

Central England Co-operative

**Annual Report &  
Financial Statements**

52 weeks ended 27 January 2018

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## Board of Directors, Management Executive and Auditor

<p><b>Board of Directors</b></p> <p><b>President:</b> Elaine Dean # ®<sup>S MC</sup></p> <p><b>Vice-President:</b> Maria Lee<sup>CD # S MC</sup> Jane Avery<sup>CD ® MC</sup> Richard Bickle<sup>AR S MC</sup> Sean Clothier<sup>CD</sup> Dave Ellgood<sup>C MC</sup> Max Hunt<sup>S</sup> Marta Mayhew Martyn McCarthy<sup>ID AR</sup> Tanya Noon<sup>C</sup> Sue Rushton<sup>AR</sup> Paul Singh<sup>AR C</sup> Graeme Watkins<sup>C ® #</sup> Rachel Wilkinson<sup>ID # ® C</sup></p> <p>ID Independent Non-Executive Director</p> <p>AR Audit &amp; Risk Committee</p> <p>CD Community Dividend Selection Committee</p> <p>C Conduct Committee</p> <p>MC Membership &amp; Community Strategy Committee</p> <p>® Remuneration Committee</p> <p># Rules &amp; Practices Committee</p> <p>S Search Committee</p>	<p><b>Management Executive</b></p> <p><b>Martyn Cheatle</b> Chief Executive <b>Matt Birch</b> Trading Executive <b>David Grady</b> Corporate Services Executive <b>Tracey Orr</b> Support Services Executive</p> <p><b>James Watts</b> Society Secretary</p> <p><b>Auditor</b></p> <p>PricewaterhouseCoopers LLP Cornwall Court 19 Cornwall Street Birmingham B3 2DT</p> <p><b>Registered Office</b></p> <p>Central House Hermes Road Lichfield Staffordshire WS13 6RH</p> <p>Telephone: 01543 414140 Web: <a href="http://www.centralengland.coop">www.centralengland.coop</a> Facebook: <a href="https://www.facebook.com/centralenglandcooperative">centralenglandcooperative</a> Twitter: @mycoopfood</p> <p>Registered society under the Co-operative and Community Benefit Societies Act 2014</p> <p>Registered No. 10143R</p>
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## Society Highlights: 2017

- Awarded top rating of 5 stars in Business in the Community's (BITC) annual Corporate Responsibility Index.
- Further progress on our positive impact on local communities with a Social Return on Investment of £23.15\* for every £1 invested by the Society.  
\*on specific projects
- Community Dividend grants of £212,000 awarded to 120 local groups and good causes.
- Membership & Community Councils extended to four regions, broadening our reach and impact with our members and local communities.
- Welcomed members, customers and colleagues from Wooldale Co-operative Society following the transfer of engagements completed in July.
- Reached £1.5 million fund raising target for Newlife, the Charity for Disabled Children.
- Made a great start to our new corporate charity partnership with Dementia UK, with over £160,000 raised so far.
- Completed roll-out of 300 defibrillators installed at Central England food store and funeral home locations, funded by the 5p carrier bag levy.
- Re-accredited with the Carbon Trust Triple Standard for Carbon, Waste and Water.
- Launched major initiative across the Society to raise awareness and fight the stigma surrounding mental health issues.
- Published a new Diversity and Inclusion statement and policy, underlining the Society's commitment in this important area.
- Maintained strong levels of customer satisfaction and employee engagement.
- Continuation of transformation programmes across the Society to take complexity out of our business and simplify our ways of working.

## Financial Highlights

- Very encouraging financial performance against a backdrop of highly competitive trading conditions, significantly outperforming annual targets.
- Gross sales (excluding VAT) of £848.3m marginally ahead of the prior year (2016/17: £843.5m) as presented in the financial statements, but up 2.4% on a comparable 52 week basis (as the prior year covered a 53 week reporting period).
- Strong sales in our convenience stores, consistent with our long-term growth strategy.
- Operating profit of £16.6m, up £5.3m (2016/17: £11.3m), reflecting investment property valuation gains following focussed activity in this area during the year.
- Trading profit of £17.3m – well ahead of expectations – but £2.7m lower than the prior year, primarily as a result of implementing improved pay rates for our colleagues and absorbing other cost increases.
- Strong cash generation from our trading activities which supported significant capital investment of £36.6m (2016/17: £45.6m).
- Continuation of our ambitious growth strategy with the opening of 7 new food stores and 9 new funeral homes together with significant refurbishment activity across the business.
- Net debt of £16.7m (2016/17: £11.5m) – well within our funding facility.
- Further good progress on rebalancing the Society's investment property estate with a number of planned disposals completed during the year.

- Payments to and on behalf of stakeholders of £3.7m (2016/17: £4.2m), maintaining our commitment to share the Society's success with our members, colleagues and local communities.
- Reduction in net assets to £156.5m (2016/17: £167.2m), principally driven by an increase in the Society's net pension liability as a result of adverse external market factors.

## **Business Activities**

The Society's principal business activities are food stores, petrol filling stations, funeral services and property investment. In addition, the Society has trading interests in travel shops, coffin manufacture and optical services.

The Society's minority interest in a joint venture agreement with Thomas Cook Co-operative Travel Limited ended on 30 November 2017, with the Society receiving an exit payment of £5.8 million in return for its 3.5% shareholding.

## **About us**

### **A thriving, community-based co-operative business**

Central England Co-operative is a successful independent community-based co-operative business owned and controlled by its members. We are a modern, forward-looking business employing 8,500 people and operate more than 400 trading outlets across 16 counties in Central England.

We are proud of our heritage, which dates back over 160 years, and have grown to become one of the largest and most successful co-operatives in the UK. Our colleagues are at the heart of our business and make a positive difference in the communities they serve. We focus continuously on being a great place to work by harnessing the talent, creativity and diversity of our colleagues.

### **What makes us different ...**

#### **A purpose beyond profit that benefits our members and local communities**

A co-operative business is a group of people acting together to meet the common needs of its members, sharing ownership and making decisions democratically. We take a long term approach to doing business and believe that we can maximise our performance and create value for our members and local communities by behaving differently from our competitors. We have a purpose beyond profit and are guided by our values and principles to achieve sustainable business success.

Our Membership & Community Councils aim to provide a diverse range of events and activities for our members across our trading areas.

Through our Corporate Responsibility strategy, we continually seek opportunities to improve the environment and contribute to the well-being of local communities. We invest 1% of our trading profit into supporting local groups and good causes through our Community Dividend Awards and in 2017 our colleagues chose Dementia UK as the Society's corporate charity partner.

## **Our Vision**

Our vision is to be the UK's best consumer co-operative society by making a real difference to our members and our communities.

## **Our Values**

Our values underpin our vision and guide all of our actions.

**Co-operation** – our co-operative principles are at the heart of our actions

**Improvement** – always getting better at what we do

**Recognition** – rewarding the efforts and achievements of our colleagues

**Customers** – we listen to our customers to constantly provide great service

**Honesty** – openness and honesty as a way of working

**Success** – driving commercial success through effective leadership and teamwork

## **What we do**

### **Food**

#### **239 Food Stores**

We continuously invest in and improve our retail estate to provide modern, energy efficient convenience stores with a wide range of products and services to meet the needs of our members and customers.

#### **22 Petrol Filling Stations**

Our petrol filling stations are a key part of our food store estate where our members can earn membership points every time they re-fuel.

#### **Food Distribution**

Our Food Distribution Centres based in Leicester distribute 27 million cases annually to the Society's food stores as well as those of two other neighbouring co-operative societies, providing consistent and reliable product availability for our customers and members. In 2017, our distribution vehicles covered 2.7 million miles, making around 124,000 store deliveries.

### **Funeral**

#### **128 Funeral homes**

We are a leading provider of quality funeral services, conducting over 15,100 funerals in 2017. Our Funeral business also includes a crematorium at Bretby, located on the outskirts of Burton-on-Trent.

#### **10 Florist Shops**

Our florists provide services for all occasions and support the work of our funeral homes across the Society trading area.

#### **2 Masonry Showrooms**

Working alongside our funeral teams and other support services, our masonry outlets help to ensure that families are supported through every step of their journey.

#### **Coffin Manufacture**

The Society's coffin manufacturing business meets the needs of our funeral homes as well as supplying a number of other funeral businesses within and outside the co-operative movement.

### **Travel**

#### **20 Travel Shops**

Our travel shops pride themselves on offering high quality travel advice coupled with personal service to provide our members and customers with the right package to meet their individual preferences.

#### **Optical Services**

We operate three optical sites based in Hunstanton, Peterborough and St Neots which are recognised for providing high quality, specialist optical services and advice.

#### **Property Investment**

Our investment property portfolio represents an important part of the Society's asset base, as well as generating significant annual rental income.

## Directors' Report

### To the Members

The Board of Directors is pleased to present its report for the year ended 27 January 2018.

### President's Overview

This is my first annual report to you, the members of our wonderful co-operative society, since the proud moment I was elected your President last May.

You will read later in this report about the challenging trading conditions we have encountered over the last 12 months and the way we have faced up to those and moved onwards whilst being true to our principles. The Board fully recognises that the commercial success of our trading operations enables the Society to pursue its broader aims and objectives as a responsible co-operative business.

I want to use this opportunity in the report to speak of what we have done that makes us different from our competitors.

It is 100 years this year since the first women were given the vote. I wanted to pay tribute to those women and adopt their slogan #DeedsNotWords as my personal motto.

I was delighted with our #beingcoopy Christmas campaign and all the superb community work that it engendered and the fabulous publicity it gained for us – and every store and every funeral home, florist and travel branch had a story to tell of how they rewarded their community.

#DeedsNotWords – I am proud to say that we haven't just posted a policy against Modern Slavery but are committed to providing links to employment for modern slavery victims and were able to provide our first work placement in 2017. We will continue to actively support this important campaign.

#DeedsNotWords – we have appointed an extra Member & Community Relations Officer to give more officer time across the whole Society. We've changed our Membership & Community Councils to four areas plus a Yorkshire Cluster Group to co-ordinate member activities across the former Wooldale and Shepley societies and surrounding areas.

#DeedsNotWords – in September last year we joined with other co-operatives, both in the UK and internationally, in making a donation to the emergency appeal for co-operative development aid in the Caribbean and South-East Asia following the devastating hurricanes and floods.

We are playing a full part in the wider Co-operative Movement with Directors serving on the Co-operative Group National Members' Council, on the Co-operatives UK board, on Co-operative Press board and in the Co-operative Party.

Recognising the need to co-operate with other co-operatives, we have had Co-op Group's Chief Executive Steve Murrells and Council President Nick Crofts as guests to our Board with Co-op Group director Margaret Casely-Hayford as a guest to our Society's premises. At our Member & Community Learning & Development days in Manchester and Rochdale we had dinner guest speakers of Rt. Hon. Hazel Blears who is also a Co-op Group board director, Co-op College Chief Executive Simon Parkinson, John Atherton of Co-operatives UK and Anca Voinea of Co-op News.

More of this liaising is planned for 2018.

We have also supported our Retired Employees' Associations and many other like-minded bodies and groups.

Our Community Dividend scheme provides many local groups and good causes with funding to continue their work.

We are so proud that we have used income from the carrier bag levy to equip our outlets with potentially life-saving defibrillators.

Many of our Interim Members' meetings were more interactive too with guest speakers, displays and exhibits. We hope you liked this initiative and we aim to take it forward.

Our plans for 2018 aim to further demonstrate our co-operative credentials and include hosting a Co-operative Women's Voices event to encourage women in co-ops to have more confidence to put themselves forward for board and management roles and the courage to speak up in those positions. We have also agreed to participate in Co-operatives Europe's Gender Equality Working Group.

I would like to thank all my fellow Directors, the Secretary's team, the Executive team and the Membership & Community team for all their support and to thank each and every colleague across the entire Society for their hard work and dedication to our co-operative cause. I am especially proud of those who, on top of long working hours have found time and energy to volunteer in their communities.

To you our members I make this pledge on behalf of the Board: we will be the UK's finest co-operative society whilst always remaining true to our Rochdale principles.

**Elaine Dean JP**  
Society President

## Chief Executive's Review

### A very encouraging and resilient performance ...

We achieved another very encouraging and resilient performance in 2017 from both a financial and non-financial perspective, underlining our strength as a modern, progressive, co-operative business.

Trading conditions remained very challenging and highly competitive throughout the year in all the markets in which the Society operates. Against this backdrop, total gross sales (excluding VAT) of £848.3m were marginally ahead of the prior year (2016/17: £843.5m) and up 2.4% on a comparable 52 week basis (as the prior year covered a 53 week reporting period).

Increased sales in our convenience stores, including growth from new openings, were partially offset by continued pressure in our large stores and supermarkets. We traded particularly well during the key events of Valentine's Day, Mother's Day, Easter and Christmas, with stores priding themselves on high in-store standards and availability.

Our funeral business experienced increased competition in both the pre-need and at-need markets but delivered a solid performance with sales above the prior year across our combined funeral business streams.

The Society's travel shops performed well during the year, with increased sales reflecting growth in specialist niche sectors including long haul, cruise holidays, tailor-made and escorted tours.

Operating profit of £16.6m was £5.3m higher than the prior year (2016/17: £11.3m) and included investment property valuation gains following good progress in this area during the year. We will continue to focus attention on driving value from the Society's property assets to support our wider business strategy.

Trading profit of £17.3m was well ahead of expectations and significantly ahead of our annual budget target but £2.7m lower than the prior year, primarily as a result of implementing improved pay rates for our colleagues and absorbing other cost increases. This represents a very credible performance in the current climate and demonstrates our drive to provide great service to our members and customers whilst maintaining careful control of our costs.

Strong cash generation from our trading activities again supported significant capital investment of £36.6m (2016/17: £45.6m). Over the last five years our capital investment programme has totalled over £195m, underlining our commitment to build for the future. Our carefully planned approach to supporting future growth across the business is reflected in the Society's net debt position of £16.7m at the year-end (2016/17: £11.5m) which is well within our long-term funding arrangement.

The Society's net assets of £156.5m show a decrease of £10.7m compared to the position at January 2017, with the movement including a £21.6m increase in the net pension liability in accordance with the accounting requirements of FRS 102. This adverse movement was driven by a decrease in the discount rate used to place a value on the pension scheme's liabilities, partially offset by a fall in long-term future inflation expectations, updated mortality projections and higher than expected investment returns. We remain fully aware of the significance and volatility of the value of the pension liability on an accounting basis as distinct from the funding position of the scheme. In this context, we remain confident in our long term strategy to address the pension scheme deficit on an affordable, fair and carefully controlled basis.

At the end of 2017, and as indicated in last year's annual report, the Society received an exit payment of £5.8m in return for our 3.5% shareholding in the travel joint venture originally formed in 2011 with Thomas Cook and The Co-operative Group. The exit payment was in addition to the dividends already received by the Society from the joint venture (in 2014 and 2015) totalling £5.1 million.

## **Building for the future**

Our ambitious growth strategy saw the opening of seven new food stores and nine new funeral homes during the year, together with significant refurbishment activity across the business. We were particularly pleased to complete the refurbishment of the three convenience stores in Wooldale in West Yorkshire following the transfer of engagements in July, honouring our commitment to their members.

Three major transformation programmes were launched during the year to simplify and modernise our business. Listening to our colleagues is a key part of our plans and their valuable input supported the successful implementation of new in-store procedures in our food business. This important work will gather pace in 2018 and will include the introduction of new technology to drive efficiencies and simplify our business processes.

## **Our members and customers**

Delivering great customer service, quality and value in all our food stores remains a primary focus in order to retain and attract customers – and future members too. This important area represents a key measurement for the business and we were pleased to maintain a strong overall score of 97% of customers being satisfied.

In our funeral business we completed our first measurement with the Institute of Customer Service, achieving a satisfaction score of 96.1 and a net promoter score of +92.7. These are extremely pleasing results which will continue to be periodically monitored to maintain our high quality standards and service levels.

Communication and regular engagement with our members remains a key part of our strategy and we continue to send regular emails to our members to provide updates on in-store promotions and offers, together with other information about the Society. We have made improvements to our corporate website and plan to further strengthen our digital communications during 2018.

## **Our people**

Our progress and achievements in 2017 are again a testament to the dedication and capability of our colleagues and reflect a real team effort across all levels within the Society. We continue to support the health and well-being of our colleagues with our 'Bloom' campaign, introduced in 2016, and through the launch in 2017 of our new Colleague Assistant Programme.

The importance of our colleagues feeling a sense of belonging and commitment to the business is measured through colleague engagement. We have consistently placed great emphasis on this measure and it is encouraging that our annual 'Bee Heard' colleague survey reported a high response rate and the continuation of strong levels of employee engagement.

The Society remains committed to its strategy of providing fair and competitive levels of pay and benefits to our colleagues. During 2017, work was completed to prepare for the 2018 pay review which aims to improve the pay rates for our Customer Services Assistants and Customer Team Leaders.

## **Together we can make a difference**

As a responsible business, we are proud to have launched a major initiative to fight the stigma surrounding mental health. Our programme has attracted huge support and interest amongst our colleagues, including the appointment of 50 mental health and well-being champions and a series of workshops and activities across the business.

In October we were proud to issue a new Diversity and Inclusion Statement and Policy, underlining the Society's commitment in this important area. The co-operative sector has a great tradition as an inclusive movement and many of its values and principles speak to this agenda. Showing leadership in the area of diversity and inclusion is a way we can put these values into practice and will be reflected in our approach and supporting processes covering colleague recruitment, retention and promotion.

We take our responsibilities to the environment seriously, with our carbon footprint reducing by 35.8% since our baseline position in 2010. Over the last 12 months we have continued to invest in new energy efficient lighting and refrigeration equipment, together with the installation of a new biomass boiler at our coffin factory. In December, we were proud to achieve the Retail Energy Project of the Year Award in recognition of our partnership work with our supplier.

Our commitment to support local communities has seen the completion of the roll-out and installation of over 300 defibrillators across our food store and funeral home locations. This important initiative has been funded by the 5p carrier bag levy and has been well received in local communities and attracted positive media coverage. We have also extended the roll-out of food bank collection points to almost 200 stores across our food estate.

In the first half of 2017 we reached our fundraising target of £1.5 million for Newlife, the Charity for Disabled Children. During our five year partnership with Newlife our colleagues, members and customers have supported everything from bungee jumps to cake sales to raise essential funds for families in need across Central England.

In August we announced the launch of our new colleague elected corporate charity partnership with Dementia UK, with the partnership having a strong link with our mental health awareness programme. Our fundraising efforts have got off to an excellent start and will help to provide specialist support to families affected by dementia through the charity's Admiral Nurse Service and Dementia Helpline.

The measurement of our membership and community activity is a key area of focus for the Society to ensure we optimise our social impact. We are pleased that our second independently produced 'Social Return on Investment' report highlighted encouraging progress, with every £1 invested by the Society generating a positive community benefit of £23.15 – which equates to a total social value of £2.2 million. This represents an improvement on our first Social Return on Investment report, published in 2017, which highlighted a community benefit of £20.50 for every £1 invested by the Society. We will conduct further research in this area in 2018 to ensure our membership and community activity is targeted in areas that will have the greatest impact.

We are delighted that all of our great work in this area has been reflected in the Society being awarded the maximum 5 stars out of 5 in Business in the Community's 2018 Corporate Responsibility Index. This score reflects our continued focus, commitment and hard work in a wide range of initiatives and projects as part of our corporate responsibility strategy. The top 5 star rating represents a significant achievement for the Society and recognition of the positive impacts of our approach as a responsible co-operative business.

## **Outlook**

Our encouraging trading performance in 2017 has again demonstrated the Society's resilience as a strong and successful independent co-operative business to compete in an intensely competitive environment.

We expect trading conditions to remain challenging and highly competitive for the foreseeable future. We also anticipate an uncertain economic backdrop over the medium term as a result of Brexit and cautious consumer confidence.

We remain confident in our strategy and our co-operative point of difference to deliver sustainable business growth and provide a relevant and attractive proposition for our members, customers and local communities.

**Martyn Cheatle**  
Chief Executive

## **Business Performance**

### **Food**

**£710.4 million Gross Sales** (excluding VAT)

(2016/17: £710.0m)

**7 new Food Stores**

**6,951 Colleagues**

**A very strong performance in our Food business – ahead of both sales and profit targets**

Retail food remains the Society's core business with 261 trading outlets ranging from small convenience stores and petrol forecourts to large format supermarkets. We continue to serve an average of 1.6 million customers per week, from large weekly shops to local top-up shopping, providing leading customer service, availability and store standards.

Both sales and contribution exceeded our annual budget targets, underpinned by a transformation change programme in stores, helping us to provide an efficient business platform to enable the Society to continue to successfully compete in a challenging market. Sales in 2017/18 covered a 52 week period compared to 53 weeks in 2016/17.

### **Market**

The food sector remains under pressure with retailers trying to balance competitive pricing with cost inflation. 2017 saw market inflation of 4.3% offset by a 1% volume decrease. Consumer confidence has weakened as a result of the ongoing Brexit negotiations and related uncertainty over the future prospects for the UK economy.

Competition remains tough with new store openings by the discounters, Asda and other co-operatives prevalent throughout the year. Tobacco legislation changes on minimum pack sizes and excise duty, introduced in May 2017, played a key driver in the retail inflation and food volume decrease during the year.

The impact of changes in the tobacco market, together with continued market decline in newspaper and magazine sales, was reflected in our like-for-like food volume decreasing by 3.8% during the year. More encouragingly, our petrol forecourts and convenience stores delivered volume growth of 3.8% and 1.3% respectively. Elsewhere, ongoing intense competition and market pressures impacted our supermarkets and large store formats with volumes down by 5.3% and 9.3% respectively, leading to an overall food volume decline of 2.9%.

### **Investment in the right place**

The continuing consumer trend of using local convenience stores for top-up shopping and trading in strong locations is helping to underpin our success. In addition, our expansion activity is a key driver of future growth and included the opening of seven new food stores during the year (5 convenience stores, 2 local supermarkets) together with the three stores from Wooldale Society which transferred to Central England at the beginning of July.

Investment in the existing estate included 30 store refits, offering enhanced services to our members, customers and colleagues. We have continued to review concession partners in our larger stores with the further rollout of successful brands including WH Smiths products which are now available in two stores. During the year two stores were downsized to reduce store size in line with trade volumes and seven loss making stores were closed.

Store closures are always considered very carefully, including exploring options to relocate to a more suitable site in the vicinity, or securing going concern disposals in order to maintain employment for colleagues. Where such an exit is not possible, the best value option must be considered in the best interests of the Society. Of the seven closures in the year, four units have been returned to the landlord, one is planned for a major site redevelopment, and two vacant properties are on the market to be let, with the overriding objective of turning loss-making trading sites into income generating locations.

### **In the stores**

A key driver of our strong performance during the year has been excellent sales growth during key events including Valentine's Day, Easter and Christmas with stores priding themselves on high in-store standards and availability. Format reviews to maximise existing space and improving ease of shop for our customers have been successful with further investment planned in 2018.

The rollout of sales based ordering has improved availability of products for customers and has driven a significant year-on-year improvement of £1.7m in reduced to clear and wastage costs.

During the year we launched a major transformational change programme to drive in-store operational process efficiencies. The transformation programme will help to ensure that the Society has the most efficient cost base which will enable investment in more competitive prices for customers, together with fair pay for our colleagues.

### **Local and ethical**

We have actively increased our ranges and distribution of Fairtrade products during the year, with increased sales of 9.6%.

Food waste and managing our environmental impact is important to us having recycled over 3,500 tonnes of paper, cardboard and plastics. None of our food waste is sent to landfill – it all goes to anaerobic digestion to produce energy and compost, and our non-recyclable waste is sent to energy recovery facilities. Energy savings continue to be realised with investment in energy efficient refrigeration units and LED lighting.

Over the Christmas period 60,000 food items were donated by customers and colleagues for local Foodbanks, helping to fight poverty across our communities. We also donated a former food distribution vehicle to Stephenson College in Coalville to support the teaching of vehicle maintenance.

We continue to innovate how we can best support our customers, members and their communities and were delighted with the success of our social media campaigns such as #beingcoopy and the Christmas 'Golden Stocking' give away. Over 6,000 Golden Stockings were distributed over the festive period as a special thank you to customers, members of the public or colleagues who have supported their local community, nominated by their peers, and were celebrated in our stores and on social media.

### **Customers and colleagues**

Our customer satisfaction score in 2017 showed that 97% of shoppers were satisfied (being a combination of 'very' and 'quite' satisfied). The 'very satisfied' score showed a slight decline to 71% from 75% although scores for service related elements remain very strong. Our 'Net Promoter' score declined to 55 (from 63), principally driven by a detraction in 'value for money' and a reflection of food price inflation in the grocery market during 2017. We aim to address the Society's value proposition in 2018 through significant price investment activity.

Our colleagues play an essential role in delivering the highest levels of customer service to drive long term customer and member loyalty. Colleague morale and motivation is paramount in achieving this key objective. Feedback from colleagues has been positive during a year of significant transformation and was reflected in the results of our annual colleague survey.

We are committed to progressing talent in our food business by supporting colleagues of today through to leaders of the future. During the year over 250 colleagues participated in our 'Future Engage Deliver' leadership programme, with ten colleagues achieving promotion to store manager positions. We support our store managers with opportunities to work in, or with, our Business Support Centre in Lichfield in order to broaden their knowledge and experience in readiness for progression into Operational Management or similar roles.

### **Fit for the future**

We expect the grocery industry to remain highly competitive in terms of price reduction, overhead cost pressures and competition from expanding online and physical operators.

Our strategy to focus on great service, availability and convenience combined with our transformation plan to ensure we are a highly efficient, quality operation will be our key focus in light of these headwinds.

Within this approach our capital investment programme will continue to grow and focus our estate on quality convenient locations. We will continue to review our store portfolio to ensure we are realising best value for the Society in the longer term, whilst staying true to our vision and ethical values.

### **Wholesale**

**£48.8m Gross Sales** (excluding VAT)  
(2016/17: £47.4 million)

The efficient operation of the Society's Food Distribution Centres in Leicester remains an integral part of our food strategy, ensuring the smooth and continuous supply of products to our food stores and those of Tamworth and Heart of England Societies. During the year, our Distribution Centres delivered 26.7 million cases, 2.8% fewer than the prior year, reflecting the overall reduction in food volumes. We continue to focus on the efficiency of our food distribution operation, measured by cost per case, which remains at an industry leading rate and is a competitive point of difference for the Society.

In 2017 we were proud to convert two of our distribution vehicles to display the 'Time to Change' logo in support of the Society's major initiative to fight the stigma around mental health issues.

## Funeral

**£42.2 million Gross Sales** (excluding VAT)

(2016/17: £41.1 million)

**9 New Funeral Homes (including 3 arrangement suites)**

**867 Colleagues**

The funeral market continues to evolve and we have seen the emergence of many new entrants – nationally and within our trading area – in both the pre-need and at-need markets.

As the funeral industry continues to be unregulated with no barriers to entry or any set minimum standards we have seen new competitors challenging our at-need market share in a number of locations. Similarly in the pre-need market new investment products from both established and new competitors have been marketed. New ways to both purchase and pay for funeral plans continue to be developed with channel shift to on-line being introduced by several competitors.

Against these significant challenges and developments in the funeral market we have delivered a solid performance with sales above last year across our combined funeral businesses with funeral arrangements slightly down on the previous year.

Pre-need volumes decreased slightly against last year but were strengthened by a new product launch offering a market-leading Unattended Funeral Plan priced at £1,500. This new product offers outstanding value and highest standards of care utilising the assets of our coffin factory, the excellent standards of our funeral homes and our professional colleagues. This service is available across all of our trading estate using the superb facilities of our crematorium in Bretby. The new product has performed above expectations with customers delighted that we have introduced this option.

Ongoing investment in our business is crucial to our future success, and 2017 saw continued investment across our estate. A total of 18 funeral homes were updated and refurbished to maintain standards and improve their 'look and feel'. The Society opened nine new funeral homes in areas where we can better serve our local communities. We have introduced a new funeral home format – smaller arrangement offices – where families can arrange a funeral or take out a funeral plan. We have opened three of these new arrangement offices all of which have performed above expectations. The facilities at Bretby Crematorium have also been enhanced providing families with more choice for a personalised service. 2017 also saw the introduction of a new silver fleet of funeral vehicles, helping to provide more choice to families.

We continued to invest in marketing activity across a variety of media channels including mailing campaigns, till receipt offers in retail stores, re-launch of our colleague offer and significantly up-weighting our digital presence.

We also launched a project to transform our funeral business which will deliver significant benefits in 2018 and for several years beyond. Through continued development of our systems, processes and our colleagues we aim to deliver the highest standards of care.

Maintaining our customer and community focus remains at the heart of our funeral strategy and our community led activities continue to underpin all that we do. During the year, we have launched 'Forget Me Not' bereavement groups to bring people together who have lost a loved one. The Society has also continued to help and promote Macmillan Cancer Support with our funeral homes opening their doors to the public to host the annual fundraising 'coffee mornings'.

The Society remains focussed on providing the highest standards of care and service to families at their time of need. By setting the standard for the industry, we will ensure our funeral business is fit for future regulation. Continued focus on high standards of care will underpin our future development of services, including an increased level of choice and personalisation for funerals that cater for the wide spectrum of communities we serve.

## **Specialist Businesses**

**£37.8 million Gross Sales** (excluding VAT)

(2016/17: £36.1 million)

**101 Colleagues**

Encouraging trading in 2017 saw a return in consumer confidence to the travel market with sales exceeding the prior year by £1.7m. Despite the impact of adverse external factors including uncertainty surrounding Brexit, the fluctuating pound and further terrorist attacks, the travel sector has remained buoyant with the largest proportion of Britons taking a holiday since 2011.

Our portfolio of stores has seen some changes in the year. In October we launched our new branch within the Society's supermarket at St Ives near Peterborough, providing a high quality, independent travel service to our members and customers in that area. Earlier in the year we closed our loss-making branch at Cromer as part of our ongoing review of the trading estate. Looking forward, we are reviewing our travel shop opening hours – including trialling Sunday trading – to provide greater opportunities for customers to discuss their holiday ideas and travel plans.

Growth in niche specialist sectors continued in 2017, with escorted tours, cruise and worldwide tailor-made itineraries making further good progress. This key area is supported by good relationships with a wide selection of tour operator partners who provide access to products and services to meet customers' needs. Our approach is designed to ensure our business remains resilient to world events and is also positioned as a specialist holiday provider offering wide choice, value and a high quality service for our members and customers.

Our Travel Money business and Money Transfer service continue to be important revenue streams. We have also increased sales and the awareness of holiday essentials such as attraction tickets, airport parking, travel insurance and car hire, which all help to offer our customers the complete one stop holiday shop for all their holiday needs.

As consumer confidence continues to strengthen in the holiday market, we remain confident that our Travel business is well positioned to meet the needs and requirements of our travel customers.

Our strategy to deliver high quality, specialist personal services extends across our Optical business where we provide a full range of optical services including complex prescriptions, dispensing services and a wide choice of classic and designer frames. Trading performance in 2017 reflected the ongoing competitive conditions in this sector, with sales performance relatively flat year-on-year.

## **Investment Property**

### **Rental Income £9.0 million**

(2016/17: £8.6 million)

### **Investment Property Valuation £126.7 million**

(2016/17: £121.8 million)

The Society has three core objectives in its property operations:

- support trading activity;
- optimise performance of the investment property portfolio; and
- create value through effective asset management.

In the investment property portfolio, the Property Team has continued to focus efforts on reducing the number of vacant properties through letting and disposal and also settling outstanding lease renewals with tenants. More than 20 new commercial lettings were completed during the year generating annual rental income of over £460,000. Total rental income for the investment portfolio of £9.0m was ahead of the prior year (2016/17: £8.6m) and reflected the strategy to reposition the portfolio by disposing of assets with no strategic purpose and focusing on fewer assets generating higher rental incomes.

The Property Team has completed the disposal of 13 properties with gross proceeds of £5.3m (2016/17: £8.3m), which generated a profit on disposal of £0.5m (2016/17: £1.5m). These disposal proceeds have been redeployed to support the Society's capital investment programme.

Other activity in the investment property estate has included identifying development opportunities to create value for the Society as well as providing benefits for local communities. In particular, the Society has formed a development partnership with Hawkstone Vale Limited and submitted a planning application for a 135,000 sq. ft. new commercial development on the site of the closed supermarket at Tamworth. We have also secured planning consent for up to 304 houses on agricultural land owned in Desborough.

## **Corporate Responsibility**

### **Taking our responsibilities seriously ...**

- Top rating of 5 stars in the BITC CR Index
- Roll-out completed of 300 defibrillators across our trading estate
- Re-accredited with the Carbon Trust Triple Standard for Carbon, Waste and Water

Corporate Responsibility (CR) is central to our vision as a forward-thinking, responsible co-operative business. We are committed to working for the well-being of local communities, and also believe in playing our part in improving the wider environment.

The core themes of Community, Environment, Marketplace and Workplace have been the backbone of our CR strategy, and one that has seen us achieve the maximum 5 star rating in the BITC CR Index. This score reflects our continued focus, commitment and hard work in a wide range of initiatives and projects. The top 5 star rating represents a significant achievement for the Society and recognition of the positive impacts of our approach as a responsible co-operative business.

### **Doing great things in the community**

We are pleased to report that we have now installed 300 defibrillators across our trading estate, funded by the 5p Carrier Bag Levy. We have also continued to champion foodbanks in our stores with a major campaign over Christmas resulting in 60,000 food items being donated by colleagues, members and customers.

During the year we were proud to award grants totalling £212,000 as part of our Community Dividend scheme, helping to support 120 local projects and activities across our trading estate.

In July 2017, our five year corporate charity partnership with Newlife, The Charity for Disabled Children reached its conclusion with a fantastic £1.5m raised for the charity over that period. The sums raised have helped 625 children across Central England. Fundraising for Dementia UK, our new corporate charity, has got off to a great start, with over £160,000 raised since the partnership began in August 2017.

Elsewhere, the Society has encouraged and supported colleagues in providing over 1,300 volunteering hours to support local groups and good causes.

### **Helping protect the environment**

We continued our drive to reduce our carbon footprint during 2017, and were re-accredited with the Carbon Trust Triple Standard for Carbon, Waste and Water. In December, we were proud to achieve the Retail Energy Project of the Year Award for our partnership work with supplier Engenius.

### **Making the workplace a positive place**

The Society takes an active interest in creating a positive working environment that helps colleagues reach their potential and gain fulfilment in their roles. Every year we conduct a survey to gauge the sentiment and attitudes of those who work with us, and take action where necessary.

During 2017, 87% of our colleagues participated in our 'Bee Heard' colleague survey, with a strong engagement score of 77. In addition, we have supported 139 free health checks and delivered health-inspired workshops to over 1,800 school children.

## **Looking after mental health and well-being**

The mental health and well-being of our colleagues is a priority for us. So much so that we have recruited and trained over 50 volunteer mental health and well-being champions from colleagues across the Society, with more planned for 2018. Over 130 colleagues have completed a two-day Mental Health First Aid course. To underline our commitment, the Society signed the 'Time to Change' employer pledge in March 2017 and we will continue this important work as part of our wider mental health and well-being strategy.

Our progress in 2017

- Recruited over 50 champions.
- 139 colleagues completed a two-day Mental Health First Aid course with a further 19 colleagues completing a one-day course.
- We held our first Mental Health conference, attended by our mental health and well-being champions and Mental Health Working Party.
- 2 Society food distribution vehicles branded with the 'Time to Change' logo.
- Colleague Assistance Programme launched.
- 13 colleague-led stories filmed.
- 60 colleagues attended one of five workshops on Mindfulness in the workplace.
- In line with our wider commitment to mental health and well-being, Dementia UK was chosen by our colleagues as the Society's new corporate charity.
- Over 300 colleagues have attended Dementia UK awareness events since the partnership began in August 2018.
- 102 colleagues completed the online learning module: 'Dementia Friendly'

## **Bringing sustainability to the marketplace**

Wherever possible we choose to source locally, and select suppliers who share our belief in sustainability, asking them to follow our commitments and work towards their own improvement targets.

During 2017 we enabled colleagues to negotiate more flexibly with smaller suppliers to ensure their needs are also met.

## CO-OPERATIVE, ENVIRONMENTAL AND SOCIAL PERFORMANCE INDICATORS

We report on our performance using the co-operative, environmental and social performance indicators set out by Co-operatives UK. Using these indicators ensures we report on our involvement with members, our environmental actions and our community and co-operative investments – all important elements of being a co-operative.

Area	Description	Measurement	2017/18	2016/17
Member economic participation	Trade with members	<ul style="list-style-type: none"> <li>Member sales in our food stores (£m)</li> <li>Member sales as a proportion of total food store sales</li> </ul>	<p>£148.9m</p> <p>19.1%</p>	<p>£158.6m</p> <p>20.5%</p>
Member democratic participation	Members taking part in the Society's democracy	<ul style="list-style-type: none"> <li>Number of Members voting in Society elections</li> <li>Member attendance at:                             <ul style="list-style-type: none"> <li>Annual Meetings</li> <li>Interim Meetings</li> </ul> </li> </ul>	<p>3,384</p> <p>1,427</p> <p>1,142</p>	<p>3,568</p> <p>1,106</p> <p>1,051</p>
Colleague gender profile	The proportion of male/female employees	<ul style="list-style-type: none"> <li>Male</li> <li>Female</li> </ul>	<p>34%</p> <p>66%</p>	<p>34%</p> <p>66%</p>
Customer satisfaction	The percentage of customers who are satisfied with a key aspect of the business	<p>Food store customers:</p> <ul style="list-style-type: none"> <li>Very satisfied</li> <li>Quite satisfied</li> <li>Net Promoter Score</li> </ul> <p>Funeral customers:</p> <ul style="list-style-type: none"> <li>Customer satisfaction index</li> <li>Net Promoter Score</li> </ul>	<p>70.7%</p> <p>26.1%</p> <p>+55</p> <p>96.1</p> <p>+92.7</p>	<p>75.1%</p> <p>22.7%</p> <p>+61</p> <p>-</p> <p>-</p>
Considerations of ethical issues in procurement decisions	<ul style="list-style-type: none"> <li>We purchase the majority of our food products goods through Federal Retailing and Trading Services Limited (FRTS) with the buying arrangements subject to high ethical standards and respect for human rights.</li> <li>We also procure locally sourced products to complement our overall range.</li> <li>We continue to support Fairtrade through the availability and promotion of Fairtrade products in our stores and providing education and awareness of Fairtrade by our Membership &amp; Community Councils.</li> <li>We operate a Procurement Policy which reflects our co-operative values and principles and a commitment to treat suppliers in a fair, objective and transparent manner.</li> </ul>			
Investment in co-operative and community initiatives	Community Dividend, Membership & Community funding, support for other co-operatives, grants, funds raised for charity and colleague volunteering	Annual funding and expenditure incurred (£m)	£1.223m	£1.179m
Net carbon dioxide (CO <sub>2</sub> ) emissions arising from operations	Net tonnes of CO <sub>2</sub> based on the Society's carbon footprint data	CO <sub>2</sub> tonnes per £m Society Turnover	69.13	79.92
Proportion of waste recycled or reused	Waste collected and recycled from our Food stores	Tonnes of waste recycled or reused per £m Society Turnover	10.18	9.96

## **Membership & Community**

### **Inspiring our Members and Communities**

As a member-owned business, our work in the community drives our purpose beyond profit. Our strategy continues to focus on growing our shopper engagement and building stronger communities.

We continue to support our members and communities in a number of ways, including:

- £212,000 Community Dividend grants awarded.
- Additional Membership & Community Council formed.
- Social Return on Investment of £23.15 for every £1 invested by the Society.

Our Membership & Community Councils (MCCs) are at the heart of our Membership & Community strategy and in 2017 continued to drive activity through the great work and commitment of our MCC Ambassadors. Underpinned by key strategic themes aligned to our Corporate Responsibility strategy, our membership and community engagement is now split across four regions after the successful integration of Wooldale Co-operative following the completion of the transfer of engagements in July 2017.

We continue to support member activity across our entire area with groups, classes and educational visits. This has always been a key strength in consolidating trading loyalty and social interaction, combatting loneliness and creating new friendships.

### **Sharing our success**

As a member-owned business, communicating our success is vital. Our new quarterly newspaper, "Join In" has been well received, and our website, social media, member emails and Share of the Profits remain core elements of how we communicate to our members, customers and other stakeholders.

### **Welcoming Wooldale Co-operative Society**

As part of our long-term growth strategy, in July we welcomed members, colleagues and customers from Wooldale Co-operative Society following a transfer of engagements to join Central England Co-operative. With a loyal membership built over many years, Wooldale Society was successfully integrated into Central England Co-operative and has enabled us to form a Yorkshire membership cluster incorporating Wooldale and surrounding villages including Shepley and Dodworth near Barnsley.

### **Being ethical and healthy**

Our Member and Community Relations Officers and MCC Ambassadors continue to play an important role in educating local communities on ethical shopping and the importance of healthy eating. In 2017, we delivered healthy choices workshops to over 2,300 young people and a further 1,500 young participants taking part in our popular ethical shopping challenge events held in our food stores. For every £1 we invest in these activities we generate a social value in excess of £25.

### **A dementia-friendly community**

With a continuing commitment to mental health and well-being across the Society, we were delighted that in 2017 our colleagues voted Dementia UK as our new corporate charity partner. The selection of Dementia UK coincided with the end of the Society's successful five-year partnership with Midlands-based Newlife, the Charity for Disabled Children.

Funds raised during the partnership will be used to help provide specialist support to families affected by dementia through the charity's Admiral Nurse service and Dementia Helpline.

Since the partnership began in August 2017, colleagues, members and customers have raised over £160,000 for Dementia UK through a range of fundraising activities.

### **Improving lives through our Community Dividend**

During 2017 we awarded £212,000 in Community Dividend grants to 120 local good causes and groups. Community Dividend applications continue to grow with a wide range of local projects supported from book clubs to community gardens.

The diverse nature of the projects which the Community Dividend Fund supports can be seen in the difference between two of the recipients; Nene Park Trust in Peterborough, and The Hero Project based in Coalville, Leicestershire.

The Hero Project bought an outdoor pizza oven and ingredients to help youngsters in local schools learn more about where food comes from. Nene Park Trust used their grant to support a project that will see the launch of a plant production nursery, allowing volunteers to grow their own plants from seeds and cuttings.

### **#Beingcoopy**

An important part of our work in the community is supporting individuals and families when they need it most. In line with this commitment, in November we launched our #beingcoopy foodbank campaign to support those in need at Christmas. Colleagues at over 180 Society food stores across 16 counties used our existing strong connections with local foodbank providers to encourage members, customers and colleagues to donate one or more items – resulting in an incredible response with over 60,000 items being donated.

From these donations, 5,500 food parcels – made up of around 11 items – were distributed over the Christmas period, providing over 16,000 meals to people in need.

Paul Brookhouse, from the Hope Centre, in Derby, said: "Although it saddens me that there are so many local people in need of food, the wonderful kindness of Central England Co-operative customers is truly uplifting. On behalf of all the people they have helped I would like to say a big thank you."

### **A focus on young people**

2017 was a busy year with a concerted effort on supporting young people. In June, we engaged with over 7,000 school children during the Food and Farming event at East of England Showground in Peterborough. With a team of willing Central England Co-operative volunteers from across the Society and as the main sponsor of the event, we delivered a range of activities from Fairtrade and Healthy Choices workshops to the core values and principles of being a co-operative business.

Our work with young people has not stopped there. After the success of a number of smaller scale Co-op Masterclasses, the Membership & Community team delivered a one-day Co-op Masterclass in August at De Montfort University in Leicester. Over 100 sixth form students received first-hand mentoring, gained new skills and learned about the difference of the co-operative business model when it comes to the business world. In addition, students learned about co-operative values and principles in an interactive way, including developing their ideas for creating new co-ops.

## **Making a measurable difference**

Doing good deeds and actions within the communities in which we operate is only possible as a result of the Society's commercial success. It is also important to measure the impact and social value that our community activities and funding deliver to help shape future initiatives.

During 2017, we focused more than ever on giving back to the local community as well as further improving our energy efficiency and recycling. The results from our first SROI in 2016 were very encouraging and helped shape our community activities for 2017. As a result, we have completed our second SROI report and are delighted to report that for every £1 we invest in selected community-led activities and projects, a social benefit of £23.15 is generated (2016/17 selected projects: £20.50) providing an overall positive contribution of £2.3 million.

## **Our Colleagues**

### **Colleague engagement**

Throughout 2017 there was a huge focus on inspiring our colleagues to continue to make a positive impact on the communities in which we operate which involved reinforcing emotional commitment to our co-operative difference.

We talked to our colleagues about our co-operative point of difference at business briefings, conferences and events held during the year. One of the events included our co-operative values and principles being brought to life in panto-style!

We also created a special celebration booklet that highlighted the many ways our colleagues can make a difference, and continued the theme through the launch of our new seasonal colleague magazine.

[key statistic: We employ 8,500 across the Society].

### **Introducing (and keeping) #beingcoopy**

Colleagues were invited to help spread a little festive cheer by taking part in our #beingcoopy campaign. They were encouraged to donate items to our Christmas Foodbank Appeal and deliver bags of goodies to people who have made a difference within their local community.

The campaign, which sparked lots of other acts of kindness and goodwill from colleagues, was such a success, that we're pleased to say #beingcoopy is here to stay.

### **Giving colleagues a voice**

We're continuing to maintain our high levels of colleague engagement, which is measured through our Colleague Survey, Bee Heard. The survey makes sure colleagues are given a voice and enables us to understand potential areas for future improvement in the workplace.

In October 2017, 87% of colleagues completed the survey, the same high response rate as the 2016 survey. This resulted in a very encouraging colleague engagement index of 76 which was broadly consistent with the prior year (2016: 77).

Business transformation and getting fit for the future are key features of our strategy and we keep our colleagues updated by producing regular dedicated communications and holding face-to-face events and briefings. Our colleagues help shape our actions and we invite them to take part in surveys, attend listening groups and share their feedback and ideas with us.

## **Colleague recognition**

### **Rewarding brilliance and long service**

We continue to recognise our brilliant colleagues for the great work they do across the Society every day, week in, week out.

The Leading Brilliance Awards, which took place in September, are our way of showcasing brilliance across the Society and recognising and rewarding individuals and teams, who always strive to deliver exceptional results and push themselves to go that little bit further. Meanwhile, colleagues who achieved long service with the Society during the year attended a special celebration event at Chatsworth House in July.

During National Customer Service Week in September, members of our senior management team surprised colleagues with recognition pop-up events to celebrate and thank colleagues for delivering such a great service.

### **Investing in our colleagues**

#### **Making brilliance easy**

One of our commitments is to provide an environment that makes it easy for our colleagues to be brilliant – a place where they can flourish and develop their skills. Our continued investment in communication, leadership, development and talent management enables us to have engaged and high-performing colleagues.

We are consistently investing in our colleagues' continued professional development to make sure that they are equipped with the right skills and expertise to be able to do their jobs well.

Using a combination of learning techniques, we provide colleagues with core skills and put developmental plans in place that map out their future careers within the Society.

[key statistic: 43% of colleagues attended a face-to-face learning event and over 175,000 online learning modules were completed]

#### **Re-thinking mental health**

In March 2017, we were proud to sign the 'Time to Change' employer pledge, a move that demonstrated our commitment to changing how we all think and act about mental health in the workplace. Our activities to support mental health have included recruiting 50 Mental Health & Wellbeing Champions from colleagues across the Society, creating a dedicated mental health section on our intranet featuring support and resources, holding Mental Health First Aid workshops and Dementia Friendly sessions and launching our Colleague Assistance Programme.

Our Colleague Assistance Programme is a free, 24-hour confidential helpline service that our colleagues and their partners, spouses and children can call whenever they need. The service provides them with access to a whole host of helpful fact sheets and practical tools online too.

#### **Sharing our Success**

Once again, we rewarded colleagues with a payout of 5% of our annual trading surplus, amounting to over £820,000, through our Colleague Share of the Profits – which is our way of recognising our colleagues' contribution in helping drive the Society's continued success.

We are continuing to build a diverse and inclusive culture that reflects the communities that we serve; one that attracts and retains the best talent and enables our colleagues to thrive. In October 2017 we externally published our Gender Pay report earlier than required, which further demonstrates our commitment to transparency in this important area.

## **Modern Slavery & Human Trafficking Statement**

### **Introduction**

This statement sets out the actions and activities that Central England Co-operative Limited has taken during the financial year ending January 2018, and is continuing to take, to ensure that modern slavery or human trafficking is not taking place within its business or supply chain.

Modern slavery is a crime resulting in the abuse of the human rights of vulnerable workers. It can take the form of slavery, servitude, human trafficking and forced or compulsory labour. The Society has a zero tolerance approach to modern slavery. We are committed to acting ethically, with integrity, and with transparency in all of our business activities and relationships to safeguard against any form of modern slavery taking place within our business. We expect the same high standards from our suppliers and contractors.

### **Our business**

The Society is a consumer co-operative owned and controlled by its members. We are part of the global co-operative movement, and subscribe to co-operative values and principles that govern all co-operatives around the world.

This statement covers the activities of Central England Co-operative Limited, a retail co-operative business operating solely within the UK. During the financial year ended 27 January 2018 we held relationships with approximately 1,000 suppliers.

### **Our high risk areas**

We undertake a risk assessment with any new and existing suppliers to assess whether or not a particular activity is at risk of modern slavery or human trafficking.

Our reviews have not identified any activities to be at high risk of slavery or human trafficking within the Society's Goods Not For Resale ('GNFR') supply chain during the period ended 27 January 2018.

### **Our policies**

We operate a number of internal policies to ensure that we are conducting business in an ethical and transparent manner. These include:

- **Modern Slavery and Human Trafficking Policy** – This Policy sets out the Society's stance on modern slavery and explains how our colleagues can identify and report instances of modern slavery and human trafficking within our business activities or supply chain.
- **Whistleblowing Policy** – We operate a Whistleblowing Policy which allows colleagues, without fear of reprisal, to raise concerns about how other colleagues are being treated, and about suspect practices within our business or supply chain. Colleagues can use our confidential telephone line to make such disclosures. Any disclosures in relation to modern slavery or human trafficking will be reported to the Police to investigate.
- **Colleague Code of Conduct** – We provide clear guidance to our colleagues of the actions and behaviours expected of them when representing the Society. We strive to maintain the highest standards of colleague conduct and ethical behaviour when managing our supply chain.

- **Recruitment/Agency Workers Policy** – To safeguard against human trafficking or individuals being forced to work against their will, we operate a robust recruitment policy, including checks for all potential colleagues on their eligibility to work in the UK. We only use specified, reputable employment agencies to source labour and always verify the practices of any new agency before accepting workers from that agency.

## **Our suppliers**

Approximately 95% of the products sold in Central England Co-operative food stores are supplied by The Co-operative Group Limited under the terms of a buying services agreement managed by Federal Retail and Trading Services Limited (FRTS). The Co-operative Group has its own Modern Slavery and Human Trafficking Statement, Ethical Rights and Human Rights Policy Position Statement and Sound Sourcing Code of Conduct which can be found at <https://www.co-operative.coop/ethics>

We operate a Procurement Policy and maintain a preferred supplier list. We conduct due diligence on all suppliers with annual expenditure in excess of £50,000 before allowing them to become a preferred supplier.

Our due diligence procedure includes an online search to ensure that a particular organisation has never been convicted of offences relating to modern slavery. Our procedures also give consideration to the type of product or service being supplied, the area of operation, whether a supplier has published a policy and statement in relation to modern slavery, whether it has made a commitment to paying the National Living Wage as a minimum and whether any of its services are outsourced. In addition, where the supplier provides goods and services from abroad, they are required to demonstrate that employment practices are ethical and comply with good practice. This procedure applies to all new suppliers with annual expenditure in excess of £50,000 and we have also undertaken this assessment with our top 40 existing suppliers.

Since March 2016 the Society has appointed 15 new GNFR suppliers each with an annual spend over £50,000. Of these, eight were considered very low risk at the outset with no further investigation required. Of the remaining seven, a range of compliance checks have been performed and five suppliers have been checked and are compliant with the Society's modern slavery commitments. The two remaining suppliers are in the building and construction sector and were selected as part of an outsourced tender process run by a third party firm of quantity surveyors in conjunction with the Society. Both suppliers are UK based with individual turnover below the £36m threshold for publication of a modern slavery statement. These two suppliers have not been checked although the Society is satisfied that they are 'low risk' based upon online searches and the nature of their services. The next tender in this area will be undertaken during 2018 and modern slavery compliance checks will be performed prior to appointment.

Our suppliers are expected to comply with our standards in relation to modern slavery, and this expectation forms part of our invitation to tender document for all new suppliers. This includes their commitment to comply with all legislation in relation to the Modern Slavery Act, to commit to not taking part in any action that might cause or lead the Society to be in violation of the Act, to assist the Society in the performance of activity by any regulatory body for the purpose of the Act, and to provide warrants that there is no modern Slavery taking place in their supply chain.

We have included our expectations in relation to modern slavery within our supplier contracts, and reserve the right to terminate contracts held with our suppliers at any time should any instances of modern slavery come to light.

## **Training**

We are committed to a rolling training programme on modern slavery for our senior leadership team, Procurement, HR and Corporate Responsibility teams and other relevant colleagues. This will ensure there is effective understanding of the signs of modern slavery and what steps to take if it is suspected.

## **Our performance indicators**

We will know the effectiveness of the steps we are taking to ensure that slavery and/or human trafficking is not taking place within our business or supply chain if no reports are received from our colleagues, the general public or law enforcement agencies to indicate that modern slavery practices have been identified.

During 2017 no modern slavery or human trafficking issues were highlighted through calls to the Society's confidential whistleblowing telephone line.

The Society's Head of Risk and Compliance conducted interviews with HR, Procurement and Product and Category to evidence the effectiveness of controls with two low risk issues identified within Procurement which are being addressed.

The Society's Internal Audit function completed independent reviews of the Society's coffin factory and HR regarding right to work with no issues identified.

The Society will continue to monitor key controls around Modern Slavery during 2018.

## **Approved by the Board of Directors**

28 March 2018

## **Corporate Governance**

### **Message from the President – Elaine Dean**

I am pleased to introduce our Governance report for the year ended 27 January 2018 on behalf of your Board. This report is my first as Society President, following my re-election to the Board in April 2017 and subsequent election, by the Board, as Society President at the first Board meeting of the Society's new constitutional year held in May 2017.

Your Board has made continued progress towards its aim of becoming the 'best co-operative board', an ambitious objective set by my predecessor, Maria Lee. I am committed during my tenure as the Society's President to pursuing this same objective on behalf of our members. In this context, your Board also recognises the importance of good corporate governance to ensure that the Society has the right checks and balances in place to strengthen decision-making and accountability.

At the Interim Members' Meetings held during October 2017, Members were informed that the Board was reviewing the commercial terms of the Society's external audit contract, with Deloitte LLP, to ensure that value for money was being obtained in this important area. Following that exercise the Board approved the Audit & Risk Committee's recommendation that PwC be appointed as the Society's external auditor in place of Deloitte LLP. The appointment is pursuant to Rule 129 of the Society's Rules, which allows for the Board to appoint an auditor to fill a casual vacancy occurring between Members' Meetings. The formal appointment of PwC will be presented to Members' for approval at the Annual Members' meetings to be held in April 2018.

### **Democracy**

Democratic member control represents one of the key differentiating factors that the Society has from that of its competitors. The Society's Board of Directors is elected 'by and from the membership', this being one of the key founding principles which unites co-operative organisations internationally.

In April 2017 elections were held for four positions on the Board which resulted in the following candidates being elected to serve for a period of three years:

- Paul Singh
- Elaine Dean
- Maria Lee
- Sean Clothier

Given the importance that democracy has in establishing the body situated at the apex of the Society's governance framework, the Board is actively reviewing ways in which Member participation in terms of nominations and voting can be increased to a level commensurate with that of an organisation the size of Central England Co-operative.

### **Governance Framework**

The Society strives for the highest professional standards and business performance and seeks to maintain these standards across all of its operations. The Society has an appropriate organisational structure for planning, executing, controlling and monitoring business operations in order to achieve the Society's objectives. The organisational structure has clearly defined lines of responsibility and of delegated authority. In January 2015 the Board approved a Schedule of Matters Reserved for the Board which clearly defines those responsibilities reserved for the Board and those delegated to Executive Management. A high-level summary of the Society's governance framework is set out on the following page.

The Board is accountable to the whole membership and responsible for ensuring the Society carries out its commitment to be a successful co-operative business, and serve the best interests of the members as well as protecting the assets of the Society. In carrying out its duties, the Board is collectively responsible for the control and direction of the affairs of the Society. The Chief Executive, with the Executive Team, is responsible for the day-to-day operation and management of the Society. Any decision which is likely to have a material impact on the Society from any perspective, including but not limited to financial, operational, strategic or reputational is reserved for the Board.

The Board, in consultation with the Chief Executive and Executive Team, is responsible for setting the Society's strategy and monitoring delivery of that strategy by management, identifying key business risks facing the Society and for the development of policies and procedures to manage those risks.

## The Board

The responsibilities of the Board as set out in the Society's Rules are as follows:

- To ensure that the Society's affairs are conducted in accordance with its Rules, the best interests of the Society and its Members and in accordance with the Co-operative Values and Principles;
- To determine the strategy and policy of the Society in consultation with the Chief Executive and the Management Executive;
- To determine the risk strategy of the Society and ensure that risk management is addressed;
- To oversee the work of the Chief Executive and the Management Executive in the day-to-day management of the business of the Society.

### Audit & Risk Committee

Responsible for overseeing the adequacy of the Society's system of internal controls relating to risk management, disclosure, financial reporting and for ensuring the effectiveness of the internal audit function.

### Remuneration Committee

Responsible for determining the remuneration policy for the Management Executive and Secretary, overseeing its implementation and setting appropriate and supportable levels of reward for the Executive, aligned to the Society's strategy.

### Rules & Practices Committee

Responsible for reviewing and monitoring the Rules and constitution of the Society and making any recommendations to the Board. Responsible for reviewing the Society's compliance with the Co-operative UK's Corporate Governance Code.

### Search Committee

Responsible for keeping the effectiveness of the Board under review by ensuring the composition of the Board provides an appropriate balance of skills, experience and diversity to provide effective leadership and oversight of a society of the size and complexity of Central England Co-operative.

### Conduct Committee

Examination and oversight as and when required of any breaches of conduct relating to the actions of Board Directors.

### Chief Executive

Leads the Executive Team and is responsible for conducting the day-to-day business affairs and executive management of the Society in accordance with the Society's Rules.

### Executive Team

Manage the Society's business operations in pursuit of the Society's strategic objectives. The Executive Team provides leadership and direction to all colleagues to ensure the effective management and administration of the Society's trading activities and business affairs.

### Capital Committee

Co-ordinate all requests and approvals for capital and significant revenue expenditure, including for onward presentation to the Board for consideration and approval in accordance with the Society's defined delegated authority limits.

### Risk Management Committee

- To monitor the Society's risk framework
- To provide summary reporting on Society risk
- To provide recommendations to the Audit and Risk Committee on Risk Management policy and risk appetite
- To communicate with the Leadership Group on changes to risk environment and progress against the risk frameworks

### Society Secretary

To advise and guide the Board and support the Society President in the effective implementation of the Board's duties.

## Board Governance Activities during the Year

Board development continued to be an area of importance in 2017, with operational ‘deep dives’, which focused on a particular area of the Society’s business and key strategic topics. Deep dive sessions held during the year included an overview of the Society’s Shared Service department, the interaction between the Society’s Product & Category, Business Intelligence and Customer & Marketing departments and the Society’s Funeral Business.

During the year the Board received training on how to constructively engage with the appraisal processes that are in place for Directors, the Secretary and the Chief Executive. Directors were also offered the opportunity of attending a training session entitled ‘Understanding your co-ops finances’ delivered by Co-operatives UK. A number of Directors also attended Co-operatives UK’s annual Co-operative Retail Conference in March 2017 and Co-operative Congress.

In line with the Board’s rationale statement and effectiveness framework, as set out below, the first ‘Board Effectiveness’ survey was conducted during 2017 with oversight from the Board’s Search Committee. Areas highlighted by the survey, and which would be incorporated into the Board’s training programme for 2018/19 were:

- Risk
- Pensions
- Succession planning

## Board Rationale Statement

*We are collectively the custodians of the Society, acting in accordance with co-operative values and principles for sustainable business success, to secure a co-operative business for future generations, by:*

- *working with the Executive to set and monitor the implementation of our strategy*
- *setting the ethos and culture of the Society*
- *fulfilling our obligations to members and all stakeholders*

## Board Effectiveness Framework

Annual	Triennial
One-to-one appraisals for those elected Directors starting the second year of their tenure (typically this will be four Directors per annum), conducted by the President.	Independent Board effectiveness evaluation – to include a skills audit.
One-to-one appraisals with the Independent Non-executive Directors conducted by the President.	
Board evaluation survey completed by all Directors, reviewed by the President and Secretary to identify key themes, areas for improvement and actions.	

## Corporate Governance Code for Consumer Co-operatives

As a Registered Society, Central England Co-operative is not required to comply with the provisions of the UK Corporate Governance Code, which applies to listed companies. However, Co-operatives UK has published a Code of Best Practice for Consumer Co-operatives, which is based on the UK Corporate Governance Code, but applicable to the particular governance circumstances of a Co-operative Society.

Under the terms of the Code's compliance assessment, the Board has a responsibility to ensure that the Society complies with those recommendations that are appropriate to its circumstances, or to explain its reasons where this is not the case.

The version of the Corporate Governance Code applicable to the current reporting period is The Corporate Governance Code for Consumer Societies, which was revised and published by Co-operatives UK in 2013 (the Code). The Code is available on Co-operatives UK's website ([www.uk.coop](http://www.uk.coop)).

The Society conforms to the majority of the Code's provisions and principles and where it does not, a brief explanation is detailed below. By providing appropriate explanations, the Board is satisfied that it has fully complied with Code.

The following explanations are provided:

Principle	Explanation
<p><b>Principle H – The Chair</b></p> <p><i>Provision 68 - “A chair should have served at least one term of office as director before being appointed to the role.”</i></p>	<p>The Board appoints the Chair based on the relevant skills, knowledge and experience to fulfil the role</p>
<p><i>Provision 73 – “The Board has agreed a mechanism for removing a poorly performing chair”</i></p>	<p>No formal mechanism has been adopted by the Board. The Chair/President is appointed for a one year term after which this is reviewed by the Board at which time an alternative Chair can be appointed; a vote of no confidence can be held at any time with a simple majority and carried by a simple majority.</p>
<p><b>Principle N – Board Performance Evaluation</b></p> <p><i>Provision 93 – “Appraisal of the chair should be carried out at least annually in his or her absence to evaluate his or her performance and on other such occasions as are deemed appropriate.”</i></p>	<p>Partial compliance – feedback to the President is provided as part of the Director appraisal process.</p>
<p><b>Principle P – The Search Committee</b></p> <p><i>Provision 102 – “The Search Committee should formulate plans for succession for the board and members of the management executive.”</i></p>	<p>Partial compliance – the Search Committee's Terms of Reference allow for Board succession planning as far as is possible. The Chief Executive is responsible for succession planning in respect of the Management Executive.</p>

**Principle R – The Audit Committee**

*Provision 130 – “The audit committee should have the right to report any decision by the board to override its recommendations to the external auditors and to the members”*

In accordance with the Audit & Risk Committee’s Terms of Reference, the Committee meets the external auditor at least once each year in private session and without the presence of management. The Committee also meets the Internal Audit Manager at least once each year without the presence of management. The Board and Audit & Risk Committee are satisfied that these arrangements, coupled with the Committee’s clear Terms of Reference, provide a rigorous and robust approach to the oversight of the Society’s system of internal controls.

**Director Attendance at Meetings**

It is expected that Directors attend Board meetings as a matter of course. The table below lists the attendance record of Directors for the year ended 27 January 2018.

The figures show the number of meetings attended with the number of meetings they were eligible to attend included in brackets.

<b>Directors</b>	<b>Attendance</b>
Jane Avery	11 (12)
Richard Bickle	12 (12)
Sean Clothier	10 (12)
Elaine Dean	12 (12)
Dave Ellgood	12 (12)
Max Hunt	12 (12)
Maria Lee	12 (12)
Marta Mayhew	9 (12)
Martyn McCarthy	12 (12)
Tanya Noon	12 (12)
Sue Rushton	10 (12)
Paul Singh	12 (12)
Graeme Watkins	12 (12)
Rachel Wilkinson	12 (12)

## Report of the Remuneration Committee

### Statement from Committee Chair – Rachel Wilkinson

I am pleased to present the Remuneration Report for the Society's 2017/18 financial year, in my first year as Chair of the Remuneration Committee ('the Committee').

As a successful independent co-operative, we have faced a challenging trading year in highly competitive environments and against a backdrop of a continuing unsettled economic landscape. We have made good progress overall both financially and in the implementation of major transformation projects. I am pleased to be able to report that this progress has been achieved, whilst maintaining positive colleague engagement scores and high levels of customer satisfaction.

### Background

Executive pay continues to be widely reported on in the media and is high on the public agenda. This was a particular focus during 2017 following the implementation of the Gender Pay reporting legislation. I will refer to our own performance later in this report. The Committee understands that Executive pay can be an emotive topic. In response, the Committee believes it takes a measured view on executive pay and ensures that any reward is aligned to performance and the values and principles of the Society. I believe we have taken significant steps over the last two years to improve the transparency of reporting in this area, making every effort to comply with best practice where possible.

### Structure of this Report

This Remuneration Report is split into the following sections:

- The **Remuneration Policy** outlines the Remuneration Committee's policy for the Management Executive.
- The **Implementation Report** which sets out how the Policy has been applied during the 2017/18 financial year.
- **Board Director Fees** provides details on the fees, expenses and benefits for the Society's Board of Directors.

### Decisions and changes during 2017/18

#### Change in Management Executive

This year saw a change in the Management Executive following the retirement of Tony Carroll, our Deputy Chief & Trading Executive, after 42 years' service within the Co-operative movement. In line with the Remuneration Policy he retained eligibility for payment under the annual incentive plan for 2017/18 should the performance criteria be met (pro-rated to reflect his length of service during the financial year).

Under the Long Term Incentive Plan (LTIP) eligibility is also retained for the 2015/16 plan, with a vesting date of January 2018, should the performance criteria be met. Any payment awarded will be pro-rated to reflect length of service for the relevant financial year.

Matt Birch was appointed as Trading Executive in September 2017. The Committee considered the terms of his appointment and applied the Remuneration Policy as set out in this report.

In reflection of a smaller Management Executive, the decision was taken by the Chief Executive to distribute the duties of the Deputy Chief Executive role amongst the remaining Executive. The remuneration package of Tracey Orr was reviewed to ensure that it reflected the additional responsibilities. As a result of the review, Tracey's salary will be increased with effect from the beginning of the Society's 2018/19 financial year. The overall remuneration package of the total Management Executive will reduce in 2018.

## **The Wider Pay Environment**

The Board of Directors is committed to ensuring that where affordable, investment should be made to improving the pay of the lowest paid. We have continued to pay above National Living Wage (NLW) and do not reduce rates for those colleagues under 25 or those on apprenticeships. This will continue to be a focus for 2018, whereby we will seek to re-invest productivity efficiencies into improvements of base pay rates as part of the wider employee benefit package.

## **Gender Pay**

As a co-operative, equity and equality are part of our founding principles. We have therefore welcomed the implementation of Gender Pay reporting and published our results in November 2017 well ahead of the legislative requirement to publish in April 2018. At 7.53% the Society's median pay gap compares favourably to the 18.1% average for the UK. This still leaves room for improvement and we are committed to taking action to improve this during 2018. It is important to remember that the Gender Pay Gap is not a measure of whether men and women in the same or similar jobs are paid the same. We are committed to paying our colleagues based on role and individual merit regardless of whether an individual is male or female.

## **Pay Ratios**

At several of the Society's Members' Meetings in 2017, interest was shown in the pay ratio between our highest paid executive and lowest paid colleague. A more detailed chart is enclosed later in the report, although a change has been made this year to illustrate the gap between the highest paid and the average wage of colleagues. This follows recent guidelines issued following Government consultation on this matter.

The pre-tax ratio between the highest and average paid colleague is 30 for the Society compared to 48 in the wider retail PLC retail sector.

## **Annual Incentive & LTIP Schemes**

Trading conditions remained very challenging and highly competitive throughout the year in all the markets in which the Society operates. Against this backdrop the Society achieved very encouraging and resilient performance in 2017 from both a financial and non-financial perspective. Trading profit of £17.3m was well ahead of expectations and significantly ahead of the annual budget target.

Payments are due to be paid under both the annual (25%) and the long term (6.21%) incentive schemes, totalling 31.21% of base salary.

The detailed content of Executive remuneration is covered in the later section on Remuneration Policy.

## **Committee Advisor**

The Committee receives independent advice from remuneration consultants New Bridge Street (part of Aon Hewitt). As this contract has been in place for six years, it was felt timely to conduct a market review in accordance with the principles of good governance. Four consulting firms were approached and following an interview process with the Committee,

New Bridge Street was appointed for a further 12 month term. Selection was based on the demonstration of understanding of the co-operative model as well as value-adding practices.

### Looking Ahead to 2018/19

The Committee is not proposing any changes to the formal Remuneration Policy for this year, but will continue to review remuneration policy and practice in the mutual and external sectors to ensure that the Committee adopts good practice.

### Governance

Following Board elections in April 2017, a number of changes were made to the composition of the Committee, including increasing its number by one. I commenced my second term on the Committee and was elected as Chair. Graeme Watkins continued in post, and Elaine Dean (in her role as President) and Jane Avery joined the Committee for the first time. The new Committee has worked well during the year and is committed to simplifying and making accessible, the arrangements in place for pay.

<b>Committee member</b>	<b>Date of appointment</b>	<b>Attendance at Committee meetings held during 2017/18</b>
Rachel Wilkinson <i>Chair of the Committee</i>	July 2015	5 (5)
Jane Avery	June 2017	2 (2)
Elaine Dean	May 2017	3 (3)
Maria Lee	Term on the Committee ended May 2017	2 (2)
Paul Singh	Term on the Committee ended June 2017	1 (3)
Graeme Watkins	July 2015	5 (5)

The Committee recommends the report and would be pleased to have members' support in voting in favour of it at the Annual Members' Meetings in April 2018.

### Rachel Wilkinson

Chair of the Remuneration Committee

## **Remuneration Policy**

This section of the report explains the Remuneration Committee's policy for the remuneration of the Management Executive. It contains a description of the overall reward policy, a table summarising each remuneration component and a description of how the Policy for the Management Executive compares to the policy for the Society's other employees.

### **Reward Philosophy**

Our colleagues are central to the Society's ongoing success and the Society's overall reward strategy supports this. Our objective is to have a fair, sustainable and competitive total reward package which enables the Society to:

- **Attract** the right people that share our purpose and live our values
- **Motivate** our colleagues to deliver the Society's goals together
- **Recognise** our colleagues' advocacy and positive contribution to the Society
- **Retain** our colleagues which will enable the Society to deliver its long-term vision

The Remuneration Policy for the Management Executive aims to:

- Pay base salaries taking account of the median level of market-based salaries and other related factors once the individual has become fully established in post and performance is viewed as fully acceptable.
- Align the Management Executive interests with both the short and long-term strategic goals of the Society
- Ensure that performance metrics are aligned to the Society's values and principles

A disproportionate emphasis on incentive pay is considered inappropriate for the Society's Management Executive and Society Secretary and therefore on-target and maximum incentive opportunity levels are significantly lower than those available to executives in PLCs.

## Summary of Remuneration Components

<b>Base Salary</b>	
Purpose and link to strategy	To pay a fair salary commensurate with an individual's role.
Summary and operation	<p>Base salaries should be set taking account of the median level of market-based salaries for fully competent performance.</p> <p>Salaries are normally increased annually in line with the National Association of Co-operative Officials (NACO) agreement to reflect inflation. Formal reviews are conducted as required, such as a significant change in role responsibilities, to ensure market competitiveness.</p>
Maximum opportunity	There is no formal maximum salary. When conducting formal salary reviews, the Committee will take account of job scope, function, size and complexity of the business along with internal relativities between other positions within the Society.
<b>Annual Incentive</b>	
Purpose and link to strategy	To motivate and incentivise achievement of performance measures whilst ensuring total cash reward is below that of equivalent PLC schemes
Summary and operation	<p>The performance metrics are set prior to and measured over the relevant performance year.</p> <p>All payments are made on a self-funding basis, paid in cash and are non-pensionable. If performance conditions have been met payments are made within 4 months following the end of the financial year to which they relate. Payments made under the scheme are subject to clawback provisions.</p>
Maximum opportunity	<p>The amount payable under the scheme is the same for all members of the Management Executive and is dependent on the financial performance of the Society as follows:</p> <ul style="list-style-type: none"> <li>• Threshold (achieve 95% of budgeted trading profit) – 6.25% of base salary*</li> <li>• On Target (achieve 100% of budgeted trading profit) – 12.5% of base salary*</li> <li>• Stretch (achieve 105% of budgeted trading profit) – 25% of base salary*</li> </ul> <p><i>* Base salary is defined as the rate of annual base salary as at the last day of the relevant financial year</i></p>
<b>Long-term Incentive</b>	
Purpose and link to strategy	To align the Management Executive interests with the long-term strategic goals of the Society.
Summary and operation	<p>All LTIP awards are made annually, have a three year performance period and are subject to performance measures. Any new joiners of the Management Executive will have any awards pro-rated to reflect the length of service.</p> <p>Performance measures are set at the start of each three year award cycle and comprise: Trading Profit (70% weighting); Customer Service (10% weighting); Colleague Engagement (10% weighting) and Corporate Responsibility (10% weighting)</p> <p>All payments are made on a self-funding basis, paid in cash and are non-pensionable. If performance conditions have been met payments are made within 4 months following the end of the financial year to which they relate. Payments made under the scheme are subject to clawback provisions.</p>
Maximum opportunity	The percentage payable under the scheme is the same for all members of the Management Executive and is dependent on the achievement of performance measures as follows:

	<ul style="list-style-type: none"> <li>• Threshold (achieve 90% of performance measures) – 6.25% of base salary*</li> <li>• On Target (achieve 100% of performance measures) – 12.5% of base salary*</li> <li>• Outstanding (achieve 110% of performance measures) – 25% of base salary*</li> </ul> <p><i>* Base salary is defined as the rate of annual base salary at the time that the colleague is notified of the grant (i.e. in the first year of the relevant 3-year performance period)</i></p>
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## Pensions

Purpose and link to strategy	To provide the same level of pension benefits to all other colleagues in the Society.
Summary and operation	Members of the Management Executive are able to join the Society's Defined Contribution pension plan or receive a cash allowance in lieu of pension provision.
Maximum opportunity	The following options are available : <ul style="list-style-type: none"> <li>• Defined Contribution employer pension % determined by date of employment.</li> <li>• Cash alternative</li> </ul>

## Benefits

Purpose and link to strategy	To offer a competitive benefits package that is flexible and offers choice to colleagues.
Summary and operation	The benefits provided to our Executive will be in line with normal market practice and include a company car or cash allowance, a fuel benefit in certain cases, life insurance, permanent health insurance, private medical insurance and an annual medical examination.  Executives are also able to take advantage of benefits offered to all colleagues for example childcare vouchers, a share incentive plan and colleague discount.
Maximum opportunity	There is no formal cap on the level of benefits that can be provided as the cost of providing these varies year to year, however, this will represent a small proportion of the total remuneration.

### Notes to Policy table:

### Performance Measures and Targets

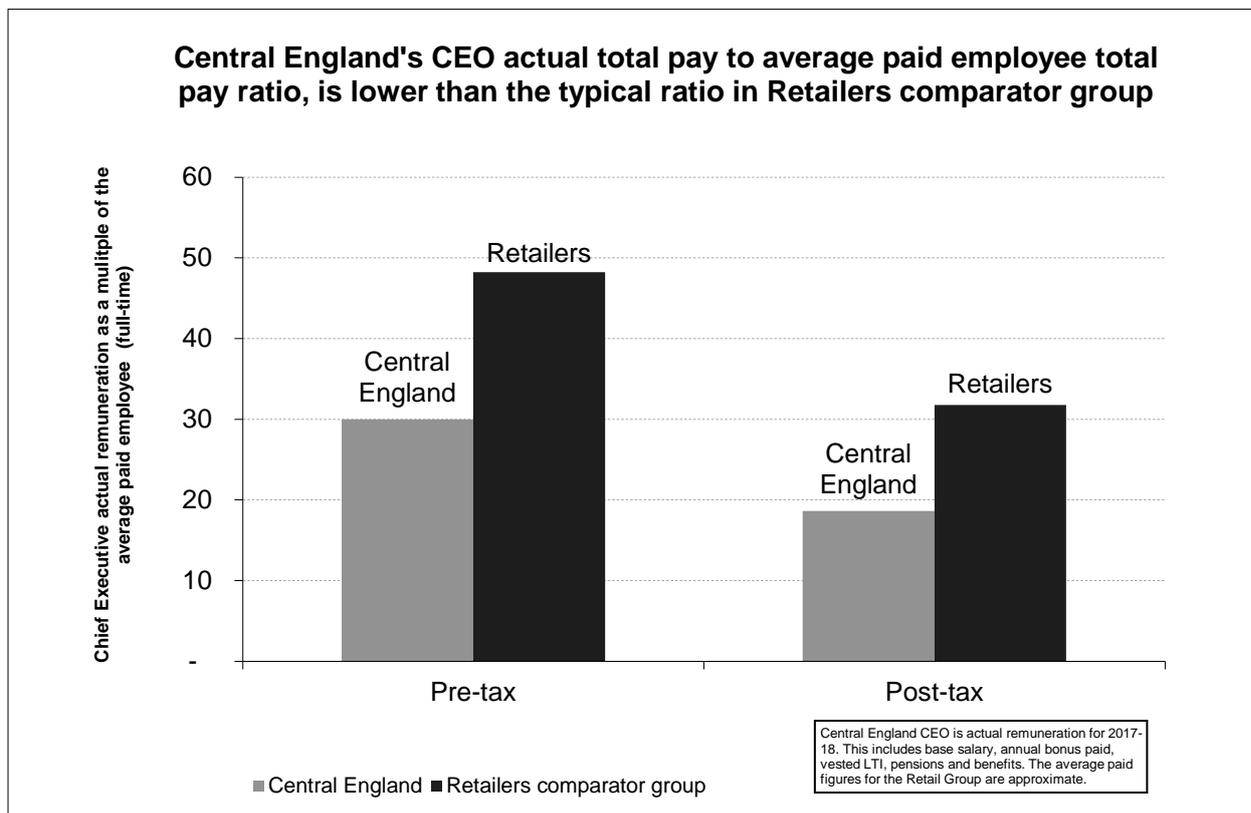
The Committee selected the performance measures because these are central to the Society's overall strategy and are key metrics used by the Management Executive to oversee the operation of the business. The performance measures are determined annually by the Committee following consultation with the Chief Executive and typically represent a stretch to the Society's targets.

### Changes to Remuneration Policy

There were no changes made to the Remuneration Policy in 2017/18.

### Pay Ratio

The chart below shows the approximate ratio of the Chief Executive's total actual remuneration (pre and post-tax) relative to the average rate of pay in the Society, and compares this with typical ratios in the wider PLC retail sector. As the chart indicates, the total pay ratio for the society is significantly lower than in the PLC retail sector.



The pre-tax pay ratio between the highest and average paid colleague is 30 for the Society compared to 48 in the wider retail PLC retail sector. The post-tax pay ratio between the highest and average paid colleague is 19 for the Society compared to 32 for retail PLCs.

### **New Executive Appointments**

The remuneration package for any new members of the Management Executive would include the same elements, and be subject to the same constraints as those of existing members. Salaries will be set to reflect the individual's role, responsibilities and experience whilst taking into account the market rate.

Where it is appropriate to offer a below median salary initially, the Committee has the discretion to allow phased salary increases over a period of time whilst the individual becomes fully established in post and performance is viewed as fully acceptable.

### **Loss of Office**

The employment agreements for all members of the Management Executive and Society Secretary, including the Chief Executive, are terminable on 12 months' notice by the Society. No contracts provide an entitlement to the payment of a pre-determined amount on termination of employment in any circumstances.

The Management Executives' employment agreements contain provisions for payment in lieu of notice in respect of base salary and contractual benefits only. Termination payments will be made in line with the terms agreed with NACO at the time and those stated in the Management Executives' contracts.

Upon termination no payment under the annual incentive scheme will be paid under the scheme rules unless employed on the date of payment or the reason for termination is due to retirement, death, disability, redundancy or any other circumstances at the Committee's discretion. Anyone deemed by the Committee as a 'good leaver' will be entitled to an incentive pro-rated to the period of service during the relevant financial year. The Committee has the discretion to reduce the entitlement of a 'good leaver' in line with performance and the circumstances of the termination.

Under plan rules upon termination any unvested long-term incentive awards will lapse except for 'good leavers', retirement, death, disability, redundancy or any other circumstances at the Committee's discretion. LTIP vesting for anyone deemed by the Committee as a 'good leaver' will be pro-rated to reflect the individual's length of service.

### **Employment Contracts**

All members of the Management Executive and the Society Secretary, including the Chief Executive, are entitled to 12 months' notice as described above.

Dates of appointments to the Management Executive are included in the Executive Total Earnings table displayed further on in this report.

### **Committee Discretions**

The Committee abides by the Policy for all components of the remuneration package (unless otherwise stated), however, it has discretion when agreeing and recommending the components of a settlement agreement for a member of the Management Executive.

The Committee operates the Society's annual incentive and long-term incentive plans according to their respective rules. To ensure the efficient administration of these plans, the Committee has certain operational discretions. These include:

- Agreeing the participants in the plans on an annual basis
- Determining the timing of grants of awards and/or payments
- Determining the quantum of awards and/or payments (within the limits set out in the Policy table above)
- Making the appropriate adjustments required in certain circumstances (for example, change of control and restructuring events)
- Determining 'good'/'bad' leaver status for incentive plan purposes and applying the appropriate treatment
- Undertaking the annual review of weighting of performance measures, and setting targets for the annual incentive plan and long-term incentive plan from year to year

If an event occurs which results in the annual incentive plan or long-term incentive plan performance conditions and/or targets being deemed no longer appropriate (for example, a material acquisition or divestment) the Committee has the authority to adjust accordingly the measures and/or targets and alter weightings, provided that the revised conditions or targets are not materially less difficult to satisfy.

### **Implementation Report 2017/18**

This section of the report explains how the Remuneration Committee has applied its Remuneration Policy during the Society's 2017/18 financial year. It contains a summary of how the remuneration of the Management Executive and Society Secretary, including the Chief Executive, has varied dependent on Society performance and full details of the remuneration received by members of the Executive during 2017/18.

### **Executive Total Earnings**

The following table shows a single total figure of remuneration in respect of qualifying service for the 2017/18 financial year for each member of the Management Executive and Society Secretary, together with comparative figures for 2016/17. Details of Board Director fees are set out in a separate table on page 48.

<b>Executive</b>	<b>Employment commenced</b>	<b>Date of appointment to Executive</b>	<b>Basic salary<sup>1</sup> £</b>	<b>Taxable Benefits<sup>2</sup> £</b>	<b>Annual Incentive<sup>3</sup> £</b>	<b>Vested LTIP<sup>4</sup> £</b>	<b>Pension Benefits<sup>5</sup> £</b>	<b>2017/18 Total<sup>6</sup> £</b>	<b>2016/17 Total<sup>6</sup> £</b>
Martyn Cheatle <i>Chief Executive</i>	02/09/2001	02/09/2001	491,811*	14,097	127,871	30,530	49,182	<b>713,491</b>	715,094
Tony Carroll <sup>7</sup> <i>Deputy Chief and Trading Executive</i>	23/02/1987	18/08/2005	354,103*	20,725	80,663	21,684	0	<b>477,175</b>	514,703
Matt Birch <sup>8</sup> <i>Trading Executive</i>	04/09/2017	04/09/2017	121,154	6,279	60,000	0	9,692	<b>197,019</b>	N/A
David Grady <i>Corporate Services Executive</i>	12/07/2010	12/07/2010	218,484	8,457	54,621	13,041	15,369	<b>309,972</b>	302,966
Tracey Orr <i>Support Services Executive</i>	23/07/1984	10/03/2003	208,400*	18,964	48,379	11,551	16,359	<b>303,653</b>	281,575
James Watts <i>Society Secretary</i>	01/07/1986	04/09/2011	136,379*	10,437	32,500	7,447	12,198	<b>198,991</b>	183,174

## Notes:

<sup>1</sup> Basic salary incorporates any pay increases throughout the financial year and therefore shows the amount received as salary during the financial year

<sup>2</sup> Taxable Benefits include the provision of a car or a cash alternative, fuel and private healthcare.

<sup>3</sup> The annual incentive payment relates to cash payments due to be paid under the 2017/18 scheme of 25% and does not include any payments received relating to previous financial years. An annual incentive payment of 25% was paid in 2017 in relation to the performance of the relevant metrics for the 2016/17 financial year.

<sup>4</sup> LTIP award relates to cash payments due to be paid under the 2015/16 – 2017/18 long-term incentive plan of 6.21%. An LTI payment of 6.21% was paid 2017 in relation to the performance of the relevant metrics over the three years ended in January 2017.

<sup>5</sup> Pension benefit figures show either; the value of contribution made by the Society to the individual's defined contribution pension arrangement, or the value of salary supplement in lieu of pension contributions.

<sup>6</sup> In line with best practice, the figures included in the above table are reflective of remuneration that has been earned during the year, including any deferred payments that are due to be paid in 2018/19 i.e. annual incentive scheme and LTIP payments.

<sup>7</sup> Left the Society on 1<sup>st</sup> December 2017; salary shows the pro-rated amount received during the financial year.

<sup>8</sup> Joined the Executive on 4<sup>th</sup> September 2017. The Committee used its discretion to compensate Matt Birch for the variable remuneration award that he forfeited from his previous employer. A one off payment of £60,000 will be paid in May 2018 which will be subject to a clawback if employment is terminated within one year of appointment.

\* In September 2017 the Society harmonised its payroll procedures in order to operate one standardised process. This change resulted in all colleagues being paid on a four weekly in arrears basis from the previous arrangement of some long serving colleagues being paid two weeks in arrears and two weeks in advance. As part of the implementation, long serving colleagues who originally joined the Society on an 'accrued holiday' basis received a payment of their accrued holiday pay. The implementation of the standardised payroll process resulted in one-off adjustments to the basic pay of the members of the Executive Team and Society Secretary as follows:

- Martyn Cheatle – basic salary reduced by 2 weeks
- Tony Carroll, Tracey Orr and James Watts – basic salary reduced by 2 weeks plus payment of 6 weeks accrued holiday pay
- Matt Birch and David Grady – no adjustment required

## Outstanding LTIP Awards

The table below summarises the principal terms of the conditional LTIP awards that are currently outstanding.

Award	Vesting Date	Maximum Award	Performance Measure	How measured	Weighting	Members of Executive eligible for an award
2016/17	January 2019	25% of salary at the time of the award being granted	Trading Profit	Cumulative trading profit relative to the appropriate 3 years of the 5-year plan	70%	Martyn Cheatle Tony Carroll <sup>1</sup> David Grady Tracey Orr James Watts Matt Birch <sup>2</sup>
			Customer Service	Measured through customer satisfaction surveys	10%	
2017/18	January 2020		Colleague Engagement	Measured through the Society's annual colleague survey	10%	
2018/19	January 2021		Corporate Responsibility	Measured through BITC	10%	

<sup>1</sup> Tony Carroll retired from the Society on 1 December 2017. As per the terms of Remuneration Policy he was deemed a 'good' leaver and therefore retained eligibility for the outstanding LTIP awards subject to time pro-ration with a vesting date of January 2019 and January 2020.

<sup>2</sup> Matt Birch joined the Society as part of the Executive on 4 September 2017. He will be eligible for payments under the annual incentive and LTIP schemes from the 2018/19 financial year.

## Loss of Office Payments

No compensation for loss of office was paid to any Executive during the year.

## Payments to Past Executives

No payments were made to former Executives during the year.

## Executive External Directorships

Executive	Role	Company	Date of Appointment
Martyn Cheatle <sup>1</sup> <i>Chief Executive</i>	Director	Federal Retail and Trading Services Limited	October 2014
David Grady <i>Corporate Services Executive</i>	Director <sup>2</sup>	Anglia Home Furnishings Limited ('AHF') <sup>4</sup>	June 2014
Tracey Orr <sup>3</sup> <i>Support Services Executive</i>	Chair and Director Committee Member	Co-operative Employers Association Selly Oak School, Trust Body	April 2012 May 2016
Matt Birch <i>Trading Executive</i>	Non-Executive Director <sup>5</sup>	Mersey Care NHS Foundation Trust	September 2012

## Notes to Table

<sup>1</sup> Martyn Cheatle receives no remuneration in respect of these appointments

<sup>2</sup> David Grady receives no remuneration in respect of this appointment

<sup>3</sup> Tracey Orr receives no remuneration in respect of these appointments

<sup>4</sup> This appointment is in accordance with the Society's investment in AHF

<sup>5</sup> Matt Birch receives £13,000 per annum in respect of this appointment

## **Board Director Fees**

This section of the Report provides details of the fees, expenses and benefits for Directors of the Society.

In accordance with the Society's rules, the members are required to approve the level of fees paid to the Society's directors, and that this should be done, at a minimum, at least every three years.

<b>Board / Committee</b>	<b>Role</b>	<b>Fees 2017/18</b>	<b>Fees 2016/17</b>
Board	President	£15,833	£15,522
	Vice-President	£11,875	£11,642
	Director	£7,916	£7,761
Audit & Risk Committee	Committee member	£791	£775
Remuneration Committee	Committee member	£331	£324
Rules & Practices Committee	Committee member	£390	£382
Search Committee	Committee member	£390	£382
Conduct Committee	Committee member	£130	£127
Community Dividend Selection Committee	Committee member	£122	£120
Other working groups	Committee member	£20 per meeting	£20 per meeting
Pension Corporate Trustee Board	Trustee director	£990	£970

## **Expenses**

Directors are reimbursed all reasonable expenses incurred while carrying out their duties for the Society. In addition, delegation fees (of £35 for up to five hours or £70 for five hours or more; including travel time) are payable per day where Directors are formally appointed to represent the Society at pre-approved events, such as Co-operative Congress and the annual Co-operative Retail Conference. The Society also operates a policy to reimburse Directors who incur loss of income (from regular or part-time employment) in carrying out their Board duties.

## **Benefits**

The Society's colleague discount scheme is available to Directors and their partners. Employee Directors are also entitled to other benefits, such as pension membership, as per their terms and conditions of employment with the Society.

## Directors' Remuneration Table

The table below lists the fees paid to the Directors of the Society who served during the year under review:

Director	Fees	
	2017/18	2016/17*
Elaine Dean (President) <sup>1</sup>	£14,903	£12,213
Maria Lee (Vice-President) <sup>2</sup>	£14,121	£17,673
Jane Avery	£8,203	£7,766
Richard Bickle	£9,094	£9,160
Sean Clothier	£7,759	£7,770
David Ellgood	£7,809	£7,770
Max Hunt	£8,895	£9,301
Marta Mayhew	£7,914	£7,766
Martyn McCarthy	£8,704	£8,542
Tanya Noon	£7,874	£8,020
Sue Rushton	£8,056	£7,770
Paul Singh	£8,995	£9,088
Graeme Watkins	£9,703	£9,193
Rachel Wilkinson	£8,764	£8,630

<sup>1</sup> Elaine Dean was elected Society President by the Board in May 2017 and therefore the remuneration reported for 2016/17 and 2017/18 reflects the change in position from Vice-President following Elaine's re-election to the Board.

<sup>2</sup> In line with Society's rules Maria Lee's tenure as the Society's President ended in May 2017 therefore the remuneration reported for 2016/17 and 2017/18 reflects the change in position to Vice-President following Maria's re-election to the Board.

\* The prior year figures include a minor re-statement to exclude any payments paid to Directors for loss of income incurred in carrying out their duties. This adjustment has been made to ensure the reported Directors' fees are presented on a consistent basis over the two years.

## Other Payments

No additional payments were made to Directors during the year, other than Board Director fees and the reimbursement of expenses incurred or in respect of any loss of income.

## Tenure

In accordance with the Society's Rules, the normal period of office for elected Directors is three years which expires at the conclusion of the final members' meeting at the end of their three year term. Directors cannot serve for more than nine consecutive years without a break of service of at least one year. In addition, the Board may appoint up to two Independent Non-Executive Directors whose length of appointment is determined by the Board. Independent Non-Executive Directors are remunerated on the same basis as the elected Directors. Any such appointments are subject to annual review by the Board and are submitted for ratification at a meeting of the members of the Society.

## External Directorships and other Relevant Appointments

Director	Role	Organisation
Jane Avery	Director and Employee Elected Independent Society Member Director	CASE Limited The Co-operative Group National Members' Council  Leicester Rape Crisis
Richard Bickle	Director Director Director and Secretary Director	Revolver Co-operative Limited Birmingham Co-operative Film Society Limited Friends of the Earth (Birmingham) Limited Co-operative Press Limited
Elaine Dean	Director and Chair Director and Vice Chair Elected Independent Society Member	Co-operative Press Limited RamsTrust The Co-operative Group National Members' Council (from Co-operative Press Ltd)
Maria Lee	Elected Independent Society Member	The Co-operative Group National Members' Council
Tanya Noon	Director Director Elected Member	RamsTrust Revolver Co-operative Limited The Co-operative Group National Members' Council and member of The Senate (as an individual member of The Co-operative Group)
Paul Singh	Director Non-Executive Director	Co-operatives UK Limited Accord Housing Association
Graeme Watkins	National Executive Committee Member	The Co-operative Party
Rachel Wilkinson	Director and employee Director  Company Secretary Company Secretary Company Secretary	R W Legal Limited Catalyst Science Discovery Centre and Museum Trust Ltd (registered charity)  The Landing at Mediacity UK Limited Cheshire Shutters Limited Intoafrica UK Limited

## **Audit & Risk Committee Report**

**Paul Singh**  
**Chair of the Audit & Risk Committee**

I am pleased to introduce the report of the Audit & Risk Committee which details the role of the Committee and the work it has undertaken during the year.

The Co-operatives UK Corporate Governance Code for Consumer Co-operatives requires the Board of Directors to review the effectiveness of the Society's system of internal control. This review covers all controls including financial, operational, compliance and risk management.

The Board of Directors is ultimately responsible for the Society's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. The Management Executive is responsible for the implementation, day-to-day operation and management of the Society's system of internal control.

The Audit & Risk Committee is a sub-committee of the Board whose primary role is to:

- Monitor the integrity of the Society's financial statements, including its annual and interim reports, together with any significant financial reporting judgements contained in the financial statements.
- Consider reports from the Management Executive, internal audit and external audit on the systems of internal control and any material control weaknesses.
- Discuss with Management Executive the actions taken on problem areas identified in these reports or by the Board.
- Review the effectiveness of the risk management process and ensure significant risk issues are referred to the Board for consideration so that appropriate steps can be taken to minimise such risks to the Society.
- Consider the effectiveness of the operation of the internal audit function.
- Consider the appointment of external auditors and in conjunction with management agree the nature and scope of the external audit review.
- Review the external audit management letter and the management response to the report.
- Review the Society's whistleblowing procedures to ensure arrangements are in place for employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters.

The Audit & Risk Committee also has a duty to discuss issues and reservations arising from the Society's audit and any matter the Auditor may wish to discuss, if necessary in the absence of any management.

In December 2017 members of the Audit & Risk Committee conducted a self-assessment evaluation of the Committee's performance to ensure that its remit is being fully satisfied. The output from the evaluation will be reviewed by the Committee in 2018 to enable any areas for improvement to be implemented as appropriate. The Terms of Reference of the Audit & Risk Committee is reviewed by the Board at least every three years, so as to ensure that it fully meets best practice in corporate governance.

## Members of the Committee

The Audit & Risk Committee comprises four Directors; the normal term of office is two years. The President, Vice-President and Employee directors are precluded from serving on the Committee.

The Directors who served on the Audit & Risk Committee during the year were:

Committee member	Date of appointment	Attendance at Committee meetings held during 2017/18
Paul Singh <i>Chair of the Committee</i>	Jun 2014	9 (9)
Richard Bickle	July 2015	9 (9)
Martyn McCarthy	Mar 2015	8 (9)
Sue Rushton	June 2017	6 (6)
Graeme Watkins	Term on the Committee ended June 2017	3 (3)

Audit & Risk Committee meetings were also attended by:

Corporate Services Executive – David Grady  
 Head of Finance – Louise McFadzean  
 Head of Risk and Compliance – Paul Fairhurst  
 Internal Audit Manager – Ian Boston  
 Society Secretary – James Watts or in his absence, the Assistant Society Secretary  
 Representatives from the Society’s Auditor – Deloitte LLP and PwC  
 Attendance by Society management, from time to time and as required.

## Committee’s Activities 2017/18

Meeting	
March	Review of the draft Annual Report and Financial Statements for the year ended 28 January 2017 and ancillary documentation, including the Society’s Treasury and Taxation reports.  Received reports relating to Risk Management and Compliance matters and Internal Audit.
March	Final review of the Society’s Annual report and Financial Statements for the year ended 28 January 2017, with a formal recommendation to the Board.
June	Review of the arrangements for the Society’s interim report to members, received reports relating to Risk Management and Compliance matters and Internal Audit including Cyber Security.
August	The business of both meetings was the review of Deloitte’s audit fee proposal for 2018 and 2019
September	Review of the Society’s financial accounts for the 28 weeks ended 12 August 2017. Received reports relating to Risk Management and Compliance matters and Internal Audit.

September	<p>Received presentations from PwC and Ernst and Young relating to their proposals for providing external audit services to the Society.</p> <p>The Committee agreed to recommend to the Board that PwC be engaged as the Society's external audit provider.</p>
October	<p>Consideration of the deferred tax judgements made in the preparation of the financial statements of Central Midlands Estates Limited for the 52 weeks ended 28 January 2017.</p>
December	<p>Review and approval of PwC's draft engagement letter and year-end planning document.</p> <p>Received reports relating to Risk Management and Compliance matters and Internal Audit.</p> <p>Review of the 2017 – 2019 Internal Audit strategy and plan.</p>

During the year and in accordance with corporate governance best practice and the Committee's Terms of Reference the Committee met with the external Auditor in private session without the presence of management during the year. The Committee similarly met the Internal Auditor in private session once during the year. There were no matters of significance or concern to report from these meetings.

## Search Committee

### Elaine Dean Chair of the Search Committee

I am pleased to introduce the report of the Search Committee which details the role of the Committee and the work it has undertaken during the year.

The Search Committee is a sub-committee of the Board whose primary role is to:

- Keep the effectiveness of the Board under review by ensuring the composition of the Board provides an appropriate balance of skills, experience and diversity to provide effective leadership and oversight of a society of the size and complexity of Central England Co-operative.
- Ensure the integrity of the nomination process for the appointment of Independent Non-Executive Directors (INEDs). This includes leading the selection process and recommendation to the Board.
- Ensure that an appropriate performance monitoring process is in place and completed for co-opted INEDs, with the findings reported to the Board.
- Inform the Secretary of any skills deficiencies on the Board and ensure that the necessary training is provided.
- Inform (as necessary) the membership of any identified skills gaps, and seek to attract those members with the requisite qualities to come forward for election;
- Make recommendations to the Board in terms of the membership of the Audit & Risk and Remuneration committees, and any other Board committees as appropriate giving due consideration to the role requirements.
- Consider succession planning for directors and INEDs in the course of its work, taking into account the challenges and opportunities facing the Society and the skills and expertise needed on the Board in the future. Make any recommendations to the Board accordingly.

### Members of the Committee

The Search Committee comprises the Board President and three Directors, who can serve on the Committee for a period of up to two years – which may be extended for a maximum further period of up to two years, provided the Director still meets the criteria for membership of the Committee.

The Directors who served on the Search Committee during the year were:

Committee member	Date of appointment	Attendance at Committee meetings held during 2017/18
Elaine Dean <i>Chair of the Committee</i>	May 2017	3 (3)
Richard Bickle	Sept 2014	3 (3)
Max Hunt	Sept 2014	3 (3)
Maria Lee	June 2017	3 (3)
Tanya Noon	Term on the Committee ended June 2017	n/a

Search Committee meetings were also attended during the year by:

Chief Executive – Martyn Cheatle

Support Services Executive – Tracey Orr

Society Secretary – James Watts and the Assistant Society Secretary

### **Committee's Activities 2017/18**

<b>Meeting</b>	
June	Review and recommendation to the Board regarding sub-committee and external organisation appointments.  Review of INEDs' performance appraisals and recommendation, to the Board, regarding reappointment.
August	Review of the progress made in respect of the 'Board Effectiveness' programme, a proposed new framework for the appointment and review of INEDs and responses from the 2017 Board Evaluation Survey
November	Review of INED performance and agreement to recommend to the Board their reappointment for 2018.  Review and recommendation to the Board of the proposed INED Appointment Framework.

## Rules & Practices Committee

**Elaine Dean**

**Chair of the Rules & Practices Committee**

I am pleased to introduce the report of the Rules & Practices Committee which details the role of the Committee and the work it has undertaken during the year.

The Rules & Practices Committee is a sub-committee of the Board whose primary role is to:

- Review and monitor the Rules of the Society.
- Review the Society's constitution and make recommendations on any changes as appropriate.
- Review and consider any matters referred to the Committee by the Board.
- Review the Society's compliance with the Co-operative UK's Corporate Governance Code for Consumer Co-operative Societies.

### Members of the Committee

The Rules & Practices Committee comprises the Board President and three Directors, one of whom should be an independent non-executive director, who can serve on the Committee for a maximum of nine consecutive years (subject to being re-elected to the Board every three years and re-appointed to the Committee every two years).

The Directors who served on the Rules & Practices Committee during the year were:

Committee member	Date of appointment	Attendance at Committee meetings held during 2017/18
Elaine Dean <i>Chair of the Committee</i>	May 2017	4 (4)
Maria Lee	June 2017	4 (4)
Graeme Watkins	July 2016	4 (4)
Rachel Wilkinson	March 2015	4 (4)

Rules & Practices Committee meetings were also attended by:

Society Secretary – James Watts

Assistant Society Secretary – Michael Tavener

### Committee's Activities 2017/18

Meeting	
February	Review of the Society's Rules relating to Board composition arrangements.
April	Review of the Society's Rules relating to Board composition arrangements.
November	Review of 2018 schedule of work.
January 18	Review the Society's compliance with the Co-operative UK's Corporate Governance Code for Consumer Co-operative Societies for the financial year ended 27 January 2018.

## Conduct Committee

### James Watts Secretary to the Conduct Committee

I am pleased to introduce the report of the Conduct Committee which details the role of the Committee.

The Conduct Committee is a sub-committee of the Board whose primary role is to:

- Consider all complaints or allegations made against any Director of the Board that they have acted in a manner inconsistent with or in contravention of:
  - Directors Code of Conduct
  - Directors Conflicts of Interest Policy
  - Directors Communication Policy
  - Directors Confidential Information Policy
  - Canvassing Code of Practice
- Consider all serious complaints or allegations made against a candidate standing for election to the Board of Directors that they have acted in a manner inconsistent with or in contravention of the Canvassing Code of Practice, as referred to the Committee by the Society Secretary as the Society's Returning Officer.
- Consider all serious complaints or allegation made against an elected member of the Membership & Community Council.

### Members of the Committee

The Conduct Committee comprises not less than four Directors. The normal term of office is two years. The President is precluded from serving on the Committee.

The Directors who served on the Conduct Committee during the year were:

Committee member	Date of appointment
Dave Ellgood	July 2016
Tanya Noon	June 2017
Paul Singh	June 2017
Graeme Watkins	June 2017
Rachel Wilkinson	June 2017

Conduct Committee meetings are also attended by the Society Secretary, James Watts and the Support Services Executive, Tracey Orr.

The Committee met twice during the year to consider administrative and procedural matters only.

### Other Committees Attended by Directors

Directors are also appointed to the Society's Membership & Community Councils ('MCCs') which in addition to attending meetings involves participating in the MCCs' events and activities. During 2017 the MCC constituencies were reviewed to ensure that they adequately covered the Society's trading area and received the necessary resource and time. Following this review the Board approved the regional MCCs detailed below which included the creation of a fourth region to specifically enhance the provision of membership

and community activities in the Eastern part of the Society's trading area. As part of this initiative, the Board approved the recruitment of an additional Member and Community Relations Officer to support activity in the Eastern Region. Following the transfer of engagements from Wooldale Co-operative Society in July 2017, the Board has also agreed to the creation of a 'Yorkshire Cluster' group, for a transitional period, to develop member and community engagement and activity in the Yorkshire region.

Region	Covering
Northern	Derbyshire Nottinghamshire South / West Yorkshire
Southern	Leicester / Leicestershire East / South Leicestershire Northamptonshire North Warwickshire
Eastern	Peterborough, The Fens Norfolk Suffolk Cambridgeshire and surrounding counties
Western	Birmingham West Midlands and surrounding counties Staffordshire

The appointed Directors to the MCCs are:

Northern MCC	Southern MCC	Eastern MCC	Western MCC
Elaine Dean	Jane Avery Marta Mayhew Sean Clothier	Martyn McCarthy Graeme Watkins	Richard Bickle Dave Ellgood

In addition, Elaine Dean (Chair), Maria Lee, Jane Avery, Richard Bickle and Dave Ellgood served on a Membership & Community Strategy Committee which monitors the effectiveness and operation of the MCCs in the context of the Society's wider Membership & Community strategy.

Three Directors serve on the Society's Community Dividend Selection Committee. The Committee meets quarterly to review grant applications. The Directors who served on the Community Dividend Selection Committee during the year were:

- Jane Avery
- Maria Lee
- Sean Clothier

The Community Dividend Selection Committee met four times during the year. The Committee is also attended by the Assistant Society Secretary and management representatives.

The Society also receives seats on the governance bodies of a number of organisations in which it holds a corporate shareholding. Once a Director has been appointed to the respective governance body their fiduciary duties are owed to the organisation in question and not the Society. The Directors involved receive fees from the relevant organisation, in accordance with the particular arrangements of those organisations.

Organisation	Role	Director
The Co-operative Press	Director	Elaine Dean
Co-operatives UK	Director	Paul Singh
The Co-operative Group's National Members' Council	Elected Independent Society Member	Maria Lee Jane Avery

## Risk

The Society operates a risk management process, which identifies the key risks facing each part of the business and reports to the Management Executive and Audit & Risk Committee on how these risks are being managed. Regular self-assessment audits are carried out across the business and these self-assessments are validated on a sample basis.

The Society's Internal Audit department performs independent reviews of operational and financial control procedures across the business. The Risk & Compliance team is accountable for ensuring the Society identifies and responds appropriately to the risks it faces, reporting formally to the Society's Risk Management Committee which in turn is accountable to the Board, via the Audit & Risk Committee, for the appropriate management of risk. There is a continuous process for identifying, evaluating and managing the significant risks faced by the Society, which operated during the year under review and up to the date of approval of the Annual Report and Financial Statements. This process, which includes the prioritisation of key risks, is regularly reviewed by the Audit & Risk Committee on behalf of the Board.

The Risk & Compliance team also has operational responsibility for Health & Safety management and Loss Prevention. The Risk & Compliance department works closely with the Internal Audit function in order to provide an integrated approach to the prevention, detection and reduction in losses arising from identified risks. Progress against management action plans to overcome internal control weaknesses and business risks, is monitored and reported to the Audit & Risk Committee.

Society management recognise the risks attendant on all areas of business resulting from operating in increasingly competitive market places and continue to review processes and procedures with the objective of ensuring effective controls are maintained, overcoming any identified weaknesses and achieving business efficiencies. Where problems do arise positive action is taken to implement appropriate control mechanisms.

Accordingly the Board of Directors confirm that the effectiveness of the system of control for the year commencing 29 January 2017 and ending on 27 January 2018 has been reviewed in line with the criteria set out in Corporate Governance Code for Consumer Co-operatives.

### Principal Risks and Uncertainties

The Society's risk management process is closely linked to the Society's long term strategy. Risk is an inherent part of doing business. The management of these risks is based on a balance of risk and reward determined through careful assessment of both the potential likelihood and impact. Consideration is given to both financial as well as reputational impact. Each principal risk and uncertainty is considered in the context of how it relates to the achievement of the Society's strategic objectives.

The risk assessment process includes consideration of both the gross and net risk, where gross risk reflects the risk exposure and risk landscape before considering the mitigations in place, and net risk being the residual risk after mitigations.

The Society considers the key risks faced by the business to be in the following areas:

- Business Continuity
- Business Strategy and Change
- Colleague engagement, capability and succession
- Co-operative values & principles
- Data
- Finance and Treasury
- Health & Safety
- Pensions
- Trading
- Regulatory and Legislation Compliance

## **Other Corporate Matters**

### **Political Donations**

The Society welcomes into membership people who use its services and subscribe to the values and principles of the co-operative movement, irrespective of their personal religious or political beliefs or personal characteristics.

At the Society's Interim Members' Meeting(s) held in October 2016 Members approved a resolution for the Society to set aside funding for political purposes in furtherance of Co-operative values and principles amounting to 0.6% of trading profit (to not exceed £130,000 per annum) for each of the next three financial years ending January 2018, January 2019 and January 2020.

During the course of the year Central England Co-operative's long-standing affiliation to the Co-operative Party was maintained to secure a co-operative voice in the political arena in furtherance of the Society's, and the movement's wider interests. This comprised paying a national subscription and also funding and participating in Society Co-operative Party Councils in our trading area. The Society also supported and attended the Co-operative Party's Centenary Conference in October 2017 which celebrated the founding of the Party in 1917.

The Group Income Statement for the year ended 27 January 2018 (Note 7 to the accounts) reports that £118,000 (2016/17: £119,000) was paid by the Society in respect political subscriptions and related funding. This included support at national level for the Co-operative Party and grants to four Society Party Councils.

### **Withdrawable Share Capital**

The Society has adopted a Code of Practice on Withdrawable Share Capital. Under the Code, all those joining the Society or members investing through their share accounts are reminded in written documentation that share capital is risk capital. A copy of the full Code can be obtained from the Secretary and the Board takes this opportunity to state that, at present, the risk associated with members' withdrawable share capital is extremely low, given the strength of the Group Statement of Financial Position published with this report.

## Statement of Directors' Responsibilities

The directors are responsible for preparing the Directors' Report and the Society's financial statements in accordance with applicable law and regulations.

Co-operative and Community Benefit Society law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". Under Co-operative and Community Benefit Society law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Society and of the profit or loss of the Society for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Society will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Society's transactions and disclose with reasonable accuracy at any time the financial position of the Society and enable them to ensure that the financial statements comply with the Co-operative & Community Benefit Societies Act 2014. They are also responsible for safeguarding the assets of the Society and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Society's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

So far as the directors are aware, there is no relevant audit information of which the Society's auditors are unaware and they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Society's auditors are aware of that information.

### Board Certification

These financial statements are hereby signed on behalf of the Board of Directors pursuant to the requirements of the Co-operative and Community Benefit Societies Act 2014



**Elaine Dean**, President



**Martyn Cheatle**, Chief Executive



**Paul Singh**, Director



**James Watts**, Society Secretary

28 March 2018

# Independent auditors' report to the members of Central England Co-operative Limited

## Report on the audit of the financial statements

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### Opinion

In our opinion, Central England Co-operative Limited's group financial statements ("financial statements"):

- give a true and fair view of the state of the group's affairs as at 27 January 2018 and of its income and expenditure and cash flows for the 52 weeks ("period") then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Co-operative and Community Benefit Societies Act 2014 and the Co-operative and Community Benefit Societies (Group Accounts) Regulations 1969.

We have audited the financial statements, included within the Group Annual Report and Financial Statements for the 52 weeks ending 27 January 2018 (the "Annual Report"), which comprise: the Group Statement of Financial Position as at 27 January 2018, the Group Income Statement, the Group Statement of Comprehensive Income, the Group Statement of Changes in Equity and the Group Statement of Cash Flows for the period then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

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### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *Independence*

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's ability to continue as a going concern.

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## Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

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## Responsibilities for the financial statements and the audit

### *Responsibilities of the directors for the financial statements*

As explained more fully in the Statement of Directors' Responsibilities set out on page 60 the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the society or to cease operations, or have no realistic alternative but to do so.

### *Auditors' responsibilities for the audit of the financial statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

### *Use of this report*

This report, including the opinions, has been prepared for and only for the society's members as a body in accordance with and Section 98(7) of the Co-operative and Community Benefit Societies Act 2014 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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## Other required reporting

### **Co-operative and Community Benefit Societies Act 2014 exception reporting**

Under the Co-operative and Community Benefit Societies Act 2014 we are required to report to you if, in our opinion, we have not received all the information and explanations we require for our audit. We have no exceptions to report arising from this responsibility.

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**Other matter**

This audit report does not extend to the financial statements of the Society itself. A separate report will be issued on the financial statements of the Society in due course.

A handwritten signature in black ink, appearing to read 'PricewaterhouseCoopers LLP', followed by a stylized flourish or initials.

**PricewaterhouseCoopers LLP**  
**Chartered Accountants and Statutory Auditors**  
**Birmingham**  
**28 March 2018**

**CENTRAL ENGLAND CO-OPERATIVE LIMITED**  
**ACCOUNTING POLICIES**  
**FOR THE 52 WEEKS ENDED 27 JANUARY 2018**

**1. General information**

Central England Co-operative Limited (the 'Society') is a registered society under the Co-operative and Community Benefit Societies Act 2014. The address of the Society's registered office is Central House, Hermes Road, Lichfield, Staffordshire WS13 6RH.

**2. Basis of preparation**

**Statement of compliance**

These consolidated Group financial statements for the 52 weeks ended 27 January 2018 (2017: 53 weeks ended 28 January 2017) have been prepared in accordance with the Co-operative and Community Benefit Societies Act 2014 and applicable United Kingdom accounting standards, including Financial Reporting Standard 102, 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

The financial statements have been prepared under the historical cost convention except for modification to the revaluation of certain land and buildings; and to fair value for certain financial instruments, funeral bonds and investments as specified in the accounting policies below. The financial statements are presented in pounds sterling and amounts have been rounded to the nearest £'000.

**Basis of consolidation**

The consolidated financial statements incorporate the audited financial statements of Central England Co-operative Limited and all of its subsidiary undertakings. The results of transfer of engagements and subsidiary undertakings are included in the Group accounts from the date on which control transferred to the Society or, in the case of disposals, up to the effective date of disposal. Transactions between Group companies are eliminated on consolidation. The individual results of Central England Co-operative Limited are not presented within this Annual Report and Financial statements and are filed separately.

**Investment in subsidiaries**

The consolidated financial statements incorporates the financial statements of the Society and entities controlled by the Group (its subsidiaries). Control is achieved where the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of the subsidiaries acquired or disposed of during the period are included in total comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate using accounting policies consistent with those of the parent. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

**Going concern**

The directors are required to assess whether the Society has adequate resources to continue in operational existence for the foreseeable future. The financial statements have been prepared on the assumption that the Society remains a going concern.

**CENTRAL ENGLAND CO-OPERATIVE LIMITED**  
**ACCOUNTING POLICIES**  
**FOR THE 52 WEEKS ENDED 27 JANUARY 2018**

**2. Basis of preparation (continued)**

**Going concern (continued)**

The Society currently meets its day to day working capital requirements from its cash reserves and bank facilities and is forecast to stay within the current bank facilities for the foreseeable future. The bank facilities consist of a revolving credit facility of £40.0m and a bank overdraft of £10.0m which is reviewed on an annual basis. There are two financial covenants attached to the revolving credit facility which are tested on a quarterly basis, neither of which are expected to be breached in the twelve months from the date of signing these financial statements. The repayment terms and details of the revolving facility are detailed in note 15 to the financial statements.

The directors have reviewed the forecast of cash flows for the current period and the following period and have formed the judgment that, at the time of approval of these financial statements, the Society has sufficient resources with its current facilities to continue operating for the foreseeable future. On this basis the directors continue to prepare the financial statements as a going concern.

**3. Significant judgements and estimates**

The Group makes judgements and assumptions concerning the future that impact the application of policies and reported amounts. The resulting accounting estimates calculated using these judgements and assumptions may not equal the related actual results but are based on historical experience and expectations of future events.

The key judgements and estimates that have a significant impact in the financial statements, apart from those involving estimates are discussed below:

**Application of accounting policies**

The Group has not identified any critical judgements in the application of accounting policies. Further details of accounting policies applied is detailed within Principal accounting policies section.

The key sources of estimation uncertainty that have a significant effect on the amounts recognised in the financial statements are discussed below:

**Impairment of goodwill and tangible fixed assets**

The group assesses individual cash generating units or groups of cash generating units for indication of impairment. Impairment is recognised based on the higher of value in use and fair value less costs to sell. The value in use calculation requires the estimation of the present value of discounted future cash flows. Actual outcomes could vary from these estimates.

Impairment models are continually reviewed to ensure data and assumptions are appropriate. The accuracy of any such impairment calculation will be affected by unexpected changes to the economic situation, and assumptions which differ from actual outcomes. As such, judgement is applied when determining the levels of provisioning.

**CENTRAL ENGLAND CO-OPERATIVE LIMITED**  
**ACCOUNTING POLICIES**  
**FOR THE 52 WEEKS ENDED 27 JANUARY 2018**

**3. Significant judgements and estimates (continued)**

**Impairment of goodwill and tangible fixed assets (continued)**

In the 52 weeks ended 27 January 2018, an impairment of £2.6m (2017: £2.8m) has been recognised in relation to tangible fixed assets and goodwill.

**Pension Costs**

The Group operates a defined benefit scheme for some of its employees. The present value of the scheme's liabilities recognised at the reporting date and the net financing charge recognised in the income statement are dependent on interest rates of high quality corporate bonds. Other key assumptions within this calculation are based on market conditions or estimates of future events, including discount rate, inflation assumptions and mortality rates, as set out in note 17. Any changes to assumptions used will impact the carrying value of the retirement benefit obligation. As detailed in note 17, the retirement benefit obligations are most sensitive to changes in the discount rate.

**Supplier rebates**

The Group receives supplier rebate income from the buying group, Federal Retail Trading Services (FRTS). At year end, the Group is required to estimate supplier income due from annual agreements for marketing costs and volume rebates which span across the year end date.

Estimates are required due to the fact that final confirmation of amounts due is often only received after the year end date. All rebate income is received from third parties via the supplier agreements with FRTS. The estimates for this income are prepared following discussions with FRTS throughout the period and are regularly reviewed by senior management.

A forecast is received each period for the income that is expected and this is recognised in accordance with paragraph 23.3 of FRS 102 across the period to which it relates.

**Investment properties**

Each year, the investment property portfolio is revalued at open market value by external valuers. Approximately one fifth of the portfolio is physically inspected each year with the remainder valued on a 'desktop basis'. The valuation is performed according to Royal Institution of Chartered Surveyors (RICS) rules, using appropriate level of judgements that incorporate market conditions which are subject to fluctuations. The value of future disposals may differ from the valuation depending on market conditions as at the date of disposal. The valuation of investment properties held as at 27 January 2018 is £126.7m (2017: £121.8m).

**CENTRAL ENGLAND CO-OPERATIVE LIMITED**  
**ACCOUNTING POLICIES**  
**FOR THE 52 WEEKS ENDED 27 JANUARY 2018**

**3. Significant judgements and estimates (continued)**

**Deferred tax asset**

The deferred tax asset includes an amount of £5.1m which relates to carried forward tax losses. The losses have arisen due to significant tax deductions arising from the asset backed pension funding arrangements that have been put in place to fund the Group's pension deficit. No further deductions on the current asset backed pension funding arrangement will arise in future years. The Group has concluded that the deferred tax assets will be recoverable using the estimated future taxable income based on the approved business plans and budgets for the Group. The Group expects to generate taxable income in future years. The losses can be carried forward indefinitely and have no expiry date.

**4. Principal accounting policies**

**Gross sales**

Gross sales is a memorandum disclosure and represents the total transaction value of all the Group's services. The gross value of sales includes amounts recognised in respect of sales made on an agency basis, principally relating to travel agents, foreign exchange bureau, concessions in supermarkets and certain petrol stations.

**Turnover**

Turnover is measured at fair value of the consideration received or receivable, net of VAT, discounts and incentives.

**Retail turnover**

Turnover through retail outlets are shown net of returns, employee discounts, vouchers and sales made on an agency basis. Commission income is recognised in revenue based on the terms of the contract.

**Wholesale turnover**

Turnover from the provision of distribution services to third party independent Co-operative Societies are recognised at the point when the customer has signed for the delivery of the goods.

**Funeral turnover**

Revenue from funeral operations comprises the amount recoverable from clients for the provision of funerals, income from crematoria and other services, to the extent that those services have been performed or goods supplied.

Growth in the fair value of the funeral plan assets invested is recognised within Other Income on redemption of pre-arranged funeral plans.

The Group pays certain disbursements such as crematoria fees, cemetery fees, Ministers fees and Doctors fees on behalf of clients. These amounts are recovered as part of the invoicing process. These amounts are not included within turnover as they are simply passed on to clients at cost.

**Travel Commissions**

Travel commissions are recognised at the point of sale.

**CENTRAL ENGLAND CO-OPERATIVE LIMITED**  
**ACCOUNTING POLICIES**  
**FOR THE 52 WEEKS ENDED 27 JANUARY 2018**

**4. Principal accounting policies (continued)**

**Rental Income**

Rental income is generated from the Group's investment property portfolio, with receivables being recognised on a straight line basis over the lease term. The cost of lease incentives is recognised as a reduction to rental income over the lease term on a straight line basis.

**Investment Income**

Interest receivable is accounted for on an accruals basis. Dividends are accounted for when the right to receipt is established.

**Employee benefits**

Short-term employee benefits and contributions to defined contribution plans are recognised as an expense in the period in which they are incurred.

**Management Executive Incentive Scheme (MEIS)**

The Group has a long-term scheme (MEIS) in place to incentivise the Management Executive within the Society. An expense is recognised over the vesting period of three years based upon meeting specific targets and objectives.

**Exceptional Items**

Exceptional items are disclosed separately as they are significant to the Group or non-recurring in nature and require further explanation, such as transfer of engagements and costs arising from re-organisation of business.

**Payments to and on behalf of stakeholders**

The surplus shown in the income statement is not considered to be attributable solely to the members, but also to various stakeholders including the Group's employees, charitable institutions or other organisations with objectives or purposes consistent with those of the Group.

Payments to and on behalf of stakeholders are recognised in accordance with the Group's rules to include approved dividends, member relations costs, subscriptions and grants to the Co-operative Party. Payments to and on behalf of stakeholders are recognised in the income statement in the period in which they are approved by members.

**Intangible Fixed Assets**

**Goodwill**

Goodwill on acquisition is initially measured at cost, being the excess of the fair value of the consideration of the business combination over the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities.

Following initial recognition, goodwill is measured at cost less any accumulated amortisation, any impairment losses and is amortised evenly over its useful economic life.

**CENTRAL ENGLAND CO-OPERATIVE LIMITED**  
**ACCOUNTING POLICIES**  
**FOR THE 52 WEEKS ENDED 27 JANUARY 2018**

**4. Principal accounting policies (continued)**

**Computer software**

Computer software and licences are carried at cost less accumulated amortisation and any provision for impairment. Computer software is amortised on a straight-line basis over the useful economic life of between three to ten years.

**Investment properties**

Certain Group properties are held for long-term investment. The investment properties are initially recognised at cost, and are subsequently measured at market value. Investment properties are inspected at least once every five years and valued at open market values by external valuers. In all other years, all investment property valuations are reviewed on a “desk-top” basis.

All surpluses and deficits arising on revaluation to market value are taken to the income statement. No depreciation or amortisation is provided in respect of freehold investment properties and leasehold investment properties with over 20 years remaining on the lease.

**Tangible fixed assets and depreciation**

Tangible fixed assets are measured at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is provided on all tangible fixed assets, other than investment properties, properties under development, assets in the course of construction and freehold land, at rates calculated to write off the cost of fixed assets, less their estimated residual value, over their expected useful lives on the following bases:

Freehold buildings: 2% - 10% per annum

Leasehold properties: Over the unexpired part of the lease

Plant & machinery, fixtures & fittings: 6.7% - 33.3% per annum

Petrol station decommissioning costs: 2% per annum

Funeral fleet vehicles and other transport: 10% - 50% per annum

**Impairment**

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount (higher of value in use or fair value less costs to sell). An impairment assessment is triggered by loss making units, and impairment losses are recognised in the income statement. Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash generating units, and then to reduce the carrying value of other fixed assets.

**CENTRAL ENGLAND CO-OPERATIVE LIMITED**  
**ACCOUNTING POLICIES**  
**FOR THE 52 WEEKS ENDED 27 JANUARY 2018**

**4. Principal accounting policies (continued)**

**Assets leased to the Group**

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership to the Group. All other leases are classified as operating leases.

Assets held under finance leases are initially recognised at the fair value of the leased assets (or if lower, the present value of minimum lease payments) at the inception of the lease. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation using the effective interest method so as to achieve a constant rate of interest on the remaining balance on the remaining liability. The outstanding commitment is analysed between current and long term liabilities. Assets held under finance leases are included in tangible fixed assets and are depreciated in accordance with the Group's normal accounting policy.

The aggregate benefit of lease incentives are recognised as a reduction to the expense recognised over the lease term on a straight line basis.

Rentals due under operating leases are charged to income statement over the lease term on a straight line basis.

**Investments**

Investments in shares are measured at fair value. Changes in the fair value are recognised in the income statement in the period in which they occur.

**Stocks**

Stocks are stated at the lower of cost and net realisable value. Cost of manufactured goods comprises materials, direct labour and appropriate overheads incurred in the normal course of business in bringing the product to its current location and condition. Cost is calculated using the FIFO (first-in, first-out) method. Net realisable value is the price at which stocks can be sold in the normal course of business after allowing for the costs of realisation.

**Debtors**

Debtors are measured at amortised cost less any impairment.

**Creditors**

Short term trade creditors are measured at amortised cost. Other financial liabilities including bank loans are measured initially at fair value, net of transaction costs and are measured subsequently at amortised cost using the effective interest method.

**Derivative financial instruments**

The Group currently uses an interest rate swap instrument as part of an overall interest rate risk management strategy. At the reporting date the interest rate swap is recognised at fair value, with movement in fair value being recognised in the income statement.

**CENTRAL ENGLAND CO-OPERATIVE LIMITED**  
**ACCOUNTING POLICIES**  
**FOR THE 52 WEEKS ENDED 27 JANUARY 2018**

**4. Principal accounting policies (continued)**

**Taxation**

**Current tax**

Current tax is accounted for on the basis of tax laws enacted or substantively enacted at the reporting date. Current tax is charged or credited to the income statement.

**Deferred taxation**

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the reporting date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the reporting date.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted by the reporting date. Deferred tax is measured on a non-discounted basis.

Deferred tax is charged or credited to the income statement, except when it relates to items charged to other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income respectively.

**Funeral plans**

Amounts received in advance for funeral plans are recorded at fair value as assets and liabilities on the statement of financial position. The liability is apportioned into less than and more than one year based upon the Society's experience of funerals carried out under its pre-payment plans over the last five years.

All money received for funeral plans taken out is paid into a contract for whole life insurance on the life of the customer for the purpose of providing the funeral and disclosed within investments at market value. This investment strategy complies with the provisions of the Financial Services and Markets Act 2000.

**Provisions**

Provisions are recognised when there is a present legal or constructive obligation as a result of a past event, for which it is probable that an outflow of economic benefit will be required to settle the obligation, and where the amount of the obligation can be reliably estimated. If the effect is material provisions are determined by discounting the expected, risk adjusted, future cash flows. The unwinding of the discount is recognised as interest payable in the income statement.

**CENTRAL ENGLAND CO-OPERATIVE LIMITED**  
**ACCOUNTING POLICIES**  
**FOR THE 52 WEEKS ENDED 27 JANUARY 2018**

**4. Principal accounting policies (continued)**

**Holiday pay provision**

The Group provides for the following short and long term liabilities:-

**(i) Annual holiday pay provision**

The Group recognises a provision for annual leave accrued by employees as a result of service rendered in the current period, but has not been taken by the reporting date, and which employees are entitled to carry forward and use within the next two months. The provision is measured at the total salary cost payable and national insurance for the period of absence.

**(ii) Holiday Banking Scheme provision**

The scheme allows certain employees with a minimum of five years' service, to bank up to five days of their annual holiday entitlement. The accrual is evaluated based on the number of days banked, and the current salary costs. Banked holiday can be redeemed at any point, therefore the liability is considered short term.

**(iii) Pre April 1998 holiday pay provision**

For employees who commenced employment on or before 1 April 1998, the Group accrues for the cost of outstanding holiday entitlement. These employees were required to accrue one year of their annual holiday entitlement before taking any paid holiday. The required accrual is calculated by multiplying one year of their annual holiday entitlement for each employee by their current daily pay rate and discounting the value over the anticipated redemption period.

**Onerous lease provisions**

Where the Group is committed to future rental payments on a property that are in excess of income received, an onerous lease provision is made. The provision is discounted at the risk free rate.

**Decommissioning provision**

Provisions are made in respect of decommissioning obligations for petrol filling stations. The amounts provided are based on the Group's best estimate of the present value of costs to be incurred to decommission the petrol tanks in the future.

**Other provision**

Other provisions such as property provisions or site closures are recorded when the contractual obligation arise.

**Pension costs**

The Group currently operates a defined benefit pension scheme, the Central England Co-operative Society Limited Pension Scheme. This Scheme was created by merging the Midlands Co-operative Society Limited Employees' Pension Scheme which closed to future accrual and new entrants on 30 July 2011 and the Anglia Regional Co-operative Society Limited Employees' Superannuation Fund which closed to future accrual on 14 August 2009.

The assets of the scheme are held in a separate trustee administered fund.

**CENTRAL ENGLAND CO-OPERATIVE LIMITED**  
**ACCOUNTING POLICIES**  
**FOR THE 52 WEEKS ENDED 27 JANUARY 2018**

**4. Principal accounting policies (continued)**

**Pension costs (continued)**

The Scheme is subject to the Statutory Funding Objective under the Pensions Act 2004. A valuation of the Scheme is carried out at least once every three years to determine whether the Statutory Funding Objective is met. As part of the process the Society agrees with the Trustees of the Scheme the contributions to be paid to address any shortfall against the Statutory Funding Objective.

The most recent comprehensive actuarial valuation of the Scheme was carried out as at 31 December 2014. The results of that valuation have been updated to 27 January 2018 allowing for cash flows in and out of the Scheme and changes to assumptions over the period.

The deficit on the defined benefit scheme is recognised in full on the statement of financial position and represents the difference between the fair value of the assets and the present value of the defined benefit obligation at the reporting date.

Finance cost is recognised in the revenue account based on the interest on pension assets less the interest on pension scheme liabilities.

Differences between the interest and actual return on assets, experience gains and losses and changes in actuarial assumptions are included directly in the Other Comprehensive Income.

The Group also operates a defined contribution scheme. The contributions payable to the scheme in respect of the accounting period are charged to the revenue account.

**Share interest**

The Group's members' share capital maintains a fixed nominal value and attracts interest. Share interest is disclosed as a movement in equity and within the reconciliation of movements in members' funds.

**CENTRAL ENGLAND CO-OPERATIVE LIMITED**  
**GROUP INCOME STATEMENT**  
**FOR THE 52 WEEKS ENDED 27 JANUARY 2018**

	Note	2018 52 weeks £'000	2017 53 weeks £'000
<b>GROSS SALES</b> (including VAT)		935,053	926,830
Less Value Added Tax		<b>(86,741)</b>	<b>(83,315)</b>
<b>GROSS SALES</b> (excluding VAT)	1	<u><b>848,312</b></u>	<u><b>843,515</b></u>
<b>TURNOVER</b>	1	<b>809,279</b>	805,769
Cost of sales		<b>(572,241)</b>	<b>(569,118)</b>
<b>GROSS PROFIT</b>		<u><b>237,038</b></u>	<u><b>236,651</b></u>
Administrative expenses	2	<b>(221,959)</b>	<b>(218,149)</b>
Other income		<b>2,265</b>	<b>1,513</b>
<b>Trading profit</b>		<u><b>17,344</b></u>	<u><b>20,015</b></u>
Profit on disposal of fixed assets		<b>555</b>	<b>367</b>
Impairment of fixed assets		<b>(2,649)</b>	<b>(2,787)</b>
Profit/(Loss) on revaluation of investment properties	10	<b>4,758</b>	<b>(945)</b>
Exceptional items	4	<b>(3,435)</b>	<b>(5,391)</b>
<b>OPERATING PROFIT</b>	2	<u><b>16,573</b></u>	<u><b>11,259</b></u>
Profit/(Loss) on financial assets at fair value	25	<b>92</b>	<b>(69)</b>
Interest and dividends receivable	5	<b>357</b>	<b>316</b>
Other finance cost	17	<b>(5,811)</b>	<b>(5,281)</b>
Interest payable	6	<b>(3,954)</b>	<b>(3,864)</b>
<b>PROFIT BEFORE TAX AND PAYMENTS TO AND ON BEHALF OF STAKEHOLDERS</b>		<u><b>7,257</b></u>	<u><b>2,361</b></u>
Payments to and on behalf of stakeholders	7	<b>(3,702)</b>	<b>(4,191)</b>
Taxation	8	<b>(1,924)</b>	<b>(2,085)</b>
<b>RETAINED PROFIT/(LOSS) FOR THE FINANCIAL PERIOD</b>		<u><u><b>1,631</b></u></u>	<u><u><b>(3,915)</b></u></u>

**CENTRAL ENGLAND CO-OPERATIVE LIMITED  
GROUP STATEMENT OF COMPREHENSIVE INCOME  
FOR THE 52 WEEKS ENDED 27 JANUARY 2018**

	Note	2018 52 weeks £'000	2017 53 weeks £'000
<b>Retained profit/(loss) for the period</b>		1,631	(3,915)
Actuarial losses on pension scheme	17	(18,611)	(63,384)
Movement on current tax		1,866	1,946
Movement on deferred tax		2,968	10,100
<b>Total comprehensive loss for the period</b>		<u><u>(12,146)</u></u>	<u><u>(55,253)</u></u>

**CENTRAL ENGLAND CO-OPERATIVE LIMITED  
GROUP STATEMENT OF FINANCIAL POSITION  
AS AT 27 JANUARY 2018**

	Note	January 2018		January 2017	
		£'000	£'000	£'000	£'000
<b>FIXED ASSETS</b>					
Intangible assets	9		22,401		24,120
Tangible assets	10		414,870		402,800
Investments	11		136,181		120,944
			<u>573,452</u>		<u>547,864</u>
<b>CURRENT ASSETS</b>					
Stocks	12	34,608		35,150	
Debtors: due within one year*	13	32,531		34,255	
Debtors: due after one year	13	33,725		30,869	
Cash at bank and in hand		11,549		17,872	
		<u>112,413</u>		<u>118,146</u>	
<b>CREDITORS: DUE WITHIN ONE YEAR</b>					
Creditors*	14	(100,467)		(101,619)	
Borrowings	15	(153)		(202)	
		<u>(100,620)</u>		<u>(101,821)</u>	
<b>NET CURRENT ASSETS</b>			11,793		16,325
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			<u>585,245</u>		<u>564,189</u>
<b>CREDITORS: DUE AFTER ONE YEAR</b>					
Creditors	14	(205,449)		(190,877)	
Borrowings	15	(28,051)		(29,201)	
			<u>(233,500)</u>		<u>(220,078)</u>
Provisions for liabilities and charges	16		(15,715)		(18,958)
Net pension liability	17		(179,551)		(157,915)
<b>NET ASSETS</b>			<u>156,479</u>		<u>167,238</u>
<b>CAPITAL AND RESERVES</b>					
Share capital	18		23,844		23,296
Non-distributable reserve	19		26,540		21,423
Revenue reserve	19		106,095		122,519
<b>MEMBERS' FUNDS</b>			<u>156,479</u>		<u>167,238</u>

\* In the prior period, supplier rebates were wholly presented within trade creditors. These have now been represented to other debtors to better reflect the underlying nature of the balance and to be consistent with the current period presentation.

**CENTRAL ENGLAND CO-OPERATIVE LIMITED  
GROUP STATEMENT OF CASH FLOWS  
FOR THE 52 WEEKS ENDED 27 JANUARY 2018**

	Note	2018 52 weeks		2017 53 weeks	
		£'000	£'000	£'000	£'000
<b>Net cash generated from operating activities</b>	<b>20</b>		<b>27,349</b>		<b>38,501</b>
<b>Cash flows from investing activities</b>					
Proceeds from disposal of investments		5,967		-	
Proceeds from disposal of tangible assets		5,806		9,444	
Purchase of tangible assets		(36,566)		(40,677)	
Interest received		310		316	
Transfer of engagement		405		-	
Purchase of business		(1,751)		(3,529)	
<b>Net cash flows used in investing activities</b>			<b>(25,829)</b>		<b>(34,446)</b>
<b>Cash flows from financing activities</b>					
Draw down of bank loans		-		7,000	
Repayment of bank loans		(1,000)		-	
Increase in share capital		186		296	
Interest paid		(647)		(945)	
Pension deficit funding		(6,183)		(6,543)	
Repayment of finance lease obligations		(199)		(282)	
<b>Net cash flows used in financing activities</b>			<b>(7,843)</b>		<b>(474)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>			<b>(6,323)</b>		<b>3,581</b>
<b>Cash and cash equivalents at beginning of the period</b>			<b>17,872</b>		<b>14,291</b>
<b>Cash and cash equivalents at end of the period</b>			<b>11,549</b>		<b>17,872</b>

**CENTRAL ENGLAND CO-OPERATIVE LIMITED  
GROUP STATEMENT OF CHANGES IN EQUITY  
FOR THE 52 WEEKS ENDED 27 JANUARY 2018**

	Note	Share capital £'000	Non- distributable reserve £'000	Revenue reserve £'000	Total £'000
<b>At 24 January 2016</b>		<b>22,803</b>	<b>24,679</b>	<b>174,713</b>	<b>222,195</b>
Loss for the financial year		-	-	(3,915)	<b>(3,915)</b>
Other comprehensive losses					
Actuarial loss on pension scheme		-	-	(63,384)	<b>(63,384)</b>
Movement on current tax		-	-	1,946	<b>1,946</b>
Movement on deferred tax relating to pension scheme		-	-	10,100	<b>10,100</b>
Total comprehensive loss for the period		-	-	<b>(55,253)</b>	<b>(55,253)</b>
Transfer of non-distributable reserves		-	(945)	945	-
Transfer of realised gains		-	(2,311)	2,311	-
Share capital contributions		714	-	-	<b>714</b>
Share capital withdrawals		(418)	-	-	<b>(418)</b>
Share interest		197	-	(197)	-
<b>At 28 January 2017</b>		<b>23,296</b>	<b>21,423</b>	<b>122,519</b>	<b>167,238</b>
Profit for the financial period		-	-	1,631	<b>1,631</b>
Other comprehensive losses					
Actuarial losses on pension scheme		-	-	(18,611)	<b>(18,611)</b>
Movement on current tax		-	-	1,866	<b>1,866</b>
Movement on deferred tax relating to pension scheme		-	-	2,968	<b>2,968</b>
Total comprehensive loss for the period		-	-	<b>(12,146)</b>	<b>(12,146)</b>
Transfer of non-distributable reserves		-	4,758	(4,758)	-
Transfer of realised gains		-	359	(359)	-
Share capital contributions		613	-	-	<b>613</b>
Share capital withdrawals		(427)	-	-	<b>(427)</b>
Share interest		212	-	(212)	-
Transfer of engagement	<b>24</b>	150	-	1,051	<b>1,201</b>
<b>At 27 January 2018</b>		<b>23,844</b>	<b>26,540</b>	<b>106,095</b>	<b>156,479</b>

**CENTRAL ENGLAND CO-OPERATIVE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE 52 WEEKS ENDED 27 JANUARY 2018**

The "Keeping it Simple" boxes are additional information to assist with reader's understanding and interpretation of the Group's Financial Statements.

**1 Gross Sales and Turnover**

Gross sales represents the total amount paid by a customer and includes commission, principally on travel arrangements.  
 Turnover represents the income received by the Society.

	<b>Gross Sales (excluding VAT)</b>		<b>Turnover</b>	
	<b>2018 52 weeks £'000</b>	<b>2017 53 weeks £'000</b>	<b>2018 52 weeks £'000</b>	<b>2017 53 weeks £'000</b>
Retail - Food	<b>615,607</b>	617,386	<b>611,302</b>	612,791
Retail - Fuel	<b>94,825</b>	92,577	<b>94,825</b>	92,577
Wholesale	<b>48,817</b>	47,382	<b>48,817</b>	47,382
Funeral	<b>42,221</b>	41,146	<b>42,221</b>	41,146
Travel	<b>37,080</b>	35,433	<b>2,352</b>	2,277
Other	<b>713</b>	1,011	<b>713</b>	1,016
Rent received from investment properties	<b>9,049</b>	8,580	<b>9,049</b>	8,580
<b>Total</b>	<b>848,312</b>	843,515	<b>809,279</b>	805,769

Turnover consists of sales made in the United Kingdom.

Turnover analysed by category was as follows:

	<b>2018 52 weeks £'000</b>	<b>2017 53 weeks £'000</b>
Sales of goods	<b>755,070</b>	752,684
Rendering of services	<b>37,981</b>	37,114
Commission	<b>7,179</b>	7,391
Rent received from investment properties	<b>9,049</b>	8,580
	<b>809,279</b>	805,769

**CENTRAL ENGLAND CO-OPERATIVE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE 52 WEEKS ENDED 27 JANUARY 2018**

**2 Operating profit**

This is the profit the Society has made after accounting for all of our direct costs which we incur in providing the goods and services we deliver to our customers. These costs include the amount we pay our colleagues and the costs of running our trading businesses, significant balances are detailed in the note below.

Operating profit is stated after charging:

	<b>2018</b>	<b>2017</b>
	<b>52 weeks</b>	<b>53 weeks</b>
	<b>£'000</b>	<b>£'000</b>
Staff costs (Note 3)	126,203	126,011
Bad debt provision movement	974	429
Operating lease rentals:		
- Plant and machinery	714	745
- Land and buildings	6,163	6,772
Intangible assets (Note 9)		
- Amortisation	2,836	2,734
- Impairment	-	603
Depreciation (Note 10)		
- Owned assets	21,034	19,609
- Assets held under finance leases	167	200
- Impairment	2,649	2,184
Auditors' remuneration	675	169

**Fees payable to the Society's auditors**

	<b>2018</b>	<b>2017</b>
	<b>52 weeks</b>	<b>53 weeks</b>
	<b>£'000</b>	<b>£'000</b>
Fees payable to the Group's auditors for the audit of the Group's annual statement	118	75
Fees payable to the Group's auditors for other services to the Group:		
- The audit fees of the Society's subsidiaries	97	94
Total audit fees	215	169
All other services/consultancy	460	-
Total non-audit fees	460	-

**CENTRAL ENGLAND CO-OPERATIVE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE 52 WEEKS ENDED 27 JANUARY 2018**

**3 Staff number and costs**

These are the costs associated with paying our colleagues including employer taxes and pension contributions.

	<b>2018</b>	<b>2017</b>
	<b>52 weeks</b>	<b>53 weeks</b>
	<b>Number</b>	<b>Number</b>
The average number employed by the Group (including directors) was:		
Full-time	3,269	3,258
Part-time	5,227	5,418
	<b>8,496</b>	<b>8,676</b>

The number of full time equivalent employees during the 52 weeks ended 27 January 2018 was 5,305 (2017: 5,349).

	<b>2018</b>	<b>2017</b>
	<b>52 weeks</b>	<b>53 weeks</b>
	<b>£'000</b>	<b>£'000</b>
Aggregate amounts paid in respect of:		
Wages and salaries	115,095	114,958
Social security costs	6,944	6,746
Defined contribution pension scheme costs	4,164	4,307
	<b>126,203</b>	<b>126,011</b>

The Management Executive and Society Secretary are the Society's key management personnel. Further information on executive remuneration and Directors' fees are included on pages 37 to 49.

**CENTRAL ENGLAND CO-OPERATIVE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE 52 WEEKS ENDED 27 JANUARY 2018**

**4 Exceptional items**

These costs are split out separately because of their nature or size which do not form part of our normal day to day business. By highlighting these costs separately, the Society's underlying performance is clearer.

	<b>2018</b>	<b>2017</b>
	<b>52 weeks</b>	<b>53 weeks</b>
	<b>£'000</b>	<b>£'000</b>
Movement in onerous leases and provisions	<b>1,643</b>	4,179
Costs arising from the reorganisation of business	<b>1,349</b>	1,402
Transfer of engagements	<b>168</b>	21
Other exceptional costs/(credits)	<b>275</b>	(211)
	<b><u>3,435</u></b>	<b><u>5,391</u></b>

The Group is committed to a number of onerous leases on sites. During the year, these provisions have been re-assessed following business activity in the period, including settlements and a review of leasing options which gave rise to an increase in the provision of £1.6m (2017: £4.2m).

During the period, the Society has undertaken reviews of its business, and support functions which gave rise to costs of £1.3m (2017: £1.4m) which include redundancy and personnel costs, professional fees and site closure costs.

In July 2017, Wooldale Co-operative Society Limited transferred its engagements to Central England Co-operative Limited. Costs associated with the transfer of engagements including integration costs, redundancy and other costs associated with the transfer of engagements amount to £0.2m (2017: £nil). During 2014, Anglia Regional Co-operative Society Limited transferred its engagements to Central England Co-operative Limited. Costs associated with this transfer of engagements incurred in the period are £nil (2017: £21,000).

Other exceptional costs/(credits) includes legal costs and property provisions.

**CENTRAL ENGLAND CO-OPERATIVE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE 52 WEEKS ENDED 27 JANUARY 2018**

**5 Interest and dividends receivable**

This is the dividend we have received from our investments and interest received on our cash balances.

	Note	2018 52 weeks £'000	2017 53 weeks £'000
Interest receivable		248	209
Dividends receivable		109	107
	11	<u>357</u>	<u>316</u>

**6 Interest payable**

This is the amount of interest we have paid on bank loans and for any assets we have on finance lease agreements. It also includes interest charges in relation to the Society pension arrangements and in relation to the accounting of Society provisions.

	Note	2018 52 weeks £'000	2017 53 weeks £'000
Interest payable on bank loans	15	639	721
Interest payable on finance lease	15	59	65
Interest unwind on the Central Asset Reserve		3,140	2,656
Unwinding of discounted provisions	16	116	422
		<u>3,954</u>	<u>3,864</u>

**CENTRAL ENGLAND CO-OPERATIVE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE 52 WEEKS ENDED 27 JANUARY 2018**

**7 Payments to and on behalf of stakeholders**

The Society returns some of the profits earned each year to our members and colleagues as well as supporting other Co-operatives and organisations with a similar purpose to our Society, through grants and donations.

	<b>2018</b> <b>52 weeks</b> <b>£'000</b>	<b>2017</b> <b>53 weeks</b> <b>£'000</b>
Member benefits	230	372
Membership & Community funding and other grants	529	530
Members' dividend	1,710	1,903
Total member distributions	<u>2,469</u>	<u>2,805</u>
Co-operative Party	118	119
Community dividend	200	208
Employee dividend	915	1,059
	<u><u>3,702</u></u>	<u><u>4,191</u></u>

**8 Taxation**

This explains the adjustments which are made to the profits or losses to calculate the tax and deferred tax charge for the period. Deferred tax arises due to timing differences in accounting standards treatment and when tax amounts are physically paid over to the authorities.

	<b>2018</b> <b>52 weeks</b> <b>£'000</b>	<b>2017</b> <b>53 weeks</b> <b>£'000</b>
Current tax:		
Provided on chargeable income and gains in the period	1,866	1,946
Adjustment to tax charge in respect of prior periods	-	(311)
	<u>1,866</u>	<u>1,635</u>
Deferred taxation:		
Origination and reversal of timing differences	1,638	48
Adjustments in respect of prior periods	(1,580)	(101)
Effect of tax rate change on opening balance	-	503
	<u>58</u>	<u>450</u>
Total taxation	<u><u>1,924</u></u>	<u><u>2,085</u></u>

**CENTRAL ENGLAND CO-OPERATIVE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE 52 WEEKS ENDED 27 JANUARY 2018**

**8 Taxation (continued)**

The standard rate of tax applied to reported profit on ordinary activities is 19.18% (2017: 20.00%). A reduction in the UK corporation tax rate from 21% to 20% (effective from 1 April 2015) was substantively enacted on 2 July 2013. A further reduction to 19% (effective from 1 April 2017) was substantively enacted on 26 October 2015, and an additional reduction to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the Society's future current tax charge accordingly. The deferred tax asset at 28 January 2017 has been calculated based on these rates.

There is no expiry date on timing differences, unused tax losses or tax credits.

**Factors affecting the tax charge for the period**

The tax assessed for the period is higher (2017: higher) than the effective rate of corporation tax in the UK of 19.18% (2017: 20.00%). The differences are explained below:

	<b>2018</b> <b>52 weeks</b> <b>£'000</b>	<b>2017</b> <b>53 weeks</b> <b>£'000</b>
Profit/(Loss) before taxation	<b>3,555</b>	(1,830)
Profit/(Loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.18% (2017: 20.00%)	<b>682</b>	(366)
Effects of:		
Fixed asset timing differences not provided	<b>1,104</b>	239
Expenses not deductible for tax purposes	<b>98</b>	135
Income not taxable for tax purposes	<b>(255)</b>	(246)
Adjustment to tax charge in respect of prior periods	<b>-</b>	(311)
Adjustment to deferred tax charge in respect of prior periods	<b>(1,580)</b>	(101)
Current tax credited directly to equity	<b>1,866</b>	1,946
Adjustment to deferred tax to average rate of 19.18%	<b>9</b>	789
Tax charge for the period	<b><u>1,924</u></b>	<b><u>2,085</u></b>

**CENTRAL ENGLAND CO-OPERATIVE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE 52 WEEKS ENDED 27 JANUARY 2018**

**9 Intangible assets**

An asset is something used by the Society to generate financial benefit.  
 An intangible asset is an asset that cannot be physically touched such as computer software.

	<b>Software</b>	<b>Goodwill</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Cost</b>			
At 29 January 2017	10,059	51,943	<b>62,002</b>
Additions	834	-	<b>834</b>
Business combination (note 24)	-	498	<b>498</b>
Disposals	(2)	(699)	<b>(701)</b>
At 27 January 2018	<b>10,891</b>	<b>51,742</b>	<b>62,633</b>
<b>Amortisation</b>			
At 29 January 2017	8,664	29,218	<b>37,882</b>
Provided this period	558	2,278	<b>2,836</b>
Disposals	(2)	(484)	<b>(486)</b>
At 27 January 2018	<b>9,220</b>	<b>31,012</b>	<b>40,232</b>
<b>Net book value</b>			
At 27 January 2018	<b>1,671</b>	<b>20,730</b>	<b>22,401</b>
At 28 January 2017	1,395	22,725	24,120

In line with the Society's accounting policies, an annual review of the carrying value of goodwill has been undertaken which identified an impairment of £nil (2017: £0.6m).

**CENTRAL ENGLAND CO-OPERATIVE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE 52 WEEKS ENDED 27 JANUARY 2018**

**10 Tangible assets**

Tangible assets are used by the Society to generate financial benefit and include property, plant and equipment and transport.  
Investment properties are those held by the Society, but are rented out and not used by the Society for trading. Trade properties includes our retail, funeral, travel and optical sites and are the sites that the Society trade from. All of the fixtures and fittings within these sites are included within plant and machinery.  
Transport includes vehicles used within the Society such as for our distribution network or within our funeral business.

	Investment properties £'000	Trade properties £'000	Plant & machinery £'000	Transport £'000	Total £'000
<b>Cost or valuation</b>					
At 29 January 2017	121,829	276,783	191,868	15,853	<b>606,333</b>
Additions	355	12,174	20,135	2,612	<b>35,276</b>
Transfer of engagements	118	725	76	-	<b>919</b>
Transfers	5,197	(5,299)	102	-	-
Disposals	(4,471)	(641)	(3,031)	(813)	<b>(8,956)</b>
Revaluation	3,707	-	-	-	<b>3,707</b>
At 27 January 2018	<b>126,735</b>	<b>283,742</b>	<b>209,150</b>	<b>17,652</b>	<b>637,279</b>
<b>Depreciation</b>					
At 29 January 2017	-	64,248	128,682	10,603	<b>203,533</b>
Provided this period	-	5,212	14,316	1,673	<b>21,201</b>
Impairment	-	2,482	167	-	<b>2,649</b>
Transfers	1,051	(1,051)	-	-	-
Disposals	-	(541)	(2,577)	(805)	<b>(3,923)</b>
Revaluation	(1,051)	-	-	-	<b>(1,051)</b>
At 27 January 2018	-	<b>70,350</b>	<b>140,588</b>	<b>11,471</b>	<b>222,409</b>
<b>Net book value</b>					
At 27 January 2018	<b>126,735</b>	<b>213,392</b>	<b>68,562</b>	<b>6,181</b>	<b>414,870</b>
At 28 January 2017	121,829	212,535	63,186	5,250	402,800

**CENTRAL ENGLAND CO-OPERATIVE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE 52 WEEKS ENDED 27 JANUARY 2018**

**10 Tangible assets (continued)**

Colliers International, independent qualified valuers, (Simon Summerby-Bent BSc (Hons) MRICS and James Cubitt BSc (Hons) MRICS) have valued all investment properties as at 27 January 2018. Of the investment properties, one fifth have been inspected and the remainder have been valued by Colliers International at 27 January 2018 based on inspection in the prior year and information provided by the Society. The valuation has been prepared in accordance with the RICS Valuation – Professional Standards January 2014 (the “Red Book”) prepared by the Royal Institution of Chartered Surveyors (the “RICS”).

These valuations have been incorporated into the financial statements and the resulting revaluation adjustments have been taken to the income statement. The revaluations during the period resulted in a revaluation gain of £4.8m (2017: revaluation loss of £0.9m).

Tangible fixed assets with a carrying value of £50.7m (2017: £52.1m) are pledged as security for the Group’s bank loans.

Assets in the course of construction included within trade properties amounts to £4.5m (2017: £3.2m). Assets under construction are not depreciated.

The Group no longer capitalises borrowing costs connected to the purchase of a fixed asset. The cumulative value of finance costs previously capitalised and included within fixed assets (cost or valuation) amounts to £1.4m (2017: £1.4m).

Included within fixed assets are assets with a net book value of £0.4m (2017: £0.5m) relating to assets held under finance lease. Depreciation charged on these assets amounted to £0.2m (2017: £0.2m) during the period.

Transfers arise to reflect the most appropriate class for each asset and include sites transferring from trade to investment and sites transferring from investment to trade.

In line with the Group’s accounting policies, an impairment review of loss making units was performed during the period and gave rise to an impairment of £2.6m (2017: £2.2m).

**CENTRAL ENGLAND CO-OPERATIVE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE 52 WEEKS ENDED 27 JANUARY 2018**

**10 Tangible assets (continued)**

The carrying value of land and buildings comprises:

	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
<b>Investment properties:</b>		
Freehold	122,619	118,247
Leasehold	4,116	3,582
	<u>126,735</u>	<u>121,829</u>
<b>Trade properties:</b>		
Freehold	195,587	194,233
Leasehold	17,805	18,302
	<u>213,392</u>	<u>212,535</u>
<b>Total properties:</b>		
Freehold	318,206	312,480
Leasehold	21,921	21,884
	<u>340,127</u>	<u>334,364</u>

The historical cost of investment properties now included at valuation:

	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
Cost	114,122	115,237
Accumulated depreciation	(13,926)	(14,831)
Net book value	<u>100,196</u>	<u>100,406</u>

**CENTRAL ENGLAND CO-OPERATIVE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE 52 WEEKS ENDED 27 JANUARY 2018**

**11 Investments**

Our investments include shares held in other businesses and investment of monies received for funeral pre-payment plans.

	Fixed assets		Dividends/interest	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
The Co-operative Group Limited – shares	2,684	2,741	109	107
Other societies – shares	3	29	-	-
Other societies – loans	-	63	19	-
Companies – not quoted	7	5,835	214	21
Other	-	4	-	-
Funeral plans	133,487	112,272	-	-
	<u>136,181</u>	<u>120,944</u>	<u>342</u>	<u>128</u>
Interest earned on cash balances			<u>15</u>	<u>188</u>
			<u>357</u>	<u>316</u>

In December 2016, the Group gave formal notice to Thomas Cook to exit the joint venture agreement which was originally formed in 2011. The Society received £5.8m in return for the Group's 3.5% shareholding.

In line with the Group's accounting policies, quoted and unquoted shares have been revalued to their fair values, which has generated a fair value loss of £18,000 (2017: gain of £15,000). Quoted investments are based on active market rates.

The following analysis shows the movement in the year on investments held during the period ended 27 January 2018:

	Co- operative Group Limited £'000	Other Societies £'000	Unquoted shares £'000	Funeral plans £'000
<b>Carrying amount</b>				
At 29 January 2017	2,741	92	5,839	112,272
Additions	-	-	-	19,048
Transfer of engagements (note 24)	7	-	-	-
Transfer	-	(5)	5	-
Disposal and redemptions	(64)	(70)	(5,833)	(8,595)
At 27 January 2018	<u>2,684</u>	<u>17</u>	<u>11</u>	<u>122,725</u>
Change in fair value	-	(14)	(4)	10,762
<b>Net book value</b>				
At 27 January 2018	<u>2,684</u>	<u>3</u>	<u>7</u>	<u>133,487</u>

**CENTRAL ENGLAND CO-OPERATIVE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE 52 WEEKS ENDED 27 JANUARY 2018**

**12 Stocks**

Stock are goods purchased by the Society for resale to our customers.

	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
Goods for resale	<b>34,608</b>	35,150

**13 Debtors**

A debtor is an amount owed by a person or business that has received goods or services from the Society but has not yet paid for them.

	<b>Within one year</b>		<b>After one year</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Trade debtors	7,205	7,838	-	-
Deferred tax	-	-	<b>33,725</b>	30,869
Other debtors*	<b>19,888</b>	20,135	-	-
Prepayments and accrued income	<b>5,438</b>	6,282	-	-
	<b>32,531</b>	34,255	<b>33,725</b>	30,869

\* In the prior period, supplier rebates were wholly presented within trade creditors. These have now been represented to other debtors to better reflect the underlying nature of the balance and to be consistent with the current period presentation.

**CENTRAL ENGLAND CO-OPERATIVE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE 52 WEEKS ENDED 27 JANUARY 2018**

**13 Debtors (continued)**

Deferred tax arises because accounting and tax rules are different. A deferred tax asset occurs because a tax saving will be made in the future as a result of transactions that have already happened. A deferred tax liability occurs when tax will be due in the future as a result of transactions which have already happened.

The deferred taxation asset comprises:

	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
Accelerated capital allowances	<b>7,530</b>	6,932
Capital gains	<b>(2,795)</b>	(3,783)
Pension scheme	<b>23,550</b>	19,583
Unutilised losses	<b>5,085</b>	5,943
Spread pension contributions	-	1,848
Business combinations	<b>(511)</b>	(529)
Other timing differences	<b>866</b>	875
	<b><u>33,725</u></b>	<b><u>30,869</u></b>

As a result of the Central Asset Reserve, the Society will receive a deduction against current tax of £9.7m (2017: £9.7m). Consequently a deferred tax asset of £nil (2017: £1.8m) has been recognised at 27 January 2018.

**CENTRAL ENGLAND CO-OPERATIVE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
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**14 Creditors**

Liabilities are amounts owed by the Society to other parties. They are created when the Society carries out an activity, which results in a cost, that will be settled at a later date.

	Within one year		After one year	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Trade creditors*	50,848	52,664	-	-
Central Asset Reserve liability	6,400	6,400	82,389	85,432
Funeral plans	10,934	8,908	122,883	105,300
Other taxation and social security	6,756	5,854	-	-
Other creditors*	2,694	2,632	-	-
Accruals and deferred income*	21,066	23,001	177	145
Payments to and on behalf of stakeholders	1,769	2,160	-	-
	<b>100,467</b>	<b>101,619</b>	<b>205,449</b>	<b>190,877</b>

\* In the prior period, supplier rebates were wholly presented within trade creditors. These have now been represented to other debtors to better reflect the underlying nature of the balance and to be consistent with the current period presentation. In addition, certain balances within other creditors have been represented to accruals and deferred income.

The Group holds an interest rate swap with a principal value of £12.0m (2017: £12.0m), which matures on 22 January 2021. The interest rate swap is recorded at market value £11,000 (2017: liability of £122,000) and is included in other creditors.

**CENTRAL ENGLAND CO-OPERATIVE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE 52 WEEKS ENDED 27 JANUARY 2018**

**15 Borrowings**

This represents the total cost that the Society will have to pay in the future for the amounts borrowed in respect of it's Bank loan and for settlement of it's finance leases.

	Within one year		After one year	
	2018	2017	2018	2017
	£'000	£'000	£'000	£'000
Bank loan	-	-	<b>28,000</b>	29,000
Finance lease obligations (note 21)	<b>153</b>	202	<b>51</b>	201
	<b>153</b>	202	<b>28,051</b>	29,201

Interest payable on the bank loan for the 52 weeks ended 27 January 2018 was £0.6m (2017: £0.7m). Interest payable on finance lease obligations was £59,000 (2017: £65,000).

	2018	2017
	£'000	£'000
Borrowings falling due within:		
One year	153	202
Between one and two years	38	144
Between two and five years	<b>28,013</b>	29,057
	<b>28,204</b>	29,403

The Society's bank loan is a revolving credit facility of £40.0m (2017: £40.0m) which is repayable on 22 January 2021, £28.0m (2017: £29.0m) of which was drawn down at the year end. Interest cover and leverage ratio are covenants associated with the facility, with the interest rate driven by the results of the leverage ratio.

**CENTRAL ENGLAND CO-OPERATIVE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE 52 WEEKS ENDED 27 JANUARY 2018**

**16 Provisions for liabilities and charges**

Provisions represent the Society's estimate of the cost of a future liability.

	<b>Onerous leases £'000</b>	<b>Other provisions £'000</b>	<b>Total £'000</b>
As at 29 January 2017	15,591	3,367	<b>18,958</b>
New provision created in the period	1,156	259	<b>1,415</b>
Reassessment on brought forward provision	986	300	<b>1,286</b>
Unwinding of discount	116	-	<b>116</b>
Utilised this period	(4,236)	(774)	<b>(5,010)</b>
Released this period	(569)	(481)	<b>(1,050)</b>
As at 27 January 2018	<b>13,044</b>	<b>2,671</b>	<b>15,715</b>

The onerous lease provision represents an assessment of the costs to cover rent and rates for leasehold premises where the Group is committed to future rental payments on properties that are in excess of incomes received, taking account of the anticipated period until the leases are assigned or reassigned. The assessment, which is undertaken at the end of each accounting period, is made on a property by property basis. The provision is expected to be utilised within the next 12 years (2017: 13 years).

Other provisions represent an assessment of costs associated with the re-organisation of the business and site closures of £1.0m (2017: £1.3m), the decommissioning of petrol filling stations of £0.4m (2017: £0.4m), property provisions of £1.2m (2017: £1.3m) and other provisions of £0.1m (2017: £0.4m).

**CENTRAL ENGLAND CO-OPERATIVE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE 52 WEEKS ENDED 27 JANUARY 2018**

**17 Employee benefits**

**Defined Benefit Pension Scheme**

The Society operates a defined benefit pension arrangement called the Central England Co-operative Limited Pension Scheme (the Scheme). The Scheme provides benefits based on final salary and length of service on retirement, leaving service or death. The value of these benefits (the "liabilities") is currently significantly more than the value of the Scheme assets.

Central England Co-operative Limited (the "Society") operates a defined benefit pension arrangement called the Central England Co-operative Limited Pension Scheme (the "Scheme"). The Scheme provides benefits based on final salary and length of service on retirement, leaving service or death. The Society also operates a defined contribution scheme, refer to page 100.

The Scheme is subject to the Statutory Funding Objective under the Pensions Act 2004. A valuation of the Scheme is carried out at least once every three years to determine whether the Statutory Funding Objective is met. As part of the process the Society agrees with the Trustees of the Scheme the contributions to be paid to address any shortfall against the Statutory Funding Objective.

The most recent comprehensive actuarial valuation of the Scheme was carried out as at 31 December 2014. The results of the 31 December 2014 valuation have been updated by an independent qualified actuary to 27 January 2018 allowing for cash flows in and out of the Scheme and changes to assumptions over the period. The actuarial valuation for 2017 is in progress.

The Society implemented a pension deficit reduction arrangement (Central Asset Reserve) which has resulted in additional scheme assets of £122,889,000 (2017: £121,095,000) being recognised. The scheme assets are underpinned by way of subordinated pledges given by Central Midlands Estates Limited, a subsidiary of the Society.

During the year to 26 January 2019, contributions to the Scheme will be paid from the CAR (Central Asset Reserve). 31% of the CAR contributions are deemed as contributions whilst 69% is treated as investment returns. Therefore, the Society expects contributions of £3.0m during the period.

**CENTRAL ENGLAND CO-OPERATIVE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE 52 WEEKS ENDED 27 JANUARY 2018**

**17 Employee benefits (continued)**

The following amounts are recognised in the balance sheet:

	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
Fair value of assets	705,210	687,707
Present value of funded obligations	<u>(884,761)</u>	<u>(845,622)</u>
Deficit in the scheme	<u><u>(179,551)</u></u>	<u><u>(157,915)</u></u>

The following amounts are recognised in the Income Statement:

	<b>2018</b>	<b>2017</b>
	<b>52 weeks</b>	<b>53 weeks</b>
	<b>£'000</b>	<b>£'000</b>
Administration cost	944	1,546
Interest on liabilities	25,746	27,545
Interest on assets	<u>(20,879)</u>	<u>(23,810)</u>
Other Finance Cost	<u><u>5,811</u></u>	<u><u>5,281</u></u>

The remeasurements over the period are as follows:

	<b>2018</b>	<b>2017</b>
	<b>52 weeks</b>	<b>53 weeks</b>
	<b>£'000</b>	<b>£'000</b>
Gain on scheme assets in excess of interest	(25,207)	(92,977)
Experience gains on liabilities	(3,642)	(14,181)
Gains from changes to demographic assumptions	(19,011)	-
Losses from changes to financial assumptions	<u>66,471</u>	<u>170,542</u>
Total remeasurement	<u><u>18,611</u></u>	<u><u>63,384</u></u>

**CENTRAL ENGLAND CO-OPERATIVE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE 52 WEEKS ENDED 27 JANUARY 2018**

**17 Employee benefits (continued)**

The movement in the balance sheet over the period was:

	<b>2018</b>	<b>2017</b>
	<b>52 weeks</b>	<b>53 weeks</b>
	<b>£'000</b>	<b>£'000</b>
Deficit at the start of the period	(157,915)	(92,183)
Other finance costs	(5,811)	(5,281)
Society contributions	2,786	2,933
Total remeasurements	<u>(18,611)</u>	<u>(63,384)</u>
Deficit at the end of the period	<u><u>(179,551)</u></u>	<u><u>(157,915)</u></u>

The movement in the assets over the period was:

	<b>2018</b>	<b>2017</b>
	<b>52 weeks</b>	<b>53 weeks</b>
	<b>£'000</b>	<b>£'000</b>
Opening fair value of scheme assets	687,707	595,678
Interest on assets	20,879	23,810
Society contributions	2,786	2,933
Benefits paid	(30,425)	(26,145)
Administrative costs	(944)	(1,546)
Return on assets less interest	<u>25,207</u>	<u>92,977</u>
	<u><u>705,210</u></u>	<u><u>687,707</u></u>

The movement in the defined benefit obligation over the period was:

	<b>2018</b>	<b>2017</b>
	<b>52 weeks</b>	<b>53 weeks</b>
	<b>£'000</b>	<b>£'000</b>
Opening obligation	845,622	687,861
Interest cost	25,746	27,545
Benefits paid	(30,425)	(26,145)
Experience gain on defined benefit obligation	(3,642)	(14,181)
Changes to demographic assumptions	(19,011)	-
Changes to financial assumptions	<u>66,471</u>	<u>170,542</u>
Closing obligation	<u><u>884,761</u></u>	<u><u>845,622</u></u>

**CENTRAL ENGLAND CO-OPERATIVE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE 52 WEEKS ENDED 27 JANUARY 2018**

**17 Employee benefits (continued)**

The major categories of assets as a percentage of total assets are as follows:

	<b>2018</b>	<b>2017</b>
Bonds	<b>55%</b>	45%
Equities and property	<b>17%</b>	18%
Other	<b>28%</b>	37%
	<u><b>100%</b></u>	<u>100%</u>

The amounts do not include the Central Asset Reserve asset.

The actual return on the Scheme's assets over the period to the review date, net of investment expenses but including the Central Asset Reserve, was £45.6m which corresponds to a 7% return over the period.

The assets do not include any investment in shares of the Society.

The principal assumptions used to calculate the Scheme's liabilities include:

	<b>2018</b>	<b>2017</b>
Discount rate - per annum	<b>2.65%</b>	3.10%
Inflation assumption (RPI) - per annum	<b>3.50%</b>	3.60%
Inflation assumption (CPI) - per annum	<b>2.50%</b>	2.60%
Revaluation in deferment - per annum	<b>3.50%/2.50%</b>	3.60%/2.60%
RPI max 5.0% pension increases in payment - per annum	<b>3.35%</b>	3.40%
RPI max 2.5% pension increases in payment - per annum	<b>2.30%</b>	2.35%
Members assumed to take maximum tax free cash	<b>90%</b>	90%

The mortality assumptions used are based on the "SAPS" standard "S2 series" tables with an allowance for future mortality improvements using the CMI 2016 projections with a long-term rate of improvement of 1.25% pa (2017: 1.25% pa using the CMI 2015 projections). The Central Asset Reserve asset value is assumed to be 69% of Trustees' valuation as at 31 December 2017 (2017: 69% of Trustees' valuation as at 31 December 2016).

**CENTRAL ENGLAND CO-OPERATIVE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
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**17 Employee benefits (continued)**

Under the adopted mortality tables, the future life expectancy at age 65 is as follows:

	<b>2018</b>	<b>2017</b>
Male currently age 45	<b>23.8</b>	24.2
Female currently age 45	<b>25.8</b>	26.5
Male currently age 65	<b>22.3</b>	22.5
Female currently age 65	<b>24.3</b>	24.6

**Defined Contribution Scheme**

The Group also operates a defined contribution scheme.

The contributions payable to the defined contribution scheme in respect of the accounting period are charged to the income statement, which amounted to £4.2m (2017: £4.3m).

**18 Share capital**

This section contains information about share capital which is money invested by members into their share accounts.

	<b>2018</b> <b>52 weeks</b> <b>£'000</b>	<b>2017</b> <b>53 weeks</b> <b>£'000</b>
Contributions	<b>613</b>	714
Withdrawals	<u><b>(427)</b></u>	<u>(418)</u>
	<b>186</b>	296
Interest	<b>212</b>	197
Transfer of engagement	<u><b>150</b></u>	<u>-</u>
<b>Movement in period</b>	<b>548</b>	493
Opening balance	<u><b>23,296</b></u>	<u>22,803</u>
<b>Closing balance</b>	<u><u><b>23,844</b></u></u>	<u><u>23,296</u></u>

At 27 January 2018 the Group had a total of 1,798,711 (2017: 1,766,654) members each entitled to one vote. At the reporting date the whole of the share capital comprises non-equity shares of £1 each attracting interest at rates between 0% and 2.25% (2017: between 0% and 2.25%).

**CENTRAL ENGLAND CO-OPERATIVE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE 52 WEEKS ENDED 27 JANUARY 2018**

**18 Share capital (continued)**

Share capital is generally withdrawable on demand; however, in accordance with the Society rules, the Board may suspend the right of withdrawal for a limited time and may impose a notice period for withdrawals should they consider it to be in the best interests of the Society. The Society rules for the distribution of the final surplus in the event of winding-up after repayment of the paid-up, share capital state that such assets shall not be paid to or distributed among the members of the Society but shall be:

- a. transferred to one or more other societies in membership of the Co-operatives UK Limited having the same or similar rule provisions as regards surplus distribution as this rule, as may be determined by the members at an ordinary or special meeting; or
- b. if not so transferred shall be paid or transferred to the Co-operatives UK Limited.

Dividends to members are paid by way of e-dividend redeemable against purchases.

The Group operates a Share Incentive Plan (SIP) to benefit colleagues. Colleagues can invest a proportion of their salary which may not exceed the lower of £1,800 or 10% of a colleague's pay, on which they earn a return of 2.25% in that period. Interest earned is recognised in the share capital note. Shares withdrawn after a five year period are paid free of income tax and national insurance.

The Society is allowed to allocate matching shares under rules governed by HMRC. As an incentive to colleagues to join and remain in the SIP, the Society will match the first £10 paid in by each colleague for the purchase of partnership shares in the first year of the scheme by awarding £10 in matching shares. Each year colleagues who continue to contribute will receive a further £10 in matching shares for the first £10 of partnership shares acquired in later years. A year for the purposes of matching shares will be the Society's financial year.

As long as the matching shares are held for at least five years, they can be redeemed with the Society free of income tax and national insurance contributions. If they are redeemed before this date, income tax and national insurance contributions will normally be payable. The issue of matching shares is discretionary. The Society therefore reserves the right to amend or withdraw the issuing of matching shares at its discretion.

**19 Reserves**

Revenue reserves represent profits the Society has earned in previous years. Non-distributable reserves represent the change in value of the Society's investment properties which are unrealised and cannot be paid out until this is converted to real funds, for example, the sale of an investment property.

The Society's reserves are as follows:

The Revenue Reserve represents cumulative profits or losses net of dividends paid and other adjustments.

The Non-distributable Reserve represents the cumulative effect of revaluations of investment properties which are revalued to fair value at each reporting date.

**CENTRAL ENGLAND CO-OPERATIVE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE 52 WEEKS ENDED 27 JANUARY 2018**

**20 Cash flow statement**

This is the analysis of the total cash flow earned from the Society's operating activities.

	<b>2018</b>	<b>2017</b>
	<b>52 weeks</b>	<b>53 weeks</b>
	<b>£'000</b>	<b>£'000</b>
Profit for the financial period	1,631	(3,915)
Adjustments for:		
Profit/(Loss) on financial assets at fair value	(92)	69
Net interest expense	9,408	8,829
Payments to and on behalf of stakeholders	3,702	4,191
Taxation	1,924	2,085
Operating profit	<b>16,573</b>	11,259
Adjustment for:		
(Gain)/Loss on investment properties	(4,758)	945
Profit on disposal	(555)	(367)
Depreciation and impairments	23,850	21,993
Amortisation and impairment of goodwill	2,836	3,337
Payments to and on behalf of stakeholders	(4,093)	(3,050)
Net movement on funeral plan asset and liability	(1,607)	369
Fair value movements	92	(69)
Decrease in debtors*	2,598	40
(Decrease)/Increase in creditors*	(2,131)	2,829
Decrease in stocks	601	4,261
(Decrease)/Increase in provisions	(3,359)	158
Other non-cash movements	88	(271)
Cash contribution for retirement benefit obligations	(2,786)	(2,933)
	<b>27,349</b>	38,501

\* In the prior period, the movement of supplier rebates were wholly presented within trade creditors. These have now been represented to debtors to better reflect the underlying nature of the balance and to be consistent with the current period presentation.

**CENTRAL ENGLAND CO-OPERATIVE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE 52 WEEKS ENDED 27 JANUARY 2018**

**21 Financial commitments**

**Finance leases**

A finance lease is where the Society will either own the asset at the end of the lease payments or that the lease is substantially for the whole of the life of the asset.

The minimum finance lease payments to which the Society is committed in future years are:

	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
Within one year	153	202
In the second to fifth year inclusive	51	201
	<b>204</b>	<b>403</b>

Obligations under finance leases are shown as part of borrowings in note 15.

**Operating leases - receivable**

The lease is termed as operating as the lease is generally shorter terms and the Society do not lease the asset for the whole of its life.

The future minimum operating lease payments to the Group under non-cancellable leases are:

	<b>Land &amp; Building</b>	<b>Land &amp; Building</b>
	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
Operating leases expiring:		
Within one year	2,183	2,064
In the second to fifth year inclusive	5,961	6,299
Over five years	45,731	45,371
	<b>53,875</b>	<b>53,734</b>

**CENTRAL ENGLAND CO-OPERATIVE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE 52 WEEKS ENDED 27 JANUARY 2018**

**21 Financial commitments (continued)**

**Operating leases - payable**

This is where rent is paid by the Society to use an asset it does not own such as a property or equipment.

The minimum operating lease payments to which the Group is committed in future years are:

	<b>Land &amp; Building 2018 £'000</b>	<b>Land &amp; Building 2017 £'000</b>	<b>Other 2018 £'000</b>	<b>Other 2017 £'000</b>
Operating leases expiring:				
Within one year	1,460	773	153	440
In the second to fifth year inclusive	2,115	1,620	3,013	2,323
Over five years	44,019	47,491	459	681
	<u>47,594</u>	<u>49,884</u>	<u>3,625</u>	<u>3,444</u>

Included within the minimum operating lease payments are onerous lease and discontinued operation commitments of £14.7m (2017: £18.2m) which are fully provided for as described in note 16.

The Society holds lease commitments on operating leases from the Society's former leased travel branches. As part of the disposal of the travel business, Thomas Cook Travel took occupation under licence of the Society's former leasehold sites from 4 October 2011 for outgoing and costs associated with these properties. The lease commitments on these operating leases at 27 January 2018 are as follows:

	<b>2018 £'000</b>	<b>2017 £'000</b>
Within one year	<u>130</u>	<u>151</u>

**Capital commitments**

This is the value the Society has committed to spend on assets after the year end.

Amounts contracted for but not provided for in the financial statements were £11.1 million (2017: £9.6 million).

**CENTRAL ENGLAND CO-OPERATIVE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE 52 WEEKS ENDED 27 JANUARY 2018**

**22 Subsidiaries and associates**

These are separate legal entities that are wholly owned, managed and controlled by the Society.

<b>Entity</b>	<b>% of Equity owned</b>	<b>Principal activity</b>
Central Midlands Estates Limited	100	Property Management
Terry Smith Limited	100	Coffin Manufacturer
M.C.S. Funeral Services Limited *	100	Funeral Services
Oakwell Stores Society Limited	100	Corporate Trustee
Midlands Co-op Scottish Limited Partnership	77	Investment in Corporate Bonds
Midlands Co-op General Partner Limited	100	Partnership Administration
Advantage Motor Group Limited	100	Non-Trading
Leicester Carriage Builders 2002 Limited	100	Non-Trading
Metro Discount Stores (Midlands) Limited	100	Non-Trading
Ilkeston Travel Services Limited *	100	Non-Trading
Ken Ives Motors (Derby) Limited *	100	Non-Trading
Ilkeston Motor Finance Limited	100	Non-Trading
Ilkeston Consumer Co-operative Society Pension Trustees Limited	100	Non-Trading
Anglia Co-operative Properties Limited	100	Property Management
Central England Co-op Pension Trustee Limited	100	Dormant
Westgate Optical Limited	100	Optical Retailing
Yaxley Farm Limited *	100	Farming
Central England Dersingham Limited *	100	Non-Trading
James Retail Holdings Limited	100	Non-Trading

\* Held by subsidiary undertaking.

All subsidiaries are registered within the United Kingdom. The registered address for the above entities with the exception of Midlands Co-op Scottish Limited Partnership and Midlands Co-op General Partner Limited is Central House, Hermes Road, Lichfield, Staffordshire WS13 6RH. The registered address for Midlands Co-op Scottish Limited Partnership and Midlands Co-op General Partner Limited is Citypoint, 65 Haymarket Terrace, Edinburgh EH12 5HD.

**CENTRAL ENGLAND CO-OPERATIVE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE 52 WEEKS ENDED 27 JANUARY 2018**

**22 Subsidiaries and associates (continued)**

**Subsidiary audit exemptions**

Central England Co-operative Limited has issued guarantees over the liabilities of the following companies at 27 January 2018 under section 479 of Companies Act 2006 and these entities are exempt from the requirements of the Act relating to the audit of individual accounts by virtue of section 479A of the Act.

<b>Company Name</b>	<b>Company Number</b>
Terry Smith Limited	02095147
Midlands Co-op General Partner Limited	SC410710
Advantage Motor Group Limited	05800376
Westgate Optical Limited	07526437
Yaxley Farm Limited	02553217
Central England Dersingham Limited	04827499
James Retail Holdings Limited	09613820

The Society currently holds preference shares within investments in the following entity:

<b>Associated undertakings</b>	<b>Principal</b>	<b>Country of incorporation</b>
Anglia Home Furnishing Limited	Furniture retailing	United Kingdom

**23 Related party transactions**

These are transactions between the Society and other parties who are connected to the Society.

Central England Co-operative Limited continues to hold a preference share interest in Anglia Home Furnishings Limited and maintains certain trading relationships relating to its normal trading activities which give rise to receivables of £192,000 (2017: £235,000) during the period. The net amount due from Anglia Home Furnishings Limited in respect of these relationships at the reporting date was £177,000 (2017: £81,000).

The Society has given a guarantee on some Anglia Home Furnishing Limited sites in respect of rentals and property expenses. In the event of default by Anglia Home Furnishing Limited, the Society would be responsible for the outstanding lease payments of an annual rent and property expenses of £1.2m.

Since the year end, the Society has approved a guarantee of £450,000 to a supplier of services to Anglia Home Furnishing Limited in relation to the normal course of trade.

**CENTRAL ENGLAND CO-OPERATIVE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE 52 WEEKS ENDED 27 JANUARY 2018**

**24 Transfer of engagement and business combinations**

When another Society transfers its engagements to Central England Co-operative, it transfers all of its assets and liabilities at the date of transfer and these are detailed in this section.

On 2 July 2017, Wooldale Co-operative Society Limited transferred its engagement into Central England Co-operative Limited. The fair value of the total consideration was cash of £nil.

The following table sets out the book value and fair value of identifiable assets and liabilities:

	Book value	Fair value adjustments	Total
	£'000	£'000	£'000
<b>Fixed assets</b>			
Tangible assets	863	56	919
Investments	7	-	7
<b>Current assets</b>			
Stocks	63	(4)	59
Debtors	25	(10)	15
Cash at bank and in hand	405	-	405
<b>Creditors</b>			
Amounts falling due within one year:			
Creditors	(149)	(2)	(151)
Deferred tax	(43)	(10)	(53)
<b>Net assets</b>	1,171	30	1,201
<b>Capital and Reserves</b>			
Share Capital	150	-	150
Non-distributable reserve	645	(645)	-
Revenue reserve	376	675	1,051
<b>Members' fund acquired</b>	1,171	30	1,201

Book values have been aligned to estimated fair value at the date of transfer as follows:

- (i) Reassessment of property values, stock and debtor balances
- (ii) Reassessment of creditors and deferred tax
- (iii) Recognition of the realised non-distributable reserves.

During the year, the Group finalised the fair value accounting on the acquisition of James Retail Holdings Limited resulting in an uplift on goodwill of £0.2m. Also in the year, the Group acquired a retail trading site. Goodwill of £0.5m has been recognised in the 52 weeks ended 27 January 2018.

**CENTRAL ENGLAND CO-OPERATIVE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE 52 WEEKS ENDED 27 JANUARY 2018**

**25 Financial instruments**

This section details the value of the Society's financial assets and liabilities recorded in the financial statements. This is either cost (i.e. the transaction value) or fair value (i.e. its value in the market) at the balance sheet date.

The carrying value of the Group's financial assets and liabilities are summarised by category below:

	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
<b>Financial assets measured at fair value through profit or loss</b>		
Unquoted investments	7	5,835
Funeral plans	133,487	112,272
<b>Financial assets measured at amortised cost</b>		
Loans to other Societies	-	63
Trade debtors and other debtors	27,093	27,973
<b>Equity instruments measured at cost less impairment</b>		
Fixed asset investments	2,687	2,774
<b>Total financial assets</b>	<b>163,274</b>	<b>148,917</b>
	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
<b>Financial liabilities measured at fair value</b>		
Interest rate swap	11	122
Funeral plans	133,817	114,208
<b>Financial liabilities measured at amortised cost</b>		
Finance lease payables	204	403
Bank loan	28,000	29,000
Trade creditors and other creditors	62,056	63,188
<b>Total financial liabilities</b>	<b>224,088</b>	<b>206,921</b>

**CENTRAL ENGLAND CO-OPERATIVE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE 52 WEEKS ENDED 27 JANUARY 2018**

**25 Financial instruments (continued)**

The Group's income, expenses, gains and losses in respect of financial instruments are summarised below:

	<b>2018</b> <b>52 weeks</b> <b>£'000</b>	<b>2017</b> <b>53 weeks</b> <b>£'000</b>
Fair value gains/(losses)	<b>92</b>	(69)
Interest expense	<b><u>698</u></b>	<b><u>786</u></b>

The interest rate swap settles on a quarterly basis. The floating rate on the interest rate swap is three months LIBOR. The Society settles the difference between the fixed and floating interest rate on a net basis.

Interest rate swap contracts exchanging floating rate interest amounts for fixed rate interest amounts are designated as cash flow hedges to reduce the Society's cash flow exposure, resulting from variable interest rates on borrowings. The hedge cash flows are expected to occur and to affect the profit or loss over the period to maturity of the interest rate swap.

During the year, the fair value movement recognised in the income statement was a gain of £92,000 (2017: loss of £69,000).

A charge of £0.7m (2017: £0.8m) was recognised in the income statement in relation to interest on financial instruments.