

# JOIN THE REVOLUTION

Sustainability Report 2010



The **co-operative** good for everyone



THE QUEEN'S AWARDS  
FOR ENTERPRISE:  
SUSTAINABLE DEVELOPMENT

# SUSTAINABILITY COMMUNICATIONS

## ONLINE REPORT

[www.co-operative.coop/sustainabilityreport](http://www.co-operative.coop/sustainabilityreport)

The online version of the Report, including extra performance information, as indicated throughout the Report . Stakeholder feedback via the website is welcomed.



## SUMMARY REPORT

A 12-page summary version of the Report, available in both printed copy and online.



## SUSTAINABILITY FILM

Sustainability highlights can be viewed online.



## SOCIAL MEDIA

Regular updates provided on sustainability initiatives, and news from the family of businesses.

[www.facebook.com/TheCooperative](http://www.facebook.com/TheCooperative)



## THE CO-OPERATIVE GROUP VISION AND AIMS

**Our purpose** To serve our members by carrying on business as a co-operative in accordance with co-operative values and principles.

**Our vision** To build a better society by excelling in everything we do.

### Our aims

- To be a commercially successful business
- To meet the needs of our customers and the communities we serve
- To respond to our members and share our profits
- To be an ethical leader
- To be an exemplary employer
- To inspire others through co-operation

## ABOUT CO-OPERATIVES

A co-operative is an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations, through a jointly owned and democratically controlled enterprise. The Co-operative's business practice is guided by the values and principles of the Co-operative Movement:

### 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.

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(Front cover) **David Eastlick, Chairman, Baywind Energy Co-operative**

Baywind Energy Co-operative in South Cumbria was the UK's first community-owned wind farm, established in 1996 and part-financed by The Co-operative Bank. From this project a development company – Energy4All – was born, which has helped to establish several other co-operatively owned wind farms across the UK.

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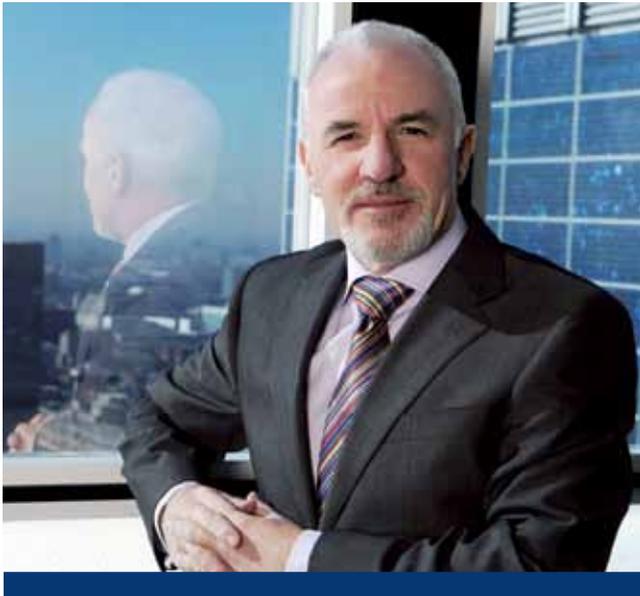
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## EXECUTIVE SUMMARY 2010



“In 2011, the new Ethical Plan sets out our ambition to reinforce our position as the UK’s most socially responsible business.”

### CHIEF EXECUTIVE’S OVERVIEW

The Co-operative’s history is characterised by moments when vision, innovation and ethics come together to drive bold ideas that rewrite the rules of the game. Be it the creation of the co-operative business model in the 19th century; our pioneering approach to Fairtrade; or the launch of the bank’s Ethical Policy in 1992, The Co-operative has a rich history of leadership and innovation in the field of corporate ethics.

Now, in 2011, the new Ethical Plan sets out our ambition to reinforce our position as the UK’s most socially responsible business, and our ‘Join the Revolution’ campaign calls on our customers and members to take action and help change their world. I believe that, in years to come, we will look back on this point in time and judge it to be yet another defining moment. The Plan injects a new radicalism into our business, with some 47 commitments signalling our intent to bring about step changes in a raft of sustainability impacts. As a result, ethical targets and performance will now be fully integrated into three-year financial planning, and the way in which we measure our success. This move codifies the long held view of The Co-operative, that our business exists to do so much more than create profit, and seeks to raise the bar for our peers.

The last five years have marked a period of expansion that is unprecedented in our recent history, seeing mergers with United Co-operatives and Britannia, and the acquisition of Somerfield. Throughout, we’ve remained true to our heritage and continued to lead the way in sustainability. While sales have gone up, environmental impact has significantly reduced, with absolute reductions made in areas such as waste and carbon emissions. We’re now able to bring ethical offerings to more customers than ever before; ensuring these are affordable to shoppers on a range of budgets. Customers who previously shopped at Somerfield now have widened access to Fairtrade and higher animal welfare products, and in 2009, the bank’s Ethical Policy was rolled out across Britannia.

Our performance in 2010 further supports our contention that putting sustainable development at the heart of our strategy is simply good for business – and good for everyone. Against the backdrop of a challenging economy, The Co-operative has once again returned record profits, whilst delivering on its key sustainability commitments. The Executive Summary, which opens this report, highlights the most notable examples of performance, such as the launch of a flagship programme to inspire young people, the investment of 4% of pre-tax profits to support communities at home and abroad, and a record share of profits earned by members of £70.5m. Last year, I had the privilege to see first-hand the difference our Fairtrade projects make to communities in Africa; as such, I’m especially proud to say we’ve tripled Fairtrade sales over the last three years.

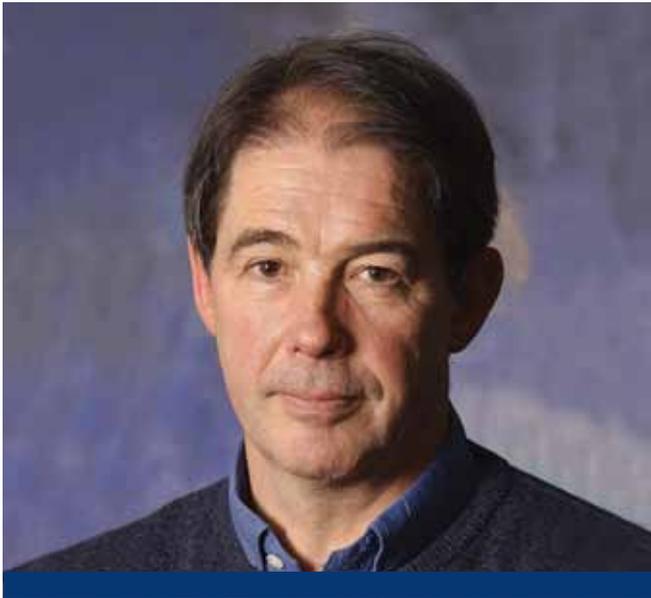
This impressive performance is only made possible by the considerable efforts of many colleagues and members. Their contributions were also central to The Co-operative receiving a host of prestigious accolades – not least The Co-operative Financial Services winning the Financial Times Sustainable Bank of the Year Award, and The Co-operative Food being named both the Responsible Retailer of the Year, for the fourth year running, and the RSPCA’s People’s Choice Supermarket for the second consecutive year.

This report details our performance across 17 areas in a candid and balanced way, and does not shy away from disclosing performance that has fallen short of our expectations. The Ethical Plan heralds a new era for sustainability reporting at The Co-operative, which takes the guiding co-operative values of openness and honesty, and our determination to continue to push the boundaries of corporate disclosure, to a new level.

I would personally like to invite all our customers, members, and staff to join the revolution and help us build a better society.

**Peter Marks**

Group Chief Executive



“Corporate Sustainability has become just too comfortable a notion over the last few years. It needs more edge, more grit, more challenge. And that’s what The Co-operative gives us.”

## EXPERT COMMENTARY

I get a lot out of reading this report every year – even though it makes me work harder than any other report I have to read! And the principal reason for that is simple: The Co-operative “is an organisation that is owned not by investor shareholders, but by over six million consumer members”.

That just puts a different stamp on things. With the best will in the world, a conventional plc turning over more than £13bn (as The Co-operative does) can hardly conceal the fact that their shareholders come first, and that all other ‘stakeholders’ come a long way down the pecking order.

There’s nothing wrong with that in itself (depending on how intelligently those plcs interpret the interests of their shareholders over time), but it does make for some pretty anaemic ‘stakeholder engagement strategies’. With The Co-operative, it’s rather more full-blooded. For instance, its Board has decided that it will commit 4% of pre-tax profits for community investments. That’s four times as much as most of the best performing plcs.

It isn’t just that The Co-operative has an interesting mission (“to be the UK’s most socially responsible business”), but that it interprets this in terms of ‘building a better society’. How many plcs today set out to do that? Not just to improve people’s lives through better products and services, but explicitly to help make the world a better place.

After 35 years of doing this stuff, I’ve come to the conclusion that most companies’ interpretation of ‘Corporate Responsibility’ is completely vacuous – and one of the principal reasons why so many people are now deeply sceptical about the role of business in society.

So The Co-operative’s ‘most critical stakeholder group’ is its members – numbering over six million today, with an ambition of getting to 20 million by 2020. All members have an opportunity to get involved if they want to, and from a conventional corporate perspective, the governance systems required to make that possible must all look pretty geeky – with seven regional boards, 48 area committees, a Member Engagement Index and so on. There is of course a cost involved in this, but the real value to The Co-operative as a whole is enormous.

Interestingly, The Co-operative is more upfront than most companies about the fact that sustainability does sometimes cost money rather than save money. It’s not all whizzy ‘win-wins’ – good for the business and good for the world. For instance, take a look at the stuff on financial inclusion (pages 51–53), helping credit unions, providing banking services for deprived communities, or bank accounts for prisoners. Almost by definition, margins on these products are going to be lower than margins on mainstream products, and sometimes they don’t make any money at all.

This is all bread and butter stuff for The Co-operative. But 2011 will, I suspect, be even more special with the launch of the new Ethical Operating Plan in February at which I had the privilege of speaking. There’s no other Plan quite like this, not least because of the 47 commitments on which the Plan is based, but because it is driven primarily by the idea of fairness and social justice – and too many companies today pay lip service to that side of the wider sustainability agenda.

And sometimes that means you have to make a few enemies. The last of the 17 sections covered in this Report is on Public Policy, which isn’t just about what The Co-operative is lobbying the politicians on, but the campaigns it is engaged in around issues as diverse as the tar sands in Canada, votes at 16, on Third World debt, or the use of neo-nicotinoids in farming today. A just and sustainable world is a world that has to be fought for; it won’t just happen of its own accord.

Corporate Sustainability has become just too comfortable and reassuring a notion over the last few years. It needs more edge, more grit, more challenge about what it is that is still going so badly wrong in the world today. And that’s what The Co-operative gives us.

**Jonathon Porritt**

Jonathon Porritt is Founder Director of Forum for the Future  
[www.forumforthefuture.org](http://www.forumforthefuture.org)

## EXECUTIVE SUMMARY 2010

### THE CO-OPERATIVE AT A GLANCE

The Co-operative Group (The Co-operative) stands apart from other major businesses in the UK as an organisation which is owned, not by investor shareholders, but by over six million consumer members.

### The co-operative

#### Family of businesses

Throughout this Report, 'Trading Group' is used to describe all parts of The Co-operative's businesses, with the exception of The Co-operative Financial Services (CFS).

#### The co-operative food

The fifth largest food retailer in the UK, with over 17 million customers served each week. In 2010, it successfully integrated Somerfield, and rebranded and upgraded 778 stores. As of 2010, The Co-operative Food includes The Co-operative Farms, the UK's largest farmer.

Employees: 79,809

Stores: 2,883

Total sales (inc VAT): £8.2bn

#### The co-operative pharmacy

The third largest pharmacy chain in the UK, and the largest in Wales, with over 65 million prescriptions dispensed per year.

Employees: 6,747

Branches: 769

Sales: £771.3m

#### The co-operative estates

One of the largest and most diverse land owners in the UK, with interests that span retailing, property investment and land development.

#### The co-operative financial services

The UK's most diversified mutual, following the merger with Britannia. Comprises The Co-operative Bank and its internet bank, **smile**, Britannia, The Co-operative Insurance, The Co-operative Investments and The Co-operative Asset Management.

Employees: 11,349

Branches: 339

Customer deposits: £34.2bn

#### Specialist Commercial Businesses

##### Sunwin Services Group

A support services business offering managed security, IT services, cash management, and fire and security solutions.

##### Motors

One of the top 50 car dealers in the UK, with over 23 sites across the Midlands and the North of England.

##### E-Store

Online electrical store, including The Co-operative Electricals and The Co-operative Beds.

##### Corporate Clothing

Designs, manufactures and distributes business wear and uniforms.

#### The co-operative funeralcare

The UK's leading funeral director, carrying out over 100,000 funerals each year. It operates over 850 funeral homes, as well as two crematoria and two woodland burial grounds.

Employees: 3,855

Funeral homes: 865

Sales: £316m

#### Specialist Retail Businesses

##### Legal Services

The Co-operative Legal Services is at the forefront of regulatory changes that will enable a wide range of consumer-friendly legal services.

##### Life Planning

The Co-operative Life Planning offers funeral planning and will-writing services.

##### Travel

The Co-operative Travel offers the widest choice of holidays on the high street, with more than 400 UK stores.



More information on The Co-operative's businesses and subsidiaries can be found at: [www.co-operative.coop/corporate/groupoverview](http://www.co-operative.coop/corporate/groupoverview)

**109,614**

employees

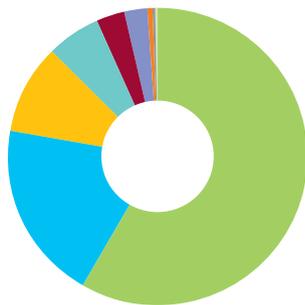
**6m+**

members

**5,000**

trading outlets

Contribution to net revenue



- Food 58.4%
- CFS 19.4%
- Membership and Federal 9.9%
- Pharmacy 5.9%
- Specialist Commercial Businesses 3.0%
- Funeralcare 2.4%
- Specialist Retail Businesses 0.5%
- Estates 0.3%
- Farms 0.2%

**£625m**

operating profit

**£13.7bn**

gross sales

Timeline 2010–2011

<b>JANUARY 2010</b>	Site preparations begin for construction of new Head Office, set to be one of the UK's most sustainable buildings.	63
<b>FEBRUARY 2010</b>	Votes at 16 campaign to lower the voting age launches.	59
<b>MARCH 2010</b>	Plan Bee campaign to save the honeybee relaunched, and includes urban beekeeper workshops across the UK.	86
<b>MAY 2010</b>	Highest ranking retailer or financial services business in Sunday Times Best Green Companies list.	64
<b>JUNE 2010</b>	CFS named the Financial Times Sustainable Bank of the Year.	43
<b>JUNE 2010</b>	The Co-operative Food wins The Grocer Green Supermarket of the Year Award.	65
<b>JUNE 2010</b>	'Inspiring young people' strategy launches.	55
<b>JULY 2010</b>	The Co-operative Pharmacy Ethical Strategy launches.	13
<b>OCTOBER 2010</b>	The Co-operative Enterprise Hub completes its roll out across England and Wales.	98
<b>NOVEMBER 2010</b>	500th former Somerfield store rebranded.	115
<b>JANUARY 2011</b>	Official launch of The Co-operative's Charity of the Year partnership with Mencap takes place.	20
<b>FEBRUARY 2011</b>	Landmark Ethical Operating Plan unveiled.	13
	The Co-operative has a food store in every UK postal area.	50
<b>MARCH 2011</b>	The Co-operative Funeralcare Ethical Strategy launches.	13
	Join the Revolution launches.	12

➤ Social responsibility 
 ➤ Environmental sustainability 
 ➤ Delivering value

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# EXECUTIVE SUMMARY 2010

## SOCIAL RESPONSIBILITY

Taking a responsible approach to business has been a guiding principle of The Co-operative since its inception. Co-operative values and principles – such as concern for the community and equality – date back to the 19th century, and resonate with contemporary ideas of corporate responsibility.

PERFORMANCE AT A GLANCE		Page
<b>COMMUNITY INVESTMENT</b> 	<ul style="list-style-type: none"> <li>The Co-operative is amongst the most generous of UK businesses, providing 4% of pre-tax profits for community investment.</li> <li>In addition, £1.7m was given to 1,691 community projects, funded by members donating some, or all, of their share of profits.</li> <li>Over 8,400 employees took part in community activities in 2010, equivalent to 12,571 days.</li> </ul>	<b>4%</b> of pre-tax profits invested in the community <b>17</b>
<b>INTERNATIONAL DEVELOPMENT AND HUMAN RIGHTS</b> 	<ul style="list-style-type: none"> <li>The Co-operative was the first major retailer to champion Fairtrade, and today sells Fairtrade products in every one of its 2,900 Food stores.</li> <li>Fairtrade sales increased 37% in 2010.</li> <li>The Co-operative is committed to improving working conditions in its supply chain and continues to support supplier training to help build capacity to manage labour standards. In 2010, The Co-operative's capacity building activities provided around 2,300 person hours of training, delivered in six key sourcing countries.</li> <li>One million people in the developing world benefited from international development activity in 2010. This will be given a further boost in 2011 with new initiatives, including The Co-operative Pharmacy's affinity handwash.</li> </ul>	<b>Fairtrade sales value</b> <b>2010</b> <b>£97m</b> <b>2009</b> £71m <b>22</b>
<b>ANIMAL WELFARE</b> 	<ul style="list-style-type: none"> <li>The Co-operative was the first retailer to adopt the RSPCA Freedom Food scheme, and today sells 73 accredited products.</li> <li>The Elmwood higher-welfare standards were launched in 2007, and were extended to cover a total of 140 product lines in 2010.</li> <li>Sales of BUAV-accredited (not tested on animals) products increased 48% to £26.9m.</li> </ul>	<b>RSPCA Freedom Food and Elmwood sales</b> <b>2010</b> <b>£174m</b> <b>2009</b> £111m <b>32</b>
<b>DIET AND HEALTH</b> 	<ul style="list-style-type: none"> <li>Healthier choices continue to be made available at accessible prices and across product ranges. The nutritional content of value items remains at least as good as standard equivalent lines.</li> <li>A third of all food promotions in 2010 were for healthier products. Green Dot labelling was extended to nearly 100 new products, with 35% of own-brand sales featuring the symbol.</li> </ul>	<b>Number of Green Dot products on sale</b> <b>2010</b> <b>938</b> <b>2009</b> 840 <b>37</b>
<b>ETHICAL FINANCE</b> 	<ul style="list-style-type: none"> <li>2010 was a significant year for The Co-operative Financial Services (CFS) with the establishment of the Social Banking Unit; recognition as the Financial Times Sustainable Bank of the Year; a commitment to provide £1bn to fund green energy and – a world first – the extension of the bank's Ethical Policy to home and motor insurance products.</li> <li>The Co-operative Asset Management continues to be recognised as one of the most active and assertive institutional investors, and in 2010, opposed 10% of UK management resolutions.</li> </ul>	<b>£1.2bn</b> in finance declined since 1992, in line with The Co-operative Bank's Ethical Policy <b>41</b>
<b>SOCIAL INCLUSION</b> 	<ul style="list-style-type: none"> <li>With an outlet in every postal area, basic services continue to be made available to diverse communities.</li> <li>The number of basic bank accounts provided increased by 29%.</li> <li>In 2010, some 12,000 young people benefited from CFS' Skills4Schools programme to improve skills such as financial literacy and numeracy.</li> </ul>	<b>Basic bank accounts provided</b> <b>2010</b> <b>234,677</b> <b>2009</b> 181,874 <b>50</b>
<b>INSPIRING YOUNG PEOPLE</b> 	<ul style="list-style-type: none"> <li>108 Co-operative Trust Schools have been established, and Co-operative Academies have opened in Manchester and Stoke-on-Trent.</li> <li>StreetGames Young Volunteers has helped over 30,000 young people from disadvantaged areas.</li> <li>The Votes at 16 campaign launched in early 2010, calling for the voting age to be lowered.</li> </ul>	<b>330,000</b> inspiring young people beneficiaries 2010 <b>55</b>

# ECOLOGICAL SUSTAINABILITY

There are physical limits to the resources of the Earth, both in terms of generating materials, and absorbing waste. Any business activity that exceeds these limits is, by definition, unsustainable in the long run. The Co-operative takes an evidence-based approach to policy making, and is committed to making absolute reductions in emissions, but never at the expense of the world's poorest.

PERFORMANCE AT A GLANCE		Page
<b>CLIMATE CHANGE</b> 	<ul style="list-style-type: none"> <li>Greenhouse gas emissions reduced by 15% in 2010, contributing to an overall reduction of 35% compared with 2006.</li> <li>Energy consumption reduced by 12%.</li> <li>98% of electricity is procured from renewable sources, and The Co-operative continues to build its own capacity for renewable energy generation.</li> <li>Emissions from refrigerant gas leaks reduced by 35% in 2010, contributing to an overall reduction of 58% since 2006.</li> <li>272,700 tonnes of CO<sub>2</sub> were offset.</li> <li>The Toxic Fuels campaign continued, and in early 2010, The Co-operative Asset Management led shareholder resolutions at the AGMs of BP plc and Royal Dutch Shell plc, calling on them to report on the risks associated with tar sands developments. 15% and 11% of shareholders voted for, or abstained on, the BP and Shell resolutions respectively.</li> </ul>	<b>35%</b> reduction in gross direct greenhouse gas emissions since 2006 <b>61</b>
<b>WASTE AND PACKAGING</b> 	<ul style="list-style-type: none"> <li>Waste arising reduced by 4% (4,500 tonnes) in 2010, contributing to a decrease of 26% since 2006.</li> <li>A reduction of 9% in the weight of total primary packaging was achieved, contributing to a reduction of 26% since 2006.</li> <li>The number of single use carrier bags distributed is down by 66% since 2006, representing over one billion carrier bags avoided.</li> </ul>	<b>Waste arising (tonnes)</b> 2010 <b>119,429</b> 2009 124,293 <b>73</b>
<b>WATER</b> 	<ul style="list-style-type: none"> <li>Water consumption across the estate (excluding The Co-operative Farms) decreased by an estimated 10% in 2010.</li> <li>Sales of Fairbourne Springs own-brand water enabled the installation of 160 play pumps being funded, with beneficiaries in the region of 400,000 people.</li> <li>A further 50,000 people benefited as a result of water and sanitation projects in the supply chain, and a further 50,000 were supported through water-related carbon offset projects.</li> </ul>	<b>Total water consumption (estimated million m<sup>3</sup>)</b> 2010 <b>2.0</b> 2009 2.2 <b>78</b>
<b>BIODIVERSITY</b> 	<ul style="list-style-type: none"> <li>All own-brand fish is sourced according to a Responsible Fish Sourcing Policy.</li> <li>The vast majority of wood and paper products (94%) at The Co-operative Food are certified by the Forest Stewardship Council® (FSC®), with a further 5% sourced from recycled waste.</li> <li>The Co-operative Funeralcare has doubled the amount of FSC-certified wood used in the coffins it produces.</li> <li>The Plan Bee campaign continues apace, and in early 2011 relaunched, to include other 'at risk' pollinators, such as butterflies and moths.</li> <li>Since the launch of Plan Bee, 900,000 packets of bee friendly wildflowers have been distributed to customers and members.</li> </ul>	<b>94%</b> FSC-certified wood and paper products, with a further 5% from recycled waste <b>81</b>
<b>CHEMICALS</b> 	<ul style="list-style-type: none"> <li>The Co-operative Food is recognised as being amongst the leading retailers for addressing issues of concern on pesticide use, and lists a number of pesticides as banned, prohibited or monitored.</li> <li>The Chemicals Strategy identifies 38 chemical types for removal from own-brand products, including 19 added during 2010.</li> </ul>	<b>443</b> pesticides listed as banned, prohibited or monitored <b>88</b>

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# EXECUTIVE SUMMARY 2010

## DELIVERING VALUE

Using co-operative values and principles to optimise profits, value to stakeholders is delivered in a number of ways. The Co-operative has one of the UK's most generous profit-sharing schemes, is one of the largest private sector employers in the UK, and delivers an ambitious programme of social goals and campaigning activity. The business promotes the co-operative model to help build a more sustainable and diversified economy in the UK and beyond.

PERFORMANCE AT A GLANCE		Page
<p><b>DEMOCRATIC CONTROL AND SUPPORTING CO-OPERATIVES</b></p> 	<ul style="list-style-type: none"> <li>Numbering over six million, one in 10 of the UK adult population is a member of The Co-operative. In 2010, 95% of members earned a share of profits, and 29% traded with more than one Co-operative business.</li> <li>2010 saw record levels of democratic participation, with 81% of area committee elections contested.</li> <li>256 projects were supported by The Co-operative Enterprise Hub, including consultancy and grants.</li> </ul>	<p><b>Share of profits earned by individual members</b></p> <p><b>2010</b> £70.5m</p> <p>2009 £50.4m</p> <p><b>93</b></p>
<p><b>ECONOMIC IMPACT</b></p> 	<ul style="list-style-type: none"> <li>Despite the economic downturn, record financial results were delivered, and the Return on Capital Employed was 13.5%, against a target of 11.2%.</li> <li>The amount contributed to wider society, by way of tax paid, staff wages and member payouts, increased by 7% to £2.8bn.</li> <li>All shell eggs, milk, fresh and frozen poultry, beef and pig meat are sourced from the UK.</li> <li>The Co-operative Farms' 'Grown by us' range was extended in 2010, to include Scottish porridge oats and Tillington 1000 apple juice.</li> </ul>	<p><b>Gross sales</b></p> <p><b>2010</b> £13.7bn</p> <p>2009 £12.5bn</p> <p><b>100</b></p>
<p><b>EMPLOYEES AND DIVERSITY</b></p> 	<ul style="list-style-type: none"> <li>The Co-operative is one of the UK's largest private sector businesses, employing 110,000 people.</li> <li>Following the acquisition of Somerfield and merger with Britannia, high levels of colleague engagement have been maintained within both the Trading Group and CFS.</li> <li>In 2010, the Trading Group improved its ranking in the Stonewall Workplace Equality Index, and was the highest ranked retailer.</li> </ul>	<p><b>Trading Group employee engagement index<sup>1</sup></b></p> <p><b>2010</b> 77</p> <p><b>CFS employee engagement index<sup>1</sup></b></p> <p><b>2010</b> 78%</p> <p><b>103</b></p>
<p><b>CUSTOMERS</b></p> 	<ul style="list-style-type: none"> <li>Measurement of customer satisfaction was updated in 2010, to better evaluate what matters most to customers, and assess levels of customer advocacy.</li> <li>The Trading Group extended its customer engagement programme and launched a dedicated service for travellers with a disability.</li> <li>CFS outperformed its peers in terms of both customer satisfaction (by 7.5%) and resolution of customer complaints.</li> </ul>	<p><b>Stores rebranded under one identity</b></p> <p><b>2010</b> 4,900</p> <p>2009 4,030</p> <p><b>113</b></p>
<p><b>PUBLIC POLICY</b></p> 	<ul style="list-style-type: none"> <li>Uniquely among large businesses in the UK, The Co-operative uses its influence to campaign for a more sustainable world, press for change in public policy, and engage its members on ethical issues.</li> <li>Two campaigns continued in 2010 – Toxic Fuels and Plan Bee – and two further campaigns were launched – Votes at 16 and Unfinished Business.</li> </ul>	<p><b>16</b></p> <p>issues identified as focus for major sustainability-related public policy interventions in 2010</p> <p><b>119</b></p>

<sup>1</sup> Due to differing methodologies, these scores are not directly comparable.

## LOOKING AHEAD

In 2011, The Co-operative took a great leap forward with the launch of a new Ethical Operating Plan, and the aim to be clearly recognised as the UK's most socially responsible business.

This three-year rolling plan aligns, for the first time, long-term sustainability investment priorities with the business' forward-looking commercial strategy. The plan's ambitious targets are listed throughout the Report with the symbol **EOP**, and a selection of highlights are outlined below.

Over the next three years, this approach will enable investment in the most extensive Fairtrade conversion ever seen, considerable reductions in carbon emissions, more extensive investment in UK communities, and a dramatic increase in funding to help UK businesses go green.



To deliver these radical goals, The Co-operative aims to triple its membership over the next decade, and launched a bold new marketing campaign encouraging others to 'Join the Revolution'. The campaign reflects its purpose beyond profit and brings to the fore the role that The Co-operative and other co-operators play in promoting a fair and progressive society. Customers, members and other stakeholders are encouraged to take part in the campaign via the website [www.jointherevolution.coop](http://www.jointherevolution.coop)

### SOCIAL RESPONSIBILITY



- Ensure that 10% of the profits available for distribution is made available for community investment by 2013, with £5m deployed per annum to tackle UK poverty around stores and branches
- Stores and branches will act as a focus for 10,000 community initiatives per annum
- If a primary commodity from the developing world can be Fairtrade, it will be by 2013. A unique range of products and initiatives that benefit producers and go 'Beyond Fairtrade' will be developed (pictured)
- Extend commercial lending for energy efficiency and renewables from £400m to £1bn, and kick-start a revolution in community-owned renewable energy generation
- Provide £30m for the inspiring young people programme by 2013, and establish a Co-operative Apprenticeship Academy that will create 2,000 apprenticeships.

### ECOLOGICAL SUSTAINABILITY



- Generate the equivalent of 25% of electricity needs from renewable sources by 2017
- Render operations carbon neutral by 2012, with carbon offset solutions provided by a programme of international and co-operative projects
- Construct a new head office (pictured) by 2012 that will set new standards in sustainable design, construction, and operation in the UK
- Ensure the vast majority of operational waste is diverted from landfill by 2013
- Move palm oil and soy to a sustainable footing by 2011 and 2015 respectively, while maintaining leading edge work on wood and paper
- Extend the Plan Bee campaign and seek to address the decline of 'at risk pollinators', and broaden the campaign against unconventional fossil fuels to encompass solutions such as community energy.

### DELIVERING VALUE



- Aim to have 20 million members by 2020, and continue a profit sharing scheme that is amongst the broadest and most generous of any major UK business
- Invest £11m to support the growth and development of co-operatives, most significantly via The Co-operative Enterprise Hub (pictured). By 2013, develop a £20m international Co-operative Development Loan Fund, and act as the primary funder of co-operative encouragement bodies
- Continue to use influence to campaign for a better society, engage with 500,000 members per annum, and always be open about lobbying and its outcomes.

# SUSTAINABLE DEVELOPMENT POLICY

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

The Co-operative 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 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.

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 Co-operative 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 Co-operative will be guided by the long-established co-operative values of self-help, self-responsibility, democracy, equality, equity and solidarity, along with the pursuit of legislative compliance.



## Target attainment 2010

During 2010, The Co-operative worked to 84 targets set in previous years. Progress is classified within one of six categories, and reported within each performance section, identified by the symbol . Future targets have been set as part of the new Ethical Operating Plan (page 13), identified by the symbol .

TARGET ACHIEVED	ON TRACK	CLOSE TO TARGET	BEHIND SCHEDULE	TARGET NOT ACHIEVED	TARGET DROPPED
<b>60 OUT OF 84</b> 2009: 44 OUT OF 78	<b>5 OUT OF 84</b> 2009: 11 OUT OF 78	<b>1 OUT OF 84</b> 2009: 9 OUT OF 78	<b>9 OUT OF 84</b> 2009: 10 OUT OF 78	<b>6 OUT OF 84</b> 2009: 2 OUT OF 78	<b>3 OUT OF 84</b> 2009: 2 OUT OF 78
2010 <b>71%</b> 2009 <b>56%</b>	2010 <b>6%</b> 2009 <b>14%</b>	2010 <b>1%</b> 2009 <b>11%</b>	2010 <b>11%</b> 2009 <b>13%</b>	2010 <b>7%</b> 2009 <b>3%</b>	2010 <b>4%</b> 2009 <b>3%</b>

# SUSTAINABILITY MANAGEMENT

## Background

Sustainability management and reporting is aligned with the three principles of the AA1000 AccountAbility Principles Standard (2008)<sup>1</sup>: materiality, inclusivity and responsiveness.

Members are firmly embedded in governance (both in general, and in sustainability governance specifically) and policy formulation (pages 13 and 14). As such, whilst engagement with wider stakeholders is central, there is an additional focus on how democratic structures are used to ensure that strategies, policies and performance respond to stakeholder concerns. This level of responsiveness is almost certainly unique among large businesses in the UK.

## Materiality and strategy

In 2010, following consultation with different stakeholders, the Group Board agreed a new vision: 'to build a better society by excelling at everything we do'. In pursuit of this, six aims are identified: to be a commercially successful business; to meet the needs of the customers and communities served; to respond to members and to share profits; to be an ethical leader; to be an exemplary employer; and to inspire others through co-operation. The key performance indicators underpinning strategy, together with progress, are presented within the Annual Report and Accounts<sup>2</sup>.

The Sustainable Development Policy (page 10) and the Ethical Operating Plan (page 13) set out the need for business to develop in a more sustainable manner<sup>3</sup>. In managing and reporting on sustainability, activity is focused on the areas that are of greatest significance. The process for identifying those issues is complex and diverse, and, as set out in the diagram on page 12, subject to competing influences.

The 2010 Sustainability Report is structured around 17 material issues, which are grouped into the 'triple bottom line' of social, environmental and economic impacts. Each section of the Report details how materiality has been determined in each case, and, where relevant, outlines the resource commitment and management strategy in place. Unless stated otherwise, performance information relates to the calendar year 2010.

The Co-operative Food and The Co-operative Financial Services (CFS) contribute 78% of Group revenue (page 5), and disclosure on these businesses is prioritised. Equally, reporting on products sold focuses on where the business has substantially greater influence: the improvement in the sustainability of own-brand products.

New reporting developments this year include: Water and Inspiring Young People, included as fully assured content (pages 78 and 55), the sustainability of the pension scheme (page 48) and an increased focus on palm oil and soya (page 84). At the same time, there is reduced reporting on certain issues, such as food additives (page 38) and peat (page 85).

Chief Executive's overview

The Co-operative at a glance

Performance summary

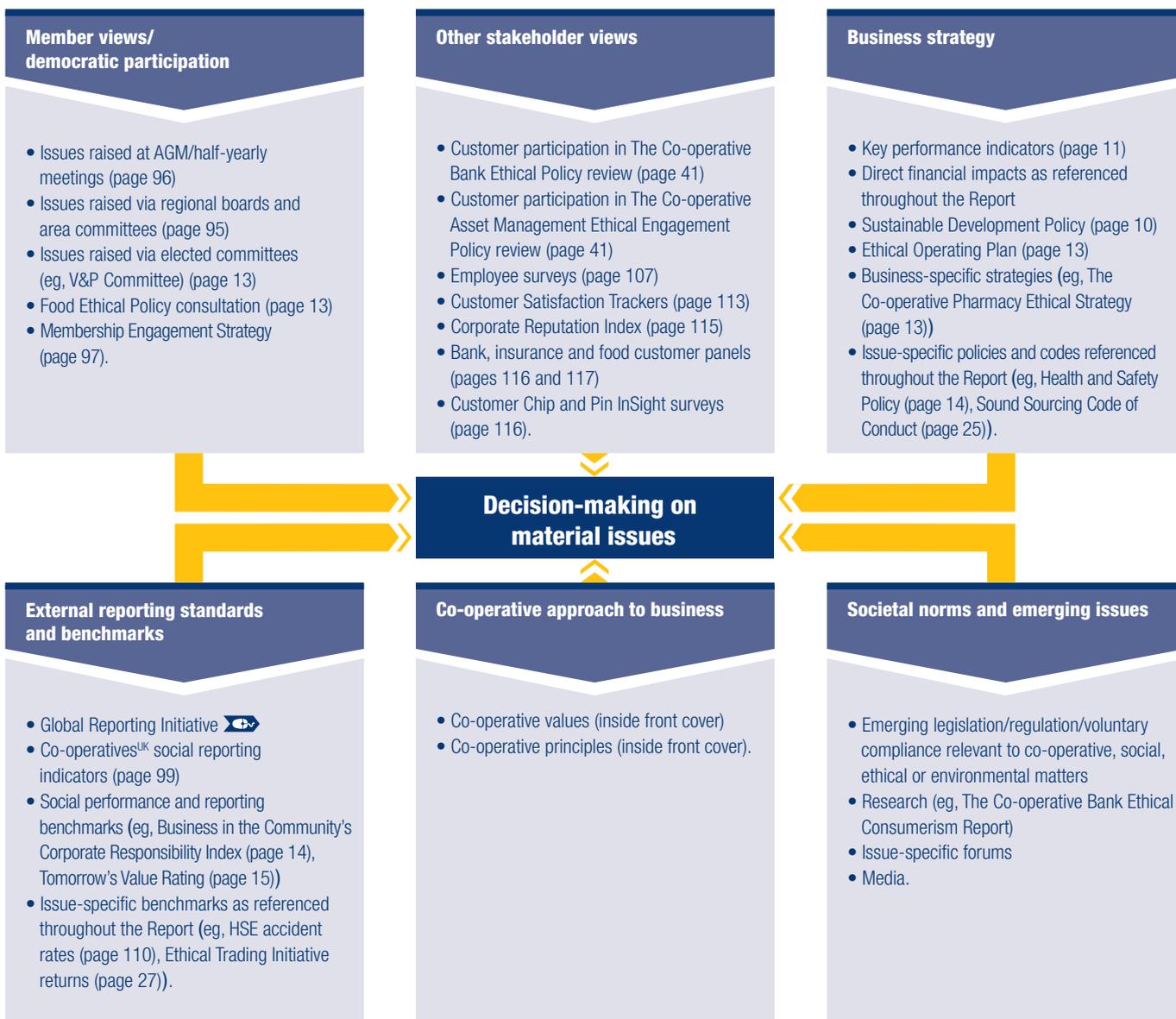
Looking ahead

Sustainability management

Targets 2010	Progress	Targets 2011
<b>Indicator: Sustainability governance and management systems</b> (Performance benchmark and recognition pages 14 and 15)		
Commence development of an Ethical Strategy for The Co-operative Funeralcare.	 Funeralcare Ethical Strategy launched in March 2011.	<b>EOP</b> Continue to set global standards for openness and honesty and seek to use new technology to influence customers' ability to make ethical choices.
		<b>EOP</b> The remuneration of senior staff will be influenced by the degree to which The Co-operative is viewed as a leading champion of corporate social responsibility in the UK.
<b>Indicator: Awards and recognition</b> (Performance recognition page 15)		
Ensure that The Co-operative'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 2010.	 The Co-operative Group Sustainability Report 2009 ranked first in the 'Credibility through Assurance' category, and runner-up in the 'Openness and Honesty' category at the global Corporate Register Reporting Awards 2010 (page 15).	

# SUSTAINABILITY MANAGEMENT

## Factors that influence consideration of materiality



## Join the Revolution

In March 2011, The Co-operative launched 'Join the Revolution', its largest ever marketing campaign on ethics. The national TV, press and online campaign tells the story behind The Co-operative 'revolution' – the creation of a business based on democratic principles, owned by its customers, and reinvesting in the community. The campaign also focuses on some of the people whose personal revolutions have been supported, from community-

owned wind turbines, to urban bee-keeping. Clips and images from the campaign, as well as the full Ethical Operating Plan, can be found at [www.jointherevolution.coop](http://www.jointherevolution.coop)



## Ethical Operating Plan



In 2010, a new approach to managing sustainability was developed: the Ethical Operating Plan. The approach was considered

and refined with the involvement and approval of the Group Values and Principles (V&P) Committee, Group Executive and Group Board. The Plan aligns with the commercial operating plans, setting out priorities and targets over a rolling three-year period, to be reviewed and updated annually.

Targets have been set across eight areas: democratic control and reward, supporting co-operatives, keeping communities thriving, inspiring young people, tackling global poverty, protecting the environment, responsible retailing, and ethical finance. Throughout the Report, targets are identified by the symbol .

The Plan is managed on a day-to-day basis by the Social Goals department (page 14), and overseen by a new Social Responsibility Executive Committee. The Committee includes members of the Management Executive, and is chaired by the Group Chief Executive. Democratic control and accountability are integral to the Plan, and regional and Group V&P Committee members will ensure the development of the Plan is responsive to members.

More details can be found at [www.jointherevolution.coop](http://www.jointherevolution.coop)

## Inclusivity and responsiveness

Six classes of stakeholder are identified, upon whom continued business success is dependent. Engagement with these stakeholders is an important ongoing activity and The Co-operative is responsive to relevant and important stakeholder concerns. The Sustainability Report forms part of this responsiveness, and performance is detailed in an open and honest manner.

Elected area committees<sup>4</sup> and regional boards, which are drawn from the membership, consider issues as diverse as store performance, developments and closures, and the allocation of Community Fund donations. During 2010, elected members participated in the development and approval of the Ethical Operating Plan.

Working in parallel with the democratic governance structure, more traditional governance structures are also operated, which include mechanisms to manage and oversee the approach to sustainability<sup>5</sup>.

### Stakeholders

<b>Members</b>	Over 6 million members (pages 93–97).
<b>Customers</b>	Approximately 17 million customers visit The Co-operative Food each week and CFS has approximately 8.6 million.
<b>Employees</b>	109,614 employees (pages 103–112).
<b>Co-operative Movement</b>	The Co-operative seeks to deliver value to the UK and international Co-operative Movement (pages 98 and 99).
<b>Suppliers</b>	2,700 suppliers <sup>6</sup> .
<b>Wider society</b>	Encompasses the communities within which The Co-operative trades; local and national governments; NGOs; industry organisations; multi-stakeholder groups; charities; and expert organisations.

## Governance

Oversight of sustainability, community and membership engagement strategies is undertaken by the Values & Principles Committee<sup>7</sup>. The Committee is accountable to the Group Board, and comprises four Group Board directors, two CFS Board directors, and an elected representative from each of the seven regional V&P Committees (see below). In 2010, two further representatives were appointed by the Group Board, representing the Diversity Working Group and Independent Society Members respectively<sup>8</sup>.

The majority of Group Board members (15 of 20, or 75%) are elected by 48 area committees, which, in turn, comprise individuals from the individual membership base (page 95). The remaining five members are elected by the independent society membership, who represent societies to whom the business provides services. Formal sign-off of the Sustainability Report is provided by the Group Board.

Each region has a V&P 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 members who have been elected by area committees or the regional board. It has the authority to escalate issues for the consideration of the Group V&P Committee.

A full description of the democratic governance structure can be found on page 95.

## Policy

The Co-operative's overarching approach to ethics and sustainability is consolidated in a Sustainable Development Policy (page 10). The Policy is implemented via the Ethical Operating Plan (see above), which is underpinned by a suite of bespoke ethical policies and strategies in connection with all the major businesses<sup>9</sup>.

### Ethical policies and strategies

The Co-operative Bank and The Co-operative Asset Management operate customer-mandated ethical policies that govern, respectively, who the bank will and will not finance, and the investments underpinning key insurance products (page 41), and the approach to engagement with investees (page 41).

The Co-operative Food operates a member-mandated Ethical Policy, which sets out a series of commitments that guide its approach to responsible retailing. The Food Ethical Policy was launched in 2008, based on responses from over 100,000 co-operative members<sup>10</sup>.

Following the acquisition of Somerfield, and merger with Britannia, these policies were applied, without amendment, across the enlarged business.

The Co-operative Travel, The Co-operative Pharmacy, and, as of 2011, The Co-operative Funeralcare, all have ethical strategies, developed by management and approved by the V&P Committee. These strategies set out how the key Group-level ethical issues are managed in the day-to-day running of each of the businesses, and outline how each can uniquely contribute to sustainable development.

# SUSTAINABILITY MANAGEMENT

## Other policies

A Sound Sourcing Code of Conduct focuses on goods for resale within the Trading Group (page 25) and at CFS a Sustainable Procurement and Supplier Policy focuses on goods not for resale.

A Human Rights and Trade Policy (page 28) sets out the extreme conditions that need to be breached for trade to be suspended with a nation state, designated region, or in a particular product. A number of specific policies have been developed in relation to issues such as diversity, packaging and pesticides, and these are detailed in relevant sections throughout this Report.

Health and Safety Policies set out clear and consistent responsibilities across all business areas and the Group Board is regularly updated on health and safety matters<sup>11</sup>.

The Trading Group and CFS have separate Codes of Business Conduct covering relations with customers, members, employees, suppliers, community and competitors. In both instances, the codes provide procedures to report suspected serious malpractice. An anti-fraud policy was introduced in 2009 to support the Trading Group Code of Business Conduct.

## Performance recognition

In April 2007, a Queen's Award for Enterprise in the Sustainable Development category was conferred upon The Co-operative. The Award, which runs for five years, recognised The Co-operative's achievements in embedding sustainability across its operations.

The Co-operative 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.



## Performance benchmark

In the most recent Business in the Community (BITC) Corporate Responsibility (CR) Index, published in 2011, The Co-operative was one of only 15 businesses to achieve the highest 'Platinum+' ranking, which challenges businesses to demonstrate the degree to which CR is embedded in business strategy.



## Management

Day-to-day management of sustainability is undertaken by the ethics and sustainability (19 employees) and community and campaigns (20 employees) teams in the Social Goals department<sup>12</sup>. The Head of Social Goals reports to the Director of Corporate Affairs who is a member of the Group Executive<sup>13</sup>.

Responsible investment activities are supported by a distinct team (six full-time equivalent staff) within The Co-operative Asset Management function. Responsible retailing is managed by a distinct team within The Co-operative Food. That team is supported by a Food Policy Group, chaired by the Chief Executive of Food Retail. In 2010, six regional energy managers oversaw the ongoing training of around 3,000 Energy Champions across Food stores. Many other individuals throughout the business are directly responsible for aspects of the sustainability programme.

In 2010, CFS' environmental management systems were re-certified to the ISO 14001 standard at its annual audit inspection, and the certification was extended to Britannia. CFS was the first financial services organisation in the world to secure certification for all its business activities<sup>14</sup>.

## Risk management and internal control

The Co-operative comprises a diverse range of businesses and is exposed to a complex array of risks. The Annual Report and Accounts provides a statement on the principal risks and uncertainties faced, including those which are specific to financial services<sup>15</sup>.

Each business has a risk register that identifies the likelihood and impact of risks occurring and the actions being taken to manage them. Risk assessments are updated and reviewed on a regular basis by senior management teams, and are regularly reported to the Management Executive and Board through the Audit and Risk Committee<sup>16</sup>. Significant risks are combined for the whole business and recorded in a Risk Report, which is considered by the Risk Management Committee (chaired by the Group Chief Executive), which provides reports, four times a year, to the Audit and Risk Committee. Damage to reputation or brand, including the ethical stance, is one of the risks addressed. The Group Board has overall responsibility for risk management and for ensuring that the process is aligned to business strategy.

Progress reports on ethics and sustainability matters are provided for the CFS Board on a quarterly basis, and the Group Executive and CFS Executive on a monthly basis.

## Ethical campaigning

As reported within the Public Policy section (pages 119–123), The Co-operative believes that significant progress on sustainability requires, in many cases, well-crafted public policy intervention, and that businesses wishing to stake a claim to leadership on sustainability issues must demonstrate that public affairs activities are aligned with publicly stated sustainability claims and objectives. The Co-operative seeks to involve its members in its ethical activities, and raise awareness of ethical considerations among its customer base. As such, and unusually for a large organisation, campaigns are run, which, where applicable, include an element of public policy intervention. In 2010, two such campaigns continued – Toxic Fuels (page 71) and Plan Bee (page 86) – and two further campaigns were launched – Votes at 16 (page 59) and Unfinished Business (page 30).

## Innovation and leadership

The Co-operative aims to be at the forefront of sustainable business in the UK, and has a history of pioneering change through sustainability innovation and leadership. Innovation is delivered by individual business units, and is influenced by the views of stakeholders. This includes the participation of members via the democratic process (page 95), and the harnessing of employees' ideas through the online 'Ideas Hub'.

## Accounting and reporting

The process of accounting, auditing and reporting on material social, ethical and environmental impacts is a critical driver of performance improvement for management and, at the same time, provides crucial data to stakeholders.

Content of this Report is informed by the Global Reporting Initiative's G3.1 Sustainability Reporting Guidelines. This Report has been checked by GRI and found to be consistent with a GRI G3.1 application level of A+<sup>17</sup>. An index detailing reporting against the G3.1 indicators is provided online .

Where previously reported data is identified as inaccurate, or the methodology for calculating data has changed, information is restated and identified by the symbol . Details of restatements are provided online .

### Performance benchmark

The Co-operative's approach to sustainability was assessed using the Tomorrow's Value Rating (TVR)<sup>18</sup>. Assessment focused on three domains: management of sustainability issues, governance and engagement, and innovation.

The Co-operative was benchmarked against seven companies<sup>19</sup>, all deemed to be leaders on sustainability, and ranked first, with a score of 70%; slightly out-performing its nearest peer, and the average score of 66%.

### Performance recognition

 In 2011, The Co-operative Sustainability Report 2009 ranked first in the 'Credibility through Assurance' category, and runner up in the 'Openness and Honesty' category at the global Corporate Register Reporting Awards 2010.

## Assurance

The AA1000 Assurance Standard 2008 (AA1000AS 2008)<sup>20</sup> sets out the core elements of credible public assurance statements, and the requirements of the assurance provider in relation to their independence and competencies.

Two Tomorrows was appointed to provide assurance, primarily on the basis of the high standing in which the principal auditors are held<sup>21</sup>. The scope and depth of the third-party independent assurance extends to the verification of all key performance data and claims made within this Report, unless otherwise stated in the assurance statement, along with an evaluation of adherence to the AA1000 principles (type 2 assurance)<sup>22</sup> (pages 124 and 125). The assurance providers were contracted to provide a moderate level of assurance<sup>23</sup> for the majority of the Report content, including information presented in the online version of the Report, and a high level of assurance<sup>24</sup> over the bank's Ethical Policy implementation (page 42). An internal audit programme reviews sustainability-related processes as appropriate, to support the business and external assurance process.

## Accompanying notes

- |  |  |
|--|--|
| <p>1 <a href="http://www.accountability.org">www.accountability.org</a></p> <p>2 The Co-operative Group Annual Report and Accounts 2010, pages 40–41.</p> <p>3 The 1987 Bruntland 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.'</p> <p>4 Terms of reference for elected committees can be found at <a href="http://www.co-operative.coop/corporate/sustainability/areacommittees">www.co-operative.coop/corporate/sustainability/areacommittees</a></p> <p>5 The Co-operative 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 Annual Report and Accounts of The Co-operative Group (page 49) and The Co-operative Financial Services Financial Statements (page 24).</p> <p>6 With spend above £50,000.</p> <p>7 Terms of reference for the V&amp;P Committee can be found at: <a href="http://www.co-operative.coop/PageFiles/350358825/Final-VP-Terms-of-Reference-revised-July-2010.pdf">www.co-operative.coop/PageFiles/350358825/Final-VP-Terms-of-Reference-revised-July-2010.pdf</a></p> <p>8 The Committee's structure was reviewed as part of the wider Constitutional Review and, as a result, a new structure was adopted in June 2009. The restructured V&amp;P Committee met four times during 2010 and also held a conference at which it met with regional V&amp;P committees.</p> <p>9 Member-mandated ethical policies are in place for The Co-operative Food and The Co-operative Financial Services, and ethical strategies are in place for The Co-operative Travel, The Co-operative Pharmacy, The Co-operative Clothing and, as of 2011, The Co-operative Funeralcare. In 2010, these accounted for 86% of total revenue.</p> <p>10 Respondents comprised 64,000 Co-operative members and 36,000 members of other co-operative societies. Respondents to the consultation were representative of the overall membership base in terms of age, gender and location.</p> <p>11 The Co-operative Group Annual Report and Accounts, page 43.</p> <p>12 The Head of Social Goals and the PA to the Head of Social Goals are included within the ethics and sustainability headcount. Figures are accurate as at April 2011.</p> <p>13 The Executive Director of Corporate Affairs oversees Public Affairs, Public Relations, Corporate Communications and Social Goals.</p> | <p>14 CFS' certification extends to the complete range of operations, activities, products and services, (personal and corporate banking, insurance, investments and pensions) of The Co-operative Financial Services (including, but not limited to: The Co-operative Bank, The Co-operative Insurance, <b>smile</b> the internet bank, Britannia and Platform).</p> <p>15 The Co-operative Group Annual Report and Accounts 2010, pages 42–45, and, in addition The Co-operative Financial Services' financial statements 2010, pages 36–38.</p> <p>16 The Audit and Risk Committee comprises five Board members. Amongst other things, the Committee monitors the integrity of the Group's financial statements and any formal announcements relating to the Group's performance, together with any significant financial reporting judgements contained in the financial statements.</p> <p>17 For further information on G3.1 application levels, see: <a href="http://www.globalreporting.org/reportingframework/applicationlevels/faqsapplicationlevels2010.htm">www.globalreporting.org/reportingframework/applicationlevels/faqsapplicationlevels2010.htm</a></p> <p>18 <a href="http://www.tomorrowsvaluering.com">www.tomorrowsvaluering.com</a></p> <p>19 The companies included representation from retail, financial services, telecommunications, utilities, FMCG and mining.</p> <p>20 <a href="http://www.accountability.org">www.accountability.org</a></p> <p>21 Members of the Two Tomorrows team have previously provided assurance on CFS and Co-operative Group Sustainability Reports. Further information relating to the audit team, including Statement of Competencies and of impartiality, can be found at <a href="http://www.two-tomorrows.com">www.two-tomorrows.com</a></p> <p>22 AA1000 Assurance Standard 2000. Type 1 assurance evaluates the nature and extent of an organisation's adherence to three AA1000 AccountAbility Principles. Type 2 assurance evaluates adherence to the three AA1000 AccountAbility Principles, as for type 1 assurance, and, in addition, evaluates the reliability of specified sustainability performance information.</p> <p>23 An assurance provider achieves moderate assurance where sufficient evidence has been obtained to support their statement such that the risk of their conclusion being in error is reduced, but not reduced to 'very low but not zero'.</p> <p>24 An assurance provider achieves high assurance where sufficient evidence has been obtained to support their statement, such that risk of their conclusion being in error is 'very low but not zero'.</p> |
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# SOCIAL RESPONSIBILITY

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## IN DETAIL:

Community investment **17**

International development and human rights **22**

Animal welfare **32**

Diet and health **37**

Ethical finance **41**

Social inclusion **50**

Inspiring young people **55**

(Pictured) **Mieke Kommers,**  
**Mobile Toy Librarian, Play Montgomeryshire**

Play Montgomeryshire is one of the community groups to have benefited from a grant from The Co-operative Membership Community Fund (page 20). It is a charity dedicated to organising play schemes and leisure activities for children and young people in North Powys.

# COMMUNITY INVESTMENT

## Background

The majority of large businesses now recognise community investment as part of their overall approach to social responsibility. For some, community investment is characterised by philanthropic giving with the expectation of little return, whilst others design programmes to attain commercial advantage or support their social licence to operate. It remains to be seen how the impacts of the recession will affect the long-term strategic contributions of UK businesses.

## Materiality and strategy

The Co-operative approach to business is guided by co-operative values and principles, and includes ‘concern for community’. With a presence in every UK postal area and overseas links, community impact is extensive and supported by a relatively generous investment programme. Furthermore, ‘keeping communities thriving’ is a major priority in the Ethical Operating Plan (page 13).

🎯 Targets 2010	Progress	Targets 2011
<b>Indicator: Community contributions: percentage pre-tax profit</b> (Performance benchmark page 18)		
Provide financial support, through The Co-operative Membership Community Fund, to a minimum of 1,000 community groups across the UK, totalling at least £850,000 during 2010.	✔ During 2010, 1,691 awards were made to community groups, totalling £1.7m (page 20).	Provide financial support through The Co-operative Membership Community Fund to a minimum of 1,500 community groups across the UK, totalling at least £1.5m during 2011.
Identify four charity partners for The Co-operative Foundation; one each in Manchester, Glasgow, Bristol and London, which can fulfil the aims and objectives of the Truth about Youth programme.	✔ The final four partners for the Truth about Youth programme were selected in April 2010 (page 19).	Develop a new three-year (2012–14) grant-making strategy for The Co-operative Foundation’s Truth about Youth programme.
Assess community investment impacts across a minimum of three major community programmes.	✔ Impact assessment for three major community programmes has been completed: The Co-operative Streetgames Young Volunteers (page 57), development uplift projects (page 30) and carbon offset projects (pages 67 and 68).	
		<b>EOP</b> Ensure that 10% of the profits available for distribution is made available for community investment by 2013, with £5m deployed per annum to tackle UK poverty around stores and branches.
		<b>EOP</b> Stores and branches to act as a focus for 10,000 community initiatives per annum.
<b>Indicator: Employee time: days contributed</b> (Performance benchmark page 19)		
<b>Indicator: Leverage</b>		
		With staff and members, raise £5m for 2011 Charity of the Year, Mencap.

## Community contributions

In 2010, community contributions totalled £12.4m<sup>1</sup> (2009: £12.5m 📈), which equates to 4% (2009: 4% 📈) of pre-tax profit<sup>2</sup>. The 10 largest community contributions made in 2010 comprise 38% of all contributions<sup>3</sup> (page 8). From 2010, reporting encompasses the full extent of community investment, including support for the Co-operative Movement which in 2010 amounted to £1.3m (2009: £1.2m). Investment in the Co-operative Movement includes: donations to The Co-operative Loan Fund (page 99); The Co-operative Enterprise Hub (page 98); support for the credit union movement (page 51); and outreach activities, such as film screenings that support campaigning activity.

A new methodology is being trialled to assess community investment impacts with a view to demonstrating the value of community programmes to the business and to external stakeholders. 🎯 The Co-operative StreetGames Young Volunteers has been assessed (page 57), and two international development programmes – development uplift (water, sanitation and green energy, page 30) and carbon offset (pages 67 and 68) – underwent impact measurement in 2011.

Community investment

International development and human rights

Animal welfare

Diet and health

Ethical finance

Social inclusion

Inspiring young people

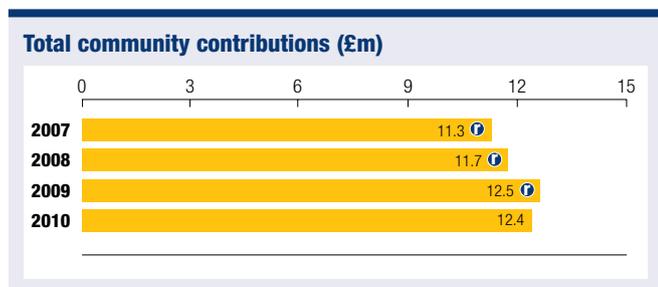
# COMMUNITY INVESTMENT

**Community investment 2010**

**£12.4m** invested in the community in 2010  
2009: **£12.5m**

**Performance benchmark**

The Co-operative contributed 4%<sup>4</sup> of pre-tax profits to the community in 2010. By comparison, on average less than 1% of pre-tax profit was contributed to the community by member companies of the London Benchmarking Group (LBG) over the period 2006–2009<sup>5</sup>.



**Breakdown of community contributions<sup>6</sup> (£m)**

	2007	2008	2009	2010
Cash	9.2	8.8	9.9	10.4
Employee time	1.5	1.6	1.7	1.3
Gifts in kind	0.2	0.2	0.5	0.2
Management costs	0.4	1.1	0.4	0.5
<b>Total</b>	<b>11.3</b>	<b>11.7</b>	<b>12.5</b>	<b>12.4</b>

In 2010, cash contributions continued to grow; however, there was a decrease in staff time and gifts in kind as this was a fallow year for the biennial Charity of the Year programme.

Contributions can be classified by their underlying motivation<sup>7</sup>. In 2010:

- 62% of community contributions were classified as ‘community investment’ (long-term strategic involvement in community partnerships to address social issues);
- 27% were classified as ‘commercial initiatives in the community’ (community activities that directly support the success of the business and promote its brand); and
- 11% were classified as ‘charitable gifts’ (support for charitable and community organisations in response to needs and appeals).

**Community contributions and impacts: top 10 contributions in 2010**

Project/programme	Ethical Operating Plan priority	Contribution <sup>8</sup>	Impact
The Co-operative Foundation (page 19)	Inspiring young people	£1,050,004 <sup>9</sup>	Truth about Youth partnerships have been established with seven charities, to challenge and change negative perceptions of young people.
Green Schools (page 57)	Inspiring young people	£540,000	In 2010, more than 128,000 young people learned how to live more sustainably, for example, via initiatives such as Walking Buses, which were established in 82 schools.
Support for Co-operative Schools (page 56)	Inspiring young people	£453,000	Over 100 Co-operative Trust schools were established by end of 2010, and support is provided to a schools network, 10 Business and Enterprise Colleges, and two Co-operative Academies.
Cambodia stoves – carbon offset project (page 67)	Protecting the environment	£440,000	In 2010, 55,400 stoves were funded, which will avoid emissions of 83,100 tonnes of CO <sub>2</sub> over four years, benefiting an estimated 230,000 people by reducing fuel costs and pollution.
The Britannia Foundation (page 21)	Inspiring young people	£406,000	61 awards made to support educational charities, with a particular focus on numeracy and financial literacy.
RSPB affinity credit cards (page 87)	Protecting the environment	£398,000	Monies raised for UK wetlands; in 2010 enough to manage nearly 2,000 hectares of reedbed for one year.
Support for Consumer Credit Counselling Service	Ethical finance	£376,000	Contribution via ‘fairshare’ payments to charities offering debt advice and solutions to Co-operative customers.
The Co-operative StreetGames Young Volunteers programme (page 57)	Inspiring young people	£334,000	In 2010, 31,215 young people participated in sports activities run or assisted by Co-operative StreetGames Young Volunteers.
Plan Bee Campaign (page 86)	Protecting the environment	£310,000	Over 600,000 packets of wildflower seeds were distributed in 2010 to help provide nutrition for bees; urban beekeeper training workshops held will result in around 300 new beekeepers by the end of 2011.
The Co-operative British Youth Film Academy (page 58)	Inspiring young people	£265,000	In 2010, 10,168 young people benefited from the programme, which gives young people experience of working on a film set with professional filmmakers.

**Social responsibility**

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**Employee time**

During 2010, 8,435 employees registered that they had taken part in community activities during work time, contributing the equivalent of 94,289 hours or 12,571 days. This equates to a donation of time worth £1.3m (2009: £1.7m).

Employees involved in community activity				
	2007	2008	2009	2010 <sup>10</sup>
Number of employees involved in community activity in work time	9,898	8,612	10,240	8,436
Number of days invested in community activity in work time	15,864	18,607	18,244	12,571
Value of staff time (£m)	1.5	1.6	1.7	1.3

**Performance benchmark**

Employee time invested in community activity is three times that of the average LBG member organisation (average 4,073 days) invested in 2009<sup>11</sup>.

The Volunteer Programme allows staff to support their local communities through opportunities such as mentoring homeless people back into employment or becoming school governors. CFS' Skills4Schools programme (page 52), which helps school children improve their numeracy, financial literacy and employability skills, is delivered entirely by staff volunteers. As well as individual volunteering, teams of employees are encouraged to volunteer. In 2010, 116 team challenges took place across the UK. One-off support is also offered for fundraising appeals via The Co-operative Booster Fund, which supplements colleagues' fundraising activities.

CFS employees take part in a team challenge to provide social activities for elderly people in a care home.



**Gifts in kind**

In 2010, in-kind community contributions (products, equipment, facilities or other non-cash items) totalled £201,000. The use of premises for events, and donations of Fairtrade products, also contributed to this total. Variation in year-on-year performance can be largely attributed to biennial Charity of the Year fundraising support.

**The Co-operative Foundation**



To date, £13.7m<sup>12</sup> has been donated to The Co-operative Foundation<sup>13</sup>, an independent charitable trust established in 2000. The Truth about Youth grant-making scheme is now the primary focus of The Co-operative Foundation, and aims to challenge and change negative perceptions of young people. In April 2010, the Trustees made the final four of seven awards to charity partners in each democratic region.

Grants of £280,000 are provided to each of the following charities over two years: Envision in Birmingham; Platform 51 (formerly YWCA) in Cardiff; Regional Youth Work Unit in Tyne and Wear; Prince's Trust in Bristol; Young Scot in Glasgow; Oval House in London; and the Royal Exchange Theatre in Manchester.

A total of £2m has been committed to the programme, and a longer-term strategy will be developed during the course of 2011.

**Truth about Youth**

The North West Truth about Youth programme will enable young people to create cross-generational projects that explore society's attitudes to youth. In a programme of mentoring and training with Manchester's Royal Exchange

Theatre staff, young people will develop the practical skills required to lead arts projects or manage a venue. The programme will culminate in a two-week festival in 2012, organised by the young people involved.



Young people from the Royal Exchange Theatre's Manchester programme interview the Chair of The Co-operative Foundation Trustees, Maria Cearns.

Community investment

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# COMMUNITY INVESTMENT

## Leverage

In addition to community investment made directly, The Co-operative also operates a number of programmes that facilitate charitable giving by customers, employees and members. The most significant of these are The Co-operative Charity of the Year and The Co-operative Membership Community Fund. Other key contributions to leverage include:

- sales of Fairtrade products generating premiums for investment in social, environmental or economic development projects totalling an estimated £3.6m in 2010 (page 24);
- sales of The Co-operative Fairbourne Springs water which incorporates a customer donation of 3p per bottle to the One Foundation, amounting to £1.1m in 2010 (page 79);
- in-store sales of Gold Heart badges for the Variety Club, supported by celebrity Alesha Dixon, which raised £883,000 in 2010;
- support for the Travel Foundation by The Co-operative Travel customers, which contributed £253,000 (page 28) in 2010; and
- payroll giving, which contributed £106,000 in 2010 (2009: £108,000).



Leverage				
	2007	2008	2009	2010 <sup>14</sup>
Leverage contributions (£m)	4.3	2.8	8.3	8.8

Leverage in 2010 is higher than in previous years, due to the inclusion of Fairtrade premiums in reported contributions for the first time. Biennial Charity of the Year fundraising was undertaken in 2007 and 2009. Since 2008, contributions to The Co-operative Membership Community Fund have increased by 30%. Variety Club Gold Hearts were introduced for sale in branches during 2010.

### The Co-operative Charity of the Year

Between July and August 2010, staff and members cast 42,415 votes – double those cast in the previous vote – to elect Mencap The Co-operative Charity of the Year 2011.



The money raised by the 2011 partnership will enable Mencap and its sister charity, ENABLE Scotland, to launch a new project 'Inspire Me', which aims to support 20,000 young people with a learning disability. The project will provide participants with access to activities and training that will build confidence and life skills, together with volunteering and employment opportunities. A fundraising target of £5m has been established, a significant increase on the £3.7m raised for RNID in 2009 and £2.2m raised for The Children's Society in 2007.

Charity of the Year fundraising began in November 2010 with The Co-operative Santa Dash. More than 800 'Santas' ran, jogged or walked 5km in support of Mencap.



### Community groups supported 2010

**1,691**

groups supported by The Co-operative Membership Community Fund  
2009: **938**

### The Co-operative Membership Community Fund

The Co-operative Membership Community Fund<sup>15</sup> supports community, voluntary and self-help organisations with small grants of between £100 and £2,000. The Fund is supported by members who donate some, or all, of their twice-yearly share of profits. There was growth in both the awards made last year, as well as the amount donated (page 94), with £1.7m awarded to 1,691 community groups. This increase followed the online application process becoming fully operational in 2010, and promotion of the scheme to former Somerfield and Britannia customers.

Decision-making on grant applications is undertaken by The Co-operative's 48 area committees. Awards are made to organisations or projects that carry out positive work in the community, and meet all, or most, of the following criteria: addresses a community issue, provides a long-term benefit to the community, supports co-operative values and principles, and is innovative in its approach.

During 2011, a new marketing strategy will be developed that will aim to support committees to increase Community Fund applications, particularly from areas where a lower proportion of applications are received.

### Community Fund requests and awards

	2007	2008	2009	2010
Number of requests	4,467	2,614	2,198	4,453
Number of awards	2,270	1,515	938 <sup>16</sup>	1,691
Total dispersed (£m)	1.0	1.3	1.0	1.7
Average award (£)	467	843	1,075	1,029

## Springfield Community Flat in South London

The Co-operative Membership Community Fund is supporting people at the Springfield Community Flat in South London, and has awarded a grant of £1,954 to its Hobby Electronic Club. The club enables local children to learn basic electronics skills, through designing and building gadgets such as radios and metal detectors from recyclable electronic equipment.

John Hepple, who runs the club said: *"It is great to see how enthusiastic the young people are about the club. Not only are they learning new skills around electronics, they are also learning how to work together and other transferable skills which will be useful no matter what they decide to do."*



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## The Britannia Foundation and Community Fund

In 2010, the Britannia Foundation<sup>17</sup> was supported with a donation of £500,000. The Foundation offers grants of between £1,000 and £25,000 to schools and registered charities working within education, with a particular focus on supporting numeracy and financial literacy. In 2010, 61 awards were made, totalling £405,677. The Britannia Community Fund also supports schools and educational charities, awarding smaller grants (up to £1,000) to 294 groups totalling £51,697 in 2010.

## Charity credit cards

During 2010, The Co-operative Bank issued credit cards for 15 national charities or 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 2010, partners received a total of £1.3m (2009: £1.3m).



## Accompanying notes

- The Co-operative measures the majority of its community contributions using the London Benchmarking Group (LBG) model, which in 2010 totalled £11.1m (2009: £11.3m). The LBG undertakes a detailed assessment of 75% of The Co-operative community contributions and verifies that they have been prepared in accordance with LBG guidelines. Additionally, The Co-operative invests in communities via support for the Co-operative Movement, which is not captured in the LBG model.
- Of this, £3.3m was attributable to CFS, 2.9% of CFS' pre-tax profit.
- Total contributions in 2010, excluding management costs, were £11.9m.
- Contributions for LBG verified community investment amounts to 3.6% of pre-tax profits.
- London Benchmarking Group (LBG), Annual Review 2010. Data refers to the 121 member companies of LBG who report their community investment contributions using the LBG model.
- All 2010 contributions include support for the Co-operative Movement. Historic cash and management cost contributions include support for the Co-operative Movement; however, historic data relating to time and gifts in kind invested in the Co-operative Movement is not available. It is anticipated that this addition would not significantly impact on previous performance.
- In line with classifications set out in the LBG model.
- Contributions include cash, value of staff time and in-kind donations.
- Represents all contributions made to the Foundation. £1.0m was disbursed by the Foundation in 2010.
- 2010 data includes support for the Co-operative Movement. Historic data is not available.
- Based on 2009 performance data supplied in the London Benchmarking Group (LBG) Annual Review 2010.
- Of this, £9.6m has been invested in endowment funds that generate income for future disbursement, and £4.1m of which has been made available for distribution. £93,313 has been earned in interest in 2010.
- The Co-operative Foundation is a trading name of The Co-operative Charitable Foundation, a registered charity, which is governed by an independent Board of Trustees.
- Includes support for the Co-operative Movement and Fairtrade premiums. Historic data for these areas of investment is not available.
- The Community Fund is a trading name of The Co-operative Community Investment Foundation, a registered charity, which is governed by a Board of Trustees.
- The reduction in awards made and total awarded in 2009 can be attributed to the closure of the scheme between January and May, to enable a new online application form to be introduced.
- The Britannia Foundation is an independent registered charity, which is governed by a Board of Trustees.

# INTERNATIONAL DEVELOPMENT AND HUMAN RIGHTS

## Background

When undertaken equitably, and with respect for human rights, trade and finance have an unparalleled capacity to lift people out of poverty and enhance quality of life across the world. It is estimated that the livelihood of nearly three billion people, or half of the world's population, is made secure by co-operative enterprise, which directly employs an estimated 100 million workers – more than all the world's multinational companies<sup>1</sup>.

## Materiality and strategy

The Co-operative has been active on international development and human rights for over 165 years. Today, as a business with over 1,700 supplier sites in 58 countries, and banking and investment activities with a global reach, it is recognised that – in addition to the moral imperative – commitment to advancing international development and human rights is crucial in order to maintain stable and mutually beneficial international relationships.

'Tackling global poverty' is a major component of the new Ethical Operating Plan (page 13), with work structured into four areas:

- **Ethical trade** – a pioneering approach to Fairtrade, and improving working conditions in the supply chain;
- **Co-operative support** – support for overseas co-operatives, with development uplift in the areas of water, sanitation and green energy;
- **Ethical finance** – microfinance and access to finance for co-operatives in the developing world, together with the ethical policies of The Co-operative Financial Services (CFS); and
- **Campaigning** – mobilisation and outreach with members, customers and the general public, alongside public policy intervention.

For the first time, contribution to each of the Millennium Development Goals<sup>2</sup> is reported, and can be found in the online version of this Report .

🎯 Targets 2010	Progress	Targets 2011
<b>Indicator: Fairtrade range and sales value</b> (Performance benchmark and recognition page 24)		
		 Continue to show the greatest commitment to Fairtrade in the UK, remaining second to none in terms of availability and over-trade, and aim that if a primary commodity from the developing world can be Fairtrade, it will be Fairtrade by 2013.
		 Develop a unique range of projects and initiatives that benefit producers and go 'beyond Fairtrade'.
<b>Indicator: Status of sound sourcing improvement actions</b>		
Ensure all Co-operative Food own-brand first tier production sites identified as high risk, as at end September 2010, have a valid independent audit in 2010.	 All first tier production sites identified as high risk, as at end September 2010, had a valid independent audit in 2010 (page 25).	 Introduce a balanced scorecard in 2011 to influence the selection of Food suppliers that share The Co-operative's ethical values.
Provide labour standards training to all relevant Co-operative Clothing merchandisers in 2010 and ensure that systems to monitor labour standards are actively managed throughout 2010.	 This did not take place in 2010 due to a lack of resource. It is intended that in 2011 the Sedex system will be used more actively, and that merchandisers will be trained on ethical trade (page 27).	Provide labour standards training to all relevant Co-operative Clothing colleagues in 2011.
<b>Indicator: Supplier capacity building</b>		
Extend awareness-raising and training sessions on sound sourcing for The Co-operative Food suppliers, with a focus on the UK, China, Italy, Kenya, Thailand and South Africa.	 Awareness-raising and training sessions were delivered in the UK, China, Italy, Thailand, Egypt, Morocco and South Africa (page 27). Work with suppliers in Kenya to support smallholder tea farmers continued (page 30).	 Target 800 sites in six countries in the supplier training programme to create better workplaces by 2013.
Commence a project with The Travel Foundation to create supply links between agricultural co-operatives and hotels used by The Co-operative Travel in Turkey.	 Project commenced, with scope broadened, and additional partners invited as co-sponsors (page 28).	

(continued over)

**Social responsibility**

Ecological sustainability

Delivering value

Assurance

Targets 2010	Progress	Targets 2011
<b>Indicator: Ethical finance</b>		
Launch a new microfinance scheme via The Co-operative Bank during 2010.	No new microfinance schemes were launched in 2010 due to a lack of investment opportunities in the sector (page 29).	<b>EOP</b> Continue to tackle global poverty via a £25m microfinance support fund.
		<b>EOP</b> Support the development of peer to peer lending between members and individuals in the developing world.
<b>Indicator: Support for overseas co-operatives and development projects</b>		
Introduce an affinity product in The Co-operative Pharmacy that supports overseas development during 2010.	The planned launch was delayed until early 2011 (page 28).	
Increase the number of Travelife-accredited properties used for The Co-operative Travel's own-brand holidays, to 25 by the end of 2010.	<b>D</b> Target dropped, due to the entry of The Co-operative Travel into a joint venture with Thomas Cook.	
To benefit Fairtrade sugar producer communities in Malawi, ensure existing damaged boreholes are repaired, over 300 new latrines are constructed and over 50,000 trees are planted by end 2010.	In 2010, 17 new boreholes had been constructed and 26 existing water points had been repaired. Over 600 latrines had also been installed and over 50,000 trees planted (page 30).	<b>EOP</b> Invest £7m per annum to help tackle global poverty through co-operative support initiatives <sup>3</sup> , and look to further expand the affinity range.
Commence water access, sanitation and renewable energy projects with Fairtrade banana co-operative communities in Panama during 2010.	By the end of 2010 significant progress had been achieved on all the areas of the project (page 30).	
Successfully establish two pilot funeral co-operatives in South Africa.	Two pilot co-operatives are now being progressed, but are behind schedule (page 30).	
		<b>EOP</b> Campaign anew to make poverty history, beginning with a reinvigoration of the Jubilee Third World debt campaign.
<b>Indicator: Human rights</b>		
		<b>EOP</b> Continue to champion the human rights and trade policy, and as a matter of last resort curtail trade when called upon by the peoples of affected areas.

Community investment

International development and human rights

Animal welfare

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**Beneficiaries from international development activity 2010**

**1,022,000**

individuals in the developing world benefiting from international development activity in 2010<sup>4</sup>

**Fairtrade**



<sup>®</sup> The Co-operative has been committed to the FAIRTRADE Mark since it was launched in the UK in 1994. The Mark guarantees that disadvantaged producers and workers in the developing world are getting a better deal. The UK Fairtrade Foundation estimates that more than 7.5 million people – farmers, workers and their families – across approximately 60 developing countries, benefit from the international Fairtrade system<sup>5</sup>. Of these, it is estimated that over 200,000 benefited from The Co-operative Food's sales of Fairtrade products in 2010. Further details of Fairtrade products, producers and benefits can be found on The Co-operative Food's website<sup>6</sup>

# INTERNATIONAL DEVELOPMENT AND HUMAN RIGHTS

The number of Fairtrade products reduced in 2010 due to rationalisation of products following the integration with Somerfield. All former Somerfield stores now offer The Co-operative's Fairtrade products – making Fairtrade accessible to millions more shoppers – and Fairtrade sales in these stores have quadrupled in the course of a year. The move has affirmed The Co-operative Food's position as the leading UK supermarket for Fairtrade availability, with Fairtrade products sold in every one of its 2,900 stores across the British Isles.

### Fairtrade products and sales value<sup>7</sup>

	2007	2008	2009	2010
Total number of Fairtrade products	180	230	260	249
Number of own-brand Fairtrade products	110	146	173	177
Fairtrade sales value (£m)	34	49	71 <sup>8</sup>	97
Fairtrade premium value (£m)	N/A	N/A	N/A	3.6m <sup>9</sup>
Proportion of UK supermarket Fairtrade sales (%)	15	16	13 <sup>10</sup>	19

### Fairtrade sales

**280%** increase in Fairtrade sales since 2007

### Performance recognition

In 2010, The Co-operative won awards for several of its Fairtrade products. At the sixth annual Malbec Al Mundo awards in Argentina, The Co-operative Fairtrade Argentine Malbec won a double Gold, one of only three wines to do so<sup>11</sup>.

### Fairtrade producers in Africa

In October 2010, the Chief Executive of The Co-operative Peter Marks visited several development projects, funded by The Co-operative, in South Africa and Kenya. This included tea growers in Kericho, Kenya (pictured), where over 11,000 smallholders are being helped to form tea co-operatives.

Peter Marks also visited the growers of the Du Toitskloof co-operative, which supplies the grapes for own-brand Fairtrade South African wines. Commenting on his visit, Peter Marks said: *"It's a fantastic thing coming out here to see the contribution that Fairtrade makes to people's lives"*.



### Performance benchmark

The Co-operative aims to be second to none in terms of Fairtrade 'overtrade'<sup>12</sup>. Its share of the Fairtrade retail market is three times larger than its share of the UK grocery market with more Fairtrade products sold, for the size of its business, than any other supermarket.

#### Benchmark: Top five supermarkets for Fairtrade 'overtrade', 2010

Supermarket	Overtrade
The Co-operative	303
Waitrose	263
Sainsbury's	223
Marks and Spencer	93
Tesco	53

### Product development

In 2010, The Co-operative became the first supermarket to sell beansprouts grown from Fairtrade mung beans from Inner Mongolia – one of the poorest rural areas in China. The Fairtrade premium will allow the village to improve education facilities. The Co-operative also launched the world's first Fairtrade blueberries.



**Beyond Fairtrade**

The Co-operative has committed to develop a unique range of projects and initiatives that benefit producers and go 'beyond Fairtrade'. This will mean offering support to producers over and above the benefits received from Fairtrade alone. Such benefits may include:

- Fairtrade producers receiving additional voluntary contributions (for example, as is already the case for the producers of The Co-operative's Fairtrade wines from South Africa and Argentina);
- Fairtrade producers benefiting from additional water, sanitation and green energy programmes (such as the projects underway with Fairtrade sugar, tea and banana producers in Malawi and Panama – page 30); or
- instances where producers themselves own a stake in and can influence the organisation they supply to (as is the case for the cocoa producers of Kuapa Kokoo co-operative, which supplies cocoa for The Co-operative's Truly Irresistible block chocolate).

**Sound sourcing: The Co-operative Food**

The Co-operative is committed to ensuring that the workers making its products are treated responsibly and ethically, and is an active member of the Ethical Trading Initiative (ETI)<sup>13</sup>. To ensure that working conditions meet The Co-operative's aims and objectives, a Sound Sourcing Code of Conduct<sup>14</sup> is in place that identifies the workplace and employment standards expected to be applied across suppliers of co-operative own-brand products, and those products made exclusively for The Co-operative. It is based on the ETI base code and International Labour Organization standards, and has been endorsed by all Trading Group businesses. The Co-operative expects its own-brand suppliers to achieve continual improvement in these standards, and a robust monitoring programme is in place for own-brand food products to ensure requirements are met.

**Sedex**

The Co-operative Food is a member of the Supplier Ethical Data Exchange (Sedex)<sup>15</sup>; an internet-based electronic database where suppliers post labour standards information, including self-assessments and reports from external social audits (referred to as 'site assessments'). Sedex enables suppliers to share this information with multiple customers simultaneously, thus removing unnecessary duplication of resources.

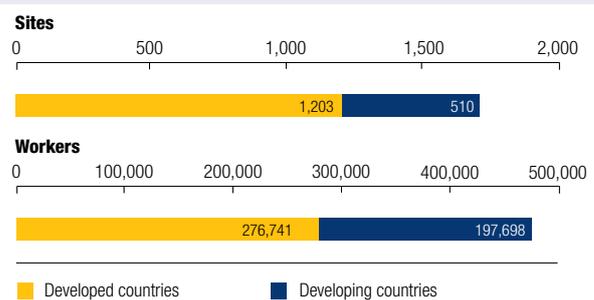
Own-brand suppliers<sup>16</sup> are asked to register on Sedex and complete a self-assessment as a condition of trade. The Co-operative Food will only accept site assessments conducted by approved third-party auditors and undertaken to a recognised, robust format, and undertakes further due diligence tests by way of verification. In 2010, 15 such due diligence audits were undertaken by approved third-party auditors<sup>17</sup>.

By the end of December 2010, 1,700 (2009: 1,470) first and second tier supplier sites had registered and completed a self-assessment on Sedex. This represents over 474,000 workers<sup>18</sup>, and 99% of first tier sites.

**First tier sites registered on Sedex 2010**

**99%** of first tier sites registered and completed self-assessment on Sedex in 2010  
2009: **90%**

**Number of Sedex-registered sites and workers supplying The Co-operative**



**Site assessments**

Site assessments are carried out among suppliers to determine the degree of compliance with sound sourcing criteria. In 2010, 92% of these assessments were undertaken by approved third-party audit bodies and NGOs, and the remainder by qualified Co-operative employees. In future, all audits will be carried out by approved third-party bodies.

In 2010, 145 site assessment audits took place amongst suppliers (2009: 165). Of these, 62% related to first tier sites (2009: 73%) and 38% to second tier sites (2009: 27%). As in previous years, the majority (70%) of the sites assessed were connected with food and fresh produce (2009: 73%).

The selection of suppliers for assessment is heavily influenced by risk assessment information<sup>19</sup>. 73% of the first tier suppliers identified as high risk at the end of 2010 have been audited in the past two years by an approved audit body. The remaining 27% were identified in the last quarter of 2010, and are scheduled for audit in 2011.

**Non-conformances and improvement actions**

In 2010, 810 non-conformances were identified from site assessments undertaken during the year, and improvement action plans assigned for all of these. Sites inspected within developing countries<sup>20</sup> produced a marginally higher proportion of non-conformances than sites inspected within developed countries<sup>21</sup>. In relation to certain provisions (child labour, living wages, discrimination and harsh or inhumane treatment), non-conformances arising were more prevalent in developing countries<sup>22</sup>.

The graph overleaf shows the location of all site assessments in 2010, and the number of improvement actions identified for each location. A full list of individual countries in which site assessments took place, and a breakdown of improvement actions by each provision (eg freedom of association), can be found online .

Community investment

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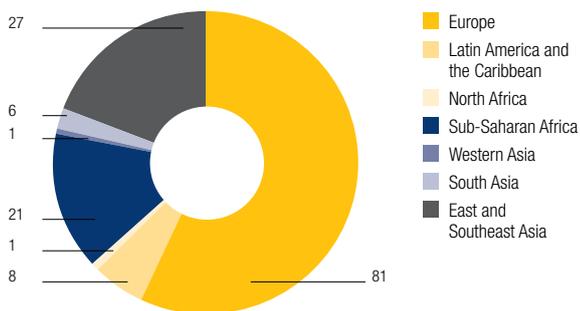
# INTERNATIONAL DEVELOPMENT AND HUMAN RIGHTS

The table below details both improvement actions that were resolved in 2010, and the status of incomplete improvement actions amongst first tier and second tier suppliers (both for improvement actions identified in audits during 2010 and during 2009<sup>23</sup>). Of the 810 improvement actions identified in 2010, 266 (33%) were resolved in the course of the year. In addition, 204 improvement actions from audits prior to 2010 were resolved in 2010.

In 2010, The Co-operative worked with a group of eight manufacturers and retailers to develop a tool within Sedex to rate non-conformances as either critical, major or minor. The tool will be trialled in 2011, and The Co-operative Food plans to use the ratings to inform audit frequency and to prioritise follow-up activities more effectively.

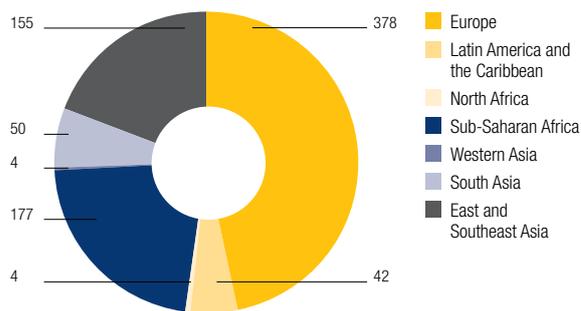
## Location of site assessments and improvement actions by region<sup>24</sup>

Number of site assessments



Total: 145

Improvement actions identified



Total: 810

## Sound sourcing improvement actions

Provisions	Improvement actions completed in 2010		Incomplete improvement actions (as at 31/12/10)		Explanation of incomplete improvement actions					
	From audits prior to 2010	From audits in 2010	From audits in 2009	From audits in 2010	Due to be completed in 2011		Overdue action		Not active, delisted	
					Tier one	Tier two	Tier one	Tier two	Tier one	Tier two
Exploitation of labour	3	2	2	0	0	0	0	2	0	0
Freedom of association	0	2	5	5	3	2	3	2	0	0
A safe and hygienic working environment	123	174	112	262	186	69	61	43	15	0
Child <sup>25</sup> labour	0	0	3	8	1	6	2	1	1	0
Living wages to be paid	11	17	25	29	16	9	10	13	6	0
Working hours are not excessive	14	28	68	125	87	34	47	20	5	0
No discrimination	10	1	3	4	1	2	0	3	1	0
Regular employment	40	40	34	98	55	38	17	17	5	0
No harsh or inhumane treatment	3	2	2	13	5	7	1	1	1	0
Subtotal	204	266	254	544	354	167	141	102	34	0
<b>Total</b>		<b>470</b>		<b>798</b>		<b>521</b>		<b>243</b>		<b>34</b>

## Supplier capacity building events

Over 260 (2009: 100) participants attended The Co-operative supplier training activities in 2010, equivalent to around 2,300 (2009: 900) hours.

- **UK** Suppliers were brought together to discuss challenges and share good practice on migrant and multicultural workforces in a series of regional events. Subsequently, suppliers continue to meet to work collaboratively on issues raised in the sessions.
- **Italy and Thailand** Interactive supplier events provided an overview of The Co-operative ethical trade requirements, the ETI Base Code, local labour law requirements and examples of best practice. The events also focused on country-specific issues<sup>26</sup> with local expert speakers.
- **China** Working in collaboration with The Body Shop, a four-day training programme was delivered for HR managers in China<sup>27</sup>. The programme covered the ETI Base Code and Chinese Labour legislation and provided practical tools to help address labour conflict prevention, human resource management, worker engagement and employee relations.

- **Egypt and Morocco** Support was provided for six meetings of forums in Egypt and Morocco to encourage collaboration, supplier ownership, and leadership in addressing key ethical trade challenges.



### Integration into core business practices

To integrate ethical trade into core business activities, an ongoing internal training programme has been delivered for key operational functions<sup>28</sup>. In 2010, refresher briefing sessions were held across The Co-operative Food's commercial team.

In 2010, a new Supplier Guide was launched in support of the Ethical Trade programme. The Guide provides information to help suppliers meet ethical trade requirements<sup>29</sup> as well as information on the processes involved<sup>30</sup>. This has been integrated into supplier terms and conditions.

A balanced scorecard will be introduced in 2011 to influence the selection of suppliers, covering financial, supply chain, technical, ethical trade and environmental measures.

### Supplier capacity building

Work continued in 2010 to help build suppliers' ability to manage labour standards. Sessions are subsidised by The Co-operative Food, and cover general labour standards issues as well as area-specific challenges. Training sessions in Kenya and South Africa will take place in 2011, as part of a wider plan to target 800 sites in six countries within the supplier training programme. In 2011, The Co-operative Food aims to extend training to build the capacity of suppliers in 200 sites in five key countries.

The Co-operative Food also continues to use workbooks<sup>31</sup> and in 2010 worked with other supermarkets to launch an electronic UK Grower Handbook<sup>32</sup>, and with other retailers and South African industry bodies to develop a South African Handbook, launched in April 2011.

### Ethical Trading Initiative submission

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 the business as 'beginner', 'improver', 'achiever', or 'leader'. For its 2009 submission (most recent available), The Co-operative was rated as 'leader' in one of the five reviewed areas, 'commitment', whilst in the remaining four areas it was rated as 'achiever'<sup>33</sup>. These ratings are consistent with the previous year. Submissions are subject to review by NGO members and independent consultants who provided feedback.

### Sound sourcing: The Co-operative Clothing

The Co-operative Clothing supplies employee uniforms for the Food, Pharmacy, Travel, Bank and Funeralcare businesses, as well as other external corporate customers, and aims to be an ethical leader in the corporate clothing industry. All of its overseas first tier production sites have been subject to independent audits; however, a number of these audits have yet to be uploaded to Sedex. As such, no details on improvement actions at these sites can be reported. A table detailing the improvement actions that are available to report is provided online [↗](#).

In 2011, a newly-recruited Sound Sourcing Co-ordinator will encourage more active use of Sedex, to improve efficiency in uploading information, and better monitor progress on improvement actions. The Co-operative Clothing will also progress delayed merchandiser training.

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## INTERNATIONAL DEVELOPMENT AND HUMAN RIGHTS

### Human Rights and Trade Policy

In early 2009, a Human Rights and Trade Policy was adopted, setting out the extreme conditions under which trade will be suspended with a nation state or designated region; or, in the case of a conflict, a particular product.

Three primary conditions are set out in the Policy:

- Where democratic representatives of the indigenous population call for a cessation of all trading activity and consider such a course of action, and the additional economic hardships, as being less detrimental than the continuation of trading links;

for example, Burma, where the democratically elected opposition party continues to call for economic sanctions.

- Where there is a broad international consensus that the status of a designated region is illegal and where there is evidence that trade is directly linked to the oppression of the population; for example, the illegal Israeli settlements in the Israeli Occupied Territories, and the illegal Moroccan settlements in Western Sahara.
- Where there is strong evidence that trade is a contributory factor to the perpetuation of a conflict; for example, the Democratic Republic of Congo.

### Affinity products and services: raising awareness and funds for development

#### The Co-operative and the One Foundation

In 2010, a number of different products continued to be sold in support of The One Foundation, a charity that works with communities in Africa to address pressing humanitarian needs.

- **Fairbourne Springs** The first own-label ethical water in the UK. Each sale includes a donation to The One Foundation to fund the installation of PlayPump™ water systems, which are powered by children playing on roundabouts (page 79). Since 2007, donations from Fairbourne Springs have helped over one million people in southern Africa gain access to clean water.
- **One Condoms** A range of condoms to help fund HIV testing and awareness projects in rural Africa, via a 30p donation made from the sale of each pack. In 2010, over 85,000 packs of One Condoms were sold, funding outreach clinic days for over 14,000 people<sup>34</sup>.
- **One Soap and Toilet Tissue** Donations from sales<sup>35</sup> fund hygiene and sanitation projects in Malawian schools. By the end of 2010, toilet and hand-washing facilities had been provided to 670 children.
- **One Big Idea** Competition aimed to create the next One-branded ethical product. The winning entry was a plaster product to help fund community medical kits and bicycle ambulances in Malawi. The product was launched in selected stores in May 2011.



#### The Co-operative Travel and The Travel Foundation

Customers of The Co-operative Travel can support The Travel Foundation<sup>36</sup> via a voluntary donation. During 2010, £325,000 was raised (2009: £203,000), of which a proportion was ring-fenced for initiatives supported only by The Co-operative Travel, including:

- **Agricultural co-operatives** A project to link agricultural co-operatives with hotels for local food sourcing in Turkey. 🎯 In 2010 the scope of the project was broadened, and Thomas Cook and TUI were invited to be co-sponsors of the project.
- **Melipona bee project in Mexico** A bee conservation and livelihoods project in Mexico. The project is designed to improve the habitat of the endangered native Melipona bee, and to benefit over 70 people in the Mush Meya community, who have traditionally relied on bee-keeping for their livelihoods.

#### Charity cards in support of international development and human rights

The Co-operative Bank offers a range of credit cards in support of a variety of development and human rights charities, namely: Action Aid, CAFOD, Christian Aid, Oxfam, Save the Children, Tearfund, WaterAid and Amnesty International UK. In 2010, a total of £729,000 was raised through these charity credit cards (2009: £741,000).

#### The Co-operative antibacterial handwash

For each sale of The Co-operative Pharmacy antibacterial handwash, 15p is donated to UNICEF, extending the scope of an existing sanitation project in Togo (page 30). 🎯 Due to a conflicting promotion, the planned launch was delayed from 2010, and the product launched in early 2011.



#### Oxfam recycling scheme

In 2010, approximately 17,600 phones and 700 print cartridges were recycled, generating around £32,000 in income for Oxfam (2009: £25,000), and bringing the total raised since 2004 to £348,000<sup>37</sup>.

## Ethical finance

### Microfinance support

In 2007, The Co-operative Bank created a US\$50m (£25m) microfinance fund to help support the development of small businesses in some of the world's poorest countries. To date, the fund has lent to three microfinance schemes, supporting microfinance institutions (MFIs) in 27 developing countries. One of these schemes, the Global Commercial Microfinance Consortium (GCMC) managed by Deutsche Bank, matured in 2010, with CFS receiving its loan repayment on schedule. No new involvement in microfinance schemes was progressed in 2010 due to a lack of investment opportunities in the sector. Work is underway to consider new investment opportunities for the microfinance fund in 2011.

### Bank screening of finance

During 2010, 176 finance opportunities (2009: 152) were referred to the Ethical Policy Unit in connection with international development and human rights, of which 16 were declined (2009: 20) at a cost of £374,000 in terms of estimated income foregone.

### International development and human rights-related business declines 2010

	Estimated income foregone 2010
<b>International banks</b> (five instances). Treasury facilities for five international banks part-owned by governments considered oppressive regimes.	£240,000
<b>Tobacco product manufacturer</b> (two instances). £1.25m lending and banking facilities for businesses engaged in the manufacture of tobacco products, in response to concerns over irresponsible marketing in developing countries.	£48,000
<b>Components manufacturer</b> (two instances). £800,000 for a manufacturer of displays for military aircraft and small-arms sights, transferred to two Middle Eastern oppressive regimes. Banking facilities for a business engaged in the supply of armour for military tanks transferred to two Middle Eastern oppressive regimes.	£36,000
<b>Insurance company</b> Banking facilities for a state-owned insurance provider of a Middle Eastern oppressive regime.	£23,000
<b>Defence manufacturer</b> £250,000 lending to a manufacturer of strategic defence equipment for transfer to two North African oppressive regimes.	£15,000
<b>Electronics manufacturer</b> £200,000 lending for a manufacturer of electronic warfare equipment sold to a Middle Eastern oppressive regime.	£8,000
<b>Lobbying organisation</b> (two instances). Banking facilities for an organisation linked to physical violence and illegal activities including blackmail and theft. Banking facilities for a political organisation with policies considered to contravene, at the very least, the spirit of the Universal Declaration of Human Rights. For example, the restriction of membership on racial criteria.	£2,000
<b>Broadcaster</b> Banking facilities for a state-owned broadcaster of a Middle Eastern oppressive regime.	£1,000
<b>Electronic cigarette manufacturer</b> Banking facilities for a producer of electronic cigarettes. Ingredients are not disclosed, presenting potential health concerns.	£1,000

### The Co-operative Asset Management (TCAM) overseas shareholder resolutions

In 2010, TCAM was presented with 28 overseas shareholder resolutions relating to international development or human rights, of which 26 were supported.

Company	Vote registered
<b>Human rights</b> Altria Group Inc; Caterpillar Inc; Chevron Corp (two instances); Cisco Systems Inc (two instances); E. I. DuPont de Nemours; Goldcorp Inc; Google Inc; Halliburton Co; Honeywell International; Motorola; News Corporation; News Corp Limited <sup>38</sup> ; Occidental Petroleum Corp; Power Corp Canada; Reynolds American Inc	All supported, with the exception of Google Inc, where abstained <sup>39</sup> .
<b>Labour standards</b> Abercrombie & Fitch Co; CenturyLink Inc; Kansai Electric Power Co (two instances); Philip Morris International Inc; Toshiba Corp; Urban Outfitters Inc	Supported, with the exception of Toshiba Corp where abstained <sup>40</sup>
<b>Armaments</b> Boeing Co; General Dynamics; ITT Corp; Lockheed Martin Corp	Supported

### Carbon offset

Carbon offset projects undertaken in 2010 (pages 67 and 68) on behalf of The Co-operative achieved reductions in CO<sub>2</sub>, whilst also delivering social benefits in developing countries:

- **Energy-efficient stoves** emit fewer airborne particles and require less fuel, thereby improving indoor air quality, and reducing spend on fuel when compared to standard stoves. It is estimated that over 230,000 people<sup>41</sup> will, ultimately, benefit from the installation of energy-efficient stoves in Cambodia derived from 2010 offsetting activity.
- **Treadle pumps** in India help generate extra, year-round income for farmers. It is estimated that over 52,000<sup>42</sup> people will, ultimately, benefit from the installation of treadle pumps derived from 2010 offsetting activity.
- **Reforestation** licensing agreements have enabled local communities to extract resources from the Kibale Forest National Park in Uganda at sustainable rates. In 2010, a further £10,000 was agreed to fund the installation of five new water sources to provide over 1,000 additional people with access to clean water.

### Community involvement

The Co-operative has pledged to tackle global poverty across the family of businesses, and support<sup>43</sup> is being deployed via:

- development uplift projects, with a particular focus on water, sanitation and green energy projects in communities where the business already has an existing relationship<sup>44</sup>;
- overseas co-operative development, a priority of The Co-operative Enterprise Hub (page 98); and
- campaigns, recognising that ethical consumerism and voluntary giving are only part of the solution to eradicating poverty.

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# INTERNATIONAL DEVELOPMENT AND HUMAN RIGHTS

## Development uplift projects – water, sanitation and green energy

- Malawi Fairtrade sugar producers** £285,000 is supporting 10,000 Fairtrade sugar producers and their communities in Malawi. Via Concern Universal, boreholes and latrines are being provided for use by over 1,000 households and two schools, and over 100,000 trees are being planted. The contribution is also funding an initial supply of low-cost, fuel-efficient cooking stoves, and providing support to develop a network to manufacture and sell the stoves.  By December 2010, 17 new boreholes had been constructed, 26 existing water points repaired, over 600 latrines installed, and over 50,000 trees planted.
- Malawi Fairtrade tea workers** £255,000 is supporting 36,000 tea workers and their communities in villages surrounding the Satemwa tea estate in Malawi, which provides tea for The Co-operative's Fairtrade '99' tea blend. Via Oxfam, over 30 new or repaired boreholes and latrines are being provided in local schools, which previously had no access to sanitation facilities. The contribution will also fund the training of 40 local artisans to manufacture and sell low-cost, fuel-efficient cooking stoves to the communities.
- Panama Fairtrade banana co-operative** £260,000 is supporting a Fairtrade banana co-operative, with whom The Co-operative Food began trading in 2009. Via TASTE, 4,500 members of the co-operative and their communities are being provided with improved access to water, sanitation and low-cost fuel-efficient cooking stoves, as well as support for capacity building.  By the end of 2010: around 80 water tanks had been installed; a public laundry built; construction of sanitation blocks was underway; and training on fuel-efficient cooking stoves had commenced.
- Mozambique community development** £100,000 is supporting the provision of clean water, sanitation and renewable energy for 2,000 people in an area of Mozambique. The project is being delivered by Save the Children and Practical Action. By the end of 2010: four boreholes had been installed or repaired; 64 community household toilets and 16 school latrines had been built; and materials for a solar panels facility had been procured. Over 50 teachers and two school boards have been trained on health and hygiene and a new school module on health and hygiene developed for the school curriculum.
- Togo sanitation project** £300,000 over three years has been pledged for a UNICEF project in Togo, which will deliver basic sanitation to 150,000 people through the provision of toilets, hand-washing facilities and hygiene education. In September 2010, The Co-operative Pharmacy raised an additional £100,000, extending the scope of the project to reach 390 villages and 195,000 people.
- Malawi agroforestry** In July 2008, The Co-operative provided funding of £96,000 to support a project to improve access to food and wood for 3,000 poor and vulnerable households in 150 villages in southern Malawi<sup>45</sup>. The project completed in June 2010.

## Overseas co-operative development

- Kenyan tea smallholder farmer co-operatives** £125,000<sup>46</sup> is being provided to support over 11,000 small-scale Kenyan tea growers to organise into co-operatives and achieve Fairtrade certification, thus becoming eligible to supply tea for The Co-operative's 99 Fairtrade tea blend. By the end of 2010,

two co-operatives had been formed and formally registered, whilst all the farmers had received co-operative training.

- Funeral co-operatives in South Africa** £46,000 has been allocated to progress the development of funeral co-operatives in South Africa as a way to reduce funeral costs for poor families, and two potential locations for co-operatives have been identified.  The two pilot co-operatives are now being progressed, but are behind schedule.
- Co-operative capacity building in Malawi** £15,500 was allocated to a project in partnership with the Co-operative College, to review the co-operative sector in Malawi. The proposals in the report will form the basis of an application to potential donors for a programme to support the co-operative sector in Malawi.
- Fairtrade Towns** £44,500 has been allocated for an 18-month project to re-develop and promote a Fairtrade Towns pack and website. The packs will launch in the UK during Co-operatives Fortnight 2011.

## Influence and action

### Burma

The Co-operative has a history of activity relating to Burma. Whilst there are many oppressive regimes across the world, Burma presents a combination of circumstances that makes a compelling case for action. In line with the call from democratically elected representatives of the Burmese people, The Co-operative does not trade with Burma and The Co-operative Bank will not finance any organisation with a significant presence in Burma.

In 2010, The Co-operative support for Burma included:

- The Burma Play** Support for seven performances of the Burma Play at venues across the country, including a performance for MPs in Westminster, supported by John Bercow, Speaker of the House of Commons.
- This Prison Where I Live** The Co-operative Membership with Manchester Amnesty commemorated Human Rights Day with a screening of the film This Prison Where I Live.
- Radios for Burma** A donation of £25,000 to support an Amnesty International campaign to provide radios for isolated Burmese communities.



### Unfinished Business

The Co-operative is supporting a reinvigoration of the Third World debt campaign, a subject it successfully campaigned on over 10 years ago. Working with Jubilee Debt Campaign (JDC), it is calling for the remaining Third World debt owed to the UK to be cancelled, principally via reform of the Export Credits Guarantee Department, the UK Government department to which the vast majority of Third World debt is owed today. During 2010, The Co-operative responded to the Environmental Audit Committee inquiry 'the impact of UK overseas aid on environmental protection and climate change adaptation and mitigation'; co-signed a letter to the Secretary of State for the Department for Business Innovation and Skills (BIS), and supported Early Day Motion (EDM) 622 on the 'Export Credits Guarantee

Department'. In 2011, a website was launched<sup>47</sup> – with an interactive tool, which individuals can use to encourage their MPs to sign the EDM.

Following a campaign by JDC, in March 2011 the Debt Relief (Developing Countries) Act was made permanent, restricting the ability of 'Vulture Funds' to sue heavily indebted poor countries in UK courts. The Co-operative supported this development by co-signing a letter to George Osborne MP, and will assess opportunities for influencing further progress during 2011, in particular, the extension of the act to cover all UK overseas territories and dependencies.

**The Groceries Supply Code of Practice Adjudicator**

In August 2009, the Competition Commission published a new and extended Groceries Supply Code of Practice (GSCoP), and published a recommendation to BIS to establish an Ombudsman to oversee the operation of GSCoP. In February 2010, The Co-operative responded to a consultation on GSCoP, stating its view that an enforcement body should focus exclusively on the enforcement of the GSCoP code and be limited to receiving complaints from those direct suppliers in scope of the GSCoP remit and not from indirect suppliers or third-parties, and in July 2010 discussed the issues with the Consumer Affairs Minister. It is expected that a Bill to establish the GSCoP Adjudicator will be published in the 2012–2013 parliamentary session.

**EU Fair Trade procurement**

In July 2010, The Co-operative co-signed a letter to the Commissioner for Internal Market and Services at the European Commission. The letter outlined concerns that the restrictive interpretation in the current draft of 'The Guide on Social Considerations in public procurement' would have a negative impact on the work that the civil society-led Fair Trade movement has carried out on public procurement. The letter also proposed changes to the Guide in order to facilitate the introduction of social considerations in public procurement and, specifically, encourage Procurement Authorities to support Fair Trade.

**Accompanying notes**

- 1 www.dfid.gov.uk/About-DFID/Who-we-work-with/Co-operatives
- 2 The Millennium Development Goals, agreed by world leaders in 2000, provide a framework for the international community to work together on international development.
- 3 Co-operative support initiatives are made up of Fairtrade premium payments and additional contributions to Fairtrade suppliers; community investment monies for tackling global poverty; carbon offset payments to projects benefiting communities in the developing world; and payments from affinity products and services, such as Fairbourne Springs and Travel Foundation (page 28).
- 4 A conservative estimate. Individuals benefit from Fairtrade sales; community projects funded through sales of affinity products and services; carbon offset projects; water, sanitation and green energy projects, and overseas co-operative development projects.
- 5 Figures published 2008, www.fairtrade.org.uk
- 6 www.co-operative.coop/fairtrade
- 7 For the first time, Fairtrade sales and premium value represent sales for The Co-operative Food's enlarged business, including former Somerfield stores.
- 8 The figures for Fairtrade sales value and proportion of UK supermarket Fairtrade sales have been restated to include sales at former Somerfield and Plymouth, Lothian and Borders stores, from the time they became part of The Co-operative Group.
- 9 The value of Fairtrade premiums paid to producers in 2010 is estimated to be £3.6m. This does not include additional voluntary contributions to wine and chocolate producers.
- 10 Ibid footnote 6.
- 11 In total, over 350 wines were tasted.
- 12 The degree to which a supermarket 'overtrades' in a product category is determined by dividing its share of the retail market in that category – in this case Fairtrade products – by its share of the overall retail market and multiplying by 100. A supermarket with a value >100 is determined to overtrade in that product category. A supermarket with a value <100 is determined to undertrade in that product category.
- 13 The Co-operative was a founding member of the ETI – an alliance of companies, non-governmental organisations (NGOs) and trades unions that work together with the aim of improving working conditions in supply chains.
- 14 www.co-operative.coop/soundsourcingcode
- 15 The Co-operative Food is actively engaged in a number of Sedex working groups; for example,

- the Sedex Associate Auditor Group, which works to improve the quality of social audits.
- 16 Suppliers deemed to be 'in-scope' include all first tier sites and selected second tier sites in high risk countries. A first tier site is a production site at which goods are finished ready for supply to, or sale by, the end company. A second tier site is a production site that supplies goods or materials to a first tier site for incorporation into the finished product.
- 17 Sedex does not verify the quality of the information it holds; and so it is the responsibility of information users to undertake due diligence in order to ensure that reported data is accurate.
- 18 Figures as at end December 2010. Of the workers covered by the ethical trading programme, 42% work at sites located in developing countries.
- 19 Through Sedex, a risk profile is determined based on responses to supplier self-assessment, worker profile information, country of operation and sector. In addition, high-risk suppliers are further reviewed by appropriate employees in the Food business to check their risk status.
- 20 Classification of countries is based on the UN's Millennium Development Goals regional classification, with countries of the Commonwealth of Independent States (CIS) classified as developed.
- 21 Of the total 145 assessments undertaken, 44% were undertaken in developing countries; of the 810 improvement actions arising, 53% arose from sites in developing countries.
- 22 For example, 63%, 67%, 100% and 73% of the total non-conformances for the provisions of child labour, living wages, discrimination and harsh or inhumane treatment, respectively, occurred in developing countries.
- 23 The status of incomplete improvement actions from audits prior to 2009 is not included in the data as audits over two years old are not considered valid.
- 24 North America and Australasia are not included in this table as no site assessments were undertaken in these regions in 2010.
- 25 '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
- 26 In Italy these were migrant labour and health and safety, whilst in Thailand these were excessive working hours, migrant workers and effective communication between workers and management.
- 27 This followed positive feedback from suppliers in China from training sessions delivered with The Body Shop in 2009.
- 28 These included colleagues in buying, supply chain, product development, technical, customer services and labelling standards.
- 29 These are the requirements that suppliers should meet as a condition of trade, and include requirements on registration to Sedex, ethical audits and addressing improvement actions.
- 30 This information includes a process chart on meeting The Co-operative's ethical trade requirements, The Co-operative's Sound Sourcing Code of Conduct and information on what to expect from an ethical audit.
- 31 Workbooks allow sites to assess themselves against the Sound Sourcing Code of Conduct, identify areas of risk, consider improvement actions and pursue continuous improvement.
- 32 www.ethicalgrowers.org.uk
- 33 The categories are further defined as follows: 'commitment' (the company is a leader in the field of ethical trade); 'monitoring, independent verification and reporting' ('produces comprehensive and credible reports on its supply chain'); 'awareness-raising and training' ('provides appropriate training to all involved in ethical trade and is improving awareness of suppliers and their workers'); 'corrective actions' ('has well-established systems for identifying and following up corrective actions to ensure improvements are being made'); and 'management procedures, pricing and incentives' ('has a well-established and systematic approach to ethical trading with clear responsibilities and incentives for staff and suppliers').
- 34 The outreach day clinics offer testing and counselling to people on how to prevent or treat HIV and AIDS.
- 35 An 8p and 15p donation is made respectively from the sale of each pack of One Soap and Toilet Tissue.
- 36 A UK charity that supports communities in holiday destinations worldwide by investing in sustainable tourism initiatives.
- 37 The number of donations of mobile phones decreased year on year between 2006 and 2009 due to competition from other schemes and changes to phone users' contract terms. In 2010, the number of donations increased thanks to the inclusion of mobile phone recycling bags, as inserts, in the dividend mail-out to trading members in June and November.
- 38 Separate AGMs are held for News Corporation (registered in Australia) and News Corp Limited (registered in the US). The resolutions were identical.
- 39 The resolution advocated the promotion of technology for evading unlawful surveillance, which may lead to a breach of national laws.
- 40 Insufficient public information available to assess this proposal.
- 41 The Co-operative's 2010 contributions to the energy-efficient stove project in Cambodia will ultimately realise 83,147 tonnes of CO<sub>2</sub> savings, based on CO<sub>2</sub> savings of 1.5 tonnes per stove, and the manufacture and use of 55,431 stoves. On average, each household has 1.2 stoves and consists of five people, meaning over 230,000 people are likely to benefit.
- 42 The Co-operative's 2010 contributions to the treadle pump project in India will ultimately realise 5,000 tonnes of CO<sub>2</sub> savings, based on CO<sub>2</sub> savings of 0.477 tonnes per treadle pump, and the manufacture and use of 10,482 pumps. On average, each household has one treadle pump and consists of five people, meaning over 52,000 people are likely to benefit.
- 43 £950,000 in 2009, £600,000 in 2010.
- 44 These solutions not only meet essential community needs and raise the standard of living for all, but without water access, women and children spend more time collecting water, reducing opportunities to get involved in economic activity or education. Similarly, without decent sanitation facilities, diarrhoea and ill health can do the same.
- 45 Satemwa Estates is located in the project area and provides tea for the 99 Fairtrade tea blend.
- 46 The contribution is match-funded by the Department for International Development's (DFID) Food Retail Industry Challenge (FRICH) Fund. FRICH is a fund launched by DFID to challenge the private sector to find ways of getting more food from Africa into UK supermarkets and other retail outlets, www.dfid.gov.uk/Working-with-DFID/Funding-opportunities/Business/FRICH/
- 47 www.co-operative.coop/unfinishedbusiness

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# ANIMAL WELFARE

## Background

Over 800 million broiler chickens<sup>1</sup> and 9.4 million pigs<sup>2</sup> are reared in the UK every year and there are around 34 million hens involved in egg production<sup>3</sup>. To meet this level of production, most modern farms operate intensive systems. A growing number of people are concerned about such production methods and seek to support products that guarantee higher standards of animal welfare.

Testing of cosmetic products or ingredients on animals ended in the UK in 1998. In the European Union, the Seventh Amendment of the Cosmetics Directive banned animal testing of cosmetic products and ingredients from 2009, and introduced a marketing ban on the sale and import of virtually all cosmetics tested on animals. However, the practice continues elsewhere in the world, and the sale of animal-tested products in the UK will not be fully phased out until 2013.

## Materiality and strategy

As a major food retailer, The Co-operative has a significant impact on animal welfare standards through the products it sells. In the Food Ethical Policy consultation, animal welfare was identified as the second most important ethical issue for members. Animal welfare is a major part of the Ethical Operating Plan (page 13), and customer-mandated ethical policies for the banking and investments business both identify animal testing, the fur trade, intensive farming and blood sports as issues of concern.

Around 850 own-brand fresh, and 80 own-brand frozen<sup>4</sup>, meat and poultry lines are sold in Food stores. The Co-operative seeks to improve baseline production standards for the most intensively farmed animals – such as pigs and poultry – through the development of its own-brand Elmwood higher welfare range and sales of RSPCA welfare standard Freedom Foods. The acquisition of Somerfield has brought higher welfare products to a wider customer base; for example, prior to 2009, free-range eggs were not widely available across former Somerfield stores.

Targets 2010	Progress	Targets 2011
<b>Indicator: Standards and assurance of food production</b>		
		Ensure primary own-brand suppliers install CCTV in abattoirs during 2011.
<b>Indicator: Range and sales of products from animals reared to higher welfare standards</b> (Performance recognition page 33)		
Further extend the range of chicken products accredited to Elmwood standards.	✓ Standards extended to cooked 'ready to eat' chicken products (page 34).	<b>EOP</b> Continue to ensure that shoppers operating on a variety of budgets have the opportunity to support higher baseline animal welfare standards, and that all shell eggs and egg ingredients in own-brand products are at least free-range.
Extend the range of turkey products accredited to the Elmwood standard.	✓ Standards extended to all non-seasonal fresh and frozen products, eg turkey fillets (page 34).	
Implement Elmwood standards across own-brand fresh and frozen pork and sausage ranges.	✓ Standards developed during 2010 and launched in April 2011 (page 35).	<b>EOP</b> Extend higher baseline standards, Elmwood, from chicken and turkey to pork in 2011.
		<b>EOP</b> Improve the animal welfare standards for dairy cows, together with environmental impacts, by developing a dedicated supply chain for milk.
<b>Indicator: Sales of accredited toiletry and household products</b>		
		<b>EOP</b> Continue to take a lead on the issue of animal testing of cosmetic and household products.

**Social responsibility**

Ecological sustainability

Delivering value

Assurance

**Performance recognition**

In 2010, The Co-operative received the RSPCA's 'People's Choice Supermarket Award' for the second year running, as voted for by the UK general public.



**Standards and assurance of food production**



In the main, basic animal welfare is assured via farm assurance standards<sup>5</sup>, which are sometimes signified by a Red Tractor Mark or Quality Standard Mark<sup>6</sup>.

The Co-operative has developed additional standards in relation to live animal transport and slaughter, which apply to all own-brand products. Livestock can only be transported for a maximum of six hours – thought to be the lowest maximum transportation time allowed by any major national food retailer. All livestock reared for own-brand products must be pre-stunned prior to slaughter, in accordance with the Humane Slaughter Association species codes of practice. During 2011, primary own-brand suppliers will be required to install CCTV in all abattoirs.

Independent third-party auditors are used to check compliance with the requirements of various industry-led standards<sup>7</sup>. The Co-operative Technical Team undertakes additional meat and poultry inspections – some 158 in 2010 (2009: 151). Although these focus primarily on product quality, safety and legality, where appropriate, animal welfare matters are considered. In addition, a further 33 farm visits were undertaken in 2010 specifically to cover animal welfare matters (2009: 23). The online database that records key animal welfare indicators, currently in place on Elmwood chicken supplier farms, will be extended to Elmwood turkey and pig supplier farms in 2011.

**Increase in Elmwood and Freedom Food sales**

**157%** increase in sales of Elmwood and Freedom Food higher welfare products since 2008

**Range and sales of products from animals reared to higher welfare standards**

In 2010, sales of higher welfare products totalled £204m, with 235 lines available in Food stores<sup>8</sup>. Support for higher welfare is predominantly provided through own-brand Elmwood standards and RSPCA Freedom Food accreditation. In 2010, sales of Elmwood products were almost double that of the previous year, and Freedom Food sales continued to grow. Growth was driven by the introduction of higher welfare standard products across former Somerfield stores. The number of Freedom Food products available decreased in 2010, due to range consolidation and a greater focus on the Elmwood range. Free-range, organic production and traditional breed production are also supported.

Higher welfare standards are detailed online, along with further explanations of individual product requirements.

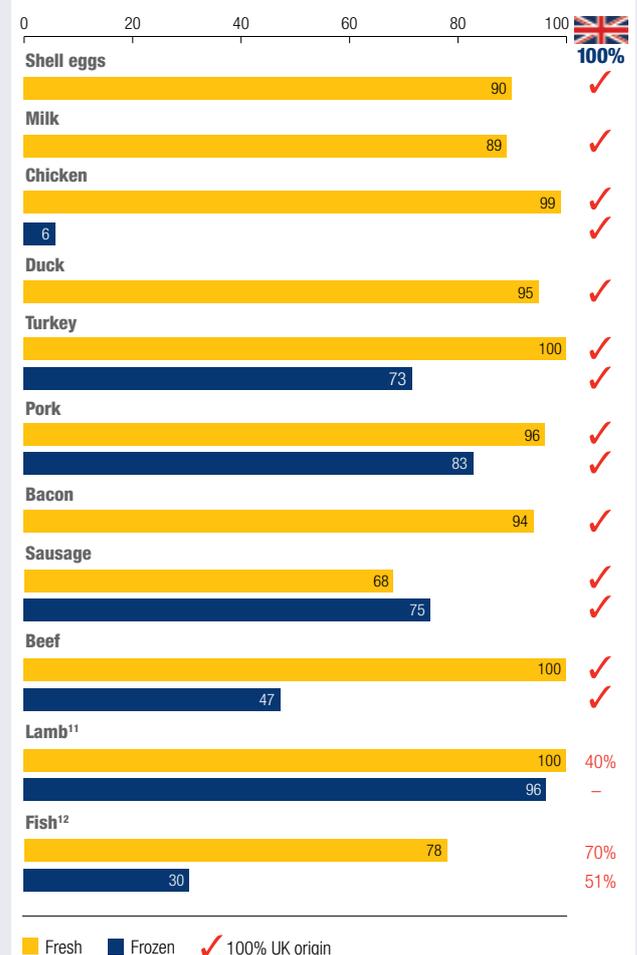
**Elmwood sales**

	Number of lines	Total sales (£m)
2008	66	38
2009	108	57
2010	140	111

**Freedom Food sales**

	Number of lines	Total sales <sup>9</sup> (£m)
2006	49	17
2007	90	28
2008	109	51
2009	107	54
2010	73	63

**Own-brand sales 2010, as a proportion of total sales<sup>10</sup> (%)**



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# ANIMAL WELFARE

UK sourced 2010

**100%**

shell eggs, milk, fresh and frozen poultry, beef and pig meat sourced from the UK

## Eggs and milk production

Since 2008, all shell eggs sold have been free-range, and all own-brand eggs are either Freedom Food (c.90%) or organic (c.10%) accredited. Freedom Food accreditation stipulates lower outdoor stocking densities than conventional free-range outdoor standards. Organic standards offer enhanced animal welfare provision, including the prohibition of mutilations, such as beak trimming. Free-range eggs are used as ingredients in all own-brand product lines (eg quiche).

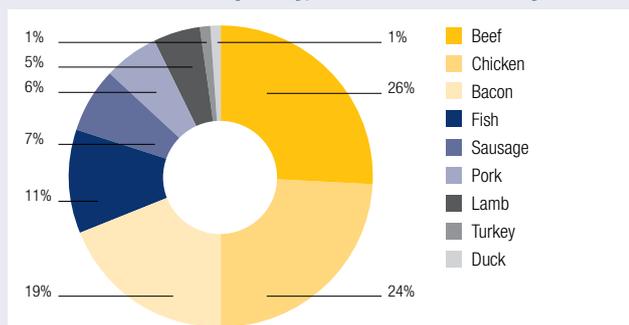


Virtually all (97%) own-brand fresh milk sold in 2010 was assured under the National Dairy Farm Assured Scheme, and is produced by dairy cattle with access to outdoor pasture. The remainder was certified as organic by the Soil Association.

In 2011, a dedicated dairy supply chain will be introduced that will stipulate basic animal welfare standards for dairy cows. Supplier farms will be required to monitor and report on key welfare indicators (eg lameness and mastitis), which will be used to identify where improvements are needed to meet agreed welfare standards.

## Poultry, meat and fish production

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



### Poultry

All *standard*, own-brand fresh and frozen chicken (whole and portions) continues to be produced to Elmwood standards. Elmwood chicken and turkey standards (introduced in 2007 and 2009 respectively) exceed conventional farm assurance standards, by stipulating lower stocking densities, environmental enrichment and that birds are fed a high cereal vegetarian diet. They also stipulate, unlike RSPCA welfare standards, that birds are provided with natural light.

All *premium* fresh chicken (whole and pieces) is Freedom Food free-range accredited; and sourced from birds with daytime access to range outdoors for at least half their lifetime and a higher minimum slaughter age than conventional standards.

During 2010, the range of prepared products accredited to Elmwood standards was further extended to include cooked 'ready to eat' chicken. Approximately 25% of all prepared chicken, such as cooked meats and 'ready to eat' or 'food to go' products, is now produced using birds reared to Elmwood standards.

All own-brand fresh and frozen whole turkey and turkey crowns continue to be produced to Elmwood standards. During 2010, Elmwood turkey standards were extended to include all non-seasonal fresh and frozen products, eg turkey fillets, steaks and pieces.

As of 2011, 220 farms (2010: 151) were adapted to meet Elmwood poultry production standards.

All fresh duck continues to be Freedom Food accredited, which stipulates 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.

## Premium-range fresh turkey products

At Christmas 2010, premium-range fresh turkey products were sourced from free-range traditional Bronze breed turkeys, reared on The Co-operative's Stoughton Estate farm, where the birds had access to open pasture

to forage. Free-range turkey standards stipulate stocking densities of approximately half those of conventional standards, a higher minimum slaughter age and environmental enrichment.



Own-brand poultry sales (%)

	2007	2008	2009	2010
<b>Fresh chicken</b>				
Base-level Farm Assurance Standard	90	11	-	-
Elmwood Farm Assurance	7	85	94	95
Freedom Food free-range	2	3	6	5
Organic	1	1	-	-
<b>Fresh turkey</b>				
Base-level Farm Assurance Standard	37	57	72	-
Elmwood Farm Assurance	-	-	27	99
Freedom Food free-range	63	-	-	-
Free range	-	43	1	1

Own-brand poultry sales (%) (cont)				
	2007	2008	2009	2010
<b>Fresh duck</b>				
Freedom Food	100	100	100	100
<b>Frozen chicken</b>				
Base-level Farm Assurance Standard	–	95	–	–
Elmwood Farm Assurance	–	5	100	100
<b>Frozen turkey</b>				
Base-level Farm Assurance Standard	–	100	13	–
Elmwood Farm Assurance	–	–	80	98
Free-range	–	–	7	2

**Pig meat**



Ingredients for all fresh *premium* pig meat products are sourced from Freedom Food accredited, outdoor-reared, traditional Hampshire breed pigs. RSPCA welfare standards exceed conventional farm assurance standards and stipulate a higher minimum weaning age and higher minimum housing requirements.

🎯 In April 2011, Elmwood pig meat standards were introduced for fresh pork and sausages. These standards exceed conventional farm assurance standards, and are comparable in most respects to RSPCA welfare standards<sup>13</sup>. Working with suppliers, The Co-operative Food aims to develop Elmwood standards further and remove use of farrowing crates for indoor-reared pigs.

**Beef**

All own-brand fresh and frozen beef is assured to conventional farm assurance standards. It is either reared outdoors on grass pasture, with shelter provided for the animals during winter and inclement weather, or reared outdoors on grass pasture during summer and then in open-sided barns on silage during the winter. Ingredients for all fresh premium products are sourced from traditional Scottish Aberdeen Angus breed cattle.

**Lamb**



Own-brand fresh lamb is sourced on a seasonal basis 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. Ingredients for all fresh premium-range products<sup>14</sup> are sourced from Freedom Food lamb, reared in hefted flocks<sup>15</sup>. RSPCA welfare standards prohibit castration if the animals are intended for slaughter below the age of sexual maturity.

Own-brand meat sales (%)				
	2007	2008	2009	2010
<b>Fresh pork</b>				
Base-level Farm Assurance Standard	92	94	93	93
Freedom Food	8	6	7 (OR)	7 (OR)
<b>Fresh bacon</b>				
Base-level Farm Assurance Standard	92	92	95	95
Freedom Food	8	8	5 (OR)	5 (OR)
<b>Fresh sausage</b>				
Base-level Farm Assurance Standard	67	59	56	58
Freedom Food	33	41	44 (OR)	42 (OR)
<b>Fresh beef</b>				
Base-level Farm Assurance Standard	100	100	100	100
<b>Fresh lamb</b>				
Base-level Farm Assurance Standard	100	98	95	99
Freedom Food	–	2	5	1
<b>Frozen pork</b>				
Base-level Farm Assurance Standard	–	100	100	100
<b>Frozen sausage</b>				
Base-level Farm Assurance Standard	–	90	98	100
Freedom Food	–	10	2	–
<b>Frozen beef</b>				
Base-level Farm Assurance Standard	–	100	100	100
<b>Frozen lamb</b>				
Base-level Farm Assurance Standard	–	100	100	100

OR = Outdoor reared

**Fish**

All premium-range fresh farmed salmon products are Freedom Food accredited. The Co-operative Food's Responsible Fish Sourcing Policy (page 82) stipulates that all farmed fish must be stunned using an approved method prior to slaughter.

Own-brand fish sales (%)		
	2009	2010
<b>Fresh fish</b>		
Base-level Farm Assurance Standard	59	53
Farmed Freedom Food (salmon)	4	2
Farmed organic (trout)	<1	<1
Wild caught	37	45
<b>Frozen fish</b>		
Base-level Farm Assurance Standard	7	8
Farmed Freedom Food (salmon)	8	1
Wild caught	83	91

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# ANIMAL WELFARE

## Total sales of products not tested on animals 2010

**£26.9m** BUAV-accredited toiletries and household product sales. 2009: **£18.2m**

## Sales of accredited toiletry and household products

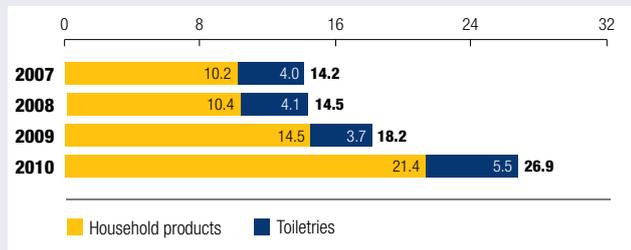


No own-brand toiletry or household products, or their ingredients, have been tested on animals since 1985 or 1997 respectively. All such own-brand products continue to carry the British Union for the Abolition of Vivisection's (BUAV) 'rabbit and stars' logo, providing consumers with independent assurance that products

have not been tested on animals. The near doubling in sales over two years of BUAV-accredited products is largely due to wider availability of own-brand products in Somerfield stores.

BUAV conducts audits every three years to ensure continued conformance with both standards; the most recent audits were carried out in April 2011.

## Sales of BUAV-accredited products (£m)



## Ethical finance

### Bank screening of finance

During 2010, 69 finance opportunities (2009: 63) were referred to the Ethical Policy Unit in connection with animal welfare, of which six were declined (2009: four) at a cost of £168,000 in terms of estimated income foregone in 2010.

## Animal welfare-related business declines 2010

	Estimated income foregone 2010
<b>Pet retailer</b> £3.3m lending for a business involved in the sale of pet dogs. Business failed to adequately respond to evidence of systematic failures of breeding suppliers to maintain basic animal welfare standards.	£130,000
<b>Cosmetics manufacturer</b> (two instances) £1.6m lending and banking facilities for businesses involved in the production of cosmetics that did not have a fixed cut-off date for animal-testing of products or ingredients.	£21,000
<b>Abattoir</b> £325,000 lending to an abattoir involved in the slaughter and supply of lamb. Animals were not stunned prior to slaughter.	£13,000

## Animal welfare-related business declines 2010 (cont)

<b>Food producer</b> (two instances) Deposit-taking facilities for businesses involved in the intensive, indoor production of poultry and eggs.	£4,000
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## The Co-operative Asset Management (TCAM) overseas shareholder resolutions

In 2010, TCAM was presented with 10 overseas shareholder resolutions relating to animal welfare, of which all were supported.

Company	Resolution	Vote registered
McDonald's Corp; Smithfield Foods Inc; Wal-Mart Stores; Wendy's/Arby's Group Inc; Safeway Inc	To ensure all poultry purchased is slaughtered using controlled atmosphere killing, considered a less cruel method of slaughter.	Supported
Bristol-Myers Squibb	To report on animal experiments conducted and efforts towards reducing and replacing animal experimentation.	Supported
Coach Inc	To cease the sale of animal fur products.	Supported
Hormel Foods Corp	To phase out use of gestation crates for pigs and implement animal welfare audits.	Supported
McDonald's Corp	To switch 5% of US egg purchases to 'cage-free' eggs by January 2011.	Supported
Tyson Foods Inc	To adopt a policy to phase out routine use of antibiotics in pig farming in its own operations and supply chain.	Supported

## Accompanying notes

- [www.ciwf.org.uk/includes/documents/cm\\_docs/2010/factsheet\\_meat\\_chickens.pdf](http://www.ciwf.org.uk/includes/documents/cm_docs/2010/factsheet_meat_chickens.pdf) (CIWF factsheet Meat Chickens March 10)
- Defra (2010) United Kingdom Slaughter Statistics [www.defra.gov.uk/statistics/foodfarm/food/slaughter/](http://www.defra.gov.uk/statistics/foodfarm/food/slaughter/)
- [www.rspca.org.uk/allaboutanimals/farm/poultry/layinghens/farming](http://www.rspca.org.uk/allaboutanimals/farm/poultry/layinghens/farming). According to the RSPCA, 50% of egg-laying hens are reared in caged systems. The proportion of hens reared in these systems has been decreasing over the last 10 years.
- Fresh and frozen meat and poultry is defined as meat and poultry that has been maintained in a chilled environment in its raw condition and which will require full cooking. Products classified as fresh and frozen meat and poultry include beef, lamb and pork joints; steaks, chops, mince, burgers, sausages, bacon and gammon; whole chickens, turkeys and ducks; and chicken, turkey and duck steaks, fillets and portions.
- Compliance with UK farm assurance standards, or national equivalents, is assured for all own-brand fresh and frozen meat and poultry products. Outside the UK, suppliers are required to ensure, through independent third-party audits, that non-UK producers apply equivalent standards.
- Quality Standard Marks are specifically applied to beef, lamb and pork products.
- Compliance with UK farm assurance standards or national equivalents was assured for all own-brand UK-sourced fresh shell eggs, milk, turkey, duck, beef, lamb, chicken, pork, pig meat for sausage and bacon, and farmed salmon and trout. Whilst compliance with farm assurance standards is similarly stipulated for other meat and poultry products (eg, non-UK cooked meats), and products that contain meat or poultry ingredients (eg, ready meals), evidence of application is much more difficult to secure.
- Includes sales of Elmwood, RSPCA Freedom Food, organic, free-range and traditional breed products. Details of these welfare standards are provided throughout the chapter with further information available online [▶▶](#). Figures include sales of prepared and 'ready to go' products.
- Egg sales account for approximately half of all Freedom Food sales (2010: 50%; 2009: 53%; 2008: 55%; 2007: 51%).
- Historical data with regard to country of origin of Co-operative products can be found in the 2009 Sustainability Report pages 30–35.
- All non-UK lamb is sourced from New Zealand.
- UK origin data is farmed fish only; non-UK farmed produce is sourced from Thailand and Indonesia. See page 82 for details of wild-caught fish and marine stewardship.
- Apart from higher post-weaning stocking densities and use of farrowing crates.
- With the exception of burgers.
- Sheep are born and reared on open hills throughout the year. There are no boundaries or fences to keep different farm flocks apart.

# DIET AND HEALTH

## Background

Consumers are presented with a choice of foods and products 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. Nearly a quarter of children are either overweight or obese when they enter primary school; by the time they leave this rises to one in three<sup>1</sup>. The production and promotion of healthy diets, in combination with a greater uptake of exercise, is considered key to reversing this trend<sup>2</sup>.

## Materiality and strategy

As a major community retailer, with customers representing a wide cross-section of society, The Co-operative recognises its role in the drive to improve the health of the nation. Diet and health is most relevant to the provision of food products within Food stores, and the provision of dispensing services and health advice within Pharmacy branches.

Commitment to this issue can be traced back to the beginning of the co-operative movement, when the Rochdale Pioneers sought to sell good-quality produce at a time when items such as milk, flour and bread were regularly adulterated.

Over 100,000 members endorsed The Co-operative Food's focus on diet and health, and 'Responsible Retailing' is a major area in the new Ethical Operating Plan (page 13). The Co-operative plays a proactive role in working with government to support policy development such as the Public Health Responsibility Deal, which challenges the food and drinks industry to support a range of measures aimed at improving the nation's health.

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Targets 2010	Progress	Targets 2011
<b>Indicator: Additives prohibited</b>		
<b>Indicator: Nutritional content: salt, fats and sugar</b> (Performance benchmark page 38)		
Achieve an average overall reduction in salt and saturated fat levels in crisps and snacks range.	✓ Average reductions achieved of 11.6% in salt and 48% in saturated fat (page 38).	<b>EOP</b> Continue to target salt, saturated fat and sugar reductions in key products whilst maintaining food safety and product quality.
		<b>EOP</b> Continue to ensure that Healthier Choice products are no more expensive than standard equivalent lines.
		<b>EOP</b> Continue to ensure that Simply Value nutritional content is at least as good as standard equivalent lines.
<b>Indicator: Nutritional labelling</b>		
Launch a new front-of-pack nutrition labelling scheme.	✓ A new labelling scheme has been launched, integrating traffic-light and Guideline Daily Amount (GDA) information (page 38).	
Roll out traffic-light labelling to all relevant corporate website and magazine recipes.	✓ The integrated labelling appears against all relevant corporate website and magazine recipes (page 38).	
<b>Indicator: Promotions, marketing and information</b> (Performance recognition page 39)		
Use in-store digital media to support key public health targets every week throughout 2010.	✓ At least one governmental public health initiative supported in every store, every week (page 39).	<b>EOP</b> Ensure 30% of food promotions are for healthy offerings.
Extend The Co-operative Pharmacy Weight Management service to a total of 240 branches.	← The weight management service was extended to 224 branches (page 40).	

# DIET AND HEALTH

## Product ranges

The Co-operative Food has some 3,000 own-brand products which account for 47% of sales by value (2009: 46%). These fall into three main ranges: Simply Value, The Co-operative, and Truly Irresistible; along with cross-range sub-brands, such as Healthier Choice, Grown by us, Taste the Seasons, Fairtrade and Organic.

All products in the Simply Value range have nutritional levels at least as good as those of standard equivalents<sup>3</sup>, and Healthier Choice products are no more expensive than standard equivalent lines<sup>4</sup>. During 2010, the reformulation and rebranding of 140 former Somerfield products was completed, bringing these products in line with The Co-operative's higher nutritional standards. The healthy range underwent a successful relaunch, becoming 'Healthier Choice'.



## Additives prohibited

Additives are used as little as possible, whilst recognising benefits in areas such as food safety. An Additives Policy has been in place since 1985, and a number of additives have been removed from own-brand products. The removal of additives will continue to be guided by new research and recommendations. At present no further additives have been identified for removal.

### Salt reduction

**100%** of the original 2010 FSA salt reduction targets met

## Nutritional content: salt

Salt reduction is an important focus of product development, and reductions are sought in specific own-brand products and ranges as they are reformulated. In 2009, The Co-operative was one of the first retailers to meet all the original 2010 targets for salt reductions set by the Food Standards Agency (FSA) in 2006<sup>5</sup>. Further salt reductions are on-going, and specific product reformulations during 2010 included the own-brand crisps and snacks range, which achieved an average of 11.6% reduction in salt.

### Performance benchmark

The Co-operative is listed as one of five retailers to have met the original 2010 FSA salt reduction targets across all relevant products by August 2010.

## Nutritional content: fats and sugar

The Co-operative seeks to reduce the fat (primarily saturated fat) and sugar levels within own-brand products. Where possible, saturated fat reductions are made in products as they are reformulated, resourced or rebranded, in particular those which have been highlighted by the FSA as making a significant saturated fat contribution to the diet, such as cakes and buns, biscuits, sausages and savoury pastry products<sup>6</sup>. A maximum sugar level of 5% is in place for all savoury products in the Healthier Choice range.

### Reducing saturated fat in products

The reduction of saturated fat is challenging, and may involve not only the use of alternative ingredients and recipes, but new technology and methods of production.

Examples of work to reduce the saturated fat content during 2010 include:

- an average 48% reduction in the crisps and snacks range, via a move to high oleic sunflower oil;
- an average 12% saturated fat reduction in Food to Go sausage rolls and savoury slices, through measures including the use of leaner cuts of meat, and a lower

fat alternative to cream and cheese; and

- an average 34% saturated fat reduction in the standard sponge cake range, via a reduction of fat in the sponge base, and a reduced amount of buttercream.



## Nutritional labelling

The approach to labelling is to be as open and honest as possible, and to provide information in a way that allows customers to make informed purchasing decisions about food products.

### Traffic-light labelling

In 2008, The Co-operative introduced front-of-pack traffic-light labelling, and in 2010, launched a new labelling scheme, integrating traffic-light and Guideline Daily Amount (GDA) information. The use of integrated labels enables customers to quickly discern whether the food has high, medium or low amounts of fat, saturated fat, salt and sugars, to compare products at a glance, and to understand how the food contributes to their recommended daily intake of nutrients.

approx. per pack							Microwave in 12 mins	Oven in 25 mins	Medium	400g e
Calories 530	Fat 21.6g High	Saturates 5.6g Low	Sugars 6.0g Low	Salt 2.2g Med	Serves 1					
	31%	28%	7%	36%	of your guideline daily amount					

The new scheme has been applied to all relevant new and relaunched own-brand products<sup>7</sup>, of which there have been 250 to date. Integrated labelling appears against all relevant corporate website and magazine recipes.

**Social responsibility**

Ecological sustainability

Delivering value

Assurance

**Green Dot labelling 2010**

**938** Green Dot products on sale  
2009: **840**

**Green Dot labelling**

Since 2009, 'Green Dot' labelling has been used to identify own-brand products with a range of healthy nutritional criteria, including 'high fibre', 'low saturated fat', and 'rich in omega 3'. It is applied to all products that do not carry any 'red' traffic lights, and that fulfil the relevant nutritional criteria. At the end of 2010, 938 (2009: 840) Green Dot products were on sale, making up 27% (2009: 24%) of the own-brand product range, and accounting for 35% (2009: 33%) of own-brand sales. Green Dot products are promoted through in-store media, further enabling customers to make healthy eating choices.



**Green Dot labelling 2010**

**35%** of own-brand sales feature Green Dot symbol  
2009: **33%**

**Promotions, marketing and information**

**Food**

Healthy eating options are promoted in store, via shelf-edge labelling, till screens and radio, as well as on the website and through the Customer Relations phoneline. During 2010, at least one governmental public health initiative was supported in every store, every week. Initiatives supported were the Department of Health's Change4Life programme, the FSA's salt and saturated fat reduction campaigns, the Waste and Resources Action Programme's Love Food Hate Waste campaign and the charity Drinkaware.

A responsible approach to promotional activity is taken, and from 2011, a minimum of 30%<sup>9</sup> of all promotions will be for healthier products, an increase on the existing guideline of 25%. Monitoring is in place, and, during 2010, 31% of promotions were for healthier products.

**Healthier product promotions 2010**

**31%** of promotions for healthier products  
2009: **32%**

Products that are high in fat, sugar or salt are not marketed or advertised to children. This extends to free samples at in-store demonstrations and promotions; the use of cartoon characters on own-brand packaging; and products high in fat, sugar or salt and aimed specifically at children being placed on certain fixtures.



The Co-operative is a national partner in the Department of Health's Change4Life movement, which encourages people to make changes to their diet and activity levels, by highlighting the links between poor diet, sedentary lifestyles and certain preventable illnesses.

**Alcohol**

The Co-operative is committed to selling alcohol responsibly, and shares the concerns of the public health community about the impact of alcohol misuse on individuals and on society as a whole. A wide range of initiatives is in place to promote responsible drinking, the most significant of which is support for the charity Drinkaware, which aims to improve the UK's drinking habits through public education. The Co-operative, along with other large retailers in the UK, has pledged to fund Drinkaware until 2013.

The Co-operative also supports the development of Community Alcohol Partnerships (CAPs) throughout the UK. The CAP model was developed by the Retail of Alcohol Standards Group and aims to tackle public underage drinking through co-operation between alcohol retailers and local stakeholders, such as Trading Standards, the police, local authority licensing teams, schools and health networks. Based on the success of the first CAP scheme in St Neots, Cambridgeshire, The Co-operative is currently involved in 15 CAP schemes in England, as well as one in Scotland<sup>10</sup>, and has plans to become involved in further schemes in 2011.

**Performance recognition**



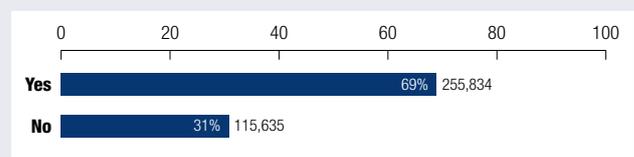
In 2010, The Co-operative won the Responsible Drinks Retailing 'Extra Mile Award' for support of the Drinkaware 'Why let good times go bad?' campaign.

**InSight customer feedback**

Chip and pin terminal survey of Food customers, October 2010

**Question: Have you heard of the campaign 'Drinkaware'?**

(total responses 371,469)



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## DIET AND HEALTH

### Pharmacy

The Co-operative Pharmacy provides healthy living, smoking cessation, allergy, and weight management advice.  In 2010, its weight management service was extended from 85 to 224 branches (29%), and its Healthy Heart initiative and allergy checking service, both launched in 2009, are now available in 20 branches (3%). Selected branches offer free NHS services to customers on other health issues, including smoking cessation, which is available in 287 branches (37%).

No sun cream is sold with a Sun Protection Factor of less than 15, and, since 2008, The Co-operative Pharmacy has worked with the Sunwise initiative to distribute bottles of sun cream to more than 2,000 homeless people across 14 UK cities.

### Influence and action

#### GovNet event

In 2010, The Co-operative Food continued to sponsor the GovNet Obesity Conference. This brings together over 400 health, education and local government professionals and central and local government speakers from across the UK, as well as other stakeholder groups, to discuss the latest and most effective strategies in dealing with the obesity crisis.

#### Accompanying notes

- |   |  |
|---|--|
| <p>1 NHS (2010) National Child Measurement Programme for England.</p> <p>2 Ibid.</p> <p>3 The Simply Value range accounted for 1.9% of own-brand product sales in 2010. Of the 93 products that make up the range, 85% have comparable equivalents in the standard ranges. Achieved within the tolerances accepted for nutritional analytical variation; or where the sugar content of an economy-range product (eg, own-brand value cheese and tomato pizza) is slightly higher than the standard equivalent, owing to an increased proportion of fruit/veg, and consequently naturally occurring sugars.</p> <p>4 The Healthier Choices range accounted for 3.8% of own-brand product sales in 2010. Of the products that make up the range, 48% have comparable equivalents in the standard ranges.</p> <p>5 Other retailers meeting the targets in a similar time frame were Asda and Waitrose.</p> | <p>6 Based on recommendations made in the FSA Saturated Fat and Energy intake programme.</p> <p>7 Except those of negligible nutritional value (eg, tea and coffee), some 'assorted' products (eg, seasonal tins of biscuits) and fruit and vegetables, fresh meat and cooking aids.</p> <p>8 'Green Dot' messages are based on approved nutrition claims under the Nutrition and Health Claims Regulation (EC) 1924/2006 plus wholegrain and five-a-day claims.</p> <p>9 25% of promotions, by number. Healthier products are defined as: produce, products passing through the FSA nutrient profiling model used by OFCOM, or any products from the Healthier Choice range. Food promotions exclude non-food grocery and beers, wines and spirits.</p> <p>10 A list of the CAPs with which The Co-operative is involved can be found in the online version of this Report .</p> |
|---|--|

# ETHICAL FINANCE

## Background

The global financial crisis of the last three years has resulted in bailouts and bankruptcies of major financial institutions around the world, declines in stock market values, and recessions in developed economies including the UK. As governments seek to cut back budget deficits and money becomes harder and more expensive to access, both consumers and business face significant financial pressures.

While trust in the banking sector has all but vanished, interest in sustainable alternatives is growing. Some 44% of the British public are interested in finding out about the ethical credentials of the next financial product or service that they buy<sup>1</sup>, and ethical finance has grown to reach £19.3bn in 2009, from £5.2bn 10 years earlier<sup>2</sup>.

## Materiality and strategy

The Co-operative Financial Services (CFS) is the group of businesses that includes The Co-operative Bank (including **smile**), The Co-operative Insurance, The Co-operative Investments, The Co-operative Asset Management (TCAM) and, from August 2009, Britannia. CFS' core business activity is the provision of financial

services – banking, insurance and investments – to corporate, business and personal customers. In 2010, CFS had an operating profit of £208.6m and total assets at year-end of £69.4bn. Loans and advances to bank customers were £35.1bn and deposits £34.2bn<sup>3</sup>. Investments totalled £24.2bn<sup>4</sup>, including listed equities of £5.2bn<sup>5</sup>. In relation to the provision of ethical finance and investments, CFS seeks to be the leading retail bank and institutional investor in the global financial services industry.

The bank launched its Ethical Policy<sup>6</sup> in 1992, and completed the most recent review in 2009. It covers all assets and liabilities held on the bank's balance sheet, (eg, retail and syndicated loans, corporate leasing, retail deposits and savings, and treasury dealings), and the investment of all retained balances. From 1 August 2009, the Ethical Policy extended to include Britannia's assets and liabilities. The Policy is currently unique in UK retail banking, in so far as it contains explicit clauses that are mandated by bank customers and that restrict the provision of financial services to certain activities and sectors. In 2011 the Ethical Policy was extended to investments underpinning The Co-operative Insurance motor and home insurance policies (page 43).

The Ethical Engagement Policy<sup>7</sup> was launched in June 2005, and is implemented by TCAM on behalf of The Co-operative Investments. The Ethical Engagement Policy guides TCAM's approach to engagement with equity investees. TCAM votes on all equities held, and discloses its entire UK and overseas voting record online<sup>8</sup>.

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Ethical finance

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Inspiring young people

🎯 Targets 2010	Progress	🎯 Targets 2011
<b>Indicator: Ethical screening</b>		
Consider a distinctive social and ethical consumer proposition for the general insurance business.	✔ Agreement was secured to extend The Co-operative Bank Ethical Policy to the investments underpinning home and motor insurance policies (page 43).	<b>EOP</b> Extend ethical screening activities to the £1bn of investments underpinning the key insurance products.
<b>Indicator: Social and environmental banking</b> (Performance benchmarks and recognition pages 43 and 44)		
Launch a Social Banking Unit (SBU) to bring together banking services for the environmental, social and charity sectors.	✔ In 2010, the SBU was launched, bringing together corporate banking services for renewables, carbon reduction, charities, social housing and microfinance (page 44).	<b>EOP</b> Extend commercial lending in the area of energy efficiency and renewables to £1bn, recruiting extra resource to key business centres.
The Co-operative Bank to commit £200m to finance renewable energy projects in 2010.	✔ In 2010, total committed facilities for this area reached £398m (page 44).	<b>EOP</b> Help to kick-start a revolution in community-owned renewable energy generation via a combination of £1m of grants and the development of a new financial product for the public sector.
<b>Indicator: Socially responsible investment</b> (Performance benchmark page 49)		
The Co-operative Asset Management (TCAM) to integrate climate change impacts into fund analysis on all core equity investments.	✔ Every stock recommendation now includes an analysis of climate change impacts (page 45).	
TCAM to co-file shareholder resolutions at Royal Dutch Shell plc and BP plc regarding tar sands operations.	✔ Shareholder resolutions co-filed requesting that companies report on the investment risks associated with Canadian tar sands projects and their plans to address them (page 45).	

(continued over)

# ETHICAL FINANCE

🎯 Targets 2010	Progress	Targets 2011
		<p><b>EOP</b> Where ethical screening of investments is not feasible (owing to fiduciary duties), continue to ensure that engagement with investees is the most active, assertive and transparent of UK institutional investors, and supports campaigning activities.</p>
		<p>Implement Group Pensions' new PACE Responsible Investment Policy and Practice Statement, including publication of summary voting records, engagement activities and compliance with UK Stewardship Code.</p>

## Assurance

Whilst many financial services organisations now produce social and environmental reports, few, if any, subject their core business activity – the provision of finance and investments – to independent scrutiny or assurance. The Sustainability Auditor, Two Tomorrows, has provided a high level of assurance (pages 124 and 125) over the bank's Ethical Policy implementation and associated data. In order to do so, they have directly investigated, at a 10% sample level, the veracity of policy implementation, reviewing case files and assuring themselves of the integrity of the process and outcome.



## Ethical Screening

### The Co-operative Bank – screening of finance

The bank provides facilities to some 92,000 corporate, business and wholesale market customers<sup>9</sup>. 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 undertaken on a biannual basis.

For large relationship customers<sup>10</sup>, 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 make explicit 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 dedicated 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. In most cases, independent analysis is commissioned from a leading independent ethical investment research organisation<sup>11</sup>. During 2010, the bank's Ethical Policy Unit reviewed 408 (2009: 441) potentially problematic financial opportunities. Of these, 40 (10%) were found to be in conflict, and the business opportunity declined (2009: 43, or 10%). In 2010, the annualised gross income foregone by the bank as a result of ethical screening was an estimated £17.5m (2009: £17.7m)<sup>12</sup>.

### Finance declined

**£1.2bn** finance declined in line with the bank's Ethical Policy since 1992

### Bank – ethical screening referrals and outcomes

Year	Declined	Accepted	Total
2006	29	271	300
2007	32	316	348
2008	36	320	356
2009	43	398	441
2010	40	368	408

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 as outlined on page 42.

An Ethical Policy training programme is available to all staff via the intranet, within bank staff induction programmes, and as part of annual training reviews for customer-facing departments. In 2010, the programme was completed by 238 members of staff (2009: 682).

### Performance recognition

CFS outperformed 20 financial institutions from 16 countries to win the 2011 Financial Times Sustainable Bank of the Year award (Europe). This recognises an embedded and broad approach to sustainability<sup>13</sup>.



### Performance benchmark

In 2010, social and environmental ratings agency Oekom awarded The Co-operative Bank the highest sustainability rating of any UK high street bank<sup>14</sup>. The bank was awarded a rating of 'B', while no other high street bank received a rating higher than 'C'.

### Performance benchmark

Research undertaken by the Ethical Consumer Research Association in 2009<sup>15</sup> reviewed 28 providers of cash and current accounts in the UK and awarded 'Best Buy' status to The Co-operative Bank and **smile**, 'for their ground-breaking ethical policies'.

### Performance benchmark

In 2009, an ethical finance website<sup>16</sup> was developed by Experts in Responsible Investment Solutions (EIRIS), to provide consumers with ratings of financial institutions' green and ethical profiles. The Co-operative Bank (including **smile**) was the highest-rated financial institution, and The Co-operative Insurance was the highest-rated insurance provider<sup>17</sup>.

### All business declines by issue 2010

	Estimated income foregone 2010
<b>Ecological impact</b> 113 finance opportunities in connection with ecological impact, of which 12 were declined. For further details, see pages 69 and 87.	£1,102,000
<b>International development and human rights</b> 176 finance opportunities in connection with international development and human rights, of which 16 were declined. For further details, see page 29.	£374,000
<b>Animal welfare</b> 68 finance opportunities in connection with animal welfare, of which six were declined. For further details, see page 36.	£168,000
<b>Social inclusion</b> 29 finance opportunities in connection with financial inclusion, of which six were declined. For further details, see page 53.	£397,000
<b>Total</b>	£2,041,000

Community investment

International development and human rights

Animal welfare

### The Co-operative Insurance – screening of investments

👁️ The Co-operative Insurance provides home and motor cover to some 1.4 million customers. Customers' insurance premiums are, in general, invested in fixed income bonds, where these provide the most appropriate risk and liquidity profile to meet the costs and claims arising from the provision of an insurance service.

Unlike equities, such investments are more akin to a financing arrangement, in that they provide a return but do not confer upon the investor the rights and principles of 'ownership'. In light of this, in January 2011, the bank's Ethical Policy was extended to cover the fixed income bonds underpinning home and motor premiums. To achieve compliance, a review of all holdings was undertaken and resulted in 11 bonds being divested, worth some £75m.

Via a process similar to that for bank finance, potentially problematic new investments will be referred to the Ethical Policy Unit for assessment. This approach is believed to represent the launch of the world's first ethically screened general insurance products.

Diet and health

Ethical finance

### Performance benchmark

UK general public's social, environmental and ethical ranking of financial services providers<sup>18</sup>.

	2006	2007	2008	2009	2010
The Co-operative	1 (18%)	1 (14%)	1 (9%)	1 (17%)	1 (10%)
HSBC	=2 (2%)	2 (4%)	2 (6%)	2 (6%)	2 (3%)
Lloyds TSB	=2 (2%)	n/a	3 (2%)	3 (3%)	3 (2%)
Barclays	=2 (2%)	n/a	4 (2%)	4 (3%)	4 (1%)

Social inclusion

Inspiring young people

# ETHICAL FINANCE

## Social and environmental banking

**🎯** In 2010, the bank established a dedicated Social Banking Unit (SBU) to further develop ethical commercial opportunities. The SBU operates from three offices – in Manchester, London and Glasgow – with 46 full-time employees, and brings together management and development expertise for charities, social housing, renewable energy, microfinance and credit unions.

In total, in 2010, £2.5bn of bank deposits were from social, co-operative and environmental businesses, representing 54% (2009: 52%) of total corporate and business banking liabilities. This is an increase of £496m on 2009, and reflects growth of £286m in community and charitable deposits, and £142m in public services deposits.

In 2010, £2.2bn or 27% (2009: 25%) of assets (eg loans and overdrafts) were with such businesses, an increase of £198m on 2009, including growth of £82m from the environmental and social sector and £70m from the public services sector.

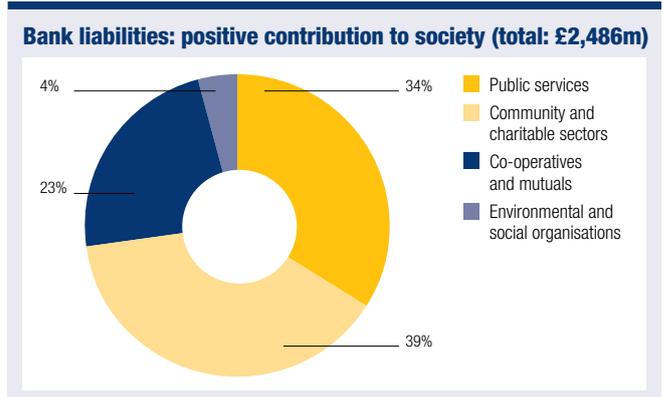
In renewable energy, the bank is considered a market leader in the provision of sub-£20m finance, where it has invested in developing expertise over a number of years. In 2007, the bank committed £400m to a fund for lending to renewable energy and energy efficiency projects. In 2010, total committed facilities for this area reached £398m, of which £187m had been drawn down. **🎯** The bank has pledged to extend its commercial lending for renewable energy and energy efficiency to £1bn by 2013.

**➔ Tiree Renewable Energy Ltd**

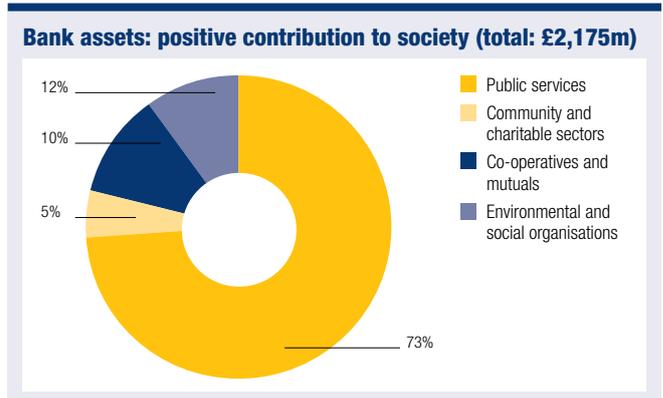
In 2009, The Co-operative Bank provided £1.2m for a community-owned wind turbine on the island of Tiree in the Inner Hebrides, where the majority of adults are members of The Co-operative. The turbine, commissioned in March 2010, is anticipated to generate returns of some £100,000 each year for the local community. The monies generated will be used to support the island's Community Development Plan, funding initiatives such as affordable housing, new school books, improved harbour facilities and youth groups.



	2008	2009	2010
Total (£m)	2,749	3,814	4,641
Positive contribution to society (£m)	1,492 (54%)	1,990 (52%) <sup>19</sup>	2,486 (54%)



	2008	2009	2010
Total (£m)	3,450	7,785	8,030
Positive contribution to society (£m)	795 (23%)	1,977 (25%) <sup>20</sup>	2,175 (27%)



**➔ Performance recognition**

The Co-operative Bank was awarded 'Best Charity Account Provider' at the Business Moneyfacts Awards 2010, in recognition of the quality of products and services offered to the charity sector.

## Socially responsible investment

### The Co-operative Asset Management (TCAM) – investment strategy

TCAM employs a focused, active investment approach, and 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 evident at the company.

🎯 An analysis of climate change impacts is now included in every stock recommendation, detailing whether company responses to climate change were likely to have a positive or negative impact on long-term business performance.

Since 2008, TCAM has screened out from across all investments the sovereign debt of those countries where human rights are most severely curtailed<sup>21</sup>.

📄 The Ethical Engagement Policy can be viewed online, together with TCAM’s UK and overseas voting record.

### TCAM – approach to engagement

In accordance with the Ethical Engagement Policy, TCAM’s engagement activity focuses 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 46 and 47 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 voting outcomes. For reporting purposes, ‘engagement’ is restricted to instances where TCAM 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.

Ethics and sustainability engagement 2010		
Concern	Companies	Push for change
<b>Climate change (unconventional oils)</b> Increasing investment by oil and gas companies in unconventional fossil fuels, such as Canadian oil sands and US oil shales, risks dangerously increasing atmospheric CO <sub>2</sub> levels and causing local ecological destruction.	<b>Oil and gas</b> – BP plc and Royal Dutch Shell plc	🎯 Engagement commenced in 2008. In 2010 TCAM co-filed shareholder resolutions requesting companies report on the investment risks associated with Canadian tar sands projects and their plans to address them (page 71).
<b>Biodiversity</b> The use of pesticide products containing neonicotinoids is considered to be a possible contributory factor in the decline in bee numbers across the world (see pages 86 and 89).	<b>Chemicals</b> – Bayer AG	In 2010, company urged to significantly scale back its marketing for the use of neonicotinoid pesticides on plants where bees are known to forage.
<b>Water</b> The Carbon Disclosure Project (CDP) recently launched the Water Disclosure Project, requesting water-related data from some 300 of the world’s largest corporations in water-intensive sectors.	<b>Non-respondents to Water Disclosure Project</b> – Apple Inc; BG Group plc; The Coca Cola Company; E.ON AG; EDF Energy plc; Lafarge SA; Royal Dutch Shell plc; Scottish & Southern Energy plc; Talisman Energy Inc; Total SA	Companies urged to participate in CDP Water Disclosure Project and to disclose data on total water use and recycling, exposure to water-stressed areas and future water use goals (page 79).

### UK votes cast 2010

**419** UK votes cast in opposition to management (10%)  
2009: **417 (11%)**

### TCAM – UK voting

At year-end 2010, 66% of equity holdings by value were listed on the UK stock exchange (2008: 67%). A UK Corporate Governance and Voting Policy sets out positions with respect to voting outcomes<sup>22</sup>, stating that TCAM 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 it has not responded to 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 of concerns in writing, in advance.

In 2010, 203 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 (2009: 207). In 15 instances (2009: 10), a response from the company was forthcoming and, in 14 cases (2009: three), this resulted in a change to the proposed vote.

In 2010, TCAM voted on 4,074 UK resolutions tabled by management (2009: 3,882), and was represented at five annual general meetings<sup>23</sup> (2009: four). Opposition to management voting (whereby votes were cast against a resolution or an abstention was cast) accounted for 419 of the votes cast, or 10% (2009: 417, or 11%), and confirmed TCAM’s status as one of the most active and assertive institutional investors in the UK. The major areas of opposition are executive remuneration, executive incentives and board independence.

Community investment

International development and human rights

Animal welfare

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## ETHICAL FINANCE

UK voting									
Category	Resolutions tabled by management			Voted against resolution and management			Abstained on resolution and against management		
	2008	2009	2010	2008	2009	2010	2008	2009	2010
Report and accounts	392	293	293	26	15	18	50	39	40
Board independence: director election	1,568	1,138	1,284	53	60	80	142	61	71
Remuneration report: executive	371	303	247	74	73	65	110	79	64
Shares: executive incentives	137	80	100	26	20	18	42	22	17
Political donations	95	83	93	1	1	0	2	0	0
Other governance	2,736	1,985	2,057	12	14	14	32	33	32
<b>Total</b>	<b>5,299</b>	<b>3,882</b>	<b>4,074</b>	<b>192</b>	<b>183</b>	<b>195</b>	<b>378</b>	<b>234</b>	<b>224</b>

**Annual Reporting** TCAM votes against accepting the report and accounts of UK-listed companies that fail completely in respect of SEE risk disclosure<sup>24</sup>, and that operate in sectors deemed to be medium or high SEE risk. Where there is limited disclosure (or no disclosure in low-risk sectors) abstentions are registered. For the poorest-performing companies<sup>25</sup> within medium- and high-risk SEE categories TCAM will, as part of its considerations, factor current SEE risk disclosure, previous voting history and engagement on SEE issues into voting decisions. During 2010, TCAM extended its policy on abstentions to companies that do not disclose greenhouse gas emissions, regardless of size or impact, unless there is significant positive momentum in climate change disclosure.

In 2010, TCAM voted on the acceptance of UK company report and accounts on 293 occasions (2009: 293) and, in 58 instances, voted against, or abstained on, their acceptance (2009: 54). Of these 58 votes, 18 related to instances where a vote against was registered, of which nine<sup>26</sup> related to SEE matters (2009: six); and 40 related to instances where a vote to abstain was appropriate, of which 38 related to SEE matters (2009: 27). Voting rationale continues to be publicly disclosed online following each AGM<sup>27</sup>.

### Votes in 'opposition' to acceptance of report and accounts on basis of poor social, ethical and environmental risk reporting

	2006	2007	2008	2009	2010
Votes against	40	31	12	6  <sup>28</sup>	9
Abstentions	38	62	45	27	38

Of the six companies voted against for SEE reasons in 2009, improvements in SEE reporting progressed at three, meaning that an abstention rather than a vote against was considered appropriate (Domino Printing Sciences plc, Royal Bank of Scotland Group plc, Micro Focus International plc). However, in three instances (Carnival plc, Headlam Group plc, Umeco plc), persistent SEE concerns meant that votes continued to be registered against these companies' report and accounts in 2010. In the cases of Carnival plc and Umeco plc, this represented the sixth consecutive year that such a vote had been registered.

Of the 27 companies where abstentions were registered in 2009, 10 improved their disclosure sufficiently for TCAM to subsequently support the resolution to receive their report and accounts, whereas four did not make any improvements, and a vote against was registered in 2010. In the remaining 13 instances, votes continued to be registered in abstention.

**Executive remuneration** In 2010, the remuneration resolution was voted against in 65 cases (2009: 73) and, in 64 cases, an abstention was registered (2009: 79). Whereas in 2009, five UK companies' remuneration resolutions were defeated by shareholders, in 2010 only three resolutions were defeated, and the average vote against remuneration resolutions fell from 17.5% back to 6%<sup>29</sup>, in line with pre-financial crisis levels.

**Board independence** In line with the Combined Code on Corporate Governance, TCAM 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 80 cases (2009: 60) and votes to abstain registered in 71 cases (2008: 61). In the majority of instances, oppositional voting was driven by a lack of NED independence and unsatisfactory board meeting attendance.

### TCAM – overseas voting

At year-end 2010, 34% of equity holdings were listed outside the UK; principally in the United States, continental Europe and Japan (2009: 33%). During 2010, TCAM voted against, or abstained on, 4,437 overseas resolutions tabled by management (2009: 4,941). Voting continues to be publicly disclosed online following each AGM<sup>30</sup>.

### 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. In 2010 TCAM was faced with only two such resolutions, which concerned BP plc and Royal Dutch Shell plc, both of which were co-filed and supported by TCAM (page 71).

Overseas voting														
Category	Total		Resolutions tabled by management						Resolutions tabled by independent shareholders					
			For resolution and management		Against resolution and management		Abstained on resolution and against management		For independent resolution and against management		Against independent resolution and for management		Abstained on independent resolution and against management	
			2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010
Board composition and election of directors	10,179	10,039	6,653	6,891	917	1,585	2,543	1,392	42	122	6	34	18	15
Remuneration	990	832	244	175	509	438	100	76	124	134	8	4	5	5
Other governance	3,428	3,028	2,291	1,967	406	614	466	332	181	96	49	7	35	12
Political and charitable contributions	27	39	0	0	0	0	0	0	27	37	0	0	0	2
Ethics and sustainability	151	155	0	0	0	0	0	0	110	128	0	4	41	23
<b>Total</b>	<b>14,775</b>	<b>14,093</b>	<b>9,188</b>	<b>9,033</b>	<b>1,832</b>	<b>2,637</b>	<b>3,109</b>	<b>1,800</b>	<b>484</b>	<b>517</b>	<b>63</b>	<b>49</b>	<b>99</b>	<b>57</b>

Community investment

International development and human rights

Animal welfare

In contrast, in the United States, 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 the 'burden of proof' is considered to rest with companies and not independent shareholders.

In 2010, TCAM was presented with 623 overseas shareholder resolutions (2009: 646). Of these, 517 (83%) were supported (2009: 484, or 75%). In 155 cases (2009: 151), resolutions had ethical or sustainability components, of which 128 (83%) were supported (2009: 110, or 73%). Of these, 56 concerned climate change issues (page 69), 28 concerned international development and human rights issues (page 29), 10 concerned diversity issues (page 112), 10 concerned animal welfare issues (page 36), six concerned biodiversity (page 87), four concerned chemicals (page 91), four concerned public policy issues (page 123), two concerned social inclusion issues (page 53), two concerned water (page 79) and two concerned waste and packaging (page 77). A further 30 resolutions concerned other issues, including nuclear power and tobacco.

Ethics and sustainability overseas voting by category						
Ethical Engagement Policy category	Number of resolutions		For independent resolution and against management		Against or abstain on independent resolution	
	2009	2010	2009	2010	2009	2010
Ecological sustainability (pages 69, 87, 91 and 79)	39	70	35	64	4	6
International development and human rights (page 29)	31	28	28	26	3	2
Social inclusion (page 53)	24	2	4	1	20	1
Diversity (page 112)	20	10	20	9	0	1
Animal welfare (page 36)	9	10	9	10	0	0
Public Policy (page 123)	0	4	0	2	0	2
Other	28	31	14	16	14	15
<b>Total</b>	<b>151</b>	<b>155</b>	<b>110</b>	<b>128</b>	<b>41</b>	<b>27</b>

Diet and health

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Inspiring young people

**Independent shareholder resolutions 2010**

**128**

independent shareholder resolutions on ethical and sustainability issues supported (83%)  
2009: **110 (73%)**

## ETHICAL FINANCE

### ▶ Performance benchmark

Research undertaken by the Ethical Consumer Research Association (ECRA)<sup>31</sup> concluded The Co-operative merited a 'Best Buy' in both its Insurance and Investment sector buyers' guides<sup>32</sup>. ECRA noted that The Co-operative "is highly unusual in subjecting its engagement policy to rigorous independent scrutiny"<sup>33</sup>.

### Social private and listed equity investment

Since 2007, CFS has committed £15m of shareholder capital to social private and listed equity, of which to date £9.4m has been drawn down. Funds committed include:

- £5m committed to Bridges Ventures Community Development Ventures Fund II, a private equity fund in support of UK start-ups in deprived areas; of which £3.6m drawn down;
- £5m invested in the Impax Environmental Markets listed equity fund in support of the solar, wind and waste sectors globally;
- £3m committed to Enterprise Ventures Growth Fund private equity fund in support of small businesses in former coal-mining areas in the UK impacted by pit closures; of which £0.4m drawn down; and
- £2m committed to Bridges Sustainable Property Fund LP private equity fund in support of sustainable property, of which £0.4m drawn down.

In 2010, TCAM agreed a partnership with the private equity business Kohlberg Kravis Roberts & Co (KKR), under which TCAM will contribute funding as a Limited Partner towards projects including joint ventures and buy-outs. Through the partnership, TCAM aims to invest in companies that show leadership in environmental, social and governance (ESG) issues or where there is an opportunity to enhance ESG standards.

### The Co-operative Group Pension Scheme (PACE)

The Co-operative's pension arrangements are regarded as an important part of the rewards package for employees and a key element in the attraction and retention of employees. As a result of recent mergers and acquisitions, a number of Defined Benefit (final salary and career average) and Defined Contribution schemes are operated. The majority of pension scheme members belong to a Group-wide defined benefit scheme based on career average earnings (PACE). In September 2010, the Board of Trustees of the PACE scheme approved a revised Responsible Investment Policy and Practice Statement<sup>34</sup> (the 'Policy') to better define the Scheme's approach to ESG issues. The Policy provides for the trustees to: instruct investment managers in relation to specific ESG issues; to engage with investee companies; and to direct investment managers to exercise voting rights on its behalf, wherever practicable to do so. It also creates greater requirement for public disclosure on: voting records; engagement activities; and compliance with The UK Stewardship Code.

## Products and services

### Carbon offset – products

In 2010, carbon offsetting continued as a standard feature of all The Co-operative Bank's branded mortgages and virtually all new car insurance policies (page 67).

### Affinity cards

CFS offers a range of credit cards, each linked to one of 15 charity partners. A donation is made to the chosen charity when an account is opened, and further donations made in proportion to the spend on the card. In 2010, a total of £1.3m was raised.

### think card

The think credit card supports ethical consumerism, whereby purchases from 16 ethical partners<sup>35</sup> attract preferential rates of interest. Upon activation of the card, the bank, in partnership with the RSPB, arranges for a third of an acre of Indonesian 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. Since the launch of the partnership in December 2008, £120,445 has been raised for the RSPB, enough to help protect 2,294 acres of rainforest.



### Sustainable funds

TCAM's three Sustainable unit trusts, Sustainable Leaders Trust, Sustainable Diversified Trust and Sustainable World Trust, employ, in the main, a 'best-in-class' approach to ethical investment. In addition, the funds withhold investments from certain proscribed activities: armaments, animal testing for cosmetics, nuclear power, tobacco and companies that systematically fail to uphold basic human rights.



### ▶ Performance benchmark

In 2009, the Sustainable Leaders Trust achieved an 'A' rating from Old Broad Street Ratings (OBSR)<sup>36</sup>. The rating recognises the fund's strong research-based investment process and long-term investment approach with a focus on SEE and governance issues<sup>37</sup>.

## Performance benchmark

The **smile** funds supermarket<sup>38</sup> was one of two investment platforms to receive the highest rating in a 2010 UK Sustainable Investment and Finance (UKSIF) ‘mystery shopping’ exercise. UKSIF awarded the funds supermarket five stars, commenting that it “makes it easier for investors to identify green and ethical funds, providing resources that help investors understand the options available to them”.

## Performance benchmark

CFS is a signatory to the United Nations Principles for Responsible Investment (PRI), a voluntary investor initiative comprising of six Principles<sup>39</sup>. The current number of signatories stands at 861. In 2010, CFS ranked in the top two quartiles in all six Principles and the top quartile in three out of six (2009: four out of six)<sup>40</sup>.

### Young driver insurance

In 2011, CFS launched a new Young Driver motor insurance product for 17 to 25 year olds, which calculates premiums based on driving behaviour. The product, the first in the UK insurance market to reward safer driving, utilises a ‘Smartbox’ device to increase or decrease premiums in line with how safely the car is driven. It also gives advice on measures policyholders can take to reduce premiums. In trials, the product resulted in savings for 82% of drivers.

## Influence and action

### Corporate Governance

In March 2010, TCAM responded to the Financial Reporting Council (FRC) consultation on the UK Corporate Governance Code, calling for consideration to be given to the positive impact of gender diversity on company boards, and strongly supporting the annual re-election of all directors<sup>41</sup>. The updated Code was published in May 2010, and included annual election of directors as well as inclusion of gender diversity as a consideration in board appointments.

In April 2010, TCAM responded<sup>42</sup> to the FRC’s Stewardship Code consultation, supporting the ‘comply or explain’ approach<sup>43</sup>, and underlined its strong support for mandatory disclosure of voting records by institutional investors, a position supported consistently since 2005.

In September 2010, TCAM responded to the European Union’s Green Paper on Corporate Governance, and reiterated its support for mandatory voting disclosure and annual re-election of directors. In addition TCAM argued for a mandatory advisory (ie, non-binding) vote on directors’ remuneration as fundamental to a robust remuneration policy.

### Good Companies Guide

The Observer/TCAM Good Companies Guide<sup>44</sup>, published for the fourth year in August 2010, focuses on how FTSE350 companies might be affected by five key sustainability issues: resource depletion, climate change, pollution, demographics and resource distribution.

Companies were ranked based on the effectiveness of their responses to these challenges and the impact these could have on their competitive positioning in the long term.



### Accompanying notes

- |  |   |
|--|---|
| <ol style="list-style-type: none"> <li>1 EIRIS, www.eiris.org, November 2009</li> <li>2 The Co-operative Bank Ethical Consumerism Report, www.goodwithmoney.co.uk/ethicalconsumerismreport</li> <li>3 As at 31 December 2010.</li> <li>4 Including investment property.</li> <li>5 Listed equities under management on behalf of policyholders, as at 31 December 2010. Excludes unit trust investments.</li> <li>6 www.goodwithmoney.co.uk/ethical-banking</li> <li>7 Ibid.</li> <li>8 www.co-operativeinvestments.co.uk/Servlet/Satellite/1239949742617_CFSweb/Page/Investments-UnitTrustsAndISAs</li> <li>9 Including some 10,000 Britannia customers.</li> <li>10 Corporate banking customers with a turnover in excess of £1m.</li> <li>11 EIRIS, www.eiris.org</li> <li>12 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 2010 (£2,041,000) and declines originating in the years 2000–2009 (£15,417,000), on the basis that financial services provision will have retention beyond 12 months.</li> <li>13 www.ftconferences.com/sustainablefinance</li> <li>14 www.oekom-research.com; Industry Focus: Public and Regional Banks.</li> <li>15 Ethical Consumer (May/June 2009), Issue 118.</li> <li>16 www.yourethicalmoney.org</li> <li>17 The site rates financial institutions according to six areas: Ethical Lending/Insurance, Responsible Lending, Financial Exclusion, Environment, Carbon Neutrality and Equal Opportunities. The bank and insurance business rated as ‘good’ (the highest rating) in all categories except Responsible Lending, for which the bank rated ‘average’ and the insurance business ‘n/a’.</li> <li>18 Source: TNS Omnibus (December 2010): Survey of GB general public’s unprompted awareness of corporate responsibility. Representative sample, all adults aged 16+.</li> <li>19 Revised from £1,987m. £1m additional renewable energy liabilities identified.</li> <li>20 Revised from £1,890m. £8m additional renewable energy assets identified.</li> <li>21 As defined by the EIRIS ‘Category A’ human rights list, which details 43 countries where human rights present the highest level of human rights risk for businesses.</li> <li>22 www.goodwithmoney.co.uk/assets/Voting-guide-web-version.pdf</li> <li>23 BP plc, ITV plc, Royal Dutch Shell plc, Tesco plc and Marks &amp; Spencer Group Plc.</li> <li>24 Based on Association of British Insurers (ABI) guidelines on socially responsible investment – www.ivis.co.uk/PDF/7.1_ABI_RID_guidelines.pdf</li> </ol> | <ol style="list-style-type: none"> <li>25 As determined by EIRIS, who identify bottom decile performers, based on SEE risk reporting and environmental reporting, and produce a universe of companies to which the voting policy is now applied.</li> <li>26 BP plc, Carnival plc, Consort Medical plc, Enterprise Inns plc, Headlam Group plc, Spectris plc, Spirent Communications plc, Urwego plc, United Business Media plc.</li> <li>27 www.goodwithmoney.co.uk/Servlet/Satellite/1200903577492_CFSweb/Page/GoodWithMoney</li> <li>28 Revised from five in 2009.</li> <li>29 PIRC (www.pirc.co.uk), 21 December 2010.</li> <li>30 www.goodwithmoney.co.uk/Servlet/satellite/1200903577492_CFSweb/page/GoodWithMoney</li> <li>31 www.ethicalconsumer.org</li> <li>32 Ethical Consumer (Nov/Dec 2007), Issue 109. Ethical Consumer (Mar/Apr 2008), Issue 111.</li> <li>33 Ibid.</li> <li>34 dev.pace-pensions.co.uk/?menuId=96</li> <li>35 www.co-operativebank.co.uk/think</li> <li>36 www.obsr.co.uk</li> <li>37 OBSR rates approximately 250 funds out of a universe of around 2,500 funds in the market. There are three tiers of rankings: ‘A’, ‘AA’ and ‘AAA’. OBSR stated: “any fund which receives an OBSR Fund Rating is exceptional of its type”.</li> <li>38 www.smile.co.uk/Servlet/Satellite?pagename=Smile/Page/smView&amp;c=Page&amp;cid=984679347389</li> <li>39 The six Principles are: “1: We will incorporate ESG issues into investment analysis and decision making processes; 2: We will be active owners and incorporate ESG issues into our ownership policies and practices; 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest; 4: We will promote acceptance and implementation of the Principles within the investment industry; 5: We will work together to enhance our effectiveness in implementing the Principles; and 6: We will each report on our activities and progress towards implementing the Principles.”</li> <li>40 In 2010 CFS changed its signatory status from ‘asset owner’ to ‘investment manager’ reflecting the Financial Services Authority’s licence to operate as a stand-alone asset management company. As such, year-on-year results are not directly comparable.</li> <li>41 www.frc.org.uk/documents/pagemanager/frc/Responses_to_Dec_09_consultation/Co-Operative%20Asset%20Management.pdf</li> <li>42 www.frc.org.uk/documents/pagemanager/frc/ECS_comment_letters/The%20Co-operative%20Asset%20Management.pdf</li> <li>43 Describes rules or recommendations which are not mandatory, but require companies to either comply with them or explain publicly why they are not.</li> <li>44 The third Good Companies Guide was published in The Observer on Sunday 29 August 2010.</li> </ol> |
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# SOCIAL INCLUSION

## Background

Inequalities in earnings in Britain have risen over the last 30 years, and are high compared with other industrialised countries<sup>1</sup>. Factors such as unemployment, low income, poor skills, disability and discrimination can all contribute to social exclusion, preventing individuals from accessing many of society's opportunities and giving rise to inequality. Poor money management can have long-term consequences for income, living standards and savings behaviour<sup>2</sup>. Financial inclusion, which is borne of financial capability and the availability of suitable financial products and services, plays a key role in achieving social inclusion.

## Materiality and strategy

As a community retailer, The Co-operative promotes social inclusion through the accessibility of its goods and services. This is particularly relevant for the Food, Pharmacy and Funeralcare businesses within the Trading Group, which aim to provide essential and ethical offerings to as many community groups as possible. The Co-operative Financial Services (CFS) recognises that it can have a significant impact as a financial services business through provision of ethical and inclusive products, complemented by financial education.

The new Ethical Operating Plan (page 13), includes a commitment to continuing to do business in a manner which is socially inclusive, and in ethical policy consultations undertaken for the food, banking and investments businesses, members and customers indicated their wish for the business to promote both social and financial inclusion.

Through its community support and campaigns programme, The Co-operative recognises that inclusion is also achieved via wider social, economic and political participation. As such, opportunities are provided that can develop skills and active citizenship, and facilitate qualifications and employment.

Targets 2010	Progress	Targets 2011
<b>Indicator: Access to products and services</b>		
		<b>EOP</b> Continue to have a presence in every UK postal area, and increase the number of new stores by 300 by 2013.
<b>Indicator: Financial inclusion and education</b> (Performance benchmark and recognition page 52)		
Roll out the Credit Union Current Account to a further six credit unions in 2010.	<b>X</b> The account was rolled out to two credit unions during 2010. It is likely that the economic climate resulted in a lower uptake than anticipated (page 51).	Develop a new three-year strategy for work with credit unions.
		<b>EOP</b> Continue to take a lead on financial inclusion and champion financial literacy among young people.
		Maintain relationships with 90 schools through the Skills4Schools programme and involve a total of 500 trained volunteers.
<b>Indicator: Community support and integration</b> (Performance recognition page 54)		

## Access to products and services

The Co-operative aims to retain and invest in viable community stores, and is obliged to consult member-controlled area committees on intended store closures, store disposals and new developments. A detailed process involving the area committees and regional boards is invoked if a store is under consideration for disposal or closure.

### Trading Group

As the UK's fifth largest food retailer, The Co-operative operates almost 2,900 local community stores. There is now a Food store in every single postal area in the UK, and each week some 17m customers are served. The Food stores located in deprived areas (page 51) represent, on average, 23% (2009: 25%) of the food retail space provided in those areas<sup>3</sup>.

Compared to other supermarket users, a significantly higher proportion of Co-operative Food customers travel on foot when making shopping trips, and over a quarter of Food customers are aged 50 and over<sup>4</sup>. A free home delivery service is now offered in 318 stores nationwide, supporting those who may find it difficult to carry or transport their shopping home. The scheme is planned for further roll-out in 2011, and is targeted at stores in areas with low car ownership or a mature demographic.

The Co-operative Pharmacy seeks to ensure people have good access to medicines and healthcare advice. All 771 branches offer a prescription collection service, with 94% also offering a home delivery service, which provides vital access to medicines for people who may be unable to easily access their local pharmacy.

**Proportion of outlets in deprived<sup>5</sup> areas**

	2007	2008	2009	2010
Food	18%	18%	18%	17%
Pharmacy	28%	26%	26%	28%
Funeralcare	37%	37%	37%	36%

As the UK's biggest funeral provider, The Co-operative Funeralcare operates 865 branches – open 24 hours a day.

**Financial services**

CFS offers access to financial products and services through a variety of channels.

Customers of The Co-operative Bank and Britannia can carry out financial transactions at 93 and 245 branches respectively. From 2011, all customers can carry out basic transactions across the entire branch network. In 2010, the pilot of in-store banking – small staffed banking outlets located in Co-operative Food stores – was extended to four locations. This provision is to be further extended in 2011.

The Co-operative Bank at the Matlock food store, part of the in-store banking pilot.



**Access to financial services in deprived areas**

	2008	2009	2010
Branches in deprived <sup>6</sup> areas	–	33%	35%
Stores offering access to financial services via Post Offices in deprived areas	18%	20%	16%

In addition to branch access, customers benefit from access to services via the internet, telephone, cash machines, Post Offices and a network of Financial Advisers. There are 252 (2009: 262) Post Offices located in Food stores throughout the country, further contributing to the range of financial services accessible to customers.

There is no charge for use of any of the 2,183 ATMs, and 37 ATMs are located in communities eligible for a financial inclusion premium<sup>7</sup>. In several remote locations, such as Scottish Islands and Highland villages, the bank believes it is the only ATM provider.

**Financial inclusion and education**

**Banking support for small businesses in deprived areas**

Finance to small businesses<sup>8</sup> in deprived<sup>9</sup> areas as a proportion of equivalent bank activity remains significantly above the industry average.

**Performance benchmark**

	2007	2008	2009	2010	Industry average <sup>10</sup>
Business current accounts	8.0%	6.6%	6.6%	6.3%	4.5%
Overdrafts	6.5%	6.5%	5.9%	5.5%	4.7%
Loans	7.0%	6.4%	5.0%	5.7%	3.5%

**Support for credit unions**

Credit unions are financial co-operatives that offer savings and low-cost loans to members, many of whom are unable or unwilling to use more traditional services. The Co-operative Bank is the largest provider of banking to the credit union sector, providing facilities to approximately 60% of the British movement, and works in partnership with the Association of British Credit Unions Ltd (ABCUL) to provide a current account and support to its members.

🎯 The Credit Union Current Account<sup>11</sup> is considered to represent a 'step change' in the ability of credit unions to promote financial inclusion, and was extended to a further two credit unions during 2010, bringing this to a total of 25 credit unions. It is likely that the economic climate resulted in a lower uptake than anticipated in 2010. A total of 30,597 individual accounts were open at the end of 2010, an increase of 22% on the previous year.

In 2010, The Co-operative Electrical rolled out a partnership scheme with credit unions, providing members with the opportunity to buy online goods via a credit union loan. This aims to prevent members entering into agreements with irresponsible lenders or high interest rental companies. The initiative was available in nearly 80 credit unions in 2010, and it is anticipated that the number of credit unions involved will at least double in 2011.

Throughout 2010, regional Co-operative Membership teams also worked to support local credit unions. Activities included campaigns in local communities to promote responsible borrowing, credit union representation at membership events, and sponsorship of financial literacy events.

The bank continued to support the ABCUL main annual conference and its newsletter, contributing £53,000 in 2010.

In 2011, a new three-year strategy for work with credit unions will be developed, which will be informed by the results of research mapping and evaluating current support for the sector.

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### Bank accounts at HMP Forest Bank, Salford

The Co-operative piloted bank accounts for prisoners in 2006 at HMP Forest Bank, Salford, and now has opened over 1,000 accounts at the prison.

*"The Co-operative Bank's intervention to enable prisoners to open a bank account has been a major contribution to the reduction of re-offending rates of prisoners leaving Forest Bank."*

**Steve Taylor**, Deputy Director, HMP Forest Bank

*"Getting this bank account from the Co-op has allowed me to get paid for my job; it has given me a sense of self-respect more than anything and allowed me to feel part of society again."*

**HMP Forest Bank ex-prisoner**



### Basic bank account provision

The Co-operative Bank offers a basic bank account, Cashminder. Features include: an option to pay bills by direct debit (which can yield bill reductions); the ability to have pensions and benefits paid directly into the account; and access to money via a debit card. Research commissioned by the British Bankers' Association shows that over three-quarters of adults who had opened a basic bank account felt more confident in dealing with money as a result<sup>12</sup>. There was a 29% increase, to 234,677 (2009: 181,874), in the number of Cashminder accounts provided by the bank from November 2009 to November 2010.

### Performance benchmark

In 2010, The Co-operative Bank had a 2.8% market share in the provision of basic bank accounts, which exceeds its 2010 current account market share of 2.3%<sup>13</sup>.

### Bank accounts for prisoners

Throughout 2010, work continued on a pioneering project that enables prisoners to open a basic bank account while in prison, ready for use on release. Applications are now accepted from 30 UK prisons (18%). The number of accounts opened since the scheme began reached 5,587 in November 2010, representing a 54% increase since 2009.

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. While it is difficult to wholly attribute causality, research undertaken by John Moores University in 2009 found that, of a group of over 100 prisoners who opened an account before leaving prison, only 34% re-offended, nearly a third less than the national average of 47%<sup>14</sup>.

### Performance recognition

In 2010, The Co-operative was awarded a Guardian Public Service Award for its partnership with HMP Forest Bank pioneering prisoner bank accounts.

### Financial education and employability

CFS' Skills4Schools package promotes three education initiatives to inspire young people and improve numeracy and financial literacy: Fit4Finance, Number Partners and Enterprise4Education. In 2010, over 6,800 hours of business time and expertise, equating to over £93,000, was invested in the programme, supported by learning resources worth over £6,000. Over 500 employee volunteers are involved in the scheme, which benefits 12,000 young people.

CFS' Fit4Finance programme aims to improve the financial skills and awareness of secondary school students. Workshops cover topics such as savings and interest, budgeting, and credit and debt, and support the Money Advice Service's national strategy. In 2010, Fit4Finance extended its reach to include schools in the North West region, including The Co-operative Academy of Manchester. There are now more than 300 trained employees, who during 2010 coached over 2,700 students at 68 schools and devoted over 1,300 hours of time.

### Woodcraft First school students take part in Number Partners.



Number Partners is a national volunteering scheme that brings together business volunteers and primary schools to improve numeracy skills and boost confidence levels amongst pupils. In 2010, more than 100 volunteers donated approximately 4,500 hours of their time to the programme, helping approximately 600 children at 25 schools. Enterprise4Education seeks to develop secondary pupils' employability, creativity and problem-solving skills and provide insight into the world of work. In 2010, 132 employees donated 924 hours of time, which benefited 8,792 young people in 112 schools and colleges near CFS' offices.

To support its work on financial literacy, CFS highlighted the importance of financial education programmes for young people and led panel debates, with the Money Advice Service, on sustainable approaches to personal finance within the 'Youth Zone' (page 59) at the Liberal Democrat, Labour and Conservative party conferences in Autumn 2010.

The Skills4Schools programme will continue to recruit and train new employee volunteers. By the end of 2011, the programme aims to maintain relationships with 90 schools, including 15 co-operative trust schools, supported by 500 volunteers.

**Wholesale Loan Fund**

In 2007, The Co-operative Bank provided a loan facility of £3m to the Wholesale Loan Fund, launched by Greater London Enterprise. The fund, which totals over £4m, provides capital to locally-based Community Development Financial Institutions, who, in turn, lend to less advantaged entrepreneurs. As at December 2010, the fund had enabled 275 businesses to start up, maintain jobs, or grow. Approximately 40% of all loans from the fund are made to businesses led by women, and more than half of all loans are made to business owners of an ethnic minority background.

**Support for Shelter**



Throughout 2010, CFS promoted an initiative to support housing and homelessness charity, Shelter, through its home insurance product.

From January to September, a targeted group of 'ethical consumers' were offered a home insurance policy which featured a £10 donation from CFS to Shelter. From October this was extended to all customers for three months, during which time CFS gave a £5 donation for every policy opened. Over 30,000 customers have opened policies through this campaign, which contributed to a donation of £250,000.

**Bank screening of finance**

During 2010, 29 finance opportunities (2009: seven) were referred to the Ethical Policy Unit in connection with financial inclusion, of which six were declined (2009: two) with an estimated cost of £397,000 in terms of gross income foregone.

**Financial inclusion-related business declines 2010**

	Estimated income foregone 2010
<b>Home-collected credit provider</b> £10m contribution to a syndicated loan facility for a business offering home credit to overseas markets. Research indicates that loans targeting low-income groups at interest rates considered extortionate are common in the home credit sector. Business did not disclose APRs charged.	£320,000
<b>Personal loans</b> (four instances) £2m lending (one instance), transfer facilities (one instance) and banking facilities (two instances) for business providing short-term 'payday loans' at exploitative interest rates of between 1,400% and 2,900% APR.	£76,000
<b>Multi-level marketing</b> Banking facilities for a multi-level marketing distributor. Concern over 'misleading' marketing techniques and minimal returns available to new entrants of such schemes.	£1,000

**The Co-operative Asset Management (TCAM) overseas shareholder resolutions**

In 2010, TCAM was presented with two overseas shareholder resolutions relating to social inclusion, of which one was supported and one vote of abstention was registered.

Company	Resolution	Vote registered
BB&T Corporation	To report on overdraft policies and practices and their impacts on borrowers.	Supported
East Japan Railway Co	To develop a fund for the maintenance of local and minor train lines.	Abstained <sup>15</sup>

**Community support and integration**

**The Co-operative StreetGames Young Volunteers**

The Co-operative StreetGames Young Volunteers is an initiative that aims to improve the life chances of young people through sports volunteering, operating in the 20% most deprived communities across England and Wales. Further details are provided on pages 57 and 58.

**Making Opportunities programme**

For a number of years, selected Food stores have provided work placements for Mencap clients through the Mencap Making Opportunities programme, which aims to give people with learning difficulties equal opportunities in gaining employment. Since 2008, over 216 Mencap clients have participated in work trials, which has resulted in 92 of those clients gaining permanent paid employment. The Co-operative has committed to permanently recruit all participants who complete their work trial successfully and who wish to take up a position, regardless of whether a vacancy existed at the store – a guarantee offered by no other Mencap partner. In 2010, Mencap was adopted as The Co-operative Charity of the Year (page 20).



**Making Opportunities programme**

**92** Mencap clients have gained permanent employment since 2008

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# SOCIAL INCLUSION

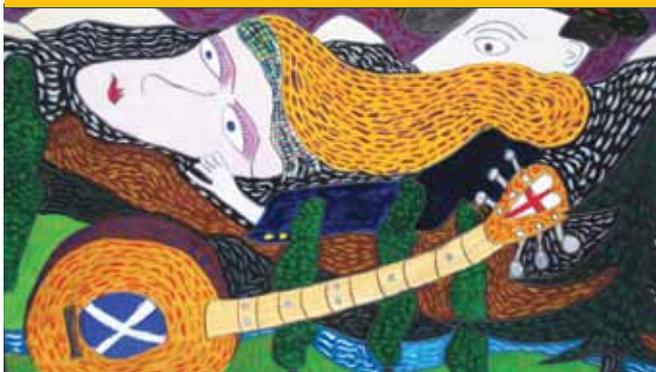
## Performance recognition

The Co-operative received The Employment Award 2010 for its pioneering 'Making Opportunities' scheme at the Business Charity Awards.

### Offenders' art exhibitions

The Koestler Trust aims to inspire offenders to lead more positive lives by motivating them to participate and achieve in the arts. In 2010, The Co-operative continued to support The Koestler Trust's exhibitions of offenders' art, providing support for two regional exhibitions (in Manchester and Edinburgh), and the national Koestler Awards Exhibition at The Southbank Centre in London. In total, over £90,000 was invested in offenders' art exhibitions in 2010, which attracted over 40,000 visitors. Additional funding of £164,000 has been committed to support the national exhibition in 2011–2012, and will enable delivery of four regional exhibitions, and four art projects involving young people, over the two years.

Exhibit from The Co-operative Koestler Exhibition, Scotland 2010.



### Lifeshare

In 2010, a relationship was established with charity Lifeshare – which works with homeless people in Manchester and Salford – as part of its commitment to deliver benefits to the local community surrounding its new head office (page 63).

In 2010, a donation of £87,000 was provided to the charity, and over two years, assistance will be offered through volunteering and professional development support.

### Influence and action

#### Bank accounts for prisoners

In June 2010, The Co-operative participated in a joint British Banking Association/UNLOCK (the National Association of Reformed Offenders) meeting on access to banking for prisoners. The Bank showcased its activities, reiterated the recommendations outlined in its 'Still Banking on a Fresh Start' research<sup>16</sup>, and encouraged more institutions to become involved in prisoner banking. In December 2010, following the publication of the Government's green paper on sentencing and re-offending, a letter was sent to Crispin Blunt MP, Minister for Prisons, to highlight how the provision of bank accounts has been linked to reduced re-offending.

### Future of the Post Office network

The Co-operative Retail Trading Group (CRTG) is the largest multiple operator of Post Offices in the UK, with co-operative societies collectively running over 500 Post Offices.

In early 2010, in conjunction with CRTG, a submission was made to the Department for Business, Innovation and Skills consultation on Post Office Banking. This welcomed Government proposals for the Post Office's enhanced role in the provision of financial services, highlighting that 'universal' access to transactional banking by third parties, such as via The Co-operative Bank, is a unique and valued provision, and recommended expanding this functionality to other third-party financial services providers and credit unions. These points were reiterated at an event on Post Office banking held by the All Party Parliamentary Group on Debt and Personal Finance.

In late 2010, the Government Postal Services Bill proposed the separation of Royal Mail and Post Office Limited and consideration of a mutual or co-operative ownership model for the Post Office. In response, written evidence was submitted to the Postal Services Bill Committee outlining the scale and reach of its Post Office interests and mutual democratic ownership structure.

### Votes at 16 campaign

Through its campaign and membership of the Votes at 16 Coalition, The Co-operative is seeking to improve the inclusion of young people in society. Further details are provided on page 59.

### Fuel Poverty Directive

In February 2010, a response was issued to the Energy and Climate Change Committee Inquiry into Fuel Poverty. This highlighted the role of decentralised energy generation systems, which can be effectively delivered through a community co-operative model.

### Accompanying notes

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| <p>1 National Equality Panel (2010) An anatomy of inequality in the UK: Report of the National Equality Panel.</p> <p>2 Taylor, M (2011) The long term impacts of financial capability: Evidence from the BHPS.</p> <p>3 Analysis is based on all food stores within a one-mile radius of Co-operative Food stores.</p> <p>4 Based on research conducted on behalf of The Co-operative by McCallum Layton, July 2010. The research sampled 1,160 households through online polling, which included 151 supplementary interviews with users of The Co-operative Food.</p> <p>5 Where deprived areas correspond with the most deprived 20% of areas identified in the Indices of Deprivation 2007, <a href="http://webarhive.nationalarchives.gov.uk/+communities.gov.uk/communities/neighbourhoodrenewal/deprivation/">webarhive.nationalarchives.gov.uk/+communities.gov.uk/communities/neighbourhoodrenewal/deprivation/</a></p> <p>6 2008 analysis for the branch network is incomplete, as Britannia estate data is unavailable.</p> <p>7 In December 2006, following lobbying by The Co-operative Bank, 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.</p> | <p>8 Refers to businesses with an annual debit turnover of up to £1m.</p> <p>9 Where deprived areas are defined as those 5% of postcode sectors equating to the 2% most deprived electoral wards in Great Britain.</p> <p>10 British Bankers' Association (2011), Lending to Small Businesses in Deprived Areas 2010, <a href="http://www.bba.org.uk">www.bba.org.uk</a></p> <p>11 Enables credit union 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.</p> <p>12 British Bankers' Association (March 2006), Basic Bank Accounts give customers confidence in handling their finances.</p> <p>13 Basic bank account market share is based on British Bankers' Association overall market figures (as at end of 2010), and current account stock market share data from GFK NOP, December 2010.</p> <p>14 Jones, Paul A (2009) Still Banking on a Fresh Start, Liverpool John Moores University.</p> <p>15 Information provided was insufficient to evaluate the financial impact of the proposed fund upon the company and shareholders.</p> <p>16 Ibid footnote 14.</p> |
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# INSPIRING YOUNG PEOPLE

## Background

Almost a third of the UK's population are young people<sup>1</sup>, who continue to be affected more than any other age group by the impacts of the recession. Socially, 16 to 25 year olds remain the age group most likely to live in a disadvantaged area<sup>2</sup>. As youth unemployment rises<sup>3</sup>, an increasing proportion of jobs are likely to require a graduate level qualification<sup>4</sup>, making opportunities for young people to gain qualifications and skills more important than ever. Playing an active role in society can deliver many benefits for young people; for example, there is a positive relationship between participation in volunteering and education, employment and income<sup>5</sup>.

## Materiality and strategy

As a business owned and democratically controlled by its customer-members, and as an employer, The Co-operative believes it can have a significant impact on the lives of young people – those aged 25 and under. 'Inspiring young people' is an area of major focus for the new Ethical Operating Plan (page 13), and aims to help bring about a cultural shift in the way that young people are viewed and treated in this country.  To achieve this vision, a new inspiring young people strategy was launched in June 2010, supporting young people through co-operative education, opportunities and campaigning.

 Targets 2010	Progress	Targets 2011
<b>Indicator: Community investment</b>		
Launch and implement an inspiring young people strategy during 2010.	 The inspiring young people strategy was publicly launched in June 2010 (see above).	 Provide £30m for the inspiring young people programme by 2013.
<b>Indicator: Education</b>		
		 Support the establishment of 200 Co-operative Trust Schools by 2013.
Launch The Co-operative Academy of Manchester and The Co-operative Academy at Brownhills in Stoke-on-Trent in September 2010.	 The Co-operative is the lead sponsor of both academies, which launched on schedule in September 2010 (page 56).	Launch The Co-operative Academy in Leeds in 2011, and establish a total of six Co-operative Academies by end of 2013.
Launch Green Schools during 2010.	 Work commenced in 2010 to bring together all environmental initiatives that inspire young people in a refreshed Green Schools programme, which launched in 2011 (page 57).	 Drive forward the Green Schools programme, which reaches over 100,000 children per annum.
<b>Indicator: Opportunities</b>		
Begin work to enable the launch of The Co-operative Apprenticeship Academy in 2011.	 During 2010, apprenticeship opportunities were identified and the types of qualification to be offered were agreed. A training provider was selected in early 2011 (page 58).	 Establish a Co-operative Academy that will create 2,000 apprenticeships by 2013.
		 Broaden the work of The Co-operative Enterprise Hub (page 98) and offer advice and training to support young people who wish to start up co-operative businesses by 2013.
		 Create an advisory panel of young members who will inform a newly appointed Board Champion for young people by 2013.
Recruit a total of 3,000 young people in disadvantaged communities as StreetGames Young Volunteers by 2012.	 3,017 young people have joined the programme since 2007.	
<b>Indicator: Campaign activity</b>		
Launch a campaign in 2010 to lower the voting age to 16.	 In February 2010, The Co-operative launched its campaign to lower the voting age, and joined the Votes at 16 coalition (page 59).	 Continue to campaign for Votes at 16 and demonstrate how young people are ready, able and willing to be more fully engaged.

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# INSPIRING YOUNG PEOPLE

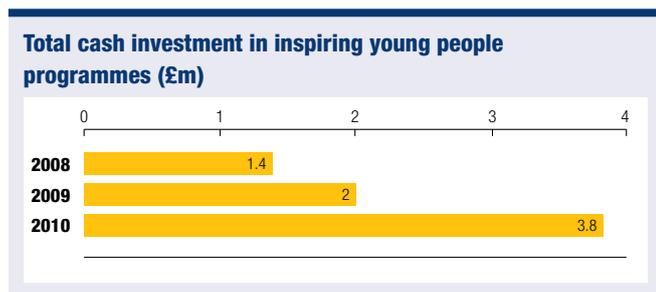
## Membership

The Co-operative offers membership to anyone aged 16 or over who lives in the UK. While young people aged 16 to 18 are excluded from traditional democratic processes, as part of The Co-operative, all members aged 16 or over can exercise their democratic control, with equal rights and benefits. Although under represented, some 270,000 young people<sup>6</sup> were members of The Co-operative in 2010<sup>7</sup>.

In order to ensure the views of young people are better represented, a commitment has been made to create a Youth Advisory Panel, which will inform a new Board Champion for young people. At a local level, work will be undertaken to increase the number of younger candidates in membership area elections (page 96), and subject to a change in legislation, membership will be widened to under 16s.

## Community investment

The level of cash investment dedicated to supporting young people has increased significantly in recent years, and activity in 2010 benefited a total of 330,000 young people across the UK.



**Top five cash investments in inspiring young people programmes 2010**

The Co-operative Foundation's Truth about Youth	£1,050,058
Green Schools	£540,260
Co-operative Schools	£453,194
The Co-operative StreetGames Young Volunteers	£339,365
The Co-operative British Youth Film Academy	£264,569
<b>Total</b>	<b>£2,647,446</b>

**Beneficiaries 2010**

**330,000** young people benefiting from inspiring young people activity

Provision is set to increase further with establishment of a Co-operative Apprenticeship Academy, which will contribute to the total of £30m (which includes cash investment, leverage and awareness-raising spend) to support activity during 2011–2013.

## Education

### Co-operative Schools

The Co-operative has committed to invest £1m to support the expansion of Co-operative Schools, and in 2010, £453,194 was invested in programmes which aim to improve educational outcomes and skills of students, and give communities a greater say in how their local schools are run.

- Co-operative Trust Schools**

In partnership with The Co-operative College, a model for co-operative trust schools in England has been developed. At the end of 2010, 108 Co-operative Trust Schools had been established. Support has been provided for the establishment of an independent co-operative to drive the strategy, profile-building and networking for all co-operative schools.

In Scotland, support is provided to the Co-operative Educational Trust Scotland (CETS), which delivers co-operative enterprise education and professional development programmes, and facilitates access to the Co-operative Movement across Scotland. Involvement includes financial support, board representation and provision of secretariat support.

- Business and Enterprise Colleges**

Throughout 2010, relationships were maintained with 10 Business and Enterprise Colleges sponsored by the Government's specialist schools programme across the UK. Support includes provision of governors<sup>8</sup>, assistance with curriculum development, and funding for The Co-operative College to develop curriculum materials.

## Co-operative Academies

The Co-operative is the lead sponsor of two Academies, both of which opened in September 2010. Led by The Co-operative Financial Services (CFS) in Manchester, and The Co-operative Travel in Stoke-on-Trent, and working in partnership with local councils and educational institutions, sponsorship provides extensive business expertise, and funds the community work of the Academies. The Academies specialise in business and finance (Manchester) and business, maths and ICT (Stoke-on-Trent).

In late 2010, 10 students studying at The Co-operative Academy of Manchester worked alongside senior managers and executives at The Co-operative for a day as part of the Children's Commissioner for England's Takeover Day.



**Social responsibility**

Ecological sustainability

Delivering value

Assurance

**Financial education**

The Co-operative Financial Services' Skills4Schools programme seeks to improve numeracy, financial literacy and employability; see page 52 for further details.

**Green Schools**

🎯 In 2010, The Co-operative began to draw together its range of community projects that help young people gain the knowledge and enthusiasm to live more sustainably. Over 2011–2013, a further £1m has been committed to extend the offering as a refreshed Green Schools Revolution programme. During 2010, more than 128,000<sup>9</sup> children and young people benefited from Green Schools initiatives, which include:

• **Walking Buses**

In the last 20 years, the proportion of British children (aged five to 10) walking to school has fallen from 62% to 48%<sup>10</sup>. The Co-operative Walking Bus initiative reduces the carbon footprint of schools by enabling children to walk to school together in safety, thereby reducing school traffic. Schools are provided with high-visibility vests and wrist bands for children, posters, and a banner to promote the bus to children and parents.

During 2010, 82 buses were established. In total, 326 Walking Buses have been established since the initiative's launch in 2007, and have benefited more than 3,200 children.

• **Green Energy for Schools**

The Co-operative's Green Energy for Schools (GEfS) programme operated between 2007 and 2010, enabling UK schools to install solar panels at no cost, and subsidising installation of small wind turbines, biomass boilers and ground source heat pumps. In February 2010, the Government's Low Carbon Building Programme, which part funded installations, closed to new grant applications. During 2010, the final installations – two wind turbines and one biomass boiler – were completed and 189 schools now generate their own renewable energy as a result of the programme. In 2010, almost 100,000<sup>11</sup> young people benefited from the programme.

Grove Primary School pupils became 'Eco Warriors' for a day. In 2010, solar panels were installed at their school, via the Green Energy for Schools programme.



• **WasteWorks**

The WasteWorks education facility closed in December 2010 to allow for the construction of The Co-operative's new head office site (page 63). Since 2007, WasteWorks, based at the Manchester recycling centre, has offered a curriculum-linked programme to key stage two school pupils. During its lifetime, WasteWorks welcomed over 19,000 visitors, including some 13,000<sup>12</sup> children on school visits to learn about recycling.

• **Energy Works**

Energy Works gives young people the opportunity to learn about the environment and renewable energy generation. During 2010, 67 classes visited the education centre at The Co-operative wind farm in Cambridgeshire. Since 2007, more than 5,500 students have benefited from the programme, which also provides school workshops and resource packs.

• **From Farm to Fork**

From Farm to Fork is designed to enable children from primary schools to visit one of The Co-operative's working farms, providing them with a learning experience that promotes greater insight into how food crops are grown and harvested. In 2010, almost 15,500 children visited Co-operative Farms. The programme, which started with one farm in 2005, now operates on seven sites across the UK. Children are given advice on healthy eating and recipes to make with their parents using seasonal produce. They are also taught about general farm management, including issues such as biodiversity.

• **Sustainable Travel**

The Co-operative Travel is working to develop children's knowledge of sustainable travel, through talks on responsible tourism delivered by local branch managers. A total of 48 schools participated between July and September 2010. Some 1,700 young people have benefited since the project launched. In 2011, it is planned to increase participation to 120 schools and 4,200 young people.

**Opportunities**

**The Co-operative StreetGames Young Volunteers**

The Co-operative StreetGames Young Volunteers programme aims to improve the life chances of young people aged 16 to 25 through sport, and operates in around 100 locations in disadvantaged communities across England and Wales.

🎯 Since the partnership began in 2007, 3,017 young people have joined the programme, achieving the target for 2012 ahead of schedule. Participants have donated 70,000 hours of time volunteering in their local communities. In 2010 alone, 31,215 young people participated in sports activities run or assisted by the volunteers, which aim to promote increased community cohesion, healthier lifestyles and reduce anti-social behaviour. Volunteers are provided with training, support and resources to improve their leadership skills, and have used this experience to pursue vocational qualifications and further training; at the end of 2010, 2,092 qualifications and accreditations had been achieved by young volunteers. The Co-operative has committed to invest a further £1.2m in the programme from 2012–2014, when the project will be rolled out to communities in Scotland and Northern Ireland.

Community investment

International development and human rights

Animal welfare

Diet and health

Ethical finance

Social inclusion

Inspiring young people

## INSPIRING YOUNG PEOPLE

### The Co-operative Street Games Young Volunteers

Before becoming a Co-operative StreetGames Young Volunteer, Jamie was planning to leave school straight after her GCSEs. Now she is a mentor who runs her own dance troop. She has joined the Board of Directors at the North East Music Factory Project, gained coaching qualifications and is studying for her A-levels.

*"It's definitely helped me develop skills I never thought I'd have. I'm proud of what I've achieved and how I'm now able to lead sessions, plan and organise events. When you have pride in yourself it shows and I think the young people I work with notice – it's something they then want to achieve."*

**Jamie Mitcheson**



### Performance recognition

In May 2010, StreetGames was awarded the prestigious Sir James Wilson Award at The Chief Medical Officer's Public Health Awards, for its work using doorstep sport to tackle health inequalities in areas of deprivation.

In June 2010, The Co-operative StreetGames Young Volunteers won the Business Charity Award for the best UK project.

### The Co-operative Foundation's Truth about Youth

'Truth about Youth' is a grants scheme aimed at challenging and changing negative perceptions of young people. The scheme provides funding for a charity partner in each democratic region, with a total of £2m committed to the programme from 2009 to 2012 – see page 19 for further details.



### The Co-operative British Youth Film Academy

In 2009, The Co-operative announced a three-year partnership with the British Youth Film Academy (BYFA), investing £500,000 to establish The Co-operative British Youth Film Academy. The BYFA

provides a link between the commercial film industry and young people, regardless of their background or experience.

In 2010, BYFA delivered two summer camps, focused on the production of a full-length feature film. At the camps, young people work with professional film-makers on a real film set – activities include working on photography, lighting, sound, and post-production.

In addition, BYFA runs film workshops in Further Education colleges. In total, 10,168 young people participated in BYFA activities in 2010. BYFA is a co-operative, and has a membership of 18 further education and higher education institutions (2009: 16) in four educational clusters: West Midlands, North West, East Midlands and Yorkshire. It aims to become the UK's most accessible film-making training academy, and will establish two new educational regions every year until nationwide coverage is achieved, supported by an additional £700,000 funding from 2011–2013.

[www.britishyouthfilmacademy.com](http://www.britishyouthfilmacademy.com)

John Montegrando co-directs a production of Julius Caesar at a BYFA summer camp.



### The Co-operative Film Festival

The Co-operative has been supporting young people's film making for 45 years through The Co-operative Film Festival. The Festival gives young people the chance to have their short films shown at the National Media Museum in Bradford, encouraging co-operation, creativity and self-expression. Each year 100 short films are shown over two days, covering a range of topics, including issues faced by young people, such as violent crime and bullying. In 2010 approximately 1,000 young people attended the festival.

[www.co-operative.coop/filmfestival](http://www.co-operative.coop/filmfestival)

### Employment

The Co-operative directly employs almost 30,000 young people<sup>13</sup> across its family of businesses, and also offers a range of opportunities for young people to gain business skills and experience via work experience placements, internships and apprenticeships.

#### • Apprenticeships

In 2010, it was announced that £9m will be invested from 2011–2013 to launch a new Apprenticeship Academy that will benefit at least 2,000 young people. The apprenticeships will enable young people to gain quality work experience, work towards a recognised national qualification, and potentially progress onto the graduate programme. During 2010, apprenticeship opportunities were identified across the key business areas and the types of qualification to be offered to apprentices were agreed. A third-party training provider has been selected through a tender process.

#### • Student and graduate schemes

In 2009, a 12-month undergraduate placement programme was launched, and is accredited with the National Council of Work Experience Quality Mark. A graduate scheme is also offered (page 109).

## Influence and action – campaign activity

### Votes at 16



➤ In February 2010, The Co-operative launched its campaign to lower the voting age, and joined the Votes at 16 Coalition as a steering group member. The campaign aims to secure legislative change to lower the voting age to 16 for all local and national elections in the UK, and empower young people to be active citizens. £500,000 has been committed to the Votes at 16 campaigning over two years.

Throughout 2010, The Co-operative worked alongside steering group partners to develop the strategic direction of the Coalition campaign and funded and co-ordinated campaign rebranding and the redevelopment of the Coalition website, which relaunched in March 2011.

➤ [www.votes@16.org.uk](http://www.votes@16.org.uk)

#### Activities include:

- Creation of a 'Youth Zone' within the secure area at each party political conference, with young people acting as 'media ambassadors' interviewing politicians and influential attendees on Votes at 16 and issues of importance to young people.

- Event held with Demos which engaged 100 young people to offer views on the proposed Government spending cuts; a follow-up report<sup>15</sup> was published in 2011.

- Work undertaken with Natascha Engel MP to table an Amendment to the Alternative Vote Bill, to allow 16 and 17 year olds to vote in the 2011 alternative vote referendum.

- Production of a half-hour TV documentary<sup>14</sup> with the Media Trust, which followed three 16 and 17 year old campaigners as they met and lobbied people of influence on Votes at 16.

- Production of Citizenship education resources on Votes at 16 which were widely distributed to schools through the Association of Citizenship Teachers (ACT) network, and Co-operative Schools.

- Development and funding of bespoke Votes at 16 workshops for the network of Co-operative Schools, which have been delivered to more than 700 pupils.



#### Accompanying notes

- |  |   |
|--|---|
| <p>1 Those aged 25 and under. The figure presented here is from the Office for National Statistics, and relates to under 25s. <a href="http://www.statistics.gov.uk/downloads/theme_social/Social-Trends40/ST40_2010_FINAL.pdf">www.statistics.gov.uk/downloads/theme_social/Social-Trends40/ST40_2010_FINAL.pdf</a></p> <p>2 <a href="http://www.statistics.gov.uk/downloads/theme_social/Social-Trends40/ST40_2010_FINAL.pdf">www.statistics.gov.uk/downloads/theme_social/Social-Trends40/ST40_2010_FINAL.pdf</a></p> <p>3 As at Jan 2011, the youth unemployment rate (including students) had risen to 18.1% (Feb 2010: 17.6%), the second highest figure on record. The rate for those aged 25 to 49 was 6.3% (Feb 2010: 6.2%) and for those aged 50</p> | <p>and over, 4.5% (Feb 2010: 4.7%). Centre for Economic and Social Inclusion: <a href="http://www.cesi.org.uk/statistics/previous_months/lms_jan2011">www.cesi.org.uk/statistics/previous_months/lms_jan2011</a></p> <p>4 By 2020 40% of all jobs will require a graduate level qualification <a href="http://www.bitc.org.uk/workplace/talent/the_talent_skills.html">www.bitc.org.uk/workplace/talent/the_talent_skills.html</a></p> <p>5 Institute for Volunteering Research (2009) Young people, volunteering and youth projects: A rapid review of recent evidence <a href="http://inspired.com/uploads/admin_assets/datas/282/original/v_formative_evaluation_rapid_evidence_review_Dec_2009_x_2.pdf">inspired.com/uploads/admin_assets/datas/282/original/v_formative_evaluation_rapid_evidence_review_Dec_2009_x_2.pdf</a></p> <p>6 Members aged between 16 and 24 years old.</p> |
|--|---|

- |   |  |
|---|--|
| <p>7 Some 5% (269,021) of Co-operative members were aged 16–24 in October 2010, compared to 15% of the general population <a href="http://www.statistics.gov.uk/downloads/theme_social/Social-Trends40/ST40_2010_FINAL.pdf">www.statistics.gov.uk/downloads/theme_social/Social-Trends40/ST40_2010_FINAL.pdf</a></p> <p>8 Governors are employees of The Co-operative and elected members.</p> <p>9 See footnote 11 for details of estimated Green Energy for Schools beneficiaries included in this figure.</p> <p>10 <a href="http://www.statistics.gov.uk/downloads/theme_social/Social-Trends40/ST40_2010_FINAL.pdf">www.statistics.gov.uk/downloads/theme_social/Social-Trends40/ST40_2010_FINAL.pdf</a></p> | <p>11 124 primary schools with an average of 280 pupils and 64 secondary schools with an average of 1,016 pupils.</p> <p>12 50% of visitors to the holiday programme and 75% of outreach beneficiaries were children.</p> <p>13 Employees aged 16 to 25 as at February 2011.</p> <p>14 <a href="http://www.co-operative.coop/corporate/ethicsinaction/inspiring-young-people/what-were-doing/campaigning/Votes-at-16">www.co-operative.coop/corporate/ethicsinaction/inspiring-young-people/what-were-doing/campaigning/Votes-at-16</a></p> <p>15 <a href="http://www.demos.co.uk/publications/backtothefuture">www.demos.co.uk/publications/backtothefuture</a></p> |
|---|--|

Community investment

International development and human rights

Animal welfare

Diet and health

Ethical finance

Social inclusion

Inspiring young people



# ECOLOGICAL SUSTAINABILITY

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## IN DETAIL:

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Chemicals **88**

(Pictured) **Brian McCallum, co-founder, Urban Bees**

The Co-operative's Plan Bee campaign (page 86), which aims to save the declining honeybee, has funded urban beekeeper training courses across the country. Brian has been instrumental in establishing hives on rooftops, community gardens and allotments across London.

# CLIMATE CHANGE

## Background

Climate change is widely regarded as humanity's greatest challenge<sup>1</sup>. If left unchecked, global atmospheric temperature is forecast to rise by between 1°C and 6.4°C by the end of this century<sup>2</sup>, bringing severe disruption to both the economic and ecological systems upon which humanity depends.

2010 was the warmest year on record<sup>3</sup>, as measured by certain temperature series<sup>4</sup>, and follows the warmest decade recorded. The year saw limited progress on the international response; the UN summit in Cancun, Mexico, formalised a series of commitments made at the Copenhagen summit a year earlier<sup>5</sup>.

## Materiality and strategy

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

The approach to climate change is influenced by the views of members and customers within ethical policy consultations. In the 2007 Co-operative Food Ethical Policy consultation, members endorsed a commitment to reduce the carbon footprint of The Co-operative Food's products. The Co-operative Bank's Ethical Policy states that customers' money will not be used to finance the extraction of fossil fuels and the distribution of fuels with a higher global warming impact; and The Co-operative Asset Management seeks to use its influence as an institutional investor to encourage investees to reduce their reliance on fossil fuels, switch to renewable energy, and promote energy efficiency.

Climate change is a major area of focus for the Ethical Operating Plan (page 13). The approach to climate change is five-fold, embracing: energy efficiency, support for renewable energy, carbon offsetting, the provision of finance and public policy lobbying.

Climate change

Waste and packaging

Water

🎯 Targets 2010	Progress	Targets 2011
<b>Indicator: Direct greenhouse gas emissions (CO<sub>2</sub>e)</b>		
		<b>EOP</b> Reduce the gross greenhouse gas emissions from operations by 35% by 2017.
Conduct further product carbon footprinting work in The Co-operative Food.	✓ The carbon footprints of haddock, salmon and beef mince were investigated, and a study on strawberries continued (page 68).	
<b>Indicator: Energy-usage and carbon dioxide emissions (CO<sub>2</sub>e)</b>		
Reduce energy consumption across The Co-operative by 20% by 2010 and 25% by 2012, based on 2006 levels.	✓ During 2010, energy consumption across The Co-operative decreased by 12% compared with 2009 and by 29% compared with 2006 (pages 62–64).	
Generate 15% of energy requirements from sustainable energy sources by 2012.	← Output from renewable energy installations in 2010 represented approximately 2.1% of energy requirements. At least one new wind farm is currently awaiting construction (page 64).	<b>EOP</b> Generate the equivalent of 25% of electricity needs from renewable sources by 2017.
Attain a post-construction BREEAM 'outstanding' rating for the new head office complex.	= The design of the building was accredited to the BREEAM 'outstanding' rating in 2009 (page 63).	<b>EOP</b> Construct a head office by 2012 that will set new standards in sustainable design, construction and operation in the UK.
<b>Indicator: Cooling systems: emissions from leakage</b> (Performance benchmark page 65)		
Reduce greenhouse gas emissions from refrigerant leakages in The Co-operative Food's stores by 50% by 2013, based on 2006 levels.	✓ In 2010, emissions from refrigerant gas leaks from The Co-operative Food's stores and distribution centres reduced significantly: by 35% compared with 2009, and by 58% compared to 2006 (page 64).	
<b>Indicator: Transport: mileage and emissions (CO<sub>2</sub>e)</b>		
Maintain transport CO <sub>2</sub> emissions from The Co-operative Food's distribution fleet at 15% below 2005 levels.	✓ In 2010, The Co-operative Food's distribution mileage and associated CO <sub>2</sub> e emissions decreased by 21% (24.4 million miles) and by 20% (30,909 tonnes of CO <sub>2</sub> e) respectively, compared with 2005 (page 65).	

Biodiversity

Chemicals

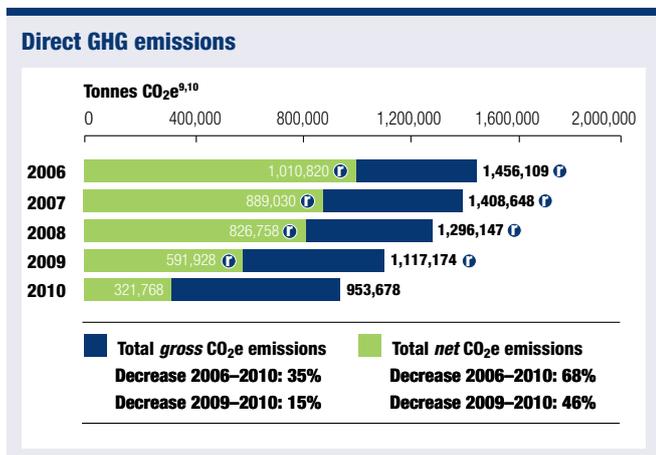
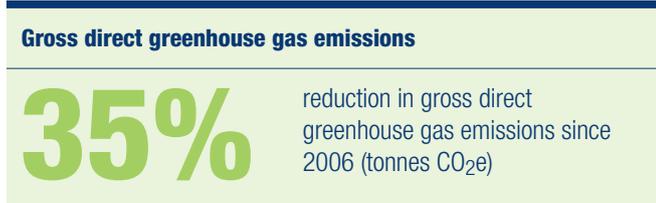
# CLIMATE CHANGE

Targets 2010	Progress	Targets 2011
<b>Indicator: Carbon offset: products and operations</b>		
		<b>EOP</b> Render operations carbon neutral by 2012, with carbon offset solutions provided by a programme of international co-operative projects.
<b>Indicator: Climate change initiatives</b>		
		<b>EOP</b> Broaden the campaign against unconventional fossil fuels to encompass solutions such as community energy.

## Direct greenhouse gas (GHG) emissions<sup>6</sup>

GHG emissions are reported in two ways: *gross* emissions (that treat electricity from renewables in the same way as 'brown' electricity)<sup>7</sup>, and *net* emissions (that treat electricity from renewables as zero carbon and allow for operational offsets). Emission factors used to calculate GHG emissions have been taken from the Department for Environment, Food and Rural Affairs (Defra) 2010 guidance<sup>8</sup> unless otherwise stated.

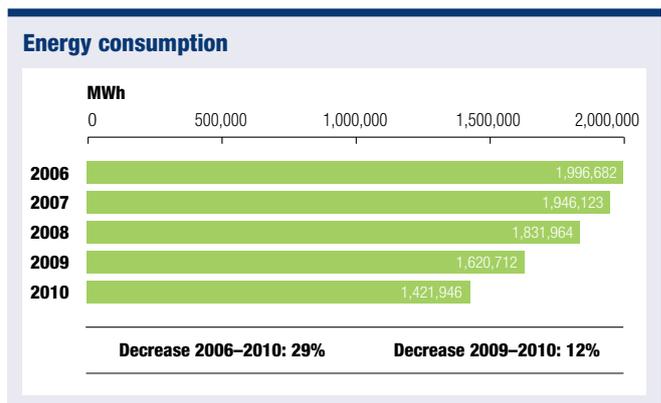
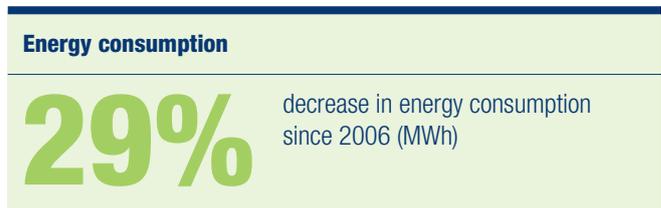
The Co-operative's *gross* greenhouse gas emissions have reduced by 15% in 2010 and by 35% since 2006. *Net* emissions have reduced by 46% in 2010 and by 68% since 2006. Like every other major retailer and financial services provider, The Co-operative does not currently have complete accounting systems in place for the great majority of its indirect emissions. It is recognised that these are likely to be significantly larger than its direct emissions, and work to progress accounting systems is detailed on page 67 and online [EOP](#).



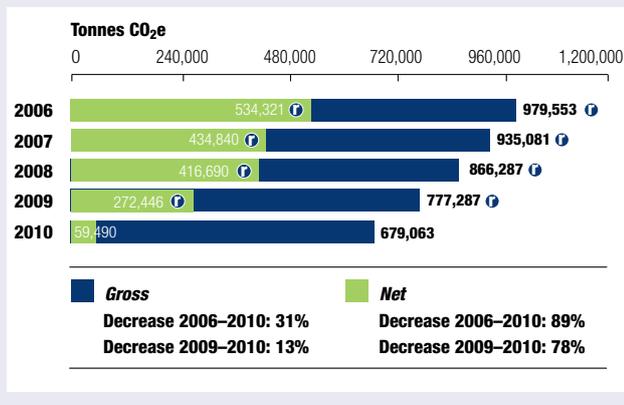
## Energy

**EOP** During 2010, energy consumption across The Co-operative decreased by 12% compared with 2009 and by 29% compared with 2006, meeting and surpassing reduction targets two years ahead of schedule. There was a 13% decrease in electricity usage and a 9% decrease in gas usage in 2010<sup>11</sup>.

*Gross* energy-related CO<sub>2</sub>e emissions have decreased by 31% compared with 2006. As a result of the increased use of renewable electricity at former Somerfield premises, *net* energy-related CO<sub>2</sub> emissions have decreased by 89% over the same period.



**Total emissions from energy consumption<sup>12</sup>**



**Energy programme**

The Co-operative’s energy strategy focuses on The Co-operative Food’s stores and distribution, and The Co-operative’s head office operations, which comprise almost 90% of total energy use. The energy programme is directed by a Programme Board chaired by

the Managing Director of The Co-operative Estates. 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 most energy-intensive stores. Further capital expenditure of £30m has been approved for the period 2011 to 2013 inclusive.

Initiatives delivered in 2010 included:

- roll-out of retrofit measures to a further 658 premises (2009: 736), including 169 energy management systems and 90 improved lighting systems; and
- maintaining energy efficiency features of the ongoing refits programme, such as the wider use of Light Emitting Diodes (LEDs), with 606 refits taking place.

Six dedicated Food regional energy managers oversaw the continued training of some 3,000 employee Energy Champions. Every Food store has an Energy Champion, supported by 239 area and 37 district Energy Champions. In 2010, the Champion programme was extended to acquired Somerfield stores.

**New head office**

The Co-operative is developing new headquarter premises in Manchester, to be completed in 2012. The design of the building has now been accredited to the BREEAM ‘outstanding’ rating<sup>13</sup>, and work will continue to ensure it achieves BREEAM outstanding for ‘in-use’. As part of the initial design process, a review was undertaken to investigate the impact of projected temperature rises from climate change upon the building’s cooling systems and energy consumption.

The building is currently under construction and has numerous resource-efficient features:

- an on-site combined heat and power (CHP) plant, fuelled by plant-oil grown by The Co-operative Farms,

providing the majority of the energy requirement for the new building;

- glass façades and building orientation to maximise natural lighting;
- a double-skin façade that controls heat loss and heat gain. This is combined with automated and efficient lighting and ventilation systems throughout to maximise energy efficiency;
- natural refrigerants throughout the building in place of hydrofluorocarbons (HFCs);
- the harvesting and re-use of grey water generated on site; and
- provision for storage of over 100 bicycles and showering facilities.



# CLIMATE CHANGE

## Performance recognition

In 2010 and 2011, The Co-operative ranked fourth and third respectively in the Sunday Times 60 Best Green Companies list. In both years it was the highest ranked retail and financial services provider.



### Green electricity procurement

During 2010, virtually all (over 98%) electricity (some 1,137GWh) was sourced from good-quality renewable sources – mainly wind and hydro technologies. This makes The Co-operative one of the largest purchasers of green electricity in the world. In addition, The Co-operative has negotiated equivalent green energy contracts (294 GWh) on behalf of 15 independent co-operative societies. In October 2009, a new five-year electricity contract was agreed to provide renewable electricity to over 5,500 sites.

The Co-operative Insurance was the first institutional property investor to transfer all contracts held for its investment property portfolio to green electricity (large-scale hydro and climate change levy-exempt sources) and believes it is still the only institutional property investor to have done this, sourcing some 9.3GWh in 2010 (2009: 9.2GWh).

### On-site renewables generation

The Co-operative is progressing the development of its own renewables capacity. Output from renewable energy installations in 2010 was approximately 24,000MWh (2009: 28,815MWh), representing 2.1% of energy requirements.

A 16MW, eight-turbine wind farm has been operational since 2006 on Co-operative land at Coldham, Cambridgeshire, and all output is paired with The Co-operative's sites. Planning permission has been granted for a seven-turbine extension, to be constructed in 2011. Planning permission has also been granted for a second 28MW, 14-turbine wind farm on Co-operative land in Yorkshire, to be capable of supplying enough electricity to power more than 16,000

Wind turbines at Coldham, Cambridgeshire.



homes annually. In 2009, The Co-operative applied for planning permission for a third 20MW wind farm on third-party-owned land. However, this was refused in April 2011, and an appeal is currently being pursued.

In 2010, feasibility work was undertaken for further renewables projects, including a biofuel CHP system within the new head office (page 63); a biomass CHP project to be based in Manchester and fuelled using waste wood; and photovoltaic installations in south-west England.

In New Mills, Derbyshire, The Co-operative purchases electricity via a private wire to its local Food store from a co-operatively owned micro-hydro project. A second micro-hydro scheme was commissioned in December 2009 in Settle, Yorkshire, where part of the electrical output will be taken through a long-term power purchase agreement.

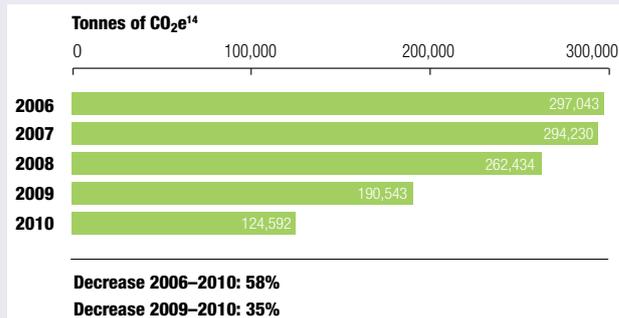
The Co-operative has been an active supporter of micro-generation technologies, through its Green Energy for Schools programme which progressed 189 installations (page 57) and on its buildings. This commitment includes the Solar Tower project, the UK's largest solar power installation, with over 7,000 photovoltaic panels.

In 2011, The Co-operative Bank pledged to extend commercial lending on energy efficiency and renewables from £400m to £1bn (page 44).

### Cooling systems

The Co-operative's refrigeration and air conditioning systems are a significant potential source of GHG emissions due to their use of hydrofluorocarbons (HFCs). The most significant source is refrigerant leakages from Food stores.

#### The Co-operative Food refrigerant gas leaks



In 2010, emissions from refrigerant gas leaks from The Co-operative Food stores and distribution centres reduced significantly: by 35% compared with 2009, and by 58% since 2006, meeting and surpassing a 50% reduction target three years ahead of schedule. Data on total tonnes leaked can be found online .

Less than 5% of existing cooling equipment across The Co-operative Food stores (including former Somerfield stores) relies on hydrochlorofluorocarbons (HCFCs), which are classed as potent ozone depletors. Legislation requires that usage of these is phased out by December 2014 and a system of reclaim and recycle is now in place for this equipment.

In 2010, 524 stores were refitted with more energy-efficient HFC units, with a further 500 stores planned for refit in 2011. The continued installation of HFC systems was necessitated by the pressing need to progress the rebrand programme, and the current immaturity and expense of non-organochlorine alternatives. However, a 'free heat' refrigeration system, which uses the heat from the refrigeration system to provide space heating, was installed at a further 25 stores in 2010. In addition, standalone refrigeration units (chillers and freezers) utilising hydrocarbons were introduced in 290 stores.

Refit initiatives planned for 2011 include:

- switching the refrigerant gas from the HFC R404a (which has a global warming potential, GWP, of 3,750) to the HFC R407a (which has a GWP of 1,770) in all new refrigeration installations;
- all new standalone refrigeration units to run on hydrocarbons;
- the installation of three new carbon dioxide refrigeration systems; and
- the trialling of hydrocarbon air conditioning systems in two stores, which, if successful, when combined with new in-store refrigeration systems, will allow stores to be wholly or in part HFC-free.

It is intended that all new installations will be HFC-free from 2015, and all stores within the estate will be HFC-free by 2030.

Trials of doors on refrigeration initiated in 2010 will be expanded to another 10 stores in 2011, to fully assess benefits and customer acceptance.

### Performance benchmark

In 2010, The Co-operative Food participated in the Environmental Investigation Agency's (EIA) survey of supermarket refrigeration technology. In total, 10 supermarkets were assessed on their use of refrigerants and future plans. The Co-operative Food was ranked fifth.

### CFS air conditioning

As air conditioning systems are replaced across CFS, it is preferred that systems based on ammonia, lithium bromide or hydrocarbons are introduced. During 2010, 20 HCFC/HFC branch and office air conditioning units were replaced with hydrocarbon (HC) systems, leading to the removal of 75kg of HCFC/HFC gases with a GWP of 116 tonnes of CO<sub>2</sub>e, and the introduction of 44kg of HC gases with a GWP of just 130kg of CO<sub>2</sub>e.

### Performance recognition

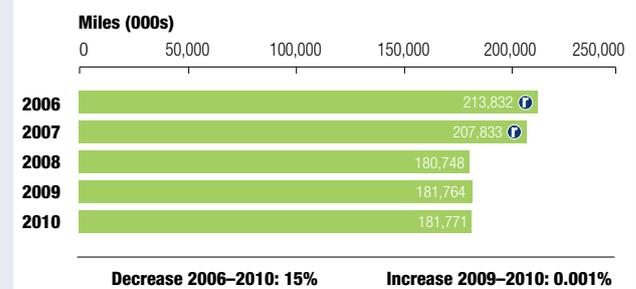
In 2010 and 2011 The Co-operative was named Green Retailer of the Year at the Grocer Gold Awards, in recognition of work undertaken to reduce environmental impact and change consumer behaviour.



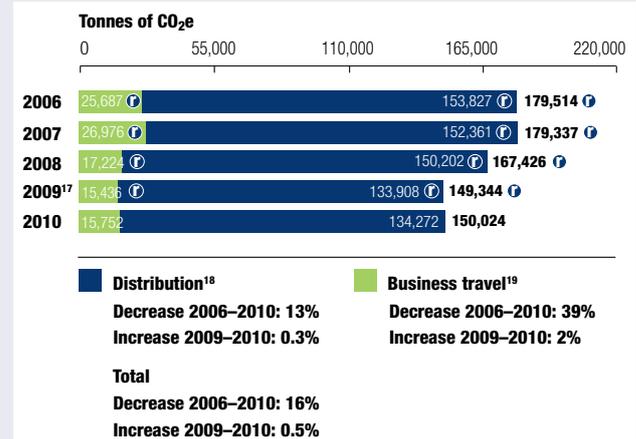
## Transport

### Distribution/business mileage and emissions

#### Total mileage<sup>15</sup>



#### Total transport emissions<sup>16</sup>



During 2010, reported mileage remained stable and transport-related CO<sub>2</sub>e emissions increased marginally by 0.5%. This small increase is a result of changes to conversion factors in Defra's guidance for reporting<sup>20</sup>. Since 2006, reported mileage and transport-related CO<sub>2</sub>e emissions have reduced by 15% and 16% respectively.

Road distribution emissions (excluding home deliveries) increased by 785 tonnes of CO<sub>2</sub>e, a result of an increase of some 1.1 million miles compared with 2009. Home delivery mileage and associated CO<sub>2</sub>e emissions reduced by 1.1 million miles travelled and 421 tonnes of CO<sub>2</sub>e respectively. Business travel mileage shows a small increase in CO<sub>2</sub>e emissions of 316 tonnes, with an increase in mileage of 23,344 miles during the same period.

The Co-operative Food is a signatory to the British Retail Consortium's 'A Better Retailing Climate' initiative, and committed to a 15% reduction in CO<sub>2</sub>e emissions from its distribution activities by 2013, based on 2005 levels, including those of former Somerfield.

🎯 In 2010, The Co-operative Food's distribution mileage and associated CO<sub>2</sub>e emissions decreased by 24.4 million miles (21%) and by 30,909 tonnes of CO<sub>2</sub>e (20%) compared with 2005 respectively.

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During 2010, CFS' business mileage decreased slightly by 1% compared with 2009, and has decreased by 52%, or 18.9 million miles, when compared with 2006. This is largely as a result of the reduction in Financial Advisers (FAs) employed by the business who travel to visit customers in their homes. Overall CO<sub>2</sub>e emissions from transport at CFS decreased by 4% compared with 2009 and have reduced by 52%, or 5,191 tonnes, when compared with 2006.

CFS policy requires that the existing 200 job requirement cars must have CO<sub>2</sub>e emissions of less than 150g/km and diesels must meet the Euro5 clean burn standard or have particulate filters. In 2010, this CO<sub>2</sub>e emissions target was reduced to sub-145g/km for all new cars entering the scheme. It is intended that the CO<sub>2</sub>e cap will be reduced to 140g/km in 2012. At Britannia, the vast majority of the 230 'essential use' cars already meet the 2012 target and have CO<sub>2</sub>e emissions of less than 140g/km.

### Biofuels

In recognition of the adverse environmental impacts that certain biofuel feedstocks can have, and the opaque nature of much of the transport biofuels supply chain (which makes selection of feedstocks that meet sustainability criteria all but impossible), biofuel use is not actively pursued in distribution activities. In 2009, The Co-operative Bank extended its Ethical Policy to decline business in connection with the distribution of biofuels that fail to achieve a 60% carbon dioxide saving; effectively ruling out investment in biofuels derived from feedstocks that cause tropical deforestation.

The Co-operative Farms has committed a significant area (2,322 hectares) to oilseed rape production, none of which is contracted for transport fuel production.

### Food miles and 'considered carbon'

The term 'food miles' has been widely used in discussions about food sustainability, and is often assumed to be synonymous with total environmental impact, ie, low food miles equating to low environmental impact. However, a wide range of research<sup>21</sup> has shown that, when the whole product lifecycle (cultivation, processing, transport, use, etc) is taken into account there can be counter-intuitive results. For example, foods grown in heated greenhouses in the UK often have a worse environmental impact than foods grown outdoors and flown in.

In addition, for some products, food miles can have ethical as well as environmental impacts. More than one million people in Africa rely on fruit and vegetable exports to British shops, with around £7m per day going to developing countries from supermarket sales. Not only do many of these air-freighted products have relatively low carbon footprints, the UK market for such exports represents a significant economic development opportunity for farmers in developing countries that have very low per capita CO<sub>2</sub> emissions<sup>22</sup>. The drive to reduce carbon emissions can, therefore, result in unintended consequences, which particularly work to the detriment of the

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

- arguing 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;
- continuing 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;
- only committing to operationalise carbon labelling at such a time as it is also possible to operationalise 'development labelling'; and
- in parallel with improving ability to account for, manage and reduce carbon within The Co-operative's supply chain, also aim to gain a better understanding and advancement of human development accounting and labelling.

### Green Travel website

At the end of 2009, a Green Travel website<sup>23</sup> was launched, which encourages employees and visitors to utilise more sustainable travel options such as walking and public transport. The site also provides access to a car-sharing scheme.

In 2010, 388 interest-free loans with a value of £450,000 (2009: 229, with a value of £256,000), were taken up by employees for public

transport season tickets, and Manchester-based employees had the opportunity to take part in bicycle maintenance demonstrations, as well as national initiatives such as Walk to Work Week. In Manchester, The Co-operative has led the development of a Green Travel Employers Forum, which has brought together employers to discuss the transport issues within the city.

### Other indirect emissions

Other GHG emissions arise from sources that can be described as 'indirect' (Greenhouse Gas Protocol Scope 3<sup>24</sup>), including the production, use and disposal of products and services for sale in Food, Travel and Pharmacy stores, financial products, projects financed, the disposal of waste, employee travel to work, and business travel in vehicles not owned by The Co-operative<sup>25</sup>. While the guidance for measurement and reporting of such emissions is still in its formative stages, measurement work has been initiated in 2010 in a number of areas.

The net estimated indirect emissions, currently measured, are 1.22m tonnes of CO<sub>2</sub>e, and full details behind this calculation are available online [Co-op](#). It is acknowledged that total indirect emissions are likely to be far larger than this and accounting systems will continue to be developed.

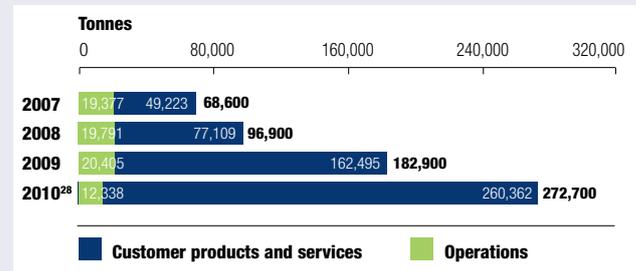
In addition, further initiatives that measure and address such emissions are underway, including the carbon footprinting of products sold in Food stores (page 68), combining a carbon offset with selected financial and Motor products (see below), influencing customers to reduce food waste (page 76), and only selling white goods that meet certain environmental criteria (page 69).

### Carbon offset

In 2010, carbon offset again expanded, with the largest increase in connection with The Co-operative Insurance, as carbon offsets became a standard feature of nearly all motor insurance policies offered. During 2010, a total of 272,700 tonnes of CO<sub>2</sub> offset was purchased (2009: 182,900) as follows:

- one tonne of CO<sub>2</sub> for every Co-operative Bank branded mortgage held;
- The Co-operative Insurance offset 20% of a typical car's CO<sub>2</sub> emissions for all standard motor insurance policies held, based on an average UK car travelling an average number of miles;
- The Co-operative Travel continued to sell carbon offsets at its branches. Offsets are sold in a series of bands, based on distance flown<sup>26</sup>;
- CFS maintained its policy of going 'beyond carbon neutral' by offsetting all its remaining operational and business travel emissions, together with an extra 10% to cover legacy issues;
- The Co-operative Travel and The Co-operative Clothing maintained carbon neutral status by offsetting all their remaining operational and business travel emissions;
- emissions from all Co-operative business flights were offset for the fourth year running; and
- The Co-operative Motor Group launched an Emissions Control Service in 2010 and for each service undertaken half a tonne of CO<sub>2</sub> is offset<sup>27</sup>.

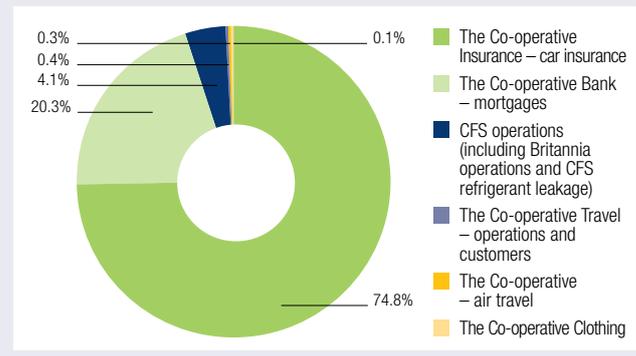
### Carbon offset



### Offset purchased 2010



### Carbon offset – total: 272,700 tonnes of CO<sub>2</sub>



The Co-operative places 80% of its offsetting portfolio into energy-efficiency and renewable energy projects. The remaining 20% is delivered through rainforest reforestation, such as that taking place in the Kibale Forest National Park, Uganda. This reflects the typical level of global greenhouse gas emissions attributable to deforestation<sup>29</sup>.

In 2010, offsets were provided, via ClimateCare, from the following projects:

#### Treadle pumps in West Bengal and Uttar Pradesh, India

These manual pumps are used to irrigate fields outside the monsoon season. They provide a more sustainable and affordable alternative to expensive diesel-powered pumps, increasing productivity and bringing much needed additional income to farming families. In 2010, offset monies funded 10,482 treadle pumps, which will avoid emissions of 5,000 tonnes of CO<sub>2</sub> over one year.

#### Energy-efficient cooking stoves in Cambodia

Energy-efficient cooking stoves reduce the amount of wood needed for cooking, which means less CO<sub>2</sub> is released. The reduced demand for wood helps to protect Cambodia's forests. In 2010, offset monies helped to fund the construction and supply of approximately 55,400 stoves, and will avoid emissions of 83,100 tonnes of CO<sub>2</sub> over two years.

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Waste and packaging

Water

Biodiversity

Chemicals

# CLIMATE CHANGE

## Product carbon footprinting

The Co-operative has developed a software tool in partnership with The University of Manchester that facilitates quicker and more accurate decision-making around the climate change impacts of products. The tool has been used to analyse four product areas to date.

### Strawberries

In a study that predates the software tool, in 2007 and 2008, The Co-operative worked with the Carbon Trust to understand the carbon embodied within two types of strawberries (400g punnets): 'Ava' strawberries from The Co-operative Farms' Blairgowrie farm, Scotland, and 'Sabrosa' strawberries from Spain. It was estimated that the carbon embodied was 850g and 600g of CO<sub>2</sub>e for the Scottish and Spanish strawberries respectively. In 2009, the Blairgowrie farm trialled coir (coconut husk) as an alternative growing media to peat, which had been identified as the most significant element of the Scottish strawberries' higher carbon content. The trial was deemed successful and was extended into 2010. Results show that strawberries grown in coir have a 16% lower carbon footprint than peat-grown strawberries. A trial to re-use the coir will conclude in 2011. If successful, this will further increase emissions savings.



### Chicken

Chickens reared under three different welfare standards were analysed. 'Embodied carbon emissions' in Elmwood (page 33), free-range and organic whole



chickens were estimated to be 4.6kg, 5.1kg and 6.4kg of CO<sub>2</sub>e respectively, per kg of chicken meat. A significant proportion of emissions were found to be associated with feed and bedding. As a result, alternatives to carbon-intensive feed ingredients are now being investigated.

### Haddock

The carbon footprints of Scottish and Norwegian haddock fillets from two different catch methods – trawled and line-caught – were investigated and found to be broadly similar, at 2.8kg and 3.1kg of CO<sub>2</sub>e respectively, per kg end product. Whereas the most carbon-intensive stage of the trawled fish was the processing, for the line-caught fish it was emissions during catch.

### Salmon

The carbon emissions embodied in a 240g packet of fresh salmon were estimated to be 2kg of CO<sub>2</sub>e. However, during the investigation of the footprint the supplier relationship changed, meaning some data had to be estimated. Even so, it was clear that the dominant emissions source – approximately 60% of the total footprint – is the production of salmon feed. In 2011 the footprint will be revised with data from a new supplier, before considering any carbon reduction initiatives.

### Beef mince

Carbon emissions embodied in a 454g packet of beef mince are estimated to be 10.2kg of CO<sub>2</sub>e per kg end product, with a significant proportion associated with production of feed, both on-site (grass silage) and off-site (soya and wheat). In 2011 carbon reduction initiatives across the agricultural stage of beef production will be investigated.



## Reforestation in the Kibale Forest National Park, Uganda

This project aims to re-establish rainforest within the Kibale Forest National Park, Uganda. The rainforest absorbs carbon dioxide during growth and effectively locks it up as biomass. In 2010, 26,200 tonnes of CO<sub>2</sub> were offset through this project. Since support began in 2000, The Co-operative has funded the planting of over 370 hectares of rainforest, equivalent to 519 football pitches. Further details of the Kibale project are provided on page 84.

## Renewable energy in India

This project, a wind farm in the state of Tamil Nadu, southern India, supplies clean energy to India's national grid, which is currently dominated by carbon intensive coal power. In 2010, offset monies to this project will avoid 130,000 tonnes of CO<sub>2</sub> emissions over four years.

## Reducing Emissions from Deforestation and Degradation (REDD) in Kenya

The increase in offset volumes in 2010 required an additional forestry-related project. The Kasigau Corridor REDD project in Kenya involves protecting an area of forest from deforestation. This is achieved through providing education and employment in conservation to local communities, as opposed to the current practice of slash and burn for agriculture. Alternative sources of forest products such as fruit trees and charcoal are produced in nearby nurseries, and in the long term these activities should reduce the pressure to deforest in the area. The area protected is also a wildlife corridor between two national parks, supporting many species including lion, cheetah, African elephants and the endangered Grevy's Zebra. In 2010, 28,300 tonnes of CO<sub>2</sub> were offset through this project.

## Other products and services

### Energy-inefficient goods

Since 2007, and three years ahead of legislative requirements<sup>30</sup>, The Co-operative Food has only stocked white goods (eg, fridges, freezers and washing machines) that are energy rated 'A' or above, or Energy Savings Trust Recommended.

In 2007, The Co-operative Food committed to phase out the sale of tungsten incandescent light bulbs by 2010. This was achieved by the end of 2009, two years ahead of legislative requirements<sup>31</sup>. During 2010, the range of energy-efficient light bulbs sold in The Co-operative Food stores increased from 31 to 102 products, with 455,000 bulbs sold.

## Ethical finance

### Bank screening of finance

During 2010, 45 (2009: 55) finance opportunities were referred to the Ethical Policy Unit in relation to climate change, of which nine were declined (2009: 12) at a cost of £711,000 in terms of estimated income foregone.

### Climate change-related business declines 2010

	Estimated income foregone 2010
<b>Engineering and support services</b> (four instances) £10m syndicated loan facility and £350,000 lending for businesses supplying equipment considered intrinsic to oil and gas extraction. Banking facilities for a business engaged in the manufacture of specialist software in support of fossil fuel extraction. Deposit facilities for a business supplying furnace equipment for oil refinery.	£349,000
<b>Fossil fuel extraction and production</b> (three instances) £100m interbank deposit facility for a global oil and gas business engaged in exploration, extraction and production. Deposit facility for a business engaged in oil exploration and production in Africa, the Middle East and Russia. Deposit facility for the issuer of licences for UK coal extraction.	£102,000
<b>Higher global warming impact fuels</b> £30m deposit facility for a business providing engineering, project management and construction services to tar sands extraction projects in Canada.	£210,000
<b>Power station</b> £50m interbank deposit facility for a large coal-fired power station. Unacceptable level of carbon dioxide emissions considered incompatible with support for ecological sustainability.	£50,000

### The Co-operative Asset Management (TCAM) engagement

• **Tar sands** In 2010, TCAM co-filed shareholder resolutions at two oil company AGMs calling for greater disclosure on the impacts of tar sands developments. See page 71 for details of these engagements.

• **TCAM overseas shareholder resolutions** In 2010, TCAM was presented with 56 overseas shareholder resolutions relating to climate change, of which 51 were supported. Three resolutions from proponents hostile to combating climate change were opposed.

Company	Resolution	Vote registered
17 companies <sup>32</sup>	To introduce/extend sustainability reporting	Supported
Mirant Corp; Dynegy Inc; Smithfield Foods Inc; Exxon Mobil Corp; Southern Co; ConocoPhillips	To adopt targets for greenhouse gas emissions reduction.	Supported
Chesapeake Energy Corp; Ultra Petroleum Corp; Exxon Mobil Corp; The Williams Companies	To report on potential environmental damage from hydraulic fracturing for natural gas extraction and consider policies to reduce or eliminate such damage.	Supported
Cisco Systems Inc; Microsoft Corp; Oracle Corp	To establish a board committee on sustainability.	Supported
Chevron Corp; Freeport-McMoRan Copper & Gold inc	To appoint an independent director with environmental expertise.	Supported
Southern Co; MDU Resources Group Inc	To report on efforts to reduce environmental and health hazards associated with coal combustion waste.	Supported
Chevron Corp; ConocoPhillips	To report on financial risks resulting from climate change.	Supported
ConocoPhillips; Exxon Mobil Corp	To report environmental, social and economic risks associated with tar sands extraction.	Supported
CVS Caremark Corp; Safeway Inc	To adopt principles for tackling global warming.	Supported
Apple Inc	To establish a board committee on sustainability.	Supported
Dominion Resources	To establish a goal for 20% renewable electricity energy generation by 2022.	Supported
Exxon Mobil Corp	To report on scenarios for developing leadership in sustainable energy technologies.	Supported
Exxon Mobil Corp	To consider in strategic planning the risk of significantly lower fossil fuel demand than forecast.	Supported
Fairfax Financial Holdings	To respond to requests for information from the Carbon Disclosure Project.	Supported
Kansai Electric Power Co (five resolutions)	To adopt policies mandating carbon reduction standards; environmental protection; renewable energy; and energy waste reduction.	Supported

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Company	Resolution	Vote registered
Kyushu Electric Power Co	To introduce a 'smart grid' system for managing renewable energy supply.	Supported
Tokyo Electric Power Co	To introduce a 'smart grid' system for managing renewable energy supply.	Abstained <sup>33</sup>
Tohoku Electric Power	To appoint an independent director with environmental expertise.	Abstained <sup>34</sup>
Duke Energy	To report on global warming-related lobbying activities.	Opposed <sup>35</sup>
Ford Motor Co	To disregard any emissions reduction projects unless they meet Return on Investment criteria.	Opposed
Goldman Sachs Group	To report on costs/benefits of climate change policy and science of global warming.	Opposed <sup>36</sup>

### Community involvement

#### Green Energy for Schools

The Co-operative's Green Energy for Schools (GEFS) programme has enabled 189 schools across the UK to install solar panels at no cost and supported the subsidised installation of small wind turbines, biomass boilers and ground source heat pumps. For further details, see page 57.

#### Walking Buses

Walking Buses have now been established in 326 locations, helping children to walk to school together in safety. For further details, see page 57.

Students at the Howden Junior School travel to school in a Walking Bus.



### Influence and action

#### Green Investment Bank

The Co-operative supports the proposal to establish an independent, permanent and self-financing UK Green Investment Bank as a means to accelerate the UK's transition to a low carbon economy and, in particular, has highlighted the importance of funding for community-scale renewables to deliver a diversified energy supply.

The Co-operative has added its name to public statements issued by Transform UK, the umbrella group of NGOs and businesses campaigning for a Green Investment Bank. In December 2010, The Co-operative Bank Social Banking Unit (page 44) submitted oral evidence to the Environment Audit Committee. In February 2011, CFS joined seven other institutional investors as co-signatory to a letter to the Prime Minister that expressed a willingness to consider purchase of bonds issued by the Green Investment Bank in line with conventional investment criteria.

#### Heathrow third runway

As part of its Ethical Strategy, first published in 2008 (page 13), The Co-operative Travel opposes the development of a third runway at Heathrow Airport, and, in principle, all other new runway developments in the UK, unless there is a clear sustainability case. The Co-operative Travel wrote to the Secretary of State for Transport in 2009 questioning the need for a third runway and highlighting its environmental impact. In May 2010, the Government announced that it was scrapping plans for the new runway, a position that was confirmed later in the same month by the airport's owners.

#### Feed-in Tariffs for renewables and Renewable Heat Incentive

The Co-operative is a member of Friends of the Earth (FOE) and the Renewable Energy Association's (REA) Feed-in Tariffs (FITs) coalition. The coalition successfully campaigned for the introduction of FITs, which began in April 2010. In May 2010, a letter was written to the new Secretary of State for Energy and Climate Change expressing support for FITs and the principle of the Renewable Heat Incentive (RHI). The Co-operative also participated within the FOE and REA-led RHI campaign coalition, co-signing a letter to the Prime Minister in September 2010 calling for the introduction of the RHI and contributing £2,500 to a parliamentary lobby event in October 2010, attended by MPs of all main parties.

#### International climate change talks

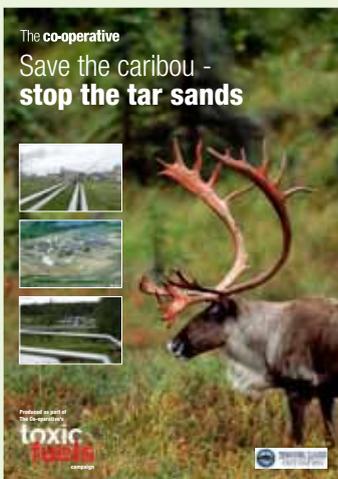
In November 2010, The Co-operative signed the 'Cancun Communiqué on Climate Change' which urged political leaders at the United Nations Climate Change Conference in Cancun, Mexico, to press for: robust financial and policy support for energy-efficiency measures, strong policy support and fast-track funding for low-carbon energy systems, greater financial and policy support for emissions capture and storage, increased effort on tackling other GHG emissions and addressing the carbon emissions impact of urban planning, land use management and land use change.

**Toxic Fuels**

The Toxic Fuels campaign was launched in 2009, to highlight the environmental and financial risks associated with unconventional fossil fuels such as tar sands and shale gas, and call for a halt to expansion plans. The campaign has four main elements: support for the Beaver Lake Cree Nation; engagement with companies involved in tar sands development; calls to introduce mandatory GHG reporting and low-carbon fuel standards; and public awareness raising.

**Beaver Lake Cree Nation**

The Beaver Lake Cree Nation is a small indigenous community in Alberta, Canada, whose reserve home and ancestral lands are threatened by tar sand developments. They have constitutionally protected treaty rights, and have begun a legal challenge to enforce recognition of these rights and a halt to new developments. Donations by The Co-operative, and its customers and members, have raised over £200,000 in support of this action.



In 2010, The Co-operative assisted First Nations to seek a judicial review to protect the threatened woodland caribou, and published the report 'Save the caribou – stop the tar sands'.

**Mandatory GHG reporting and disclosure**

The Government has a legal obligation under the Climate Change Act to ensure mandatory GHG reporting by 2012, or to explain why it has not been introduced. In July 2010, The Co-operative and WWF published a report 'Toxic Fuels – Toxic Investments: why we need mandatory greenhouse gas reporting', which it sent to ministers at Defra and BIS. In October 2010, The Co-operative and WWF worked with MPs to table 'Early Day Motion 799 – corporate reporting of carbon emissions', and customers, members and supporters were mobilised to ask their MP to sign the EDM. In November 2010, The Co-operative, WWF and The Aldersgate Group organised an open letter to the Government (co-signed by 30 other businesses and civil society groups) calling for the introduction of reporting by 2012.



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**TCAM tar sands engagements and influence**

In early 2010, TCAM, with other investors, filed shareholder resolutions at the AGMs of BP plc and Royal Dutch Shell plc, calling on them to report on the risks associated with tar sands projects and their plans to address them. The Shell resolution was co-tabled by 141 investors, including fund managers, pension funds, foundations and faith groups, and represented the largest-ever mobilisation of investors in support of an independent resolution in the UK. The resolutions attracted significant support with 15% and 11% of shareholders voting for, or abstaining on, the BP and Shell resolutions respectively.

**Public awareness raising**

In 2010, The Co-operative supported the UK release of the films Dirty Oil, H2Oil and Petropolis, and hosted the world premiere of Dirty Oil, which was screened live via satellite to 25 cinemas around the UK, reaching an audience of thousands. The Co-operative also launched the touring street gallery Tarnished Earth, showing photographs of the devastation caused by tar sands developments. This was displayed on London's Southbank in September. It will tour the UK during 2011.



**Low carbon fuel standard**

The Fuel Quality Directive – Europe's Low Carbon Fuel Standard – sets a mandatory 6% reduction target for the GHG gas emissions of EU transport fuels by 2020. However, by treating tar sands oil the same as conventional oil, the increased emissions from tar sands will potentially negate claimed emissions reductions.

In response, a coalition was formed with WWF and other NGOs to campaign to 'keep tar sands out of Europe'. Extensive engagement has taken place<sup>37</sup>, including work with MEPs to table questions to the Commission, and a meeting with the UK Minister for Transport to advise of the inadequacy of current proposals. A petition to 'keep tar sands out of Europe' was incorporated into the Tarnished Earth street gallery, which was presented to the European Parliament in spring 2011. The Commission's final proposals are expected to be presented to Parliament for agreement in summer 2011.

## CLIMATE CHANGE

## Accompanying notes

- 1 See for example: Stern, N. (2009), Blueprint for a Safer Planet – How We Can Save the World and Create Prosperity.
- 2 [www.ipcc.ch/publications\\_and\\_data/publications\\_and\\_data\\_reports.htm](http://www.ipcc.ch/publications_and_data/publications_and_data_reports.htm)
- 3 [www.bbc.co.uk/news/science-environment-11903397](http://www.bbc.co.uk/news/science-environment-11903397)
- 4 [news.bbc.co.uk/1/hi/sci/tech/8400905.stm](http://news.bbc.co.uk/1/hi/sci/tech/8400905.stm)
- 5 [unfccc.int/meetings/cop\\_16/items/5571.php](http://unfccc.int/meetings/cop_16/items/5571.php)
- 6 Figures for direct GHG emissions include those associated with air, rail and 'own-car' business travel, which are more commonly reported as 'indirect', or 'Scope 3' emissions.
- 7 With a conversion factor of 0.54284kg CO<sub>2</sub>e per kWh, as per Defra guidance (2010).
- 8 2010 Guidelines to Defra GHG Conversion Factors for Company Reporting Archive: [defra.gov.uk/environment/business/reporting/pdf/101006-guidelines-ghg-conversion-factors.pdf](http://defra.gov.uk/environment/business/reporting/pdf/101006-guidelines-ghg-conversion-factors.pdf)
- 9 Carbon dioxide equivalent (CO<sub>2</sub>e) is used to compare the Global Warming Potential (GWP) of different greenhouse gases (methane (CH<sub>4</sub>), nitrous oxide (N<sub>2</sub>O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), sulphur hexafluoride (SF<sub>6</sub>)) relative to CO<sub>2</sub>. For example, CO<sub>2</sub> has a GWP of one, whilst N<sub>2</sub>O has a GWP of 310.
- 10 Historic data (2006–2009) includes data for merged and acquired businesses (the former United Co-operatives, former Somerfield and Britannia), even at a time when these were not part of The Co-operative. Where historic data is unavailable, proxies have been used. Full information regarding the composition of figures can be found online [↗](#).
- 11 CFS energy consumption including Britannia: 2010: 74,930 MWh; 2009: 77,210 MWh; 2008: 79,041 MWh; 2007: 79,021 MWh; 2006: 83,219 MWh.
- 12 Figures apply a conversion factor of 0.5428kg CO<sub>2</sub>e per kWh for fossil fuel and renewable electricity and 0.18523kg CO<sub>2</sub>e per kWh for gas.
- 13 The BRE Environmental Assessment Method (BREEAM) assesses buildings against set criteria and provides an overall score that will fall within a band providing either: PASS, GOOD, VERY GOOD, EXCELLENT or OUTSTANDING rating, [www.breem.org](http://www.breem.org)
- 14 Refrigerant data (2006–2010) includes The Co-operative, former United Co-operatives, and former Somerfield stores and distribution centres, even when these were not part of The Co-operative. CO<sub>2</sub>e emissions factors are calculated by applying relevant Defra 2010 conversion factors.
- 15 The Co-operative Bank, The Co-operative Insurance and the Trading Group have reported on their transport impacts since at least 2003. Data for Britannia and former United Co-operatives' transport impacts is unavailable prior to 2006 and 2007 respectively, necessitating the need for proxies (2007 and 2008 respectively). Data for former Somerfield's transport impacts is unavailable prior to 2009 (with the exception of distribution mileage, which has the largest impact), necessitating the use of 2009 data as a proxy in previous years.
- 16 CO<sub>2</sub>/CO<sub>2</sub>e emissions are calculated by applying relevant Defra 2010 conversion factors for each mode of transport to the distance travelled.
- 17 In addition to business areas listed in footnote 18, data covers home deliveries for The Co-operative Food, The Co-operative Pharmacy, Sunwin Cash In Transit and former Somerfield.
- 18 Accounting systems connected with road distribution capture The Co-operative Food (including Somerfield), The Co-operative Funeralcare, The Co-operative Clothing and home deliveries across The Co-operative Food, The Co-operative Pharmacy and Sunwin Cash In Transit.
- 19 Data covers rail, air, company car, business mileage in employees' own cars and hire car journeys.
- 20 Ibid note 7.
- 21 Such research includes: Dr A Williams (2 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 (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.
- 22 Melamed, C (2007) Sometimes it's ethical to buy air-freighted goods, *The Guardian*, 2 March 2007.
- 23 [www.co-operative.coop/greentravel](http://www.co-operative.coop/greentravel)
- 24 [www.ghgprotocol.org/calculation-tools/faq](http://www.ghgprotocol.org/calculation-tools/faq)  
The GHG Protocol categorises direct and indirect emissions into three broad scopes. Scope 1: All direct GHG emissions. Scope 2: Indirect GHG emissions from consumption of purchased electricity, heat or steam. Scope 3: Other indirect emissions, such as the extraction and production of purchased materials and fuels, transport-related activities in vehicles not owned or controlled by the reporting entity, electricity-related activities (e.g. T and D losses) not covered in Scope 2, outsourced activities, waste disposal, etc.
- 25 Emissions from business travel are currently recorded in Scope 1 and Scope 2 reporting. This is due to accounting systems for business travel being unable to disaggregate mileage from company and privately owned vehicles.
- 26 For all flights, distance travelled is calculated using the greater circle distance between airports. For long-haul flights (Bands 4 to 6), customers' CO<sub>2</sub> 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 for a Boeing 737 are used. These figures are divided by the typical number of seats in each case, deducting the average amount of freight when necessary. A metric of two is then applied to attempt to account for the enhanced impact of aviation upon the climate and give a CO<sub>2</sub> equivalent figure. For further information, please refer to [www.jpmorganclimatecare.com](http://www.jpmorganclimatecare.com)
- 27 Due to reporting of this new product the tonnes required for 2010 sales will be offset in the portfolio of 2011. Going forward the offset will occur in the same year as sales.
- 28 The significant reduction in offset total between 2009 and 2010 is a result of conservative overestimates in previous data combined with improved accountancy in 2010.
- 29 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*.
- 30 In April 2009, The European Commission announced new minimum performance standards for household appliances under the EU Eco-Design Directive. As a result, from July 2010, all fridges, freezers, washing machines and dishwashers that are energy rated less than 'A' must be removed from sale.
- 31 In March 2009, The European Commission confirmed the sale of incandescent light bulbs would be phased out between September 2009 and 2012.
- 32 Apple Inc; Boston Properties Inc; C R Bard Inc; Chesapeake Energy Corp; EQT Corp; Gentex Corp; Google Inc; Great-West Lifeco; Kroger Co; Las Vegas Sands; Lennar Corp; MGM Mirage; PPG Industries; St Jude Medical; Suntrust Banks Inc; Toll Bros Inc; Tyson Foods Inc.
- 33 The proponents' rationale was considered insufficient.
- 34 Ibid.
- 35 TCAM disagreed with the resolution's view of the company's climate change policy as 'based on unsettled science and pushed by outside pressure groups'.
- 36 Ibid.
- 37 The full extent of engagement included: in April 2010 writing jointly with WWF to the UK Minister of State for Transport and key MEPs to highlight the issue and ask that they put pressure on the EC to penalise tar sands fuels for their higher emissions; employing a consultant in Brussels to engage with MEPs, Parliament and the EC, and holding face-to-face briefings with key MEPs; working with MEPs on the European Parliament Environment Committee to table questions to the Commission; in July 2010, writing jointly with WWF and Greenpeace to the new Minister of State for Transport, and signing a letter to the EC with 10 other international environmental and civic society groups calling for the FQD to be strengthened; in September 2010, with WWF and Greenpeace, meeting the UK Minister of State for Transport to advise of the inadequacy of current EC proposals; working with a group of six Environment Committee MEPs to table questions to the Commission; in October 2010, with NGO coalition partners, briefing MEPs on the EU-Canada trade delegation visit to Alberta, and working with the delegation secretariat to include an official meeting with an environmental science organisation, as well as an unofficial meeting with First Nation representatives; in December 2010, briefing several MEPs ahead of meetings with the Climate Change and Trade Commissioners (organised to raise concerns about reports of Canadian pressure to remove the FQD tar sands review clause), and ahead of meetings with representatives of the Canadian Government. In April 2010, The Co-operative put its name to a full-page advert in the *European Voice* reinforcing its message to the Commission.

# WASTE AND PACKAGING

## Background

The UK Commercial and Industrial sector produces an estimated 48 million tonnes of waste per year. The retail sector is the largest contributor, generating some 9 million tonnes<sup>1</sup>. In addition, the sector contributes 6.7 million tonnes of food waste to the 26.5 million tonnes of waste generated by UK households each year. It is estimated that 60% of food disposed by households – approximately one-third of food purchased – could have been eaten<sup>2</sup>.

Total packaging produced by the retail sector has remained stable at approximately 2.9 million tonnes between 2007 and 2009<sup>3</sup>.

Public awareness of waste and packaging issues is growing. Over the last 10 years there has been a year-on-year reduction in waste sent to landfill by households, and a three-fold increase in household recycling<sup>4</sup>.

## Materiality and strategy

The majority of The Co-operative's waste is associated with The Co-operative Food, and the waste generated by its 2,900 stores. CFS and the Group head office complex are the main generators of office waste.

Waste and packaging is a major area of focus in the new Ethical Operating Plan (page 13). In the latest ethical policy consultations for the food, banking and investments businesses, members and customers indicated their wish for the business to pursue measures that promote sustainable waste management.

The Co-operative's approach to operational waste management follows the established waste hierarchy of reduce, reuse and recycle. The Packaging Policy, for own-brand food products, prioritises absolute packaging reductions and governs acceptable packaging materials, based on food safety and environmental considerations<sup>5</sup>.

Climate change

Waste and packaging

Water

Biodiversity

Chemicals

Targets 2010	Progress	Targets 2011
<b>Indicator: Waste reduced</b>		
Extend the consolidation of waste management contracts across The Co-operative to further improve accounting systems for general and recycled waste streams.	✓ The accuracy of the waste to landfill tonnage for Pharmacy, Travel and Food has improved following a consolidation of waste management contracts for these businesses (page 74).	
Reduce total waste arising and maintain a 70% reuse/recycling rate across CFS' main offices, excluding the Britannia estate.	✓ CFS (excluding Britannia) reduced its waste arising by 158 tonnes and maintained a stable reuse/recycling rate above 70% (pages 74 and 76).	Reduce total waste arisings and maintain a 70% reuse/recycling rate across CFS' main offices, including Britannia.
Reduce the carbon impact of The Co-operative Food's packaging by 10% by 2012, compared with 2009 <sup>6</sup> .	= A number of reductions in the environmental impact of own-brand packaging were developed in 2010 (page 75).	<b>EOP</b> In addition to the 15% weight reductions achieved in packaging, reduce the carbon impact of The Co-operative Food's packaging by 10% by 2012, compared with 2009 <sup>7</sup> .
		<b>EOP</b> Reduce the number of carrier bags used by The Co-operative Food by 75% by 2013.
<b>Indicator: Waste reused/recycled</b>		
Increase the amount of cardboard and polythene recycled by The Co-operative Food.	✓ Although the volume of tonnes recycled decreased slightly when compared with 2009, this was due to an increased use of reusable crates, which has reduced the total amount of cardboard waste generated (page 75).	
<b>Indicator: Waste disposed</b>		
Maintain less than 50% of total waste arisings being sent to landfill from The Co-operative Food.	✓ In 2010, 40% of total waste arising was sent to landfill or for disposal (page 77).	<b>EOP</b> Ensure that the vast majority of operational waste is diverted away from landfill by 2013, and expand work with Fareshare on food waste.

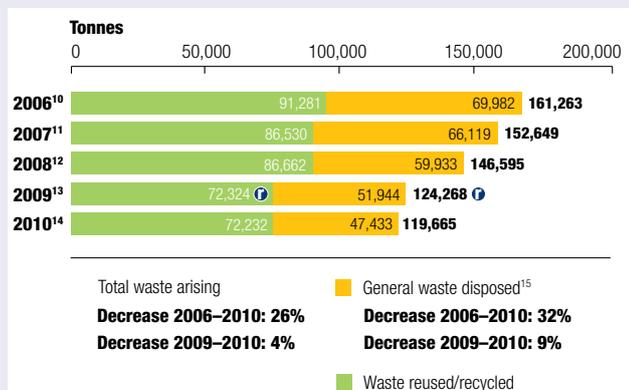
# WASTE AND PACKAGING

## Total waste

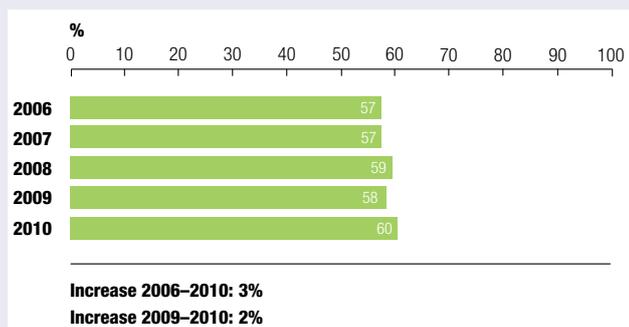
In 2010, total reported waste arisings and general waste disposed<sup>8</sup> were 119,665 tonnes (2009: 124,268 tonnes) and 47,433 tonnes (2009: 51,944 tonnes), representing a reduction of 4% and 9% respectively when compared to 2009, and 26% and 32% respectively when compared with 2006. Meanwhile, the reuse/recycle rate increased by 2% compared to 2009, and 3% compared to 2006.

🎯 In 2010, the accuracy of the waste to landfill tonnage for The Co-operative Pharmacy, Travel and Food improved due to a consolidation of waste management contracts for these businesses. In line with its target, CFS continued to reduce its waste in 2010, and maintained a 70% recycling rate across its head office<sup>9</sup>.

### Total waste arising



### Proportion of waste reused/recycled



## Reducing waste

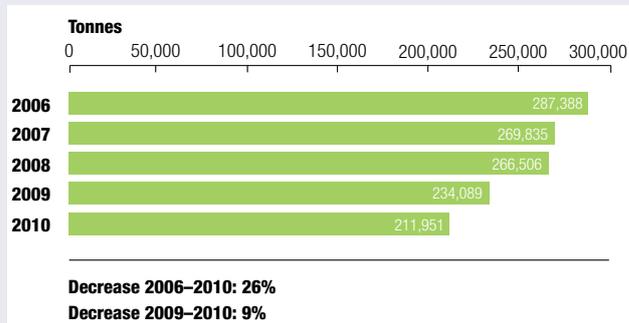
### Total primary packaging (own-brand and branded)

Total primary packaging levels<sup>16</sup> at The Co-operative Food<sup>17</sup> (own-brand and branded) have reduced by 22,138 tonnes (9%) since 2009, and 75,437 tonnes (26%) since 2006.

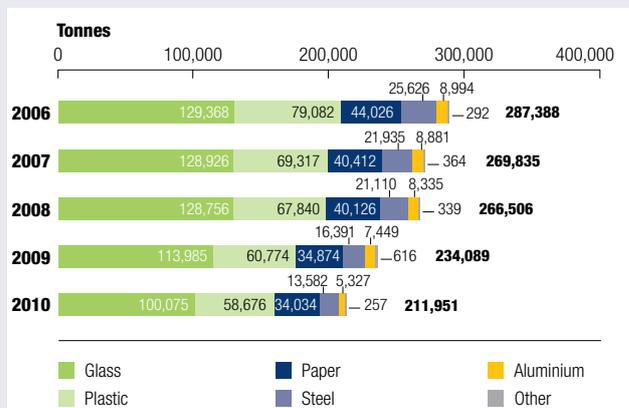
### Reduction in total primary packaging

**26%** reduction in total primary packaging since 2006

### Total primary packaging handled<sup>18</sup>



### Primary packaging handled by material<sup>19</sup>



## Reducing own-brand packaging

In 2009, The Co-operative Food achieved its target to reduce own-brand primary packaging by 15% – one year ahead of schedule<sup>20</sup> – achieving an estimated total reduction of 16% (15,403 tonnes).

A new target has now been set to reduce the carbon impact of packaging by 10% by 2012 based on 2009 levels. This is in line with the focus of the industry-wide initiative Courtauld II<sup>21</sup>, to which The



Co-operative has pledged its commitment. Courtauld II extends the focus of the original Courtauld agreement on packaging reduction, to include the carbon impact of packaging, as well as UK household food waste and waste in the supply chain. In 2010, an 11% reduction (15,051 tonnes) in the weight of own-brand packaging was achieved, compared to 2009<sup>22</sup>.

Specific reductions in own-brand packaging developed in 2010 include:

Initiative	Projected annual savings (tonnes)
Reduction in the weight of own-brand Californian wine bottles	530 glass
Change from plastic lids to pre-printed film on soft fruits.	221 plastic
Change from paper labels to pre-printed film on pre-packaged tomatoes.	181 paper
Reduction in the thickness of potato plastic bags.	34 plastic
Reduction in the thickness of box packaging on whole dates.	6 plastic

**Food waste**

To help customers reduce food waste, storage instructions for fruit and vegetables are included on loose fresh produce bags. For example, messages on banana packaging are designed to encourage customers to store the fruit at room temperature, rather than in the refrigerator.

In early 2011, The Co-operative committed to work further with charities, such as Fareshare, to help reduce food waste.

**Carrier bags**

The number of single-use carrier bags distributed to customers has been reduced by 66% (2009: 63%) compared to 2006, representing over one billion carrier bags avoided. These reductions have been achieved through a number of initiatives, including re-use messages on carrier bags; the launch of a reusable Fairtrade cotton carrier bag; and the removal of single-use bags from prominent display at checkouts.

In early 2011, a new target was set to reduce the number of carrier bags used by The Co-operative Food by 75% by 2013.



**Reductions in carrier bags**



**Reusing waste**

**Reusable crates**

The use of reusable plastic crates for transportation and display of fresh produce and some meat products enabled The Co-operative Food to save an estimated 10,788 tonnes of cardboard in 2010 (2009: 5,422 tonnes).

**IT equipment**

In 2010, CFS donated, or sold for reuse, 23 tonnes of IT equipment (2009: 15 tonnes), including monitors, PCs, laptops and printers. Donated items were sent to charities, such as Digital Links International and the NSPCC. In addition, head office passed 32 tonnes of IT equipment (2009: 12 tonnes) to their asset management contractor for reuse.

**Recycling waste**

In 2010, The Co-operative reused/recycled 72,232 tonnes of waste (2009: 72,349 tonnes), representing 60% of total waste arising (2009: 58%).

**Waste reused/recycled 2010**



**Cardboard and polythene**

Cardboard and polythene represent approximately 86% of waste reused/recycled. In 2010 some 62,084 (2009: 63,250) tonnes were reused/recycled<sup>23</sup>. Although this is a slight reduction compared with 2009, it can be accounted for by the increased use of reusable crates (see above), which has reduced the amount of cardboard waste generated by stores.

**The Co-operative recycling centre**

Head office paper and cardboard are recycled through a recycling centre based at the Manchester head office complex. In 2010, the centre recycled a total of 984 tonnes (2009: 761 tonnes) of The Co-operative's waste<sup>24</sup>.

**Packaging regulations**

Under the Producer Responsibility Obligations (Packaging Waste) Regulations 2007<sup>25</sup>, The Co-operative is obligated to determine how much packaging material (across six categories) it passes on to customers, and to produce evidence of a set amount of recycling and recovery<sup>26</sup>. The Co-operative maintains compliance with these regulations on behalf of much of the UK retail Co-operative Movement.

Climate change

Waste and packaging

Water

Biodiversity

Chemicals

## WASTE AND PACKAGING

### Recycled content and recyclability of product packaging

Two own-brand products – 100% recycled toilet tissue and kitchen towels – are made from waste paper supplied by The Co-operative Recycling Centre. Recycled materials are also used in product packaging, including the majority of green glass wine bottles, washing powder boxes and certain tissue boxes. All new hand



baskets at The Co-operative Food are made from 100% recycled plastic.

The majority of The Co-operative Food's own-brand products now carry a packaging recycling logo. The logo was developed by WRAP and the British Retail Consortium, working with UK retailers, including The Co-operative. Use of this logo is voluntary; however, it is hoped that the use of a single, industry-wide logo will minimise customer confusion over which materials can be recycled.



In 2010, The Co-operative entailed total obligations of 98,259 tonnes. This included obligations in all six material categories: paper (14,839 tonnes), glass (50,504 tonnes), aluminium (1,377 tonnes), steel (6,097 tonnes), plastic (11,808 tonnes) and wood (4 tonnes), and a balanced recycling and recovery obligation of 13,630 tonnes<sup>27</sup>. These recycling obligations were met through the purchase of Packaging Recovery Notes (PRNs), largely from the Veolia compliance scheme.

#### Electricals

In accordance with the introduction of the Waste Electrical and Electronic Equipment (WEEE) Regulations<sup>28</sup>, producers and retailers in the UK are responsible for financing the environmentally sound disposal of WEEE.

The Co-operative entails obligations as both a producer and distributor of electrical and electronic equipment. It is a member of the Valpak producer compliance scheme and the retailer take-back scheme<sup>29</sup>. WEEE generated by The Co-operative's business activities will be taken back for recovery, reuse or recycling by its suppliers.

In 2010, The Co-operative recycled 3,156 tonnes of WEEE, including 3,102 tonnes (47,725 items) of electrical equipment taken back at its end of life from The Co-operative Electrical customers<sup>30</sup>.

#### Batteries

Under the Waste Batteries and Accumulators Regulations 2009, The Co-operative Food entails obligations as a distributor of batteries, and each store has a battery bin to take back waste portable batteries of any brand and size from customers. In 2010, 11 tonnes of batteries were recycled through stores. The Co-operative Food is classed as a small producer of batteries and is not required to join a Battery Compliance Scheme<sup>31</sup>.

#### Biodegradable waste

As in previous years, some 95% of animal by-product food waste from The Co-operative Food (1,712 tonnes) was recovered/recycled in 2010. This can be used in pet food, and as food for fishing bait<sup>32</sup>.

#### Inhaler recycling

In February 2011, The Co-operative Pharmacy announced that 40 of its branches in South Wales and the South East would take part in the first ever inhaler recycling scheme in Europe.

#### CFS

📍 In 2010, CFS (excluding Britannia) reused/recycled 940 tonnes (2009: 897 tonnes) of its waste (excluding general waste to landfill from the bank branches), resulting in a stable reuse/recycling rate above 70%<sup>33</sup>. The CFS reuse/recycle rate including waste sent to landfill from branches is 58%. The target will be extended to Britannia in 2011.

#### Other recycled waste

An additional 4,241 tonnes of miscellaneous items were recycled in 2010. Further detail, by business, can be found online [📄](#).

#### Customer recycling facilities

In 2011, the Salvation Army carried out a survey of customer recycling facilities at The Co-operative sites, identifying that there are recycling facilities at the majority of The Co-operative Food stores including:

#### Customer recycling facilities

Facility	Number of stores
Batteries	2,886 <sup>34</sup>
Textiles	565
Glass	397
Paper	303
Aluminium	264
Shoes	234
Plastic	146
Books	59
Cartons	27

A proportion of the textile recycling facilities are provided by Textile Recycling for Aid and International Development (TRAID). Customers have recycled 241 tonnes of unwanted clothing through these facilities since 2005.

## Waste disposal

### Waste sent to landfill

🎯 In 2010, The Co-operative disposed of 47,433 tonnes of waste to landfill, some 39% of total waste arising. A target has been set to divert the vast majority of such waste away from landfill by 2013.

Waste sent to landfill	
Business	Tonnes
The Co-operative Food	39,996 <sup>35</sup>
The Co-operative Pharmacy	2,374 <sup>36</sup>
The Co-operative Funeralcare	1,491 <sup>37</sup>
CFS	1,256
The Co-operative Farms	1,142
Manchester head office complex	246
The Co-operative Travel	122 <sup>38</sup>
Other businesses <sup>39</sup>	425
<b>Total</b>	<b>47,052</b>

In addition to waste disposed directly to landfill, 381 tonnes of clinical and hazardous waste were autoclaved, rendered, or incinerated<sup>40</sup>.

### Degradable packaging

For a number of years, The Co-operative Food worked to render packaging more degradable through the use of additives. The Co-operative Food introduced Britain's first degradable plastic carrier bag in 2002, and own-brand sliced bread bags and self-select fresh produce bags were made degradable in 2004 and 2006 respectively. However, subsequent research<sup>41</sup> has found that the use of these additives has no environmental benefit, and, as a result, from January 2010 The Co-operative has ceased to use them in carrier bags and will remove them from other grocery packaging.

## Ethical finance

### The Co-operative Asset Management (TCAM) overseas shareholder resolutions

In 2010, TCAM was presented with two overseas shareholder resolutions relating to waste or packaging. The first called on Tyson Foods Inc to report on the prevention of run-off and other forms of water pollution, and was supported. The second called on Starbucks Corp to adopt a recycling strategy for beverage containers, and an abstention was registered; TCAM considered that the company already implements an ambitious recycling strategy.

## Accompanying notes

- DEFRA Survey of Commercial and Industrial Waste Arisings 2010.
- WRAP (2009) Household Food and Drink Waste in the UK.
- [www.wrap.org.uk/retail-supply-chain/voluntary-agreements/courtauld-commitment/phase2-1/index.html](http://www.wrap.org.uk/retail-supply-chain/voluntary-agreements/courtauld-commitment/phase2-1/index.html)
- [www.defra.gov.uk/statistics/environment/waste/wrfg16-recycrates](http://www.defra.gov.uk/statistics/environment/waste/wrfg16-recycrates)
- [www.co-operative.coop/Corporate/PDFs/Packaging\\_Policy.pdf](http://www.co-operative.coop/Corporate/PDFs/Packaging_Policy.pdf)
- In line with WRAP's Courtauld II target and methodology.
- Ibid.
- The majority of waste disposed is sent to landfill (page 77).
- CFS waste arisings 2010: 2,456 tonnes (2009: 2,378 tonnes). CFS waste reused/recycled 2010: 1,507 tonnes (2009: 1,601 tonnes). Full CFS data 2006–2010 can be found online [↗](#).
- 80% complete, with reliance on extrapolation at The Co-operative Pharmacy, The Co-operative Funeralcare and The Co-operative Travel.
- Ibid.
- 85% complete, with reliance on extrapolation at The Co-operative Pharmacy and The Co-operative Travel.
- 85% complete, with reliance on extrapolation at The Co-operative Pharmacy and The Co-operative Travel. Reduction in waste arisings is largely due to store disposals.
- Reduction in waste recycled is largely due to store disposals. Figures specific to CFS can be found online [↗](#).
- Including waste to landfill and waste autoclaved/incinerated.
- Primary packaging refers to packaging that the consumer will take home, and does not include packaging used in transport and/or merchandising.
- In 2010, The Co-operative Food accounted for 98% of total packaging handled by The Co-operative.
- Data includes tonnages from co-operative societies that merged with United Co-operatives prior to its merger with The Co-operative. These include Yorkshire Co-operative Society, Leeds Co-operative Society and Sheffield Co-operative Society. Specific data relating to CFS can be found online [↗](#).
- Includes the former Somerfield estate tonnages. 'Other' refers to wood and other packaging materials, such as cork, which account for very small tonnages.
- 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. Excludes former Somerfield.
- The Co-operative was also a signatory to the original Courtauld Commitment (2005-2010), which sought to 'design-out' packaging waste growth, deliver absolute reductions in packaging weight and tackle the amount of food that consumers throw away. Courtauld II runs from 2010–2012.
- Includes former Somerfield stores.
- Derived assuming The Co-operative accounts for 84.6% of the Co-operative Retail Trading Group collections in 2010.
- 2010 figure includes various recyclates from CFS' main offices (54,1537 tonnes) and the Manchester head office complex centre (44,3249 tonnes).
- Ultimately derived from the European Parliament and Council Directive 94/62/EC on Packaging and Packaging Waste.
- 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 and former Somerfield are obligated as 'sellers' at 48%, pack/fillers at 37% and importers at 100%. The 2010 targets for materials were: glass (810%), paper (698.5%), aluminium (4,038%), steel (698.5%), plastics (297%) and wood (221%). Overall recovery (which includes energy recovery and composting) is set at 743%, of which a minimum of 92% must be achieved via recycling. The Producer Responsibility Obligations (Packaging Waste) Regulations 2007, Defra.
- Under the Regulations, obligations are calculated on the packaging handled in the previous year. The obligation in 2010 was, therefore, based on 211,951 tonnes of packaging handled by The Co-operative and 131,708 tonnes of packaging handled by the former Somerfield estate in 2009.
- [www.opsi.gov.uk/si/si2006/ukSI\\_20063315\\_en.pdf](http://www.opsi.gov.uk/si/si2006/ukSI_20063315_en.pdf)
- The Co-operative producer obligation based on 8,459 items, and distributor obligation based on 215,656 items of electrical and electronic equipment produced/sold in 2010.
- It also includes 30 tonnes of IT equipment from CFS; and 24 tonnes of IT equipment from the Manchester head office complex.
- Places an obligation on retailers to take back batteries in stores that sell more than 32kg of batteries per annum. Although this only applies to approximately 150 of The Co-operative Food stores, all stores have take back facilities.
- As defined in The Animal By-Products Regulations 2005.
- Excludes Britannia estate.
- Although The Co-operative takes back batteries in all stores, there is only a legal obligation to take back batteries in stores that sell more than 32kg per annum. In 2010, only 150 stores were legally obligated to take back batteries.
- Including 37,689 tonnes of waste from Food stores and 2,307 tonnes of waste from Regional Distribution Centres, (extrapolated from a 33% sample). It is estimated that 25,600 tonnes (68%) of The Co-operative Food's waste to landfill is food waste.
- Extrapolated from a 91% sample.
- Extrapolated from a 54% sample.
- Extrapolated from one month's data.
- Waste to landfill data for The Co-operative Electricals, Motor Group, Clothing and Legal Services, and Sunwin Cash in Transit, can be found online [↗](#).
- In addition to waste disposed directly to landfill, The Co-operative Funeralcare sent 263 tonnes of clinical waste and one tonne of spray booth filters to be autoclaved/incinerated; The Co-operative Food sent 90 tonnes of animal by-products respectively to be rendered/incinerated; The Co-operative Motor Group sent six tonnes of hazardous waste, including cleaning solution and rags to be reprocessed and disposed; and The Co-operative Farms disposed of one tonne of asbestos. No data is available for clinical/pharmaceutical waste from The Co-operative Pharmacy.
- Defra (2010) Assessing the Environmental Impacts of Oxo-degradable Plastics Across Their Life Cycle [randd.defra.gov.uk/Default.aspx?Menu=Menu&Module=More&Location=One&Completed=0&ProjectID=16263#Description](http://randd.defra.gov.uk/Default.aspx?Menu=Menu&Module=More&Location=One&Completed=0&ProjectID=16263#Description)

# WATER

## Background

Water is a critical issue in terms of both human development and environmental sustainability, with many areas of the world already surpassing 'peak ecological water'<sup>1</sup>. Despite the UN establishing the right to water as a basic human right in 2002<sup>2</sup>, almost one billion people worldwide still lack access to safe drinking water.

Water stress – where demand exceeds supply – is also a problem within the UK, with 12 of the 22 water regions in England showing serious levels of water stress<sup>3</sup>. Climate change is forecast to further aggravate these issues.

## Materiality and strategy

The Co-operative consumes water through its estate of over 5,000 properties, and through the 17,541 hectares of land managed by The Co-operative Farms. In addition, water is consumed indirectly, through the water use embedded in the production of food products, and the potential to influence water stewardship indirectly through the investments of The Co-operative Financial Services (CFS). Water consumption within the Food supply chain is likely to be significantly larger than direct uses.

The Co-operative's approach is to prioritise its direct consumption over which it has control. The Ethical Operating Plan (page 13) targets a reduction in water consumption across operations; water stress is the focus when considering indirect consumption within The Co-operative Food's supply chain, and suppliers are encouraged to practise good water stewardship. Water and sanitation are crucial components of the community investments delivered within the tackling global poverty programme (page 22).

Targets 2010	Progress	Targets 2011
<b>Indicator: Water consumption across estate</b>		
Reduce water consumption across The Co-operative's estate by 5% in 2010, excluding The Co-operative Farms.	✓ Total estimated water consumption across the estate decreased by 10.2% (see below).	<b>EOP</b> Reduce water consumption across The Co-operative's operations by 10% by 2013.
Improve water consumption accounting and reporting across The Co-operative.	✓ Water reporting now accounts for 63% of the estate, compared to 40% in 2009 (see below).	Further improve water consumption accounting and reporting.
Introduce a water policy framework for own-brand produce suppliers for The Co-operative Food to encourage better water stewardship.	⇒ In 2010, The Co-operative Food took the decision to adopt the Institute of Grocery Distribution (IGD) guide to 'Understanding, Assessing and Managing Water in Grocery Supply Chains' in place of its own water policy framework (page 79).	Produce an Agronomic Code of Practice and disseminate to all suppliers.

## Water consumption

### The Co-operative Estates

The Co-operative Estates is a large but non-intensive user of water.

🔍 Water bills are currently stored on a number of different systems, and data from the most comprehensive of these, which accounts for 63% of the estate (2009: 40%), is the basis for reporting and targets setting<sup>4</sup>.

🔍 In 2010, total estimated water consumption across the estate decreased by 10.2%, and estimated average water consumption per site decreased by 6.2%.

	2008	2009	2010
Average water consumption per site (m <sup>3</sup> ) <sup>5</sup>	443 📈	390	366
Total water consumption (million m <sup>3</sup> )	2.5	2.2	2.0

### The Co-operative Farms

As the UK's largest farmer, The Co-operative Farms manages 14 farm units in England and Scotland, covering 17,541 hectares of land (of which 11,133 hectares are owned/tenanted by The Co-operative). Water consumption on farms is particularly affected by levels of rainfall, with dry years causing significant increases in the use of abstracted water for irrigation<sup>6</sup>.

Complex ownership, management, contracting and partnership agreements across The Co-operative Farms make the compilation of exact water consumption figures challenging. Water consumption figures for Farms are based on spray records and irrigation figures provided by farmers<sup>7</sup>.

	2007	2008	2009	2010
Water consumption (m <sup>3</sup> per cropped hectare)	24	18	37	43
Total water consumption (million m <sup>3</sup> )	0.4m	0.3m	0.6m	0.7m

### Rainwater collection at The Stoughton Estate

Rainwater is collected from the roof of the toilet block of the From Farm to Fork (page 57) buildings on The Co-operative Farms' Stoughton Estate. It is filtered and heated by solar panels, before being used by school children to wash their hands. Excess water is used by the children to irrigate crops in the farm's polytunnels.



### Supply chain

🎯 In 2010, The Co-operative Food took the decision to adopt the Institute of Grocery Distribution (IGD) guide to 'Understanding, Assessing and Managing Water in Grocery Supply Chains'<sup>8</sup> in place of its own water policy framework. In doing so, it joined forces with industry leaders to present a united message to suppliers about water conservation. This avoids multiple demands being placed on suppliers from different buying companies.

The IGD guide references the work of WWF on water, and sets out a three-stage approach to water management, recognising water stress as an issue in stages two and three. Links to the guide have been sent to major suppliers and added to the online supplier management portal. In the course of 2011, the guide will be supplemented by The Co-operative's own Agronomic Code of Practice, which includes a specific set of measures on water in agriculture, irrigation and the use of water in processes.

In addition, The Co-operative Food is a member of IGD's water stewardship council. The council is in the process of conducting a case study into water usage in a UK water catchment system, in order to holistically account for all demands for water use in the system. Results of the case study are expected in 2011.

### Ethical finance

#### The Co-operative Asset Management (TCAM) engagement

• **Water Disclosure Project** In late 2009 The Carbon Disclosure Project (CDP) launched its Water Disclosure Project, supported by 137 financial institution signatories including CFS. The project aims to make data available to institutional investors for assessing risks and opportunities associated with water scarcity and to help drive investment towards sustainable water use. In April 2010 a questionnaire requesting data on water usage and exposure to water-stressed areas was sent on behalf of these signatories to

302 of the largest 500 companies in the FTSE Global Equity Index Series that operate in sectors that are water intensive or exposed to water-related risks.

Responses were received from 150 companies and summarised in the Water Disclosure Global Report. In December 2010, The Co-operative Asset Management wrote to 10 non-respondents, urging them to participate in the project and to disclose data on total water use, water recycling, exposure to water-stressed areas and future water use goals.

- **TCAM overseas shareholder resolutions** In 2010, TCAM was presented with two overseas shareholder resolutions relating to water. The resolutions called on Ecolab Inc and Exxon Mobil Corp to adopt policy commitments to the human right to water. Both resolutions were supported.

### Affinity products and services

#### Fairbourne Springs

The Co-operative's own-brand bottled water, Fairbourne Springs, funds PlayPumps™ in Southern Africa (page 28). In 2010, The Co-operative sold 25,125m<sup>3</sup> of Fairbourne Springs water, resulting in 160 (2009: 137 📈<sup>9</sup>) PlayPumps™ being funded in 2010, which will provide a further 0.3 million m<sup>3</sup> (2009 0.3 million m<sup>3</sup> 📈<sup>10</sup>) of pumping capacity.

Due to increased logistical difficulties, there was a greater delay between funding and installation of pumps in 2010 than in previous years. All remaining PlayPumps™ will be installed in 2011.

The approximate number of beneficiaries from PlayPumps™ in 2010 was 404,000.



#### PlayPumps™

Year	Number of PlayPumps™ installed	Cumulative water pumped (m <sup>3</sup> ) <sup>11</sup>
2007	31	36,000
2008	34	124,000
2009	147	276,000
2010	70	538,000
<b>Total</b>	<b>282</b>	<b>974,000</b>

#### Water and sanitation beneficiaries 2010

**508,900** estimated water and sanitation beneficiaries in the developing world

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# WATER

## The Co-operative antibacterial handwash

In early 2011, The Co-operative Pharmacy launched an affinity product with UNICEF. For each sale of its 250ml hand wash, The Co-operative Pharmacy will donate 15p, which will go towards extending the scope of a sanitation project in Togo (page 30).



## Carbon offset

The Co-operative invests in carbon offset projects, one of which is a treadle pump scheme in India (page 67). In addition to providing an alternative to diesel-powered pumps and associated CO<sub>2</sub> emissions, over the course of a year, each treadle pump provides, on average, 5,100m<sup>3</sup> of irrigation water outside of the monsoon season. An estimated 52,400 individuals benefited from treadle pumps in 2010.

### Treadle pumps

Year	Treadle pumps funded	Cumulative pumping capacity of pumps funded (m <sup>3</sup> )
2007	27,922	144m
2008	57,631	440m
2009	53,052	713m
2010	10,482	767m

The large decrease in the number of treadle pumps in 2010 is due to fewer offset credits being available from this project.

## Community involvement

### Water and sanitation beneficiaries in the developing world

Development uplift projects, with a focus on providing water, sanitation and renewable energy solutions, are an important focus for The Co-operative's work to tackle global poverty (page 22). Four projects aimed at improving access to clean water, sanitation and hygiene education are currently underway, two in Malawi, one in Mozambique and one in Panama (page 30). The estimated number of beneficiaries from these projects in 2010 is 52,500.

Water pump in Bauleni village, Malawi, a community investment beneficiary.



### Accompanying notes

- The Pacific Institute defines 'peak ecological water' as being a state in which 'humans use more water than the ecosystem can sustain without significant deterioration and degradation', [www.worldwater.org/data20082009/ch01.pdf](http://www.worldwater.org/data20082009/ch01.pdf)
- In November 2002, the United Nations Committee on Economic, Social and Cultural Rights affirmed that access to adequate amounts of clean water for personal and domestic uses is a fundamental human right of all people.
- Environment Agency (2007) Identifying areas of water stress.
- An extrapolation was made to estimate full consumption.
- Total number of sites decreased from 5,738 in 2009 to 5,490 in 2010.
- Abstracted water in 2009 accounted for 90% of total water consumption, as opposed to 70% in 2008 and 67% in 2007.
- The Environment Agency and Scottish Environmental Protection Agency stipulate that farmers must keep a record of water abstracted.
- [www.igd.com/water](http://www.igd.com/water)
- In the 2009 Sustainability Report, the 'pumps installed' figure was erroneously reported as the 'pumps funded' figure.
- In the 2009 Sustainability Report, 'increased capacity due to pumps installed' was reported. This has been changed to 'increased capacity from pumps funded', in order to be more consistent with reporting in the International Development chapter. However, once rounded up, 2009 figures from both pumps installed and pumps funded are the same.
- Figures in the table are based on PlayPumps™ spinning for four hours a day, pumping 1,400 litres an hour. This figure is multiplied by the number of pumps installed in that year (according to the rate at which they were installed), and the number of days in a year.

# BIODIVERSITY

## Background

The current rate of loss of land, freshwater and marine biodiversity is more rapid than at any time in human history<sup>1</sup>. Globally, three-quarters of commercial fish stocks are fully or over-exploited, and deforestation for products including wood, palm oil and soya, threatens the habitat of 80% of the world's terrestrial species<sup>2</sup>.

In 2010, the landmark The Economics of Ecosystems and Biodiversity report was published, estimating that an investment of £29 billion could secure a global network of protected areas whose services are worth more than £3.2 trillion annually<sup>3</sup>. A renewed political commitment has followed, and the Nagoya Biodiversity summit secured an agreement to form a network of protected areas comprising 17% of the world's land surface, and 10% of the oceans, by 2020<sup>4</sup>.

## Materiality and strategy

The Co-operative exerts a significant impact on biodiversity via the products offered by the Food business, which contain raw materials sourced from across the world. As the UK's largest farmer, The Co-operative has a direct impact on the UK's biodiversity, and The Co-operative Financial Services recognises that, unless closely monitored, its provision of finance and investment may have a detrimental impact on biodiversity.

Biodiversity is identified within the new Ethical Operating Plan (page 13) as an environmental priority. The food business works, where possible, to established certification schemes, including Forest Stewardship Council (FSC) (wood), Marine Stewardship Council (MSC) (fish) and Roundtable on Sustainable Palm Oil (RSPO) (palm oil), and a Responsible Fish Sourcing Policy governs the purchase of fish. The Co-operative Farms works to Defra's Environmental Stewardship scheme.

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Targets 2010	Progress	Targets 2011
<b>Indicator: MSC-certified fish species sold</b> (Performance benchmark and recognition page 83)		
Ensure all own-brand fish products are labelled as 'responsibly sourced'.	✓ All own-brand fish products now carry a 'responsibly sourced' label (page 82).	<b>EOP</b> Maintain position as one of the UK's most responsible retailers of fish.
Ensure no own-brand products contain fish from the Marine Conservation Society's (MCS's) 'Fish to Avoid' list.	✓ No 'Fish to Avoid' products sold (page 82).	Ensure all own-brand canned tuna is 100% pole and line caught by 2011.
<b>Indicator: FSC-certified timber products sold</b>		
		<b>EOP</b> Aim to be the UK's leading retailer on forest protection, including maintaining leading work on wood and paper.
Achieve FSC certification for The Co-operative Food's greaseproof paper during 2010.	✗ Work is underway with suppliers, however, at present, supplies remain unavailable (page 83).	Achieve FSC certification for The Co-operative Food's greaseproof paper during 2011.
Pursue 'Graduate Status' for The Co-operative Food within the WWF-FTN in 2010.	✗ 'Graduate Status' not yet achieved; will continue to be pursued during 2011 (page 83).	Attain WWF-UK Forest and Trade Network 'Graduate Status'.
Ensure 90% or more of The Co-operative Travel's point-of-sale material remains FSC-certified during 2010.	✓ FSC certification achieved on more than 90% of point-of-sale material (page 84).	
<b>Indicator: Use of palm oil in own-brand products</b>		
Ensure palm oil used in all own-brand products is 100% certified sustainable palm oil (CSPO) by 2015.	= Target on track, and timeline brought forward (page 84).	<b>EOP</b> Palm oil used in all own-brand products to be 100% certified sustainable palm oil (CSPO) by end of 2011.
Complete the conversion of at least 15 own-brand products to CSPO during 2010.	✓ 268 products now made with CSPO (page 84).	

(continued over)

# BIODIVERSITY

🎯 Targets 2010	Progress	Targets 2011
<b>Indicator: Use of soya in own-brand products</b>		
		<b>EOP</b> Move soya sourcing to a sustainable footing by 2015.
<b>Indicator: Biodiversity initiatives</b>		
Progress wildflower seed trials on The Co-operative Farms' sites, as part of Plan Bee, during 2010.	✓ Over 850 hives established, and research is due to conclude in 2012 (page 86).	<b>EOP</b> Extend Plan Bee campaign and seek to address the decline of additional 'at risk' pollinators.
Raise, through the RSPB credit card, £400,000 for Britain's threatened wetlands during 2010.	✓ £398,000 raised (page 87).	

## Marine stewardship



The Co-operative Food's Responsible Fish Sourcing Policy<sup>5</sup> was launched in 2008, and governs the sourcing of all own-brand wild and farmed seafood. The Policy is underpinned by a checklist, which examines individual species based on the fishery location

and method of catch; species' resilience to fishing; fishery by-catch estimates; and whether species are noted as critically endangered or endangered on the IUCN Red List, as well as stock assessments from NGOs, such as Greenpeace. The full Responsible Fish Sourcing Policy is available online [▶](#).

🎯 All own-brand fish products have a 'responsibly sourced' label, and the number of MSC-certified fish products sold has increased from 18 to 28<sup>6</sup> in 2010, representing 25% of the range.

🎯 The Co-operative sells no products identified by the Marine Conservation Society as 'Fish to Avoid', and also commits to the following sustainability initiatives:

- **Tuna** Own-brand tuna is caught by methods that conform to the Earth Island Institute (EII) dolphin-safe standards<sup>7</sup>. Drift nets are not used to catch tuna<sup>8</sup>, nor are fish caught using the method known as 'setting on dolphins'<sup>9</sup>.
- **Salmon and trout** Conventional and organic farmed fish (representing the majority of fresh salmon and trout) is produced to strict codes of practice. The Co-operative Food was an early promoter of humane stunning prior to slaughter for farmed fish; a standard that is now widely accepted across the industry.
- **Prawns** All warm-water prawns are sourced from well-established farms in Indonesia and Thailand, which are Global Aquaculture Alliance (GAA) certified. Farms in areas of mangrove forest depletion are not used.
- **Cod** Own-brand cod is sourced from well-managed Icelandic and Norwegian stocks that are either MSC-certified or currently undergoing MSC assessment.
- **Haddock** Own-brand Scottish haddock is sourced from well-managed MSC-certified fisheries, and all other Co-operative Food branded haddock is line caught from Icelandic or Norwegian stock that is MSC-certified or currently undergoing MSC assessment<sup>10</sup>.

## ▶ Support for UK fisheries

In 2008, £200,000 was made available to fund the certification of UK fisheries to the MSC standard. Twelve projects are currently underway: one fishery is currently undergoing MSC pre-assessment, the Sussex

inshore fishery (including 26 separate fisheries) has completed its pre-assessment, nine fisheries are currently undergoing full MSC assessment and the North Menai Strait Mussel has gained MSC accreditation.

*"By funding fisheries like Bangor Mussel Producers through assessments, The Co-operative is taking direct responsibility for ensuring that fisheries are certified as sustainable, and making a significant difference towards changing the global seafood market to a sustainable basis."*

**Toby Middleton**, Marine Stewardship Council



**MSC certification 2010**

**28** MSC-certified fish products sold  
2009: **18**

**Performance benchmark**

The Co-operative Food was ranked first out of eight retailers in the Marine Conservation Society (MCS) 2009 supermarket survey. The Co-operative was praised for eliminating all fish from MCS's list of 'Fish to Avoid' from its shelves; for selling the largest volume of seafood from the 'Fish to Eat' list; for its campaigning work to bring about marine reserves; and its financial support to enable UK fisheries to become more sustainable.

**Performance benchmark**

In early 2011, The Co-operative Food was ranked fourth of nine retailers in the Greenpeace Tuna League Table. The Co-operative was praised for only stocking those tuna species more resilient to fishing and for its public advocacy work with the MCS. Although The Co-operative has a strong commitment to sourcing only pole and line caught tinned tuna by the end of 2011, at the time of the survey, some own-brand tuna was sourced from fisheries utilising fish aggregating devices and purse seine nets, a combination which is associated with increased levels of by-catch.

**Performance recognition**

In early 2010, The Co-operative Food was named as a 'Seafood Champion' by the Seafood Choices Alliance, a US-based organisation that campaigns to improve the sustainability of the global seafood sector. The award provides international recognition for outstanding leadership in promoting environmentally responsible seafood.

**Forest stewardship**



**The Co-operative Food**

The Co-operative supports Forest Stewardship Council® (FSC®) certification, the most respected independent standard for the certification of forest products. During 2010, 37,800m<sup>3</sup> of wood and paper products (2009: 30,800m<sup>3</sup>) were purchased. All were of known origin, with credible evidence of legal harvesting, and 94% (2009: 93%) were supported by FSC certification, demonstrating a complete chain of custody from forests that demonstrate social, economic and environmental benefits<sup>11</sup>. A further 2% (2009: 6%) were sourced from recycled post-consumer waste, 3% (2009: 0%) were from recycled pre-consumer waste, and 1% (2009: 0%) were from known, legal-source virgin material, such as that certified by the Programme for Endorsement of Forest Certification Scheme (PEFC).

**Total percentage of own-brand Co-operative Food products supported by FSC certification**

2006	2007	2008	2009	2010
36%	67%	96%	93%	94%

**FSC certification 2010**

**94%** of Co-operative Food wood and paper products FSC-certified, with a further 5% from recycled waste  
2009: **93%**

FSC products sold include: barbecue charcoal, wooden kitchenware, bagged growing media, and household paper. Cork used in own-brand corked wines is currently being converted to FSC-certified cork, and five own-brand wines have been converted to date.

👁 Greaseproof paper is currently PEFC-certified, and, working with suppliers, the product will be moved to FSC certification as soon as supplies are available.

As a member of the WWF-UK Forest and Trade Network (FTN), The Co-operative Food commits to tracing all timber and paper products back to forest sources and to improve forest sustainability in conjunction with suppliers. 👁 During 2011, The Co-operative Food will continue to pursue Graduate Status within the FTN, which confirms and recognises the achievements of members whose trade by volume in forest products is consistently more than 95% credibly certified and/or recycled post-consumer material.



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### CFS, The Co-operative Funeralcare and The Co-operative Travel

FSC-certified timber, or high recycled content MDF, was specified for the refurbishment of six bank branches and eight regional sales offices in 2010. Of the 92,000 coffins and caskets manufactured by The Co-operative Funeralcare, 45% (2009: 44%) were FSC-certified foil on chipboard, and the veneer coffin ranges, representing 48% of output, were converted to FSC in early 2011. The remaining 6% (2009: 7%) of coffins manufactured were from solid wood<sup>12</sup>. During 2010, more than 90% (2009: 50%) of The Co-operative Travel's printed point-of-sale material was FSC-certified.

### Palm oil

Palm oil is used as an ingredient in a wide variety of food and non-food products. As demand for palm oil increases, biodiversity loss from land-use conversions can be dramatic; palm oil plantations are now the leading cause of rainforest destruction in Malaysia and Indonesia<sup>13</sup>.

In order to tackle the deforestation associated with palm oil, the Roundtable on Sustainable Palm Oil (RSPO) was formed in 2004 to promote the growth and use of sustainable oil palm products through credible global standards and engagement of stakeholders. One barrier to the wide-scale uptake of RSPO-certified oil is the complexity of the commodity supply chain. In order to overcome this, The Co-operative Food has, since 2009, been a member of GreenPalm, an RSPO-endorsed platform, which negates the problem of segregation of sustainable and unsustainable oil by allowing the end user to purchase certificates directly from the producer to cover usage in products. These certificates can then be redeemed to show how a business is promoting the production of RSPO-verified sustainable palm oil.

During 2010, accounting systems were improved to determine the volumes and origins of palm oil used in The Co-operative Food's own-brand products<sup>14</sup>. In total, 5,090 tonnes of palm oil were used within 624 own-brand products, of which 2,343 (46%) were Certified Sustainable Palm Oil (CSPO), under one of the certification schemes developed by the RSPO<sup>15</sup>. A total of 268 own-brand products now use exclusively CSPO, considerably exceeding the target of 15 products set the previous year. The Co-operative Food has set the new target of ensuring its palm oil requirements for all own-brand products are fully covered by either CSPO or a certificated equivalent such as GreenPalm by the end of 2011. Additionally, it is intended that identity preserved CSPO will be utilised for all own-brand requirements by 2015.

#### Certified palm oil 2010

**268** own-brand products made exclusively with certified sustainable palm oil

### Soya

As a high-protein, low-fat and low-cost bean, soya is a versatile and prevalent ingredient in many foods, however the vast majority of the global soybean crop is used as a foodstuff for livestock and poultry<sup>16</sup>. In 2009, nearly half of all soya originated in South America<sup>17</sup> and its production has been linked with deforestation of the Amazon and destruction of other ecosystems<sup>18</sup>.

## Carbon offset, reforestation and forest protection

In 2010, reforestation, again, accounted for 20% of The Co-operative's carbon offset programme (page 67), and will continue to do so, given this is the commonly accepted level of CO<sub>2</sub> emissions attributable to deforestation and land use change. During the year £173,500 (2009: £251,000) supported reforestation in Kibale Forest National Park, Uganda and £187,000 supported a Reducing Emissions from Deforestation and Degradation (REDD) project in Kasigau, Kenya.

In Kibale, the areas planted on behalf of The Co-operative have attracted primates, including chimpanzees, and

forest elephants, and the programme provides seasonal work for up to 400 people. Further details of work with villagers living near Kibale are given on page 29. The Kasigau Corridor project in Kenya provides education and employment to local communities in areas such as conservation and sustainable charcoal production, creating an economic alternative to forest clearing for agriculture. The area protected is also a wildlife corridor between two national parks, supporting many species including lion, cheetah, African elephants and the endangered Grevy's Zebra.



Due to the wide breadth of soya use across the food chain, the development and maintenance of accounting systems to gauge and monitor soya use in own-brand products is challenging. However, in 2011, The Co-operative Food will develop accounting systems to measure soya use within the Elmwood product feed chain (higher-welfare pork, chicken and turkey) and by 2015, soya in the feed chain of own-brand meat products will have a sustainable footing which avoids deforestation and other habitat destruction, providing adequate supplies of sustainable soya are available.

**Peat**

Peat is the major constituent of most horticultural growing media in the UK, however its removal from bogs in Britain threatens wildlife habitats and degrades carbon sinks. The Co-operative's long-term goal is to meet the Government's target to completely phase peat out of the amateur gardener market by 2020. To comply, annual dilution targets for peat have been established, and in 2011, all growing media sold will contain no more than 20% peat.

Of the 8,741m<sup>3</sup> of peat-related products sold in 2010 (2009: 9,072m<sup>3</sup>), 68% was peat<sup>19</sup> (2009: 36%). The substantial increase in the average peat content was predominantly due to the short-term removal from sale of low peat own-brand growing media (40% peat).

During 2010, plant baskets and tubs successfully used composted flower waste as growth media. The Co-operative 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.

**Moors for the Future**

The blanket bog areas on the high moorland plateau of the Peak District contain some of the oldest peat deposits in the UK. They are internationally recognised, providing a home for populations of breeding birds, such as merlin and golden plover<sup>20</sup>, and nationally rare and significant plant communities. Moors for the Future is Britain's largest upland conservation partnership project, implementing conservation, research and awareness-raising work in the Peak District. In spring 2009, The Co-operative Foundation (page 19) provided £78,290 to Moors for the Future for a project to develop a method for large-scale cultivation and spreading of Sphagnum

moss<sup>21</sup>. The loss of Sphagnum, predominantly due to historic pollution, over-grazing and fire damage, has been a major factor in the erosion of blanket peat in the South Pennines<sup>22</sup>. The final results of the project will be published in 2011, however initial results show that Sphagnum is suitable for large-scale reintroduction via aerial spraying, and survival rates are sufficiently high to enable re-colonisation.

*"The work on the Sphagnum propagation project is probably the most important project to have been undertaken in restoring moorland. It would not have happened without The Co-operative Foundation."*

**Matthew Buckler**, Moors for the Future

**Land stewardship: The Co-operative Farms**

In 2010, The Co-operative Farms managed a total of 17,541 hectares (2009: 20,726 hectares) of land on a variety of different agreements. Of this land, 11,133 hectares (2009: 10,699 hectares) were owned/tenanted by The Co-operative. Of land farmed as The Co-operative Farms, 10,674 hectares (2009:10,070 hectares) were intensively cultivated and 459 hectares (2009: 262 hectares) were either unintensively cultivated or left fallow.

All farms are assessed annually against an environmental management system (EMS), which checks for best practice and legislative compliance, and identifies areas for environmental improvement. In 2010, 93% (2009: 94%) of the eligible owned/tenanted and intensively farmed land was managed in accordance with the Natural England Environmental Stewardship Scheme 'Entry Level', and a 'Higher Level' Stewardship Scheme commenced on the Stoughton Estate<sup>23</sup>. Farms are compliant with Good Agriculture and Environmental Condition standards and Statutory Management Requirements on soil, ensuring a base level of protection for soils, habitats and landscape features.

Hedges are only cut every second or third year, and are cut in late winter. A number of grass margins and field corners have been established and maintained, and in 2010 these accounted for over 250 hectares<sup>24</sup> (2009: 243 hectares) of intensively cultivated land. These measures provide improved nesting sites for birds and chicks, and offer habitats for insects and small mammals.

**Habitat heroes**

In 2010, a national wildlife initiative, 'Habitat heroes', was launched at six Co-operative farms across the UK. Adaptations are being made to farmland to improve habitats and support endangered or protected species. Barn owls are expected to benefit from a Barn Owl Manor built on The

Co-operative's Down Ampney Farm and others have already been seen investigating the purpose-built holt on The Co-operative's Coldham Farm. Red squirrels, water voles, bats (17 species) and pollinators such as bees, butterflies and hoverflies, are all expected to benefit.



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## Plan Bee



In January 2009, The Co-operative launched Plan Bee to highlight the decline of the honeybee population. Plan Bee is centred on taking action on pesticides (page 89), the funding of research into the causes of the decline in bee numbers, and encouraging Co-operative members to take action in their own gardens. As announced as part of the new Ethical Operating Plan (page 13), Plan Bee will be extended to other 'at risk' pollinators in 2011.

[www.co-operative.coop/planbee](http://www.co-operative.coop/planbee)



### Key activities include:

- The distribution of wildflower seeds to Co-operative members and customers. Since the campaign launched in 2009, over 900,000 packets of wildflower seeds have been distributed. The flowers, once grown, will provide nutrition for bees, as well as other pollinators.
-  Research into the wildflowers best suited to honeybees, being progressed at The Co-operative Farms. Seed mixes have been trialled since 2009 and the research is expected to be concluded in 2012. Land managed by The Co-operative Farms now has over 850 (2009: 500) hives.



- Development of a Plan Bee trailer for The Co-operative Good with Food roadshow, which toured UK county and royal shows during 2010. The trailer raises awareness of the decline in bee numbers and provides practical advice on supporting bees in gardens. In total, the trailer was shown at shows attended by two million people.

- Urban bee-keeping training workshops held in Inverness, Sheffield, Mid Antrim, Manchester and London. By the end of 2011, approximately 300 new beekeepers will have attended these workshops.



- Research to map native bee populations which may be better adapted to the UK climate. This project was expanded to include the rearing of native queens in 2010.

- Support for 'Honey', the street theatre production, which was featured at 12 festivals in 2010, engaging with over 1,900 people.

- A promotion on selected wines in The Co-operative Food stores, with a supplier donation of 5p per bottle to the Plan Bee campaign, raising £45,000.



- Sponsorship, by The Co-operative Travel, of a bee conservation project in Quintana Roo, Mexico, funding the planting of 570 trees and shrubs suited to honeybees, and the construction of a water canal to protect hives from ant invasion. Early signs indicate that this project is having a positive impact, with honey yields showing an increase of 87% on previous figures.



The Plan Bee campaign won the Chartered Institute of Public Relations Excellence Award for Corporate Responsibility in 2010.

## Ethical finance

### Bank screening of finance

During 2010, 55 finance opportunities (2009: 76) were referred to the Ethical Policy Unit in connection with biodiversity, of which two were declined (2009: two) at a cost of £306,000 in terms of estimated income foregone in 2010.

#### Biodiversity-related business declines 2010

	Estimated income foregone 2010
<b>Timber merchants</b> (two instances) In the first instance, £9m lending was declined for a business engaged in actively sourcing teak hardwood from Burma, as well as sourcing uncertified timber, including vulnerable species from West Africa, Asia and South America. In the other, banking facilities were declined for a business sourcing uncertified timber, including endangered species from Asia and West Africa.	£306,000

### The Co-operative Asset Management (TCAM) overseas shareholder resolutions

In 2010, TCAM was presented with six overseas shareholder resolutions relating to biodiversity, all of which were supported.

Company	Resolution	Vote registered
Nordea Bank	To avoid investment in companies supporting unsustainable forestry.	Supported
Weyerhaeuser Corp	To report on FSC certification.	Supported
Valero Energy Corp	To report on impact of operations on rainforest sustainability.	Supported
ConocoPhillips, Exxon Mobil Corp	To aid in restoration of Louisiana wetlands damaged by companies' past activities.	Supported
R R Donnelley & Sons	To develop a sustainable paper purchasing policy.	Supported

### RSPB credit cards

Wetlands are an important and productive habitat, but are under threat from the demand for water, poor land management, agricultural drainage and housing development. Between 1999 and 2010, over £5.6m was raised for Britain's threatened wetlands via the Royal Society for the Protection of Birds (RSPB) credit cards ( £398,000 during 2010). Monies raised by the card are used for the creation and management of wetlands in the UK.

### Woodland Trust credit cards

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 Woodland Trust affinity 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. Since 2007, the Woodland Trust credit card has raised over £124,000 (£32,262 in 2010), enough to help the Woodland Trust plant over 15,000 trees.

### Bonus Account

The bank offers a youth account in support of animal welfare and conservation. Since 2003, the Bonus Account, in partnership with the Born Free Foundation, has provided £206,183 (£49,826 in 2010) 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.

## Influence and action

### Illegal timber

In April 2010 TCAM wrote to the European Parliament's Environment Committee in support of its proposals to introduce legislation banning the import of illegally logged timber into the EU. In July 2010 the vote to introduce the proposed legislation was successfully passed.

### Accompanying notes

- 1 UNEP, 2010 Advancing the Biodiversity Agenda – A UN System-Wide Contribution.
- 2 www.teebweb.org
- 3 Ibid.
- 4 Ibid.
- 5 www.co-operative.coop/food/food-and-drink/food/Own-brand-fish
- 6 A full list of products is available online 
- 7 The Earth Island Institute monitors this claim. www.earthisland.org
- 8 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 seabed (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.
- 9 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 has resulted in very high numbers of dolphin deaths.
- 10 The Co-operative Food's sustainable fish sourcing policy requires cod to be line caught from specific areas, such as Iceland or Norway, where stocks are deemed to be acceptable and well managed.
- 11 FSC certification includes FSC mixed-source certification, which requires a timber product to contain a minimum of 50% FSC-certified material and the remaining materials to be from controlled sources.
- 12 The majority of which are made using American red oak.
- 13 UNEP (2007) State of Emergency: Illegal logging, fire and palm oil in Indonesian national parks.
- 14 The product composition document requests that, for all new products and re-labelling of existing products, suppliers consider other types of oils, ideally from non-tropical sources, before palm oil, in the formulation of a product, where it does not have an impact on flavour or functionality of the final product. Some products may be allowed to use palm oil to fry strictly on permission of the Technical Manager, although, in these cases, sustainable palm oil will be a requirement.
- 15 The Co-operative uses three different routes for CSPO accreditation. These are: 'UTZ certification' (3.8% of total palm oil use), where oil is traced using the RSPO official traceability partner; 'Segregated' (7.6%) where palm oil can be 100% CSPO traced from plantation to product, allowing the claim that this product contains RSPO-certified palm oil; 'identity preserved' (less than 1%) where oil is uniquely identifiable to the mill and its supply base, and is kept physically isolated from all other palm oil sources throughout the supply chain (including other segregated RSPO-CSPO sources); and GreenPalm (34.6%), as described within the main text.
- 16 FAO (2006) – Livestock's Long Shadow.
- 17 soystats.com/2010/page\_30.htm
- 18 Such as the Cerrado, the Pantanal, and the Atlantic Forest.
- 19 Includes bagged compost and compost for household and bedding plants.
- 20 www.jncc.gov.uk/default.aspx?page=2001
- 21 Sphagnum moss is the fundamental building block of the world's peatlands. It creates waterlogged anaerobic, acidic conditions that prevent micro-organisms from growing easily and breaking down dead vegetation. This allows plant remains to accumulate at a faster rate than they decompose, thus forming peat.
- 22 The degradation of Sphagnum moss, as a result of 250 years of industrial pollution, has resulted in the erosion of blanket peat. The erosion of blanket peat leads to the drying out and exposure of peat.
- 23 www.naturalengland.org.uk/ourwork/farming/funding/es/default.aspx
- 24 This figure varied throughout 2010 as a result of land sales.

# CHEMICALS

## Background

Over 100,000 synthetic chemicals are registered for use in the EU<sup>1</sup> and more than 400 million tonnes are produced globally each year<sup>2</sup>. However, little toxicity data exists for the majority of these chemicals, and most have never been adequately assessed for their human and environmental safety<sup>3</sup>.

Pesticides are chemicals designed to exert toxicity selectively, but have a potential for unintended consequences on human health (both that of the grower and consumer) and the environment<sup>4</sup>. Whilst fertilisers are not considered to be persistent, bioaccumulative or toxic (PBT) chemicals, their use and excessive application can contribute to environmental problems, particularly waterway eutrophication<sup>5</sup>, and minimal application is therefore desirable.

## Materiality and strategy

The use of PBT chemicals, pesticides and fertilisers is recognised as a priority for the supply chain management of own-brand food products, the consumer use of own-brand household products and the operations of The Co-operative Farms. The Co-operative Financial Services also recognises its influence in this area as a provider of finance and investments.

The Co-operative Food's Ethical Policy commits it to being the UK's leading retailer in the removal of substances of concern, and the new Ethical Operating Plan (page 13) commits to a continuous improvement of the Pesticides Policy. The Co-operative Bank's Ethical Policy states that it will not finance the manufacture of PBT chemicals, whilst The Co-operative Asset Management will seek to influence investees to end the production of such chemicals.

Targets 2010	Progress	Targets 2011
<b>Indicator: Pesticides reduction</b> (Performance benchmark page 89)		
		<b>EOP</b> Further enhance the Pesticides Policy, and seek to ban chemicals such as Endosulfan and Paraquat.
Complete the roll-out of The Co-operative Food's Pesticides Policy across frozen vegetable categories.	Roll-out complete (see below).	Reduce pesticide derogations by 10% against 2010 levels.
Review The Co-operative Food's pesticides residue testing programme to increase the scope of testing, and improve results analysis and online reporting.	The pesticide residue testing process has been improved, and the scope of the test now covers 415 residues (page 89).	Ensure the new Co-operative Retail Online Pesticide Network (CROP) system is fully utilised by suppliers of fresh produce during 2011, and suppliers of frozen and canned produce by 2012.
		Establish an Expert Pesticide Overview Group and identify residue reduction targets.
<b>Indicator: PBT chemicals reduction</b>		
Progress the development of a REACH database within The Co-operative Food.	Launch of the database has been delayed until 2011 as a result of the integration with Somerfield (page 90).	Progress the development of a REACH database within The Co-operative Food.
Extend the range of household products accredited to the EU Eco-label standard.	Technical difficulties delayed the expansion, however, product development will be progressed in 2011 (page 90).	Extend the range of household products accredited to the EU Eco-label standard.
<b>Indicator: Fertiliser reduction</b>		

## Pesticides reduction

### The Co-operative Food Pesticides Policy

The Co-operative Pesticides Policy seeks to reduce the use of pesticides in all own-brand fresh, frozen and canned produce.

To date, a total of 443 pesticides are listed in the Policy as banned, prohibited or monitored:

- Banned (32) – pesticides should not be used under any circumstances.
- Prohibited (89) – pesticides should not be used, other than in exceptional circumstances pre-approved by The Co-operative Food ('derogations').
- Monitored (322) – pesticides may be used, but more benign alternatives should be considered and full justification for use should be made available to The Co-operative Food on request.

**Pesticides banned 2010**

**32** pesticides banned in line with the Pesticides Policy  
2009: **24**

The Pesticides 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) has been fully explored with limited success. From 2010, the list of banned pesticides is updated using the Prior Informed Consent (PIC) and Persistent Organic Pollutants (POP) lists, which are revised independently. Pesticides previously banned by The Co-operative, but not on the PIC or POP, are now listed as 'prohibited'.

In 2009, The Co-operative Food specifically highlighted to suppliers the likely change in status of two pesticides on The Co-operative's lists as a result of planned reviews under international conventions: Paraquat from 'monitored' to 'prohibited' and Endosulfan from 'prohibited' to 'banned'<sup>6</sup>. Following the temporary move of neonicotinoid pesticides to 'prohibited' status in 2009, two of these were moved to 'monitored' in early 2010 following a review of new research<sup>7</sup>.

**Pesticide residue analysis**

Regular audits are undertaken to ensure compliance with the Pesticides Policy. These comprise desk-based traceability audits<sup>8</sup>, site audits, agronomic audits and pesticide analysis, the latter of which is undertaken on a monthly basis by an independent third-party analytical laboratory. In instances where the Pesticides Policy is breached, sourcing from the supplier/grower temporarily ceases, pending the conclusions of a full investigation. Where appropriate, corrective action is secured; however, should this not prove to be forthcoming, the relationship will cease.

🔍 During 2010, the pesticide residue testing process was extended, such that the scope of the test now covers 415 residues. Due to movement to a new facility, a reduced number of tests took place in comparison with the previous year. No banned pesticides were detected, and a prohibited pesticide residue at levels in excess of the maximum residue limit (MRL)<sup>9</sup> was detected in one sample where pre-approval had not taken place. This will be followed up with the individual supplier in 2011.

**Performance benchmark**

In March 2009, Pesticides Action Network published a study comparing the pesticides policies of 10 UK supermarkets. The Co-operative Food was named as one of three retailers doing the most to address pesticide use and the contamination of food.

**The Co-operative Food pesticide residue analysis**

Pesticide analysis results	2006	2007	2008	2009	2010
Total number of samples tested	184	238	257	268	124
Average number of tests per product sample	84	82	82	140	174
Banned pesticides detected	–	1	0	0	0
Derogations granted for prohibited pesticides	–	13	39	282	168
Number of residues in excess of MRL	3	0	0	0	1
Prohibited pesticides detected without derogation	5	0	0	8	4
% samples with no residues	64%	74%	70%	56%	49%

In 2010, an internet-based pesticides portal, the Environmental Practice at Work (EPAW) system, was introduced to help first tier suppliers comply with pesticide requirements. From 2011, EPAW will be improved with the addition of the Co-operative Retail Online Pesticide Network (CROP) system, which will provide suppliers with suggested alternatives to prohibited chemicals, allow online derogations and improve data-tracking. The system will be utilised by suppliers of fresh produce in 2011, and frozen and canned produce suppliers from 2012.

**Neonicotinoid research**

As part of Plan Bee (page 86), The Co-operative funded an independent research project to determine the effects of neonicotinoids on bees. The project quantified the level of neonicotinoid exposure in resources available to bees, such as guttation fluid, pollen and nectar. The effects of these exposures on honeybee and bumblebee

mortality and performance were then assessed, followed by the wider impacts of these chemicals on bee behaviour. The research is currently under peer review. In 2010, The Co-operative funded a further research project to determine the effects of neonicotinoids on bee brood (infant bees), the results of which are expected in spring 2012.

**Chemicals reduction**

**The Co-operative Food Chemicals Strategy**

The Co-operative Food Chemicals Strategy identifies 38 chemical types for removal from own-brand non-food products, including 19 added during 2010<sup>10</sup>. Chemicals are primarily selected as defined by the Oslo–Paris Convention for the Protection of the Marine Environment of the North-East Atlantic (OSPAR)<sup>11</sup>, and based on

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# CHEMICALS

emerging evidence of problematic impacts, such as with Bisphenol A and PVC.

The list is reviewed periodically in line with the European Chemical Agency list of Substances of Very High Concern (SVHC), and those SVHCs not already covered by the Strategy are added. In some cases, such as cadmium, legislation has severely restricted the options for usage<sup>12</sup>.

A full list of chemicals identified for removal is provided in the online version of this Report , together with examples of recent decisions taken in connection with chemicals where there is concern but, as yet, no internationally established consensus.

### REACH regulations

The Co-operative supports the principles and objectives of the European regulation REACH (Registration, Evaluation, Authorisation and Restriction of Chemicals)<sup>13</sup> and campaigned for its introduction. REACH came into force in June 2007, and its implementation will be phased in over 11 years, until 2018<sup>14</sup>.

In line with REACH, The Co-operative Food has committed to the following:

- the European Chemicals Agency will be notified in 2011 as to whether any products contain 0.1% or more of Substances of Very High Concern;
- the REACH data will be included in the Co-operative Online Resource Environment (CORE) database, which will enable the exchange of information between the business and its supply chain.  Launch of the database has been delayed until 2011, as a result of the integration with Somerfield; and
- from 2011, a due diligence programme will test the safety of The Co-operative Food's products against the CORE declarations. Non-compliant products will be withdrawn from sale.

## Ecological Cleaning Range

Since 2008, The Co-operative Food has produced an own-brand ecological cleaning range consisting of seven products. At the time of launch, the range was the only brand in the UK to carry both the EU's Eco Flower logo and the BUAV 'Cruelty-Free' logo.

 Technical difficulties in further developing the range delayed expansion during 2010, however this will be progressed in 2011.



### CFS green branch refurbishments

Designated CFS supplier contracts are screened against a range of toxic chemicals, based on the OSPAR List of Chemicals for Priority Action, together with Bisphenol A and PVC. In 2010, the 'green branch' refurbishment programme continued, with seven bank branches and eight regional sales offices being refurbished according to the 'green branch' specifications. All reactive maintenance – for example, replacement of furniture and painting – carried out in 2010 was required to adhere to the specifications. One bank branch was unable to meet all 'green branch' specifications due to local planning regulations. From 2011, the programme will include the Britannia estate.

### Bank and membership plastic cards

The majority of all credit and debit cards in the world are made of PVC<sup>15</sup>. Since 2007, all cards issued by the bank have been PVC-free (over 2.5 million<sup>16</sup>), instead utilising the plastic glycol-modified polyethylene terephthalate (PETG), which does not contain chlorine or use it in its production. Likewise, since their introduction in 2006, all membership cards (some 8.5 million) have been manufactured from PETG.

### The Co-operative Farms

The Co-operative Farms minimises the application of chemicals, such as fertilisers and pesticides, through crop rotation and varietal choices that maintain soil health and limit the spread of pests and plant disease. Minimum tillage is favoured, as this ensures that energy use during crop establishment is reduced and earthworm and soil microbe communities are 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.

#### Fertiliser use

Fertilisers are applied either via the soil for uptake by plant roots, or by foliar feeding for uptake through leaves<sup>17</sup>. In comparison with the previous year, fertiliser inputs reduced in 2010, attributable to the use of nitrogen planning tools, and a change in crop mix, including an increase in fallow land and land covered by fruit orchards, which require less fertiliser than other crops.

**Co-operative Farms' fertiliser purchases (kg/ha)**

	2006	2007	2008	2009	2010
Nitrogen	113	244	224	180	143
Phosphorus	20	15	22	30	25
Potassium	14	15	14	24	21

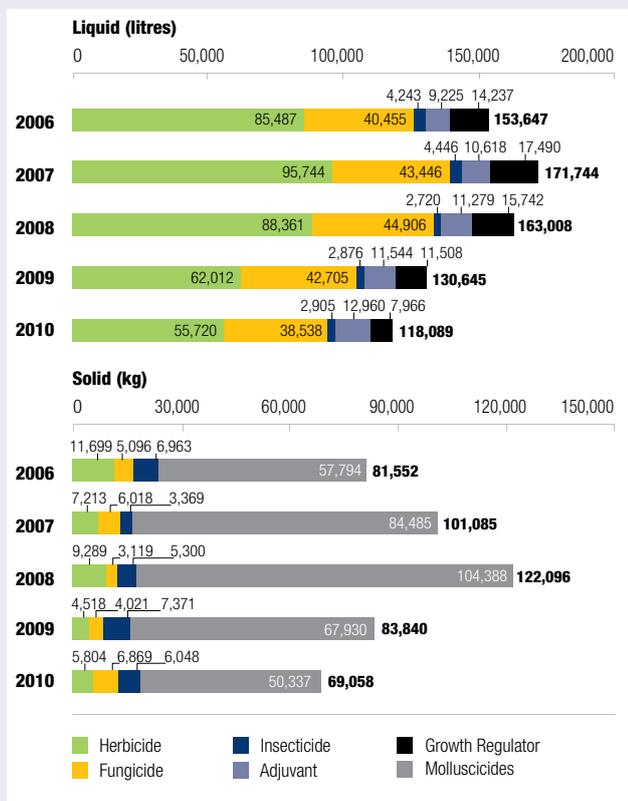
#### Pesticide use

Pesticide usage remained broadly comparable with the previous year. Dry conditions resulted in shorter cereal crops, reducing the need for application of growth regulator – used to prevent crops being beaten down by weather prior to harvest – and solid molluscicide.

The Co-operative farming at Louth Park Farms.



**Co-operative Farms' pesticide, adjuvant<sup>18</sup> and growth regulator<sup>19</sup> purchases**



**Ethical finance**

**The Co-operative Asset Management (TCAM) overseas shareholder resolutions**

In 2010, TCAM was presented with four overseas shareholder resolutions relating to chemicals of concern, all of which were supported.

Company	Resolution	Vote registered
CocaCola Co	To report on Bisphenol A use and development of alternatives.	Supported
ConocoPhillips	To adopt stringent goals to reduce emissions of toxic chemicals from refineries.	Supported
Dow Chemical Co	To report on the pace and effectiveness of the company's remediation project in an area impacted by dioxin exposure.	Supported
Occidental Petroleum Corp	To report on security of chemical facilities.	Supported

**Community involvement**

In 2010, The Co-operative again provided £5,000 in sponsorship for Pesticides Action Network's annual Rachel Carson Memorial Lecture.

**Accompanying notes**

- European Inventory of Existing Commercial chemical Substances (EINECS).
- WWF (May 2003) Chemicals and Health in Humans.
- Defra (2008) Consultation on the enforcement of REACH in the UK.
- www.pesticides.gov.uk/about\_pesticides.asp
- Excessive plant growth and decay that may lead to lack of available oxygen and reduced water quality affecting fish and other animal populations.
- Paraquat and Endosulfan are to be reviewed under the Rotterdam Convention (PIC) in 2010 and Stockholm Convention in 2012 respectively. See www.pic.int and www.pops.int
- Thiacloprid and Acetamiprid were moved to 'monitored'. Clothianidin, Dinotefuran, Imidacloprid, Nitenpyram, Thiamethoxam and Fipronil remain on the 'prohibited' list.
- Traceability audits are undertaken by The Co-operative Food's Quality Assurance team, which analyses Pesticide Application Records. 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.
- According to the Pesticides Safety Directive (PSD), maximum residue limits (MRLs) are established on the basis of highest residues expected when a pesticide product is applied in accordance with instructions for use (Good Agricultural Practice). Under these arrangements, the PSD contends that such residue levels do not pose unacceptable risks for consumers.
- Listed in the online version of this Report.
- www.ospar.org/content/content.asp?m enu=00940304440000\_000000\_000000
- RoHS Regulations (2006), Dangerous Substances Marketing and Use Directive.
- Regulation EC 1907/2006. ec.europa.eu/environment/chemicals/reach/reach\_intro.htm
- REACH regulations require manufacturers, importers and downstream users of chemicals to demonstrate safe product use and disposal for approximately 30,000 of the 100,000 chemical substances in use in the EU.
- ICMA (International Card Manufacturers Association). www.icma.com
- An extrapolation based on data available up to October 2010.
- Fertilisers are used to promote growth and supplement the three major plant nutrients (nitrogen, phosphorus and potassium), the secondary plant nutrients (calcium, sulphur and magnesium) and sometimes trace elements with a role in plant nutrition (boron, chlorine, manganese, iron, zinc, copper and molybdenum).
- To decrease the use of pesticides, adjuvants are also utilised. 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.
- 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.

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# DELIVERING VALUE

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### (Pictured) **Andy Walsh, Founder, FC United**

Founded in response to the increasing commercialisation of football, FC United is putting community back at the heart of the game. Thanks, in part, to the training and support provided by The Co-operative Enterprise Hub (page 98), FC United now has a membership of more than 3,000 co-operative shareholders, and offers affordable football matches and sports coaching to the community.

# DEMOCRATIC CONTROL AND SUPPORTING CO-OPERATIVES

## Background

Against the backdrop of a challenging economy, the UK co-operative sector has continued to grow<sup>1</sup>. There are some 4,990 independent co-operatives nationwide – involved in everything from food retail, to housing, farming and education – contributing more than 237,000 jobs and £33.5bn in turnover to the UK economy<sup>2</sup>. Worldwide, there are more than 800 million individual co-operators, and the 300 most successful co-operatives have an aggregate turnover of equivalent size to the tenth largest economy in the world<sup>3</sup>.

For just £1, anyone who is aged 16 or over and lives in the UK can become a member of The Co-operative<sup>4</sup>. Through trade, members earn a share of the profits of the business and can exercise their democratic control, with equal rights and benefits.

## Materiality and strategy

The Co-operative stands apart from other major businesses in the UK as an organisation that is owned, not by investor shareholders but by six million members. Members are a vital contributor to financial performance, spending more 'per basket', and with greater potential for cross-trade across the family of businesses. The Co-operative is the world's largest consumer co-operative – owned by 12% of the adult population<sup>5</sup> – and works with other co-operatives and the wider movement to promote the role of the co-operative model, within business, education and community interests.

The Co-operative seeks to both grow the total number of its members, and improve the level of spend, cross-trade, and non-trading engagement. A new Membership Engagement Strategy guides both trading and non-trading relationships. 'Democratic control and reward' and 'Supporting co-operatives' form core components of the new Ethical Operating Plan (page 13).

Democratic control and supporting co-operatives

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🎯 Targets 2010	Progress	Targets 2011
<b>Indicator: Member economic involvement</b>		
Increase number of members trading with more than one Co-operative business by 10% in 2010.	✓ An increase of 115% was achieved (page 95).	<b>EOP</b> Continue a member profit sharing scheme that is amongst the broadest and most generous of any major UK business.
One million new membership cards to be activated in the former Somerfield estate in 2010.	← Some 1.8 million cards have been used in former Somerfield stores, including 600,000 cards activated for the first time. There were fewer activations than anticipated, reflecting the revised pace of the Somerfield refit programme (page 94).	<b>EOP</b> Build membership to 20m by 2020, with an interim target of 7m by the end of 2011.
Complete development of a consolidated membership scheme for the expanded business, following the recent mergers and acquisition.	✓ 1.4 million members have been added from the former Britannia membership reward scheme, and membership is now active in all former Somerfield stores (page 94).	<b>EOP</b> Subject to legislation, extend membership to under 16s <sup>6</sup> .
		<b>EOP</b> Encourage ethical consumerism through engagement with members and extra share of profit from 2012.
<b>Indicator: Member democratic participation</b>		
Increase participation in regional members' meetings by 5%.	✓ Attendance increased by 5.8% (page 96).	
Increase proportion of area committee elections that are contested by 10%.	✓ There were 39 (81%) contested elections, compared to 26 (57%) in 2009 (page 96).	Increase attendance at regional members' meetings by a further 5%, and increase proportion of area committee elections that are contested to 90%, and proportion of targeted members voting to 13%.
Engage with former Britannia members to encourage their participation in the 2010 area committee ballots.	✓ Former Britannia members were specifically targeted, with all those in receipt of a Britannia members' reward for 2009 (604,098) receiving a ballot paper automatically (page 96).	

(continued over)

## DEMOCRATIC CONTROL AND SUPPORTING CO-OPERATIVES

Targets 2010	Progress	Targets 2011
<b>Indicator: Member engagement</b>		
Implement new membership engagement strategy and develop an engagement index to measure progress.	 A new membership engagement index was developed and launched in 2010 (page 97).	 Engage on social goals with 500,000 members per annum.
<b>Indicator: Member diversity</b>		Increase the diversity of candidates in the 2011 membership elections, increasing female candidates from 35% to 38%, younger candidates from 4.8% to 6%, and BAME candidates from 2% to 5%.
<b>Indicator: Supporting co-operatives</b>		 Act as the primary funder of co-operative encouragement bodies such as the Co-operative College, and invest £11m to support the growth and development of co-operatives by 2013.
		 Invest £2m to celebrate 2012 as the United Nations Year of Co-operation.
		 Initiate a £20m International Co-operative Development Loan Fund.

### Member economic involvement

As a consumer co-operative, The Co-operative is run for the benefit of members, who share in profits in proportion to how much they trade. The membership scheme is available across The Co-operative's 13 main businesses, within over 5,000 high-street outlets across the UK.

In the course of 2010, membership grew from 5.1 million to 5.8 million<sup>7</sup>, representing a 14% increase, and by early 2011, exceeded 6 million.  Growth in membership has benefited from the consolidation of the membership scheme following recent mergers and acquisitions.  Membership is now active in former Somerfield stores, and some 1.8 million cards have been used in these stores, including 600,000 cards activated for the first time. There were fewer activations than anticipated, reflecting the revised pace of the Somerfield refit programme.



### Members 2011

# 6m+

members, 12% of the UK adult population

In 2010, Midlands Co-operative became the fifth independent society to accept The Co-operative membership scheme cards within their stores, joining Chelmsford Star, Southern, Midcounties and Anglia Co-operatives<sup>8</sup>.

### Share of profits

The Co-operative pays out a share of its profits to members twice a year, via an interim dividend payment in November and a final dividend payment in June. Members earn 'points' through transactions with the family of businesses; the more trade undertaken with The Co-operative, the greater their share of the profits. Uniquely amongst UK high-street retailers, members can receive their reward in cash, paid in store or into their bank account.

In 2010, the total number of points earned across the family of businesses was 3,437 million (2009: 2,465 million). The total dividend payment, and therefore the financial value of a membership point, varies depending on financial performance. In respect of trade undertaken during 2010, members earned £70.5m through the membership scheme (2009: £50.4m)<sup>9</sup>. Of the £70.5m earned, £3.2m (2009: £1.6m) was donated by members to The Co-operative Membership Community Fund (page 20)<sup>10</sup>. The significant increase in donations can be accounted for by the transfer of former Britannia members to The Co-operative membership scheme.

Additional payments made to and on behalf of members in respect of 2010 profits were: an employee-member dividend of £41.0m, an independent society dividend of £21.8m, and a community dividend of £10.0m.

**Cross-trading**

🎯 In 2010, The Co-operative significantly exceeded its target to increase by 10% the number of members trading with more than one business, achieving an increase of 115%, and an increase of 700% since the relaunch of the membership scheme in 2006. This sizeable increase reflects the movement of 1.4 million Britannia customers to the membership scheme, alongside increased marketing activity.

Members earning a share of profits <sup>11</sup>				
2006	2007	2008	2009	2010
2.0m	2.2m	2.5m	3.4m	5.5m

Members trading with more than one business				
2006	2007	2008	2009	2010
231,900 (n/a)	359,800 (n/a)	548,100 (n/a)	783,500 (15%)	1,680,900 (29%)

**Membership democratic participation**

The degree to which members are active in The Co-operative's ethical and democratic affairs is a key indicator of co-operative well-being, and is measured via the active members' network<sup>12</sup>; participation in elections (including the number of elections that are contested); attendance at members' meetings; and the flow of motions and questions to the annual general meeting (AGM) and half-yearly meeting.

**Democratically elected governance structure 2010**

**587** members within the democratically elected governance structure

**Democratic structure**

The Co-operative's democratically elected governance structure consists of a Group Board, seven regional boards and 48 area committees (including a members' council for Northern Ireland<sup>13</sup>). Members who wish to be involved in governance can stand for election, and, if successful, can progress through each tier. As such, it is possible to progress from being a customer to a Board Director.

Regional boards have a broad remit<sup>14</sup>, which extends across The Co-operative's regional commercial interests. This includes: reviewing management proposals in respect of regional revenue and capital expenditure; receiving and monitoring the sales and

**Democratic structure**

Group Board
(20 members)
Three principal subsidiary Boards <sup>15</sup>
Co-operative Financial Services (CFS) Board (20 members)
Food Board (15 members)
Specialist Businesses Board (14 members)
Additional Group Committees
Group Audit & Risk Committee (5 members)
Group Remuneration & Appointments Committee (6 members)
Group Governance Working Party (5 members)
Group Chair's Committee (4 members)
Group Values & Principles Committee (15 members)
7 Regional Boards (107 members)
48 Area Committees (587 members)
Regional Values & Principles Committees (95 members)
Customer Members (6 million members)

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profitability of the region's core trading operations; and making recommendations concerning the development of the region in line with core Co-operative Group Board objectives. Each regional board has a Values & Principles Committee, which is tasked with ensuring that The Co-operative's values and principles are pursued at a regional level.

All area committees<sup>16</sup> have similar commercial responsibilities, but at a more local level. Their role is to: monitor trading performance in the locality; make recommendations regarding the development of the business in the area; be consulted regarding intended store disposals and new developments; and provide management and regional boards with local intelligence and knowledge. Additionally, area committees allocate Community Fund (page 20) awards, and work in partnership with local Co-operative employees on membership activity and community initiatives.



**Member democratic participation**

	2006	2007	2008	2009	2010
Attendance at regional AGMs and half-yearly meetings	3,922	3,390	3,044	4,386	4,640
Contested area committee elections	62%	n/a	57%	57%	81%

# DEMOCRATIC CONTROL AND SUPPORTING CO-OPERATIVES

## 2010 elections

A record number of members took part in the 2010 elections with 266,500 votes cast (2009: 130,000). There were 39 (81%) contested elections, compared to 26 (57%) in 2009, with 332 members standing for a total of 238 vacancies. Of the 2.4 million ballot papers distributed to members (2009: 1.2 million), 11% (2009: 10.7%) were returned.

Of the successful candidates, 44% (2009: 54%) were newly elected. Former Britannia members voted for the first time, yielding some 56,124 votes, a response rate of 9.3%.

A total of 4,640 members attended the regional members' meetings (2009: 4,386)<sup>17</sup>. Of those completing an evaluation, 85% considered the meetings worthwhile<sup>18</sup>.



### AGM motions

At the AGM and half-yearly general meetings, regional boards have the formal opportunity to table motions and questions, and examples of these can be found below. 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.

Independent Society Members can also table motions and questions. The voting strength of these members at the meetings is determined by the value of trade conducted with The Co-operative in the preceding year.

Motions approved by the AGM are not binding upon management; however, the Board and/or management undertakes to consider the issues raised and provides a response on the day and an update at the next general meeting.

### Votes cast 2010

**266,500** votes cast in area committee elections.  
2009: 130,000

### AGM (May 2010) resolutions

Region	Motion	Response
North West and North Midlands Region	Called for a review of the policy to award members points for purchases of tobacco products.	The Board agreed with the proposal, and from February 2011 membership points are no longer awarded for tobacco and cigarettes.
Scotland and Northern Ireland	Called for a switch to 100% Fairtrade bananas in all stores.	The Board welcomed the suggestion, but added that careful consideration must be given to current banana suppliers, and the price sensitivity of some customers. Subsequently, as part of the new Ethical Operating Plan, the Board agreed that all bananas sold should be Fairtrade by the end of 2013.

### Half-yearly meeting (November 2010) resolutions

Region	Motion	Response
North Region	In respect of underperforming stores, called upon the Group Board to allocate money for community consultations, and implementation of recommendations, ahead of consideration of store closure.	The Board agreed that management would examine fully the practicality of the motion, and resources would be allocated to pilot the proposal in a number of locations, in order to evaluate whether a suitable model could be developed. The pilot activity is to be undertaken jointly between The Co-operative Food and the relevant regional membership team, and overseen by the relevant regional board.

## Member engagement

Engagement refers to interaction with members who may not be actively involved in the democratic process, but who can still be encouraged to engage on co-operative and ethical issues. Engagement includes communications and regional events and activities that have a co-operative or ethical focus. This activity is directed by a Membership Engagement Strategy, and during 2010, a total of £4.8m (2009: £3.8m) was made available for member engagement.

 In 2010, an annual membership engagement index was launched to measure how engaged members feel with membership<sup>19</sup>, and to track progress year-on-year. The index is based on perception arising from the membership brand; communications, activities and events; understanding of membership; and membership rewards, and is expressed on a 10-point scale. The first engagement index yielded a score of 6.99 (scored out of 10). The highest-scoring statements were for willingness to recommend membership, enjoyment of membership and satisfaction with rewards associated with membership. Online engagement was identified as a key area for improvement.

### Members and ethical campaigning

Members are encouraged to get involved with The Co-operative's campaigning work (page 14). In 2011, a method of accurately accounting for this involvement is to be developed, and a target has been set to engage 500,000 members per year.

### Membership communications

The Co-operative uses a variety of channels to communicate with members, including a website, a blog, online discussions and webcasts. All members listed on the active members' network receive a biannual mailing containing Re:act – a national magazine with articles that focus on co-operative values and ethical leadership – and Re:action, a newsletter containing regional news and business performance. In 2010, The Co-operative relaunched its membership website with a greater focus on interactive content.



### Member training and education

The Co-operative supports a varied and diverse training programme for elected members and the wider membership base.

There are currently three levels of learning for elected members:

- **Induction training** introduces new elected members to the diverse aspects of the role, and the skills and knowledge required. Induction sessions held in 2010 involved 96 committee members.

- **The Learning Framework** allows area committee members to pursue a Certificate in Co-operation, and regional board members to pursue a Diploma in Co-operation. In 2010, 443 attendees participated in Certificate and Diploma workshops and a week-long Summer School. In 2010 a Group Board Development Centre qualification was introduced to support and prepare members wishing to stand for election from 2011 onwards.

- **The Director Induction Programme** is designed to develop knowledge of The Co-operative, the role of director, matters reserved for board level, and corporate governance practices and procedures. In 2010, six new directors undertook the training.

Learning among the wider membership is delivered online, via printed material, and at events.

## Member diversity

A Diversity Working Group (DWG) was established in 2001 to oversee the implementation of diversity initiatives in connection with membership. Regional representatives are elected from the following groups: women; members with disabilities; black, Asian and ethnic minority members (BAME); and lesbian, gay and transgender members. In 2010, the DWG agreed an interim Diversity Working Action Plan, and commissioned research into barriers to participation, which will inform a new three-year diversity strategy.

### Diversity of elected members (gender and ethnicity)

	2006	2007 <sup>20</sup>	2008	2009	2010
Total number of area committee members	532	567	579	556	587
% female elected members in area committees	38%	37%	36%	35%	38%
% BAME elected members in area committees	2%	2%	2%	3%	2%

### Diversity of elected members (age)<sup>21</sup>

	2009	2010
30 and under	4%	5%
31–50	25%	26%
51–69	60%	59%
70+	7%	8%
Unknown	4%	2%

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# DEMOCRATIC CONTROL AND SUPPORTING CO-OPERATIVES

## Supporting co-operatives

The Co-operative works for the long-term success of the co-operative movement. Between 2011 and 2013, £11m is to be invested to support the growth and development of co-operatives, as well as a further £2m to celebrate 2012 as the United Nations Year of Co-operation. Investment is driven by The Enterprise Hub, and through support for organisations including Co-operativesUK, The Co-operative Party, and the Association of British Credit Unions. Contributions are detailed on pages 122 and 123, and further detail on support for credit unions is outlined on page 51.

### The Co-operative Enterprise Hub

The Co-operative Enterprise Hub<sup>22</sup> is The Co-operative's flagship programme for the promotion of the co-operative business model. In the UK, the Hub's activity focuses on the provision of advice, training and finance to new and existing co-operatives, and the provision of grants to Regional Co-operative Councils. In line with the objectives of The Co-operative Ethical Operating Plan (page 13), additional support is also available to renewable energy co-operatives in the UK and overseas co-operatives addressing poverty alleviation (page 29). Policy and strategy are overseen by a Board, which ratifies grants up to £49,999 and makes decisions on grants over £50,000.

Training and advice in the UK is delivered by co-operative development professionals based throughout the country, and typically addresses issues such as business planning, employment and staffing, finance, legal matters and governance. During 2010, the Enterprise Hub continued to extend its geographical reach, such that, in early 2011, it became available to existing and emerging co-operatives located anywhere in the UK. Of the 256 projects receiving Hub services in 2010, 241 were supported with advice and training in the UK – more than double the previous year. The cost of this training, coupled with the co-operative development programme's management costs, totalled £551,000. A further £297,500 was awarded to 15 co-operatives in grant funding. Over the next three years, a further £7.5m is to be invested in the work of The Enterprise Hub.

With Enterprise Hub support, Rochdale's Play, Education and Reusable Lending Service became PEARLS worker's co-operative. For more on this and other Hub case studies visit [www.co-operative.coop/enterprisehub](http://www.co-operative.coop/enterprisehub)



### Co-operative Enterprise Hub 2010

**256**

projects supported by The Co-operative Enterprise Hub, including consultancy and grants  
2009: 112

### The Co-operative Enterprise Hub: financial support by funding stream, 2010

Funding stream		Number of projects supported		Financial contribution (£)	
		2009	2010	2009	2010
Co-operative development		95	241	287,000	551,000
Grants	Regional Co-operative Councils	12	11	132,000	137,500
	Renewable Energy Grants	2	2	98,000	99,000
	Co-operatives overseas	3	2	186,000	61,000
<b>Total</b>		<b>112</b>	<b>256</b>	<b>703,000</b>	<b>848,500</b>

### The Co-operative Enterprise Hub support for FC United

FC United is a supporter-owned club in Greater Manchester, investing in community projects to involve socially excluded groups in coaching sessions. The Co-operative Enterprise Hub worked with FC United to develop a volunteer information pack, and trained

members and Board directors on how to run the club as a co-operative enterprise. Club and company secretary, Lindsay Robertson, said: *"It was a great opportunity to receive help from an outside body, and it provided us with an objective point of view."*



Image © 2010 Mick Dean Photography

### The Co-operative Loan Fund

The Co-operative, together with Midcounties and East of England co-operative societies, finances The Co-operative Loan Fund. It supports co-operatives in the UK through the provision of accessible, ethical loan finance. A contribution of £30,000 was made to The Co-operative Loan Fund in 2010. As at the end of 2010, total funds stood at £1.3m. The Fund is managed by Co-operative and Community Finance, which is authorised and regulated by the Financial Services Authority.

### 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 buying for retail co-operative societies, including The Co-operative Food, and represents £7.3bn of buying power (2009: £7.1bn). All products procured on behalf of member societies through CRTG are sourced in line with relevant Co-operative policies.

In addition, a co-operative buying group operates 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 Directplus – to member organisations of Co-operatives<sup>UK</sup>. In 2010, some £198m of lending was provided to co-operatives and mutuals (2009: £204m).

Additionally, the bank offers a bespoke savings account and credit card for Co-operative members.

### Representation

The Co-operative seeks to actively promote national and international co-operation through its support for and involvement with representative bodies, including the International Co-operative Alliance, Co-operatives<sup>UK</sup>, Mutuo, European Association of Co-operative Banks, The International Co-operative and Mutual Insurance Federation, Euro-Coop, The International Co-operative Banking Association and The Co-operative Party. Some of The Co-operative's work with such bodies in 2010 is detailed below, with financial support outlined on pages 122 and 123.

- **International Co-operative Alliance (ICA)** The Co-operative is a board member of the ICA, the world's largest non-governmental organisation, representing and supporting co-operatives and mutuals worldwide through its regional institutions. In 2010, £100,000 was provided to fund the cost of the ICA Global President, Dame Pauline Green, and a secondee was provided to develop proposals for the 2012 United Nations Year of Co-operatives.
- **Co-operatives<sup>UK</sup>** promotes the interests of co-operatives, increases awareness and understanding of co-operative values and principles, and supports the growth and development of new and existing co-operatives. Each year, The Co-operative reports against the Co-operatives<sup>UK</sup> Co-operative, Environmental and Social Performance Indicators<sup>23</sup>. In 2010, seven representatives of The Co-operative served on the Co-operatives<sup>UK</sup> Board.

- **International Co-operative and Mutual Insurance Federation (ICMIF)** The Co-operative Insurance is a member of ICMIF, which supports new, or growing, co-operative and mutual insurance companies in the developing world. CFS is also 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. The Co-operative is represented on the board, and the intelligence and reinsurance committee.

In addition, The Co-operative is a board member of the European Association of Co-operative Banks, and a chair of the Co-operative Identity Working Group at Euro-Coop.

### Accompanying notes

1	The UK Co-operative Economy 2010, Co-operatives <sup>UK</sup> .	12	The active members' network is a list of members who have actively made a request to receive information on membership over a number of years. The list was updated in 2010, in order to ensure that members are only listed if they are currently active. As well as having opted to receive information, they must additionally have fulfilled one of several criteria, including voting in recent elections, attendance at recent members' meetings, and participation in recent ethical consultations. 254,360 members are currently listed on this network. Going forward, the list will grow based on additional members who request to receive information on membership.
2	Ibid.	13	The Northern Ireland Members' Council has representation on the Scotland and Northern Ireland Regional Board. The Council is larger than an area committee, and has enhanced roles and responsibilities.
3	www.ica.coop	14	The full responsibilities of the regional boards are detailed at: <a href="http://www.co-operative.coop/membership/have-your-say/regional-boards">www.co-operative.coop/membership/have-your-say/regional-boards</a>
4	In addition, The Co-operative has 122 Independent Society members, who represent other co-operative societies to whom The Co-operative provides services. Independent Society members must demonstrate a commitment to co-operative values in their business practice and buy at least one share (costing £5) in The Co-operative. They have the right to participate in the Society's democratic affairs – a right that can be exercised at the AGM and in the nomination and election of Independent Society members to The Co-operative Group Board. As such, the interests of the co-operative businesses with whom The Co-operative trades are represented on its Board.	15	Subsidiary Boards have a number of independent, professional, non-executive directors, in addition to Executive and Group Board Directors.
5	Based on an adult population of 49.4 million (Office for National Statistics, 2009).	16	The full responsibilities of the area committees are detailed at: <a href="http://www.co-operative.coop/membership/have-your-say/area-committees/">www.co-operative.coop/membership/have-your-say/area-committees/</a>
6	In line with Industrial and Provident Act legislation, The Co-operative's membership scheme has only been open to UK citizens aged 16 and over. A potential change to the Industrial and Provident Act would enable citizens under the age of 16 to become members. Restrictions would, however, preclude these members becoming elected to committees or boards.	17	Members' meetings refer to regional AGMs and regional half-yearly meetings. Members' meetings are timed to take place in advance of The Co-operative Group's AGM and half-yearly meeting.
7	Based on members who have either undertaken trade with The Co-operative in the last 12 months, or have opened a new membership account within the last 12 months.	18	Questionnaires were completed by 63% of attendees.
8	All five independent societies retain control of their respective membership schemes, including share of the profit payments and voting rights.	19	Excludes employee members.
9	Figure includes interim dividend of £16.4m paid in November 2010. In 2010, 100 points were required by a member to achieve a final payment.	20	Percentages exclude former United Region data.
10	Members can opt to donate some, or all, of their share of profits.	21	Due to a change in the method of data gathering, only one year's comparable data is available.
11	The stated number of members earning a share of profits includes members that, whilst having traded with The Co-operative, do not accrue sufficient points during the year to trigger a dividend payment for that year. In these circumstances, points are rolled over to the following year.	22	The Co-operative Enterprise Hub is a working name for Co-operative Action Limited. The Enterprise Hub replaced the activity of two former co-operative encouragement bodies, The Co-operative Development Fund and C-Change programme.
		23	offline.cooperatives-uk.coop/Home/miniwebs/miniwebsA-z/cespis

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# ECONOMIC IMPACT

## Background

Amidst uncertainty in the global economic outlook, the UK economy fluctuated throughout 2010, ending the year with a fourth quarter contraction of gross domestic product<sup>1</sup>. For the majority of the year Consumer Price Index inflation remained over 3%<sup>2</sup>, consistently above the Bank of England's target of 2%<sup>3</sup>. After a sharp rise in 2009, unemployment rates remained high, reaching record numbers since 1994<sup>4</sup>. In the context of this uncertainty, trading conditions remained challenging for many of the sectors in which The Co-operative operates.

## Materiality and strategy

As the UK's largest co-operative, increased and sustainable profitability enables The Co-operative to contribute to the local economy in the areas in which it operates, and deliver value to its stakeholders. For example: member dividend payments (pages 94 and 95); employment and remuneration (pages 105 and 109); and community contributions (pages 17–21). Up to 40% of profits are distributed to these groups. Being a commercially successful business is a key aim supporting the Group's vision 'to build a better society' (page 11), and financial performance is one of four areas measured on CFS' balanced scorecard, supporting its vision 'to be the UK's most admired financial services business'. A detailed account of The Co-operative's financial performance is presented in the Annual Report and Accounts<sup>5</sup>.

Targets 2010	Progress	Targets 2011
<b>Indicator: Profit generation: Trading Group and CFS</b>		
<b>Indicator: Return on Capital Employed: Trading Group</b>		
Achieve a Trading Group Return on Capital Employed (ROCE) of 11.2%	✓ A ROCE of 13.5% was achieved (page 101).	Achieve a Trading Group ROCE of 12.6%.
<b>Indicator: Value added</b>		
<b>Indicator: Local sourcing</b>		
<b>EOP</b> Grow the UK farming business further and aim to supply a quarter of all fresh produce sold in Co-operative Food stores by 2015, whilst at the same time helping secure the future of priority species in our locales.		
<b>Indicator: Tax</b>		

## Financial summary

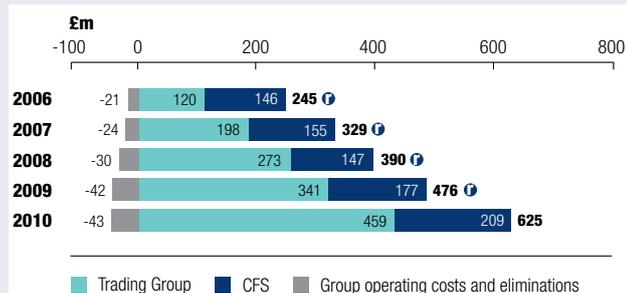
Despite challenging market conditions, The Co-operative has continued to meet and exceed business targets. In 2010, The Co-operative reported record underlying operating profit figures<sup>6</sup> up 31.3% from £476m in 2009 to £625m.

### Gross sales<sup>8</sup> 2010

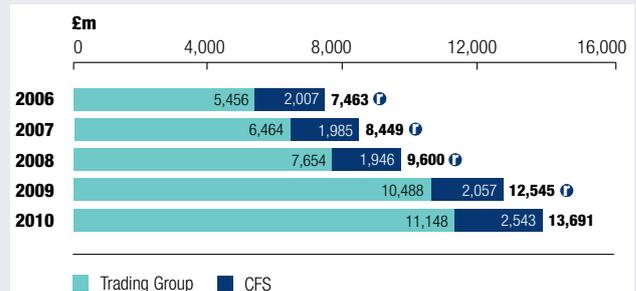
# £13.7bn

2009: £12.5bn

### Underlying operating profit<sup>7</sup>



### Gross sales<sup>9</sup>



### Trading Group – underlying profit

Growth in underlying operating profit is a key measure in achieving the Trading Group’s aim to be a commercially successful business. In 2010, an underlying profit of £459m was achieved, an increase of 34.6% on 2009.

### Trading Group – Return on Capital Employed

Return on Capital Employed (ROCE) measures how effective the Trading Group is at earning a return on members’ funds that are invested in the business. In 2010, ROCE was 13.5% (2009: 10.4%), exceeding the 2010 target. A target to achieve a minimum 12.6% ROCE in 2011 has been set.

### CFS – profit generation

The three key financial performance measures for CFS are shareholder profits, liquidity and surplus capital. CFS’ operating profits<sup>10</sup> for 2010 were £208.6m, compared with £177.2m in 2009. CFS’ liquidity remains strong, with a customer-funding ratio of 107% (excluding securitised assets). The Co-operative Bank’s core tier one ratio<sup>11</sup> was 9.6% (2009: 8.7%), reflecting the strong capital base of the business, and it is notable that CFS has not taken, or needed, Government capital support.

### Value added

Economic value added<sup>12</sup> 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; the State in the form of taxes; charitable causes in the form of donations; and owners in the form of profit, dividend and reserves.



**Distribution of value added<sup>13</sup> 2010 (£m)**

	2007	2008	2009 <sup>14</sup>	2010 <sup>15</sup>
Employee wages and pension benefits	1,180.2	1,246.1	1,559.7	1,652.2
Payments to government	194.1	313.5	380.6	309.4
Distribution to members	43.6	71.8	97.1	94.1
Paid to the community	10.4	11.5	11.3	12.4
Paid to providers of capital	42.4	44.2	116.1	83.3
Set aside for capital maintenance and future growth	335.3	322.0	439.1	633.9
<b>Total</b>	<b>1,806.0</b>	<b>2,009.1</b>	<b>2,603.9</b>	<b>2,785.3</b>

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### 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 page 66.

The Co-operative is the UK’s largest farmer, and offers an exclusive range of products that have been grown on or sourced from its farms: ‘Grown by us’ or ‘Reared by us’. These products include vegetables, fruit, honey and turkey, and in 2010, the range was enlarged to include Scottish porridge oats and Tillington 1000 apple juice. Through the expansion of these ranges, The Co-operative aims to source 25% of fresh produce from its farms by 2015.

In relation to sourcing of protein, 100% of own-brand fresh and frozen poultry, beef and pig meat was UK sourced in 2010 (page 33). In each country of the UK locally produced meat is offered.



Where possible in Scotland, Wales and Northern Ireland only beef, chicken and milk sourced from these respective regions is sold<sup>16</sup>.

100% of own-brand fresh milk and eggs sold in stores in 2010 continued to be UK sourced (page 34), and approximately 74% of cheese sold was UK sourced. All own-brand milk, eggs and cheese are labelled to indicate UK origin<sup>17</sup>.



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## ECONOMIC IMPACT

### Tax

The Co-operative operates within a clearly defined Tax Strategy and Policy that covers compliance, planning and risk management. The Co-operative does not enter into what it considers to be aggressive tax planning, and is particularly mindful of the reputational risks associated with undertaking such planning<sup>18</sup>.

2010 tax payments and credits are detailed in the Annual Report and Accounts. The charge on continuing business was £63.5m (2009: £118.5m ) excluding £44m (2009: £6.4m) relating to tax attributable to The Co-operative Insurance policyholders' returns. The effective tax rate, excluding policyholders' returns, is 34.6% compared with a standard rate of 28%<sup>19</sup>.

The Co-operative Bank Ethical Policy contains a policy position on corporate payment of tax, and as such, the bank does not finance organisations that take an irresponsible approach to the payment of tax in the least developed countries.

### Supplier payment policy and practice

In many cases, standard payment terms are not imposed on suppliers, but agreed separately with each; whilst in other cases, the use of standardised terms is regarded as consistent with much of the market. Every effort is made to pay suppliers in accordance with the terms that have been agreed.

As at 1 January 2011, trade creditors expressed as number of days outstanding was 44 days (2009: 43 days).

### Accompanying notes

- |  |   |
|--|---|
| <p>1 Based on figures produced by the Office of National Statistics (ONS) – <a href="http://www.statistics.gov.uk/cci/nugget.asp?id=192">www.statistics.gov.uk/cci/nugget.asp?id=192</a></p> <p>2 The Consumer Price Index is the main United Kingdom (UK) domestic measure of inflation for macroeconomic purposes. It measures the average change from month to month in the prices of consumer goods and services purchased in the UK. Based on figures produced by the ONS – <a href="http://www.statistics.gov.uk/cci/nugget.asp?id=19">www.statistics.gov.uk/cci/nugget.asp?id=19</a></p> <p>3 Based on information presented by the Bank of England – <a href="http://www.bankofengland.co.uk/monetarypolicy/framework.htm">www.bankofengland.co.uk/monetarypolicy/framework.htm</a></p> <p>4 Based on figures produced by the ONS – <a href="http://www.statistics.gov.uk/cci/nugget.asp?id=12">www.statistics.gov.uk/cci/nugget.asp?id=12</a></p> <p>5 Data presented in this section has been drawn from The Co-operative Annual Report and Accounts 2010, which has been independently audited and prepared in accordance with the Industrial and Provident Societies Acts 1965 to 2003, the Industrial and Provident Societies (Group Accounts) Regulations 1969, and applicable International Financial Reporting Standards, as endorsed by the EU (IFRS), for the year ending 01 January 2011. <a href="http://www.co-operative.coop/corporate/corporatepublications">www.co-operative.coop/corporate/corporatepublications</a>.</p> <p>6 Underlying Group operating profit measures the normal underlying business performance and removes from operating profit the following volatile or one-off costs: property disposal profits, investment property valuation fluctuations, significant items, fair value amortisation, Financial Services Compensation Scheme levies and short-term investment fluctuations.</p> <p>7 Underlying Group operating profit has been restated to subtract the Travel business and any Food stores sold under the Office of Fair Trading (OFT) regulations. This is because the results of these businesses are shown in discontinued operations as required under International Financial Reporting Standards, below profit before tax.</p> <p>8 Gross sales figures are shown before premiums ceded to reinsurers.</p> <p>9 Gross sales have been restated to subtract the Travel business and any Food stores sold under OFT regulations. This is because the</p> | <p>results of these businesses are shown in discontinued operations as required under IFRS, below profit before tax.</p> <p>10 CFS operating profits are presented before tax, FSCS levies, significant items, short-term investment fluctuation and fair value amortisation.</p> <p>11 The ratio of a bank's core tier one capital to its total pillar one risk weighted assets. This is a ratio of the bank's highest quality capital (share capital and reserves) to its balance sheet assets weighted to reflect credit risk and other risks.</p> <p>12 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 above).</p> <p>13 Based on GRI G3.1 Indicator EC1 guidance, and the UK Government's Department for Innovation, Universities and Skills' Value Added Scoreboard Methodology.</p> <p>14 The Group's Travel business and a number of stores sold under OFT regulations, following the acquisition of Somerfield, have not been included in this calculation. This is because the Group's 2010 financial statements show these items as discontinued and are therefore not included in the trading profit number for the year.</p> <p>15 Ibid.</p> <p>16 Unless there are quality, financial, availability or ethical issues which would prevent this.</p> <p>17 All Co-operative own-brand milk is sourced within the UK. Where appropriate, The Co-operative sources conventional milk regionally and labels this accordingly, for example in Scotland, Northern Ireland, Wales and the West Country. Outside of these regions, Co-operative own-brand milk carries the British label. All Co-operative own-brand organic milk carries the British label.</p> <p>18 Level of aggression is considered as one of the risk factors within The Co-operative Tax Strategy and Policy.</p> <p>19 A reconciliation of the standard rate of tax is presented in The Co-operative Annual Report and Accounts 2010, page 90.</p> |
|--|---|

# EMPLOYEES AND DIVERSITY

## Background

An inclusive work environment where everyone's contribution is recognised and valued, and where colleagues feel supported, developed and motivated, is key to increasing employee performance and creativity.

As the UK population becomes more diverse, the management of diversity and inclusion issues is an imperative for any forward-looking business, and necessary to ensure the development of products and services that meet the needs of a diverse customer base.

## Materiality and strategy

With a workforce of nearly 110,000, employees are one of six stakeholder groups identified as key to sustained business success. The Co-operative's approach in this area is informed by co-operative values and principles, as well as extensive employee surveys and industry best practice.

Growing colleague engagement is identified within the KPIs of both the Trading Group and The Co-operative Financial Services (CFS).

Being an 'exemplary employer' is one of six aims supporting the Trading Group's vision, and 'together we will create a great place to work, grow and develop' is an organisational value at CFS. This is particularly critical at present: while the integration of Somerfield is now complete, organisational change following the merger with Britannia is ongoing.

Progress against employee objectives is measured via an Engagement Index (Trading Group) and an Engagement Index and Values Index (CFS), and these scores influence the remuneration of management.

An agreed set of Diversity Principles emphasise a commitment to diversity in nine primary areas<sup>1</sup>, and inform diversity policies, strategies and governance structures. Following the merger with Britannia, CFS consulted with staff in order to develop an aligned diversity strategy, which will launch in early 2011.

A Diversity Strategy Group (DSG) including representatives from the Executive, Values & Principles Committee and Group Board oversees the implementation of diversity strategy, and diversity champions for sexual orientation, age, disability and ethnicity are in place within the Trading Group.

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Targets 2010	Progress	Targets 2011
<b>Indicator: Workforce composition and diversity</b> (Performance benchmarks pages 105 and 106)		
Design and implement a publicly available CFS strategy, policy and governance structure for the merged business.	Following the merger with Britannia, CFS has consulted with staff in order to develop an aligned strategy. This is now planned for launch in 2011 (see above).	Refresh and republish CFS and Trading Group diversity-related policies in line with the Equality Act 2010.
Roll out the Trading Group diversity data capture programme to one further business by the end of 2010.	Following a pilot exercise within the Travel business, a 'census' programme will be rolled out across the entire Trading Group in 2011 (page 104).	Complete a diversity census of the Trading Group workforce, and roll out diversity monitoring of CFS employees.
Complete the Trading Group diversity data capture programme in Food stores in the three remaining regions by the end of 2010.	This target was reconsidered, following a decision to roll out an ambitious 'census programme' across the entire Trading Group (page 104).	Within the Trading Group, publish a cultural awareness guide for all line managers.
Formalise disability objectives for the Trading Group and CFS in 2010.	Completion of the Employers' Forum on Disability Standard generated objectives for performance improvement, which have been integrated into the 2011 diversity and inclusion plan (page 106).	
		Introduce supplier diversity monitoring into all CFS tender processes.
		Pilot a mentoring programme for future female leaders within the Trading Group.

(continued over)

## EMPLOYEES AND DIVERSITY

🎯 Targets 2010	Progress	Targets 2011
<b>Indicator: Employee engagement</b> (Performance benchmark and recognition pages 107 and 108)		
Roll out the Trading Group employee survey to former Somerfield, to determine a baseline employee engagement score for the enlarged business in 2010.	✓ As of 2010, all former Somerfield employees are included in the score (page 107).	Maintain the 2010 Trading Group employee index score in 2011.
By the end of 2010, develop a new people measurement strategy for the CFS employee survey.	✓ A new people measurement approach looks not only at engagement but also to what extent the new organisational values are being lived (page 107).	
Produce Trading Group management guidelines on responding to the top 10 issues emerging from the Talkback employee survey at a team level.	✓ Following 2009 survey, guidelines were issued to managers on responding to the top 10 emerging issues (page 108).	
Achieve a CFS employee engagement score consistent with the level attained by the top 25% of benchmark businesses.	D Due to the incomparability of data between other organisations, a revised target of attaining an employee engagement score above 75% has been set (page 107).	Achieve a CFS employee engagement score of 75% during 2011.
Increase the percentage of Trading Group employees who agree that 'Talkback has led to improvements where I work in the last 12 months' from 57% to 60%.	✗ The percentage of Trading Group employees stating that Talkback had led to improvements remained below 60% (page 108).	
<b>Indicator: Organisational change, employee turnover, trades union recognition</b>		
<b>Indicator: Personal development and training</b> (Performance benchmark page 109)		
Deliver diversity awareness training to all CFS employees during 2010.	✓ In response to the Equality Act 2010, CFS refreshed its training programme, and the Trading Group made available a new e-learning package to all managers (page 109).	Pilot diversity awareness training for Co-operative Food store managers in at least one region in 2011.
<b>Indicator: Salary and benefits; health and safety; well-being</b> (Performance benchmark page 110)		
<b>Indicator: Work/life balance and absence</b> (Performance benchmark and recognition pages 111 and 112)		
By the end of 2010, roll out flexible working to a further 200 Trading Group head office employees.	✓ During 2010, provisions were made for a further 200 head office colleagues to work flexibly (page 111).	By the end of 2011, roll out flexible working to a further 400 Trading Group head office employees.
		Implement support for employees who are also unpaid carers, including a policy and support network.

### Workforce composition and diversity

The Co-operative seeks to achieve a workforce composition that is diverse, inclusive and representative of its customer base. It is measured separately for the Trading Group and CFS, and reporting periods differ slightly.

🎯 Workforce data for ethnicity and disability is currently incomplete, and, in order to address this, a 'census' programme will be rolled out to all staff across the Trading Group in 2011, following a pilot exercise within the Travel business. Full details of reporting periods and diversity data completeness are presented in the online version of this Report .

The Co-operative is a member of the organisations listed opposite, which promote diversity and inclusion in employment:



## Composition by business

Total employees by business <sup>2</sup>				
	2007	2008	2009	2010
The Co-operative Food	56,561	56,619	83,830	79,809
Specialist Commercial	962	1,118	2,518	2,717
Specialist Retail Businesses	3,344	3,315	3,162	3,282
The Co-operative Funeralcare	3,633	3,608	3,700	3,855
The Co-operative Pharmacy	6,252	6,606	6,712	6,747
The Co-operative Estates	1,034	732	397	399
Corporate Functions	1,233	1,637	1,380	1,456
Other Businesses	603	659	n/a	n/a
CFS	7,989	7,738	11,692	11,349
<b>Total</b>	<b>81,611</b>	<b>82,032</b>	<b>113,391</b>	<b>109,614</b>

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## Employees 2010

**109,614** employees  
2009: 113,391

## Composition: gender

In consultation with senior female managers, discussion took place in 2010 to consider potential barriers to the progression of women within the Trading Group. As a result, a mentoring programme for future women leaders will be piloted across the business in 2011.

At CFS, a 'Tommy's Room' facility is provided, offering a dedicated space for expectant employees and new mothers.

Proportion (%) of female employees and female managers<sup>3</sup>

Year	Trading Group		CFS (former CFS in brackets)	
	Female employees	Female managers	Female employees	Female managers
2006	63	54	n/a (47)	n/a (39)
2007	64	53	n/a (49)	n/a (41)
2008	64	50	n/a (50)	n/a (42)
2009	64	53	58 (51)	46 (43)
2010	63	49	59	45

## Performance benchmark

Women account for 50% of the UK's general workforce<sup>4</sup>, whilst 63% (2009: 64%) of Trading Group and 59% (2009: 58%) of CFS employees are women.

## Composition: ethnicity

## Proportion (%) of employees and managers from ethnic minority groups

Year	Trading Group		CFS (former CFS in brackets)	
	Employees	Managers <sup>5</sup>	Employees	Managers
2006	10	10	n/a (6)	n/a (3)
2007	7	8	n/a (6)	n/a (3)
2008	7	8	n/a (6)	n/a (3)
2009	7	n/a	n/a (6)	n/a (3)
2010	9	n/a	4	3

## Performance benchmark

9% of Trading Group employees are from an ethnic minority group; this is in line with the proportion of the UK population, which stands at 8.7%<sup>6</sup>.

## Composition: disability

## Proportion (%) of disabled employees

Year	Trading Group	CFS (former CFS in brackets)
2006	n/a	n/a (3)
2007	1	n/a (3)
2008	1	n/a (2)
2009	4	2% (2)
2010	4	2 <sup>7</sup>

# EMPLOYEES AND DIVERSITY



The Co-operative is a holder of the JobCentre Plus 'Two Ticks' symbol, signalling agreement to five commitments connected with the recruitment, employment, retention and career development of disabled people. In early 2009, The Co-operative completed the EFD Disability Standard; a management tool for employers to evaluate and measure performance on disability. ➡️ Completion of the standard generated objectives for performance improvement, which have been integrated into the 2011 diversity and inclusion plan.

### Composition: age



The Co-operative has been named by the Department for Work and Pensions as an 'age positive employer' in recognition of having employment policies and practices that demonstrate a commitment to age diversity. Contracts at The Co-operative have operated without a default retirement age since 2006.

Proportion (%) of employees in each age band

Year		≤24	25-34	35-49	50-64	65+
2006	Trading Group	29	18	31	21	1
	CFS	18	27	40	15	<1
2007	Trading Group	26	18	32	22	2
	CFS	20	26	39	15	<1
2008	Trading Group	26	18	32	22	2
	CFS	16	30	39	15	<1
2009	Trading Group	25	19	32	22	2
	CFS (former CFS in brackets)	14 (13)	32 (30)	39 (41)	15 (15)	<1
2010	Trading Group	27	19	30	22	2
	CFS	14	31	40	15	<1

### ➡️ Performance benchmark

In the UK, 28% of people in employment are over 50 years of age<sup>a</sup>, whilst 24% of Trading Group and 15% of CFS employees are over 50 years of age.

### Composition: religion and belief

In the 2010 employee surveys, 48% of Trading Group and 63% of CFS respondents identified themselves as having a religion or belief. A breakdown of responses can be found online ➡️.

### Composition: sexual orientation

Questions on sexual orientation are included in employee attitude surveys, with a view to better understanding and engaging Lesbian Gay Bisexual and Transgender (LGBT) employees. In 2010, 89% of Trading Group (2009: 94%) and 93% of CFS (2009: 93%) staff were willing to declare their sexual orientation.

### ➡️ The Respect Network

The Co-operative has an active Lesbian Gay Bisexual and Transgender (LGBT) employee network, Respect. The Network works alongside a dedicated diversity team, offering support to LGBT staff and advising the business on LGBT matters. Respect has grown dramatically in a short space of time, and now numbers over 500 members. The Network has won awards for its involvement in Manchester Pride where The Co-operative was the major sponsor. The Co-operative has sponsored a number of other Pride festivals across the country.



### ➡️ Performance benchmark

The Trading Group was ranked 79th in Stonewall's Workplace Equality Index 2010 (2009: 112th). Stonewall also conducts an employee feedback questionnaire, which around 34 LGBT Trading Group employees completed. The Trading Group scored above average on all indicators.

### Organisational change

#### Somerfield

Organisational changes associated with the 2009 acquisition of Somerfield were on-going within the Food business during 2010. Strong relationships with the trades unions USDAW and NACO, and the jointly-agreed process for managing organisational change, continued to facilitate changes in a considered and consensual manner.

The integration of Somerfield saw over 25,000 new colleagues joining the Food business, and some redundancies were unavoidable. By mid 2011, approximately 750 Somerfield head office colleagues will have left the business by way of redundancy, all of whom will have benefited from a comprehensive range of outplacement support services.

**Food retail**

Elsewhere within the Food business, restructures took place in the Commercial, Central Operations and Retail Training functions in the last quarter of 2010. Whilst these restructures involved a number of redundancies, a corresponding number of new roles were also created, resulting in no significant change to the overall headcount.

All colleagues impacted were given support to secure an alternative role in the new structure, with another Co-operative business, or with another employer. Within Distribution, the integration of the Somerfield network has led to the closure of one depot and the conversion and expansion of another, with further work to continue throughout 2012. Following system developments, the Supply Chain function will see significant change during 2011.

**Britannia integration**

Since the merger with Britannia in August 2009, CFS has worked extensively with the trades unions to integrate the two businesses. A new Business Change Agreement outlines the key principles to effectively manage organisational change, and ensure CFS meets its legal obligations and manages employees fairly and consistently throughout the process. It also details a redeployment approach designed to ensure that skills and experience are retained within the organisation whilst mitigating redundancies.

At the end of 2010, all employees had either experienced change within their area, or had been informed when they may be impacted. At the end of 2010, 182 colleagues had either been redeployed or were in the process of being redeployed, and 212 colleagues had left the business.

CFS is working with trades unions to develop a new employment package for the merged business. A comprehensive review of the suite of employment policies within CFS and Britannia highlighted nine high-priority policies for alignment in 2010<sup>9</sup>. The new policies, guidance and training will be launched during 2011.

**Co-operative Independent Financial Advisers**

CFS completed a strategic review of The Co-operative Independent Financial Advisers business (a wholly-owned subsidiary of CFS), which resulted in an agreement to sell the business. Under the terms of the sale, 51 independent financial advisers and 36 staff transferred to the new owner.

**Employee engagement**

Employee engagement is a broad measure of how committed and motivated people are to do their best at work and generate strong business performance. Employee engagement is measured via an employee attitude survey, which determines an 'engagement index' (EI) score. EI scores are calculated differently for the Trading Group and CFS and are, therefore, not directly comparable.

**Engagement index (EI)**

		2007	2008	2009	2010
Trading Group EI (mean average; scale 0–100)		74	77	79	April: 79 October: 77
CFS	EI	53%	64%	July: 75% Dec: 82%	June: 79% November: 78%
	Values index	n/a	n/a	n/a	72

**Trading Group**

📍 The Trading Group carried out an interim employee attitude survey in April 2010, and a full annual employee survey ('Talkback') in October 2010, with all former Somerfield employees included for the first time. The full Talkback survey received responses from 86% (86,905) of employees (April: 85%; 2009: 85%), continuing the year-on-year improvement in response rates<sup>10</sup>.

The EI is measured as an average score across 17 questions within Talkback, which focus on: understanding of the aims of the organisation and employees' role in its success; emotional attachment; and behaviour, such as willingness to offer discretionary effort and advocacy.

The Trading Group EI remained steady in 2010, and the slight drop recorded can be attributed to the effects of significant organisational change, and a difficult economic environment. Across the survey, of the 49 questions that can be directly compared with 2009, five scores increased and six stayed the same.

**CFS**

CFS carried out an interim employee attitude survey in June 2010 and a full survey ('The Voice') in November 2010. The response rate was 82% (9,656) in June and 80% (9,113) in November.

At CFS, EI is based on seven survey questions that measure: emotional attachment; intention to stay; and discretionary effort.

📍 During 2010, an additional measurement was added, looking at the extent to which CFS' new values are embedded within the business – the values index. 📍 Due to the complexity of comparing data across organisations, a previous target benchmarking CFS engagement scores against those of other organisations has been replaced with a new target, to maintain the EI above 75%.

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**Performance recognition**

In 2010, The Co-operative was named as one of the UK's 50 best workplaces by The Great Place to Work Institute.



## EMPLOYEES AND DIVERSITY

### Performance benchmark

Results from a number of questions in the Trading Group's employee survey were benchmarked against those of other private-sector organisations in 2010<sup>11</sup>. The Co-operative scored above the benchmark for all the questions compared.



The co-operative  
**talkback**

#### Responding to survey results

Survey results are disseminated to managers, and improvement action-planning sessions are held. In 2010, around 6,500 managers across the Trading Group and 900 across CFS were provided with the latest survey results for their team(s).

⊗ Although the percentage of Trading Group employees stating that Talkback had led to improvements remained below 60%, those employees agreeing that they had experienced improvements had an engagement score around 28 points higher than other employees.

⊗ This is considered to be a direct result of action-planning activity following the 2009 survey, which included guidelines on responding to the top 10 emerging issues.

High-level targets to improve engagement scores have been set and incorporated into the performance management and remuneration process for all managers.

### Performance recognition

In December 2010, The Co-operative was awarded the national award for Employee Engagement at the Personnel Today Awards. The business was recognised for having derived engagement improvements from its internal and external branding programme and for having clearly demonstrated the links between employee engagement and business performance.

#### Avoidable employee turnover

'Avoidable' employee turnover is monitored on an ongoing basis, and excludes planned employee departures for reasons such as retirement or redundancy. In 2010, avoidable turnover remained largely stable, with a continued decline within the Food business. A full definition of avoidable turnover, as well as data for each business, by age and gender, is detailed online [↗](#).

#### Avoidable employee turnover (%)

	2008	2009	2010
The Co-operative Food	28	23	20
Specialist Commercial Businesses	21	19	21
Specialist Retail Businesses	20	15	16
The Co-operative Funeralcare	8	8	8
The Co-operative Pharmacy	21	15	13
The Co-operative Estates	3	6	6
Corporate Functions	8	5	4
Other businesses	30	n/a	n/a
CFS	20	10	11

#### Trades union recognition

Trades unions make an important contribution to business and society. During 2010, five trades unions were recognised<sup>12</sup> (four by the Trading Group and four by CFS), covering the range of employee roles across the business. Of Trading Group employees, 35%<sup>13</sup> (2009: 33%) are union members, as are 65%<sup>14</sup> (2009: 73%) of CFS employees.

#### Personal development and training

Across the four largest businesses of the Trading Group (Food, Pharmacy, Travel and Funeralcare), employees received an average of £143 and 1.2 days' training during 2010<sup>15</sup>. In addition to the business-specific training, a small proportion of training is organised centrally. In 2010, investment in centrally-organised training was £195,000 (2009: £180,000), providing 1,315 training places (2009: 1,579).

#### Average training investment 2010

**£143**

average training investment per employee across the four largest Trading Group businesses

**£164**

average training investment per employee within CFS

As former Somerfield stores were rebranded, all new employees attended a 'Co-operative Way' day covering the compelling reasons for joining The Co-operative, and detailing customer service expectations. The leadership population was a key focus of development during the year, including activity around developing senior management and identifying and developing potential Executive successors.

At CFS, employees received an average of £164 of investment and two days of training. During 2010, a new centralised Learning and Development business area was formed, with the purpose of delivering strategic commercial learning.

Full details relating to training per business are available online [↗](#).

## Performance recognition

The Trading Group continues to maintain its Investors in People (IiP) accreditation. This national quality award recognises organisations that aim to improve performance by developing their employees.

### Diversity training

The Trading Group and CFS operate diversity training programmes to encourage appropriate behaviour in the workplace. Diversity is embedded into the recruitment process via the Trading Group 'Right First Time' interviewing course and the CFS Employee Recruitment Strategy.

🎯 In response to the Equality Act 2010, diversity information and training was refreshed, and a new e-learning package was made available to all managers. The Trading Group will review its diversity training programme in the course of 2011, and pilot diversity training for Food store managers in at least one region.

### Graduate programmes

The Co-operative graduate programme offers two routes: an 18-month Business Management Programme and a three-year Chartered Institute of Management Accountants (CIMA) Finance Programme. Applications for the most recent intake increased by 65%, and, despite economic conditions, the number of graduate vacancies has been maintained.

An undergraduate programme was launched in 2008, offering students opportunities to undertake one-year work placements across the business.

Details of the new Apprenticeship Academy can be found on page 58.

The Co-operative Graduate Scheme.



## Performance benchmark

The Co-operative ranked 58th in The Times Top 100 Graduate Employers Index 2010/11 (2009: 62nd).

## Salary and benefits

### Salary

Salary patterns differ across the businesses, with a larger proportion of CFS employees earning wages in higher salary bands than Trading Group employees, reflecting the different types of business. The decline in satisfaction with pay within CFS is believed to be attributable to the ongoing work to align employee terms and conditions, as part of the integration between CFS and Britannia.

### Proportion (%) of employees in each basic salary band<sup>16</sup>

	Trading Group <sup>17</sup>			CFS <sup>18</sup>		
	2008	2009	2010	2008	2009	2010
Up to £15,000	75	77	77	25	25	19
£15,001 to £20,000	11	9	9	24	25	35
£20,001 to £30,000	10	9	9	17	22	22
£30,001 to 40,000	3	3	3	10	12	12
£40,001+	1	2	2	10	11	13

### Benefits

All part-time employees are entitled to the same benefits as their full-time equivalents<sup>19</sup> and the majority of benefits that are available to permanent employees are also available to temporary employees<sup>20</sup>. Employee-members are entitled to a range of discounts from across the family of businesses.

### Employee dividend 2010

**£500** dividend paid to all employee-members  
 2009: **£500**

Former Somerfield staff benefits were aligned with those of the Trading Group during 2010, other than pension arrangements, which will be aligned during 2011. Britannia employees remain under their existing terms and conditions, and progress will be made on the alignment of CFS and Britannia terms and conditions of employment in the course of 2011.

Within CFS, the majority of employees participate in a business-wide bonus plan focused on delivering financial performance and customer satisfaction. The Trading Group operates a bonus scheme for management-level staff, based on performance. During 2010, 95% (8,201) of eligible employees at CFS<sup>21</sup>, and 62% (11,800) of eligible employees in the Trading Group<sup>22</sup> received a bonus.

At the end of 2010, 85% of Trading Group colleagues and 84% of CFS colleagues were employee-members. Subject to business performance, employee-members receive an employee-member dividend to reflect their support and contribution to the business. In 2010, this dividend was £500<sup>23</sup>.

A full list of benefits can be found online

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### Pensions

Every employee is offered the opportunity to join a pension scheme. Following recent mergers and acquisitions The Co-operative now sponsors 10 pension schemes offering a range of benefits<sup>24</sup>.

In total, pension benefits are paid to 135,000 current, former and retired employees (2009: 137,000). In 2010, members contributing to the pension schemes totalled 21,500, with 63,000 deferred pensioners and 50,000 pensioners and widows.

The relatively low proportion of employees within the pension scheme is partly attributable to the high proportion of part-time staff and high turnover levels within the retail sector.

% of staff who are members of a pension scheme			
	2008	2009	2010
Trading Group	16	15	14
CFS	68	72	66
<b>All businesses</b>	<b>21</b>	<b>21</b>	<b>19</b>

### Employee communications

Internal communications play a key role in ensuring employees are informed about the business, and improving commitment and engagement. Across the Trading Group these include the intranet; an award-winning quarterly staff magazine, Us; and a number of electronic newsletters. The employee intranet has the facility for colleagues to comment on stories, providing an important source of feedback. Large-scale face-to-face briefings are held across the family of businesses.

CFS has a number of channels for employee communications. The three key channels are: The Understanding, a monthly face-to-face briefing for all colleagues; The Know magazine, which is published six times a year; and an employee intranet, The Exchange.



### Diversity communications

Diversity information for employees is provided in dedicated areas on the Trading Group and CFS intranet sites, including awareness factsheets relating to religion, belief, cultural awareness and disability, which are posted at key dates across the year. In 2011, cultural awareness guides will be published for all line managers within the Trading Group.

### Whistle-blowing

As part of the Code of Business Conduct, the Trading Group has in place a whistle-blowing policy and procedure called 'Speak Up', to provide employees with a confidential route for raising complaints in relation to any business conduct issue or malpractice. In order to ensure impartiality and anonymity, 'Speak Up' utilises an external

whistle-blowing helpline along with trained internal contacts. All calls received through both internal and external routes are reported to the Audit & Risk Committee. During 2010, 50 calls were received, the majority of which were of a low level of concern.

CFS has its own internal telephone, email and text message whistle-blowing service. In 2010 (to end September), 39 telephone calls, emails and text messages were received (2009: 29). All cases are thoroughly investigated by the internal Investigations team and reported to the CFS Audit & Regulatory Compliance Committee.

### Health, safety and well-being

#### Health and safety

The health and safety objectives of The Co-operative are to safeguard the welfare of all employees when they are at work, and protect non-employees from any hazard created by the business' operations. Despite challenges presented by adverse weather conditions during the year, the rate of reportable accidents continued on a downwards trend in the Trading Group.

There have been a number of health and safety initiatives during 2010, which include: health and safety, and fire safety weeks; one-to-one interaction with operational management; improved investigation of accidents; and the analysis of data and auditing techniques. Neither the Trading Group nor CFS reported any employee fatalities during 2010.

#### Accident rates<sup>25</sup>

	Trading Group		
	2008	2009	2010
Reportable accidents <sup>26</sup> per 100,000 employees	1,395	1,005	930
Non-reportable accidents per 100,000 employees	9,739	9,430	8,882

	CFS		
	2008	2009	2010
Reportable accidents per 100,000 employees	62	103	70
Non-reportable accidents per 100,000 employees	1,585	1,788	1,463

### Performance benchmark

Reportable accident rates across CFS are lower than national data for the finance sector (the Health and Safety Executive reports 144 per 100,000 employees in 2009/10).

#### Well-being

The Co-operative's Employee Assistance Programme is a 24-hour service operated by AXA ICAS, which provides access to a range of specialist support services, including a free 24-hour helpline, available 365 days per year, which is staffed by fully trained and qualified telephone counsellors. The service is available to employees and their

immediate family members if they live in the same household. During 2010, 1% (2009: 1%) of employees from the Trading Group and 3% (2009: 5%) of employees across CFS (not including Britannia) used these services.

**Domestic violence**

Since 2008, The Co-operative has been a member of the Corporate Alliance against Domestic Violence, a group of businesses and organisations working individually and collectively to prevent domestic violence, and a Trading Group policy on domestic violence exists in order to support employees experiencing domestic violence.

**Work/life balance**

The majority of the Trading Group's employees (67%) work part-time, thus it is important to effectively manage flexible working and ensure information is made available to all employees.

Following the merger of CFS and Britannia, the approach to flexible working will be reviewed with the aim of introducing a new approach during 2011.

Part- and full-time employees				
	Trading Group			
	2007	2008	2009	2010
Full-time <sup>27</sup>	38%	36%	33%	33%
Part-time	62%	64%	67%	67%

	CFS			
	2007	2008	2009	2010
Full-time	84%	83%	79%	78%
Part-time	16%	17%	21%	22%

**Preparation for the new head office**

In order to prepare head office colleagues for the move to a new head office (page 63), employees are being encouraged to take up new, more flexible, ways of working. During 2010 200 colleagues took up flexible working, with a target set for a further 400 colleagues by the end of 2011. Changes piloted have included using new technology to enable hot-desking, and a reconfiguration of the office space, including the introduction of lockers and 'meeting pods'. Flexible working has been promoted in tandem with greener travel options, establishing the environmental benefit of working from home and commuting outside peak hours. Assessment undertaken amongst those involved in flexible working shows that 91% of staff said that their productivity had been maintained or increased, and 89% said that flexible working had maintained or improved their work/life balance.

**Performance recognition**

In 2010 The Co-operative was recognised with a special commendation for Innovation at the Top Employers for Working Families awards. The Co-operative demonstrated its progress towards an agile working culture based on family-friendly working practices. New technology and a change in working style will be used to boost productivity while maintaining employees' work/life balance.

**Carers**

In 2010, 32% of the Trading Group workforce described themselves as having unpaid caring responsibilities. In line with the Equality Act 2010, The Co-operative is increasing its support for carers, and in 2011, will establish a formal policy and a support network.

**Absence**

Across the Trading Group the main causes cited for absence<sup>28</sup> in 2010 were 'cold' (15%) and 'upset stomach' (13%). Records are incomplete, with 7% of records not citing a reason.

CFS records are 99% complete, and the main cause cited for absence in 2010 was stress (15%) and 'sickness – other' (11%). For comparison, stress was reported as the second biggest cause of short-term absence and a particularly common cause of long-term absence among non-manual workers in the UK in 2010<sup>29</sup>. Throughout 2011, CFS will continue to manage the issue of stress-related absence, using staff survey findings, stress risk assessments, the provision of guidance and information, flexible working, and promotion of the Employee Assistance Programme.

**Absence as a proportion (%) of employee time**

	2008	2009	2010
The Co-operative Food	4	4	4
Specialist Commercial Businesses	2	2	3
Specialist Retail Businesses	2	2	2
Funeralcare	4	5	4
Pharmacy	3	3	3
Property Division	3	3	2
Corporate Functions	2	2	2
Other Businesses	2	n/a	n/a
CFS	4	4	4

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## Performance benchmark

The 2010 average overall absence rate for the retail and wholesale sectors was 2.6%, or an average of six days lost per employee per year. In comparison, absence rates within The Co-operative Food are slightly higher. Industry average absence in the finance, insurance and real estate sector, at 2.3%, is also slightly lower than the rate recorded across CFS<sup>30</sup>.

## Ethical finance

### The Co-operative Asset Management (TCAM) engagement

**Gender diversity** In July 2010, TCAM wrote to eight UK companies<sup>31</sup> in which it had significant holdings, as part of an investor initiative focusing on gender equality backed by the United Nations Principles for Responsible Investment (UNPRI) as well as other institutional investors. The companies were asked for a gender breakdown of employees, including senior management, and measures to ensure gender balance in line with the UK Corporate Governance Code.

In September 2010, TCAM made a submission to the European Commission's consultation on its Green Paper on Corporate Governance. TCAM commented that Norway has implemented a 40% threshold for women on company boards without apparent adverse effects, and suggested the EC review Norway's experience of quotas as part of its considerations for tackling the issue.

In addition, in November 2010, TCAM made a submission to the Department for Business, Innovation and Skills' (BIS) Women on Boards consultation, calling for improved disclosure of senior management gender balance and further strengthening of the gender balance considerations within the UK Corporate Governance Code.

**TCAM overseas shareholder resolutions** In 2010, TCAM was presented with 10 overseas shareholder resolutions relating to diversity, of which nine were supported.

Company	Resolution	Vote registered
Anadarko Petroleum; ConocoPhillips; Exxon Mobil Corp; Leggett & Platt Inc; TECO Energy; Verizon Communications; Wal-Mart Stores; Zions Bancorp	To amend policies to prohibit discrimination based on sexual orientation and gender identity.	Supported
Home Depot	To report on employee diversity.	Supported
Walt Disney	Extension of non-discrimination policy to employees considered 'formerly homosexual'.	Abstained <sup>32</sup>

## Accompanying notes

- Gender, ethnicity, disability, age, sexual orientation, religion or belief, pregnancy and maternity, marriage and civil partnership and gender reassignment.
- Figures show headcount, not full-time equivalent. Categorisation of businesses has changed over the period shown, and a full explanation is provided online [X](#).
- Trading Group: reported as % of female managers/all managers and where manager is taken to be any employee with 'manager', 'head of', or 'director' in their job title. CFS: reported as % of female managers/all managers and where manager is taken to be any employee paid £25,000 or more (excluding Co-operative Insurance Financial Advisers, who receive the majority of remuneration on the basis of commission).
- Office for National Statistics (ONS) Economic and Labour Market Review, November 2010 Edition.
- It is not possible to report on the proportion of Trading Group managers from an ethnic minority group as this data is not captured by the employee survey, from which 2009 and 2010 ethnicity data was drawn.
- House of Commons Committee of Public Accounts, Increasing Employment Rates for Ethnic Minorities, 34th Report of Session 2007/08.
- Data is 32% complete.
- ONS Economic and Labour Market Review, November 2010 Edition.
- Grievance, maternity and adoption, misconduct, mutual respect, panel appeals, paternity, performance improvement, secondments, and managing misconduct, performance improvement or sickness for colleagues with less than nine months' service (short service policy).
- Response rates were: 76% in 2006, 78% in 2007 (excluding former United), and 82% in 2008 (including former United).
- The Trading Group's external survey partner carried out the benchmarking exercise, against GfK data.
- Full details of trades unions recognised are online [X](#).
- Based on percentage of those employees who paid subscriptions by payroll deduction, and calculated based on total active headcount and maternity headcount.
- Based on figures from trades union membership reports. Calculated as a percentage of total active headcount, career break headcount, and maternity headcount.
- Training days per employee not available for The Co-operative Food.
- Based on full-time equivalent salaries.
- Excludes casual staff and those on 0-hour contracts. Percentages are based on employee headcount and relate to full-time equivalent salaries.
- Financial Advisers have been excluded, as their pay is biased towards earnings on a commission basis. Employees on career breaks have been excluded, while those on maternity leave are included.
- 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.
- Temporary employees are those on fixed-term contracts and directly employed by the Trading Group or CFS.
- This excludes Field Sales Teams' incentive schemes, and business-specific/regional bonus schemes.
- Figure includes head office management-level staff scheme, regional store manager scheme, Funeralcare Ambassador scheme and Travel branch scheme.
- This is pro rata for part-time or new employees.
- Full details of pension schemes are available online [X](#).
- Based on employee headcount.
- A reportable accident is defined under the RIDDOR regulations as an injury that is not 'major' but results in the injured person being away from work or unable to do their full range of normal duties for more than three consecutive days; or major injuries or fatalities.
- Employees working over 37.5 hours are classed as full-time.
- Figures for causes cited for absence are based on days absent.
- Figures relate to % employee respondents who cited this as a major cause of absence. CIPD (2010) Absence Management Survey.
- Ibid.
- Balfour Beatty, Barclays, Smith & Nephew, Novartis, Smiths Group, Rotork, Reckitt Benckiser, ICAP.
- The Company's policy already addressed anti-discrimination issues and as such TCAM considered the proposal redundant.

# CUSTOMERS

## Background

Modern day consumers have more choice than ever before, rising expectations and faster access to products and services, and yet consumer confidence is in decline<sup>1</sup>. Fostering customer loyalty and advocacy is central to sustainable commercial success.

## Materiality and strategy

Customers are key stakeholders of The Co-operative, and customer satisfaction is a strategic priority. One of the six aims underpinning the business' vision is 'to meet the needs of our customers and the communities we serve'. Performance in customer satisfaction is measured through customer surveys, and linked to the remuneration of the Executive team.

At CFS, 'putting members and customers first' has been identified as one of five business values. Customer advocacy is one of the measures of success in achieving CFS' vision, and KPIs that have a specific focus on advocacy are featured in the balanced scorecard, impacting on the remuneration of all CFS staff, including the Executive team.

As a community retailer, The Co-operative aims to serve as many groups as possible, and its Diversity Principles (page 103) embody a commitment to address diversity issues in relation to customers. As such, a range of accessible products, services and communications are offered, which take into account the needs of differing groups, for example, with regard to disability or religion.

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Targets 2010	Progress	Targets 2011
<b>Indicator: Customer satisfaction</b> (Performance benchmark page 114)		
Maintain a CFS advocacy score that is 6% ahead of the top five in peer group.	 An average advocacy score of 7.5% ahead of the peer group was achieved (page 114).	Maintain an advocacy score that is at minimum 6% ahead of the peer group for CFS.
		Achieve a customer satisfaction score of 78.3% for The Co-operative Food.
		Maintain a minimum customer satisfaction score of 90% for The Co-operative Travel.
		Maintain a minimum customer satisfaction score of 90% for The Co-operative Pharmacy.
		Maintain a Funeral Excellence Score of 90.
<b>Indicator: Corporate reputation and brand</b> (Performance recognition page 115)		
Ensure that at least 4,500 outlets have been rebranded by the end of 2010.	 By the end of 2010, a total of 4,900 outlets were rebranded (page 115).	Complete the rebrand of Co-operative outlets <sup>2</sup> .
<b>Indicator: Complaints</b> (Performance benchmark page 116)		
		Maintain CFS complaints received below two per 1,000 accounts, policies and portfolios.
<b>Indicator: Accessibility of communications, products and services</b> (Performance recognition page 118)		
		Develop a new customer diversity plan for CFS.

## Customer satisfaction

The Trading Group tracks satisfaction with The Co-operative Food, Pharmacy, Travel, Funeralcare and Legal Services (CLS), and, as of 2010, The Co-operative Life Planning<sup>3</sup>. At the start of 2010, a new method of measuring satisfaction was adopted by the Food, Travel and Pharmacy businesses – the Customer Satisfaction Index (CSI) – which aims to more accurately assess how The Co-operative is 'doing best what matters most to customers'<sup>4</sup>. As in previous years, between 500 and 600 customers were surveyed on a monthly basis<sup>5</sup>, and asked to register satisfaction on a 10-point scale. Due to the nature of their business sectors, Legal Services and Funeralcare continue to use their previous respective methodologies<sup>6</sup> to track satisfaction.

Specific targets for satisfaction were not finalised at the time of the 2009 Sustainability Report publication, but those subsequently set by the business for achievement in 2010 are commented on below.

Measurement of satisfaction was also updated in CFS with a greater focus on advocacy. In 2010, a syndicated, industry survey was adopted – the GFK NOP Financial Research Survey – to effectively measure advocacy and benchmark performance against a peer group<sup>7</sup> in the financial sector. This new method aims to help the business better understand how performance in critical areas can drive higher levels of advocacy amongst customers<sup>8</sup>. Satisfaction surveys are also conducted amongst CFS corporate and business customers; and survey results are weighted according to stated importance of attributes<sup>9</sup>.

# CUSTOMERS

Customer satisfaction remained consistent in 2010.



Due to changes in methodology, it is not possible to report comparable historic data across all businesses. Variance in the satisfaction scores between the different businesses is reflective of the different market sectors within which each operates, and the differing methodologies employed.

### The co-operative food

A CSI of 77.2% was achieved, exceeding the 2010 target of 76.4%. Performance was consistent across the year, despite the disruption caused by the Somerfield integration and branch refit programme. Areas identified for improvement within the survey include queuing times and speed of service at the checkout, and availability of products.

### The co-operative pharmacy

A CSI of 91.3% was achieved, exceeding the 2010 threshold target of 90%. Priorities identified for improvement in 2011 within the survey include: the consistency of services across all branches; privacy within pharmacy branches; availability of prescriptions; and length of waiting time.

### The co-operative travel

A CSI of 92.7% was achieved, exceeding the 2010 threshold target of 90%. Priorities for improvement in 2011 were identified within the survey as: value for money; the booking process – including, accuracy, clarity and ease of the booking; and travel advisers' understanding of customer needs.

### The co-operative funeralcare

Satisfaction results remained extremely high and in line with previous years, with 98% of customer respondents reporting they were satisfied ('very satisfied' or 'fairly satisfied') with the overall experience.

Customer satisfaction results			
	2008	2009	2010
The Co-operative Funeralcare	97%	98%	98%

Customer service questionnaires are also used to calculate a Funeralcare Excellence Score (FES), based on factors that determine the quality of customer service. The 2010 FES score was 91.5, exceeding the threshold target of 90.

### The co-operative legal services

Satisfaction results achieved show a slight improvement from previous years, with 75% of customer respondents rating their satisfaction with the overall experience as nine or 10 out of 10. Priorities for improvement in 2011 include: speed of answering the phone, supportiveness of case handler and regularity of updates.

Customer satisfaction results			
	2008	2009	2010
The Co-operative Legal Services (will writing, legal advice and personal injury)	72%	74%	75%

### The co-operative financial services

🎯 CFS exceeded its 2010 target to perform at least 6% points above the 'top five' peer group average, averaging 7.5% points above the group across the year. Advocacy levels remained stable throughout 2010, with CFS performing ahead of its peer group across the majority of individual products. Performance on current accounts was particularly strong, with CFS averaging 23.4% points above its peers over the year.

**Performance benchmark**

CFS takes part in the Association of British Insurers' (ABI) Customer Impact Scheme for Life and Savings products, which tracks customer satisfaction across a range of measures, including advocacy. CFS outperformed the industry average with regard to customer advocacy<sup>10</sup>, and scored above, or in line with the industry average across all satisfaction measures.

In corporate banking (ie business customers with turnover exceeding £1m), key drivers of customer satisfaction include: accuracy of data and transactions; relationship managers keeping promises and commitments; and reliability of software. Key satisfaction drivers for business banking are: keeping promises and commitments; accuracy of customer details processing and day-to-day banking operations; and helpfulness of staff.

CFS corporate and business banking Customer Satisfaction Index 2010			
	2008	2009	2010
Corporate banking	83.7%	84.0%	86.3%
Business banking	84.2%	82.7%	80.3%

## Corporate reputation and brand

### Corporate Reputation Index

The Corporate Reputation Index (CRI) model<sup>11</sup> measures how brand perception drives sales. During September and October 2010, more than 1,000 face-to-face interviews were carried out with members of the public who had heard of 'The Co-op' or 'The Co-operative'. Respondents were asked questions exploring their perceptions of The Co-operative's leadership and reliability, its approach to public responsibility and its role as a caring organisation. Each of these three areas is weighted according to its importance in driving sales<sup>12</sup>.

#### Corporate Reputation Index score

**x11** increase in CRI score since 2006

#### The Co-operative: Corporate Reputation Index<sup>13</sup>

	2006	2007	2008	2009	2010
Corporate Reputation	+4	+18 	+17	+23 	+44

Performance in the CRI continues to improve, with an 11-fold increase achieved in the Index score since 2006. The significant improvement made may be attributed to the continued impact of the rebranding programme and marketing campaign, increased awareness of The Co-operative, and the higher proportion of Co-operative customers<sup>15</sup> and members amongst the consumers surveyed. Significantly, members are almost twice as likely to rate The Co-operative highly, generating a score of +82 in 2010.

Despite the addition of five more competitors<sup>16</sup> to the CRI in 2010, The Co-operative continues to rank highly in comparison with its peers for two of the elements that comprise the overall CRI score: 'public responsibility'<sup>17</sup> (rank: second of 12) and 'caring company'<sup>18</sup> (rank: third of 12) elements of the CRI. However, these elements account for a relatively small proportion of the score, as the greatest weighting (60%) is associated with 'leadership and reliability'.

#### Outlets rebranded 2010

**4,900** outlets rebranded under one identity  
2009: **4,030**

### Rebranding programme

During 2010, the rebranding programme continued to unify the different businesses and a number of other co-operative societies under one identity. Brand standards are designed to deliver an improved customer experience and a higher level of customer satisfaction.  By December 2010, a total of 4,900 outlets had been rebranded, which exceeds the target set of 4,500 stores. It is anticipated that the rebrand of The Co-operative estate will be completed in 2011; a programme of store interior refits is ongoing (page 63).

### Performance recognition

- For the second year running, The Co-operative won a public vote to pick up the RSPCA People's Choice Supermarket Award
- The Co-operative won a World Retail Award in November for its 'Good for Everyone' brand re-launch
- The general public recognised The Co-operative as one of the UK's strongest brands in the annual Consumer Superbrands survey
- The Co-operative Travel was named 'National Travel Retailer of the Year' in The British Travel Awards 2009, and 'Best Tour Operator to Central and Northern Europe', as voted for by the holiday- and travel-buying public.
- The Co-operative Bank was voted 'Best Direct Mortgage Lender 2009/10' by Your Mortgage magazine readers.
- At the Moneywise Customer Service Awards 2010, which surveyed more than 10,000 consumers, The Co-operative Bank received the best current account awards for online service and call centre service. **smile** was voted most trusted current account provider and best current account overall for customer service.

### Customer relations

The Customer Relations department acts as the first point of contact for customers who wish to comment on products, policies and operations, or find out about the provenance of own-brand products. It also generates information to allow the business to respond to emerging consumer issues. In 2010, 204,092 calls were received via the Customer Relations department; of all correspondence received, 31,437 instances related to product complaints<sup>19</sup>.

In addition to the general Customer Relations team, CFS, The Co-operative Travel and The Co-operative Pharmacy each operate their own customer contact centres to handle customer queries and complaints.

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## Complaints received by other customer contact centres

	2007	2008	2009	2010
The Co-operative Pharmacy	747	915	1,552	1,210
The Co-operative Travel <sup>20</sup>	4,067	4,620	4,876	4,184
CFS <sup>21</sup>	78,783	50,151	42,558	47,883

Increased focus on updating and training Travel branch staff on complaint causes and handling, along with improved systems for reporting on holiday accommodation standards, may account for the decrease in complaints in Travel in 2010. In Pharmacy, the business has continued to focus on customer service, for example, by issuing an updated complaints policy and training module, and displaying customer care posters in branches. Overall, CFS received fewer than two regulated complaints per thousand live accounts, products or portfolios.

## Performance benchmark

At The Co-operative Bank and Insurance, 97% and 93% of customer complaints respectively were resolved within eight weeks over the course of the year, compared to an average of 84% across the financial services industry<sup>22</sup>.

The Co-operative Bank was the highest placed high street bank in the 2010 JD Power Customer Satisfaction Study. The bank received the highest complaint resolution score of any provider, and 76% of customers felt their complaint was handled fairly, well above the industry average of 54%.

## Customer engagement

In addition to the customer satisfaction and corporate reputation surveys detailed above, customers are engaged via numerous channels, which include:

### Social media and campaigns

Throughout 2010, customers have been increasingly engaged in consumer and ethical issues via online and social media channels. As of December 2010, more than 24,000 people followed one or more of The Co-operative's social media pages, and more than 15,000 customers or members subscribed to the campaign email group. Customers are encouraged to take part in campaigning activity using many communications channels, for example, point of sales promotions in Food stores, campaign inserts in bank statements, and customer magazines.

### The Co-operative Food chip and pin feedback: InSight

The Co-operative Food utilises chip and pin terminals to gather customer feedback on pertinent customer service, sustainability and business issues<sup>23</sup>. InSight was designed and developed in-house and is unique to The Co-operative. An average of 365,000 responses (2009: 350,000) were received each week during 2010, providing an instant reading on customer opinion.

InSight was designed and developed in-house and is unique to The Co-operative.

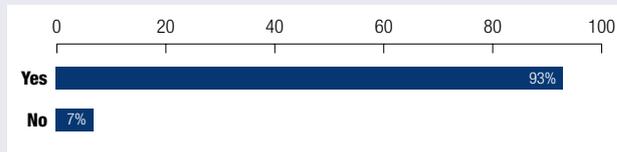


## InSight customer feedback

Chip and pin terminal survey of The Co-operative Food customers, conducted September 2010

### Question: "Were we friendly and helpful?"

(total responses: 324,348)



## Consumer panels and forums

### The Co-operative Food: The Taste Team

A consumer panel, The Taste Team, is in place to help ensure own-brand ranges meet or exceed customer expectations. A total of 1,800 employee-customers sample new products and provide feedback via an online questionnaire. All new products pass through The Taste Team process, and those achieving a sufficiently high panel score are progressed to launch. In 2010, 343 tests were completed.

### Up for Discussion – consumer community

Up for Discussion is a private online community, piloted in December 2010, to enable The Co-operative to better understand consumer attitudes and behaviours. The Community has approximately 1,800 participants, comprising a cross-section of consumers, including members, non-member customers and non-customers, who participate in discussions and polls on consumer and lifestyle issues.

### Talking Shop – Food consumer community

Talking Shop is a private online community that engages with consumers and generates insight, primarily focusing on the Food business. Approximately 1,300 participants have joined the community, and can take part in discussions, polls and surveys, and photo and video journals.

The Taste Team has been in operation for over two years supporting the development of own-brand products.



**CFS Customer Consultative Council and customer events**

The council is made up of 24 customers, who are broadly representative of CFS' customer base. It meets with the Chief Executive of CFS and other senior leaders quarterly to provide feedback on customer issues. In addition, bank and Britannia customers are invited to meet with the Chief Executive of CFS and branch colleagues at informal evening events held across the UK, allowing attendees to discuss the issues of most importance to them. Three such customer events were held in 2010.

**CFS customer forum and panel**

These engagement channels are currently under review in line with the business' wider evaluation of customer satisfaction measurement. The customer experience forum and customer panel ran until September and October 2010 respectively. It is anticipated that new customer engagement channels will launch in 2011.

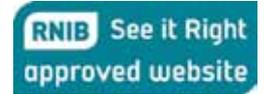
**Accessibility of communications, products and services**

The Trading Group has an 'access for all policy' in place across the business, which aims to ensure that customers are able to access goods and services and the business is responsive to customer needs, and compliant with the Equality Act 2010. At CFS, a Customer Diversity Group meets regularly to ensure customer policies and processes are inclusive, and to improve the experience of customers from diverse groups; the group will work to develop a new two-year diversity plan during 2011.

**Websites**

The Co-operative considers its main website to meet the World Wide Web Consortium (W3C) Web Content Accessibility Guidelines (level 'AA'). An accessibility page, providing guidance for site users, is

available on the website. In May an audit undertaken by the Royal National Institute of Blind People (RNIB) found that The Co-operative's main website, including selected sub-sites<sup>24</sup>, fully met the requirements of the 'See it Right Award'<sup>25</sup>. The accessibility of the remaining sub-sites will be improved to meet these requirements.



CFS considers that its main website complies with the W3C 'AA' standard and the **smile** website is considered to comply with the W3C 'A' standard. Throughout 2010, CFS worked with the Shaw Trust – a national charity that supports disabled and disadvantaged people – to further improve the accessibility accreditation of the site.

**Corporate literature**

During 2010, over 31,000 requests for alternative format information were fulfilled by the Trading Group and CFS (2009: 30,000).

**Corporate labelling**

The Co-operative endeavours to add Braille to all product packaging, where technically and commercially possible. During 2010, Braille packaging appeared on approximately 1,000 own-brand product lines.

**Braille on packaging 2010**

**1,000**

own-brand product lines feature Braille on packaging

**Pharmacy – accessible services**

In 2010, Muslim patients fasting during Ramadan were offered help to manage their medicines by around 82 (2009: 80) Co-operative Pharmacy branches in areas with a high proportion of Muslim customers. Targeted marketing in several languages was used to advertise the free 'medicines check' service to Muslim patients. Nearly half of these pharmacies, in line with local need, have received further training to offer customers 'stop smoking' advice alongside the 'medicines check' service.

Poster promoting The Co-operative Pharmacy 'medicines check'.



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## Travel – accessible services



In 2010, The Co-operative Travel launched a dedicated service for disabled holiday-makers in the UK. As of 2010, 102 specialist advisers were trained in disability awareness, and The Co-operative Travel aims to have 390 in place by 2014. The launch was supported by a

national marketing campaign, and the initiative is hoped to benefit 10,000 disabled travellers over the next five years.

Holidaymakers experience adaptive skiing using a monoski.



© Redpoint

The Co-operative Travel also promotes packages for LGBT (lesbian, gay, bisexual and transsexual) holiday-makers. It has produced a pocket guide with bespoke offers for LGBT travellers, and has specialist travel advisers on its personal adviser team to support this offering.

### Performance recognition

The Co-operative received Stonewall's Best Inclusive Advertising and Marketing Award for services provided to LGBT consumers. The Co-operative achieved 31% of the vote in a poll run by Stonewall via social media.

## Funeralcare – Pink Partings

The Co-operative Funeralcare works in partnership with the Pink Weddings Group to support the LGBT community via its Pink Partings service. The Pink Partings website offers a service designed specifically for LGBT people arranging the funeral of a partner or purchasing a funeral plan.

### Performance recognition

In 2010, The Co-operative Bank was voted the best bank by readers of the Pink Paper – the leading news service for gay, lesbian and bisexual people in the UK.



## Accompanying notes

- GfK NOP (2010) Consumer Confidence Index [www.gfknop.com/pressinfo/releases/singlearticles/007214/index.en.html](http://www.gfknop.com/pressinfo/releases/singlearticles/007214/index.en.html)
- This excludes the private name funeral homes and Britannia branches, which do not participate in the rebrand.
- Results for CLP will be reported in 2011 when data for a complete year will be available.
- In Q1 2010, The Co-operative assessed how important various aspects within the customer experience are to Food to develop a questionnaire and subsequent measurement to focus on priority requirements, and thereby provide greater insight into the steps needed to improve performance. The Index result is weighted towards attributes ranked most highly by customers, and expressed as an overall percentage.
- Data presented is an average of quarterly satisfaction scores. For Food: 217 telephone interviews are undertaken per month, for Pharmacy exit interviews are conducted outside 25 branches per month, and in the case of Travel 75 telephone interviews are conducted with bookers per month.
- A self-completion postal survey is issued by CLS and Funeralcare. In the case of CLS, 'satisfied' customers are those who rate their satisfaction with The Co-operative as nine or 10 out of 10. Approximately 1,300 surveys are returned to CLS each quarter. In Funeralcare, satisfied customers are those who report they are 'very satisfied' or 'fairly satisfied' on a four-point scale. 103,886 customers were surveyed and asked to register their satisfaction levels; 26% of those customers returned completed questionnaires.
- The peer group varies according to product types.
- Measurement is based on the percentage of customers rating their likelihood to recommend CFS as eight, nine or 10 out of 10. Results are then weighted to reflect the number of customers who take up each CFS product featured in the survey, to generate an overall score.
- The corporate banking survey was conducted in September 2010 amongst a random sample of 302 Corporate customers. The business banking survey was conducted in May 2010 amongst a random sample of 201 business banking customers.
- Where 79% of customers were 'likely' or 'very likely' to recommend the CFS life and savings business to others compared to an industry average of 69%.
- The CRI was created by The Co-operative in partnership with Millward Brown.
- Leadership and reliability 60%, caring company 26%, public responsibility 14%.
- The average score across all UK organisations surveyed is zero.
- Scores from 2009 onwards include respondents in the catchments of the former Somerfield estate.
- The CRI results are based on a sample of consumers who live within co-operative society trading areas. Of this sample, 93% of participants were customers of The Co-operative in 2010.
- The survey approach involves consumers being questioned about The Co-operative and one other competitor. The competitors added to the 2010 survey were: John Lewis, Sainsbury's, Lloyds Pharmacy, Thompson and Santander. The rest of the peer group comprises: Asda, Tesco, Boots, Morrisons, Thomas Cook and Nationwide.
- Comprises: charges fair prices for its products/services; promotes itself responsibly; is a business you can trust; and cares about its customers.
- Comprises: supports good causes; supports local communities; treats its employees well; behaves in a socially responsible way; is different from other businesses; and has a useful role in society.
- Historical data for product complaints 2006–2009 has not been included, as this data does not include former Somerfield, and is not therefore comparable with 2010 data.
- Based on complaints received by The Co-operative Travel contact centre, and excluding complaints received directly by its in-house tour operator.
- Based on regulated complaints data as submitted biannually to the Financial Services Authority (FSA); excludes unregulated complaints. 2007–2009 data has been restated to include Britannia. The significant drop in figures between 2007 and 2008 can largely be accounted for by changes in FSA requirements for reporting. 2010 data includes, for the first time, the entirety of regulated complaints, a small number of which had been omitted in previous years.
- Based on data for the first half of 2010. Financial Services Authority (2010) Aggregate complaints data 2010 H1 [www.fsa.gov.uk/pages/Library/Other\\_publications/commentary/aggregate\\_com/prev\\_agg\\_com/index.shtml](http://www.fsa.gov.uk/pages/Library/Other_publications/commentary/aggregate_com/prev_agg_com/index.shtml)
- Sustainability-related InSight results are included in the Diet and health section page 39.
- Ethics in Action, Magazine, Corporate and Legal Services websites.
- This features most of W3C's 'AA' guidelines and some 'AAA' guidelines.

# PUBLIC POLICY

## Background

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, when he was United Nations Secretary-General, “business must restrain itself from taking away, by its lobbying activities, what it offers through corporate responsibility and philanthropy”<sup>1</sup>.

## Materiality and strategy

The Co-operative 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.

As a leading advocate of responsible business, The Co-operative actively engages on public policy matters. It is committed to always being open about this activity and its outcomes, as well as making full annual disclosure relating to membership and financial support for trade organisations and political parties.

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🎯 <b>Targets 2010</b>	<b>Progress</b>	<b>Targets 2011</b>
<b>Indicator: Public policy interventions</b> (Performance benchmark below)		
		<b>EOP</b> Continue to use influence to campaign for a more sustainable world, and always be open about such lobbying and its outcomes.
Develop a new strategy for public policy engagement with consideration of co-operative values and principles.	← In 2010, development began on a strategic political engagement policy, which will be finalised in the course of 2011 (see below).	Finalise a new strategy for public policy engagement, with consideration of co-operative values and principles.
<b>Indicator: Political donations</b>		

## Governance

A new Political Strategy Working Group was formed in 2009. This comprises the Chair of The Co-operative Group, Chair of the Values & Principles Committee (page 13), one Co-operative Group Board member, one CFS Board member, one of The Co-operative Group Board’s nominees to The Co-operative Party National Executive Committee (NEC) and relevant members from management.

🎯 The working group met in November 2010 to consider the purpose and defined goals, transparency of process and ownership of a strategic political engagement policy. It was agreed that a draft policy would be presented to the working group in February 2011 for agreement, with a view to the final policy being discussed at the Group Board strategy meeting in July 2011. It would then become part of the regular cycle of business planning.

## Management

Public policy activities are supported by a public affairs team of six people. The team identifies and tracks significant public policy themes relevant to The Co-operative and its family of businesses, co-ordinates public policy responses, manages Government relations and advocates the co-operative business model to politicians and civil servants. The team reports to the Director of Communications. Where public policy activities relate to material sustainability issues, its position is informed by input from the Social Goals department (page 14).

## Accounting

For reporting purposes, ‘engagement’ is restricted to instances where The Co-operative has pressed a point of difference 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.

➡ **Performance benchmark**

In 2007, research undertaken by SustainAbility<sup>2</sup> acknowledged CFS to be one of a ‘small group of leader companies’ whose approach to lobbying and reporting could be considered ‘integrated’ (ie, at the highest level)<sup>3</sup>.

## PUBLIC POLICY

<b>Public policy 'interventions' 2010</b>			
<b>Issue</b>	<b>Audience</b>	<b>Influence and action</b>	<b>Page</b>
<b>Sustainability management</b>			
Sustainability reporting	Stock exchanges globally including London Stock Exchange	Collaborative investor letters co-signed calling for sustainability reporting to be embedded within listing rules.	–
<b>Inspiring young people</b>			
Votes at 16	Members of Parliament	Fringe events hosted at the three main party conferences in collaboration with the Coalition for Young People. Worked with MPs and the Votes at 16 Coalition to table an amendment to the Alternative Vote Bill, which would allow 16 and 17 year olds to vote in 2011. We wrote to Co-operative MPs to urge them to support the amendment.	59
<b>International development</b>			
The Groceries Supply Code of Practice Adjudicator	Department for Business Innovation and Skills (BIS) and Minister for Consumer Affairs	Consultation response submitted on the nature and funding of a body to oversee the operation of the Groceries Supermarket Code of Practice (GSCOP), calling for an Enforcement Body to be responsible exclusively to the GSCOP. Met with the Consumer Affairs Minister to discuss the issue.	31
Export Credits Guarantee Department	MPs, Secretary of State for BIS, and the Environmental Audit Committee (EAC)	A number of activities undertaken to urge reform of the Export Credit Guarantee Department (ECGD) including: a response to the EAC inquiry 'the impact of UK overseas aid on environmental protection and climate change adaptation and mitigation'; co-signing a letter to the Secretary of State for BIS, and supporting Early Day Motion 622 on the ECGD.	30
EU Fairtrade procurement	European Commissioner for Internal Market and Services	Letter co-signed to the Commissioner for Internal Market and Services at the European Commission, outlining concerns that the restrictive interpretation in the current draft of the Guide on Social Considerations in public procurement would have a negative impact on the work that the civil society-led Fairtrade movement has carried out on public procurement.	31
<b>Ethical finance</b>			
Corporate governance and stewardship	Financial Reporting Council and European Union	Consultation responses submitted on UK Corporate Governance and Stewardship Codes, and EU Corporate Governance Green Paper calling for mandatory voting disclosure and annual re-election of directors.	49
<b>Social inclusion</b>			
Prisoner bank accounts	Minister for Prisons	Following the publication of the Government's green paper on sentencing and re-offending, The Co-operative wrote to the Minister for Prisons, to highlight how the provision of bank accounts has been shown to reduce re-offending.	54
Post Office closures	BIS	Responses provided to the BIS consultation on Post Office Banking, welcoming the Government's proposals for the Post Office's enhanced role in the provision of financial services, and recommended future expansion of third-party transactional banking to other providers and credit unions. Reiterated at an All Party Parliamentary Group on Debt and Personal Finance event on Post Office Banking.	54
Fuel poverty	Energy and Climate Change Committee	Responded to the Energy and Climate Change Committee Inquiry into Fuel Poverty, advocating a review of renewable and energy-saving technology and procurement by local authorities, targeted government funding for reduced consumption and efficiency increases, development of low-cost district heating on surplus public land, and initiatives to encourage renewables in rural communities where fuel poverty is high.	54
<b>Diversity</b>			
Gender diversity in the boardroom	European Commission and BIS	Submission made to the European Commission consultation on the Corporate Governance Green Paper, supporting further consideration of thresholds for women on company boards. Also participated in BIS Women on Boards consultation, calling for improved disclosure of senior management gender balance.	112

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**Public policy 'interventions' 2010 continued**

Issue	Audience	Influence and action	Page
<b>Climate change</b>			
Renewable Heat Incentive	Members of Parliament	In association with the Renewable Energy Association and Friends of the Earth, parliamentary activities undertaken to encourage MP support for the Renewable Heat Incentive ahead of the Comprehensive Spending Review.	70
Anaerobic digestion and biomass	Department for Energy and Climate Change (DECC)	Response submitted to a DECC consultation on 'grandfathering policy of support for dedicated biomass, anaerobic digestion and energy from waste under the renewables obligation', supporting anaerobic digestion and biomass in the UK.	—
Mandatory greenhouse gas (GHG) reporting	Members of Parliament, Secretary of State for the Department of Environment, Food and Rural Affairs (DEFRA), Ministers and civil servants at DEFRA and BIS	Response submitted to BIS consultation on 'the future of narrative reporting' calling for the introduction of mandatory GHG reporting for large companies and reporting on future carbon liabilities where material. Meeting held with Lord Henley, Minister for the Environment; wrote to Secretary of State for DEFRA and Ministers at DEFRA and BIS; and met with BIS civil servants to call for mandatory GHG reporting by 2012.	71
EU Fuel Quality Directive	European Commission, Members of the European Parliament, European Parliament Environment Committee, UK Department for Transport and UK representatives on the EU Fuel Quality Committee	Activities undertaken to urge the European Commission to penalise the higher GHG emissions of tar sands fuels as part of the Fuel Quality Directive. Activities included: writing to the UK Minister for Transport and key Members of the European Parliament (MEPs); the formation of a coalition of European NGOs to 'keep tar sands out of Europe', with joint briefing papers sent to the European Commission, MEPs and EU Member States; holding face-to-face briefings with key MEPs; and providing questions for the European Parliament Environment Committee to put to the Commission. In September 2010, The Co-operative, Greenpeace and WWF launched a public petition to the European Parliament and met the Minister for Transport on the issue.	71
Green Investment Bank	Environmental Audit Committee (EAC), Prime Minister	Oral evidence submitted to the EAC in support of the proposal to establish a UK Green Investment Bank and letter co-signed to the Prime Minister calling for at least £4bn of initial funding and the power to raise revenues by issuing its own green bonds.	70
<b>Biodiversity</b>			
Illegal timber	European Parliament	Letter sent to the European Parliament's Environment Committee in support of proposal to ban import of illegally logged timber into the EU.	87

**Toxic Fuels**

The Co-operative is campaigning to stop the expansion of unconventional fuel sources, such as tar sands and gas shales (page 71). In 2010 this included active support for the inclusion of tar sands fuels within the EU Fuel Quality Directive.



**Votes at 16**

The Co-operative believes that young people are ready, willing, and able to get involved in politics, and is campaigning for the voting age to be lowered to 16 (page 59). In 2010, it worked with MPs to table an amendment to the Alternative Voting Bill.



## PUBLIC POLICY

### Unfinished Business

The Co-operative is reinvigorating the debate on third world debt, including calling for reform of the Export Credit Guarantee Department (page 30).

### Trade and business association memberships

The Co-operative has membership of a number of trade and business associations. In taking the broadest view of transparency in respect of public policy activities, all principal memberships, subscription fees and donations to trade and business associations are disclosed, together with involvements in other organisations that seek to influence public policy or business practices.

#### Trade and business association membership fees and donations 2010

Name	Amount
Co-operatives <sup>UK</sup>	£933,674
Building Societies Association	£303,147
Co-operative Employers Association	£300,000
Association of British Travel Agents	£167,000
National Association of Funeral Directors	£162,923
British Retail Consortium	£160,000
Royal Pharmaceutical Society for Great Britain	£129,860
Business in the Community	£94,475
International Co-operative Alliance	£76,266
Company Chemists Association	£66,539
European Community of Consumer Co-operatives (Euro-coop)	£64,155
UK Social Investment and Finance	£35,000
Green Alliance	£30,000
Ethical Trading Initiative	£30,000
European Association of Co-operative Banks	£26,760

#### Trade and business association membership fees and donations 2010 continued

Name	Amount
Investment Management Association	£26,629
British Banking Association	£21,660
UK Sustainable Investment and Finance	£20,000
The Wine and Spirit Trade Association	£20,000
Corporate IT Forum	£19,405
Association of British Insurers	£17,551
International Co-operative and Mutual Insurance Federation	£17,232
British Institute of Embalmers	£16,543
Scottish Grocer Federation	£15,150
National Security Industry	£12,500
Association of Mutual Insurers and Insurance Co-operatives	£11,965
Association of Convenience Stores	£11,160
The Law Society	£10,194
Finance and Leasing Association	£10,065
Forum for the Future	£10,000
Renewable Energy Association	£9,660
Association of UK Oil Importers	£9,337
Combined Heat and Power Association	£7,990
Investment and Life Assurance Group	£7,840
IGD Services (Institute of Grocery Distribution)	£7,250
AccountAbility	£7,000
ClimateWise	£5,875
National Farmers Union (England)	£5,641
Institutional Investor Group on Climate Change	£5,500
Association of British Credit Unions	£5,202
British Nutrition Foundation	£5,194
International Association of Microfinance Investors	£5,112
Council of Mortgage Lenders	£5,005
Environmental Industries Commission	£5,000
Art & Business	£5,000
London Benchmarking Group	£4,750
British Security Industry Association	£4,416
Fresh Potato Suppliers Association	£4,150
British Institute of Funeral Directors	£4,049
Guild of Travel Management	£3,250
WWF Forest and Trade Network	£3,238

**Trade and business association membership fees and donations 2010 continued**

Name	Amount
Employers' Forum on Disability	£3,231
Country Land and Business Association	£2,446
Communicate Mutuality (Mutuo)	£2,350
Scottish Rural Property and Business Association	£2,000
Federation of Burial and Cremation Authority	£1,798
British Retail Consortium Palm Oil	£1,706
British Food Importers and Distributors Association	£1,657
Charity Finance Directors Group	£1,630
SAC Association of Potato Producers	£1,600
Food Ethics Council	£1,370
Pharmaceutical Society of Northern Ireland	£1,350
National Farmers Union (Scotland)	£1,272
International Chamber of Commerce	£1,234
<b>Total</b>	<b>£2,963,956</b>

**Political donations**

The Co-operative 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. It 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 councillors.

In 2010, an overall financial contribution of £749,000 (2009: £676,000) was made to The Party in respect of the annual subscription and support for Party Councils. An in-kind donation of £5,000 (2009: £5,000) was also made, in the form of the provision of office space. Furthermore, donations were made of £65,000 direct to The Labour Party (2009: £63,090) and miscellaneous expenditure was incurred in support of The Labour Party at local, regional and national levels, amounting to £15,450 (2009: £7,000).

**Ethical finance**

**The Co-operative Asset Management (TCAM) – political donations and public policy**

The non-disclosure of political donations, trade association membership and public policy interventions is fast becoming a significant socially responsible investment issue and is the subject of independent shareholder resolutions tabled at annual general meetings. During 2010, there were 39 resolutions calling for political or charitable donation disclosure at the general meetings of investee companies. TCAM voted in support of 37 and abstained on two resolutions<sup>4</sup>. During 2010, TCAM was presented with four overseas shareholder resolutions relating to public policy, two of which were supported.

Company	Resolution	Vote registered
Pepsico Inc, Wal-Mart	To report on public policy advocacy activities, including the process for identifying and prioritising public policy issues of interest.	Supported
Bank of America Corp, Ford Motor Co	To disclose previous government employment by senior employees.	Abstained <sup>5</sup>

**Accompanying notes**

- AccountAbility (2005) Towards responsible lobbying – leadership and public policy.
- SustainAbility (2007) Coming in from the cold: public affairs and corporate responsibility.
- 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.'
- Abstained on Citigroup resolution as policy in place and no evidence to suggest policy breach. Abstained on Pepsico Inc as request considered to be excessive.
- Abstained as the scope of the request was considered unreasonably broad.

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# INDEPENDENT ASSURANCE STATEMENT



## Scope and objectives

**Two Tomorrows (Europe) Limited** has undertaken independent assurance of The Co-operative Group (The Co-operative) Sustainability Report 2010 (the Report).

The assurance process was conducted in accordance with AA1000AS (2008). We were engaged to provide moderate level Type 2 assurance, covering:

- evaluation of adherence to the AA1000APS (2008) principles of inclusivity, materiality and responsiveness (the Principles) and
- the reliability of specified sustainability performance information.

The performance information included in scope was all key data and claims in the printed Report, together with additional information provided online and clearly signposted from the Report. We have not checked the collation of data for the financial information taken from The Co-operative's audited Annual Report and Accounts. Source energy data provided by The Co-operative's Energy Services team have not been subject to review. We did not review the GRI table or GRI application level in the report.

We were also engaged to provide high level assurance on the data and claims in the Ethical Finance chapter (pages 41–49).

We used the Global Reporting Initiative (GRI) Quality of Information Principles as criteria for evaluating performance information.

## Responsibilities of the directors of The Co-operative Group and of the assurance providers

The directors of The Co-operative have sole responsibility for the preparation of the Report. Our statement represents our independent opinion and is intended to inform all of The Co-operative's stakeholders in a balanced way.

We were not involved in the preparation of any part of the Report. However, having reviewed and provided feedback on drafts of the Report, in a number of instances changes were made to the final version.

We have had one other contract with The Co-operative in the past year to provide a Tomorrows Value Rating benchmark report. This is the fifth year that we have provided assurance for The Co-operative. Some members of our team have acted as assurance providers to The Co-operative Financial Services for the previous three years and to The Co-operative Bank for its Partnership Report for the six years prior to that.

Our team comprised Mark Line, Richard Evans, Adrian Henriques, Anne Euler, Rachell Evans and Elvin Ozensoy. Further information, including individual competencies relating to the team can be found at: [www.twotomorrows.com](http://www.twotomorrows.com)

## Basis of our opinion

In our work, designed to gather evidence with the objective of providing the agreed level of assurance as defined in AA1000AS (2008), we undertook the following activities:

- Review of sustainability issues that are of interest to stakeholders, could affect The Co-operative or were discussed with its management.
- Interviews with members of the Social Goals team and selected managers in the businesses responsible for sustainability issues.
- Review of The Co-operative's approach to stakeholder engagement and the outputs of recent stakeholder engagement. We had no direct engagement with stakeholders other than staff.
- Assessment of information provided to us by The Co-operative on its reporting and management processes relating to the Principles.
- Assessment of supporting evidence for key claims in the Report.
- Review of the processes for gathering and consolidating data and, for selected samples, checking the data consolidation.
- Review of referrals to the bank Ethical Policy Unit to support a high level of assurance that the data presented in the Report are accurate.

## Findings and opinion

We reviewed and provided feedback on drafts of the Report and where necessary changes were made. On the basis of the work undertaken, nothing came to our attention to suggest that the Report does not properly describe The Co-operative's adherence to the Principles or its performance.

We believe the claims in the Ethical Finance section on which we are providing high level assurance are reliable.

In terms of data accuracy, nothing came to our attention to suggest that data have not been properly collated from information reported at operational level, or that the assumptions used were inappropriate. We are not aware of any errors that would materially affect the data reported.

## Observations

Without affecting our assurance opinion we also provide the following observations.

### Performance information

Overall we have confidence in the level of accuracy demonstrated by the information in the Report. In particular we believe the Ethical Finance sections are well-founded.

However as in previous years, manual collation and adjustment of data occurs. While The Co-operative has paid particular attention to ensuring the accuracy of performance data concerning climate change and water, automation would help to reduce the risk of error further. We note that it has not been possible to report calendar year data in all areas.

In many areas, suitable protocols setting out procedures and measurements for underlying indicators have been drafted and reported. These are important in ensuring the consistency of information from year to year. Protocols are lacking for some specific

measures, notably in the waste and water sections. In some cases protocols are needed to determine the attainment of targets, such as those for recycling.

Over the years, the progressive improvement in performance demonstrates The Co-operative's responsiveness in many areas. To maintain that level of responsiveness will no doubt require further innovation and it will be important to continue to enhance and simplify the presentation of complex data for the benefit of easier accessibility for readers.

**Inclusivity concerns the participation of stakeholders in developing and achieving an accountable and strategic response to sustainability.**

The Co-operative has maintained the high level of stakeholder engagement seen in previous years. With the development of the Ethical Operating Plan towards the end of 2010, which was constructed with democratic input, The Co-operative has created a significant opportunity to increase its inclusivity still further, as the plan includes ambitious targets for membership and envisages the use of new technology to enhance consumer choices.

**Material issues are those which are necessary for stakeholders to make informed judgments concerning The Co-operative and its impacts.**

As in previous years, we believe the Report describes the great majority of The Co-operative's material impacts. The Ethical Operating Plan provides an opportunity to ensure that the logic for the choice of strategy, implementation and measurable targets all become clearer.

A continuing balance needs to be struck between provision of enough information to support a balanced understanding of impacts and keeping that information accessible. The Co-operative has addressed this challenge well, by filtering out some information that has become less relevant through time and replacing it with information on issues that stakeholders wish to see, such as the Water and Inspiring Young People sections, which appear in the main report for the first time.

We also welcome the progress on The Co-operative's strategy for public policy positions, about which few organizations are transparent. In the coming year, it will be important that this policy is fully implemented.

The extension of The Co-operative Bank's Ethical Policy into general insurance products is an important development and demonstrates leadership in an area that has traditionally been little touched by ethical concerns. We look forward to further such pioneering initiatives over time.

As The Co-operative explores new and innovative projects, such as the planned joint venture in China, we expect that appropriate disclosures will be made. This year's Report provides more complete diversity data from its recent acquisitions, which is welcome. However in some diversity areas, such as the proportion of managers from ethnic backgrounds, additional information should be reported.

**Responsiveness concerns the extent to which an organisation responds to stakeholder issues**

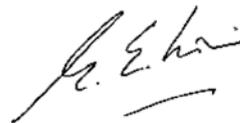
The Co-operative provides benchmarks in many areas already. However there are some opportunities to provide additional points of comparison in areas that are important to consumers and other stakeholders. A benchmark would be particularly useful for animal welfare and water consumption.

The Co-operative is continuing to experience high levels of organisational change – and is likely to continue to do so. This is challenging for employees but it is noteworthy that, with some exceptions, staff satisfaction levels remain solid.

The Report demonstrates again how The Co-operative has maintained its commitment to sustainability in terms of the extent to which sustainability is integral to its business model and the transparency with which it reports on its sustainability impacts and programmes. The development of the Ethical Operating Plan is a significant positive step which holds the promise of an even more systematic approach to sustainability through its integration with financial planning, improved target setting process and the involvement of key stakeholders.

**Two Tomorrows (Europe) Limited**

London  
April 2011



**Mark Line**  
Director



**Richard Evans**  
Principal Associate



**Adrian Henriques**  
Principal Associate



**Anne Euler**  
Senior Consultant



**Elvin Ozensoy**  
Senior Consultant



**Rachell Evans**  
Associate

**Two Tomorrows (Europe) Limited** trading as Two Tomorrows is an international consultancy that helps companies to perform better and create value by doing business in a sustainable way.  
[www.twotomorrow.com](http://www.twotomorrow.com)



## Co-operative Group Limited

Registered under the Industrial and Provident Societies Act

### Registered No. 525R

### Registered office

New Century House  
Manchester M60 4ES

### More information

An online version of this Sustainability Report can be viewed at

**[www.co-operative.coop/sustainabilityreport](http://www.co-operative.coop/sustainabilityreport)**

or a paper copy obtained via **0161 827 6414** or

**[sustainability.report@co-operative.coop](mailto: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](mailto:customer.relations@co-operative.coop)**

Previous Sustainability Reports of The Co-operative and CFS can be

found at: **[www.co-operative.coop/sustainabilityreport](http://www.co-operative.coop/sustainabilityreport)**

and **[www.cfs.co.uk/ethicsinaction](http://www.cfs.co.uk/ethicsinaction)**

A detailed account of The Co-operative's financial performance

is presented in the Annual Report and Accounts 2010

**[www.co-operative.coop/corporate/corporatepublications](http://www.co-operative.coop/corporate/corporatepublications)**

### Feedback and queries

If you would like to comment on our sustainability approach

or performance we would like to hear from you. Please contact

us at: **[sustainability.report@co-operative.coop](mailto:sustainability.report@co-operative.coop)**

### Design and production by Flag

### Feedback

We value your feedback. Tell us your comments

 **[www.co-operative.coop/sustainabilityreport/feedback](http://www.co-operative.coop/sustainabilityreport/feedback)**

