

Altogether different and

making a difference



Profile

The Co-operative Group ('the Group') is an industrial and provident Society, which is owned and democratically run by its members. In July 2007, United Co-operatives merged with the Group to create one of the world's largest consumer co-operatives, with over 4,000 outlets, 81,000 employees, and 1,700,000 trading members.

The Group operates solely in the UK, and is headquartered in Manchester city centre. It is one of the UK's most diverse commercial organisations, comprising several principal businesses, which operate under the following brands:

- The Co-operative Food – the largest independent convenience store operator in the UK
- The Co-operative Pharmacy – the third largest pharmacy in the UK
- The Co-operative Financial Services, comprising:
 - The Co-operative Bank
 - The Co-operative Insurance
 - The Co-operative Investments
 - smile, the internet bank
- The Co-operative Travel – the UK's largest independent travel services provider
- The Co-operative Funeralcare – the UK's largest funeral director
- The Co-operative Farms – the UK's largest farmer
- The Co-operative Legal Services – the Group's legal business, launched in 2007.

A full list of the Group's subsidiaries is provided at:

www.co-operative.coop/corporate/groupoverview/oursubsidiaries

Throughout this report, 'Trading Group' is used to describe all parts of The Co-operative Group's business, with the exception of The Co-operative Financial Services (CFS). 'Co-operative Insurance' is used to describe Co-operative Insurance Society Limited, which brings together both the Co-operative Insurance and Co-operative Investment brands.

Merger with United Co-operatives

On 29 July 2007, United Co-operatives amalgamated with The Co-operative Group. This followed United members voting overwhelmingly in favour of the merger at two rounds of members' meetings, and delegates from The Co-operative Group's regional boards, at a Special General Meeting of the Group, approving the merger and necessary rule changes.

The enlarged Group has two Chief Executives of parallel and equal status, each responsible to the main Board for their respective businesses. Peter Marks, formerly Chief Executive of United Co-operatives assumed the role of Chief Executive of the Trading Group, whilst David Anderson continues as Chief Executive of The Co-operative Financial Services.

Acquisition of Somerfield

On 15 July 2008, The Co-operative Group announced it had exchanged contracts for its acquisition of Somerfield for £1.565bn. The combined food business will operate more than 3,000 grocery stores and generate net sales of £8bn, making it the fifth largest food retailer in the UK.

A detailed account of the Group's financial performance is presented in the Annual Report and Accounts 2007:

www.co-operative.coop/corporate/corporatepublications

As at the end of 2007, the Group had . . .

81,611
employees

1.7
million
trading members

20
million
customers

Sustainability report 2007/08

About the Report

This Sustainability Report was published in September 2008. It is an annual report, which relates to the operations and stakeholders of The Co-operative Group. Unless otherwise stated, performance relates to the calendar year 2007, and incorporates data from United Co-operatives. Where significant material events have occurred in the early part of 2008, these are also commented upon. The most recent previous report was published in December 2007 and related to the calendar year 2006.

The Report has been prepared in accordance with the Global Reporting Initiative's 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 in accordance with the AA1000 Assurance Standard. This requires the report to be considered in relation to the principles of materiality, completeness and responsiveness (page 11).

This is the second fully consolidated annual Co-operative Group Sustainability Report, and can be downloaded at:

www.co-operative.coop/corporate/sustainability

Previous sustainability reports of the Group and CFS can be found at:

www.co-operative.coop/corporate/corporatepublications and

www.cfs.co.uk/sustainabilityreports

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85
per cent

share of the
UK consumer
co-operative sector

£9,076
million

in gross sales

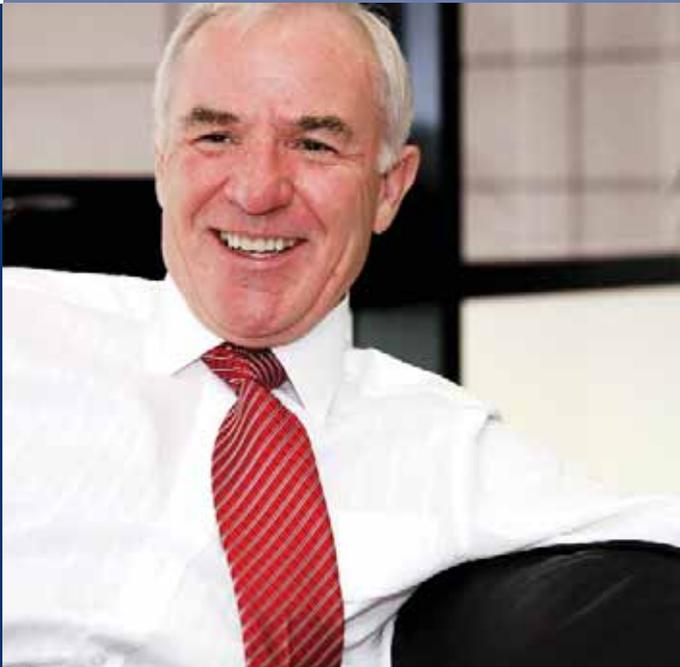
£8,290
million

in revenue

£3,797
million

of total equity

Chief Executives' overviews



I am sure that when, in years to come, we look back on this period, we will see it as one of the most significant times in the history of both The Co-operative Group and the Co-operative Movement. In July 2007, the UK's two largest co-operatives, The Co-operative Group and United Co-operatives, came together to form the world's largest consumer co-operative.

Within a year, the two organisations were successfully integrated, and the new business had already reported very positive financial results, with Trading Group sales up 14.9% to £9.1bn, and operating profit before significant items rising 8.6% to £431.6m.

In July 2008, we announced our acquisition of Somerfield (subject to regulatory clearance), which cements our position as the UK's premier community retailer and continues the renaissance of The Co-operative brand. There is an excellent fit between the two businesses, with the acquisition further strengthening our geographical coverage.

In 2007 we embarked on what may well be the largest consumer poll on ethics ever undertaken, as we consulted members on the development of an Ethical Policy for our food business. Some 100,000 members responded. They told us their priority areas for action, we listened and reacted; banning the sale of eggs from caged hens from all of our stores, converting our entire own-label

hot beverage range to Fairtrade, and prohibiting the use of a further 66 pesticides for our own-brand food. I see these steps as just the beginning; we have ambitious plans for the future and intend to maintain our position as the UK's most trusted brand.

For example, we've committed to reducing our energy consumption by 20% by 2010, and generating 15% of our electricity requirements from our own sustainable energy sources by 2012. Plans are currently in place to extend the wind farm on our farmland in Cambridgeshire, and develop a further one in Goole, East Yorkshire. The work we've done to date places us amongst a handful of companies that are leading the way in their approaches to tackling climate change. Going forward, I'm particularly excited about our eco town proposal and the opportunities it affords to show, once again, how The Co-operative can lead the way.

In early 2008, I was proud to see our efforts recognised with a European Business Award for the Environment, as well as Business in the Community's International Climate Change Award. However, it is particularly gratifying when our efforts are recognised by our customers themselves. In April 2008, an opinion poll commissioned by The Times found that consumers see The Co-operative as doing more than any other major high street food retailer to address social and environmental issues.

Becoming a more competitive and responsible business is key to our future success. It is what our members want and expect, and it is in line with our founding values and principles. As we move forward, it will be our competitive offering and co-operative way of doing business that sets us apart – that makes us 'altogether different'. As this Report demonstrates, we are continuing to make good progress on our existing social and environmental commitments, and we have set ourselves challenging targets for the future. The acquisition of Somerfield will allow us to bring our responsible retailing approach to even more communities and I look forward to exploring the many opportunities this will afford.

We're making fantastic progress within The Co-operative Group on a number of different fronts – our brand, our financial success and on a whole raft of sustainability issues. In the coming year, I expect us to make even more progress. While commending this year's Sustainability Report to you, I look forward to reporting on our continuing progress in coming years.

Peter Marks
Trading Group Chief Executive

I am proud to be able to introduce this report as Chief Executive of Business in the Community's 2008 Company of the Year.

This accolade testifies to the pioneering approach we take to running our business in a responsible manner. This is evident in the way we manage our products and our relationships with stakeholders, and in the way sustainability is truly embedded within and critical to the success of The Co-operative Financial Services.

An international banking crisis, a weakened national economic climate and extreme weather events made 2007 a challenging year for all major financial services providers in the UK. Whilst CFS is not immune from these issues, our prudent approach to financial management, and our genuine commitment to meeting the needs of customers, leaves us well placed to develop our business further, albeit in volatile market conditions.

Our ambitious growth plans have been fully supported by the CFS Board, and a major investment programme of £250m will see further business improvement in the coming years. To ensure we fully realise this level of investment, we must continue to manage our cost base and, in 2007, we announced plans to reduce operating costs by £100m per annum. This resulted in the loss of 1,000 roles within the organisation, which was necessary but painful. The support from trade unions during this process demonstrated the strength of our relationships.

2007 marked the 15th anniversary of The Co-operative Bank's ground-breaking Ethical Policy. Alongside our continued screening out of banking business found to be in conflict with the policy, we also committed to ring-fence investment of £400m to support renewable energy initiatives and £25m to further develop our presence in the microfinance sector, supporting small enterprises in the developing world.

Meanwhile, in line with the customer-led Ethical Engagement Policy of our insurance and investments business, we continued to demonstrate our activism as an institutional investor; voting on 8,834 UK resolutions in 2007, of which 1,053 were votes in opposition to management.

Our latest Ethical Consumerism Report reveals that ethical spending in the UK now stands at £32.3bn, having grown at an average rate of 15% per annum since 2002. Inspired by these trends, we launched our innovative think credit card in November 2007. The card better rewards ethical purchasing by offering a lower rate of interest for purchases from designated ethical partners, and a package of other benefits.

Alongside our stewardship of ethical finance, we continued to make strong progress towards addressing our environmental impacts. The unprecedented storms of 2007, and the resulting insurance claims, served as an important reminder of the effects that a changing climate could increasingly have on businesses like ours. While other companies have been slow to address their contribution to climate change, we have been procuring our electricity from renewable sources since 1998 and progressing a host of other pioneering initiatives since then.

In 2007, CFS went 'beyond carbon neutral'; offsetting 110% of our remaining carbon dioxide emissions – the additional 10% as a way of beginning to address our carbon legacy. We continue to make progress towards reducing our carbon emissions, with a further 6%



reduction in our energy use in 2007 contributing to the 72% reduction in CO₂ emissions from energy we've seen since 2002. Following our recent reaccreditation, we remain the only major financial services provider in the world to have total business certification to the ISO 14001 environmental management standard across all activities, products and services.

As well as tackling our own impacts, we continue to use our influence to mobilise others; most notably in 2007, through our campaigning with Friends of the Earth on the theme of climate change. This call to action saw more than 22,000 customers lobby their MP on the Climate Change Bill, resulting in every single MP being lobbied by at least one of our customers.

In 2008/09 we will keep pursuing this kind of leadership; addressing our impacts and exploring the opportunities that sustainable development presents, in the hope that we will continue to push the boundaries of responsible business practice and move closer to realising our vision of being the UK's most admired financial services business.

A handwritten signature in black ink that reads "David Anderson". The signature is written in a cursive, slightly slanted style.

David Anderson
CFS Chief Executive

Sustainable Development Policy

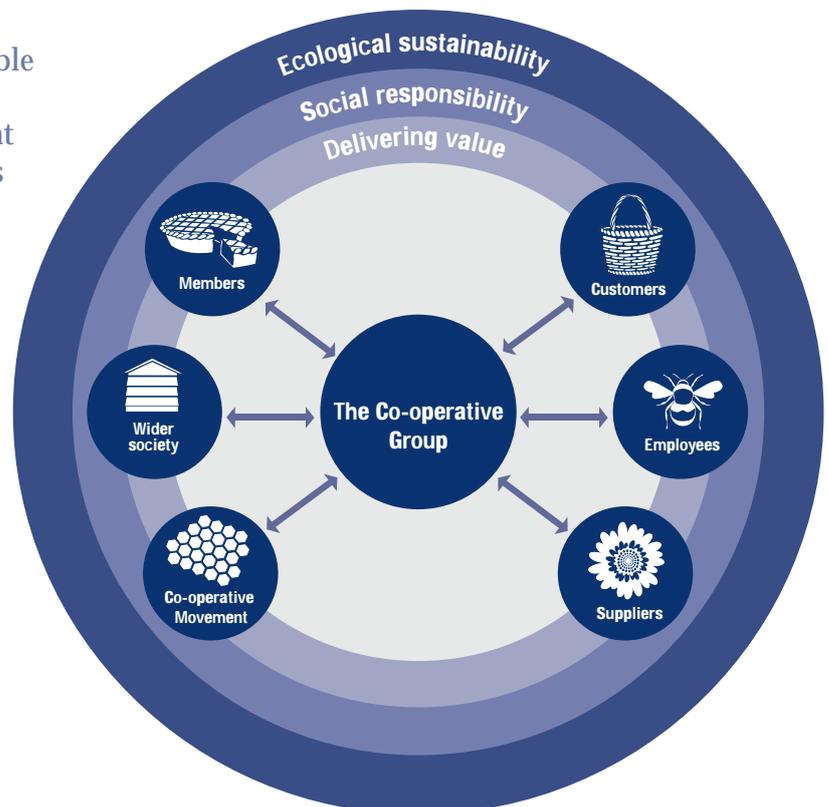
The Co-operative Group seeks to deliver value to its stakeholders in an ecologically sustainable and socially responsible manner

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

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

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

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



Approach to reporting

This Sustainability Report aims to provide a 'warts and all' account of The Co-operative Group's economic, social and environmental performance. It is intended for those with an interest in the Group's sustainability performance, including all six key stakeholder groups identified below.

The Report builds on the foundations laid in the 2006/07 Group Sustainability Report, and contains new sections on:

- international development and human rights (page 14);
- economic impact (page 108); and
- public policy intervention (page 125).

Disclosure in the area of customers, employees and modern co-operation has also been expanded.

The Report is split into 17 main performance sections – covering issues as diverse as sustainability management, social inclusion and biodiversity. A detailed discussion of why the Group reports on each of these issues is included at the start of each section, under the header 'materiality and strategy'. Indicators are used throughout the report to help make sense of the Group's performance.

Stakeholders

Engagement with key stakeholders remains an important ongoing activity in the identification of material issues at the Group (page 7). Examples of such engagement range from employee surveys, supplier training events and customer satisfaction surveys – typical of the approaches undertaken by many businesses of the Group's size – to consultations on the direction of our ethical policies and

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 on the Group's website².

Benchmarks

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

- 1 International Co-operative Alliance.
- 2 Details of restatements are provided at: www.co-operative.coop/corporate/sustainability/restatements07.

member democratic participation. These latter examples of embedded engagement reflect our co-operative values and principles and have wide-reaching impacts on business strategy. Engagement and stakeholder views arising are presented in relevant sections of this report. The Co-operative Group has identified six classes of stakeholder, upon whom its continued success is, to varying degrees, dependent:

	Members Anyone over the age of 16 who lives in the UK and agrees to invest at least £1 can become a member of The Co-operative Group. At the end of 2007, The Group had 1.7 million economically active members who received a dividend payment, and 278,000 democratically active members.
	Customers It is estimated that approximately 20 million customers use the Group's businesses over the course of a year. The Co-operative Bank has some 65,000 corporate, business and wholesale market banking customers and 2.5 million personal customers and The Co-operative Insurance has almost 4 million insurance customers.
	Employees At the end of 2007, the Group had 81,611 staff, of which 7,989 were employed by CFS and the remaining 73,622 were employed by the Trading Group (page 113).
	Co-operative Movement 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' ¹ . There are over 800 million co-operators across the world, and the Group, as one of the largest, 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'.
	Suppliers Relationships with the Group's suppliers range from infrequent purchases to ongoing strategic partnerships across the different business areas. For example, The Co-operative Food, by far the Group's largest business area, sourced goods for resale from around 2,500 suppliers in 2007.
	Wider society Amongst other groups, 'Wider society' encompasses the communities within which the Group trades, local and national governments, NGOs, industry organisations, multi-stakeholder groups, charities and external expert organisations.

Target 2007

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

Targets 2008

Ensure that The Co-operative Group's sustainability accounting and reporting systems are recognised as being at the leading edge of best practice in the retail and/or financial sectors in 2008.

Continue to contribute to the development of global standards for business accountability.

- ✓ Target achieved
- ☰ On track
- ☞ Close to target
- ◀ Behind schedule

Target attainment: 2007 overview

During 2007, the Group has been working towards a series of targets set in prior years' reports. Progress is detailed throughout the report, and, in each case, classified within one of four progress categories. Categories used for reporting have been revised this year, to allow for more accurate presentation of progress against longer-term targets, as well as against targets that were due for completion in the reporting year:

Level of progress	Definition	2007 targets falling within each progress level
✓ Target achieved	Target attained	43 (63%)
☞ Close to target	75–99% attained (for targets set for completion in 2007)	4 (6%)
☰ On track	Attained 75% or more of progress expected in 2007 (for longer-term targets)	15 (22%)
◀ Behind schedule	Attained less than 75% of progress expected in 2007 (for short- and longer-term targets)	4 (6%)

In addition, 2 targets (3%) were dropped in 2007, due to changes in business priorities and external changes which were outside the Group's control.

Despite progress in many areas, there still remains considerable scope for improvement, which is why, in this Report, 81 targets have been set for attainment in 2008 and beyond. Targets are agreed annually in conjunction with relevant business areas, taking into account resources available and business priorities.

Sustainability management

Indicators

Sustainability governance and management systems

Awards and recognition

Background

The Co-operative Group is a member-owned co-operative, and is registered in the UK under the Industrial and Provident Societies Act. As owners of the business, members of The Co-operative Group have a say in how it is managed, through their participation in its democratic governance structure, as detailed on pages 101–102. Members' capacity to effect change within the business includes, but is not restricted to, the area of sustainability.

Elected area committees and regional boards, which are drawn from the membership, consider issues as diverse as store developments and closures and the allocation of Community Fund donations¹. Working in parallel with the democratic governance structure, the business also operates more traditional governance structures, which include mechanisms to manage and oversee the Group's approach to sustainability². These are detailed in the following section.

CFS – Company of the Year

In July 2008, Co-operative Financial Services won the prestigious Business in the Community (BitC) Impact on Society Award, which carries the designation of BitC 'Company of the Year'. The award recognises those companies that, through leadership and the integration of responsible business practice, are improving their overall impact on society.

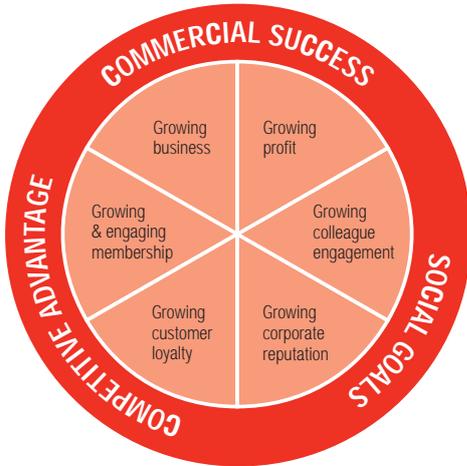
Commenting upon CFS' achievement, Gavin Patterson, Group Managing Director at BT, which was BitC's 2007 Company of the Year said: "The Co-operative Financial Services have a maintained and sustained commitment to responsible business, regularly using their customer base to refresh their position and values. Their approach is hardwired throughout the business. Their campaigning activities clearly demonstrate their passion and authenticity, and they aren't afraid to make difficult decisions or change business processes to achieve their aims."

Stephen Howard, Chief Executive, BitC added: "The Co-operative Financial Services' achievements as a responsible business are truly remarkable. As a company, it has shown real leadership and commitment and is a shining example of what companies of all sizes can achieve."



Materiality and strategy

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



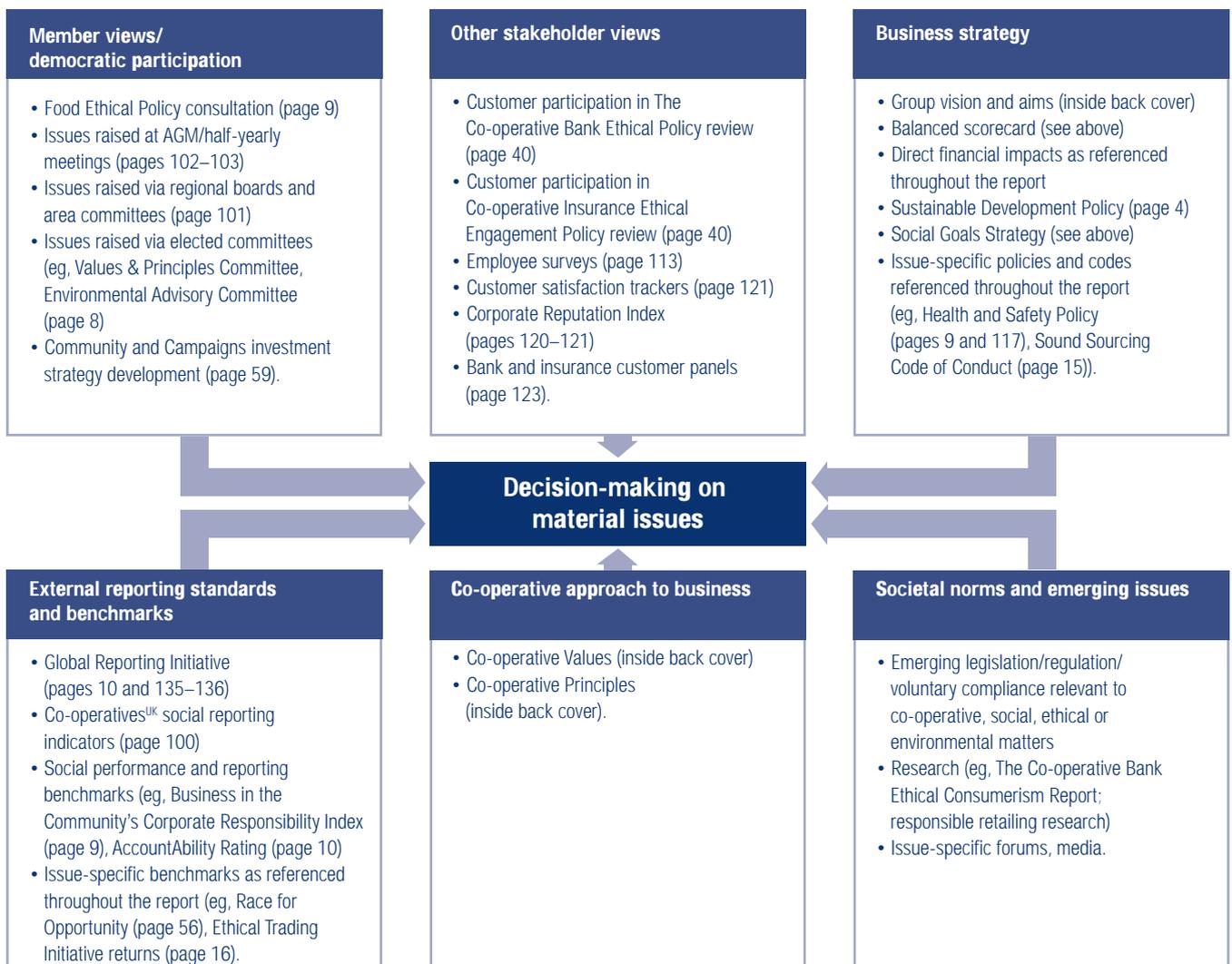
While The Trading Group and CFS have a common set of strategic priorities, the methodology for measuring these differs slightly in most cases, reflecting the differing nature of their respective markets and operations. In accordance with the Business Review

requirements of the Company Act 2006, the key performance indicators underpinning strategy, together with progress, are now reported on for both The Trading Group and CFS³.

In 2006, a 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 in 2007. 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 65). In late 2007, as part of the annual Strategy review process, international development was added as a new priority issue. Community involvement and campaign activity focuses on climate change, social inclusion, tackling crime, food ethics and support for modern co-operation; these priorities will be the subject of member consultation from 2008. 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 the sourcing of goods).

The need for the business to develop in a more sustainable manner⁴ is central to the Group's Social Goals Strategy. It is recognised that there are physical limits to the resources of the Earth, both in terms of generating materials and absorbing wastes, and that any

Mechanisms that influence materiality decisions



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 and materiality

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 Committee⁵. The Committee is appointed by the Board and, during 2007, comprised one elected director from each of the former Group's eight regions (page 107, footnote 9), and three directors from the former United Region, along with a Deputy Chair of the Board, who chairs the Committee⁶.

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 membership⁷, is significant, and is almost certainly unique among 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 10 years, and for which it has received more than 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 (pages 101–103), it is no longer considered as necessary for the business to devote valuable time and resources to the ratification with stakeholders of accounting systems and indicators. Whilst engagement with all stakeholders continues to be central to the Group's approach, this, and future Reports, increasingly focus on 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 The Co-operative Group Board members (25 of 33, or over 75%) are elected by the Group's 45 area committees, which, in turn, comprise individuals from the individual membership base (page 101). 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 (V&P) 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.

In 2007, the Group V&P Committee established an Environmental Advisory Committee⁸ chaired by 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).

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 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 Social Goals and Sustainability department) and, ultimately, the Board, via the Group's Audit & Risk Committee⁹. Brand damage is considered to be one of the seven most significant risks to face the Group, in terms of residual value.

The Trading Group and CFS Boards each have responsibility for their respective business' systems of internal controls, which aim to safeguard those business' 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 Executives confirm the effectiveness 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 key 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.

On appointment, directors undertake an induction programme, designed to develop their knowledge and understanding of the Group. As detailed in the Annual Report and Accounts, throughout their period in office, directors are regularly 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.

Throughout 2007, the Group Board received quarterly progress reports on ethics and sustainability matters. In addition, the Group and CFS Executive teams received 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 Group¹⁰ and Co-operative Financial Services¹¹ 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 investment¹² (see page 42 for details of how Co-operative Insurance seeks to encourage SEE risk reporting among UK investees via shareholder activism).

Management

Day-to-day management of the Group's Social Goals Strategy is undertaken by the ethics and sustainability (16 full-time equivalent staff) and community and campaigns (13 full-time equivalent staff) teams in the Group's Social Goals department. The department came together in spring 2006, following the centralisation of a number of CFS and Trading Group corporate functions. The Head of Social Goals and Sustainability reports to the Group Marketing Director, who is a member of the Group Executive¹³.

Responsible shareholding activities are, additionally, supported by a distinct team (11 full-time equivalent staff) within The Co-operative Insurance's Investment Management function, and responsible retailing by a distinct team within The Co-operative Food, while many other individuals throughout the business are directly responsible for aspects of the Group's sustainability programme.

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



BENCHMARK In recent years, the Trading Group, The Co-operative Insurance and The Co-operative Bank have all separately benchmarked their strategy, management, reporting and performance in the area of corporate responsibility via participation in Business in the Community's (BitC) annual Corporate Responsibility (CR) Index¹⁴ – and, in the last ever absolute rankings, the bank was ranked first. In 2006, a consolidated submission was made for CFS, and, following BitC's decision to move to bandings from rankings, CFS was placed in the Platinum (highest) group, attaining a score of 98%, and emerged as sector leader. In 2007, submissions were made for CFS to the full CR Index (with associated Environment, Community and Workplace index rankings and scores), and for the Trading Group to the Community and Environment indices. Of the 111 publicly participating companies in the CR index, CFS was, once again, placed in the Platinum Group, attaining a score of 98% and retaining its position as sector leader. CFS also achieved a Platinum ranking in both the Environment and Community indices, attaining scores of 99% (2006: 99.79%) and 100% (2006: 99.08%) respectively; and a Gold ranking in the inaugural Workplace Index, with a score of 92%. The Trading Group achieved a Platinum ranking in the Community Index, with a score of 100%; and a Gold ranking in the Environment Index, attaining a score of 92%.

Business in the Community
CORPORATE RESPONSIBILITY INDEX 2007

As set out in its Financial Statements¹⁵, CFS' performance in the BitC indices is one of two key measures used to assess whether its Key Performance Indicator (KPI) of 'market leading social responsibility' is being realised.

Policy

The Group's overarching approach to ethics and sustainability was consolidated in a new Sustainable Development Policy in 2007 (page 4). 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 Group has a suite of bespoke, customer/member-mandated ethical policies in place in connection with the majority of its business activity¹⁶. The Co-operative Bank and The Co-operative Insurance operate customer-mandated ethical policies that govern, respectively, who the bank will and will not finance and The Co-operative Insurance's approach to engagement with investees (pages 41–43). At the end of 2007, a consultation was launched to develop an analogous member-mandated Ethical Policy for The Co-operative Food¹⁷. Over 100,000 members, of whom 64,000 were members of The Co-operative Group¹⁸, were consulted, and the vast majority endorsed the adoption of the Policy, which covers ethical trading; animal welfare; environmental impact; food quality, diet and health; and community retailing issues¹⁹, making it what is believed to be the world's largest consumer poll on ethics. In addition to enabling members to influence the Group's responsible retailing initiatives by endorsing the Policy, the consultation asked members to identify one issue where they would welcome further progress. Responses clustered around: ethical trading (27%); animal welfare (25%); and the environment (22%). Progress made and targets set in the areas covered in the consultation are detailed throughout this report.

Sound sourcing is a major activity for the Co-operative Group. Most significantly, policies in this area comprise: The Co-operative Food's Sound Sourcing Code of Conduct, which focuses on goods for resale (pages 15–20); and CFS' Sustainable Procurement and Supplier Policy, which focuses on goods not for resale (page 23).

Health and Safety Policies for both CFS and the Trading Group seek to ensure that the health, safety and well-being at work of all employees is safeguarded, and that non-employees are protected from any hazard created by the Group's operations²⁰. The Policy statements are signed by the Chief Executives, and are applicable to all Group businesses, their management and employees. Health and safety performance in relation to employees during 2007 is detailed on pages 117–118. 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 this 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.

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. Additionally, content of this Report is informed by the Global Reporting Initiative's G3 Sustainability Reporting Guidelines. This Report has been independently verified by **csrnetwork** and found to be consistent with a GRI G3 application level of B+²¹. A summary index detailing the Group's reporting against the G3 indicators is provided on pages 135–136, with a more detailed account provided online²².

BENCHMARK The AccountAbility Rating²³, undertaken by AccountAbility and **csrnetwork**, measures the extent to which responsible practices are placed at the heart of business. The Co-operative Group's Sustainability Report 2006/07 was benchmarked against those of the Fortune Global 100 (G100). The Group scored 89%, which is significantly higher than the average score of 40% achieved by the G100 companies. The Group's score bettered the highest-scoring G100 company, BP (75%), the highest scoring financial services company, Barclays (69%) and the highest-scoring 'retail and fast-moving consumer goods' company, Tesco (60%). In terms of the Group's social, environmental and broader economic performance, the report highlights that "the breadth of issues identified and the depth to which Co-op is exploring them is rarely – if at all – met by any company of a comparable size".

ACCOUNTABILITY RATING™ 2007

BENCHMARK The Global Reporting Initiative's (GRI) G3 Sustainability Reporting Guidelines provide a globally recognised framework for reporting on an organisation's economic, social and environmental performance. The Co-operative Group Sustainability Report 2006²⁴ was also independently verified by **csrnetwork** and found to be consistent with a GRI G3 application level of B+. The Group believes that no other UK company from the food retail, bank or insurance sectors produced a sustainability report for 2006 to a B+ or higher.



Reporting: recognition

1999 The Co-operative Bank Partnership Report named Best Social Report, at the ACCA UK Sustainability Reporting Awards and receives special commendation for Stakeholder Reporting in the European Environmental Reporting Awards.

2000 The Co-operative Bank Partnership Report named Best Social Report and Best Environmental Report at the ACCA UK Sustainability Reporting Awards.

2001 The Co-operative Bank Partnership Report named Best Sustainability Report and The Co-operative Insurance awarded Best Social Report at the ACCA UK Sustainability Reporting Awards

2002 The Co-operative Bank Partnership Report named Best Sustainability Report at the ACCA UK Sustainability Reporting Awards and at the European Sustainability Reporting Awards. Also ranked first in the biennial global survey of the world's leading sustainability reports carried out by the United Nations Environment Programme/SustainAbility.

2003 The Co-operative Bank's Partnership Report named Best Sustainability Report and The Co-operative Insurance Social Accountability Report awarded Best Social Report (joint winner) at the ACCA UK Sustainability Reporting Awards.

2004 The Co-operative Financial Services Sustainability Report awarded Best Sustainability Report at the ACCA UK Sustainability Reporting Awards and ranked first in the biennial global survey of the world's leading sustainability reports carried out by UNEP/SustainAbility.

2006 CFS' Sustainability Report was runner-up at the ACCA UK Sustainability Reporting Awards; the report was also ranked 'number two' by the United Nations Environment Programme in its most recent biennial global survey of the world's leading sustainability reports.

2008 The Co-operative Group's Sustainability Report 2006/07 achieved the highest AccountAbility Rating of any report undertaken to date – at 89%, considerably higher than the average score of 40% achieved by the Global 100 companies.



Audit and assurance

The Group remains committed to the AA1000 Assurance Standard (AS)²⁵ 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 assurance provider in relation to their independence and competencies. In undertaking an assurance assignment based upon AA1000AS, the auditor assesses the degree to which:

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

The Group appointed **csrnetwork** to provide assurance, primarily on the basis of the high standing in which the principal auditors are held²⁶. 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 133–134).

In 2007, the supporting internal audit programme was reviewed; partly informed by key issues identified in the last report cycle. Audit activity focused on bank Ethical Policy implementation (page 41), and The Co-operative Food's sound sourcing/labour standards programme (pages 16–17).

Influence and action

Previously, the Group has been active in shaping sustainability accounting and reporting standards, at both a national and international level. The following examples of such engagement were presented in the 2006/07 Sustainability Report (pages 15–16):

- Financial reporting in the UK – The Co-operative Insurance's response to the UK Government's Mandatory Narrative Business Reporting Consultation;
- Global Reporting Initiative – CFS' contribution to the Financial Services Sector Supplement; and
- AA1000 Assurance Standard – CFS' sponsorship of guidance notes to accompany further development of the standard.

- 1 Terms of reference for elected committees can be found at: www.co-operative.coop/en/corporate/sustainability/areacommittees/ and www.co-operative.coop/en/corporate/sustainability/regionalboards/
- 2 The Co-operative Group complies with the UK combined code on corporate governance as far as it is applicable to an industrial and provident Society. Compliance is reported in the 2007 Annual Report and Accounts of The Co-operative Group, p41–45 and Co-operative Financial Services' Financial Statements, p35–41.
- 3 The Co-operative Group Annual Report and Accounts 2007, p32–34 and Co-operative Financial Services' Financial Statements 2007, p18–19.
- 4 In 1987, the Brundland Report, 'Our Common Future', defined sustainable development as 'development that meets the needs of the present without compromising the ability of future generations to meet their own needs'.
- 5 Terms of Reference for the Group Values & Principles Committee can be found at: www.co-operative.coop/en/corporate/sustainability/vandptor/
- 6 The V&P Committee met four times during 2007 and also held a conference at which it met with regional V&P committees. During the year, its effectiveness was reviewed by its members and the Board.
- 7 Anyone above the age of 16 who lives in the UK and agrees to invest at least £1 can become a member of The Co-operative Group.
- 8 Terms of Reference for the Environmental Advisory Committee can be found at: www.co-operative.coop/corporate/sustainability/envadvisorytor/
- 9 As reported in The Co-operative Group Annual Report and Accounts (p42), the Audit and Risk Committee has 11 members. 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 (page 117).
- 10 The Co-operative Group Annual Report and Accounts 2007, p38–40.
- 11 Co-operative Financial Services Financial Statements 2007, p48–49.
- 12 www.abi.org.uk/Display/File/85/SRL_Guidelines.doc
- 13 The Group Marketing Director has Executive responsibility for community and environmental strategy and performance across The Co-operative Group, and for marketplace strategy and performance in the Trading Group. Marketplace issues at CFS are the Executive responsibility of the Managing Directors for Retail and Corporate Markets. Trading and CFS Executive teams have Directors of Human Resources with Executive responsibility for workplace issues, such as diversity, health & safety and well-being.
- 14 www.bitc.org.uk
- 15 Co-operative Financial Statements 2007, page 19.
- 16 Customer/member-mandated ethical policies are in place for the bank, insurance and food businesses. In 2007, these businesses, together, accounted for 68% of the Group's total revenue.
- 17 www.co-operative.coop/Food/PDFs/FEP_Master_Policy.pdf
- 18 Respondents comprised 64,000 Co-operative Group members and 36,000 members of other Co-operative societies. Results presented in this report relate only to Co-operative Group member responses. Analysis by Customer Insight shows that respondents to the consultation were representative of the overall membership base in terms of age, gender and location and there was a significantly higher representation from the prime target audience of working families.
- 19 Further details of member responses to the consultation are presented throughout this report in the 'materiality and strategy' paragraphs at the start of relevant sections.
- 20 www.co-operative.coop/corporate/healthandsafetypolicy; and www.cfs.co.uk/financial2006/HealthAndSafety/default.htm
- 21 For further information on G3 application levels, see: www.globalreporting.org/GRIReports/ApplicationLevels/
A full account of the Group's performance – or non-reporting – against all G3 indicators is provided at: www.co-operative.coop/corporate/sustainability/GRI-Index
- 22 www.co-operative.coop/corporate/sustainability/GRI-Index
- 23 www.accountabilityrating.com
- 24 Based on our assessment of corporate reports detailed at www.corporateregister.com; Corporate Register lists details of approximately 95% of all sustainability reports published.
- 25 www.accountability21.net
- 26 Members of the **csrnetwork** team have previously provided assurance on CFS' Sustainability Reports, which were rated by UNEP's biennial assessments as incorporating the best third-party audit and verification of any reporting in the world. Further information relating to the audit team, including Statements of Competencies and of Impartiality, can be found at www.csrnetwork.com.

Social responsibility

- 14 International development and human rights
- 27 Animal welfare
- 34 Diet and health
- 40 Ethical finance
- 48 Social inclusion
- 53 Diversity
- 59 Community investment

2007 saw Fairtrade sales

increase by 40%

For the first time this year, we present a holistic account of how we impact on international development. Our support for Fairtrade is a central part of our approach, and, in 2008, we're seeking to further expand our Fairtrade range to over 200 products.

52%

increase in sales of Freedom Food products

£14m

income foregone by bank as a result of ethical screening

8%

of business banking current accounts held by small businesses in deprived areas

6.9%

of pre-tax profit contributed to the community

Approach to social responsibility

Strategy

Taking a responsible approach to business has been a guiding focus of The Co-operative Group since 1844. Today, the Group's founding co-operative values and principles (inside back cover) resonate strongly with contemporary ideas of corporate social responsibility. However, there are still areas where the co-operative difference is manifest, not least in how the interests of ownership, control and beneficiary are vested with consumers, not capital (pages 100–107). For more than a decade, UK retail co-operatives (of which the Group accounts for 85% of turnover) have been seen by many as the UK's leading ethical traders. A 2008 study on business ethics found, for the second consecutive year, that consumers ranked The Co-operative Group as 'the most ethical brand' in the UK¹.

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.

In the 2007 Co-operative Food Ethical Policy consultation (page 9), over half of the members responding cited ethical trading and animal welfare as the most important ethical/environmental issues on which the Group should focus². Support for new policy positions addressing these, along with the issues of food quality, diet and health, and community retailing, consistently attracted the support of over 90% of members in the consultation. Extensive research with customers of The Co-operative Insurance³ and The Co-operative Bank⁴, has previously endorsed ethical finance (and various elements therein) as a priority for The Co-operative Financial Services (page 40). In addition, the Group's Social Goals Strategy (page 7), 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 inclusion and diversity as priority reporting areas in relation to social responsibility.

Developments

A new section on international development and human rights (pages 14–26) collates, for the first time, the wealth of activity across the Group's businesses in respect of these issues. This reflects the prioritisation of these issues by members, and enables the Group to provide a more holistic account of its performance in these areas.

Recognition

- Group received a Queen's Award for Enterprise 2007 (Sustainable Development Category);
- CFS placed in Platinum (leading) Group of 111 companies that publicly participated in Business in the Community's (BitC) Corporate Responsibility Index 2007 (page 9). Scored 98%, and maintained its position as sector leader;
- Trading Group achieved a Platinum ranking in BitC Community Index 2007, with a score of 100% (page 9);
- Group received a Compassion in World Farming 'Good Egg' Award 2007 for its animal welfare work relating to own-brand eggs (page 28);
- Bank awarded European 'Proggy' Award 2007, by People for the Ethical Treatment of Animals Europe (page 28);
- Four of eight prizes at the Fairtrade Wine Committee's 2007 awards went to Co-operative products, and Fairtrade 99 Tea won hot beverages category at Q Awards (page 19);
- Group's Healthy Living Range won Nestlé Wellness Award at the 2007 IGD Food Industry Awards (page 37);
- The Co-operative Insurance won 'Best Ethical Investment Provider' at the Investment Life & Pensions Moneyfacts Awards 2007 (page 43);
- Ethical Consumer Research Association (ECRA) rated The Co-operative Insurance as 'best buy' in its Insurance and Investment sector buyers' guides (page 46); and
- Trading Group achieved a gold rating from Race for Opportunity in 2007 for its work to promote ethnic diversity (page 56).

1 GfK NOP (May 2008) Consumers and Ethical Brands in 2008.

2 27% of Co-operative Group members who responded listed ethical trading as the single most important issue; 25% listed animal welfare; and 22% listed the environment.

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

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

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 Trading 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 The Co-operative Food, that will better demonstrate the full range of activities covered by the sound sourcing programme. ✓

Extend The Co-operative Group/Oxfam mobile phone recycling scheme to The Co-operative Bank. ✓

Targets 2008

Continue the roll-out of Sedex to suppliers of The Co-operative Food, and work with suppliers to progress corrective actions identified as part of a risk based auditing programme.

Extend awareness-raising and training sessions on sound sourcing for suppliers, with a focus on Africa and UK migrant workers.

Establish a committee to champion ethical trading values within The Co-operative Food, with representation from commercial teams.

Increase the number of Fairtrade lines stocked by The Co-operative Food to over 200 products.

Support the Co-operative College's Fair and Square education programme.

Undertake social audits of all principal direct suppliers of The Co-operative Clothing during 2008.

Launch at least one new microfinance scheme via The Co-operative Bank.

Via The Co-operative Bank Customers Who Care programme, educate and raise awareness of the Universal Declaration of Human Rights and encourage participation in human rights activism.

✓ Target achieved

= On track

➤➤ Close to target

◀ Behind schedule

International development and human rights

Indicators

Fairtrade range and sales value: Food

Microfinance support: Bank

Supplier capacity building: Food

Improvement actions resolved: Food

Education and awareness: Group

Background

In recent years, steady progress has been made on reducing poverty globally. The proportion of people living in extreme poverty fell from nearly one-third to less than one-fifth of the global population between 1990 and 2004¹. Enrolment in primary schools in the developing world has increased from 80% in 1991 to 88% in 2005². Child mortality and the political marginalisation of women are decreasing on a global level³. However, other indicators are less positive. Half of the population of the developing world still does not have access to basic sanitation, and, although rates of child health and maternal mortality have improved, Millennium Development Goals for these areas are unlikely to be met by the target date of 2015⁴.

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 Bank's participation in, and prominent support of, the UK's Trade Justice Movement in 2005⁵.



In the past century, few major economies have been lifted out of poverty without the utilisation of international trade, which offers particularly important opportunities for people living in rural areas, where three-quarters of the world's poor are estimated to live⁶.

Notwithstanding this need for powerful, developed countries to bring about a more ethical 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 development and the assurance of decent labour standards (such as freedom of association and equal opportunities) very difficult.

The Human Rights research organisation, Freedom House, painted a gloomy picture of the state of human rights in the world in 2007, noting that "a number of countries that had previously shown progress toward democracy have regressed, while none of the most influential Not Free states showed signs of improvement"⁷.

In the field of labour standards, some progress has been identified. In recent years, the International Labour Organization (ILO) has noted that child labour, especially in its worst forms, is in decline for the first time across the globe⁸. Research undertaken during 2006 concluded that the previous 10 years had witnessed improvements in areas such as health and safety; however, it equally highlighted the need for improvement with regard to other areas, such as the provision of a living wage⁹. Work published in 2007 also highlighted the continuing problem of forced labour, and the emergence of new forms of forced and bonded labour, as well as traditional manifestations of slavery¹⁰. Such research illustrates the need for a sustained range of solutions, including increased sector and cross-country collaboration, if meaningful change is to be effected.

Materiality and strategy

The Co-operative Group recognises that its activities have an impact on international development, and believes that it has the capacity to help make this impact a positive one. The Group helps support other parts of the Co-operative Movement towards this end, and it has been acknowledged by global development organisations that co-operative models contribute to the creation and maintenance of stable and sustainable livelihoods, with co-operatives generating an estimated 100 million jobs globally¹¹; for example, many Fairtrade producers, such as The Co-operative Group's Kuapa Kokoo cocoa supplier in Ghana, are co-operatives¹². This helps provide a solid foundation from which The Co-operative Group has assumed a strong, even leading, position on addressing international development issues.

The size and global reach of The Co-operative Food business gives it a particularly significant role regarding international development; in 2007, Co-operative own-brand products were sourced from over 1,000 production sites in over 50 countries¹³. 'Ethical Trading' issues (labour standards, human rights and more general supply chain concerns) emerged as the priority area for Group members responding to the Food Ethical Policy consultation in 2007 (page 9). The Group is committed to managing labour standards in the supply chain, and to the principles of sound sourcing (which is the term that the Group uses to describe its approach to labour standards management), particularly in respect of the retail of own-brand products¹⁴. Development awareness-raising and funding is also factored into a variety of products the food business offers, not least through the consistent leading support offered to Fairtrade products. Funding for education and capacity building in both developing and industrialised nations, and lobbying and campaigning on development and human rights issues are further contributors.

The size and global reach of The Co-operative Food business gives it a particularly significant role regarding international development; in 2007, Co-operative own-brand products were sourced from over 1,000 production sites in over 50 countries

International development, supply chain issues and human rights are also pertinent to The Co-operative Financial Services' core business activity – the provision of investment and financial services. In its approach to such matters, CFS seeks to be the world's leading retail bank and institutional investor. The customer-led ethical policies of The Co-operative Bank and The 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)¹⁵. There are 72 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 time¹⁶. The vast majority of Co-operative Bank customers also support its denial of investment to companies involved in the sale of arms to oppressive regimes; the provision of torture equipment; and irresponsible marketing practices in areas such as breast milk substitutes and tobacco. The Co-operative Insurance customers have, similarly, signalled their concern about a range of economic justice and human rights issues, and their wish to see the insurance business use its power as an institutional investor to promote development and human rights¹⁷. The Co-operative Bank also provides positive support for development charities through its charity credit cards and helps to channel funds to some of the world's poorest people through involvement in microfinance.

Sound sourcing: The Co-operative Food

The Group was a founding member of the Ethical Trading Initiative (ETI)¹⁸ – an alliance of companies, non-governmental organisations (NGOs) and trades 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 Conduct¹⁹, developed with reference to the ETI Base Code and the ILO conventions²⁰. This 'continuous improvement' code is available in a number of languages and is issued to all own-brand suppliers at the commencement of trade, requiring them to commit to work towards minimum standards for working conditions. Compliance with sound sourcing criteria is referenced in all letters of agreement with suppliers, and work is underway in 2008 to make this requirement more explicit. Ultimately, The Co-operative Food aims to demonstrate that manufacturing sites producing its own-brand products strive to achieve ethical operations and have a genuine commitment to the criteria set out in the Sound Sourcing Code of Conduct. Work is also underway during 2008 to re-present the Code so it better aligns with the ETI code format, and to consider formally extending the Code to cover activities of other trading businesses in The Co-operative Group.

In 2005, The Co-operative Food became a member of the Supplier Ethical Data Exchange (Sedex)²¹; an internet-based electronic database where suppliers post labour standards information, including social audit reports. From August 2007, The Co-operative Food own-brand suppliers²² were asked to join Sedex and complete a self-assessment registration, and the systematic transfer of labour

standards information from the existing internal system to Sedex commenced. Sedex enables suppliers to share social audits with multiple customers, and aims to remove unnecessary duplication. Sedex has helped provide increased transparency of information (especially on second tier sites) for The Co-operative Food and assisted with reporting requirements for the ETI. Sedex does not verify the quality of the information it holds, and so it is the responsibility of information users to undertake due diligence. The Co-operative Food will only accept social audits deemed to be of sufficient quality²³, and is an active participant of the Sedex Associate Auditor Group, which works to improve the quality of social audits. The Co-operative Food is increasingly focusing on capacity building and the follow-up of issues identified, and a new Ethical Trading and Sustainability Officer position was recruited by The Co-operative Food in March 2008, to support the implementation of this strategy. This is in addition to the recruitment of a full-time Ethical Trading Manager in June 2007. By the end of 2007, over 700 Co-operative Food sites had registered and completed a self-assessment on Sedex, which represents over 69% of targeted sites and around 130,000 workers.



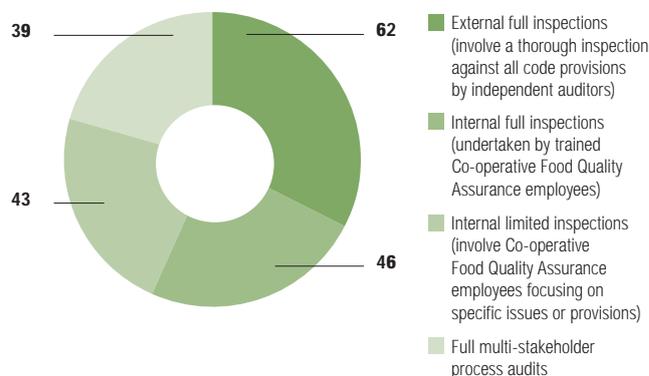
Accounting systems and reporting

The Co-operative Food makes an annual submission to the ETI, which contains details of its sound sourcing management programme on a site-by-site basis. The ETI rates and benchmarks performance and categorises it as 'beginner', 'improver', 'achiever' or 'leader'. In one of the five reviewed areas ('commitment'²⁴), the Group's performance in 2007 was rated as 'leader', with the ETI welcoming an increase in the number of clearly measurable targets set by The Co-operative Food to monitor performance. In the remaining four areas ('monitoring, independent verification and reporting'²⁵, 'awareness raising and training'²⁶, 'corrective actions'²⁷ and 'management procedures, pricing and incentives'²⁸), it was rated as 'achiever'. These ratings are consistent with the previous year. 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 NGO members and independent consultants and feedback is provided.

During 2007, 190 assessments were progressed amongst suppliers to The Co-operative Food to determine the degree of compliance with sound sourcing criteria. For the first time, a significant proportion of assessments were sourced from third parties – such as retailers and suppliers themselves – which The Co-operative can access via the Sedex system²⁹. Previously, The Co-operative's monitoring programme was carried out by The Co-operative Food's own technical managers and any third parties commissioned by The Co-operative Food. However, a strategic review undertaken in 2007 concluded that the huge scope of the supply base meant that it was necessary to widen the breadth and depth of the monitoring programme and draw upon resources beyond those of The Co-operative Food (not least because of the cost implications).

The Co-operative Food's membership of Sedex has resulted in access to an increased percentage of sites with independent audits. Going forward, the role of The Co-operative Food's technical managers will be to work with suppliers to address issues identified by approved independent audit bodies.

2007 assessments by type



Of the 190 site assessments, 123 (65%) related to tier 1 sites and 67 (35%) to tier 2³⁰. Assessments undertaken in the UK or continental Europe totalled 120 (63%) (2006: 67%). Further afield, 43 were undertaken in second tier sites in Africa; 21 in China (where The Co-operative Food opened a representative office in 2005); two in South-East Asia; two in the Indian subcontinent; one in Israel; and one in Turkey. As in previous years, the majority (82%) of the sites assessed were connected with food and fresh produce (2006: 86%).

During 2007, the selection of suppliers for assessment took some account of factors such as the country of production and the product type; for instance, it is a requirement for all sites in China to be assessed before the commencement of trade. Sedex offers a sophisticated risk assessment tool, using information suppliers have provided through self-assessment (as well as industry, country and site information). Such information has been gathered for The Co-operative Food suppliers that have already registered on Sedex, and this will be used to establish a more systematic approach to the selection of suppliers for review in 2008.

As expected, and in line with the previous year, sites inspected outside of Europe accounted for a disproportionate amount of improvement actions (with 36% of sites accounting for 67% of issues). 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 workers) for the Group to continue to work in partnership with suppliers to find sustainable solutions to issues. In 2007, no suppliers were delisted on the basis of labour standards. When problems are found, a corrective action plan is agreed with the supplier. Since August 2007, monthly monitoring sheets detailing the status of improvement actions have been circulated to those who manage supplier relationships.

A further 201 improvement actions dating from 2006 were resolved in 2007, of which the majority related to safe and hygienic working conditions (76%). Improvement actions are typically closed off by technical managers or independent auditors and require evidence from suppliers, such as photographic evidence or copies of documentation.

The Co-operative Food sound sourcing – findings and improvement actions

Improvement actions arising from the 190 site assessments, 2007				Reasons improvement actions not completed			
Code of Conduct provisions	Total number of improvement actions arising	Improvement actions ³¹ completed to date	Typical issues resolved	Due to be completed in 2008	Overdue action	Not active, delisted	Other
Exploitation of labour	13	4 (31%)	Retention of cash deposits.	7	1	–	1
Freedom of association	18	11 (61%)	Inadequate employee information and training provided; inadequate facilities for trades union workers provided; and insufficient time off provided to worker representatives.	5	1	1	–
A safe and hygienic working environment	940	632 (67%)	Workplace general conditions in need of improvement; evacuation procedures and fire safety in need of enforcement; and personal protective equipment and machine safety inadequate.	241	29	19	19
Child labour ³²	11	8 (73%)	Young worker policy awareness inadequately enforced.	–	–	2	1
Living wages to be paid	66	38 (57%)	Wages not compliant with legal minimum/ industry benchmark wage; payslips not provided; and disciplinary deductions used.	19	2	4	3
Working hours are not excessive	129	61 (47%)	Hours worked not compliant with national law; contracted hours exceeding 48 hours per week; overtime not voluntary; and statutory leave not given.	40	10	13	5
No discrimination	63	37 (58%)	Discrimination evident; for example, when hiring and promoting workers, and equal opportunities policies and training not provided.	25	–	1	–
Regular employment	95	66 (69%)	Written terms and conditions not provided to workers.	20	3	6	–
No harsh or inhumane treatment	36	31 (86%)	Inadequate disciplinary and grievance procedures in use; and verbal or sexual harassment evident.	4	–	1	–
Total	1,371	888 (65%)		361 (26%)	46 (3%)	47 (3%)	29 (2%)

The Co-operative Food sound sourcing – capacity building

In addition to assessments, work continued in 2007 to help suppliers build skills and knowledge via capacity-building workbooks and supplier training sessions. The workbooks allow sites to assess themselves against the Code of Conduct, identify areas of risk, consider improvement actions and pursue continuous 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 in 2001, and cover a total of 16 countries, with workbooks for China, Argentina, Chile, Belize and Costa Rica updated during 2007. A workbook for UK growers was developed in collaboration with other retailers and launched in March 2008. In addition, during 2007, two one-day seminars were delivered in China and attended by 27 suppliers. These were run by independent experts and provided the opportunity for suppliers to share best practice and understand changes to Chinese Labour Law, as well as helping to offer advice and support in addressing the underlying causes of excessive working hours, which is of particular concern in China.



As part of the continued commitment to raise awareness of sound sourcing within the business, four half-day training sessions were delivered during 2007, to buyers, category trading managers and technical managers; some 69 individuals. This covered the sound sourcing strategy and Code of Conduct and the role of buyers, and is due to be rolled out to new buyers and key operational roles in Supply Chain, Product Development and Distribution functions during 2008. Sound sourcing responsibilities for buying teams will be more formally integrated into role portraits and appraisals in 2008. In addition, a training session on ethical trading was delivered to representatives from the unions NACO and Usdaw in April 2008.

There are many instances where the complexity of problems necessitates that solutions are progressed in collaboration with others. During 2007, the Group continued to work with other retailers and stakeholders through fora such as the ETI and Sedex, to develop improvements to working conditions and auditing standards. The Co-operative is also working collaboratively with a range of retailers, brands and NGOs to develop a network of local resources (via the Local Resources Network) to help undertake assessments and remediation across the globe. Collaborative work has continued in relation to working conditions for temporary and migrant workers in the poultry and meat industry.

Sound sourcing: The Co-operative Clothing

The corporate workwear business of The Co-operative Group was rebranded in April 2008 as The Co-operative Clothing (formerly Mandate Clothing Limited). Accompanying the rebrand, a decision was made to improve the ethical performance of the organisation, with a view to becoming an ethical leader in the corporate clothing industry in the longer term. A strategy was prepared in late 2007 to ensure the effective management and improvement of labour standards in the supply chain of the business, including commitments to sign up to Sedex and undertake independent social audits of all principal main suppliers (and follow up on any issues arising). In addition, environmental recommendations were introduced when The Co-operative Clothing relocated to a new head office building in March 2008, and the business has committed to offset all of its UK premises' carbon emissions, as well as continuing to recycle all of its cardboard waste.

Fairtrade

The Co-operative Group has been the UK's leading supermarket supporter of fair and ethical trade for over 160 years and has demonstrated continued commitment to the FAIRTRADE Mark since it was launched in the UK in 1994. Whereas sound sourcing work focuses on improving the working conditions of people making products at a factory level, Fairtrade is primarily based on requirements of the trade relationship at a community producer level. In a 2008 book on the history of the movement, the Executive Director of the UK Fairtrade Foundation described The Co-operative Group as "a pioneer in the area of sustainability" and made extensive references to The Co-operative Group, CFS and individual staff who have played key roles in promoting Fairtrade over the years³³.

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 deal³⁴. It was estimated, in October 2006, that over 1.5 million disadvantaged producers worldwide have benefited from Fairtrade terms, with a further five million benefiting from Fairtrade-funded infrastructure and community development projects³⁵.



During 2007, the range of Fairtrade products for sale in The Co-operative Food stores was extended, with 180 being offered (up from 151 at the beginning of the year), of which 110 were own-brand³⁶. Sales of Fairtrade goods totalled £31m in 2007 (2006: £22m), an increase of 40%. This represents 14% of all UK Fairtrade sales through supermarkets, which stood at £225m in 2007³⁷ (by comparison, The Co-operative Food represents only 4% of overall UK grocery sales³⁸). During Fairtrade Fortnight 2008, 'Mad Hatter's Tea Parties' took place at 170 Co-operative stores across the UK, and there were visits by Fairtrade producers from Ghana to stores and membership events³⁹. Seven related membership webchats took place between February 2007 and March 2008, attracting 120 contributions. Fairtrade products from The Co-operative range won awards for their quality as well as their ethics in 2007, with four of the eight prizes at the Fairtrade Wine Committee's 2007 awards going to Co-operative products, and Fairtrade 99 Tea winning the hot beverages category at the Q Awards. Furthermore, The Co-operative Food converted all of its own-brand hot beverages to Fairtrade in February 2008, becoming the first UK retailer to do so. Details of these and other Fairtrade products are provided on a dedicated section of The Co-operative Group's website⁴⁰, along with details of producers and benefits arising.

As well as pioneering the sale of Fairtrade products in British supermarkets, The Co-operative Food has also helped make available Fairtrade products outside of higher priced premium niche markets. Such 'accessible' products include Fairtrade own-brand mid-priced coffee granules and Fairtrade chocolate⁴¹.

Chocolate

All Co-operative chocolate bars are Fairtrade with cocoa provided by Kuapa Kokoo – a Ghanaian cocoa producers' co-operative that has some 45,000 members. As well as receiving a Fairtrade premium for its products, the co-operative also owns 45% of the British company that sells chocolate made from the cocoa beans, allowing profits to be repatriated to the producers⁴².

Wine

The Co-operative Group launched 'fairly-traded' wines before the Fairtrade standards existed, by identifying development opportunities in Chile and working with Traidcraft to bring them to market. Following this, the Group contributed to developing standards for the FAIRTRADE Mark in the category. The Group has, subsequently, helped develop one of the world's largest Fairtrade projects in South Africa, in connection with the Du Toitskloof co-operative in the Western Cape that helps support over 780 people; and launched the first Argentinian Fairtrade wines in the UK. In South Africa and Argentina, The Co-operative Group voluntarily doubles the wine Fairtrade premium to communities.

Cotton shopping bags

A year after the launch in spring 2007, 2.5 million Co-operative Fairtrade cotton shopping bags had been purchased by the Group for sale, and the bag was relaunched with new designs around Fairtrade Fortnight 2008. The bag was developed by an Indian factory with whom the Group worked to help, firstly, achieve Fairtrade certification for its cotton, and, subsequently, carbon neutrality. As a result of orders from the Group, the operation has increased its workforce by over 300. Additional financial benefits go to the Wings of Hope children's charity, which provides schooling for poor and orphaned children in India and Malawi. £25,000 was generated for the charity by sales of the bag in its first year.

Typical sources of Co-operative Fairtrade products



Milestones: Fairtrade firsts

1994 First major retailer to sell FAIRTRADE Mark Cafédirect. The Co-operative sold Cafédirect from 1992, before it was FAIRTRADE-Marked.

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

1999 Group announces it will stock Fairtrade tea and coffee in all stores.

2000 Brings Fairtrade bananas to the UK and launches first own-brand Fairtrade product – Co-operative Divine Milk Chocolate.

2001 Launches own-brand fairly-traded wine in advance of international Fairtrade standards.

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

2003 All own-brand coffee converted to Fairtrade.

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

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

2006 Launches first ever Fairtrade Argentinian wine and first Fairtrade peanuts.

2007 Launches UK's first supermarket Fairtrade cotton carrier bag. Launch first Fairtrade grapefruit in July and, at Christmas, sell UK's first Fairtrade mince pies and own-brand Fairtrade Christmas pudding⁴³.



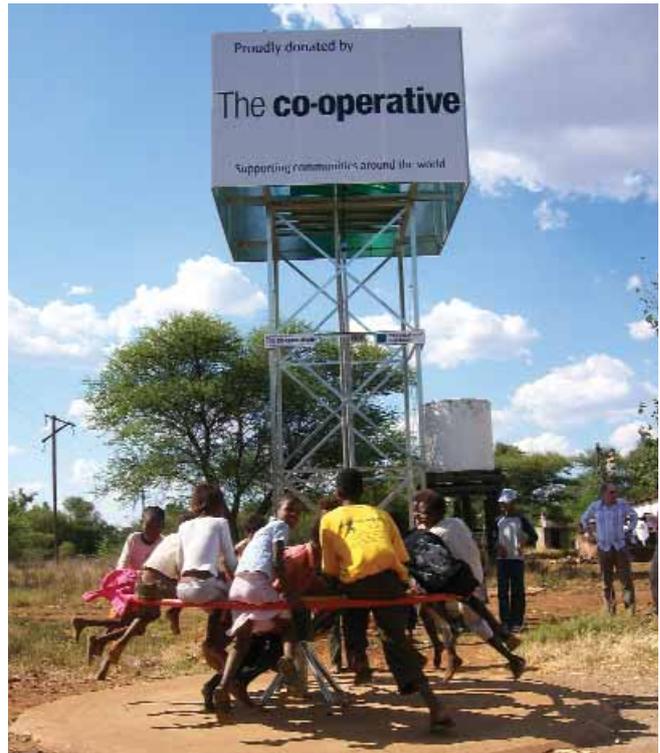
2008 Launches the UK's first Fairtrade chilled fruit smoothies from a supermarket retailer, and the UK's first Fairtrade ice lollies. Becomes the first supermarket chain to switch entire hot beverage range – tea, coffee and chocolate – to Fairtrade.

The Co-operative Group also continued to promote Fairtrade products in its own premises during 2007, with a large proportion of drinks sold in office vending machines and canteens, and served in branches of The Co-operative Bank, being FAIRTRADE-Marked. The bank, and some branches of The Co-operative Travel, serve Fairtrade tea and coffee to customers, with some 254,000 Fairtrade drinks served in 2007 (2006: 227,000), at a wholesale value of £36,000. In addition, Fairtrade drinks were made available to The Co-operative Group staff via catering facilities and vending machines. A total of four million Fairtrade drinks (2006: 3.5 million) were consumed on CFS premises in 2007; 2.7 million of these were via vending machines, with a further 1.4 million sold via on-site cafés and catering. In addition, 2,893 Fairtrade biscuit packs and chocolate bars were sold at on-site facilities. Totals were not available for other Group premises during 2007.

Affinity products and services

One Water

In March 2007, The Co-operative relaunched its own-label water, Fairbourne Springs Mineral Water, as the first own-label ethical water of its kind in the UK. Each sale includes a donation to One Foundation, a UK charity that works in Africa installing innovative PlayPump™ Water Systems, which are powered by children playing on roundabouts. Post-relaunch sales from September to December 2007 raised £205,000, enough for 26 PlayPumps™, which will benefit an estimated 60,000 people.



The Co-operative's sale of Fairbourne Springs Mineral Water and One Water (of which One Foundation is the charitable arm) is helping to tackle a problem which results in an estimated one billion people having no access to clean water, and two million people dying every year from diseases linked to dirty water⁴⁴.

Oxfam mobile phone recycling scheme

The Co-operative Food has worked with Oxfam since 2004 to help its customers recycle mobile phones and inkjet cartridges. Freestop recycling bags are available in store, enabling customers to post their old equipment to CMR Ltd, which then undertakes to recycle or re-use every part of the handset. The scheme was expanded into The Co-operative Travel shops in December 2006, The Co-operative Pharmacy branches in early 2007, and to bank outlets in September 2007, and is the most widely available customer mobile phone recycling scheme in the UK. In 2007, 29,847 phones and 9,896 print cartridges were recycled⁴⁵, generating £97,667 in income for Oxfam (2006: £101,634), and making the total raised since 2005 £248,000. This funding supports Oxfam programmes in countries such as Malawi, where local NGOs work with people affected by HIV and AIDS. Projects include community volunteering to support the chronically sick; pre-school care for orphans to enable them to stay within their home community; and educational activities aimed at combating gender-based violence. A representative of The Co-operative Group visited some of these schemes in 2007.



Charity cards in support of international development

The Co-operative Bank offers a range of credit cards in support of a variety of development charities, namely: Action Aid, CAFOD, Children in Crisis, Christian Aid, Oxfam, Save the Children, Sightsavers International, Tearfund, Wateraid and Y Care International. The bank makes a donation to each organisation when an account is opened, and further donations are made in proportion to the amount spent using the card. Together, these raised a total of £595,600 for the charities in 2007 (2006: £631,000).



Charity cards in support of human rights

The Co-operative Bank also offers a range of credit cards in support of human rights organisations: Amnesty International (UK) and the Medical Foundation for the Care of Victims of Torture. Together, these cards raised a total of £264,800 for the charities in 2007 (2006: £264,600).

Product-related carbon offset programmes

A number of the carbon offset programmes connected to the Group's mortgage, motor insurance and travel products directly support communities in the developing world. Further details are provided on pages 73–74.

CFS and ethical finance

Microfinance support

Microfinance is the provision of financial services to the working poor, usually in the form of small loans that can be as little as US\$100, which are provided by microfinance institutions (MFIs)⁴⁶. In 2005, the bank committed US\$5m (£2.6m) to the US\$80m Global Commercial Microfinance Consortium (GCMC), managed by Deutsche Bank. The consortium completed the distribution of its funds in 2007, loaning money to around 297,000 micro-entrepreneurs from countries around the world.



In early 2008, bank representatives visited Bosnia, to see, at first hand, the impact that loans made in 2007 were having. Visited projects included the Pekara bakery, which has been rebuilt and stocked with new equipment following a loan from the Consortium.

In 2007, the bank invested a further US\$1.8m in the 'Blue Orchard Loans for Development' fund, providing 21 loans for microfinance institutions in 13 countries. Following the success of these initiatives, the bank created a new US\$50m (£25m) fund in 2007, incorporating both these funds, to help further support the development of small businesses, in association with international banks, in some of the world's poorest countries. Two new schemes are currently underway at the bank and anticipated to run until 2008/09.

Bank screening of finance

The customer-led ethical policies of The Co-operative Bank and Co-operative Insurance contain a number of provisions relating to international development and human rights. Amongst others, these address oppressive regimes, the arms trade and labour standards.

During 2007, 123 finance opportunities (2006: 98) were referred to the Ethical Policy Unit in connection with international development and human rights, of which 11 were declined (2006: 6) at a cost of £1,926,000 (2006: £1,533,500) in terms of estimated income foregone in 2007.

- **Oppression.** In five instances, facilities were declined to businesses with links to state oppression; and in one instance facilities were declined to a business that failed to uphold human rights within its sphere of influence.
- **Arms trade.** In three instances, facilities were declined to businesses engaged in the manufacture of armaments where there was evidence of supply to oppressive regimes. In contrast, a £10m syndicated loan facility was approved to a business engaged in the provision of flight training services for military, in countries not considered oppressive regimes.
- **Labour standards.** In one instance, facility was declined to a business that failed to provide satisfactory assurance on basic labour standards in its supply chain.
- **Tobacco product manufacture.** In one instance, facility was declined to a business engaged in the manufacture of tobacco products.

The Co-operative Insurance UK voting – labour standards

In 2006, The 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, The Co-operative Insurance co-filed a shareholder resolution requiring the implementation, across all operations, of a workplace labour policy based on the ILO core conventions. Following the 2006 AGM, The Co-operative Insurance extensively engaged with the company and was satisfied that appropriate progress had been made by the Board in calling its US managers to account on the anti-union activity that was taking place. A Code of Conduct, which encompasses freedom of association and collective bargaining, has been introduced. FirstGroup plc's performance will continue to be monitored. At FirstGroup plc's 2007 AGM, a similar resolution was tabled to that co-filed by The Co-operative Insurance in 2006. The Co-operative Insurance considered support for the 2007 resolution to be unnecessary at the time, and voted in opposition.

The Co-operative Insurance engagement – Sudan

Since 2003, an estimated 200,000 Darfurian civilians have been killed, 2 million displaced and 3.5 million made reliant on humanitarian aid⁴⁷. For over 25 years, Weir Group supplied equipment to Sudan for oil exploration, production and refining, power generation, water supply, food industries and agriculture. The company also supplied spares and servicing support for government-run utilities. During 2007, The Co-operative Insurance asked Weir Group to halt any expansion of operations in Sudan until a robust peacekeeping force consistent with UN Security Council Resolution (UNSCR) 1769 for Peace in Darfur had been comprehensively applied, and to engage the Khartoum government to fully implement UNSCR 1769. In September 2007, Weir Group advised it had embarked on a programme of 'controlled withdrawal' from Sudan, and felt it inappropriate to engage with the Khartoum

International development and human rights-related business declines 2007	Estimated income foregone 2007
Steel manufacturer £25m contribution to finance the acquisition of a steel manufacturer. In the development of new steel plants, evidence that the acquirer systematically failed to consult people displaced by land clearance and to recognise the right not to be arbitrarily deprived of property.	£680,000
Engineering business £10m contribution to syndicated loan facility to fund the acquisition of an engineering company by private equity company. Acquirer was a sovereign wealth fund wholly owned by a Middle Eastern government classified as an oppressive regime. State-owned enterprises can provide a significant source of income to oppressive regimes. In this instance, the regime generates 78% of revenues from such state-owned businesses and property ⁴⁸ .	£340,000
Food manufacturer £10m contribution to a syndicated loan facility for a food manufacturer. Business operated in South Africa and failed to provide a sourcing policy or adequate assurance that it had procedures in place to safeguard the welfare of its workforce.	£340,000
Healthcare provider £10m contribution to a syndicated loan facility to finance the acquisition of a care homes provider. Acquirer was a sovereign wealth fund wholly owned by a Middle Eastern government classified as an oppressive regime. In this instance, the regime generates 55% of revenues from such state-owned business and property ⁴⁹ . While the bank is supportive of the healthcare sector, finance to support the acquisition was viewed as more beneficial to the regime than to the care homes provider.	£340,000
International airline £12m contribution to a syndicated loan facility for an airline operator. Business was wholly owned by a Middle Eastern government classified as an oppressive regime. In this instance, the regime generates 85% of revenues from such state-owned businesses and property ⁵⁰ .	£162,000
Vehicle leasing company Provision of money market facilities for a vehicle leasing and fleet management company. A sovereign wealth fund wholly owned by a Middle Eastern government classified as an oppressive regime held a 25% stake in the business. In this instance, the regime generates 78% of revenues from such state-owned businesses and property.	£40,000
Electronics component manufacturer £2.5m lending to business engaged in provision of specialised electronic components for weapons targeting systems for the aerospace and defence sector. In 2007, military aircraft utilising this technology supplied to one Middle Eastern government classified as an oppressive regime.	£20,000
Aviation services company £1m deposit-taking facility for subsidiary of UK armaments business. Parent company engaged in the design and production of strategic components for missiles and military aircraft. Between 2004 and 2006, control and guidance systems for anti-tank missiles utilising this technology supplied to three Middle Eastern governments classified as oppressive regimes.	£1,000
International bank Inter-bank facilities for an international bank. Business was part-owned by a Middle Eastern government classified as an oppressive regime. In this instance, the regime generates 4% of revenues from such state-owned businesses and property.	£1,000
Electronics contractor Banking facilities for business engaged in provision of electronics services for military aircraft engine manufacturer. Evidence of transfer of aircraft to oppressive regimes, and business failed to provide assurance on nature of services provided.	£1,000
Tobacco product manufacturer Banking facilities for business engaged in the manufacture of tobacco products. Bank declines all support for tobacco manufacture in response to concerns over irresponsible marketing in developing countries ⁵¹ .	£1,000

government as requested. The Co-operative Insurance asked that Weir Group consider establishing a human rights policy to formalise its approach to human rights and political risk in countries in which it operates. Engagement will continue on the issue in 2008.

The Co-operative Insurance engagement – labour standards

At the Tesco AGM on 29 June 2007, War on Want, the anti-poverty NGO, filed a resolution calling for the company to enact measures to ensure workers in supplier factories are guaranteed decent working conditions, a living wage, job security, freedom of association and collective bargaining. The resolution cited War on Want's 2006 report, which contained allegations of long working hours and low wages in factories in Bangladesh supplying Tesco, Asda and Primark, and pointed to the alleged failure of Tesco's third-party audits to identify ILO contraventions. The Co-operative Insurance advocates, as a minimum, compliance with the ILO core conventions. Whilst The Co-operative Insurance was in agreement with the spirit of the resolution, an abstention was registered due to concerns over the resolution's wording. Following the abstention, The Co-operative Insurance engaged with the company, urging them to further address supply chain labour standard issues such as a living wage; improve the quality of third-party audits; and improve Tesco's reporting regarding supply chain issues.

Sound sourcing: CFS

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)⁵². 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, in 2007, a potential breach of the SPSP statement on the arms trade was identified in two instances and two potential suppliers delisted. One business was excluded from a joint Co-operative Group and CFS tender process for the supply of fleet management services. The parent company was engaged in the supply of engines for military aircraft transferred to a number of Middle Eastern and African states classified as 'oppressive regimes'. In addition, the bank declined to purchase security software from a business owned by a major European defence contractor, which was engaged in the supply of military aircraft and missile systems to Middle Eastern and Southeast Asian states classified as 'oppressive regimes'.

In December 2007, The Co-operative Bank's corporate banking division agreed a £4.5m funding package for the expansion of Fairtrade drinks company, Vendia.

Carbon offset

Through the carbon offsetting projects undertaken in 2007 (pages 73–74) the Group not only achieved real reductions in carbon dioxide, but helped deliver social benefits in developing countries:

- Licensing agreements have enabled local communities to extract resources from the Kibale Forest National Park in Uganda at sustainable rates (and with permit revenues reinvested in, and controlled by, the local community). Shares in tourism revenue receipts have led to the construction of schools and health clinics in the area and the project provides employment for up to 400 local workers in high season.

- Households using biogas systems to replace inefficient wood-fired mud stoves around Ranthambhore National Park in India should benefit from fewer respiratory ailments from this cleaner burning fuel. The slurry that is produced as a by-product from the biogas digesters also provides a free, organic fertiliser.
- Energy efficient stoves in Cambodia emit less airborne particles and so can improve the living conditions of the users. In addition, less fuel is required for these stoves compared with their less efficient counterparts, meaning that households (and women in particular) do not need to spend as much time collecting wood.
- The use of treadle pumps in West Bengal (India) has helped generate extra, year-round income for farmers and, subsequently, reduced the need for work-driven migration for long periods. Improvement of land management has also helped households to enrich their diet through the increased variety of crops they are able to grow and increased options to afford livestock.

Climate change adaptation: social benefits

The Co-operative Travel and The Co-operative Clothing became carbon neutral in 2007 (page 73). An additional levy was added to the offset payments for these two businesses by The Co-operative Group to fund climate change adaptation projects. A certain level of climate change is inevitable and adaptation projects help those communities that are most at risk from the effects to better face this challenge. Adaptation monies in 2007 contributed to a project in Burkina Faso to help increase food security in an area suffering from desertification. Local partners have been working with farmers to help them diversify production through market garden and cereal production, and support better access to markets.

Kibale Forest National Park

In 2007, the Group approved funding of £20,000 (£10,000 in 2007 and 2008) for a project benefiting villages adjacent to Kibale Forest National Park in Uganda, in addition to the funding provided for reforestation of the Park through the carbon offset programme (page 73). These villages had been subject to raids by forest elephants from the park, damaging villagers' crops and homes.



Funding, channelled through the Group's partner, Climate Care, has paid for trenches to be dug over a total of six kilometres of the park's border, and for four wells to be dug in two of the poorest villages, to provide clean water. It is also hoped that the project will build better relations between the villages and park authorities, encouraging local people to give more support to environmental projects within the reserve.

Community involvement

The Big Picture

In August 2007, The Co-operative Fund (page 105) awarded The Big Picture, a new co-operative based in Yarm in the Tees Valley, a £25,000 grant. The Big Picture works with organisations that support street children in several developing countries, supplying them with a steady income and art materials. The children use these to produce artwork which is then sold in the UK, and the organisations are paid an additional twice-yearly sum for pictures actually sold. Where framed artworks are sold, the mounting and framing work is performed by inmates in a resettlement prison in Stockton-on-Tees, who work in the co-operative and are fully involved in the democratic running of the business. During 2007, The Big Picture worked with organisations in Mexico and Swaziland, with a total of 55 children aged between five and 14 years of age supplying pictures. These organisations provide a range of support for street children, including food, medical help, counselling and advocacy. In early 2008, The Big Picture established a relationship with an additional organisation in India⁵³.



Influence and action

Food Industry Sustainability Strategy (FISS)

In August 2007, The Co-operative Group responded to a Department for the Environment, Food and Rural Affairs (Defra) consultation on the final submission from the Food Industry Sustainability Strategy (FISS) Champions Group on Ethical Trade. The Group highlighted the need for discussions on reducing the climate change impacts of food to be better balanced with the encouragement of trade with developing countries, to facilitate development and poverty reduction. The Group called for the establishment of an industry forum on procurement, to further strengthen ethical trade with developing countries, and that any such forum should report to the Department for International Development (DfID); the first meeting of this forum took place in March 2008 and was hosted by DfID. The Co-operative Group also suggested that retailers should, ultimately, be aiming for the same high standards set by 'gold standard' certification schemes, such as Fairtrade, when setting out to source across entire ranges sustainably.

Soil Association air freight consultation

The Soil Association commenced a public consultation during summer 2007 on whether their organic standards should address air freight in the light of environmental concerns⁵⁴. The Co-operative Group publicly responded to this consultation, stating its opposition to suggestions to ban or label air-freighted organic produce. This was on the basis that mode of transport is not the best measure of the environmental impact of a product (and so air-freighted products are not always as environmentally harmful as first perceived in comparison to alternatives on offer), and that there are other high carbon 'hotspots' (for example, the use of heated greenhouses in growing organic produce) that deserve at least as much attention. The potential negative impact on producers in developing countries was also a major concern. This response is aligned to the positioning in the Food Ethical Policy for The Co-operative Food 'to seek to reduce the carbon footprint of our products, but never at the expense of the poorest producers in the developing world'; and to the position of DfID and various developmental organisations with which The Co-operative Group has been building stronger relationships during 2007 and 2008.

Black Gold⁵⁵

The Co-operative sponsored the UK premiere of the film *Black Gold* in Manchester in May 2007, as well as the film's London launch. Subsequently, 18 further screenings were arranged by the regional membership teams across the UK. In total, nearly 2,500 people attended screenings, at a total cost of £50,000. *Black Gold* follows Tadesse Meskela, manager of the Oromia Coffee Farmers' Co-operative in Ethiopia, on his worldwide quest to get better prices for his farmers' produce. It highlights the low prices paid by the biggest multinational coffee companies to farmers in the developing world, and contrasts them with the benefits brought by Fairtrade, including more stable prices for growers as well as a Fairtrade premium. The screenings mark the beginning of a major new education and outreach programme around international development that will utilise film, documentary and drama to renew the case for Trade Justice. Screenings of *The Great African Scandal*⁵⁶, which features the Kuapa Kokoo co-operative that supplies Fairtrade cocoa for Co-operative own-brand products, are planned for 2008.

Burma

There are many oppressive regimes across the world; however, Burma presents a combination of circumstances that make a particularly compelling case for action. The democratically elected government (which has called for a boycott of the country) has been denied power by a military junta, and the International Labour Organization (ILO) has taken the unprecedented step of calling on national governments and private companies to review their relations with Burma, in order to ensure these do not serve to perpetuate or extend the widespread system of forced labour. The Co-operative Bank has engaged with the issue of Burma since 2000, and has declined to provide financial services to it, or any company with a significant presence there. In order to maintain attention and pressure on the junta, following the interest sparked by the suppression of popular dissent in autumn 2007, The Co-operative supported a January 2008 Parliamentary meeting in association with Burma Campaign UK. Over the period November 2007 to January 2008, The Co-operative Bank paid £13,000 for adverts in the national media highlighting the continued oppression of the Burmese people and promoting the Burma Campaign UK.

Fairtrade schools pack

In March 2005, following publication of the Co-operative Fairtrade Towns guide, the Group launched a free interactive Fairtrade educational pack and website for primary schools⁵⁷. 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 2007 and, as at February 2008, over 10,000 school packs had been distributed.

Bank Customers Who Care (CWC) programme – Amnesty International

In December 2007, it was announced that the main 2008 campaign focus for The Co-operative Bank's Customers Who Care programme (page 63) would be the 60th anniversary of the Universal Declaration of Human Rights. The main partner in this campaign is Amnesty International, and customers have been encouraged to sign a pledge to help uphold universal human rights⁵⁸. International development and human rights have been a key part of The Co-operative Bank's Ethical Policy since 1992, and previous CWC campaigns include Trade Justice (2005), Cluster Bombs (2002), Refugees: the real story (2000), Third World Debt (1999), the Arms Trade (1998) and the 50th Anniversary of the Universal Declaration of Human Rights (1998).

The Co-operative Insurance: Access to medicines

In 2007, 33.2 million people were estimated to be living with HIV; 2.5 million people became newly infected; and 2.1 million people died of AIDS⁵⁹. Every year, more than 500 million people become severely ill with, and over 1 million die of, malaria⁶⁰. It is also estimated that 1.6 million deaths result from tuberculosis per year. It can take 10–15 years for an HIV-infected person to develop AIDS and antiretroviral drugs can slow down the process further; both malaria and TB are treatable. During 2007, The Co-operative Insurance supported the Access to Medicine (ATM) Index⁶¹. The aim of the Index is to provide key stakeholders with impartial and reliable information on individual pharmaceutical companies' efforts to improve global access to medicines and to provide pharmaceutical companies themselves with a transparent means by which to assess, monitor and improve their own performance and their public and investment profiles. Funded by the Access to Medicine Foundation, The Co-operative Insurance has been consulted on Index criteria and has supported the Foundation in its outreach work to the investment community. Together with other institutional investors⁶², The Co-operative Insurance has also convened a new forum for institutional investors to exchange information on environmental, social and governance developments in the pharmaceutical sector. Called the Pharmaceutical Shareholders' Forum, its current focus includes access to medicines.

The Co-operative College

In 2007, The Co-operative Group and The Co-operative College collaborated on a range of projects aimed at building capacity amongst co-operatives in the developing world and raising awareness of development issues in the UK. The College provides education, training and research for the co-operative, mutual and social enterprise sectors in the UK and internationally, and works to raise awareness of co-operative values⁶³. The College is partly funded by The Co-operative Group, via Co-operatives^{UK}⁶⁴.

"By helping to sustain income and employment opportunities, especially in remote areas where public and other private sector initiatives tend to be weak or absent, co-operatives contribute to generating sustainable livelihoods and to the overall development of the local communities in which they operate."

Co-operatives in Social Development: report of the Secretary-General of the United Nations, July 2007.

- **Co-operatives in Africa** During 2007, The Co-operative Group continued to support the College's work in Africa. This included research and curriculum development projects with colleges in Tanzania and Ethiopia, to assist them with their education provision for the wider co-operative sector and smallholders. Research on the role of co-operative schools in Tanzania and Uganda was also undertaken, with direct contacts developed between Co-operative membership and partners in Africa⁶⁵. In April 2007, the College co-ordinated the donation and shipping of The Co-operative Group's collection of business and economics books to two co-operative colleges in Kenya and Tanzania, after the Group's library closed.
- **Tsunami relief** The Co-operative Group donated £100,000 to the UK national fund for the relief effort after the 2004 Boxing Day tsunami, and a total of over £1m was raised by members, customers and staff through Co-operative shops and organisations. Relief projects progressed during 2007 included supporting a women's credit union in Aceh, and funding the rebuilding of co-operative warehouses on the Andaman & Nicobar Islands. A decision by The Co-operative College to consult co-operatives on the ground and to fund long-term reconstruction meant that projects were funded in 2006 and 2007, and remaining money was used to leverage further development funding. An account of the relief work was published by the College in 2007⁶⁶.
- **Fair and Square** 'Fair and Square' is a food and development awareness programme aimed at informing members and consumers about issues such as Fairtrade and 'Fairmiles versus Foodmiles', to aid decision-making. The three-year project, funded by DfID, was launched in December 2007; The Co-operative College is managing the project and Co-operative Group representatives sit on the steering group⁶⁷.
- **school.coop** In 2007, The Co-operative Group provided funding for school.coop, a major website and range of educational resources using the global Co-operative Movement as a learning resource. school.coop is one of the outputs of the sponsorship that The Co-operative Group has provided to the 10 co-operative Business and Enterprise Colleges over the last four years (page 106), which has totalled at least £100,000 a year. Subjects covered include fair trade, ethical shopping and global co-operative development⁶⁸.

- 1 United Nations (2007) The Millennium Development Goals Report.
- 2 Department for International Development (DfID) (January 2008) Developments magazine.
- 3 Ibid.
- 4 United Nations (2007) The Millennium Development Goals Report.
- 5 www.cfs.co.uk/sustainability2005
- 6 International Fund for Agricultural Development (2001) Rural Poverty Report.
- 7 www.freedomhouse.org/template.cfm?page=70&release=612 (37% of the world's population still cannot participate in free and fair elections).
- 8 www.ilo.org/public/english/standards/reim/ilc/ilc95/pdf/rep-1-b.pdf
- 9 Institute of Development Studies, University of Sussex (2006). The ETI code of labour practice: 'Do workers really benefit?'
- 10 ILO conference paper February 2007, 'Eradication of forced labour – General Survey concerning the Forced Labour Convention, 1930 (No. 29), and the Abolition of Forced Labour Convention, 1957'.
- 11 DfID (March 2005) Developments magazine, Co-operatives special edition.
- 12 Ibid.
- 13 Own-brand food and fresh produce accounted for 88% of own-brand Co-operative Food sales in 2007.
- 14 43% of The Co-operative Food business is derived from sales of own-brand products.
- 15 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.
- 16 Ethical Investment Research Services (EIRIS) June 2007.
- 17 'Protecting workers from exploitation' and 'supporting poverty reduction' received the highest level of endorsement (from 95% of customers) and 'advocate an end to trade which fuels conflict or undermines human rights' received the endorsement of 94%. Over 90% of customers also supported the promotion of responsible marketing practices regarding products such as breast milk substitutes and tobacco, and the promotion of greater access to basic necessities such as clean water. Even the policy position that attracted the lowest level of support – the manufacture or transfer of armaments to oppressive regimes – commanded the backing of 89% of Co-operative Insurance customers.
- 18 www.ethicaltrade.org
- 19 Subsequently updated in 2001. www.co-operative.coop/en/corporate/sustainability/soundsourcingcodeofconduct
- 20 www.ethicaltrade.org/2/lib/base/index.shtml
- 21 www.sedex.org.uk
- 22 In-scope suppliers include all first-tier sites and some second-tier sites. These currently total 1,016 production sites, of which 696 are first tier.
- 23 Audits must be conducted by quality independent auditors and be undertaken to a recognised robust format to be accepted: for example, as provided by the Sedex Members Ethical Trade Audit (SMETA) guidelines. In addition, due diligence audits on third-party auditors are to be undertaken in 2008 by The Co-operative Food.
- 24 'The company is a leader in the field of ethical trade.'
- 25 'Produces comprehensive and credible reports on its supply chain.'
- 26 'Provides appropriate training to all involved in ethical trade and is improving awareness of suppliers and their workers.'
- 27 'Has well-established systems for identifying and following up corrective actions to ensure improvements are being made.'
- 28 'Has a well-established and systematic approach to ethical trading with clear responsibilities and incentives for staff and suppliers.'
- 29 No central records are kept to distinguish those audits commissioned by The Co-operative Food and those commissioned by other parties.
- 30 A tier 1 site is a production site at which goods are finished ready for supply to, or sale by, the end company. A tier 2 site is a production site which supplies goods or materials to a tier 1 site for incorporation into the finished product.
- 31 A total of 1,371 improvement actions emerged from the 190 assessments undertaken in 2007. This figure cannot be directly compared to the 861 issues reported as found in 2006 in last year's Sustainability Report. The 2006 figure was based on non-conformances found (rather than improvement actions arising from these non-conformances). In addition, the 1,371 figure includes both major and minor improvement actions (as opposed to just major ones recorded in 2006), since the Sedex system is currently unable to disaggregate between these. 'Improvement actions completed to date' refers to those completed as at July 2008.
- 32 Where 'child' refers to any person under 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. www.ethicaltrade.org
- 33 Lamb, H (2008) Fighting the Banana Wars and other Fairtrade Battles, Rider Books.
- 34 Many farmers in developing countries have to contend with prices for their produce that fluctuate widely and may not even cover the costs of crop production. Fairtrade promises not only a stable price, but one which covers production costs, along with a premium that can be reinvested in the business or in local community schemes. For workers in factories and plantations, Fairtrade means: decent wages; minimum health and safety standards; the right to join trades unions; and access to good housing. www.fairtrade.org.uk
- 35 Brussels Rural Development Briefings Number 5 (April 2008) Does Fair Trade Contribute to Sustainable Development?
- 36 The Grocer, 23 February 2008.
- 37 Additionally, the Group contributes to the Fairtrade strategy for the UK co-operative retail movement via the Co-operative Retail Trading Group (CRTG). The Co-operative Group co-ordinates new product development, distribution, shelf plans and marketing communications for Fairtrade products on behalf of the CRTG.
- 38 The Grocer, 23 February 2008.
- 39 Membership guidance is provided at www.co-operative.coop/food/fairtrade/fairtradefortnight/membershipeventspack/
- 40 www.co-operative.coop/food/fairtrade/
- 41 Ibid.
- 42 www.divinechocolate.com
- 43 Talking Retail/Nexus Business media, 10 October 2007.
- 44 The Co-operative started selling One Water in April 2006 and raised £109,000, enough for 14 pumps, in its first year. Subsequent sales funded 19 more pumps in 2007.
- 45 CMR Ltd data.
- 46 MFIs are locally based, specialised institutions that are formal or semi-formal in nature: for example, commercial banks, credit unions and NGOs.
- 47 www.hrv.org
- 48 Heritage Foundation (2007) Index of Economic Freedom.
- 49 Ibid.
- 50 Ibid.
- 51 Ibid.
- 52 www.cfs.co.uk/sustainability2005
- 53 www.thebigpicture.coop
- 54 www.sollassociation.org/AIRFREIGHT
- 55 www.blackgoldmovie.com
- 56 www.channel4.com/culture/microsites/C/can_you_believe_it/debates/scandal.html
- 57 www.co-operative.coop/en/food/fairtrade/getinvolved/make_yourschoolfairtradefriendly/
- 58 www.co-operativecampaign.co.uk/udhr
- 59 www.who.int/features/factfiles/en/index.htm
- 60 www.who.int/mediacentre/factsheets/fs094/en/index.html
- 61 www.atmindex.org
- 62 F&C Asset Management and the Universities Superannuation Scheme.
- 63 www.co-op.ac.uk/features/factfiles/malaria/en/index.htm
- 64 www.cooperatives-uk.coop/live/cme0.htm
- 65 This included a twinning between members, their partner South Lancashire schools and the Wazalendo Secondary School based at the Co-operative College in Moshi, Tanzania.
- 66 The Co-operative College (2007) After the Angry Sea: co-operatives and the tsunami.
- 67 www.fairandsquare.coop
- 68 www.school.coop, February 2008.

Animal welfare

Indicators

Assurance of food production

Animal testing of toiletry and household products

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.

Animals have not been used to test cosmetic products or ingredients in the UK since 1998, and the Seventh Amendment of the EU Cosmetics Directive banned animal testing of finished cosmetic products in the EU from September 2004. This has led to a reduction in the number of animals used for the toxicity testing of cosmetics in mainland Europe to around 5,500⁴ every year. From 2009, the EU will phase out animal testing of cosmetic product ingredients. However, the practice is continued elsewhere in the world and animal-tested products are still on sale in the UK. Animal testing for household products, foodstuffs, food additives and a variety of other consumer products is still permitted in the UK and elsewhere – in 2006, 4,038 procedures were undertaken relating to food additives and 7,477 relating to other foodstuffs in Great Britain⁵.

Materiality and strategy

In the 2007 Co-operative Food Ethical Policy consultation (page 9), members endorsed the following animal welfare commitments for inclusion in the policy (figures in brackets indicate the level of support):

- continue to extend the range of products that meet higher animal welfare standards, eg, all eggs sold to be at least free-range and all own-brand fresh chicken to be reared to Co-operative-defined higher standards (96%);
- ensure all fresh products comply, as a minimum, with relevant UK farm assurance standards (98%);
- continue to take the lead on the opposition to the use of animals for the testing of own-brand toiletries, cosmetics or household cleaning products (or ingredients therein) (94%); and
- continue to exclude fur from all products (91%).

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 concern⁶.

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. ✓

Targets 2008

Transfer all Christmas 2008 fresh turkey and fresh turkey crowns to free-range.

Introduce Freedom Food lamb by end 2008.

Launch campaign with BUAV in 2008 to raise member awareness of 'cruelty-free' products.

✓ Target achieved

= On track

» Close to target

< Behind schedule

Achievements

1990 Announces 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').

1998 First retailer to be awarded right to use the new international cruelty-free 'rabbit and stars' symbol on toiletry packaging.

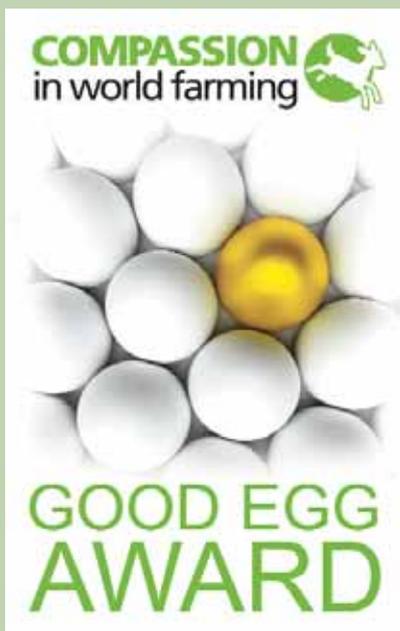
2004 First grocery retailer to be accredited to the BUAV Humane Household Products Standard.

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 and commended by CIWF as the most improved supermarket 2005–06.

2007 Named 'Retailer of the Year' by the British Free Range Egg Producers Association.

2007 Co-operative Bank awarded European 'Proggy' Award, by People for the Ethical Treatment of Animals Europe, for the Ethical Policy's 'commitment to the ethical treatment of animals'¹⁴.



2008 Received CIWF 'Good Egg' Award for phase-out of branded cage shell eggs and for commitment to go free-range on all own-brand products containing egg by 2010¹⁵.

Assurance of food production

The Co-operative Food sells in the region of 850 own-brand fresh, and 150 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 on product packaging. 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 12 hours at a time; however, The Co-operative Food stipulates a maximum of six hours from suppliers. This is thought to be the lowest maximum 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 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 £7.5 billion in 2007¹⁰, with some 78,000 UK farmers now accredited.



In the UK, 10 farm assurance standards are covered by the Red Tractor Mark in connection with the production of beef, lamb, pork, chicken and dairy products¹¹. The standards are designed to provide assurance that products have been produced, processed and packed to certain minimum requirements (not least, legislative compliance)¹². 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'¹³.

The Co-operative Food stipulates compliance with UK farm assurance standards, or EU national equivalents, for all own-brand fresh products, with the exception of fresh sausage and bacon using pork sourced from the EU. 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 2007, compliance was assured for all own-brand fresh shell eggs, turkey, duck, beef, lamb, chicken and milk. In relation to pork, bacon and sausage, only those products sourced from the UK achieved UK farm assurance.

Whilst compliance with farm assurance standards is similarly stipulated for frozen products, for 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 116 in 2007 (2006: 49). Although these focus primarily on product quality, safety and legality, 21 farm inspections were undertaken specifically to cover animal welfare matters.

The Co-operative Food undertakes annual traceability investigations to ensure that satisfactory systems are in place throughout the manufacturing process for own-brand pork products. In 2007, a traceability investigation was undertaken by external inspectors on two producers and six separate products:

- In one instance, audit of a UK-produced bacon evidenced satisfactory assurance throughout the supply chain¹⁶.
- In four instances, audits of a Danish sourced bacon product and three cooked ham products evidenced satisfactory animal welfare standards at supplier farms¹⁷. However, in each instance, identification procedures were not adhered to throughout the manufacturing process¹⁸. A follow-up audit in 2008 will review agreed remedial action plans.
- In one instance, audit of a sausage product evidenced a proportion of pig meat sourced from the UK to satisfactory standards, alongside a proportion of pig meat sourced from the EU, where welfare status was ill-defined¹⁹. Following the audit, all meats for own-brand sausages were transferred to the UK.

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'²⁰ are sought 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 and, from 2006, preference is given, where feasible, to Freedom Food ingredients in the formulation of premium range products²¹. In 2007, 90 products and lines containing Freedom Food ingredients were sold (2006: 49²²), with sales totalling an estimated £28m, up 52%²² on the previous year. Egg sales accounted for 51% of all Freedom Food sales by value.

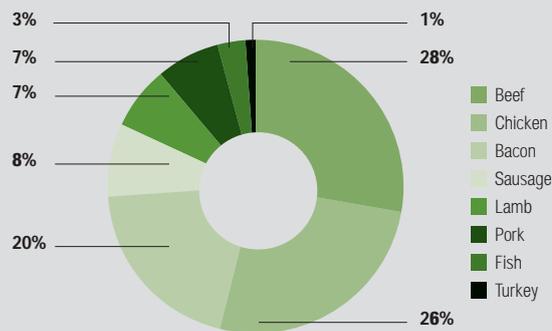
Organic

Organically produced meat and dairy produce comes from animals reared without the routine use of drugs, antibiotics and wormers permitted in intensive livestock farming and with access to range outdoors on land free from chemicals and non-organic fertilisers. Organic products account for a small proportion of annual product sales.

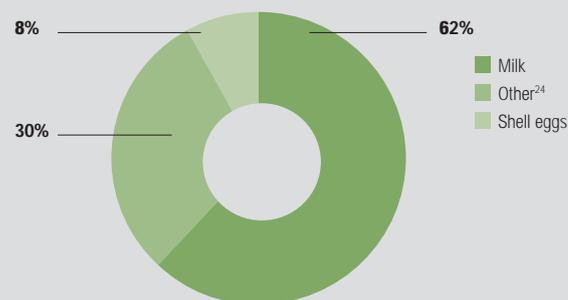
Egg production

In 2007, sales of free-range shell eggs accounted for 77% of branded and own-branded sales (2006: 79%). All own-brand free-range eggs were 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)²⁵. Organic standards offer enhanced animal welfare provision, including the prohibition of mutilations, such as beak trimming. In October 2006, The Co-operative Food

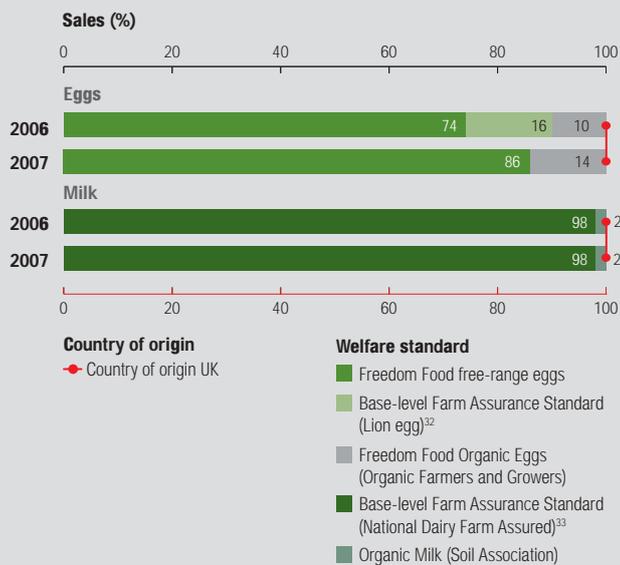
Total own-brand fresh meat, poultry and fish sales by value²³



Total own-brand dairy sales by value



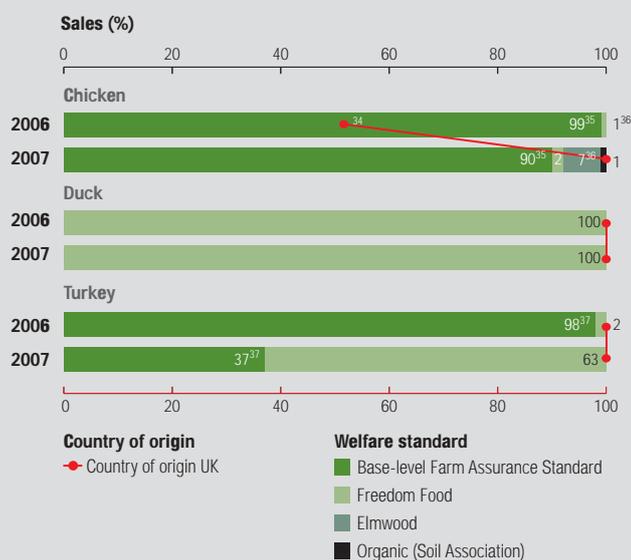
Dairy (own-brand, fresh)



Own-brand dairy sales as proportion of total dairy sales

	Shell eggs	Fresh milk
2006	88%	88%
2007	71%	90%
Increase in own-brand sales 2006–2007	-1%	7%
Increase in Freedom Food sales 2006–2007	14%	–
Increase in organic sales 2006–2007	49%	30%

Poultry (own-brand, fresh)



Own-brand fresh poultry sales as proportion of total poultry sales

	Chicken	Duck	Turkey
2006	86%	97% ^R	72%
2007	95%	99%	85%
Increase in own-brand sales 2006–2007	1%	80%	-39%
Increase in Freedom Food sales 2006–2007	283% ³⁸	80%	1,823%

transferred all own-brand egg production to free-range systems. In February 2008, this policy was extended to prohibit the sale of all shell eggs from caged hens. Significantly, The Co-operative Food stipulates the use of free-range eggs in a number of its prepared product lines.

Milk production

All non-organic, own-brand fresh milk sold in 2007 was assured under the National Dairy Farm Assured Scheme. The scheme represents some 80% of UK dairy farmers. The remainder of milk sold was certified as organic by the Soil Association. Organic milk production specifies that cattle must spend the majority of their lives outside and be fed on a grass-based diet.

Poultry production

Since early 2008, all standard, fresh, whole chicken²⁶ and all standard, plain, fresh chicken pieces²⁷ have been produced to The Co-operative's higher-welfare Elmwood standards. These standards exceed conventional farm assurance standards and stipulate lower stocking densities²⁸ and environmental enrichment²⁹. Although reared indoors, Elmwood standards stipulate, unlike conventional standards, that birds are provided with natural light and a vegetarian, high cereal diet.



All Freedom Food fresh chicken (whole and pieces) is free-range, sourced from slower growing birds³⁰ with continuous access to range outdoors for at least half their lifetime.

All fresh duck is produced 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.

During Christmas 2007, all own-brand fresh whole turkeys and fresh turkey crowns were reared to Freedom Food standards. These stipulate stocking densities approximately half those of conventional turkey production³¹ and require birds to be provided with environmental enrichment, such as perches and straw bales. In 2008, The Co-operative Food will consider extending the availability of higher-welfare turkey products throughout the year.



Pig meat production

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. Since 2006, all pig meat for fresh pork and for premium products has been produced in the UK. In October 2007, the decision was taken to transfer all meat for own-brand sausages to the UK. Ingredients for all fresh Truly Irresistible (premium range) products were sourced from pigs reared to Freedom Food standards, and either bred or reared outdoors. A proportion of Freedom Food bacon was indoor-reared. For all fresh pig meat sourced outside the UK, The Co-operative Food requires production to comply with UK Contract Standards, which comply with UK legislation (eg, prohibition of sow stalls), although, with regard to certain practices (eg, castration), they do not meet all Assured British Pig Standards.

Beef production

From 2007, all fresh beef has been sourced from the UK. All own-brand fresh beef is reared outdoors on grass pasture, with shelter provided for the animals during winter and inclement weather.



Lamb production

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 fresh lamb is reared outdoors on grass pasture, with the animals given shelter during the winter and inclement weather.

Fish production

During 2007, The Co-operative Food introduced Freedom Food accredited farmed salmon products. Freedom Food standards extend to cover stocking densities, water quality and feed.

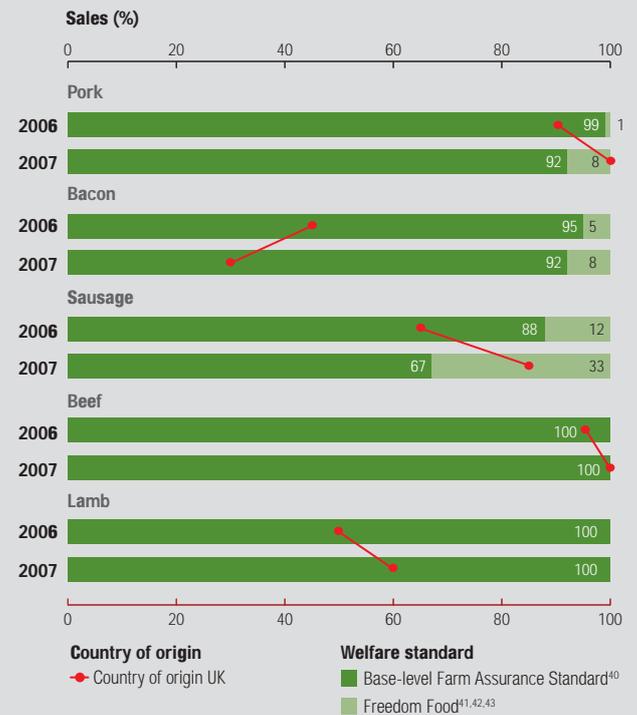
Animal testing

Toiletries and household products

In 1998, the British Union for the Abolition of Vivisection (BUAV)³⁹ 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. 100% of own-brand toiletries carry the 'rabbit and stars' logo, although the Group 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 the primary use was in household products – this takes into account testing that falls outside the control of the Group and its product and ingredient suppliers (ie, testing for industrial, legislative and safety purposes – much of which took place in the 1990s). As of 2003, all of the Group's own-brand household products are accredited to the HHPS and carry the 'rabbit and stars' logo.

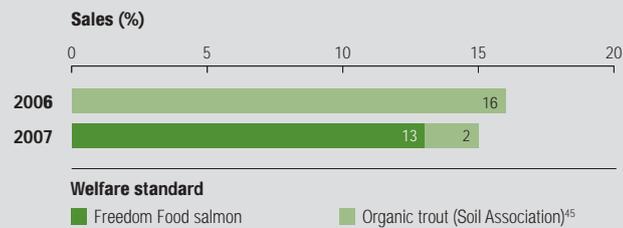
Meat (own-brand, fresh)



Own-brand fresh meat sales as proportion of total meat sales

	Pork	Bacon	Sausage	Beef	Lamb
2006	70%	68%	53%	97%	99%
2007	72%	90%	57%	99%	98%
Increase in own-brand sales 2006–2007	2%	40%	18%	3%	18%
Increase in Freedom Food sales 2006–2007	525%	109%	228%	–	–

Fish (own-brand, fresh)



Own-brand fresh fish sales as proportion of total fish sales

	Fish
2006	3%
2007	25% ⁴⁶
Increase in own-brand sales 2006–2007	725%
Increase in Freedom Food sales 2006–2007	Salmon introduced in 2007
Increase in organic trout 2006–2007	-14%

Sales of BUAV-accredited products



The Group is independently audited by BUAV every three years to ensure its continued conformance with both standards. Audits were carried out in early 2008, with the next audits scheduled for 2011. Audits focus on company policy, purchasing and supply chain management, and the 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 currently four and seven respectively, receive annual declarations from their suppliers, stating whether raw ingredients supplied for end-use in Co-operative own-brand products have been tested on animals. Similar declarations are also required of suppliers with regard to the testing of final products.

Two suppliers identified that the animal test status of two of the raw materials used in four own-brand products had changed – Licowax KLE (present in two polishes) and Uniclear 100 (present in two air fresheners). In 2008, these products were reformulated with compliant ingredients.

In a further instance, a supplier to one of the Group's household product manufacturers failed to provide a declaration on the animal testing status for the ingredient Silicone 200–350, present in the same two polishes. Alternative ingredients were sourced, and the product reformulated.

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 position relating to intensive farming extends further⁴⁴.

Bank screening of finance

During 2007, 45 finance opportunities (2006: 48) were referred to the Ethical Policy Unit in connection with animal welfare, of which nine (2006: 8) were declined at a cost of £1,563,000 (2006: £696,000) in terms of estimated income foregone in 2007:

- **Animal testing.** In five instances, facilities were declined to businesses engaged in the manufacture of cosmetics or household products, where the businesses did not stipulate to ingredient suppliers the use of a fixed cut-off date for animal testing.
- **Intensive farming.** In one instance, facilities were declined to a business engaged in the indoor, intensive rearing of pigs. In contrast, provision of banking facilities was approved for nine free-range farms, five organic farms and four beef, dairy and sheep farms.
- **Blood sports.** In one instance, facilities were declined to a farming business involved in blood sports.
- **Fur trade.** In two instances, facilities were declined to businesses engaged in the retail of fur products.



Animal welfare-related business declines 2007	Estimated income foregone 2007
Cosmetic product manufacturer (four instances) Three syndicated loans, with participation totalling £50m, and a £1m lending facility to businesses engaged in the manufacture of cosmetics. In sourcing product ingredients, businesses did not stipulate the use of a fixed cut-off date for animal testing to suppliers.	£1,550,000
Chemicals manufacturer £300,000 loan to business engaged in manufacture of household cleaning products. In sourcing product ingredients, business did not stipulate the use of a fixed cut-off date to suppliers.	£9,000
Meat processor Banking facilities for business engaged in the intensive, indoor rearing of 300 breeding sows and piglets.	£1,000
Clothing retailer Banking facilities for retailer of traditional Scottish highland clothing, including sporrans made from Norwegian sealskin. Fur derived from seals hunted primarily for the value of their fur ⁵¹ .	£1,000
Farmer Banking facilities for business that allowed local hunt to exercise dogs on its land. Research indicated that the hunt regularly failed to take responsible steps to ensure that foxes would not be killed eg, hunting took place in woodland that foxes were known to inhabit, rather than open fields.	£1,000
Fur products retailer Banking facilities for business engaged in the retail of New Zealand possum fur products. Expert opinion advised that the commercial interests of the possum fur trade and its desire to maintain significant population levels was undermining other attempts to manage possum numbers and protect biodiversity.	£1,000

Charity credit cards

The bank offers three charity credit cards in support of animal welfare concerns: The Vegetarian Society, The League Against Cruel Sports and The British Union for the Abolition of Vivisection. Together, nearly £7,300 was raised through the use of the cards in 2007 (2006: £3,100).

Pet medicines

In 2007, The Co-operative Pharmacy became the first national UK pharmacy chain to introduce pet medicines across the entire branch network. The move followed a change in rules governing the sale of animal medicines, which means that retailers can now sell a range of over-the-counter items that were previously only available from vets and online.



- www.cwfv.org.uk
- Defra (2008) Pig Statistics. <http://statistics.defra.gov.uk/esg/>
- www.rspca.org.uk
- http://ec.europa.eu/environment/chemicals/lab_animals/reports_en.htm
- Home Office (2006) Statistics of Scientific Procedures on Living Animals, Great Britain 2006. www.homeoffice.gov.uk/rds/pdfs07/spanimals06.pdf. Procedures relating to food additives have risen 368% since 2005.
- The majority of bank customers (88%) have indicated that they do not want their money used to finance animal testing of cosmetic or household products or ingredients, and similar levels of support preclude the bank's investment in intensive farming, the fur trade and blood sports. Over 90% of customers have indicated their wish to see the bank supporting free-range farming and businesses involved in the development of alternatives to animal experimentation. Co-operative Insurance customers have, similarly, signalled their concern about a range of animal welfare issues, and their wish to see Co-operative Insurance use its power as an institutional investor to promote animal welfare. In the area of animal welfare, the development of alternatives to animal testing received the highest level of endorsement – from 89% of customers, and even the policy position that attracted the lowest level of support – for the end of blood sports – commanded the backing of two-thirds of Co-operative Insurance customers.
- Quality Standard Marks are specifically applied to beef, lamb and pork products.
- www.hsa.org.uk
- www.redtractor.org.uk
- Information provided by Assured Food Production.
- 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, Quality British Turkey and National Dairy Farm Assured Scheme. Not all assured produce bears a logo, and two further standards cover cereals, and fruit and vegetables.
- 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.
- www.sustainweb.org/pdf/06_04_05b.pdf
- www.peta.org.uk
- www.cwfv.org
- Investigation of two UK sites involved in butchery, processing and packing.
- Investigation of four Danish pig farms.
- Investigation of five Danish abattoirs and four UK manufacturing sites involved in butchery, processing and packing.
- Investigation of one UK processing and packing site sourcing UK and EU pig meat.
- 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).
- The criteria have been applied to The Co-operative Food 'Truly Irresistible' range: www.co-operative.coop/food/ourproducts/trulyirresistible
- 2006: £17.0m **R**
- Chart does not include duck sales, which accounted for less than 1% of total own-brand fresh meat, poultry and fish sales.
- Own-brand cheese, butter, yoghurt and desserts.
- 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.
- With effect from September 2007.
- With effect from March 2008.
- Elmwood standards stipulate a maximum stocking density of 30kg/m². Conventional systems permit a maximum stocking density of 38kg/m².
- Elmwood standards stipulate access to bales, perches and pecking objects. Conventional systems are not required to provide any environmental enrichment.
- Freedom Food standards stipulate a minimum slaughter age of 56 days compared to an average slaughter age of 38 days in conventional systems.
- Freedom Food standards stipulate a maximum stocking density of 25kg/m². Conventional systems permit a maximum stocking density of 59kg/m².
- www.britegg.co.uk
- www.ndfas.org.uk/pdf.asp
- Whole chickens, breasts, thighs, drumsticks and premium products sourced from UK, and fillets sourced from either the UK or EU. These products accounted for 40% – 60% of total fresh chicken sales.
- The Assured Chicken Production (www.assuredchicken.org.uk) and Quality British Turkey farm assurance standards cover chicken and turkey production respectively.
- Includes Elmwood Freedom Food chicken.
- Quality British Turkey.
- Including Elmwood Freedom Food free-range chicken (page 30).
- www.buav.org
- www.assuredpigs.co.uk
- All Co-operative Freedom Food pork is outdoor-bred. Piglets are born and weaned (usually at 3–4 weeks of age) outdoors, without the use of farrowing crates.
- 53% of Co-operative Freedom Food bacon is outdoor-reared. Piglets are born and reared outdoors until around 40kg, (approx. 3 months of age), without the use of farrowing crates; 38% is outdoor bred; and 9% is indoor bred.
- 53% of Co-operative Freedom Food sausage is outdoor-reared; 47% is outdoor-bred.
- www.goodwithmoney.co.uk/servlet/Satellite?1200903577042_CFSweb/Page/GoodWithMoney
- Soil Association standards stipulate stocking densities approximately half of those for conventional fish farms.
- 97% farmed, 3% wild caught.
- 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.
- Includes sales generated by current and discontinued toiletry lines during 2007.
- 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. www.buav.org
- Includes sales generated by current and discontinued household product lines during 2007.
- Norwegian Ministry of Foreign Affairs.

Targets 2007

Develop and seek Executive approval for a new Diet and Health Action Plan. ✓

Recipes for all products in the Co-operative Everyday (economy) range to have nutritional levels no lower than those of standard and premium equivalents by the end of 2008. =

Continue to roll out nutrient signposting scheme that meets Food Standards Agency (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. =

Targets 2008

Recipes for all products in the Co-operative Everyday (economy) range to have nutritional levels no lower than those of standard and premium equivalents by the end of 2008.

Apply traffic light nutrient signposting scheme that meets FSA criteria to all products in FSA priority areas that are rebranded/reformulated during 2008.

Ensure FSA salt targets are met in all relevant own-brand product categories by the end of 2009.

Remove aspartame and sodium benzoate from formulations of all own-brand soft drinks by December 2008.

Deliver farm visits for a further 1,000 children across the UK during 2008.

Deliver 65 'Healthy Living' events during 2008.

✓ Target achieved

= On track

» Close to target

< Behind schedule

Diet and health

Indicators

Additives prohibited

Nutritional content: salt

Nutritional content: fats and sugar

Nutritional labelling

Promotions, marketing and information

Materiality and strategy

Today's consumers are presented with a choice of foods and products on a scale unimaginable a century ago. While 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. Food integrity is still a priority for consumers, although the issues of concern are, today, somewhat different.

In the 2007 Co-operative Food Ethical Policy consultation (page 9), members endorsed the following food quality, diet and health commitments for inclusion in the policy¹:

- Continue to be the UK's leading retailer in the removal of substances of concern, particularly additives and pesticides (98%);
- Ensure that the food range includes an increasing proportion of healthy offerings (98%);
- Continue to ensure that own-brand products carry clear and honest labelling (99%);
- Continue to support the development of progressive standards, eg, traffic light labelling, Fairtrade, Humane Cosmetics Standard, and Freedom Food (97%); and
- Continue to oppose the adoption of genetically modified organisms or nanotechnology in circumstances which risk damaging the environment or compromising human health (95%).

The Group's Community and Campaigns Strategy (page 59), which has been agreed by its member-controlled Group Values & Principles Committee (page 8), stipulates 'food ethics' as one of five priorities for the business. A Diet and Health Action Plan was signed off by the Responsible Retailing Panel in June 2007. This formalises a number of targets covering: pricing and promotions; nutritional make-up of products; and nutritional information and advice.

During 2007, own-brand products accounted for 42% of The Co-operative Food's sales (2006: 42%)². All product reformulation and revisions to labelling carried out during 2007 were in relation to own-brand products only. Own-brand product ranges are as follows: Everyday (economy range), Healthy Living, Standard (includes Fairtrade and Organic) and Truly Irresistible (premium range).

Achievements

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

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

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

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

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

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

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

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

Basic assurance

All Co-operative own-brand fruit, vegetables and salad produced in the UK meet the terms of the Assured Produce Scheme (APS)³, 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 28). The scheme is benchmarked against GlobalGAP, the worldwide standard for basic production standards in horticulture. Standards in relation to meat and poultry are detailed on pages 29–31.



Additives

Many customers are concerned that artificial food additives could be harmful and/or unnecessary⁴. The Co-operative Food has operated an Additives Policy since 1985, and seeks to use additives as little as possible⁵, whilst recognising benefits in areas such as food safety.

In 2007, an FSA-commissioned study was published⁶ that suggested consumption of certain mixes of artificial food colours with the preservative sodium benzoate could be linked to a negative effect on children's behaviour. In 2005, The Co-operative Food removed 22 colours of concern from all own-brand products. These included all of the colours considered in the FSA study. Monosodium glutamate was also removed from own-brand products at this time. Prior to the publication of the FSA study, the Food business had started work to remove sodium benzoate from own-brand soft drinks and this work continues. In addition, a range of preservatives, known as benzoates (E210–E219), has been prohibited from all own-brand products⁷.

As part of The Co-operative Food's review of the use of additives, the decision has also been taken to place significant restrictions on the use of two further colours: sulphite ammonia caramel (E150d), and copper complexes of chlorophyllins (E141)⁸. Furthermore, following increased consumer concerns, the sweetener aspartame has been added to the list of those that are prohibited in own-brand products. In addition, the decision has been taken to prohibit the use of artificial flavourings.

As products are reformulated during 2008 and subsequent years, prohibited additives will be removed from formulations. Colours allowed with permission will only be sanctioned for use where no other natural colour fulfils the requirements. A target has been set to remove aspartame and benzoates from formulations of all soft drinks by December 2008⁹.

Nutritional content

The Government's food and health action plan¹⁰ 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. Alongside the reformulation of products, with a view to making them more healthy, the business seeks to provide customers with comprehensive, reliable advice on a healthy diet and lifestyle and equip them with the knowledge to make informed choices (pages 36–39).

The Food business has committed to ensure that recipes for all products in the Co-operative economy range¹¹ have nutritional levels no worse than those of standard and premium equivalents by the end of 2008. By March 2008, 66% (14 out of 21 products) of the economy range met this target. The remaining products are being reviewed to assess the reformulation required to meet the target by the end of the year.

Salt

Following the publication of the FSA's salt model in 2003¹², The Co-operative Food has sought to reduce the amount of salt in its own-brand products; salt being the major source of sodium in the UK diet. The FSA's final targets for sodium levels in foods were published in 2006 and the Group has committed to meeting these across all own-brand product categories, as designated, by the end of 2009. The FSA targets are provided as absolute maximum values for some categories and average maxima for other categories.

At the end of 2007, targets for sodium had been met in 45 of the 74 FSA-defined categories relevant to the Group¹³. Examples of the re-development work that has been carried out over the last year, and where FSA targets were met through reformulation, include relaunches, during 2007, of products from the Italian/traditional/other ready meals category; and, in January 2008, of the 'pre-packed bread and morning goods' range. During 2008, all new products being developed or reformulated will be required to meet the FSA sodium targets. In addition, monitoring work will take place to ensure that products that previously met the targets continue to do so.

Examples of progress against FSA sodium targets in priority areas

Product/Category	Performance at December 2007 (as mg sodium/100g)	FSA target (as mg sodium/100g)	FSA target met/not met
Canned and chilled soups	227 (average)	250 (average)	Met
Cook-in and pasta sauces	353 (average)	430 (average)	Met
Potato crisps*	593 (average)	600 (average)	Met
Salt & vinegar snacks	1,316 (average)	1,200 (average)	Not met
Pre-packed bread and rolls (including sliced bread)	404 (average)	430 (average)	Met
Tomato ketchup	700 (maximum)	1,000 (maximum)	Met
Pizza (without high salt toppings)	500 (maximum) 395 (average)	400 (maximum)	Not met
Sandwiches (high salt fillings)	417 (average)	500 (average)	Met
Baked beans	372 (average)	300 (maximum)	Not met
Breakfast cereals	254 (average)	300 (average)	Met
Sausages	600 (maximum) 510 (average)	550 (maximum)	Not met
Sunflower spread	546 (average)	600 (average)	Met
Ready meals (Chinese/Thai/Indian)	189 (average)	300 (average)	Met
Ready meals (Italian/traditional/other)	245 (average)	250 (average)	Met

*Excludes salt and vinegar varieties, which are in a separate category for salt and vinegar flavoured snacks.

Saturated fat and sugar

The Co-operative Food has committed to review and revise its approach to the reduction of saturated fat and sugar in its own-brand products, taking into account the recommendations made in the FSA's Saturated Fat and Energy Intake Programme¹⁴. While a specific target has not been stated for 2008 in relation to saturated fat and sugar reduction, activities will continue to review and revise the business' approach in this area. The New Product Development process requires that the composition of new products yields no increases in the proportion of unhealthier fats, such as saturated fat, whilst seeking to reduce the fat content overall; for example, in the case of Co-operative pasta sauces, reformulations have yielded total fat reductions averaging 35% and saturated fat reductions averaging 34%.

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. In 2006, a maximum sugar level of 5% was set for all savoury products in the 'Healthy Living' range¹⁵.

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 services¹⁶. 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 products¹⁷.

The Co-operative Food's policy is to display the information requirements stipulated by the Food Labelling Regulations 1996¹⁸ on the front of packaging (its selling face) for all relevant products. 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 the 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 make-up. Since 1985, the Group has provided full nutritional labelling on all own-brand 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. It now includes front-of-pack nutrition on all own-brand products. The '5 a day' message and portion size information are also included on the front of all fruit and vegetable packaging.

Calories 370	Fat 8.4g	Saturates 4.3g
	Sugars 10.4g	Salt 1.6g
approx. per serving		

In September 2006, The Co-operative Food began to implement the FSA's recommendations on nutrient signposting¹⁹. This 'traffic light' approach builds on the Group's existing labelling to enable customers to quickly discern whether the food has high, medium or low amounts of fat, saturated fat, salt and sugars, and to enable them to compare products at a glance. Throughout 2007, traffic light labelling that meets the FSA criteria has been rolled out across the following products, and is provided on the front of the following product packs:

- all products in the Healthy Living range²⁰, including those not in the FSA priority list, such as pasta sauces, soup and bread products; and
- all products in the following FSA priority categories that were relaunched in 2007: sandwiches, ready meals, sausages, burgers and pies.

Further information regarding the Group's work in support of the traffic light labelling scheme is provided on page 39.

Calories 395	Fat 8.4g	Saturates 4.4g	Sugars 9.2g	Salt 1.7g
approx. per pack				

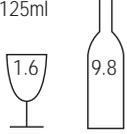
Guideline Daily Amounts

In order to help provide context for nutritional information, The Co-operative Food includes, in nutrition panels, the Guideline Daily Amounts (GDAs) for an average adult for all nutrients listed, plus energy. Values used for GDAs are those developed by the Institute of Grocery Distribution²¹ which also issued, in 2006, Best Practice Guidance on the Presentation of GDAs. These values are based upon, and are consistent with, the latest published scientific data on dietary requirements.

Alcohol advice

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. From 1996, own-brand alcoholic drinks have carried information about the number of units of alcohol in the drink, and, in the case of spirits and wine, the number of glasses per bottle.

In May 2007, the UK Government announced a voluntary agreement with the alcohol industry to provide a standard format for sensible drinking messages on the labels of alcohol products. The label includes unit information by glass or bottle or both, along with recommended daily units headed by 'know your limits' or 'enjoy responsibly', and also features revised Department of Health advice to avoid alcohol if pregnant or trying to conceive. The major retailers have agreed to follow the standard format, and The Co-operative Food will roll this out in conjunction with its rebranding exercise. By the end of 2007, spirit drinks, such as brandy, rum, vodka, gin and whisky, had been relabelled with the new advice.

Know your limits	125ml		UK Chief Medical Officers recommend adults do not regularly exceed Men 3-4 units daily Women 2-3 units daily
	UK units		
Avoid alcohol if pregnant or trying to conceive			
www.drinkaware.co.uk			

Promotions, marketing and information

In a recent study²², 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 Co-operative Food highlights healthy eating options in-store, using devices such as shelf-edge labelling, whilst its website carries information on diet and health²³. Additionally, the Group's Customer Relations team (page 124) 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-operative.coop).

The Group has a policy that prohibits the marketing or advertising to children of products that are high in fat, sugar or salt. 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, weight management and smoking cessation advice is also provided by The Co-operative Pharmacy.

The Group is committed to increasing the number of healthier products that are promoted in its stores, with a particular focus on fresh products. In January 2008, a national TV campaign was run to highlight the benefits of eating different coloured fruit and vegetables. This was supported in-store by the price promotion of a minimum of five different fruits and vegetables to the consumer. Similar promotions will also run during 2008.



To coincide with this activity, a promotion was also run for all staff, entitling them to a 20% discount on all fruit and vegetables between 31 December 2007 and 27 January 2008.

The Group supported two FSA Campaigns: 'Is your food full of it?' – a campaign on salt in March 2007; and a traffic light labels campaign in January 2008. FSA advertisements were displayed on till screens.

Recognition for Co-operative Healthy Living Range

In October 2007, The Co-operative Group's Healthy Living Range won the Nestlé Wellness Award, at the IGD Food Industry Awards, in recognition of the Group's commitment to helping shoppers make healthier choices²⁴. The judges commented, "The Government has set tough nutritional targets and the Co-op has used these as an opportunity rather than a barrier; their new products often going beyond the legal requirements... The judges were particularly impressed by their exemplary and innovative packaging with its clear and clean front-of-pack information."

Community involvement

Food education

The Co-operative's From Farm to Fork programme²⁵ is designed to enable children from primary schools to visit a working farm, providing them with a learning experience that promotes a much better understanding of where their food comes from.



The programme, which started on The Co-operative Farms²⁶ Stoughton Estate at Oadby, near Leicester in 2005, was allocated significant additional funding in 2007 by the Group Values & Principles Committee. The increased budget of £237,000 enabled the programme to be rolled out to two more Co-operative Farms. By the end of 2008, From Farm to Fork visits will be running across seven sites.



In 2007, 78 classes of children visited Co-operative Farms as part of the programme, with some 2,499 children being taught to cook with fresh, healthy ingredients. Impact evaluation of the programme has shown that 49% of parents have seen a lasting improvement in their children's attitude to food, and that 90% of teachers reported improvement in classroom learning as a result of the visit.

The project was awarded a Business in the Community Big Tick award in 2008 for its achievements in communicating healthy eating messages to children.



Year of Food and Farming

The Year of Food and Farming ran from September 2007 to July 2008 as a national scheme to connect young consumers to food production. It aimed to help bring about improved awareness of food production, a greater understanding of farming and, ultimately, encourage lifelong healthier lifestyles through farm visits, growing experiences and cooking food.

The Co-operative Group made a donation of £100,000 to the Year of Food and Farming, and provided an additional £150,000 of in-kind support. The objective was to increase the number and quality of school visits to farms by: enthusing teachers about the benefits of visiting farms; putting teachers in contact with local farmers; providing appropriate supporting information for teachers; enthusing farmers about the benefits of schools visiting their farms; and providing skills and knowledge to farmers in providing educational opportunities on their farms.

Healthy Living events

Between February and November 2007, 69 'Healthy Living' events were held across the UK to promote healthy eating to customers, members and staff.

Events provided nutritional advice and included a cookery demonstration followed, at some events, by a 'hands-on' workshop. The events were attended by over 2,000 members, customers and their families. Feedback²⁷ revealed that 73% of adult respondents consider their lifestyle to be healthier and 74% are now preparing more dishes from scratch, using fresh foods, as a result of attending the events. Respondents reported that attendance at the events had more influence on them than TV programmes, press articles, their GP, friends and family or celebrity chefs.

Three half-day sessions, attracting over 150 employees, formed a pilot for engaging retail staff on healthy eating issues in such a way as to enable them to better converse with members and customers on this issue. Feedback²⁸ revealed that 96% of employee respondents reported that the events had helped them to better understand the products they sell; provide customers with advice; and promote healthy foods.

A further series of events is to be rolled out across the UK between February and November 2008, featuring updated 'Healthy Living' information packs; 'Healthy Living' vouchers which can be exchanged for fresh fruit and vegetables; and a 'smoothiecycle' (a bike which, when cycled, generates energy which is transferred to a smoothie maker).

Community Health Fund

In 2006, two Community Health Funds were launched by The Co-operative Pharmacy²⁹ – one in West Yorkshire and one covering Cardiff and Newport. The funds were established primarily to support the Pharmacy brand, 'healthcare at the heart of the community', with awards of up to £2,000. Since the launch, local community groups have been invited to apply for a share of £20,000. Local panels, comprising members of staff from Pharmacy branches, the local press and elected members of The Co-operative Group, meet to assess applications. At the end of 2007, 94 projects had been supported, with grants totalling £120,000.

The Group's Values & Principles Committee has approved a request for a further £200,000 to fund the continuation of health-related grants during 2008. Grants will be available in other areas of the country supporting the new brand roll-out.

Promoting exercise

In 2007, The Co-operative was the lead sponsor of jogscotland³⁰ for a third year. Jogscotland is a Scottish national jogging network that was established in 2002. Through co-ordinated programmes of walking, jogging and running, delivered at a local level, it aims to widen participation and contribute to improvements in physical activity levels and health.



There are currently 13,000 adult members of jogscotland and 30,000 children participating in Junior jogscotland. During 2007, some 4,200 people took part in 5km runs and 250 took part in junior runs.

The Group is also committed to supporting 'walking buses'; a healthy way for children to travel to school (page 75).

Influence and action

Traffic light labelling

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 them to look for and demand healthier foods. The Group is a member of the FSA's Adopters and Supporters Group – those food retailers and manufacturers who have adopted the FSA's traffic light labelling system, and NGOs who support its use. In 2007, the Group provided the FSA with information to assist in the development of new criteria for traffic light labelling of sugars, and contributed to the development of guidance for the new criteria. The Group also contributed to discussions with the FSA on the extension of the traffic light system to products other than those in the FSA's priority list. Information was provided based on the Group's experience of including traffic light labelling on Healthy Living products, which fall outside the FSA priority areas.

- 1 Figures in brackets indicate the level of support.
- 2 2006 figure excludes United region. 2007 figure excluding former United: 44%.
- 3 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. www.assuredproduce.co.uk
- 4 Research undertaken by NOP on behalf of The Co-operative Food in 2005 revealed that 69% of parents harboured concerns regarding additives, and a third linked their children's diet to hyperactivity, naughtiness, anger and lack of concentration.
- 5 www.co-operative.coop/food
- 6 www.food.gov.uk/news/newsarchive/2007/sep/foodcolours. The Southampton Study, commissioned by the FSA, was carried out to further investigate the findings of a 2002 study into the effect of food colours on the behaviour of children. The findings were assessed by both the UK Committee on Toxicity and the European Food Safety Authority. The study considered the following colours: Sunset yellow (E110), Tartrazine (E102), Carmoisine (E122), Ponceau 4R (E124), Quinoline yellow (E104) and Allura red (E129).
- 7 Benzoates will be removed from own-brand products as they are reformulated during 2007 and beyond.
- 8 These colours are only allowed where specific permission is sought and their use is clearly identified below the ingredients list.
- 9 There will be an additional time delay before all products on shelf have the new formulation.
- 10 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.
- 11 The economy range accounted for 0.6% of own-brand product sales in 2007.
- 12 www.food.gov.uk/healthierating/salt/saltmodel#_1
- 13 FSA defines 85 categories in total, but The Co-operative produces own-brand products in only 74 of these.
- 14 www.food.gov.uk/multimedia/pdfs/satfatprog.pdf. The FSA carried out a consultation in March 2007 and published results in February 2008. The aim of the consultation was to arrive at a consensus towards improving consumer awareness and understanding of healthy eating, with particular focus on the impact of saturated fat on health; encouraging promotion and uptake of healthier options; encouraging accessibility of smaller food portion sizes; and encouraging voluntary reformulation of mainstream products to reduce saturated fat and energy. A review of the Group's progress in relation to the consultation document has taken place.
- 15 The Healthy Living range accounted for 5.5% of own-brand product sales in 2007.
- 16 AccountAbility/National Consumer Council (July 2006) What assures Consumers? Product packaging emerged first in a list of potential sources that consumers consult for such information.
- 17 www.co-operative.coop/food/ResponsibleRetailing/righttoknow/honestlabelling/
- 18 www.opsi.gov.uk/Si/si1996/Uksi_19961499_en_1.htm
- 19 www.food.gov.uk/foodlabelling/signposting/
- 20 The Healthy Living range accounted for 5.5% of own-brand food sales in 2007.
- 21 www.lgd.com/cir.asp?menuid=36&cirid=1887
- 22 AccountAbility/National Consumer Council (July 2006) What assures Consumers?
- 23 www.co-operative.coop/food/ResponsibleRetailing/healthanddiet/
- 24 www.lgd.com/cir.asp?menuid=24&cirid=2681
- 25 www.co-operativemembership.coop/en/fromfarmtofork/
- 26 www.co-operative.coop/farms/
- 27 Self-completion questionnaires, distributed and collated several months after the events, were returned by 99 adult customers/members.
- 28 Self-completion questionnaires were returned by 50 employees.
- 29 www.co-operative.coop/pharmacy/
- 30 www.jogscotland.org.uk. Jogscotland was established by scottishathletics and is supported by the Scottish Executive, Sport Scotland and NHS Health Scotland as part of Scotland's Healthy Living Campaign.

Targets 2007

Consider and, if merited, progress a further round of consultation with customers and members on the bank's Ethical Policy. ✓

In connection with the bank's Ethical Policy, embed newly developed training materials into staff induction programmes and make available to all bank staff. ✓

The bank to launch a financial product that will support ethical consumerism. ✓

Devise and implement a communications programme to raise internal and external awareness of Co-operative Insurance's socially responsible investment (SRI) processes. ✓

Targets 2008

Undertake a bank Ethical Policy consultation with bank customers, and launch a revised Policy.

Devise and implement a Co-operative Insurance shareholder engagement programme on unconventional fossil fuel extraction and production.

Consider a distinctive social and ethical consumer proposition for the general insurance business.

✓ Target achieved

▬ On track

➤➤ Close to target

◀ Behind schedule

Ethical finance

Indicators

Socially responsible investment: Bank

Socially responsible investment: Insurance

Materiality and strategy

The core activity of Co-operative Financial Services' businesses is the provision of financial services – banking, insurance and investments – to corporate, business and personal customers. In 2007, CFS had an operating profit of £151.5m and total assets at year end of £39.8bn. Loans and advances to bank customers were £9bn and deposits £10.6bn¹. CFS' investments totalled £24.5bn, including The Co-operative Insurance listed equities of £6.2bn². 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 Policy³ in 1992, with the most recent review being completed in 2001. The Ethical Policy is formulated on the basis of an extensive programme of customer consultation. The Policy stipulates who the bank will and will not finance, as directed by customers. It covers all of the bank's corporate, business and wholesale market assets (eg, retail and syndicated loans, and corporate leasing) and liabilities (eg, retail deposits and savings, and treasury dealings), and the investment of all retained balances. The bank's Ethical Policy is currently 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 2005, a project was completed that aimed to substantially reconcile the historically different approaches of The Co-operative Insurance and The Co-operative Bank to socially responsible investment. Reconciliation focused on establishing a clear customer mandate for The Co-operative Insurance's approach to matters of ethics and sustainability. In total, some 44,000 customers responded to The Co-operative Insurance Ethical Engagement Policy poll, 98% of whom were in favour of such an approach. The Co-operative Insurance Ethical Engagement Policy⁴ was launched in June 2005, and now guides The Co-operative Insurance's approach to engagement with investees. In 2002, The Co-operative Insurance was the first UK investor to disclose its entire UK voting record via its website⁵, and this was extended to overseas companies in 2005.

Assurance

The Co-operative Bank's Ethical Policy implementation and The Co-operative Insurance's responsible shareholding activity are, like the rest of this Report, subject to rigorous third-party verification (page 11). 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.

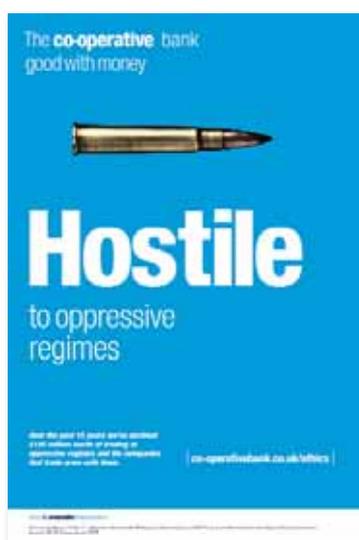
The Co-operative Bank – screening of finance

The bank provides facilities to some 65,000 corporate, business and wholesale market banking customers⁶. Ethical Policy compliance is secured, in the main, via self-completion questionnaires, which are incorporated within application forms and authenticated by account opening staff. Ongoing compliance is affirmed remotely via a central screening exercise on a bi-annual basis.

For large relationship customers⁷, ethical compliance is confirmed via direct investigation by business development managers and reviewed on an annual basis. Business development managers are issued with Ethical Policy guidelines that set out the criteria to be considered in the provision of facilities and where involvement is prohibited. High-risk sector guidelines detail corporate activities that are considered to present an elevated Ethical Policy risk (eg, the manufacture of chemicals) and where referral to the Ethical Policy Unit is mandatory.

Referrals are made to the Ethical Policy Unit by account opening staff, business development managers and credit risk managers seeking to ensure that prospective business opportunities are Policy compliant.

During 2007, the bank's Ethical Policy Unit reviewed 348 such potentially problematic financial opportunities. Of these, 32 (9%) were found to be in conflict, and the business opportunity declined (2006: 29, or 10%). In 2007, the annualised gross income foregone by the bank as a result of ethical screening was an estimated £14,023,000 (2006: £11,684,000)⁸.



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, **csrnetwork**, 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 2007, Internal Audit reviewed the processes at two⁹ Corporate Banking Centres, and concluded that, in each instance, the quality of control evidence was 'satisfactory' (ie, at the highest level of control). Amongst the 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.

During 2007, an Ethical Policy training programme was made available to all staff via the intranet. In addition, the programme was adopted within bank staff induction programmes and by customer-facing departments, as part of annual training reviews. At the end of 2007, the programme had been completed by 926 members of staff.

BENCHMARK Research undertaken by the Ethical Consumer Research Association¹⁰ 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. The report went on to state, "The Co-op's lending policies are way ahead of any of the other banks covered in this report."

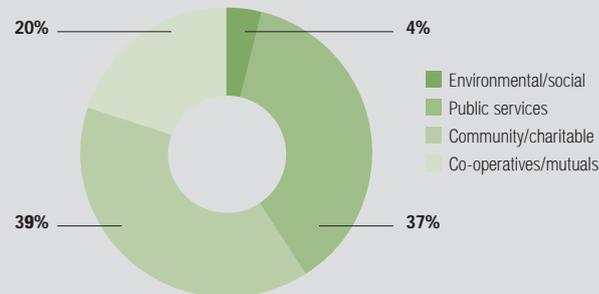
Bank – all business declines by issue, 2007	Estimated income foregone 2007
International development and human rights 123 finance opportunities were referred to the Ethical Policy Unit in connection with international development, of which 11 were declined. Issues of concern included: support for oppressive regimes; transfer of armaments to oppressive regimes; and systematic failure to comply with basic labour standards. For further details, see page 22.	£1,926,000
Animal welfare 45 finance opportunities were referred to the Ethical Policy Unit in connection with animal welfare, of which nine were declined. Issues of concern included: animal testing for cosmetic and household products; use of intensive farming methods; involvement in blood sports; and involvement in the fur trade. For further details, see page 33.	£1,563,000
Ecological impact 118 finance opportunities were referred to the Ethical Policy Unit in connection with ecological impact, of which 10 were declined. Issues of concern included: support for fossil fuel extraction and production; production of unsustainable chemicals; and deforestation. For further details, see pages 74, 84, 90 and 96.	£1,399,000
Financial inclusion Seven finance opportunities were referred to the Ethical Policy Unit in connection with financial inclusion, of which two were declined. For further details, see page 50.	£270,000
Diversity Eight finance opportunities were referred to the Ethical Policy Unit in connection with diversity, none of which were declined.	£0
Other On occasion, the bank will review businesses in areas not explicitly covered by its Ethical Policy, but where there are pressing ethical/sustainability concerns. In 2007, 47 finance opportunities were referred to the Ethical Policy Unit in connection with potential ethical/sustainability issues, none of which were declined.	£0
2007 business declines	£5,158,000

Corporate and business banking customer profile

Average bank liabilities (eg, deposits)

	2006	2007
Total (£m)	1,953	2,103
Positive contribution to society (£m)	1,169 (60%)	1,232 (59%)

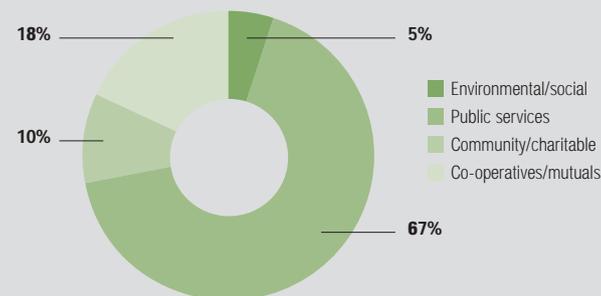
Positive contribution to society (Total: £1,232m)



Average bank assets (eg, loans and overdrafts)

	2006	2007
Total (£m)	2,370	2,706
Positive contribution to society (£m)	670 (28%)	751 (28%)

Positive contribution to society (Total: £751m)



BENCHMARK UK general public's social, environmental and ethical rating of financial providers¹¹

Ranking

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

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

Source: NOP World (February 2007)

Survey of UK general public's unprompted awareness of CSR. Representative sample, all adults aged 18+.

The Co-operative Bank – corporate and business banking customer profile

The Co-operative Bank undertakes annual analysis 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 59% (2006: 60%) of liabilities and 28% (2006: 28%) of assets are derived from business activities that have a distinct co-operative, ethical or social purpose. 'Positive' liabilities increased by 5% (£62.9m) in 2007, with growth primarily in the 'community' and 'charitable' sectors. 'Positive' assets have also increased (by 12%, or £80.2m), with growth primarily attributable to 'public services'.

59% of Co-operative Bank liabilities and 28% of assets are derived from business activities that have a distinct co-operative, ethical or social purpose

The Co-operative Insurance – investment strategy

The Co-operative Insurance 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 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 The Co-operative Insurance fund managers.

In 2006, a process was incorporated into overall portfolio management procedures that sought to identify companies within the FTSE 350 with the most serious corporate governance and SEE management risks. Reports on such companies are reviewed by a committee of fund managers and members of the Responsible Investments Team. 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 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. The stock will be regularly reviewed, but no new investment will take place without improvements in standards.

During 2007, 18 companies were referred to the committee for consideration. Eleven had previously been considered in 2006, of which: in six instances, a continued programme of engagement was recommended; in four¹² instances, continued divestment was recommended; and in one instance (Kazakhmys plc) standards were deemed to have improved to the point where re-investment was permissible. Of the six new companies referred, no new divestment was instructed: in two cases, a programme of engagement was instructed; and, in the remaining four instances, the risks were not considered sufficiently material to warrant engagement.

BENCHMARK The Co-operative Investments won 'Best Ethical Investment Provider' at the Investment Life & Pensions Moneyfacts Awards 2007¹³. The award recognised the integration of environmental, social and governance considerations throughout the investment process.

The Co-operative Insurance – ethical & sustainability engagement, 2007

Concern	Companies	Push for change
Human Rights & International Development (oppressive regimes) There are many oppressive regimes across the world; however, Sudan presents a compelling case for urgent action. Since 2003, an estimated 200,000 Darfurian civilians have been killed, 2 million displaced and 3.5 million made reliant on humanitarian aid.	Engineering – Weir Group	Company asked to halt expansion of operations in Sudan and engage the Khartoum government to fully implement UN Security Council Resolution 1769 (page 22).
Human Rights & International Development (labour standards) The International Labour Organization (ILO) core conventions are the most widely accepted standards for minimum labour rights; amongst other issues, covering collective bargaining and freedom of association.	Retail – Tesco	Company urged to further address supply chain labour standard issues, such as a living wage, and to improve the quality of third-party audits and reporting (page 23).
Ethical Finance Since 2004, HSBC has introduced a series of sector lending guidelines that govern its approach to environmental and social risks, and specify areas where involvement is prohibited. To date, sector guidelines have been published on forestry, freshwater infrastructure, chemicals, energy, mining and metals.	Banking – HSBC	Support moves to fully implement 'Forest Land and Forest Products Sector Guidelines' (page 46).
Public Policy (irresponsible lobbying) Corporate lobbying is exercised to represent corporate interests and undertaken usually in an attempt to influence public policy. Irresponsible lobbying practices can include campaigns of 'disinformation' via 'front groups', which can mislead public opinion or policy makers.	Media and PR – WPP	Company urged to recognise client representation as its most material SEE issue and to embed employee training on corporate responsibility (page 129).

The Co-operative Insurance engagement

During 2007, The 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 44 and 45–46 respectively). Engagement on specific areas of corporate governance concern (for example, short-termism in remuneration policy) is undertaken on a case-by-case basis, following on from voting outcomes. For reporting purposes, SEE 'engagement' is restricted to instances where The 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.

The Co-operative Insurance – UK voting

At year-end 2007, 77% of The Co-operative Insurance's equity holdings by value were listed on the UK stock exchange (2006: 81%). A UK Corporate Governance and Voting Policy sets out positions with respect to voting outcomes¹⁴. The 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. Abstentions will also be registered 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 2007, 361 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 (2006: 375). In 50 (2006: 80) instances, a response from the company was forthcoming and, in 12 cases (2006: 17), this resulted in a change to the proposed vote.

In 2007, The Co-operative Insurance voted on 8,834 UK resolutions tabled by management (2006: 7,691), and was represented at 10 annual general meetings (2006: 13). Opposition to management voting (whereby votes were cast against a resolution or an abstention was cast) accounted for 1,053 of the votes cast, or 12% (2006: 760, or 10%), and confirmed The 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 (423 votes), executive remuneration (280 votes) and annual reporting (130 votes). Between them, these accounted for 79% (833 votes) of opposition voting.

Annual reporting

Since April 2004, The Co-operative Insurance has voted against accepting the report and accounts of UK-listed companies that fail completely in respect of SEE risk disclosure¹⁵, and which operate in sectors deemed to be medium or high SEE risk. Where there was limited disclosure (or no disclosure in low risk sectors) abstentions were registered. As of April 2006, an approach was adopted which identified the poorest performing companies¹⁶ within medium- and high-risk SEE categories and factored current SEE risk disclosure, previous voting history and engagement on SEE issues into voting decisions.

In 2007, The Co-operative Insurance voted on the acceptance of UK company report and accounts on 712 occasions (2006: 619) and, in 130 instances, voted against, or abstained on, the acceptance of report and accounts (2006: 99). Of these 130 votes, 52 related to instances where a vote against was registered, of which 31¹⁷ related to SEE matters (2006: 40) and 78 related to instances where a vote to abstain was appropriate, of which 62 related to SEE matters (2006: 38). Voting rationale continues to be publicly disclosed on the website on a quarterly basis¹⁸.

Of the 40 companies voted against in 2006, improvements in SEE reporting progressed at 12, and The Co-operative Insurance was able to support the resolution on their respective report and accounts in 2007. However, in 18¹⁹ instances, persistent SEE concerns meant that votes continued to be registered against these companies' report and accounts in 2007. In 10²⁰ instances, this represented the third time such a vote had been registered. Of the 38 companies where abstentions were registered in 2006, 21 companies improved their disclosure sufficiently for The Co-operative Insurance to subsequently support the resolution to receive their report and accounts; whereas seven did not make any improvements, and a vote against was registered in 2007.

Executive remuneration

In 2007, the remuneration resolution was voted against in 149 cases (2006: 113) and, in 131 cases, an abstention was posted (2006: 110). In three instances, the re-election of members of the Remuneration Committee was opposed²¹.

Board independence

In line with the Combined Code on corporate governance, The Co-operative Insurance considers that, generally, at least half the Board, excluding the Chair, should comprise independent non-executive directors (NEDs) – except for smaller companies, where it is thought there should be at least two independent NEDs, with the Chair being independent upon appointment. Votes against were registered in 192 cases (2006: 120) and votes to abstain registered in 231 cases (2006: 169). In the majority of instances, oppositional voting was driven by a lack of NED independence. In 2007, research undertaken by Deloitte & Touche LLP determined that 89% of FTSE 100 and 71% of FTSE 250 companies had a Board which was at least one half independent, excluding the Chair²².

The Co-operative Insurance – UK voting

Category	Resolutions tabled by management			Voted against resolution and management			Abstained on resolution and against management		
	2005	2006	2007	2005	2006	2007	2005	2006	2007
Report and accounts	746	619	712	87	58	52	103	41	78
Board independence – director election	2,747	2,330	2,622	207	120	192	176	169	231
Remuneration report: executive	711	571	657	138	113	149	166	110	131
Shares: executive incentives	288	229	219	53	63	83	69	12	23
Political donations	146	173	141	9	7	9	0	0	0
Other governance	4,420	3,769	4,483	49	28	64	43	39	41
Total	9,058	7,691	8,834	543	389	549	557	371	504

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

	2004	2005	2006	2007
Votes against	20	74	40	31
Abstentions	161	95	38	62

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 respectively²³.

The Co-operative Insurance – overseas voting

At the outset of 2007, 23% of equity holdings were listed outside of the UK; principally, in the United States, continental Europe and Japan (2006: 19%). During 2007, The Co-operative Insurance voted against, or abstained on, 463 overseas resolutions tabled by management (2006: 298). Voting continues to be publicly disclosed on its website on a quarterly basis²⁴.

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. The Co-operative Insurance was faced with 23 such resolutions in 2007, and voted against 19, one of which was connected with a sustainability issue: FirstGroup plc (page 22). The Co-operative Insurance registered abstentions on the remaining four resolutions, of which one concerned a sustainability issue: Tesco plc (page 23).

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 2007, The Co-operative Insurance was presented with 361 independent resolutions (2006: 162). Of these, 72 were opposed (2006: 22) and 289 supported (2006: 140). In 80 cases (2006: 45), resolutions had ethical or sustainability components, of which 75 (94%) were supported (2006: 44, or 98%). Of the five resolutions opposed during 2007: one instructed the phase-out of the production and sale of tobacco products by 2010 (Loews Group)²⁵; one called for adoption of a wood procurement policy (Stora Enso Oy)²⁶; one called for adoption of age discrimination policies in retirement plans (IBM)²⁷; and two instructed that a third of company directors be comprised of women within three years (Canadian Imperial Bank of Commerce²⁸ and Toronto Dominion Bank²⁹).

The Co-operative Insurance – ethics & sustainability overseas resolutions supported, 2007

<p>Environmental sustainability</p> <p>In 24 cases, resolutions were supported relating to environmental sustainability: six³⁰ called for preparation of sustainability reports; four³¹ called for reporting on climate change or energy efficiency; two called for reporting on emission reduction goals (Wells Fargo & Company and Exxon Mobil Corp); two called for the adoption of emission reduction goals (Boston Properties Inc and TXU Corporation); two called for reporting on or increasing renewable energy portfolios (ConocoPhillips and Exxon Mobil Corp); one called for the integration of sustainability criteria into performance assessments (Toronto Dominion Bank); one called for reporting on market specific environmental laws (Chevron Corp); one called for disclosure on chemical and biological testing data (Coca Cola Company); one called for reporting on environmental accountability (Exxon Mobil Corp); one called for carbon dioxide emissions information at gas stations (Exxon Mobil Corp); one called for reporting on potential environmental damage resulting from drilling in Alaska (ConocoPhillips); one called for reporting on the impact of mining operations in Indonesia (Newmont Mining Corp); and one covered environmental liabilities in India (Coca Cola Company).</p>
<p>Human rights & armaments</p> <p>In 21 cases, resolutions were supported relating to human rights and armaments: four³² called for policies to protect freedom of access on the internet; three³³ called for the adoption or review of human rights policies; three³⁴ called for the establishment of a board committee on human rights; three³⁵ called for reporting on foreign arms sales; two called for ConocoPhillips to report on community impacts of operations and policies concerning indigenous people's rights; one called for the adoption of ethical criteria for military contracts (General Electric Co); one called for reporting on nuclear weapons (Lockheed Martin Corp); one called for the prohibition of investments in markets embargoed by the US Government, citing Sudan (Berkshire Hathaway Inc); one called for reporting on policies related to public opposition to mining operations (Newmont Mining Corp); one called for reporting on management initiatives to address links to slavery and human rights abuses (JPMorgan Chase & Co); and one called for reporting on racial and ethnic discrimination in lending (Wells Fargo & Company).</p>
<p>Diversity</p> <p>In 10 cases, resolutions were supported relating to diversity: four³⁶ called for reporting on pay disparity; one called for improved Board diversity (Computer Sciences Corporation); one instructed that a third of company directors be comprised of women within three years (Bank of Nova Scotia³⁷); one supported the adoption of a policy prohibiting discrimination based on sexual orientation (Exxon Mobil Corp); one called for an employment diversity report (Home Depot Inc); one called for equity compensation by race and gender (Wal-Mart Stores Inc); and one called for the implementation of the McBride Principles to eliminate employee discrimination in Northern Ireland based on religion (Manpower Inc).</p>
<p>Animal welfare</p> <p>In nine cases, resolutions were supported relating to animal welfare: seven³⁸ related to general improvements in animal welfare standards and reporting; one to reporting on animal testing policies (Pfizer Inc); and one on implementing controlled atmosphere killing processing methods (Tyson Foods Inc).</p>
<p>Trade & labour rights</p> <p>In five cases, resolutions were supported relating to trade and labour rights: three of which related to Wal-Mart and called for the reporting of healthcare policies; the social and reputation impacts of failure to comply with ILO conventions; and business environment public policy disclosure; one supported the adoption and implementation of an ILO-based code of conduct (McDonald's Corporation); and one called for reporting on the outsourcing of jobs overseas (IBM).</p>
<p>Consumer protection</p> <p>In four cases, resolutions were supported relating to consumer protection: one called for reporting on a policy to limit pharmaceutical supply to Canada (Wyeth); the remaining three instances related to Altria Group Inc and called for the disclosure of information on second hand smoke; the reallocation of funds from ineffective advertising campaigns oriented to prevent youth smoking to those demonstrated to be effective; and the phase-out of the production and sale of tobacco products by 2010³⁹.</p>
<p>Genetic modification</p> <p>In two cases, resolutions were supported relating to genetic modification: both called for the labelling of genetically modified ingredients (Safeway Inc and McDonald's Corporation).</p>

The Co-operative Insurance – overseas voting

Category	Resolutions tabled by management						Resolutions tabled by independent shareholders					
	Total		Against resolution and management		Abstained on resolution and against management		For independent resolution and against management		Abstained on independent resolution and for management		Against independent resolution and for management	
	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007
Board composition and election of directors	114	180	58	92	2	5	48	67	0	0	6	16
Remuneration	100	211	69	102	1	1	21	87	0	0	9	21
Other governance	192	332	168	262	0	1	18	39	0	1	6	29
Political contributions	9	21	0	0	0	0	9	21	0	0	0	0
Ethics and sustainability	45	80	0	0	0	0	44	75	0	0	1	5
Total	460	824	295	456	3	7	140	289	0	1	22	71

The Co-operative Insurance – ethics & sustainability overseas voting by category

Ethical Engagement Policy category	Number of resolutions		For independent resolution and against management		Against independent resolution and for management	
	2006	2007	2006	2007	2006	2007
Environmental sustainability	9	25	9	24	0	1
Human rights and armaments	4	21	4	21	0	0
Diversity	14	12	13	10	1	2
Animal welfare	8	9	8	9	0	0
Trade and labour rights	4	6	4	5	0	1
Consumer protection	3	5	3	4	0	1
Genetic modification	3	2	3	2	0	0
Total	45	80	44	75	1	5

BENCHMARK Research undertaken by Ethical Consumer Research Association (ECRA) concluded The Co-operative Insurance merited a 'best buy' in both its Insurance⁴⁰ and Investment⁴¹ sector buyers' guides. These reports cite the demonstration of best-in-class engagement and transparency policies. Furthermore, ECRA noted that The Co-operative Insurance "is highly unusual in subjecting its engagement policy to rigorous independent scrutiny"⁴².

The Co-operative Insurance engagement

HSBC introduced 'Forest Land and Forest Products Sector Guidelines' in May 2004, wherein it stated that it would not provide financial support for commercial logging operations in primary tropical moist forest and high conservation value forest. In 2007, Co-operative Insurance advised HSBC that its long-standing relationship with Samling Global Limited, a Malaysian timber company, presented a potential conflict with its Guidelines. Samling logged primary tropical moist forest in Guyana, Papua New Guinea and Malaysia and had its Forest Stewardship Council Certification rescinded in Guyana⁴³. Engagement with HSBC will be pursued in 2008 to clarify its approach to its Guidelines in both principle and practice.



Products and services

think card

In November 2007, the bank introduced the think credit card. The card supports ethical consumerism, whereby purchases from specified ethical partners⁴⁴ attract preferential rates of interest. The ethical partners are organisations that provide ethical or sustainable products or services, or are considered to be 'ethical leaders'⁴⁵ in their sector. Upon activation of the card, the bank, in partnership with Cool Earth⁴⁶, arranges for half an acre of Brazilian rainforest to be purchased and protected in the customer's name. For every £100 spent on the card, a further 25p is donated to rainforest protection. For rainforest protection figures to date, see page 75.



Sustainable Leaders Trust

Sustainable Leaders Trust (SLT) 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 outperformed the UK equity market.



BENCHMARK Over a three-year period ending December 2007, SLT delivered a total return of 55.7%, against 50.7% for the UK FTSE All-Share index⁴⁷ and was ranked in the top quartile in the UK all-companies sector.

Influence and action

Company Law Reform and Disclosure

In 2002, The 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, The Co-operative Insurance welcomed the proposal for the introduction of 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)⁴⁸, which represents the UK's largest investment and pension fund managers, developed a 'comply-or-explain' code on voting disclosure. Following consultation with members, this was launched in June 2007. The 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.

Pensions Bill and Personal Accounts

In March 2007, The Co-operative Group responded to a Department for Work and Pensions White Paper consultation on pensions reform and the roll-out of a Personal Accounts scheme⁴⁹. The Group's submission proposed that the legislative framework for Personal Accounts should include a clause that all fund managers should have a duty to engage with investee companies to take account of social, environmental and ethical (SEE) issues. It also recommended that funds be mandated, to include a minimum percentage of holdings that are classified as SEE funds, or there should be a SEE fund option for those account holders who wish to make an active choice.

Good Companies Guide

The Co-operative Insurance investment strategy contains, along with a consideration of financial performance and prospects, an overview of the quality of corporate governance and SEE risk management. This overview incorporates an annual review of the governance and SEE performance of FTSE350 companies (page 42). In 2007, this research formed the basis of The Observer/The Co-operative Investments Good Companies Guide⁵⁰. The Guide identified the 20 best and worst companies in the FTSE350⁵¹ based on quality of governance and SEE risk management within the context of the sector within which they operate. Alongside this, the Guide ranked the FTSE100 and provided sector specific analysis on banking, cruise ships, house building, oil, food retailing and pharmaceuticals. An updated Guide will be published in 2008.



- 1 As at 12th January 2008.
- 2 Ibid.
- 3 www.goodwithmoney.co.uk/servelet/Satellite/1200903577517.CFSweb/Page/GoodWithMoney
- 4 www.goodwithmoney.co.uk/servelet/Satellite/1200903577522.CFSweb/Page/GoodWithMoney
- 5 www.goodwithmoney.co.uk/servelet/Satellite/1200903577492.CFSweb/Page/GoodWithMoney
- 6 Corporate Business Information unit, The Co-operative Bank.
- 7 Corporate banking customers with a turnover in excess of £1 million.
- 8 Relates to those potential 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 2007 (£5,158,000) and declines originating in the years 2000–2006 (£8,865,000), on the basis that financial services provision will have retention beyond 12 months.
- 9 Derby and Oxford.
- 10 Ethical Consumer (May/June 2005). Issue 94.
- 11 One of the two measures supporting CFS' KPI of market leading social responsibility (page 9).
- 12 Amstrad plc, French Connection Group plc, N Brown Group and Euromoney Institutional Investor plc.
- 13 www.moneyfactsgroup.co.uk/awards/1lp2007/winners.asp
- 14 www.goodwithmoney.co.uk
- 15 Based on Association of British Insurers (ABI) guidelines on socially responsible investment – www.abi.org.uk/Display/File/85/SRI_Guidelines.doc
- 16 As determined by Ethical Investment Research Service (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.
- 17 Acal plc, Alizyme plc, Ark Therapeutics Group plc, BAE Systems plc, Beazley Group plc, Brit Insurance Holdings plc, Care UK plc, Carnival plc, Carpetright plc, Catlin Group Limited, Clarkson plc, Clinton Cards plc, CLS Holdings plc, Croda International plc, Daejan Holdings plc, Dana Petroleum plc, French Connection Group plc, Game Group plc, Headlam Group plc, Highway Insurance Holdings plc, Huntsworth plc, Jardine Lloyd Thompson Group plc, JXX Oil & Gas plc, Kazakhmys plc, Mapeley Limited, Pendragon plc, Protherics plc, ScS Upholstery plc, Severfield-Rowen plc, Umeco plc and Warner Estate Holdings plc.
- 18 www.goodwithmoney.co.uk/servelet/Satellite/1200903577492.CFSweb/Page/GoodWithMoney
- 19 Ark Therapeutics Group plc, BAE Systems plc, Beazley Group plc, Care UK plc, Carnival plc, Catlin Group Limited, Clarkson plc, Clinton Cards plc, CLS Holdings plc, Dana Petroleum plc, French Connection Group plc, Jardine Lloyd Thompson Group plc, JXX Oil & Gas plc, Kazakhmys plc, Mapeley Limited, ScS Upholstery plc, Umeco plc and Warner Estate Holdings plc.
- 20 BAE Systems plc, Beazley Group plc, Carnival plc, Clinton Cards plc, CLS Holdings plc, Dana Petroleum plc, French Connection Group plc, Jardine Lloyd Thompson Group plc, Umeco plc and Warner Estate Holdings plc.
- 21 Cable & Wireless plc, GlaxoSmithKline plc and Partygaming plc.
- 22 Board Structure Report 2007, Deloitte & Touche LLP.
- 23 Corporate Governance Annual Review 2006, Pension & Investment Research Consultants Ltd.
- 24 www.goodwithmoney.co.uk/servelet/Satellite/1200903577492.CFSweb/Page/GoodWithMoney
- 25 The Co-operative Insurance felt it inappropriate for shareholders to direct the Board to cease the company's core activity.
- 26 The Co-operative Insurance felt it inappropriate to support, due to the absence of concrete evidence to suggest wrongdoing or negligence on the part of the company, or that it maintains poor environmental policies with regard to wood procurement.
- 27 The Co-operative Insurance felt the proposal was overly broad and prohibitively expensive. The resolution requested that all employees, regardless of age, be allowed to choose the pension and retirement benefits in effect before changes were adopted in the 1990s.
- 28 The Co-operative Insurance felt it inappropriate to support, as Canadian banks are considered business leaders in implementing equality policies in Canada.
- 29 The Co-operative Insurance felt it inappropriate to support, as it believes the company's commitment to gender diversity from executive to Board director level is at least adequate if not laudable.
- 30 CVS/Caremark Corp, Amgen Inc, Safeway Inc, Hasbro Inc, Comcast Corp and Dillard's Inc.
- 31 Fedex Corp, General Electric Co, The Kroger Co and Boston Properties Inc.
- 32 Cisco Systems Inc, Google Inc, Microsoft Corp and Yahoo! Inc.
- 33 Chevron Corporation, The Boeing Co and Halliburton Co.
- 34 Cisco Systems Inc, Microsoft Corp and Yahoo! Inc.
- 35 United Technologies Corp, The Boeing Co and Northrup Grumman Corp.
- 36 Comcast Corp, Citigroup Inc, General Electric Co and Wal-Mart Stores Inc.
- 37 The Co-operative Insurance voted in opposition to similar shareholder resolutions at the Canadian Imperial Bank of Commerce and Toronto Dominion Bank AGMs. In this instance, a vote in support of the resolution was felt appropriate as the Bank of Nova Scotia's equal opportunities policy and practice was not robust, especially when compared to others in the sector.
- 38 Altria Group Inc, Chevron Corporation, Wyeth, Pfizer Inc, Amgen Inc, Safeway Inc and Procter & Gamble.
- 39 Supported in error: The Co-operative Insurance views it inappropriate for shareholders to direct the Board to cease the company's core activity.
- 40 Ethical Consumer (Nov/Dec 2007). Issue 109.
- 41 Ethical Consumer (Mar/Apr 2008). Issue 111.
- 42 Ibid.
- 43 www.globalwitness.org/media_library_detail.php/520/en/hsbc_worlds_local_bank_raises_money_for_global_for
- 44 At March 30th 2008: Traidcraft, IKEA, Lush, theTrainLine.com, Raleigh, Adili.com, EthicalSuperstore.com, Nigel's Eco-store, Energy Saving World, Ecofirst, Ecotricity, Arriva, Ethical Consumer Magazine, The Ecologist, Co-op Electricals, The Co-operative Food and The Co-operative Insurance.
- 45 Leadership positions are identified via independent third parties, such as Ethical Consumer Research Association (ECRA).
- 46 www.coolearth.org/think
- 47 Produced using Hindsight 5 by CFS Management Services.
- 48 www.napf.co.uk/Publications/Downloads/PolicyPapers/Section/2005/ISC_Statement_of_Principles.pdf
- 49 www.dwp.gov.uk/pensionsreform/new_way.asp
- 50 The Good Companies Guide was published in The Observer on Sunday 26 August 2007.
- 51 The Good Companies Guide analysed 313 companies out of the FTSE350. The Guide excludes Investment Trusts and a number of companies new to the index that have not yet completed a full reporting cycle.

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 for community workers on financial inclusion. ✓

Deliver a project to bring high-quality sports coaching and activities to young people in deprived communities. ✓

Successfully complete the pilot phase of the Credit Union Current Account project and proactively support ABCUL in rolling out the account to other credit unions. ✓

Targets 2008

Develop a new work experience programme in The Co-operative Food for socially excluded groups.

Evaluate the pilot project providing Co-operative Bank basic bank accounts to pre-release prisoners and research its impact on the lives of prisoners and their families.

Facilitate the participation of 300 disadvantaged young people in The Co-operative StreetGames Young Volunteers programme.

Further develop a project with The National Autistic Society during 2008, to include an information campaign on Asperger syndrome targeted at Criminal Justice System professionals.

✓ Target achieved

= On track

» Close to target

< Behind schedule

Social inclusion

Indicators

Access to outlets and channels

Basic bank account provision

Support for credit unions

Banking support for small businesses in deprived areas

Tackling crime and re-offending

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 disability¹. Social inclusion is about promoting greater equality between the most disadvantaged groups and the rest of society, to ensure that every person and community can play a full role in society. Financial inclusion is considered a key component of social inclusion, and, since 1998, has occupied a firm foothold on the UK Government's political agenda.

Materiality and strategy

The Group can promote 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 more inclusive than other forms of business organisation. The Co-operative Group, and other co-operatives, explicitly recognise equality, equity and solidarity in their values². The Group's Community and Campaigns Strategy (page 59), which is agreed via its member-controlled Group Values & Principles Committee (page 8), 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 over 32,000 incidents of crime in 2006/07³. Matters of diversity, such as age, ethnicity and disability, are discussed on pages 53–58. In the 2007 Co-operative Food Ethical Policy consultation (page 9), 92% of members endorsed the Group's commitment to continue to offer the most geographically diverse spread of stores of any UK retailer. 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 The 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 aims to retain and invest in viable community shops and to develop new stores that will be viewed by the communities they serve as an asset; offering high-quality shopping and facilities in locations accessible by all. The Group is obliged to consult member-controlled area committees (page 101) on intended store closures, store disposals and new developments, and a detailed process involving the area 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 outlets reveals that 18% (2006:14%) and 19% are located in deprived areas⁴ and rural areas⁵ respectively. The Group's Food stores located in deprived areas represent, on average, 24% of the food retail space provided in those areas⁶. Additionally, approximately 280 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. Of the stores containing Post Offices, 18% are located in deprived areas⁴ and 20% in rural areas⁵.

Pharmacy

The Co-operative Pharmacy plays a role in ensuring people have good access to medicines and healthcare advice. All branches offer a prescriptions collection service, with approximately half also offering a home delivery service, which provides vital access to medicines for people who may be unable to easily access their local pharmacy. The nature of the home delivery service can differ from branch to branch, and this inconsistency is presently being investigated. Additionally, private consultation rooms are available in approximately 80% of pharmacies, providing members and customers with the opportunity to discuss healthcare matters in private with a pharmacist. An analysis of the location of The Co-operative Pharmacy branches reveals that 28% (2006: 28%) are located in deprived areas and 12%⁵ in rural areas.

Financial Services

Co-operative Financial Services 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 businesses to provide products to individuals who may struggle to overcome some of the physical barriers that contribute to financial exclusion.

Some basic banking needs can be met through The Co-operative Bank's cash machine (ATM) network. In December 2006, following lobbying by the bank⁷, the LINK Network Members Council agreed the introduction of a new financial inclusion premium, which incentivises ATM operators to deploy free-to-use cash machines in financially excluded target communities. The bank currently has 46 ATMs located in such communities, and is actively exploring the opportunity to provide more. Over the last 10 years, the bank has worked together with The Co-operative Food to progress a programme of cash machine installation in Food stores. In 2007, 65 machines were installed in The Co-operative Food stores, taking the net number of ATMs installed as part of the project to 2,108

at the end of 2007. In October 2006, the CFS Board agreed that charges would be removed from all Co-operative Bank ATMs by the end of 2007 – either by way of conversion to free machines, or physical removal of the ATM from the site. This was achieved, though four cash machines were removed altogether due to reasons of ongoing economic viability.

CFS and ethical finance

Basic bank account provision

The Co-operative 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 into the account; 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 result⁸. A 39% increase, to 97,172 (2006: 69,854⁹), in the number of Cashminder accounts provided by the bank was seen in 2007.

BENCHMARK As at December 2007, there were over 7.1 million operational accounts in the UK with basic functionality. At 1.4% market share, the bank's presence is broadly commensurate with its share of the current account market.

Throughout 2007, work continued on a pioneering project that seeks to enable prisoners to open a basic bank account whilst still in prison. To date, more than 300 accounts have been opened by prisoners at Forest Bank Prison, Salford. The provision of a bank account can be a vehicle to facilitate employment and housing for offenders leaving prison; factors which are considered key to the reduction of re-offending. Prior to release, prisoners are offered the opportunity to open an account, which will be ready for use on release. The bank has commissioned Liverpool John Moores University to research the impact and effectiveness of the project.

Charity cards

The bank offers approximately 30 charity credit cards⁹ for charities/non-governmental organisations, three of which support organisations working to combat social exclusion: Barnardo's¹⁰, The Children's Society¹¹ and Shelter¹². In 2007, affinity card payments to the three organisations totalled £13,800 (2006: £12,000).



Affordable housing

In early 2008, the UK Government confirmed the bank and Places for People as winners of their competition to provide innovative new shared equity schemes; with the new product, Ownhome¹³, launched on 1 April 2008. The scheme is designed to assist key workers, social tenants and first-time buyers with household incomes of less than £60,000 per annum to purchase their own home, and provides funding for up to 100% of the value of a property. The product offers equity loans of between 20% and 40% (part funded by the Government, part funded by Places for People), to be used alongside a Co-operative Bank mortgage. Customers do not have to make interest payments on the Ownhome loan for the first five years; thereafter, a fixed interest rate of 1.75% will be charged for five years, increasing to a fixed rate of 3.75% for the remainder of the loan period.



This partnership builds on the bank's existing relationship with Places for People, one of the UK's largest housing associations. The partnership enables residents at 57,000 Places for People properties to purchase part, or all, of their homes using a Co-operative Bank mortgage. The bank and Places for People agreed bespoke terms and conditions for the mortgage product, which was launched in 2006, to take into account the variety of personal circumstances of potential customers, many of whom might otherwise struggle to access home ownership.

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 provided significant 'behind the scenes' IT development, administration and training to facilitate the pilot and launch of a Credit Union Current Account. Following a successful pilot, the account became operational at a further two credit unions in the second half of 2007¹⁴, 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 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. Additionally, in 2007, the bank continued to support the Association of British Credit Unions' two main annual conferences and its newsletter, Credit Union News, through a total contribution of £24,000.

Bank screening of finance

The bank's Ethical Policy includes a commitment to promote access to financial services. During 2007, seven finance opportunities were referred to the Ethical Policy Unit in connection with issues of financial inclusion, of which two were declined at an estimated cost of £270,000 in terms of gross income foregone.

Financial inclusion-related business declines 2007	Estimated income foregone 2007
Short-term credit providers (two instances) In the first instance, £10m contribution to a syndicated finance facility, and, in the other, payments facility for businesses engaged in the provision of short-term credit. Businesses charged rates considered extortionate. Research indicated that these businesses could charge interest in the region of 400% or 1000% respectively.	£270,000

Business banking

Banking support for small businesses ¹⁵ in deprived areas ¹⁶					
	2004	2005	2006	2007	Benchmark industry average 2007 ¹⁷
Business current accounts	8.6%	9.7%	9.1%	8.0%	4.7%
Overdrafts	8.8%	8.8%	9.1%	6.5%	4.1%
Loans	7.8%	7.6%	9.0%	7.0%	3.6%
Loan and overdraft balances	12.4%	9.0%	16.2%	5.6%	3.8%

BENCHMARK The bank's support for small businesses in deprived areas continues to be significantly greater than the banking average. For example, at June 2007, 8% of business current accounts and 7% of business loans were provided to small businesses in deprived areas. This compares to industry average figures of 4.7% and 3.6% respectively. The downward trend in the bank's support during 2007 results, in the main, from system improvements – particularly in relation to the capture of business turnover. A number of businesses previously considered to be small businesses were found to be operating above the £1m turnover threshold required for classification.

Wholesale Loan Fund

In 2007, the bank invested £3m in the Wholesale Loan Fund, launched by Greater London Enterprise. The fund provides capital to locally-based Community Development Financial Institutions, who, in turn, lend to less advantaged entrepreneurs. The fund is set to rise to £10m over three years, and it is anticipated that 1,200 loans will be made in its first five years. Lack of capital is cited by over half of would-be entrepreneurs as the principal barrier to starting up, with young, disabled, black, Asian and ethnic minority people most likely to be unable to access borrowing from conventional sources¹⁸.

“The aims of the fund are absolutely aligned to those of The Co-operative Bank, supporting our commitment to finding ways of reducing financial exclusion.”

Keith Alderson, Director of Corporate Banking

Community involvement – social inclusion

The Co-operative StreetGames Young Volunteers

In 2007, a new partnership was established with StreetGames¹⁹ to develop a volunteering programme to support its projects around England. StreetGames is a national charity dedicated to the delivery of grassroots sports coaching for young people in deprived areas and is committed to addressing the inequalities in access to sport for young people. The Group's support runs for two years to September 2009 and totals £202,400, including in-kind support. An initial payment enabled StreetGames to appoint two members of staff to develop and establish the volunteering programme. A successful bid for match funding from V, the youth volunteering charity, raised a further £212,400 towards the full project costs of £428,930. The programme offers a package of support to volunteers aged 16–25, giving them the experience and training they need to plan and deliver sports events and activities for other young people in their community. Sports coaching qualifications will be supported, where required, in addition to bespoke community sports leadership training. Over the two years, it is estimated that 600 young people will participate in the volunteering programme, with thousands more benefiting from the activities they will help deliver. Opportunities will be explored for members and colleagues to work with and support the young volunteers.



Professional financial inclusion qualification for community workers

Throughout 2007, work progressed with Liverpool John Moores University on the development of a university module for community workers: the Certificate of Professional Development – Promoting Financial Inclusion in Low Income Communities²⁰. The Group invested £3,000 in the development of the course and supported bursaries for students on the pilot course, which ran from January to March 2008. Seven bursaries were provided for students at a total cost of £840. The course aims to deepen participants' theoretical and practical understanding of poverty, over-indebtedness and financial exclusion, and encourages the consideration of strategic, inter-agency partnership approaches to tackling financial exclusion.

The Group also sponsored and supported a financial inclusion conference in November 2007, organised by the university²¹. The conference focused on the themes of capability, capacity and co-operation, with the aim of informing Government, policymakers, financial providers, advice agencies, academics and organisations working in low-income communities, of strategic developments in promoting financial inclusion.

Community involvement – tackling crime

For a number of years, the Group has been pursuing a range of initiatives that seek to address crime, and, in 2007, appointed a National Business Crime Partnership Manager to develop crime prevention solutions within the Food business and support the delivery of the Community and Campaigns Strategy's tackling crime theme.

Financial education in prisons

In 2007, the Group invested £10,000 in its continued work with Credit Action to provide financial education to prisoners. Half of the UK's prisoners have poor literacy and numeracy skills²² 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. Following completion of a pilot project in six North East prisons, a revised course has been developed and is being tested in these prisons and also in Forest Bank Prison in Salford.



Prisoners' Art Exhibition

The third Co-operative Group Prisoners' Art Exhibition²³ took place in August 2007. This annual event is open to prisoners at all North West prisons, giving them the opportunity to showcase their work at an exhibition housed in the Group's Manchester headquarters. The prisoners are required to work to a brief and deadline – useful skills for their future – and some participants have gone on to further education, including art college, when they have left prison. Sponsorship monies raised from the event are directed back to rehabilitation projects – including art projects – within the prisons.

“They start to realise they can achieve something – and, for a lot of them, it's the first time they've had that experience.”

John Young, art teacher

Crime prevention education for teenagers

In 2006, the Group launched a national pilot programme, in partnership with The National Autistic Society, to help young people with Asperger syndrome (AS) learn about the risks of crime. The 'Keeping Safe' programme is designed to address the problems that young people with AS can encounter with crime and the criminal justice system. Due to their condition, this group are much more likely than their peers to come into contact with the criminal justice system, as a victim of, or a suspect to, crime. With the Group's continued support in 2007 (£65,510 in total), the programme has been improved and is being delivered in 16 schools to young people with AS. A DVD explaining more about AS and the impact of the Keeping Safe programme was developed to support the launch of an information campaign for criminal justice system professionals that took place in March 2008.

- 1 Cabinet Office (2001) Preventing social exclusion: report by the Social Exclusion Unit, p11.
- 2 www.ica.coop/coop/principles.html
- 3 www.co-operativemembership.coop/en/corporate/reportsandpublications
- 4 Deprived areas correspond with the most deprived 20% of areas identified in the Indices of Deprivation 2004. www.neighbourhood.gov.uk/page.asp?id=1057
- 5 Analysis excludes stores in Northern Ireland.
- 6 This analysis is based upon available information about competitor location within a one-mile radius of Co-operative Food stores.
- 7 See The Co-operative Group Sustainability Report 2006, page 59.
- 8 www.bba.org.uk/bba/jsp/polopoly.jsp?id=145&a=6932
- 9 www.co-operativebank.co.uk/affinitycards
- 10 www.barnardos.org.uk/
- 11 www.childrensociety.org.uk/
- 12 www.shelter.org.uk
- 13 www.ownhome.co.uk
- 14 The two new credit unions are Hampshire, and Castle and Minster.
- 15 Refers to businesses with an annual debit turnover of up to £1m.
- 16 Where deprived areas correspond to the UK Government's 1998 Index of Local Deprivation, and account for approximately 5% of all postcode sectors by number.
- 17 British Bankers' Association (June 2007), Lending to Small Businesses in Deprived Areas. www.bba.org.uk
- 18 www.gle.co.uk/news/press.php?id=26
- 19 www.streetgames.org
- 20 www.ljmu.ac.uk/HEA/financialinclusion/90465.htm
- 21 www.ljmu.ac.uk/HEA/financialinclusion/90424.htm
- 22 www.literacytrust.org.uk/socialinclusion/adults/indexpris.html
- 23 www.co-operativemembership.coop/en/ourcampaigns/tacklingcrime/prisonersartexhibition
- 24 www.localworks.org
- 25 www.financialinclusion-taskforce.org.uk/principles.htm
- 26 www.co-operative.coop/corporate/sustainability

Influence and action

Post Office closures

The Co-operative Retail Trading Group (CRTG) (page 105) is the largest multiple operator of Post Offices in the UK, with co-operative societies collectively running approximately 570 Post Offices (280 of which are operated by The Co-operative Group). As at April 2008, 30 of the 2,500 Post Offices earmarked for closure as part of the Post Office's Network Change Programme are operated by co-operative societies. In a written submission to the Select Committee on Business, Enterprise and Regulatory Reform regarding the Network Change Programme, CRTG outlined its support for the need for network change, whilst raising a number of concerns about the consultation process and the structure of the compensation model for affected Post Offices. Though broadly supportive of the 'big picture' changes required by the programme, CRTG also backed the efforts of a number of local communities to keep open their Post Office; through, for example, allowing in-store petitions. CRTG is keen for co-operative retail societies to be central to the Post Office network and will continue to seek to influence future developments.

Sustainable Communities Bill

The Sustainable Communities Act received Royal Assent on 23 October 2007 and set in place a new process of local consultation and decision making that allows for communities to recommend to central Government changes to spending on local priorities. As a primary supporter, The Co-operative Group engaged with Local Works²⁴ on the content of the Private Members Bill and met with sponsoring MPs from the main political parties to discuss the implications and opportunities afforded by the new powers that the Bill enabled. In particular, the Group sought to articulate concerns regarding the potential for local action plans to be overturned by the Secretary of State if they conflict with national policies, and asked for further clarification to be given regarding the course of redress in such instances. The Group also pushed for reassurances that the voice of business and voluntary groups would be represented in local consultations. Going forward, The Co-operative Group remains a committed supporter of the Local Works coalition and is involved in examining how to implement the Sustainable Communities Act.

Financial Inclusion Taskforce

CFS' Chief Executive has joined the Government's Financial Inclusion Taskforce. The Taskforce was invited by HM Treasury to consider solutions to the problem of financial exclusion in three key areas: access to banking, access to affordable credit and access to free face-to-face money advice²⁵.

Additionally, the following examples of the Group's public policy lobbying interventions and positioning in the area of social inclusion were disclosed in the Group's 2006 Sustainability Report²⁶:

- Local shops – The Group's position on reform to the UK planning system;
- Basic banking – The bank's position on the UK Government's proposal to establish a target for people who are 'un-banked'; and
- ATM charging – The bank's work to promote access to free cash machines.

Diversity

Indicators

Workforce composition

Accessibility of products and services

Background

The population of the UK is becoming increasingly diverse, making consideration of diversity issues an imperative for any forward-looking business.

There are over 10 million disabled people in Britain who, together, have an estimated annual spending power of £80bn¹; by 2010, it is predicted that there will be significantly more women entering the job market than men²; the disposable income of the gay, lesbian and bi-sexual community in the UK is estimated to be £10bn³; and, by 2020, the number of people aged 50 and over is expected to increase by 20% or 4.7 million⁴.

Materiality and strategy

The Co-operative Group's commitment to diversity is long-standing, as enshrined in the co-operative value of 'equality' and the co-operative principle of 'voluntary and open membership' (inside back cover).

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 in relation to employees, customers, membership and community involvement. They have informed the development of publicly available diversity policies at both the Trading Group and CFS⁵.

The Trading Group also has a Diversity Strategy in place; a CFS Diversity Strategy is under development and due to be introduced before the end of 2008.

A Diversity Steering Group (DSG) meets quarterly to provide oversight of diversity issues within the Trading Group. The DSG includes representatives from the Executive team, The Co-operative Group Board, the Values & Principles Committee and corporate and operational areas of the Group and CFS. A membership Diversity Working Group also oversees the implementation of diversity initiatives amongst the Group's membership (page 104).

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. **Dropped**

Launch the 'Tommy's Room' facility at Co-operative Insurance head office, to assist expectant colleagues and new mothers. ✓

Targets 2008

Launch an employee policy across the Trading Group to provide support for people experiencing domestic violence.

Gather data on barriers to progression facing female middle managers in the Trading Group and develop plans to address priority issues in 2008/09.

Design and deliver diversity awareness training to all CFS employees during 2008.

Develop and introduce a new employee recruitment strategy at CFS that has been 'diversity-proofed'.

✓ Target achieved

▬ On track

» Close to target

◀ Behind schedule

Accounting

Diversity information relating to employees is recorded separately for CFS and Trading Group employees and is, therefore, reported separately throughout this section. CFS has a reasonably complete (>80%) 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 40% (2006: 34%)⁶ and 57% (2006: 68%) of employees respectively. Information relating to employees from the former United Co-operatives (inside front cover) is included in the Trading Group diversity figures reported in this section.

Projects are currently underway at both CFS and the Trading Group to better manage employee data⁷, and it is hoped that these will improve the completeness of employee diversity data in the longer term. In a further move to improve completeness, CFS and the Trading Group revised application and diversity monitoring forms in 2006/07 to request additional information on sexual orientation and religion and belief.

Diversity training and communication

Information on diversity is provided in dedicated areas on the Trading Group and CFS intranet sites. In addition, the Trading Group appointed four diversity champions in early 2008 to help raise awareness of diversity issues and provide accessible contacts for employees with regard to disability, ethnicity, gender and sexual orientation issues. Plans to roll out diversity training to all CFS employees during 2008 should further help communicate diversity policies and initiatives to employees. Customers and other stakeholders can access diversity information from the main Co-operative Group website⁸.

Respect works

The Trading Group operates a 'Respect works' policy to help guide what is considered appropriate behaviour in the workplace. A Respect works diversity training programme has been designed to complement this policy by helping promote a culture of respect across the businesses and to encourage employees to understand and value difference. Respect works training was delivered to Trading Group Executive and senior management employees during 2007, using a variety of methods, including drama-based audience participation and DVD and video-based training. Training and individual action plans were also rolled out in other business and corporate areas of the Group, as appropriate, during 2007. Diversity and Dignity at Work Policies are under development at CFS and are due to be launched before the end of 2008.

Workforce composition

Workforce – gender

Women account for 64% (2006: 63%) of Trading Group employees and 53% (2006: 54%) of managers. However, the proportion of female employees varies significantly across the different businesses: ranging from over 85% in specialist retail businesses⁹, to 18% in the property division. At CFS, the percentage of female employees and managers increased for the third consecutive year, to stand at 49% (2006: 47%) and 41% (2006: 39%) respectively.

53% of Trading Group managers and 41% of managers at CFS are women

BENCHMARK

Women account for 46% of the UK's general workforce¹⁰. The performance of the Trading Group was submitted to Opportunity Now for assessment and benchmarking when the benchmark was last run in 2006¹¹. Its score increased from 79% (silver rating) to 94% (gold rating); for the first time exceeding the retail sector average score of 80%. A total of 96 organisations took part in the benchmarking process. The Trading Group scored particularly well in relation to strategy, management commitment and resource, with monitoring being an area identified for improvement¹².

Since July 2006, the Trading Group has been a signatory to the 'Exemplar Employer Initiative'¹³. This initiative 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 continues to be recognised as an exemplary employer in the area of equal pay, undertaking equal pay reviews each year. 'Job family modelling' (which seeks to aid comparison of salary levels with market equivalents) is a key component of the process to help improve the grading structure for management jobs and optimise links with market-rate data. Each year, equal pay information is communicated to relevant managers and their HR business partners, to inform the approach to pay decisions.

CFS agreed with its trades unions in 2007 to undertake an equal pay audit of employees. Scoping work for the audit commenced in December 2007, and highlighted that, whilst significant equal pay issues do not exist in relation to age, ethnicity or disability, gender-based differences in pay required further investigation at two pay bands in the middle of the pay-band structure. These further investigations indicated that many of the differences detected were a result of organisational change and differing skills sets and that there were not any fundamental issues in terms of equal pay. Future actions to maintain and improve the current position include the reinforcement, through enhanced communication, of fundamental HR policies, such as those applicable to promotion, job evaluation and recruitment.

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 that CFS employees can access an information helpline and written guidelines on any pregnancy-related queries. A 'Tommy's Room' facility was launched in July 2007 in the CFS head office, available at all times for expectant employees and new mothers. To date, approximately 250 CFS employees have been sent information about the facilities.



Gender is a priority focus for the Trading Group in 2008, and gender-related business objectives for the year were signed off by the Trading Group Executive in January 2008. One objective is to create a network of senior women within the Trading Group to offer mutual support and empowerment. The first senior women networking event to help achieve this was held in April 2008, with over 40 attendees. Further work in 2008 is set to include focus group research with female middle managers, as well as work relating to lone parents, domestic violence and flexible working options (page 118).

Workforce – ethnicity

According to management information systems (40% complete), 7%¹⁴ of the Trading Group's employees are from ethnic minority groups¹⁵. In 2007, the proportion of CFS employees from ethnic minority groups totalled 5.5% (2006: 5.8%). The incomplete records for employee ethnicity at the Trading Group, although showing signs of improvement, remain a challenge for the business going forward.

BENCHMARK Ethnic minorities currently make up 6.6% of the working age population in the UK; a figure that is anticipated to increase to 8% by 2010¹⁶. to WRAP

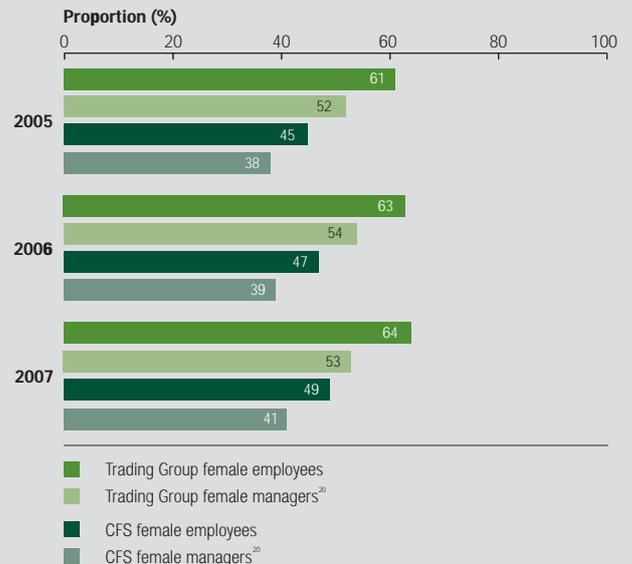
To help better understand some of the challenges faced by ethnic minority colleagues and jobseekers in the short term, and to improve engagement with the Group's diverse customer and employee base in the long term, a Trading Group race plan project was initiated in January 2007. This followed research in 2006, which continued into 2007, on the views of ethnic minority colleagues with regard to their roles in The Co-operative Food, and impact assessments of interventions, such as targeted recruitment strategies and wider community engagement in two pilot stores in Huddersfield.

Measures undertaken in 2007, as part of the race plan, included the appointment of a national account manager overseeing the promotion of Co-operative jobs to diverse groups via Jobcentre Plus, and The Co-operative Group becoming one of the founder members of the Greater Manchester Employers' Alliance¹⁷. A localised version of The Co-operative Group's internal vacancies bulletin has also been sent to a new database of around 50 organisations that specifically target Manchester's Black, Asian and Minority Ethnic (BAME) communities.

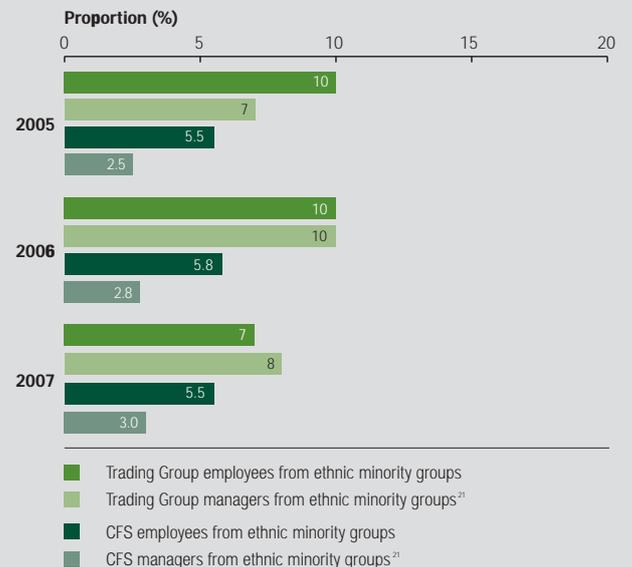
During 2006, the Group's then Chief Executive, Martin Beaumont, was involved in a National Employment Panel, launched by Gordon Brown MP, then Chancellor of the Exchequer, to develop a response to the challenge of the 16% employment gap in the UK between ethnic minority groups and their non-ethnic minority counterparts. A full report was published in October 2007¹⁸. Since the report, the Group has been involved in the development and publication of a practical toolkit, for use by organisations seeking to improve performance, particularly with respect to race equality in employment. The toolkit features work undertaken by The Co-operative Funeralcare as an example of good practice.

In August 2007, The Co-operative Group took part in the 'Moss Side Works' job fair at Manchester Academy in Moss Side. The area has the highest level of unemployment in Manchester, as well as a range of social exclusion problems, including gun crime¹⁹. Major city employers, such as The Co-operative Group, offered advice and support on job opportunities in their organisations to 240 attendees. Registration details showed that 56% of attendees were of Black, Black British, Chinese, Asian or Asian British origin, and over 60% left the event with a better understanding of the employment and career options available.

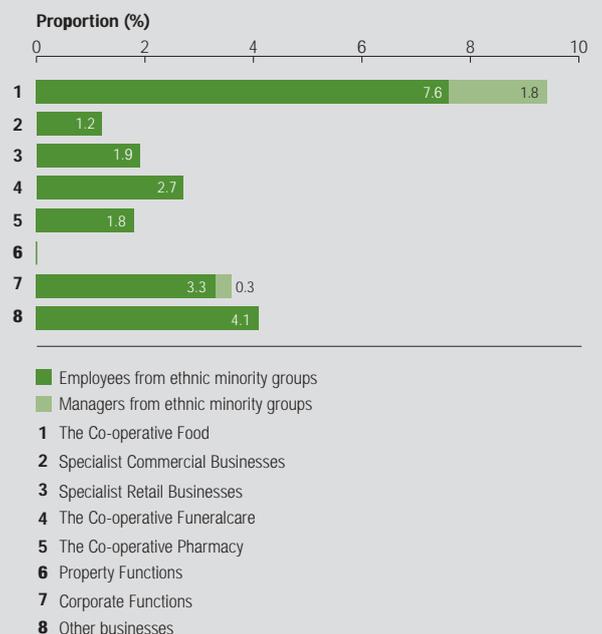
Proportion of female employees and female managers



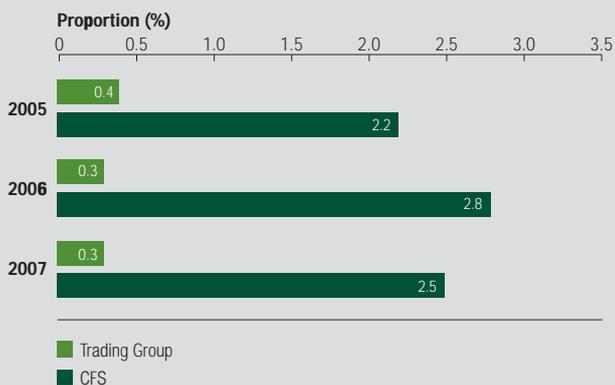
Proportion of employees and managers from ethnic minority groups



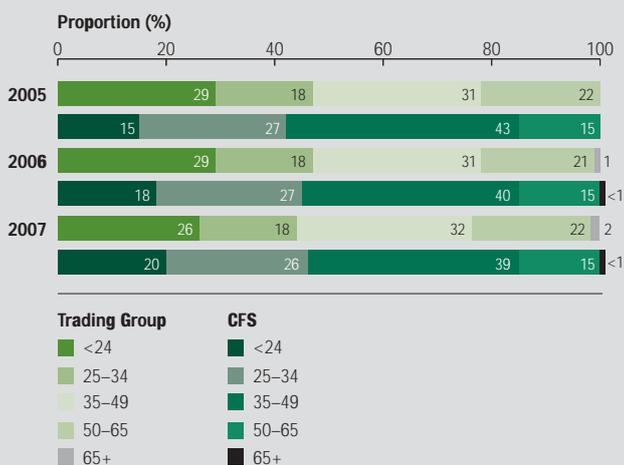
Proportion of employees and managers from ethnic minority groups by Trading Group business



Proportion of employees declaring a disability



Proportion of employees in each age band



BENCHMARK

In 2007, the Trading Group's performance was, again, submitted to Race for Opportunity (RfO) for assessment and benchmarking²². Its score increased from 72% (silver rating) to 84% (gold rating), exceeding the average score by 14%²³. The highest scores were achieved in the areas of 'leadership and business case', 'customers, clients and service users' and 'community involvement', reflecting initiatives such as the race plan and work with external recruitment bodies. RfO identified The Co-operative as one of the top five most improved private sector companies.

Workforce – disability

0.3% (2006: 0.3%) of Trading Group employees have declared a disability (based on the 57% of employees for which such information is held). CFS records show 2.5% of employees declared a disability in 2007 (2006: 2.8%).

The Group welcomes applications from people with disabilities. Disabled employees are encouraged to discuss their requirements for reasonable adjustments in the workplace with the Operational Risk (Health and Safety) team at the Trading Group and HR Advicepoint at CFS. Guidance to help support managers of colleagues with disabilities is also available. It is not possible to report on the number of workplace adjustments undertaken in 2007, as this information was not centrally collated. The Trading Group and CFS are both members of the Employers' Forum on Disability²⁴, which provides a research resource and advises on recruiting and retaining disabled employees and on serving disabled customers. The Trading Group and CFS are also holders of the 'Positive about Disabled People' symbol that signals agreement to five commitments connected with the recruitment, employment, retention and career development of disabled people.

Workforce – sexual orientation

BENCHMARK

The Trading Group was ranked 29th (2006: 77th) in Stonewall's²⁵ Workplace Equality Index 2008²⁶, with a score of 83% (2006: 67%)²⁷. This significant improvement was achieved despite an increase in the number of organisations participating²⁸. The Trading Group was recognised for its staff engagement, policies, benefits, membership activity, diversity training initiatives, networking group and advertising and sponsorship activity. The Trading Group continues to be the only retailer listed in the Top 100.

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 unlawful²⁹. In October 2006, both the Trading Group and CFS removed contractual retirement ages completely. This means employees now have the 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. Since the removal of the fixed retirement age, nearly half of Trading Group employees reaching 65 have chosen to continue working. The Group was commended in 2006

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 Pensions³⁰. The Trading Group and CFS are both members of the Employers' Forum on Age³¹ (EFA), which supports employers on age and employment issues. In October 2007, the EFA introduced a new awards programme, marking the first anniversary of the new Age Regulations. Nearly 50 submissions were made by various organisations; The Co-operative Group won an award for 'Best Private Sector Organisation' in response to its pursuit of best practice on age diversity issues. CFS won a further EFA award for retention and reward, in recognition of work done under 'Project Alliance' to harmonise terms and conditions, and address the legacy of service-related awards.

BENCHMARK 24% of Trading Group's and just over 15% of CFS' employees are over 50 years of age. Over 27% of economically active people in the UK are over 50 years of age³².

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 World Wide Web Consortium (W3C) Web Content Accessibility Guidelines (WCAG)³³ 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 'A' is considered the minimum level of compliance and 'AAA' the optimum).

The Group considers that its main website – www.co-operative.coop – meets level 'AA', and an 'accessibility page', providing guidance for site users, is available for users wishing to find out more³⁴. The website achieved the necessary requirements to display the RNIB's 'See it Right' accessibility website logo in 2007, which provides an additional third-party certification of best practice website accessibility³⁵. The logo was temporarily removed in early 2008 whilst work was underway to move the website content to a different platform, and will be reinstated once this has been completed later in the year. The membership website³⁶ has accessibility features comparable to the main Co-operative Group website, and the RNIB's website accessibility team were involved in the site's development, thereby ensuring that best practice accessibility considerations were to the fore throughout the process.

A new CFS website was developed and launched in March 2007 and The Co-operative Bank, The Co-operative Insurance and The Co-operative Investments sites were updated and relaunched in April 2008. CFS introduced an online accessibility policy in October 2007, based on the WCAG guidelines, which helped guide the development of these websites. All are considered to exceed the 'AA' standard³⁷. The Shaw Trust, a national charity providing training and work opportunities for people with disabilities, has been used by CFS to provide independent feedback on the accessibility of the CFS website and is due to undertake a similar review of The Co-operative Bank website during 2008³⁸. The smile website has also been reviewed by the Shaw Trust and will undergo improvements based on the feedback received.

Disability Discrimination Act (DDA) compliance

The final part of the UK's Disability Discrimination Act (DDA) was enacted in October 2004, and makes it unlawful for businesses and organisations providing services to treat people with disabilities less favourably for a reason related to their disability. A Compliance Review Group was established in late 2006 to help ensure that The Co-operative Group can deliver services to customers with disabilities as effectively as possible. This group meets quarterly, and includes representatives from each of the Co-operative operational business areas. During 2007, the Group undertook a DDA audit at The Co-operative Food to assess compliance, and this is due to be rolled out to other businesses in The Co-operative Group in due course. DDA audit questions have also been integrated into health and safety reports. In addition, the Compliance Review Group commissioned a mystery shopping exercise on accessibility at The Co-operative Food stores (detailed below).

The Co-operative Food store accessibility

Mystery shopping visits were undertaken during October 2007, by volunteers from Capability Scotland³⁹, to investigate the accessibility of 30 Co-operative Food stores in Scotland. Each store was visited by individuals with visual, hearing and mobility impairments, resulting in a total of 90 visits. It was concluded that stores generally had a high standard of accessibility and helpful staff. Areas for improvement identified included improving the visibility of signs; accessibility of toilets; provision of disabled car parking spaces; education of staff to increase their confidence in interacting with disabled people; and the functionality of hearing loops. These suggestions have been fed back to the business to enable appropriate follow-up action.

Funerals

The Co-operative Funeralcare commenced a multi-faith funeral project in 2005, to develop its ability to meet the funeral needs of different faiths⁴⁰. In November 2007, the Group won the Race for Opportunity (RfO) Chairman's Award for Business Impact in recognition of the work undertaken to expand the provision of ethnic minority funerals by the Funeralcare business.



With the support of the Black, Asian and Minority Ethnic (BAME) Membership Network, and Trading Group diversity team, The Co-operative Funeralcare team in the South of England has seen the number of funerals from multi-faith communities increase by 15% during 2006 alone. Work has included staff training programmes on cultural awareness, refurbishment of a funeral home in Hounslow (which involved consultation with different community faith groups), and the provision of literature in Hindi, Gujarati, Punjabi and Urdu⁴¹.

- 1 www.dwp.gov.uk/mediacentre/pressreleases/2006/feb/drc-015-090206.asp
- 2 www.theworkfoundation.com
- 3 Market Assessment International, 1998.
- 4 Office for National Statistics (January 2006) Labour Market Trends, Projections of the UK Labour Force, 2006 to 2020.
- 5 www.co-operative.coop/corporate/diversity/ and www.goodwithjobs.co.uk/equal.aspx
- 6 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.
- 7 A new human resources system is due to go live at CFS in October 2008. Work is also underway at the Trading Group to transfer all employee data onto a single human resources pay and pensions system by July 2009. Both projects should help provide a basis from which to collect more complete employee data going forward.
- 8 www.co-operative.coop/corporate/diversity
- 9 Specialist retail businesses include The Co-operative Travel, Co-operative Legal Services and End-of-Life Planning.
- 10 Office for National Statistics (February 2008) Economic and Labour Market Review.
- 11 Opportunity Now is a business-led campaign that works with employers to realise the potential of women in the workplace. The Opportunity Now benchmark is a voluntary, self-assessment survey that benchmarks management, measurement and reporting in connection with gender equality in the workplace.
- 12 Due to resource constraints, CFS did not submit an Opportunity Now benchmarking return in 2006. In 2005, it scored 83% and a gold rating (which exceeded the then financial services sector average of silver).
- 13 www.bitc.org.uk/take_action/in_the_workplace/diversity/gender/opportunity_now/exemplar_employers.html
- 14 It should, however, be noted that 6.4% of the 74% of employees who responded to Trading Group's 'Talkback' employee attitude survey identified themselves as being from an ethnic minority group.
- 15 The majority of Trading Group records (85%) relate to Co-operative Food employees, where records are held for 43% of employees. There are limited records (ranging from 70% complete for 'other businesses' to 3% complete for the Property division) for other Trading Group businesses.
- 16 Office for National Statistics (2001) Labour Market Trends census data.
- 17 A group of Manchester's largest employers, which aims to promote opportunities within the city's most disadvantaged communities.
- 18 www.dwp.gov.uk/ndpb/nep.asp
- 19 Manchester Evening News 'Bosses help tackle unemployment', 29 August 2007.
- 20 Trading Group: reported as % of female managers/all managers and where manager is taken to be any employee with 'manager' in their job title. CFS: reported as % of female managers/all managers and where manager is taken to be any employee paid £20,000 or more (excluding Co-operative Insurance Financial Advisers, who receive the majority of remuneration on the basis of commission).
- 21 Trading Group: where manager is taken to be any employee with 'manager' in their job title. Based on an assessment of 15% of all managers. 82% of these records relate to Co-operative Food managers. There are limited records (covering <25% of managers) for all Trading Group businesses. CFS: reported as % of ethnic minority managers/all managers and where 'manager' is taken to be any employee paid £20,000 or more (excluding Co-operative Insurance Financial Advisers, who receive the majority of remuneration on the basis of commission).
- 22 RfO co-ordinates a voluntary, self-assessment survey that examines how organisations are diversifying their workforce, customer base and suppliers, in respect of ethnic minority representation.
- 23 A total of 85 organisations participated in the benchmarking exercise.
- 24 www.employers-forum.co.uk
- 25 www.stonewall.org.uk. Established in 1989, Stonewall campaigns for equality for lesbians, gay men and bisexuals.
- 26 www.stonewall.org.uk/workplace/1477.asp. The Index features the top 100 employers in Britain for gay people.
- 27 CFS did not submit an entry to the Workplace Equality Index 2007.
- 28 A total of 240 organisations participated (2006: 201).
- 29 Unless it can be objectively justified.
- 30 www.co-operative.co.uk/media/news/the-co-operative-receives-positive-award
- 31 www.efa.org.uk
- 32 Office for National Statistics (January 2007), Labour Market Trends.
- 33 www.w3.org
- 34 www.co-operative.coop/help/accessibility/
- 35 The 'See it Right' standard sets a level of website accessibility that exceeds the W3C 'A' standard and is close to 'AA'.
- 36 www.co-operativemembership.coop
- 37 For instance, the sites have been built using a cascading style sheet format, making it easier for screenreaders to access; table labels and tags have been introduced; and skip navigation has been coded in, aiding navigation for users with reduced motor skills.
- 38 www.shaw-trust.org.uk
- 39 www.capability-scotland.org.uk
- 40 www.co-operative.coop/corporate/sustainability
- 41 www.co-operativefuneralcare.co.uk/organiseafuneral/multifaithfunerals
- 42 www.co-operativebank.co.uk/affinitycards
- 43 For example, through the research report, 'Crime and Prejudice', published by Victim Support in June 2006 in partnership with The Co-operative Insurance. The report describes the experiences and support needs of people who have suffered attacks because of their ethnic origin or sexual orientation. www.victimsupport.org/vs_england_wales/about_us/publications/hate_crime/crim_e_prejudice.pdf

Corporate literature and labelling

Since 1999, the Trading Group has provided information, on request, in Braille, in large print and on audio cassette. During 2007, over 8,500 such requests for information were fulfilled by the Trading Group and CFS (2006: 3,000). The increase on the previous year can partly be accounted for by the increased volume of membership literature that was requested in alternative formats. The Group includes 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 2007, Braille packaging appeared on approximately 800 own-brand product lines, which cover a wide range of products – from disinfectant to kitchen foil, and from pet food to fish.

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. In 2007, three finance opportunities were referred to the Ethical Policy Unit in connection with discrimination, of which none were declined.

Help the Aged charity credit cards

In 1998, the bank launched a range of Help the Aged charity credit cards⁴², and these raised £9,150 in 2007. This would be sufficient to buy around 100 threshold ramps, which help create a smooth passage over door thresholds.

Community involvement

Victim Support

2007 was the last year of a three-year partnership between The Co-operative Insurance and Victim Support, which successfully raised the awareness of hate crime within the UK⁴³. During the year, The Co-operative Insurance funded a toolkit for Victim Support local branches to develop and improve services for individuals and communities affected by hate crime, through access to a range of services supported by specially-trained volunteers. Further plans to train Co-operative Insurance claims handlers and enhance the service delivered to customers did not come to fruition. An outline training programme was developed, aimed at individuals affected by a range of crimes; however, its roll-out was impacted by organisational changes at the charity.

The Co-operative Loan Fund

The Co-operative Loan Fund, funded by The Co-operative Group and Midcounties Co-operative Society, supports co-operatives and social enterprises throughout the UK through the provision of accessible, ethical loan finance (page 106). Loans totalling almost £170,000 benefited projects with a diversity focus in 2007; three relating to disability and one relating to ethnicity. For example, Hackney Community Transport borrowed over £30,000 from The Co-operative Loan Fund for an initiative to help improve the quality of life of residents with mobility impairments. 'ScootAbility' is a partnership project between the London Boroughs of Camden and Islington, and Hackney Community Transport, and offers short-term loans of Personal Mobility Vehicles (including scooters and power chairs) to aid independent living. The initiative was named as London's most innovative transport project at the 2007 London Transport Awards.

Community investment

Indicators

Financial contributions: percentage pre-tax profit

Employee time: days contributed

Leverage

Materiality and strategy

The seventh co-operative principle¹, '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 8) and launched in 2006.

Five themes direct the Group's approach to community investment: climate change, social inclusion, tackling crime, food ethics 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. Climate change was selected as the lead theme during 2007, and this is reflected in the scale of investment in this area, including the £1m Green Energy for Schools programme (page 75) and the Customers Who Care campaign that sought to persuade the Government of the need for a strong Climate Change Bill (page 76).

Information on specific community projects that support the strategy is detailed throughout this report, specifically:

Modern co-operation	The Co-operative Fund The Co-operative Loan Fund C-change World Co-op Day	Pages 105–107
Food ethics	From Farm to Fork Year of Food and Farming Healthy Living events jogscotland	Pages 38–39
Social inclusion	Basic bank accounts for prisoners StreetGames Professional financial inclusion qualification	Pages 49–51
Tackling crime	Financial education in prisons Prisoners' Art Exhibition Crime prevention education for children with Asperger syndrome	Page 51
Climate change	Green Energy for Schools Customers Who Care campaign on Combating Climate Change Walking buses	Pages 75–76

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 rolling out across the country in 2008. **Dropped**

Raise £1m for The Co-operative Group's Charity of the Year, The Children's Society, and its UK partners. 

Targets 2008

Undertake in-depth consultation with members, customers and colleagues on the Group's approach to community activity, with a view to determining future policy.

Engage members and customers in the selection of the 2009 Co-operative Group Charity of the Year.

Extend the remit of The Co-operative Foundation, to enable it to make grants across the UK.

Develop a three-year strategy for The Co-operative Foundation to support projects that focus on social inclusion.

Provide financial support, through the Community Fund, to a minimum of 1,500 community groups across the UK, totalling at least £750,000.

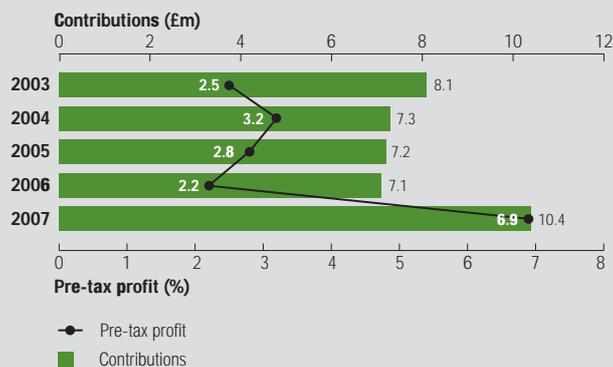
 Target achieved

 On track

 Close to target

 Behind schedule

Total community contributions⁸



Breakdown of community contributions



£10.4m

was contributed to the community by the Group in 2007, or 6.9% of pre-tax profit

64%

of community contributions made by the Group were classified as 'community investment' (long-term strategic involvement in community partnerships to address social issues)

Management

A Group-wide community and campaigns team was created in 2006, bringing together staff from the Trading Group and CFS. In 2007, the team expanded to incorporate equivalent colleagues from the community team at the former United Co-operatives; with the new team comprising 13 full-time equivalent staff (2006: 11). Alongside the delivery of the projects listed overleaf (excluding jogscotland, which is managed by Food marketing), the team is responsible for the management of four companies limited by guarantee and one fund², including three charities, which trade as: The Co-operative Community Fund³ (page 62), The Co-operative Fund⁴ (page 105), and The Co-operative Foundation⁵.

The Group measures and reports on its community contributions using the London Benchmarking Group⁶ (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.

Inputs

In 2007, the Group's contributions to the community, as recognised by the LBG, totalled £10.4m (2006: £7.1m), or 6.9% (2006: 2.2%) of pre-tax profit⁷. This significant increase in community spend can be attributed to the incorporation into the Group's total of the former United Co-operatives' community investment programmes, most notably: The Co-operative Foundation (£1.8m) and United Region membership activities (£0.8m). A further £975,000 was invested in the Co-operative Movement, via The Co-operative Fund (page 105), C-change (page 106) and support for the credit union movement (page 50). Taken together, this raises the Group's total contributions to £11.3m (2006: £8.5m) or 7.6% (2006: 2.7%) of pre-tax profit.

The 10 largest charitable contributions made by the Group in 2007 (comprising 50% of contributions) are detailed in the table opposite. The LBG model categorises contributions by their underlying motivation. In line with this classification, in 2007, 64% of LBG-verified community contributions was classified as 'community investment' (long-term strategic involvement in community partnerships to address social issues). This figure includes the Group's priority social goals projects, such as Farm to Fork (page 38), Green Energy for Schools (page 75) and StreetGames (page 51), alongside grant making funds, such as The Co-operative Foundation (page 61). A further 31% is classified as 'commercial initiatives in the community' (community activities that directly support the success of the company and promote its brand), and this includes payments made in relation to the bank's charity cards and the bank's debit and credit cards (Customers Who Care, page 63). During 2007, the bank issued credit cards for over 30 national charities/non-governmental organisations. Affinity partners receive a donation from the bank for each new card and a margin on the use of the card thereafter. During 2007, partners received a total of £1,569,891 (2006: £1,547,446). The remaining 5% is classified as 'charitable gifts' (support for charitable and community organisations in response to needs and appeals), and includes one-off support for fundraising appeals.



We measure our support for the community using the London Benchmarking Group (LBG) model

Community contributions: top 10 recipients

Project/recipient	Theme	Contribution ¹⁰
The Co-operative Foundation (below)	Modern co-operation	£1,855,000 ¹¹
Customers Who Care Combating Climate Change campaign (page 63)	Climate change	£558,000
Green Energy for Schools (page 75)	Climate change	£476,000
RSPB charity credit cards (page 90)	Environment	£472,000
The Community Fund (page 62)	Modern co-operation	£333,000 ¹²
Oxfam charity credit cards (page 21)	International development	£310,000
Membership work with schools and young people (page 106)	Education	£297,000
From Farm to Fork (page 38)	Food ethics	£295,000
Consumer Credit Counselling Service – the UK's leading debt charity	Social inclusion	£281,000
Amnesty International charity credit cards (page 21)	International development	£260,000

The Co-operative Foundation

The Co-operative Foundation is a charitable trust that was set up in 2000 and is solely funded by The Co-operative Group – United Region. Since 2000, the United Region has donated £11.9m to the Foundation; £9.6m of which has been invested in endowment funds that will generate income for future disbursement, and £2.3m of which has been directly distributed. The Foundation awards grants of £500 to £30,000 and has historically been overseen by a Board of 16 Trustees¹³.

The Co-operative Foundation seeks to support locally-led groups that can demonstrate evidence of living the co-operative values and principles of self-help, equality, democracy and concern for the community. Additionally, projects attracting funding must fall within the United Region trading area and benefit disadvantaged groups or communities.

Co-operative Foundation requests and awards		
	2006	2007
Number of requests	n/a	433
Total requested	n/a	£5,843,621
Number of awards	105	85
Total disbursed	£731,464	£895,714
Average request	n/a	£13,496
Average award	£7,085	£10,538

In 2007, the Foundation supported The Project Group (Oswestry) Ltd with a grant of £12,700. This user-led arts-based social enterprise provides a creative, progressive and entrepreneurial environment for individuals who are in touch with adult mental health services. The grant will enable the group to provide specialist craft sessions and meet ongoing running costs.



The Refugee New Arrivals Project, Sheffield, also benefited from Co-operative Foundation support in 2007 with a grant of £18,340. The project seeks to enhance the social and economic integration of refugees and asylum seekers in Sheffield, to improve their quality of life and to enable the city to benefit from their presence by better utilising their skills and experience.



A grant of £4,480 was made to Ital Therapies – a group that provides complementary therapies to adults in Stockport who are experiencing mental, physical or emotional ill health, and are on a low income or in receipt of state benefits. The grant will cover the cost of therapy equipment, towels and uniforms.



Employee time

Employees are encouraged to volunteer for the benefit of the community. During 2007, 9,898 employees registered that they had taken part in community activities, contributing the equivalent of 118,983 hours. This equates to a donation of time worth £1,450,000 (2006: £575,000). The increase can be attributed to the move towards allocating staff management time to specific projects, coupled with volunteering activity supporting the Group's Charities of the Year and overall improvements in data capture in 2007. The launch of The Co-operative Group Volunteer Programme in autumn 2007, and the promotion of a nationwide programme of team volunteering events involving members and colleagues across the family of businesses, may have also contributed. Against a target of 50 team volunteering events, 43 teams successfully completed projects in 2007 and early 2008; ranging from laying a new floor for Maymusk After School Club, Aberdeenshire, to transforming a community centre in Warwick Bridge, Carlisle, following a flood. Following the merger between United Co-operatives and The Co-operative Group in July 2007, community priorities were reassessed and, as a result, it was decided not to pursue the 2007 target to develop a programme of individual management volunteering in Manchester. Requests from management colleagues are presently being dealt with on an ad hoc basis.

	2006 ¹⁴	2007
Number of employees involved in community activity in work time	7,345	9,898
Number of days invested in community activity in work time ¹⁵	5,662	15,864
Value of staff time	£575,000	£1,450,000

Gifts in kind

In 2007, the Group's in-kind contributions (ie, those contributions of product, equipment, facilities or other non-cash items from the business to the community) totalled £219,181, with the provision of a limousine for a charitable event, the use of premises and facilities and the donation of Fairtrade goods all contributing to this total.

	2006	2007
Gifts in kind	£215,000	£219,000

Leverage

In addition to community investment made by the business directly, the Group also operates a number of programmes that facilitate charitable giving by customers, employees and members, such as The Co-operative Community Fund. The Fund is made up of donations made by members from their twice-yearly share of profits. Total leverage of £4.3m was facilitated by the Group in 2007 (2006: £1.1m), principally, through Charity of the Year fundraising (£2,900,000), mechanisms that support the Fund (£1,061,000) and through payroll giving schemes (£130,342¹⁶). The significant increase seen in 2007 can primarily be attributed to the fundraising facilitated by the Charity of the Year programme, which runs once every two years.

	2005	2006	2007
Total leverage	£3.6m	£1.1m	£4.3m

The Co-operative Community Fund

The key objective of the Community Fund is to support self-help voluntary and community groups. The fund is overseen by a group of trustees, with the Group's 45 area committees (page 101) 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 aligned to the Group's values and principles.

Community Fund requests and awards		
	2006	2007
Number of requests	4,381	4,467
Number of awards	2,163	2,270
Total disbursed	£1,242,479	£1,060,936
Average request	£1,684	£1,026
Average award	£574	£467

In 2007, 20% of funding went to 'arts and culture' projects, including drama, craftwork, music and local history projects, alongside cultural festivals. Citizenship projects – those that meet primarily for the purpose of enhancing community well-being – attracted another 20% of awards.

Nottingham Arts Theatre Ltd was awarded £4,018 in November 2007 for publicity materials, such as posters, flyers and programmes, for a local drama production.



In 2007, a grant of £500 enabled Byker project, Recycle Y'Bike, to train 10 volunteers to refurbish and recycle bikes. The majority of the refurbished bikes go to the group's community bike referral scheme, which allows people who might not be able to afford a brand new bike to buy one at a fair price, whilst the remainder are sent to Africa.



Charities of the Year

In 2007, employees raised £2.9m for the Group's Charities of the Year 2007 – The Children's Society¹⁷ and its partners¹⁸ and DiabetesUK¹⁹. The Co-operative Group and United Co-operatives were both running separate Charity of the Year schemes, prior to their merger in July 2007, though both remained operational throughout the remainder of the year.

- Against an initial target of £1.5m, employees, customers and members of the Group raised £2.3 million for The Children's Society. Fundraising activities included: The Co-operative Big Stitch – production of the world's largest Christmas stocking; an 'It's a Knockout' tournament; and sponsored bike rides and abseils, alongside in-store collections. The donation will enable The Children's Society and its partners to provide specialist support and care for over 6,000 disadvantaged children and young people nationwide, including child refugees, those with disabilities and those who have run away from home or become involved with crime. Over 40 projects across the UK will benefit from the funding.



- Against an initial target of £150,000, employees, customers and members raised over £580,000 for the former United Region's Charity of the Year 2007, DiabetesUK, through a variety of fundraising activities that included sky-diving, sponsored bike rides, dress-down days and bed races. An event held at the Reebok Stadium, Bolton, raised £250,000 in a single night. The money raised has assisted the charity's work in providing information, education and support for people living with diabetes, including children's support events – an opportunity to develop new skills, self-confidence and independence and learn more about diabetes and how to control it.

In late 2008, Group employees and members will be asked to nominate and vote for the 2009 Charity of the Year.

Influence and action

Customers Who Care

For every £100 that customers spend on Co-operative Bank credit or debit cards²⁰, 1.25p is donated to the Customers Who Care²¹ (CWC) campaign fund. Cumulatively, this fund has given over £4m in donations to over 80 charities and organisations since its launch in 1994. Customers are given the opportunity to suggest campaign themes and nominate recipient charities for fund donations. Furthermore, with its customers' support, the bank has, since 1994, campaigned on a range of important ethical issues that align with its customer-led Ethical Policy (page 40); from cluster bombs to trade justice and safer chemicals. In early 2008, the bank launched a new campaign – Defending Human Rights (page 25). The impact of the previous CWC campaign – Combating Climate Change – is reported on page 76.

- 1 www.ica.coop/coop/principles.html
- 2 Co-operative Action Limited, Co-operative Action Fund, Co-operative Community Investment Foundation, Co-operative Foundation and Co-operative Loan Fund.
- 3 www.co-operative.coop/communityfund/
- 4 www.co-operative.coop/fund
- 5 www.co-operative.coop/en/foundation
- 6 www.lbg-online.net
- 7 Of this, £3.4m was attributable to CFS: 2.2% of CFS' pre-tax profit.
- 8 Comprises contributions 'spent' in the calendar year.
- 9 Of the Group total, the following contributions were attributable to CFS: cash: £3.1m, employee time: £0.2m, gifts in kind: £0, management costs: £0.1m, bringing CFS' total community investment to £3.4m, the equivalent of 2.2% of pre-tax profit.
- 10 Contributions include cash, value of staff time, and in-kind donations.
- 11 Represents all contributions made to the fund in 2007. £895,714 was disbursed from the fund in 2007.
- 12 Represents all contributions made to the fund in 2007. £1,060,936 was disbursed from the fund in 2007.
- 13 www.co-operative.coop/ourcampaigns/modernco-operation/thecooperativesfoundation/trusteesandofficials
- 14 The 2006 employee volunteering figure was based upon staff responses to an intranet request for information on individual volunteering, and is not considered to be complete.
- 15 Where a day is considered to represent 7.5 hours.
- 16 Of which £85,000 was attributable to CFS.
- 17 www.childrensociety.org.uk
- 18 The partners are: Aberlour in Scotland, Extern in Northern Ireland, and Tros Gynnal in Wales.
- 19 www.diabetes.org.uk
- 20 With the exception of the bank's affinity cards (page 60).
- 21 www.co-operativebank.co.uk/cwc

£2.9m

raised for the Group's Charities of the Year 2007

Ecological sustainability

- 66 Climate change
- 79 Waste and packaging
- 86 Biodiversity
- 93 Persistent, bioaccumulative and toxic (PBT) chemicals

Since 2003, our greenhouse gas emissions have been

reduced by 38%

Climate change is the Group's number one environmental priority. Our approach to the issue is five-fold; embracing energy efficiency, supporting renewable energy, carbon offsetting, the provision of finance and public policy lobbying.

4%

decrease in energy use
in 2007

48%

waste re-used/recycled
in 2007

25
thousand

hectares farmed by us

122

pesticides prohibited for
use on own-brand food

Approach to ecological sustainability

Strategy

2007 saw a marked shift in the importance of environmental issues for business. With oil prices breaking through \$100 a barrel and the landfill tax escalator increasing to £8 a tonne per year, UK businesses are now facing real, commercial pressure to reduce their resource consumption and waste generation. In response to these pressures, and in the face of growing customer demands, 2007 also saw an almost unrelenting series of promises to improve future environmental performance from business. Most notably, companies across the food retail sector issued numerous commitments to become greener in the years to come.

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. In the 2007 Co-operative Food Ethical Policy consultation, members identified ‘the environment’ as one of their top three priority areas¹. In addition, millions of CFS customers have been consulted as part of bank and Co-operative Insurance’s Ethical Policy consultations² and have endorsed a series of environmental positions.

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

In 2007, the Group’s Environment Team was increased from four to five people, and an Environmental Advisory Committee was formed as a sub-committee of the Group Values & Principles Committee to oversee strategy implementation³.

The Natural Step Framework⁴ continued to be utilised as a set of guiding principles when evaluating complex environmental issues across the Group’s businesses.

In August 2007, 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 2007, 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.

Recognition

- Research undertaken by Trucost for the BBC’s Money Programme⁶ identified the Group as the greenest retailer on the high street, based on greenhouse gas emissions and waste arisings;
- Survey for The Times conducted by Populus⁷ saw consumers rank ‘the Co-op’ higher than any other retailer in terms of action to address social and environmental issues;
- Group received ‘gold’ rating in Business in the Community’s Environment Index; CFS maintained its ‘platinum’ rating, scoring 99%⁸;
- Group received Queen’s Award for Enterprise (Sustainable Development Category) (page 9);
- Group received Business Commitment to the Environment’s Peter Parker Award (2007);
- Group received Renewable Energy Association’s Pioneer Award (2007) (page 69);
- The European Business Awards for the Environment Management Award (2008)⁹ awarded to Group;
- Group named The Grocer Green Retailer of the Year Award (2008)¹⁰;
- Business in the Community’s International Climate Change Award (2008) awarded to Group (page 67)¹¹;
- CFS ranked first in ‘bigger companies with a medium environmental impact’ category and third overall in inaugural Sunday Times Best Green Companies list (2008)¹².

1 www.co-operativemembership.coop/en/food/ethics/

2 www.cfs.co.uk/sustainability2005

3 For the Environmental Advisory Committee’s Terms of Reference and membership, see www.co-operative.coop/corporate/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. www.forumforthefuture.org/our-approach/tools-and-methodologies/TNS

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

6 www.bbc.co.uk/pressoffice/pressreleases/stories/2007/06_june/28/money.shtml

7 Hawkes, S (2008) Shoppers say no to plastic bag levy to tackle climate change, The Times, 2 April 2008, p.48.

8 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. Businesses publicly participated in the Index in 2007. www.bitc.org.uk/take_action/in_the_environment/getting_involved/in_the_environment_index/index_results.html

9 http://ec.europa.eu/environment/awards/entries_2008winners_en.htm

10 www.thegrocergoldawards.co.uk/page/2008_winners.html

11 www.bitc.org.uk/what_we_do/awards_for_excellence/awards_for_excellence_winners/excellence2008.html

12 www.bestgreencompanies.co.uk/WinningResults.asp

2007 targets

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 levels³. =

Progress carbon footprinting pilot project with the Carbon Trust. ✓

Expand the range of energy-efficient products for sale within The Co-operative Food stores. ✓

Achieve carbon neutrality across The Co-operative Financial Services (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. ✓

2008 targets

Reduce energy consumption by 20% by 2010 and 25% by 2012, based on 2006 levels.

Generate 15% of energy requirements from sustainable energy sources by 2012, based on 2006 levels.

Reduce greenhouse gas emissions from refrigeration in The Co-operative Food stores by 20% by 2011, based on 2007 levels.

Reduce transport CO₂ emissions from The Co-operative Food's distribution fleet by 15% by 2013, based on 2005 levels.

Continue to progress carbon footprinting case studies.

Maintain carbon neutrality across CFS while offsetting an additional 10% to account for legacy issues.

Achieve carbon neutrality for operations at The Co-operative Travel and The Co-operative Clothing.

Relaunch the customer flight offsetting proposition at The Co-operative Travel.

Complete the installation of photovoltaic panels at 100 schools and extend the Green Energy for Schools programme to include wind turbines, biomass boilers and ground source heat pumps.

Relaunch the Climate Change Challenge pledge scheme within The Co-operative Membership.

✓ Target achieved

= On track

» Close to target

< Behind schedule

Climate change

Indicators

Energy: carbon dioxide emissions

Energy usage

Transport: distribution/business mileage

Transport: carbon dioxide emissions

Carbon offset: products and operations

Background

The Co-operative Group has, arguably, done as much as any other UK business to tackle its contribution to climate change. 2007 was a year of significant advances in both the scientific understanding of climate change and its importance as an urgent political issue. Early in 2007, the United Nations Intergovernmental Panel on Climate Change Fourth Assessment Report¹ 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 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).

Following this, a 'road map' to a global deal on greenhouse gas emissions was agreed at the United Nations Climate Change Conference in Bali², with a view to it being finalised by the end of 2009.

Materiality and strategy

The Group has a number of operations that emit significant quantities of greenhouse gases (GHGs), the most significant of which is The Co-operative Food.

The Co-operative Group, like any other business, will be subject to the impacts of climate change across its operations and activities. In 2007, the UK's second warmest year on record⁴, The Co-operative Group suffered from the impacts of adverse weather and flooding. In particular, The Co-operative Insurance received flood and adverse weather claims of £37m and The Co-operative Farms lost crops and faced difficulties in harvesting produce.

The Group's Environmental Strategy, which is agreed via its member-controlled Group Values & Principles Committee (page 8), continues to identify climate change as the Group's top environmental priority. In the 2007 Co-operative Food Ethical Policy Consultation (page 9), 97% of members endorsed the Group's commitment to reduce the carbon footprint of its products. CFS' commitment to tackling climate change has been endorsed by customers as part of the most recent Ethical Policy reviews: 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 The 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.

Climate change is increasingly the subject of sector-wide agreements and initiatives. In 2007, The Co-operative Insurance became a founder partner of the Association of British Insurers' Climate Wise Initiative, which aims to encourage the UK's insurance sector to better measure and address climate change impacts, adaptation and mitigation⁵. In early 2008, The Co-operative Food became a signatory to the British Retail Consortium's 'A Better Retailing Climate' initiative, which sets out a series of voluntary targets for retailers to reduce their environmental impact; manage climate risks; help customers and suppliers to reduce their impacts and vulnerabilities; engage in public policy debates, and report transparently⁶.

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

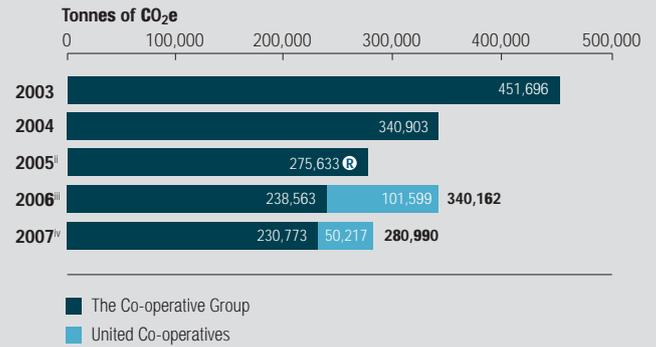
Performance overview

Net greenhouse gas emissions across The Co-operative Group were 38% lower in 2007 compared to the 2003 baseline. This is despite the merger with United Co-operatives in 2007, which added another 1,150 premises and substantial distribution activities. Comparing like-for-like data (ie, excluding emissions from United Co-operatives' operations) emissions were 49% lower in 2007 compared to the 2003 baseline. In light of the merger, emissions data has been normalised, in terms of tonnes of carbon dioxide equivalent (CO₂e) per £m of turnover. Using this methodology, emissions dropped by 45% between 2003 and 2007 from 56tCO₂e/£m to 30tCO₂e/£m.

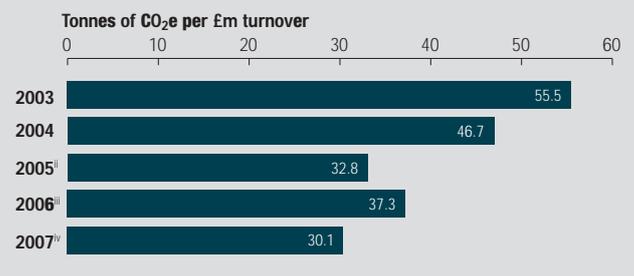
45%

reduction in tonnes of carbon dioxide equivalent per £m turnover 2003

Net greenhouse gas emissions connected with premises, transport and refrigerants (tonnes of CO₂e)



Net greenhouse gas emissions connected with premises, transport and refrigerants (tonnes of CO₂e per £m turnover)



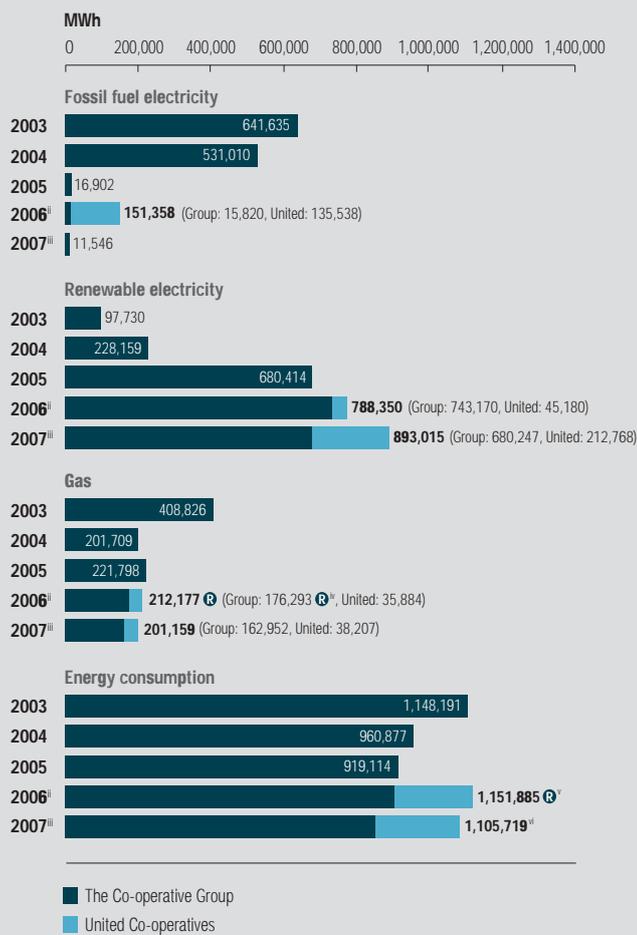
Footnotes for graph only

- i Carbon dioxide equivalent (CO₂e) is used to compare the Global Warming Potential (GWP) of different greenhouse gases (Methane (CH₄), Nitrous Oxide (N₂O), Hydrofluorocarbons (HFCs), Perfluorocarbons (PFCs), Sulphur Hexafluoride (SF₆), relative to CO₂. For example, CO₂ has a GWP of one, whilst N₂O has a GWP of 310.
- ii Data includes Group Co-operative Food refrigerant losses equivalent to 87,666 tonnes of CO₂ and United Co-operatives Food refrigerant losses equivalent to 21,531 tonnes of CO₂. This data was not available prior to 2005.
- iii Data includes energy consumption, transport and refrigerant related emissions for The Co-operative Group and United Co-operatives. Note: transport data was unavailable for United Co-operatives for 2006, necessitating the use of 2007 data as a proxy.
- iv Data includes energy consumption, transport and refrigerant related emissions for The Co-operative Group and United Co-operatives. Figures for 2007 include 18,871 tonnes of CO₂e offset by CFS for 110% of its remaining emissions and 44 tonnes of CO₂e offset for its greenhouse gas emissions from air conditioning. A further 1,000 tonnes of CO₂e was offset by Group Business air travel. Greenhouse gas emissions for CFS prior to offsetting were 13,700 in 2007 (2006: 14,699; 2005: 16,833; 2004: 21,380; and 2003: 23,879). Total emissions for The Co-operative Group and United Co-operatives, excluding any offsetting, were 300,905 tonnes of CO₂e.

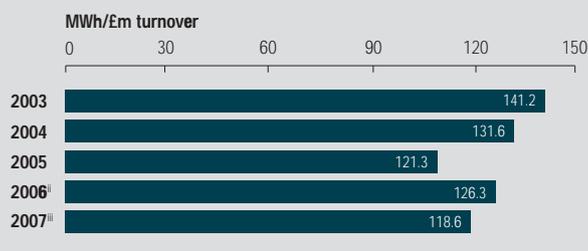
In recognition of the Group's holistic approach to addressing climate change, it was awarded Business in the Community's International Climate Change Award in July 2008⁷.



Energy usage of premises, type and associated carbon dioxide emissionsⁱ



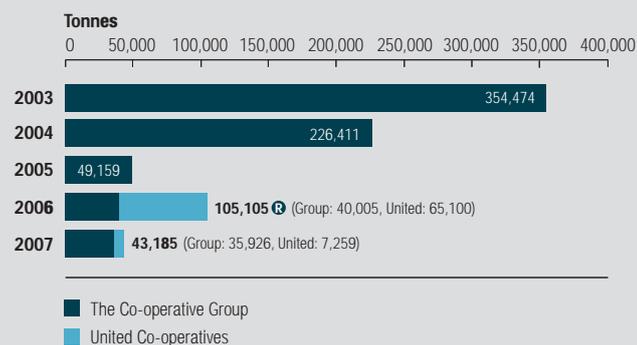
Energy consumption per £m turnover



Footnotes for graphs only

- i Includes the vast majority of The Group's energy-related consumption, with the exception of oil. Data considered to be 99% complete.
- ii Data for United Co-operatives became available from 2006 onwards.
- iii Data for 2007 covers all Group businesses (with the exception of The Co-operative Legal Services) and is considered to be 99% complete.
- iv Restated to include additional data for CFS, which was previously unavailable in 2006.
- v Group: 935,283, United: 216,602.
- vi Group: 854,745, United: 250,974.

Total CO₂ emissions from energy consumption (tonnes)



Energy

Energy usage

The Co-operative Bank, The Co-operative Insurance and the Trading Group have reported on their energy consumption and CO₂ emissions since 1998, 2000 and 2003 respectively. Energy consumption and CO₂ emissions data have been captured for former United Co-operatives premises since 2006. During 2006, and into 2007, 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 2,000 of The Co-operative Food's 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 considered to be 99% complete.

During 2007, energy consumption across the Group (comparing all Group and former United Co-operatives premises) decreased by 4% compared with 2006. There was a 4% decrease in electricity usage and a 5% decrease in gas usage. Comparing like-for-like data (ie, excluding former United Co-operatives), energy consumption decreased by nearly 9% compared to 2006. CFS' overall energy consumption dropped by 6% in 2007, compared to 2006, and has dropped by 16% since 2003. As a result of the increased use of renewable electricity at the former United Co-operatives premises, the Group's net CO₂ emissions from energy consumption in 2007 decreased by 59% compared with 2006. In addition, and despite the additional 1,150 premises that the Group now owns, following the merger, emissions from energy consumption have decreased by 88% compared with a 2003 baseline. In light of the merger, an attempt has been made to normalise energy consumption data, through expressing it in terms of energy used per £m of turnover. Using this methodology, energy consumption dropped from 141MWh/£m in 2003 to 119MWh/£m in 2007.

Energy strategy

Following a study undertaken in conjunction with the Carbon Trust⁸, The Co-operative Group has committed to reduce its energy consumption by 25% by 2012, based on 2006 levels, and to generate 15% of its energy from its own renewable sources. The strategy focuses on The Co-operative Food's stores, distribution and the Group's head office operations, which comprise over 90% of the Group's energy use. Within The Co-operative Food, there are three areas of focus: the encouragement of staff behavioural change and better housekeeping; amendments to the standard ongoing refit programme; and a retrofit programme designed to reduce energy at the 300 most energy-intensive stores. Capital expenditure of £7m was committed in 2007 to support the retrofit programme.

Initiatives delivered in 2007 include:

- installing improved building control systems in larger stores, which reduce electricity consumption by an average of 10%;
- improvements to fridges, including controls and night blinds in over 320 stores (with a further 80 stores completed by the first quarter of 2008); and
- removing over 10,000 inefficient fluorescent tubes from food stores.

In addition, five dedicated regional energy managers were recruited in 2007 and a system was implemented where responsibility for energy efficiency has been cascaded through the management structure of The Co-operative Food⁹. As a result of this activity, electricity consumption was reduced by an average of 15% in the 251 stores refitted in 2007, and electricity consumption in the 1,600 food stores owned by The Co-operative Group prior to the merger with United Co-operatives was just over 4% lower than in 2006. By the first quarter of 2008, electricity consumption in these stores was nearly 10% lower than in the first quarter of 2006. Going forward, a further £11m capital budget and £1m revenue budget have been committed to deliver the Group's target of reducing its energy consumption by 20% by 2010.

Green electricity procurement

During 2007, virtually all (over 99%) of the electricity supplied to the Group (some 893,014,500kWh, or 893GWh) was sourced from good quality renewable sources – exclusively wind and hydro technologies¹⁰. This makes the Group one of the largest purchasers of green electricity in the world, and supports annual CO₂ savings of 384,000 tonnes. In addition, the Group has negotiated equivalent green electricity contracts (271GWh) on behalf of 22 independent co-operative societies. Securing good quality green electricity contracts is becoming increasingly difficult, as more and more organisations look to reduce their environmental impacts. In addition, there is a growing concern that the good intentions of green electricity procurers may not prompt further growth in the UK's renewable generation capacity – some suppliers charge a premium for green electricity that they are effectively obliged to generate anyway, due to legislative requirements. With this in mind, in September 2004, CFS agreed an innovative £4m eight-year green electricity purchase agreement. This long-term off-site commitment – the first of its kind – enabled green electricity generator, ecotricity, to finance the construction of six new wind turbines in Lincolnshire. The supply arrangement meets a quarter of CFS' electricity requirement (some 9GWh each year) and results in 3,870 tonnes of annual CO₂ savings.

In 2003, The Co-operative Insurance became the first institutional property investor to transfer all contracts held for its investment property portfolio to green electricity. The 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, The 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 9GWh in 2007 (2006: 11.1GWh).

On-site renewables generation

The Co-operative Group has made significant progress in the development of its own renewables capacity. In April 2008, planning permission was given for a 28MW, 14-turbine wind farm on Group land in Goole, Humberside. This will be capable of supplying enough electricity to power more than 16,000 homes annually, with completion anticipated in 2009/10. Goole wind farm follows on from the 'switch on', in July 2006, of a 16MW, eight-turbine wind farm on Group farming land at Coldham, Cambridgeshire. All output from this wind farm is paired with the Group's head office in Manchester, and other locations. In May 2008, the Group gained planning permission for a seven-turbine extension to Coldham wind farm. When completed, Coldham and Goole wind farms should supply 15%

of the Group's electricity requirements. Output from the Group's own renewable energy installations in 2007 was approximately 34,000MWh. This represents 3% of the Group's energy requirements, based on 2006 levels.

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 potential¹¹, then far-sighted supporters are needed. In 2007, the following micro-generation projects were completed:

- a photovoltaic roof was installed on the atrium of a refurbished food store in Wadebridge in Cornwall;
- a biomass boiler, with integrated solar water-heating system, was installed at the Group's head office recycling centre; and
- 19 replacement micro-wind turbines were installed on the roof of the 13-storey Portland Street building in Manchester, in August 2007¹².

In early 2008, the Group agreed to purchase electricity via a private wire to its local Food store from a co-operatively owned small-hydro project in New Mills, Derbyshire. The Co-operative Bank will be the principal lender to this project and a grant of £45,000 was provided from The Co-operative Fund (page 105).

This work to develop micro-generation across the Group follows on from the Solar Tower project, the UK's largest photovoltaic installation. It is intended that further micro-generation projects will be pursued where viable.

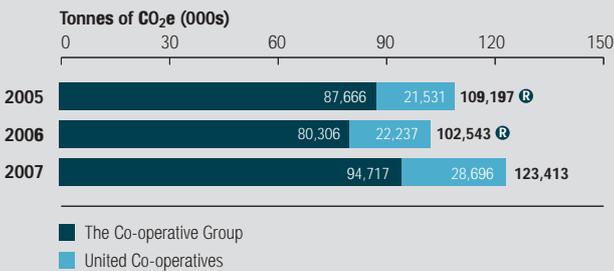
The Solar Tower project, completed in May 2006, is the UK's largest-ever solar power installation and was visited by the UK's then Prime Minister, the Rt Hon Tony Blair MP, in 2005. This £5.5m project has transformed the 400ft, 25-storey landmark Co-operative Insurance tower into a facility capable of 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 CO₂ 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.



Refrigerant gas 'leaks' (tonnes)ⁱ



Net GWP (tonnes of CO₂e)ⁱ



Footnote for graphs only

ⁱ Restated to include refrigerant leaks data from United Co-operatives.

Refrigeration

The Co-operative Food refrigerants

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 (c30%) of existing cooling equipment relies on hydrochlorofluorocarbons (HCFCs), which are potent ozone depletors; however, legislation requires that usage of these be phased out by 1 January 2010. More energy-efficient hydrofluorocarbon (HFC) units are now used and, in 2007, 375 stores were refitted with this equipment, with a further 700 stores planned for refit in both 2008 and 2009. Additionally, research continues into more benign non-HFC cooling technologies.



For example, in July 2007, a new flagship Food store in Manchester became the first in the UK to utilise solely carbon dioxide as a refrigerant in fridge and freezer cabinets (and air conditioning in-store also utilised hydrocarbon refrigerants). This project received the Green End-User of the Year Award, within the small projects category, at the Cooling Industry Awards 2008¹³.

Since 2005, a small increase (2%) in refrigerant leakages across The Co-operative Food has resulted in a 13% increase in its reported net global warming potential (GWP) tonnes of CO₂ equivalent. In 2007, refrigerant gas leakage was 41.25 tonnes with a GWP equivalent to 123,413 tonnes of CO₂. This is compared to 36.92 tonnes^R with a GWP equivalent to 102,543 tonnes^R of CO₂ in 2006 and 40.51 tonnes^R with a GWP equivalent to 109,197 tonnes^R of CO₂ in 2005.

CFS air conditioning

Prior to 2000, CFS' air conditioning systems were dominated by chlorofluorocarbons (CFCs), HCFCs and 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 2007, HCFC/HFC air conditioning units were replaced with hydrocarbon (HC) systems at three Co-operative Bank branches. This led to the removal of 21kg of HCFC/HFC gasses with a global warming potential (GWP) of 34 tonnes of CO₂, and the introduction of 15kg of HC gasses with a GWP of just 50kg of CO₂. During 2007, 36.7kg of refrigerant gases (including 25.7kg of organohalogens) were released through leakages at CFS' head office premises. In total, the GWP of the gases released was equivalent to 44 tonnes of CO₂. CFS has a commitment to offset the greenhouse gas emissions arising from air conditioning in its head office premises. To this end, a payment has been made to Climate Care¹⁴.

Transport

Distribution/business mileage and emissions

The Co-operative Bank, The Co-operative Insurance and the Trading Group have reported on their transport impacts since 1997, 2000 and 2003 respectively. Data for United Co-operatives' transport impacts is unavailable prior to 2007. Accounting systems connected with road distribution capture The Co-operative Food, CFS, and, for the first time, The Co-operative Clothing. Fleet mileage data for The Co-operative Funeralcare was not available in 2007; therefore, data from 2006 was substituted in this case. Information is also captured for rail, air, company car, business mileage in employees' own cars and hire car journeys undertaken by the Group's office-based employees. In summary, the Group's transport-related CO₂ accounting systems are now considered to be 90% complete.

The Group cannot yet evidence, over time, systematic mileage or CO₂ reductions in connection with transport, although a number of projects to reduce this impact have been progressed.

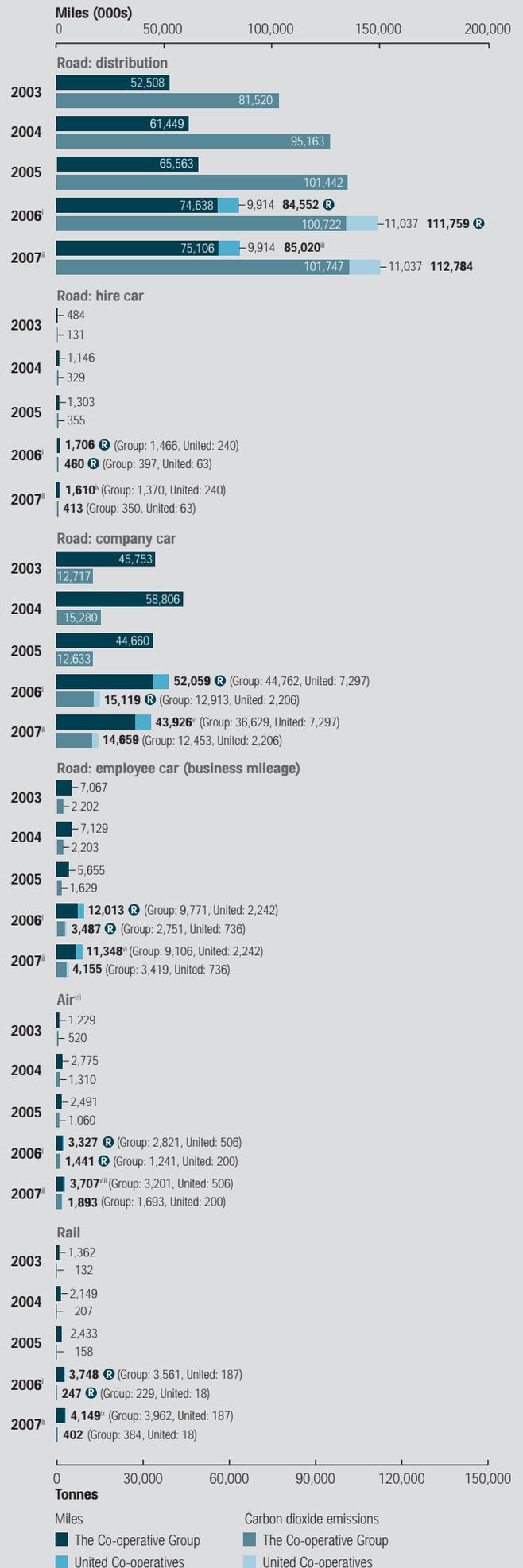
Across the Group, reported CO₂ emissions connected with transport increased by 1% and total mileage decreased by 5% (some 7.6 million miles), during 2007. The small increase in reported CO₂ emissions is as a result of changes to conversion factors in Defra's guidance for company reporting of greenhouse gas emissions¹⁵. The decrease in mileage is due to a decrease in company car mileage of 8.1 million miles, when compared to 2006. Comparing like-for-like data (ie, excluding former United Co-operatives), CO₂ emissions connected with transport increased by 2% and total mileage decreased by 6% compared to 2006.

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 (Alfreton and Cumbernauld) and, in 2007, 385 tonnes of CNG were utilised (2006: 686 tonnes), displacing 509,000 litres of diesel and saving 317 tonnes of CO₂. 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 970 vehicles. The fleet includes 40 double-decker trailers, 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. In 2008, The Co-operative Food became a signatory to the British Retailing Consortium's 'A Better Retailing Climate' initiative, and committed to a 15% reduction in CO₂ emissions from its distribution activities by 2013 based on 2005 levels.

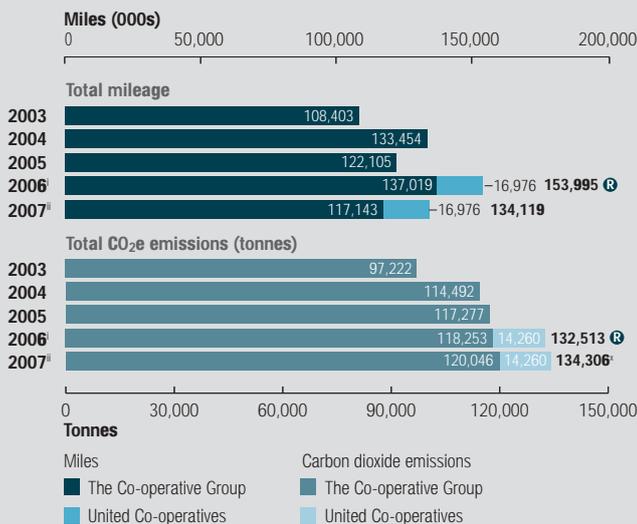


Transport, mileage and carbon dioxide emissions

(Footnotes overleaf)



Transport, mileage and carbon dioxide emissions (cont.)



Footnotes for graphs only (pages 71 and 72)

- i Transport data was unavailable for United Co-operatives for 2006, necessitating the use of 2007 data as a proxy. Data is considered to be 90% complete.
- ii Data for 2007 covers all Group businesses and is considered to be 90% complete.
- iii Data for 2007 covers The Co-operative Food, The Co-operative Funeralcare, CFS and The Co-operative Clothing and is considered to be 80% complete. Note hearse mileage data was unavailable for Group Co-operative Funeralcare for 2007, necessitating the use of 2006 data as a proxy. Data for United Co-operatives Funerals extrapolated from Group Co-operative Funerals data.
- iv Data for 2007 covers all Group businesses (with the exception of The Co-operative Legal Services and E-Store) and is considered to be 95% complete. Note data for United Co-operatives Food, Funeralcare, Healthcare and Travel extrapolated from Group Co-operative Food, Funerals, Healthcare and Travel data.
- v Data for 2007 covers all Group businesses and is considered to be 95% complete. Note data for The Co-operative Food is extrapolated from 40% of expenses claim form returns. Data for CFS includes, company cars, Co-operative Insurance Financial Advisers' mileage (extrapolated from 20% driver returns) and mileage from six vans. Data for Group Co-operative Healthcare extrapolated from United Co-operatives Healthcare data.
- vi Data for 2007 covers all Group businesses and is considered to be 95% complete. Note data for The Co-operative Food is extrapolated from 11% of expenses claim form returns. Data for Group Co-operative Healthcare extrapolated from United Co-operatives Healthcare data.
- vii Aviation is different from other energy-using activities as the majority of emissions occur at altitude, are responsible for other atmospheric chemical processes that also have atmospheric warming consequences, and are comprised of N₂O as well as CO₂. The Co-operative Group has chosen to use a multiplier of two to attempt to account for the enhanced effects of aviation.
- viii Data for 2007 covers all Group businesses (with the exception of E-Store) and is considered to be 95% complete. Note data for Group Co-operative Travel extrapolated from United Co-operatives Travel data.
- ix Data for 2007 covers all Group businesses (with the exception of E-Store) and is considered to be 95% complete. Note data for Group Co-operative Travel extrapolated from United Co-operatives Travel data.
- x CO₂/CO₂e emissions are calculated by applying relevant 'conversion factors' for each mode of transport to the distance travelled.

During 2007, CFS' business mileage decreased by 13%, compared with 2006, and by 34%, or 6.5 million miles, when compared with 2000¹⁶. External mail freight (measured in tonnes of CO₂) remained static, compared with 2006. The Co-operative Insurance's Financial Advisers' reported mileage and associated CO₂ emissions reduced by 20% and 14% respectively. Overall CO₂ emissions¹⁷ from transport at CFS increased by 1%, compared with 2006, but were still 16%, or 1,030 tonnes, lower when compared with 2000. Despite the 13% decrease in CFS' overall business mileage, its reported CO₂ emissions actually increased by 1%; this is as a result of changes to conversion factors in Defra's guidance for company reporting of greenhouse gas emissions¹⁸. In addition, CFS' decrease in business mileage is largely attributable to reduced staff members.

In early 2008, a new policy was agreed for the c.200 job requirement cars within CFS: these must now have CO₂ emissions of less than 150g/km and diesels must meet the Euro5 clean burn standard or have particulate filters. It is intended that the CO₂ cap will be reduced to 145g/km by 2010 and 140g/km by 2012.

In 2007, 178 interest-free loans (with a value of £188,000) (2006: 276, with a value of £254,000) were taken up by Group employees for public transport season tickets.

Biofuels

As one of the UK's largest farmers, The Co-operative Farms has a significant area (3,256 hectares) committed to oilseed rape. Its output in 2007 of over 9,750 tonnes was used in biodiesel production, via the trading of equivalent amounts in other countries.

With regard to the Group's distribution activities, the decision was taken in 2007 not to actively pursue biofuel use. This is in recognition of the adverse environmental impacts that certain biofuels feedstocks can lead to and the opaque nature of much of the biofuels supply chain, which makes selection of feedstocks that meet sustainability criteria all but impossible. In 2007, the Group responded to a UK Government consultation on this subject and was involved in related lobbying activity on the Renewable Transport Fuels Obligation (RTFO) (page 91).

Food miles and 'considered carbon'

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 research¹⁹ has shown that, when the whole product lifecycle (ie, cultivation, 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 UK²⁰. In addition, for some products, food miles can have ethical as well as environmental impacts. The UK Department for International Development (DfID) 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 emissions²¹. The drive to reduce carbon emissions can, therefore, in many cases, result in unintended consequences, particularly to the detriment of

the developing world. In response, The Co-operative Group has committed to reduce carbon but never at the expense of the world's poorest. This will be achieved through employing the following measures and policies:

- in parallel to improving ability to account for, manage and reduce carbon within the Group's supply chain, the Group will also aim to gain a better understanding and advancement of human development accounting and labelling;
- the Group will only commit to operationalise carbon labelling at such a time as it is also possible to operationalise 'development labelling';
- the Group will argue against any unmerited focus being given to mode of travel (particularly air freight) or food miles – be it in terms of labelling or broad reduction targets;
- the Group will work with organisations, such as DfID, to explore and develop new standards for air-freighted African produce (page 24), especially where the total carbon footprint is lower than European equivalents; and
- the Group will continue to support significant local sourcing initiatives, whilst noting that these are driven not by a concern for food miles or carbon reduction, but the desire of some customers to support local, UK products.

Carbon footprinting

In early 2007, The Co-operative Food agreed to work with the Carbon Trust to ascertain the carbon embodied within one of its products, and at the same time to participate in the development of the Trust's new carbon footprinting methodology²². The project evaluated two types of strawberry sold in The Co-operative Food: 'Ava' strawberries, from The Co-operative Farms' Blairgowrie farm, Scotland, and 'Sabrosa' strawberries from Spain. In August 2008, using a draft version of the PAS 2050 methodology, it was estimated that the carbon embodied within a 400g punnet of the two strawberry varieties was 850g CO₂e and 600g CO₂e for the Scottish and Spanish strawberries respectively. Analysis showed that emission sources within the lifecycle of the two strawberry varieties varied significantly. In the case of the Scottish strawberries, the majority of emissions were associated with cultivation (64%), due to the use of peat as a growth media and its high embodied carbon. In the case of the Spanish strawberries, the most significant emission source was transport (37%), followed closely by cultivation (31%).



In 2008, carbon reduction opportunities will be explored within the supply chains of both strawberry varieties with a view to implementation in the next growing season in 2009. In addition, The Co-operative Group will pursue further research to understand the carbon embodied within other food products.

Carbon offset – products and operations

In 2007, the Group saw substantial growth in the total amount of carbon dioxide offset across its range of products and services with a carbon offset element. Carbon offsetting has been a standard feature of all The Co-operative Bank's mortgages since 2000 and accounts for the bulk of the Group's offset payments in 2007. Every year that a customer holds a mortgage, the bank pays to offset a fifth of a typical UK home's CO₂ emissions.

In 2007, The Co-operative Insurance continued to provide an offset as part of its ecoinsurance product. This was the UK's first motor insurance policy to include carbon offset as standard, when it was introduced in May 2006. For each year that a policy is held, The 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 early 2008, The Co-operative Insurance launched carbon offset as a standard feature of most new car insurance policies.

In 2007, The Co-operative Travel continued to sell carbon offsets at its branches (an initiative that was launched in October 2006). Offsets are sold in a series of bands, based on distance flown²³. For example, a return flight to mainland Spain would fall into band one and cost £3, whilst a return flight to Australia would fall into band eight and cost £50.

In March 2007, CFS went '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 these offset monies were 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 in Uganda. CFS has maintained its policy of offsetting 110% of its remaining emissions in 2008. Furthermore, in 2007, emissions from all Group business flights were offset for the first time, and it is intended that this will be repeated in 2008. In early 2008, The Co-operative Travel and The Co-operative Clothing became carbon neutral by offsetting all of their remaining operational and business travel emissions.

During 2007, a total of 68,600 tonnes of CO₂ offset were purchased (2006: 49,200 [®]). Reductions were realised via the following projects delivered by Climate Care²⁴.

- The reforestation of 34 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 232 hectares, equivalent in area to 8,880 tennis courts. The 34 hectares reforested in 2007 will, ultimately, sequester 13,700 tonnes of CO₂. Further details of the Kibale project are provided on page 23.

- The construction of household biogas systems to provide renewable cooking fuel around Ranthambore National Park in India. Ranthambore is one of the world's largest tiger reserves, but the illegal gathering of wood for cooking is putting the tigers' habitat under threat. In 2007, offset monies helped to fund the construction of 75 biogas systems, and will avoid emissions of 7,500 tonnes of CO₂ over nine years.



- The provision of energy-efficient cooking stoves in Cambodia. This reduces the amount of wood needed for cooking, which means less carbon dioxide is released from the stoves. The reduced demand for wood also helps to protect Cambodia's forests. In 2007, offset monies helped to fund the construction and supply of over 21,600 stoves, and will avoid emissions of 32,500 tonnes of CO₂ over three years.



- The provision of treadle pumps in West Bengal, India. These manual pumps are used to irrigate fields outside of the monsoon season. They provide a more sustainable and affordable alternative to expensive diesel-powered pumps, and can be used all year round, increasing productivity and bringing much needed additional income to farming families. In 2007, offset monies funded approximately 29,500 treadle pumps, which will avoid emissions of 13,300 tonnes of CO₂ over four years.
- The partial funding of a wind farm in Saihanba, China. The funding consisted of a contribution towards the capital cost of the wind turbines, avoiding emissions of 1,600 tonnes of CO₂ during 2007.

Going forward, The Co-operative Group will continue to place c80% of its offsetting portfolio into energy efficiency and renewable energy projects. 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 deforestation²⁵.

Other products and services

Energy-inefficient goods

White goods and domestic lighting account for 56% of all domestic electricity consumption in the UK²⁶. Early in 2007, The Co-operative Food became the first major food retailer to commit to only stocking white goods (eg, fridges, freezers and washing machines) which are energy rated 'A' or above, or Energy Saving Recommended. 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)²⁷. In addition, this was recognised at the UK CEED National Energy Efficiency Awards 2007, where The Co-operative was 'highly commended' for its actions²⁸. Also in 2007, The Co-operative Food committed to phase out the sale of tungsten incandescent light bulbs by no later than 2010. Between November 2007 and April 2008, the phase-out was piloted at 50 stores, with the intention of extending across The Co-operative Food, pending customer acceptance and sufficient availability of more energy-efficient alternatives. Conditions are not currently considered appropriate to implement the phase-out during 2008. In parallel, during 2007, The Co-operative Food's range of energy-efficient lighting products increased from four to 19, the depth of distribution was increased and the price differential with less efficient traditional models reduced. Furthermore, a series of 'buy-one-get-one-free' promotions was delivered to encourage uptake. If all UK retailers were to phase out the least efficient white goods and lighting products, CO₂ emissions would be reduced by over six million tonnes per annum – the equivalent of taking 1.7 million cars off UK roads.

CFS and ethical finance

Bank screening of finance

In its response to climate change, CFS seeks to be the leading retail bank and institutional investor in the global financial services industry. The customer-led Ethical Policy of the bank includes a commitment not to invest in businesses that are integral to the extraction and/or production of fossil fuels. During 2007, 38 finance opportunities were referred to the Ethical Policy Unit in connection with these areas, of which four were declined at a cost of £188,000; in terms of estimated income foregone in 2007.

Climate change-related business declines 2007	Estimated income foregone 2007
Petroleum retailer Cash processing services for multinational business engaged in the extraction and production of fossil fuels.	£150,000
Pipeline engineer Banking facilities for business engaged in design and installation of pressure-proof, deep-water connectors for sub-sea oil and gas extraction infrastructure.	£18,000
Drill collar manufacturer Banking facilities for business engaged in the manufacture of drill collars for use in oil and gas extraction.	£15,000
Metal fabricator Banking facilities for engineering business. Business division engaged in manufacture of gas-flaring systems for offshore oil and gas extraction.	£5,000

In contrast, an £8m finance facility was approved by the bank for the construction of three onshore wind farms in County Kerry, Ireland, totalling 32MW; and a £10m finance facility was approved for the acquisition of a business engaged in the operation of 24 landfill gas power-generating facilities totalling 70MW. Landfill gas is considered a sustainable alternative to power generation from fossil fuels. In addition, the bank invested £9m in Combined Heat and Power Facilities in two NHS Trusts and £600,000 in energy-efficient boilers. Banking facilities were approved for a company engaged in the production of biofuels from UK-sourced rapeseed oil. Currently, the bank considers the acceptability of biofuels production on a case-by-case basis, considering the sustainability of the feedstock source and access to land in developing countries.

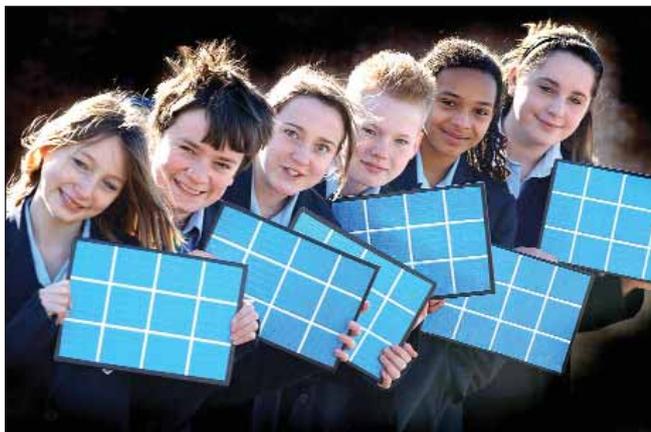
Avoided deforestation

The world's forests are disappearing at the rate of one acre per second²⁹ and without a means of slowing and reversing this trend, it will be all but impossible to prevent the emissions that are likely to lead to dangerous climate change. In the absence of an internationally agreed mechanism to fund developing countries to preserve their tropical forests³⁰, The Co-operative Bank, through its think credit card (page 46), entered into an agreement with the charity Cool Earth to preserve Brazilian rainforest. For every new think credit card account that is activated, The Co-operative Bank will fund the preservation of half an acre of rainforest, preventing 130 tonnes of CO₂ from being released into the atmosphere. Additionally, 25p will be donated to Cool Earth for every £100 spent using a think credit card. In 2007, 164 acres of Brazilian rainforest were preserved via funds from the think credit card, preventing 42,600 tonnes of CO₂ being released into the atmosphere.

Community involvement

Green Energy for Schools

In 2007, The Co-operative Group launched its Green Energy for Schools (GEFS) programme, helping promote the combating climate change message to children by enabling schools across the UK to install solar panels at no cost. The Group secured match funding of its £1m investment from the Government's Low Carbon Buildings Programme (LCBP) to create a £2m fund for provision of free solar panels for 100 schools across the UK. Working in partnership with Solarcentury³¹, schools were nominated and selected by Co-operative members and staff around the country. Successful schools each received a 3.8kWp photovoltaic (PV) system, worth £20,000.



Fulston Manor School in Sittingbourne, Kent, was the first school to benefit from The Co-operative's GEFS initiative. The school had its PV system installed on the roof of the sports hall, with a monitoring device in the school entrance showing how much electricity is being generated and how much carbon dioxide is saved. The system is projected to generate 3,300kWh of electricity and save over two tonnes of CO₂ every year. In 2008, the Group committed a further £1m to GEFS. It is intended that, in addition to funding more PV panels, the project will be expanded to include small wind turbines, biomass boilers and ground source heat pumps.

An education programme was also launched in Fenland, Cambridgeshire, to provide adults and children with the opportunity to learn about renewable energy and the environment. 'Energy Works' is run by Cambridgeshire Environmental Services and is located at the Group's own wind farm on its farmland at Coldham. The initiative is part funded by the Group and Scottish Power Renewables, its partner at Coldham wind farm, and by other wind farms from across Cambridgeshire.

Green car show

In March 2007, The 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. This sponsorship was repeated in 2008. Furthermore, The Co-operative Insurance sponsored Channel 4's Internet site '4Cars Detox'³², 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

Co-operative Walking Buses were launched in a pilot programme with five schools in 2007. Each school received a package of materials, including 50 high-visibility vests for the children and adult helpers; high-visibility snap bands to reward children walkers; posters for use in-school; and a banner for the school railings to promote the bus to children and parents. An evaluation programme established that, in four of the five schools, over 50% of the children now walking with the bus previously made the journey by car. Additionally, in three of the five schools, punctuality, fitness and attendance improved. The project will be promoted actively in 2008, with a view to involving further schools.



Renewable energy co-operatives

The Co-operative Fund (page 105) awarded a grant of £45,000 to Torrs Hydro New Mills for the installation of a small-scale hydro power system in New Mills, Derbyshire. It is anticipated that this installation will be completed in 2008 and, as previously mentioned, The Co-operative Bank is the principal lender to the project and The Co-operative Food will purchase the electricity via a private wire to its nearby store.

The Co-operative Fund also awarded a grant of £50,000 to Ore Valley Housing Association in support of a project entitled 'Renew'; a co-operative energy services company which aims to develop, fund and manage sustainable energy solutions for the benefit of its local community³³.

Membership climate challenge

In 2007, The Co-operative Membership launched a carbon offsetting scheme entitled 'Show Some Love'. The scheme allowed The 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 includes additional information on how members can cut their carbon footprint by choosing more sustainable methods of transport.

The Co-operative Membership also provided £5,000 of funding for the Low Carbon Lifestyle Tour³⁴, designed to promote low carbon lifestyles, such as low-energy boat tours around the coast of the UK, and organising environmental events, talks and workshops.

It is intended that The Co-operative Membership's Climate Change Challenge will be revitalised and re-launched in 2008. This is a pledge scheme, launched in 2006 and promoted to all two million members, encouraging them to take action to reduce their greenhouse gas emissions.

Influence and action

As part of its approach to tackling climate change, the Group is actively involved in public policy lobbying. The aim of this involvement is to support the creation of the legislative and policy framework that will be necessary to bring about a low carbon economy.

Customers Who Care

During 2007, the bank continued its Customers Who Care (CWC) 'Combating Climate Change' campaign, in partnership with Friends of the Earth. Campaign activity for 2007 focused on the call for a strong Climate Change Bill, and the need for year-on-year targets for UK greenhouse gas emission reductions.



Following a national advertising campaign and a range of direct customer communications, over 22,000 bank customers directly lobbied their MP on the Bill, with every single MP being contacted by a bank customer.

As part of the CWC campaign, the bank and Friends of the Earth commissioned a research report from Oxford University into low carbon homes, which outlined a policy framework for achieving an 80% reduction in CO₂ emissions from the housing sector by 2050. The research, which was fully funded by the bank (£25,000), was launched at a Parliamentary reception in November 2007, as the Climate Change Bill started its second reading in the House of Lords.

In 2007, almost 20,000 customers took part in the annual CWC charity vote, which directed how £150,000 of bank spend would be proportionately distributed to five climate change charities: Waste Watch received £39,000; The Campaign for Better Transport (formerly Transport 2000) – £36,000; Stop Climate Chaos – £27,000; Green Alliance – £24,000; and The Women's Institute – £24,000.

Air Passenger Duty

In January 2007, The Co-operative Travel wrote to the Rt Hon Gordon Brown MP, then Chancellor of the Exchequer, calling for part of the extra £1bn per year of revenue that would be raised from the proposed increase in Air Passenger Duty, to be 'ring-fenced' for projects which would help the UK mitigate its carbon emissions.

Carbon reporting

In October 2007, The Co-operative Bank and The Co-operative Insurance put their names to an Aldersgate Group³⁵ letter to the Rt Hon Hilary Benn MP, Secretary of State for Environment, Food and Rural Affairs, and the Rt Hon John Hutton MP, Secretary of State for Business, Enterprise and Regulatory Reform, calling for a common carbon reporting standard. In November 2007, a letter was sent to the Rt Hon Gordon Brown MP, Prime Minister, on the issue, asking him to support the introduction of enabling powers in the Climate Change Bill to ensure UK companies report clear and comparable information on their emissions.

Co-operative Movement

In October 2007, The Co-operative Group and Co-operatives^{UK} submitted a resolution to the General Assembly of the International Co-operative Alliance (ICA) in Singapore, calling on member co-operatives around the world to take action on climate change. This resolution was approved and commits ICA members to reduce their carbon emissions, educate their members and lobby national governments to take progressive positions in international talks³⁶.

Scottish Parliament

The Co-operative Group addressed the inaugural meeting of the Scottish Parliament's Cross Party Group on Climate Change, in December 2007, setting out the business risks and opportunities arising from climate change, particularly for Scotland, and the need for legislation and ambitious targets to reduce emissions.

Feed-in tariff

In March 2008, The Co-operative Group wrote to a number of Labour and Co-operative MPs and those MPs who represent constituencies in Greater Manchester. The letter urged MPs to sign Early Day Motion (EDM) 890, which calls for its introduction in the UK, and to contact Malcolm Wicks MP, Minister of State for Energy, in support. In April 2008, the Group wrote directly to Malcolm Wicks MP noting that 276 MPs had signed EDM 890 and asking that he adopt this scheme by accepting relevant amendments to the Energy Bill.

The Group also responded to the following in 2007 and early 2008:

- Department for the Environment, Food and Rural Affairs (Defra) consultations on the establishment of a code of best practice for carbon offset providers, and on a draft of the code³⁷, including accreditation requirements and procedures, wherein the Group stated its disappointment with the exclusion of Verified Emissions Reductions (VERs). The submissions advised that The Co-operative Group utilises VERs derived from projects within the developing world, as these projects deliver additional carbon savings to those that the UK is legally obliged to deliver under the Kyoto protocol and have the benefit of spreading technological, economic and social benefits to these countries. The Group advised a range of high-quality VERs should be immediately included within the code. More generally, concerns were raised regarding the Government's intervention in this voluntary market, stating the belief that it poses a significant risk to the development of an emerging industry.
- Following a submission of written evidence to the House of Commons Environmental Audit Committee's inquiry into the Voluntary Carbon Offset Market³⁸, The Co-operative Group gave oral evidence to the Committee in 2007.
- A consultation on the draft Publicly Available Specification (PAS) 2050 carbon footprinting standard³⁹, submitted directly to the British Standards Institution (BSI) and via Food and Grocery Information, Insight and Best Practice (IGD) as a collated members' response. The PAS 2050 is co-sponsored by the Carbon Trust and Defra and aims to provide a standard methodology for measurement of greenhouse gas emissions by products and services. The Co-operative Group submitted that in-use emissions should be included in the lifecycle calculations and that emissions from off-site renewable electricity generation should be counted as zero, in accordance with Defra's environmental reporting guidelines. As a key partner in the Carbon Trust's carbon footprinting pilot, the Group has played a central role in formulating PAS 2050 with respect to issues such as agricultural regime data and carbon sequestration.
- The Carbon Trust's consultation on the Product Emission Reduction Framework⁴⁰, which examined what constitutes a meaningful reduction for the purposes of a proposed new labelling scheme. The Co-operative Group's submission highlighted the proposal's limitations, citing its failure to reflect emission reductions already achieved prior to the standard's implementation, and its potential to encourage companies to target easy and immaterial reductions, rather than tackling products with large overall carbon footprints.
- An impact assessment on a possible revision of the EU Energy Labelling Directive by the European Commission Directorate General of Energy and Transport. The Group suggested that, although improvements to labelling would be welcomed, a continual programme of removing from sale the least efficient appliances, in addition to subsidising the most efficient alternatives where required, would have the greatest impact on EU energy/CO₂ savings. The Group advised that the A–G EU Energy Label had made a positive contribution, but needed to be regularly re-visited as efficiency gains in particular product ranges were realised, so as to keep driving market improvements (eg, 99% of washing machines are now A-rated). The Group also recommended expanding the labelling scheme to cover other energy-using products.
- A Defra/Market Transformation Programme (MTP) consultation on the energy use of consumer electronics⁴¹, which is forecast to increase significantly to account for 45% of domestic electricity use by 2020. The Group supported the Government's proposed targets for performance standards and recommended strengthening and expanding the EU Energy-using Products (EuP) Directive to improve mandatory minimum standards.
- A Defra/MTP consultation on the energy use of domestic cold appliances⁴², wherein the Government proposed targets for minimum performance standards. The Group called for action in this area to be prioritised, stating its belief that cold appliances had the greatest potential for significant short-term household energy/CO₂ savings (eg, replacing all inefficient cold appliances with A-rated models could save the UK 0.8 MtCO₂ per year). The Group supported the Government targets as the basis of the UK's negotiating position in the upcoming review of the EU EuP Directive.
- A consultation by the Department for Business, Enterprise and Regulatory Reform (BERR) on the reform of the Renewables Obligation⁴³, wherein The Co-operative 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 renewable technologies.

In addition, the Social Goals Department of The Co-operative Group gave presentations on climate change at 24 national conferences, to an estimated combined audience of 4,000.

- 1 www.ipcc.ch
- 2 www.unfccc.int/meetings/cop_13/items/4049.php
- 3 Baseline year changed from 2005 to 2006, to enable progress to be compared against data that includes both former Group and former United Co-operatives performance.
- 4 <http://news.bbc.co.uk/1/hi/sci/tech/7169690.stm>
- 5 www.climatewise.org.uk The Co-operative Insurance's 2008 submission to Climate Wise, which has been independently audited by [CSRnetwork](http://www.csrnetwork.com), can be viewed at www.goodwithmoney.co.uk/cfscombi/pdf/ABL_Climatewise.pdf
- 6 www.brc.org.uk
- 7 www.bitc.org.uk/what_we_do/awards_for_excellence/
- 8 www.carbontrust.co.uk
- 9 In addition to the dedicated regional energy managers, each regional chief officer has appointed a regional manager to take responsibility for energy reduction issues. Ultimately, it is intended that every Food store will have an appointed energy champion.
- 10 In 2007, the Group purchased fossil fuel-generated electricity at some sites where the utilities are selected by the landlord. In addition, there were 33 sites in Northern Ireland where no renewable electricity was available to purchase, and five sites on the Isle of Man and Guernsey where a suitable supplier could not be identified. However, by early 2008, all sites in Northern Ireland were being supplied with renewable electricity. In addition, electricity used within former United Co-operatives' premises is sourced from large-scale hydro, whereas all other Group premises use electricity supplied from wind and small-scale hydro.
- 11 Projections completed by the Energy Saving Trust in 2006 suggest that micro-generation could supply up to 40% of the UK's electricity by 2050 (www.berr.gov.uk/files/file27559.pdf) and could therefore play an essential role in driving down emissions from the UK's building stock, which only replaces at 1–2% per annum (www.sustain.co.uk/categories/insight/insight_Quarterly_2/).
- 12 Despite the installation of these replacement turbines, this project is underperforming in terms of electrical output and further options will be reviewed in 2008.
- 13 www.coolingindustryawards.com/win07greenendusersm.asp
- 14 www.climatecare.org
- 15 www.defra.gov.uk/environment/business/envrp/pdf/conversion-factors.pdf
- 16 Excludes external mail freight and business mileage associated with Co-operative Insurance Financial Advisers (FAs). The accounting systems connected with the business mileage of FAs are based on estimates and therefore are not consolidated within total business mileage. The reported impact of Co-operative Insurance FAs' mileage is extrapolated from the 20% (2006: 15%) who supplied an estimate of miles travelled in 2007 whilst undertaking Co-operative business.
- 17 Excludes CO₂ emissions associated with Co-operative Insurance FAs.
- 18 www.defra.gov.uk/environment/business/envrp/pdf/conversion-factors.pdf
- 19 Such research includes: Dr A Williams (12 February 2007) Comparative Study of Cut Roses for the British Market Produced in Kenya and the Netherlands, Précis Report for World Flowers, Cranfield University; C Saunders and A Barber (July 2007) Comparative Energy and Greenhouse Gas Emissions of New Zealand's and the UK's Dairy Industry, Research Report No. 297, Lincoln University, New Zealand; and P Tyedmers, and N Pelletier (2007) Greenhouse gas emissions for selected seafood species supplied to the UK, Dalhousie University, Canada.
- 20 Saunders, C, Barber, A, Taylor, G (2006), Food Miles – Comparative Energy/Emissions Performance of New Zealand's Agricultural Industry, Lincoln University Research Report 285, July 2006.
- 21 Melamed, C (2007) Sometimes it's ethical to buy air-freighted goods, *The Guardian*, 2 March 2007.
- 22 www.carbon-label.co.uk
- 23 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/business
- 24 CO₂ offset by Climate Care in 2007 includes 19,915t CO₂e relating to CFS' operations and Group air travel emissions, and 48,685t CO₂e relating to offsets connected with customers' services and products. For further information on the Group's offsetting activities see: www.co-operative.coop/carbonoffset
- 25 Stern, N (2006) *The Stern Review on the economics of Climate Change*. Also see *Global Canopy Programme (May 2007) Forests First in the Fight Against Climate Change – The Vivocarbon Initiative*.
- 26 Energy Savings Trust (2006), *The Rise of the Machines*.
- 27 Assuming 2006 sales levels and the replacement of the following levels of white goods: 4,000 'C' rated tumble driers moving to 'A' rated; 7,300 cold appliances rated at 'B' or below improved to 'A' rated; 246 dishwashers rated at 'B' or below improved to 'A' rated; 1,899 electric cookers rated at 'B' or below improved to 'A' rated. The great majority of washing machines sold in 2006 were 'A' rated and have been excluded from this calculation of electricity and CO₂ savings.
- 28 <http://81.29.69.220/~ukceed99/low-carbon/info.php?record=110>
- 29 RSPB (2007) *Tropical Forests and Climate Change*.
- 30 While progress was made on this issue at the United Nations Climate Change Conference in Bali, in December 2007, in the form of the Reducing Emissions from Deforestation and Degradation (REDD) agreement, this is still very much at consultation stage and will not be implemented until 2009 at the earliest.
- 31 www.solarcentury.com
- 32 www.channel4.com/4car/feature/environment/?noforward=true
- 33 www.orevalleyha.org.uk
- 34 www.lowcarbonlifestyle.org/
- 35 www.aldersgategroup.org.uk/home
- 36 www.actiononco2.coop
- 37 www.defra.gov.uk/environment/climatechange/uk/carbonoffset/codeofpractice.htm
- 38 www.parliament.the-stationery-office.co.uk/pa/cm200607/cmselect/cmenvaud/331/331.pdf
- 39 www.bsigroup.com/en/Standards-and-Publications/How-we-can-help-you/Professional-Standards-Service/PAS-2050/
- 40 www.carbontrust.co.uk/carbon/briefing/perf.htm
- 41 www.mtprog.com
- 42 *Ibid*
- 43 www.berr.gov.uk/energy/whitepaper/consultations/renewables-obligation/page39555.html

Waste and packaging

Indicators

Waste disposed

Waste re-used/recycled

Proportion of waste re-used/recycled

Background

Each year, the UK produces 70 million tonnes of Industrial and Commercial (I&C) waste¹. The retail sector is the largest contributor, generating some 13 million tonnes². In addition, the sector contributes 5.2 million tonnes³ of packaging waste to the 35 million tonnes of municipal waste generated annually⁴. In May 2007, the Department for Environment, Food and Rural Affairs (Defra) published the new Waste Strategy for England, which sets out the policies that are expected to reduce I&C waste by 20% by 2010 (compared to a 2004 baseline) and to reduce the biodegradable municipal waste sent to landfill to 75% of that produced in 1995 by 2010, 50% by 2013 and 35% by 2020⁵.



In 2007, waste disposal costs continued to rise, due to decreasing landfill capacity and the application of the landfill tax escalator, which has increased the cost of landfill tax by £3 per tonne each year since 1999. Following the rise in the escalator from £3 to £8 per tonne per year from April 2008, landfill tax has increased to £32 per tonne⁶.

There is also a growing public awareness of waste and packaging issues. This is evident in the increase in municipal recycling to 31% in 2006/07⁷ and the findings of the 2007 Defra 'Public attitudes and behaviours towards the environment' survey, which found that eight out of 10 people agreed that they have a duty to recycle and 39% stated that they may not buy over-packaged products⁸.

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 arisings⁹, and achieve a 70% re-use/recycling rate across The Co-operative Financial Services' main offices. ▶▶▶¹⁰

Targets 2008

- Extend the consolidation of waste management contracts across The Co-operative Group businesses to facilitate a further improvement in accounting systems for general and recycled waste streams.
- Designate responsibilities for waste data accounting within The Co-operative Pharmacy, The Co-operative Travel and The Co-operative Funeralcare.
- Ensure that less than 50% of total waste arisings are landfilled by 2013¹¹.
- Increase the amount of waste recycled through the Manchester recycling centre.
- Develop further projects to support the reduction in The Co-operative Food's own-brand packaging by 15% by 2010.
- Continue to increase the amount of cardboard and polythene recycled by The Co-operative Food.
- Investigate the use of alternative waste management technologies, such as in-vessel composting and anaerobic digestion.
- Reduce total waste arisings⁹ and maintain a 70% re-use/recycling rate across CFS' main offices.
- Reduce the number of carrier bags distributed by The Co-operative Food by 50% by May 2009, based on 2006 levels.

✔ Target achieved

= On track

▶▶▶ Close to target

◀ Behind schedule

Materiality and strategy

The Co-operative Group is responsible for both operational waste produced directly from its processes and for the waste it passes on to its customers in the form of packaging. The majority of the Group's waste arisings are associated with The Co-operative Food. CFS and the Group's head office complex are the main generators of office waste.



The Group's Environmental Strategy, which is agreed via its member-controlled Group Values & Principles Committee (page 8), identifies better waste management as one of the Group's top two environmental priorities. Furthermore, in the 2007 Co-operative Food Ethical Policy consultation (page 9), 97% of members endorsed the Group's commitment to reducing waste arisings from its operations, increasing recycling and reducing own-brand packaging. In addition, as identified in the most recent CFS 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 The Co-operative Insurance's customers wish to see it encourage the businesses, in which it invests, to reduce their environmental impact and to consider more sustainable products and services.

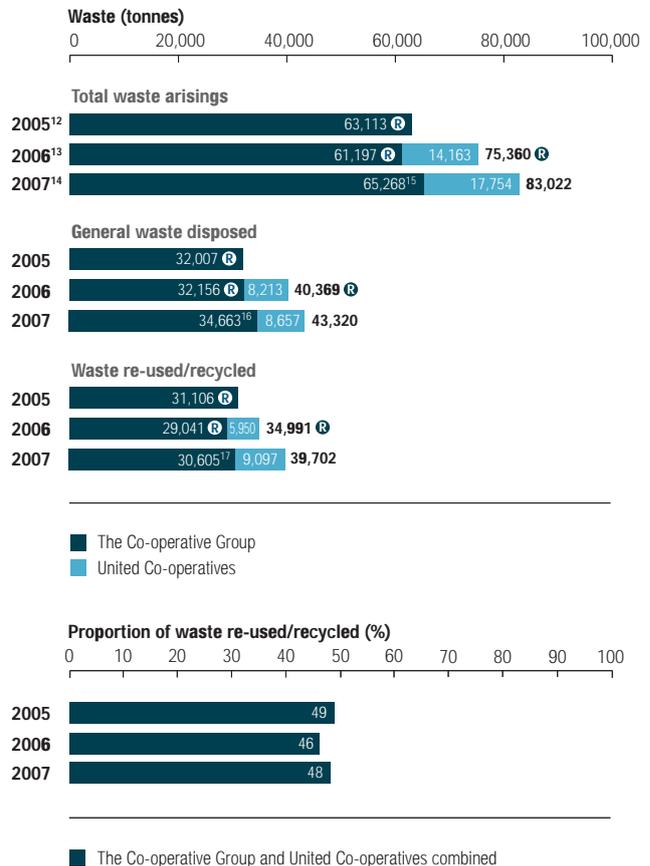
The Group's approach to waste management focuses on waste reduction (both internally and in terms of packaging passed on to customers), increasing re-use and recycling rates, improving the degradability and biodegradability of waste, and the provision of finance for more sustainable waste management options. It is recognised that further work is necessary in 2008 to reduce total waste arisings and increase the proportion of waste re-used/recycled across the Group. In addition, further consolidation of waste management contracts will be required to improve the accuracy of waste reporting and ensure compliance with relevant waste legislation.

Performance overview

The Group's total reported waste arisings grew by 10% in 2007, an increase of 7,600 tonnes. However, this apparently large increase is mostly due to improvements in accounting systems. Reported arisings of general waste disposed and waste re-used/recycled also increased, by 7% and 13% respectively. Again, this is mainly due to improved accounting systems. The percentage of waste re-used/recycled improved slightly from 46% in 2006 to 48% in 2007.

Taking improvements to accounting systems into consideration, it appears that the Group's waste arisings, general waste to landfill, tonnage of waste re-used/recycled and re-use/recycling rate were more or less unchanged from 2006 to 2007. Comparing like-for-like data for the Group (ie, excluding data for United Co-operatives) this is also the case since the 2005 baseline.

In light of the merger between The Co-operative Group and United Co-operatives, an attempt to 'normalise' waste data, through expressing it, for the first time, in terms of tonnes of waste arisings and waste disposed per £m of turnover, has been made. Using this methodology, moderate improvements have been achieved between 2005 and 2007; however, this is due to growth in turnover as opposed to improvements in waste management.



	2005	2006	2007
Waste arisings (tonnes) per £m of turnover ¹⁸	11.6	10.2	10.0
Waste disposed (tonnes) per £m of turnover ¹⁹	5.9	5.5	5.2

Accounting

Following the further improvements in the completeness of waste accounting made in 2007, The Co-operative Group is now able to produce a reasonably accurate account of waste arisings across the majority of its businesses. For the first time, determinations have been made for: waste to landfill from The Co-operative Farms, The Co-operative Legal Services and The Co-operative Clothing; clinical (healthcare²⁰) waste from The Co-operative Funeralcare; and animal by-products and food waste disposed from The Co-operative Food.

Furthermore, the accuracy of the waste to landfill tonnage for The Co-operative Food²¹, The Co-operative Pharmacy and The Co-operative Travel has improved as a result of determination of more accurate converters, which are used to calculate the weight of waste sent to landfill²². Estimates of waste to landfill have been made for E-Store and Sunwin Motor Group. The waste to landfill tonnage from The Co-operative Funeralcare in 2007 is less accurate than that in 2006 as it is based on an extrapolation of the 2006 data to take into account the increase in the number of branches in 2007.

Improvements in the completeness of recycling data have been made in 2007. For the first time, determinations have been made for: electrical items recycled by E-Store; paper recycled from The Co-operative Insurance's regional sales offices, home-based Financial Advisers and The Co-operative Legal Services; cardboard recycled by The Co-operative Pharmacy and The Co-operative Clothing; and fluorescent tubes recycled by The Co-operative Travel, The Co-operative Food and Sunwin Motor Group.

Reducing waste

The Co-operative Group (like most large UK retailers) has been a signatory to the Courtauld Commitment since 2005, which seeks to 'design-out' packaging waste growth, deliver absolute reductions in packaging weight and tackle the amount of food that consumers throw away. The Co-operative Food was the first retailer to successfully run a packaging reduction programme with the Waste and Resources Action Programme (WRAP)²³, whereby own-brand tomato puree packaging was redesigned to save 8.5 tonnes of card per annum.

In 2006, a Packaging Policy for Co-operative own-brand food products was developed, which prioritises absolute packaging reductions and governs acceptable packaging materials based on food safety and environmental considerations²⁴.

Packaging reductions achieved in 2006 included:

- the development of the UK's first sub-300g 70cl spirits bottle, saving 20 tonnes of glass per annum based on annual sales of all own-label spirits in 70cl bottles, which was the winner of the Sustainable Pack Award at the WRAP-sponsored UK Packaging Awards 2007;
- a reduction in the thickness of salad pack bags from 35 to 30 microns, resulting in a saving of eight tonnes per annum; and
- the transfer of own-brand porridge oats from boxes to plastic bags, saving a tonne of packaging per annum.

In February 2007, The Co-operative Food staged a conference to communicate the Packaging Policy to 500 own-brand suppliers and, subsequently, announced a target to reduce own-brand primary packaging by 15% by 2010 based on 2006 levels²⁵. In late 2007, The Co-operative Food restated its 15% packaging reduction target to include transit packaging and, in March 2008, reported to WRAP a 2% reduction in own-brand primary packaging and a 9% reduction against the new combined target under the Courtauld Commitment. Packaging reduction projects developed in 2007 include:

- the reduction in weight of 26 own-brand wine bottles, projected to save 445 tonnes of glass per annum;
- the reduction in weight of a selection of plastic milk bottles, projected to save 22 tonnes of plastic per annum;
- the reduction in weight of salad dressing bottles, expected to save 15 tonnes of glass per annum;
- the reduction in weight of the cardboard sleeve on Indian ready meals, projected to save eight tonnes of cardboard per annum;
- the removal of shrink wrap from whole cucumbers, expected to save eight tonnes of plastic per annum;
- the reduction in weight of beef mince trays, projected to save eight tonnes of plastic per annum; and
- the reduction in weight of premium burger trays, projected to save four tonnes of plastic per annum.

Following the restatement of the packaging reduction target to include transit packaging, data has been captured on a project initiated in late 2006, which introduced the use of reusable plastic fresh produce crates to replace single-use cardboard transit packaging. In 2007, 2,835 tonnes of cardboard were saved through this initiative.

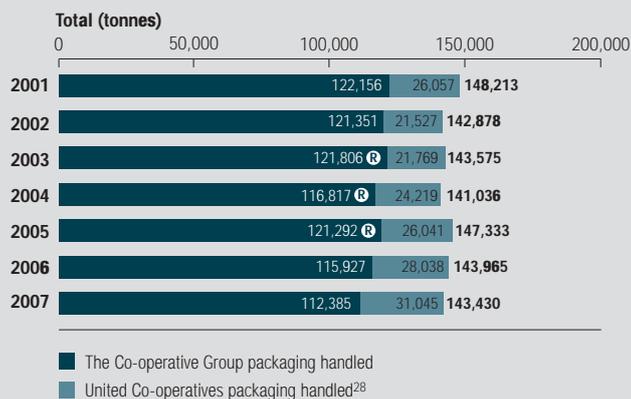
Despite an increase in sales turnover of £1,160m at The Co-operative Food and The Co-operative Pharmacy since 2001, total packaging levels (branded and own-branded) have remained relatively stable at around 145,000 tonnes, as can be seen overleaf. As glass accounted for 49% of primary packaging in 2007, it will continue to be a priority area for packaging reduction in 2008.



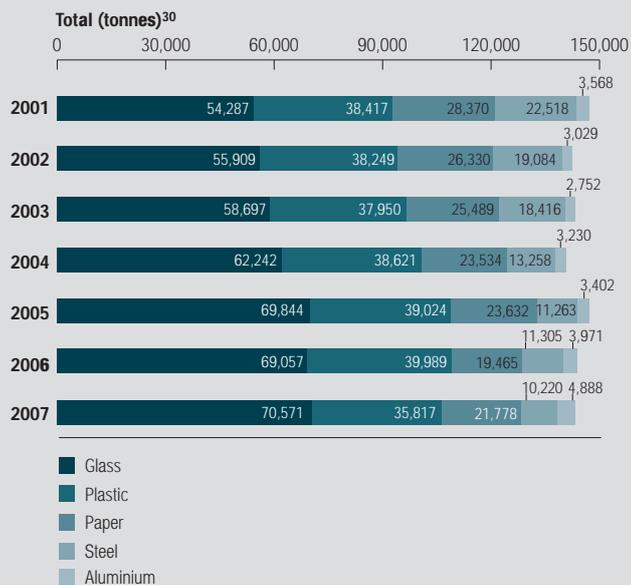
445 tonnes

of glass is the projected amount saved by the reduction in weight of 26 own-brand wine bottles

Total primary packaging handled (tonnes)



Primary packaging handled by material (tonnes)²⁹



The Co-operative Food is a signatory to the Government initiative to reduce the environmental impact of plastic carrier bags by 25% by 2008 and, in March 2008, reported to WRAP a 10.5% reduction in impact, based on weight, of single-use carrier bags in 2007 compared to 2006. This was achieved through the increased use of plastic 'bags for life' and the Fairtrade cotton carrier bag, which was launched in February 2007; the decreased use of single-use bags; and an increase in the number of lighter single-use bags. Analysis of carrier bag ordering figures for the period October 2007 to March 2008, compared to the same six-month period in 2006/07, showed a 38% reduction in carrier bags ordered by the Regional Distribution Centres.

In March/April 2008, The Co-operative Food trialled a carrier bag reduction model in Hull. The six-week trial, which took place in all 11 of The Co-operative Food stores in Hull, promoted alternatives to single-use plastic carrier bags, such as the Fairtrade cotton bag and the plastic 'bag for life', and saw the launch of the UK's first certified home compostable carrier bag. Following analysis of the results of this trial, a decision will be made as to whether to expand the model to all The Co-operative Food stores to reduce the 550 million single-use carrier bags presently used by customers each year. The Co-operative Food is also supporting community-led initiatives to reduce single-use plastic carrier bags in Northampton, Hebden Bridge in West Yorkshire, Lyme Regis in Dorset, Saltash in Cornwall, Clare in Suffolk, Great Dunmow in Essex and Hay-On-Wye in Herefordshire.

Re-using waste

Through the use of reusable plastic crates for transportation and display of fresh produce, The Co-operative Food saved 2,835 tonnes of cardboard in 2007.

In 2007, CFS donated/sold for re-use 3,100 items (some 35 tonnes) of IT equipment, including monitors/terminals, PCs, laptops and printers. Donated items were sent to charities, such as Digital Links International and the NSPCC, through Tier 1 Asset Management Ltd²⁶. In addition, The Co-operative Group passed 400 items, equivalent to five tonnes, of IT equipment to their asset management contractor for re-use.



Recycling waste

Cardboard and polythene

The largest streams of waste that are recycled by The Co-operative Group are cardboard and polythene, generated at the back of store at The Co-operative Food. In 2007, The Co-operative Food recycled 36,091 tonnes of cardboard and polythene²⁷, accounting for 91% of the total tonnage of waste re-used/recycled. Whilst there is no central record of customer recycling facilities at The Co-operative Food stores, a survey was undertaken in 2006 of 1,600 stores, to which 1,363 replied. This identified 102 with glass recycling facilities, 79 with aluminium facilities, 35 with plastic facilities and 87 with textile recycling facilities. A proportion of the textile recycling facilities are provided by Textile Recycling for Aid and International Development (TRAID). Through use of the TRAID facilities at Group sites, customers have recycled 74 tonnes of unwanted clothing since 2005.

Environmental regulation

The Co-operative Group manages compliance with the Producer Responsibility Obligations (Packaging Waste) Regulations 2007³¹ on behalf of much of the UK retail Co-operative Movement. Under these regulations, The Co-operative Group is obligated³² 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 2007, The Co-operative Group entailed obligations in all of the six material-specific categories; paper (7,193 tonnes), glass (26,010 tonnes), aluminium (825 tonnes), steel (3,340 tonnes), plastic (4,538 tonnes) and wood (four tonnes). In addition, the Group also had a balance recycling and recovery obligation of 8,224 tonnes³³. These recycling obligations are met through the purchase of Packaging Recovery Notes (PRNs), largely from the Wastepack compliance scheme.

With the introduction of the Waste Electrical and Electronic Equipment (WEEE) Regulations³⁴ 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 distributor³⁵ of electrical and electronic equipment and is a member of 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 2007, The Co-operative Group recycled 1,320 tonnes of WEEE, including 1,246 tonnes of electrical equipment from E-Store; 54 tonnes of IT equipment from CFS; 11 tonnes of IT equipment from the Manchester head office complex; and nine tonnes of IT equipment from Sunwin Motor Group.

Manchester recycling centre

In addition to the recycling obligations placed on The Co-operative Group by environmental legislation, operational waste continued to be recycled through the Manchester recycling centre. In 2007, the centre recycled a total of 1,249 tonnes (2006: 1,247 tonnes) of the Group's waste³⁶, as well as 44 tonnes of waste from other Manchester-based organisations. The recycling centre's activities were recognised through an Early Day Motion in Parliament in February 2007³⁷. Work is underway to increase the amount of materials recycled through the centre in 2008. Furthermore, additional recycling to that sorted by the Manchester recycling centre took place across the Group businesses in 2007, including the recycling of:

- 246 tonnes of various streams, including furniture and fluorescent tubes from CFS;
- 576 tonnes of wood and 1,281 litres of solvent from The Co-operative Funeralcare;
- 42 tonnes of travel brochures and 0.6 tonnes of fluorescent tubes from The Co-operative Travel. Increased paper recycling at The Co-operative Travel branches has been achieved; however, this is only as a result of recycling already occurring at a proportion of the former United Co-operatives' branches as opposed to the initiation of a new recycling contract;

- 31 tonnes of furniture and 0.6 tonnes of fluorescent tubes from the Manchester head office complex;
- 22 tonnes of fluorescent tubes from The Co-operative Food;
- 16 tonnes of cardboard from The Co-operative Pharmacy branches;
- eight tonnes of paper from the former United Co-operatives' head office;
- six tonnes of paper from The Co-operative Legal Services;
- 1.5 tonnes of cardboard from The Co-operative Clothing;
- 0.3 tonnes of fluorescent tubes from Sunwin Motor Group; and
- 34,786 plastic containers from The Co-operative Farms through the Agri-cycle scheme, an estimated 95% of the total purchased³⁸.

BENCHMARK In 2007, CFS recycled 1,360 tonnes (2006: 1,070 tonnes) of its waste, resulting in an increase in CFS' re-use/recycling rate from 67% in 2006 to 72% in 2007. This recycling rate is considerably above that of the average office's 7.5%³⁹.

Recycled content in products and packaging

In addition to the recycling of waste generated by the Group's business activities, ensuring that products sold contain a high recycled content is another area of focus. Two products – own-brand 100% recycled toilet tissue and kitchen towels – currently utilise waste paper from the Manchester recycling centre as part of a closed loop scheme. Recycled materials are also used in some packaging lines, including tissues, washing powder, certain bag-in-box cereals and the majority of wine bottles, with green glass bottles from one supplier containing 90% recycled glass. In addition, in autumn 2008, a supplier will launch plastic milk bottles with 10% recycled content, with a view to increasing to 30% recycled content by 2009.

The Co-operative Food, along with other UK retailers, has been working with WRAP and the British Retail Consortium to develop a new packaging recycling logo. Although its use is voluntary, it is hoped that industry-wide standardisation of the multiple recycling logos to a single, easily identifiable one, will reduce confusion over whether packaging can be recycled⁴⁰.

Waste disposal

The Co-operative Food landfilled 34,483 tonnes of waste in 2007⁴¹, of which it is estimated that 10,100 tonnes is food waste. Waste landfilled from The Co-operative Food accounted for 80% of the Group's total waste disposal. The remaining 20% is attributed to The Co-operative Pharmacy (2,530 tonnes)⁴², The Co-operative Travel (1,083 tonnes)⁴³, The Co-operative Funeralcare (1,101 tonnes), CFS' main offices (534 tonnes)⁴⁴, E-Store (449 tonnes), the Manchester head office complex (270 tonnes), Sunwin Motor Group (167 tonnes), The Co-operative Farms (156 tonnes)⁴⁵, The Co-operative Clothing (31 tonnes) and The Co-operative Legal Services (15 tonnes).

In addition to waste disposed directly to landfill, The Co-operative Funeralcare sent 98 tonnes of clinical waste and one tonne of spray booth filters to be autoclaved/incinerated; The Co-operative Food sent 2,219 tonnes of animal by-products⁴⁶ to be rendered/incinerated; and Sunwin Motor Group sent 183 tonnes of hazardous waste, including waste oils and residues, antifreeze, batteries and oil filters, to be reprocessed. No data is available for clinical/pharmaceutical waste from The Co-operative Pharmacy.

Comparing the three years of available data, The Co-operative Food shows an improvement in waste arisings per £m of turnover from 19.9 tonnes in 2005, to 18.3 tonnes in 2006 and 15.4 tonnes in 2007, whilst both The Co-operative Pharmacy and CFS have achieved a stable tonnage of waste disposed per £m of turnover of around 3.7 to 4.7 tonnes and 0.2 to 0.3 tonnes respectively. The Co-operative Travel has also shown a stable tonnage of waste disposed per £m turnover, for the two years of available data, of around 4.1 to 5 tonnes.

Ecological profile of packaging

The Co-operative Food has, for a number of years, worked to render packaging more degradable. Research⁴⁷ 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 degradable⁴⁸ plastic carrier bag in 2002, and was, subsequently, the first retailer to introduce these materials into mainstream grocery packaging. The Co-operative Food sliced bread bags and self-select fresh produce bags were made degradable in 2004 and 2006, respectively.

The Co-operative Food is committed to taking a wider sustainability approach to packaging (ie, one that goes beyond light-weighting) and considers issues such as toxicity, degradability and recyclability in the choice of packaging of own-brand products. In 2007, as part of the development of the Packaging Policy⁴⁹, the following conclusions were reached and are reflected in the requirements placed on own-brand suppliers in the Packaging Policy:

- The weight of packaging is not necessarily an indication of the sustainability of the component materials, and weight reductions made should not be at the expense of increasing other environmental impacts, such as toxicity of the materials, or the opportunity to increase the recyclability/recycled content.
- The introduction of biodegradable packaging has only limited advantages, due to the lack of widespread home composting facilities and concerns that many biopolymers (eg, polylactic acid) may not actually break down in composting and landfill facilities⁵⁰. In addition, there are concerns that the use of biopolymers may also contaminate plastic recycling streams.
- A rationalisation of plastic polymers (excluding films) to polyethylene terephthalate (PET) and polythene (PE) would assist in increasing plastic recycling rates as this would make best use of the UK's recycling infrastructure.
- Simplification of packaging through the removal of composite materials, or multiple layers of different materials, should assist in increasing recycling rates.

CFS and ethical finance

The bank's customer-led Ethical Policy includes a commitment to support businesses involved in recycling and sustainable waste management. Based on this commitment, the bank declines support for incineration where mixed municipal waste acts as a feedstock and/or community 'buy-in' is absent. During 2007, 12 finance opportunities were referred to the Ethical Policy Unit in connection with waste, of which two were declined at a cost of £520,000 in terms of estimated income foregone in 2007.

In contrast, provision of a £14m syndicated loan was approved for a waste processing plant using a Mechanical Biological Treatment (MBT) process, wherein recyclable materials were extracted and anaerobic digestion employed. In addition, a £10m syndicated loan was approved for a business engaged in electricity generation from biomass plants fuelled from poultry waste. Biomass is considered a form of renewable energy. Banking services were also approved for a business engaged in composting and for two businesses engaged in metal recycling.

Waste-related business declines 2007	Estimated income foregone 2007
Waste management (two instances) Two separate contributions of £15m to syndicated facilities for businesses engaged in waste management. In the first instance, business had government consent to build UK's largest incinerator. Concern over use of recyclable waste as feedstock, and evidence of community opposition. In the other instance, business operated energy-from-waste incinerator using recyclable waste (eg, paper) as feedstock.	£520,000

Community involvement



In September 2007, The Co-operative Group opened Waste Works, an education facility based at the Manchester recycling centre. Waste Works promotes effective waste management, and raises awareness of wider environmental issues such as climate change and the use of renewable energy at The Co-operative Group.

The Waste Works facility was designed to be as waste-free as possible, with tables made from recycled plastic bottles and Forest Stewardship Council (FSC) plywood. It is heated by a biomass boiler run on FSC wood pellets.

The centre is managed by the environmental charity Waste Watch⁵¹ and offers a curriculum-linked education programme to Key Stage 2 school pupils (aged 7–11) and community groups, and, as of March 2008, has had over 2,000 visitors. As well as taking part in a range of educational activities, visitors learn about the closed loop system, whereby waste is collected from the head office complex, shredded and baled and then converted into toilet and kitchen tissue which is sold in The Co-operative Food stores.

The centre was officially launched by Hazel Blears MP, Secretary of State for Communities and Local Government, in March 2008.



Influence and action

Packaging and product wastage

In September 2007, The Co-operative Group responded to a Defra consultation on the Report of the Food Industry Sustainability Strategy Champions Group on Waste⁵², wherein the Group called for independent lifecycle analysis of common packaging materials to assist in identifying the most sustainable packaging options for a given application. The Group welcomed proposed measures to improve the recycling infrastructure and proposals to further research smart packaging, which has the ability, for example, to identify failures in the supply chain that lead to product wastage.

1 www.sustainable-development.gov.uk/publications/pdf/achieving-2002.pdf

2 www.defra.gov.uk/environment/statistics/waste/wrindustry.htm

3 Sustainable Development Commission (2008) Green, Healthy and Fair, p.48

4 www.defra.gov.uk/environment/statistics/wastats/bulletin07.htm

5 www.defra.gov.uk/environment/waste/strategy/index.htm

6 http://customs.hmrc.gov.uk/channelsPortalWebApp/channelsPortalWebApp.portal?_nfpb=true&_pageLabel=pageExcise_InfoGuides&propertyType=document&d=HMCE_PROD1_027233. Excluding 'inactive wastes' where the landfill escalator is charged at £2.50 per tonne.

7 www.defra.gov.uk/environment/statistics/wastats/bulletin07.htm

8 www.defra.gov.uk/environment/statistics/pubatt/index.htm

9 Excluding one-off disposals associated with office closures.

10 CFS achieved a 72% re-use/recycling rate in 2007, but was unable to maintain the downward trend in total waste arisings, partially due to an improvement in waste accounting that allowed for determinations for paper recycling from home-based Financial Advisers and The Co-operative Insurance branches to be made for the first time.

11 In line with the British Retail Consortium's Better Retailing Climate agreement.

12 75% complete, with large reliance on estimates at The Co-operative Food.

13 80% complete, with reliance on extrapolation at The Co-operative Pharmacy, The Co-operative Funeralcare and The Co-operative Travel.

14 80% complete, with reliance on extrapolation at The Co-operative Pharmacy and The Co-operative Travel.

15 CFS total waste arisings in 2007: 1,894 tonnes (2006: 1,604 tonnes; 2005: 1,629 tonnes; 2004: 2,006 tonnes and 2003: 2,155 tonnes).

16 CFS general waste disposed in 2007: 534 tonnes (2006: 534 tonnes; 2005: 469 tonnes; 2004: 657 tonnes and 2003: 690 tonnes).

17 CFS waste re-used/recycled in 2007: 1,360 tonnes (2006: 1,070 tonnes; 2005: 1,160 tonnes; 2004: 1,349 tonnes and 2003: 1,465 tonnes).

18 Like-for-like comparison of turnover for business areas where waste arisings data was available.

19 Like-for-like comparison of turnover for business areas where waste disposed data was available.

20 The Defra Waste Strategy for England replaces the term clinical waste with healthcare waste.

21 As a result of the weighing of 6,000 Co-operative Food bins in 2007, to develop a more robust converter that is used to calculate the weight of waste disposed to landfill. In addition, the accounting systems now take into account store acquisitions and disposals occurring throughout the year, and are based on actual number of bin lifts per annum, per store. This will be expanded to former United Co-operatives stores in 2008.

22 As was the case in 2006, total waste to landfill tonnages for The Co-operative Pharmacy and The Co-operative Travel are based on extrapolation of known data.

23 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. www.wrap.org.uk

24 www.co-operative.coop/corporate/sustainability/packagingpolicy

25 Based on 115,927 tonnes of primary packaging handled by The Co-operative Food in the baseline year, 2006, of which it is estimated that 38,000 is own-brand packaging.

26 www.tier1.com

27 Derived by assuming The Co-operative Group accounts for 79.54% of the Co-operative Retail Trading Group (CRTG) collections in 2007.

28 Data includes tonnages from Co-operative societies that ultimately merged with United Co-operatives. These include Yorkshire Co-operative Society in 2002 and Leeds Co-operative Society and Sheffield Co-operative Society in 2006.

29 Graph excludes wood and other packaging materials, such as cork, which make up very small tonnages.

30 Data includes tonnages from former United Co-operatives and Co-operative societies that ultimately merged with United Co-operatives. These include Yorkshire Co-operative Society in 2002 and Leeds Co-operative Society and Sheffield Co-operative Society in 2006.

31 Ultimately derived from the European Parliament and Council Directive 94/62/EC on Packaging and Packaging Waste.

32 As is any retailer that handles more than 50 tonnes of packaging and has a turnover in excess of £2m per annum. The Co-operative Group is obligated as a 'seller' at 48%, pack/filler at 37% and an importer at 100%. The 2007 targets for materials were: glass (69.5%), paper (67%), aluminium (31%), steel (57.5%), plastics (24%) and wood (20%). Overall recovery (which includes energy recovery

and composting) is set at 67%, of which a minimum of 92% must be achieved via recycling. The Producer Responsibility Obligations (Packaging Waste) Regulations 2007, Defra.

33 Under the Regulations, obligations are calculated on the packaging handled in the previous year. The obligation in 2007 was, therefore, based on 115,927 tonnes of packaging handled in 2006.

34 www.opsi.gov.uk/si/si2006/ukssi_20063315_en.pdf

35 Producer obligation based on 8,532 items of own-brand Christmas lights and distributor obligation based on 382,037 items of electrical and electronic equipment sold in 2007.

36 Excludes proportion of the tonnage recycled in January 2007, which was attributed to waste stored in December 2006 whilst the recycling centre was closed for a refit. This tonnage was reported in The Co-operative Group Sustainability Report in 2006. 2007 figure includes various recyclates from CFS' main offices (1,024 tonnes), the Manchester head office complex (168 tonnes), The Co-operative Funeralcare and The Co-operative Travel major occupancies (36 tonnes), and The Co-operative Pharmacy head office (21 tonnes).

37 www.publications.parliament.uk/pa/cm/cmmedm/70222e01.htm

38 www.agri-cycle.uk.com. Tonnage data is unavailable for the plastic waste recycled by The Co-operative Farms; therefore, it is not included in total waste re-used/recycled headline figures.

39 www.envirowise.gov.uk/download.aspx?o=118465 GG256 Green Efficiency.

40 Sanderson, P. (2008) Recycling Logo aims to cut confusion, Materials Recycling Week, 11 April 2008, p.6.

41 Extrapolated from a 99% sample.

42 Extrapolated from a 60% sample.

43 Extrapolated from a 52% sample.

44 Excludes the 89 bank branches.

45 Extrapolated from a 94% sample.

46 As defined in The Animal By-Products Regulations 2005. Data extrapolated from The Co-operative Group data for former United Co-operatives' stores.

47 Wiles, DM and Scott, G (2006). Polyolefins with controlled environmental degradability. Polymer Degradation and Stability vol. 91 (2006) pages 1581–1592.

48 Conventional polyethylene is bio-inert, and highly resistant to assimilation by micro-organisms. The introduction of an additive system, in the production of Group bags and other plastic packaging, catalyses the natural process of oxo-biodegradation and greatly accelerates disintegration in landfill.

49 www.co-operative.coop/corporate/sustainability/packagingpolicy

50 www.guardian.co.uk/environment/2008/apr/26/waste/pollution

51 www.wastewatch.org.uk

52 www.defra.gov.uk/farm/policy/sustain/fiss/pdf/report-waste-may2007.pdf

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. ✓³

Ensure that all own-brand fresh fish is clearly labelled regarding method of catch and origin. »⁴

Research and initiate development of a Co-operative Sustainable Fish Sourcing Policy. ✓

Progress the certification of The 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 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. =

Raise, through the RSPB credit card, over £4.4m for Britain's threatened wetlands over the period 1999–2007 inclusive. ✓

2008 targets

All bagged growing media to be FSC-certified.

All wrapping paper, gift tags and Christmas cards to be FSC-certified.

Further progress the certification of The Co-operative Funeralcare coffins and caskets that contain FSC timber.

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.

Finalise and publish The Co-operative Food's Sustainable Fish Sourcing Policy.

Raise, through the RSPB credit card, over £4.9m for Britain's threatened wetlands over the period 1999–2008 inclusive.

Progress the sourcing of sustainable palm oil within The Co-operative Food.

Consider development of a further ecosystem restoration project.

✓ Target achieved

= On track

» Close to target

< Behind schedule

Biodiversity

Indicators

MSC-certified fish species sold

MCS 'fish to avoid' species sold

FSC-certified timber products sold

Peat content of growing media sold

Biodiversity initiatives: Farms

Biodiversity enhancement: CFS

Background

The main threat to plant and animal species is the 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. The 2008 WWF Living Planet Index study showed that between a quarter and a third of the world's wildlife has been lost since 1970 and that humans are responsible for wiping out around 1% of all other species every year, with one of the 'great extinction episodes' in the Earth's history currently under way¹.

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 economies²."

Materiality and strategy

As one of the country's largest farmers, the Group can exert a direct impact on the UK's biodiversity. In total, at 15 farm units in England and Scotland, over 25,000 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 The Co-operative Food, The Co-operative Bank's provision or non-provision of finance to businesses, and The Co-operative Insurance's engagement with businesses to promote sustainability. Indeed, in the most recent Ethical Policy consultation, 94% of bank customers indicated that they do not wish their money to be invested in businesses whose core activities contribute to the unsustainable harvesting of natural resources, whilst 95% of The 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. In the 2007 Co-operative Food Ethical Policy consultation (page 9), 96% of members endorsed the Group's

commitment to increase the use of products from sustainable sources, particularly in relation to fish, wood, paper, palm oil and soya⁵. Furthermore, The Co-operative Group's implementation of a far-reaching Pesticides Policy, which has significant implications for biodiversity, is described on page 95.

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 stocks⁶. 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 supermarkets⁷.

Since 1998, The Co-operative Food has been a supporter of the Marine Stewardship Council (MSC)⁸ – an independent, global, non-profit organisation that uses a market-based approach to help improve the management practices of fisheries. By the end of 2008, the number of The Co-operative Food own-brand products containing MSC-certified fish will increase from two (canned Alaskan pink, 213g, and red, 418g, salmon) to 10. New products were: salmon and cucumber sandwiches, frozen salmon fillets, Everyday pollock fish fingers and fishcakes, Naturally Healthy hake fillets and hake with a provençale sauce, hoki in parsley sauce and a mini-classic fish pie containing hoki. Three further products will be sourced from fisheries currently being assessed for MSC accreditation. These are: breaded Scottish haddock, frozen lightly dusted haddock, and frozen breaded scampi.

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. In 2007, The Co-operative Food Fish Sustainability Group (FSG) was set up and tasked to produce a publicly available Sustainable Sourcing Policy for both wild and farmed fish species. The policy will be underpinned by a sustainability checklist which will be used to determine the sustainability of each species sold under The Co-operative Food label. The checklist examines individual species based on the fishery location and method of catch. Checklist criteria include information such as species resilience to fishing, fishery by-catch estimates and whether species are noted as critically endangered or endangered on the IUCN Red List status⁹, as well as stock assessments from NGOs such as the Marine Conservation Society (MCS)¹⁰ and Greenpeace. The group consists of buyers, quality assurance and sustainability representatives from The Co-operative Group and suppliers.



Since 1998, The Co-operative Food has been a supporter of the Marine Stewardship Council (MSC)

Additionally, The 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 standards¹¹. Drift nets are not used to catch tuna¹², nor are fish caught using the method known as 'setting on dolphins'¹³.
- 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 2007, 40% (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. The Co-operative Food was an early promoter of humane stunning prior to slaughter for all farmed fish; a standard that is now widely accepted across the industry. Systems have now also been developed for farmed 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 farmed fish species.
- In 2007/08, wild warm-water prawns were removed from all own-brand and branded products stocked by The Co-operative Food. All warm-water prawns are now sourced from well-established farms in Indonesia and Thailand, and are all Global Aquaculture Alliance (GAA)¹⁴ certified, or working towards certification. Farms in areas of mangrove forest depletion are not used.

The MCS Fishonline website¹⁵ rates fish species on a scale of one to five, where one is the most, and five the least, sustainable. As of spring 2008, all new product launches (other than those that are MSC-certified and listed above) will contain only fish species rated as two or three by the MCS, with the single exception of cod, rated at four, but considered to be acceptable by The Co-operative Food, as it is sourced from fully exploited, but well-managed, Icelandic Atlantic stocks.

BENCHMARK In early 2007, The Co-operative Food was rated seventh out of 10 UK supermarkets by the MCS in a Sustainable Seafood Supermarket league table. A significant factor in The Co-operative Food's seemingly poor ranking was the then more restricted offering of MCS 'fish to eat' species. This was despite significant progress being made: following the previous report, The Co-operative Food delisted or removed from sale huss (dogfish), skate, and fresh and frozen wild warm-water prawns (with the single exception of prawn crackers accompanying a ready meal, now delisted) that were identified by the MCS as 'fish to avoid' because stocks are vulnerable to exploitation. It is anticipated that The Co-operative Food will perform significantly better as and when the MCS undertakes its next survey. 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 Food), including: marlin, Atlantic cod from overfished stocks such as the Eastern Baltic, wild warm-water trawled prawns and Dover sole from the Western Channel¹⁶.

Forest stewardship

Forests are vital to the smooth running of the world's ecosystems. They help stabilise the world's climate by storing large amounts of carbon that would otherwise contribute to climate change. Around two-thirds of the world's land-based species of plants and animals live in ancient forests. A 2005 WWF report showed that UK trade in illegal timber is responsible for the destruction of around 600,000 hectares of forests each year – an area nearly three times the size of Luxembourg¹⁷.

The Co-operative Food is a member of the WWF-UK Forest and Trade Network (FTN)¹⁸, and reports that it sold 35,260m³ of timber products in 2007 (2006: 36,387m³). 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 virgin and recycled forest products consumed over the last year, together with an action plan containing at least three SMART (specific, measurable, achievable, realistic, timely) actions for completion over the next 12 months. Membership of the network also commits The Co-operative Food to trace all timber and paper products back to forest sources and to improve forest sustainability in conjunction with suppliers. During 2007, The Co-operative Food reported that, once again, all wood products were of known origin and that there was credible evidence of legal harvesting. Of this, 67%¹⁹ (2006: 36%[®]) was supported by credible certification (ie, a complete chain of custody from forests that demonstrate social, economic and environmental benefits), with a further 16% sourced from recycled post-consumer waste (2006: 3.2%).

Amongst a plethora of forestry standards, the Forest Stewardship Council (FSC)²⁰ is probably the most respected by independent experts and campaigners. At The Co-operative Food, 100% FSC-certified own-brand products have, for some time, included barbecue charcoal and the majority of wooden kitchenware²¹. In 2006, a 100% recycled and FSC mixed-source²² paper stationery range was launched, including envelopes, writing paper and notepads. FSC mixed-source luxury quilted bathroom tissue was also available for sale. In 2007, The Co-operative Food 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 towels and toilet tissue. In addition, greaseproof paper already uses FSC materials, but is not labelled as such because the chain of custody has not been formally established.

BENCHMARK In the 2007 Greenpeace Guide to forest-friendly toilet paper, kitchen towels and tissues, The Co-operative Food was rated as fourth out of 14 tissue retailers and producers²³.



FSC timber was also used in the refurbishment of four bank branches and seven corporate banking centres in 2007. FSC furniture was installed in seven corporate banking centres. 62%²⁴ of paper used for printing by CFS contained FSC-certified fibres. In spring 2007, five of The Co-operative Food's stores were refurbished using FSC-certified wood products (more than 16m³).

In 2007, The Co-operative Funeralcare manufactured over 82,000 coffins and caskets, and the business estimates that coffin production consumed 440m³ of solid timber (the majority of which comprised American red oak and mahogany) and 3,600m³ of chipboard. Sustainably grown wicker²⁵ and recycled cardboard (woodgrain effect 25% recycled, white 63% recycled) coffins are also available.

In 2007, in connection with the Group's carbon offset programmes (pages 73–74), £81,800 was spent in support of the reforestation of 34.1 hectares in Kibale Forest National Park, Uganda (2006: 41[®] hectares). It has always been the Group's intention that reforestation projects should, as a proportion of total offset programmes, diminish over time. In 2007, reforestation accounted for around 20% of the Group's offsets (down from 100% in 2001), where it will remain; given this is the commonly accepted level of CO₂ emissions attributable to deforestation as land use claim. In total, the restoration of 232 hectares of rainforest has been supported (since 2001) at a cost of £507,600. 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 for up to 400 people at certain times of the year. Further details of the Group's work with villagers living near Kibale are given on page 23. The project area has attained certification from the Forest Stewardship Council. The 2007 FSC audit highlighted several project strengths in relation to biodiversity, including wetland conservation and the success of restoration activities. Further information on the Kibale project is available on The Co-operative Group's website²⁶.

Certified palm oil

Palm oil is used as an ingredient in a wide variety of food and non-food products, such as biscuits, confectionery and cosmetics. Globally, demand for palm oil is rising, and its use is predicted to double by 2030 and triple by 2050 compared to 2000²⁷. The majority of palm oil is used by the food industry, but it is also used in the rapidly expanding biofuels industry. A report published by the United Nations Environment Programme (UNEP) in 2007, acknowledges that palm oil plantations are now the leading cause of rainforest destruction in Malaysia and Indonesia²⁸. The Co-operative Food has reviewed its use of palm oil in own-brand products and with suppliers, and found it is currently used in over 900 products, with an estimated annual usage of 45,000 tonnes. The business has been speaking with major palm oil suppliers regarding the availability of certified sustainable palm oil (CSPO), as being developed by the Roundtable on Sustainable Palm Oil initiative (RSPO)²⁹. Auditing of RSPO supply chains began in January 2008, with the first supplies forecast to become available later in the year. The Co-operative Food is now exploring options to support CSPO, particularly the purchase of certificates from book and claim chain-of-custody schemes³⁰.

Peat stewardship

Peat bogs are one of the UK's most rare and vulnerable habitats. Formed over thousands of years, they have very slow growth rates (no more than 1mm per year)³¹. In the UK, 94% of their original extent has been lost and less than 6,000 hectares remain in a near-natural condition³².

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 Co-operative Food's long-term goal has been to meet the Government's target that 90% of soil improvers and growing media would be met by peat-free alternatives by 2010³³. To comply, The Co-operative Food has established annual dilution targets for peat. In 2007, The Co-operative Food sold 16,195m³ of compost of which 50% (2006: 56%) was peat³⁴. The Co-operative Food retails an own-brand 'Peat-Free Compost' (20 litre), and it also sells own-brand 'Multi-Purpose Compost' (20, 50 and 70 litre) and 'Grow Bags' (28 litre), which contain 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. Unfortunately, the peat content of many house and bedding plants sold by the Group has increased markedly in 2007; this is due to the bankruptcy of a previous supplier. In 2008, The Co-operative Food will be working with new suppliers to trial reduced peat content in bedding plants.

Peat content in own-brand household and bedding plant-growing media (%)³⁵

	2004	2005	2006	2007
Azaleas	60	0	0	75
Bedding plants	70	60	0	79
Begonias	70	60	50	65
Bromelias	-	-	-	60
Celosias	100	60	0	unknown
Christmas trees	-	-	50	25
Chrysanthemums	100	100	0	80
Foliage plants	70	60	60	53
Gerberas	80	70	70	55
Lilies	-	-	-	50
Orchids	0	0	0	0
Planted arrangements	50	0	0	100
Poinsettias	100	70	70	70

Land stewardship

The Co-operative Farms

In 2007, The Co-operative Farms managed a total of 25,387 hectares of land on a variety of different agreements. 13,230 hectares of this land were owned by the Group. Of the land owned, 11,158 hectares were intensively cultivated and 2,072 hectares either unintensively cultivated or set-aside³⁶.

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 ended 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 a commitment to the Defra Environmental Stewardship scheme³⁷. In 2007, 10,945 hectares of land (98% of the total owned and intensively farmed, 2006: 86%) were managed under the Entry Level Stewardship (ELS) 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 for countryside predators, such as the barn owl. In 2007, grass margins accounted for over 263 hectares (2006: 280 hectares) of the intensively cultivated land total.



Examples of biodiversity projects undertaken by The Co-operative Farms in 2007 include:

The farm at **Cockayne Hatley** in Bedfordshire started work on a new Higher Level Stewardship (HLS) scheme that builds on the successful Countryside Stewardship scheme³⁸ that the farm has had for the past 10 years. The new scheme includes the maintenance of existing grass margins, preservation of a historic site, provision of nesting sites for ground-nesting birds, areas of seed-producing plants that will provide a source of overwintering food for farmland birds and the planting of new hedges and trees. The scheme also includes two areas of permissive access.

The **Coldham Estate** is located centrally in the Cambridgeshire Fens. The estate participates in an annual RSPB bird survey that has identified a wide variety of birds. The RSPB is studying the estate population to gain a greater understanding of the requirements of the wild birds found there.

In addition, The Co-operative Farms operates an environmental management system (EMS), against which 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.

Support for organics

Organic produce is grown using a highly restricted range of pesticides and fertilisers. During 2007, the range of organic products offered within The Co-operative Food increased (from 682 to 757) with sales increasing by 22% to £22.6m (2006: £18.6m). Own-brand organics accounted for 9% of the organic range at the end of 2007 (2006: 9%). The Co-operative's broader work to reduce pesticides across all own-brand products, which brings with it biodiversity benefits, is described on pages 95–96.

CFS and ethical finance

Bank screening of finance

The bank's customer-led Ethical Policy includes a commitment not to invest in businesses whose core activity contributes to the unsustainable harvest of natural resources, including timber and fish. During 2007, 56 finance opportunities (2006: 38) were referred to the Ethical Policy Unit in connection with biodiversity, of which two (2006: 1) were declined at a cost of £350,000 (2006: £500) in terms of estimated income foregone in 2007. In contrast, provision of finance for a business engaged in the quarrying of aggregates was approved, given no evidence of adverse impact on protected areas or biodiversity.

Biodiversity-related business declines 2007	Estimated income foregone 2007
Flooring retailer £10m syndicated loan facility for business engaged in retail of wood flooring. Products contained species of timber classified as vulnerable or endangered, including walnut, cherry and merbau sourced from Asia. Business did not operate a timber sourcing policy and was unable to provide reassurance that timber was sourced sustainably despite criticism for ongoing sale of merbau.	£340,000
Fertiliser manufacturer Banking services for peat producer. Business owned and operated two peat extraction sites in rare UK lowland raised bog habitats, one in a Site of Specific Scientific Interest (SSSI). Unsustainable peat extraction has led to the irreversible destruction of such habitats, which in the UK are estimated to have declined by 94%.	£10,000



£4.5m

was raised for Britain's threatened wetlands via the Royal Society for the Protection of Birds (RSPB) credit cards, between 1999 and 2007

RSPB credit cards (in support of UK wetlands)

Between 1999 and 2007, almost £4.5m was raised for Britain's threatened wetlands via the Royal Society for the Protection of Birds (RSPB)³⁹ credit cards (£472,000 during 2007 and over £6.8m since 1999). 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 since 2000 have facilitated the restoration of 1,112.5 hectares of reedbed⁴⁰. The Co-operative Bank has also sponsored a number of classical concerts staged by the RSPB to raise money and awareness; the most recent of these took place in May 2007 to promote the RSPB's Sumatran campaign.

Woodland Trust credit cards (in support of UK woodlands)

In 2007, the bank launched a Woodland Trust affinity credit card. The UK is the least wooded country in Europe, with just 12% woodland cover, compared with a European average of 44%. Monies raised through the card will help the Trust reverse this trend and support a range of woodland protection and creation projects, such as the 'Tree for All' campaign. Tree for All aims to plant 12 million trees – one for every child in the UK. In 2007, the card raised £27,600; enough to help the Woodland Trust plant over 5,500 trees across the UK towards this total.



Additionally, the bank has been working with the charity to offer schools throughout the UK the opportunity to get involved in The Co-operative Bank Trees for Schools initiative. A total of 375 schools received a Co-operative Bank tree pack, including 30 trees, a watering can, certificates for the children and planting instructions.



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 Foundation⁴¹, has provided £113,000 (£33,000 in 2007) of support to projects such as anti-poaching units in Zimbabwe and Kenya, Cameroon chimpanzee sanctuaries, and conservation projects for sea turtles in Tanzania and tigers in India.

Community involvement

UK community woodlands

In 1997, The Co-operative Bank committed £300,000 to the development of four community woodlands⁴² 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 website⁴³ 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.



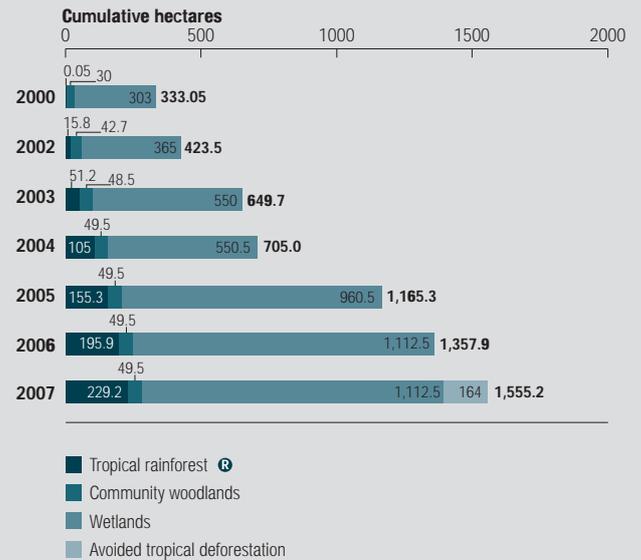
Influence and action

Biofuels

In May 2007, The Co-operative Group responded to a Department for Transport consultation on the proposed Road Transport Fuel Obligation (RTFO)⁴⁴. The Group's response emphasised that target levels, for biofuels as a proportion of transport fuels by volume, should not exceed 5% until concerns regarding net greenhouse gas emission savings and sustainability issues have been addressed. It also noted that only those fuels meeting, or showing improvement against, sustainability criteria, and a significant reduction in net greenhouse gas emissions, should be rewarded through the RTFO process, and that independent, third-party auditing should take place to ensure that information submitted to the RTFO administrator is accurate and complete. Further information on the Group's approach to the use of biofuels and their growth on its farmland can be found in the Climate change section (page 72).

Also in May 2007, The Co-operative Insurance published a report entitled 'Sustainability of Biofuels – Risks and Opportunities of an Emerging Industry'. Approximately 500 copies were distributed to a range of stakeholders, including 66 investee companies in the oil, food, waste, chemical and transport sectors. Written responses were received from 15 investee companies and face-to-face meetings held with a further nine. The findings of the report were presented at four conferences during 2007.

Land with protected or significantly enhanced biodiversity as a result of CFS donations (cumulative hectares)



£300,000

committed to the development of four community woodlands in Greater Manchester from former landfill sites or opencast mines

- 1 WWF (2008) 2010 and beyond – Rising to the Biodiversity Challenge.
- 2 Birdlife International (2007) Wellbeing Through Wildlife in the EU.
- 3 This status refers solely to the complete removal of wild caught warm-water prawns from all own-brand and branded products; at the time of print, the MCS survey had not been conducted in 2008, but it is anticipated that The Co-operative Food will perform significantly better as and when the MCS undertakes its next survey.
- 4 All fresh fish is now clearly labelled to display fish origin; method of catch information is provided where space is available.
- 5 www.co-operativemembership.coop/en/food/ethics/
- 6 Food and Agriculture Organisation of the United Nations (FAO) (2007), The State of World Fisheries and Aquaculture 2006.
- 7 The Co-operative Group accounts for c3% of retail seafood sales. www.greenpeace.org.uk/oceans/what-we-are-doing/sustainable-seafood/supermarket-seafood-league-table-2006 and New Scientist 9 October 2006.
- 8 www.msc.org
- 9 cms.iucn.org/about/work/programmes/species/red_list/index.cfm
- 10 www.mcsuk.org
- 11 The EII monitors this claim. www.earthisland.org
- 12 Drift nets are kept at, or below, the surface of the sea by numerous floats, and drift with the current. They may be used close to the bottom (eg, shrimp drift net) or at the surface (eg, herring drift net), usually across the path of migrating fish schools. Fish strike the net and become entangled in its meshes.
- 13 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.
- 14 www.gaalliance.org
- 15 www.fishonline.org
- 16 www.fishonline.org/site/www/buying_eating/2007_Docs/PressRelease.doc
- 17 WWF (22 November 2005) UK top of the pile in illegal logging scandal.
- 18 WWF-UK FTN's mission is to improve the management of the world's production forests via use of the purchasing power of UK businesses and consumers www.wwf.org.uk/ftn/index.asp
- 19 Comparable figures for previous years are as follows: 2005 **R** – 27%, 2004 **R** – 17%, 2003 **R** – 11%.
- 20 Sets international standards for responsible forest management, accredits independent third-party organisations that certify forest managers, products and producers to FSC standards. See www.fsc.org/en/
- 21 Own-brand chopping boards are made from rubberwood, derived from old plantation trees.
- 22 FSC mixed-source products contain a mix of timber from other certification schemes, such as PEFC and/or recycled materials (in addition to FSC-certified raw materials). The Co-operative uses the volume credit system, with a 40% threshold for FSC timber content.
- 23 www.greenpeace.org.uk/forests/tissue-guide
- 24 Data is considered to be 87% complete.
- 25 Wicker is classified as a field crop, and so not a product governed under FSC scheme rules. Therefore, it cannot be certified as FSC wood.
- 26 www.co-operative.coop/carbonoffset
- 27 www.greenpeace.org.uk/forests/palm-oil
- 28 Nellemann, C, L Miles, BP Kaltenborn, M Virtue, and H Ahlenius (Eds) (2007) The last stand of the orangutan – State of emergency: Illegal logging, fire and palm oil in Indonesia's national parks, United Nations Environment Programme.
- 29 www.rspo.org
- 30 In a book and claim system the trade in the physical product is completely decoupled from the trade in the sustainability certificates.
- 31 en.wikipedia.org/wiki/Peat
- 32 www.rspb.org.uk/ourwork/policy/water/water/peat_bogs/index.asp
- 33 The Co-operative Food does not distinguish between soil conditioners and growth media; therefore, the target for both is to reduce to 10% peat content.
- 34 Includes bagged compost and compost for household and bedding plants. Data for 2007 includes sales of bagged compost for ex-United Co-operative stores and is considered to be approximately 90% complete.
- 35 Peat content for the wider range of The Co-operative Food household and bedding plants was unavailable from suppliers.
- 36 www.defra.gov.uk/farm/environment/land-manage/setaside.htm
- 37 www.defra.gov.uk/erdp/schemes/es/default.htm
- 38 The Countryside Stewardship scheme was a grant scheme run through Defra, prior to the introduction of the Environmental Stewardship scheme and aimed to encourage farmers and other land managers to make conservation part of normal farming and land management practice.
- 39 www.rspb.org.uk
- 40 Total CFS biodiversity enhancement: the area of land subject to biodiversity enhancement as a result of CFS donations increased 2% in 2007 to a cumulative total of 1,391.2 hectares (1,112.5 hectares RSPB wetland enhancement, 229.2 hectares of tropical reforestation, 49.5 hectares of community woodland enhancement). Comparable figures for previous years are as follows: 2006 **R** – 1,356.8 hectares, 2005 **R** – 1,164.5 hectares, 2004 **R** – 704.4 hectares, 2003 **R** – 649.5 hectares.
- 41 www.bornfree.org.uk
- 42 www.community-woods.org.uk
- 43 www.co-operative-woodlands.co.uk
- 44 www.dft.gov.uk/pgr/roads/environment/rftto/
- 45 www.r-e-a.net/
- 46 www.ieep.eu/publications/pdfs/eu_policy/clim_and_energy_8_feb_08.pdf
- 47 www.rspb.org.uk

In October 2007, The Co-operative Group wrote to the Renewable Energy Association (REA)⁴⁵, of which it is a member, to raise concerns regarding the REA's 'Biofuels in perspective' PR campaign, planned for April 2008. The Group noted that many of the criticisms being made of biofuels and their unintended consequences were valid, and that the industry's time would be better spent acknowledging and accommodating them, rather than mounting a PR campaign designed to counter public criticism. Concerns were reiterated at an REA meeting in February 2008 and assurances given by the REA that the PR campaign would be balanced and acknowledge the need for sustainability criteria.

In January 2008, The Co-operative Group wrote to eight North West MEPs in relation to the forthcoming EU Renewable Energy Directive mandate to support biofuels. A request was made that MEPs contact Andris Piebalgs, Commissioner for Energy, and Stavros Dimas, Commissioner for Environment of the European Commission, on the issue. The letter stated that as a condition of an EU mandate to support biofuels, it is essential that:

- there is a requirement for minimum lifecycle net carbon savings of 50% compared to fossil fuels;
- minimum sustainability standards are introduced that take account of land-use change, biodiversity impacts, workers' rights and land rights; and
- monitoring is put in place regarding social impacts and vulnerable communities.

Five MEPs replied stating that they had contacted the Commissioners as requested. The EU Renewable Energy Directive was announced in February 2008⁴⁶, setting mandatory biofuel use at 10% by 2020. Whilst some minimum carbon saving and sustainability criteria have been incorporated, they do not go as far as The Co-operative Group suggested in its letter to MEPs.

Deforestation

World forests are disappearing at the rate of one football pitch (one acre) per second. In 2007, in response to the continued threat of massive tropical deforestation, The Co-operative Bank sponsored the RSPB report 'Tropical Forests and Climate Change'⁴⁷. Tropical forests are the most ecologically rich of all forest types and home to at least 70% of the world's plants and animals, more than 13 million distinct species. The report highlighted the link between avoided deforestation and both the preservation of biodiversity and avoidance of dangerous climate change. The Co-operative Group's wider approach to climate change, including avoided deforestation, is further described in pages 66–78.

Persistent, bioaccumulative and toxic (PBT) chemicals

Indicators

PBT reduction: Food

PBT reduction: Non-Food

PBT reduction: The Co-operative Group goods not for resale

Background

Over 100,000 synthetic chemicals are now registered for use in the EU and 400 million tonnes are produced globally each year¹. 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 safety².

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, almost 1.7 million tonnes of fertilisers and pesticides were used in 2005³. As part of the most recent Ethical Policy consultations, 88% of Co-operative 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; and 95% of The Co-operative Insurance's 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. In the 2007 Co-operative Food Ethical Policy consultation (page 9), 98% of members endorsed the Group's commitment to continue to be the UK's leading retailer in the removal of substances of concern, particularly additives and pesticides⁴.

Targets 2007

Launch, and communicate to suppliers, a revised Pesticides Policy for The Co-operative Food, with supporting online toolkit. ✓

Remove formaldehyde from all own-brand products by end 2007. (January 2008) ✓

Targets 2008

Launch a range of household products accredited to the EU Eco-label standard⁵.

Complete the roll-out of The Co-operative Food Pesticides Policy across all aspects of chilled and frozen food categories using a web-based pesticides portal system to aid delivery.

Review The Co-operative Food's Pesticides Residue Testing programme to increase the scope of the testing; deliver better results analysis; and deliver improved online reporting.

✓ Target achieved

▬ On track

» Close to target

◀ Behind schedule

The Co-operative Food chemicals strategy

In 2001, The Co-operative Food 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)⁶. 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 principle⁷ 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 online⁸. 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 cadmium⁹. Detailed below are examples of decisions taken, and their rationale, in connection with areas where there is concern, but, as yet, no internationally-established consensus.

- Formaldehyde is carcinogenic to humans¹⁰ and is used in household products, such as washing-up liquid, as a preservative. Formaldehyde was removed from all own-brand household products in January 2008.
- Diethyl phthalate (DEP), dibutyl phthalate (DBP) and diethylhexylphthalate (DEHP) are from a group of chemicals, collectively known as phthalates. DEHP and DBP are suspected of disrupting the body's hormone system¹¹. DBP and DEHP are both used as plasticisers in plastics, and were removed from own-brand clingfilm and children's toys in 2003. DEP is used in perfumes, and has not been used in own-brand products since 2005.
- Triclosan is an anti-bacterial agent often marketed under the name Microban[®]. Concerns exist about bioaccumulation in humans¹² and about it causing antibiotic resistance¹³. 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 behaviour¹⁴. 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 disruptor¹⁵ 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 carcinogens¹⁶. 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 bioaccumulate¹⁷. These chemicals were removed from all own-brand textiles with the application of the Oekotex Standard for human ecological safety of textiles¹⁸.
- 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 bioaccumulative¹⁹. Nitro musks were removed from own-brand products in 2004 and polycyclic musks were removed in 2005.

Additionally, in May 2008, The Co-operative Food launched an own-brand ecological cleaning range. The new range consisted of seven products – laundry powder, fabric conditioner, all-purpose cleaner, washing-up liquid, toilet cleaner, dishwasher tablets and laundry liquid. At the time of launch, the range was the only brand in the UK to carry both the EU's Eco Flower logo²⁰ and the BUAV 'Cruelty-Free' logo²¹.

2008

saw the launch of The Co-operative Food own-brand ecological cleaning range



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’²². Over 1,000 different chemicals are made globally and sold in tens of thousands of mixtures for use as pesticides²³. 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 pesticides²⁴. 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 Pesticides Policy, containing 24 banned, 98 prohibited and 322 monitored pesticides, was formalised at the end of 2007²⁵. The policy terms are defined as:

- **banned** – pesticides should never be used under any circumstances;
- **prohibited** – pesticides should not be used, other than in exceptional circumstances pre-approved by The Co-operative Food; and
- **monitored** – pesticides may be used, but more benign alternatives should be considered with full justification for use available on request by The Co-operative Food.

Feedback was received from a limited number of overseas suppliers who indicated that, for certain crops, the extended list was problematic. Potential issues were also 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. The Pesticides Advisory Group did not meet in 2007, but will be reinstated in 2008 to focus on policy implementation and reviewing overall pesticide use.

In 2007, an Internet-based pesticides portal (known as the EPAW system) was rolled out to all tier 1 produce suppliers. The portal is designed to help suppliers comply with The Co-operative Food’s policy requirements and to source information to control the most

hazardous situations for workers, suppliers and consumers. The system allows suppliers to check the current status of all listed pesticides (whether they are banned, prohibited or monitored), and to make an online derogation application for prohibited pesticides where necessary. In time, the system will allow analysis of pesticide application on all fresh produce, from any country of origin. It will also help suppliers to set targets to reduce the usage of monitored and prohibited pesticides.

Regular audits are undertaken to ensure compliance with the Pesticides Policy. These comprise desk-based traceability audits²⁶, site audits, agronomic audits and pesticide analysis, the latter of which is undertaken on a monthly basis by an independent third-party analytical laboratory. The Co-operative Food relies on its tier 1 produce suppliers, of which there are approximately 65, to ensure that growers further down the supply chain comply with the Group’s restrictions and all legal requirements, which include ensuring that the maximum residue limit (MRL)²⁷ for pesticides is not exceeded in any produce they handle.

The Co-operative Food pesticide residue analysis, 2003–2007

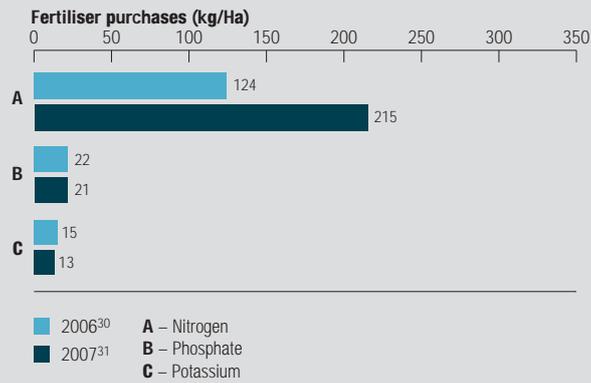
Pesticide analysis results					
	2003	2004	2005	2006	2007
Total number of samples tested	220	243	268	184	238
Average number of tests per product sample	90	88	88	84	82
Number of residues in excess of MRL	4	4	2	3	0
% samples with no residues	58	56	48	64	74
Prohibited pesticides detected without derogation	-	-	-	5	0
Banned pesticides detected	-	-	-	-	1

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 2007, no MRL exceedances were detected; however, a banned pesticide (dicofol) was detected on a sample of clementines grown in Spain, and the grower was subsequently taken out of the supplier’s grower base.

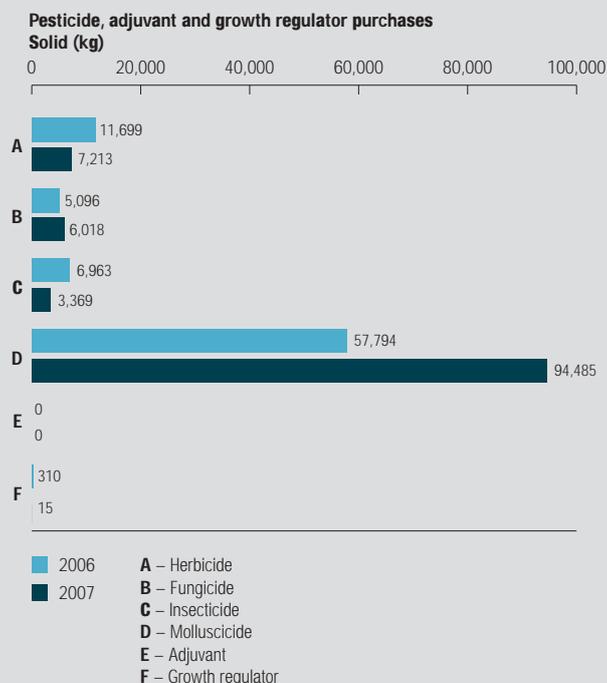
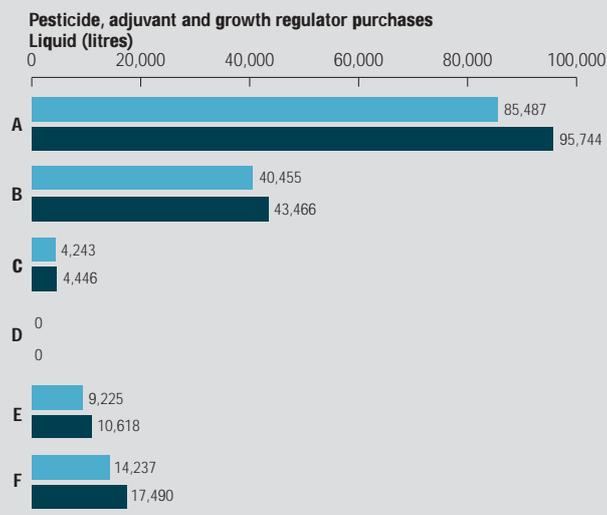
The Co-operative Farms’ use of chemicals

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 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.

The Co-operative Farms' fertiliser purchases, 2006/07 (kg/Ha)



Pesticide, adjuvant³² and growth regulator³³ purchases, 2006/07



Fertiliser use

The Co-operative Farms apply fertilisers either via the soil, for uptake by plant roots, or by foliar feeding, for uptake through leaves²⁸. Whilst fertilisers are not considered to be PBT chemicals, their use and excessive application can contribute to environmental problems, particularly waterway eutrophication²⁹, and minimal application is desirable.

During 2007, The Co-operative Farms continued to trial cab-mounted, real-time crop nitrogen sensors with the intention of optimising field nitrogen fertiliser application. Information is assessed in real-time, allowing nitrogen application to be constantly adjusted as the tractor passes through the crop. The technology will be rolled out across all suitable managed properties throughout 2008. The apparent increase in nitrogen use in 2007 is due to the availability of more complete data.

Pesticide use

The Co-operative Farms apply pesticides as foliar sprays or in solid form (eg, slug pellets). Chemicals used fall under four categories:

- Herbicide – used to control vegetation (weedkiller).
- Fungicide – used to control fungal diseases in plants.
- Insecticide – used to control insects.
- Molluscicide – used to control slugs and snails.

Pesticide usage increased in 2007; particularly the use of molluscicides, which were used to combat slugs that thrived during the wet summer. Additionally, some set-aside land was brought back into production at the end of 2007, increasing the overall amount of land in production requiring pesticidal treatment.

Membership

Membership cards

Since their introduction in 2006, all new-style membership cards have been manufactured from PET, whereas most plastic cards of this type are manufactured from PVC.

CFS and ethical finance

Bank screening of finance

CFS seeks to be the leading retail bank and institutional investor in the global financial services industry in its response to PBT chemicals. The bank's customer-led 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. This position is consistent with the wider approach to the issue of The Co-operative Group. During 2007, 12 finance opportunities were referred to the Ethical Policy Unit in connection with these areas, of which two were declined at a cost of £341,000 in terms of estimated income foregone in 2007.

Chemicals-related business declines, 2007	Estimated income foregone 2007
Plastics manufacturer £10m loan to plastics producer engaged in the manufacture of PVC piping. The manufacture, use and disposal of PVC can result in the release of toxic chlorine-based chemicals that have been linked to a range of health impacts.	£340,000
Chemicals manufacturer £150,000 loan to business engaged in the manufacture of phthalates. Phthalates are suspected of disrupting the body's hormone system.	£1,000

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 Action³⁴, together with Bisphenol A and PVC. In 2003, screening was extended to The Co-operative Insurance³⁵. During 2007, work continued on the 'Green Branch' refurbishment programme. Approved fixtures, decorating materials and furnishings were used in the five bank branches that were refurbished, and included: PVC-free carpets with recycled content (five premises), ecologically-screened paint (five premises) and CO₂-based air conditioning systems (three premises). 'Green Branch' refurbishment specifications were applied to seven corporate banking centres during 2007. Materials included: PVC-free wastewater plumbing (three offices); and PVC-free carpets with recycled content (one office). The 'Green Branch' specifications have been updated in 2007 to accommodate changes in branch and office design guidelines.

Bank plastic cards

Virtually all credit and debit cards in the world are made of PVC³⁶. 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. All of the bank's credit, debit, electron and savings cards (some 2.4 million) are now based on PETG, following the phase-out of the last PVC electron cards in 2006.

Printing

In relation to the commissioning of printed materials, CFS aims to phase out OSPAR chemicals, increase the use of vegetable oil-based inks and reduce water use, by adopting waterless print processes. The majority of CFS' paper use (90%) is accounted for by external printing contracts. In 2004, The 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 2007, 86% of printed paper commissioned by CFS utilised vegetable oil-based inks (2006: 74%).

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 minimising the release of harmful organochlorines and related dioxins. In 2007, the proportion of TCF papers utilised by CFS increased to 87% (2006: 84%). It should be noted that 6% of paper purchased by CFS is governed by APACS Standards that require elemental chlorine-free feedstocks to be used³⁷.

Influence and action

The following example of the Group's public policy lobbying interventions in the area of PBT chemicals was disclosed in the Group's 2006 Sustainability Report³⁸:

- REACH Regulation – the bank's campaign calling for a more precautionary approach to inform EU chemicals legislation.

- 1 WWF (May 2003) Chemicals and Health in Humans.
- 2 US State of New Jersey, Institute of Occupational Medicine (2000) found minimal toxicity data existed for 66% of pesticides and their supposedly inert ingredients: 84% of cosmetic ingredients; 64% of drugs; 81% of food additives; and 88–90% of commercial chemicals. The Environmental Defence Fund report, Toxic Ignorance (1997), found even the most basic toxicity testing results cannot be found in the public record for nearly 75% of the top volume chemicals in commercial use.
www.environmentaldefense.org/documents/243_toxicignorance.pdf
- 3 www.environment-agency.gov.uk/yourenv/eff/1190084/business_industry/agri
- 4 www.co-operative.coop/food/ethics/foodquality/
- 5 www.eco-label.com/default.htm
- 6 www.ospar.org/eng/html/welcome.html
- 7 States that, if an action or policy might cause severe or irreversible harm to the public, in the absence of a scientific consensus that harm would not ensue, the burden of proof falls on those who would advocate taking the action.
- 8 www.co-operative.coop/corporate/sustainability/chemicals
- 9 RoHS Regulations 2006, Dangerous Substances Marketing & Use Directive.
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- 16 Women's Environmental Network (WEN) (2003) Getting Lippy – Cosmetics, Toiletries and the Environment.
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www.watersense.org.uk/chemicals/glossary/musks.php
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- 22 www.pesticides.gov.uk/acp_home.asp
- 23 Pesticides Action Network (PAN) (2007) Pesticides on a plate, a consumer guide to pesticide issues in the food chain.
- 24 The framework looks for prohibition triggers such as: annual daily intake, OSPAR listing, toxicity, bioaccumulation, soil and persistency, prior informed consent, carcinogenicity and endocrine disruption.
- 25 www.co-operative.coop/food/ResponsibleRetailing/environmentandsustainability/guidetopesticides/
- 26 Traceability audits are undertaken by The Co-operative Food's Quality Assurance Team, which analyses the Pesticide Application Records relating to an individual product. These detail the number, rate and dates of pesticide application. Assurance is sought that the decision to use pesticides in the growing process has been based on sound information, and that due consideration has been given by the grower to integrated crop management procedures.
- 27 According to the Pesticides Safety Directorate (PSD) (www.pesticides.gov.uk), maximum residue limits (MRLs) are established on the basis of the highest residues expected when a pesticide product is applied in accordance with approved conditions of use (Good Agricultural Practice). Under these arrangements, the PSD contends that such residue levels do not pose unacceptable risks for consumers.
- 28 Fertilisers 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).
- 29 Excessive plant growth and decay that may lead to lack of available oxygen and reduced water quality affecting fish and other animal populations.
- 30 Based on all the 11,618 hectares of land owned and intensively farmed by The Co-operative Farms in 2006.
- 31 Based on all the 11,158 hectares of land owned and intensively farmed by The Co-operative Farms in 2007.
- 32 To decrease the use of pesticides, adjuvants are also utilised during application. An adjuvant is a substance, other than water, that is not a pesticide, but which enhances, or is intended to enhance, the effectiveness of the pesticide with which it is used.
- 33 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.
- 34 www.ospar.org/eng/html/sap/Strategy_hazardous_substances.htm#Annex2
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- 36 ICMA (International Card Manufacturers Association). See www.icma.com
- 37 APACS is the Association of Payment Clearing Services www.apacs.org.uk
- 38 www.co-operative.coop/corporate/sustainability

Delivering value

100 Modern co-operation
108 Economic impact
112 Employees
120 Customers
125 Public policy

Our individual members shared in

£38m
of our profits

Our members, ultimately, own and control The Co-operative, which is why they share in our success. In 2007, the Group delivered a strong performance, resulting in a significant increase in profits and a members' payout almost double that for 2006.

£182m

underlying profit
from operations

1.7m

trading members

74%

of employees
responded to the
annual Talkback survey

+14

Corporate Reputation
Index score; 14 points
above market average

Approach to delivering value

Strategy

In its pursuit of sustainable development, The Co-operative Group seeks to deliver value to its stakeholders in an ecologically sustainable and socially responsible manner.

The core objective of The Co-operative Group is to optimise profits from the businesses, where co-operative values provide a positive marketing advantage; allowing the Group to serve its members and to deliver its social goals as a successful co-operative, whilst making a reasonable financial return to its member-owners, both corporate and individual. In working to achieve this objective, the Group considers and responds to the needs of its key stakeholder groups. Most importantly, its very nature as a co-operative business promotes a much higher degree of stakeholder responsiveness than is evident for the majority of businesses; not least through the integral role of members in Group decision-making, through their involvement in the democratic structure and, notably, on the Group's Board.

The Group's reporting priorities in respect of delivering value have been determined as economic impact, public policy, modern co-operation, employees and customers, and these are set out in the following section. All of the Group's employees have a role to play in ensuring the business delivers value to stakeholders.

Developments

For the first time this year, the Group's overall approach to public policy intervention has been consolidated in a new section. Previously, research undertaken by SustainAbility¹ acknowledged CFS to be one of a 'small group of leader companies' whose approach to lobbying and reporting could be considered 'integrated'. Going forward, the Group aims to review, and make publicly available, a Public Policy Intervention Policy.

A further new section also provides new disclosure on the Group's principal economic impacts. In addition, new information and expanded reporting have been included in the sections covering employees (eg, accidents and injuries, benefits and communications), customers (eg, the Corporate Reputation Index) and modern co-operation (eg, co-operation among co-operatives, and co-operative schools and learning).

Recognition

- smile ranked in first place in a major customer satisfaction survey carried out by independent consumer organisation Which? in 2007. Bank ranked in third place;
- The Co-operative Bank named the overall high street winner for customer satisfaction in BBC Watchdog's survey of 45 banks and building societies; and
- Trading Group's management magazine, Mag:ma, won Award of Excellence 2007 in Europe's biggest communications competition.

¹ www.sustainability.com

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. 

Targets 2008

Grow trading members by 500,000 in 2008.

Increase the number of members trading with more than one business by 10%.

Develop accounting systems to ensure elected members' democratic influence can be more fully documented.

Agree an appropriate governance structure for the new Society in 2008.

 Target achieved

 On track

 Close to target

 Behind schedule

Modern co-operation

Indicators

Member economic involvement: share of profits

Membership growth

Member democratic participation

Membership diversity

Member training and education

Co-operation among co-operatives

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 enterprise¹. There are more than 800 million individual co-operators worldwide², 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 (inside back cover) 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 is owned and democratically controlled by its members.

Unusually for a UK consumer co-operative, the Group has both individual members and corporate members³; 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. Key performance indicators (KPIs) for both Trading Group and CFS include the KPI of 'growing and engaging membership'. A target to grow trading members by 500,000 in 2008 has been set for the Group as a whole. The Group reports against all of the Co-operative, Environmental and Social Performance Indicators developed and promoted by Co-operativesUK⁴. The Group seeks to deliver value to the rest of the Co-operative Movement, in line with the sixth co-operative principle 'Co-operation among co-operatives'⁵. The Group's Community and Campaigns Strategy (page 59), which has been agreed by its member-controlled Values & Principles Committee (page 8), 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

For just £1, anyone who is aged 16 or over, lives in the UK and agrees to The Co-operative Group's values and principles can become a member of The Co-operative Group. Members can participate in the governance (pages 102–103) and share in the profits of the business. A card-based system captures members' transactions and, in most cases, members will receive one point for each pound they spend in the Group's food, funeral, pharmacy, motor, travel and online businesses. This, combined with their trade with The Co-operative Financial Services, which is determined separately, allows the Group to make annual dividend payments based upon transactions across a range of its businesses.



The Group's membership scheme was launched on 13 January 2008 in outlets previously operated by United Co-operatives. In July 2007, Midcounties Co-operative became the first independent Society to adopt the Group's membership branding, allowing customers from both societies to use their membership cards in both the Group's and Midcounties' stores. Midcounties still retain control of their membership scheme, including dividend payments and voting rights.

In respect of 2007, The Co-operative Group paid a dividend to 1.7 million members. A dividend payment of £99.7m⁶ was approved at the Group's AGM in May 2008. The significant increase to £44.9m (an increase of some 138%) in the amount of profit distributed to individual members resulted from an improved performance in the Trading Group businesses, in addition to the benefits delivered by the merger with United Co-operatives.

138%

increase in profit distributed to individual members

	In respect of		
	2005 profits (£m)	2006 profits (£m)	2007 profits (£m)
Individual members	9.9	18.9	44.9 ⁷
Corporate members	15	15.1	24.9
Community dividend	1	2.1 ⁸	10
Employee dividend	1.7	6.3	19.9

Members receiving dividend payment				
2003	2004	2005	2006	2007
613,000	613,000	796,000	1,500,000	1,700,000

Democratic structure

Regional boards and area committees

Since the merger with United Co-operatives in July 2007, the Group has comprised nine democratic regions, covering the whole of the UK⁹. 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 and four regional councils in the United Region. Regional boards have a broad remit¹⁰, which extends across the Group's regional commercial interests. This includes: 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, or regional councils in the United Region, 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 knowledge¹¹. Additionally, area committees allocate Community Fund (page 62) awards in line with national strategy, and work in partnership with local Group employees on membership activity and community initiatives. In the United Region, 10 member relations committees fulfil a similar role in delivering local membership and community activity.

Supporting the elected members in each of the nine regions is a regional membership team, which is headed by a regional secretary. In total, over 90 colleagues support local democratic structures and facilitate the local delivery of national initiatives.



Delivering value

Modern co-operation

Annual 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 undertaken 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 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.

Following the merger with United Co-operatives, the Group Board comprises 33 directors; 17 elected by area committees from Group regions; eight from the incoming United Region; and the remaining eight from the Group's corporate members.

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 2007, a total of 3,390¹² (2006: 3,922) members attended meetings, and a total of 278,000 (2006: 160,000) members were democratically active through the Members' Network¹³. This increase of 74% is, in part, due to the success of the relaunched Membership strategy in 2006 and the merger with United Co-operatives in July 2007. Throughout 2007, no democratic member elections were held, due to the Constitutional Review that commenced following the merger (page 103).

Activism					
	2003	2004	2005	2006	2007
Democratically-active members ¹³	59,000	64,000	90,000	160,000	278,000
Contested area committee elections	23 (46%)	16 (32%)	27 (55%)	29 (62%)	N/A

Annual general meeting (May 2007) resolutions

Region	Motion	Response
Scotland	Called on the Group to review banking charging policies and publicise the fact that the bank will not impose compulsory fees.	The Group Board thanked the Regional Board for its interest in the area and for its decision, in light of the recently announced Office of Fair Trading inquiry, to let this motion lapse.
Central & Eastern	Called on the Group to offer a funeral plan priced within the limits set by the Social Fund Funeral Payment guidelines (1996).	A director, on behalf of the Group Board, responded that Funeralcare remains sensitive to the needs of those seeking assistance from the Social Fund and works to accommodate clients' needs, in line with their circumstances. However, it is not economically viable, at this time, to offer a specific service priced in line with the Social Fund contribution.
Wales & Borders	Asked the Board to insist upon only using free-range eggs as ingredients in our own-brand products; to cease selling battery laid eggs and to replace these with free-range or eggs farmed to RSPCA approved standards.	The Board indicated its support for the motion, undertaking to review supply arrangements to move entirely to free-range shell eggs (from 64% at that time), but did not set a date. The Board advised that all eggs used in own-brand products are being replaced with free-range eggs, as the products are redesigned and rebranded. (NOTE: The Co-operative Food has since moved to sell 100% free-range, Freedom Food or organic shell eggs, as detailed on page 30).
Wales & Borders	Called on the Board to review, and, if necessary, revise, the broad membership strategy and current levels of funding, to ensure that an effective engagement strategy to accommodate the rapid growth of membership is in place.	The Board indicated its support for the motion. In respect of funding, it advised that a dedicated call centre and state-of-the-art membership system have been established. Furthermore, that £1.5m had been added to the 2007 Membership budget. The Board also indicated that the proposed merger with United Co-operatives would allow a wider review of long-term membership strategy for the enlarged Society.

Half-yearly meeting (October 2007) resolutions

Region	Motion	Response
South West	Asked the Board to realise the importance of current and relevant trading statistics to inform the decision making of members' representatives on regional boards.	The Board indicated its support for the motion, with the exception of interim and full-year results, the provision of which, it said, could not be issued prior to finalisation and external audit.

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 the Group's 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. This exercise was improved and repeated in early 2008, with a selection of the responses provided below. It is intended that a more robust data capture exercise be established going forward, to inform more exhaustive reporting in 2008.

- At its March meeting, the Wales & Borders Regional Board proposed the establishment of a working group, bringing together elected members and management to consider operational issues specific to larger stores. Issues highlighted included a lack of resourcing, tired decor and incoming competition. Early outcomes of the group include agreement for a slip road to be built to the Porth store from a major new bypass. A programme of major capital investment has also been agreed for larger stores in the region, with the store at Pentrebach being the first to receive this.
- In March 2007, the Wales & Borders Regional Board opposed the proposed closure of Dines Green store in the West Midlands. Instead, it was determined that extra resources be invested in improving the customer offer in-store and member activity be focused in that community over a trial period. One such community project established by the West Midlands Area Committee, in partnership with police and councillors, was a primary school horticultural project, near to the store, designed to promote community pride and cohesion. A Co-operative Community Fund (page 62) award has also enabled the youth centre, adjacent to the store, to provide equipment for group activity sessions on issues such as healthy living. Following this activity, the store has improved its local profile, whilst directed activity has further improved in-store standards. The store has since been taken off the closure list.
- In a bid to reduce costs and to prevent the closure of the Travel branch in Croydon, the South East Region's Surrey & Berkshire Area Committee suggested to management that The Co-operative Travel branch share premises with the local Co-operative Bank branch. In light of this, management carried out investigations into the store's lease and footfall, along with potential opportunities/issues arising from sharing premises with The Co-operative Bank. The resulting decision was to relocate the Travel branch into The Co-operative Bank branch, with the relaunched branch opening in July 2007.
- Throughout 2007, the North West Counties Area Committee sought to retain a Co-operative Food presence in an area where a consistently under-performing large store was threatened with closure. The committee and Northern Regional Board worked with management to find a solution, which would retain a viable store. In early 2008, it was announced that the existing store would be sold to a discount retailer, on the agreement that a smaller Co-operative Food store could be maintained on the present site.

Constitutional Review

The Constitutional Review was established under the Memorandum of Agreement entered into on 15 February 2007, in connection with the merger of The Co-operative Group (CWS) Limited and United Co-operatives Limited, which took place on 29 July 2007. The Constitutional Review Board was set up by the Board of Directors and comprises four directors from existing Group regions, four from the United Region and two corporate directors¹⁴. It has been tasked with reviewing the Group's constitution and identifying an appropriate governance structure for the new Society. Chaired by Group Chair, Len Wardle, the Review Board made its recommendations to the Group Board in April 2008.

Elected and individual members, as well as employees, have been given the opportunity to suggest ideas and ask questions relating to the future governance of the Group on the Membership website¹⁵. Responses were returned by October 2007 and, with a few exceptions, respondents primarily directed their comments to proposed structures. In May 2008, the Constitutional Review consultation document was published, listing recommendations from the Group Board. Members' feedback from regional meetings, mailings and events was submitted to the Review Board by 10 June 2008.

Amongst the key recommendations of the Review are the following:

- The inclusion of up to three independent professional non-executive directors (IPNEDs) on the Group Board;
- The creation of three subsidiary Group Boards (covering Food, Trading and Financial Services) comprising Executive members, the Group Chair, Group Board Directors and IPNEDs;
- A structure of seven democratic regions – Scotland and Northern Ireland, Yorkshire and North East, North West, Central and East, Wales, South West and West Midlands, and South East;
- Enhanced role with delegated powers from the Group Board for regional boards;
- The creation of an elected Members' Council in Northern Ireland of approximately 20 elected members, with responsibility for commercial, membership and community activity in the province; and
- The creation of new local committees, which seek to adopt best practice from the Group and United traditions.

A Special General Meeting (SGM) was held on 19 July 2008 to agree principles; a further SGM will be convened in October 2008 to consider a new Rule Book; following which, elections will run from January until May 2009. A full timetable is provided in the Constitutional Review Recommendations Report¹⁶.



Membership communications

A new membership website was launched in 2007¹⁷. Throughout the year, the website hosted a number of online discussions on issues as diverse as Fairtrade, workplace ethnic diversity, opportunities for member development and climate change. The discussions provided unprecedented opportunities for membership to communicate directly with senior Group employees, including Peter Marks, Trading Group Chief Executive, and David Anderson, CFS Chief Executive. Other online discussions involved specialists from campaign organisations, such as the British Union for the Abolition of Vivisection, the Fairtrade Foundation, Friends of the Earth and Traidcraft.

During 2007, two webcasts were piloted that transmitted regional meetings to members who were unable to attend. These received over 350 visits. In early 2008, webcasts were developed to: give visitors the option of seeing presentations alongside footage of the presenter; allow members to ask questions directly to the panel; and enable members to make comments to other members online. Seven regional AGM webcasts were held in spring 2008, together with two Constitutional Review webcasts.

Re:Act, a new national magazine for active members, was launched in April 2008. Aimed at c.300,000 of the Group's most active members, Re:Act focuses on articles that connect with the Group's co-operative values and ethical leadership. The first issue carried features on animal welfare, fair trade, human rights and climate change. Re:Action – a bespoke newsletter for each of the nine regions, containing regional news and business performance – accompanies mailout of the Re:Act magazine.

The Group also produces a mass-membership publication, The Co-operative Magazine. This is due to be relaunched in the summer of 2008. It will be published twice a year and have a distribution of over 475,000. The new-look magazine will showcase the Group's products and services, and feature member offers.

Membership diversity

Since 2001, a membership Diversity Working Group (DWG), reporting directly to the Group Values & Principles (V&P) Committee (page 8), has overseen 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 Committee.

Three networks – the Black, Asian and Minority Ethnic (BAME) network, the Women's Network and the Lesbian, Bisexual, Gay and Transgender (LBGT) network – operate through the Membership website¹⁸ and regional meetings. The BAME network is helping the Group's businesses meet the needs of BAME communities. For a number of years, the BAME network has worked in partnership with The Co-operative Funeralcare to advise on its provision of ethnic minority funerals. In 2007, this innovative partnership was recognised by a Race for Opportunity Award – the Chairman's Award for Business Impact. Despite the efforts of these networks to address the relatively poor representation of some communities in the democratically active and wider membership, the Group's democratic structure is still some way from being considered truly representative. Each region continues to develop its two diversity focus areas and continues to reach out to new communities¹⁹.

Membership diversity

	2003	2004	2005 ²⁰	2006	2007
Total number of area committee members	627	634	630	532	567
Female elected members	39%	38%	40%	38%	37%*
Average age of elected members	56	58	56	57	55*
Ethnic minority elected members	2%	2%	2%	2.4%	2%*

*Excludes data from United Region.

Member training and education

The Co-operative Group launched a Member and Director Learning Framework in 2002²¹. Created in partnership with The Co-operative College, the framework offers an accredited, stepped learning programme that enables elected members to develop their abilities and knowledge. There are three levels of learning:

Elected members

- Representatives from regional membership teams facilitate a national induction for newly-elected committee members. This introduces new members to the diverse aspects of their role, with the aim of them gaining an understanding of the skills and knowledge required to be effective committee members.
- Area committee members can pursue a Certificate in Co-operation. This requires the successful completion of eight modules, covering subjects such as 'members and member involvement', 'ideals, principles and structures' and 'understanding management accounts'. Certification is not mandatory for area committee members, unless members wish to stand for a regional board. Since the programme's introduction, 150 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 40 members have now graduated.

Wider membership

- **E-Learning** In 2007, the Group launched an online course on its membership website. Produced by The Co-operative College, the course is designed to give members a full understanding of what makes The Co-operative a different kind of business. The course contains five modules and utilises a series of interactive activities to reinforce key learning points. Throughout 2007, the course was receiving an average of 60 hits a month.
- **Training events** All regions across the UK continued to offer 'The Ripple Effect' and 'What's in a Name' training events. 'The Ripple Effect' training sessions are designed as a taster for members old and new, with the aim of encouraging them to become more active. The content includes the history of the Group, what it means to be a member, how the Group puts its values and principles into action and how members can get more involved. The 'What's in a Name' training event builds on this learning, providing further development opportunities for members who want to become more active.

Co-operation among co-operatives

Through partnerships with other co-operatives, the Group seeks to work for the long-term success of the Co-operative Movement. It seeks to actively promote co-operation – both nationally and internationally – through its support for/involvement with representative bodies, including the International Co-operative Alliance (ICA)²², Co-operativesUK²³, Mutuo²⁴, European Association of Co-operative Banks (EACB)²⁵, The International Co-operative and Mutual Insurance Federation (ICMIF)²⁶, Eurocoop²⁷, The International Co-operative Banking Association (ICBA)²⁸ and The Co-operative Party²⁹. Some of the Group's work with such bodies in 2007 is exemplified below, with details of monetary support provided on page 128.

International Co-operative Alliance (ICA)

The ICA³⁰ is the world's largest non-governmental organisation, representing and supporting co-operatives and mutuals worldwide through its regional institutions.

The ICA's Global 300³¹ initiative was launched in 2006, to benchmark the most successful 300 co-operatives in the developed world. In 2007, the Group seconded two members of the Graduate Development Scheme (page 116) to support the ICA in this initiative, and to develop their knowledge of the international movement.

International Co-operative & Mutual Insurance Federation (ICMIF)

The Co-operative Insurance is a member of ICMIF. Through ICMIF, the insurance business supports new, or growing, co-operative and mutual insurance companies in the developing world.

In spring 2007, The Co-operative Insurance responded to a request for help from The Co-operative Insurance Company (CIC), a Kenyan co-operative insurer to which it previously supplied reinsurance services. A Co-operative Insurance business manager spent three days at CIC's Nairobi offices and a branch office, scrutinising the company's reinsurance arrangements and assessing the strength of its systems. A detailed report was given to CIC, which included recommendations in respect of several reinsurance contracts.

The Co-operative Insurance is, additionally, one of over 30 shareholders in ICMIF's Allnations fund, which provides financial support for new and growing co-operative and mutual insurers around the world.

International representation

The Co-operative Group is generally represented internationally via Co-operativesUK³²; however, the Group also provides representation on the following bodies.

Institution	Position
ICA	Chair Consumer Co-operatives Worldwide
Eurocoop	Board
European Association of Co-operative Banks (EACB)	Board
ICMIF	Intelligence Committee
ICMIF	Reinsurance Committee

Additionally, the Group directly progresses a number of initiatives that support co-operatives and their members, as described below. Support for credit unions is outlined on page 50.

UK Co-operative buying groups

The Co-operative Retail Trading Group (CRTG) was set up in 1993 to centralise the buying power of member Co-operative societies in the UK. The CRTG controls 99% of co-operative food buying in the UK, representing £6.1bn of buying power. All products procured on behalf of member societies through CRTG are sourced in line with all relevant Group policies. The Co-operative Group chairs the CRTG Monitoring Group and provides secretariat services to the CRTG.

In addition, a co-operative buying group operates at a smaller level in the travel industry, whilst co-operative funeral, pharmacy and property groups meet to discuss legislative issues and best practice.

Financial services

The Co-operative Bank offers a bespoke banking package – Co-operatives Directplus³³ – to member organisations of Co-operativesUK. Via Business Banking, the bank provided some £135.2m of lending to co-operatives and mutuals during 2007 (2006: £138.2m). Additionally, the 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 website³⁴.

The Co-operative Fund

The Group's Co-operative Fund³⁵ was established as a grant-making fund to: provide grants to promote, support and develop co-operative solutions and enterprises; expand the Co-operative Movement; promote the co-operative advantage; and demonstrate its relevance in the UK today.

A Board³⁶ oversees the Fund's policies and strategic direction; ratifying grants of up to £49,999 and making decisions on grants over £50,000. In 2007, the Board approved grants totalling £813,400 to 17 projects.

A donation of £110,000 made to the Co-operative College and Young Co-operatives is being used to promote the co-operative model in the school curriculum. Resource material was distributed to all secondary schools in England in 2007, with further materials under development for distribution in 2008. Working with the network of 10 Business and Enterprise Colleges sponsored by The Co-operative Group (page 106), several new sections (Human Resources, Healthy Eating, Ethical Enterprise and Climate Change) were also added to the www.school.coop website. The Fund's support for The Big Picture co-operative is detailed on page 24.



The Co-operative Loan Fund

The Co-operative Group, Bank and Insurance, together with Midcounties Co-operative, finance The Co-operative Loan Fund³⁷, which provides support to co-operatives and social enterprises throughout the UK through the provision of accessible, ethical loan finance.

Loans are provided to set up new, or expand existing, enterprises; assist employee buyouts or company successions; purchase a property or business; and to purchase capital equipment or create working capital. The Fund is managed by Co-operative and Community Finance, which is authorised and regulated by the Financial Services Authority.

Following support from the Loan Fund, in December 2007, community-owned Porthmadog football club opened a new hub, which acts as a community centre for local residents, whilst raising income for the club. Further case studies are available on the Fund's website³⁸.

During 2007, the Fund's resources were almost fully committed, such that, in early 2008, the Group made a further donation of £100,000 to the Fund.

“The Fund has a strong track record in successful lending to start-up and expanding co-ops, and our recent donation demonstrates our continuing support for these businesses.”

Stephen Watts, Chair of the Group Values & Principles Committee

C-change

C-change³⁹ offers support for co-operatives in the Group's United Region, by funding advice and support to develop them as successful businesses. In 2009, the programme will be extended to other UK regions. Co-operatives can apply to receive up to five days of professional advice that includes business planning, feasibility studies or legal and governance advice. In 2007, 24 businesses were supported, at a cost of £32,800. These included Headingly Development Trust Limited (HDT), which promotes projects in the Leeds area. In 2007, support enabled the community purchase of a wholefoods business that had been trading for 23 years, when its owners were seeking to retire. HDT established a working group to purchase the store, which was provided with five days' support from C-change to help identify appropriate legal structures and develop a business plan.



Photograph by Doug Currie

Co-operative schools and learning

During 2007, The Co-operative Group continued to build its relationships with the 10 Business and Enterprise Colleges⁴⁰ 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.

In November 2007, more than 100 pupils from the network of co-operative schools attended a 'Co-operative & Social Enterprise Day' at the Group's head office in Manchester. The interactive day provided pupils with the opportunity to learn about co-operatives and social enterprises. Pupils spent the afternoon developing ideas for co-operatives, presenting their ideas to their peers and facing tough questions on ethics, funding and ownership of their co-operatives. Similar events have been held throughout 2007, with pupils attending from co-operative schools as far away as Italy.

Throughout 2007, work progressed towards the development of a Co-operative Finance and Business Academy. In partnership with The Co-operative College, The Co-operative Group is working with a number of other partners to set up the Academy, which will be sited in Higher Blackley, Manchester, in time for the autumn term 2010.

The Group and the Co-operative College have also been working together to help create England's first Co-operative Trust School. Reddish Vale Technology College in Stockport achieved the status in April 2008. Co-operative Trust schools and the Academy have been established with the aim of allowing pupils, parents, staff and the local community to have a greater say in how their schools are run.

Throughout 2007, members of the Graduate Development Scheme held interactive days with pupils from Greater Manchester, aged between 10 and 15. The aim of these initiatives was to encourage pupils to start thinking about higher education and transferable skills for the workplace, through researching and completing mock business projects, in partnership with the BBC and Manchester Universities.

The United Region's South Lancashire Members Committee developed existing relationships with schools in St Helens, Wigan and Bolton. A series of co-operative events has been held during the year, including 'Spirit of Co-operation' events in 2007 in Bolton and Salford, featuring original performances from all six partner schools.

Yorkshire and Lancashire members in the United Region worked with the Co-operative Learning and Development Agency⁴¹ to deliver a range of courses at schools in their areas. Courses encouraged young people to examine the role they play in their local community, and have enabled them to question local decision makers on issues of concern. As a result of increased demand for the programmes, member committees have established a training co-operative to support members who are delivering the sessions. Twenty-eight members are presently involved, and it is hoped that the new co-operative, First Question North, will be fully established by mid-2008.

Community involvement

Throughout 2007, membership teams worked closely with the Food business to organise a series of 'Respect in the Community' events. Co-ordinated by the **Northern** Region, the events brought residents, community groups and leaders, local businesses and police together to discuss possible solutions to tackling crime and antisocial behaviour in their local communities.

In 2007, the **Wales & Borders** membership team assumed responsibility for the management of three teams working in the Welsh Assembly's 'Communities First' regeneration programme. The programme seeks to strengthen disadvantaged communities, encouraging them to become self-determining.

In July 2007, the **United** Region hosted a World Co-op Day in Salford, to celebrate co-operation. The event, attended by more than 4,000 people, was designed to show how people and communities – locally, nationally and internationally – are benefiting from working together in a co-operative way.

Support for Fairtrade continued to be a central element of membership activity. In **Northern Ireland**, the membership team worked with a number of local councils to assist them in attaining Fairtrade status. Additionally, sampling sessions were run for council employees to promote Fairtrade awareness. In the **South East** Region, the membership team organised its second annual Fairtrade Wine Tasting event at Vinopolis, in London's Borough Market, whilst the **South West** played host to a Fairtrade fashion show, arranged by the Women's Network.

To coincide with the launch of the new Healthy Living range, the **Central & Eastern** membership team delivered a number of healthy living events across the region. The interactive events involved cookery demonstrations from professional chefs, and keep fit sessions, ranging from belly dancing to break dancing.

In **Scotland**, the membership team supported a young enterprise company to deliver a healthy living event in Orkney. The team provided products and healthy eating advice to the 2,000 young people attending.

North Eastern & Cumbria Region joined forces with Newcastle City Council at a fair to celebrate World Environment Day. The Group's mobile exhibition trailer and a Co-operative-sponsored polar bear ice sculpture helped boost awareness of the issue of climate change.

Influence and action

Review of GB co-operative and credit union legislation

The Group welcomed the review of co-operative and credit union legislation by HM Treasury, submitted a formal response to the consultation and is participating in a Treasury-led working group to bring together various representatives from the sectors. It called for a modern legislative framework for the sector, acknowledging that it is in the public interest to encourage diversity and plurality of business models by creating an environment that enables enterprise, in all its forms, to thrive.

- 1 International Co-operative Alliance Statement on the Co-operative Identity, Manchester 1995.
- 2 International Co-operative Alliance Annual Report 2006, page 7.
- 3 The Co-operative Group has 123 corporate members, who represent other co-operative societies to whom the Group provides services. These range from small workers' co-operatives, to farming co-operatives and other major retailers. Corporate members must demonstrate a commitment to co-operative values in their business practice and buy at least one share (costing £5) in the Group. This confers on them the right to participate in the Group's democratic affairs – a right that can be exercised at the AGM and in the nomination and election of corporate members to the Group Board. Corporate Board members are elected from, and by, the corporate membership. To that end, and most unusually, the interests of the co-operative businesses with whom the Group trades are represented on its Board.
- 4 www.cooperatives-uk.coop/home/mini-webs/miniwebs/cespis
- 5 www.ica.coop/coop/principles.html
- 6 Includes a £5m interim dividend already paid in November 2007.
- 7 Of which, £38m was paid out to individual members in the form of dividend payments.
- 8 Includes costs of £0.1m associated with support for United Region's membership programme.
- 9 See The Co-operative Group Sustainability Report 2006, page 18.
- 10 The full responsibilities of the regional boards are detailed at: www.co-operative.coop/corporate/sustainability/regionalboards
- 11 The full responsibilities of the area committees are detailed at: www.co-operative.coop/corporate/sustainability/areacommittees
- 12 Excludes the United Region.
- 13 The Members' Network is the basis for the Group's accounting for democratically active members, and is defined as those members who actively make a request to receive information.
- 14 www.co-operativemembership.coop/en/constitution/reviewboard/
- 15 www.co-operative.coop/en/constitution/commentsboard
- 16 www.co-operativemembership.coop/en/constitution/
- 17 www.co-operativemembership.coop/en/
- 18 Ibid
- 19 Regional diversity priorities are as follows: Central & Eastern – BAME communities and youth; North Eastern & Cumbrian – disability equality and carers; Northern – gender and BAME; Northern Ireland – BAME and carers; Scotland – disability equality and youth; South East – BAME and youth; South West – gender and religion & faith; and Wales & Borders – rural isolation and lesbian, gay, bisexual & transgender.
- 20 A one-off survey conducted amongst elected members in 2005 generated additional diversity information as follows: 24% declared a disability, 8% described themselves as lesbian, gay or bisexual, and 26% said they were carers. Excludes United Region members. Following the Constitutional Review, diversity data will be captured.
- 21 www.co-op.ac.uk/memberdirector.htm
- 22 www.ica.coop
- 23 www.cooperatives-uk.coop
- 24 www.mutuo.co.uk
- 25 www.eurocoopbanks.coop/
- 26 www.icmif.org/
- 27 www.eurocoop.org
- 28 www.ica.coop/icba
- 29 www.party.coop
- 30 www.ica.coop
- 31 www.global300.coop
- 32 The Co-operative Group provides the following members for the Co-operatives^{UK} Board: Marilynne Burbage, Michael Main, Robin Stewart, Hilary Justin, Frank Jones, Kathryn Smith.
- 33 www.co-operativebank.co.uk/co-operativesdirectplus
- 34 www.co-operativemembership.coop/
- 35 Following a strategic review, The Co-operative Fund (formerly Co-op Action) re-opened to grant submissions in September 2006 with an opening capital of £2.3m. The aim of the Fund is to promote and expand the co-operative sector with the funding of projects considered under four streams: Start-up; Co-operative solutions; Promotion of co-operation; and Co-operative support structures. The Co-operative Fund Board comprises four Co-operative Group representatives (two of which are non-executive directors) and representatives from each of the Group's nine democratic regions. The Board determines the strategic direction and policy of the Fund. In 2006, the seven projects that received Fund-distributed grants totalling £308,795 were: Farmcare Biomass Project, £50,000; Peak District Dairy Wagon, £50,000; Energy4All, £50,000; Local Food Links, £48,795; Co-operatives^{UK}, £50,000; Co-operative Family and Value Credit Unions, £30,000; and Primepac Solutions Ltd, £30,000. For more information see: www.co-operative.coop/fund
- 36 www.co-operativemembership.coop/en/fund/boardandstrategy/#board
- 37 www.co-operativeloanfund.co.uk
- 38 www.co-operativeloanfund.co.uk/clf_casesstudies.htm
- 39 www.co-operativemembership.coop/en/ourcampaigns/modernco-operation/c-change/
- 40 Andrew Marvell School, Humberside; Castle Manor Community Upper School, Suffolk; Cullompton Community School, Devon; Epinay Special School, Tyne & Wear; Forest Gate Community School, London; Fulston Manor School, Kent; St Benet Bishop Catholic High School, Northumberland; St Peter's Roman Catholic High School, Manchester; Sir Thomas Boughey High School, Staffordshire; Whalley Range High School, Manchester.
- 41 www.clada.co.uk/

Target 2008

Achieve a Group Return on Capital Employed of 12% by 2009.

Delivering Value

Economic Impact



A detailed account of the Group's financial performance is presented in the Annual Report and Accounts 2007 and a summary presented in the Annual Review 2007¹.

Economic impact

Indicators

Underlying profit from operations: Trading Group (£)

Return on Capital Employed

Profit generation: CFS

Market share

Local sourcing

Sales and profit by region

Tax

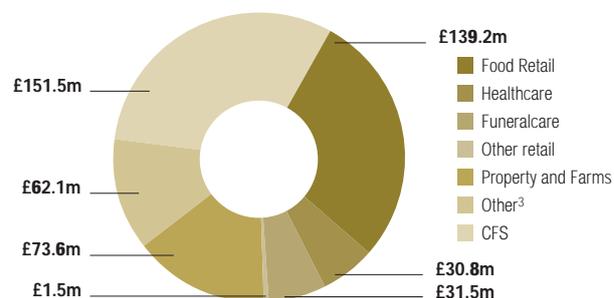
Value added

Materiality and strategy

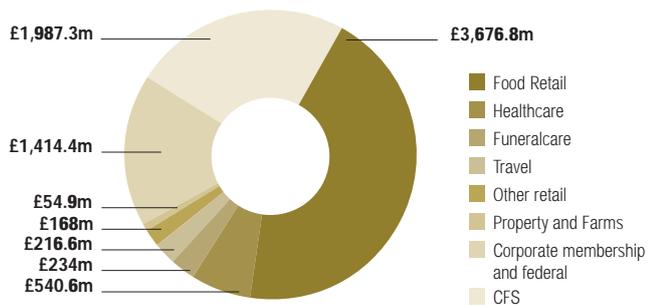
'Growing profit' and 'growing business' are two of six objectives that support the Trading Group's vision 'to be the best co-operative in the world' (page 7). 'Profit generation to create a sustainable model' is one of five indicators of progress towards CFS' vision, which is 'to be the UK's most admired financial services business'. Further information on the Group's economic impacts is provided throughout the report, but, principally, in the following sections: Modern co-operation (pages 100 and 107), International development (pages 14–25), Ethical finance (pages 40–47), Social inclusion (pages 48–52) and Community investment (pages 59–63).

Group financial summary

Operating profit², 2007: Total £485.5m



Revenue⁴, 2007: Total £8,290m



Trading Group underlying profit

Group underlying profit from operations is one of the two key internal measures of financial performance for the Trading Group, which underpin the business objective of 'growing profit'. The measure tracks the underlying financial performance from trading operations, but excludes the impact of significant items, property disposals, investment property growth and items relating to the performance of the Group pension scheme.

	2006 (£m)	2007 (£m)
Trading Group operating profit before significant items	284	305
Less:		
Property disposal gains	(46)	(50)
Investment property revaluation	(45)	16
Pension scheme adjustments	(74)	(89)
Underlying profit from operations	119	182

A Group underlying profit for 2007 of £182m represents an improvement of 53% on 2006 and is 9.8% above the target set in the 2007 budget.

Trading Group Return on Capital Employed

Return on Capital Employed (ROCE) is the second key measure of growing profit and commercial success. This provides a measure of how effective the Trading Group is at earning a return on the members' funds that are invested in its business. The measure is calculated by expressing the trading profit of the Group as a percentage of the average capital employed in the business over the year. The Group has set itself a target of achieving a minimum 12% ROCE and this is targeted to be achieved in 2009. The result achieved for 2007 was 11.4% compared to 9% in the previous year, and 0.9 percentage points higher than the financial target approved by the Board under the business plans for 2007.

CFS profit generation

The three key financial performance measures for CFS are: Shareholder profitability, Life and Savings new business profit, and Life and Savings maintenance expenses. Profit for incentive purposes, of £150.8m, was marginally below CFS' target level of £153.6m, primarily because improvements in the claims area of the General Insurance business were more than offset by investment write-downs in the banking business.

New business profit is the value of new Life and Savings business written during the year, allowing for the cost of capital. CFS' Life

and Savings business is written solely for the benefit of its Life and Savings customers. CFS' aim, therefore, is to provide products and services at a price that passes the benefits of writing the business back to customers. CFS' performance in 2007 was slightly adverse to its plans to broadly break even.

Maintenance expenses are the costs of servicing activities for the in-force Life and Savings business. In 2007, costs of £77.2m were substantially better than the target of £86.3m.

Market share

Market share is one of the two key internal measures that underpin the Trading Group's objective of 'growing business'. The Trading Group aims to increase its share of customers' spend year-on-year, such that it takes an increasing share of the markets across which it operates.

The market shares of businesses across the Group vary from less than 1% for certain CFS products to over 20% in the Funeral business.

	Market share ⁵
Food	3.83%
Funeralcare	21.91%
Pharmacy	7.36% ⁶
CFS ⁷ : Current accounts: Co-operative Bank	1.6%
CFS: Current accounts: smile	0.3%
CFS: Motor insurance	2.8%
CFS: Investments: Co-operative Insurance	2.5%
CFS: Investments: Co-operative Bank	0.7%
CFS: Pensions	5.8%

Local sourcing

Local sourcing can have a range of positive impacts; from supporting local economies to meeting increasing customer demand for seasonal and locally-supplied products. The related subjects of food miles and 'considered carbon' are discussed separately on pages 72–73.

In 2007, The Co-operative Food's sourcing priorities continued to include a focus on procuring more UK and regional products from primary suppliers and increasing the range of products sourced from The Co-operative Farms. Work will continue in this area in 2008, with further development of the 'Grown by us' range. A Head Office Local Trading Manager's role was created during 2007, in order to strengthen links with local food suppliers and develop the Group's approach to local sourcing.

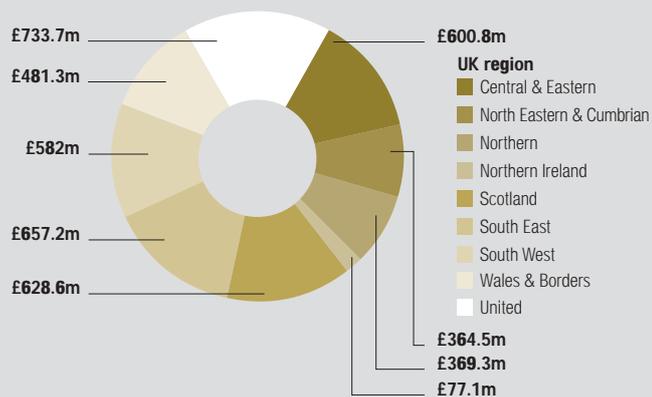
In relation to local sourcing of protein, 100% of Co-operative own-brand fresh beef, pork, duck, turkey, fresh plain chicken and sausages were British-sourced by the end of 2007 (pages 30–31). Furthermore, all beef products sold in England, Scotland, Wales and Northern Ireland were sourced from the respective countries.

100% of milk sold in stores was British-sourced in 2007 (page 30). The business has also introduced labelling to all own-brand milk to indicate its origin⁸. 30% of own-brand cheese is similarly marked. 100% of eggs sold in The Co-operative Food stores are British (page 30), and, during 2007, regional labelling was introduced across all own-brand eggs.

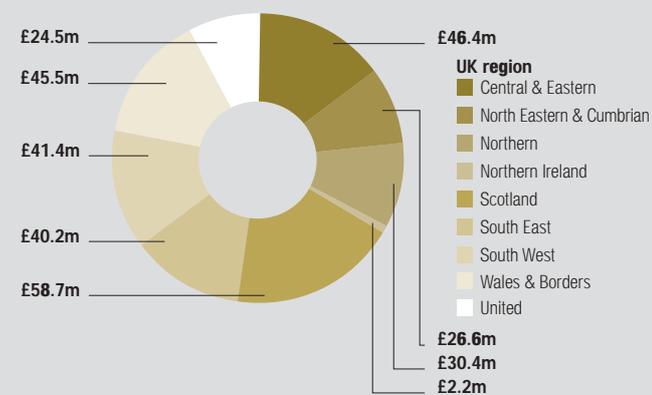


Economic impact

Sales from regional business activities, 2007: Trading Group¹³



Profits from regional business activities, 2007: Trading Group¹⁴



Tax

The issue of corporate payment of tax has gained considerable currency as a corporate responsibility issue in recent years. The following disclosure is largely based upon information reported in the Group's Annual Report and Accounts 2007; however, it is intended that this approach be reviewed over the coming year, with a view to providing greater disclosure in next year's Sustainability Report.

In 2007, the Group's tax charge of £39.1m (2006: £107.3m) included £14m (2006: £8.9m) relating to tax attributable to Co-operative Insurance policyholders' returns⁹. The charge excluding tax relating to policyholders is £25.1m (2006: £98.4m). The effective tax rate is 16.7%, compared to a standard rate of 30%¹⁰.

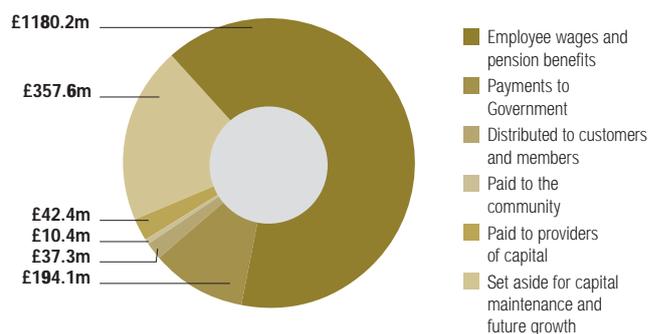
Value added

Economic value added expresses the contribution to national wealth made by a commercial organisation, and seeks to illustrate how a range of stakeholders can benefit from such wealth creation. For example, economic value can be dispersed to: employees in the form of salaries; to the State in the form of taxes; to charitable causes in the form of donations; and to owners in the form of profit, dividend and reserves.

Value added¹¹, 2007

	2007 (£m)
Operating profit = Profit before tax ¹² + gross interest cost less gains (or plus losses) arising from sale/disposal of businesses or assets.	174.0
Employee costs = Total employment costs (wages and salaries, social security and pension costs).	1,246.4
Depreciation and amortisation = Depreciation on owned assets and assets held under financial leases + amortisation of intangible assets + impairment of property, plant and equipment; goodwill and intangible assets.	259.0
Significant items	142.6
Value added	1,822.0

Distribution of value added, 2007: Total £1,822m¹⁵



In order to demonstrate the productivity/efficiency of business operations and enable benchmarking against competitors in these areas, regardless of company size, two further measures can be calculated based on value added information: Labour Productivity (P₁)¹⁶; and Wealth Creation Efficiency (P₂)¹⁷.

BENCHMARK The Co-operative Group's P₁ was £22,300 in 2007, and its P₂ was 129.9%. The Department for Innovation, Universities and Skills' Value Added Scoreboard presents results for the UK's top 800 companies by value added¹⁸. Of the food and drug retailers listed, the average P₁ is £18,500 and average P₂ is 130.3%. Banks score significantly higher on both measures, due to the nature of their business, with an average P₁ of £97,500 and an average P₂ of 208.4%¹⁹.

Supplier payment policy and practice

The Group does not impose standard payment terms on its suppliers, but agrees terms separately with each of them. Every effort is made to pay suppliers in accordance with the terms that have been agreed. At 12 January 2008, trade creditors expressed as number of days outstanding was 36 days (2006: 32 days).

Influence and action

The Dormant Bank and Building Societies Bill²⁰

In August 2007, The Co-operative Group responded to the Government's consultation on the distribution of unclaimed assets from dormant bank accounts, and welcomed the proposals that unclaimed assets should be distributed for youth services, financial inclusion and capability, and social investment. The response suggested that there should be independent financial scrutiny to ensure that money from dormant bank accounts should not be used to replace existing or proposed government funding for financial inclusion and capability initiatives. The response also suggested that the proposed money guidance service could also benefit from the distribution of unclaimed assets. Finally, the Group's response recognised the need for new sources of capital to enable investment in the long-term sustainability of third-sector enterprises, and that any wholesale social investment bank should not duplicate existing structures and organisations that could receive funding from unclaimed assets.

- 1 Data presented in the Economic impact section, has been drawn from The Co-operative Group Annual Report and Accounts, which have been independently audited and prepared in accordance with the Industrial and Provident Societies Acts 1965 to 2002, the Industrial and Provident Societies (Group Accounts) Regulations 1969, and applicable International Financial Reporting Standards, as endorsed by the EU (IFRS) for the year ended 12 January 2008. www.co-operative.coop/corporate/corporatepublications
- 2 Total operating profit of £485.5m (before significant items, Group operating costs [£35.6m], and change in value of investment properties [£18.3m]) includes operating losses of £4.7m for Travelcare.
- 3 Comprises: Corporate membership and federal (which includes a net finance income of £77.8m for the pension scheme); and inter-company eliminations.
- 4 Total revenue of £8,290m includes negative revenue of £2.6m for inter-company eliminations.
- 5 Market share in December 2007. Information is not available for the Travel business.
- 6 The Co-operative Pharmacy market share information relates to England and Wales only (figures exclude Scotland and Northern Ireland).
- 7 Market share information is available by product rather than on a company-wide basis for CFS. Figures for a number of core products are provided.
- 8 Labelling indicates where milk is sourced from: Scotland; Wales; British; Southwest England; Yorkshire; and Cheshire.
- 9 The total tax charge, which is net of a deferred tax credit of £27.7m, has decreased in comparison to 2006 primarily as a result of: the restatement of deferred tax balances (-£28.5m); the comparable difference in profit before tax at 30% (-£53.4m); the comparable increase relating to Policyholders' returns from the prior year (+£12.6m); and the net of differences to other tax adjustments, as explained at Note 13 of the Annual Report and Accounts (+£1.1m).
- 10 A reconciliation of the standard rate of tax is presented in The Co-operative Group Annual Report and Accounts 2007, p83-84.
- 11 Value added = Operating profit + Employee costs + Depreciation + Amortisation + Impairment of property, plant and equipment; goodwill and intangible assets + significant items (excluding impairment, because already included).
- 12 Profit before tax excludes: net interest charge; losses on termination of activities (pre-tax); net profits on disposal of property; plant and equipment; change in the value of investment properties; payments to, and on behalf of, members; and net pensions finance income.
- 13 Regional businesses are Co-operative Food, Co-operative Funeralcare, Co-operative Travel and Co-operative Pharmacy. The regional profits are before central administration costs, significant items, profits of associated undertakings and after central charges in respect of internal rents, which are designed to reflect the use of Trading Group property by the businesses at a commercial rate. The 2007 figures for the United Region relate to the 24-week post-merger period and do not include the non-regional businesses (Sunwin Motors, E-Store, Sunwin Services and Property).
- 14 Costs were high in the United Region as central functions were not merged until the new financial year.
- 15 Based on GRI G3 Indicator EC1 guidance, and the UK Government's Department for Innovation, Universities and Skills' Value Added Scoreboard Methodology.
- 16 Labour productivity = P1 (EK) = Value added per employee (£k). Based on employee headcount, not full-time equivalent.
- 17 Wealth creation efficiency = P2 (%) = Value Added / (Employee costs + depreciation). A P2 of less than 100% means that less than £1 of wealth is created for every £1 of employee costs and depreciation. Based on UK Department for Innovation, Universities and Skills' Value Added Scoreboard Methodology.
- 18 Department for Innovation, Universities and Skills, Value Added Scoreboard, 2008, www.innovation.gov.uk/value_added
- 19 The Trading Group accounts for the bulk of the Group's revenue (76%, as detailed in the Co-operative Group Annual Report and Accounts 2007, p74). The Group performs above, or in line with averages for the Food and Drug Retail sector benchmarks, which are the most relevant for the Trading Group's business area. Likely differences in wealth creation and labour productivity between the Trading Group and CFS need to be considered when benchmarking the Group against sector averages.
- 20 <http://services.parliament.uk/bills/2007-08/dormantbankandbuildingsocietyaccountshl.html>

Employees

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. <

Targets 2008

Achieve a Trading Group Employee Engagement score of 76 in 2008.

Achieve a CFS Employee Engagement score of 73% by 2010/11. In order to progress towards this score, a 2008 interim target of 58% has also been set.

Fully launch the Trading Group's 'Flexibility Works' programme by the end of 2008.

Within CFS, reduce the number of employees that are 'work-disengaged, but not looking to leave the organisation', to 18% by the end of 2008.

✓ Target achieved

⊞ On track

» Close to target

< Behind schedule

Indicators

Employee engagement

Organisational change

Employee turnover

Trade union recognition

Personal development and training

Salary and benefits

Health, safety and well-being

Work/life balance

Background

People are vital to business success. A work environment that is safe and healthy, where everyone's contribution is recognised and valued, and colleagues feel supported, developed and motivated, is considered key to increasing job satisfaction, performance and creativity.

Evidence shows that highly engaged staff are more likely to offer higher levels of discretionary effort, voluntarily act as advocates for the Group and its products and services, and deliver high levels of service to customers, of their own free will. At the same time, highly engaged colleagues are more likely to feel satisfaction and enjoyment in their work, and feel that the Group values their contribution and is committed to their development.

Materiality and strategy

Employees are one of the Group's key stakeholders. Issues and impacts that relate to them are, therefore, important in the Group's identification of, and reporting on, material issues.

Colleague engagement and satisfaction measures are included in the balanced scorecards of both the Trading Group and CFS (page 7). 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 employee engagement (based on questions within the annual Talkback employee survey) measures progress in relation to this objective. In 2005, CFS developed a 10-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. Since 2006, the remuneration of members of the Executive within both the Trading Group and CFS has been partly linked to performance in this area.

Health and Safety policies exist for both CFS and the Trading Group. The policies describe the businesses' commitment to safeguarding employee health, safety and well-being at work; and protecting non-employees from any hazard created by the businesses' operations. In addition, and in line with external reporting standards, the Group continues to report publicly on a number of other employee KPIs covering employment; labour/management relations; health and safety; and training and education¹.

People management

The Trading Group and CFS each have a human resources function, and undertake regular employee attitude surveys (described below). 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 conditions².

Total employees by business ³				
	2004	2005	2006	2007 ⁴ (former Group in brackets)
The Co-operative Food ⁵	45,697	43,999	44,476	56,561 (44,603)
Specialist Commercial Businesses	n/a	n/a	n/a	962 ⁶ (83)
Specialist Retail Businesses ⁷	2,235	2,038	1,859	3,344 (1,931)
The Co-operative Funeralcare	2,961	2,871	2,753	3,633 (2,735)
The Co-operative Pharmacy	2,782	2,893	3,064	6,252 (3,881)
Property Division	n/a	n/a	231 ⁸	1,034 ⁹ (1,011)
Corporate Functions	877	1,027	1,968	1,233 (903)
Other Businesses	2,121 ¹⁰	1,981 ¹¹	868 ¹²	603 ¹³ (123)
CFS	12,938	10,303	9,778	7,989 (7,989)
Total	69,611	65,112	64,997	81,611 (63,259)

Contract types	Trading Group	CFS
Permanent	69,783 (96.2%)	7,950 (99.5%)
Temporary	1,603 (2.2%)	39 (0.5%)
Casual	1,159 (1.6%)	0 (0%)

Accounting

Employee engagement is a broad measure of how committed and motivated people are to do their best at work and generate strong business performance for the benefit of The Co-operative Group. Employee engagement is measured via an employee attitude survey, which determines an 'engagement index' score. Engagement scores are calculated differently for CFS and the Trading Group and are, therefore, not directly comparable.

In the Trading Group, engagement is measured as an average score across 17 questions, which focus on three key elements: rational understanding about the aims of the Group and people's role within its success; emotional attachment and how people feel about working for the Group; and a behavioural element, measuring people's willingness to deliver discretionary effort, recommend the Group (both as an employer and its products and services) and remain employed by the Group.

For CFS, the score is based on seven survey questions that measure three key elements of colleague opinion: emotional attachment to the organisation; willingness to stay with the organisation; and

discretionary effort – how much colleagues are motivated to go beyond their normal duties to help the organisation achieve its aims. Since the approach measures outcomes, such as pride and advocacy, the score is very difficult to influence by specific or short-term activities.

Employee engagement

Engagement index ¹⁴			
	2005/06	2006/07	2007/08 (former Group in brackets)
Trading Group (mean average: scale 0–100)	69	74	74 (74)
CFS	n/a	53% ¹⁵	52% ¹⁶

The Trading Group carries out a full annual employee survey in October each year. The 2007 response rate was 74% (78% former Group, 60% former United)¹⁷. Response rates have improved year-on-year since employees were first consulted in 2003, when only 19% of staff participated¹⁸, demonstrating the growing value that employees place on the opportunity to express their views. Participation levels are considered to constitute a creditable achievement, particularly given that the majority of employees are distributed in teams across over 4,000 UK locations, and that, due to this, currently, a paper-based survey method is used.

In spite of the major changes affecting the business in 2007 (page 114), which could potentially have negatively impacted upon employee engagement levels, the Trading Group engagement index score for 2007/08 was 74¹⁹ (2006/07: 74). Maintenance of the 2006 engagement score is considered to be a positive outcome that provides a solid base upon which to build engagement across the enlarged Group.

In addition, three interim measures of employee engagement were taken in the Trading Group prior to the merger. Surveys were conducted in January, April and July 2007, with between 16,800 and 21,800 surveys distributed for each. The engagement scores ranged from 75 to 77, with the highest of these scores being in April, prior to confirmation of the merger.

For the Trading Group, the biggest improvements since 2006²⁰ seen in the main annual survey results were in perceptions that: managers reward employees when they make a special effort; the Group champions its customers' rights; and the employee survey itself has led to improvements in the workplace. The most significant decrease since 2006 was seen in the perception that the business works well with other co-operatives.

CFS carried out a full annual employee survey in February 2007²¹. A mini survey, consisting of a more limited number of questions, was carried out by CFS in October 2007, in which 2,000 employees were invited to participate²² and the response rate was 83% (February 2007: 86%). The next full CFS employee survey will be carried out in autumn 2008, in order to enable results to better feed into the performance development process. The CFS engagement index score for the 2007 mini survey was 52% (February 2007: 53%)²³. The 2007 mini survey results revealed that 19% (February 2007: 20%) of CFS employees were 'work-disengaged' – having low levels of emotional attachment to the organisation and low levels of discretionary effort, but not looking to leave. A target has been set to reduce this to 18% by the end of 2008.



Delivering value

Employees



At CFS, the 2007 mini survey results saw the biggest improvement, since the full employee survey, in employee understanding of the relationships between their job and their division's goals and objectives. The biggest decline in score was in questions concerning change within the organisation. This is not unexpected, given the organisational changes that took place under the 'Transformation 2007' programme (see below).

The response from the latest Trading Group employee survey indicates that 84% (2005/06: 83%) of employees were satisfied overall with their job. Questions included within the CFS survey are worded slightly differently, with 48% (February 2007: 50%) of CFS employees satisfied with working at CFS; whilst 61% (February 2007: 58%) are satisfied with their job – the kind of work they do. Both sets of CFS responses on this issue fall short of the financial sector norm for employee satisfaction (75%) and CFS has set targets to improve employee engagement scores steadily over the next five years to address this, aided by measures in the People Programme, which is dedicated to investing in employees to create a high-performance culture and organisation.

Around 4,500 managers across the Trading Group and 738 across CFS were provided with the survey results and 'engagement index' scores for their team(s) following the full employee surveys carried out in 2007. Following dissemination of the results to managers, action-planning sessions are 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 all senior managers.

Organisational change

In July 2007, the CFS Board approved an investment of £250m in the business to support planned growth. The Board recognised that, to maximise the return on this investment and ensure customers were provided with the most attractive deals, operating costs needed to be reduced by £100m by the end of June 2008. A major change programme, 'Transformation 2007', commenced in July 2007 to implement a rapid restructuring exercise across non-customer-facing areas, with the objective of streamlining and improving structures, simplifying business processes and reducing duplicated activity.

As part of a consultation exercise with its recognised trades unions, CFS commenced a voluntary redundancy exercise across all business areas, with the objective of achieving the required redundancies on a voluntary basis, where possible. As a result, of the 570 redundancies arising from 'Transformation 2007', 300 were agreed on a voluntary basis. In addition, a large number of vacancies were removed to achieve an overall reduction of c1,000 positions. The 'Transformation 2007' exercise made a significant contribution to the required cost reductions, and an extensive programme to review business processes across CFS is now underway.

In early 2007, the Trading Group completed a head office restructuring programme, 'In Shape for the Future', which began in 2006. The programme was undertaken to improve organisational and cost efficiencies. It was conducted in full consultation with the trades unions, through which a detailed process was agreed. The Trading Group further enhanced its redundancy provisions and set up an outplacement service to assist employees impacted by the changes.

The Trading Group sold its shoe retailing business, Shoefayre, and ceased operating its department stores business during the course of 2007. Shoefayre was sold as a going concern to Shoezone and the employees were transferred. Whilst a number of department stores were transferred to Anglia Co-operative Society, providing continued employment for employees at those stores, it was necessary to close the rest of the outlets in the department stores business. As a result of these changes, 592 staff were made redundant.

The principal structural change in 2007 was the merger in July of The Co-operative Group and United Co-operatives, resulting in the UK's largest consumer co-operative. The merger of two successful and complementary businesses meant that redundancies arising from the integration process, 'Stronger Together', have been kept at minimal levels. Following on from the approach adopted in the 'In Shape for the Future' programme, there was full and detailed consultation with the trades unions, and a written process was agreed. The 'Stronger Together' programme provides redundancy provisions and outplacement services for displaced staff at a level beyond anything previously provided. In addition, the integration programme, which will be completed during 2008, provides for the minimisation of differences in terms and conditions of employment between pre-amalgamated societies.

Due to the specialist nature of head office roles, there was limited opportunity to seek volunteers for redundancy. Similarly, the closure of department stores meant that voluntary redundancy was not an available option. In total, there were 1,630 redundancies across the Trading Group in 2007, of which 1,534 were compulsory.

Two significant outsourcing programmes have been completed within CFS, resulting in the transfer of 216 staff to Xansa, and 822 CFS staff to Capita, both under TUPE legislation²⁴. In addition, there are a number of existing outsourcing programmes across CFS covering services including IS design and delivery, cash handling and cheque processing. In total, CFS outsourcing utilises approximately 1,720 people via outsourcing contracts. There are no significant outsourcing activities within the Trading Group.

Employee turnover

The Trading Group monitors 'avoidable' employee turnover²⁵ by business area, but does not report on turnover in relation to all leavers, nor does it determine a Trading Group average. CFS monitors both avoidable employee turnover and turnover in relation to all leavers²⁶. In relation to avoidable labour turnover, figures vary considerably for different business areas. Within the Trading Group, avoidable turnover was highest in Specialist Commercial Businesses and Food Retail. Within CFS, overall turnover increased to 44% (2006: 33%). The increase in overall turnover follows the Transformation 2007 programme which led to a reduction in 1,000 positions, which equated to 570 redundancies in 2007, as previously described. Avoidable turnover decreased slightly to 26%. In common with other businesses, avoidable turnover was at its highest within the Customer Contact Centre areas (call centres), whilst high levels of turnover were also experienced amongst Financial Advisers. CFS continues to review its recruitment and retention strategies and, during 2008, is establishing a consistent exit interview process in order to understand reasons for leaving and to address any shortfalls. Avoidable labour turnover in many parts of the business is higher than the 2007 national average of 14.5% for private sector services²⁷.

Avoidable employee turnover	
	2007 ²⁸
Food Retail Division ²⁹	32%
Specialist Commercial Businesses ³⁰	33%
Specialist Retail Businesses ³¹	25%
Funeralcare	11%
Pharmacy	17%
Property Division ³²	29%
Corporate Functions	11%
CFS	26%

Trade union recognition

The Group appreciates that trades unions make an important contribution to business and society as a whole. During 2007, four trades unions were recognised by the Group as a whole covering the range of employee roles across the business (four by the Trading Group³³ and three by CFS³⁴). 33%³⁵ (2006: 30%) of Trading Group employees are union members, as are 63% of CFS employees.

A National Joint Integration Committee (NJIC) brings together representatives of CFS Human Resources and trades unions, in order that organisational change and integration of the businesses can be managed optimally. The NJIC continued to meet regularly throughout 2007.

At the beginning of 2008, CFS and the recognised trades unions reviewed the effectiveness of current agreements and have made improvements to the following:

- **Outsourcing Principles Agreement** – a set of principles to support organisational change that results in outsourcing CFS activity to third parties;
- **Effective Management of Business Change** – a set of principles to support ongoing organisational change to provide a flexible and pragmatic approach; and
- **Consultative Framework** – a framework of meetings to support negotiation on pay and terms & conditions of employment. It also supports a joint problem-solving approach to strategic issues, such as business performance and health and safety, and outlines how CFS and the joint trades unions will work together in a collaborative way.

CFS and Unite have also agreed the principle of harmonising severance terms. This will be the subject of further discussions and a separate agreement during 2008.

Personal development and training

The Group believes the way to build a successful and co-operative business is to train and develop its employees. 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 their job; financial support for developmental training as appropriate; and entitlement to performance reviews.

Trading Group			
Employee survey question: 'At work, I am able to learn and develop as a person.'			
	2005/06	2006/07	2007/08 (former Group in brackets)
Agree	63%	70%	74% (75%)
Neither agree nor disagree	25%	21%	19% (18%)
Disagree	12%	9%	7% (7%)

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 for all' has been established to provide a centre of excellence for all training, learning and development within CFS. The first phase of the university was launched in January 2008 with a full-time equivalent staff of 96 and a new intranet site. The university will help the business to move towards more strategy-driven training provision; define and work to address the future needs of CFS; and ensure clear benefits and tangible results from all training and development.

BENCHMARK CFS' expenditure on training during 2007 was £9,967,000, which corresponds to an average of £2,080 per employee when staff costs are included (£1,248³⁶ per employee when staff costs are not included). Average training expenditure for the UK finance sector reported by the Learning and Skills Council³⁷ in 2007, was £1,425 (including staff costs).

A small proportion of training provided for Trading Group employees is organised centrally (225 days, totalling an investment of just over £191,000) and the remainder is organised on a business-by-business basis. The centrally organised training is excluded from the benchmark figures below.

Training provided by individual businesses in 2007	Average number of training days per employee ³⁸	Average investment per employee ³⁹
Food ⁴⁰	0.8	£70
Travel ⁴¹	0.6	£59
Pharmacy	2.1 ⁴²	£151
Funeralcare	0.6	£90
CFS	n/a	£1,248 ⁴³

BENCHMARK Training provision within individual businesses across the Trading Group varies, but is almost in line with national averages for the retail sector. For example, expenditure on external training is £70 per employee in Food, and £151 per employee in the Pharmacy business. The Learning and Skills Council⁴⁴ reports an average retail sector training expenditure of £1,225 per employee, of which approximately 7%, or £85.75, relates to external training course costs.



Delivering value

Employees

The Trading Group continues to maintain its Investors in People (IIP)⁴⁵ accreditation. This national quality award recognises organisations that aim to improve performance by developing their employees. During 2007, as previously described, CFS made a significant investment in setting up the university for all, which will lead to a radical change in the way colleagues will be supported in their development going forward. As a consequence, CFS is exploring a number of accreditation options (including, amongst others, IIP and accreditation through the Financial Services Skills Council) and will pursue the option that will generate both the greatest potential return for the business and the best opportunities for colleagues. In the meantime, the CFS accreditation under IIP has been allowed to lapse.

Graduate scheme

The graduate scheme offers two routes: an 18-month Business Management Programme and a three-year CIMA Finance Programme. Both are structured around a series of business placements providing the tools and exposure for graduates to drive their career paths. The Graduate Recruitment team maintained a strong presence in universities during 2007, running talks and skills sessions and attending careers fairs across the UK. The Group's reputation for recruiting and developing graduates has continued to grow.

BENCHMARK In the 2007 Times Top 100 Graduate Employers, The Co-operative moved up 39 places from its 2006 position, to number 61, a greater increase than any other graduate employer⁴⁶.

Salary and benefits

Salary patterns differ across the Group businesses, with a larger proportion of CFS employees earning wages in higher salary bands than Trading Group employees. 86% of Trading Group employees earn up to £20,000 compared to 49% of CFS employees, and, whilst only 2% of Trading Group employees earn over £40,000, this is true of 9% of CFS employees. Variations reflect, in part, the differing types of business.

Proportion of staff in each basic salary band		
	CFS ⁴⁷	Trading Group ⁴⁸
Up to £15,000	29%	75%
£15,001 to £20,000	20%	11%
£20,001 to £30,000	17%	9%
£30,001 to £40,000	11%	3%
£40,001 plus	9%	2%

Trading Group			
Employee survey question: 'My pay is equal to, or better than it would be for, similar jobs in other companies ⁴⁹ .'			
	2005/06	2006/07	2007/08 (former Group in brackets)
Agree	n/a	n/a	38% (39%)
Neither agree nor disagree	n/a	n/a	22% (22%)
Disagree	n/a	n/a	40% (39%)

CFS			
Employee survey question: 'How do you rate your total pay, in comparison to pay for doing the same job in other similar companies ⁵⁰ ?'			
	2005/06	February 2007	October 2007 (mini survey)
Very good/good	n/a	24%	n/a
Neither good nor poor	n/a	30%	n/a
Poor/very poor	n/a	46%	n/a

The Group offers defined benefit pension arrangements to all employees. These are provided mainly through The Co-operative Group Pension (Average Career Earnings) scheme (the PACE scheme), which provides members with a defined benefit pension based on average salary during the course of their employment from April 2006, when the scheme was implemented. Benefits built up in former schemes before April 2006, which transferred into PACE, are protected by remaining linked to final salary. Following the merger with United Co-operatives on 29 July 2007, employees who, at that date, were members of one of the former United Co-operatives final salary pension schemes⁵¹, continue in membership of the relevant scheme.

In 2007, contributing members to the pension schemes totalled 18,596⁵², with 47,125 deferred pensioners and 42,043 pensioners. The relatively low proportion of staff in the pension schemes (23%) has been affected by the high proportion of part-time staff and turnover levels in the Food business, as well as a number of redundancies across the business and the completion of business outsourcing programmes.

% of staff who are members of the pension scheme		
	2006 (excludes former United)	2007 (former Group in brackets)
Trading Group	n/a	18% (17%) ⁵³
CFS	n/a	67%
Group total	27%	23% (23%)

Trading Group				
Employee survey question: 'The benefits I receive (pensions, holidays, etc) are fair for the work I do ⁵⁴ .'				
	2004 /05	2005 /06	2006 /07	2007/08 (former Group in brackets)
Agree	32%	34%	n/a	65% (65%) ⁵⁵
Neither agree nor disagree	19%	19%	n/a	21% (21%)
Disagree	49%	47%	n/a	14% (14%)

CFS			
Employee survey question: 'How do you rate your overall benefits at CFS, in comparison to those provided by other similar companies ⁵⁶ ?'			
	2005/06	February 2007	October 2007 (mini survey)
Very good/good	n/a	38%	n/a
Neither good nor poor	n/a	30%	n/a
Poor/very poor	n/a	32%	n/a

All part-time employees are entitled to the same benefits as their full-time equivalents; however, some benefits, for example, holiday entitlement, are pro rata to the number of hours worked, whilst a certain length of service is required before an employee is eligible to receive a number of others. The majority of benefits that are available to permanent employees are also available to temporary employees.

Benefits effective from commencement of employment for all employees
Lifestyle benefits
Bonus and incentive scheme(s) ⁵⁷
Childcare vouchers
Co-operative employee membership (employee dividend)
Death-in-service benefit
Employee Assistance Programme
Give As You Earn scheme
Healthcare Cash Plan
Holidays (over the statutory entitlement)
Public transport season ticket loan
Sports & Social Club
Staff discount scheme
Benefits subject to a qualifying period for all employees
Defined benefit pension scheme
Sick leave
Enhanced maternity/adoption benefits ⁵⁸
Benefits available to permanent employees that are not available to temporary employees
Long-service awards

Employee communications

Internal communications play a key role in the drive to improve the commitment and engagement of employees and to ensure employees are well-informed about the business. Across the Trading Group, these include The Co-operative Intranet; an award-winning staff magazine, *Us*, produced five times a year; and a management magazine, *Mag:ma*, produced three times a year. In 2007, *Mag:ma*, for the third year in a row, won a prestigious Award of Excellence in Europe's biggest communications competition⁵⁹. Regular e-briefings are also circulated to employees, and Leadership briefings are circulated to the senior management community for onward cascade to their teams and direct reports. In addition, communications are produced for specific functions within the business (eg, *Vision* – a magazine for the logistics function; *HR E-Zine* for the HR function; and *FT* for the finance function). Annual employee survey results reveal that 75% of Trading Group employees agree that their manager regularly briefs them on information about the business (2006/07: 69%).

Across CFS, employee communications include Open Talk, a monthly face-to-face briefing for all colleagues; Open magazine, which is published six times a year and delivered to all colleagues; and Open World, a staff intranet. In early 2008, a number of new leadership communication channels were introduced within CFS. These have been implemented in order to communicate additional information to managers about the business, with a view to supporting progress towards CFS' vision. They include a quarterly dial-in conference hosted by members of the Executive and senior

leadership team; quarterly leadership team meetings; quarterly face-to-face briefings for the top 180 managers, along with iPod broadcasts for these managers; pocketbooks distributed to the top 1,000 managers; and annual focus groups.

Whistle-blowing

The Group has a whistle-blowing policy and procedure in place, to provide employees with a confidential route for raising complaints (whistle-blowing) in relation to any business conduct issues or malpractice. There are trained internal contacts, along with an external whistle-blowing helpline, to ensure impartiality. All calls received through both internal and external routes are reported to the Audit and Risk Committee. During 2007, 10 calls were received through this process, the majority of which were of a low level of concern, but all have been addressed. A new whistle-blowing policy will be launched during 2008.

Health, safety and well-being

Health and safety

The health and safety objectives of the Group are to safeguard the health, safety and welfare of all employees when they are at work and to protect non-employees from any hazard created by the business' operations.

	Reportable accidents per 100,000 employees	Non-reportable accidents per 100,000 employees
Trading Group employees	530	5,536
CFS employees	133	1,900

BENCHMARK Injury rates reported by CFS are broadly comparable to national data for the finance sector (the Health and Safety Executive reports 134 per 100,000 employees in 2006/07⁶⁰), whilst Trading Group rates are higher than national data for retail (the Health and Safety Executive reports 429 per 100,000 employees in 2006/07⁶¹). The Trading Group reported one employee fatality during 2007 and CFS did not report any.

Well-being

In April 2007, a new Employee Assistance Programme (EAP) was rolled out across the Group, provided by ICAS. The service includes a free 24-hour helpline, available 365 days per year, which is staffed by fully trained and qualified telephone counsellors; face-to-face counselling; an online information portal to ICASxtra⁶², which is available to employees through the intranet; and the availability of a 'LifeManagement' practical advice line, which offers quick, confidential information on a range of everyday issues, such as financial services, family care and legal advice. The service is available to all employees and their immediate family members.

The EAP was promoted during 2007 in a number of ways, including through HR representatives within each business; a desk drop of wallet cards; a poster campaign; and intranet and employee magazine articles and adverts. In addition, a presentation was given to union representatives in December 2007, at which agreement was reached on their acceptance and understanding of the scheme, its operation and the usefulness of this to their members.

During 2007, 3% (2006 previous scheme: 2.8%) of employees across CFS and 1% (2006 previous scheme: 1%) of employees from the Trading Group contacted these services.



Delivering value

Employees

The Group revised its policy on smoking and issued guidance to all its businesses to ensure compliance with the Health Act 2006, which was enacted throughout the UK in 2007. CFS ran smoking cessation and support sessions, accompanied by awareness days around the July implementation at which 'Stop Smoking' packs, were distributed. The Co-operative Pharmacy provided advice and free samples of smoking cessation products over a two-day period to support employees at the Trading Group's head office who wished to stop smoking. A number of lunchtime smoking cessation sessions were also run through July and August for Trading Group employees.

CFS			
Employee survey question: 'CFS takes a genuine interest in the well-being of employees.'			
	2005/06	February 2007	October 2007 (mini survey)
Agree	n/a	46%	42%
Neither agree nor disagree	n/a	28%	28%
Disagree	n/a	26%	30%

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. A new flexible working programme – 'Flexibility works' – was initiated in April 2007. Focus group research was undertaken as a first step to drive this initiative forward, along with analysis of flexible working data. The Trading Group's flexible working policy is currently being rewritten and further work in 2008 will address areas identified in the research, with a view to fully launching the programme by the end of 2008.

In April 2007, CFS launched a comprehensive suite of 12 work/life balance policies, including market-leading fostering support, IVF/fertility treatment support provisions and a career break scheme. A thorough review of maternity and adoption processes was undertaken, following which a greater emphasis on flexible working options available on return-from-leave has been included within maternity/adoption packs. In January 2008, a new Flexible Working Request Procedure was also launched, which provides a process for formal requests for flexible working in line with employees' statutory rights and a central recording system for the outcome of all requests.

A proactive approach to the use of flexible working has also been piloted in two areas of the business⁶³. Following a business demand analysis, a number of different working arrangements have been trialled; for example, compressing hours into a four-day week. The pilots will inform future work to establish whether the approach could be implemented across the business or whether it is better suited to implementation in specific areas. Another pilot is underway to test a more flexible approach to managing the working hours of those colleagues that do not work flexitime. The outcome of the pilot will inform whether there is scope to implement this approach across the organisation.

Over 2008, CFS plans to launch a dedicated work/life balance intranet site, with information tailored to colleagues focusing on issues such as family, carer responsibilities, personal leave or flexible working. It is intended that the site will raise the profile of work/life balance initiatives.

Part- and full-time employees				
	Trading Group		2006	CFS 2007
	2006 ⁶⁴	2007		
Full-time	37%	38.5%	86%	83.5%
Part-time	60%	60.0%	14%	16.5%
Casual	2%	1.5%	0%	0%

Trading Group			
Employee survey question: 'My work and personal life are reasonably well balanced.'			
	2005/06	2006/07	2007/08 (former Group in brackets)
Agree	69%	73%	73% (72%)
Neither agree nor disagree	15%	16%	16% (17%)
Disagree	16%	11%	11% (11%)

CFS			
Employee survey question: 'CFS is sensitive to the relationship between my work life and my personal life ⁶⁵ .'			
	2005/06	February 2007	October 2007 (mini survey)
Agree	n/a	55%	n/a
Neither agree nor disagree	n/a	25%	n/a
Disagree	n/a	20%	n/a

Absence

Employee absence across the business ranged from 1.8% in Specialist Commercial Businesses to 4.5% in CFS during 2007. The most common causes cited for absence across CFS were stomach upsets (11%) and colds (10%); however, records are incomplete, with 13% of records not citing a reason. Records are incomplete across the Trading Group, with staff not citing a reason in 66% of cases.

Absence as a proportion of employee time ⁶⁶	2007
Food Retail Division ⁶⁷	4.2%
Specialist Commercial Businesses ⁶⁸	1.8%
Specialist Retail Businesses ⁶⁹	2.9%
Funeralcare	3.7%
Pharmacy	2.4%
Property Division ⁷⁰	3.3%
Corporate Functions	2.5%
CFS	4.5%

BENCHMARK According to the Chartered Institute of Personnel and Development⁷¹, the average overall absence rate for retail and wholesale is 3.9%, or an average of 8.8 days lost per employee per year. CFS benchmarks its absence rates against PricewaterhouseCoopers Saratoga⁷², which enables comparison with companies of a profile similar to CFS. The average overall absence rate for CFS' comparator group was 4.0% in 2006, the year for which the most recent data is available.

- 1 The following GRI indicators relating to Labour Practices and Decent Work are reported in the Employees section of the Report: LA1 Total workforce by employment type, employment contract and region (pages 113–118); LA2 Total number and rate of employee turnover (partially reported on pages 114–115); LA3 Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations (page 117); LA4 Percentage of employees covered by collective bargaining agreements (page 115); LA7 Rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities by region (partially reported on pages 117–118); LA8 Education, training, counselling, prevention, and risk-control programmes in place to assist workforce members, their families, or community members regarding serious diseases (page 117); LA10 Average hours of training per year per employee by employee category (page 115).
- The following Co-operatives^{UK} key social and co-operative performance indicators are reported on: Indicator 3 Participation of employees and members in training and education (employee element: page 115); Indicator 4 Staff injury and absentee rates (pages 117 and 118).
- 2 The Trading Group Human Resources Leadership Team meets monthly and reports to The Co-operative Group Board on a quarterly basis. See pages 6–9 for further details of sustainability governance.
- 3 Figures show headcount, not full-time equivalent. Categorisation of businesses has changed over the period shown in the table, so direct comparison of certain categories is not possible. Figures exclude staff on career breaks and maternity leave.
- 4 2007 figures include former United employees.
- 5 Comprises Food Retail Stores, Head Office and Logistics (2004–6 data excludes Head Office).
- 6 Comprises Sunwin Motors, Sunwin Services, The Co-operative Clothing and E-Store.
- 7 2004–6 figure comprises The Co-operative Travel only; 2007 includes The Co-operative Travel, The Co-operative Legal Services and End of Life Planning.
- 8 Comprises The Co-operative Farms and Property.
- 9 Comprises Former Group services (including Aegis), Operational Compliance, Loss Prevention, Procurement & Farms.
- 10 Comprises Department and Home Stores, The Co-operative Farms, Priory Motor Group and Property.
- 11 Comprises Department and Home Stores, The Co-operative Farms, Priory Motor Group, Property, The Co-operative Clothing and Hotels.
- 12 Comprises Department and Home Stores, Priory Motor Group, The Co-operative Clothing and Hotels.
- 13 Comprises Hotels, Cash In Transit, Catering (Former United).
- 14 Engagement index methodologies differ between CFS and the Trading Group, so scores are not comparable.
- 15 February 2007 full survey.
- 16 October 2007 mini survey.
- 17 Inclusion, for the first time, of former United employees within the 2007 Trading Group survey means that direct comparison to previous survey results cannot be drawn.
- 18 Response rates were 53% in 2004, 69% in 2005, and 76% in 2006.
- 19 Trading Group Engagement scores are mean averages calculated on a scale of 0–100.
- 20 2006 comparisons apply to former Co-operative Group employees only.
- 21 Results were reported in the 2006 Co-operative Group Sustainability Report.
- 22 1,000 non-people managers (split 50:50 between customer-facing and non-customer-facing) and 1,000 people managers. Results were weighted to ensure comparability with the full survey.
- 23 Prior to 2007, a 'colleague satisfaction' score was used instead of the employee engagement index. The colleague satisfaction score was based on a greater number of survey questions. The colleague satisfaction score for the October 2007 mini survey was 60% and was also 60% for the February 2007 full survey.
- 24 Further details of the Xansa and Capita outsourcing programmes are provided in the 2006 Sustainability Report, pages 101–102.
- 25 Excludes employee departures for the following reasons: end of fixed-term contract; transfer of undertaking; retirements – early and normal; resignations; return to studies; end of studies; failed to start; redundancy; voluntary and compulsory; end of seasonal/temporary work; end of apprenticeship; and death in service.
- 26 'All leavers' includes voluntary and compulsory redundancies.
- 27 CIPD (2007), Recruitment, retention and turnover annual survey report.
- 28 2007 figures include former United employees.
- 29 Comprises Food Retail Stores, Head Office and Logistics.
- 30 Comprises Sunwin Motors, Sunwin Services, The Co-operative Clothing and E-Store.
- 31 Comprises The Co-operative Travel, The Co-operative Legal Services and End of Life Planning.
- 32 Comprises Former Group services (including Aegis), Operational Compliance, Loss Prevention, Procurement & Farms.
- 33 NACO (National Association of Co-operative Officials), which represents managers; Usdaw (Union of Shop, Distributive and Allied Workers), which represents junior managers and non-managerial employees; UCATT (Union of Construction Allied Trades and Technicians), which represents stonemasons in Co-operative Funeralcare; and Unite, which represents non-managerial employees.
- 34 Unite, which represents colleagues in organisation contribution levels up to and including Delivering Business Plans, Field Sales Area Managers and Regional Sales Office support staff; NACO, which represents managers; and Usdaw, which represents Field Sales Financial Advisers.
- 35 Based on those employees who pay subscriptions by payroll deduction.
- 36 Includes costs for external courses, internal courses and related costs, such as room hire.
- 37 Learning and Skills Council (2008), National Employers Skills Survey 2007: Key Findings.
- 38 Excludes on-line and on-the-job training.
- 39 Includes costs for external courses, internal courses and related costs, such as room hire. Excludes staff costs.
- 40 Excludes training data for Food management staff, which focused on management development activity through a series of three-day development programmes, other training and one-to-one support.
- 41 Data for former Travelcare is incomplete, so data presented is likely to be lower than actual figures.
- 42 Excludes former Group employees.
- 43 CFS training expenditure is higher than that across the Trading Group due to complex and lengthy training requirements for many CFS roles, particularly in areas with high staff turnover.
- 44 Learning and Skills Council (2008), National Employers Skills Survey.
- 45 www.investorsinpeople.co.uk
- 46 More than 15,000 final-year students from leading universities were interviewed for the survey and asked: 'Which employer do you think offers the best opportunities for graduates?'
- 47 Financial advisors, who represent 14% of total employees, have been excluded, as their pay is biased towards earnings on a commission basis. Employees on career breaks and those on maternity leave are included. Percentages are based on employee headcount and relate to FTE salaries.
- 48 Excludes casual staff and those on 0-hour contracts. Percentages are based on employee headcount and relate to FTE salaries.
- 49 Question in previous years: 'The pay I receive is fair for the work I do.'
- | | 2005/06 | 2006/07 |
|----------------------------|---------|---------|
| Agree | 34% | 40% |
| Neither agree nor disagree | 19% | 20% |
| Disagree | 47% | 40% |
- 50 Question in previous years: 'My overall pay is good.'
- | | 2005/06 |
|----------------------------|---------|
| Agree | 31% |
| Neither agree nor disagree | 22% |
| Disagree | 47% |
- 51 United Schemes provide pensions of broadly two-thirds of final pensionable salary after 40 years' pensionable service. They are closed to new members. The schemes are: the Leeds Co-operative Society Limited Employees' Pension Fund; the Sheffield Co-operative Society Limited Employees' Superannuation Fund; the United Norwest Co-operatives Employees' Pension Fund; and the Yorkshire Co-operatives Limited Employees' Superannuation Fund.
- 52 Includes members of the former United pension schemes.
- 53 Includes former United employees who are still members of their existing pension schemes (20% of former United employees are members of their existing schemes).
- 54 Question in 2006/07: 'I believe that this business provides a competitive pension scheme.'
- | | 2006/07 |
|----------------------------|---------|
| Agree | 61% |
| Neither agree nor disagree | 33% |
| Disagree | 6% |
- 55 The significant increase in positive responses between 2005/06 and 2007/08 was largely as a result of improvements in, and increased awareness of, benefits that are available.
- 56 Question in previous years: 'My overall benefits are good.'
- | | 2005/06 |
|----------------------------|---------|
| Agree | 35% |
| Neither agree nor disagree | 25% |
| Disagree | 40% |
- 57 Applies to all CFS employees, but not all Trading Group employees.
- 58 Applies to all CFS employees, but not Trading Group employees.
- 59 British Association of Communicators in Business (CIB): www.cib.uk.com/content/events/awards
- 60 Health and Safety Executive: www.hse.gov.uk/statistics/tables/table1.htm
- 61 *ibid*
- 62 www.ICASxtra.com
- 63 The mortgages business and part of the customer support centre.
- 64 A further 1% of employees were uncategoryed.
- 65 Question in previous years: 'I am able to achieve a satisfactory balance between work and my personal life.'
- | | 2004/05 | 2005/06 |
|----------------------------|---------|---------|
| Agree | 26% | 60% |
| Neither agree nor disagree | 16% | 19% |
| Disagree | 58% | 21% |
- 66 All absence over 13 rolling periods.
- 67 Includes The Co-operative Food Stores, head office and Logistics.
- 68 Includes Sunwin Motors, Sunwin Services, The Co-operative Clothing and E-Store.
- 69 Includes The Co-operative Travel, The Co-operative Legal Services and End of Life Planning.
- 70 Includes Former Group services (including Aegis), Operational Compliance, Loss Prevention, Procurement & Farms.
- 71 www.cipd.co.uk
- 72 www.saratogapwc.co.uk

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 banking customers by introducing the Office of Fair Trading (OFT) new 'customer promise'. ✓

Targets 2008

Achieve a Group Corporate Reputation Index figure of at least +12.

Ensure that at least 2,500 outlets have been rebranded by the end of 2008.

Review processes for generating competitor customer satisfaction scores, with a view to ensuring benchmarks and measurable targets are in place for Food, Pharmacy and Travel businesses for 2009.

Ensure that at least 64.6% of CFS customers are either 'extremely satisfied' or 'very satisfied' with CFS.

Ensure that systems are in place to enable CFS to demonstrate that it is consistently treating customers fairly.

✓ Target achieved

= On track

» Close to target

< Behind schedule

Customers

Indicators

Corporate reputation: Group-wide

Customer satisfaction: Food, Pharmacy, Travel and Financial Services

Complaints: Food, Pharmacy, Travel and Financial Services

Materiality and strategy

Both the Trading Group and Co-operative Financial Services share common strategic priorities that focus on customer satisfaction and corporate reputation.

The Trading Group's vision is 'to be the best co-operative in the world'. 'Growing customer loyalty' and 'Growing corporate reputation' are two of six objectives supporting attainment of this vision. 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 the satisfaction measure, whilst a further KPI underpins the Group's corporate reputation targets.

In 2005, CFS developed a 10-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 identifies a KPI and target for customer satisfaction. Significantly, performance against this KPI links to the performance criteria in staff and Executive incentive schemes¹.

Accounting

In partnership with Millward Brown², the Group has created a Corporate Reputation Index (CRI) model to measure how brand perception drives sales across the business³. Between April 2007 and June 2007, more than 4,000 face-to-face interviews were carried out, all of which were with members of the public who had heard of 'the Co-op' or 'The Co-operative'. Respondents were asked 14 questions exploring the issues of leadership and reliability, caring company and public responsibility. Each of these three areas is weighted according to its propensity to drive sales; significantly, leadership and reliability scores make up 60% of the final CRI score.

In late 2006, the Group introduced a Customer Satisfaction Tracker: a measure of customer satisfaction for the Food, Pharmacy and Travel businesses. Surveys are now undertaken on a monthly basis and involve 500–600 telephone (Food and Travel) or exit (Pharmacy) interviews with customers, who are asked to register satisfaction levels with The Co-operative and other retailers using a 10-point scale. Benchmarking has not yet proved possible, as the data obtained for competitors was not considered sufficiently robust. Consequently, other options for generating accurate competitor satisfaction data are being investigated and, once identified and agreed by the business, benchmarks and meaningful targets will be set for the individual businesses.

For personal customers, CFS utilises a rolling monthly Customer Satisfaction Tracker, derived from GfK NOP's syndicated Financial Research Survey (FRS)⁴ of 60,000 personal banking and insurance customers. 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. For corporate customers, an annual Corporate Satisfaction Survey has been conducted on behalf of CFS for the last eight years. This was last conducted in February 2007, and the results published in the 2006 Sustainability Report. New data is not yet available in the area, as the survey is being refreshed, with a view to obtaining benchmarking data.

An initial phase of qualitative research was undertaken with corporate and business customers in late 2007/early 2008 to re-examine the service factors that drive customer satisfaction. This research is informing the development of quantitative surveys that will be undertaken for the first time in May 2008, with the first set of results expected later in 2008.

Corporate reputation and brand

The Co-operative Group achieved a Corporate Reputation Index (CRI) score 14 points above the market average for 2007⁵ and scored particularly well in the public responsibility domain, with a score of +54. Although, at -16, the Group's leadership and reliability score is still below the market average, an increase was realised on last year's performance and, given the high weighting the model affords this factor, the improvement had a notable positive effect on the overall CRI score.

BENCHMARK By comparison, at +288, Marks and Spencer was the highest scoring competitor across food retail, banking, pharmacy and travel sectors, whilst, at -59, Spar was the lowest.

	2006	2007
Corporate reputation	+4 ⁶	+14

In 2006, The Co-operative Group commenced an extensive rebrand, designed to unify the different businesses under one recognisable brand identity. New brand standards across the Group are designed to deliver a better customer experience and a higher level of customer satisfaction. The rebranding programme continued throughout 2007, and it is planned that over half of The Co-operative outlets, and all brand products and packaging, will be unified under The Co-operative brand by the close of 2008.



Total outlets rebranded (June 2008)	
Food	891
Pharmacy	354
Travel	256
Bank	83

The Co-operative Food

	2006	2007
Percentage of very satisfied customers ⁷	31%	33%

In 2007, The Co-operative Food invested £86.3m in 379 refits, bringing approximately 25% of the estate up to the new brand standard. The main emphasis of the investment was on convenience stores; typically, those less than 3,000 sq ft in size. In addition, in the early part of 2007, the Food business launched a new format trial in five market town supermarkets (those with an average sales area of 12,000 sq ft). Positive feedback was received from customers and the stores achieved strong sales growth, particularly in fresh food categories. Following the success of these trials, the Food business is increasing the pace of refits for stores of a similar size in 2008 and beyond.

Self-service checkouts were trialled in two stores in 2007 – Holmfirth and Bushland Rd, Northampton. Customer research revealed an improvement in customer perceptions of queue length, and audits recorded that queuing length had, indeed, significantly reduced. 2008 will see self-service checkouts installed in a further 12 stores.

2007 also saw the launch of 'Smart Coupons', which allow the Food business to target individual members with relevant offers, based on previous shopping behaviour. The coupons are printed out after the receipt at the end of a transaction and can be used on the customer's next visit to the store. Across the country, 120 Food stores took part in the Christmas campaign, and Smart Coupons will be rolled out to further stores in 2008.



Delivering value

Customers

Hot topics

Subjects covered elsewhere in the report include:

- Sourcing of goods for resale (pages 15–20)
- Use of additives in own-brand food (page 35)
- The production of chicken meat and eggs (page 30)
- Carrier bags (page 82).

The Co-operative Pharmacy



	2006	2007
Percentage of very satisfied customers ⁷	72%	66%

The Co-operative Pharmacy's vision is to be 'First choice for community pharmacy', by offering well-located, professional stores, and providing excellent customer service. 2007 saw a major acquisition programme, taking the number of outlets to 779, as at December 2007. Rebranding continued across the branch network, with 159 branches rebranded by the end of the year.

Robotic dispensing systems were trialed in a number of stores, with a view to extending the service across other branches. These dispensing systems reduce waiting times by ensuring the correct items are obtained quickly. Items are assessed and checked by the pharmacist before they are given to the customer. As a result of the introduction of the system, colleagues have been freed up to spend more time giving health advice and discussing medication with customers.

In 2007, The Co-operative Pharmacy became the first national chain to sell VAT-free smoking cessation products. In addition, the business launched several new healthcare leaflets, covering such areas as weight management, diabetes and women's health, whilst help and advice continued to be provided to those smokers looking to quit.

Increasingly, pharmacists act as the first point of call for many people with minor ailments and for those seeking medical advice. To this end, over 80% of The Co-operative Pharmacy outlets now have private consultation rooms, offering customers the opportunity to have in-depth healthcare conversations in private. The Pharmacy business is currently in the process of creating more consultation rooms to bring this service to as many communities as possible.

Hot topics

Subjects covered elsewhere in the report include:

- Branch provision (page 49).

The Co-operative Travel

	2006	2007
Percentage of very satisfied customers ⁷	75%	73%

In 2007, the scope of products within The Co-operative Travel's Escape packaging scheme was widened. This enables the business to offer customers a greater range of 'independent' products; individually tailoring holidays to suit a customer's requirements, whilst retaining the financial protection that comes with booking through a travel agent.

Staff development continued in 2007, with the re-vamp and roll-out, across the whole Travel business, of the United Region's award-winning online training school. In addition, all colleagues completed ABTA-backed training to allow them to sell travel insurance, and were given the opportunity to study towards an NVQ in customer service.

Recognition

The Co-operative Travel Colehill branch received the highest ever mark (99%) in a weekly mystery shopper challenge conducted by national travel magazine, Travel Weekly. In addition, the Northwick Park Hospital and Bootle branches of The Co-operative Travel both received a 'Top Shop' certificate from Travel Trade Gazette, after achieving high marks in a mystery client survey.

Hot topics

Subjects covered elsewhere in the report include:

- Air Passenger Duty (page 76).

CFS

Percentage of customers 'extremely' or 'very' satisfied			
	2006	2007	BENCHMARK 2007 Market
General Insurance	71.2%	75.4%	70.7%
Retail Bank	73.0%	79.4%	65.3%
Life and Savings	44.0%	40.3%	42.9%
Overall CFS customer satisfaction	60.6%	62.5%	n/a

Customer satisfaction improved on the previous year for all but one business – Life and Savings. A target of 64.6% has been set for CFS for 2008. This will be calculated on a slightly different premise to 2007's score, following the recalibration of customer numbers in 2007. Overall complaints for CFS also fell; from 70,451 in 2006, to 67,748, due in part to a reduction in complaints regarding mortgage endowment policies. However, bank complaints rose significantly, mostly due to publicity around the issue of penalty fees and, to a lesser extent, payment protection insurance, both of which have affected the banking industry as a whole.

A CFS customer panel was established in 2006 to deliver regular feedback on business-specific developments and potential product and service propositions. In 2007, non-respondents were removed and three top-up recruitment waves were carried out, taking the number of panellists from 1,030 to 2,300. These customers represent the full range of The Co-operative Insurance and The Co-operative Bank product holdings. In 2007, the views of the panel were sought on subjects as diverse as co-operative membership, motor insurance, fairness and the 'customer promise'.

The Co-operative Bank introduced the Office of Fair Trading's new 'customer promise'⁸, in line with the industry's target implementation date of 30 November 2007. The promise speeds up and standardises the cheque-clearing procedure, giving customers greater guarantees. For example, they can now be certain of when a new deposit will be available to draw against, and when it will start earning interest. The promise has been included in the new version of The Banking Code⁹.

BENCHMARK In March 2006, The 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 industry¹⁰. As part of the scheme, each company undertakes an annual customer satisfaction survey, which is conducted by an independent market research company.

In February 2008, the ABI published industry-average figures based on the 32 businesses taking part in the survey. The results showed that, compared to the industry average, customers of The Co-operative Insurance are more likely to recommend the business to friends and family, and are more satisfied with the overall quality of the products and services provided, as well as the overall sales process. However, customers are less satisfied with the way they can contact The Co-operative Insurance. In response, in early 2008, a detailed customer service training programme was developed for staff and a review was undertaken of the customer contact centre structure. A more detailed account of performance is provided in the CFS Financial Statements 2007¹¹.

CFS also progressed a programme of customer-focused work, which included IS developments that enable Financial Advisers to access a much clearer picture of customers' financial needs. The launch of Affinium, a new piece of software, helps CFS to target products towards those customers most likely to need them.

'Treating customers fairly' is a central principle of the Financial Services Authority, and plays an important part in delivering CFS' vision for the future.

During 2007, the Treating Customers Fairly committee met bi-monthly, in order to monitor and review CFS' progress in delivering fair outcomes for customers. A CFS Definition of Fairness was created and progress against an initial gap analysis monitored. During the final quarter of the year, a project was established to create a management information pack, which will be used by the business to measure how fairly customers are being treated. This will assist managers with identifying any issues in order to ensure remedial action is in place by the December 2008 deadline. Work on this will continue into 2008.

Recognition

Independent consumers' organisation Which?¹² carried out a customer satisfaction survey of current account providers in 2007, which saw 4,680 Which? members taking part. smile ranked in first place, with 80% of respondents stating that they were very satisfied with the service offered. The Co-operative Bank ranked in third place, above all other high street banks, with 75%.

The Co-operative Bank was also named the overall high street winner in BBC Watchdog's customer satisfaction survey of 45 banks and building societies¹³. smile came second in the survey and the bank third. More than 13,000 viewers took part in the poll. Over 90% of smile customers surveyed said that they would recommend their bank to family and friends, with the same number claiming that smile's policies and charges were 'clear and transparent'. The report also concluded that customers of The Co-operative Bank were most likely to respond that the service they received had improved during their time with them.

Hot topics

Over-indebtedness

Towards the end of 2006, to address the issue of rising bad debts in personal banking, CFS created a Bad Debt Task Force. Amongst other initiatives in 2007, credit and lending policies were tightened; credit limits were reduced for customers who were judged to be at risk of getting over-indebted; and a wide range of initiatives were implemented in the Debt Management Unit to improve their debt collection capability. As a result, the number of customers promising to pay was increased from 57% in 2006 to 83% by the end of 2007. 78.5% of these promises were kept.

Money laundering

Under the supervision of HM Treasury and the Financial Services Authority (FSA), the UK financial sector is committed to seeking ways to enhance and improve its anti-money laundering strategies through effective risk-based controls and engagement with law enforcement. During 2007, CFS' anti-money laundering systems and controls were enhanced through the implementation of system changes. These changes allow CFS to include details of the originator (such as name and account number) with wire transfer payments. The changes were made to comply with new European legislation and are designed to ensure that maximum information is available to law enforcement agencies, should an enquiry be raised about the source of funds of a wire transfer. In addition, new software was implemented within the Treasury department, which allows CFS to screen incoming and outgoing payments against lists of sanctioned individuals.

Subjects covered elsewhere in the report include:

- Financial inclusion (pages 48–52)
- Socially responsible investment (pages 40–47).



Delivering value

Customers

- 1 CFS Financial Statements 2007, page 43.
- 2 www.millwardbrown.com
- 3 Following the merger between the Group and United Co-operatives, it was decided, going forward, to base the CRI score on the regions in which the Group operates, rather than the UK-wide approach previously taken.
- 4 www.gfknop.com/customersresearch-uk/sectors/financial/whatwedo/frs/index.en.html
- 5 The average score across all UK organisations surveyed is set at 0.
- 6 This score was based on surveys undertaken throughout the UK as a whole, rather than exclusively within the Group's trading areas.
- 7 Satisfaction figures for 2007 denote the percentage of customers deeming their satisfaction with the business to be at the highest two points on a 10-point scale.
- 8 www.apacs.org.uk/08_03_31.html
- 9 www.bankingcode.org.uk
- 10 www.customerimpact.org
- 11 CFS Financial Statements 2007, page 20.
- 12 www.which.co.uk
- 13 www.bbc.co.uk/watchdog
- 14 In addition to the general Customer Relations team, CFS, Travel and Pharmacy each operate their own customer contact centres to handle customer queries and complaints.
- 15 The increase in calls received via the Freephone number, letters and emails has resulted in an increased time to respond to enquiries. Contacts that required an urgent response continued to be responded to within a day of receipt.
- 16 Regulated complaints relate to the sale of life assurance, pensions and investment products.
- 17 Travel's 2007 complaints figure comprises calls received in relation to Travelcare (2,987) and the former United Travel branches (1,080). The 2006 figure is split between Travelcare at 3,122 and United Travel at 990. The United figure does not include phone calls, as they were not logged.
- 18 154 of these complaints were received by the former United Co-operative Pharmacies; 593 were received by The Co-operative Group Pharmacies.

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 or find out about the provenance of own-brand goods¹⁴. 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-operative.coop) are 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 to allow the Group to respond to emerging consumer issues.

	2005	2006	2007
Total calls	129,163	145,752	174,920
Average call abandoned rate (daytime)	2%	2%	8%
Average call abandoned rate (evening)	11%	11%	16%
Total number of emails received	34,969	38,652	38,422
Correspondence answered within three days ¹⁵	97%	93%	90%

All customer contact with the department is categorised as either a 'product complaint' or 'a general query'. A report detailing any multiple product complaints received by the Customer Relations team is tabled at a weekly business Trading Meeting, which comprises senior managers from the Food business. Numbers of calls received in relation to general enquiries and emerging customer issues are also tabled at this meeting. In addition, an automated system alerts the relevant buyers when more than one complaint is received about a product, allowing the business to respond quickly when required.

Complaints	2006	2007
Product complaints received by the Customer Relations team (largely food-related)	26,547	27,145
Complaints received by other Group customer contact centres		
Bank	20,395	37,047
CIS regulated ¹⁶	43,810	27,330
CIS unregulated	6,246	3,371
Travel	4,212	4,067 ¹⁷
Pharmacy	n/a	747 ¹⁸



Public policy

Target 2008

Review and make publicly available a Public Policy Intervention Policy.

Indicators

Public policy interventions

Political donations

Background

There are an estimated 100,000 professional lobbyists worldwide, with 17,000 in Washington and 15,000 in Brussels alone¹. All too often, proposals for progressive ethical and sustainability legislation are blocked, or delayed, by the resistance of certain businesses and trade associations. As Kofi Annan said, as United Nations Secretary-General, "Business must restrain itself from taking away, by its lobbying activities, what it offers through corporate responsibility and philanthropy"².

Materiality and strategy

The Co-operative Group believes that businesses wishing to stake a claim to leadership on sustainability issues must demonstrate that their public affairs activities are aligned with their publicly stated sustainability claims and objectives. The Group's approach to public policy intervention and disclosure reflects the co-operative values of 'honesty', 'openness' and 'social responsibility'.

Management

The public policy activities of The Co-operative Group, including CFS, are supported by a public affairs team of six people. The team identifies and tracks significant public policy themes facing the Group and its family of businesses, co-ordinates public policy responses and manages government relations. Additionally, it strives to ensure that politicians and civil servants are aware of the modern, relevant and forward-looking characteristics of the co-operative business model. The team reports to the Director of Communications. Where Group public policy activities relate to material sustainability issues, the Group's position is informed by input from the ethics and sustainability team.

"Business must restrain itself from taking away, by its lobbying activities, what it offers through corporate responsibility and philanthropy."

Kofi Annan, UN Secretary General

Accounting and reporting

The Co-operative Group's diverse range of businesses leads to a multitude of public policy engagements. For reporting purposes, 'engagement' is restricted to: instances where the Group has pressed a point of difference in 2007 or early 2008 or where it has lent weight to a significant positive initiative on those issues already designated as material for broader disclosure in the Sustainability Report. Disclosure encompasses active lobbying with, and of, trade and business associations, as well as direct lobbying of government at the UK and EU levels. This approach previously informed CFS' reporting of lobbying activities and now extends across all Group activities.

BENCHMARK In early 2007, research undertaken by SustainAbility³ acknowledged CFS to be one of a "small group of leader companies" whose approach to lobbying and reporting could be considered 'integrated'⁴ (ie, at the highest level).

Public policy 'influence and action', 2007

Issue	Audience	Influence and action	Page
Economic impact			
Dormant Bank and Building Societies Bill	Her Majesty's Treasury (HM Treasury)	Responded to a consultation on the distribution of unclaimed assets from dormant bank accounts and welcomed proposals for investment in youth services, financial inclusion and social investment.	111
Modern co-operation			
Co-operative and Credit Union legislation	UK Government, HM Treasury	Participated in HM Treasury-led working group and responded to a consultation, welcoming the review of the current legislation.	107
International development			
Food Industry Sustainability Strategy	UK Government, Department for the Environment, Food and Rural Affairs (Defra)	Responded to a Defra consultation and called for greater balance between reducing climate change impacts and supporting international development.	24
Diet and health			
Traffic light labelling	Food Standards Agency (FSA)	Assisted the FSA with the development of new criteria for traffic light labelling of sugars, and contributed to the development of guidance for the new criteria.	39
Ethical finance			
Pensions Bill	UK Government, Department for Work and Pensions	Responded to a consultation and met with the Pensions Minister regarding Personal Accounts, proposing that shareholder engagement be included in the management of funds and that an ethical fund option be made available.	47
Social inclusion			
Post Office closures	Select Committee on Business, Enterprise and Regulatory Reform (BERR)	In a written submission to the Select Committee, raised concerns about the consultation process for closures and compensation for affected Post Offices.	52
Sustainable Communities Bill	UK Government	Supported the coalition 'Local Works' and met with sponsoring MPs on the content of the Private Members Bill, which sets in place a new process of local consultation and decision making on local spending priorities.	52
Environment			
Eco-towns	UK Government Department of Communities and Local Government	Group responded to Government invitation to submit proposals for new eco-town developments, with a proposal for up to 15,000 new homes in Leicestershire. For further details, visit www.ecotownforleicestershire.coop	

continued opposite

Public policy 'influence and action', 2007 (continued)

Issue	Audience	Influence and action	Page
Climate change			
Climate Change Bill	Members of Parliament and UK Government	Mobilisation of bank customers to lobby for a strong Climate Change Bill, with specific calls for year-on-year targets for UK greenhouse gas emission reductions.	76
Renewable energy feed-in tariff	Members of Parliament and Minister of State for Energy	Engaged MPs to support introduction of micro-generation renewable energy feed-in tariff, and asked the Minister of State to accept relevant amendments to the Energy Bill.	76
Air Passenger Duty (APD)	Chancellor of the Exchequer	Co-operative Travel called for part of the extra APD revenue raised to be 'ring-fenced' for carbon emission mitigation projects.	76
Common carbon reporting standard	Prime Minister, Secretary of State for Defra, and Secretary of State for BERR	CFS supported calls for the introduction of enabling powers in the Climate Change Bill for a common carbon reporting standard.	76
Code of best practice for carbon offset providers	Defra	Responded to a consultation, expressing disappointment at the exclusion of verified emission reductions in a draft code, and raised concerns regarding the Government's active intervention in the market.	77
Voluntary carbon offset market	Environmental Audit Committee	Provided written and oral evidence to the Environmental Audit Committee inquiry into the voluntary carbon offset market.	77
Air freight and organic labelling	Soil Association	Responded to a Soil Association consultation on proposed amends to its organic labelling scheme and argued that focus on air freight was a poor proxy for the environmental impact of products.	24
Publicly Available Specification (PAS) 2050 carbon footprinting standard	British Standards Institute (BSI) and Carbon Trust/Defra	Played a key role in formulating PAS 2050 with the Carbon Trust/Defra, and responded to a BSI consultation urging in-use emissions to be included in lifecycle calculations.	77
Product Emission Reduction Standard (PERS)	Carbon Trust	Responded to a Carbon Trust consultation on what constitutes a meaningful reduction for the purposes of a new labelling scheme.	77
EU Energy Labelling Directive	European Commission Directorate General of Energy and Transport	Contributed to an impact assessment of a possible revision of EU energy labelling, submitting that the labelling scheme should be expanded and regularly revisited.	77
EU Energy-using Product Directive – Consumer Electronics	Defra Market Transformation Programme (MTP)	Responded to a consultation supporting measures to improve minimum performance standards.	77
EU Energy-using Product Directive – Cold Appliances	Defra MTP	Responded to a consultation in early 2008 calling for action in this area to be prioritised and supporting measures to improve minimum performance standards.	77
Renewables Obligation	BERR	Responded to a consultation on reform of the Renewables Obligation, stating that changes should not be to the detriment of on-shore wind.	77
International Climate Change Talks	International Co-operative Alliance	Submitted a resolution to the General Assembly of the International Co-operative Alliance, calling on members to lobby national governments to take progressive positions in international talks.	78
Biodiversity			
Road Transport Fuel Obligation (RTFO) support for biofuels	Department for Transport	Responded to a consultation noting that only those fuels meeting sustainability standards and lifecycle net carbon savings should be rewarded through the RTFO process.	91
EU Renewable Energy Directive mandate to support biofuels	Members of the European Parliament	Wrote to eight MEPs requesting that they contact the European Commissioners for Energy and Environment in support of mandatory biofuel sustainability criteria and minimum lifecycle net carbon savings.	92
Biofuels	Renewable Energy Association (REA)	Communicated its concerns to the REA, of which it is a member, regarding its planned 'Biofuels in perspective' PR campaign.	92
Waste			
Food Industry Sustainability Strategy	Defra	Responded to a consultation calling for independent lifecycle analysis of common packaging materials and welcoming proposals on recycling and smart packaging.	85



Trade and business association memberships

The Co-operative Group supports the right of businesses to collectively voice concerns and seek to influence public policy, and has membership of a number of trade and business associations. In taking the broadest view of transparency in respect of public policy

activities, the Group seeks to disclose all principal memberships, subscription fees and donations to trade and business associations, and other organisations involved in seeking to influence public policy or business practices.

Trade and business association memberships fees and donations, 2007

Name	Amount	Name	Amount
Co-operatives ^{UK}	£652,001	National Farmers Union (England) (NFU)	£5,245
NPA Services (National Pharmacy Association)	£185,000	Renewable Energy Association	£5,090
Co-operative Employers Association	£129,563	Community Recycling Network	£5,000
National Association of Funeral Directors (NAFD)	£124,581	Demographics User Group	£4,330
Association of British Travel Agents (ABTA)	£94,382	The Corporate Citizenship Company	£3,950
Communicate Mutuality (MUTUO)	£86,674	IGD Services (Grocery Information, Insight and Best Practice)	£3,800
British Retail Consortium (BRC)	£84,908	British Banking Association (BBA)	£3,639
International Co-operative Alliance (ICA)	£76,000	Environmental Industries Commission (EIC)	£3,625
Association of British Insurers (ABI)	£66,504	The Wine & Spirit Trade Association	£3,535
Corporate Executive Board	£46,293	Institutional Investor Group on Climate Change	£3,500
Confederation of British Industry (CBI)	£40,584	Employers' Forum on Disability	£3,114
European Community of Consumer Co-operatives (Euro Co-op)	£40,000	NAPF Ltd (National Association of Pension Funds)	£2,943
Ethical Trading Initiative (ETI)	£30,000	Race for Opportunity	£2,500
European Association of Co-operative Banks (EACB)	£23,000	Social Enterprise Coalition	£2,500
International Co-operative and Mutual Insurance Federation (ICMIF)	£19,056	Association of British Credit Unions Ltd (ABCUL)	£2,307
Scottish Grocer Federation	£15,400	British Clothing Industry Association (BCIA)	£2,295
The Law Society	£13,325	Country Land and Business Association	£2,144
Funeral Planning Authority (FPA)	£13,150	Enterprise Forum Ltd	£2,000
Campden & Chorleywood Food Research Association	£10,217	Best Practice Club	£1,995
Association of Convenience Stores (ACS)	£10,000	Corporate Responsibility Group	£1,925
Forum for the Future	£10,000	Association of Insurance and Risk Managers (AIRMIC)	£1,650
Multi Fibre Agreement Forum	£10,000	Manchester Investment & Development Agency Service Ltd (MIDAS)	£1,500
Institute of Social & Ethical Accountability (AccountAbility)	£7,000	Roundtable on Sustainable Palm Oil	£1,494
Business in the Community (BitC)	£6,490	National Farmers Union (Scotland)	£1,377
Tomorrow's Company	£6,000	WWF-UK Forest and Trade Network	£1,315
UK Social Investment Forum (UKSIF)	£6,000	British Institute of Facilities Management	£1,100
TOTAL			£1,880,000

Political donations

The Co-operative Group is a significant supporter of The Co-operative Party, which was created in 1917 by the UK Co-operative Movement in order to promote its values and principles. The Party works to raise awareness of the benefits of the co-operative and mutual models, and to influence Government towards support for more co-operative action. The Co-operative Party has representation in both Houses of Parliament, the Scottish Parliament, the National Assembly of Wales and the Greater London Assembly, and, additionally, has over 350 local councillors⁵.



In 2007, an overall financial contribution of £646,103 (2006: £464,900) was made to The Co-operative Party in respect of the annual subscription and support for Party Councils. This includes payment of £546,377 by The Co-operative Group and a further £99,726 made directly by United Co-operatives prior to the merger (inside front cover). An in-kind donation of £1,250 was also made by the Group to the Party, in the form of the provision of office space and use of a telephone. In addition, miscellaneous expenditure was incurred in support of the Labour Party at a constituency and regional level, amounting to £4,830.

CFS and ethical finance

The Co-operative Insurance engagement: political donations

The non-disclosure of political donations and trade association spending is fast becoming a significant socially responsible investment issue and is increasingly the subject of independent shareholder resolutions tabled at annual general meetings. Between 2006 and 2007, the number of resolutions calling for such disclosure at the general meetings of Co-operative Insurance investee companies increased from nine to 21, with Co-operative Insurance voting in support of all independent resolutions tabled on the issue.

The Co-operative Insurance engagement: irresponsible lobbying

During 2007, The Co-operative Insurance expressed its concerns to WPP regarding its public relations (PR) subsidiaries, Hill & Knowlton and Burson-Marsteller, and their historic practices⁶. The company was urged to recognise client representation as its most material social, environmental and ethical issue, and it was suggested that it was mistaken in prioritising carbon reduction⁷. The company was urged to introduce employee training to embed corporate responsibility and to improve reporting regarding PR clients and methods of client representation.

- 1 AccountAbility (2005) Towards responsible lobbying – leadership and public policy.
- 2 Ibid.
- 3 SustainAbility (2007) Coming in from the cold: public affairs and corporate responsibility.
- 4 SustainAbility describes 'integrated' lobbying as: "Systems exist to manage and disclose lobbying and public policy activities. The company probably discusses policy positions on several material issues in some depth. There is an explicit link made between corporate values and principles, core business decision-making, processes and a company's approach to public policy. There is likely, for example, to be evidence of decision-making process leading from basic values and principles to specific business objectives and lobbying that supports these objectives."
- 5 <http://party.coop/index.php>
- 6 In 2006, a US Department of Justice deposition against tobacco companies for misleading the public cited Hill & Knowlton (H&K) as orchestrating a campaign of disinformation, 'astroturf campaigns' and 'front groups' that have denied the health risks of smoking. H&K has also represented Saudi Arabia, China, following Tiananmen Square, the Nigerian military government, and, in 2006, the Botswana government, following the controversial removal of aboriginal people from traditional ground so it can be mined.
- 7 Not considered material, given the nature of the company's operations.

Assurance and commentary

- 131 Performance commentary
- 133 Auditor's assurance statement
- 135 Reporting in accordance with the GRI G3 guidelines

The contents and associated systems of this report have been

**independently
assured**

Our auditors use the AA1000AS as the basis for their comments on the materiality, completeness and responsiveness of our reporting. Separate from the assurance assignment, we have commissioned a performance commentary from Jonathon Porritt, Founder Director of Forum for the Future and Chairman of The Natural Step in the UK.

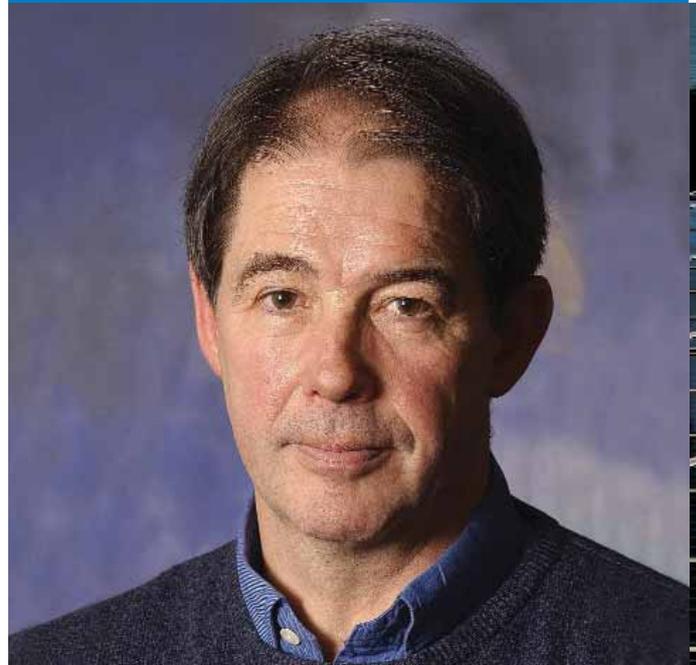
Performance commentary

In the world of sustainable wealth creation, rhetoric has always led performance. I don't mean that cynically. Business leaders have to get comfortable with the basics of corporate social responsibility or sustainable development, and, as they do so, ambition often outruns the basic tools, metrics and resources needed to deliver substantive performance improvements. The Co-operative's 2007 Sustainability Report provides as solid a grounding in what sustainable wealth creation *really* looks like as any corporate report I've read.

It also marks an extraordinary 10-year journey. Back in 1997, The Co-operative Bank produced its first 'Partnership Report'. It created quite a stir at the time, and was widely recognised as establishing a new benchmark in transparency, stakeholder engagement and integrated reporting. Since then, the reporting entity (The Co-operative Bank) has changed beyond all recognition; firstly, in terms of the amalgamation with Co-operative Insurance Society to create Co-operative Financial Services (CFS), and more recently through CFS' reporting becoming integrated with that of its parent company, The Co-operative Group, which, in July 2007, amalgamated with United Co-operatives.

The 1997 Partnership Report covered the combined efforts of the 3,776 employees of The Co-operative Bank; the 2007 Sustainability Report relates to the activities of nearly 82,000 employees across a very wide range of businesses. Indeed, the breadth of it is now mind-boggling! 2,200 Food stores (soon to be more than 3,000 after the acquisition of Somerfield in July this year), 25,000 hectares of farmland (half in direct ownership), relationships with literally dozens of different non-governmental organisations (NGOs), 16 principal areas of concern, governance structures of eye-watering complexity, 70 different indicators, 68 different targets (which don't necessarily match up against the indicators!) and an astonishing range of specific issues. As AccountAbility and **csr**network put it, in summing up their benchmarking analysis of the 2006 Sustainability Report, "the breadth of issues identified and the depth to which The Co-operative is exploring them is rarely – if at all – met by any company of comparable size".

And that, of course, provides a massive reporting challenge in its own right. A basic choice has to be made: whether to report against each individual business within the Group (The Co-operative Food, Co-operative Financial Services, etc), or against those issues and concerns that impact on each of the different businesses in different ways. In going for the latter, I am sure the right decision has been made, but it might be helpful next year to add a set of short business-by-business summaries – for instance, I can't honestly say right now that I know as much about The Co-operative Funeralcare, as a business in its own right, as I would like to.



Such summaries might simultaneously help readers to focus on the most important achievements and continuing challenges, some of which inevitably get a bit lost in the body of the text. Reports of this kind do tend to be mostly for the bravest of the corporate reporting community!

That said, the account of the Group's combined activities that emerges is quite extraordinary. There is a proven leadership proposition on many pages; the depth of understanding of all the different 'issues' is impressive; the combination of values-driven 'ethical absolutes' with a canny, value-driven business case for outperformance is communicated with great skill; and the way the data are reported, interpreted and assured leaves one with an overwhelming 'so what's not to trust?' feeling in terms of overall impact.

I know from the work that Forum for the Future does with other leading companies in the retail and financial services sectors that there is a tendency to belittle these achievements by consigning The Co-operative Group to that comfortable and privileged status of 'ethical niche'. Such judgements are both pejorative and massively 'behind the times'. Whilst it's true that the market share for most of the businesses within Co-operative Financial Services remains small, the new Co-operative Food business will command 8% of the market, whilst Pharmacy and Funeralcare already command 7% and 22% respectively. 'Ethical and sustainable mainstream' would be a better description for The Co-operative Group's overall market position.

The biggest differentiator is of course the constitutional essence of the Group as 'an industrial and provident Society owned and democratically run by its own members'. As the UK heads deeper into a downturn/recession of some description, people are at last starting to reflect rather more honestly on the excesses and chronic market failures of the last 15 years that have precipitated today's economic meltdown.

This has huge implications for the future governance of the world's capital markets and leading economic sectors, and will – I hope – encourage more people to look more creatively at different patterns of ownership. Very few businesses can just ride out crises of this kind, and I suspect that next year's Sustainability Report from The Co-operative Group will be reporting on a rather leaner set of results than this year. But the truth of it is that co-operative structures and governance systems are more resilient in the face of economic adversity, more responsive to changing customer and community needs, and better equipped to cope with what now looks like a pretty rocky road ahead.

Expressing ill-ease at today's deregulated, debt-driven 'casino capitalism' is one thing; thinking through how to design and then implement a capitalist system that is truly sustainable is an altogether different challenge. The Co-operative has stayed true to the same way of addressing these issues that informed its first report 10 years ago (Social responsibility, Ecological sustainability, Delivering value). The Sustainable Development Policy reinforces that approach, with the overarching business objective of 'optimising profit' (not 'maximising profit') underpinned by explicit commitments to protecting and enhancing the social capital and natural capital on which sustainable wealth creation totally depends.

Both social responsibility and ecological sustainability come alive through the lens of the Co-operative Movement. In contrast to much of today's emaciated, almost tokenistic 'corporate responsibility', the Social responsibility section demonstrates just how it has been mainstreamed into everything the Group does. And instead of the usual formulaic declaration of 'no party political donations', it's refreshing to be reminded of the continuing links between The Co-operative Group and The Co-operative Party, created back in 1917 to promote the values of the Co-operative Movement. Corporate responsibility without an uncompromising commitment to social justice and increased equity in an increasingly divided world is little more than a PR-driven con-trick – and we need a lot more of the real thing to remind people of that distinction. Consultation with members, reinforced by customer/member mandates on ethical policies, provides a form of accountability that is hard to replicate in more conventional business models.

For The Co-operative Bank, this has always entailed an obligation of saying 'no' to all sorts of potentially lucrative business opportunities. In 2007, the Bank's Ethical Policy Unit rejected 32 'potentially problematic opportunities', amounting to just over £14 million worth of business (in terms of annualised gross income foregone): up from £11.6 million in 2006. Each of these instances is briefly reviewed under the relevant section, not least to provide a proper 'audit trail' for the Assurance Statement.

For the most part, the pursuit of increased social justice and ecological sustainability march hand in hand – but not always. In such instances, The Co-operative is never afraid to stand out from the crowd, as captured in today's lively debate about air miles and the rights and wrongs of air-freighting fresh produce into the UK from around the world. The Co-operative has always been somewhat

sceptical about the priority attached to reducing air miles, quite rightly pointing out that air-freighting fresh produce is not always as environmentally harmful as is sometimes supposed – evidenced in this case by the work it has done on the relative carbon footprints of strawberries grown either in Scotland or Spain (page 73).

More recently, The Co-operative Food has adopted a typically robust policy to emphasise its own priorities: "We seek to reduce the carbon footprint of our products, but never at the expense of the poorest producers in the developing world". For the same reason, it remains deeply sceptical about the idea of 'carbon labelling', and has no intention of jumping on that particular bandwagon for the time being.

On carbon offsetting, The Co-operative Group is equally clear: however sophisticated one's overall carbon management strategy, offsetting still has an important (and hugely beneficial) role to play. This is a view that Forum for the Future strongly endorses. Indeed, we're getting increasingly irritated at today's rather sanctimonious cabal of NGOs and self-appointed pundits who see all offsetting as some kind of fiddle or excuse to carry on polluting. So it's great to see such a spirited rationale for voluntary offsets, done in the right way, supporting the right kind of projects, as you will have seen on pages 73–74. Carbon offsetting remains a standard feature of all The Co-operative Bank's mortgages (with payments made to offset a fifth of a typical home's CO₂ emissions for every year that a customer holds a mortgage with them). CFS is particularly to be commended for committing to offset 110% of its operational and business travel emissions – the extra 10% to help cover 'legacy issues'. This takes it 'beyond carbon neutral'.

Not quite so easy to achieve such a goal across the Group as a whole! Though it's true that net greenhouse gas emissions across The Co-operative Group were 38% lower in 2007 compared to a 2003 baseline (which includes all the extra emissions associated with the merger with United Co-operatives in 2007), there's clearly a huge challenge ahead in terms of achieving further substantial reductions. Indeed, some may question whether or not the target of generating just 15% of the Group's total energy requirement from its own renewable sources by 2012 (based on 2006 levels) is as ambitious as one would expect from an organisation that has historically blazed quite a trail on the use of renewable energy.

Whatever one's view on that, The Co-operative's support for the Climate Change Bill and other public policy measures in this area has been exemplary. In previous commentaries, I have singled out the way in which The Co-operative Group accounts for its lobbying and wider 'influencing actions', and this remains an out-and-out strength in this 2007 Report. In every section, one can see how this works, from the engagement and voting strategies of CFS, through to the work of the public affairs team on a host of topical and often controversial policy issues.

The significance of this lies in the contrast it provides with so many other companies operating in the same sectors, who, I'm sorry to say, continue to fall foul of the deception warned against by Kofi Annan: "Business must restrain itself from taking away, by its lobbying activities, what it offers through corporate responsibility and philanthropy." Not only is the world now looking for restraint of that kind, but for proactive championing of the kind of values and behaviours without which the concept of genuinely sustainable wealth creation in a capitalist economy will remain forever elusive.

Jonathon Porritt is Founder Director of Forum for the Future and Chairman of The Natural Step in the UK
www.forumforthefuture.org.uk

Auditor's assurance statement

Scope and objectives

The Co-operative Group ('the Group') commissioned **csrnetwork**[®] to provide independent assurance of 'The Co-operative Group 2007 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 not reviewed 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 **csrnetwork**'s opinion of the Report and is intended to inform the Group's stakeholders, including management. We aim to adopt a balanced approach towards all the Group's stakeholders. We were not involved in the preparation of any part of the Report, although we did provide feedback on initial drafts.

csrnetwork's fees for this work were £66,000 excluding VAT. **csrnetwork** has one other relationship with the Group¹. This is the second year that **csrnetwork** has acted as assurance provider for the Group, and members of our team have acted as assurance providers to Co-operative Financial Services (CFS²) for the previous 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 Rachell Evans. Further information relating to the team, including Statements of Competencies and of Impartiality, can be found at: www.csrnetwork.com.

Basis of our opinion

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 international development, 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;
- Detailed verification of key data and claims made in the Report, through meetings with managers in the Social Goals team responsible for gathering data and some meetings with relevant business managers;
- Review of the processes for gathering and ensuring the accuracy of data;
- Review of supporting evidence for claims made in the Report;
- 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; and
- We reviewed the report against the GRI G3 reporting guidelines and self-declared level of B+. We also reviewed the GRI Index relating to this report that is available in this Report (pages 135–136) and in full on the Group website.

¹ **csrnetwork** 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 2008.

² CFS includes The Co-operative Bank plc ('the Bank') and Co-operative Insurance. The Bank is taken to include all aspects of **smile**.

Observations

Our overall opinion is that the Report is a fair and balanced description of the Group's impacts during 2007 and it meets the GRI B+ level.

Last year the Group expressed its intention to focus resources on the issues prioritised by the new Group-wide Social Goals Strategy. We believe this has led to greater clarity regarding the management of the Group's material impacts, whilst 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.
- The level to which the Group is responsive to stakeholder concerns.

A review of the Report against the principles of the AA1000 Assurance Standard is set out below.

Completeness

Last year the Group reported on the sustainability performance for the Trading Group and CFS in a single report for the first time. This report builds on that foundation and has further increased its completeness, with the addition of new sections on public policy and lobbying, international development and human rights, and economic impact, and the extension of others to include important additional coverage of issues such as health and safety.

The clear and enhanced description of stakeholder involvement in the Group's decision-making processes is welcome, particularly as it reflects the integration of members' interests within the Group's formal governance. In 2007 the formal channels for member engagement were supported by a substantive consumer poll on a new Ethical Policy for The Co-operative Food – the Group's largest business. This has provided a robust mandate for much of the activity the Food business has undertaken to date, along with clear direction from stakeholders on future priorities.

The development of the organisation, including the integration of data from the former United Co-operative stores, has been properly reflected in the Report. We also welcome the efforts this year to normalise data for waste and carbon, which is a helpful reporting response to the expansion of the business. Given the Group's continuing growth, this will be an ongoing challenge.

We are not aware of any errors that would materially affect the data reported. Management was able to provide evidence for all the key data and claims we reviewed. However, as last year, there are a number of systems involving the manual collation and adjustment of data, with only incremental improvements observed in the last year. This affects datasets in Animal Welfare, Customers, International Development, Diet & Health and some environmental areas. A more planned approach to such systems, including their documentation, would considerably reduce the risk of error.

Materiality

We believe the Report identifies the issues material to the Group's stakeholders. The new overall analysis of how decisions over materiality are made is very helpful.

The level of detail and transparency provided on engagement and lobbying activity in the new section on Public policy is to be commended and is unique in comparison to typical disclosures by other businesses.

The Group has undertaken significant steps to manage responsible sourcing and sustainability issues in own-branded goods; however, the report could more clearly articulate work that the Group is doing on branded goods. Adopting similar standards across branded goods remains a challenge for the whole retail sector.

Responsiveness

Overall the report is presented with considerably greater clarity than in the past, although firmer time boundaries for reporting material in the period under review would be welcome.

It remains important to ensure that the interests of stakeholders other than members and employees are taken into account. A detailed consultation was carried out with The Co-operative Bank's Corporate Business customers to reappraise the factors that drive their satisfaction. The Group also continues to maintain a wide range of consultation processes with other stakeholders, reviewing priorities periodically. In our review, we found policies and decisions founded upon these consultations that demonstrated responsiveness to stakeholder views.

The Group's overall carbon performance is impressive, even taking into account the integration of former United Co-operative stores; its lobbying on climate change demonstrating strong leadership. Within a growing organisation, managing and reducing overall energy use and the associated environmental impacts remains a challenge.

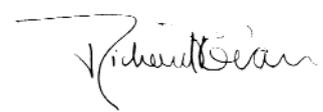
The level of voting activity of The Co-operative Insurance in the AGMs of companies in which it invests is outstanding. However, we note that its investor engagement activity, by contrast, was lower in 2007.

csrnetwork® Ltd
UK July 2008

csrnetwork® is an international corporate social responsibility consultancy organisation. www.csrnetwork.com



Mark Line
Director



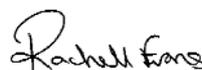
Richard Evans
Principal Associate



Adrian Henriques
Principal Associate



Judith Murphy
Senior Consultant



Rachell Evans
Associate

Reporting in accordance with the GRI G3 guidelines

This Report is aligned with the Global Reporting Initiative's (GRI) G3 Sustainability Reporting Guidelines¹, and has been independently checked by **csrnetwork** to be consistent with an application level of B+². For a more detailed summary of performance and a full description of each of the GRI indicators summarised below, see www.co-operative.coop/corporate/sustainability/GRI-Index



Key

ADD = Additional

ARA = Co-operative Group Annual Report and Accounts 2007 (relevant page numbers in brackets)

GRI = Full GRI table at: www.co-operative.coop/corporate/sustainability/GRI-Index

IFC = Inside front cover

M/S = Materiality and Strategy sections of all Report chapters – these are on the following pages: 15, 27, 34–35, 40, 48, 53, 59, 67, 80, 86–87, 93, 101, 108, 112–113, 120, 125

Level of reporting

● Full reporting

◐ Partial reporting

○ Don't report, will consider

⊗ Don't report, not considered to be of material importance

✕ Not applicable

Unless otherwise stated, all page references relate to this Report.

GRI indicator	Level	Where to find the indicator (page number)
1. Vision and Strategy		
1.1 Chief Executives' statements on relevance of sustainability	●	2–3
1.2 Key impacts, risks and opportunities	●	7–8, M/S, ARA (38–40)
2. Profile		
Organisational Profile		
2.1 Name of reporting organisation	●	IFC
2.2 Primary brands, products and/or services	●	IFC, 109, 113
2.3 Operational structure of the organisation	●	IFC, 109, www.co-operative.coop/corporate/groupoverview/oursubsidiaries
2.4 Location of organisation's headquarters	●	IFC
2.5 Number of countries where the organisation operates	●	IFC
2.6 Nature of ownership and legal form	●	IFC, 6, 8
2.7 Markets served	●	IFC, 110, ARA (2, 8–25)
2.8 Scale of the reporting organisation	●	IFC, 109–110, 113, ARA (8–25, 59)
2.9 Significant changes during the reporting period	●	IFC, 114
2.10 Awards received in the reporting period	●	6, 9, 13, 65, 99
3. Report Profile		
3.1 Reporting period for the information provided	●	Contents Page
3.2 Date of most recent report	●	Contents Page
3.3 Reporting cycle	●	Contents Page
3.4 Contact point for questions regarding the report	●	Contents Page, Inside Back Cover
Report Scope and Boundary		
3.5 Process for defining report content	●	5, 7–10, M/S
3.6 Boundary of the report	●	IFC, Contents Page, 108–109, 113–114, M/S
3.7 Specific limitations on the scope or boundary of the report	●	Contents Page
3.8 Joint ventures, subsidiaries, outsourced operations etc	●	See 3.6, 114
3.9 Data measurement techniques	●	6, 16–17, 29, 41, 54, 60, 71, 80–81, 94, 113, 120–121
3.10 Explanation of restatements	●	5
3.11 Significant changes from previous reporting periods	●	IFC, Contents Page, 5, 13, 65, 99
GRI Content Index		
3.12 Standard Disclosures Table	●	GRI
3.13 External assurance policy and practice	●	Contents Page, 11, 133–134
4. Governance, Commitments and Engagement		
4.1 Governance structure	●	8, ARA (41–45)
4.2 Whether Board Chair is an executive officer	●	8, ARA (41–42)
4.3 Board members who are independent and/or non-executive	●	8, ARA (4–5, 41–42)
4.4 Shareholders'/employees' communication to Board	●	8, 5, 9, 13, 40, 101–104, 113–114
4.5 Board remuneration linkage to organisation's performance	●	112, ARA (49–55), CFS Financial Statements (42–47)
4.6 Processes in place for Board to avoid conflicts of interest	●	ARA (41)
4.7 Board qualifications/expertise to guide SEE strategy	●	8, 104, ARA (42)
4.8 Statements of mission etc on SEE performance	●	4, 13, 65, 99, Inside back cover, M/S
4.9 Board procedures for overseeing SEE management	●	6–8, ARA (38–43)
4.10 Processes for evaluating Board SEE performance	●	8, ARA (42–43)
4.11 Precautionary approach or principle	●	7–8, GRI
4.12 Externally developed SEE charters or other initiatives	●	9–11, 14–16, 18–20, 25, 28–32, 35–39, 44, 54–57, 60, 67, 81, 82, 87–89, 95, 116, 123
4.13 Memberships in associations	●	10, 25, 39, 50–51, 55, 58, 61, 76, 90, 105, 128–129

¹ www.globalreporting.org/ReportingFramework/G3Guidelines/

² For further information on G3 application levels, visit www.globalreporting.org/GRIReports/ApplicationLevels/

GRI indicator	Level	Where to find the indicator (page number)
Stakeholder Engagement		
4.14 List of stakeholder groups engaged by the organisation	●	5
4.15 Identification and selection of stakeholders for engagement	●	5, 7–8, M/S
4.16 Approaches to stakeholder engagement	●	7–9, 10–11, 13, 15–18, 24–25, 27, 29, 34, 35, 38, 39–41, 43, 47–48, 52, 54–58, 60, 62, 65, 67, 71, 73, 76–77, 80–81, 83, 85–87, 90–93, 96–97, 99, 101–104, 105–106, 111, 113–114, 120–121,
4.17 Key topics raised through stakeholder engagement	●	See 4.16
Economic Performance Indicators		
Management approach	●	2–3, 27–33, 40–47, 49, 59–63, 108–111, ARA
CORE: EC1: Direct economic value generated and distributed	●	60–63, 73–75, 87, 108–111, 116–117, ARA (57, 145)
CORE: EC2: Risks and opportunities due to climate change	●	7, 66–69, 73–75, 88
CORE: EC3: Defined benefit plan obligations	●	116–117, ARA (31, 39, 51)
CORE: EC4: Government financial assistance	●	75, GRI
CORE: EC6: Practices and spending on locally-based suppliers	⊙	109–110
CORE: EC8: Public benefit infrastructure/service investments	⊙	49–50, 59–63, 74–75
ADD: EC9: Indirect economic impacts	⊙	18, 21, 49–51
ADD: EC5; CORE: EC7	×	
Environmental Performance Indicators		
Management approach	●	7–11, 65
CORE: EN2: Materials used that are recycled input materials	⊙	83
CORE: EN3: Direct energy consumption by primary source	●	68–69
CORE: EN4: Indirect energy consumption by primary source	●	68–69
ADD: EN5: Energy saved	●	68–72
ADD: EN6: Energy-efficient products and services	●	67–76
ADD: EN7: Reduction of indirect energy consumption	●	67–76
CORE: EN11: Land in/next to areas of high biodiversity value	⊙	89
CORE: EN12: Impacts on biodiversity	⊙	74–75, 89–91, 95–96
ADD: EN13: Habitats protected or restored	●	74–75, 88–91
ADD: EN14: Managing impacts on biodiversity	●	86–92, 95–97
CORE: EN16: Total direct and indirect greenhouse gas emissions	●	67–73
CORE: EN17: Other indirect greenhouse gas emissions	●	67–77
ADD: EN18: Initiatives to reduce greenhouse gas emissions	●	67–75
CORE: EN19: Emissions of ozone-depleting substances	●	70
CORE: EN20: NO _x , SO _x and other significant air emissions	○	
CORE: EN22: Total weight of waste	●	80–84, GRI
ADD: EN24: Weight of hazardous waste	⊙	83–84
CORE: EN26: Product/service environmental impact mitigation	●	66–78, 79–85, 93–97
CORE: EN27: Products sold/packaging materials reclaimed	⊙	82–84
CORE: EN28: Fines relating to environmental laws and regulations	⊙	GRI
ADD: EN29: Environmental impacts of transportation	●	71–73
ADD: EN30: Expenditure on environmental protection	⊙	65, 68–76, 81–85, 91, 95–96,
CORE: EN 8; ADD: EN9; ADD: EN10; CORE: EN23; ADD: EN25	⊗	
CORE: EN1; ADD: EN15; CORE: EN21	×	
Social Performance Indicators		
Labour Practices and Decent Work		
Management approach	●	14–15, 53, 112–113
CORE: LA1: Total workforce	⊙	IFC, 113–118
CORE: LA2: Total number and rate of employee turnover	⊙	114–115
ADD: LA3: Benefits that are only provided to full-time employees	●	117
CORE: LA4: Collective bargaining agreements	●	115
CORE: LA7: Injury, absenteeism, work-related fatalities	⊙	117–118, GRI
CORE: LA8: Education, counselling etc on serious diseases	●	117
CORE: LA10: Average hours of training per year per employee	●	115
CORE: LA13: Composition of governance bodies	⊙	54–57, 104, 116, GRI, ARA (6–7)
CORE: LA5; ADD: LA11; ADD: LA12; CORE: LA14	○	
ADD: LA6; ADD: LA9	⊗	
Human Rights		
Management approach	●	14–16, 53, 112–113
CORE: HR1: Investment agreements with human rights clauses	●	22–23, 40–43
CORE: HR2: Supplier and contractor screening on human rights	●	15–18
ADD: HR3: Employee training on human rights	⊙	18, LA1, LA10
CORE: HR4: Incidents of discrimination	⊙	17, 45, GRI
CORE: HR5: Freedom of association/collective bargaining	●	17, 41–46, GRI
CORE: HR6: Child labour risk	●	17, 41–46, GRI
CORE: HR7: Forced or compulsory labour risk	●	17, 41–46, GRI
ADD: HR9: Violations involving rights of indigenous people	●	17, 41–46, GRI
ADD: HR8	⊗	
Society		
Management approach	●	48–52, 59–60, 125–126
CORE: SO5: Participation in public policy development/lobbying	●	126–127
ADD: SO6: Financial and in-kind contributions to political parties	●	129
CORE: SO1; CORE: SO2; CORE: SO3; CORE: SO4; ADD: SO7; CORE: SO8	×	
Product Responsibility		
Management approach	●	15–16, 28–32, 35–37, 46, 49–50, 72–74, 81–84, 87–89, 94–96
CORE: PR1: Lifecycle assessment of health and safety impacts	⊙	35–37, 94–97
ADD: PR5: Practices related to customer satisfaction	●	120–124
CORE: PR6: Marketing communications compliance	⊙	36–37
ADD: PR7; ADD: PR8; CORE: PR9	○	
ADD: PR2; CORE: PR3; ADD: PR4	×	

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 and 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.

Co-operative Values and 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 between co-operatives
- Concern for community.

If you would like to comment on our sustainability approach or performance, or how we present this information, we would like to hear from you. Please contact us at: sustainability.report@co-operative.coop

The Sustainability Report can be viewed in full at www.co-operative.coop/corporate/sustainability or a paper copy obtained via **0161 827 6182** or sustainability.report@co-operative.coop

This document is also available on request in large print, in Braille and on cassette: Freephone **0800 0686 727**, Minicom **0800 0686 717** or email customer.relations@co-operative.coop

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Altogether different (cover)



Kenworthy Wood, Chorlton. The Co-operative Bank supported the development of four community woodlands, with a grant of £300,000. This site is now home to numerous species of plants and wildlife.

Social responsibility (page 12)



Satemwa Tea Estate, Malawi. As with all Co-operative own-brand hot drinks, 99 tea is Fairtrade, so growers in India and East Africa get a fairer price for their produce and receive extra premiums for community projects.

Ecological sustainability (page 64)



Coldham Wind Farm, Cambridgeshire. Eight wind turbines on The Co-operative Farms' land generate enough electricity to power 9,000 homes. Plans are in place to extend the Coldham Wind Farm, and develop a further one in Goole.

Delivering value (page 98)



Goole Estate Farms, East Yorkshire. The Co-operative farms 25,000 hectares, growing produce, such as wheat, broccoli, pumpkins and potatoes, to be sold in The Co-operative Food stores.

Assurance and commentary (page 130)



The Co-operative Solar Tower, Manchester. The Co-operative Insurance head office is clad in 7,000 photovoltaic cell panels, which have the potential to save 78 tonnes of CO₂ emissions each year.

Co-operative Group Limited

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This report is available via the Internet at the following site
www.co-operative.coop/corporate/sustainability