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
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).

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 — retail 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, whilst David Anderson continues as Chief Executive of Co-operative Financial Services.

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, Pharmacy, Travel, Property, E-store (non Food), Sunwin Motors, Sunwin Services (cash in transit), Shoebury, Legal Services, Co-operative Farms and Mandate.
2 With responsibility for CFS, including The Co-operative Bank (including smile and Co-operative Insurance).
Contents

2 The Co-operative Group during 2006 at a glance
An overview of the Group’s principal businesses, their operating profit and revenue.

3 Vision and values
The Group’s vision, aims, objective and values and principles.

4 Chief Executives’ overviews
The Trading Group Chief Executive, Peter Marks, and CFS Chief Executive, David Anderson, review progress towards sustainable development in 2006 and outline the Group’s vision and priorities for 2007 and beyond.

6 Sustainable Development Policy
The Group’s approach to sustainable development.

7 Approach to reporting
Details how the Group reports on performance.

Performance

8 Indicators of co-operative, social and environmental performance
The indicators used by the Group to chart its progress against a range of co-operative, social and environmental issues.

10 Governance
A look at the governance, management and reporting systems that underpin the Group’s commitment to sustainable business development and the democratic role played by members in shaping the business.

24 Social responsibility
How the Group approaches its social responsibilities in the areas of labour standards and human rights, animal welfare, diet and health, ethical finance, social exclusion, diversity and community investment.

69 Ecological sustainability
How the Group strives towards ecological sustainability in the areas of climate change, waste and packaging, biodiversity and persistent, bioaccumulative and toxic chemicals.

98 Employees and customers
How the Group performs against its key performance indicators of growing customer loyalty and colleague engagement.

Assurance

111 Auditor’s assurance statement
Independent auditors, csr network, comment on the completeness, materiality and responsiveness of the Report, in accordance with the AA1000 Assurance Standard.
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 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

Business
- CFS (134.0)
- Property (105.6)
- Food (82.9)
- Other (62.7)
- Pharmacy (52.9)
- Funeralcare (47.7)
- Farms (3.0)

Net revenue (£m)^2

Business
- Food (3,037.8)
- CFS (1,947.2)
- Other (1,524.2)

For breakdown, please refer to pie chart below.

Other (breakdown) Net revenue (£m)^3

Business
- Pharmacy (342.0)
- Funeralcare (196.7)
- Travel (109.7)
- Shoefayre (61.7)
- Property (23.7)
- Farms (23.0)
- Mandate clothing (6.0)
- Legal Services (1.9)

* 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
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.

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.
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.
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 — i.e., 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.

Sustainable Development Policy
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.

Energy: carbon dioxide emissions
- Targets 2007: Reduce energy consumption by 20% by 2010 and by 25% by 2012, based on 2005 levels,
- Progress: carbon footprinting pilot project with the Carbon Trust.
- Establishing a baseline for the Carbon Trust.
- Obtain carbon neutrality across CFS by offsetting all of its remaining operational and business travel emissions during 2007.
- 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.

Subject: Indicators are grouped together under a themed subject.

Climate change

Background
The Co-operative Group has, arguably, done as much as any other UK business to tackle to its contribution to climate change. 2006 proved to be a vaster 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 and the reduction in permafrost cover in the Arctic as indicated in the IPCC Fifth Assessment Report.
- The Stern Review 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.

In February 2007, the United Nations’ Intergovernmental Panel on Climate Change, Fourth Assessment Report highlighted the scale of scientific consensus that now exists around the risks and influences of the climate.

Key findings included:
- The atmospheric concentration of CO2 in 2005 (380 parts per million) is 450% higher than the level that would have existed if all human activities had not occurred since 1750.

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

1 Additionally, a further target seeking a reduction in water consumption was set for attainment in 2006. As a result of the realisation of environmental activities (page 73), water use is no longer reported on.

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
Indicators of co-operative, social and environmental performance

Governance

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

Social responsibility

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

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.
## Ecological sustainability

<table>
<thead>
<tr>
<th>No.</th>
<th>Derivation</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>31</td>
<td>Energy: carbon dioxide emissions</td>
<td>73</td>
</tr>
<tr>
<td>32</td>
<td>Energy usage</td>
<td>73</td>
</tr>
<tr>
<td>33</td>
<td>Transport: distribution/business mileage</td>
<td>76</td>
</tr>
<tr>
<td>34</td>
<td>Transport: carbon dioxide emissions</td>
<td>76</td>
</tr>
<tr>
<td>35</td>
<td>Carbon offset: products and operations</td>
<td>78</td>
</tr>
<tr>
<td>36</td>
<td>Waste disposed</td>
<td>83</td>
</tr>
<tr>
<td>37</td>
<td>Waste re-used/recycled</td>
<td>85</td>
</tr>
<tr>
<td>38</td>
<td>Proportion of waste re-used/recycled</td>
<td>85</td>
</tr>
<tr>
<td>39</td>
<td>MSC-certified fish species sold</td>
<td>89</td>
</tr>
<tr>
<td>40</td>
<td>MCS ‘fish to avoid’ species sold</td>
<td>89</td>
</tr>
<tr>
<td>41</td>
<td>FSC-certified timber products sold</td>
<td>90</td>
</tr>
<tr>
<td>42</td>
<td>Peat content of growing media sold</td>
<td>91</td>
</tr>
<tr>
<td>43</td>
<td>Biodiversity initiatives: Farms</td>
<td>91</td>
</tr>
<tr>
<td>44</td>
<td>Biodiversity enhancement: CFS</td>
<td>92</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>No.</th>
<th>Derivation</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>45</td>
<td>PBT reduction: Food</td>
<td>93</td>
</tr>
<tr>
<td>46</td>
<td>PBT reduction: Non-Food</td>
<td>97</td>
</tr>
<tr>
<td>47</td>
<td>PBT reduction: Co-operative Group goods not for resale</td>
<td>97</td>
</tr>
</tbody>
</table>

## Employees and customers

<table>
<thead>
<tr>
<th>No.</th>
<th>Derivation</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>48</td>
<td>Colleague engagement</td>
<td>100</td>
</tr>
<tr>
<td>49</td>
<td>Employee turnover</td>
<td>101</td>
</tr>
<tr>
<td>50</td>
<td>Trade union recognition</td>
<td>101</td>
</tr>
<tr>
<td>51</td>
<td>Organisational change</td>
<td>101</td>
</tr>
<tr>
<td>52</td>
<td>Personal development and training</td>
<td>102</td>
</tr>
<tr>
<td>53</td>
<td>Salary and benefits</td>
<td>103</td>
</tr>
<tr>
<td>54</td>
<td>Work/life balance</td>
<td>104</td>
</tr>
<tr>
<td>55</td>
<td>Health and well-being</td>
<td>104</td>
</tr>
<tr>
<td>56</td>
<td>Customer satisfaction: Food, Pharmacy, Travel and CFS</td>
<td>107</td>
</tr>
<tr>
<td>57</td>
<td>Corporate and business banking customer profile</td>
<td>109</td>
</tr>
</tbody>
</table>
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.
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 food with 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 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 waste, 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. 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.

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, 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 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. 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/vandp

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.
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 and Co-operative Financial Services 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 (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.

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.
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 Food17. This will focus on responsible customer/member-mandated ethical policies in early 2007, a project was initiated to develop an analogous member-mandated Ethical Policy for Co-operative Food17. This will focus on responsible retailing and goods for resale, and will, ultimately, supersede the previous series of Viewpoints18. 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 activity19. 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 employees20. 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 UK21.

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...
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)\(^2\) 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 csrnetwork 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\(^2\). 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\(^2\) 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\(^2\). A pilot version of the Sector Supplement was released in November...
2002\textsuperscript{26}, the first of any sector. Early in 2004, a similar project was initiated in collaboration with the UNEP Finance Initiative\textsuperscript{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\textsuperscript{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\textsuperscript{29} was developed, drawing from the body of experience that has emerged following the launch of the standard in 2003.

\textsuperscript{26} [www.globalreporting.org](http://www.globalreporting.org)
\textsuperscript{27} [www.unepfi.org](http://www.unepfi.org)
\textsuperscript{28} [www.co-operative.co.uk/corporate/sustainability/gri](http://www.co-operative.co.uk/corporate/sustainability/gri)
\textsuperscript{29} [www.accountability21.net](http://www.accountability21.net)
Modern co-operation

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 £5,000,000 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 (i.e., 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. 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

<table>
<thead>
<tr>
<th></th>
<th>In respect of 2005 (£m)</th>
<th>In respect of 2006 (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual members</td>
<td>9.9</td>
<td>18.9</td>
</tr>
<tr>
<td>Corporate members</td>
<td>15</td>
<td>15.1</td>
</tr>
<tr>
<td>Community dividend</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Employee dividend</td>
<td>1.7</td>
<td>6.3</td>
</tr>
</tbody>
</table>

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

### Members transacting with the Group

<table>
<thead>
<tr>
<th>Year</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>613,000</td>
<td>613,000</td>
<td>796,000</td>
<td>1,500,000</td>
</tr>
</tbody>
</table>
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, 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.

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.

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

<table>
<thead>
<tr>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Demosocratically- active members</td>
<td>59,000</td>
<td>64,000</td>
<td>90,000</td>
</tr>
<tr>
<td>Contested area committee elections</td>
<td>23 (46%)</td>
<td>16 (32%)</td>
<td>27 (55%)</td>
</tr>
</tbody>
</table>

Annual general meeting (May 2006) resolutions

<table>
<thead>
<tr>
<th>Region</th>
<th>Motion</th>
<th>Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>South East</td>
<td>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.</td>
<td>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.</td>
</tr>
<tr>
<td>South West</td>
<td>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.</td>
<td>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).</td>
</tr>
<tr>
<td>South West</td>
<td>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.</td>
<td>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.</td>
</tr>
<tr>
<td>Central &amp; Eastern</td>
<td>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.</td>
<td>Board advised that this was recognised as an area of opportunity and indicated that opportunities were being actively pursued.</td>
</tr>
<tr>
<td>Scotland</td>
<td>In line with requirements of Disability Discrimination Act 1995 (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.</td>
<td>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.</td>
</tr>
<tr>
<td>Wales &amp; Borders</td>
<td>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.</td>
<td>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.</td>
</tr>
</tbody>
</table>

Half yearly meeting (October 2006) resolution

<table>
<thead>
<tr>
<th>Region</th>
<th>Motion</th>
<th>Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wales &amp; Borders</td>
<td>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.</td>
<td>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.</td>
</tr>
</tbody>
</table>
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&P 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.

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2004</th>
<th>200510</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total number of area committee members</td>
<td>627</td>
<td>634</td>
<td>630</td>
<td>532</td>
</tr>
<tr>
<td>Female elected members</td>
<td>39%</td>
<td>38%</td>
<td>40%</td>
<td>38%</td>
</tr>
<tr>
<td>Average age of elected members</td>
<td>56</td>
<td>58</td>
<td>56</td>
<td>57</td>
</tr>
<tr>
<td>Ethnic minority elected members</td>
<td>2%</td>
<td>2%</td>
<td>2%</td>
<td>2.4%</td>
</tr>
</tbody>
</table>

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

Support for credit unions is outlined on page 57. Co-operatives and their members, as described below, progress a number of initiatives that support co-operatives and their members, further details of which can be found on the membership section of the website.

Member training and education

The Co-operative Group launched a Member and Director Learning Framework in 2002. 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 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’, ‘ideas, 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 initiatives with representative bodies, including the International Co-operative Alliance, Co-operatives UK, Mutuo and the Co-operative Party. 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 – is available to all member organisations of Co-operatives. 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.

The Co-operative Fund

The Co-operative Fund is financed by the Group’s sponsorship of 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. 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 East, Eastern & Cumbrian – disability equality and carers; Northern – gender and BME; Northern Ireland – BME, disability equality and youth; South East – BME and youth; South West – Cumbria; Wales & Borders – rural isolation and lesbian, gay, bisexual & transgender.
12 www.co-op.ac.uk/membersanddirector.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/coalitionsdirectplus
18 www.co-operative.coop/membership/
19 Following a strategic review, the Co-operative Fund (formerly Co-op Action) reopened to grant submissions in September 2006 with an opening capital of £2.3m. The aim of the Fund is to stimulate 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 Romania Project, £50,000; The South West 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
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, 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, which concluded in 2001, a working group was established by Co-operatives to devise and promote indicators of co-operative and social performance. In May 2004, Co-operatives 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 Practice Guides that provide practical guidance to co-operatives on how to discharge the indicators. These include: ‘how to measure employee and member training’ (indicator 3) and ‘how to consider ethical issues in procurement and investment’ (indicator 7). Additionally, CFS provided further input into the refinement of the overall reporting Guidance Document and Framework. In October 2006, the working group and the 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.
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

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. 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.

It was their top priority. 96% of consumers wanted clear labelling of ingredients, nutritional value and other relevant information.

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. 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.

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 has endorsed sound sourcing, animal welfare, food integrity, health and labelling as priority areas for consideration. Extensive research with customers of Co-operative Insurance and The Co-operative Bank 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 and the sector-specific guidance that CFS helped develop for the financial services sector. Community involvement reporting is consistent with the London Benchmarking Group guidelines (page 66), and the approach to diversity reporting references Opportunity Now, Race for Opportunity, the Employers’ Forum on Disability and the Employers’ Forum on Age in connection with gender, ethnicity, disability and age respectively (page 60).
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).
Labour standards and human rights

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. 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.

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. 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. Such research illustrates the need for a sustained range of solutions, if meaningful change is to be effected.

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1. www.cfs.co.uk/sustainability 2005
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. 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.

Human rights and supply chain issues are also pertinent to CFS’s 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. 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.

The Co-operative Food approach to sound sourcing
The Group was a founding member of the Ethical Trading Initiative (ETI) – 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, developed with reference to the ETI Base Code and the ILO conventions. 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), 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’), 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’, ‘awareness raising and training’, ‘corrective actions’ and ‘management procedures, pricing and incentives’), 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.

1 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.
2 Over four in ten consumers, in the ‘Shopping with Attitude’ 2004 survey (43%) voted in their top three priorities, with 15% indicating that this is their number one issue. Eight in ten say retailers should seek to improve people in developing countries improve their standard of living.
3 The Ethical Investment Research Service (EIRIS), February 2005.
4 ‘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 arms to oppressive regimes – commanded the backing of 89% of Co-operative Insurance customers.
5 www.ethicaltrade.org
6 Subsequently updated in 2001. See www.co-operative.co.uk/ corporate/sustainability/sound sourcing/ethical_conduct
7 www.ethicaltrade.org/0/1/fibrebase/index.shtml
8 www.sedex.org.uk
9 ‘The company is a leader in the field of ethical trade.’
10 ‘Produce comprehensive and credible reports on its supply chain.’
11 ‘Provides appropriate training to all involved in ethical trade and is improving awareness of suppliers and their workers.’
12 ‘Has well-established systems for identifying and following up corrective actions to ensure improvements are being made.’
13 ‘Has a well-established and systematic approach to ethical trading with clear responsibilities and incentives for staff and suppliers.’
According to the ETL, 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 categorize into major and minor.

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

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.

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.

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.

### Major non-conformances arising from sound sourcing assessments, 2006

<table>
<thead>
<tr>
<th>Code of Conduct provisions</th>
<th>Total number of major non-conformances found(^1)</th>
<th>Total number of major non-conformances resolved</th>
<th>Detail of non-conformances resolved</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exploitation of labour</td>
<td>9</td>
<td>6 (67%)</td>
<td>Contract revised between Chinese factory and labour agent and wage-holding clause removed, and restrictions on movement and access progressed in Malawi.</td>
</tr>
<tr>
<td>Freedom of association and collective bargaining</td>
<td>11</td>
<td>7 (64%)</td>
<td>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.</td>
</tr>
<tr>
<td>A safe and hygienic working environment</td>
<td>225</td>
<td>136 (61%)</td>
<td>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, electricity and water (Malawi and Pakistan).</td>
</tr>
<tr>
<td>Child labour(^1)</td>
<td>8</td>
<td>2 (25%)</td>
<td>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.</td>
</tr>
<tr>
<td>Living wages to be paid</td>
<td>44</td>
<td>26 (59%)</td>
<td>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).</td>
</tr>
<tr>
<td>Working hours are not excessive</td>
<td>45</td>
<td>31 (69%)</td>
<td>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).</td>
</tr>
<tr>
<td>No discrimination</td>
<td>6</td>
<td>6 (100%)</td>
<td>Resolutions progressed with two African suppliers in connection with the discrimination of pregnant women and the preferential treatment of particular ethnic groups.</td>
</tr>
<tr>
<td>Regular employment</td>
<td>37</td>
<td>23 (62%)</td>
<td>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).</td>
</tr>
<tr>
<td>No harsh or inhumane treatment</td>
<td>3</td>
<td>1 (33%)</td>
<td>Standardisation and improvement of discipline and termination procedures progressed with supplier in Pakistan.</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>388</strong></td>
<td><strong>238 (61%)</strong></td>
<td>Note: a further 62 (16%) relate to businesses delisted (or soon to be delisted).</td>
</tr>
</tbody>
</table>

**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
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. 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 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
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. 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. 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 to be 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, Christian Aid and Oxfam.

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.
Human rights and labour standards business declines, 2006

<table>
<thead>
<tr>
<th>Business Description</th>
<th>Estimated income foregone 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clothing company <strong>£15m</strong> 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.</td>
<td><strong>£430,000</strong></td>
</tr>
<tr>
<td>Electrical equipment manufacturer <strong>£10m</strong> 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.</td>
<td><strong>£290,000</strong></td>
</tr>
<tr>
<td>Container ports and ferries <strong>£25m</strong> 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.</td>
<td><strong>£270,000</strong></td>
</tr>
<tr>
<td>Hotel operator <strong>£20m</strong> 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.</td>
<td><strong>£520,000</strong></td>
</tr>
<tr>
<td>Defence and aerospace company <strong>£1m</strong> 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.</td>
<td><strong>£23,000</strong></td>
</tr>
<tr>
<td>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.</td>
<td><strong>£500</strong></td>
</tr>
</tbody>
</table>

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.

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. 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.”


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. 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.
Animal welfare

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.

• 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 chickens¹ and 4.5 million pigs² are produced in the UK every year. In addition, there are around 30 million hens involved in egg production³. 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 year⁴. 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 Britain⁵.

Assurance of food production

Animal testing of toiletry and household products

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.

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).

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.

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 Mark7.

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 practice8.

Base-level farm assurance standards
The Red Tractor Mark9 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 products10. 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 products13. 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 96% 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.

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 Assurance. Not all assured producers bear 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.sustainable.org/pdf/06_04_05b.pdf

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

<table>
<thead>
<tr>
<th>Own-brand shell eggs</th>
<th>88%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Country of origin</td>
<td>100% UK</td>
</tr>
<tr>
<td>Freedom Food free-range eggs</td>
<td>74%</td>
</tr>
<tr>
<td>Farm assurance (Lion egg) standard(^{17})</td>
<td>16%</td>
</tr>
<tr>
<td>Organic (Organic Farmers and Growers/Organic Food Federation)</td>
<td>10%</td>
</tr>
</tbody>
</table>

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\(^{19}\)

<table>
<thead>
<tr>
<th>Own-brand fresh milk</th>
<th>88%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Country of origin</td>
<td>100% UK</td>
</tr>
<tr>
<td>National Dairy Farm Assured(^{20})</td>
<td>98%</td>
</tr>
<tr>
<td>Organic (Soil Association)</td>
<td>2%</td>
</tr>
</tbody>
</table>

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
The Cooperative Group
Sustainability report 2006

Poultry production

<table>
<thead>
<tr>
<th>Own-brand fresh chicken</th>
<th>% off fresh chicken sales</th>
<th>86%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Country of origin</td>
<td></td>
<td></td>
</tr>
<tr>
<td>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.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Farm Assurance Standard</td>
<td>99%</td>
<td></td>
</tr>
<tr>
<td>Freedom Food</td>
<td>1%</td>
<td></td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Own-brand fresh pork</th>
<th>% off fresh pork sales</th>
<th>70%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Country of origin</td>
<td></td>
<td></td>
</tr>
<tr>
<td>90% UK</td>
<td></td>
<td></td>
</tr>
<tr>
<td>10% EU (Denmark/Holland)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Assured British Pig/UK Contract</td>
<td>99%</td>
<td></td>
</tr>
<tr>
<td>Freedom Food</td>
<td>1%</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Own-brand fresh bacon</th>
<th>% off fresh bacon sales</th>
<th>68%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Country of origin</td>
<td></td>
<td></td>
</tr>
<tr>
<td>45% UK</td>
<td></td>
<td></td>
</tr>
<tr>
<td>55% EU (Denmark/Holland)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Assured British Pig/UK Contract</td>
<td>95%</td>
<td></td>
</tr>
<tr>
<td>Freedom Food</td>
<td>5%</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Own-brand fresh sausage</th>
<th>% off fresh sausage sales</th>
<th>53%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Country of origin</td>
<td></td>
<td></td>
</tr>
<tr>
<td>65% UK</td>
<td></td>
<td></td>
</tr>
<tr>
<td>35% EU (Denmark/Holland)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Assured British Pig/UK Contract</td>
<td>88%</td>
<td></td>
</tr>
<tr>
<td>Freedom Food</td>
<td>12%</td>
<td></td>
</tr>
</tbody>
</table>

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 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. 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.

Animal welfare

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/sustainable/animalfeed
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.

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 (i.e., 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.

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.

Animal welfare

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.

<table>
<thead>
<tr>
<th>Animal welfare business declines, 2006</th>
<th>Estimated income foregone 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pig producer</td>
<td>£15m contribution to a syndicated loan facility for a global business involved in the intensive indoor production of 16 million pigs per annum.</td>
</tr>
<tr>
<td>Household cleaning product manufacturer (three instances)</td>
<td>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.</td>
</tr>
<tr>
<td>Chicken factory</td>
<td>Provision of banking facilities to business involved in production of 790,000 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.</td>
</tr>
<tr>
<td>Food manufacturer (two instances)</td>
<td>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.</td>
</tr>
<tr>
<td>Cosmetic product manufacturer</td>
<td>£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.</td>
</tr>
</tbody>
</table>
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’.
### 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 (e.g., 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.
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

Research undertaken by NOP on behalf of The Co-operative Food in 2005 revealed that 65% of parents harboured concerns regarding additives and a third linked their children’s diet to hyperactivity, roughness, anger and lack of concentration.

The Group would like to ban Vegetable Carbon/Carbon Black (E153) and Annato/Annatto Oil (E160b), but recognises that they are used in the colouring of red cheeese. 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’.

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) from its own-brand products.

The Group has, furthermore, investigated the possibility of removing the preservatives benzoic acid, benzates, nitriles 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.’


## Additives

Many customers are concerned that artificial food additives could be harmful and/or unnecessary.

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, the 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. 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/Chinoline Red A (E124), Red 2G (E128), Allura Red AC (E129), Brilliant Black BN/Black PN (E151), Brown FK (E154), Brown HT (E155), Alumium (E173), Silver (E174), Gold (E175), Quinoline Yellow (E104), Cinnoline/Carmine Acid/Carmines (E120), Erythrosine (E127), Patent Blue V (E131), Indigo/Indigo Carmine (E132), Brilliant Blue FCF (E133), Green S (E142), Canthaxanthin (E161g), Latholrubine (E180).

### Basic assurance

All Co-operative own-brand fruit, vegetables and salad produced in the UK meet the terms of the Assured Produce Scheme (APS), 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.

### Nutritional content

The Government’s food and health action plan 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.

### Salt

Following the publication of the Food Standards Agency’s salt model in 2003, 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.

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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 65% of parents harboured concerns regarding additives and a third linked their children’s diet to hyperactivity, roughness, anger and lack of concentration.

3. The Group would like to ban Vegetable Carbon/Carbon Black (E153) and Annato/Annatto Oil (E160b), but recognises that they are used in the colouring of red cheeese. 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

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**For 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.
Progress against FSA sodium targets in priority areas

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

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

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

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).

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).
Diet and health

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 services11. 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 products12.

The Co-operative Food’s policy is to display the information requirements stipulated by the Food Labelling Regulations 199613 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 signposting14. 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 study15, 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 health16, including “Get Cooking, Get Shopping” – a resource pack for developing community-based cooking and shopping skills17. 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 salt18. 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.
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, 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. 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 and one covering Cardiff and Newport. 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, 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 – 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: 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
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**

**Socially responsible investment: Bank**
- Consider and progress further improvements to training materials and to the monitoring of compliance records. Target achieved.

**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.

**Targets 2007**
- Consider and, if merited, progress a further round of consultation with customers and members on the bank’s Ethical Policy.

**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 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 Co-operative Group’s sustainability auditors, csrnetwork, 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.

The Policy stipulates who the bank will and will not finance, as directed by customers. It covers all of the bank’s assets (e.g., retail and syndicated loans, and corporate leasing) and liabilities (e.g., 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 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, 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, csrnetwork, 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).

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 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).

Research undertaken by the Ethical Consumer Research Association 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

<table>
<thead>
<tr>
<th>Human rights and development</th>
<th>Estimated income foregone 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>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 arms to oppressive regimes and the failure to comply with basic labour standards. For further details see pages 32–33.</td>
<td>£1,533,500</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Animal welfare</th>
<th>Estimated income foregone 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>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.</td>
<td>£696,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Ecological impact</th>
<th>Estimated income foregone 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>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.</td>
<td>£587,500</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Diversity</th>
<th>Estimated income foregone 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>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.</td>
<td>£500</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Financial inclusion</th>
<th>Estimated income foregone 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>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.</td>
<td>£101,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Other</th>
<th>Estimated income foregone 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>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.</td>
<td>–</td>
</tr>
</tbody>
</table>

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.
**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.

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**BENCHMARK**

UK general public’s SEE rating of financial providers

<table>
<thead>
<tr>
<th>Year</th>
<th>Ranking</th>
<th>Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>1 (11%)</td>
<td>The Co-operative Bank</td>
</tr>
<tr>
<td>2005</td>
<td>1 (12%)</td>
<td>HSBC</td>
</tr>
<tr>
<td>2006</td>
<td>1 (12%)</td>
<td>Co-operative Insurance</td>
</tr>
<tr>
<td>2007</td>
<td>1 (11%)</td>
<td>The Co-operative Bank</td>
</tr>
</tbody>
</table>

Source: NOP World (February 2006)
Survey of UK general public’s unprompted awareness of CSR. All adults aged 18+.

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**Co-operative Insurance – ethical & sustainability engagement, 2006**

<table>
<thead>
<tr>
<th>Concern</th>
<th>Companies</th>
<th>Push for change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Human rights (labour standards)</td>
<td>Travel FirstGroup plc</td>
<td>Co-filed a shareholder resolution requiring the implementation of a workplace human rights labour policy based on ILO core conventions (page 34).</td>
</tr>
<tr>
<td>Human rights (the arms trade)</td>
<td>Defence BAE systems</td>
<td>Asked to cease sale of weaponry to oppressive regimes and improve reporting on export controls, political donations and corruption controls (page 33).</td>
</tr>
<tr>
<td>Animal welfare (fur trade)</td>
<td>Retailers Burberry French Connection Group plc</td>
<td>Asked to cease trading in fur and to publicly confirm policy (page 41).</td>
</tr>
<tr>
<td>Energy (climate change)</td>
<td>Energy users Alliance Boots, Scottish and Southern Energy, Reckitt Benckiser, BAT, Imperial Tobacco, Johnson Matthey, Slough Estates, St Modwen, Sainsbury’s and Kingfisher</td>
<td>Asked to endorse better planning regime in UK to enable greater growth of wind power (page 80).</td>
</tr>
<tr>
<td>Biodiversity (palm oil)</td>
<td>Retailers/manufacturers Tesco, Morrisons, Johnson &amp; Johnson and Royal Dutch Shell</td>
<td>Companies encouraged to join the Roundtable on Sustainable Palm Oil (page 92).</td>
</tr>
</tbody>
</table>

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Commissioned by The Co-operative Group as one of the two measures supporting CFS’ KPI of market leading social responsibility (page 13).
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, 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-termsim 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 outcomes5. 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 investment10. 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 companies22 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: 688) 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 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 51,508,178 and Euroimoney Institutional Investor plc £403,068.
9 www.cis.co.uk/images/pdfs/voting_guide.pdf
10 www.abi.org.uk/Display/File/65/SPI_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.
Voted 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 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.

Research undertaken by KPMG LLP (UK) and Lintstock 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…”

### Executive remuneration

In 2006, share option schemes decreased in popularity 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.

### 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 the use of the ballot box by Co-operative Insurance was in marked contrast to that of other “activist” investors.”

### Co-operative Insurance – UK voting

<table>
<thead>
<tr>
<th>Category</th>
<th>Resolutions tabled by management</th>
<th>CIS votes against resolution and management</th>
<th>CIS abstains on resolution and against management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Report and accounts</td>
<td>704</td>
<td>746</td>
<td>619</td>
</tr>
<tr>
<td>Board independence – director election</td>
<td>2,520</td>
<td>2,747</td>
<td>2,330</td>
</tr>
<tr>
<td>Remuneration report: executive</td>
<td>666</td>
<td>711</td>
<td>571</td>
</tr>
<tr>
<td>Shares: executive incentives</td>
<td>297</td>
<td>288</td>
<td>229</td>
</tr>
<tr>
<td>Political donations</td>
<td>114</td>
<td>146</td>
<td>173</td>
</tr>
<tr>
<td>Other governance</td>
<td>3,922</td>
<td>4,420</td>
<td>3,769</td>
</tr>
<tr>
<td>Total</td>
<td>8,223</td>
<td>9,058</td>
<td>7,691</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Votes against</td>
<td>9</td>
<td>20</td>
<td>74</td>
<td>40</td>
</tr>
<tr>
<td>Abstentions</td>
<td>28</td>
<td>161</td>
<td>95</td>
<td>38</td>
</tr>
</tbody>
</table>
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: 34) 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 three instances, 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...
co- operative insurance – overseas voting

<table>
<thead>
<tr>
<th>Ethical Engagement Policy category</th>
<th>Number of resolutions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Animal welfare</td>
<td>8</td>
</tr>
<tr>
<td>Consumer protection</td>
<td>3</td>
</tr>
<tr>
<td>Environmental sustainability</td>
<td>9</td>
</tr>
<tr>
<td>Genetic modification</td>
<td>3</td>
</tr>
<tr>
<td>Human rights and armaments</td>
<td>4</td>
</tr>
<tr>
<td>Trade and labour rights</td>
<td>18</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>45</strong></td>
</tr>
</tbody>
</table>

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.

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

<table>
<thead>
<tr>
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<th></th>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>762</td>
<td>460</td>
<td>479</td>
<td>295</td>
<td>62</td>
<td>3</td>
<td>135</td>
<td>140</td>
<td>6</td>
<td>80</td>
</tr>
</tbody>
</table>

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

Produced using Hindsight 5 by QFS Management Services.

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 QFS Management Services.


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.

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)\(^\text{30}\), 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.

Products and services

Sustainable Leaders Trust

Re-launched in 2005, Sustainable Leaders Trust (SLT)\(^\text{27}\) 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. 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\(^\text{28}\). 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\(^\text{29}\).

Co-operative Insurance – overseas voting

<table>
<thead>
<tr>
<th>Category</th>
<th>Total</th>
<th>CIS against resolution and management</th>
<th>CIS absent on resolution and against management</th>
<th>CIS for independent resolution and against management</th>
<th>CIS absent on independent resolution and for management</th>
<th>CIS against independent resolution and for management</th>
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<tbody>
<tr>
<td>Board composition and election of Directors</td>
<td>181</td>
<td>114</td>
<td>71</td>
<td>58</td>
<td>51</td>
<td>2</td>
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<tr>
<td>Remuneration</td>
<td>186</td>
<td>100</td>
<td>131</td>
<td>69</td>
<td>4</td>
<td>1</td>
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<tr>
<td>Other governance</td>
<td>317</td>
<td>192</td>
<td>277</td>
<td>168</td>
<td>7</td>
<td>0</td>
</tr>
<tr>
<td>Political contributions</td>
<td>20</td>
<td>9</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>18</td>
</tr>
<tr>
<td>Ethics and sustainability</td>
<td>58</td>
<td>48</td>
<td>0</td>
<td>0</td>
<td>41</td>
<td>44</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>762</strong></td>
<td><strong>460</strong></td>
<td><strong>479</strong></td>
<td><strong>295</strong></td>
<td><strong>62</strong></td>
<td><strong>3</strong></td>
</tr>
</tbody>
</table>

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.
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 (ABCUŁ) 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 ABCUŁ 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. 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. 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. 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. 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.

2. www.ica.coop/coop/principles.html
3. www.co-operative.co.uk/corporate/reportsandpublications/
4. Deprieved areas correspond with the top 20% of areas identified in the Indices of Deprivation 2004 (www.neighbourhood.gov.uk/page.asp?id=1067)
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. 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, 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 Co-operative Group’s 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. 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 Family and Value Credit Unions, with a grant of £30,000.
Banking support for small business\(^8\) in deprived areas\(^9\)

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>Industry average 2006(^{10})</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business current accounts</td>
<td>8.8%</td>
<td>8.6%</td>
<td>9.7%</td>
<td>9.1%</td>
<td>4.7%</td>
</tr>
<tr>
<td>Overdrafts</td>
<td>5.8%</td>
<td>8.8%</td>
<td>8.8%</td>
<td>9.1%</td>
<td>4.4%</td>
</tr>
<tr>
<td>Loans</td>
<td>7.3%</td>
<td>7.8%</td>
<td>7.6%</td>
<td>9.0%</td>
<td>4.0%</td>
</tr>
<tr>
<td>Loan and overdraft balances</td>
<td>10.4%</td>
<td>12.4%</td>
<td>9.0%</td>
<td>16.2%</td>
<td>4.4%</td>
</tr>
<tr>
<td>Deposit and current account balances</td>
<td>16.9%</td>
<td>12.2%</td>
<td>9.1%</td>
<td>12.2%</td>
<td>Not available</td>
</tr>
</tbody>
</table>

### 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.
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; by 2010, the UK’s workforce will increase by 300,000 – with women accounting for over 80% of this growth; and, by 2020, the number of people aged 50 and over is expected to increase by 20% or 4.7 million.

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%) 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
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.
Proportion of female employees and female managers

<table>
<thead>
<tr>
<th></th>
<th>Female employees</th>
<th>Female managers</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Trading Group</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2005</td>
<td>61%</td>
<td>52%</td>
</tr>
<tr>
<td>2006</td>
<td>63%</td>
<td>54%</td>
</tr>
<tr>
<td><strong>CFS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2005</td>
<td>45%</td>
<td>38%</td>
</tr>
<tr>
<td>2006</td>
<td>47%</td>
<td>39%</td>
</tr>
</tbody>
</table>

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.

**Proportion of employees and managers from ethnic minority groups**

<table>
<thead>
<tr>
<th></th>
<th>Employees from ethnic minority groups</th>
<th>Managers from ethnic minority groups</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Trading Group</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2005</td>
<td>10%</td>
<td>7%</td>
</tr>
<tr>
<td>2006</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td><strong>CFS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2005</td>
<td>5.5%</td>
<td>2.5%</td>
</tr>
<tr>
<td>2006</td>
<td>5.8%</td>
<td>2.8%</td>
</tr>
</tbody>
</table>

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.
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.

**Benchmark** In 2006, Trading Group’s performance was again submitted to Race for Opportunity (RfO) for assessment and benchmarking. 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.

**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, which advises on recruiting and retaining disabled employees and on serving disabled customers.

**Proportion of employees declaring a disability**

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trading Group</td>
<td>0.4%</td>
<td>0.3%</td>
</tr>
<tr>
<td>CFS</td>
<td>2.2%</td>
<td>2.8%</td>
</tr>
</tbody>
</table>

**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. 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. Trading Group and CFS are both members of the Employers’ Forum on Age, 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.

**Proportion of staff in each age band**

<table>
<thead>
<tr>
<th></th>
<th>&lt;24</th>
<th>25-34</th>
<th>35-49</th>
<th>50-65</th>
<th>65+</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trading Group</td>
<td>2005</td>
<td>29%</td>
<td>18%</td>
<td>31%</td>
<td>22%</td>
</tr>
<tr>
<td></td>
<td>2006</td>
<td>29%</td>
<td>18%</td>
<td>31%</td>
<td>21%</td>
</tr>
<tr>
<td>CFS</td>
<td>2005</td>
<td>15%</td>
<td>27%</td>
<td>43%</td>
<td>15%</td>
</tr>
<tr>
<td></td>
<td>2006</td>
<td>18%</td>
<td>27%</td>
<td>40%</td>
<td>15%</td>
</tr>
</tbody>
</table>
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].
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.

Community involvement
Victim support
In June 2006, in partnership with Co-operative Insurance, Victim Support published a major new research report, Crime and Prejudice. 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.

Diversity business declines, 2006

<table>
<thead>
<tr>
<th>Internet retailer</th>
<th>Estimated income foregone 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>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).</td>
<td>£500</td>
</tr>
</tbody>
</table>

Help the Aged credit cards
In 1988, the bank launched a range of Help the Aged credit cards. 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 investment

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. 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 Fund2 and the Co-operative Fund3 (page 22) as well as the bank’s Customers Who Care programme4 (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

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of requests</td>
<td>3,586</td>
<td>4,381</td>
</tr>
<tr>
<td>Number of awards</td>
<td>2,016</td>
<td>2,163</td>
</tr>
<tr>
<td>Total disbursed</td>
<td>£1,437,663</td>
<td>£1,242,479</td>
</tr>
<tr>
<td>Average request</td>
<td>£1,727</td>
<td>£1,684</td>
</tr>
<tr>
<td>Average award</td>
<td>£713</td>
<td>£574</td>
</tr>
</tbody>
</table>

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.
The Co-operative Group measures and reports on its community contributions using the London Benchmarking Group (LBG) 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).

### Total community contributions

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006 (CFS)</th>
<th>2006 (Group)*</th>
<th>2006 (CFS)</th>
<th>2006 (Group)*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contributions</td>
<td>8.1</td>
<td>7.3</td>
<td>7.2</td>
<td>3.8</td>
<td>7.1</td>
<td>4.9</td>
<td>8.5</td>
</tr>
<tr>
<td>As % pre-tax profit</td>
<td>2.5</td>
<td>3.2</td>
<td>2.8</td>
<td>2.9</td>
<td>2.2</td>
<td>3.7</td>
<td>2.7</td>
</tr>
</tbody>
</table>

### Breakdown of community contributions

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

* includes CFS
Top ten community contributions: origin

<table>
<thead>
<tr>
<th>Bank affinity cards</th>
<th>Contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>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.</td>
<td>£1,564,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Group profit distribution</th>
<th>Contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>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.</td>
<td>£500,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Bank Customers Who Care (CWC) programme</th>
<th>Contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>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).</td>
<td>£277,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Bank ‘fair share’ debt counselling contributions</th>
<th>Contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>The bank provides ‘fair share’ contributions to industry-wide debt counselling bodies.</td>
<td>£212,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CIS sponsorship of grassroots sport</th>
<th>Contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>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.</td>
<td>£162,607</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Group carbon offset payments</th>
<th>Contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>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).</td>
<td>£38,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Co-operative Food One water</th>
<th>Contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>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.</td>
<td>£52,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>smile marketing communications</th>
<th>Contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>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’.</td>
<td>£46,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>The Co-operative Pharmacy Community Health Fund</th>
<th>Contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>The fund makes awards of £100–£2,000 to health-related causes in West Yorkshire and South Wales (page 47).</td>
<td>£40,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Bank Community Directplus Customer Fund</th>
<th>Contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>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.</td>
<td>£21,000</td>
</tr>
</tbody>
</table>

Community contributions: top ten recipients

<table>
<thead>
<tr>
<th>Mechanism</th>
<th>Category</th>
<th>Contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>RSPB</td>
<td>Environment</td>
<td>£518,000</td>
</tr>
<tr>
<td>Oxfam</td>
<td>Development</td>
<td>£471,000</td>
</tr>
<tr>
<td>Consumer credit counselling services</td>
<td>Social exclusion</td>
<td>£208,000</td>
</tr>
<tr>
<td>Amnesty International</td>
<td>Human rights</td>
<td>£258,000</td>
</tr>
<tr>
<td>Woodcraft Folk</td>
<td>Co-operative</td>
<td>£112,000</td>
</tr>
<tr>
<td>Greenpeace</td>
<td>Environment</td>
<td>£108,000</td>
</tr>
<tr>
<td>Tearfund</td>
<td>Social exclusion</td>
<td>£103,000</td>
</tr>
<tr>
<td>International Co-operative Alliance</td>
<td>Co-operative</td>
<td>£100,000</td>
</tr>
<tr>
<td>Climate Care</td>
<td>Climate change</td>
<td>£88,000</td>
</tr>
<tr>
<td>Practical Action</td>
<td>Climate change</td>
<td>£56,000</td>
</tr>
</tbody>
</table>
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.

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 (£745,000) and through payroll giving schemes (£118,000 of which £88,000 was attributable to CFS).

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total leverage</td>
<td>3.6</td>
<td>1.1</td>
</tr>
</tbody>
</table>

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.

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.

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\(^{35}\), 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.
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 consultations1. Some 30,000 consumers have, additionally, been consulted as part of two rounds (1994 and 2004) of responsible retailing research2.

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 forward3.

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 Framework4 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 activities5. 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 environment7, and, in May 2007, a survey for Marketing Week ranked the Co-op in the top five most ‘environmentally friendly’ UK brands8.

The 11th Business in the Community (BitC) Environment Index was released in May 20079. 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.naturalsstep.org.uk
5 CFS’ certification extends to the ‘complete range of operations, activities, products and services (personnel 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)
7 Shoppers turn green.
8 Environment Agency (2007), The dash for green cash — Why Green business is all the last waking up to the environment.
9 Marketing Week (20 May 2007)
10 Brands show true colours.
11 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

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 (CO₂) 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 CO₂ 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 permafrost¹ and the reduction in permanent ice cover in the Arctic² became apparent;
• publication of the Stern Review³ 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 Report⁴ highlighted the scale of scientific consensus that now exists around mankind’s influence on the climate. Key findings included:
• the atmospheric concentration of CO₂ 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 1.8°C to 6.4°C).

² www.nasa.gov/centers/goddard/news/topstory/2006/seaice_meltdown.html
⁴ www.ipcc.ch
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 CO₂ 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, CO₂ 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.

<table>
<thead>
<tr>
<th>Performance overview</th>
<th>Overall greenhouse gas emissions connected with premises, transport and refrigerants</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2003</td>
</tr>
<tr>
<td>Total greenhouse gas emissions (tonnes of CO₂e)⁷</td>
<td>451,696R</td>
</tr>
<tr>
<td>Accounting (94% (94% (90% (90% systems complete) complete) complete) complete)</td>
<td></td>
</tr>
</tbody>
</table>

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 2006⁹.

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.
Energy usage

As a result of the increased use of renewable electricity, the Group’s net CO₂ 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 CO₂ 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, CO₂ 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 CO₂ 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 Trust11, 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 retrofit 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.

- 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. This makes the Group one of the largest purchasers of green electricity in the world, and supports annual CO\textsubscript{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 9GW h each year) and results in 3,870 tonnes of annual CO\textsubscript{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 38.6GWh each year, sufficient to provide electricity for the equivalent of 9,000 homes and to yield CO\textsubscript{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, 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\textsubscript{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\textsubscript{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,
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 CO₂. At five branches, new hydrocarbon systems were installed with a GWP of just 0.04kg of CO₂. 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 CO₂), as part of a refurbishment.

During 2006, 26kgs of refrigerant gases (including 3.75kgs of organohalogens) were released at CFS’ premises. In total, the GWP of the gases released was equivalent to 37 tonnes of CO₂. 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

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14 www.climatecare.org
15 Includes 1.7kg housed within water dispensers and vending machines.
16 Hydrocarbons, ammonia and lithium bromide.
The Co-operative Food refrigerant gases
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 depleters; 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)

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Refrigerant gas ‘leaks’ (tonnes)</td>
<td>33.32</td>
<td>29.49</td>
</tr>
<tr>
<td>Net GWP (tonnes of CO$_2$e)</td>
<td>87,666</td>
<td>80,306</td>
</tr>
</tbody>
</table>

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.
### Transport, mileage and carbon dioxide emissions

<table>
<thead>
<tr>
<th>Year</th>
<th>Road: distribution</th>
<th>Road: hire car</th>
<th>Road: company car</th>
<th>Road: employee car</th>
<th>Air</th>
<th>Rail</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(miles)</td>
<td>(tonnes CO₂)</td>
<td>(miles)</td>
<td>(tonnes CO₂)</td>
<td>(miles)</td>
<td>(tonnes CO₂)</td>
</tr>
<tr>
<td>2003</td>
<td>52,508,000</td>
<td>81,520R</td>
<td>131</td>
<td>12,717</td>
<td>1,229,000</td>
<td>520R</td>
</tr>
<tr>
<td>2004</td>
<td>61,449,000</td>
<td>95,163R</td>
<td>329</td>
<td>15,280</td>
<td>2,775,000</td>
<td>1,310R</td>
</tr>
<tr>
<td>2005</td>
<td>65,563,000</td>
<td>101,442R</td>
<td>355</td>
<td>12,633</td>
<td>2,491,000</td>
<td>1,060R</td>
</tr>
<tr>
<td>2006</td>
<td>74,638,000</td>
<td>100,722R</td>
<td>397</td>
<td>12,913</td>
<td>2,821,000</td>
<td>1,241</td>
</tr>
</tbody>
</table>

*Note: data for The Co-operative Foods is extrapolated from 4% of expenses claim form returns.*

### 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, meats and ales.

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

### Data is considered to be 85% complete.

### Data is considered to be 90% complete.

### Data is considered to be 90% complete.

### Air

<table>
<thead>
<tr>
<th>Year</th>
<th>CO₂ emissions (tonnes CO₂)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>2,202</td>
</tr>
<tr>
<td>2004</td>
<td>2,203</td>
</tr>
<tr>
<td>2005</td>
<td>2,491</td>
</tr>
<tr>
<td>2006</td>
<td>2,821</td>
</tr>
</tbody>
</table>

*Note: data for The Co-operative Foods is extrapolated from 4% of expenses claim form returns.*
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 CO2 impact than sheep reared in the UK. 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 CO2 emissions.

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 Co-operative 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 CO2 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 CO2 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 CO2 reduction by 2010), or 100% of their flights’ emissions. 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 CO2 offset were purchased (2005: 50,300). Reductions were realised via the following projects delivered by Climate Care:

- 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 CO2 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 CO2. 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 CO2 over seven years.

32 For all flights, distance travelled is calculated using the greater circle distance between airports. For long haul flights (Bands 4 to 6), customers’ CO2 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 CO2 equivalent figure. For further information, please refer to www.climatecare.org/living/calculator-data
33 CO2 offset by Climate Care has not been included within calculations of the Group’s CO2 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.
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.

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 UK35. Early in 2007, The Co-operative Food became the first major food retailer to commit to only stocking white goods (e.g., 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 CO2 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, CO2 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 methodology37.

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 CO2. 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.

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Climate change related business declines, 2006

<table>
<thead>
<tr>
<th>Product categories</th>
<th>Estimated income forgone 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supply chain management</td>
<td>£292,200</td>
</tr>
<tr>
<td>Plant and equipment hire</td>
<td>£290,000</td>
</tr>
<tr>
<td>Engineering (four instances)</td>
<td>£2,000</td>
</tr>
<tr>
<td>Oil exploration</td>
<td>£500</td>
</tr>
</tbody>
</table>

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. CO2 emissions will be reduced by


36 Assuming 2006 sales levels and the replacement of the following levels of white goods: 4,000 ‘C’ rated tumble dryers 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.

37 www.carbon-label.co.uk
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 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’ 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, 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 66 following in May 2007. In addition to the renewable power (c3,240kWh per annum) and CO₂ 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. 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, 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’, 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 CO₂ emissions from unnecessary car journeys. Since 2005, the Group has supported the set-up of walking buses.
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 Energy4All44 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 Manchester45 to produce a research report that would demonstrate how renewable technologies and energy efficiency measures could deliver the necessary (c80%) significant CO₂ 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 Ask46 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 Bill47 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 £130,00048 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 Challenge49. 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 Obligation46, 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 offsetting51 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

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.
Background
Each year, the UK produces 70 million tonnes of Industrial and Commercial (I&C) waste. The retail sector is the largest contributor, generating some 13 million tonnes. In addition, the sector contributes 4.3 million tonnes of packaging waste to the 35 million tonnes of municipal waste generated annually. 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. 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, and the results of an ICM poll conducted in 2006, which found that packaging reduction and waste minimisation dominated customers’ views of the main things retailers could do to reduce the environmental impact of shopping.

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.

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. 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

<table>
<thead>
<tr>
<th>Year</th>
<th>Total waste arisings (tonnes)</th>
<th>General waste disposed (tonnes)</th>
<th>Waste re-used/recycled (tonnes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>72,473</td>
<td>41,373</td>
<td>31,100</td>
</tr>
<tr>
<td>2007</td>
<td>74,255</td>
<td>45,214</td>
<td>29,041</td>
</tr>
</tbody>
</table>

Proportion waste re-used/recycled (%) 2006: 43% 2007: 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. 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.
The Co-operative Group Sustainability report 2006

Waste and packaging

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 re-used or recycled (43%) 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 considerations16. 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 annum17;
- 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 levels18. 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.

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.
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, Tier 1 Asset Management Ltd. 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. 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%.

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 on behalf of the Co-operative Movement. Under these Regulations, The Co-operative Group is obliged 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 donated 21,233 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

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### Table: Packaging handled by material (tonnes)

<table>
<thead>
<tr>
<th>Year</th>
<th>Wood</th>
<th>Plastic</th>
<th>Paper</th>
<th>Glass</th>
<th>Steel</th>
<th>Aluminium</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>3,266</td>
<td>2,400</td>
<td>2,835</td>
<td>2,386</td>
<td>2,867</td>
<td>3,319</td>
</tr>
<tr>
<td>2002</td>
<td>3,601</td>
<td>2,631</td>
<td>3,165</td>
<td>2,919</td>
<td>3,052</td>
<td>3,675</td>
</tr>
<tr>
<td>2003</td>
<td>3,159</td>
<td>2,386</td>
<td>2,835</td>
<td>2,386</td>
<td>2,867</td>
<td>3,319</td>
</tr>
<tr>
<td>2004</td>
<td>2,985</td>
<td>2,247</td>
<td>2,144</td>
<td>2,386</td>
<td>2,867</td>
<td>3,319</td>
</tr>
<tr>
<td>2005</td>
<td>2,710</td>
<td>2,003</td>
<td>1,985</td>
<td>1,939</td>
<td>2,386</td>
<td>3,319</td>
</tr>
<tr>
<td>2006</td>
<td>2,580</td>
<td>1,713</td>
<td>1,651</td>
<td>1,905</td>
<td>2,003</td>
<td>3,119</td>
</tr>
</tbody>
</table>

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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.

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.
recycling of cardboard and plastic packaging from The Co-operative Food’s stores. 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. 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 now handle plastic bottles, cups, cans, CBs 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 Funerlcare 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.

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%.

The Co-operative Funerlcare 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. In addition, the Group’s farm in Lincolshire is offering a recycling service to other local farms as part of the Agri-cycle scheme.

With the introduction of the Waste Electrical and Electronic Equipment (WEEE) Regulations 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 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 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), The Co-operative Funerlcare (2,974 tonnes), The Co-operative Travel (1,452 tonnes), and the Manchester Head Office complex (36 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 ratio and extrapolated to remainder of 432 portfolio. Total excludes pharmaceutical waste.

27 Cardboard and plastic transit packaging from the back of The Co-operative Food stores and distribution centres is segregated and recycled.

28 Producer obligation based on 30 tonnes of own-brand Christmas lights and distributor obligation based on 574,637 items of Electrical and Electronic Equipment sold in 2006.

29 Data available for 354 branches and extrapolated to remainder of the 432 portfolio. Total includes pharmaceutical waste.

30 Excludes the 89 bank branches and the Regent House premises in Stockport.

31 In 2005, CFS sent 430 tonnes to landfill and 33 tonnes to incineration.
The Co-operative Food has, for a number of years, worked to render packaging more degradable. Research\textsuperscript{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\textsuperscript{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\textsuperscript{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\textsuperscript{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\textsuperscript{42}. The Co-operative Pharmacy will participate in the scheme in 2007.


\textsuperscript{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 anaerobic degradation and greatly accelerates disintegration in landfill.

\textsuperscript{40} www.wastewatch.org.uk

\textsuperscript{41} www.cmrecycling.co.uk

\textsuperscript{42} Alongside The Co-operative Group, 23 other Co-operative retail societies participate in the scheme.
Biodiversity

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 £4.4m for Britain’s threatened wetlands over the period 1999–2007 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’. 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.”

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.

2 www.rspb.org.uk/images/wellbeing_tcm9_148929.pdf
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. 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.

Since 1998, Co-operative Food has been a supporter of the Marine Stewardship Council (MSC) — 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. Drift nets are not used to catch tuna, nor are fish caught using the method known as ‘setting on dolphins’.

- 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 accompanying 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 (MSC) in a Sustainable Seafood Supermarket league table. A significant factor in The Co-operative’s seemingly poor ranking was the more restricted offering of MSC ‘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 MSC as ‘fish to avoid’ because stocks are vulnerable to exploitation. A separate benchmarking initiative, 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, placque from the North Sea, and Dover sole from the Western Channel.

The MCS ‘fish to eat’ list 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 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, and, in 2007, The Co-operative Food will be increasing its own-brand fresh fish range to include the following:

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4 The Co-operative Group accounts for c.3% of retail seafood sales. See www.greenpeace.org.uk/ ocean and 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 nets), usually across the path of migrating fish schools. Fish strike the net and become tangled 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.


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.
Biodiversity

90% of legal harvesting. Of this, 42% (2005: 36%) was 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% 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 wicker32 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 CO2 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.

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 36,387m3 of timber products in 2006 (2005: 34,418m3). 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% (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.

Amidst a plethora of forestry standards, the Forest Stewardship Council (FSC)19 is probably the most respected by independent experts and campagners. 100% FSC-certified own-brand products previously included barbecue charcoal and the majority of wooden kitchenware20.

In 2006, the Group launched a 100% recycled and 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.

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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)\(^2\). In the UK, 94% of their original extent has been lost and less than 6,000 hectares remain in a near-natural condition\(^2\).

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\(^2\). 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\(^2\); this constitutes less than 0.1% of the total UK market\(^2\). 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 (%)

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poinsettias</td>
<td>100</td>
<td>70</td>
<td>70</td>
</tr>
<tr>
<td>Foliage plants</td>
<td>70</td>
<td>60</td>
<td>60</td>
</tr>
<tr>
<td>Begonias</td>
<td>70</td>
<td>60</td>
<td>50</td>
</tr>
<tr>
<td>Calceolarias</td>
<td>100</td>
<td>60</td>
<td>0</td>
</tr>
<tr>
<td>Gerberas</td>
<td>80</td>
<td>70</td>
<td>70</td>
</tr>
<tr>
<td>Chrysanthemums</td>
<td>100</td>
<td>100</td>
<td>0</td>
</tr>
<tr>
<td>Planted arrangements</td>
<td>50</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Bedding plants</td>
<td>70</td>
<td>60</td>
<td>0</td>
</tr>
</tbody>
</table>

Further information on the Kibale project is available on The Co-operative Bank’s website\(^24\).

### 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\(^3\). 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\(^1\). 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). Own-brand organics accounted for 9% of the organic range at the end of 2006. The Co-operative’s broader
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.

<table>
<thead>
<tr>
<th>Biodiversity related business declines, 2006</th>
<th>Estimated income foregone 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fish importer</td>
<td></td>
</tr>
<tr>
<td>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’ in the World Conservation Union. Fisheries not subject to independent sustainability verification.</td>
<td>£500</td>
</tr>
</tbody>
</table>

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) has been 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. 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.

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), 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.

**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) 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.

**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, 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 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 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.
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\(^4\). 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)\(^5\). 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 dihexylphthalate (DHP) 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 DHP 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\(^8\). Concerns exist about bioaccumulation in humans\(^9\) 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,
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\(^1\) 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\(^2\). 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 (PBDEs), are known to bioaccumulate\(^3\). These chemicals were removed from all own-brand textiles with the application of the Oekotex Standard for human ecological safety of textiles\(^4\).

- 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\(^5\). 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’\(^6\). Over 800 different chemicals are made globally and sold in tens of thousands of mixtures for use as pesticides\(^7\). 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\(^8\). 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\(^9\). 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\(^10\), 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

4. www.oeko-tex.com/ GetData100_PUBLIC/index.asp
6. See www.satemsmro.org.uk/chemicals/glossary/musks.php
7. www.pesticides.gov.uk/ appendices.asp?id=744#P
8. The framework looks for prohibition triggers such as: annual daily intake, OSPAR listing, toxicity, bioaccumulation, soil persistency, prior informed consent, carcinogenicity and endocrine disruption.
9. www.co-operative.co.uk/food/ responsibility/talent/environmental sustainability/guidetopesticides
10. Traceability audits are undertaken by The Co-operative Foods Quality Assurance Team, which analyses the Pesticide Application Records relating to an individual product. This 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.
According to the Pesticides Safety Directorate (PSD) (www.pesticides.gov.uk), maximum residual 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.

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, Ipodione, 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.
- Dicofof was detected on a sample of cut flowers.

The Co-operative Farms’ fertiliser and trace element purchases, 2006

<table>
<thead>
<tr>
<th>Fertilisers</th>
<th>Solid (tonnes)</th>
<th>Liquid (m$^3$)</th>
<th>Application rate (per hectare)$^6$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Urea ammonium nitrate</td>
<td>2,372</td>
<td>–</td>
<td>0.185 m$^2$</td>
</tr>
<tr>
<td>Urea</td>
<td>30</td>
<td>–</td>
<td>0.002 tonnes</td>
</tr>
<tr>
<td>Ammonium nitrate</td>
<td>1,038</td>
<td>–</td>
<td>0.081 tonnes</td>
</tr>
<tr>
<td>Triple super phosphate</td>
<td>236</td>
<td>–</td>
<td>0.018 tonnes</td>
</tr>
<tr>
<td>Potassium chloride</td>
<td>476</td>
<td>–</td>
<td>0.037 tonnes</td>
</tr>
<tr>
<td>00-20-30$^*$</td>
<td>606</td>
<td>–</td>
<td>0.047 tonnes</td>
</tr>
<tr>
<td>00-24-24$#$</td>
<td>54</td>
<td>–</td>
<td>0.004 tonnes</td>
</tr>
<tr>
<td>Calcium nitrate</td>
<td>56</td>
<td>–</td>
<td>0.004 tonnes</td>
</tr>
<tr>
<td>Trace elements</td>
<td>62</td>
<td>212</td>
<td>0.016 tonnes, 0.005 m$^2$</td>
</tr>
</tbody>
</table>

$^*$ A fertiliser blend with 20% phosphate and 30% potash

$^#$ A fertiliser blend with 24% phosphate and 24% potash

$^6$ 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

<table>
<thead>
<tr>
<th></th>
<th>Liquid (litres)</th>
<th>Solid (kg)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Herbicide</td>
<td>85,487</td>
<td>11,699</td>
</tr>
<tr>
<td>Fungicide</td>
<td>40,455</td>
<td>5,996</td>
</tr>
<tr>
<td>Insecticide</td>
<td>4,243</td>
<td>6,963</td>
</tr>
<tr>
<td>Molluscicides</td>
<td>57,794</td>
<td></td>
</tr>
<tr>
<td>Adjuvant</td>
<td>9,225</td>
<td>310</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>Liquid (litres)</th>
<th>Solid (kg)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth regulator</td>
<td>14,327</td>
<td>310</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>Estimated income foregone 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chemical manufacturer</td>
<td>£2,500</td>
</tr>
</tbody>
</table>

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.
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 Action23, together with Bisphenol A and PVC. In 2003, screening was extended to Co-operative Insurance24. 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 PVC25. 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 DEHPthalate, 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 sector26. The Media CSR Forum27 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 printing 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 used28.

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. New 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 200729.
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

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’. Accetable 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 CFS2.

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1 This latter indicator is considered to fulfill the employee element of Indicator 3 (‘Participation of employees and members in training and education’) of Co-operatives’ basket of ten key social and co-operative performance indicators. There are two further Co-operatives’ 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**

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.

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 the 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.

<table>
<thead>
<tr>
<th>Total employees by business</th>
<th>Employees</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Trading</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Co-operative Food³</td>
<td>50,849</td>
<td>45,697</td>
<td>43,999</td>
<td>44,476</td>
<td></td>
</tr>
<tr>
<td>Co-operative Pharmacy</td>
<td>2,150</td>
<td>2,782</td>
<td>2,893</td>
<td>3,064</td>
<td></td>
</tr>
<tr>
<td>Co-operative Funeralcare</td>
<td>2,596</td>
<td>2,961</td>
<td>2,871</td>
<td>2,753</td>
<td></td>
</tr>
<tr>
<td>Co-operative Travel</td>
<td>2,191</td>
<td>2,235</td>
<td>2,038</td>
<td>1,859</td>
<td></td>
</tr>
<tr>
<td>Corporate functions</td>
<td>813</td>
<td>877</td>
<td>1,027</td>
<td>1,968</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>4,305</td>
<td>2,121¹</td>
<td>1,961⁴</td>
<td>1,099⁴</td>
<td></td>
</tr>
<tr>
<td>CFS</td>
<td>13,901</td>
<td>12,938</td>
<td>10,303</td>
<td>9,778</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>76,805</td>
<td>69,611</td>
<td>65,112</td>
<td>64,997²</td>
<td></td>
</tr>
</tbody>
</table>

**Engagement index**

<table>
<thead>
<tr>
<th></th>
<th>2004/05</th>
<th>2005/06</th>
<th>2006/07</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trading Group</td>
<td>69</td>
<td>69</td>
<td>74</td>
</tr>
<tr>
<td>CFS</td>
<td>n/a</td>
<td>57</td>
<td>63</td>
</tr>
</tbody>
</table>

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). 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 years.
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%\(^{15}\)) of Trading Group employees voted in favour of the package, which was implemented in July 2006.

Based on those employees who pay subscriptions by payroll deduction.

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 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
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.

<table>
<thead>
<tr>
<th>2004/05</th>
<th>2005/06</th>
<th>2006/07</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agree</td>
<td>62%</td>
<td>63%</td>
</tr>
<tr>
<td>Neither agree nor disagree</td>
<td>25%</td>
<td>25%</td>
</tr>
<tr>
<td>Disagree</td>
<td>13%</td>
<td>12%</td>
</tr>
</tbody>
</table>

CFS
My job makes good use of my skills and abilities.

<table>
<thead>
<tr>
<th>2004/05</th>
<th>2005/06</th>
<th>2006/07</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agree</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Neither agree nor disagree</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Disagree</td>
<td>n/a</td>
<td>n/a</td>
</tr>
</tbody>
</table>

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 200618. 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’.

18 Data relating to employee attendance at externally-run training courses is arranged at departmental level and is not collected centrally.
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 band19

<table>
<thead>
<tr>
<th>Basic salary bands</th>
<th>CFS (9,778 staff)</th>
<th>Trading Group (55,219 staff)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to £15,000</td>
<td>46.8%</td>
<td>78.7%</td>
</tr>
<tr>
<td>£15,000 to £20,000</td>
<td>17.0%</td>
<td>8.1%</td>
</tr>
<tr>
<td>£20,000 to £30,000</td>
<td>19.2%</td>
<td>9.4%</td>
</tr>
<tr>
<td>£30,000 to £40,000</td>
<td>9.5%</td>
<td>2.3%</td>
</tr>
<tr>
<td>£40,000 plus</td>
<td>7.5%</td>
<td>1.6%</td>
</tr>
</tbody>
</table>

Trading Group

The pay I receive is fair for the work I do.

<table>
<thead>
<tr>
<th></th>
<th>2004/05</th>
<th>2005/06</th>
<th>2006/07</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agree</td>
<td>32%</td>
<td>34%</td>
<td>40%</td>
</tr>
<tr>
<td>Neither agree nor disagree</td>
<td>19%</td>
<td>19%</td>
<td>20%</td>
</tr>
<tr>
<td>Disagree</td>
<td>49%</td>
<td>47%</td>
<td>40%</td>
</tr>
</tbody>
</table>

CFS

How do you rate your total pay, in comparison to pay for doing the same job in other similar companies20?

<table>
<thead>
<tr>
<th></th>
<th>2004/05</th>
<th>2005/06</th>
<th>2006/07</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very good/good</td>
<td>n/a</td>
<td>n/a</td>
<td>24%</td>
</tr>
<tr>
<td>Neither agree nor disagree</td>
<td>n/a</td>
<td>n/a</td>
<td>30%</td>
</tr>
<tr>
<td>Poor/very poor</td>
<td>n/a</td>
<td>n/a</td>
<td>46%</td>
</tr>
</tbody>
</table>

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 scheme21.

<table>
<thead>
<tr>
<th></th>
<th>2004/05</th>
<th>2005/06</th>
<th>2006/07</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agree</td>
<td>n/a</td>
<td>n/a</td>
<td>61%</td>
</tr>
<tr>
<td>Neither agree nor disagree</td>
<td>n/a</td>
<td>n/a</td>
<td>33%</td>
</tr>
<tr>
<td>Disagree</td>
<td>n/a</td>
<td>n/a</td>
<td>6%</td>
</tr>
</tbody>
</table>

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’.
How do you rate your overall benefits at CFS, in comparison to those provided by other similar companies?23

<table>
<thead>
<tr>
<th></th>
<th>2004/05</th>
<th>2005/06</th>
<th>2006/07</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very good/good</td>
<td>n/a</td>
<td>n/a</td>
<td>38%</td>
</tr>
<tr>
<td>Neither good nor poor</td>
<td>n/a</td>
<td>n/a</td>
<td>30%</td>
</tr>
<tr>
<td>Poor/very poor</td>
<td>n/a</td>
<td>n/a</td>
<td>32%</td>
</tr>
</tbody>
</table>

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 childcare24 (and replaces the previous CFS supplier).

Part and full-time employees

<table>
<thead>
<tr>
<th></th>
<th>Trading Group</th>
<th>CFS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full-time</td>
<td>37%</td>
<td>86%</td>
</tr>
<tr>
<td>Part-time</td>
<td>60%</td>
<td>14%</td>
</tr>
<tr>
<td>Casual</td>
<td>2%</td>
<td>n/a</td>
</tr>
<tr>
<td>Uncategorised</td>
<td>1%</td>
<td>n/a</td>
</tr>
</tbody>
</table>

Trading Group
My work and personal life are reasonably well balanced25.

<table>
<thead>
<tr>
<th></th>
<th>2004/05</th>
<th>2005/06</th>
<th>2006/07</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agree</td>
<td>n/a</td>
<td>69%</td>
<td>73%</td>
</tr>
<tr>
<td>Neither agree nor disagree</td>
<td>n/a</td>
<td>15%</td>
<td>16%</td>
</tr>
<tr>
<td>Disagree</td>
<td>n/a</td>
<td>16%</td>
<td>11%</td>
</tr>
</tbody>
</table>

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 Group27 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 ICASxtra28, which is available to employees through the intranet; and the availability of a ‘Life Management’ practical advice line, which offers quick confidential information on a range of everyday issues, such as financial services, family care and legal advice.

CFS
The amount of work expected of me is reasonable30.

<table>
<thead>
<tr>
<th></th>
<th>2004/05</th>
<th>2005/06</th>
<th>2006/07</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agree</td>
<td>n/a</td>
<td>n/a</td>
<td>61%</td>
</tr>
<tr>
<td>Neither agree nor disagree</td>
<td>n/a</td>
<td>n/a</td>
<td>19%</td>
</tr>
<tr>
<td>Disagree</td>
<td>n/a</td>
<td>n/a</td>
<td>20%</td>
</tr>
</tbody>
</table>
Abandonance

Abandonance 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

<table>
<thead>
<tr>
<th>Business</th>
<th>Total working time lost to absence</th>
</tr>
</thead>
<tbody>
<tr>
<td>Co-operative Food</td>
<td>4.0%</td>
</tr>
<tr>
<td>Co-operative Pharmacy</td>
<td>3.4%</td>
</tr>
<tr>
<td>Co-operative Funeralcare</td>
<td>5.2%</td>
</tr>
<tr>
<td>Co-operative Travel</td>
<td>3.0%</td>
</tr>
<tr>
<td>Corporate functions</td>
<td>2.9%</td>
</tr>
<tr>
<td>Other</td>
<td>2.7%</td>
</tr>
<tr>
<td>CFS</td>
<td>3.6%</td>
</tr>
</tbody>
</table>

**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.

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.
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.

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) 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.
Throughout 2006, surveys consistently revealed The Co-operative to be outperforming many retailers of comparable size, and moving increasingy 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 Food

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Satisfaction¹</td>
<td>31%</td>
</tr>
<tr>
<td>BENCHMARK Satisfaction with other retailers¹</td>
<td>37%</td>
</tr>
</tbody>
</table>

### The Co-operative Pharmacy

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Satisfaction¹</td>
<td>72%</td>
</tr>
<tr>
<td>BENCHMARK Satisfaction with other pharmacies¹</td>
<td>77%</td>
</tr>
</tbody>
</table>

### The Co-operative Travel

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Satisfaction¹</td>
<td>75%</td>
</tr>
<tr>
<td>BENCHMARK Satisfaction with other travel operators¹</td>
<td>44%</td>
</tr>
</tbody>
</table>

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.

<table>
<thead>
<tr>
<th>Calls</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total calls</td>
<td>129,163</td>
<td>145,752</td>
</tr>
<tr>
<td>Average abandoned rate (daytime)</td>
<td>2%</td>
<td>2%</td>
</tr>
<tr>
<td>Average abandoned rate (evening)</td>
<td>11%</td>
<td>11%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Emails</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total number of emails received</td>
<td>34,969</td>
<td>38,652</td>
</tr>
</tbody>
</table>

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.

<table>
<thead>
<tr>
<th>Nature of contact</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product complaints</td>
<td>31,999</td>
<td>26,547</td>
</tr>
<tr>
<td>Other queries/comments</td>
<td>53,184</td>
<td>66,166</td>
</tr>
<tr>
<td>Social, ethical and environmental queries</td>
<td>8,236</td>
<td>8,708</td>
</tr>
</tbody>
</table>

4 Of the 55 subject categories used by the department, 25 are considered to be broadly concerned with social, ethical and environmental information.
Customers

CFS

Personal customers

<table>
<thead>
<tr>
<th>Service</th>
<th>2006 Satisfaction</th>
<th>Benchmark 2006 Market</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Insurance</td>
<td>71.2%</td>
<td>67.7%</td>
</tr>
<tr>
<td>Retail Bank</td>
<td>73%</td>
<td>62.6%</td>
</tr>
<tr>
<td>Life and savings</td>
<td>44.0%</td>
<td>42.0%</td>
</tr>
<tr>
<td>Overall CFS customer satisfaction</td>
<td>60.6%</td>
<td>n/a</td>
</tr>
</tbody>
</table>

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.

As part of the scheme, each company undertakes an annual customer satisfaction survey, which is conducted by an independent market research company. 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.

Corporate and business banking customers

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate satisfaction</td>
<td>80%</td>
<td>78%</td>
</tr>
<tr>
<td>Business satisfaction</td>
<td>86%</td>
<td>85%</td>
</tr>
</tbody>
</table>

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).
Customers

Average liabilities (eg, deposits)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total (£m)</th>
<th>Positive contribution to society</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>1,943</td>
<td>57%</td>
</tr>
<tr>
<td>2006</td>
<td>1,953</td>
<td>60%</td>
</tr>
</tbody>
</table>

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).

Average assets (eg, loans and overdrafts)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total (£m)</th>
<th>Positive contribution to society</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>1,995</td>
<td>30%</td>
</tr>
<tr>
<td>2006</td>
<td>2,370</td>
<td>28%</td>
</tr>
</tbody>
</table>
Assurance statement

1. csnetwork 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.

Scope and objectives

The Co-operative Group (‘the Group’) commissioned csnetwork 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 csnetwork’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.

csnetwork’s fees for this work were £56,675 excluding VAT. csnetwork has one other relationship with the Group. While this is the first year that csnetwork has acted as assurance provider for the Group, members of our team have acted as assurance providers to Co-operative Financial Services (CFS) 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.csnetwork.com

Basis of our opinion

As this is the first year that csnetwork 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 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.

The Co-operative Group Sustainability report 2006 111
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.

Assurance statement
Mark Line Richard Evans Adrian Henriques Judith Murphy Anne Euler
Director Principal Associate Principal Associate Senior Consultant Consultant

CSR network ltd UK August 2007