

# 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

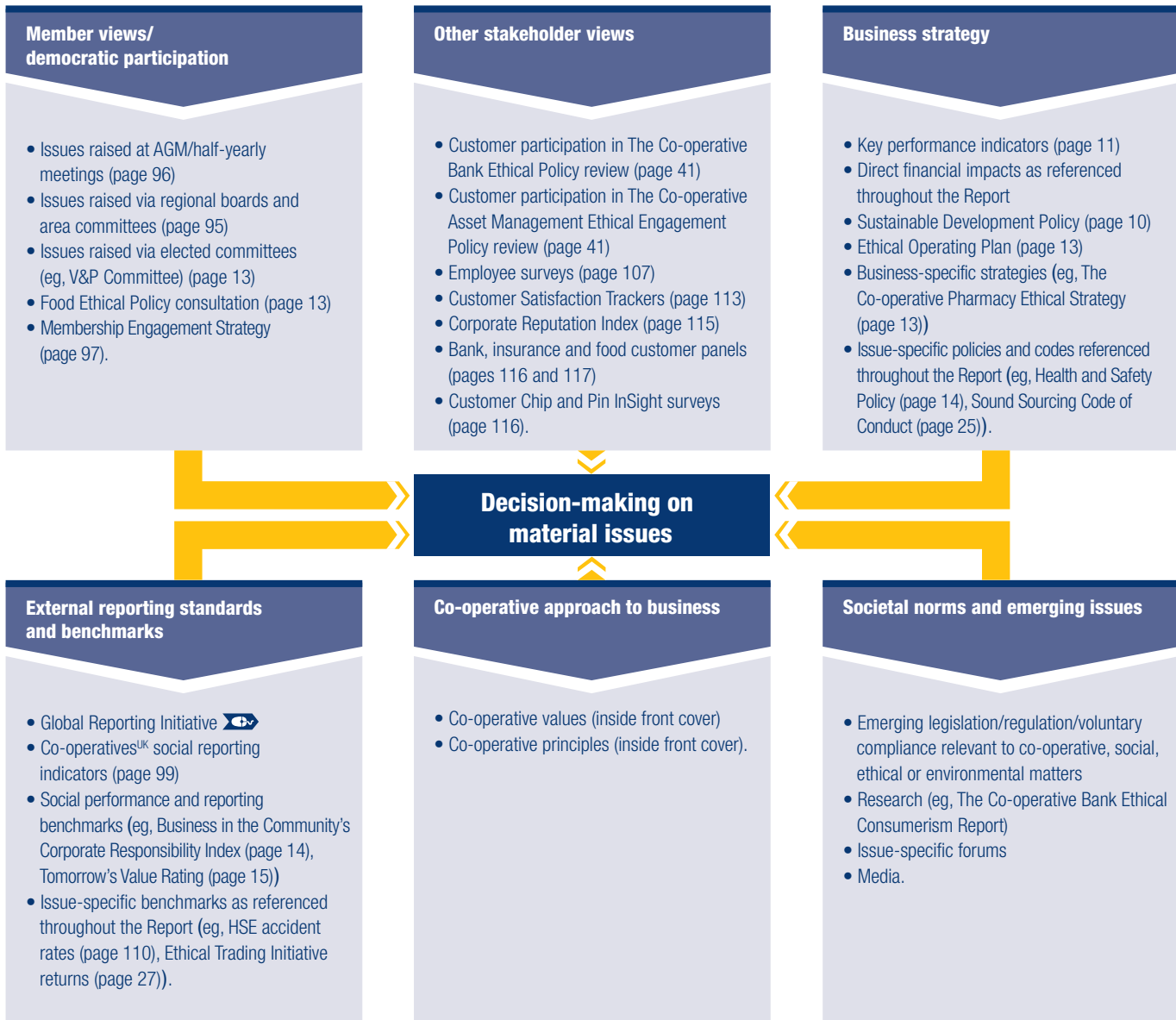
Looking ahead

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).	

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## 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.

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## 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

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| <ol style="list-style-type: none"> <li>1 <a href="http://www.accountability.org">www.accountability.org</a></li> <li>2 The Co-operative Group Annual Report and Accounts 2010, pages 40–41.</li> <li>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.'</li> <li>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></li> <li>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).</li> <li>6 With spend above £50,000.</li> <li>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></li> <li>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.</li> <li>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.</li> <li>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.</li> <li>11 The Co-operative Group Annual Report and Accounts, page 43.</li> <li>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.</li> <li>13 The Executive Director of Corporate Affairs oversees Public Affairs, Public Relations, Corporate Communications and Social Goals.</li> </ol> | <ol style="list-style-type: none"> <li>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).</li> <li>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.</li> <li>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.</li> <li>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></li> <li>18 <a href="http://www.tomorrowvaluering.com">www.tomorrowvaluering.com</a></li> <li>19 The companies included representation from retail, financial services, telecommunications, utilities, FMCG and mining.</li> <li>20 <a href="http://www.accountability.org">www.accountability.org</a></li> <li>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></li> <li>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.</li> <li>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'.</li> <li>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'.</li> </ol> |
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