

Central England Co-operative

**Annual Report &
Financial Statements**

52 weeks ended 26 January 2019

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Board of Directors, Management Executive and Auditor

<p>Board of Directors</p> <p>President: Elaine Dean # [®] ^S ^{MC}</p> <p>Vice-President: Jane Avery ^{CD} [®] ^S ^C</p> <p>Richard Bickle ^{AR} [®] ^{MC} John Chillcott ^{CD} ^{MC} Sean Clothier ^{CD} Dave Ellgood ^C ^{MC} Max Hunt # Maria Lee # ^S ^{MC} Marta Mayhew Martyn McCarthy ^{ID} ^{AR} Tanya Noon ^C ^S Sue Rushton ^{AR} Paul Singh ^{AR} ^C Rachel Wilkinson ^{ID} # [®] ^C</p> <p>^{ID} Independent Non-Executive Director</p> <p>^{AR} Audit & Risk Committee ^{CD} Community Dividend Selection Committee ^C Conduct Committee ^{MC} Membership & Community Strategy Committee [®] Remuneration Committee # Rules & Practices Committee ^S Search Committee</p>	<p>Management Executive</p> <p>Martyn Cheatle Chief Executive Debbie Robinson Chief Executive Designate Matt Birch Trading Executive David Grady Corporate Services Executive Tracey Orr Support Services Executive</p> <p>James Watts Society Secretary</p> <p>Auditor</p> <p>PricewaterhouseCoopers LLP Cornwall Court 19 Cornwall Street Birmingham B3 2DT</p> <p>Registered Office</p> <p>Central House Hermes Road Lichfield Staffordshire WS13 6RH</p> <p>Telephone: 01543 414140 Web: www.centralengland.coop Facebook: centralenglandcooperative 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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Business Activities

The Society's principal business activities are food stores, petrol filling stations, funeral services, travel shops and property investment.

About us

A thriving, community-based co-operative business

Central England Co-operative is a successful, independent, community-based co-operative owned by its members. We are a modern, forward-looking business employing over 8,000 people and operating 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 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 drive 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 provide a diverse range of events and activities for our members across the Society.

Through our Corporate Responsibility strategy, we continually seek opportunities to improve the environment and contribute to the wellbeing of local communities. We invest 1% of our trading profit into supporting local groups and good causes through our Community Dividend Awards, and are proud to have extended our successful fundraising partnership with Dementia UK through to July 2019.

Our Strategy and Vision

Our strategy is to grow and invest in our core business activities in order to strengthen the Society's impact and profile as a successful independent, co-operative business. Our focus on operating food stores, funeral services and travel shops in convenient locations, supported by property investment activity, aims to play to our strengths so we can build a sustainable business for the future. Our co-operative values and principles offer something different to our members and customers by providing a credible, relevant alternative to our competitors.

Engaging our people through leadership, development and talent management is critical to our success, with our colleagues being key advocates of what we stand for. Building a thriving membership base will increase loyalty, participation and strengthen engagement with the local communities in which we trade.

Our strategy is in place to deliver our vision **to be the UK's best consumer co-operative 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

244 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 fill up.

Food Distribution

Our Food Distribution Centres based in Leicester distribute 32 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 2018, our distribution vehicles covered 3.1 million miles, making around 127,000 store deliveries.

Funeral

131 Funeral homes

We are a leading provider of quality funeral services, conducting over 14,800 funerals in 2018/19. Our Funeral business also includes a crematorium at Bretby, located on the outskirts of Burton-on-Trent.

7 Florist Shops

Our team of 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.

Travel

26 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.

Property Investment

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

Society Highlights: 2018

- Launched our pioneering food redistribution project with FareShare East Midlands, with the programme now up and running at 130 of the Society's Food Stores
- Approaching £1 million raised for Dementia UK, our corporate charity partner
- Community Dividend grants of £173,000 awarded to 142 local groups and good causes
- Over 250,000 items donated to our food bank collection points during the year by our members and customers
- Continued focus across the Society to raise awareness and champion the importance of positive mental health
- Recognised for our work to reduce the Society's environmental impact by achieving the Carbon Trust's 'Best in Water Management' award
- Commenced programme to remove all single-use plastic carrier bags from our stores
- Working party in place to drive our long term commitment to Diversity and Inclusion
- Supported commemorative events to celebrate our co-operative and democratic heritage
- Colleague engagement remains high
- Continuation of transformation programmes across the Society to take complexity out of our business and simplify our ways of working

Financial Highlights

- Another encouraging financial performance against a backdrop of highly competitive trading conditions, outperforming annual targets and the prior year
- Gross sales (excluding VAT) of £869.9m up 2.5% (2017/18: £848.3m)
- Strong sales in our convenience stores, consistent with our long-term growth strategy
- Trading profit of £18.1m, up £0.8m on the prior year (2017/18: £17.3m)
- Operating profit of £11.9m, lower than the prior year (2017/18: £16.6m), largely reflecting a one-off adjustment relating to the equalisation of past service benefits for men and women in respect of Guaranteed Minimum Pensions
- Strong cash generation from our trading activities of £28.6m (2017/18: £27.3m) which supported capital investment of £28.7m (2017/18: £36.6m)
- Continuation of our ambitious growth strategy with the opening of 10 new food stores and 6 new funeral homes together with significant refurbishment activity across the business
- Further progress on repositioning the Society's investment property estate as part of our long-term strategy to maximise value from our property assets
- Net debt of £20.6m (2017/18: £16.7m) – well within our funding facility
- Payments to and on behalf of stakeholders of £3.5m (2017/18: £3.7m), maintaining our commitment to share the Society's success with our members, colleagues and local communities
- Increase in net assets to £216.1m (2017/18: £156.5m), principally driven by a decrease in the Society's net pension liability as a result of favourable movements in the measures used to place a value on the pension scheme's liabilities together with higher than expected investment returns

President's Overview

Dear Members,

This is now my second President's Annual Report to you and the Society continues to perform well despite very challenging trading circumstances. Our strategy remains focussed on maintaining the Society's position as a strong, member-owned co-operative business. The Board firmly believes that the values and principles of co-operation are as relevant today as they have ever been and we are proud that our Society continues to play an important role in this regard as part of the wider co-operative movement.

Much of the Board's time in the year under review has been spent searching and interviewing for a Chief Executive to replace Martyn Cheatle when he retires in May 2019. We had a rigorous process, advertising nationally and internationally and attracting very high quality applicants. We finally offered the position to the Managing Director of Spar UK Debbie Robinson, who had also spent 17 years with the Co-op Group. We are pleased to welcome Debbie to the Society.

Meanwhile, we have been making a difference to those in need with our partnership with FareShare East Midlands. At Christmas, our food bank collection points received over 75,000 items to help people in need – it is a shame this is necessary in 21st century Britain.

I have been taking a close personal interest in encouraging and developing the work of our Member and Community Councils (MCCs) and have visited them all during the last few months. As a result, we held a meeting for all their Chairs and Vice Chairs with the Officers and board members who sit on MCCs at Kegworth so that we could discuss ideas and work better together. After that we took 32 MCC Ambassadors, officers and three Board members to New Lanark to visit the model village of Robert Owen for a learning and development event.

Because of the success of our Yorkshire 'mini members' meeting' last April, we held another such event near Bungay in October to engage with members in our most outlying areas and we will be doing another in Yorkshire in May this year.

We have welcomed Co-op News Executive Editor Rebecca Harvey and Co-op College CEO Simon Parkinson to a Board meeting and hosted Co-op Group board members Rt. Hon. Hazel Blears, Lord Victor Adebowale and Gareth V Thomas as guests during the year to raise our profile nationally with other co-operatives.

In September, we hosted a meeting for all retail societies who subscribe to the Co-operative Party and guests included General Secretary of the Party, Claire McCarthy and other society presidents and officials. At that meeting, Board Director Tanya Noon unveiled and presented a painting of the first Co-operative MP, Alfred Waterson, that she had facilitated which is now displayed on the Parliamentary Estate.

I've been to visit colleagues volunteering in the community and between Vice President Jane Avery and I, we attended all Retired Employee Associations' Christmas events. We are mindful of their contribution to creating the wonderful co-operative business of which we are the custodians. I was honoured to attend the Leading Brilliance Awards which recognises exceptional achievements by colleagues.

We have improved our Members' meetings with a great array of like-minded speakers, local photos and videos, and we hope you are noticing a difference.

Thank you for your continued loyalty – I am very proud to be your President.

Elaine Dean JP
Society President

An appreciation – Martyn Cheatle

Martyn Cheatle formally retires in May 2019 after 17½ years' service with the Society. Martyn joined the then Midlands Co-operative Society in 2001 as Chief Financial Officer, becoming Deputy Chief Executive before being appointed as our Chief Executive in 2010. The Board would like to pay tribute to Martyn's contribution to the growth and success of the Society which has seen Central England Co-operative become one of the major independent retail co-operatives in the UK.

During his tenure as our Chief Executive, Martyn has worked with the Board to steer the Society through a number of complex and challenging strategic issues in order to position the business for the future. This approach has enabled the Society to grow and significantly invest in our food stores and funeral homes, resulting in a 60% increase in the size of the Society's trading estate. There have been a number of mergers too, including Wooldale and Shepley in West Yorkshire and of course Anglia Society which lead to the formation of Central England Co-operative in 2013. Martyn also served on the Co-op Group board and was instrumental in the formation of the FRTS buying group and providing a strong voice for independent societies.

Martyn's passion about our co-operative difference has been demonstrated by the Society achieving five stars for corporate responsibility from Business in the Community, receiving accreditation for our environmental initiatives and twice winning 'Leading Co-operative of the Year'.

We wish Martyn a long, healthy and happy retirement.

Obituary – Wilf Lee

Wilf Lee, former Director and President of Midlands Co-operative Society, sadly passed away in August 2018.

Wilf was a long-standing member of the Market Harborough Area Board and a Director of what was then the 'Central Board' and served as President from April 2003 to April 2006. During his period of office as President, Wilf played an integral role in instigating the Board's annual strategy review process. He also oversaw the expansion of Midlands Society through the transfers of engagements from Desborough Society and Ilkeston Society.

Wilf always displayed a forward-looking outlook to ensure the Society continued to adapt in order to respond to ever-changing market conditions, which was underpinned by his passionate and lifelong belief in co-operative values and principles. Wilf retired as an Area Board member in 2008 but continued to maintain a strong interest in the Society's affairs, including his regular attendance and active participation at our Members' Meetings – particularly in Market Harborough – and as a member of his local art group which is supported by the Society.

Wilf is survived by his wife Maria, a current Director of the Society and also a former President, and their two daughters, Hannorah and Amelia.

Obituary – John Fitzgerald

John Fitzgerald, former Chief Executive of the Society, sadly passed away in May 2018. John had a successful 25 year career within the co-operative movement, being appointed Retail Controller at the former Oxford & Swindon Society in 1984 and joining the then Midlands Society as General Manager – Retail in 1998. He became the Society's Chief General Manager in 2001 prior to his appointment as Chief Executive from 2005 to 2010.

During his tenure as Chief Executive, John played a pivotal role in growing the Society, both in terms of new openings and through the successful transfers of engagements from four neighbouring societies: Desborough, Ilkeston, Raunds and Moulton.

Chief Executive's Review

Another strong performance ...

The Society delivered another strong performance in 2018, with good progress being achieved across the business from both a financial and non-financial perspective. We are proud that our performance has again demonstrated that a member-owned, values driven organisation can achieve sustainable business success whilst enabling our members, colleagues and local communities to work together for mutual benefit and the common good.

Trading conditions remained highly competitive in 2018 in all of the markets in which the Society operates. Consumer confidence steadily declined during the year, largely driven by concerns and uncertainty over Brexit and the related implications for the UK economy.

Against this intensely competitive environment and uncertain economic backdrop, our total gross sales (excluding VAT) rose by 2.5% to £869.9m (2017/18: £848.3m). Increased sales in our convenience stores, including growth from new openings, were partially offset by continued pressure in our larger food stores and supermarkets. We traded particularly well during the harsh winter and long hot summer together with strong sales during key seasonal events such as Valentine's Day, Mother's Day, Easter and Christmas.

Our funeral business again experienced increased competition in both the pre-need and at-need markets, but delivered a solid performance with sales broadly in line with the prior year. The Society welcomes and fully supports the two major reviews launched in 2018 into the operation of the UK funeral market. The Competition and Markets Authority's (CMA) review may lead to a full market investigation in due course which is in addition to the HM Treasury consultation on the funeral pre-paid plan sector.

The Society's travel shops performed well during the year, with continued growth in niche holiday sectors including long haul, cruise, tailor-made itineraries and escorted tours. Increased sales also reflected the transfer of six new travel shops previously operated by Thomas Cook which joined our business in October.

Trading profit of £18.1m was £0.8m up (+4.4%) on the prior year (2017/18: £17.3m) and ahead of our annual budget target. This represents a very encouraging performance in the current climate and demonstrates the Society's continued focus to provide great service to our members and customers whilst maintaining careful control of our costs.

Operating profit of £11.9m was £4.7m lower than the prior year (2017/18: £16.6m) and was largely driven by a one-off adjustment of £4.3m relating to the estimated cost of equalising past service benefits for men and women in respect of Guaranteed Minimum Pensions (GMPs). This exceptional cost has arisen following a landmark ruling by the High Court in October 2018 which resulted in clarification that GMPs earned after May 1990 must be equalised between men and women. This significant non-cash adjustment is the primary reason for the Society reporting a net retained loss for the year of £4.0m (2017/18: £1.6m retained profit).

Strong cash generation from our trading activities once again supported significant capital investment of £28.7m (2017/18: £36.6m). Over the last five years our capital investment programme has totalled over £180m, underlining the Society's 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 £20.6m at the year-end (2017/18: £16.7m) which is well within our long-term funding arrangement.

The Society's net assets of £216.1m show an increase of £59.6m compared to the position at January 2018 (£156.5m), with the movement including a £69.8m decrease in the net pension liability in accordance with the accounting requirements of FRS 102. This favourable movement includes the impact of an increase in corporate bond yields, fall in inflation expectations and updated mortality assumptions together with 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.

Building for the future

Our ambitious growth strategy saw the launch of 10 new food stores and six new funeral openings during the year, together with significant refurbishment activity across the business.

In addition, good progress has been made on repositioning the Society's investment property estate as part of our agreed strategy to drive value from our property assets to support the overall financial strength of the business. This included the completion of new commercial lettings and planned disposals alongside securing planning consent for a number of new development schemes.

Our focus on building a sustainable business for the future has seen ongoing progress as part of three major transformation programmes across the Society. This important work continues to be supported by the positive engagement of our colleagues whose valuable input has enabled the delivery of sustainable cost reduction and simplified ways of working.

The Society's exciting link-up with Birmingham City University to support the growing influence of digital technology has continued to gather momentum since its launch in July. The partnership will grow and nurture talent in the local area and extend digital skills across all communities in the region.

Our members and customers

Delivering great customer service, quality and value across our trading operations remains a primary focus in order to retain and attract customers – and future members too. We have continued to listen to our members and customers, coupled with relevant market and industry insight, to introduce improvements within the business.

In our food stores we have improved the format of our shelf edge labels to make promotions easier to understand and everyday prices clearer. In March 2018, we took a stand on the issue of energy drink consumption and implemented a policy in all our food stores to restrict the sale of these products to over 16s only. Activity to support the launch of new stores has been redesigned to encourage and reward regular shopping visits in the weeks after opening and we have also trialled new touch screen technology to increase membership engagement and attract younger members.

We re-launched our funeral website in 2018 to give a fresh, updated look and improve user experience. We have also introduced a new 'funeral pod' trial format booking office at our Castle Donington food store, providing a fully accessible, comforting and welcome environment for families. Our focus on customer service has seen new initiatives to gather client reviews and feedback, using online sources and other measures to drive continuous improvement in our business.

Our travel business has implemented seven-day opening at selected locations to provide greater opportunities for our members and customers to discuss their holiday ideas and travel plans. We have also introduced a mobile text prompt service to communicate and provide information to our customers throughout the holiday booking process.

Our people

Our progress and positive performance in 2018 are a reflection of the dedication and capability of our colleagues, and again demonstrates a real team effort across all levels within the Society.

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 an overall improvement in the level of employee engagement.

As part of our ongoing commitment to make the Society a great place to work, further progress was made in 2018 on the strategic areas of Mental Health, Diversity and Inclusion and Fair Reward. These areas have been complemented with a focus on managing and developing talent across the business.

During the year we continued to talk to our colleagues about diversity and inclusion and held two Facebook Live events to better understand the areas which are of most significance to our colleagues. We also participated at Birmingham Pride for the first time and will support similar events in the future.

Together we can make a difference

We continue to champion the importance of positive mental health and during Mental Health Awareness Week in May, we held a series of workshops across the Society including mental health first aid courses and shorter seminars on topics such as mindfulness and resilience. The Society now has over 100 dedicated mental health and wellbeing champions who have the skills to signpost people in need to help get support. Work will continue in this area in 2019, with line managers across the business participating in a one-day course to give practical guidance on how to support and manage mental health issues in the workplace.

During the year we have carried out successful trials of an 'extra time' checkout at our Ripley and Oakham Food Stores. The initiative was designed to help customers who are vulnerable or those living with dementia or mental health problems and who may need a little extra time at the till.

We also take our environmental responsibilities seriously and have recorded a further reduction in our energy usage. The Society's carbon footprint has decreased by 48% from our baseline position in 2010, reflecting the positive impact of continued investment in efficiency-led performance specifications for new stores and refurbishments. In addition, our efforts were recognised by the Carbon Trust in October 2018 by achieving the 'Best in Water Management' award for improving the Society's sustainability credentials and ongoing initiatives to reduce our water footprint.

Our pioneering food redistribution programme with FareShare East Midlands is now up and running in over 130 of the Society's Food Stores – with more to follow in 2019. This ambitious project involves the collection of best before food items from the Society's stores, including produce and bakery products, for onward redistribution by FareShare East Midlands to over 200 local charities. This important initiative aims to cut food waste in food stores and provide over one million meals per year to community groups, breakfast clubs, holiday hunger projects, rehab centres and elderly day centres. Our partnership with FareShare is in addition to the Society's extensive food bank programme which now has collection points in over 90% of our food stores.

In August, we were delighted to celebrate our 12-month anniversary with our corporate charity partner, Dementia UK. During this time our colleagues, customers and members have helped to raise over £900,000 to fund the creation of 10 specialist Admiral Nurses, vital training and the ongoing staffing of the free Dementia Helpline.

Brexit

The Society is mindful of the risks arising from the ongoing Brexit negotiations – the outcome of which remain unresolved at the time of writing this report.

The principal risks to the Society relate to the security of food supply in the short term and the availability of labour in the medium term. The Society is working with FRTS (the Co-op Group's national buying group of which the Society is a member) to ensure that all possible mitigations are in place in respect of the Society's food supply arrangements.

Outlook

Our encouraging performance in 2018 has again demonstrated the Society's strength as a modern, forward-looking co-operative business to compete in an intensely competitive trading environment. However, our resilience continues to be tested by tough trading conditions which we expect to remain challenging and highly competitive for the foreseeable future.

We are also mindful of the potential for economic disruption over the medium term as a result of the growing risk of a disorderly Brexit and the uncertain impact of such a scenario on consumer confidence and household spending.

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 to our members, customers and local communities.

Thank you to our colleagues

As I approach my retirement from the Society after 17½ incredibly rewarding years of which nine have been as Chief Executive, I would like to say a special thank you to our wonderful colleagues, past and present, who have contributed to the Society's growth and success. The Society's significant progress and achievements could not have been realised without the dedication, commitment and enthusiasm of our colleagues and it has been a privilege to have worked with such fantastic people. I thank every one of you and wish the Society continued success for the future.

Martyn Cheatle
Chief Executive

Business Performance

Food

£728.0 million Gross Sales (excluding VAT)

(2017/18: £710.4m)

10 new Food Stores

6,734 Colleagues

A strong sales performance in our Food business, with profit in line with target

Retail food remains the Society's core business with 244 trading outlets ranging from small convenience stores and petrol forecourts to large format supermarkets. We served an average of 1.6 million customers per week ranging from large weekly shops to local top-up shopping, providing great customer service coupled with high store standards and product availability.

Sales in the first half of the year were boosted by maximising the opportunity of events such as the Royal Wedding, World Cup and extreme weather peaks including the 'Beast from the East' and prolonged hot summer. In addition, the key seasonal events such as Valentine's Day, Mother's Day, Easter, Father's Day and Christmas all generated year-on-year growth.

Lower operating costs underpinned by our continued transformation change programme in stores, is helping us to provide an efficient business platform to enable the Society to continue to compete in a challenging market

Market

The food sector remains under pressure with retailers trying to balance competitive pricing with cost inflation and ever increasing competition from new stores and online channels. Against that challenging backdrop, our like-for-like food volume grew marginally by 0.1% reflecting positive sales during the spells of extreme weather and seasonal events.

Our convenience stores showed strong growth with volume up 3.4%. Intense competition continued to impact our supermarket estate with newly competed supermarkets' volume down 10.7% and volume in our other supermarkets 3.4% lower.

Consumer confidence continued to decline during 2018 reflecting concerns over the ongoing Brexit negotiations and the subsequent unknown financial impacts. In addition, inflation remained above the Government's 2% target throughout the year maintaining the pressure on household budgets. This included a spike in food price inflation during the summer, with the impact of the winter cold spell and summer heatwave pushing up wholesale prices of staples such as wheat and fresh produce.

Brexit could pose a number of risks for 2019 with the potential cost price increases, personnel availability constraints and possible disruption to the inbound supply chain of goods from the EU. Federal Retail and Trading Services (FRTS), the Co-operative Group's buying group of which the Society is a member, is working collaboratively with the British Retail Consortium to understand the risks and devise mitigation plans where possible.

During the year, we have seen consolidation in the sector with the major retailers seeking to maximise buying terms in order to keep the cost price of goods as low as possible in response to the continued growth of the discounters. Competition remains tough with new store openings dominated by Lidl and Aldi, in addition to Morrisons, M&S, Jaks and other co-operatives opening in proximity to our stores.

Investment in the right place

Our investment in stores continues to drive our strategy of focusing on convenient shopping locations. The consumer trend of using local convenience stores for top-up shopping and trading in strong community locations continues to underpin our success. In addition, our expansion activity is a key driver of future growth and was reflected in the opening of 10 new food stores during the year (nine convenience stores and one local supermarket).

Investment in the existing estate included 35 store refits, offering an enhanced proposition to our members and customers together with improvements in back office facilities.

Five loss-making stores were closed during the year. 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 possible. Where such an exit is not possible, the best value option must be considered in the best interests of the Society. Of the five closures in the year, three units have been underlet for alternative use generating income for the Society, one has been sold and one is on the market.

In the stores

A key driver of our strong performance in 2018 was the sales benefit driven by the extreme weather peaks during the harsh winter and hot summer. Throughout both spells, our hardworking colleagues and food distribution teams provided great product availability and service in response to the significant increase in demand.

The rollout of sales based ordering continued across the supermarket estate during the year and improved the availability of products for customers and assisted the achievement of a year-on-year improvement in reduced to clear and wastage costs of £1.4 million.

Our retail transformation programme delivered 15 continuous improvement projects in 2018 year, delivering sustainable cost reduction and simpler and consistent ways of working.

Local and ethical

Fairtrade products continued to grow with increased sales of 4.3%.

Food waste and managing our environmental impact remains a key area of focus and saw the business recycle over 4,400 tonnes of paper, cardboard and plastics. None of our food waste is sent to landfill – if it is not recyclable, our food waste is either sent to anaerobic digestion to produce energy and compost, or to energy recovery facilities. Reductions in energy consumption continue to be realised with investment in efficient refrigeration units for new and refitted stores and LED lighting. These initiatives partly offset the impact of higher unit energy prices experienced in 2018.

We replaced our plastic carrier bags with a new 100% recyclable 'bag for life' and have also introduced new compostable carrier bags at some locations where they are accepted by the local authority in the household food waste collections.

During the Christmas period, over 75,000 food items were donated by members, customers and colleagues for local food banks, helping to create 30,000 meals for people in need. This represented a significant increase on the 60,000 items donated in previous year's campaign.

Customers and colleagues

We continue to innovate and develop new methods of communicating with our customers. In the run-up to the Christmas period, we were pleased with the success of our 'Because of You' campaign where we delighted customers with a free gift and entry into a competition to win a holiday.

As well as creating excitement in stores, we were able to increase the number of customers with whom we have an online relationship for future communication and engagement. This initiative will support our future planning, with a focus on digital retention and development of our customer journeys. Our campaigns will increasingly focus on providing customers with meaningful, relevant and personalised communications. We will also highlight our co-operative difference, the benefits of membership and promote regular trading with Society. Enhancement of our online channels has already taken place with Google analytics and website improvements to support our long-term customer strategy.

Our latest customer satisfaction survey, which sampled approximately 30 customers from every store, revealed that our net satisfaction score held strong at 95%. The results indicated that some customers have moved from being 'very satisfied' to 'quite satisfied'. This shift partly reflects the growth of the discounters who have continued to strengthen their offer alongside the impact of the different channels available to customers to meet their ever growing expectations.

Our colleagues play an essential role in delivering the highest levels of customer service to drive long-term customer and member loyalty. Colleague engagement remains strong with our annual 'Bee Heard' survey reporting a one point improvement in the retail colleague engagement score relative to the prior year.

Learning and development activities have played an essential part in enabling the ongoing delivery of our Retail Transformation Programme. During the year 73 courses and 3 online modules have enabled the successful implementation of several transformation projects. We also designed and delivered a 'Leading for Our Future' programme to support store leaders in the implementation of the various transformation initiatives with their respective teams.

We have also launched Talent Principles to promote and encourage talent moves within the business. All appointments to store managers, operations managers and group manager vacancies were filled from talent mapping colleagues or internal applications, in addition to numerous secondments and recruitment of colleagues from our food stores into roles at the Society's Business Support Centre in Lichfield.

Fit for the future

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

We remain focussed on our strategy to provide great service and availability, operating from convenient locations, whilst optimising the benefits of our retail transformation programme to ensure we have greater control over our destiny in a market where both costs and retail prices will be under pressure. Centrally we have reorganised our Business Support Centre operations in order to adapt to the rapidly changing environment and our business priorities.

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

£50.6m Gross Sales (excluding VAT)
(2017/18: £48.8 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 32.1 million cases, 4.7% more than the prior year, with the successful integration of an additional 46,000 ambient cases per week to supply our stores in the East Anglia region. These stores were previously supplied from the Co-operative Group's distribution network.

In addition, our Distribution Centres have played an integral role to facilitate the Society's food redistribution initiative with FareShare East Midlands. The collection of unsold 'best before' dated products from stores, together with any warehouse fresh food surplus, passes through the Distribution Centres prior to delivery to FareShare's redistribution hub at Narborough in Leicestershire for onward redeployment to supply community groups, breakfast clubs, holiday hunger projects and other local good causes. We expect to complete the full rollout of the food redistribution programme across our retail food store estate by the end of May 2019.

Funeral

£41.8 million Gross Sales (excluding VAT)

(2017/18: £42.2 million)

Arrangements: 14,858 (2017/18: 15,181)

6 New Openings

873 colleagues

The Funeral sector continues to see significant changes in the market including increased competition, changing customer expectations plus market regulators launching two separate reviews. The Competition and Markets Authority's (CMA) review of the funeral market may lead to a full market investigation in due course which is in addition to the HM Treasury consultation on the funeral pre-paid plan sector. We fully support and welcome both of these reviews. The Society is committed to providing the highest standard of care and services to families, while offering transparency and choice for funerals that cater for the wide spectrum of communities we serve.

Against this backdrop, the Society delivered a credible performance during the year in a very tough market with turnover across our combined funeral business operations broadly in line with the prior year. Performance reflected a strong start to the year with a significantly higher death rate, which contrasted with a decline in the second half of 2018. Overall registered deaths in England and Wales were slightly below the previous year, resulting in lower funeral arrangements. The Society's arrangement numbers broadly mirrored this trend with a 2.1% year-on-year decline. There was growth in the Society's new unattended funeral service, which utilises the services of our crematorium at Bretby in Staffordshire.

Funeral plan sales have been challenging with a decrease in volume compared to the prior year. This trend is in line with the sales data from the Funeral Planning Authority (FPA) which represents the major providers of funeral plans in the UK. Activity to secure pre-need sales included our first ever TV advertisement Sky TV in the Peterborough and Stafford areas. Other marketing activity has included door-drop leaflet distribution, online advertising on regional media websites and pay-per-click campaigns. We also updated the look and feel of our website to improve the visibility and supporting details about our funeral plans.

Ongoing investment in the business saw six new openings during the year, including four new format booking offices as part of our strategy to extend our services to more families and increase our market presence. The completion of 17 refurbishments at existing locations reflects our commitment to maintain high standards of care and ensure that the Society is well placed to meet the requirements of any future regulation which may come to the funeral profession. The facilities at Terry Smith, our coffin manufacturing business, have also been modernised to improve the working environment for our colleagues.

Major investment at Bretby crematorium has modernised the facilities for families and visitors including improvements to the reception and waiting areas. We also introduced 16 replacement vehicles to our fleet during the year (five hearses and 11 limousines) to maintain the provision of a high class service to our client families.

The focus on building a sustainable business for the future has seen ongoing work as part of our Funeral Transformation Programme. The programme aims to ensure the Society provides the best levels of service and support to families at the most difficult of times, making best use of skills, resources and technology.

Our Funeral business continues to help and promote Macmillan Cancer Support. For the fourth year running, our funeral homes opened their doors to the public to host the annual fundraising 'coffee mornings'. In addition to supporting bereavement events in local communities, we also participated in 'Dying Matters' week in May to help raise awareness and the importance of talking more freely about end of life issues, death and bereavement. 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.

Travel

£40.2 million Gross Sales (excluding VAT)

(2017/18: £37.1 million)

6 New Travel Shops

92 Colleagues

Travel sales in 2018 again included encouraging growth in niche holiday sectors, with escorted tours, cruise and worldwide tailor-made itineraries all performing well. This key area is supported by good relationships with our wide range of tour operator partners who provide access to products and services to meet customers' needs. Our approach is designed to ensure the Society's Travel business maintains its position as a specialist holiday provider offering wide choice, value and a high quality service for our members and customers.

As part of our strategy to strengthen the business in a planned and affordable way, in October we were pleased to welcome the transfer of six new travel shops which were previously operated by Thomas Cook. The shops at Atherstone, Castle Donington, Glenfield, Ibstock, Oakham and Stirchley are all trading well, with positive feedback from customers and colleagues. We also relocated and refurbished our St Neots branch in 2018, enhancing the independent travel service to our members and customers in that area.

In October, we were delighted to pick up a top industry award for the 'Best High Street Agent in Central England & East Anglia' as voted for by leading touring and adventure tour operators.

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

Looking forward, we continue to review our travel shop opening hours – including trialling Sunday trading – to provide greater opportunities for customers to discuss their holiday ideas and travel plans.

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 members and customers.

Investment Property

Rental Income £8.7 million

(2017/18: £9.0 million)

Investment Property Valuation £133.1 million

(2017/18: £126.7 million)

Adding value through our property portfolio

In 2018 the Society continued its efforts to deliver on the three core pillars of its property strategy:

- Support the strategic objectives of the trading business
- Optimise performance of the property portfolio
- Create value through effective asset management

As part of supporting the strategic objectives of the Society's trading businesses, the Property Team successfully completed the disposal of a package of three stores to Poundstretcher, including the transfer of 51 colleagues, together with two vacant properties. The properties were let to Poundstretcher on new leases, generating significant annual rent and creating valuable investment properties for the Society.

The Society appointed Colliers International as its commercial estate management partners, to enable the internal Property Team to fully focus on creating value through effective asset management. A total of 17 new commercial lettings were completed during the year, generating total annual rental income of over £530,000 (2017/18: £460,000). Total rental income for the investment portfolio of £8.7m was broadly in line with the prior year (2017/18: £9.0m) after allowing for changes in the estate.

As part of the optimisation and value creation pillars of the strategy, the Society has continued to reposition the investment portfolio by disposing of assets with no strategic purpose and focussing on holding fewer assets that generate higher rental incomes. The Property Team completed the disposal of 12 properties with gross proceeds of £4.5m (2017/18: £5.3m), which generated a profit on disposal of £1.8m (2017/18: £0.5m). These disposal proceeds will be redeployed to support the Society's capital investment programme.

As part of its asset management activity, the Property Team has continued to look for opportunities to create value for the Society, as well as providing benefits for local communities. During the year planning consent has been secured for eight new development schemes which would deliver over 20,000 sqft of new development within the investment portfolio, together with undertaking feasibility and preparatory works for a number of future proposed developments. The Society has also completed a number of new combined investment and trading developments during the year, including a new convenience store, funeral home and three residential units at Kings Norton, Birmingham and a new supermarket together with three investment units at Marston Moretaine, Bedfordshire.

Looking ahead, the Property Team will continue to focus on the asset management of the Society's portfolio and maximising the value through a variety of different development opportunities.

Corporate Responsibility

Corporate Responsibility is important to our Society

Corporate Responsibility sits at the heart of everything we do as an ethical and forward-thinking co-operative business.

The Society does this by ensuring we act responsibly and do what is right for our members, customers, colleagues and suppliers, while making a positive contribution to local communities and ensuring we play a proactive role in protecting the environment.

The themes of Community, Environment, Marketplace and Workplace have consistently formed the core elements of our CR strategy.

Making a difference in our communities

We are pleased to report that our pioneering food redistribution programme with FareShare East Midlands is now up and running in over 130 of the Society's Food Stores – with more to follow in 2019.

This ambitious project involves the collection of best before food items from the Society's stores, including produce and bakery products, for onward redistribution by FareShare East Midlands to over 200 local charities.

This important initiative aims to cut food waste in food stores by around 40% and provide over one million meals per year to community groups, breakfast clubs, holiday hunger projects, rehab centres and elderly day centres. The long-term goal is to see 100% of 'best before' food that has not been sold being redistributed and put to good use by local charities and community groups. This ground-breaking scheme stands out because it is believed to be the first of its kind to utilise the efficiency and scale of an existing distribution network to collect food items for onward redistribution and delivery to local charities.

In October, the Society was proud to link up with Staffordshire Fire & Rescue Service to commence a scheme with the Prince's Trust in supporting a group of young people to complete the 12-week Prince's Trust Team Programme. Further details of this initiative are covered later in this report in the 'Our Colleagues' section.

In the run-up to Christmas, the Society linked up with charity Action Homeless to help homeless people during the festive season by handing out packs made up of hats, scarves and gloves. The items were bought from Newlife the Charity for Disabled Children, which was also supported through the donation. The winter survival kits were handed out in Birmingham, Burton, Derby, Leicester and Swadlincote.

Support a great cause

Dementia UK has been the Society's colleague elected corporate charity for nearly two years and during that time the partnership has generated over £900,000 in the form of donations, fundraising activities and funds from the 5p carrier bag levy.

The money raised has been used to help pay for the creation of 10 specialist Admiral Nurses, in addition to funding vital training and the ongoing staffing of Dementia UK's free helpline.

Helping to protect the environment

We take our environmental responsibilities seriously and have recorded a further reduction in our energy usage. The Society's carbon footprint has reduced by 48% since 2010.

This reflects the positive impact of continued investment in new technology and energy-led performance specifications for our new stores and refurbishments.

In addition, our efforts were recognised by the Carbon Trust in October 2018 by achieving the 'Best in Water Management' award for improving our sustainability credentials and ongoing initiatives to reduce the Society's water footprint.

The importance of mental health and wellbeing

The mental health of our colleagues, both at work and at home, is an important priority for the Society.

After signing the 'Time to Change' pledge in 2017 to tackle the stigma around mental health, the Society now has around 100 dedicated mental health and wellbeing champions charged with signposting people in need to help get support.

Hundreds of colleagues have attended mental health first aid courses and a new programme which will see all line managers undertake mental health support training is currently being rolled out. We have also supported and encouraged our colleagues to talk about mental health issues by taking part in events such as 'Time to Talk' day.

Elsewhere, the Society has carried out successful trials of an 'extra time' checkout at our Ripley and Oakham Food Stores. The initiative was designed to help customers who are vulnerable or those living with dementia or mental health problems and may need a little extra time at the till. The project achieved widespread positive coverage in the media and attracted strong feedback from customers, members and colleagues. The results of the two pilots are now being analysed to determine how the findings can be applied across the business.

Reflecting on the past and looking to the future

Our current Corporate Responsibility strategy is being reviewed and redeveloped for the future with the aim of building on the Society's achievements in this important area.

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	2018/19	2017/18
Member economic participation	Trade with members	<ul style="list-style-type: none"> Member sales in our food stores (£m) Member sales as a proportion of total food store sales 	£142.5m 17.8%	£148.9m 19.1%
Member democratic participation	Members taking part in the Society's democracy	<ul style="list-style-type: none"> Number of Members voting in Society elections Member attendance at: <ul style="list-style-type: none"> Annual Meetings Interim Meetings 	3,982 1,192 1,074	3,384 1,427 1,142
Colleague gender profile	The proportion of male/female employees	<ul style="list-style-type: none"> Male Female 	33% 67%	34% 66%
Customer satisfaction	The percentage of customers who are satisfied with a key aspect of the business	Food store customers: <ul style="list-style-type: none"> Very satisfied Quite satisfied Net Promoter Score Funeral customers: <ul style="list-style-type: none"> Customer satisfaction index Net Promoter Score 	64.0% 30.8% +48 85.7 +89.4	70.7% 26.1% +55 96.1 +92.7
Considerations of ethical issues in procurement decisions	<ul style="list-style-type: none"> We purchase the majority of our food products through Federal Retail and Trading Services Limited (FRTS) with the buying arrangements subject to high ethical standards and respect for human rights We also procure locally sourced products to complement our overall range 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 & Community Councils 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 			
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	£1.190m	£1.223m
Net carbon dioxide (CO ₂) emissions arising from operations	Net tonnes of CO ₂ based on the Society's carbon footprint data	CO ₂ tonnes per £m Society Turnover	57.26	69.13
Proportion of waste recycled or reused	Waste collected and recycled from our Food stores	Tonnes of waste recycled or reused per £m Society Turnover	10.27	10.18

Membership & Community

Membership and Community remains at the core of our Society and we remain committed to supporting our members across our trading region with groups, classes and educational visits. Our activities aim to consolidate trading loyalty and provide social interaction, create new friendships and combat loneliness.

Our Membership and Community strategy is underpinned by five strategic themes:

- Education, culture and recreation
- Encouraging member participation
- Health and wellbeing
- Food poverty
- Engaging young people

These themes define and direct membership and community activities across the Society which supports our point of difference as a community orientated business. Our strategy continues to focus on growing our member and shopper engagement whilst supporting local communities.

Celebrating our co-operative and democratic heritage

In January 2019, representatives from the Society including the President, Directors and members were proud to attend a viewing of a portrait of Alfred Waterson at Portcullis House in Westminster as part of an event to celebrate 'Electoral Firsts in the 1918 Election'. Derby-born Alfred was the first Co-operative Party MP when he was elected in 1918 for the Kettering and Mid-Northants Division. He went on to campaign for better rights for the unemployed and members of the armed forces. The commissioning of the portrait came about after Central England's Derby History Group used the Society's local history archive to research Alfred's life story.

On a similar theme, the Society was delighted to support a unique project in Leicestershire to mark the 100-year anniversary since some women received the vote in parliamentary elections. Members of a local social enterprise group, The Hero Project, joined forces with colleagues at our supermarket in Coalville to house the 'Fifty Fantastic Females' exhibition at the Society's food store. The 50 life-size cut outs were lovingly created by local people, with each figure having an individual theme to celebrate inspirational women, both past and present. The project was supported by funding from the Society's Southern Membership & Community Council and followed the success of a similar exhibition earlier in 2018 which involved a display to remember Coalville's first 50 First World War soldiers.

Fairtrade and Co-op Fortnight

The Society continues to recognise the importance of supporting Fairtrade through a range of activities including Fairtrade Fortnight. Our team of Member and Community Relations Officers (MCROs) and Membership & Community (MCC) Ambassadors delivered Fairtrade assemblies in schools across central England which was complemented by the promotion of Fairtrade products in the Society's food stores.

At the end of June and early July, the Society participated in Co-operatives Fortnight under the banner of celebrating the difference co-operatives make to people's lives every single day. The Society held a number of co-op masterclasses which are aimed at educating young people about the values and principles of co-operation and how to set up and manage a co-operative business.

Getting healthy

As a food retailer, the Society understands the importance of physical wellbeing and healthy eating, especially amongst young people. Our 'Healthy Choices' workshops, led by our MCROs and MCCs, remain one of our most popular community led activities.

We recognise the importance of being active and continue to encourage our members and local communities to take part in physical activities.

The Society was pleased to support a free mini triathlon event for schoolchildren in Staffordshire which saw over 550 youngsters of all abilities, including those with physical disabilities or special educational needs, take part in swimming, cycling and running activities. We also supported Community Games events in Northfield in Birmingham and Lichfield, with 3,000 young people taking part.

Education for all

Throughout the year the Society has also continued to support a wide range of classes, courses and member groups that engage over 2,000 members of all ages in weekly and monthly educational activities. Our Southern MCC has developed an active relationship with Leicestershire Eco Schools by delivering Healthy Choices workshops and our Eastern MCC once again supported at the Kids' Country Food & Farming event in Peterborough.

Enriching our communities

During 2018 we awarded £173,000 in Community Dividend grants to over 140 local groups and good causes. The diverse nature of the projects which the Community Dividend Fund supports can be seen in the difference between two of the recipients: Broxtowe Womens Project, in Nottingham, and Wellbeing Day Centre, in Lowestoft.

Broxtowe Women's Project, which is a domestic abuse charity, received funds to pay for new laptops. The new devices allow the organisation to work in the community when helping women and children impacted by domestic abuse, enabling the charity's workers to spend more time with families. The Wellbeing Day Centre, in Lowestoft, used their grant to help support a vital project to make a sensory garden accessible in all weathers to residents suffering with dementia.

Elsewhere, the Society's Southern MCC has established a relationship with a children's nursery in Melton Mowbray as part of an initiative to support and promote the engagement of young people with the elderly residents at a nearby care home. The initiative has resulted in significant benefits for both the children and the care home residents in 'joining the generations'. The Society is currently exploring ways in which this innovative scheme can be extended in other areas.

Because of you...

Our 2018 festive marketing campaign of 'Because of You' highlighted the Society's positive work and impact in local communities as a result of members and customers shopping with the Society. The campaign also incorporated a 'thank you' message to convey the link that the Society's commercial success enables the ongoing investment in grants to good causes, community activities and our support for local food banks and food redistribution programme.

Our Colleagues

Our continued investment in communication, leadership and development has enabled the Society to support our great colleagues, who are engaged and committed to delivering brilliant service for our members and customers.

As part of our ongoing commitment to make our Society a great place to work, significant progress was again made in 2018 on the strategic areas of Mental Health, and Diversity and Inclusion. This has been further strengthened through a focus on managing talent across the Society.

Mental health

The mental health agenda continued to be a key focus throughout the year. A new line manager training course, 'Understanding Mental Health for Line Managers' was designed to educate line managers on mental health issues and to give guidance on how to support a colleague who is suffering with mental health issues. Eighty-five line managers completed the course during the year and it will be rolled out further in 2019. In total, 250 colleagues attended training in 2018 relating to mental health and wellbeing.

A conference was held for our Mental Health champions in November which was a great opportunity for champions to meet other champions and share ideas on how to continue to raise awareness in their place of work.

In support of 'World Mental Health Day' on 10 October, colleagues participated in the 'Big Brew', taking time out of their day to talk to other colleagues about their mental wellbeing. The day was a great success, with a number of colleagues sharing their support on social media.

We continue to actively publicise our Colleague Assistance Programme and encourage participation of the service.

Diversity and inclusion

We held two Facebook Live events to understand which areas of diversity and inclusion are of most significance to our colleagues which subsequently led to the introduction of two working parties; Gender Equality and LGBT. The working parties consist of colleagues who have expressed an interest in getting involved and are focused on identifying and implementing areas of improvement. Examples of where progress has been made include: the Society's participation at Birmingham Pride for the first time, the introduction of gender balanced interview panels at our Business Support Centre and the introduction of a Transgender Policy.

A new partnership was formed with Prince's Trust, supporting one of their 'Team Programmes'. The programme, operated in conjunction with Staffordshire Fire & Rescue Service, gave eight young unemployed people the opportunity to learn new skills with the ultimate aim of improving their confidence and potential to move into employment, education or training. All eight of the participants have since moved into employment, education or training with the two work experience participants being offered part time Customer Service Assistant positions in our stores. A review is underway to extend the partnership in 2019.

The Society released its second set of gender pay figures to report the gap in pay differences between males and females. Our figures were released six months ahead of the reporting deadline. There was a 1.10% reduction (an improvement) in our mean average pay gap to 17.08% and a 0.12% reduction (also an improvement) in our median pay gap to 7.41%. Our commitment to taking action to close the gap continues.

Colleague development

The Society continues to invest in learning and development through a blended approach of learning interventions, to support our colleagues in having the right skills, knowledge and behaviours to succeed in their roles and progress their careers.

Learning and development activities have played an essential part in enabling the successful delivery of the Society's Retail Transformation programme. Seventy-three courses and three online modules have enabled the successful delivery of several transformation projects. Recognising the importance of the role of our leaders in enabling change and transformation, we designed and delivered a 'Leading For Our Future' programme to over 300 leaders.

Colleague advocacy

We continue to engage our colleagues in a way that they become true advocates of our Society, shining a light on our great place to work and our co-operative difference. Our internal magazines and videos enable colleagues to share their stories to encourage other colleagues to continue to make a difference, take the lead with their development, make the most of our colleague benefits, and have their say. There are also updates and information on our strategic focus areas such as Diversity and Inclusion and Mental Health.

During 2018, our digital communication capability has developed to include the creation of animations to support communication and learning. These have been invaluable in helping colleagues to get to grips with the key transformation process changes.

Our annual colleague recognition awards ceremony was held in October at the Hyatt Regency Hotel in Birmingham. A total of 348 nominations were received from colleagues, producing a shortlist of 54 finalists across nine categories. The ceremony involved an evening of celebration and included the announcement of the winners.

In June, we invited 52 colleagues with a combined service length of almost 1,700 years to a long service event held at Chatsworth House in Derbyshire to recognise long service milestones of 30 and 40 years.

Our colleagues were awarded with a dividend payout of 5% of the Society's annual trading surplus, amounting to over £765,000, in recognition of their contribution in helping drive the Society's continued success. The Society also added £10 to colleagues' membership cards in August and December to recognise the Society's half year and end of year performance.

The Society's colleague engagement remains strong. Our 2018 annual colleague survey resulted in an engagement index score of 77 which was one point higher than 2017. In addition to our annual colleague survey, a short buzz survey has been introduced, giving colleagues another opportunity to have a say at a different time of the year.

Modern Slavery & Human Trafficking Statement

Introduction

This statement sets out the actions and activities that Central England Co-operative ('the Society') has taken during the financial year ended 26 January 2019 and is continuing to take, to ensure that modern slavery or human trafficking is not taking place within the Society or its 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, forced or compulsory labour or human trafficking. 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 in order to safeguard against any form of modern slavery taking place within the Society. We expect the same high standards from our suppliers and contractors.

Our business

This statement covers the activities of Central England Co-operative, a retail business operating solely within the UK. During the financial year ended 26 January 2019 we held relationships with approximately 1,000 suppliers.

Our high risk areas

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

During the period ended 26 January 2019, our reviews have not identified any activities to be at high risk of slavery or human trafficking within the Society's GNFR (goods not for resale) supply chain. Other risks investigated during the period covered the sourcing of materials from North America and India in respect of the Society's funeral business.

It is important to note that 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 Sound Sourcing Code of Conduct is available from <https://www.co-operative.coop/ethics>

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** – This policy is designed to make it easy for our colleagues to make disclosures without fear of reprisal. Colleagues can use the Society's 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 make it clear to our colleagues the actions and behaviours that are 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** – We operate a robust recruitment policy, which includes the checking of eligibility to work in the UK to help safeguard against human trafficking or forced labour. We only use specified, reputable employment agencies to source labour and always verify the practices of any new agency we use before accepting workers from that agency.

Our suppliers

The Society operates a procurement policy and maintains a preferred supplier list. We conduct due diligence on all suppliers with an annual spend in excess of £50,000 before allowing them to become a preferred supplier. This due diligence includes an online search to ensure that a particular organisation has never been convicted of offences relating to modern slavery.

As part of due diligence, the Society's risk assessment process gives 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 process was introduced on 1 March 2016 for all new suppliers with an annual spend in excess of £50,000, and we also undertook this assessment with our top 40 existing suppliers at that time.

Since that time, an annual review is completed in respect of any new supplier that could be deemed at risk or where they are obliged to provide a statement under the Modern Slavery Act. During the 2018/19 financial year no risks were identified within the Society's supply chain.

Our suppliers are expected to comply with the Society's 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 purposes 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 arise.

Training

In July 2016 the Society conducted training for the Senior Leadership Team / Procurement Team / HR Team and Corporate Responsibility Team. The training outlined the signs of modern slavery coupled with the steps and procedures to follow if modern slavery is suspected within our supply chain. A planned training refresher is due to take place in 2019 which will also include a new session for our Board of Directors to set out their responsibilities.

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 the year ended 26 January 2019 no issues were highlighted through the confidential hotline in line with the Society's Whistleblowing Policy.

The Society's Head of Risk and Compliance conducted interviews with HR, Procurement and Product and Category and the Funeral business to evidence the effectiveness of controls.

The Society's Internal Audit function completed independent reviews in 2018 of the Society's coffin factory which specifically included controls around modern slavery and HR regarding right to work with no issues identified.

The Society will continue to monitor key controls in respect Modern Slavery during 2019. We will take appropriate action if we suspect or are advised of any instances of modern slavery or human trafficking within the Society or our supply chain.

Approved by the Board of Directors
21 March 2019

Corporate Governance

Message from the President – Elaine Dean

I am pleased to introduce our Governance report for the year ended 26 January 2019 on behalf of the Board of Directors.

Your Board has made continued progress during 2018 towards its aim of becoming the 'best co-operative board', details of which are set out in this report.

One of the Board's main activities during 2018 was the recruitment of a new Chief Executive to succeed Martyn Cheatle, following notification of Martyn's retirement in May 2019. The appointment of a chief executive is one of the most significant duties for any board of directors and your Board is delighted with the appointment of Debbie Robinson. The Board is looking forward to working with Debbie in continuing the Society's continued development and growth aspirations and making the most of our co-operative values and principles.

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 founding principles which unites co-operative organisations internationally.

In April 2018 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:

- Jane Avery
- John Chillcott
- Tanya Noon
- Sue Rushton

Graeme Watkins was unsuccessful in his re-election to the Board with John Chillcott taking his position. The Board wishes to record its sincere thanks to Graeme for his valued input and contribution to the Society during his tenure.

In 2018, 3,982 (2017: 3,384) Members' participated in the annual Board election which represented an 18% increase on the previous year. The Board is pleased with the increased level of participation although recognises that it does represent a relatively low turn-out when considered in the context of the total number of Society Members who are eligible to vote. Given the importance that democracy has in establishing the top level of the Society's governance framework, the Board continues to actively review ways in which Member democratic participation, in terms of nominations, voting and attendance at Members' Meetings 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. The Board has 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 page 31.

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. The Board has a duty to act in the best interests of the Society as a whole and protect of the assets of the Society on behalf of the members. 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 the 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

As stated earlier in this report, during 2018 the Board engaged in a detailed and thorough selection and recruitment process for a new Chief Executive. The Board's objective was to identify an individual who had the capability and competence to manage an organisation the size and complexity of the Society, deliver the Board's strategy and build on the out-going Chief Executive's, Martyn Cheadle, strong track record whilst also bringing their own ideas and experience.

The Board was delighted to appoint Debbie Robinson to the role of Chief Executive. Debbie demonstrated an impressive track record of performance in the retail sector and a strong cultural fit with our co-operative values and principles.

Board development continued to be an area of importance in 2018, with operational 'deep dives', which focused on a particular area of the Society's business and key topics. Deep dive sessions held during the year covered strategic updates on the Society's Funeral business, Corporate Responsibility, Shared Services and the Society's preparations for the General Data Protection Regulations which came into force in May 2018.

Brexit remained a regular topic of Board consideration during the year and this matter is also referred to in the Chief Executive's report.

Two Board training sessions were provided during 2018. In July, KPMG facilitated a pensions training session to coincide with the triennial valuation of the Society's closed defined benefit pensions scheme. In November 2018, PwC delivered training covering an overview of corporate governance including market trends and changes in the governance landscape, a review of corporate reporting best practice and the Society's assurance framework.

Engagement with key stakeholders continued to be an important area of Board focus during 2018 with the Society hosting visits and presentations from:

- Rebecca Harvey, Executive Editor, Co-operative News
- Simon Parkinson, Chief Executive & Principal, Co-operative College
- Claire McCarthy, General Secretary, The Co-operative Party
- Jim McMahon, Labour & Co-operative MP for Oldham West & Royton and Chair of The Co-operative Party Parliamentary Group

In addition, the President, Society Secretary and Corporate Services Executive hosted several operational site visits during the year with directors from the Co-operative Group with the aim of strengthening awareness and understanding of the Society's operational scale and profile from both a trading and wider co-operative perspective. Visits in 2018 from Rt. Hon. Hazel Blears, Lord Victor Adebowale and Gareth V Thomas proved very successful and the Society's invitation will be extended to other Co-op Group board directors in 2019.

In line with the Board’s rationale statement and effectiveness framework, as set out below, the ‘Board Effectiveness’ survey was conducted during 2018 with oversight from the Board’s Search Committee. Areas highlighted by the survey will be incorporated into the Board’s schedule of work for 2019.

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).

The Society conforms to the majority of the current Code's provisions and principles and where this is not the case, 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>Principle H – The Chair</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>Principle P – The Search Committee</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>

<p>Principle R – The Audit Committee</p> <p><i>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.”</i></p>	<p>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.</p>
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The Board is cognisant that Co-operatives UK’s Governance Expert Reference Panel is currently reviewing the Code following the publication in 2018 of:

- the Financial Reporting Council’s revised UK Corporate Governance Code published in July 2018 (which applies to listed companies and effective from accounting periods beginning on or after 1 January 2019); and
- the Wates Corporate Governance Principles for Large Private Companies published in December 2018

The Board welcomes Co-operatives UK’s review and looks forward to the publication of the new Corporate Governance Code for Co-operatives, which is anticipated in 2019.

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 26 January 2019.

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

Directors	Attendance
Jane Avery	12 (12)
Richard Bickle	12 (12)
John Chillcott ¹	7 (9)
Sean Clothier	12 (12)
Elaine Dean	11 (12)
Dave Ellgood	12 (12)
Max Hunt	12 (12)
Maria Lee	11 (12)
Marta Mayhew ²	10 (11)
Martyn McCarthy	11 (12)
Tanya Noon	12 (12)
Sue Rushton	12 (12)
Paul Singh	12 (12)
Graeme Watkins ³	3 (3)
Rachel Wilkinson	12 (12)

Notes

- 1 John Chillcott was elected to the Board in April 2018.
- 2 Marta Mayhew could not attend the Board meeting held on 17 May 2018 due to her pre-agreed attendance at a meeting of Co-operatives Europe Gender Equality Working Group on behalf of the Society on the same day.
- 3 Graeme Watkins' tenure as a Director ended in April 2018 following the 2018 Board election.

Report of the Remuneration Committee

Statement from Committee Chair

Introduction

I am pleased to present the Committee's Remuneration Report for the year ended 26 January 2019.

The Committee recognises that executive pay and reward can be an emotive topic. The Committee's long-standing approach is to manage executive remuneration in a fair and responsible way and ensure that reward is aligned to performance and the values of the Society. The Committee will continue to take steps to improve the transparency of reporting executive remuneration, ensuring compliance with best practice wherever possible.

In this context, the Committee has spent time during the year reviewing current trends, best practice and corporate governance developments in the external executive remuneration landscape in order to identify considerations for the Society. This review provided encouraging assurance in respect of the Society's executive remuneration policy and reporting arrangements. Further work in this area will be conducted in 2019, in line with the Committee's commitment to continuous improvement.

Background

Executive pay continues to make the headlines with widespread public and media scrutiny on pay arrangements that are too generous, too difficult to understand and not aligned to driving long-term success or to organisation's strategy and values. Growing attention in this area requires remuneration committees to have clear and transparent policies covering the arrangements for base pay, salary increases, annual bonus payments, long term incentive plans and other remuneration elements. Legislative changes also mean that listed companies should provide meaningful comparisons between Chief Executive Officer (CEO) pay and other pay levels within the organisation.

Gender pay gap reporting is now in its second year, providing more information in the public domain on this important area. The Society's gender pay gap results are outlined in more detail in this report.

Structure of this report

The Remuneration Report is divided into the following sections:

- The **Remuneration Policy** section outlines the Remuneration Committee's policy for the Management Executive
- The **Implementation Report** section sets out how the Policy has been applied during the 2018/19 financial year
- The **Board Director Fees** section provides details on the fees, expenses and benefits for the Society's Board of Directors

Summary of executive remuneration 2018/19

The wider pay environment

The Board remains committed to improving the pay rates of the Society's front line staff. This commitment is subject to important affordability considerations and the management of internal pay comparisons. The Society continues to pay above the National Living Wage (NLW) and does not reduce rates for those colleagues under 25 years old. The Committee is pleased to confirm that the Society remains committed to these principles.

Gender pay

As a co-operative, equity and equality are part of our core values. The Society has again published its Gender Pay report ahead of the statutory deadline and was pleased to report that:

- The Society has seen a 1.10% reduction (i.e. an improvement) in the mean average pay gap in comparison to our 2017 figures
- The Society has also seen a reduction (also an improvement) in our median pay gap together with a reduction of 1.73% in our bonus gap

Despite this positive movement, the Society acknowledges that there is more work to do in this area. The Society is committed to taking action to close the gap in a range of areas including recruitment activity and talent management initiatives. We believe in a fair approach to pay for all of our colleagues and are confident that men and women are paid equally for the same roles across the Society, supported by robust pay structures.

Pay ratios

A change to legislation now requires listed companies' reporting of pay ratios to include a comparison of CEO pay with the 25th and 75th percentile of employees' pay as well as the 'average pay'. In order to ensure the Society complies with best practice where possible, we will voluntarily comply with this change in reporting requirements.

A more detailed chart is enclosed later in this report which shows that the pre-tax ratio between the highest and the mean average total pay is 38 times. The increase in the ratio to the average figure from the prior year (2017/18: 30 times) is predominantly driven by the change in the calculation methodology.

Following the release of Government guidance, the methodology being used this year takes all components of pay for each colleague and adds them together on a 'full time equivalent' basis¹ to create a 'total pay' figure. The figures are then ranked and mean average and quartile figures are generated (see page 43 of the report).

Prior to the governments guidance, the accepted methodology (backed by bodies such as the High Pay Society), simply took the total employee cost and divided it by the number of employees in the year.

Annual Incentive & LTIP Schemes

The Society performed well in 2018/19 in what was a challenging year, achieving trading profit ahead of both budget and the prior year together with positive movements in our long term performance measures. Payments are due to be paid under both the Annual and the Long Term incentive elements of the Management Executive Incentive Scheme, totalling 27.58% of base salary at the time the benefit vested, where appropriate. The detailed content of Executive remuneration is covered in the later section on Remuneration Policy.

Management Executive

During the year, the Committee had to give consideration to a number of changes to the composition of the Executive Team. As noted previously in this report, Martyn Cheatle, Chief Executive, gave notice of his planned retirement after 17½ years total service with the Society, nine of which as Chief Executive.

¹ Quantifying pay and benefits on a full time equivalent basis allows part time colleagues to be treated in the same way as full time colleagues

A working group of the Committee was convened to conduct the search and selection for Martyn Cheate's replacement and the definition of the reward package for his identified successor, Debbie Robinson. Notice of resignation was received from Matt Birch (Trading Executive) and David Grady (Corporate Services Executive) in January and February 2019 respectively. The Committee reviewed and recommended the termination arrangements for each individual.

Committee Advisor

The Committee receives independent advice from remuneration consultants New Bridge Street (an Aon Company). The contract was extended in 2018 for an additional 12 months following a review of the market. The Society will revisit the market in 2019 to ensure it is still receiving the best value for money in this important area.

Governance

Richard Bickle was appointed to the Committee in June 2018 to fill the position previously held by Graeme Watkins. I would like to record the Committee's thanks to Graeme for his valued contribution to the Committee since 2015. There were no other changes to the Committee's membership during the year.

Committee member	Date of appointment	Attendance at Committee meetings held during 2018/19
Rachel Wilkinson <i>Chair of the Committee</i>	July 2015	3 (3)
Jane Avery	June 2017	3 (3)
Richard Bickle	June 2018	2 (2)
Elaine Dean	May 2017	3 (3)
Graeme Watkins	Term on the Committee ended April 2018	1 (1)

The Committee would be pleased to have Members' support for this report when it is put to an advisory vote at the Society's forthcoming Annual Members' Meetings.

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 and the Society Secretary. 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 collectively deliver the Society's goals
- **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 salary levels and other reward components
- Incentivise the Management Executive to drive both the short and long-term strategic goals of the Society
- Ensure that performance metrics are aligned to the Society's values and principles

The incentive opportunities for the Society's Management Executive and Society Secretary are deliberately pitched below market median levels for executives in PLCs. The approach reflects the Society's commitment to incentivising the right behaviours to drive sustainable business success whilst operating a reward framework which is proportionate and is also transparent to our members.

Summary of Remuneration Components

Base Salary	
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 formal agreements and to reflect affordability and economic circumstances. Formal reviews may be conducted as required, such as a significant change in role responsibilities or to ensure market competitiveness in cases of potential 'flight risk'.</p>
Maximum opportunity	There is no formal maximum salary. When conducting formal salary reviews, the Committee will take into account market data, job scope, function, size and complexity of the business along with internal relativities between other positions within the Society.
Annual Incentive	
Purpose and link to strategy	To motivate and incentivise achievement of agreed performance measures.
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"> • Threshold (achieve 95% of budgeted trading profit): 6.25% of base salary* • On Target (achieve 100% of budgeted trading profit): 12.5% of base salary* • Stretch (achieve 105% of budgeted trading profit): 25% of base salary* <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>
Long-term Incentive	
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"> • Threshold (achieve 90% of performance measures): 6.25% of base salary* • On Target (achieve 100% of performance measures): 12.5% of base salary* • Outstanding (achieve 110% of performance measures): 25% of base salary* <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"> • Defined Contribution employer pension % determined by date of employment. • Cash alternative

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 the tax-free child care scheme, 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.

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 manage the operation of the business. The performance measures are determined annually by the Committee following consultation with the Chief Executive.

Changes to Remuneration Policy

There were no changes made to the Remuneration Policy in 2018/19.

Pay Ratio

Overview

Central England Co-operative is committed to openness with our stakeholders and aims to reflect good governance in our reporting and policies. The Society has consistently and voluntarily disclosed the pay ratio between the Chief Executive and colleagues.

In 2018, regulation was introduced which requires listed companies with more than 250 UK employees to annually report their CEO pay ratio, with first results to be published in 2020. Whilst Central England is not subject to this regulation, we have decided to continue to lead in good practice and align our approach with this new regulation.

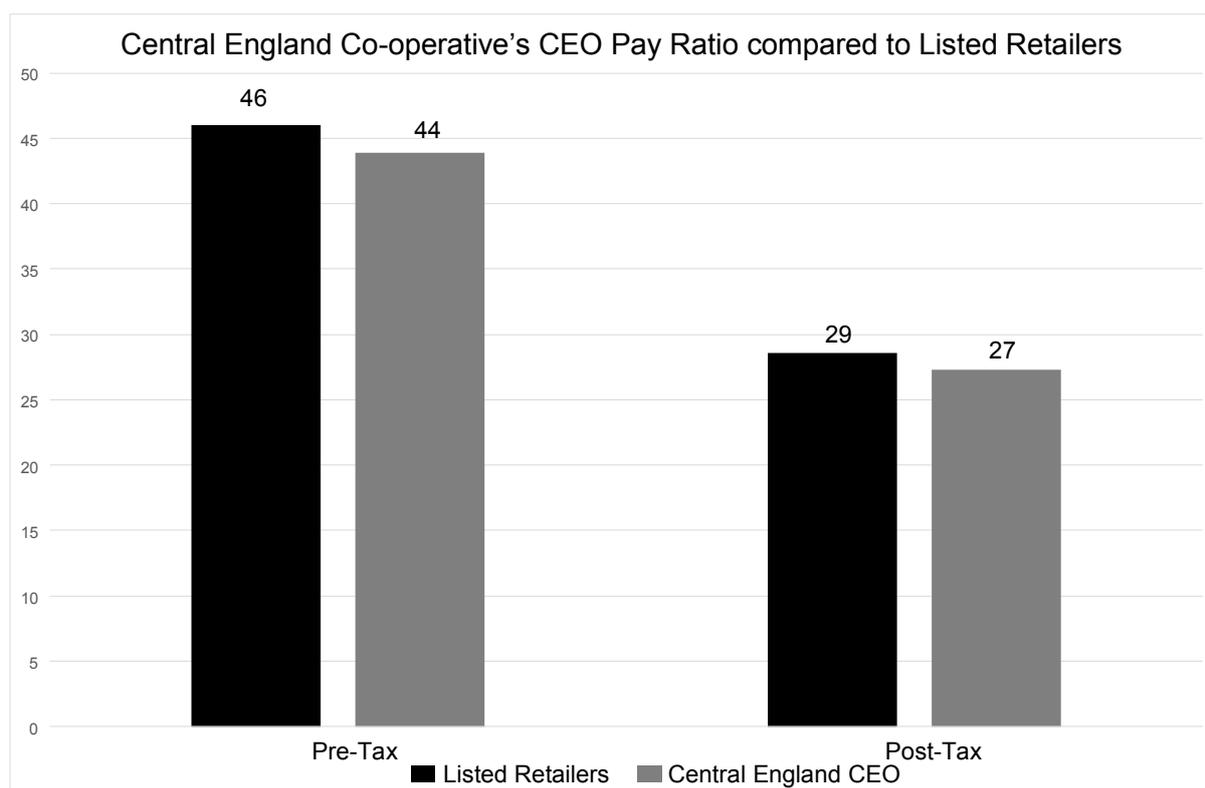
Results

Results are generated by comparing the base salary¹ and total pay² amounts for the CEO with employees at the lower quartile (25th percentile)³, median (50th percentile)⁴ and the upper quartile (75th percentile)⁵.

Set out below is the Society's CEO pay ratio at the statistical points highlighted above, alongside the average (for information only).

	CEO pay	P25 (lower quartile)	P50 (median)	P75 (upper quartile)	Average
Base Salary	£524,270	£16,467	£16,467	£18,495	£18,881
Total pay	£737,235	£16,467	£16,797	£18,865	£19,606
Total Pay Ratio		45:1	44:1	39:1	38:1

The chart below illustrates that the ratio of CEO pay compared to the colleague with pay at the 50th percentile is 44 times; however, the same comparison across listed retailers is higher at 46 times. This means there is less of a gap between CEO pay at the Society than can be seen across the listed retailers sector. The chart gives a comparison with listed retailers both on a pre and post-tax basis:



¹ 'Base salary' is annual salary excluding any incentive payments, pension contributions, benefits etc.

² 'Total pay' is annual salary plus any incentive payments, pension contributions, benefits etc.

³ The '25th percentile' is a statistical measure identifying the colleague place $\frac{1}{4}$ of the way along a ranking of 'total pay' amounts ranked from low to high

⁴ The '50th percentile' is the same statistical measure as above but $\frac{1}{2}$ of the way along

⁵ The '75th percentile' is the same statistical measure as above but $\frac{3}{4}$ of the way along

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 and internal relativities.

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 USDAW's professional and managerial arm SATA (Supervisory, Administrative and Technical Association) 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.

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' or '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 2018/19

This section of the report explains how the Remuneration Committee has applied its Remuneration Policy during the Society's 2018/19 financial year. It contains a summary of how the remuneration of the Chief Executive, Management Executive and Society Secretary has varied dependent on Society performance and full details of the remuneration received by members of the Executive during 2018/19.

Executive Total Earnings

The following table shows the individual pay elements for the 2018/19 financial year and gives a comparison for the previous year

	Year	Basic salary ¹ £	Taxable Benefits ² £	Annual Incentive ³ £	Vested LTIP ⁴ £	Pension Benefits ⁵ £	Total ⁶ £
Martyn Cheatle <i>Chief Executive</i>	2018/19	524,024	12,443	74,708	66,861	52,402	730,438
	2017/18	491,811*	14,097	127,871	30,530	49,182	713,491
Matt Birch <i>Trading Executive</i>	2018/19	300,000	20,128	0 ⁷	0 ⁷	24,000	344,128
	2017/18	121,154 ⁸	6,279	60,000 ⁹	0	9,692	197,125
David Grady <i>Corporate Services Executive</i>	2018/19	242,031	9,578	34,325	28,560	16,696	331,190
	2017/18	218,484	8,457	54,621	13,041	15,369	309,972
Tracey Orr <i>Support Services Executive</i>	2018/19	216,843	19,179	30,965	25,296	18,723	311,006
	2017/18	208,400*	18,964	48,379	11,551	16,359	303,653
James Watts <i>Society Secretary</i>	2018/19	133,188	10,949	18,988	16,310	13,319	192,754
	2017/18	136,379*	10,437	32,500	7,447	12,198	198,961

* In the previous year (2017/18), the Society harmonised its payroll procedures in order to operate one standardised process. This change resulted in all Society colleagues being paid on a four weeks in arrears basis. In order to implement this arrangement, it was necessary for longer serving colleagues to have their base salary reduced by two weeks in 2017/18 (and was applicable to Martyn Cheatle, Tracey Orr and James Watts). As part of the implementation, longer serving colleagues who originally joined the Society on an 'accrued holiday' basis received a payment of their accrued holiday pay. This adjustment applied to two members of the Executive (Tracey Orr and James Watts) who received a one-off payment of 6 weeks accrued holiday pay in 2017/18.

Notes:

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

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

³ The annual incentive payment relates to cash payments due to be paid under the 2018/19 scheme of 14.25% and does not include any payments received relating to previous financial years. An annual incentive payment of 25% was paid in 2018 in relation to the performance of the relevant metrics for the 2017/18 financial year.

⁴ LTIP award relates to cash payments of 13.33% due to be paid under the 2016/17 – 2018/19 long-term incentive plan. An LTIP payment of 6.21% was paid 2018 in relation to the performance of the relevant metrics over the three years ended in January 2018.

⁵ 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.

⁶ In line with best practice, the figures included in the above table reflect the total remuneration earned during the year, including any deferred payments that are due to be paid in respect of the relevant financial year (including the relevant annual incentive scheme and LTIP payments).

⁷ As a consequence of the resignation of Matt Birch, his short service and previous goodwill payments, the bonus payment for the 2018/19 annual incentive scheme and LTIP was withheld.

⁸ Matt Birch joined the Society on 4 September 2017; the 2017/18 salary figure therefore reflects 21 weeks' service in respect of the year ended 27 January 2018.

⁹ This figure represents a payment agreed as compensation for loss of bonus potential with Matt Birch's previous employer.

Loss of Office Payments

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

No other payments were made to former members of the Executive during the year.

Executive External Directorships

Executive	Role	Company	Date of Appointment
Martyn Cheatle <i>Chief Executive</i>	Director ¹	Federal Retail and Trading Services Limited	October 2014
David Grady <i>Corporate Services Executive</i>	Director ²	Anglia Home Furnishings Limited ('AHF') ³	June 2014 (ceased 11/07/2018)
Tracey Orr <i>Support Services Executive</i>	Chair and Director ⁴	Co-operative Employers Association	April 2012
	Committee Member ⁴	Selly Oak School, Trust Body	May 2016
	Associate Non-Executive Director ⁵	Dudley and Walsall Mental Health Partnership NHS Trust	April 2018
Matt Birch <i>Trading Executive</i>	Non-Executive Director ⁶	Mersey Care NHS Foundation Trust	September 2012
Debbie Robinson <i>Chief Executive Designate</i>	Director ⁷	British Retail Consortium	May 2017
	Director ⁷	Association of Convenience Stores Limited	September 2011
	Director ⁷	Cult Status Limited	May 2018

Notes to Table

¹ Martyn Cheatle receives no remuneration in respect of the appointment

² David Grady received no remuneration in respect of this appointment

³ This appointment was in accordance with the Society's investment in AHF. In July 2018, the Society completed the disposal of its preference shares in AHF

⁴ Tracey Orr receives no remuneration in respect of these appointments

⁵ Tracey Orr receives £6,000 per annum in respect of this appointment

⁶ Matt Birch receives £13,000 per annum in respect of this appointment

⁷ Debbie Robinson receives no remuneration in respect of these appointments

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.

Board / Committee	Role	Fees 2018/19	Fees 2017/18
Board	President	£16,230	£15,833
	Vice-President	£12,172	£11,875
	Director	£8,115	£7,916
Audit & Risk Committee	Committee member	£811	£791
Remuneration Committee	Committee member	£340	£331
Rules & Practices Committee	Committee member	£400	£390
Search Committee	Committee member	£400	£390
Conduct Committee	Committee member	£133	£130
Community Dividend Selection Committee	Committee member	£125	£122
Other working groups	Committee member	£20.50 per meeting	£20 per meeting

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 £71 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, in accordance with the standard terms and conditions of employment with the Society. Director fees do not qualify for Society pension contributions for any Board Directors.

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	
	2018/19	2017/18
Elaine Dean (President) ¹	£17,360	£14,903
Jane Avery (Vice President) ²	£11,680	£8,203
Maria Lee ³	£10,262	£14,121
Richard Bickle	£9,255	£9,094
Sean Clothier	£8,236	£7,759
David Ellgood	£8,244	£7,809
Max Hunt	£8,481	£8,895
Marta Mayhew	£8,111	£7,914
Martyn McCarthy	£8,921	£8,704
Tanya Noon	£8,517	£7,874
Sue Rushton	£8,921	£8,056
Paul Singh	£9,054	£8,995
Rachel Wilkinson	£8,983	£8,764
John Chillcott ⁴	£6,036	£nil
Graeme Watkins ⁵	£2,827	£9,703

¹ Elaine Dean was re-elected Society President by the Board in May 2018. The remuneration reported for 2017/18 reflects the change in position from Vice-President to President following Elaine's election by the Board in May 2017.

² Jane Avery was elected Society Vice-President by the Board in May 2018 and therefore the remuneration reported for 2017/18 and 2018/19 reflects the change in position from Board Director to Vice-President.

³ Maria Lee's tenure as the Society's Vice-President ended in May 2018, however, remains a Board Director. The remuneration reported for 2017/18 and 2018/19 reflects the change in position from Vice-President.

⁴ John Chillcott was elected to the Board in April 2018 and therefore no remuneration was received for 2017/18 prior to his appointment as Board Director.

⁵ Graeme Watkins' term as a Board Director ended in April 2018 and therefore the remuneration reported for 2018/19 reflects the period of his service which ended on 26 April 2018.

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 Secretary	Revolver Co-operative Limited Birmingham Co-operative Film Society Limited Friends of the Earth (Birmingham) Limited Co-operative Press Limited
John Chillcott	Non-Exec Director Non-Exec Director Non-Exec Director Non-Exec Director Non-Exec Director	AHF Limited (Anglia Home Furnishings) SEEE (Social Enterprise East of England) Co-operatives UK Co-operative College Co-op Schools East 7formation
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
Rachel Wilkinson	Director and employee Director Company Secretary Company Secretary 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 Derive (Salford) Limited Grand National Archery Society

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 November 2018, the Audit & Risk Committee together with other Board members attended a training session which was facilitated by the Society's auditor, PwC. The session covered corporate governance principles and purpose, changes in the regulatory landscape, corporate reporting and best practice considerations in this area and an overview of the Society's key risks and assurance framework.

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 2018/18
⁹ Paul Singh <i>Chair of the Committee</i>	June 2014	5 (5)
Richard Bickle	July 2015	5 (5)
Martyn McCarthy	March 2015	4 (5)
Sue Rushton	June 2017	4 (5)

Audit & Risk Committee meetings were also attended by:

Corporate Services Executive – David Grady
 Head of Finance – Louise McFadzean
 Financial Controller, Treasury & Statutory – Emma Thompson / Andrew Sutton
 Head of Risk and Compliance – Paul Fairhurst
 Internal Audit Manager – Ian Boston
 Society Secretary – James Watts or in his absence, the Assistant Society Secretary – Michael Tavener
 Representatives from the Society’s Auditor – PwC
 Attendance by Society management, from time to time and as required.

Committee’s Activities in 2018

Meeting	
March	Review of the draft Annual Report and Financial Statements for the year ended 27 January 2018 and ancillary documentation, including the Society’s Treasury and Taxation reports. Received reports relating to Risk Management, Compliance matters and Internal Audit.
March	Final review and approval (as delegated by the Board) of the Society’s Annual report and Financial Statements for the year ended 27 January 2018.
June	Review of the arrangements for the Society’s interim report to members, received reports relating to Risk Management, Compliance matters and Internal Audit.
September	Review of the Society’s financial information for the 28 weeks ended 11 August 2018. Received reports relating to Risk Management, Compliance matters and Internal Audit.
December	Review and approval of PwC’s draft engagement letter and year-end planning document. Received reports relating to Risk Management, Compliance matters and Internal Audit including IT disaster recovery. Update of the Internal Audit strategy (2019-21) and annual plan for 2019.

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 and separately with the Internal Audit Manager in private session without the presence of management. 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 2018/19
Elaine Dean <i>Chair of the Committee</i>	May 2017	4 (4)
Jane Avery	June 2018	3 (3)
Richard Bickle	Term on the Committee ended June 2018	1 (1)
Max Hunt	Term on the Committee ended June 2018	1 (1)
Maria Lee	June 2017	4 (4)
Tanya Noon	June 2018	3 (3)

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 – Michael Tavener

Committee's Activities in 2018/19

Meeting	
February	Review of the Committee's 2018 programme of work. Received a report on Board succession planning.
June	Review and recommendation to the Board regarding sub-committee and external organisation appointments. Review of the Board's 2018 governance programme.
August	Review of the 2018 Board Evaluation Survey.
October	Review of the actions arising from the 2018 Board Evaluation Survey. Review of Board succession arrangements and related Member engagement activity.

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 2018/19
Elaine Dean <i>Chair of the Committee</i>	May 2017	3 (3)
Max Hunt	June 2018	2 (3)
Maria Lee	June 2017	3 (3)
Graeme Watkins	Term on the Committee ended April 2018	n/a
Rachel Wilkinson	March 2015	2 (3)

Rules & Practices Committee meetings were also attended by:

Society Secretary – James Watts

Assistant Society Secretary – Michael Tavener

Committee's Activities in 2018/19

Meeting	
August	Review of the Society election arrangements including eligibility considerations. Review of the Membership & Community Councils' Code of Conduct.
October	Review of the Society election arrangements including eligibility and the Society's Canvassing Code of Practice.
January	Review the Society's compliance with the Co-operative UK's Corporate Governance Code for Consumer Co-operative Societies for the financial year ended 26 January 2019. Final review of the Society's Canvassing Code of Practice.

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
Jane Avery	June 2018
Dave Ellgood	July 2016
Tanya Noon	June 2017
Paul Singh	June 2017
Graeme Watkins	Term on the Committee ended April 2018
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 once 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 MCC events and activities. 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 (and also member of the Yorkshire Cluster)	Jane Avery Marta Mayhew Sean Clothier	John Chillcott Martyn McCarthy	Richard Bickle Dave Ellgood

In addition, Elaine Dean (Chair), Maria Lee, John Chillcott, Richard Bickle and Dave Ellgood served on the 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
- John Chillcott
- 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 participates 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 that organisation 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 Group's National Members' Council	Elected Independent Society Member	Maria Lee Jane Avery
Co-operatives UK	Director	Paul Singh
Co-operative Press	Director	Elaine Dean

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 confirms that the effectiveness of the system of control for the year commencing 28 January 2018 and ending on 26 January 2019 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.

Principal Risks and Uncertainties

Principle Risk	Potential Impact	Mitigation
Business Continuity	The Society's systems and distribution facilities are fundamental to the continuity of the business. A major incident would have a serious impact on the Society's ability to trade.	The Society has detailed Business Continuity and Disaster Recovery plans in place which are reviewed annually. These plans cover buildings, systems, colleagues and suppliers. All business critical roles have been identified and documented in the Business Continuity and Disaster Recovery plans. These identified individuals have the authority to make decisions in the event of a potentially disruptive incident.
Business Strategy and Change	If the Society pursues the wrong business strategy or fails to execute its strategy effectively, the business will be negatively impacted. An effective change programme is essential ensuring projects associated with delivering the long term strategy are co-ordinated, prioritised and managed effectively. Failure to deliver this would have a negative financial impact on the Society.	The Executive Team meets annually with the Board to review and where necessary update the Society's strategy. Progress in delivering strategy is reviewed as part of the Society's normal governance structures with updates provided to the Board. Significant change projects are managed and reported using formal project management methodologies.
Co-operative Principles	The Society has an underlying purpose beyond profit. If the Society was to operate or behave in a manner inconsistent to its core values and principles the Society's reputation would be impacted negatively.	The Board sets the tone in this area ensuring that significant decisions are evaluated against co-operative values and principles. Members have the opportunity to influence the Society's approach to the application of these values and principles through attendance and participation at Members' meetings. Evidence of the Society's purpose beyond profit can be seen in its Membership & Community activities and events, Community Dividend Awards and support for other co-operatives alongside ongoing work in areas such as: <ul style="list-style-type: none"> • Corporate Responsibility • Mental Health • Diversity and Inclusion • Fair Reward
Colleague Engagement, Capability and Succession	The Society employs over 8,000 colleagues who are pivotal to its future success. Attracting the best people, engaging with colleagues and investing in learning and development are essential to the sustainability and development of the Society's operations.	The Society reviews its policies, remuneration and benefits packages to ensure it remains competitive with other organisations. A number of methods are adopted to maintain and monitor engagement with our colleagues: <ul style="list-style-type: none"> • CEO colleague engagement sessions • Annual and interim colleague surveys • Performance reviews • Regular communications with trade unions • Regular communication of business activities and performance using a variety of media Talent planning is formalised within the business with substantial investment in learning and development to ensure the Society has succession plans across all areas of the business.
Data	The Society is increasingly reliant on technology. As technology usage in the business increases so does the risk of data breaches and cyber-crime. The design of an effective operation of controls in respect of data is critical to protecting the security of member, colleague, supplier and company confidential data.	The Society's Information Governance Committee is responsible for monitoring the Society's performance in this area. It reviews: <ul style="list-style-type: none"> • Data management policies and practices • Colleague awareness and training • Information security policies and procedures Appropriate information security policies and standards are in place which focus on encryption, network security, access controls, system security, data protection and information handling.

Principle Risk	Potential Impact	Mitigation
Finance and Treasury	The Society is reliant on a combination of internally generated cash and bank borrowing to fund its business strategy thus any material downgrade in trading cash flows may impact the deliverability of the Society's strategy.	The Society maintains a rolling weekly 18-month cash flow forecast to manage this risk. This forecast is informed by the annual budget and quarterly reforecast processes together with a rolling capital expenditure forecast. The Society annually conducts a Four Year Financial Plan process which allows it to confirm that its medium term cash requirements are consistent with its committed bank funding.
Health and Safety	The prevention of injury to colleagues, members, customer and the general public is of paramount importance to the Society. Any failure in this regard would significantly reduce customer and colleague confidence.	Policies, procedures and colleague engagement plans are in place detailing the controls required to manage health & safety, food safety and product safety risks across the Society. The Society's internal Health & Safety Advisors work with external regulators in developing the testing framework for all safety controls and the Society's Compliance Auditors review the effective application of policies and procedures. External vendors provide specialist training and support where the experience does not exist within the Society. Health and safety matters are discussed on a quarterly basis with the Health and Safety Advisory Committee where mitigation is agreed.
Pensions	The Society has a significant deficit in its closed defined benefit pension scheme. There is a risk that the obligation to fund this deficit will deprive the Society's trading businesses of investment funding.	The Society works closely with its advisors and the Pension Trustee to ensure that the recovery plans developed are both affordable to the Society and offer sufficient funding to the Pension Scheme.
Regulation / Legislation	Failure to comply with relevant legislation could damage the Society's reputation as well as resulting in significant financial penalties.	A comprehensive Regulation Register is maintained by the Society and updated quarterly to demonstrate positive assurances to the Society via the Audit and Risk Committee. External as well as internal expertise is utilised to 'horizon scan' and provide insight to the Society regarding any future legislative changes.
Trading	The Society operates in a very competitive food market and the increasingly competitive funeral market. Both markets are also subject to employment cost pressure (National Living Wage, Apprenticeship Levy and pension auto enrolment) the costs of which are difficult to pass on to the consumer. The Society's membership and community activities may not provide a sufficient point of difference to attract customers to our stores. It is more important than ever that the Society operates in a lean and agile way.	The Society actively monitors and manages its commercial activities. Performance and external market conditions are monitored weekly. Internal structures and processes are continually reviewed to ensure they offer optimal levels of service and cost.
Transformational Change	In order to remain a competitive going concern a number of transformation programmes are in operation across the Society aimed at meeting the future needs of our customers. The risks associated with the delivery of these programmes are primarily financial.	Programmes are managed using industry standard programme management methodologies which highlight escalation and intervention points to senior management.

Other Corporate Matters

Political Subscriptions and 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 Group Income Statement for the year ended 26 January 2019 (Note 7 to the accounts) reports that £102,000 (2017/18: £118,000) was paid by the Society in respect of 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 follows Co-operatives UK's Code of Best Practice on Withdrawable Share Capital (WSC) where it is applicable to Central England Co-operative. During the year the Society has reviewed and re-issued its Terms and Conditions in respect of WSC in line with the latest version of the Code of Practice. The Society's Terms and Conditions provide members with full details about the nature of their shareholding and its legal status as withdrawable share capital. The Terms and Conditions are available on the Society's website (or available from the Secretary, on request). Members may withdraw money from their share accounts at any time unless the Board of Directors has removed the facility in accordance with procedures set out in the Society's Rules.

Members share capital is risk capital and therefore if the Society is unable to meet its debts and liabilities, members risk losing some or all of their shares held. The Financial Services Compensation Scheme (FSCS) does not apply to members' share accounts and therefore members are not eligible to claim compensation under the FSCS in the event of the Society not being able to meet requests for withdrawal of shares.

The Society is not subject to supervision by the Prudential Regulation Authority or by the Financial Conduct Authority in relation to withdrawable share capital. The Financial Ombudsman Service does not apply to withdrawable share capital or the relationship between members and the Society.

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



Jane Avery, Vice President



James Watts, Society Secretary

21 March 2019

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

Report on the audit of the financial statements

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 26 January 2019 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 ended 26 January 2019 (the "Annual Report"), which comprise: the Group Statement of Financial Position as at 26 January 2019, 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.

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.

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. For example, the terms on which the United Kingdom may withdraw from the European Union, which is currently due to occur on 29 March 2019, are not clear, and it is difficult to evaluate all of the potential implications on the group's trade, customers, suppliers and the wider economy.

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.

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 62, 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. 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.

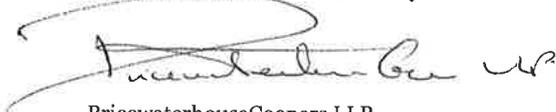
Other required reporting

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.

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.



PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham
21 March 2019

CENTRAL ENGLAND CO-OPERATIVE LIMITED
ACCOUNTING POLICIES
FOR THE 52 WEEKS ENDED 26 JANUARY 2019

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 26 January 2019 (2018: 52 weeks ended 27 January 2018) 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 financial statements 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 26 JANUARY 2019

2. Basis of preparation (continued)

Going concern (continued)

The Society currently meets its day to day working capital requirements through utilising its cash reserves and bank facilities. The bank facilities consists 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.

As part of the Society's budget and forecasting process, on an annual basis the Society prepares a four year financial plan, taking account of reasonable possible changes in trading performance. The Society anticipates it will operate within the available banking facility during the period. The directors have also reviewed the forecast of cash flows for the current and upcoming financial period at the time of approval of these financial statements. The Society has sufficient resources with its current bank 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 26 JANUARY 2019

3. Significant judgements and estimates (continued)

Impairment of goodwill and tangible fixed assets (continued)

In the 52 weeks ended 26 January 2019, an impairment of £1.2m (2018: £2.6m) 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

Properties held for long term investments are recognised as investment properties, initially recognised at cost, and are subsequently measured at market value. The market value is determined on an annual revaluation by external valuers in accordance with the RICS Valuation - Professional Standards January 2014 (the "Red Book") prepared by the Royal Institution of Chartered Surveyors (the "RICS"), 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 26 January 2019 is £133.1m (2018: £126.7m).

Deferred tax asset

The deferred tax asset includes an amount of £3.6m (2018: £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.

CENTRAL ENGLAND CO-OPERATIVE LIMITED
ACCOUNTING POLICIES
FOR THE 52 WEEKS ENDED 26 JANUARY 2019

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.

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.

CENTRAL ENGLAND CO-OPERATIVE LIMITED
ACCOUNTING POLICIES
FOR THE 52 WEEKS ENDED 26 JANUARY 2019

4. Principal accounting policies (continued)

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.

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

Properties held for long term investments are recognised as investment properties, initially recognised at cost, and are subsequently measured at market value. The market value is determined on an annual revaluation by external valuers in accordance with the RICS Valuation - Professional Standards January 2014 (the "Red Book") prepared by the Royal Institution of Chartered Surveyors (the "RICS").

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.

CENTRAL ENGLAND CO-OPERATIVE LIMITED
ACCOUNTING POLICIES
FOR THE 52 WEEKS ENDED 26 JANUARY 2019

4. Principal accounting policies (continued)

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.

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.

CENTRAL ENGLAND CO-OPERATIVE LIMITED
ACCOUNTING POLICIES
FOR THE 52 WEEKS ENDED 26 JANUARY 2019

4. Principal accounting policies (continued)

Stocks

Stocks are stated at the lower of cost and net realisable value. 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.

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.

CENTRAL ENGLAND CO-OPERATIVE LIMITED
ACCOUNTING POLICIES
FOR THE 52 WEEKS ENDED 26 JANUARY 2019

4. Principal accounting policies (continued)

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.

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

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 group also recognise a provision for certain employees who have unused annual leave entitlement under the holiday banking scheme not utilised by the reporting date. The provision is measured at the total salary cost payable and national insurance for the period of absence.

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.

CENTRAL ENGLAND CO-OPERATIVE LIMITED
ACCOUNTING POLICIES
FOR THE 52 WEEKS ENDED 26 JANUARY 2019

4. Principal accounting policies (continued)

Pension costs

The Group currently operates a defined benefit pension scheme, the Central England Co-operative Society Limited Pension Scheme which is closed to future accrual and new entrants.

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

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 comprehensive actuarial valuation is updated by an independent qualified actuary to the reporting date 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 26 JANUARY 2019

	Note	2019 52 weeks £'000	2018 52 weeks £'000
GROSS SALES (including VAT)		961,403	935,053
Less Value Added Tax		<u>(91,503)</u>	<u>(86,741)</u>
GROSS SALES (excluding VAT)	1	<u>869,900</u>	<u>848,312</u>
TURNOVER	1	827,804	809,279
Cost of sales		<u>(589,488)</u>	<u>(572,241)</u>
GROSS PROFIT		238,316	237,038
Administrative expenses		(223,400)	(221,959)
Other income		3,184	2,265
Trading profit		<u>18,100</u>	<u>17,344</u>
(Loss)/Profit on disposal of fixed assets and businesses		(1,920)	555
Impairment of fixed assets		(1,152)	(2,649)
Profit on revaluation of investment properties	10	2,671	4,758
Exceptional items	4	(1,467)	(3,435)
Exceptional pension scheme past service costs	17	(4,327)	-
OPERATING PROFIT	2	<u>11,905</u>	<u>16,573</u>
Profit on financial assets at fair value	24	11	92
Interest and dividends receivable	5	225	357
Other finance cost	17	(5,955)	(5,811)
Interest payable	6	(4,179)	(3,954)
PROFIT BEFORE TAX AND PAYMENTS TO AND ON BEHALF OF STAKEHOLDERS		<u>2,007</u>	<u>7,257</u>
Payments to and on behalf of stakeholders	7	(3,536)	(3,702)
Taxation	8	(2,502)	(1,924)
RETAINED (LOSS)/PROFIT FOR THE FINANCIAL PERIOD		<u>(4,031)</u>	<u>1,631</u>

**CENTRAL ENGLAND CO-OPERATIVE LIMITED
GROUP STATEMENT OF COMPREHENSIVE INCOME
FOR THE 52 WEEKS ENDED 26 JANUARY 2019**

	Note	2019 52 weeks £'000	2018 52 weeks £'000
Retained (loss)/profit for the period		(4,031)	1,631
Actuarial gains/(losses) on pension scheme	17	77,155	(18,611)
Movement on current tax		-	1,866
Movement on deferred tax		(13,320)	2,968
Total comprehensive income/(loss) for the period		<u>59,804</u>	<u>(12,146)</u>

CENTRAL ENGLAND CO-OPERATIVE LIMITED
GROUP STATEMENT OF FINANCIAL POSITION
AS AT 26 JANUARY 2019

	Note	January 2019		January 2018	
		£'000	£'000	£'000	£'000
FIXED ASSETS					
Intangible assets	9		22,246		22,401
Tangible assets	10		416,898		414,870
Investments	11		150,614		136,181
			<u>589,758</u>		<u>573,452</u>
CURRENT ASSETS					
Stocks	12	37,301		34,608	
Debtors: due within one year	13	32,325		32,531	
Debtors: due after one year	13	17,741		33,725	
Cash at bank and in hand		11,452		11,549	
		<u>98,819</u>		<u>112,413</u>	
CREDITORS: DUE WITHIN ONE YEAR					
Creditors	14	(102,169)		(100,467)	
Borrowings	15	(43)		(153)	
		<u>(102,212)</u>		<u>(100,620)</u>	
NET CURRENT (LIABILITIES)/ASSETS			(3,393)		11,793
TOTAL ASSETS LESS CURRENT LIABILITIES			<u>586,365</u>		<u>585,245</u>
CREDITORS: DUE AFTER ONE YEAR					
Creditors	14	(216,840)		(205,449)	
Borrowings	15	(32,007)		(28,051)	
			<u>(248,847)</u>		<u>(233,500)</u>
Provisions for liabilities and charges	16		(11,652)		(15,715)
Net pension liability	17		(109,783)		(179,551)
NET ASSETS			<u>216,083</u>		<u>156,479</u>
CAPITAL AND RESERVES					
Share capital	18		23,863		23,844
Non-distributable reserve	19		29,558		26,540
Revenue reserve	19		162,662		106,095
MEMBERS' FUNDS			<u>216,083</u>		<u>156,479</u>

**CENTRAL ENGLAND CO-OPERATIVE LIMITED
GROUP STATEMENT OF CASH FLOWS
FOR THE 52 WEEKS ENDED 26 JANUARY 2019**

	Note	2019 52 weeks		2018 52 weeks	
		£'000	£'000	£'000	£'000
Net cash generated from operating activities	20		28,618		27,349
Cash flows from investing activities					
Disposal of investments		(3,162)		5,967	
Proceeds from disposal of tangible assets		4,549		5,806	
Purchase of tangible assets		(26,812)		(36,566)	
Interest received		225		310	
Transfer of engagements		-		405	
Purchase of business		-		(1,751)	
Net cash flows used in investing activities			(25,200)		(25,829)
Cash flows from financing activities					
Draw down of bank loans		13,000		-	
Repayment of bank loans		(9,000)		(1,000)	
(Decrease)/Increase in share capital		(200)		186	
Interest paid		(754)		(647)	
Pension deficit funding		(6,407)		(6,183)	
Repayment of finance lease obligations		(154)		(199)	
Net cash flows used in financing activities			(3,515)		(7,843)
Net decrease in cash and cash equivalents			(97)		(6,323)
Cash and cash equivalents at beginning of the period			11,549		17,872
Cash and cash equivalents at end of the period			11,452		11,549

**CENTRAL ENGLAND CO-OPERATIVE LIMITED
GROUP STATEMENT OF CHANGES IN EQUITY
FOR THE 52 WEEKS ENDED 26 JANUARY 2019**

Note	Share capital	Non- distributable reserve	Revenue reserve	Total
	£'000	£'000	£'000	£'000
At 29 January 2017	23,296	21,423	122,519	167,238
Profit for the financial year	-	-	1,631	1,631
Other comprehensive losses				
Actuarial loss on pension scheme	-	-	(18,611)	(18,611)
Movement on current tax	-	-	1,866	1,866
Movement on deferred tax relating to pension scheme	-	-	2,968	2,968
Total comprehensive loss for the period	-	-	(12,146)	(12,146)
Transfer of non-distributable reserves	-	4,758	(4,758)	-
Transfer of realised gains	-	359	(359)	-
Share capital contributions	613	-	-	613
Share capital withdrawals	(427)	-	-	(427)
Share interest	212	-	(212)	-
Transfer of engagement	150	-	1,051	1,201
At 27 January 2018	23,844	26,540	106,095	156,479
Loss for the financial period	-	-	(4,031)	(4,031)
Other comprehensive gains				
Actuarial gains on pension scheme	-	-	77,155	77,155
Movement on deferred tax relating to pension scheme	-	-	(13,320)	(13,320)
Total comprehensive gain for the period	-	-	59,804	59,804
Transfer of non-distributable reserves	-	2,671	(2,671)	-
Transfer of realised gains	-	347	(347)	-
Share capital contributions	415	-	-	415
Share capital withdrawals	(615)	-	-	(615)
Share interest	219	-	(219)	-
At 26 January 2019	23,863	29,558	162,662	216,083

CENTRAL ENGLAND CO-OPERATIVE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE 52 WEEKS ENDED 26 JANUARY 2019

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

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.

	Gross Sales		Turnover	
	(excluding VAT)			
	2019	2018	2019	2018
	52 weeks	52 weeks	52 weeks	52 weeks
	£'000	£'000	£'000	£'000
Retail - Food	627,814	615,607	623,114	611,302
Retail - Fuel	100,160	94,825	100,160	94,825
Wholesale	50,640	48,817	50,640	48,817
Funeral	41,803	42,221	41,803	42,221
Travel	40,213	37,080	2,817	2,352
Other	526	713	526	713
Rent received from investment properties	8,744	9,049	8,744	9,049
Total	869,900	848,312	827,804	809,279

Turnover consists of sales made in the United Kingdom.

Turnover analysed by category was as follows:

	2019	2018
	52 weeks	52 weeks
	£'000	£'000
Sales of goods	773,400	755,070
Rendering of services	38,076	37,981
Commission	7,584	7,179
Rent received from investment properties	8,744	9,049
	827,804	809,279

CENTRAL ENGLAND CO-OPERATIVE LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE 52 WEEKS ENDED 26 JANUARY 2019

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:

	2019 52 weeks £'000	2018 52 weeks £'000
Staff costs (Note 3)	126,738	126,203
Bad debt provision movement	409	974
Operating lease rentals:		
- Plant and machinery	647	714
- Land and buildings	5,928	6,163
Intangible assets (Note 9)		
- Amortisation	3,070	2,836
Depreciation (Note 10)		
- Owned assets	21,723	21,034
- Assets held under finance leases	168	167
- Impairment	1,152	2,649
Auditors' remuneration	237	675

Fees payable to the Society's auditors

	2019 52 weeks £'000	2018 52 weeks £'000
Fees payable to the Group's auditors for the audit of the Group's annual statement	123	118
Fees payable to the Group's auditors for other services to the Group:		
- The audit fees of the Society's subsidiaries	100	97
Total audit fees	223	215
All other services/consultancy	14	460
Total non-audit fees	14	460

CENTRAL ENGLAND CO-OPERATIVE LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE 52 WEEKS ENDED 26 JANUARY 2019

3 Staff number and costs

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

	2019	2018
	52 weeks	52 weeks
	Number	Number
The average number employed by the Group (including directors) was:		
Full-time	3,156	3,269
Part-time	5,006	5,227
	8,162	8,496
	8,162	8,496

The number of full time equivalent employees during the 52 weeks ended 26 January 2019 was 5,106 (2018: 5,305).

	2019	2018
	52 weeks	52 weeks
	£'000	£'000
Aggregate amounts paid in respect of:		
Wages and salaries	115,354	115,095
Social security costs	6,819	6,944
Defined contribution pension scheme costs	4,565	4,164
	126,738	126,203
	126,738	126,203

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 26 JANUARY 2019

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.

	2019	2018
	52 weeks	52 weeks
	£'000	£'000
Movement in onerous leases	(365)	1,643
Costs arising from the reorganisation of business	1,344	1,349
Transfer of engagements	-	168
Movement in other provisions	488	275
	1,467	3,435

The Group is committed to a number of onerous leases on its 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 a decrease in the provision of £0.4m (2018: increase of £1.6m).

During the period, the Society has undertaken reviews of its business, and support functions which gave rise to costs of £1.3m (2018: £1.3m). Costs arising from the re-organisation of business 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 £nil (2018: £0.2m).

The Society is part of the wholesale buying group Federal Retail Trading Services (FRTS). During the year, FRTS expanded its commercial supply agreements to Nisa and Costcutter. As a result of this expansion, FRTS has incurred one-off integration costs. The Society's share of these one-off costs is £0.7m (2018: £nil). Other provisions relating to property and other commitments reduced by £0.2m (2018: increase of £0.3m).

CENTRAL ENGLAND CO-OPERATIVE LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE 52 WEEKS ENDED 26 JANUARY 2019

5 Interest and dividends receivable

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

	Note	2019 52 weeks £'000	2018 52 weeks £'000
Interest receivable		121	248
Dividends receivable		<u>104</u>	<u>109</u>
	11	<u><u>225</u></u>	<u><u>357</u></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	2019 52 weeks £'000	2018 52 weeks £'000
Interest payable on bank loans	15	711	639
Interest payable on finance lease	15	41	59
Interest unwind on the Central Asset Reserve		3,314	3,140
Unwinding of discounted provisions	16	<u>113</u>	<u>116</u>
		<u><u>4,179</u></u>	<u><u>3,954</u></u>

CENTRAL ENGLAND CO-OPERATIVE LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE 52 WEEKS ENDED 26 JANUARY 2019

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.

	2019	2018
	52 weeks	52 weeks
	£'000	£'000
Member benefits	155	230
Membership & Community funding and other grants	479	529
Members' dividend	<u>1,695</u>	<u>1,710</u>
Total member distributions	<u>2,329</u>	<u>2,469</u>
Co-operative Party	102	118
Community dividend	173	200
Employee dividend	<u>932</u>	<u>915</u>
	<u><u>3,536</u></u>	<u><u>3,702</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.

	2019	2018
	52 weeks	52 weeks
	£'000	£'000
Current tax:		
Provided on chargeable income and gains in the period	277	1,866
Adjustment to tax charge in respect of prior periods	<u>(439)</u>	<u>-</u>
	<u>(162)</u>	<u>1,866</u>
Deferred taxation:		
Origination and reversal of timing differences	1,971	1,638
Adjustments in respect of prior periods	<u>693</u>	<u>(1,580)</u>
	<u>2,664</u>	<u>58</u>
Total taxation	<u><u>2,502</u></u>	<u><u>1,924</u></u>

CENTRAL ENGLAND CO-OPERATIVE LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE 52 WEEKS ENDED 26 JANUARY 2019

8 Taxation (continued)

The standard rate of tax applied to reported profit on ordinary activities is 19.00% (2018: 19.18%). A reduction in the UK corporation tax rate from 20% 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 26 January 2019 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 (2018: higher) than the effective rate of corporation tax in the UK of 19.00% (2018: 19.18%). The differences are explained below:

	2019 52 weeks £'000	2018 52 weeks £'000
(Loss)/Profit before taxation	(1,529)	3,555
(Loss)/Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.00% (2018: 19.18%)	(293)	682
Effects of:		
Fixed asset timing differences not provided	2,650	1,104
Expenses not deductible for tax purposes	326	98
Income not taxable for tax purposes	(203)	(255)
Adjustment to tax charge in respect of prior periods	(439)	-
Adjustment to deferred tax charge in respect of prior periods	693	(1,580)
Current tax credited directly to equity	-	1,866
Adjustment to deferred tax to average rate of 19.00%	(232)	9
Tax charge for the period	<u>2,502</u>	<u>1,924</u>

CENTRAL ENGLAND CO-OPERATIVE LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE 52 WEEKS ENDED 26 JANUARY 2019

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.

	Software	Goodwill	Total
	£'000	£'000	£'000
Cost			
At 28 January 2018	10,891	51,742	62,633
Additions	2,497	-	2,497
Transfers	423	-	423
Disposals	(68)	(2,134)	(2,202)
At 26 January 2019	13,743	49,608	63,351
Accumulated amortisation			
At 28 January 2018	9,220	31,012	40,232
Provided this period	790	2,280	3,070
Disposals	(68)	(2,129)	(2,197)
At 26 January 2019	9,942	31,163	41,105
Net book value			
At 26 January 2019	3,801	18,445	22,246
At 27 January 2018	1,671	20,730	22,401

CENTRAL ENGLAND CO-OPERATIVE LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE 52 WEEKS ENDED 26 JANUARY 2019

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
Cost or valuation					
At 28 January 2018	126,735	283,742	209,150	17,652	637,279
Additions	76	5,540	19,137	1,443	26,196
Transfers	9,919	(9,873)	(469)	-	(423)
Disposals	(2,851)	(632)	(5,923)	(1,411)	(10,817)
Revaluation	(748)	-	-	-	(748)
At 26 January 2019	133,131	278,777	221,895	17,684	651,487
Accumulated depreciation					
At 28 January 2018	-	70,350	140,588	11,471	222,409
Provided this period	-	5,125	15,071	1,695	21,891
Impairment	-	1,150	2	-	1,152
Transfers	3,419	(3,396)	(23)	-	-
Disposals	-	(415)	(5,623)	(1,406)	(7,444)
Revaluation	(3,419)	-	-	-	(3,419)
At 26 January 2019	-	72,814	150,015	11,760	234,589
Net book value					
At 26 January 2019	133,131	205,963	71,880	5,924	416,898
At 27 January 2018	126,735	213,392	68,562	6,181	414,870

CENTRAL ENGLAND CO-OPERATIVE LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE 52 WEEKS ENDED 26 JANUARY 2019

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 26 January 2019. Of the investment properties, one fifth have been inspected and the remainder have been valued by Colliers International at 26 January 2019 based on inspection 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 £2.7m (2018: revaluation gain of £4.8m).

Tangible fixed assets with a carrying value of £59.4m (2018: £52.3m) are pledged as security for the Group’s bank loans.

Assets in the course of construction included within trade properties amounts to £4.1m (2018: £4.5m). 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 (2018: £1.4m).

Included within fixed assets are assets with a net book value of £0.2m (2018: £0.4m) relating to assets held under finance lease. Depreciation charged on these assets amounted to £0.2m (2018: £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 £1.2m (2018: £2.6m).

CENTRAL ENGLAND CO-OPERATIVE LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE 52 WEEKS ENDED 26 JANUARY 2019

10 Tangible assets (continued)

The carrying value of land and buildings comprises:

	2019	2018
	£'000	£'000
Investment properties:		
Freehold	127,706	122,619
Leasehold	5,425	4,116
	<u>133,131</u>	<u>126,735</u>
Trade properties:		
Freehold	186,766	195,587
Leasehold	19,197	17,805
	<u>205,963</u>	<u>213,392</u>
Total properties:		
Freehold	314,472	318,206
Leasehold	24,622	21,921
	<u>339,094</u>	<u>340,127</u>

The historical cost of investment properties now included at valuation:

	2019	2018
	£'000	£'000
Cost	119,194	114,122
Accumulated depreciation	(15,620)	(13,926)
Net book value	<u>103,574</u>	<u>100,196</u>

CENTRAL ENGLAND CO-OPERATIVE LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE 52 WEEKS ENDED 26 JANUARY 2019

11 Investments

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

	Fixed assets		Dividends/interest	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
The Co-operative Group Limited – shares	2,684	2,684	104	109
Other societies – shares	3	3	-	-
Other societies – loans	-	-	-	19
Companies – not quoted	7	7	-	214
Funeral plans	147,920	133,487	-	-
	<u>150,614</u>	<u>136,181</u>	<u>104</u>	<u>342</u>
Interest earned on cash balances			<u>121</u>	<u>15</u>
			<u>225</u>	<u>357</u>

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 gain of £nil (2018: loss of £18,000). Quoted investments are based on active market rates.

The following analysis shows the movement in the year on investments held during the period ended 26 January 2019:

	Co- operative Group Limited £'000	Other Societies £'000	Unquoted shares £'000	Funeral plans £'000
Carrying amount				
At 28 January 2018	2,684	3	7	133,487
Additions	-	-	-	13,921
Disposal and redemptions	-	-	-	(13,041)
At 26 January 2019	<u>2,684</u>	<u>3</u>	<u>7</u>	<u>134,367</u>
Change in fair value	-	-	-	13,553
Net book value				
At 26 January 2019	<u>2,684</u>	<u>3</u>	<u>7</u>	<u>147,920</u>

CENTRAL ENGLAND CO-OPERATIVE LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE 52 WEEKS ENDED 26 JANUARY 2019

12 Stocks

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

	2019	2018
	£'000	£'000
Goods for resale	<u>37,301</u>	<u>34,608</u>

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.

	Within one year		After one year	
	2019	2018	2019	2018
	£'000	£'000	£'000	£'000
Trade debtors	6,305	7,205	-	-
Deferred tax	-	-	17,741	33,725
Other debtors	19,651	19,888	-	-
Prepayments and accrued income	6,369	5,438	-	-
	<u>32,325</u>	<u>32,531</u>	<u>17,741</u>	<u>33,725</u>

The Group holds an interest rate swap with a principal value of £12.0m (2018: £12.0m), which matures on 22 January 2021. The interest rate swap is recorded at market value of £1,000 as at 26 January 2019 and is included in other debtors. In the 52 weeks ended 27 January 2018, the interest rate swap liability of £11,000 is included in other creditors.

CENTRAL ENGLAND CO-OPERATIVE LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE 52 WEEKS ENDED 26 JANUARY 2019

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:

	2019	2018
	£'000	£'000
Accelerated capital allowances	5,757	7,530
Capital gains	(3,566)	(2,795)
Pension scheme	11,978	23,550
Unutilised losses	3,593	5,085
Business combinations	(483)	(511)
Other timing differences	462	866
	17,741	33,725

As a result of the Central Asset Reserve, the Society will receive a deduction against current tax of £nil (2018: £9.7m). Consequently a deferred tax asset of £nil (2018: £nil) has been recognised at 26 January 2019.

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	
	2019	2018	2019	2018
	£'000	£'000	£'000	£'000
Trade creditors	53,976	50,848	-	-
Central Asset Reserve liability	6,400	6,400	79,256	82,389
Funeral plans	11,428	10,934	137,555	122,883
Other taxation and social security	5,782	6,756	-	-
Other creditors	2,729	2,694	-	-
Accruals and deferred income	19,724	21,066	29	177
Payments to and on behalf of stakeholders	2,130	1,769	-	-
	102,169	100,467	216,840	205,449

The Group holds an interest rate swap with a principal value of £12.0m (2018: £12.0m), which matures on 22 January 2021. The interest rate swap is recorded at market value of £1,000 as at 26 January 2019 and is included in other debtors. In the 52 weeks ended 27 January 2018, the interest rate swap liability of £11,000 is included in other creditors.

CENTRAL ENGLAND CO-OPERATIVE LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE 52 WEEKS ENDED 26 JANUARY 2019

15 Borrowings

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

	Within one year		After one year	
	2019	2018	2019	2018
	£'000	£'000	£'000	£'000
Bank loan	-	-	32,000	28,000
Finance lease obligations (note 21)	43	153	7	51
	43	153	32,007	28,051

Interest payable on the bank loan for the 52 weeks ended 26 January 2019 was £0.7m (2018: £0.6m). Interest payable on finance lease obligations was £41,000 (2018: £59,000).

	2019	2018
	£'000	£'000
Borrowings falling due within:		
One year	43	153
Between one and two years	32,007	38
Between two and five years	-	28,013
	32,050	28,204

The Society's bank loan is a revolving credit facility of £40.0m (2018: £40.0m) which is repayable on 22 January 2021, £32.0m (2018: £28.0m) 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 26 JANUARY 2019

16 Provisions for liabilities and charges

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

	Onerous leases £'000	Other provisions £'000	Total £'000
As at 28 January 2018	13,044	2,671	15,715
New provision created in the period	1	702	703
Reassessment on brought forward provision	59	-	59
Unwinding of discount	113	-	113
Utilised this period	(2,547)	(988)	(3,535)
Released this period	(875)	(528)	(1,403)
As at 26 January 2019	9,795	1,857	11,652

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 11 years (2018: 12 years).

Other provisions represent an assessment of costs associated with the re-organisation of the business and site closures of £29,000 (2018: £1.0m), the decommissioning of petrol filling stations of £0.4m (2018: £0.4m), property provisions of £0.8m (2018: £1.2m) and other provisions of £0.7m (2018: £0.1m).

CENTRAL ENGLAND CO-OPERATIVE LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
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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"), which is closed to future accrual and new entrants. 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 99.

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 must agree with the Trustees of the Scheme the contributions to be paid to meet any shortfall against the Statutory Funding Objective.

The most comprehensive actuarial valuation of the Scheme agreed by the Trustees was carried out as at 31 December 2014. The latest triennial actuarial valuation is near finalisation and the results of the actuarial valuation have been updated by an independent qualified actuary to 26 January 2019 allowing for cash flows in and out of the Scheme and changes to assumptions over the period.

The Society implemented a pension deficit reduction arrangement (Central Asset Reserve) which has resulted in additional scheme assets of £118.6m (2018: £122.9m) 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 25 January 2020, contributions to the Scheme will be paid from the Central Asset Reserve (CAR). 31% of the CAR contributions are deemed as contributions whilst 69% is treated as investment returns. As part of the CAR scheme, the Society will contribute £3.0m during the period. In addition, the Society intends to contribute a further £3.0m following the finalisation of the 2017 triennial valuation.

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

The following amounts are recognised in the balance sheet:

	2019	2018
	£'000	£'000
Fair value of assets	679,724	705,210
Present value of funded obligations	(789,507)	(884,761)
Deficit in the scheme	<u>(109,783)</u>	<u>(179,551)</u>

The following amounts are recognised in the Income Statement:

	2019	2018
	52 weeks	52 weeks
	£'000	£'000
Administration cost	1,217	944
Interest on liabilities	23,067	25,746
Interest on assets	(18,329)	(20,879)
Other Finance Cost	<u>5,955</u>	<u>5,811</u>
Exceptional past service cost	<u>4,327</u>	<u>-</u>

Exceptional past service costs of £4.3m (2018: £nil) have been recognised in the income statement relating to the estimated cost of equalising benefits earned after May 1990 between men and women. The pension scheme has to provide Guaranteed Minimum Pension (GMPs) which as a result of statutory rules have been calculated differently for men and women. Although equal treatment in pension provision for males and females has been required since 1990, there has been uncertainty on whether and how pension schemes are required to equalise GMPs. In October 2018, a court judgement confirmed that GMPs earned from 1990 must be equalised and proposed an acceptable range of methods. The exceptional past service cost is based upon actuarial estimates and the final cost may differ from actuals on implementation on the method of equalisation.

The remeasurements over the period are as follows:

	2019	2018
	52 weeks	52 weeks
	£'000	£'000
Loss/(Gain) on scheme assets in excess of interest	16,529	(25,207)
Experience gains on liabilities	(18,896)	(3,642)
Gains from changes to demographic assumptions	(28,800)	(19,011)
(Gains)/Losses from changes to financial assumptions	(45,988)	66,471
Total remeasurement	<u>(77,155)</u>	<u>18,611</u>

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

The movement in the balance sheet over the period was:

	2019 52 weeks £'000	2018 52 weeks £'000
Deficit at the start of the period	(179,551)	(157,915)
Other finance costs	(5,955)	(5,811)
Exceptional past service cost	(4,327)	-
Society contributions	2,895	2,786
Total remeasurements	<u>77,155</u>	<u>(18,611)</u>
Deficit at the end of the period	<u><u>(109,783)</u></u>	<u><u>(179,551)</u></u>

The movement in the assets over the period was:

	2019 52 weeks £'000	2018 52 weeks £'000
Opening fair value of scheme assets	705,210	687,707
Interest on assets	18,329	20,879
Society contributions	2,895	2,786
Benefits paid	(28,964)	(30,425)
Administrative costs	(1,217)	(944)
Return on assets less interest	<u>(16,529)</u>	<u>25,207</u>
	<u><u>679,724</u></u>	<u><u>705,210</u></u>

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

	2019 52 weeks £'000	2018 52 weeks £'000
Opening obligation	884,761	845,622
Exceptional past service cost	4,327	-
Interest cost	23,067	25,746
Benefits paid	(28,964)	(30,425)
Experience gain on defined benefit obligation	(18,896)	(3,642)
Changes to demographic assumptions	(28,800)	(19,011)
Changes to financial assumptions	<u>(45,988)</u>	<u>66,471</u>
Closing obligation	<u><u>789,507</u></u>	<u><u>884,761</u></u>

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

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

	2019	2018
Bonds	53%	55%
Equities and property	13%	17%
Other	34%	28%
	<u>100%</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 £1.7m which corresponds to a 0.20% 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:

	2019	2018
Discount rate - per annum	2.85%	2.65%
Inflation assumption (RPI) - per annum	3.40%	3.50%
Inflation assumption (CPI) - per annum	2.40%	2.50%
Revaluation in deferment - per annum	3.40%/2.40%	3.50%/2.50%
RPI max 5.0% pension increases in payment - per annum	3.25%	3.35%
RPI max 2.5% pension increases in payment - per annum	2.30%	2.30%
CPI max 3.0% pension increases in payment - per annum	2.05%	2.10%
Members assumed to take maximum tax free cash	90%	90%

The mortality assumptions used are based on the 110% of the "SAPS" standard "S2 series" tables with an allowance for future mortality improvements using the CMI 2017 projections with a long-term rate of improvement of 1.25% pa (2018: 1.25% pa using the CMI 2016 projections). The Central Asset Reserve asset value is assumed to be 69% of Trustees' valuation as at 31 December 2018 (2018: 69% of Trustees' valuation as at 31 December 2017).

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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:

	2019	2018
Male currently age 45	22.9	23.8
Female currently age 45	25.0	25.8
Male currently age 65	21.5	22.3
Female currently age 65	23.5	24.3

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 £4.6m (2018: £4.2m).

18 Share capital

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

	2019 52 weeks £'000	2018 52 weeks £'000
Contributions	415	613
Withdrawals	(615)	(427)
	(200)	186
Interest	219	212
Transfer of engagement	-	150
Movement in period	19	548
Opening balance	23,844	23,296
Closing balance	23,863	23,844

At 26 January 2019, the Society had a total of 1,826,425 (2018: 1,798,711) 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% (2018: between 0% and 2.25%).

CENTRAL ENGLAND CO-OPERATIVE LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE 52 WEEKS ENDED 26 JANUARY 2019

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 26 JANUARY 2019

20 Cash flow statement

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

	2019	2018
	52 weeks	52 weeks
	£'000	£'000
(Loss)/Profit for the financial period	(4,031)	1,631
Adjustments for:		
Gain on financial assets at fair value	(11)	(92)
Net interest expense	9,909	9,408
Payments to and on behalf of stakeholders	3,536	3,702
Taxation	2,502	1,924
Operating profit	11,905	16,573
Adjustment for:		
Gain on investment properties	(2,671)	(4,758)
Loss/(Profit) on disposal of fixed assets and businesses	1,920	(555)
Depreciation and impairments	23,047	23,850
Amortisation and impairment of goodwill	3,070	2,836
Payments to and on behalf of stakeholders	(3,175)	(4,093)
Net movement on funeral plan asset and liability	734	(1,607)
Taxation	(1)	-
Fair value movements	11	92
Decrease in debtors	419	2,598
Decrease in creditors	(1,168)	(2,131)
(Increase)/Decrease in stocks	(2,693)	601
Decrease in provisions	(4,063)	(3,359)
Other non-cash movements	(149)	88
Cash contribution for retirement benefit obligations	(2,895)	(2,786)
Exceptional pension scheme past service costs	4,327	-
	28,618	27,349

CENTRAL ENGLAND CO-OPERATIVE LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
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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:

	2019	2018
	£'000	£'000
Within one year	43	153
In the second to fifth year inclusive	7	51
	50	204

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:

	Land & Building	Land & Building
	2019	2018
	£'000	£'000
Operating leases expiring:		
Within one year	8,837	8,341
In the second to fifth year inclusive	19,359	16,950
Over five years	30,262	28,583
	58,458	53,874

CENTRAL ENGLAND CO-OPERATIVE LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE 52 WEEKS ENDED 26 JANUARY 2019

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:

	Land & Building 2019 £'000	Land & Building 2018 £'000	Other 2019 £'000	Other 2018 £'000
Operating leases expiring:				
Within one year	5,558	5,813	296	1,374
In the second to fifth year inclusive	14,631	12,508	473	2,222
Over five years	41,417	29,272	-	29
	61,606	47,593	769	3,625

Included within the minimum operating lease payments are onerous lease and discontinued operation commitments of £11.1m (2018: £14.7m) 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 outgoings and costs associated with these properties. The lease commitments on these operating leases at 26 January 2019 is £nil (2018: £130,000).

In July 2018, the Society disposed of its preference shareholding in Anglia Home Furnishing Limited. The Society has given certain guarantees in respect of rental and other expenses in the event of default by Anglia Home Furnishing Limited.

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 £12.5m (2018: £11.1m).

CENTRAL ENGLAND CO-OPERATIVE LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
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22 Subsidiaries and associates

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

Entity	% of Equity owned	Principal activity
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
Metro Discount Stores (Midlands) Limited	100	Non-Trading
Ken Ives Motors (Derby) Limited *	100	Non-Trading
Anglia Co-operative Properties Limited	100	Property Management
Central England Co-op Pension Trustee Limited	100	Dormant
CEC Optical Limited (formerly Westgate Optical Limited)	100	Optical Retailing
Yaxley Farm Limited *	100	Property Management
Central England Dersingham Limited *	100	Non-Trading
James Retail Holdings Limited	100	Non-Trading

* Held by subsidiary undertaking.

On 26 January 2019, M.C.S. Funeral Services Limited transferred their engagements to Central England Co-operative Limited.

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)
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22 Subsidiaries and associates (continued)

Subsidiary audit exemptions

Central England Co-operative Limited has issued guarantees over the liabilities of the following companies at 26 January 2019 under section 479 of Companies Act 2006 and these entities are exempt from the requirements of the Act relating to the audit of individual financial statements by virtue of section 479A of the Act.

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

23 Related party transactions

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

Central England Co-operative Limited has disposed of its preference shareholding in Anglia Home Furnishings Limited during the period and is no longer considered a related party. The Society held trading relationships which gave rise to receivables in 2018 of £177,000.

Please refer to note 21 for details of commitments and guarantees.

CENTRAL ENGLAND CO-OPERATIVE LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE 52 WEEKS ENDED 26 JANUARY 2019

24 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:

	2019	2018
	£'000	£'000
Financial assets measured at fair value through profit or loss		
Unquoted investments	7	7
Interest rate swap	1	-
Funeral plans	147,920	133,487
Financial assets measured at amortised cost		
Loans to other Societies	-	-
Trade debtors and other debtors	25,956	27,093
Equity instruments measured at cost less impairment		
Fixed asset investments	2,687	2,687
Total financial assets	176,571	163,274
	2019	2018
	£'000	£'000
Financial liabilities measured at fair value		
Interest rate swap	-	11
Funeral plans	148,983	133,817
Financial liabilities measured at amortised cost		
Finance lease payables	50	204
Bank loan	32,000	28,000
Trade creditors and other creditors	64,617	62,056
Total financial liabilities	245,650	224,088

CENTRAL ENGLAND CO-OPERATIVE LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
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24 Financial instruments (continued)

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

	2019 52 weeks £'000	2018 52 weeks £'000
Fair value gains	11	92
Interest expense	<u>752</u>	<u>698</u>

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 £11,000 (2018: £92,000).

A charge of £0.8m (2018: £0.7m) was recognised in the income statement in relation to interest on financial instruments.