[11]
General waste disposed (tonnes)	41,373R	45,214[12]
Waste re-used/recycled (tonnes)	31,100	29,041[13]
Proportion waste re-used/recycled (%)	43%R	39%

Accounting systems and reporting

The Co-operative Group is not yet able to produce a completely accurate account of waste arisings across all of its business. Improvements in the completeness of waste accounting have been made in 2006, with determinations for waste to landfill from The Co-operative Travel and The Co-operative Funeralcare made for the first time. The accuracy of the waste to landfill tonnage for The Co-operative Food has improved (with a full 13 periods of data available in 2006, in comparison with ten in 2005); however, it is still reliant upon a number of assumptions and no account is taken of store acquisitions and disposals[14]. There continues to be a detailed understanding of waste to landfill for the Manchester Head Office complex and Co-operative Financial Services' main offices. As in 2005, approximations based on extrapolation are used to determine waste to landfill for The Co-operative Pharmacy and no data is available for waste to landfill for The Co-operative Farms.

Recycling data continues to be patchy. There has been an improvement in accounting for recycling at The Co-operative Farms in 2006, with data available for the number of plastic containers recycled. Approximations have been determined for The Co-operative Food's cardboard and plastic recycling and The Co-operative Funeralcare's wood recycling. More detailed accounting is available for recycling at the Manchester Head Office complex and the Head Offices of The Co-operative Travel, The Co-operative Funeralcare and The Co-operative Pharmacy, and

1 www.sustainable-development.gov.uk/publications/pdf/achieving-2002.pdf

2 www.defra.gov.uk/environment/statistics/waste/wrindustry.htm

3 www.wrap.org.uk

4 www.defra.gov.uk/environment/statistics/waste/kf/wrkf19.htm

5 http://customs.hmrc.gov.uk/channelsPortalWebApp/channelsPortalWebApp.portal?_nfpb=true&_pageLabel=pageExcise_InfoGuides&propertyType=document&id=HMCE_PROD1_027233
Excluding 'inactive wastes' where the landfill escalator is charged at £2.50 per tonne.

6 www.defra.gov.uk/environment/statistics/waste/kf/wrkf19.htm

7 www.icmresearch.co.uk/reviews/2006/RW%20-%20July/RW%20-%20July.asp

8 www.defra.gov.uk/environment/waste/strategy/index.htm
Targets set in 2000: 30% by 2010 and 33% by 2015.

9 75% complete, with large reliance on estimates at The Co-operative Food.

10 80% complete, with reliance on extrapolation at The Co-operative Pharmacy, The Co-operative Funeralcare and The Co-operative Travel.

11 CFS total waste arisings in 2006 were 1,604 tonnes (2005: 1,629 tonnes; 2004: 2,006 tonnes and 2003: 2,155 tonnes).

12 44,680 tonnes at Trading Group and 534 tonnes at Co-operative Financial Services.

13 27,971 tonnes at Trading Group and 1,070 tonnes (extrapolated from 11 months to a year) at Co-operative Financial Services.
Figures for previous years for CFS are: 2005: 1,160 tonnes; 2004: 1,349 tonnes; and 2003: 1,465 tonnes.

14 Data is available for waste to landfill from all The Co-operative Food stores. A number of assumptions are made for weights, number of bins and number of lifts per week that affects overall accuracy.

CFS' main offices. Increased paper recycling at The Co-operative Travel was not achieved due to the absence of a central contract for waste management across the business.

In 2006, the Group can reasonably account for 74,255 tonnes of waste arisings, of which 45,214 tonnes was landfilled and 29,041 tonnes (39%) was re-used/recycled; this is compared to 41,373 tonnes**R** landfilled and 31,100 tonnes re-used or recycled (43%**R**) in 2005. The apparent increase in waste to landfill (3,841 tonnes) and decrease in the re-use/recycling rate (four percentage points), is most probably a result of the improved accounting systems for waste to landfill at The Co-operative Funeralcare (2,974 tonnes) and The Co-operative Travel (1,452 tonnes), an increase in The Co-operative Pharmacy's portfolio of 71 stores and the application of HM Revenue and Customs volume to weight converter for waste to landfill at The Co-operative Pharmacy, which doubled the calculated weight of waste for a given volume. Comparing like-for-like data, there has been a slight decrease in waste to landfill in 2006.

Reducing waste

The Co-operative Group (like most large UK retailers) is a signatory to the Courtauld Commitment, which seeks to 'design-out' packaging waste growth, deliver absolute reductions in packaging weight and tackle the amount of food consumers throw away.

In 2005, The Co-operative Food was the first retailer to successfully run a packaging reduction programme with the Waste and Resources Action Programme (WRAP)[15], whereby own-brand tomato puree was redesigned to eliminate box packaging, saving 8.5 tonnes of card per annum.

In 2006, this was followed by the development of a Packaging Policy for Co-operative own-brand food products, which prioritises absolute packaging reductions and governs acceptable packaging materials based on food safety and environmental considerations[16]. In February 2007, The Co-operative Food staged a conference to communicate its new Packaging Policy to 500 own-brand suppliers. A checklist of key requirements has been developed to support the Policy and guide both buyers and suppliers. In 2006, the following packaging reduction projects were initiated:

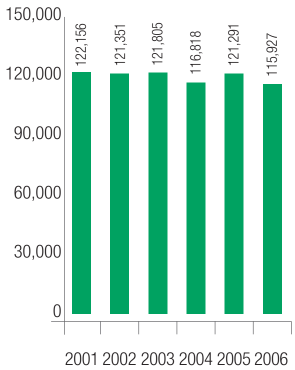
- the development of the UK's first sub-300g 70cl spirits bottle, a 15% reduction in weight on the previous bottle, which, if extended across all own-brand spirits, will result in a saving of 20 tonnes of glass waste per annum[17];
- a reduction in the thickness of salad pack bags from 35 to 30 microns, which will result in a saving of eight tonnes per annum; and
- the transference of own-brand porridge oats from boxes to plastic bags, which will save a tonne of packaging per annum.

Subsequently, The Co-operative Food has announced a target to reduce own-brand primary packaging by 15% by 2010 based on 2006 levels[18]. Priority areas for 2007 include:

- reducing the weight of wine, spirits and olive oil glass bottles;
- reducing the weight of plastic milk bottles;
- reducing the size of cereal boxes to a smaller pack format; and
- removing unnecessary packaging from fresh produce.

Since 2001, the total packaging handled by The Co-operative Group has remained stable at around 120,000 tonnes per annum; this is despite an increase in sales turnover of £830m at The Co-operative Food and The Co-operative Pharmacy, the largest generators of packaging waste.

Total packaging handled (tonnes)



During this time, however, there has been a shift in the materials used for packaging. Most notably, since 2001, the use of glass has increased by 20% and the use of paper has decreased by 32%. In 2006, glass accounted for 48% of total packaging by weight, some 55,318 tonnes, and is a priority area for packaging reduction in 2007.

15 WRAP is a Government body charged with creating efficient markets for recycled materials and products, while removing barriers to waste reduction, re-use and recycling. WRAP's focus for the retail sector over 2006/08 is to secure reductions of 80,000 tonnes per year of packaging waste, in order to offset predicted growth. See www.wrap.org.uk

16 www.co-operative.co.uk/corporate/sustainability/packagingpolicy

17 Based on annual sales of all own-label spirits in 70cl bottles.

18 Of the total packaging handled in 2006, primary own-brand packaging accounted for approximately 30,000 tonnes, primary branded packaging accounted for approximately 65,000 tonnes and secondary packaging (ie, shelf-ready and transit packaging) accounted for approximately 20,000 tonnes.

Far left In 2006, own-brand porridge oats switched from boxes to plastic bags, saving a tonne of packaging per annum.

Left Reductions in the size of cereal boxes to a smaller pack format will be progressed in 2007.

19 Graph excludes wood and 'other' packaging materials, such as cork.

	Wood	Other
2001	984	50
2002	204	60
2003	188	68
2004	1	122
2005	5	133
2006	6	139

20 www.co-operative.co.uk/food/fairtrade/ourfairtradeproducts/cotton/

21 Based on extrapolation of four periods of data.

22 www.tier1.com

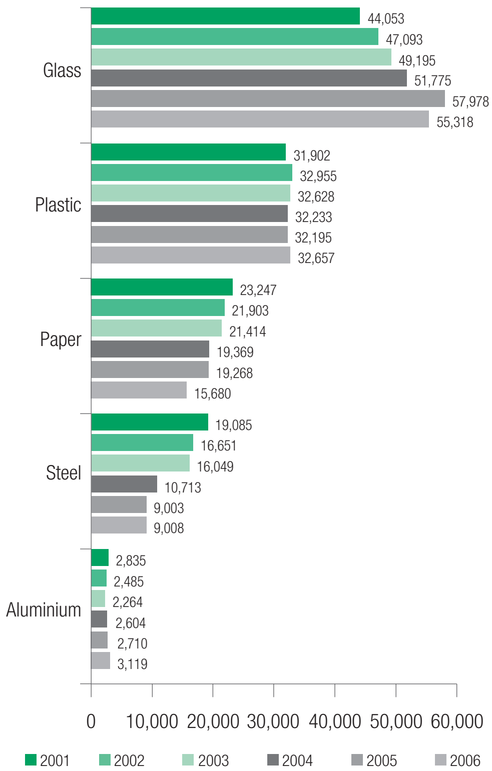
23 In total, 230 items of furniture were donated by the Manchester Head Office complex. It is estimated that 136 of these items were from CFS buildings, which account for 59% of the Manchester Head Office complex floor space.

24 Derived by assuming The Co-operative Group accounts for 74% of the Co-operative Retail Trading Group (CRTG) collections.

25 Ultimately derived from the European Parliament and Council Directive 94/62/EC on Packaging and Packaging Waste.

26 As is any retailer that handles more than 50 tonnes of packaging and has a turnover in excess of £2m per annum. The Co-operative Group is obligated as a 'seller' at 48%, pack/filler at 37% and an importer at 100%. The 2006 targets for materials were: glass (65%), paper (66.5%), aluminium (29%), steel (56%), plastics (23%) and wood (19.5%). Overall recovery (which includes energy recovery and composting) is set at 66%, of which a minimum of 92% must be achieved via recycling. The Producer Responsibility Obligations (Packaging Waste) Regulations 2007, Defra.

Packaging handled by material (tonnes)[19]



The Co-operative Group is a signatory to the Government initiative to reduce the environmental impact of plastic carrier bags by 25% by 2008. 560 million disposable carrier bags are currently distributed each year, and it is intended that thickness will be reduced from 20 microns to 16 microns, and variable bag sizes introduced. The Co-operative Food launched the UK's first Fairtrade supermarket cotton carrier bag during Fairtrade Fortnight in 2007. Currently, 3.5 million plastic 'bags for life' are sold per annum. A similar penetration of Fairtrade cotton bags would divert 125 tonnes of plastic from landfill each year[20].

Co-operative Financial Services has reduced total waste arisings year-on-year since 2002. In 2006, the total waste generated by CFS was 1,599 tonnes, 27% lower than that generated in 2002 (2,180 tonnes).

Re-using waste

In late 2006, The Co-operative Food re-introduced reusable fresh produce crates. It is estimated that these will be used for 5.2 million movements per annum and will result in a saving of approximately 2,100 tonnes of cardboard packaging each year[21].

In 2006, CFS donated 3,690 items of IT equipment including 3,467 monitors and 115 PCs to charities such as Digital Links International and the NSPCC through their contract with the end-of-life IT donation and disposal company, Tier1 Asset Management Ltd[22]. This is a 38% increase on items donated in 2005. CFS also donated an estimated 136 items of furniture to two local schools and a start-up business[23]. In addition, 299 items of furniture, including desks, chairs and tables, were stored in 2006 for re-use in-house. The total weight of IT equipment and furniture donated by The Co-operative Group in 2006 is estimated to be 64 tonnes, 61 tonnes of which were donated by CFS.

Recycling waste

In 2006, The Co-operative Food recycled 27,214 tonnes of cardboard and polythene, which accounts for 94% of the total tonnage re-used/recycled. Compared to 2005 figures, there has been a drop in recycling at The Co-operative Food of 2,386 tonnes or 8%[24]. A review to identify the reason, and subsequently progress a solution, will be undertaken in 2007. There is no central record of customer recycling facilities at The Co-operative Food. A survey undertaken in 2006 of 1,600 stores, to which 1,363 replied, identified 102 with glass recycling facilities, 87 with textile facilities, 79 with aluminium facilities and 35 with plastic facilities.

The Co-operative Group manages compliance with the Producer Responsibility Obligations (Packaging Waste) Regulations 2007[25] on behalf of the Co-operative Movement. Under these Regulations, The Co-operative Group is obliged[26] to determine how much packaging material the Movement passes on to customers and to produce evidence of a set amount of recycling and recovery for each of the Co-operative Societies.

In 2006, The Co-operative Group entailed obligations in all of the six material specific categories; paper (5,518 tonnes), glass (14,713 tonnes), aluminium (354 tonnes), steel (2,267 tonnes), plastic (2,980 tonnes) and wood (one tonne). In addition, the Group also had a balance recycling and recovery obligation of 6,672 tonnes. Under the Regulations, obligations are calculated on the packaging handled in the previous year. 2006 figures are, therefore, based on 121,291 tonnes of packaging handled in 2005.

The Co-operative Group purchased 12,233 tonnes of paper Packaging Recovery Notes (PRNs) from St Regis and acquired 808 tonnes of plastic PRNs from J&A Young. These were generated from the recycling of cardboard and plastic packaging from The Co-operative Food's stores[27]. The PRNs were then submitted to the Wastepack compliance scheme to cover paper and balance recovery and recycling obligations, and a proportion of its plastic obligation for the Co-operative Movement[28]. Shortfalls in glass, plastic, steel, aluminium and wood PRNs were met through the Wastepack compliance scheme. The cost of compliance with these regulations for The Co-operative Group in 2006 was in the region of £800,000.

In addition to the recycling obligations placed on The Co-operative Group by Producer Responsibility Obligations (Packaging Waste) Regulations 2007, the recycling centre at the Manchester Head Office complex continued to develop in 2006. Following a refit, the centre can now handle plastic bottles, cups, cans, CDs and uniforms, as well as paper and cardboard. The refit has also increased capacity, allowing the Group to take waste for recycling from several other city centre businesses. In 2006, the centre recycled a total of 1,247 tonnes of the Group's waste (in addition, the centre handled 39 tonnes of waste from other third parties), including various recyclates from CFS' main offices (846 tonnes), The Co-operative Funeralcare and The Co-operative Travel major occupancies (36 tonnes), The Co-operative Pharmacy Head Office (24 tonnes), and the Manchester Head Office complex (341 tonnes). The recycling centre's activities were recognised through an Early Day Motion in Parliament in February 2007[29].

A further 163 tonnes of CFS' waste were recycled, in addition to the 846 tonnes recycled through the Manchester Head Office complex recycling centre in 2006, resulting in a total of 1,009 tonnes. During 2006, the proportion of waste re-used and recycled reduced by 4 percentage points to 67%, the vast majority of which is accounted for by paper. **BENCHMARK** While the reduction in the re-use and recycling rate is disappointing, it is still considerably above the average office recycling rate of 7.5%[30].

The Co-operative Funeralcare recycled 353 tonnes of wood from its coffin manufacturing site in 2006.

In 2006, Defra announced plans for the development of statutory producer responsibility regulations in relation to the collection and recycling of non-packaging farm plastics – such as silage wraps and crop sheeting. The Co-operative Farms recycled 32,564 plastic containers in 2006, 95% of the total purchased[31]. In addition, the Group's farm in Lincolnshire is offering a recycling service to other local farms as part of the Agri-cycle scheme[32].

With the introduction of the Waste Electrical and Electronic Equipment (WEEE) Regulations[33] in January 2007, producers and retailers in the UK are now responsible for financing the environmentally sound disposal of WEEE. The Co-operative Group entails obligations as both a producer and distributor[34] of electrical and electronic equipment and has joined the Valpak producer compliance scheme and retailer take-back scheme to ensure it meets the requirements of the Regulations. WEEE generated by the Group's business activities will be taken back for recovery, re-use or recycling by suppliers as part of contractual agreements.

In addition to recycling of waste generated by the Group's business activities, ensuring that products sold contain a high recycled content is another area of focus. Recycled materials (defined as 50% recycled content or more) are used in three packaging lines (tissues, washing powder and certain bag-in-box cereals). From May 2007, all own-brand household tissue products have been Forest Stewardship Council (FSC)-certified, including those which are 100% recycled (further information on The Co-operative Food's FSC range is available on page 90). Two products – own-brand toilet tissues and kitchen towels – currently utilise waste paper from the Manchester Head Office complex recycling centre as part of a closed loop scheme.

Waste disposal

The Co-operative Food landfilled 34,027 tonnes of waste in 2006, 75% of the Group's total. The remaining 25% of waste sent to landfill in 2006 is attributed to The Co-operative Pharmacy (5,957 tonnes)[35], The Co-operative Funeralcare (2,974 tonnes), The Co-operative Travel (1,452 tonnes), the Manchester Head Office complex (275 tonnes) and CFS' main offices[36] (529 tonnes). The Co-operative Pharmacy data is comparable to 2005, taking into account the increase in the number of stores in the portfolio and the change in the volume to weight converter applied. No data is available for comparison for The Co-operative Funeralcare and The Co-operative Travel for 2005. Waste to landfill at the Manchester Head Office complex decreased by 32%, likely to be as a result of the increased recycling as a result of the recycling centre refit. Waste disposed by CFS' main offices increased by 11% on that disposed of in 2005[37]. Total waste arisings however, decreased in 2006, in line with its target.

27 Cardboard and plastic transit packaging from the back of The Co-operative Food stores and distribution centres is segregated and recycled.

28 The Co-operative Group purchased 24,000 paper PRNs and 1,585 plastic PRNs on behalf of the Co-operative Movement in 2006. The proportion attributed to the Group is calculated on the 50.97% of packaging it handles relative to the Movement's total.

29 www.publications.parliament.uk/pa/cm/cmedm/70222e01.htm

30 www.envirowise.gov.uk/download.aspx?o=118465 GG256 Green Officiency.

31 Tonnage data is unavailable for the plastic waste recycled by The Co-operative Farms, therefore it is not included in total waste re-used/recycled headline figures.

32 www.agri-cycle.uk.com

33 www.opsi.gov.uk/si/si2006/uksi_20063315_en.pdf

34 Producer obligation based on 30 tonnes of own-brand Christmas lights and distributor obligation based on 974,637 items of Electrical and Electronic Equipment sold in 2006.

35 Data available for 354 branches and extrapolated to remainder of the 432 portfolio. Total excludes pharmaceutical waste.

36 Excludes the 89 bank branches and the Regent House premises in Stockport.

37 In 2005, CFS sent 436 tonnes to landfill and 33 tonnes to be incinerated.

Far left In 2004, The Co-operative Food introduced degradable bags across its own-brand sliced bread range. Degradable bags were extended to Co-operative Food self select fresh produce bags in August 2006.

Left In 2006, recycling of customers' mobile phones and inkjet cartridges raised over £100,000 for Oxfam.

38 Wiles, DM and Scott, G (2006). Polyolefins with controlled environmental degradability. Polymer Degredation and Stability 91 (2006) 1581–1592.

39 Conventional polyethylene is bio-inert, and highly resistant to assimilation by micro-organisms. The introduction of an additive system, in the production of Group bags and other plastic packaging, catalyses the natural process of oxo-biodegradation and greatly accelerates disintegration in landfill.

40 www.wastewatch.org.uk

41 www.cmrecycling.co.uk

42 Alongside The Co-operative Group, 23 other Co-operative retail societies participate in the scheme.

The Co-operative Food has, for a number of years, worked to render packaging more degradable. Research[38] shows that, whilst degradable packaging is still fossil fuel-based, it will degrade after four years to carboxylic acids that can be readily bioassimilated. The Co-operative Food introduced Britain's first degradable[39] plastic carrier bag in 2002, and was subsequently the first retailer to introduce these materials into mainstream grocery packaging. In 2004, The Co-operative Food sliced bread bags were made degradable (some 20 million bags per annum) and, as of August 2006, all The Co-operative Food self-select fresh produce bags are degradable (75 million bags per annum).

Ecological profile of packaging

The Co-operative Group is committed to taking a wider sustainability approach to packaging (ie, one that goes beyond light-weighting) and considers issues such as energy and raw materials consumption, toxicity, degradability and recyclability. In 2007, The Co-operative Group will investigate the following issues in order to inform more sustainable packaging choices:

- the use of material substitution to achieve weight saving and the potential impact this may have on toxicity profile (for example, when switching from glass to plastic).
- the introduction of biodegradable packaging, and the realistic likelihood of composting at end-of-life; and
- the consideration of plastic packaging materials with regard to current and potential future recyclability in the UK (for example, the widely different recycling opportunities in the UK for polypropylene (PP) (low) and polyethylene terephthalate (PET) (high)).

CFS and ethical finance

Bank screening of finance

The Co-operative Bank screens finance opportunities that may potentially conflict with its Ethical Policy. The Policy includes a commitment to support businesses involved in recycling and sustainable waste management. During 2006, five finance opportunities were referred to the Ethical Policy Unit in connection with waste, of which none were declined. In one instance, provision of a £20m syndicated loan was approved for a waste management business involved in the recycling of metal-based consumer products. In a further instance, the bank approved an £88,000 asset finance facility for a waste management business in connection with the acquisition of a waste oil recycling tank.

Community involvement

Recycling centre

Work is currently underway with Waste Watch[40] and the Manchester Museum of Science and Industry to develop a learning facility at the Manchester Head Office complex recycling centre. The centre will promote effective waste management, along with wider environmental issues such as climate change and the use and generation of renewable energy at The Co-operative Group. Primarily, the target audience is Key Stage 2 school pupils (aged 7–11); however, the centre will also be open to The Co-operative Group's members, community groups and other businesses. Following its expected launch in autumn 2007, the centre will have the ability to host up to 10,000 visitors each year and will cost in the region of £90,000 per annum to operate.

Mobile phone and inkjet cartridge recycling

The Co-operative Food has worked with Oxfam since 2004 to help its customers recycle mobile phones and inkjet cartridges. Customers collect Freepost recycling bags, enabling them to post their old equipment to CMR Ltd who then undertake to recycle or re-use every part of the handset[41]. The scheme was expanded to The Co-operative Travel stores in 2006 and, in total, 23,660 phones and 8,066 cartridges were recycled, raising £101,634 for Oxfam – twice the sum of 2005[42]. The Co-operative Pharmacy will participate in the scheme in 2007.

Biodiversity

- MSC-certified fish species sold
- MCS 'fish to avoid' species sold
- FSC-certified timber products sold
- Peat content of growing media sold
- Biodiversity initiatives: Farms
- Biodiversity enhancement: CFS

2006 targets

- Progress the phasing-out of the sale of wild-caught warm-water prawns – the only unsustainable species on the Marine Conservation Society (MCS) list of fish to avoid sold by Co-operative Food. Substantial progress
- Develop/extend the Forest Stewardship Council (FSC) stationery and kitchen towel ranges. Target achieved
- Report on the work undertaken to secure sustainable palm oil. Target achieved
- Ensure that no growing media product contains more than 60% peat. Target achieved
- Raise, through the RSPB credit card, over £4m for Britain's threatened wetlands over the period 1999–2006 inclusive. Acceptable progress

2007 targets

- Improve position in annual MCS Sustainable Seafood Supermarket League, and complete the phase-out of wild-caught warm water prawns in own-brand products.
- Ensure that all own-brand fresh fish is clearly labelled regarding method of catch and origin.
- Progress the certification of Co-operative Funeralcare coffins and caskets that contain FSC timber.
- Increase sales of wood products of known origin and with credible evidence of harvesting (as defined by the WWF-UK Global Forest and Trade Network) as a percentage of total volume sold.
- Consider development of a further ecosystem restoration project.
- Progress peat reduction to meet the Government's target that 90% of soil improvers and growing media will be met by peat-free alternatives by 2010.
- Research and initiate development of a Co-operative Sustainable Fish Sourcing Policy.
- Raise, through the RSPB credit card, over £4.4m for Britain's threatened wetlands over the period 1999–2007 inclusive.

Background

The main threat to plant and animal species is loss of habitat, which results from factors such as the rapid increase in human population, the felling of forests for timber, and the use of land for agriculture and housing. Biodiversity is also threatened by the annual harvesting of tens of thousands of species at unsustainable levels. A recent study has shown that species are being lost at a rate between 1,000 and 10,000 times higher than the natural 'background' rate of extinction. We are, thus, now in a man-made period of 'mass extinction'[1]. European Commissioner José Manuel Barroso has emphasised the importance of biodiversity preservation for economic development within the EU: "Biodiversity is integral to sustainable development, underpins competitiveness, growth and employment and improves livelihoods. Biodiversity loss, and the consequent decline of ecosystem services, is a grave threat to our societies and economies[2]."

Materiality and strategy

As one of the country's largest agricultural farmers, the Group can exert a direct impact on the UK's biodiversity. In total, at 19 farms in England and Scotland, over 28,000 hectares of land are farmed (of which more than half are owned by the Group). The Group can also exert a significant impact on biodiversity via the products offered by Co-operative Food, the bank's provision or non-provision of finance to businesses and Co-operative Insurance's engagement with businesses to promote sustainability. Indeed, in the most recent Ethical Policy consultations, 94% of bank customers indicated that they do not wish their money to be invested in businesses whose core activities contribute to the unsustainable harvest of natural resources, whilst 95% of Co-operative Insurance customers want to see it using its power as an institutional investor to encourage businesses to end the exploitation of Nature and consider more sustainable, natural products and services. Furthermore, The Co-operative Group's implementation of a far-reaching Pesticides Policy, which has significant implications for biodiversity, is described on pages 94–95.

1 Connor, S (2007) The Big Question: How quickly are animals and plants disappearing, and does it matter? The Independent, 2 January 2007.

2 www.rspb.org.uk/Images/wellbeing_tcm9_148929.pdf

Far left The MSC logo is currently displayed on own-brand canned Alaskan pink and red salmon.

Left Own-brand tuna is caught by methods that conform to the Earth Island Institute dolphin-safe standards.

Marine stewardship

Globally, three quarters of commercial fish stocks are fully or over-exploited, and nearly 90% of stocks of large predatory fish have already disappeared. The United Nations Food and Agriculture Organisation's Assistant Director-General for Fisheries has indicated that ocean fisheries appeared to reach a ceiling in the late 1980s, and that strong regional fishery management is now required to rebuild depleted stocks and prevent the collapse of other stocks[3]. Almost half of the world's edible fish now comes from fish farms; up from just 9% in 1980. In the UK, £1.8bn worth of seafood is sold every year – nearly 90% of it through supermarkets[4].

Since 1998, Co-operative Food has been a supporter of the Marine Stewardship Council (MSC)[5] – an independent, global, non-profit organisation that uses a market-based approach to help improve the management practices of fisheries. The MSC logo is currently displayed on Co-operative own-brand canned Alaskan pink (213g) and red (418g) salmon.

Other measures taken in support of sustainable fishing include not knowingly purchasing fish that is caught over-quota (otherwise known as 'blackfish'), and seeking to purchase fish within set size specifications, in order to discourage the use of undersized fish. More specifically, Co-operative Food supports the following sustainability initiatives:

- Own-brand tuna is caught by methods that conform to the Earth Island Institute (EII) dolphin-safe standards[6]. Drift nets are not used to catch tuna[7], nor are fish caught using the method known as 'setting on dolphins'[8].
- The Co-operative Food buys most of its fresh salmon and trout from farms. Selected farms are used in Scotland and Ireland for salmon and a single farm in Southern England for trout. In 2006, 48% of trout sold was farmed organically. Both conventional and organic farmed fish is produced to strict codes of practice, which detail various aspects of production – from the sourcing and type of feed, through to veterinary care and harvesting. Almost uniquely in the UK, The Co-operative requires that all farmed fish be humanely stunned prior to slaughter. Systems have now also been developed for sea bream and sea bass, although these have yet to be implemented. The Co-operative Food continues to work with the industry to develop analogous systems for other fish species.
- Warm-water prawns are sourced from well-established farms in Indonesia and Ecuador, and produced to similarly stringent standards. Farms in areas of mangrove forest depletion are not used. The prawn crackers acompanying a single ready meal remain the single exception to this standard, and this will be progressed going forward.

BENCHMARK In early 2007, The Co-operative Food was rated seventh of ten (slipping from fifth out of ten in 2006) UK supermarkets by the Marine Conservation Society (MCS) in a Sustainable Seafood Supermarket league table. A significant factor in The Co-operative's seemingly poor ranking was the more restricted offering of MCS 'fish to eat', which was a natural consequence of having fewer fresh fish counters than higher ranking retailers. This was despite significant progress being made: following the previous report, The Co-operative delisted or removed from sale huss (dogfish), skate, and fresh and frozen wild warm-water prawns (with the one previously detailed exception) that were identified by MCS as 'fish to avoid' because stocks are vulnerable to exploitation. A separate benchmarking initiative[9], undertaken by Greenpeace in 2006, rated the Group fourth of nine supermarkets and noted an improvement in overall rating, from 'fail' in 2005 to 'good'.

Across the retail sector, the MCS survey identifies a number of vulnerable, or unsustainably fished, species still on sale in several major supermarkets (but not The Co-operative), including: marlin, plaice from the North Sea, and Dover sole from the Western Channel.

The MCS 'fish to eat' list[10] rates on a scale of one to five, where one is the most, and five the least sustainable. Of the new range, only tiger prawns are rated as level five, because of issues with mangrove forest depletion and unsustainably sourced larvae and feed. However, as previously noted, The Co-operative has ensured that it sources only from farms that have no impact on mangrove forest depletion, uses only larvae from Government larvae farms and uses mainly waste and by-catch fish[11] for feed.

In 2007, all packs will be clearly labelled with information regarding catch method, origin and an explanation of fish-breeding seasons for frozen-at-sea products[12], and, in 2007, The Co-operative Food will be increasing its own-brand fresh fish range to include the following:

3 ftp://ftp.fao.org/docrep/fao/009/a0699e/a0699e.pdf

4 The Co-operative Group accounts for c3% of retail seafood sales. See www.greenpeace.org.uk/oceans/what-we-are-doing/sustainable-seafood/supermarket-seafood-league-table-2006 and New Scientist 9 October 2006.

5 www.msc.org

6 The EII monitors this claim. See www.earthisland.org

7 Drift nets are kept at, or below, the surface of the sea by numerous floats, and drift with the current. They may be used close to the bottom (eg, shrimp drift net) or at the surface (eg, herring drift net), usually across the path of migrating fish schools. Fish strike the net and become entangled in its meshes.

8 The tuna/dolphin controversy centres on the Eastern Tropical Pacific fishery where, unusually, schools of large yellowfin tuna associate with dolphins. In a practice that began in the 1950s, purse seiners maximise their catches of yellowfin tuna by chasing and setting their nets on herds of dolphins. This practice once resulted in very high numbers of dolphin deaths.

9 www.greenpeace.org.uk/oceans/what-we-are-doing/sustainable-seafood/supermarket-seafood-league-table-2006

10 www.fishonline.org

11 By-catch is non-target marine organisms that are caught incidentally in non-selective fishing gear such as nets.

12 To protect fish breeding seasons many stocks are voluntarily not fished at that time. To provide year-round stocks of wild caught fish, supermarkets often source fish that has been frozen at sea at the time of catch and then defrosted later as required.

- Yellowfin tuna – pole and line caught in the Maldives and Indian Ocean[13].
- Haddock – line caught from Icelandic, Norwegian and Faroese fisheries[14].
- Black tiger prawns – farmed, Vietnam.
- King scallops – dredged from Canadian waters[15].

Forest stewardship

Forests are vital to the smooth running of the world's ecosystems. They help stabilise the world's climate by storing large amounts of carbon that would otherwise contribute to climate change. Around two-thirds of the world's land-based species of plants and animals live in ancient forests. A 2005 WWF report showed that UK trade in illegal timber is responsible for the destruction of around 600,000 hectares of forests each year – an area nearly three times the size of Luxembourg[16].

The Co-operative Food is a member of the World Wildlife Fund Forest and Trade Network (WWF-UK FTN)[17], and reports that it sold 36,387m^3 of timber products in 2006 (2005: 34,418m^3). Ideally, all timber and paper supplies would come from well-managed forests, and would not contribute to forest destruction and illegal logging practices. As a member of the WWF-UK FTN, The Co-operative Food submits an annual report detailing the forest products consumed over the last year, together with an action plan containing at least three SMART (specific, measurable, achievable, realistic, targeted) actions for completion over the next 12 months. Membership of the network also commits the Group to trace all timber and paper products back to forest sources and to improve forest sustainability in conjunction with suppliers. During 2006, the Group reported that all wood products were of known origin and that there was credible evidence of legal harvesting. Of this, 42%[18] (2005: 36%) was supported by credible certification (ie, a complete chain of custody from forests that demonstrate social, economic and environmental benefits), with a further 1% being progressed.

Amongst a plethora of forestry standards, the Forest Stewardship Council (FSC)[19] is probably the most respected by independent experts and campaigners. 100% FSC-certified own-brand products previously included barbecue charcoal and the majority of wooden kitchenware[20].

In 2006, the Group launched a 100% recycled and FSC mixed source[21] paper stationery range, including envelopes, writing paper and notepads. FSC mixed source luxury quilted bathroom tissue was also available for sale.

In 2007, The Co-operative was the first retailer to convert its entire own-brand household paper range (all bathroom tissues, kitchen towels and facial tissues) to material that has been sourced from FSC-certified, responsibly-managed forests and recycling facilities, with degradable film used to wrap the kitchen towel and toilet tissue. Greaseproof paper already uses FSC materials, but is not labelled as such because the chain of custody has not been formally established.

FSC timber was also used in the refurbishment of three bank branches and one interview room, and 21 Co-operative Insurance regional sales offices. FSC furniture was installed in 27 bank branches. 4%[22] of paper commissioned by Co-operative Financial Services contained FSC-certified fibres. In spring 2007, five Co-operative Food stores were refurbished using FSC-certified wood products.

In 2006, The Co-operative Funeralcare manufactured over 97,000 coffins and caskets and, as such, is a large consumer/retailer of wood. However, no consolidated data is currently available for volumes or certification. Sustainably grown wicker[23] and recycled material cardboard (woodgrain effect 25% recycled, white 63% recycled) coffins are available.

In 2006, in connection with the Group's carbon offset programmes (pages 78–79), £139,000 was spent in support of the reforestation of 59.1 hectares in Kibale Forest National Park, Uganda. It has always been the Group's intention that reforestation projects should, as a proportion of total offset programmes, diminish over time. In 2006, reforestation accounted for 40% of the Group's offsets (down from 100% in 2001). In 2007, reforestation will be reduced to around 20%, where it will remain: given this is the commonly accepted level of CO_2 emissions attributable to tropical deforestation. In total, 216 hectares of rainforest have been restored (since 2001) at a cost of £505,000. The planting process begins in the nursery, where 30 species of local trees and shrubs are tended until large enough to plant out. A major barrier to the natural regeneration of the forest is the rapid growth of elephant grass, which needs to be hand cut at least three times a year. The areas planted on behalf of the Group have attracted primates, including chimpanzees, and forest elephants. Securing the involvement of local communities is central to the project's success. The reforestation programme in Kibale provides work at times of the year for up to 400 people. The project area has attained certification from the Forest Stewardship Council.

13 Yellowfin tuna is rated on the MCS 'Fish to eat' list as level 3. Whilst the Indian Ocean is considered to be fully exploited and at danger of being over fished if further increases in fishing effort are not restricted, the majority of tuna catching in the Maldives is using hand pole and line method.

14 Haddock is rated on the MCS 'Fish to eat' list as level 3. It is noted that, whilst at sustainable levels, fishing effort is too high on Icelandic and Faroese stocks. The North East Arctic (Barents and Norwegian Sea) stock area is healthy, but the level of fishing mortality is unknown.

15 MCS rates king scallops as level 2 on the MCS 'Fish to eat' list.

16 www.wwf.org.uk/news/n_0000002064.asp

17 WWF-UK FTN's mission is to improve the management of the world's production forests via use of the purchasing power of UK businesses and consumers. Network members account for 30% of forest products consumed and traded in the UK. See www.wwf.org.uk/ftn/index.asp

18 Comparable figures for previous years as follows: 2005: 36%, 2004: 22%, 2003: 12%.

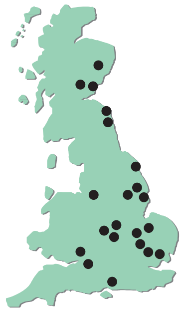
19 Sets international standards for responsible forest management, accredits independent third-party organisations that certify forest managers, products and producers to FSC standards. See www.fsc.org/en/

20 Own-brand chopping boards are made from rubberwood, derived from old plantation trees.

21 FSC mixed source products contain a mix of timber from other certification schemes, such as PEFC and/or recycled materials (in addition to FSC-certified raw materials). The Co-operative uses the volume credit system, with a 40% threshold for FSC timber content.

22 Data is considered to be 87% complete.

23 Wicker is classified as a field crop and so not a product governed under FSC scheme rules. Therefore, it cannot be certified as FSC wood.



Far left In 2007, The Co-operative became the first retailer to convert its entire own-brand paper range to material sourced from FSC-certified forests.

Left In August 2007, The Co-operative Farms launched its new website – www.co-operative.co.uk/farms. Interactive maps show farm locations, whilst the site explains the journey of produce from field to store.

Further information on the Kibale project is available on The Co-operative Bank's website[24].

Peat stewardship

Peat bogs are one of the UK's most rare and vulnerable habitats. Formed over thousands of years, they have very slow growth rates (no more than 1mm per year)[25]. In the UK, 94% of their original extent has been lost and less than 6,000 hectares remain in a near-natural condition[26].

Peat has been used as the major constituent of most horticultural growing media in the UK for many years and is mainly used as a multi-purpose compost. Sustainable alternatives are available, for which there has been poor uptake to date. The Group's long-term goal is to meet the Government's target that 90% of soil improvers and growing media would be met by peat-free alternatives by 2010[27]. To comply, the Group has established annual dilution targets for peat. In 2006, The Co-operative Food sold 15,579 m^3 of compost of which 56% was peat[28]; this constitutes less than 0.1% of the total UK market[29]. The Co-operative retails an own-brand 'Peat-Free Compost' (20 litre), it also sells own-brand 'Multi-Purpose Compost' (20, 50 and 70 litre) and 'Grow Bags' (28 and 32 litre), which contain 65% peat. In 2007, no own-brand compost will contain more than 60% peat. The Group was the first major retailer to stock peat-free salad cress, which, rather than being sold in peat-lined punnets, is grown on special matting made of 100% biodegradable material. Peat used in potted household plants constitutes 9% of the total volume sold and has been reduced over recent years and, in partnership with suppliers, The Co-operative Food was involved in large-scale peat-free compost trials with chrysanthemums in 2006. Seasonal variations were seen in results, and, in 2007, chrysanthemums will be grown in 60% peat media, but trials will continue in an attempt to solve this problem.

Peat content in own-brand household and bedding plant-growing media (%)

	2004	2005	2006
Poinsettias	100	70	70
Foliage plants	70	60	60
Begonias	70	60	50
Celosias	100	60	0
Gerberas	80	70	70
Chrysanthemums	100	100	0
Planted arrangements	50	0	0
Bedding plants	70	60	0

Land stewardship

The Co-operative Farms manage a total of 28,259 hectares of land on a variety of different agreements. 14,337 hectares of this land is owned by the Group. Of the land owned, 12,825 hectares are intensively cultivated and 1,512 hectares are either unintensively cultivated or set-aside[30]. As part of The Co-operative Farms environmental management system (EMS), all farms have been assessed since 2004. Farms are checked for best practice and legislative compliance and an improvement plan put in place each year.

In post-war Britain, the cropping diversity of farmland decreased and many landscape features, including hedges, were removed. This has led to a decline in farmland birds, including grey partridges, skylarks, yellowhammers, linnets, tree sparrows and finches. The Co-operative Farms' fields are managed to help support farmland birds through the provision of three basic requirements: nesting areas, an abundant summer food supply for young birds and an adequate winter food supply.

Annual hedge cutting ceased around 20 years ago and hedges are now only cut every second or third year in order to provide berries as food for birds. Hedges are cut in late winter to allow the birds to harvest the berries before cutting. A large, well-grown hedge offers secluded nesting sites and leaving a grass bank at the base of the hedge also provides opportunities for ground-nesting birds.

2006 saw the establishment of a significant number of grass field margins on The Co-operative Farms as part of our commitment to the Defra Environmental Stewardship scheme[31]. In 2006, 11,015 hectares of land (86% of the total owned and intensively farmed) were managed under the scheme. Field margin strips consist of tussocky grasses, such as cock's foot, that offer habitats for insects and small mammals. They complement large hedges and help to provide an ample supply of insects for nesting birds and chicks throughout the summer. Small mammals are also an important food source to countryside predators such as the barn owl. In 2006, grass margins accounted for over 280 hectares of the intensively cultivated land total.

Organic produce is grown using a highly restricted range of pesticides and fertilisers. During 2006, the range of organic products offered within The Co-operative Food increased (from 654 to 682) with sales increasing by 8% to £18.6m (2005: £17.2m**R**). Own-brand organics accounted for 9% of the organic range at the end of 2006. The Co-operative's broader

24 www.co-operativebank.co.uk/servlet/Satellite?c=Page&cid=1170748467314&pagename=CB%2FPage%2FtplStandard&loc=l

25 www.waverley.gov.uk/recycling/peat.asp

26 www.rspb.org.uk/ourwork/policy/water/water/peat_bogs/index.asp

27 Co-operative Food does not distinguish between soil conditioners and growth media; therefore, the target for both is to reduce to 10% peat content.

28 Includes bagged compost and compost for household and bedding plants.

29 ADAS UK Ltd and Enviros Consulting Ltd (2005) Monitoring of peat and alternative products for growing media and soil improvers in the UK 2005.

30 www.defra.gov.uk/farm/environment/land-manage/setaside.htm

31 www.defra.gov.uk/erdp/schemes/es/default.htm

work to reduce pesticides across all own-brand products, which brings with it biodiversity benefits, is described on pages 94–96.

CFS and ethical finance

Bank screening of finance

During 2006, 38 finance opportunities were referred to the Ethical Policy Unit in connection with biodiversity, of which one was declined.

Biodiversity related business declines, 2006	Estimated income foregone 2006
Fish importer Provision of banking facilities to business involved in the supply of 'exotic' fish to food retailers. Business imported snapper and grouper fish, both of which classed as being 'threatened'[32] by the World Conservation Union. Fisheries not subject to independent sustainability verification.	£500

Co-operative Insurance engagement

Palm oil is present in one in ten supermarket products, and is widely used in chocolate, bread, detergents and toiletries. Palm oil production, which totals 30 million tonnes per year worldwide, contributes to the economic development of the producing countries; however, in many instances palm oil plantations destroy biodiversity, as rainforest is cleared to make way for them. Recently, a Roundtable on Sustainable Palm Oil (RSPO)[33] was established to promote the sustainable production and use of palm oil. Co-operative Insurance has representation on the Executive Board of the RSPO through which it has contributed to the development of a robust standard: Principles & Criteria for the Production of Sustainable Palm Oil[34]. During 2005, Co-operative Insurance wrote to over 50 companies urging them to consider membership of the RSPO, seven of which responded positively and joined the roundtable. In 2006, four additional companies (Tesco, Morrison's, Johnson & Johnson and Royal Dutch Shell) joined the roundtable following further engagement by Co-operative Insurance alongside other members of the RSPO and NGOs[35].

In line with CFS' Sustainable Procurement and Supplier Policy (page 34), The Co-operative Bank declined a customer promotion for a garden equipment retailer whose parent company was involved in the development and patenting of genetically modified organisms, including terminator technologies and pesticide resistant crops. **smile** also declined a customer promotion for a garden seed retailer that used peat in its operations and promoted the use of peat via online growing guides.

Community involvement

The Co-operative Farms Silver Lapwing Awards

In 2006, in partnership with the Farming and Wildlife Advisory Group (FWAG)[36], The Co-operative Farms sponsored the Silver Lapwing Award to the UK farm that is judged to have done the most to encourage conservation and demonstrated a track record of environmental best practice, combined with a commercially successful farming business. This year's award was presented to Knapp's Farm, Pembrokeshire, for the creation of a valuable network of habitats, including wetland, heathland and woodland areas[37].

RSPB Credit Cards (in support of UK wetlands)

Between 1999 and 2006, almost £4m has been raised for Britain's threatened wetlands via the Royal Society for the Protection of Birds (RSPB)[38] credit cards (£473,000 during 2006 and over £6.4m since 1989). The RSPB receives £18 for every account opened, and a further £2.50 if the card is still being used six months later. In addition, the RSPB receives 25p for every £100 spent using the card. Monies raised in 2006 facilitated the restoration of 410 hectares of reedbed[39].

Bonus Account (in support of animal welfare and conservation)

The bank offers a youth account in support of animal welfare and conservation. Since 2003, the Bonus Account, in partnership with the Born Free Foundation[40], has provided £25,000 of support to projects such as Ugandan and Cameroon chimpanzee sanctuaries, and conservation projects for basking sharks in the UK, turtles in Tanzania and tigers in India.

UK community woodlands

In 1997, the bank committed £300,000 to the development of four community woodlands[41] in Greater Manchester. The four woodland sites were all formerly landfill sites or opencast mines. The total area under management amounts to more than 250 hectares (approximately one square mile). The North West of England has one of the lowest levels of tree cover in England, and the bank's sponsorship has led to the creation of 48.5 hectares of new woodland; principally birch, alder, oak and ash. In 2002, the bank launched a website[42] to provide information on the habitats and species found within the community woodlands. During 2005, the findings of a second round of biodiversity audits were posted on the community woodlands' website.

32 'Threatened' is taken to mean any species which, according to the World Conservation Union, is facing a high risk of extinction in the wild.

33 www.rspo.org

34 Ibid.

35 Although not a member of the RSPO, Friends of the Earth have an ongoing campaign on the issue of palm oil sustainability and during 2006 lobbied UK retailers to take action.

36 www.fwag.org.uk/silver-lapwing.htm

37 www.fwag.org.uk/FWAG---FARMCARE-SILVER-LAPWING-COMPETITI.htm

38 www.rspb.org.uk

39 Total CFS biodiversity enhancement: the area of land subject to biodiversity enhancement as a result of CFS donations increased significantly (18%) in 2006 to a cumulative total of 1,369.2 hectares (1,112.5 hectares RSPB wetland enhancement, 207.2 hectares of tropical reforestation, 49.5 hectares of community woodland enhancement). Comparable figures for previous years are as follows: 2005 – 1,158.3 hectares, 2004 – 695.9 hectares, 2003 – 626 hectares. Total biodiversity enhancement is now 80 times greater than the land occupied by CFS' premises (17.04 hectares). The bank has reported on its land and biodiversity enhancement initiatives since 2000, and in 2003 accounting systems were extended to include car parks and CIS premises.

40 www.bornfree.org.uk

41 www.community-woods.org.uk

42 www.co-operative-woodlands.co.uk

Persistent, bioaccumulative and toxic (PBT) chemicals

PBT reduction: Food

PBT reduction: Non-Food

PBT reduction: Co-operative Group goods not for resale

Targets 2006
No targets were set in relation to this impact area for attainment in 2006.

Targets 2007
- Launch, and communicate to suppliers, a revised Pesticide Policy for The Co-operative Food, with supporting online toolkit.
- Remove formaldehyde from all own-brand products by end 2007.

Background
Over one hundred thousand synthetic chemicals are now registered for use in the EU and four hundred million tonnes are produced globally each year[1]. However, reports have shown that minimal or no toxicity data exists for the majority of these chemicals and most have never been adequately assessed for their human and environmental safety[2].

Concerns with synthetic chemicals and their use generally centre on the following:

- Persistence – where chemicals are resistant to degradation through natural processes and consequently persist in the environment.
- Bioaccumulation – where chemicals that plants and animals cannot break down properly accumulate in Nature.
- Toxicity – where chemicals cause direct damage to organisms that are exposed to them.

Materiality and strategy
Within the Trading Group of businesses, The Co-operative Food and The Co-operative Farms consider safe management of synthetic chemicals as a priority. In the UK alone, over 1.8 million tonnes of fertilisers and pesticides were used in 2004[3]. As part of the most recent Ethical Policy consultations, 88% of bank customers do not wish to see their money invested in businesses whose core activities contribute to the manufacture of chemicals that are persistent in the environment and linked to long-term health concerns. 95% of Co-operative Insurance customers wish it to encourage businesses to end the production of chemicals that cannot easily break down and that build up and contaminate plants and animals.

The Co-operative Food chemicals strategy
The Co-operative Food reinvigorated its approach to chemical screening and prioritised a list of more than 20 chemical types for removal from own-brand products. Chemicals were primarily selected as defined by the Oslo-Paris Convention for the Protection of the Marine Environment of the North-East Atlantic (OSPAR)[4]. In addition, chemical groups for which there was emerging evidence of problematic impact (such as Bisphenol A and PVC) were targeted. The list is reviewed and new chemicals added as merited, with the precautionary principle[5] continuing to exert a strong influence on deliberations.

A full list of The Co-operative Food's Chemicals for Priority Action, together with progress to date, is provided at www.co-operative.co.uk/corporate/sustainability/chemicals. More than 40 chemical groups are now listed for screening, although, in some cases, legislation has severely restricted the options for usage, for example, in the case of cadmium[6]. Detailed below are examples of decisions taken, and their rationale, in connection with areas where there is public concern, but as yet no internationally-established consensus.

- Diethyl phthalate (DEP), dibutyl phthalate (DBP) and diethylhexylphthalate (DEHP) are from a group of chemicals, collectively known as phthalates. DEHP and DBP are suspected of disrupting the body's hormone system[7]. DBP and DEHP are both used as plasticisers in plastics, and were removed from own-brand clingfilm and children's toys in 2003. DEP is used in perfumes, and has not been used in own-brand products since 2005.
- Triclosan is an anti-bacterial agent often marketed under the name Microban®. Concerns exist about bioaccumulation in humans[8] and about it causing antibiotic resistance[9]. Triclosan was removed from all own-brand products, such as cleaning fluids, in 2002.
- PVC (polyvinylchloride) is a plastic with a wide variety of uses. If PVC is burned, it can release toxic chemicals, including dioxins. These chemicals can bioaccumulate, and contribute to problems in development, reproduction, growth and behaviour[10]. As a direct result of these concerns,

1 WWF (May 2003) Chemicals and Health in Humans.

2 US State of New Jersey, Institute of Occupational Medicine (2000) found minimal toxicity data existed for 66% of pesticides and their supposedly inert ingredients; 84% of cosmetic ingredients: 64% of drugs; 81% of food additives; and 88–90% of commercial chemicals. The Environmental Defence Fund report, Toxic Ignorance (1997) found even the most basic toxicity testing results cannot be found in the public record for nearly 75% of the top volume chemicals in commercial use. See www.environmentaldefense.org/documents/243_toxicignorance.pdf

3 www.environment-agency.gov.uk/yourenv/eff/1190084/business_industry/agri

4 www.ospar.org/eng/html/welcome.html

5 States that, if an action or policy might cause severe or irreversible harm to the public, in the absence of a scientific consensus that harm would not ensue, the burden of proof falls on those who would advocate taking the action.

6 RoHS Regulations 2006, Dangerous Substances Marketing & Use Directive

7 Friends of the Earth (2004), Shop till you drop?

8 Ibid.

9 ENDS (2007), *Tackling a Grubby Reputation,* ENDS Report 386 (March 2007) pp30–33.

10 Greenpeace press release on soft toys (November 2001). www.greenpeace.org.uk/contentlookup.cfm?ucidparam=20011107120641&CFID=5900020&CFTOKEN=21499156

The Co-operative Food aims to phase out the use of PVC in its own-brand packaging and communicates this to its suppliers within its Packaging Policy. PVC is thought to account for only 1% of own-brand packaging, and is only used by permission where no other alternative exists.

- Bisphenol A (BPA) is believed to be a hormone disruptor[11] and is used in the manufacture of the plastic polycarbonate. Since March 2004, all baby bottles sold have utilised polypropylene. BPA is also used as a can lining and as a seal for jars. To date, The Co-operative Food has been unsuccessful in the process of BPA phase-out with the small number of suppliers that operate in the UK.

- Parabens are widely used as a preservative in cosmetics and toiletries, but are suspected to be hormone disruptors and carcinogens[12]. As of 2005, progressive phase-out has commenced; however, currently, there are no suitable alternatives for 'leave-on' applications.

- Brominated flame-retardants are a group of chemicals of which some, specifically polybrominated diphenyl ethers (PDBEs), are known to bioaccumulate[13]. These chemicals were removed from all own-brand textiles with the application of the Oekotex Standard for human ecological safety of textiles[14].

- Artificial musks are artificial perfumes used in a wide variety of household products. The two main groups, nitro musks and polycyclic musks, have been shown to be persistent and bioaccumulative[15]. Nitro musks were removed from own-brand products in 2004 and polycyclic musks were removed in 2005.

The Co-operative Food Pesticides Policy

The UK Pesticides Safety Directorate defines pesticides as 'any substance, preparation or organism prepared or used for controlling any pest'[16]. Over 800 different chemicals are made globally and sold in tens of thousands of mixtures for use as pesticides[17]. These chemicals are designed to exert toxicity selectively, but they can sometimes have unintended consequences for human health (both that of the grower and consumer) and the environment.

In recent years, The Co-operative Group has developed a market-leading Pesticides Policy, which seeks to reduce the use of pesticides in all of its own-brand fresh and frozen produce. The Policy determines that the use of pesticides by growers should be considered only as a last resort, when the use of preventative measures (such as land choice, crop rotation and crop hygiene, and cultural and biological controls) have been fully explored with limited success.

In 2001, The Co-operative Food worked with suppliers to draw up a list of pesticides where use would be prohibited (approximately 20) or restricted (approximately 30) in the production of fresh, frozen, dried and canned produce, ready meals (frozen), wine and a number of ambient grocery lines. These were considered higher risk products in respect of the potential to contain significant levels of pesticide residues.

In 2004, The Co-operative Food established a Pesticide Advisory Group comprising individuals from The Co-operative Food, The Co-operative Farms, expert NGOs and the UK Government's Advisory Committee on Pesticides, with a view to the further development of the Pesticides Policy. A 'hazard framework' was developed to guide the future acceptability, or otherwise, of pesticides[18]. During 2004 and 2005, over 800 chemicals were analysed using the framework, and, in summer 2005, a list of problematic pesticides was identified for potential prohibition and monitoring. During 2006, consultation with suppliers sought to establish whether there is a commercial need for the use of these pesticides and the new Pesticide Policy containing 24 banned and 98 prohibited pesticides was formalised at the end of 2006[19]. Feedback has been received from a limited number of overseas suppliers who indicated that, for certain crops, the extended list is problematic. Potential issues have also been highlighted in relation to some UK crops (eg, early potatoes) and, whilst these can be resolved by site selection, this may impact upon availability and quality. Prohibition is still the starting point for consideration, but with permission for use granted in exceptional circumstances (all of which will be reported on in the future). Following the formulation of the policy, the advisory group was disbanded; however, it will be reformed to focus on policy implementation and future developments in the pesticide industry.

Regular audits are undertaken to ensure compliance with the Pesticides Policy (2006). These comprise desk-based traceability audits[20], site audits, agronomic audits and pesticide analysis, the latter of which is undertaken on a four to six weekly basis by an independent third-party analytical laboratory. The Co-operative Food relies on its 'tier one' produce suppliers, of which there are approximately 50, to ensure that growers further down the supply chain comply with the Group's restrictions and all legal

11 WWF (2000) Bisphenol A: A known Endocrine Disruptor.

12 Women's Environmental Network (WEN) (2003), Getting Lippy – Cosmetics, Toiletries and the Environment.

13 Sjödin, A et al (1999) Flame retardant Exposure: Polybrominated Diphenyl Ethers in Blood from Swedish Workers, Environmental Health Perspectives, 107(8).

14 www.oeko-tex.com/OekoTex100_PUBLIC/index.asp

15 Daughton, C. G., Ternes, T. A. (1999), Pharmaceuticals and Personal Care Products in the Environment: Agents of subtle Change?, Environmental Health Perspectives Supplements, 107 (6). See www.watersense.org.uk/chemicals/glossary/musks.php

16 www.pesticides.gov.uk/appendices.asp?id=744#P

17 www.pan-uk.org/About/importance.html

18 The framework looks for prohibition triggers such as: annual daily intake, OSPAR listing, toxicity, bioaccumulation, soil and persistency, prior informed consent, carcinogenicity and endocrine disruption.

19 www.co-operative.co.uk/food/responsibleretailing/environmentandsustainability/guidetopesticides

20 Traceability audits are undertaken by The Co-operative Food's Quality Assurance Team, which analyses the Pesticide Application Records relating to an individual product. These detail the number, rate and dates of pesticide application. Assurance is sought that the decision to use pesticides in the growing process has been based on sound information, and that due consideration has been given by the grower to integrated crop management procedures.

Left The Co-operative Farms minimises its application of chemicals such as fertilisers and pesticides through crop rotation and varietal choices that maintain soil health and limit the spread of pests and plant disease.

The Co-operative Food pesticide residue analysis, 2003 – 2006

Pesticide analysis results	2003	2004	2005	2006
Total number of products tested	220	243	268	184
Average number of tests per product	90	88	88	84
Number of prohibited pesticides detected	0	0	1	5
Number of restricted residues without approval detected	19	6	0	0
Number of residues in excess of MRL	4	4	2	3
% samples with no residues	58	56	48	64

requirements, which include ensuring that the maximum residue limit (MRL)[21] for pesticides is not exceeded in any produce they handle. The Group publishes the results of each pesticide analysis test on its website[22].

Food pesticide analysis results

In instances where the Pesticides Policy is breached, sourcing from the specific supplier/grower temporarily ceases, pending the conclusions of a full investigation. Where appropriate, The Co-operative Food then secures corrective actions from the supplier; however, should these not prove to be forthcoming, the relationship with the supplier/grower will cease. In 2006, MRL exceedances were detected in three instances.

- In two separate incidences, residues of the insecticides Cyhalothrin and Profenophos were detected at levels above the MRL on spring onions from Egypt. On investigation, it was found that applications had been made in line with recommended limits, but that crops had been harvested earlier than anticipated. The Co-operative Food has worked with the supplier to improve pesticide practice, reduce levels of application and will continue to monitor progress.
- A residue of the fungicide, Iprodione, was detected at levels above the MRL on blueberries from Chile; however, this is not considered problematic. The MRL for blueberries is set at the lowest level that can be detected; and is much lower than that set for plants within the same family, for example bilberries. This has been raised with the Pesticide Safety Directorate and discussions are being held at an EU level to review this.

Breaches of the Pesticide Policy prohibited list were detected in five instances:

- Vinclozolin was detected on a sample of Iceberg lettuce grown in Spain.
- Propargite was detected in two instances, in samples of French Braeburn and Granny Smith apples.
- Methyl-Parathion was detected on a sample of Brazilian mangoes.
- Dicofol was detected on a sample of cut flowers.

21 According to the Pesticides Safety Directorate (PSD) (www.pesticides.gov.uk), maximum residue limits (MRLs) are established on the basis of the highest residues expected when a pesticide product is applied in accordance with approved conditions of use (Good Agricultural Practice). Under these arrangements, the PSD contends that such residue levels do not pose unacceptable risks for consumers.

22 www.co-operative.co.uk/food/responsibleretailing/environmentandsustainability/guidetopesticides

The Co-operative Farms' fertiliser and trace element purchases, 2006

Fertilisers	Solid (tonnes)	Liquid (m^3)	Application rate (per hectare)§
Urea ammonium nitrate	–	2,372	0.185 m^3
Urea	30	–	0.002 tonnes
Ammonium nitrate	1,038	–	0.081 tonnes
Triple super phosphate	236	–	0.018 tonnes
Potassium chloride	476	–	0.037 tonnes
00-20-30*	606	–	0.047 tonnes
00-24-24#	54	–	0.004 tonnes
Calcium nitrate	56	–	0.004 tonnes
Trace elements	62	212	0.016 tonnes, 0.005 m^3

* A fertiliser blend with 20% phosphate and 30% potash
\# A fertiliser blend with 24% phosphate and 24% potash
§ Average is based on all the 11,618 hectares of land owned and intensively farmed by Co-operative Farms in 2006

The Co-operative Farms' use of chemicals

The Co-operative Farms has adopted integrated farm management (IFM), which combines traditional farming techniques with modern technology. The application of chemicals, such as fertilisers and pesticides, is minimised through crop rotation and varietal choices that maintain soil health and limit the spread of pests and plant disease. Minimum tillage to reduce plough use is favoured, as this ensures that energy use during crop establishment is reduced and earthworm and soil microbe communities are better maintained. Soil samples are taken to determine nitrogen fertiliser requirements, and grain nitrogen is sampled to help refine the decision-making process on each individual farm. In 2006, The Co-operative Farms were not convicted for environmental offences of any kind.

Fertiliser use

The Co-operative Farms apply fertilisers either via the soil, for uptake by plant roots, or by foliar feeding, for uptake through leaves. They are used to promote growth and supplement the three major plant nutrients (nitrogen, phosphorus, and potassium), the secondary plant nutrients (calcium, sulphur, magnesium) and sometimes trace elements with a role in plant nutrition (boron, chlorine, manganese, iron, zinc, copper and molybdenum).

Pesticide use

The Co-operative Farms apply pesticides as foliar sprays or in solid form (eg, as slug pellets). Chemicals used fall under four categories:

- Herbicide – used to control vegetation (weed killer).
- Fungicide – used to control fungal diseases in plants.
- Insecticide – used to control insects.
- Molluscicide – used to control slugs and snails.

To decrease the use of pesticides, chemicals without significant pesticide properties, known as adjuvants (these increase the effectiveness of the chemicals used), are also utilised during application.

Pesticide and adjuvant purchases, 2006

	Liquid (litres)	Solid (kg)
Herbicide	85,487	11,699
Fungicide	40,455	5,096
Insecticide	4,243	6,963
Molluscicides	–	57,794
Adjuvant	9,225	–

Growth regulator use

Growth regulators are synthetic plant hormones that modify natural growth in cereals and are used in conjunction with pesticides and adjuvants to optimise crop productivity.

The Co-operative Farms' growth regulator purchases, 2006

	Liquid (litres)	Solid (kg)
Growth regulator	14,327	310

CFS and ethical finance

Bank screening of finance

The bank's Ethical Policy includes a commitment not to invest in businesses that are considered to contribute to the manufacture of chemicals that are persistent in the environment and linked to long-term health concerns. During 2006, six finance opportunities were referred to the Ethical Policy Unit in connection with these areas, of which one was declined.

PBT chemical related business declines, 2006	Estimated income foregone 2006
Chemical manufacturer Provision of asset finance facility to business involved in the manufacture of alkylphenols and ethoxylates. These chemicals can break down into persistent compounds that display hormone-disrupting properties, and have been linked to reproductive abnormalities in fish exposed to effluent.	£2,500

In contrast, provision of finance for the acquisition of franking equipment was approved, although ultimately not progressed, for a business involved in the manufacture of coatings and sealants for the construction trade. A number of the products manufactured contained epoxy resins, which are widely used in sealants. Epoxy resins are not considered a chemical for priority action by OSPAR, and, although they have bioaccumulative potential and contain bisphenol-A, research did not reveal any specific health or environmental concerns.

Far left In 2003 and 2004, the bank campaigned in partnership with WWF-UK for a more precautionary approach to inform EU chemicals legislation. New regulations came into EU parliamentary law in December 2006. (Image © Brendan Kelly/Mousetrap Media/WWF-UK.)

Left All of the bank's credit, debit, electron and savings cards are now based on the plastic PETG.

CFS and ethical procurement

Green office refurbishments

Since 2000, designated bank supplier contracts have been screened against a range of toxic chemicals, based on the OSPAR List of Chemicals for Priority Action[23], together with Bisphenol A and PVC. In 2003, screening was extended to Co-operative Insurance[24]. During 2006, work continued on the 'Green Branch' refurbishment programme. Approved fixtures, decorating materials and furnishings were used in the three bank branches refurbished, and included: PVC-free carpets with recycled content (three premises) and ecologically-screened paint (three premises); 'Green Branch' refurbishment specifications were applied to 21 Co-operative Insurance Regional Sales Offices during 2006. Materials included: PVC-free wallpaper (21 offices), PVC-free wastewater plumbing (14 offices); and ceiling tiles made from recycled materials (five offices). The 'Green Branch' specifications will be updated in 2007 to accommodate changes in branch and office designs.

Bank plastic cards

Virtually all credit and debit cards in the world are made of PVC[25]. In 2001, the bank sourced an alternative to PVC, based on the plastic glycol modified polyethylene-terephthalate (PETG), which does not contain chlorine, or use it in its production. Chemicals, such as lead chromate and DEH Phthalate, have been removed from the inks of some cards. All of the bank's credit, debit, electron and savings cards are now based on PETG following the phase-out of the last PVC electron cards in 2006.

Printing

Printing is the UK's sixth largest manufacturing industry, but, up until recently, has had the lowest take-up of environmental policies of any major business sector[26]. The Media CSR Forum[27] was formed in 2001, to provide members with guidance on sustainability best practice and to develop collaborative projects on key issues. In relation to the commissioning of printed materials, CFS aims to phase out OSPAR chemicals, increase the use of vegetable oil-based inks and reduce water use by adopting waterless print processes. The majority of CFS' paper use (90%) is accounted for by external printing contracts. In 2004, Co-operative Insurance outsourced the majority of its printing operations to APS, which now manages a small hub of print subcontractors on CFS' behalf. As part of the outsourcing process, a requirement was made by CFS for prioritisation to be given to the use of vegetable oil-based inks; and, as a result, the majority of subcontractors now have such printing capability. In 2006, 74% of printed paper commissioned by CFS utilised vegetable oil-based inks (2005: 60%).

Paper type

CFS aims to optimise the use of totally chlorine-free paper (TCF). The manufacturing process for TCF paper prohibits the use of chlorine gas or chlorine dioxide as bleaching agents, with the aim of minimizing the release of harmful organochlorines and related dioxins. In 2006, the proportion of TCF papers utilised by CFS increased to 84% (2005: 55%). In March 2006, a new agreement was reached with APS for all coated papers used by CFS to be TCF papers. In July 2006, this agreement was extended to include all uncoated papers. It should be noted that 6% of paper purchased by CFS is governed by APACS Standards that require elemental chlorine-free feedstocks to be used[28].

Influence and action

REACH Regulation

In 2003 and 2004, the bank campaigned in partnership with WWF-UK for a more precautionary approach to inform EU chemicals legislation. This support was extended in 2005 when the bank funded research[29] into the links between chemicals in the environment and breast cancer. New REACH (Registration, Evaluation and Authorisation of Chemicals) regulations came into EU parliamentary law in December 2006. The regulations require manufacturers, importers and downstream users of chemicals to demonstrate safe product use and disposal for approximately 30,000 of the 100,000 chemical substances already in use in the EU and entered into force in June 2007[30].

23 www.ospar.org/eng/html/sap/Strategy_hazardous_substances.htm# Annex2

24 www.cfs.co.uk/sustainability2003/ecological/persistent.htm

25 ICMA (International Card Manufacturers Association). See www.icma.com

26 Green Futures (January/February 2002).

27 www.mediacsrforum.org

28 APACS is the Association of Payment Clearing Services, see www.apacs.org.uk

29 UK Working Group on the Primary Prevention of Breast Cancer (2005) Breast cancer: an environmental disease; the case for primary prevention.

30 ec.europa.eu/enterprise/reach/index_en.htm

Employees and customers

At The Co-operative, we know business success is about more than big profits. That's why the engagement of our employees and the satisfaction of our customers are two of our six key performance measures.

Employees

1 This latter indicator is considered to fulfil the employee element of Indicator 3 ('Participation of employees and members in training and education') of Co-operatives[UK]'s basket of ten key social and co-operative performance indicators. There are two further Co-operatives[UK] employee indicators. Details relating to Indicator 4 (Staff injury and absentee rates) are provided, in part, on page 105, whilst Staff profile – gender and ethnicity (Indicator 5) is reported on pages 60–61.

2 The Trading Group Human Resources Leadership Team meets monthly and reports to the Co-operative Group Board on a quarterly basis. See pages 11–16 for further details of sustainability governance.

- Colleague engagement
- Employee turnover
- Trade union recognition
- Organisational change
- Personal development and training
- Salary and benefits
- Work/life balance
- Health and well-being

Targets 2006

- Research and progress the Trading Group's new flexible working programme – 'Flexibility works'. Acceptable progress
- Implement a new Group-wide childcare voucher scheme to assist employees with childcare costs. Target achieved
- Finalise and launch the CFS Work/life balance Policy. Target achieved
- Improve the CFS 'colleague engagement' measure, based on a composite of employee opinion survey scores, to 60. Target achieved

Targets 2007

- Promote and increase usage of the Employee Assistance Programme.
- Achieve a CFS 'colleague satisfaction' measure of 60%.
- Increase the overall Trading Group engagement score by 2 points to 76.

Materiality and strategy

Colleague engagement and satisfaction measures are included in the balanced scorecards of both the Trading Group and CFS. The Trading Group's vision is 'to be the best co-operative in the world' and 'growing employee engagement' is one of six objectives supporting attainment of this vision. A performance indicator of engagement (based on a set of questions within the annual Talkback employee survey) seeks to measure progress in relation to this objective. In 2005, CFS developed a ten-year vision: 'to be the UK's most admired financial services provider'. The pursuit of 'market leading colleague satisfaction' is one of five key objectives supporting attainment of this vision, and the CFS strategic plan (2006–08) identifies a KPI and target for colleague satisfaction, based on responses to a set of questions within the annual employee survey. Going forward, it is envisaged that the remuneration of Trading Group and CFS' Executive Directors will be partly linked to performance in this area.

In addition, and in line with external reporting standards, the Group continues to report publicly on a further three employee KPIs – two of which relate to employee conditions (employee turnover and trade union membership) and one that relates to Investors in People (satisfaction with training)[1].

People management

The Trading Group and CFS each have a human resources function, and undertake regular employee attitude surveys (described overleaf). In recognition of the centrality of employees to business success, a Trading Group Human Resources Leadership Team is charged with the effective monitoring of employee conditions within each of Trading Group and CFS[2].

Total employees by business

Employees	2003	2004	2005	2006
Trading				
Co-operative Food[3]	50,849	45,697	43,999	44,476
Co-operative Pharmacy	2,150	2,782	2,893	3,064
Co-operative Funeralcare	2,596	2,961	2,871	2,753
Co-operative Travel	2,191	2,235	2,038	1,859
Corporate functions	813	877	1,027	1,968
Other	4,305	2,121[4]	1,981R[5]	1,099[6]
CFS	13,901	12,938	10,303	9,778
Total	**76,805**	**69,611**	**65,112R**	**64,997**[7]

Colleague engagement

The Group aims to understand and improve the engagement of colleagues across the business. Colleagues should feel valued and involved at work; they should understand the goals and direction of the business and know how their job fits in. In turn, engaged colleagues can act as ambassadors for their employer and its products and services, and be more prepared to 'go the extra mile' when needed[8].

The level of colleague engagement is measured via an employee attitude survey, which determines an 'engagement index' score based on 18 survey questions. The factors that drive engagement fall into two broad groups. Firstly, there are those that are managed centrally or at a strategic level; relating to belief in the organisation, its leadership and an understanding of how an individual's role relates to the success of their business and the Group as a whole. Secondly, there are those influences related to day-to-day work experiences such as the way individuals are managed, the team they work within and opportunities for development. The composition of the engagement index for Trading Group and CFS is broadly comparable; however, in 2006, changes were made to the wording of a number of questions in the CFS survey. Managers across the Group are provided with the survey results and 'engagement index' scores for their team(s). Action-planning sessions are then held, during which teams explore ways to improve their working experience. This approach aims to ensure that the Group responds to colleagues' needs and concerns at the local, as well as the strategic, level.

Given their importance, high-level targets to improve engagement index scores have been set and incorporated into the performance management process for senior managers. Engagement targets are part of the CFS strategic plan and Trading Group's corporate balanced scorecard.

Engagement index

	2004/05	2005/06	2006/07
Trading Group	69	69	74
CFS	n/a	57	63

During 2006 and early 2007, the Trading Group and CFS undertook full annual employee opinion surveys to which 76% and 86% of employees responded respectively (2005/06: 69% and 62% respectively)[9].

For the Trading Group, improvements were seen in perceptions that the Group: is leading the way; is making changes for the better and has an exciting future; resolves conflicts effectively; and aids staff in involvement and preparation for change. Priority areas for action in 2007 include continuing to promote the case for a successful co-operative future and improving the role of managers as communicators.

During 2006, the Trading Group introduced quarterly short surveys or 'temperature checks', enabling progress against action plans to be assessed throughout the year. Results after two interim surveys appear to indicate that engagement levels are either being maintained or improved across all businesses and functions. The current response rates of 55% are also much higher than are generally achieved by similar surveys within other organisations.

At CFS, there were improvements in the proportion of employees who: feel proud to work at CFS and would recommend it as a place to work; understand the CFS values and consider the business to be socially responsible; and understand how their job relates to satisfying customers and consider the business to be one that customers can trust. The CFS survey highlighted a decrease in employee satisfaction with total pay compared with equivalent jobs in other companies, and also with how the various parts of CFS work together.

The response from the latest annual employee surveys indicates that 83% (2005: 71%) of Trading Group and 50% (2005: 41%) of CFS staff agreed with a statement indicating their overall satisfaction with their job. The fact that only half of CFS staff responded positively to this is clearly a cause for concern and falls short of the financial sector norm for this question (72%). Despite this, a small improvement was recorded last year, and CFS has set targets to improve staff satisfaction scores steadily over the next five

3 Includes the Co-operative Food stores and Retail Logistics.

4 Includes department and home stores, Co-operative Farmcare, Priory Motor Group and Property.

5 Includes department and home stores, Co-operative Farmcare, Priory Motor Group, Property, Mandate and Hotels.

6 Includes department and home stores (673), Co-operative Farms (165), Priory Motor Group (3), Property (66), Mandate (87) and Hotels (105).

7 Trading Group figures include a total of 585 staff on maternity leave, whereas the CFS figure excludes staff on maternity leave.

8 An interim Talkback survey was held with a sample of employees in January 2007 and the level of agreement with the statement "I am prepared to go 'the extra mile' for our business to succeed" was 78, compared to 72 in September 2006.

9 For further details and results of the CFS employee survey, see www.cfs.co.uk/sustainability2005

Far left The Trading Group's vision is 'to be the best co-operative in the world' and 'Growing employee engagement' is one of six objectives supporting attainment of this vision.

Left Both Trading Group and CFS undertake regular employee attitude surveys with the aim of understanding and improving the engagement of colleagues across the business.

years, aided by measures in the People Programme, which is dedicated to investing in employees to create a high performance organisation and culture.

Employee turnover

The Trading Group monitors employee turnover by business area for 'avoidable' leavers, but does not report on turnover in relation to all leavers, nor does it determine a Trading Group average. In relation to controllable labour turnover[10], figures vary considerably for different business areas: turnover is relatively low in Co-operative Farms and Funeralcare (at 7% and 13% respectively), but is higher in Co-operative Travel and Food (at 27% and 34% respectively).

In July 2004, CFS initiated the Co-operative Insurance modernisation programme, as detailed in the CFS Sustainability Report 2005[11]. The programme has had a significant impact on employees, with a reduction of a further 331 positions in 2006. CFS monitors employee turnover in relation to all leavers[12] and to 'avoidable' leavers[13]. In 2006, CFS' overall turnover reduced to 33% (2005: 43%), primarily due to a reduction in the number of redundancies as the Co-operative Insurance modernisation programme completed its final phases. However, CFS' avoidable turnover increased to 29% (2005: 24%), with particularly high turnover in customer contact centres and amongst Co-operative Insurance Financial Advisers. It was envisaged that the introduction of a harmonised employment package across CFS in July 2006 would reduce avoidable turnover, although this is yet to be seen[14]. In response, CFS is reviewing its recruitment and retention strategies.

Trade union recognition

The Group appreciates that trade unions make an important contribution to business and society as a whole. During 2006, seven trade unions were recognised by the Group as a whole, and 30%[15] (2005: 28%R) of Trading Group employees are union members. It is not currently possible to report on the exact proportion of CFS employees who are union members.

Trading Group

Five trade unions were recognised throughout 2006: NACO (National Association of Co-operative Officials), which represented managers; Usdaw (Union of Shop, Distributive and Allied Workers), which represented junior managers and non-managerial employees; the TGWU (Transport and General Workers Union), which represented non-managerial employees in Retail Logistics and non-managerial employees in Co-operative Funeralcare in Scotland; the GMB[16], which represented non-managerial employees primarily within the South East Region in Co-operative Funeralcare; and UCATT (Union of Construction Allied Trades and Technicians), which represented stonemasons in Co-operative Funeralcare.

CFS

Four trade unions were recognised throughout 2006: ACTS (Administrative, Clerical, Technical and Supervisory Group), which represented field staff management, support staff, and employees in the Regional Selling Practice Centres and the Home Collections Service; Amicus, which primarily represented bank employees and Co-operative Insurance Head Office and claims centre employees; NACO, which represented managers; and Usdaw, which represented Co-operative Insurance Financial Advisers. A National Joint Integration Committee (NJIC) brings together representatives of CFS Human resources and trade unions, in order that organisational change and integration of the businesses can be managed optimally. The NJIC continued to meet regularly throughout 2006.

Organisational change

Synergy

Opportunities have been explored for closer co-operation and potential integration of Trading Group and CFS departments where services could be delivered by a single department more efficiently and at a lower cost. A restructuring programme in several business areas across Trading Group and CFS was completed in the first quarter of 2006, and included Procurement, Facilities Management, Postal and Client Services (including switchboard and reception) and Corporate Affairs and Social Goals.

Outsourcing

CFS pursued two significant outsourcing programmes during 2006, as part of its Change Plan. These involved partnering with third parties and transferring some colleagues to partner businesses. CFS and three of its recognised trade unions (Amicus, ACTS and NACO) agreed a set of principles, which all parties believe will ensure transfers are handled in the best possible way. The 'Agreed Principles for Outsourcing' is a shared best practice approach and confirms CFS' commitment to: full consultation at the earliest opportunity, including an exploration of the scope to retain work in-house; ensuring customer-facing roles are not off-shored; guiding principles for partner selection; guiding principles for discussion on pension provision for potential partners; and recognition of the

10 Excludes employee departures for the following reasons: end of fixed-term contract, outsourcing (TUPE transfers), retirements – early and normal, resignations, return to studies, end of studies, failed to start, redundancy – voluntary and compulsory, end of seasonal/temporary work, end of apprenticeship and death in service.

11 www.cfs.co.uk/sustainability2005

12 'All leavers' includes voluntary and compulsory redundancies.

13 'Avoidable' turnover primarily relates to resignations (and excludes voluntary and compulsory redundancies). In 2006, there were around 1,800 redundancies within the Trading Group and around 300 at CFS (2005: 1,600 and 1,800 respectively).

14 The harmonised employment package aimed to broadly align CFS' employment package with the UK Financial Services sector. 77% of CFS employees voted in favour of the package, which was implemented in July 2006.

15 Based on those employees who pay subscriptions by payroll deduction.

16 The Group gave notice to the GMB on 20 December 2006 that it was to cease recognition of the union for collective bargaining purposes with effect from 19 March 2007.

importance of planned communication and support for affected colleagues.

- IS development and delivery
  CFS commenced a formal consultation with trade union representatives during September 2006 in respect of a business case to outsource IS Application, Development and Maintenance activity to Xansa. The business case consultation successfully concluded in December 2006 with 223 CFS colleagues identified as in-scope for transfer to Xansa. Consultation regarding terms and conditions and employment was successfully concluded, and the contract was signed in March 2007. Service start date and transfer of CFS colleagues to Xansa under TUPE legislation occurred in May 2007.

- Life and savings administration
  Following a thorough review of the Life and Savings business, which highlighted operational and cost challenges, in October 2006, the CFS Board decided to enter into a proposed partnership with Capita, a supplier of administration and support services. Formal consultation with the trade unions on the outsourcing of CFS Life and Savings administration and support commenced in November 2006 and concluded mid-January 2007. It is anticipated that some 800 CFS staff will transfer employment to Capita in 2007.

No significant outsourcing activities were undertaken by the Group during 2006 or are planned for 2007.

Personal development and training

The Group believes the way to build a successful and co-operative business is to train and develop the people who work in the business. To achieve this, it is committed to ensuring, amongst other things, that all employees receive: induction training; an introduction to the co-operative values; the knowledge and skills training to meet the requirements of the job; financial support for developmental training as appropriate; and entitlement to receive performance reviews.

CFS encourages staff to undertake courses of training and education and to achieve professional or higher qualifications that are relevant to their role, such as the CFS Post-Graduate Diploma in Strategic Leadership, which is part of the Group-wide Strategic Leadership Programme. A CFS University is also due to be established to provide a curriculum of business-focused learning for staff. As well as benefiting individuals, this type of development is important to help achieve the CFS vision to become the UK's most admired financial services business.

The Trading Group and CFS have both achieved Investors in People accreditation. This national quality award recognises organisations that aim to improve performance by developing their employees. Overall, the majority of employees within both Trading Group and CFS are satisfied that their job makes good use of their skills and abilities.

Trading Group
At work, I am able to learn and develop as a person.

	2004/05	2005/06	2006/07
Agree	62%	63%	70%
Neither agree nor disagree	25%	25%	21%
Disagree	13%	12%	9%

CFS
My job makes good use of my skills and abilities[17]*.*

	2004/05	2005/06	2006/07
Agree	n/a	n/a	61%
Neither agree nor disagree	n/a	n/a	17%
Disagree	n/a	n/a	22%

Training provision for employees varies across the Group: from an average of 0.5 training days per person per annum in the Co-operative Food business to eight days at CFS (CFS 2005: 5.7), which equates to an average spend of £1,561 per person (CFS 2005: £1,390). The increase on the previous year has resulted from: training delivered across all of CFS on money laundering and Co-operative Group heritage; all 'people managers' undertaking HR policy training; and an increased intake of Co-operative Insurance Financial Advisers undergoing induction training. A total of 33,307 days of internal training were delivered across the Trading Group during 2006[18]. IT-related courses were most numerous, and the greatest investment (38%) was allocated to the suite of Business Skills courses, which are designed to help employees improve their general business skills, such as negotiating, communicating and dealing effectively with other people. 70% of Trading Group and 61% of CFS employees agree that they are able to learn and develop as a person and use their skills and abilities in their job.

17 Question in previous years: 'I have developed valuable skills and behaviours whilst working for CFS'.

	2004/05	2005/06
Agree	63%	63%
Neither agree nor disagree	21%	22%
Disagree	16%	15%

18 Data relating to employee attendance at externally-run training courses is arranged at departmental level and is not collected centrally.

Far left The Group believes the way to build a successful and co-operative business is to train and develop the people who work in the business.

Left The Investors in People accreditation recognises organisations that aim to improve performance by developing their employees. Both Trading Group and CFS have achieved this national quality award.

19 Data includes all employees (total of 901) on 0 hours contract, who are recorded in terms of full-time equivalents (FTE).

20 Includes hotels, Mandate and Priory Motor Group.

21 Question in previous years: 'My overall pay is good'.

	2004/05	2005/06
Agree	34%	31%
Neither agree nor disagree	21%	22%
Disagree	45%	47%

22 Question in previous years: 'The benefits I receive (excluding pay) are fair for the work I do'.

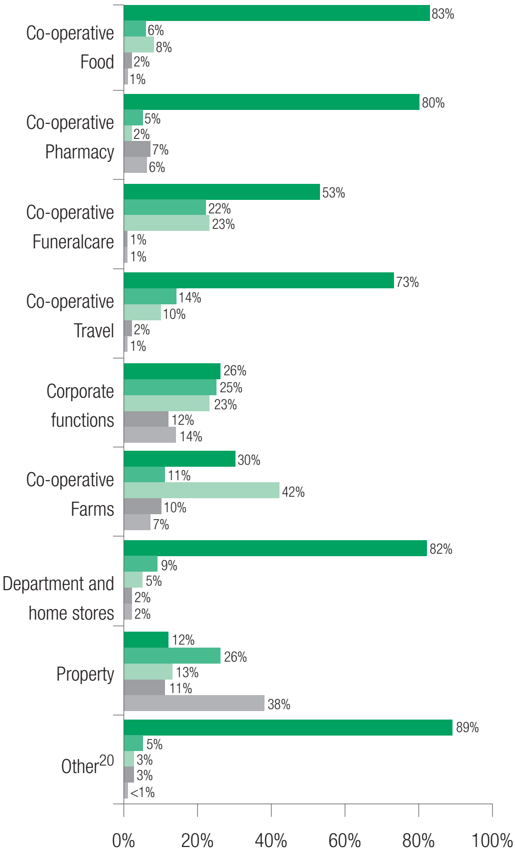
	2004/05	2005/06
Agree	32%	34%
Neither agree nor disagree	19%	19%
Disagree	49%	47%

Salary and benefits

Salary patterns differ across the different Group businesses, with a larger proportion of CFS staff earning wages in higher salary bands than Trading Group. As a consequence, CFS staff tend to be more satisfied; although there was an increase in satisfaction amongst Trading Group staff in 2006/2007 (an increase of six percentage points to 40%).

Proportion of employees in each basic salary band[19]

Basic salary bands	CFS (9,778 staff)	Trading Group (55,219 staff)
Up to £15,000	46.8%	78.7%
£15,000 to £20,000	17.0%	8.1%
£20,000 to £30,000	19.2%	9.4%
£30,000 to £40,000	9.5%	2.3%
£40,000 plus	7.5%	1.6%



Trading Group

The pay I receive is fair for the work I do.

	2004/05	2005/06	2006/07
Agree	32%	34%	40%
Neither agree nor disagree	19%	19%	20%
Disagree	49%	47%	40%

CFS

How do you rate your total pay, in comparison to pay for doing the same job in other similar companies[21]?

	2004/05	2005/06	2006/07
Very good/good	n/a	n/a	24%
Neither good nor poor	n/a	n/a	30%
Poor/very poor	n/a	n/a	46%

In January 2006, employees were advised of changes to the pension arrangements provided across The Co-operative Group, which took effect from April 2006. The changes introduced a new average salary defined benefit pension scheme. The new Group Pension (Average Career Earnings) Scheme (PACE) provides members with a defined benefit pension based on average salary during the course of their employment from April 2006. Benefits built up in the former schemes are protected, by remaining linked to final salary. Despite these changes, employee agreement that the business provides a competitive pension scheme has risen to 61% (2005: 34%), which may reflect increasing appreciation of the pressures affecting pension schemes nationwide.
In 2006, total contributing members to the pension scheme totalled 17,380, with around 40,500 deferred pensioners and 37,000 pensioners. The relatively low proportion of staff in the pension scheme (31%) has been affected by the high proportion of part-time staff and turnover levels in the food business, as well as redundancy levels and sales of businesses.

Trading Group

I believe that this business provides a competitive pension scheme[22].

	2004/05	2005/06	2006/07
Agree	n/a	n/a	61%
Neither agree nor disagree	n/a	n/a	33%
Disagree	n/a	n/a	6%

CFS

How do you rate your overall benefits at CFS, in comparison to those provided by other similar companies[23]?

	2004/05	2005/06	2006/07
Very good/good	n/a	n/a	38%
Neither good nor poor	n/a	n/a	30%
Poor/very poor	n/a	n/a	32%

Work/life balance

Given that the majority (60%) of the Trading Group's employees work part-time, it is important that flexible working is effectively managed. During 2006, the Trading Group reviewed the operation of its current Work/life balance Policy, and a new flexible working programme – 'Flexibility works' – was launched in April 2007. Focus group research was undertaken as a first step to drive this initiative forward, although further work remains to ensure the programme is fully progressed.

In July 2006, CFS introduced a new flexible working framework as part of the harmonisation of terms of employment; building on this and existing policies in Co-operative Insurance and the bank, a new suite of CFS Work/life balance policies was launched in April 2007. In addition, in April 2007, a new Group-wide childcare voucher scheme was launched that aims to assist employees with childcare costs. This is provided by a co-operative business called Imagine Co-operative childcare[24] (and replaces the previous CFS supplier).

Part and full-time employees

	Trading Group	CFS
Full-time	37%	86%
Part-time	60%	14%
Casual	2%	n/a
Uncategorised	1%	n/a

Trading Group

My work and personal life are reasonably well balanced[25].

	2004/05	2005/06	2006/07
Agree	n/a	69%	73%
Neither agree nor disagree	n/a	15%	16%
Disagree	n/a	16%	11%

CFS

CFS is sensitive to the relationship between my work life and my personal life[26].

	2004/05	2005/06	2006/07
Agree	n/a	n/a	55%
Neither agree nor disagree	n/a	n/a	25%
Disagree	n/a	n/a	20%

Health and well-being

The Trading Group and CFS both provide free employee assistance programmes for employees, with CFS' incorporated into its Well-being Policy. During 2006, around 2.8% (2005: 1%) of employees across the Group contacted these services. In January 2007, a Well-being Department was established in CFS to address both the psychological and physical well-being of CFS staff. In April 2007, a new Employee Assistance Programme was rolled out across the Group; provided by ICAS, it offered unlimited access to a range of specialist support services. These services have built on the existing provisions offered across CFS and the Group[27] and are now available not only to employees themselves, but also their immediate family members. Support includes: a Freephone number available 24 hours a day, 365 days a year which is staffed by fully trained and qualified telephone counsellors; more widely available face-to-face counselling; an online information portal to ICASxtra[28], which is available to employees through the intranet; and the availability of a 'LifeManagement' practical advice line, which offers quick confidential information on a range of everyday issues, such as financial services, family care and legal advice.

Trading Group

My stress levels at work are tolerable[29].

	2004/05	2005/06	2006/07
Agree	n/a	63%	69%
Neither agree nor disagree	n/a	20%	21%
Disagree	n/a	17%	10%

CFS

The amount of work expected of me is reasonable[30].

	2004/05	2005/06	2006/07
Agree	n/a	n/a	61%
Neither agree nor disagree	n/a	n/a	19%
Disagree	n/a	n/a	20%

23 Question in previous years: 'My overall benefits are good'

	2004/05	2005/06
Agree	39%	35%
Neither agree nor disagree	25%	25%
Disagree	36%	40%

24 www.imagine.coop

25 New question in the Trading Group 2005 survey.

26 Question in previous years: 'I am able to achieve a satisfactory balance between work and my personal life'.

	2004/05	2005/06
Agree	26%	60%
Neither agree nor disagree	16%	19%
Disagree	58%	21%

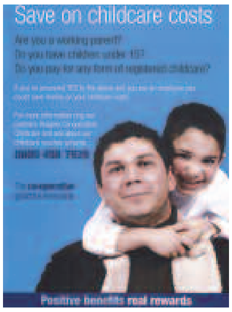
27 Such as counselling services, for use by employees who wish to discuss either workplace or personal issues.

28 www.ICASxtra.com

29 The Trading Group 2004 and 2005 results are not comparable. The 2004 statement wording was: 'I feel that stress at work is affecting my job performance' – 46% disagreed, 28% neither agreed nor disagreed, and 26% agreed.

30 Question in previous years: 'I rarely feel under inappropriate pressure in my job'.

	2004/05	2005/06
Agree	33%	40%
Neither agree nor disagree	20%	22%
Disagree	47%	38%



Far left In April 2007, a new Group-wide childcare voucher system was launched that aims to assist employees with childcare costs.

Left In April 2007, a new Employee Assistance Programme was rolled out across the Group, offering unlimited access to a range of specialist support services.

Absence

Employee absence across the Trading Group is reported across the different businesses for the first time this year, and ranges from 2.9% in Corporate functions to 5.2% in The Co-operative Funeralcare. Stomach upsets are the most common cause cited for absence across the Trading Group, accounting for 12.7% of total absence. At CFS, stress, depression and gastric problems are the most commonly categorised reasons for absence (12.6%, 9.5% and 8.3% respectively). Records for both Trading Group and CFS absence are, however, incomplete, with 62% of Group and 47% of CFS absence records citing a reason. It is hoped that the consolidated electronic system rolled out in early 2007 in CFS will help capture more complete results for employees.

Absence as a proportion of employee time

	Total working time lost to absence[31]
Co-operative Food	4.0%
Co-operative Pharmacy	3.4%
Co-operative Funeralcare	5.2%
Co-operative Travel	3.0%
Corporate functions	2.9%
Other	2.7%
CFS	3.6%

31 All absence over 13 rolling periods.

BENCHMARK According to the Chartered Institute of Personal Development, the average overall absence rate for the financial services sector is 2.4%, or an average of 5.6 days lost per employee per year. For retail and wholesale, the average is 3.5%, or an average of 7.8 days lost per employee per year.

Smoking

The Health Act 2006 is due to be enacted throughout the UK during 2007. The Group has revised its policy on smoking and issued guidance to all its businesses to ensure compliance with the new legislation. To help support employees who wish to stop smoking, The Co-operative Pharmacy has provided information packs and publicity material in Wales and Northern Ireland, and prepared a campaign for the launch in England, including a two-day presence in the reception area of the Group's Head Office. In addition, an article on the effects of smoking has already appeared in the Group's internal magazine ('Us') and the pharmacy business is working with Corporate Communications to raise awareness amongst employees about the support available to help them stop smoking.

At CFS, a no smoking policy has been prepared and approved by the unions ready for implementation. This policy will help ensure that the workplaces of all colleagues are completely smoke-free. In addition, a series of smoking cessation classes, workshops and site visits were delivered during January 2007 across all the major occupancies.

Customers

Customer satisfaction: Food, Pharmacy, Travel and CFS

Corporate and business banking customer profile

Target 2006

- Ensure that at least 62.1% of CFS customers are either 'extremely satisfied' or 'very satisfied' with CFS. Target not achieved

Targets 2007

- Ensure that at least 62.1% of CFS customers are either 'extremely satisfied' or 'very satisfied' with CFS.

- Review initial results from the Trading Group customer satisfaction tracker with a view to ensuring measurable targets are in place for Food, Pharmacy and Travel businesses for 2008.

- Improve the efficiencies of the current cheque-clearing process for our banking customers by introducing the Office of Fair Trading (OFT) new 'customer promise'.

Materiality and strategy

Both the Trading Group and CFS share common strategic priorities that focus on customer satisfaction and, to this end, customer satisfaction measures are included in the balanced scorecards of each business. The Trading Group's vision is 'to be the best co-operative in the world'. 'Growing customer loyalty' is one of six objectives supporting attainment of this vision, and two key performance indicators (KPIs) – overall customer satisfaction (based on a survey of Food, Travel and Pharmacy customers) and the number of customers cross-trading – underpin this measure. In 2005, CFS developed a ten-year vision: 'to be the UK's most admired financial services provider'. The pursuit of 'market leading customer satisfaction' is one of five key objectives supporting attainment of this vision, and the CFS strategic plan (2006–08) identifies a KPI and target for customer satisfaction. Significantly, the remuneration of CFS' Executive Directors will be partly linked to performance in this area[1].

Accounting

In late 2006, the Group introduced its Customer Satisfaction Tracker, a measure of customer satisfaction for its food, pharmacy and travel businesses. The first round of satisfaction surveys was undertaken monthly from October to December 2006, each involving 500–600 telephone (Food and Travel) or exit (Pharmacy) interviews with customers of the three businesses. Customers are asked to register satisfaction levels with The Co-operative and other retailers using a ten-point scale. The survey enables the Group to: track overall satisfaction; identify the relative importance of the factors that drive satisfaction; and compare its performance to competitors. Going forward, the results will provide a measure of the Group's performance against its customer loyalty KPI and will be the basis for customer satisfaction targets.

CFS utilises a separate rolling monthly customer satisfaction tracker, which is derived from GfK NOP's syndicated Financial Research Survey (FRS)[2] of personal banking and insurance customers. This survey involves 60,000 financial services customers each year. Customers register satisfaction levels with their providers at product level on a seven-point scale. Product scores are weighted by customer number to generate overall and business level customer satisfaction scores. To ensure a statistically robust sample per CFS product area, and to even out seasonal variations in scores, 12 months' worth of data is used. Additionally, CFS commissions its own research amongst corporate and business banking customers. This involves telephone interviews with representative samples of approximately 250 corporate and 325 business banking customers.

1 See Co-operative Financial Services Annual Report and Accounts page 36.

2 www.gfknop.com/customresearch-uk/sectors/financial/whatwedo/frs/index.en.html

Far left In 2006, 500 Co-operative Food stores took part in an initiative that sought performance improvement though a concerted focus on sales, customer service, colleague engagement and training.

Left Customer satisfaction research captured in 2006 shows that 75% of customers are satisfied with The Co-operative Travel, compared to 44% with other travel operators.

3 Satisfaction figures for 2006 denote the percentage of customers deeming their satisfaction with the business to be at the highest two levels of a ten-point scale. They represent the findings of an initial wave of customer satisfaction research conducted in Q4 2006.

The Co-operative Food

	2006
Satisfaction[3]	31%
BENCHMARK Satisfaction with other retailers[3]	37%

Throughout 2006, surveys consistently revealed The Co-operative to be outperforming many retailers of comparable size, and moving increasingly towards the levels enjoyed by the big four multiples, against which many customers chose to benchmark it. The annual Usage & Attitude study identified improvements in the key areas of service, range and quality. These improvements were strongest in re-fitted stores. In order to build a true understanding of the customer experience in these key areas, the food business senior management team accompanied customers as they shopped in three stores. The exercise revealed differences in the perceptions of senior managers and customers in relation to service priorities and led to a review of the fresh range. This dialogue with customers was found so useful that customer panels were established at almost 350 stores. The panels, comprising ten customers and chaired by the operations manager, will advise the store on how the customer experience can be improved, and mechanisms have been put in place to ensure that information generated through panels can be fed back centrally. In addition, almost 1,300 mystery shopper visits were undertaken in 2006, with results being used by the business to improve performance. For example, in response to a series of May visits, 'quick win' action plans were drawn up for Scotland, Northern Ireland and the Isle of Man to tackle issues, such as litter and graffiti, that could be addressed within 21 days. In stores where customer satisfaction with service was below 85%, three-hour workshops were provided to all members of staff. Following the implementation of this action plan, the performance of the region in the next round of surveys had improved by 11 percentage points.

In early 2006, 250 stores became part of a pilot initiative that sought performance improvement through a concerted 'focus' on sales, customer service, colleague engagement and training. A further 250 stores were added to the programme in June. All focus stores were allocated a Head Office 'buddy', who was encouraged to regularly visit the store and engage with staff in order to gain a better understanding of the challenges faced in-store and develop appropriate solutions.

The Co-operative Pharmacy

	2006
Satisfaction[3]	72%
BENCHMARK Satisfaction with other pharmacies[3]	77%

The Co-operative Pharmacy continued to play an important part in the roll-out of the revitalised brand in 2006, with over 80 stores trading under the new fascia as at May 2007, and good results achieved from initial pilot stores. In 2006, Pharmacy installed a complaints handling software programme to track and report on customer service issues, and a pharmacy-specific customer services role was introduced at Head Office to better understand the needs of customers and improve service delivery. Additional investment was made in both infrastructure (in the form of improved electronic point of sale systems and automated dispensing), and people (with a stronger field operations team and additional progress on training and development).

The Co-operative Travel

	2006
Satisfaction[3]	75%
BENCHMARK Satisfaction with other travel operators[3]	44%

In addition to customer satisfaction data captured by the tracker survey, Co-operative Travel uses 'welcome home' letters and questionnaires, which are sent to all customers shortly after their return from holiday. Results have consistently shown high levels of satisfaction, with some 98% of customers who responded to the June/July survey rating all areas of service as meeting or exceeding expectations.

An extensive change programme is currently underway in the Travel business and focuses on three key areas: firstly, to alter and improve the high street business model, rebranding travel branches as The Co-operative Travel and offering a much more community-driven strategy; secondly, to maximise the opportunities presented by the e-commerce market; and thirdly, progressing plans to grow tour operator capabilities, using technology to help create packages for customers. In 2006, the business became the first UK high street travel agent to offer its customers the choice to either fully or partially offset the carbon dioxide emissions associated with their holiday flights (page 78).

Customer relations

The Co-operative Group's Customer Relations department acts as the first point of contact for customers who wish to comment on the Group's products, policies and operations. The department is open seven days a week – 11 hours per day on weekdays and eight hours per day at the weekend. A Freephone telephone number (0800 0686 727), minicom (0800 0686 717), Freepost address (Co-op FREEPOST – MR9473 Manchester M4 8BA) and email address (customer.relations@co-op.co.uk) is provided by the Group on literature and own-brand products. As well as being the first point of contact for customer queries, the Customer Relations department generates information which allows the Group to respond to emerging consumer issues.

	2005	2006
Calls		
Total calls	129,163	145,752
Average abandoned rate (daytime)	2%	2%
Average abandoned rate (evening)	11%	11%
Emails		
Total number of emails received	34,969	38,652
All correspondence		
Responded to within three days	97%	93%

All customer contact with the department is categorised as either a 'product complaint' or 'a general query'.

Product complaints

A report detailing any multiple product complaints is tabled at a weekly business Trading Meeting, which comprises senior managers from the food business. An automated system also alerts the relevant buyers when more than one complaint is received about a product, allowing the business to respond quickly when required.

General queries

In 2006, all general queries to customer relations were logged and categorised under 55 subject areas, covering issues as diverse as 'toys of violence', weights and measures, and honest labelling. The customer relations database contains standard responses, policy positions and other information in relation to such issues and can be interrogated by careline staff to ensure a consistent response can be provided to callers and correspondents. The process for generating reportable information on the number of social, ethical and environmental queries received is presently manual, meaning there is scope for error in the figures reported below.

Nature of contact	2005	2006
Product complaints	31,999	26,547
Other queries/comments	53,184	66,166
Social, ethical and environmental queries[4]	8,236	8,708

4 Of the 55 subject categories used by the department, 25 are considered to be broadly concerned with social, ethical and environmental information.

Left A CFS Customer Panel was established in 2006 to deliver regular feedback on a range of subjects, such as the CFS customer magazine 'Change'.

CFS
Personal customers

	2006	BENCHMARK 2006 Market
General Insurance	71.2%	67.7%
Retail Bank	73%	62.6%
Life and savings	44.0%	42.0%
Overall CFS customer satisfaction	60.6%	n/a

Overall CFS customer satisfaction of 60.6% fell just short of the 62.1% target for 2006. Survey results and proposed actions were presented at management meetings in early 2007, at which ownership of actions and development of processes going forward were agreed for 2007.

A CFS customer panel was established in 2006, with the purpose of delivering regular feedback about business-specific developments and potential product and service propositions. During 2006, the panel initially comprised approximately 1,000 customers across the full range of CIS and bank product holdings. To date, the views of the panel have been sought on subjects as diverse as co-operative membership, CFS' customer magazine 'Change' and their experiences of using the branch network.

In March 2006, Co-operative Insurance was one of the first companies to sign up to the ABI's Customer Impact Scheme, a new initiative aimed at putting the needs of customers at the heart of the life and savings industry. The scheme focuses on: developing and promoting products and services that meet the needs of customers; providing customers with clear information and good service when they buy products; and maintaining appropriate and effective relationships with customers – providing them with a good service after they have bought a product[5]. As part of the scheme, each company undertakes an annual customer satisfaction survey, which is conducted by an independent market research company. BENCHMARK In February 2007, the ABI published industry-average figures based on the 29 businesses taking part in the survey. The results of the customer satisfaction survey showed that, compared to the industry average, Co-operative Insurance customers are more likely to recommend Co-operative Insurance to friends and family and are more satisfied with the overall quality of the products and services provided. A more detailed account of performance is provided on the CFS Financial Statements 2006 website[6].

5 www.customerimpact.org

6 www.cfs.co.uk/financial2006/CustomerImpactScheme/default.htm

Corporate and business banking customers

	2005	2006
Corporate satisfaction	80%	78%
Business satisfaction	86%	85%

The opening, in July 2006, of a new Corporate Banking centre in Liverpool marked the start of a significant expansion programme that will see 12 similar centres opened by the bank across the UK in the next three years.

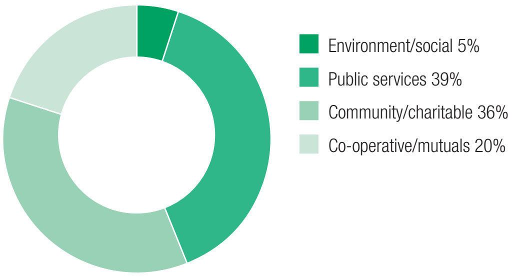
BENCHMARK The Co-operative Bank received a dual commendation at the Business Moneyfacts awards in February 2007, which ranks the best products and services provided to business banking customers. It was highly commended in the section for best business current account, while being commended for its commercial mortgage products.

Corporate and business banking customer profile

The bank's Ethical Policy (page 49) stipulates which organisations the bank will and will not finance, as directed by customers. It covers all of the bank's assets (eg, retail and syndicated loans and corporate leasing) and liabilities (eg, retail deposits and savings and treasury dealings), and the investment of all retained balances. The bank provides a detailed annual breakdown of all instances where business has been declined as a result of its Ethical Policy (pages 50). An ethical and sustainability analysis is also provided of the bank's Corporate and Business Banking assets (eg, loans and overdrafts) and liabilities (eg, deposits). This is designed to assess the extent to which the bank's products and services support organisations that, in the bank's view, make a particularly positive contribution to society. Analysis shows that 60% (2005: 57%R) of the liabilities and 28% (2005: 30%R) of assets are derived from business activities that have a distinct co-operative, ethical or social purpose. 'Positive' liabilities increased by 5% (£58.2m) in 2006, with growth primarily in the area of 'public services' (£28.7m) and 'co-operatives/mutuals' (£25.3m). 'Positive' assets have also increased (by 10%, or £62.9m), with growth primarily attributable to 'public services' (£66.6m).

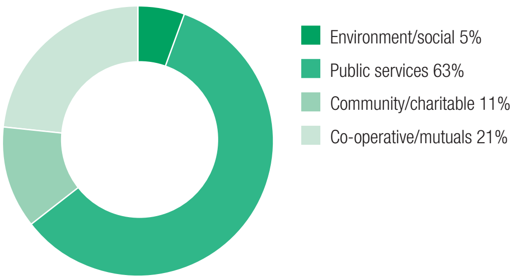
Average liabilities (eg, deposits)

	Total (£m)	Positive contribution to society
2005	1,943	57%
2006	1,953	60%



Average assets (eg, loans and overdrafts)

	Total (£m)	Positive contribution to society
2005	1,995	30%
2006	2,370	28%



Community involvement

Customers Who Care

For every £100 that customers spend on Co-operative Bank credit or debit cards, 1.25p is donated to the Customers Who Care campaign fund. Cumulatively, this fund has shared £3.5m in donations to over 80 charities and organisations since its launch in 1994. Customers are given the opportunity to suggest campaign themes and to nominate recipient charities for fund donations. Furthermore, with its customers' support, the bank has campaigned on a range of important ethical issues that align with its customer-led Ethical Policy; from landmines to human rights and trade justice to safer chemicals (page 97). The bank is currently campaigning on climate change in partnership with Friends of the Earth (pages 80–81).

Assurance statement

Scope and objectives

The Co-operative Group ('the Group') commissioned **csr**network to provide independent assurance of 'The Co-operative Group 2006 Sustainability Report' ('the Report'). The objectives of the assurance process were to check claims made within the Report and the systems in place for the collection of data, and to review the arrangements for the management and reporting of sustainability issues (taken to include social, ethical, ecological and governance matters). The assurance process was conducted in accordance with the AA1000 Assurance Standard, and we have commented on the completeness, materiality and responsiveness of the Report. We have relied on the work of KPMG regarding claims based on financial information from the Group's Annual Report and Accounts, which they audited.

Responsibilities of the directors of The Co-operative Group and of the assurance providers

The directors of The Co-operative Group have sole responsibility for the content of the Report. This statement is **csr**network's opinion of the Report and is intended to inform the Group's stakeholders, including management. We aim to adopt a balanced approach towards all the Group's stakeholders. We were not involved in the preparation of any part of the Report, although we did provide feedback on initial drafts.

csrnetwork's fees for this work were £56,675 excluding VAT. **csr**network has one other relationship with the Group[1]. While this is the first year that **csr**network has acted as assurance provider for the Group, members of our team have acted as assurance providers to Co-operative Financial Services (CFS[2]) for the last three years and to The Co-operative Bank for its Partnership Report for the six years prior to that.

The assurance team comprised Mark Line, Richard Evans, Adrian Henriques, Judith Murphy and Anne Euler. Further information relating to the team, including Statements of Competencies and of Impartiality, can be found at: www.csrnetwork.com

Basis of our opinion

As this is the first year that **csr**network has considered the Group's Report, an important element of our work included developing an understanding of existing and emerging systems. All sections of the Report were reviewed with a focus on those areas that we assessed as most material to stakeholders. We agreed with management that the areas requiring particular focus were human rights and labour standards, animal welfare, transport emissions and waste data.

Our work was designed to gather evidence on which to base our conclusions. We undertook the following activities:

- a top level review of issues raised by external parties that could be relevant to the Group's policies to provide a check on the appropriateness of statements made in the Report;
- discussion with relevant managers on the Group's approach to stakeholder engagement. We had no direct contact with external stakeholders;
- review of key organisational developments;
- review of the extent and maturity of relevant accounting systems;
- review of the findings of relevant internal audit activity;
- the verification of key data and claims made in the Report[3] through meetings with managers in the Corporate Affairs and Social Goals team responsible for gathering data;
- review of the processes for gathering and ensuring the accuracy of data;
- review of supporting evidence for claims made in the Report; and
- an assessment of the company's reporting and management processes against the principles of completeness, materiality and responsiveness as described in the AA1000 Assurance Standard.

Observations

Our overall opinion is that the Report is a fair and balanced description of the Group's impacts during 2006.

The Group's management intends to focus resources on the issues prioritised by the new Group-wide Social Goals Strategy. This is welcome, as it should lead to greater clarity regarding the management of the Group's material impacts, while helping to achieve the stated aim of improving the quality of sustainability accounting and reporting.

On the basis of the work undertaken, the information provided to us and with the exception of the points noted below, nothing came to our attention to suggest that the Report does not properly describe:

- the completeness and accuracy of the Group's sustainability impacts on its stakeholders. This includes the extent to which the Group has systems in place to understand its impacts and stakeholders' expectations;
- the Group's material impacts on its stakeholders, such that stakeholders are able to make informed judgments on the basis of its content; and
- the Group's responses to stakeholder concerns.

1 **csr**network was the research partner for a series of Accountability Ratings™ that were undertaken for The Co-operative Group and CFS over the period October 2005 to February 2007.

2 CFS includes The Co-operative Bank plc ('the bank') and Co-operative Insurance. The bank is taken to include all aspects of **smile**. This year, disclosures regarding CFS are included in the Report and have not been reported separately.

3 We reviewed a final draft of the report on 7 August 2007.

A detailed review against the principles of the AA1000 Assurance Standard is set out below.

Completeness

The Report represents a major improvement over previous years' reports in the range and detail of issues covered. New disclosures around the approach to materiality and elected members' activity and influence are two specific examples of this improved completeness.

Overall, there is evidence of continuing strong progress in the development of environmental management accounting systems across the Group, building on experience gained primarily within CFS. This includes efforts to develop a complete account of climate change-related impacts. However, further work remains to address a number of uncertainties in environmental data, so that appropriate planning, reporting and target-setting can be fully supported. The quality of operational waste management systems and data, in particular, currently limit the Group's ability to properly understand its patterns of waste generation.

The processes and monitoring systems in place to ensure the ongoing, effective implementation of the bank's Ethical Policy have reached a mature state and are producing consistently reliable results. We believe that the work done and evidence acquired by the Ethical Policy Unit (EPU), in respect of bank Ethical Policy implementation, justify the decisions made. This reflects not only the excellent quality of work in the EPU, but also an effective level of awareness across the bank's corporate and commercial departments and the bank network. In some areas, systems for collating data are manual or require significant manual adjustments, which bring an increased potential for error and mis-statement in the Report. In particular, this is an issue for some datasets in the Animal Welfare, Customers, Diet and Health, Human Rights and Labour Standards sections of the Report. Additional work is needed to enhance reporting systems and to improve further the reliability of future reports.

Materiality

We believe the Report identifies the issues material to the Group's stakeholders, with the exception of the health and safety of employees, which is given some coverage in the Group Annual Report. We welcome the new sections on chemicals and social exclusion, the considerable expansion of reporting in the area of biodiversity and the expanded disclosure of animal welfare issues.

In certain areas, however, additional explanation of the Group's reported performance would be appropriate. These areas include the risk assessment process used to select suppliers for labour standards audits, the level of staff turnover in stores, the level of financial support for the Co-operative Party and the manner in which sustainability issues affect Co-operative Insurance's investment decisions.

Responsiveness

The Co-operative Group is a member-driven organisation; its members include customers and staff, as well as other co-operative organisations. This co-operative structure encourages and nurtures a much higher degree of responsiveness than the majority of businesses. The report describes the powerful role of the Values & Principles Committee, which is composed of non-executive directors drawn from the membership. The arrangement is very unusual amongst large businesses and provides a unique opportunity to strengthen stakeholder governance. We welcome the Group's attempts to articulate its responsiveness to members and look forward to fuller accounting in the future.

In some areas, such as ethical finance, the Group has consistently taken the lead, with stakeholders informing the development of Ethical Policies that affect banking decisions and the programme of shareholder activism. We note the work underway to develop a member-led Ethical Policy for The Co-operative Food and the opportunity it affords to further enhance the Group's responsiveness to stakeholder concerns. In many, but not all, areas, the Group has achieved its targets, which is welcome. However, in some areas where targets have not been met, it would be helpful to have a fuller explanation. Finally, we welcome the significant reductions in climate change emissions. Together with the progress on carbon accounting, this provides a firm, quantified basis for determining future priorities in this area.

csrnetwork ltd — UK August 2007

Mark Line	Richard Evans	Adrian Henriques	Judith Murphy	Anne Euler
Director	Principal Associate	Principal Associate	Senior Consultant	Consultant

Access for all

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