



CHANGING LIVES FOR THE BETTER

Annual Report and
Financial Statements

2017

Annual Report and Financial Statements
of the East of England Co-operative Society
for the year ended 28 January 2017



East of
England
CCOP

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All our hard work
has been recognised



PRINCESS ROYAL
TRAINING AWARD
2016



We are proud to display the Fair Tax Mark.
This is awarded to organisations that
display a high degree of transparency in
their corporation tax affairs. We are fully
committed to paying the right amount of
tax, in the right place at the right time.

2017

Annual Report and
Financial Statements

of the East of England
Co-operative Society for
the year ended Saturday
28 January 2017.

We're proud to be a
local, independent business
operating in the East of England. We
provide food stores and specialist
services such as funerals, travel agents,
opticians and pharmacies across
**Essex, Norfolk, Suffolk and
Cambridgeshire.**

As a co-operative business we're run
differently to other big organisations,
putting people before profits.
Our focus has always been the local
communities in our region.



£207.5m
MEMBERS' FUNDS
Down from £233.1m last year

£347.7m
TURNOVER
Up from £338.5m last year

£4.4m
**UNDERLYING
TRADING PROFIT**
Up from £3.8m last year

£6.1m
**PROFIT BEFORE
DISTRIBUTIONS AND TAXATION**
Down from £7.8m last year

President's STATEMENT

We are pleased to present an annual report full of good news for our members. Our business enjoyed healthy growth, with underlying trading profit increasing by 17.0% to £4.4m, and there have been a number of high profile success stories we are proud to share with you.



How we performed

Our colleagues continue to work as hard as ever and have delivered an excellent trading performance, with an increase in both sales and profits.

Our members enjoyed a share of our £3.0m dividend payment last year.

It is pleasing to see the investment in our food business is delivering improved sales and profits, despite additional cost pressures and exceptionally challenging competition. Our investment in existing stores continued, notably with the opening of our pivotal new generation supermarket in Woodbridge, Suffolk. We took the difficult decision to sell six food stores during the year as, despite our best efforts, they weren't viable for our co-operative model.

Every new funeral branch we open is important, but our new branch in Ely was particularly special as it marked a landmark first step for our Co-op as we expanded into Cambridgeshire for the first time.

Our investment property business goes from strength to strength with both residential and commercial developments continuing at pace.

Our achievements have been recognised this year with several significant awards, including the prestigious Grand Prix Award at the Hermes Retail Week Supply Chain Awards for Sourced Locally and a Princess Royal Training Award in recognition of our bespoke Dementia Friendly Retail Training Programme.

OUR MEMBERS

Growing our membership is part of our ethos and we recruited 19,118 new members this year – a tremendous achievement.

Membership is at the heart of everything we do and is one of the key things that makes us different from our competitors.

Our new format Annual Members' Meeting (AMM) was a great success last year, offering a more interactive experience and doubling our attendance figure.



**WE RECRUITED
19,118 NEW MEMBERS
THIS YEAR**



Our colleagues have been taking to the skies to raise funds for good causes in their local communities, more on page 20.

Our colleagues

Every day our colleagues do small things which can make a big difference to our members, and we continue to see industry leading levels of colleague engagement.

We have delivered over 21,000 hours of training in 2016 as we encourage a culture of learning. Thanks to the introduction of new digital and interactive content innovations, our training is more accessible than ever.

We are proud of the numerous colleagues that go above and beyond, and in this year's report have highlighted just a few of their amazing good deeds. From a wonderful celebration for a loyal customer's 100th birthday, to skydiving and climbing towers for charity, our colleagues have once again impressed with their commitment and passion.



Helping Ipswich Town Football Club become dementia friendly, co-hosting a reminiscence afternoon tea at Portman Road.

Community engagement

As a community retailer we recognise that we need to play a key role in the communities in which we trade, and I am delighted that we interact with members through social media as well as face to face.

We have made huge strides towards achieving our aim to be the region's leading Dementia Friendly Retailer and are incredibly proud to be named the Alzheimer's Society's Dementia Friendly Large Organisation of the Year.



Our governance

A strong Board of Directors is an essential component of a successful Co-op and we have a great combination of longstanding and new Directors. Although there is a good range of ages and a gender balance on our Board, we recognise the need for further diversity and welcome candidates for election from a wider range of ethnic groups.

At our last election, we were delighted to see so many members interested in becoming Directors. During a highly contested election, 31 members stood for the five available places on the Board. As a result, several longstanding Directors were re-elected, and we welcomed two new Board Directors, both bringing a new perspective to the boardroom.

Very sadly, soon after the AMM, John Pendle, a longstanding Director of the Society, lost his short battle with cancer. A hugely passionate, progressive and enthusiastic co-operator, his input is greatly missed by us all.

One of our major governance goals last year was to increase participation in online voting and we saw 625 votes cast online, an increase of over 75%. We aim to increase this every year to ensure the widest possible participation in our democracy.

We continue to protect our Independent Society corporate investments through active participation in the Co-operative Group and Federal Retail Trading Services (FRTS). Beverley Perkins and Phil Hartwell continue to participate in the Group Members' Council and Roger Grosvenor, Joint Chief Executive, represents our business on the FRTS Board.

Our aspirations

We are delighted that sales and profits have increased, although we expect 2017 to present its own set of challenges, as we deal with changeable market conditions. We continue to focus on the long-term prosperity of the Society and reshaping what we offer and where we offer it.

As always, I would like to thank our colleagues, my fellow Board Directors and the Leadership Team for another successful year. The East of England Co-op continues to be a Society to be proud of thanks to their hard work, and we will build on this to shape your Co-op for the future.

Sally Chicken

**Sally Chicken
President**

For and on behalf of the
East of England Co-operative Society Board

Planned for 2018: the new Rosehill development in Ipswich

We have refurbished
58%
of our food stores
over the past
two years

Acquisitions and REFURBISHMENTS

It has been another big year for investment within our estate, including the refurbishment of a further 38 food stores, and the opening of our new flagship supermarket in Woodbridge.

Thanks to this continued investment, stores refurbished in the past year are reporting an average 3.1% increase in sales.

Following an increase in travel sales in 2015, we opened new travel branches in our Weavers Court Supermarket in Halstead and within Morrisons in Sroughton, Ipswich. We have also continued to support community Post Office services, incorporating a further five within our food stores.

Aside from our retail units, we are growing our property portfolio and this year have been working on two new residential developments. Once completed, seven newly built houses on Wimpole Road in Colchester and five apartments on Ramsey Road, Dovercourt will be let and managed by us.

A project to extensively develop our site in Rosehill in Ipswich is underway to maximise the potential from this large piece of land. We have signed up retailers Greggs, Poundstretcher and a gym, Fit4less, to join Aldi and our food store on the site in new retail units. This development is due to be completed in 2018.

Joint Chief Executive, Nick Denny, said:
“Across our entire property portfolio, we have had one of our biggest years yet. From the rapid expansion of our funeral business to the progress of our substantial development in Rosehill, we have achieved a great deal over a short period, with even more in the pipeline.”

As a member-owned business we have a duty to run our business effectively for our members across the region. Sometimes this involves making extremely difficult decisions. During 2016, the decision to sell six stores was unfortunately the most viable option for those sites. This is no reflection on the hard work of our colleagues at those stores, who we know provided great service for many years.

Redundant property assets were also disposed of, generating additional funds for future acquisitions and improvements.

EXPANSION INTO NEW AREAS

This year we expanded into Cambridgeshire for the first time with the opening of our new funeral branch in Ely. We made this strategic move after identifying parts of the county as key opportunities to grow our funeral services business and reach new clients.

We continued this expansion with the opening of a branch in Haverhill, on the Suffolk/Cambridgeshire border, with further new branches set to open in 2017.

Across the region we opened seven brand new funeral branches in total, including Frinton in Essex and Attleborough, Hellesdon and Cromer in Norfolk, the furthest north we have taken this area of our business. We also relocated our funeral branch in Woodbridge.

*Funeral Arranger
Claire Needs at our
first Cambridgeshire
funeral branch
in Ely.*



Funeral
Services

East of
England
COOP

NEW RETAIL PARTNERS

We have continued to increase our retail partnerships, doubling the number of Subway sandwich outlets and starting partnerships with new retailers, giving our members and customers more choice and attracting new customers through our doors.

Our Felixstowe Supermarket welcomed clothing company M&Co. Within our Halstead store, Subway and women's clothing retailer Bonmarché were added. Subway and The Original Factory Shop department store both opened in Leiston. Three new Subway franchises have opened in our food stores on Dereham Road and on Earlham Green Lane in Norwich and Wickham Market.



SAFE AND SECURE

As well as providing a first-class service for us, our Secure Response Services (SRS) team now offers a range of security services for external organisations, transforming this in-house department into a revenue generator for the business. In just its second year, SRS has seen its turnover more than double, gaining a reputation for providing a cost-efficient and professional security service, using state-of-the-art technology.

From solar farms and factories to domestic properties and business parks, the team work with an ever-growing list of clients to help make our communities safer.



CHANGING ATTITUDES

After one of our food stores experienced negative behaviour from pupils from a nearby school, our anti-social behaviour officer, Scott Walker, decided to tackle the problem head on. Scott and store colleagues led a programme of activity at the school, including engagement mornings, assemblies and a competition, to discuss the impact anti-social behaviour can cause in their community and how to help prevent it. As a result of this action, there was a significant reduction in anti-social behaviour problems at the store. Scott is now a member of Ipswich Central Board, which sets out to tackle anti-social behaviour in the community.



John Pendle Obituary



Last year, we were all greatly saddened by the sudden loss of John Pendle, our former President and one of our longest serving Board Directors.

John grew up in the south west of England, moving to Wivenhoe in Essex after attending the University of Essex to study Computing Science. He went on to lead a highly successful career as an internationally renowned telecoms consultant and expert project manager, working around the world.

He joined the Board of the Colchester and East Essex Co-operative Society in 2002 and was instrumental in the 2005 merger with the Ipswich and Norwich Co-operative Society to form the East of England Co-operative Society.

As Chair of the Audit Committee and serving on the Remuneration Committee, John was kept busy helping oversee a smooth union between the two societies.

After becoming Chair of the Membership and Community Committee in 2010, John was then elected our President.

During his four-year term as President, the Leadership Team was created, running our business as a true co-operative, and our new branding was launched.

John's hard work and enthusiasm were instrumental in shaping the East of England Co-op as we know it today. As a passionate and driven member of our Board, he was greatly liked and respected by his colleagues for his progressive approach and strategic thinking.

John lost a short battle with cancer in May 2016, aged 64. He is greatly missed by everyone at the East of England Co-op and our thoughts remain with his wife Lyn, son Matt and family and friends.



A NEW generation supermarket

In October, after a 12-week refurbishment, we opened a brand new flagship supermarket on the site of a former Budgens store in Woodbridge. Having been a part of the Woodbridge community for many years, we were delighted to expand our services and range, redefining our supermarkets and setting the benchmark for the future.

To ensure we were meeting the needs of the community, we held a public consultation with 120 local residents who were keen to understand whether we could deliver a premium offer.

Addressing these concerns, we increased the space for fresh food by 33% and ambient (food stored at room temperature) by 25%. We made more than 700 products available from 74 local suppliers in our biggest ever Sourced Locally range. This investment paid off, with sales of local produce accounting for 12% of the store's turnover in the first three days of opening.

We increased space
for fresh food by
33%

Woodbridge has our biggest ever
Sourced Locally range with over
74 LOCAL SUPPLIERS
providing over 700 products

East of
England
CO-OP
Sourced
Locally

Joint Chief Executive,
Roger Grosvenor, said:
“As a new flagship for our
food stores, we could not be
prouder of our Woodbridge
store. We set out to
change perceptions of the
East of England Co-op and
we have delivered on that
promise. The reception from
Woodbridge residents has
been outstanding and we
were delighted when more
than 500 people queued on
Woodbridge Thoroughfare
on our opening day.”



The new store also includes a Deli to Go range, a Co-op operated Subway sandwich franchise, in-store bakery and a vibrant 'welcome wall' for community engagement. Among other unique design elements is feature pendant lighting at the front of the store.

Our former Thoroughfare store remained open until the new supermarket opened its doors. Colleagues then transferred to the new supermarket, less than 400ft away, joining the existing Budgens team, alongside 30 new roles that were created.

The store has surpassed all expectations, with sales up 200% on the former Thoroughfare store and up 100% on the Budgens site takings. Our two smaller food stores in Woodbridge have also continued to trade well, with figures also up on the previous year.

Below: Store colleagues get ready for the opening of their new look Woodbridge store.



“It was a real privilege to get our new generation supermarket in Woodbridge off the ground. It looks fantastic and I am particularly fond of the lighting design and the rustic timber-style kiosks.”



Who makes your Co-op work?

Michael Scarlett, Quantity Surveyor

Day to day I manage internal costs for projects undertaken by the Building Services team.

As project manager for the Woodbridge Supermarket, my role was to manage the programme of work, the budget, the project team and ensure overall quality.

As with any development of this size, it was not without challenges and it was a tricky job balancing a brand new store design with the fast pace of the build and high customer expectations.

Woodbridge supermarket was an important project for the East of England Co-op and the whole team did an outstanding job delivering it quickly and safely.

Since then I have been pricing potential future food supermarket developments and working with the team to help produce a new, fresher design for our funeral branches which will add value as we grow this area of our business.

I am also working with the team to explore opportunities to expand concessions, such as Subway sandwich outlets, in our stores which will help us reach new customers. Recently I negotiated for us to use one of only two new generation self-serve Costa Coffee machines in the UK, which offers customers all the coffee options they would get from a regular Costa Coffee shop.

It has been a busy year but thankfully I did manage to get away for just enough time to get married!





In 2016 we sold
£17.5 MILLION
of local produce

Demand for great quality local products has never been higher. We're proud to offer our customers more than 3,500 products in our Sourced Locally range, from over 100 local suppliers across Essex, Norfolk and Suffolk.

Over 3,500 products from
over 100 local suppliers



Ayse Singh –
Product Standards
and Safety Manager

ENSURING QUALITY

As Sourced Locally continues to grow, we have improved our processes with suppliers to ensure our customers can continue shopping with us with confidence.

We created a new role, Product Standards and Safety Manager, to ensure all our suppliers are fully compliant with all relevant regulations. We check new suppliers meet the high standards we expect, before confirming their listing in store.

SOURCED LOCALLY Fortnight



Sourced Locally Fortnight encourages our customers to shop local, from everyday essentials such as potatoes, milk and bread, to treats like chocolate and cakes.

After a successful launch of Sourced Locally Fortnight in 2015, we held a second fortnight from 30 May to 12 June 2016. To raise awareness online and at local county shows, we launched #KeepItLocal and boosted our customer experience with in-store decorations, producer visits and food sampling. Our breakfast promotion offered customers five local breakfast products for £5, which led to over 7,000 purchases throughout the fortnight.

Sales of Sourced
Locally produce
increased by 10%
throughout the
fortnight to
£913,111



54,000
punnets of
strawberries
were sold



12,000
bunches of
asparagus
were sold

PRODUCER OF THE YEAR 2016

A record-breaking 15,000 votes were cast across the region by members and customers for Producer of the Year in 2016.

Our 2016 winner was Fairfields Farm, known for its delicious range of crisps and pre-packed potatoes grown and produced in Essex.



“Rather than a supplier-buyer relationship it is very much a partnership, which is so refreshing when working with a supermarket. We really appreciate their continued support of our business.”



SOURCED LOCALLY AWARD WINS

We are incredibly proud to have been awarded both the Arrow XL Collaboration Award and the prestigious Hermes Grand Prix Award for Sourced Locally. The awards recognise genuine collaboration across supply chains – be it between one retailer and another or retailers and their suppliers.



GOVERNING THE SOCIETY

The Board of Directors are responsible for governance, policy and strategic decisions. The collegiate Leadership Team is collectively responsible for the day-to-day management.

During the year covered by this report, your Directors met formally 13 times. 11 were ordinary scheduled meetings concerned with items of policy and strategy, matters reserved for Board decision and general oversight of performance.

The other two meetings were arranged at short notice to consider the acquisition of the former Budgens Supermarket in Woodbridge.

The Directors also met informally on a number of occasions as they visited our premises and sites and took part in professional development workshops. These are described in further detail later in this report.

In May, the Board of Directors re-elected Sally Chicken and Colin Barrett to serve as President and Vice-President respectively, each for a further period of 12 months.

THE LEADERSHIP TEAM

Day-to-day management of the Society is delegated by the Directors to the collegiate Leadership Team, which is responsible for implementing our strategy within the framework laid down by the Board.

The Leadership Team also provides advice and guidance on strategic and commercial matters, helping the Directors to perform their governance role.

The Directors can also draw on the advice and services of the Society Secretary, who is responsible for advising them on governance and regulatory matters.



Leadership Team from left to right:

Minnie Moll, Joint Chief Executive – Membership and Marketing
Mark O'Hagan, Joint Chief Executive – People and Performance
Nick Denny, Joint Chief Executive – Property
Roger Grosvenor, Joint Chief Executive – Retail
Doug Field, Joint Chief Executive – Finance and Technology



Mike Faulkner,
Society Secretary

Directors as at 28 January 2017



Sally Chicken
President

Colin Barrett
Vice-President

Belinda Bulsing

John Cook

Nicola Fox

Phil Hartwell

John Hawkins

Emma Howard

BOARD OF DIRECTORS



In 2016, a record 31 candidates stood for election to fill the five vacancies arising on the Board of Directors at the Annual Members' Meeting (AMM).

At the AMM in May 2016, John Hawkins, Nicola Fox and Steve Shaw were re-elected to the Board and Chris Matthews and Maria Veronese were each elected for their first term of office. Maria was elected to fill a casual vacancy for three years, created by the resignation of Tereza Scrogie, who was moving away from the Society's trading area.

Shortly after the election, we were greatly saddened by the death of John Pendle, a Director since April 2002. Further details of John's contribution to the Board are detailed separately in this report, on page 7.

To maintain a Board of 16 Directors, the Board used its power to co-opt a suitably qualified member. In view of the timing of the vacancy, the Board naturally referred to the election results and was pleased to co-opt the next available, highest polling candidate, John Cook.



Claire Johnsen

Clive Mann

Chris Matthews

Celia Moore

Chris Newbury

Beverley Perkins

Steve Shaw

Maria Veronese

OVERVIEW

Underlying trading profit is up

17.0%

We have traded well this year and we are delighted to report both significant sales and trading profit growth despite challenging market conditions.

We remain debt-free and although our members' funds have decreased this year to £207.5m, we retain a healthy balance sheet.

This year we benefited from a week's extra trading because the financial year was 53 weeks long rather than the usual 52. Like-for-like figures against 52 weeks have also been included to provide a basis for comparison.

Joint Chief Executive, Doug Field, comments: "We are a people business and these results are testament to the true co-operative spirit and dedication of our 4,300 colleagues."

Thanks to their hard work, key investments and improvement in our standards across the board, we are reaping the rewards with impressive growth.

There will inevitably be new challenges ahead, but with our strategy firmly focused on future-proofing our business, we can, and will, continue to thrive."

TURNOVER

Sales are up

£9.2M

Our sales have grown this year — turnover has increased by 2.7% to £347.7m.

Comparing on a 52-week basis, this is a sales growth of £2.6m (0.8%).

The majority of our businesses saw healthy like-for-like sales growth, with a number of notable success stories.

3.0%

food sales

As a core part of our business, we were pleased to see a 3.0% (£7.8m) increase in food sales with a 4.2% like-for-like increase. On a comparable 52-week basis, this equates to a 1.0% (£2.7m) increase with a 2.3% like-for-like increase.

The like-for-like sales increase has been driven by a number of changes, including improved employee engagement, higher operational standards, our store refurbishment programme and the benefits of investments in technology.



3.4%

investment property income

New tenants in Coggeshall and at our Stanway Retail Park development helped grow the rental income from our investment property portfolio to over £7.3m.

8.3%

like-for-like forecourt sales

On a comparable 52-week basis our four forecourts saw sales growth of £1.1m (6.2%), selling an additional 1.4m litres of fuel.

Sales went up by £2.0m at our Distribution Centre, largely thanks to the handling of an additional 105,000 cases for our neighbouring Co-operative Society, Chelmsford Star.

Secure Response Services continues to experience significant growth, with sales more than doubling this year.

Our funerals and events businesses experienced a decrease in sales this year. Although we opened eight new funeral branches this year, sales fell by £0.4m (3.0%) as competition intensified, notably in Suffolk. Fewer conferences saw our events income fall by 8.3% in the year.

Sales from our pharmacy business were broadly in line with last year.

PROFITABILITY

Underlying trading profit

£4.4M

Our underlying trading profit is up 17.0% to £4.4m from £3.8m.

Sales growth and control of overheads more than offset reduced margins and personnel cost increases arising from the introduction of the National Living Wage.

Despite lower margins, we achieved an increase in profit in our food, distribution, travel, filling station, optical and property businesses. This profitability has been achieved through a combination of sales increases, efficiencies and cost control.

The marketplace in food retail remains competitive and occasionally we must make difficult decisions to sell and close stores that are not producing a profit for the business. This year we sold six of our food stores, including the package sale of five stores to McColl's, retaining a retail offer in the community.

As expected, we saw a decrease in profits from our funeral business due to a decline in sales. With long-term future profit front of mind, we expanded our funeral services, increasing our number of funeral branches to 53 and extending our geographic reach to Cambridgeshire, leading to an inevitable increase in costs short-term.

Our profit before distributions and taxation fell by £1.7m to £6.1m due to:

- **The £0.6m write-off of goodwill and assets relating to a number of optical branches and food stores, reflecting the competitive nature of the markets in which we operate**
- **A reduction in investment income from funeral bonds of £1.4m**
- **No profits being realised on disposal of property this year, compared with £2.8m last year**

These reductions were partially offset by a rise in value of our investment property portfolio of £1.6m thanks to general market conditions and improved lettings in Tiptree, Colchester, Ipswich and Norwich.



MEMBERS' FUNDS
£207.5M

Members' funds decreased by
£25.6m over the year
to £207.5m



This year pension liabilities have increased by £27.8m. The principal reason for this change in deficit was a decrease in the net discount rate, but this was partially offset by asset returns being higher than expected.

The fall in net current assets represents a decrease in cash as a result of our capital investment programme and a reduction in food store stockholding.

The overall value of our investment property has risen by £2.9m, reflecting the development of Rosehill in Ipswich together with residential housing developments and increased property values.

With year-on-year sales growth of 41.1%, we now hold £43.7m of pre-paid funerals, up £7.8m in the year.

CASHFLOW

We continue to be debt free
with a cash balance of

£18.5M

Cash has decreased by £8.0m as we have continued to invest in our future.

Over £7m cash was generated from our trading activities.

We continue to manage cash effectively and have invested over £12m without the need for external borrowings. This investment includes over £6m on the acquisition and refurbishment of our new generation supermarket in Woodbridge, a further £4.0m on food store refurbishments, £2.9m on investment property developments and £1.5m on new funeral branches and vehicles.

We remain debt free and hold a healthy cash balance of £18.5m (2016: £26.5m).

LOOKING AHEAD

Brexit has created some uncertainty for the retail sector and the economy as a whole. Although we have not so far seen any discernible impact on consumer behaviour following the referendum, wider industry data suggests market conditions will remain challenging.

Our long-term strategy is to maintain a strong sustainable business, continue to generate profits and support our communities. We remain focused on the three cornerstones of our business: food, funerals and property.

We are continuing our successful food strategy in refurbishing more of our stores, with over 30 planned for the coming year to add to the 50+ stores already completed.

The success of the current year is due in part to making sure that we have the right store in the right place. With the potential for a small number of store closures in 2017, we continue to make these difficult decisions as they are important to ensure our long-term prosperity.

Our funeral business, a crucial part of our offering, is expanding rapidly and we will continue to extend our geographical reach in the coming year.

Investment in our property estate will continue and we expect to complete a number of developments in Ipswich, Colchester and Dovercourt during 2017.

To ensure our business remains healthy, we must budget to allow for the effect of external influences on our margins, such as rising inflation, the National Living Wage and the Apprenticeship Levy, as we continue to build a co-operative business for the future.

Thanks to our robust strategy and hard work all round, we have a strong balance sheet and will continue to provide the resources needed to invest and safeguard the future growth of your Co-op.

As a business that is not just for profit, we believe in working together for the collective good of our communities, members, customers and colleagues. We will remain true to our values and principles which means taking long-term decisions for the ultimate benefit of you, our members.

Investment

Investment in our property estate will continue in 2017



We plan to refurbish
30 STORES
this coming year with 50+
stores already completed

Expansion

We plan to expand our
geographic reach with our
funeral business



Funeral Arranger, Frances Tallent, outside the new Funeral Services branch for Hellesdon which opened in December 2016.

Planned for completion in 2018: the new Rosehill development in Ipswich.



OVER 21,000 HRS of learning delivered in 2016

Training for colleagues has become more engaging than ever, thanks to the introduction of new digital and interactive content within courses and training innovations. These improvements have made a real difference to how we support colleague development, with more than 21,000 hours of learning delivered this year alone.

Our managers have benefited this year from new 'Know How' courses. Delivered as a combination of face-to-face and e-learning, this package was developed to hone the key skills needed by managers throughout the business, from people and time management skills to confidence in leadership and management.

Improvements have also been made to the colleague e-learning platform, Upskill, with more interactive and engaging training tools, such as animation and video.

At Wherstead Park, colleagues can undertake training from Lynda.com, the online learning portal from LinkedIn. Since introducing Lynda.com, colleagues have embraced self-learning and more than 140 courses have been undertaken, amounting to a fantastic 250 hours spent learning.

APPRENTICESHIPS PILOT

Trialled in food stores, funeral services and HL Perfitt stonemasons, our Apprenticeships Pilot has given our colleagues the opportunity to progress their career, with many success stories already emerging.

Our apprenticeships combine practical training with study, providing skills development and often a nationally recognised qualification, as well as encouraging the Apprentice to move onwards and upwards, including to other areas of the business.

Jodi Adams, Team Manager Apprentice at our Frinton food store, said of her Apprenticeship:
“It's good to know that I'm working towards getting a qualification and furthering my skills. I would highly recommend the Apprenticeship for others. It has allowed me to get hands-on experience and I've learnt a lot about the business.”



Aaron Bailey also joined the Apprenticeships Pilot and within a year was promoted to Team Manager at our Capel St Mary food store.

After the success of the pilot, a permanent Apprenticeships Programme has been launched and we are planning to recruit 75 Apprentices during 2017. This investment in our workforce aims to future-proof the business, training up the managers and business leaders of tomorrow.

In 2017 we plan to recruit 75 new Apprentices



PRINCESS ROYAL TRAINING AWARD

We were honoured to be one of the first organisations to receive a Princess Royal Training Award in recognition of our bespoke Dementia Friendly Retail Training Programme.

To receive this prestigious accolade, our programme was assessed by 10 leading figures in the business and learning development community, as well as HRH The Princess Royal, against three 'Hallmarks of Excellence' and was deemed outstanding.

We are now part of a select group of just 33 businesses nationally to receive this award.

Colleagues in their thousands undertook this voluntary training programme, and are now able to identify regular customers living with dementia and take real action to help.

You can read more about Dementia Friendly Retail on page 24.

Colleague engagement ON THE UP AGAIN

Our annual Colleague Engagement survey gives colleagues an opportunity to tell us what they think and provides a useful insight into how we can improve our business, ensuring it is a fair and positive place to work.

80% PARTICIPATION
5% increase on last year

80%
are proud to
work for us

82%
enjoy
their work

79%
receive praise
from their
manager

82%
feel their
manager cares
about them

81%
receive
feedback
from their
managers

77%
feel their job
lets them use
their skills
and abilities

We want to continue this positive trend in our results and all areas of the business have been asked to create an action plan to help improve colleague engagement within their team.

Mark O'Hagan, Joint Chief Executive, said: “We see colleague engagement as a key business measure. The way our colleagues feel about their work influences the service they provide. Our managers are giving this more focus through coaching, feedback and encouraging teamwork.”

“By making our training more engaging and quirky, we bring it to life which makes for more effective learning.”



Who makes your Co-op work?

Jeremy Usher, Trainer and Learning Technology Lead in the Learning and Development team.

I have always had a passion for learning and before joining the Learning and Development team, I was considering embarking on a career in teaching. At the time, I was a Co-op Department Store Manager and my favourite part of the job was helping my team grow and forge a career for themselves, from their first day through to promotion.

Since joining the team as a trainer six years ago, I haven't looked back. My role has changed hugely in that time. From the early days of delivering face-to-face manager training, I'm now leading on digital learning. This means producing content such as videos, graphics and photography as well as software programming and other technical elements.

I was already a keen photographer, but for the other digital skills I was able to learn a lot online, including taking Lynda.com courses. Practice makes perfect and the more I've done, the easier it has become.

This year as a team we have produced more content than ever before, and I'm really proud of how we have been able to directly support business objectives.

By making our training more engaging and quirky, we bring it to life which makes for much more effective learning. We would never just put text in front of a learner. At every stage, they have to actively gain the knowledge themselves, whether that's through the click of a mouse or answering questions.

I am lucky to be part of a superb and very close team, and I think we pack a big punch for our size. I've really enjoyed being part of the Co-op over the past 25 years. Working for a business which has a caring approach to the way it operates really matters to me.

Our HEROES

Whether it's going the extra mile to help our customers, supporting their local community or fundraising for charity, we are proud of our colleagues for the incredible good deeds they carry out, both big and small.

Here are just some of the highlights from the past year.

SETTING THE BAR HIGH

Co-op colleagues have gone above and beyond in their fundraising efforts recently, quite literally in some cases. To raise money for St Nicholas Hospice, Funeral Arranger Jack Robinson from Meredith Greengrass Funeral Services in Bury St Edmunds jumped out of a plane for his first skydive.

He said: "I meet many grieving families who have just lost someone they love. During this difficult time, I often hear how caring, attentive and helpful St Nicholas Hospice were, and continue to be, towards them and their loved ones."

Funeral Director Aaron Farrell from our Stowmarket funeral branch also donned a parachute. Colleagues at the branch were helping to raise money for St Mary's Church in Combs, Stowmarket which sadly had been seriously damaged by thieves.

Fundraising for repairs, the Stowmarket team organised a quiz night and raffle, and with sponsorship from the skydive too, eventually raised more than £1,000.

Jack raised money for St Nicholas Hospice



HELPING HANDS AT THE HOSPICE

To help St Elizabeth Hospice improve its accessible parking, Gary Chase, Chris Quinton and Lewis Wood from our Building Services team spent a day working tirelessly helping the hospice with the very tricky job of relocating a shed.

HARK, THE LONG STRATTON ANGEL SINGS!

Customers in Long Stratton are now familiar with the sight and sound of food store team member Craig Catchpole, who for the last two years has sung Christmas songs on Christmas Eve at the store. His carols for last-minute Christmas food shoppers have helped the store raise hundreds of pounds for charity East Anglia's Children's Hospices (EACH).

Craig, who performs regularly outside of work, said: "It is a pleasure to provide some extra festive spirit for our customers on Christmas Eve, while raising money for a great cause too."



WE FOUND WALLY!

The team at our Burnham Supermarket leapt into action to help a customer raise funds for an operation for her seven-year-old son, Samuel, who has cerebral palsy. The team dressed as Wally, his favourite character, to encourage donations from customers.

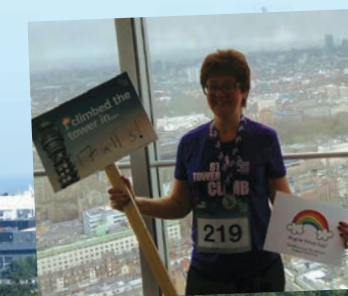
Store Manager, Neil Hammond, said: "I'm really proud of how willing the team were to get involved. Customers said how they enjoyed seeing their local Co-op support a little boy in the community."

Charity CLIMB



Senior Funeral Arranger Nicola Adams from our Maldon funeral branch climbed more than 1,000 steps in the BT Tower in London, raising £1,200 for Great Ormond Street Hospital Children's Charity. Nicola's daughter, Katie-Louise, was admitted to Great Ormond Street Hospital in 2006, but sadly passed away at just eight months old.

Nicola said: "I wanted to do something special to mark what would have been Katie-Louise's 10th birthday. I'm so grateful for all the support I've been given by Great Ormond Street Hospital. This was my way of giving back."



SAILS RAISED IN ALDEBURGH

Colleagues Chris Matthews, Harry Holt, Dan Newton and Kern Chapman-Chamberlain from our Aldeburgh store rallied together to raise funds for the Royal National Lifeboat Institution (RNLI) with a weekend of activities, including a car wash, cake sale, raffle and virtual balloon race in May. Chris and Team Manager Harry then went on to run the Great North Run in September, raising further funds for this worthwhile cause.



100 years



The team at Stanway Supermarket decided to surprise loyal customer Nora Nevard with flowers, champagne and chocolates to mark her 100th birthday. Nora has been shopping in the Co-op for more than 40 years and continues to pay a weekly visit.

Store Manager, Rob Miller, said: "More than a loyal customer, she has become a friend to colleagues and we really wanted to do something special for her."

Walking MIDNIGHT MILES

Kelvin Sherman, Team Manager at our Combs Ford Supermarket, and Roz Budinger, Customer Service Assistant at our Whitton food store, both sacrificed a night's sleep to take part in the St Elizabeth Hospice Midnight Walk in Ipswich.

Kelvin said: "I take part in the walk every year in memory of my Granddad who passed away in 2008, as this was his charity of choice."



This year we recruited 19,118 NEW MEMBERS

Membership is at the heart of everything we do and growing our membership is part of our ethos. It is one of the key things that makes us different from our competitors.

This year we recruited 19,118 new members in total, another incredible uplift on the previous year. This was thanks in no small part to our store colleagues, who, for two weeks, focused their efforts on turning customers into members.

Membership recruitment drive

To help incentivise our customers to become members, we held a prize draw for all members to win a £500 voucher and offered a £3 voucher, valid when £20 is spent, for new members in their Welcome Pack.

We developed training tools for our store managers to brief their team and help colleagues understand the importance of membership recruitment. With a variety of eye-catching marketing materials, including t-shirts and balloons, and a handy reference card, colleagues across the region championed the benefits of being a member. The store push for new members was an overwhelming success and we recruited nearly 2,000 new members during the drive thanks to the hard work and enthusiasm of colleagues in store.

As well as in stores, this big upswing in new members over just two weeks also kept the Membership Support Team busy, as the team of three then had to swiftly process every single application. To maintain momentum from this successful campaign, we are developing new training materials to help colleagues build confidence in promoting the benefits of membership to our customers.



We recruited nearly 2,000 new members during the drive thanks to the hard work and enthusiasm of colleagues in store.



A NEW APPROACH FOR THE ANNUAL MEMBERS' MEETING

Each year, we invite our members to join us for our Annual Members' Meeting. It's an opportunity to find out more about how we have performed over the previous 12 months and for members to have their say.

This year we doubled our attendance figures by offering members a more interactive experience. They met Sourced Locally producers, attended workshops, viewed exhibits showcasing our community work through the year, and added suggestions, questions and ideas to a new 'Ideas Wall'. Members also enjoyed a two course Sourced Locally lunch after the meeting.



OUT&ABOUT

We have had a busy year attending more than 70 events, big and small, from county shows and festivals to store openings and community events.

Attending events gives us an ideal opportunity to recruit new members. This year we focused on providing members and customers with a memorable experience showcasing the benefits of membership while engaging with the community. Over the course of 2016 we recruited a fantastic 2,300 new members at shows and events.

We had a significant presence at the Suffolk and Norfolk County Shows, offering member perks and benefits such as free tea and coffee in our Co-op Cuppa Café, children's face painting and goody bags, as well as plenty of interactive experiences.

Our Co-op Cuppa afternoon tea at the Tendring Show was such a success that we will be hosting more of these during 2017 at some of our bigger events.

We also attended the Woodbridge Shuck Shellfish Festival, the Golden Age Fair in Needham Market and Freshers' Fairs at the University of Suffolk and University of East Anglia, where we recruited 700 new members in just four hours.



Welcoming one of our new members at this year's County Shows. We attended over 70 events in 2016!

Over the course of 2016 we recruited a fantastic

2,300 NEW MEMBERS at shows and events



Who makes your Co-op work?

Joanne Creek, Store Manager at Sible Hedingham, winners of the in-store membership recruitment drive

My Dad worked as a Co-op Store Manager for 40 years and when I was 16 I went to join him. What started as a part-time job while I was in sixth form has led to a career that I love.

When I'm asked what I do as Store Manager, the answer is... everything. As well as office administration, money management and looking after my team, I am of course on the shop floor too. Every day is different. For example, we had one of my favourite Sourced Locally suppliers, Great Tilkey Honey, bring bees into the store and offer honey tastings for customers; it was fantastic.

In Sible Hedingham there were lots of people who weren't members, so we got right behind the membership recruitment drive to help change attitudes locally.

We used balloons to really grab our customers' attention and the store looked incredible. It was a real hit with children especially. Reference cards also helped the team talk knowledgeably to customers about the benefits of membership.

I think the most important part of my job is knowing my team inside out and maximising their strengths. My team here love a bit of competition so I used this to get them engaged in membership recruitment with our own internal competition on the number of new member sign-ups. We had a chart in the office that showed how every team member was doing and it really got everyone motivated to beat their colleagues.

We were absolutely delighted when we were crowned 'supreme champions' of the recruitment drive. It's such a boost for the whole store and I'm so proud of them all. Three of my team in particular went above and beyond, so I made sure to recognise their hard work by thanking them with wine and chocolates at a little in-store ceremony.

It's been more than a decade since I joined the Co-op and I have made some great friends along the way. It is a great place to work and I genuinely love what I do.

10 MILES WALKED OVER £18,000 RAISED AT THE IPSWICH ALZHEIMER'S MEMORY WALK

Dementia Friendly RETAIL

Recognising the important role we play as a community retailer in the lives of those living with dementia, their families and carers, we made a pledge to become the region's leading Dementia Friendly Retailer. This year, we've made huge strides towards achieving this aim, and we were proud to have been named Alzheimer's Society's Dementia Friendly Large Organisation of the Year.

TAKING ACTION IN OUR REGION



Working in true co-operation with local businesses has enabled whole communities to take steps towards becoming dementia friendly. We're proud to be members of 12 Dementia Action Alliances, as well as founding members of the Ipswich and Norwich Dementia Action Alliances.

In October, we supported the inaugural 10-mile Ipswich Alzheimer's Memory Walk, which raised over £18,000 for the Alzheimer's Society. Colleagues and volunteers gave out glasses of prosecco at a pit stop at our store on Colchester Road for the 150 fundraisers taking part, which included four of our Board of Directors.

ACTION IN RETAIL ACROSS THE COUNTRY



This year we were invited to contribute to a national Dementia Friendly Retail Guide, a project set up by the Alzheimer's Society as a result of the Prime Minister's Challenge on Dementia 2020 Policy.

The guide was created to improve the everyday shopping experience for people with dementia by helping retailers better understand the condition and giving practical examples of what they can do to provide customers and colleagues with extra support.

Jeremy Hughes, CEO of the Alzheimer's Society, said: "The Dementia Friendly Retail Guide is significant because shopping is a fundamental part of society. It's not about rocket science or financial investment or lengthy training courses. It's about a little bit of humanity enabling people living with dementia to participate in society."



Dementia Friendly ORGANISATION OF THE YEAR

Our efforts to improve the shopping experience for people with dementia were recognised this year by the Alzheimer's Society, who named us Dementia Friendly Large Organisation of the Year. There were a record number of entries for this prestigious award, which is judged by people living with dementia and industry experts.

Jeremy Hughes, CEO of the Alzheimer's Society, said: "The East of England Co-op has gone the extra mile to make a difference in their community for people living with dementia and they will inspire others to follow their example in all walks of life."



3,964

TAKE PART IN DEMENTIA AWARENESS TRAINING

This year we continued the roll-out of our multi-award-winning Dementia Friendly Retail Training programme. Thanks to the commitment of our colleagues, an impressive 3,964 have completed the voluntary training and are now able to provide extra support to those affected by dementia.

COLLEAGUES AS CARERS



Understanding what it can be like for someone caring for a person living with dementia is an important part of becoming a Dementia Friendly employer. We introduced a Carers' Survey to measure the impact of dementia on colleagues as carers and to find out how best we can 'care for the carers' across our workplace.

From the responses, we found 48% of colleagues had a parent living with dementia and 35% admitted that dementia had impacted their work. Several key areas were also identified, highlighting where more information or support is required, including coping with challenging behaviours, financial and legal advice and dementia diagnosis. Feedback is being used to shape the support we provide our colleagues.

"I feel incredibly proud of all that we have done this year as a collective to help improve the lives of people living with dementia across the region. Every small thing can really make a big difference."
Minnie Moll, Joint Chief Executive.

ITFC KICK OFF PLEDGE

We also helped Ipswich Town Football Club kick off their pledge to become a dementia friendly football club by co-hosting a reminiscence afternoon tea at Portman Road for Town fans living with dementia and later delivering Dementia Friends sessions to club staff.



There have
been more than
900
APPLICATIONS
FOR OUR COMMUNITY
TOKEN SCHEME

COMMUNITY TOKEN SCHEME

Our Community Token Scheme allows us to offer support to a variety of fantastic local causes, from parent and toddler groups to local hospices. Since we began the scheme 18 months ago, we've supported 540 local causes with £180,000 worth of donations.

At the till, members are given a token to put in one of three boxes championing a local cause in their community. After three months, we give the cause with the most tokens £500, with a further £300 and £200 donated to second and third place.

East of
England
COOP

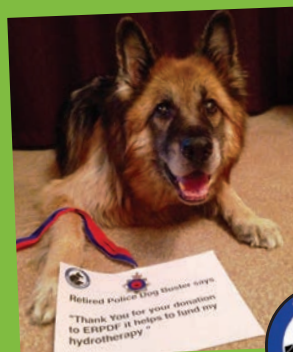


So far we
have donated
£180,000
TO LOCAL
CAUSES

East of
England
COOP

Essex Retired Police Dogs

“It has been wonderful that local people have supported Essex Retired Police Dogs with their tokens. We are so grateful to the East of England Co-op and their members for supporting these exceptional dogs that served faithfully in their working life and deserve to be cared for in their retirement.”



RPD Buster
served from
Sep 2004 to Feb 2012



RPD Kato
served from
Jul 2009 to Mar 2014

East of
England
COOP



WE HAVE NOW DONATED MORE THAN
500,000
TEA BAGS
TO OVER 550 LOCAL GOOD CAUSES

Co-op Cuppa provides local causes and communities throughout the East of England with a free one-off or regular supply of Co-op Fairtrade 99 Tea. This year alone, we provided an incredible 294,979 tea bags, fuelling 223 local good causes and 44 events.

This year, we hosted our own Co-op Cuppa Community Outreach events. Working alongside the Rural Coffee Caravan, we helped bring people together over a cup of tea at the charity's Golden Age Fairs and 'Ending Loneliness' Workshops.

As the country came together to celebrate The Queen's 90th birthday last year, we helped revellers raise a cup to Her Majesty by donating 20,320 tea bags to royal celebrations across the region.



“Thank you for your support; everyone is absolutely delighted. This will save us some money and keep our volunteers happy during their duties on the phone.”

SAMARITANS

Grundisburgh Lunch Club

“Our club meets twice a month for a cup of tea, lunch, a chat, a game of cards or dominoes, and another cuppa. The members mostly live alone and find it difficult to get out so they really enjoy seeing their friends. Thank you Co-op for a brilliant idea to support local community projects and clubs.”



Going BANANAS FOR FAIRTRADE FORTNIGHT



Fairtrade producers
paid a fair price
for their products

Saving LIVES

With the addition of a new community access defibrillator at our flagship store in Woodbridge, we now have 54 defibrillators attached to stores, with a further 47 housed at community sites across our region. Having this vital equipment to hand, particularly in rural areas, can, and has, saved lives. When our Tollesbury defibrillator was used to help a resident who went into cardiac arrest, paramedics advised that the patient would have been unlikely to have made it to hospital for treatment without the aid of the defibrillator.

We installed our 101st defibrillator this year

every minute counts

Fairtrade Fortnight, held from 29 February to 13 March in 2016, is an opportunity to show our support for the farmers and workers in developing countries who produce much of the food on our shelves.

This year, we visited Hamford Primary Academy in Walton-on-the-Naze where we held an assembly on the importance of Fairtrade and how a supply chain works.

We also welcomed Patrick Kaberia, a Fairtrade tea producer from Kenya, to Suffolk during the fortnight. Patrick toured the county from Lowestoft and Beccles down to Bury St Edmunds, Framlingham and Sudbury. At a visit to our Felixstowe Supermarket, Patrick was an honoured guest, alongside the Mayor of Felixstowe.

We supplied 2,640 Co-op Fairtrade 99 tea bags for events during Fairtrade Fortnight



Ballet Royalty RETURNS TO THE CO-OP JUNIORS

We have supported the popular Suffolk-based amateur theatre group Co-op Juniors since they were founded more than 70 years ago.

Many Co-op Juniors alumni have gone on to have successful careers in performing arts, with arguably the most revered being acclaimed Royal Ballet Principal Character Artist and Ballet Master, Gary Avis.

Gary performed with the Co-op Juniors during the 1980s, before joining The Royal Ballet in 1989. He returned to his roots to meet with the Co-op Juniors as they prepared for their production of Starlight Express, to share his experiences.

"I am massively grateful to the Co-op Juniors for what they gave me and I still use some of what they taught me in my performance today. I hope several of them will enjoy the kind of career that I am so fortunate to have. I can already see that the cast is brimming with talent, so you never know!"

Gary Avis, Royal Ballet Principal Character Artist and Ballet Master and former Co-op Junior



Our customers DONATED ENOUGH FOOD FOR MORE THAN 80,000 MEALS

Food banks are a vital last resort for people who are hungry and unable to buy food.

We collect donations of non-perishable food and toiletries in all our food stores for 22 food banks across the region, including independent local food banks. Thanks to the continued generosity of our customers, more than 80,000 meals were provided over the past year, more than double the previous year.



"We're delighted to have the support of the East of England Co-op with permanent collection points at all of their stores within Norwich. Over the past year, East of England Co-op customers and colleagues have donated a combined total of over 10,900kg which is absolutely incredible! We're also extremely grateful that the majority of the donations are delivered straight to our warehouse from the East of England Co-op trucks as this is a mammoth task and would add extra pressure to our charity. Thank you to ALL who support us at the East of England Co-op – it makes such a difference to our community as we serve local people in need."

*Hannah Worsley,
Norwich Foodbank Project Manager*

Measuring our Co-operative Performance

Key performance indicators

Area	Measurement	Description	2017	2016
Member economic involvement	Trade (£) conducted with members as a proportion of total sales (%)	Trade with members	43.7%	43.9%
Member democratic participation	Number of members voting in elections as a % of total membership	Members registered to vote	8,755	8,881
		Members who voted by post	2,535	2,777
		Members who voted online	625	267
		Members who voted in person	30	24
		Total number of members who voted	3,190	3,068
		% of total membership	1.1%	1.1%
Colleague profile – gender and ethnicity	The proportion of male/female colleagues	Number of male colleagues	1,439	1,383
		Number of female colleagues	2,831	2,926
		Women in management grades	376	350
		% of management grades held by women	55%	50%
	The percentage of colleagues from particular ethnic backgrounds	% of colleagues not identifying as white British	2.3%	2.0%
Customer satisfaction	The percentage of customers who are satisfied with a key aspect of the business	Distribution centre product availability	98.8%	99.1%
		Customer complaints	2,306	1,971
		Number of transactions	40m	40m
Investment in community initiatives	Total monies invested in community initiatives	Healthy living activities	£32,432	£54,996
		Community dividend fund	£113,364	£90,558
		Hours donated	1,942	2,460
Investment in co-operative initiatives	Total monies invested in co-operative initiatives	Supported groups	£50,899	£51,939
Waste recycled/reused	The weight or volume of waste recycled and/or reused as a proportion (%) of total waste	% waste recycled	78.8%	76.0%
Net carbon dioxide (CO ₂) emissions arising from operations	Net tonnes of CO ₂ emissions associated with energy used for all on-site operations over the year	Tonnes of CO ₂	19,954	26,055

Corporate Governance Report

The Board is pleased to report on the governance policies and practices within the Society for the year ended 28 January 2017.

This report is published in accordance with the Corporate Governance Code for Consumer Co-operative Societies (November 2013). The Code sets out the recommended best practice on issues of governance for consumer co-operative societies.

The Board is responsible for making sure the Society complies with recommendations in the Code that are appropriate to its circumstances and for reporting to members on this matter. Where the Society does not comply, the Board has an obligation to tell members why it does not. This report is intended to meet these obligations.

The Board believes the Society's governance arrangements are appropriate for an organisation of its size, nature and complexity, although there are a number of areas of the Code, detailed on page 45, with which the Society does not comply.

The Board is conscious that governance and related compliance matters can be difficult to convey within the confines of a formal report. The Board therefore welcomes questions and comments from members on this report at the Society's Annual Members' Meeting, or at any other time. In either case, please contact the Secretary.

The following sections in this report cover the key areas of governance as set down in the Code (copies of which are available from the Secretary).

Principal activities

The Society's principal business activities are food retailing, funeral services and management of its investment property portfolio. In addition, the Society has interests in petrol forecourts, travel, pharmacy, optical, events and conferencing, security and stonemasonry.

Membership matters

Membership is at the heart of any true co-operative enterprise and it is vital to building the Society's future. The Board aims to recruit, engage and involve members in the Society, and to reach out to those who have not previously engaged with the Society. Throughout the year, the Society attends many events across the region which facilitate contact with members. This work is combined with traditional methods of member engagement such as the Annual Members' Meeting. All membership meetings are publicised on the Society's website, and through email and posters in all trading outlets.

Application of profits

The distributions made by the Society recognise and reward members and the community for their contribution to the Society.

The Dividend Card records points earned for purchases from the Society and, based on trading in the year to 28 January 2017, the Society proposes to pay a dividend representing 2% (2016: 2%) of each member's qualifying purchases. This will be issued in the form of Society vouchers shortly after approval at the Annual Members' Meeting in May 2017.

Financial Reporting Standards determine how we treat this dividend and other profit distributions in our financial statements.

The Society rules govern the distributions made. The table below details the amounts the Board plans to distribute in the year under review, in accordance with these rules. The aggregate dividends recognised as an expense in the year amount to £2,732,000 (2016: £2,860,000).

Distribution of profits

	£000
Interest on share accounts	75
Dividend	3,040
Member and communities	611
Community investment	150
Co-operative Party	32
Donations	15
Amounts retained by the Society for reinvestment*	543
Total profit available for distribution*	4,466

*These represent non-statutory measures and are shown for the purpose of providing additional information to members.

The Board

This section gives you details about the Society's Board, its duties and responsibilities, and how it is structured and functions.

Society rules

The Society is bound by a set of rules that are approved by its members. Broadly speaking, these prescribe how the Society operates and the way it is structured.

Copies of the Society's rules are available from the Secretary.

The Board – duties and responsibilities

The Directors, as elected by members, are ultimately responsible for:

- Setting the Society's policy objectives
- Monitoring the achievement by management of those objectives
- Identifying and managing risk

Given the distinctive nature of co-operative societies, the Board also has a duty to ensure that the Society operates as a bona fide co-operative and adheres to the values and principles unique to these organisations.

All Directors on the Board, who are collectively responsible for the success of the Society, are answerable in law for the Board's decisions and are bound by the overriding fiduciary duty to act in good faith in pursuit of the best interests of the Society as a whole.

The Society's rules prescribe certain duties and responsibilities that are the sole preserve of the Board. The Board also has a formal schedule of matters reserved for its decision. The rules and the schedule include, for example, all matters concerning the determination and general operation of the Society's rules, all aspects of membership policy, the approval of all funding arrangements, and approval of property acquisitions and disposals above certain thresholds.

During the year, the Directors and the Management Executive sought professional external advice. Individual providers receiving fees over £25,000 are set out in the table below.

Consultant	Purpose	Fees paid £000
Kerseys Solicitors	Legal advice including advice on disposals and property transactions	151
Fenn Wright	Property advice and agency fees	141
KPMG LLP	Pension advice and internal audit	139
PricewaterhouseCoopers LLP	External audit and VAT advice	134
Ellisons	General property advice and acquisitions	133
Boyer Planning Ltd	Planning consultancy	100
Ensors	Acquisition due diligence	68
EWS Ltd	Property advice and property valuations	47
Grant Thornton UK Ltd	Corporate tax compliance and capital allowances claims	44

In addition, the Trustees of the Society's pension funds received external advice at the Society's expense as follows:

Consultant	Purpose	Fees paid £000
Buck Consultants	Actuarial and administration services	184
Pension Protection Fund	Annual levy for security fund	133

The Board has delegated the day-to-day management of the Society's activities to the Management Executive, which is responsible for the execution of the Society's strategy within the framework laid down by the Board.

Board procedures

The Board meets regularly throughout the year. At meetings it receives reports from management on trading and other matters, and it reviews the financial performance of the Society (both by trading period and cumulatively for the year) and considers papers presented for decision or information. In addition, the Board holds ad hoc meetings to consider particular issues and informal meetings to consider strategic and other concerns. Whenever possible, papers are circulated in advance to give Directors the opportunity to prepare, and the minutes of all Board meetings are submitted to Directors for their review and approval. Decisions made are actioned as appropriate by management. The Board meets in private session without the presence of management as and when required.

Independent advice

The Directors have access to the advice and services of the Secretary, who is responsible for advising the Board on governance matters. A number of external consultants also provide advice to the Board and its committees. There is an agreed procedure by which Directors may take independent professional advice at the Society's expense in furtherance of their duties.

Board development and evaluation

The Board regularly reviews its own performance and practices. In December 2016 KPMG were asked to undertake a formal Board Effectiveness Review and their report was reviewed by the Board on 11 March 2017. The Board assessed the conclusions as encouragingly positive but noted too that there were areas where further improvement could be made. In particular, the Board is looking at communications with stakeholders and at its Director induction and development processes.

In parallel with the KPMG review, the Board set up a working group of Directors, with advice from the Secretary and Management Executive, to look at its ways of working. The initial focus has been on freeing up more Board time to consider strategy-level issues. The working group has made some initial recommendations and should complete its work during 2017.

Notwithstanding the use of external consultants, the Directors are keen to keep their own knowledge and experience up to date and they all participate in an extensive programme of learning opportunities arranged by the Secretary.

Other learning opportunities are presented at a number of conferences to which the Board regularly sends delegates. These include the National Retail Consumer Conference and the Co-operative Congress, both of which have programmes of speakers of international repute.

The Board has established a structured programme of induction training that is overseen and reviewed annually by the Remuneration and Search Committee.

Board size

The rules provide for a Board of 16 Directors. The Directors are elected by all eligible members across the region irrespective of where the candidates or the members live.

Terms of office

The standard term of office on the Board is four years and one quarter of the Board retires each year.

The Rules also prescribe that a Director may be removed from office at any time by a two-thirds majority of votes cast at a special meeting of members.

The Rules provide that, after 12 years' continuous service on the Board, a Director must stand down for at least one year. This is to ensure a degree of Director turnover and meets the best practice guideline of ensuring Board renewal.

The President and Vice-President

The President chairs the Board and is supported by a Vice-President. Each year, the Board of Directors elects candidates for these roles. The President leads the Board in the determination of Society policy.

The President cannot be an employee of the Society and cannot hold office for more than four years in a row.

Board independence

To ensure the Board retains its independence, the Society's rules prescribe that neither a Director, nor their spouse nor partner, may be engaged in a managerial capacity in any business that competes with the Society. Nor may they have an interest of more than 1% of the issued share capital of a business trading with the Society.

Additionally, no more than two Directors on the Board can be current employees or have worked for the Society within the last three years. In order to ensure that new Directors are elected to the Board, the Rules limit the continuous length of time that a Director may serve on the Board.

The Secretary maintains a register to record any conflicts of interest that may arise for Directors and the Management Executive of the Society. Formal updates to the register are requested biannually, and individuals must inform the Secretary at the first opportunity of any conflicts that should arise in the interim. The register is open to inspection by members. In addition, at each Board or Committee meeting, Directors are asked to declare any interests they may have in relation to the business on the agenda. The table on page 38 lists Director and Management Executive external directorships or equivalent.

The Board believes the above measures serve to ensure the independence of Directors and management is safeguarded.

Board attendance record

The table on page 34 lists the attendance record of Directors at Board and Committee meetings for the year under review. The figures show the number of meetings each Director actually attended, against the number of meetings they were eligible to attend (this latter figure is shown in parentheses).

Elections

During the year, elections to the Board were conducted by postal/online voting and voting in person at the Annual Members' Meeting. The Board is keen to encourage members to use the facility for postal and online voting.

In May 2016, there were five vacancies on the Board and 31 candidates contested these places.

Board committees

In order to discharge its responsibilities effectively, the Board has appointed a number of committees to review specific matters on its behalf and to bring forward recommendations for consideration by the Board as and when appropriate.

The membership of these committees and the number of meetings that were held during the year are shown on the attendance table on page 34.

Board and Committee membership

Attendances 2016–17 Attendance shown 9(11) = 9 meetings attended out of a possible 11.

	Last Elected	Term Ends	Board	Audit	Performance Review	Membership and Community Engagement	Remuneration and Search	Rules	Ways of Working Group
Directors	Term of Office		Committees						
Mr C J Barrett	May 13	May 17	13(13)				7(7)		
Mrs B Bulsing	May 14	May 18	11(13)		4(4)	5(5)		8(8)	3(3)
Mrs S Chicken	May 13	May 17	12(13)				7(7)		3(3)
Mr J Cook	Co-opted May 16	May 17	11(12)	2(3)			4(4)		
Mrs N Fox	May 16	May 20	12(13)	2(3)			3(3)		
Mr P Hartwell*	May 15	May 18	10(13)		3(3)	1(1)			3(3)
Mr J Hawkins	May 16	May 20	13(13)		7(7)			8(8)	3(3)
Ms E Howard	May 15	May 19	13(13)		6(7)				3(3)
Mrs C Johnsen	May 15	May 19	10(13)	6(6)					
Mr C E Mann	May 14	May 18	13(13)	6(6)				8(8)	
Mr C Matthews	May 16	May 20	10(10)			3(4)			
Mrs C Moore*	May 15	May 18	11(13)	4(6)					
Mr C Newbury	May 13	May 17	13(13)		7(7)				3(3)
Mr J Pendle*	May 13	May 17	3(3)				2(2)		
Ms B Perkins	May 14	May 18	12(13)		4(4)	4(4)			3(3)
Mrs T Scrogie**	May 15	May 16	3(3)			1(1)			
Mr S Shaw	May 16	May 20	13(13)			5(5)		8(8)	
Ms M Veronese***	May 16	May 19	10(10)				4(4)		

This table does not record attendance at the AMM, two informal development workshops and a visit to stores and potential developments. Two special Board meetings were arranged at short notice to discuss the acquisition of the former Budgens store in Woodbridge, and one clashed with an important external conference. Eight Board meeting absences shown above relate to these difficulties. + John Pendle was due to serve until May 2017 but sadly died soon after the 2016 Annual Members' Meeting. * Phil Hartwell and Celia Moore will each complete 12 years continuous service in May 2018 and will need to stand down at this time for at least one year. ** Tereza Scrogie stood down after one year as she moved out of the region. *** Maria Veronese was elected to fill a casual vacancy for a term of office with three years remaining to be served. On 18 May 2016, Sally Chicken was re-elected President and Colin Barrett was re-elected Vice-President, each to serve for one year to May 2017.

Remuneration and Search Committee

Terms of reference

The Remuneration and Search Committee has oversight of the following matters:

- Application of the Executive remuneration policy
- Setting Executive KPIs and undertaking performance appraisals
- Approval of new additional Senior Management Team posts
- Executive Service Agreements (excluding salary) and role profiles
- Executive appointments – shortlisting for interview
- Appointment of pension scheme Trustees
- Director induction
- Appointment of Directors to subsidiaries

The Committee makes recommendations when necessary to the Board on these and related matters, including recommendations for subsequent consideration by members regarding Directors' fees. Since merging with the Search Committee, it has also been responsible for the review of Board renewal and succession planning, induction, the code of conduct and recommended appointments to committees.

The Terms of Reference are derived from those recommended by Co-operatives UK for separate Remuneration and Search Committees.

Meetings

The Committee met seven times during the year. Members of the Leadership Team were only present at the discretion of the Committee.

To assist with its work and to ensure it received independent advice, the Committee retained a number of external consultants during the year. These are shown in the table on page 32.

Activities during the year

The regular business of the Committee covers all aspects relating to Directors' fees and expenses, the approval of new Executive and senior management posts, Executive appraisal and remuneration and the employee benefit structure, including pensions. The Committee also makes recommendations to the Board on appointments to Board committees and on Directors' fees and expenses policy.

The key items considered by the Committee during the year were as follows:

Colleague relations

Although Directors delegate all matters regarding the structure and management of the Society's workforce other than at Executive and senior management level to the Leadership Team, the Board maintains a close oversight to ensure that the organisation's needs continue to be met and that the approach taken is consistent with the Society's co-operative values and principles. The Committee undertakes this role on behalf of the Board.

Oversight of the Executive and Collegiate Leadership Team

The single most important responsibility of the Board of Directors is to ensure that the professional leadership of the Society is of the highest calibre and able to achieve the business and co-operative goals set by the Board. It is the Remuneration and Search Committee that takes the primary oversight role in these matters.

In carrying out this role during the year, the Committee has continued to develop and refine the Executive appraisal process, with the help of its external consultants PicassoHR. The Committee has also carried out its annual review of Executive remuneration, resulting in recommendations which were subsequently approved by the Board relating to salaries, Leadership Team allowance, and pension contribution rates. Details of Executive remuneration are set out on page 37.

Directors' expenses and fees

Directors' fees are determined by the Society's members on a recommendation from the Board, which itself considers a recommendation from the Remuneration and Search Committee. At the Annual Meeting in May 2014, members approved a formula for Directors' fees based on a single wage-related increase reflecting the USDAW annual settlement. For 2016–17 this formula could not be used as there was no single USDAW rate. For 2017–18 Directors used the official figures for the annual increase in salaries as a guideline and have proposed an increase of 2.4%. If approved by members, this will increase Director fees by £195 to £8,305.

No additional supplements are payable for the particular offices held by Directors and no delegate fees are payable for Directors attending meetings or conferences on behalf of the Society. There is no provision for loss of earnings.

Directors are reimbursed for expenses which are necessarily, wholly and reasonably incurred on Society business.

Where a Director is the sole carer for a dependant, be they a child, elderly relative or person suffering a disability, and that Director incurs costs in arranging alternative care for that dependant to enable them to attend Board meetings, the actual costs that are necessarily, wholly and reasonably incurred in the provision of such care may be recovered from the Society.

Directors receive employee discount during their term of office. For full details of expenses paid, see table on page 37.

Performance Review Committee

The purpose of the Performance Review Committee is to complement the Board's responsibilities for strategic review. During the year, the Committee has met regularly to monitor the commercial performance of the Society as reported in the quarterly performance statements. It has also refined the content of these reports to address the core requirements of Directors for performance monitoring. These core elements form the basis for the Board's constructive challenge of the Society's Leadership Team:

- Was the strategy on track?
- Was the budget on track?
- Was planned development and growth on track?
- Were customer satisfaction improvements on track?
- Were major projects on track?

If not – why? Would the position recover or is remedial action required?

Discussions focused on the key areas of sales, margin, personnel costs and contribution levels. With the review of the food retail strategy in January 2016 and January 2017, the Committee has helped the Board to set appropriate targets by which to measure success and, through a system of interim meetings introduced during the year, has carried out in-depth reviews of other parts of the business and helped to set targets for these areas.

The Committee also monitors the return on recent investment in the business including major store refurbishments and the acquisition of key investment properties.

Membership and Community Engagement Committee

The Board has delegated to the Membership and Community Engagement Committee the responsibility for the development and oversight of the strategy for member engagement along with monitoring the Society's role within the wider co-operative movement.

Terms

The Committee's terms of reference include:

- All matters relating to member recruitment, retention and engagement
- All matters relating to the Society's Community Policy
- All matters relating to the strategic framework for the Society's Community Policy
- Allocation of the Society's Community Investment

Delegated powers

- Allocation of the Community Investment according to the strategic framework approved by the Board
- Agreement of the strategic framework for member and community engagement

Membership

Membership of the Committee during the year under review is shown in the table on page 34.

Meetings

The Committee met formally five times during the year. In addition, a Membership and Community Investment Strategy Day was held in September 2016 which all Board Directors were invited to attend.

Activities during the year

A report on the activities of the Membership and Community Engagement Committee is included on pages 22 to 29 of this report.

Audit Committee

Terms

The Audit Committee's terms of reference are based on the Corporate Governance Code for Consumer Co-operative Societies (November 2013) which aids the Society's focus on the routine use of appropriate and effective financial controls.

After each meeting, the Committee reports formally to the Board on its proceedings, making recommendations to the Board on any actions and improvements that it deems appropriate.

Membership

Committee membership during the year is shown in the table on page 34.

The Directors of the Society are elected by and from the Society's members. The Committee members bring a diverse range of experience to their work; however, the Committee does not contain at least one member with recent and relevant financial experience as recommended under the Corporate Governance Code for Consumer Co-operative Societies (November 2013).

Members of the Audit Committee are aware of this issue which is mitigated through the Committee's training programme and access to independent advice from external consultants.

Meetings

The Committee met formally six times during the year. At all meetings at least one member of the Leadership Team was present. When external or internal auditors were also present, a period was set aside in the meeting for the Committee to meet with them in private, without any Leadership Team members (or the Secretary/Deputy Secretary) being present.

Training/continued development

During the year the Committee did not undertake any formal training courses. The Committee did however hold special meetings in February and May 2016 to receive a technical response paper from the Society's External Auditor, PwC, relating to changes to the accounting treatment of funeral bonds, required due to the introduction of FRS102 (Financial Reporting Standard).

At the time of writing the Committee are arranging for a training session to be held in 2017 focussing on developing an understanding of a number of key areas including IT Security, Data Breaches, Prevention of Cyber Threats and Cyber Insurance.

Activities during the year

Below are the Audit Committee's principal activities over the last year:

- Review and approval of full year results (Society and its subsidiaries)
- Review of the internal audit plan and the results of the internal auditors' work, including monitoring management's responsiveness to findings and recommendations
- Review of the Society's internal financial controls and the internal control and risk management system
- Approval of the terms of engagement with the external auditor

- Review of the audit plan with the external auditor at the planning and reporting stages
- Effectiveness of the internal and external audit function
- Relevant disclosures in this report
- Review and ongoing monitoring of the Society's IT strategy
- Monitoring and understanding changes within financial accounting standards – in particular the treatment of funeral bonds and deferred tax under FRS102 (Financial Reporting Standards)
- Overseeing a Board effectiveness review conducted by the Society's internal auditor KPMG
- Review and approval of the Society's:
 - Fraud reporting policy
 - Modern Slavery Statement
 - Taxation policy – Fair Tax Mark
- Review of post investment appraisals completed between 2012 and 2014
- Receive HMRC's business risk review

Financial reporting

After discussion with both the Leadership Team and the External Auditor, the Audit Committee determined that the key risks of misstatement of the Group's financial statements related to:

- Stock/GRNI reconciliations
- Net inventory carrying value
- Investment and trading property valuations
- Defined benefit pension plan net liability

Other areas of focus for the Audit Committee were:

- Compulsory purchase order of Society-owned land (Network Rail)
- Taxation
- Impairment review – loss-making units
- Funeral bonds
- Dormant Members' share capital
- Fraud risk

These issues were discussed with management during the year and with the auditor at the time the Committee reviewed and agreed the audit plan and also at the conclusion of the audit of the financial statements.

Misstatements

The Leadership Team confirmed to the Committee that they were not aware of any material misstatements or immaterial misstatements made intentionally to achieve a particular presentation. The auditors reported to the Committee the misstatements that they had found in the course of their work and no material amounts remain unadjusted. The Committee confirms that it is satisfied that the auditors have fulfilled their responsibilities with diligence and professional scepticism.

After reviewing the presentations and reports from the Leadership team and consulting where necessary with the auditors, the Audit Committee is satisfied that the financial statements appropriately address the critical judgements and key estimates (both with respect to the amounts reported and the disclosures). The Committee is also satisfied that the significant assumptions used for determining the value of assets and liabilities have been appropriately scrutinised, challenged and are sufficiently robust.

Committee performance appraisal

The Board encourages Committees to review their performance annually and to bring forward recommendations that might improve their effectiveness. This has led to regular updating of Committee terms of reference and occasional review of the Board Committee structure. In June 2013, the Board combined the Remuneration and Search Committees and agreed to take new venture proposals at Board level. The Rules Committee is established as an ad hoc working group as and when required and met during 2016-17 to propose rule amendments that will be put to members at a Special Members' Meeting to be held on 13 May 2017.

During 2016-17, the Board commissioned its internal auditors, KPMG, to undertake a Board Effectiveness Review and the feedback from that review is being considered by the Board. Separately, the Board established a 'Ways of Working' group to consider whether more effective arrangements could be found for Board structures and procedures. This will include careful consideration of the current Board Committee structure and the delegation of authority to committees and the Leadership Team.

Management Executive emoluments

	Basic salary £000	Benefits in kind £000	Employer pension contributions £000	2016/17 total emoluments £000	2015/16 total emoluments £000
Nick Denny	180	11	18	209	192
Mike Faulkner	145	11	15	171	170
Doug Field	199	9	20	228	219
Roger Grosvenor	256	12	22	290	290
Minnie Moll*	153	11	12	176	155
Mark O'Hagan	184	12	16	212	193
	1,117	66	103	1,286	1,219

*Minnie Moll operates flexible working hours.

Directors' fees and expenses

Director	2016/17 fees received £	2016/17 expenses £	2015/16 fees received £	2015/16 expenses £
Colin Barrett	8,110	984	8,046	1,408
Mary Blacksell	–	–	2,587	68
Gillian Bober	–	–	2,587	494
Graham Bober	–	–	2,587	425
Belinda Bulsing	8,110	649	8,046	30
Sally Chicken	8,110	2,224	8,046	3,145
John Cook	8,110	481	8,046	30
Nicola Fox	8,110	318	8,046	711
Phil Hartwell	8,110	541	8,046	828
John Hawkins	8,110	664	8,046	463
Emma Howard	8,110	273	5,459	351
Claire Johnsen	8,110	21	5,459	30
Clive Mann	8,110	894	8,046	1,136
Chris Matthews*	5,459	146	–	–
Celia Moore	8,110	21	8,046	279
Chris Newbury	8,110	553	8,046	224
John Pendle*	2,807	32	8,046	668
Beverley Perkins	8,110	600	8,046	2,057
Tereza Scrogie*	2,651	222	8,046	724
Steven Shaw	8,110	688	5,459	258
Maria Veronese*	5,459	1,183	–	–
	129,916	10,494	128,736	13,329

Directors' expenses are materially dependent on their home location and the dates and times of events that they may need to attend.

*This Director only served for part of the current year, see table on page 34.

Management Executive pension table

	Age at year end	Years in the pension scheme	Total pension accrued at year end £000	Increase/ (decrease) in accrued pension during the year (net of inflation) £000
Nick Denny	48	4	5	–
Mike Faulkner	59	10	21	–

Roger Grosvenor chose to take his pension in August 2015.

Directors' and Management Executive external Directorships

Director/Management Executive	External Directorship (or equivalent)
Belinda Bulsing	Pettaugh Parish Councillor Gilchrist Unit Supporters' Trust (Trustee)
Sally Chicken	Eastern Savings & Loans Credit Union (Director) Rainbow Saver Anglia Credit Union Ltd (Director) Galliform Ltd (Secretary) Plastic Cash Ltd (Director) Sunrise Community Energy Ltd (Director) Shotley Heritage Community Benefit Society Ltd (Director) TTG Training CIC (Director)
John Cook	Ipswich Borough Councillor
Nicola Fox	Your Confidence Expert Ltd (Director)
Phil Hartwell	Harwich Connexions (Director) Co-operatives UK (Director) Co-operative Group Members' Council
John Hawkins	St Helena Hospice (Trustee and Vice-Chair)
Claire Johnsen	Stanstead Parish Councillor The Co-operative Loan Fund Ltd (Director)
Chris Matthews	Co-operatives East (Director)
Beverley Perkins	Co-operative Press (Director) Co-operative Group Members' Council Co-operative Group Members' Senate
Maria Veronese	Mediapro Media Training Ltd (Director)
Steve Shaw	Co-op Juniors Theatre Company (Trustee)
Nick Denny	Eastern Enterprise Hub (Director)
Doug Field	New Anglia LEP Board Member Give & Take Care Community Interest Company (Director)
Roger Grosvenor	FRTS Ltd (Director) Ipswich Recovery Hub (Director)
Minnie Moll	Ipswich Central (Director) Suffolk Business Women Board Member HRH The Prince's Ambassador for Responsible Business in the East of England

N.B. All Directors of the Society are directors of subsidiary co-operatives.
Clive Mann and Chris Newbury are directors of subsidiary companies.

Internal Control

This section of the report sets out the Society's approach to internal control and the measures taken to review its effectiveness, so as to provide members with assurance that this critical area receives sufficient attention.

The Board has ultimate responsibility for the Society's system of internal control and for reviewing its effectiveness. The system is designed to manage rather than eliminate the risk of failing to achieve the Society's objectives and can only provide reasonable, rather than absolute, assurance against material misstatement or loss.

The aims of the system of internal control are:

- To safeguard the Society's assets
- Ensure that proper accounting records are maintained
- Ensure that the financial information used within the business and for publication is accurate, reliable and fairly presents the financial position of the Society and the results of its operations

The Board is also responsible for reviewing the effectiveness of the system of internal control and for this purpose it has its Audit Committee.

With the assistance of the Audit Committee, the Directors have continued to review the effectiveness of the Society's system of non-financial as well as financial controls, including operational and compliance controls, risk management and the Society's high level internal control arrangements.

The Board believes that the controls and processes in place are appropriate for an organisation of the size and complexity of the Society.

Control environment

The quality and competence of our people, their integrity, ethics and behaviour are all vital to the maintenance of the Society's system of internal control.

The Society's control environment framework is designed to create an attitude of taking acceptable business risk within clearly defined limits. This framework contains the following key elements:

- An organisational structure with clear lines of responsibility, delegation of authority and reporting requirements
- Co-ordinated activity across the whole Society by the Management Executive Team
- A risk management process designed to monitor the major risks facing the Society
- Board review and approval of annual budget and longer-term plans for each business group and support function
- Comprehensive systems of financial reporting – actual results together with comparisons to budget and prior year are reported regularly to the Board throughout the year
- Clearly defined policies for capital and revenue expenditure, for example larger capital and revenue expenditure proposals require Board authorisation
- An independent internal audit function which reports directly to the Audit Committee

The Society has a formal Colleague Handbook which sets out the policies that explain and illustrate the high standards of conduct and personal behaviour that are expected of all colleagues in their dealings with members, customers, suppliers and each other.

The Colleague Handbook also contains the Society's Whistleblowing Policy and Procedures.

Control procedures

The Society's control procedures are designed to ensure appropriate levels of control are maintained with complete and accurate accounting for financial transactions, thereby limiting the potential exposure to loss of assets or fraud. Measures taken include preventative controls (including physical and systems access controls), authorisation procedures, detective controls (including review and reconciliation procedures), segregation of duties, and reviews of processes by management, Internal Audit and the external auditors.

Monitoring

The operation of the system of internal control is the responsibility of line management. It is subject to review by the Finance Department and independent review by Internal Audit. Review also takes place, where appropriate, by the Society's external auditors.

At the start of each financial year the Leadership Team produces a business budget for the Society based on each of the trading divisions. The Board reviews the underlying assumptions and resulting figures. Throughout the year, following each trading period, comprehensive performance reviews are presented by the Leadership Team that compare the results with both the budget and previous year. Significant variations are examined by the Board. This process is complemented by the Board's Performance Review Committee who meet regularly to monitor the commercial performance of the Society.

Review process

The process used by the Audit Committee to review the effectiveness of the Society's system of internal control includes the following:

- Review of external and internal audit work plans
- Consideration of reports from the independent internal and external auditors on the system of internal control
- Discussion with management of the actions taken to resolve issues identified in such reports

Opinion on internal control system

The Audit Committee has reviewed the operation and effectiveness of the Society's internal control system during the year under review and through to the date of this report. The Committee considers that there have been no weaknesses that have resulted in any material losses or contingencies that require disclosure.

Financial and Business Risk Assessment

Effective risk management is at the heart of the business, supporting delivery of the Society's strategy by ensuring the business continues to be safe and sustainable and protects members' interests.

The Board and Leadership Team have the primary responsibility for identifying the key business risks facing the Society.

The Society operates a risk management process that identifies the key risks facing each business. The Society has a risk register which identifies the likelihood and impact of those risks occurring and the actions being taken to monitor and control

them. Risk assessments are updated regularly and reported to the Audit Committee which has responsibility for establishing a coherent framework for the Society to manage risk, which also includes a Business Continuity Plan.

The objective of the Committee is to assist the Board in carrying out its responsibility to ensure effective risk management and systems of control.

Top and emerging risks

Whilst the Society accepts that all its activities involve risk, it seeks to protect its members by managing risks that arise from its activity appropriately. Risk management activity has focused on strengthening business resilience. The Society's top and emerging risks remain largely unchanged and fall within the themes of economic uncertainty, competition / market disruption and loss of central IT. The impact of the ageing population is also likely to influence the business in the future.

A description of significant risks faced by the Society and relevant mitigating factors

Principal risk	Potential impact	How it is managed
Economic environment	Adverse economic conditions, the decision to the leave the EU and rising inflation may give rise to significant changes in consumer spending patterns in our markets. This could have a substantial impact on the performance of businesses operated by the Society.	We seek to understand and respond to the needs of our customers by offering a broad appeal to all customers in our different markets, which is appropriate to economic and market conditions. Financial forecasts are frequently updated to reflect economic indicators and monitor trading conditions.
Competition	The Society trades in highly competitive markets, and faces an increasing threat from national and international businesses seeking growth opportunities through expansion into new geographical areas and new formats. There continues to be a significant number of projects being undertaken by the Society at this time to improve its competitiveness, including technology investments, a food store refresh programme and expansion of our funeral operations. If these projects aren't implemented effectively and on time then there could be an impact on profitability.	We measure trends in our performance and competitiveness e.g. price checks and promotional offers, as appropriate to the competitive landscape. The Society monitors competitor actions as far as is possible from information in the public domain and takes appropriate mitigating actions where possible. Projects are managed using recognised project methodologies and are supported by Society training and development programmes.
Compliance with legislation and regulation	The Society is subject to a wide range of legislative and regulatory requirements, principally designed to protect our customers and colleagues, and the Society is naturally fully committed to complying with all such requirements. Compliance failures can have serious implications for the trading performance of the unit concerned, or even for the Society as a whole, as well as potentially damaging our reputation. The National Living Wage, Apprenticeship Levy and additional energy compliance costs provide external cost pressures which will impact profitability.	The Society ensures that it obtains timely information about forthcoming changes in legislation and that it has robust procedures in place to minimise any risk of non-compliance. Employment of suitably qualified and experienced compliance and risk individuals. Significant resource is directed to training colleagues and monitoring the effectiveness of training in compliance obligations. We continue to drive efficiencies, through smarter working and technology investment to mitigate external cost pressures where we can.

Principal risk	Potential impact	How it is managed
Major failure of IT systems or infrastructure	The Society has invested significant sums of money in technology and is now heavily reliant on these operational systems. A prolonged failure of a key system or the IT infrastructure would have a detrimental impact on our business, potentially resulting in an inability to make sales, supply stores or pay employees. Cyber security threats are increasing and this, coupled with the pace of technological development, creates risks. There could also be a reputational impact with customers losing trust.	Controls are in place to mitigate the risks of losing IT, including disaster recovery and business continuity plans, data backup procedures, backup power supply, hardware maintenance agreements and server replication. Regular tests of controls are undertaken and the Board use Internal Audit to obtain further assurance in this area.
Supply chain disruption	Significant disruption of supply to our trading outlets will impact the level of sales achieved by our retail operations and impact the financial performance of the Society. Our supply chain is linked to the wider co-operative movement through the food retail buying group, Federal Retail and Trading Services (FRTS). A major participant in FRTS is the Co-operative Group. Co-operative Group also manage distribution of goods to our Distribution Centre and food stores.	Supply chain continuity is an integral part of our business continuity plan. We are active participants within the FRTS organisation, attending all Strategy and Monitoring Group discussions. The retention of our own ambient Distribution Centre and the related vehicle fleet also helps mitigate risk.
Damage to our reputation and brand	The Society's reputation as an ethical retailer is based not only on our co-operative structure and philosophy, but also our longstanding commitment to ethical business practices, the quality of our products and services, and our ability to respond to changing member and customer demand for our products and services. If we fail to deliver excellent standards of hygiene and safety in our products and stores there is potential harm to our customers. Any failure to meet the high standards our members expect from us in these core areas will damage our reputation and potentially affect the ongoing success of our businesses.	Considerable management attention and training are devoted to protection of our reputation and brand. Health and safety is a mandatory Board and Leadership Team agenda item. The Society is an active participant within the co-operative movement and one of its Directors is also a Director of Co-operatives UK, the national trade body that campaigns for co-operation and works to promote, develop and unite co-operative enterprises. The Board of Directors are also represented on the Co-op Group's Members' Council and Senate. In practical terms, elements of this risk are outside the Society's control as the Co-operative 'brand' is managed by many different societies in different parts of the country.
Finance and liquidity	Inability to generate sufficient funds to meet business needs, including payments to members. The Society has exposure to commodity prices and fluctuations in interest rates, which can impact on financial performance.	The Finance function has processes and procedures in place to manage its responsibility for the Society's liquid resources, cash flow requirements and financial risk. The Society has significant liquid assets and so its exposure to liquidity risk is considered low.
Property investment values	The Society's property portfolio comprises both trading and investment properties. The latter are revalued on a regular basis in line with generally accepted accounting principles and in commercial terms provide a significant source of investment income to the Society. Any downturn in the commercial and residential property markets is likely to impact this income stream and, in consequence, reduce the capital value of those investments.	The investment property portfolio is under continual review to mitigate any risks to the Society.
Pension schemes	Inherent within the Society's final salary schemes is the risk that key variables, such as life expectancy and investment returns earned, may vary from current expectations and potentially increase the future costs that will have to be borne by the Society.	The Society and the schemes' trustees continue to carefully monitor the pension risks, taking action when necessary to adjust contributions to the schemes and revising the schemes' investment strategy to mitigate risks. Both final salary schemes have been closed to future accrual to reduce risk in this area. The asset-backed funding arrangement, introduced by the Society in 2013, has improved security for members of the two defined benefit pension schemes as well as increasing certainty for the Society in terms of funding.

Modern Slavery Statement

This statement is made pursuant to s.54 of the Modern Slavery Act 2015 and sets out the steps that the East of England Co-operative Society has taken and is continuing to take to ensure that modern slavery or human trafficking is not taking place within our business or supply chain.

Modern slavery encompasses slavery, servitude, human trafficking and forced labour. The East of England Co-operative Society has a zero tolerance approach to any form of modern slavery. We are committed to acting ethically and with integrity and transparency in all business dealings and to putting effective systems and controls in place to safeguard against any form of modern slavery taking place within the business or our supply chain.

Our business

The Society's principal business activities are food retailing, funeral services and management of its investment property portfolio. In addition, the Society has interests in petrol forecourts, travel, pharmacy, optical, events and conferencing, security and stonemasonry.

The Society is incorporated in England under the Co-operative and Community Benefit Societies Act 2014 and its registered address is Wherstead Park, The Street, Wherstead, Ipswich, IP9 2BJ.

None of our turnover is generated by overseas operations. We do acquire some of our products direct from overseas suppliers, but this is largely isolated to the purchase of stone for our masonry business, H.L. Perfitt Ltd.

Within the last twelve months the Society has used around 1,500 individual suppliers. A significant majority of our turnover is generated from goods purchased through a buying group which comprises the Co-operative Group and a number of other independent co-operative societies. We are aware that The Co-operative Group will be issuing their own Modern Slavery Statement and, from discussion with them, we are confident that we can rely on their procedures and policies to ensure there isn't any modern slavery within the buying group's supply chain.

Our high risk areas

The signs of modern slavery can often be very subtle and difficult to identify; we are improving our understanding of where the risks are greatest and prioritising our activity accordingly.

During our due diligence we identified that our highest areas of risk were our local suppliers and the masonry stone suppliers to H.L. Perfitt Ltd.

Local suppliers

Local suppliers tend to have a less formal structure and more fluid worker arrangements, often relying on migrant, seasonal and agency workers, which may carry a higher risk of human rights abuses.

Local suppliers are often less aware of the circumstances surrounding modern slavery. We will, where necessary, educate our suppliers and make full enquiries regarding their processes and procedures. Audits are also carried out periodically on new and existing suppliers using a risk-based approach.

H.L. Perfitt Ltd

H. L. Perfitt Ltd currently sources stone from China and India which are deemed higher risk due to the varying human rights from country to country. We have made all reasonable efforts, including enquiries through supplier agents, to ensure that modern slavery does not exist within this supply chain.

Our suppliers

The East of England Co-operative Society operates a supplier policy. We conduct due diligence on all suppliers before allowing them to become a preferred supplier. From 29 January 2017 this due diligence includes an online search to ensure that the organisation has never been convicted of offences relating to modern slavery, and on-site audits which include a review of working conditions for relevant suppliers. Our anti-slavery policy forms part of our bond with relevant suppliers and they are required to confirm that no part of their business operations contradicts this policy.

In addition to the above, as part of our bond with our suppliers, we require that they confirm to us that:

- They ensure that their employees have the right to work in the UK
- They meet the requirements of UK employment legislation, which is assumed to include the requirement to pay the National Minimum Wage
- They have systems in place to ensure that their employees are not enslaved or forced to work contrary to the Modern Slavery Act 2015

We may terminate the contract at any time should any instances of modern slavery come to light.

Our policies

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

- Recruitment policy
- Whistleblowing policy
- Dignity at work policy
- Equal opportunities policy

Training

We have recently conducted training for our procurement/ buying teams so that they understand the signs of modern slavery and what to do if they suspect that it is taking place within our supply chain.

Our performance indicators

We will know the effectiveness of the steps that 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 colleagues, the public or law enforcement agencies to indicate that modern slavery practices have been identified
- All suppliers deemed by the Society to be at a higher risk of human rights abuses have been subject to the Society's audit procedures and no concerns have been highlighted

On behalf of the board:

Sally Chicken

Sally Chicken
President
22 April 2017

Corporate Matters

This section of the report covers corporate policies and practices that the Board considers should be communicated to members.

Colleagues

We value people from all backgrounds, ensuring an inclusive approach that celebrates diversity. The Society is committed to a policy of treating all its colleagues and job applicants equally and to increasing the involvement of colleagues through engagement activities.

Colleague engagement

As a key element of our strategy we aim to achieve industry-leading levels of colleague engagement to maintain our friendly customer service.

Consultation with colleagues or their representatives has continued at all levels, with the aim of ensuring that their views are taken into account when decisions are made that are likely to affect their interests.

Communication with all colleagues continues through in-house newsletters.

Equal opportunities

We have continued our policy of equal opportunities, including the employment of people with disabilities. We ensure full and fair consideration is given to applications for employment where a disability is advised, having regard to particular aptitudes and abilities.

In the event of colleagues becoming disabled, every effort is made to ensure that their employment with the Society continues and all reasonable adjustments are made.

It is the policy of the Society that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who does not suffer from a disability.

Supplier payment policy

It is our policy to agree the terms of payment with suppliers at the start of the commercial arrangement, ensure that suppliers are aware of the terms of payment and then pay according to those terms once we receive an accurate invoice.

Trade creditor days as at 28 January 2017 were 22 days (2016: 27 days). This represents the ratio, expressed in days, between the amounts we are invoiced by our suppliers in the year and the amounts due at the year end to trade creditors.

Political donations

The Society's rules provide that affiliation and subscription to the Co-operative Party shall be determined by members in a general meeting.

During the year, subscriptions of £32,000 (2016: £48,000) were paid to the Co-operative Party.

Auditor independence

To ensure auditor independence and objectivity are safeguarded, the Board has a policy of monitoring any non-audit work undertaken by the Society's auditors.

All non-audit engagements of the External Auditor require formal approval by the Audit Committee except that the Committee's authorisation is not required where the External Auditor will be undertaking the proposed engagement in conjunction with other external organisations (as a member of a consortium, as a sub-contractor or through some other relationship) and the External Auditor will receive less than 15% of the value of the contract.

In addition, in accordance with the Code, the Society has adopted a policy whereby the audit engagement partner does not conduct the Society's audit for more than five years.

Directors' and Officers' indemnity insurance

The Society maintains appropriate Directors' and Officers' liability insurance cover in respect of legal action against its Directors. The arrangements for this were reviewed during the year.

Statement of compliance

To help members assess the Society's governance arrangements, the Society is required to specify those elements of the Code with which it does not comply. This section covers this requirement. The matters listed will be kept under review by the Board.

Members should note that the Society is required to complete a compliance questionnaire, drawn up by Co-operatives UK, to enable a formal assessment of its compliance with the Code by Co-operatives UK. This questionnaire will be available to members on request. Those interested should contact the Secretary.

Co-operatives UK Code of Corporate Governance – Exception report

	Explanation of non-compliance
Search Committee Remuneration Committee Audit Committee	The Code recommends limiting service on these Committees to no more than three consecutive years in order to prevent reliance on and dominance by individuals and to enable other Directors to gain experience. The Board does not accept a rigid three-year limit but is mindful of the need to change membership over time and seeks to balance valuable continuity with the need to develop new Directors. Committee memberships are reviewed and adjusted each year.
Remuneration Committee	In addition to the above, a number of the Code recommendations are not applicable to this Society (e.g. reporting loss of office payments when there have been no relevant terminations).
Audit Committee	In addition to the term limit above, the Audit Committee does not have a Director with recent relevant financial experience or an accountancy qualification as defined by Co-operatives UK. However, the Committee has access to independent professional advice, internal accounting experience and considerable experience of constructively challenging the Executives.
Co-opted Directors	The Code recommends that co-opted Director appointments be ratified by members but the Board's only appointment to date was made after the election and AMM. Ratification was not, therefore, possible on this occasion.
Role of the President	The Code expects the President to maintain links with regional boards and committees and any other groups designed to facilitate consultation with members. The Society currently has no regional committees or equivalent.
Chief Executive	The Code envisages a single Chief Executive. A number of its provisions are not applicable for a collegiate Leadership Team.
Member Value Statement	The Board has yet to develop a 'Member Value Statement'. The value that members obtain from the Society is both economic and social and defining this is not a key priority of the Board.
Voting opportunities	The Board has introduced electronic voting in the election for Directors but on grounds of cost has not adopted this procedure for voting on motions at the Annual Members' Meeting.
Major transactions	The Society does not have a rule requiring major transactions involving more than 25% of the entire value of the Society to be put to members for decision. No such decisions have arisen in living memory other than Society mergers, which the rules require to be put to Special Members' Meetings.
Director remuneration	The Society does not pay Directors for earnings lost through carrying out Board duties. The matter is kept under review but currently the Board believes that the basic fee adequately compensates Directors for their contribution.
Three-year term for Directors	The Code advises Societies to have three-year terms for Directors and to limit consecutive service to three terms. With a Board of 16 Directors, it is felt that four-year terms are more appropriate and the consecutive service limit is expressed as 12 years rather than three terms.
Independent professional advice	The Code calls for a single Director to be able to seek independent professional advice at the Society's cost. The Board believes that with 16 Directors it is not unreasonable to require a Director to gain the support of two others before it pays for independent legal advice.
External Board evaluation	The Code recommends that Boards commission independent external evaluation of their effectiveness. Since publication of the Co-ops UK compliance review, the Board has commissioned KPMG to undertake such a review.

Statement of disclosure of information to auditors

So far as each of the Directors is 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.

On behalf of the Board:

Mike Faulkner
Secretary
Sally Chicken
President

22 April 2017

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.

The Co-operative and Community Benefit Societies Act 2014 requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accountancy Practice), including Financial Reporting Standard 102, The Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102). Under the Co-operative and Community Benefit Societies Act 2014 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 United Kingdom Accounting Standards, including FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements
- Notify its members in writing about the use of disclosure exemptions, if any, of FRS 102 used in the preparation of 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 and 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 Society's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Going concern

The Board of Directors has considered the requirement of the Corporate Governance Code for Consumer Co-operative Societies (November 2013) to confirm its view that the Society can be regarded as a going concern. After making all appropriate enquiries, the Directors have a reasonable expectation that the Society has adequate resources to continue in operational existence for the foreseeable future.

Board certification

The Financial Statements on pages 51 to 75 are hereby signed on behalf of the Board of Directors pursuant to the Co-operative and Community Benefit Societies Act 2014.

On behalf of the Board:

Sally Chicken
President

Colin Barrett
Vice-President

Mike Faulkner
Secretary

22 April 2017

Independent Auditors' Report

to the members of East of England Co-operative Society Limited

Report on the Group financial statements

Our opinion

In our opinion, East of England Co-operative Society Limited's group financial statements (the "financial statements"):

- give a true and fair view of the state of the Society's affairs as at 28 January 2017 and of its profit and cash flows for the 53 week period (the "year") then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP) and the Co-operative and Community Benefit Societies Act 2014

What we have audited

The financial statements, included within the Annual Report, comprise:

- the Group Balance Sheet as at 28 January 2017;
- the Group Revenue Account and Group Statement of Comprehensive Income for the year then ended;
- the Group Cash Flow Statement for the year then ended;
- the Group Statement of Changes in Equity for the year then ended;
- the Accounting Policies; and
- the notes to the financial statements, which include other explanatory information

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

Our audit approach

Overview

- Overall group materiality: £3.5m (2016: £3.4m) which represents 1% of revenue
- The two core operating businesses are made up of eight reporting units and the Group financial statements are a consolidation of those eight reporting units and centralised functions
- East of England Co-operative Society, Ardencrest Limited and the centralised functions were considered to be financially significant and therefore were subject to audits of their complete financial information by the Group audit team
- Stock / GRNI reconciliations
- Retail stock valuation
- Investment and trading property valuations
- Defined benefit pension plan net liability, including the appropriateness of the assumptions used

The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as "areas of focus" in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

Area of focus	How our audit addressed the area of focus
<p>Stock / GRNI reconciliations</p> <p><i>Refer to page 36 (Corporate Governance Report).</i></p> <p>When goods are delivered to store they need to be manually entered into the stock system at the time of delivery. This manual process means that there is a risk that they are booked into stock at incorrect quantities. This could result in an under / overstatement of stock in the system.</p> <p>Supplier invoices are received after the goods have been delivered and therefore at year end there is a material GRNI liability.</p> <p>An exercise is performed by management to ensure that invoices subsequently received are reconciled with the amounts recorded in the stock system.</p>	<p>We have performed testing to validate stock quantities recorded, and tested the subsequent clear down of items within the GRNI year end accrual to an immaterial level.</p> <p>In order to give us comfort that stock was correctly recorded in the stock system, we also attended a sample of 10 stock counts at the year end date.</p> <p>As a result of this work, we were able to conclude that the GRNI had been appropriately cleared down post year end.</p>
<p>Net inventory carrying value</p> <p><i>Refer to page 36 (Corporate Governance Report).</i></p> <p>In determining the carrying value of net inventory, management make estimates in relation to the quantities of stock on hand and the extent to which these stocks will be sold before expiry / obsolescence. Historical experience from cycle counts is utilised to estimate shrinkage rates in those locations where no year-end stock count was performed. Obsolescence provisions are recorded at various rates based on historical experience of write-offs against fresh produce, ambient stock and distribution centre stock, and a specific provision is made for delisted stock (beyond a certain age).</p>	<p>We assessed management's judgements with respect to the stock provision, formulating an independent estimate that considered expected obsolescence in the stock balance along with the error rates observed during our test counts.</p> <p>We also agreed stock quantities and values to the underlying records and reviewed the level of provision against previous years and any actual write-offs during the period.</p> <p>We have concluded that the provision made by management is materially correct.</p>
<p>Investment and trading property valuations</p> <p><i>Refer to page 36 (Corporate Governance Report).</i></p> <p>The Society holds a large number of investment properties with a carrying value of £107m. This represents an increase of £3m compared to the prior year. Given that these amounts are significant, and the judgement involved, there is a risk that the valuations performed at the year end may be inaccurate.</p> <p>In addition, there is a risk that trading properties will need to be impaired given that trading conditions have continued to be challenging during the period for some stores.</p> <p>As a result of the exercise performed by management, a net revaluation gain of £1.6m was recognised in the Group Revenue Account relating to investment properties. An impairment charge of £502k was recognised against the trading properties.</p>	<p>We assessed and challenged management's judgements with respect to property valuations.</p> <p>We confirmed that the results of the valuations conducted by the external valuers were consistent with the results of those properties valued by the Group's internal valuation team. We did this by comparing the movement between the current year valuations performed by the external valuers and those conducted by the Group's internal valuers. This gave us evidence that the movements were consistent between the external and Group's internal valuers.</p> <p>We assessed the results of management's exercise to identify loss-making stores. We have assessed and challenged management's judgements, specifically the store revenue growth assumptions, margin assumptions and discount rate. We have then performed a sensitivity analysis, which did not identify any additional material differences.</p>
<p>Defined benefit pension plan net liability</p> <p><i>Refer to page 36 (Corporate Governance Report).</i></p> <p>See also note 5.3 to the financial statements for the Directors' disclosures of the related accounting policies and detailed pension disclosures.</p> <p>The Group has a defined benefit pension plan net liability of £46m, which is significant in the context of the Group Balance Sheet. The valuation of the pension liability requires significant levels of judgement and technical expertise in choosing appropriate assumptions. These assumptions include salary increases, inflation, discount rates, expected rate of return on plan assets and mortality.</p>	<p>We agreed the discount and inflation rates, together with the expected rates of return on plan assets used in the valuation of the pension liability by the external actuary to our internally developed benchmarks. We obtained an understanding of the methodology used to derive the discount rate used by the actuary. We compared the assumptions around salary increases and mortality to national and industry averages.</p> <p>All of the assumptions used were within our expected range and therefore we concluded that they were appropriate to support the valuation of the net pension liability.</p>

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the group, the accounting processes and controls, and the industry in which the group operates.

The Group is structured as two core operating businesses focused on retail trading and investment property across the East of England. The businesses are made up of eight reporting units and the Group financial statements are a consolidation of those eight reporting units and centralised functions.

East of England Co-operative Society Limited, Ardencrest Limited and the centralised functions were considered to be financially significant and therefore were subject to audits of their complete financial information by the Group audit team. This scope of work, together with audit work on the consolidation, gave us the evidence we needed for our opinion on the Group financial statements as a whole.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall group materiality	£3.5 million (2016: £3.4 million).
How we determined it	1% of revenue.
Rationale for benchmark applied	We have applied this benchmark, a generally accepted auditing practice, in the absence of indicators that an alternative benchmark would be appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £100,000 (2016: £100,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Other required reporting

Consistency of other information
ISAs (UK & Ireland) reporting

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:	
Information in the Annual Report is: <ul style="list-style-type: none">· materially inconsistent with the information in the audited financial statements; or· apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or· is otherwise misleading	We have no exceptions to report arising from this responsibility

Other matters on which we are required to report by exception

Under the Co-operative and Community Benefit Societies Act 2014 we are required to report to you if, in our opinion:

- A satisfactory system of control over transactions has not been maintained; or
- The Society has not kept proper accounting records; or
- The Society's financial statements are not in agreement with the books of account; or
- We have not received all the information and explanations we need for our audit

We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 46, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Society's members as a body in accordance with Section 87 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.

What an audit of financial statements involves

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Norwich
22 April 2017

Group Revenue Account

For the 53 weeks ended 28 January 2017

	Note	2017 £000	2016 £000
Turnover	1.1	347,709	338,473
Cost of sales	2.1	(243,297)	(235,897)
Gross profit		104,412	102,576
Operating expenses	2.1	(99,978)	(98,502)
Trading profit		4,434	4,074
Changes in fair value of investment properties		1,571	(205)
Unrealised impairment of tangible and intangible fixed assets		(605)	–
Employee bonus	2.4	–	(283)
Profit on disposal of property		–	2,758
Restructuring costs		(658)	(967)
Profit before interest, distributions and taxation		4,742	5,377
Interest receivable and similar income	2.2	1,969	3,391
Other finance expense	2.2	(630)	(999)
Profit before distributions and taxation		6,081	7,769
Dividend		(2,732)	(2,860)
Grants/donations	2.3	(610)	(917)
Profit before taxation		2,739	3,992
Taxation	3.1	(822)	182
Profit for the financial year		1,917	4,174

The above results relate to continuing activities.

	Note	2017 £000	2016 £000
Alternative performance measure – underlying trading profit			
Profit before interest, distributions and taxation		4,742	5,377
Changes in fair value of investment properties		(1,571)	205
Unrealised impairment of tangible and intangible fixed assets		605	–
Profit on disposal of property		–	(2,758)
Restructuring costs		658	967
Underlying trading profit for the year		4,434	3,791

Group Statement of Comprehensive Income

For the 53 weeks ended 28 January 2017

	Note	2017 £000	2016 £000
Profit for the financial year		1,917	4,174
Remeasurements of net defined benefit obligations	5.3	(29,595)	13,753
Movement in deferred tax relating to pension liability	3.1	2,410	(400)
Effect of change in rates on movement in deferred tax relating to pension liability	3.1	61	76
Total other comprehensive (expense)/income		(27,124)	13,429
Total comprehensive (expense)/income for the year		(25,207)	17,603

Group Balance Sheet

As at 28 January 2017

	Note	£000	2017 £000	£000	2016 £000
Fixed assets					
Intangible assets	4.1		9,973		9,685
Tangible assets	4.2		220,477		216,219
Investments	4.3		41,060		33,785
			271,510		259,689
Current assets					
Stocks	4.4	19,939		21,355	
Debtors	4.5	8,512		7,631	
Investments	4.3	5,439		3,919	
Cash at bank and in hand		16,479		25,541	
		50,369		58,446	
Current liabilities					
Creditors – amounts falling due within one year	5.1	(33,758)		(36,374)	
Net current assets			16,611		22,072
Total assets less current liabilities			288,121		281,761
Long-term liabilities					
Creditors – amounts falling due after more than one year	5.1		(32,947)		(27,300)
Provision for other liabilities	5.2		(10)		(1,482)
Net assets excluding pension liabilities			255,164		252,979
Pension liabilities					
Deficit on defined benefit schemes	5.3		(45,645)		(18,170)
Other retirement benefits	5.3		(2,008)		(1,725)
Net assets			207,511		233,084
Capital and reserves					
Share capital	6.1		8,147		9,303
Fair value reserve			40,638		38,139
Revenue reserve			158,726		185,642
Members' funds			207,511		233,084

Group Statement of Changes in Equity

For the 53 weeks ended 28 January 2017

	Share capital £000	Fair value reserve £000	Revenue reserve £000	Total £000
As at 24 January 2015	14,572	37,562	164,731	216,865
Profit for the year	–	–	4,174	4,174
Other comprehensive income	–	–	13,429	13,429
Transfer	–	577	(577)	–
Total comprehensive income for the year	–	577	17,026	17,603
Contributions to share capital	1,026	–	–	1,026
Dividend cheques paid in	612	–	–	612
Share interest	60	–	(70)	(10)
Withdrawals	(2,019)	–	–	(2,019)
Dormant share accounts released to reserves	(4,948)	–	4,948	–
Corporation tax on dormant share accounts	–	–	(993)	(993)
Total transactions with members recognised directly in equity	(5,269)	–	3,885	(1,384)
As at 23 January 2016	9,303	38,139	185,642	233,084
Profit for the year	–	–	1,917	1,917
Other comprehensive expense	–	–	(27,124)	(27,124)
Transfer	–	2,499	(2,499)	–
Total comprehensive expense for the year	–	2,499	(27,706)	(25,207)
Contributions to share capital	812	–	–	812
Dividend cheques paid in	501	–	–	501
Withdrawals	(1,497)	–	–	(1,497)
Share interest	70	–	(75)	(5)
Dormant share accounts released to reserves	(1,042)	–	1,042	–
Corporation tax on dormant share accounts	–	–	(177)	(177)
Total transactions with members recognised directly in equity	(1,156)	–	790	(366)
As at 28 January 2017	8,147	40,638	158,726	207,511

Group Cash Flow Statement

For the 53 weeks ended 28 January 2017

	Note	2017 £000	2016 £000
Net cash from operating activities	7.3	7,312	17,554
Taxation (paid)/received		(3)	577
Net cash generated from operating activities		7,309	18,131
Cash flow from investing activities			
Purchase of subsidiary		(1,234)	–
Purchase of intangible assets		(320)	(1,942)
Purchase of tangible assets		(11,183)	(12,756)
Purchase of fixed asset investments		–	(1)
Proceeds from disposals of tangible assets		4,234	10,253
Proceeds from disposal of fixed asset investments		–	9
Purchase of funeral bond investments		(7,781)	(6,223)
Interest received and similar income		1,111	893
Net cash used in investing activities		(15,173)	(9,767)
Cash flow from financing activities			
Share interest paid		–	(25)
Contributions to share capital		812	1,026
Dividend cheques paid in		501	612
Share capital withdrawn		(1,497)	(2,019)
Net cash used in financing activities		(184)	(406)
Net (decrease)/increase in cash and cash equivalents		(8,048)	7,958
Cash and cash equivalents at the beginning of the year	7.3	26,541	18,583
Cash and cash equivalents at the end of the year		18,493	26,541
Cash and cash equivalents consists of:			
Cash at bank and in hand		16,479	25,541
Short term deposits (included in current asset investments)		2,014	1,000
Cash and cash equivalents		18,493	26,541

Accounting Policies

General information

The East of England Co-operative Society (registered number 1099R) and its subsidiaries operate convenience stores, supermarkets, travel, pharmacy, optical and funeral services branches across Norfolk, Suffolk, Essex and Cambridgeshire. In addition, the Group also holds a large portfolio of investment properties.

The Society is incorporated in England under the Co-operative and Community Benefit Societies Act 2014 and its registered address is Wherstead Park, The Street, Wherstead, Ipswich, IP9 2BJ.

Basis of accounting

The following accounting policies have been applied consistently. The Group financial statements are prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102"). The financial statements are also prepared in accordance with the Co-operative and Community Benefit Societies (Group Accounts) Regulations 1969 and the Co-operative and Community Benefit Societies Act 2014.

Accounting date

The Group financial statements are made up to the fourth Saturday in January of each year. The financial year represents the 53 weeks ended 28 January 2017 (2016: 52 weeks ended 23 January 2016).

Basis of consolidation

The consolidated financial statements include the audited results of East of England Co-operative Society Limited and all its subsidiaries. However, not all subsidiaries' financial statements are subject to audit. Please refer to note 7.5 for details.

Subsidiaries are those entities controlled by the Group. Control exists when the Society has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are presently exercisable or convertible are taken into account. The results of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Accounting policies are consistent across all of the Society's subsidiaries.

Going concern

The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Significant accounting policies

Accounting policies relating to specific areas of the financial statements can be found in their relevant sections.

Provisions

The Group makes provision for liabilities and charges when it has a legal or constructive obligation arising from a past event, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not discounted on the basis of materiality.

Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Use of non-GAAP profit measures – underlying trading profit

The Directors believe that an underlying trading profit measure provides additional useful information for members on underlying trends and performance. This measure is used for internal performance analysis. Underlying profit is not defined by UK GAAP and therefore may not be directly comparable with other societies' or companies' adjusted profit measures. It is not intended to be a substitute for, or superior to, UK GAAP measurements of profit.

Underlying trading profit is calculated by reference to profit before interest, distributions and taxation, adjusted for impairments of investment and trading properties, and exceptional items.

Exceptional items

The Society classifies certain one-off charges or credits that have a material impact on the financial results as exceptional items. These significant items are separately disclosed by virtue of their size or incidence to enable a full understanding of the Society's financial performance. Transactions which may give rise to exceptional costs/gains are principally re-organisation/restructuring costs, significant changes to pension arrangements and any surplus/deficit arising in respect of discontinuance of operations.

In determining underlying trading profit, it is considered appropriate to adjust for exceptional items as these gains or losses can have a significant impact on both absolute profit and profit trends.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held with banks and other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts, when applicable, are shown within borrowings in current liabilities.

Critical accounting judgements and estimation uncertainty

Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Society makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition,

seldom equal the related actual results. Information about areas of estimation, uncertainty and critical judgements used in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

	Note
Deferred taxation – estimation of deferred tax liability in relation to revalued investment property	3.1
Measurement of the recoverable amounts from cash-generating units containing intangible assets or goodwill – estimation of future cashflows and selection of pre-tax discount rate	4.1
Valuation of investment properties – inherently subjective nature of valuations	4.2
Stock valuation – estimation of stock provision which requires judgement	4.4
Measurement of pension obligations – inherent uncertainty in use of assumptions	5.3

Notes to the Financial Statements

KEEPING IT SIMPLE

The 'keeping it simple' boxes are included as additional disclosure to help readers' understanding and interpretation.

Section 1 – Turnover

IN THIS SECTION
This section provides information used to establish the turnover of the Society.

KEEPING IT SIMPLE – TURNOVER
Turnover represents the amount of money customers pay or are liable to pay at the point of sale and delivery, less VAT, staff discount and agency fees.

Accounting policy:
Turnover includes cash sales, goods sold on credit, commissions and property rental income and arises wholly in the United Kingdom.
Turnover is measured at the fair value of the consideration received or receivable, excluding discounts, rebates, VAT and other sales tax or duty. Turnover is recognised when:
<ul style="list-style-type: none">the significant risks and rewards of ownership have been transferred to the buyerthe Group retains no continuing involvement or control of the goodsthe amount can be measured reliablyit is probable the future economic benefits will flow to the entity andwhen the specific criteria relating to each of the Group's sales channels have been met, as described below<ul style="list-style-type: none">a) Retail sales<ul style="list-style-type: none">Sales of goods are recognised on sale to the customer, which is considered point of delivery.Retail sales are usually by cash, credit or debit card.b) Rental income<ul style="list-style-type: none">Rental income from operating leases, excluding charges for insurance and maintenance, is recognised on a straight-line basis over the period of the lease, even if payments are not made on this basis.c) Agency fees and commissions<ul style="list-style-type: none">Turnover includes amounts in relation to commission receivable in respect of sales made on an agency basis, principally relating to travel and concession sales, and is recognised at the point of sale.d) Income from franchise locations<ul style="list-style-type: none">In certain locations the Group operates a franchised brand from third parties. Income from these locations is recognised at point of sale.

1.1 SEGMENTAL REPORTING

KEEPING IT SIMPLE – SEGMENTAL REPORTING

The segmental report details the breakdown of turnover between the Society's different business activities, in this case retail and property.

	2017 £000	2016 £000
Turnover		
Retail	340,383	331,390
Property	7,326	7,083
	347,709	338,473

Section 2 – Expenses

IN THIS SECTION

This section contains details of costs incurred by the Society during the year, transactions with Directors, finance costs and payments to and on behalf of members.

2.1 EXPENSES

KEEPING IT SIMPLE – COST OF SALES

Cost of sales are the costs we incur in buying the goods and the services we provide to our customers.

KEEPING IT SIMPLE – OPERATING EXPENSES

Operating expenses are the costs we incur in providing the goods and services we deliver to our customers. This includes the amount we pay our colleagues and the costs of running our retail outlets.

	2017 £000	2016 £000
Cost of sales	243,297	235,897
Personnel (note 2.1.1)	60,233	58,700
Occupancy costs	12,025	12,226
Profit on sale of fixed assets	(21)	(15)
Hire of plant and machinery	5	78
Vehicle contract hire/lease	568	491
Depreciation and other amounts written off tangible fixed assets	6,441	6,544
Amortisation of intangible fixed assets	1,625	1,435
Auditors' remuneration		
– Fees payable for the audit of consolidated financial statements	12	12
– Fees payable for the audit of the Society and its subsidiaries	63	64
– Non-audit fees – VAT advice and assistance	45	17
Directors' fees (note 2.1.3)	133	129
Other expenses	18,849	18,821
Operating expenses	99,978	98,502

2.1.1 COLLEAGUES

	2017 Number	2016 Number
The average number of persons employed by the Society during the year was:		
Full time	1,138	1,110
Part time	3,141	3,200
	4,279	4,310

2.1.1 COLLEAGUES (CONTINUED)

	2017 £000	2016 £000
The cost incurred in respect of these employees was:		
Wages and salaries	53,449	52,478
Social security costs	2,900	2,914
Other pension costs	3,884	3,308
	60,233	58,700

2.1.2 KEY MANAGEMENT COMPENSATION

KEEPING IT SIMPLE – KEY MANAGEMENT COMPENSATION
<i>This is the amount we pay to the Society's Management Executive.</i>

	2017 £000	2016 £000
Key management includes members of the Management Executive. The compensation paid or payable to key management for employee services is shown below:		
Salary	1,117	1,064
Taxable benefits	66	61
Post-employment benefits	103	94
	1,286	1,219

Three of the Management Executive who served during the year are members of the Society's defined benefit pension schemes. All members of the Management Executive who served during the year participated in the Society stakeholder pension scheme. The remuneration of the Joint Chief Executive – Retail (who is also the highest paid employee) included above is set out below.

	2017 £000	2016 £000
Salary	256	253
Taxable benefits	12	12
Post-employment benefits	22	25
	290	290

	2017 £000	2016 £000
Transfer value of total accrued pension	1,199	1,076

The emoluments of the members of the Management Executive fell in the following £10,000 brackets:

	2017 Number	2016 Number
£150,000 – £160,000	–	1
£160,000 – £170,000	–	1
£170,000 – £180,000	2	–
£190,000 – £200,000	–	2
£200,000 – £210,000	1	–
£210,000 – £220,000	1	1
£220,000 – £230,000	1	–
£290,000 – £300,000	1	1

2.1.3 TRANSACTIONS WITH DIRECTORS

KEEPING IT SIMPLE – TRANSACTIONS WITH DIRECTORS
<i>This section shows any payments made to Directors for their role in the Society.</i>

	2017 £000	2016 £000
Directors' emoluments		
The total remuneration of the Directors for their Board duties was as follows:		
Fees	133	129
The number of Directors whose emoluments fell in each £5,000 bracket was as follows:		
£0 – £5,000	2	3
£5,001 – £10,000	16	16

2.2 FINANCE COSTS / INCOME

KEEPING IT SIMPLE – FINANCE COSTS / INCOME
<i>This is the amount of money we have paid out or received from our investments. We include interest received on bank accounts and pension obligations and interest paid on overdraft facilities used. Investment income relates to pre-paid funeral plans.</i>

	2017 £000	2016 £000
INTEREST RECEIVABLE AND SIMILAR INCOME		
Interest receivable (note 4.3)	261	256
Investment income (note 4.3)	1,708	3,135
	1,969	3,391

	2017 £000	2016 £000
OTHER FINANCE EXPENSE		
Interest expense on pension obligations (note 5.3)	630	999

2.3 PAYMENTS TO AND ON BEHALF OF MEMBERS

KEEPING IT SIMPLE – PAYMENTS TO AND ON BEHALF OF MEMBERS
<i>We return some of the profits earned each year to our members. We also support a range of co-operatives and other organisations through grants and donations.</i>

	2017 £000	2016 £000
GRANTS/DONATIONS		
Member and Community Services expenditure	608	897
Donations	2	20
	610	917

2.4 EMPLOYEE BONUS

KEEPING IT SIMPLE – EMPLOYEE BONUS
<i>In the comparative year, we returned some of the profits back to the employees of the Society.</i>

Accounting policy:
No employee bonus was paid during this financial year. In the comparative year, the employee bonus approved by the Board was paid in the form of vouchers during the year and these were valid until 23 January 2016. No liability was held for vouchers not redeemed at the balance sheet date. Any unredeemed vouchers after the expiry date were released to the profit and loss account for that year.

Section 3 – Tax

IN THIS SECTION
This section shows the current tax and deferred tax charged during the year.

3.1 INCOME TAX AND DEFERRED TAX

KEEPING IT SIMPLE – INCOME TAX EXPENSE
<i>This section shows the adjustments we make to our profits to calculate how much tax we have to pay.</i>

KEEPING IT SIMPLE – DEFERRED TAX
<i>Deferred tax arises because financial accounting rules and tax accounting rules are different.</i>
<i>A deferred tax asset is generally a tax saving which will be made in the future as a result of transactions which have already occurred.</i> <i>A deferred tax liability recognises tax which may be payable in the future as a result of events which have already occurred.</i>

Accounting policy:

Taxation expense for the year comprises current and deferred tax recognised in the year. Tax is recognised in the revenue account, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case tax is also recognised in other comprehensive income or directly in equity respectively.

Current or deferred taxation assets and liabilities are not discounted.

Current tax

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements.

Deferred tax is recognised on all timing differences at the reporting date. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference.

	£000	2017 £000	£000	2016 £000
TAXATION				
Revenue account				
Current tax:				
UK corporation tax on profits for the year	–		–	
Adjustment in respect of prior years	–		(10)	
UK current tax credit		–		(10)
Deferred tax:				
Effect of change in rate on opening liability	(39)		41	
Timing differences arising in the year	564		416	
Adjustment in respect of prior years	297		(629)	
UK deferred tax charge/(credit)		822		(172)
Total UK tax charge/(credit) for the year		822		(182)

3.1 INCOME TAX AND DEFERRED TAX (CONTINUED)

TAX RECONCILIATION

The tax assessed for the year is lower (2016: lower) than the standard rate of corporation tax in the UK. The differences are explained below:

	£000	2017 £000	£000	2016 £000
Profit before tax	2,739		3,992	
Tax due if paid at the applicable UK corporation tax rate 20.00% (2016: 20.18%)	548		806	
Adjustments relating to current tax:				
Expenses not deductible for tax purposes	171		939	
Income not taxable relating to property disposal	–		(906)	
Expenses not deductible relating to pension scheme	126		203	
Impact of depreciation in excess of capital allowances	957		896	
Short-term timing differences in relation to accounting provisions	166		(34)	
Short-term timing differences in relation to funeral bonds	114		115	
Effect of tax relief on pension contributions	(2,307)		(2,798)	
Unrelieved tax losses arising in period	225		779	
Adjustment to tax charge in prior period	–		(10)	
Current tax credit for the year		–		(10)
Adjustments relating to deferred taxation:				
Effect of change in rate on opening liability	(39)		41	
Adjustment in respect of prior period	297		(629)	
Impact of depreciation in excess of capital allowances	(813)		(801)	
Impact of rental payments to property partnership	107		201	
Impact of pension scheme movements in revenue account	(107)		(180)	
Unrelieved tax losses arising in period	(369)		(816)	
Short-term timing differences in respect of pension contributions	1,961		2,078	
Short-term timing differences in relation to funeral bonds	(97)		(102)	
Other short-term timing differences	(118)		36	
Deferred tax charge/(credit) for the year		822		(172)
Total tax charge/(credit) for the year		822		(182)

Tax policy

The Society adopted a tax policy on 18 April 2015. A copy is available on our website at www.eastofengland.coop/about-us/our-co-op-today/our-annual-reports-and-accounts/tax-policy. The disclosure made in these financial statements complies with the commitments made in that tax policy.

Tax rates

The Society is subject to the standard rate of corporation tax, which was 20% throughout the Society's financial year.

Legislation which was enacted on 6 September 2016 reduced the main rate of corporation tax from 20% to 19% on 1 April 2017 and then 17% on 1 April 2020. Deferred tax assets/liabilities which are expected to crystallise after 1 April 2017 have been measured at 19% and deferred tax assets/liabilities that are expected to crystallise after 1 April 2020 have been measured at 17%.

Expenses not deductible for tax purposes

Some expenses incurred by the Society may be entirely appropriate charges for inclusion in its financial statements but are not allowed as a deduction against taxable income when calculating the Society's tax liability. The most significant example of this is accounting depreciation or losses incurred on assets that do not qualify for capital allowances (generally land and buildings). Other examples include some legal expenses and some repair costs.

Income not taxable relating to property disposal

During the prior year, the Society sold property and recognised an accounting profit of £2.8m. As mentioned above, the accounting treatment in relation to fixed assets is different from the taxation treatment and the accounting profit was not recognised for tax purposes.

Expenses not deductible relating to pension scheme

During the year, the Society has recognised other finance expense of £630,000 (2016: £999,000) relating to movements in the defined benefit pension scheme. Although this expense has reduced accounting profits, it is not recognised for tax purposes.

Depreciation in excess of capital allowances

The accounting treatment of expenditure on fixed assets differs from the taxation treatment. For accounting purposes, an annual rate of depreciation is applied by the Society. For taxation purposes, the Society is able to claim capital allowances, a tax relief provided in law.

As the Society is loss-making for corporation tax purposes, no capital allowances have been claimed which results in a difference between the profit for accounting and taxation purposes.

Short-term timing differences in relation to accounting provisions

Accounting provisions which are general in nature are not allowed for tax purposes until utilised. This gives rise to a short-time timing difference which is recognised in deferred tax.

Short-term timing differences in relation to funeral bonds

The Society's transition to new accounting standards on 25 January 2015 has led to an accelerated recognition of profit on funeral bond sales. To assist companies in this position, HMRC have allowed for some tax liabilities, which arise specifically as a result of transition, to be spread over a 10-year period. This relief resulted in a deferred tax liability being recognised at our transition date, which will be released to the revenue account over the next 10 years.

Adjustments to tax charges/credit in prior years

Adjustments to tax charges/credits in earlier years arise because the tax charge/credit in the financial statements is estimated before the detailed corporation tax calculations are prepared. Additionally, HM Revenue & Customs (HMRC) may not agree with the tax return that was submitted for a year and the tax liability/asset for a previous year may be adjusted as a result.

3.1 INCOME TAX AND DEFERRED TAX (CONTINUED)

Tax relief on pension contributions

During the financial year ended 25 January 2014, the Society took steps to improve the security of the members of our two defined benefit pension schemes. To do this, we placed a variety of trading and investment properties into the East of England Scottish Limited Partnership, directing rental income into the pension scheme as a form of cash contribution. The value of the transaction was £65.9m of which £48.1m is eligible for tax relief over four years.

The difference in timing between the recognition of the pension contribution in the accounts and the tax deduction received has led to the reconciling item above.

Tax losses

The large deduction from taxable profits arising from the pension contribution described above resulted in losses for tax purposes in earlier periods. The Society is unable to relieve these losses against profits from the current or previous periods, which resulted in a reconciling item in the current tax reconciliation. As these losses can be used to reduce taxable profits in future periods, a deferred tax asset has been recognised.

DEFERRED TAX

	Balance as at 24 January 2016	Current year deferred tax charge				Adjustment in respect of prior years	Balance as at 28 January 2017
		Revenue account – rate change	Revenue account	OCI / Reserves – rate change	OCI / Reserves		
	£000	£000	£000	£000	£000	£000	£000
Capital allowances	(786)	67	813	–	–	(417)	(323)
Short-term differences in relation to pension contributions	2,076	(115)	(1,961)	–	–	–	–
Short-term difference in relation to funeral bonds	(920)	51	97	–	–	–	(772)
Other short-term timing differences	338	(18)	118	–	–	(14)	424
Capital gains	(59)	3	–	–	–	–	(56)
Tax losses	1,851	(109)	369	–	(177)	134	2,068
Deferred tax liability in relation to revalued property	(2,878)	160	–	–	–	–	(2,718)
Deferred tax liability relating to pension scheme	(1,104)	–	–	61	2,410	–	1,367
Total deferred tax liability (note 5.2)	(1,482)	39	(564)	61	2,233	(297)	(10)



Section 4 – Assets

IN THIS SECTION

This section shows the assets used to generate the Society's trading performance.

KEEPING IT SIMPLE – ASSETS

An asset is something which is used by the Society to generate a financial benefit. For example, stock is an asset because we will sell it to generate income. Similarly, we use our properties to enable our retail outlets to trade and generate income.

4.1 FIXED ASSETS – INTANGIBLE

KEEPING IT SIMPLE – FIXED ASSETS – INTANGIBLE

An intangible asset is an asset which cannot be physically touched, for example, software or licences.

Accounting policy:

Goodwill

Business combinations are accounted for by applying the purchase method.

The cost of the business combination is the fair value of the consideration given, liabilities incurred or assumed and of equity instruments issued plus the costs directly attributable to the business combination.

On acquisition of a business, fair values are attributed to the identifiable assets, liabilities and contingent liabilities unless the fair value cannot be measured reliably, in which case the value is incorporated into goodwill.

Goodwill represents the excess of the fair value and the directly attributable costs of the purchase consideration over the fair values to the Group's interest in the identifiable net assets, liabilities and contingent liabilities acquired.

4.1 FIXED ASSETS – INTANGIBLE (CONTINUED)

Accounting policy (continued)

On acquisition, goodwill is allocated to cash-generating units ('CGUs') that are expected to benefit from the combination.

Goodwill is amortised over its expected useful life. Where the Group is unable to make a reliable estimate of useful life, goodwill is amortised over a period not exceeding 10 years. Goodwill is assessed for impairment when there are indicators of impairment and any impairment is charged to the revenue account.

In accordance with Section 35 of FRS 102, Section 19 of FRS 102 has not been applied in these financial statements in respect of business combinations effected prior to the date of transition.

Other intangible assets

Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated, using the straight line method, to allocate the depreciable amount of the assets to their residual values over their useful economic lives at the following principal rates:

- Software20 to 33.3%
- Customer lists5 to 10%
- Licences5%

The assets are reviewed for impairment if the factors detailed below indicate that the carrying value may be impaired:

- Technological advancement
- Changes in market price

Costs associated with maintaining computer software are recognised as an expense as incurred.

Intangible assets acquired as part of a business combination are measured at fair value at the acquisition date.

Impairment of non-financial assets

Assets, other than those measured at fair value, are assessed for indicators of impairment at each balance sheet date. If there is objective evidence of impairment, an impairment loss is recognised in the revenue account for the year.

The recoverable amount of the asset (or asset's CGU) is the higher of the fair value less costs to sell and value in use. Value in use is defined as the present value of the future cash flows before interest and tax obtainable as a result of the asset's (or asset's CGU) continued use. These cash flows are discounted using a pre-tax discount rate that represents the current market risk-free rate and the risks inherent in the asset.

If the recoverable amount of the asset (or asset's CGU) is estimated to be lower than the carrying amount, the carrying amount is reduced to its recoverable amount. An impairment loss is recognised in the revenue account, unless the asset has been revalued when the amount is recognised in other comprehensive income to the extent of any previously recognised revaluation. Thereafter any excess is recognised in the revenue account.

If an impairment loss is subsequently reversed, the carrying amount of the asset (or asset's CGU) is increased to the revised estimate of its recoverable amount, but only to the extent that the revised carrying amount does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised in prior periods. A reversal of an impairment loss is recognised in the revenue account.

Goodwill is allocated on acquisition to the CGU expected to benefit from the synergies of the combination. Goodwill is included in the carrying value of CGUs for impairment testing.

	Goodwill £000	Software £000	Customer lists £000	Licences £000	Total £000
FIXED ASSETS – INTANGIBLE					
Cost					
At 24 January 2016	11,680	8,798	38	22	20,538
Additions	1,696	311	–	9	2,016
Transfers	–	(13)	–	13	–
At 28 January 2017	13,376	9,096	38	44	22,554
Amortisation					
At 24 January 2016	5,919	4,931	2	1	10,853
Charge for the year	534	1,087	2	2	1,625
Impairments	69	–	34	–	103
At 28 January 2017	6,522	6,018	38	3	12,581
Net book value at 28 January 2017	6,854	3,078	–	41	9,973
Net book value at 23 January 2016	5,761	3,867	36	21	9,685

Included within additions above is goodwill arising on the Society's purchase of Ben's Limited for a cash consideration of £1,303,000. Included within software is £771,000 (2016: £840,000) related to assets in the course of construction.

4.2 FIXED ASSETS – TANGIBLE

KEEPING IT SIMPLE – FIXED ASSETS – TANGIBLE

These are the sites that the Society trades from and the fixtures and fittings within these sites. Also included are delivery vehicles used within the Society's business.

Accounting policy:

Fixed assets, excluding investment properties, are stated at cost (being the purchase cost, together with any incidental costs of acquisition) less accumulated depreciation and any accumulated impairment losses.

4.2 FIXED ASSETS – TANGIBLE (CONTINUED)

Accounting Policy (continued)			
Depreciation is provided so as to write off the cost of tangible fixed assets, less their estimated residual values, over the expected useful economic lives of the assets in equal annual instalments at the following principal rates:			
• Investment properties	Nil	• Fixtures, fittings and plant	5 to 33.3%
• Freehold buildings	2%	• Transport	15 to 40%
Depreciation is not provided on freehold land.			
Residual value represents the estimated amount which would currently be obtained from disposal of an asset, after deducting estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed annually and adjusted if appropriate.			
Repairs, maintenance and minor inspection costs are expensed as they occur.			
Assets in the course of construction are stated at cost. These assets are not depreciated until they are available for use.			
Freehold properties transferred into the East of England Co-operative Society relating to the former Colchester and East Essex Co-operative Society were valued at their fair values on merger. This carrying value is deemed cost in the case of these properties.			

KEEPING IT SIMPLE – INVESTMENT PROPERTY
<i>Investment property is property held by the Society which is not used by one of our trading companies. Properties used for the day to day trade of the business (such as our food stores and funeral branches, etc) are shown as land and buildings within tangible fixed assets.</i>

Accounting policy:
Certain of the Group's properties are held for long-term investment and, in accordance with UK GAAP:
a) investment properties are measured at fair value annually with any change recognised in the revenue account
and
b) no depreciation or amortisation is provided in respect of freehold investment properties and long leasehold investment properties.

	Land & buildings £000	Investment properties £000	Fixtures, fittings & plant £000	Transport £000	Total £000
FIXED ASSETS – TANGIBLE					
Cost or valuation					
At 24 January 2016	130,622	103,686	46,300	6,487	287,095
Additions	5,859	2,862	4,635	487	13,843
Disposals	(3,283)	(1,092)	(8,485)	(86)	(12,946)
Transfers	145	(474)	(131)	–	(460)
Revaluation	–	1,571	–	–	1,571
At 28 January 2017	133,343	106,553	42,319	6,888	289,103
Depreciation					
At 24 January 2016	35,159	–	30,166	5,551	70,876
Charge for the year	2,143	–	3,873	425	6,441
Impairments	502	–	–	–	502
Disposals	(464)	–	(8,190)	(79)	(8,733)
Transfers	(250)	–	(210)	–	(460)
At 28 January 2017	37,090	–	25,639	5,897	68,626
Net book value at 28 January 2017	96,253	106,553	16,680	991	220,477
Net book value at 23 January 2016	95,463	103,686	16,134	936	216,219

Included within investment properties is £2,588,000 (2016: £1,019,000) relating to assets in the course of construction.

Particulars relating to revalued assets are given below:

	2017 £000	2016 £000
Investment properties		
At valuation	106,553	103,686
At historical cost	100,031	98,735

Revaluation of investment properties

Each year, 20% of the Society investment properties are valued by Roche (2016: EWS Chartered Surveyors). The valuation is undertaken in accordance with the RICS Valuation – Professional Standards. Investment properties and properties held for development (non-trading) are valued on a market value basis. The remainder have been valued by the Society's Joint Chief Executive – Property on a consistent basis.

4.3 OTHER INVESTMENTS

KEEPING IT SIMPLE – OTHER INVESTMENTS
<i>Other investments are mostly related to funeral pre-payment plans which have not yet been used and shares held in other businesses. All monies received for funeral plans taken out from 1 January 2002 are 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. This is to comply with the provisions of the Financial Services and Markets Act 2000. Funeral bond investments are stated at fair value through the revenue account.</i>

Accounting policy:

Investments in shares are stated at cost less provision for any impairment in value. Interest and investment income is accounted for on an accruals basis.

	Fixed assets		Current assets		Interest / investment income	
	2017 £000	2016 £000	2017 £000	2016 £000	2017 £000	2016 £000
INVESTMENTS						
Co-operative Group Limited						
– Shares	757	757	–	–	30	30
Other I & P societies						
– Shares	1	1	–	–	–	–
Other	51	51	–	–	–	–
Short-term deposits	–	–	2,014	1,000	24	35
Overnight deposit	–	–	–	–	207	178
Funeral bonds	40,251	32,976	3,425	2,919	1,708	3,135
Sundry interest	–	–	–	–	–	13
	41,060	33,785	5,439	3,919	1,969	3,391

4.4 STOCKS

KEEPING IT SIMPLE – STOCK
<i>Stock is an asset which is purchased by the business for resale to our customers.</i>

Accounting policy:
Stock consists of goods held for resale and is stated at the lower of cost and estimated selling price less costs to sell.
Cost is calculated using the weighted average cost method.
At the end of each reporting period stock is assessed for impairment. If an item of stock is impaired, the identified stock is reduced to its selling price less costs to sell and any charge is recognised in the revenue account. If a reversal is required then the impairment charge is reversed and the credit is recognised in the revenue account.

	2017 £000	2016 £000
STOCKS		
Goods for resale	19,939	21,355
Goods for resale is stated after provision for impairment of £1,339,000 (2016: £965,000). The movement in the provision is charged/credited to cost of sales each year.		

4.5 TRADE AND OTHER DEBTORS

KEEPING IT SIMPLE – TRADE AND OTHER DEBTORS
<i>A debtor is the amount owed by a person or business that has purchased goods or services from the Society but has not yet paid for them.</i>

Accounting policy:
Trade debtors are non-interest bearing and are stated at their nominal value, as reduced by appropriate allowances for estimated irrecoverable amounts. A provision for impairment of trade debtors is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the debtor.
Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade debtor is impaired. The amount of any loss is recognised in the revenue account within operating expenses.
Subsequent recoveries of amounts previously written off are credited against operating expenses in the revenue account.

4.5 TRADE AND OTHER DEBTORS (CONTINUED)

	2017 £000	2016 £000
DEBTORS		
Trade debtors	3,868	3,532
Other debtors	1,484	1,658
Prepayments and accrued income	3,153	2,437
Corporation tax	7	4
	8,512	7,631

Trade debtors are stated after provision for impairment of £745,000 (2016: £710,000). The movement in the provision is charged/credited to operating expenses each year.

Section 5 – Liabilities

IN THIS SECTION

This section shows the liabilities incurred in order for the Society to carry out its trading activities.

KEEPING IT SIMPLE – LIABILITIES

A liability is generated when the Society has carried out an activity which results in an expense that will be paid in the future. This includes amounts owed to suppliers for goods or services the Society has received.

5.1 TRADE AND OTHER CREDITORS

KEEPING IT SIMPLE – TRADE AND OTHER CREDITORS

When the Society receives goods or services which are to be paid for at a later date, a creditor is created. This reflects money which the Society must pay out in the future.

Accounting policy:

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade creditors are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade creditors are not interest bearing and are stated at their nominal value.

KEEPING IT SIMPLE – FUNERAL PLANS

Customers of the Funeral business are able to plan and purchase their funeral in advance to be redeemed when the funeral is arranged. The income from the sale of the bond is not recognised until the plan is redeemed and the funeral takes place.

Accounting policy:

Amounts received in advance for funeral plans are recorded as liabilities on the balance sheet. The liability has been apportioned between current and long-term liabilities based upon the Group's experience of funerals carried out under its pre-payment plans over the last five years. All monies received for funeral plans taken out from 1 January 2002 are 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. This is to comply with the provisions of the Financial Services and Markets Act 2000. Interest income earned in the year is recognised in the revenue account.

	Due within 1 year		Due after 1 year	
	2017 £000	2016 £000	2017 £000	2016 £000
CREDITORS				
Trade creditors	14,449	17,257	–	–
Other taxation and social security	1,958	3,569	–	–
Other creditors	2,575	2,710	–	–
Accruals and deferred income	11,938	10,607	–	–
Funeral bonds	2,838	2,231	32,947	27,300
	33,758	36,374	32,947	27,300

5.2 PROVISION FOR OTHER LIABILITIES

	2017 £000	2016 £000
Deferred tax (note 3.1)	10	1,482

5.3 PENSION OBLIGATIONS

KEEPING IT SIMPLE – PENSION OBLIGATIONS

The Society runs two types of pension scheme: defined benefit and defined contribution.

- A defined benefit scheme provides a pension based on a colleague's salary and length of service.*
- A defined contribution scheme sets the value which will be paid into a pension scheme; the amount of pension this generates is variable and depends on the performance of the investments into which contributions are paid and the annuity rates at the time of retirement.*

Accounting policy:

Defined benefit pension plans

The Group operates two defined benefit pension schemes covering certain full-time and part-time employees funded by employees' and employer's contributions. Both schemes are closed to new members and closed to future accrual.

A defined benefit plan defines the pension benefit that the employee will receive on retirement, usually dependent upon several factors including age, length of service and remuneration. A defined benefit plan is a pension plan that is not a defined contribution plan.

The liability recognised in the balance sheet in respect of the defined benefit plan is the present value of the defined benefit obligation at the reporting date less the fair value of the plan assets at the reporting date.

The defined benefit obligation is calculated using the projected unit credit method. Annually the Society engages independent actuaries to calculate the obligation. The present value is determined by discounting the estimated future payments using market yields on high quality corporate bonds that are denominated in sterling and that have terms approximating the estimated period of the future payments ('discount rate').

The fair value of the plan assets is measured in accordance with the FRS 102 fair value hierarchy and in accordance with the Society's policy for similarly held assets. This includes the use of appropriate valuation techniques.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income. These amounts together with the return on plan assets, less amounts included in net interest, are disclosed as "remeasurements of net defined benefit obligations".

The cost of the defined benefit plan, recognised in the revenue account as employee costs, except where included in the cost of an asset, comprises:

- (a) the increase in pension benefit liability arising from employee service during the period; and
- (b) the cost of plan introductions, benefit changes, curtailments and settlements.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is recognised in the revenue account as "other finance expense".

Defined contribution pension plan

The Society also operates a defined contribution plan. A defined contribution plan is a pension plan under which the Society pays fixed contributions into a separate entity. Once the contributions have been paid the Society has no further payment obligations. The contributions are recognised as an expense when they are due. Amounts not paid are shown in accruals in the balance sheet. The assets of the plan are held separately from the Society in independently administered funds.

PENSIONS

The Group operates two defined benefit pension schemes. These are the Ipswich and Norwich Co-operative Society Employees' Pension Fund and the Colchester and East Essex Co-operative Society Limited Employees' Superannuation Fund. The assets of both schemes are held in separate funds administered by Trustees. Both of these funds are closed to new members and closed to future accrual.

Asset-backed funding arrangement

On 29 August 2013, the Society established the East of England Scottish Limited Partnership (the Partnership) with the Schemes. Under this arrangement, properties with a value of £65.9 million were transferred to the Partnership.

The Schemes' interest in the Partnership entitles them to an annual distribution of £2.6 million for 25 years, increasing on a compound basis by 2.5% per annum. The properties transferred to the Partnership will revert to the Society's ownership after settlement of any remaining funding deficit on the Schemes at that time.

The Partnership is controlled by the Society and its results are consolidated by the Society. The Society's balance sheet, actuarial deficit and revenue account are unchanged by the establishment of the Partnership. The investment held by the Schemes in the Partnership does not qualify as a plan asset for the purposes of the Society's consolidated financial statements and is therefore not included within the fair value of plan assets.

The value of the properties transferred to the Partnership remains included within the Society's tangible fixed assets on the balance sheet. In addition, the Society retains full operational flexibility to extend, develop and substitute the properties within the Partnership.

A new investment strategy has been implemented between 23 January 2016 and 28 January 2017 whereby assets are invested in four broad asset classes including equity, diversified growth, credit and liability-driven investment.

Ipswich and Norwich Co-operative Society Limited Employees' Pension Fund (closed to new members on 16 June 2007)

The Society operates a defined benefit pension fund for its employees (the Ipswich and Norwich Co-operative Society Limited Employees' Pension Fund). A full actuarial valuation was carried out at 31 December 2015 and updated to 28 January 2017 by a qualified independent actuary. The service cost has been calculated using the projected unit credit method. The major assumptions used by the actuary are:

	2017	2016
Rate of increase of pensions in payment		
– prior to 31 August 2008	3.30%	2.95%
– post 31 August 2008	2.15%	2.05%
Rate of increase of pensions in deferment	3.55%	3.05%
Discount rate	2.85%	3.75%
Rate of inflation	3.55%	3.05%

5.3 PENSION OBLIGATIONS (CONTINUED)

	2017 years	2016 years
The mortality assumptions used were as follows:		
Longevity at age 65 for current pensioners		
– Men	22.6	22.2
– Women	25.2	24.6
Longevity at age 65 for future pensioners		
– Men	24.4	23.9
– Women	27.2	26.5

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale involved, may not necessarily be borne out in practice.

The fair value of the scheme's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the scheme's liabilities, which are derived from cash flow projections over long periods and are thus inherently uncertain, were:

	Value at 28/01/2017 £000	Value at 23/01/2016 £000
Equities	41,277	78,822
Diversified growth funds	41,560	–
Multi-asset credit	15,085	–
Bonds	14,957	42,815
Liability-driven investment	33,854	–
Cash	469	1
Amounts owed to the Society	(324)	(440)
Total market value of assets	146,878	121,198
Actuarial value of liability	(175,996)	(127,372)
Total deficit in the scheme	(29,118)	(6,174)

The liability-driven investment holds a mixture of cash, government bonds and swaps, with the aim of hedging inflation and interest rate risk within the pension fund. It currently aims to hedge 70% of the movement in the liabilities.

To develop the expected long-term rate of return on assets assumption, the Society considered the current level of expected returns on risk-free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for the future returns of each asset class. The expected return for each asset class was then weighted based on the target asset allocation to develop the expected long-term rate of return on assets assumption for the portfolio.

During the year, the Society made pension payments on behalf of the scheme. The amount owed to the Society of £324,000 (2016: £440,000) above represents the balance due from the scheme in respect of these payments.

Reconciliation of scheme assets and liabilities

	Assets £000	Liabilities £000	Total £000
At 24 January 2016	121,198	(127,372)	(6,174)
Interest income/(expense)	4,496	(4,689)	(193)
Remeasurement gains/(losses)			
Actuarial losses	–	(48,635)	(48,635)
Return on plan assets excluding interest income	23,821	–	23,821
Contributions by employer	2,063	–	2,063
Benefits paid	(4,700)	4,700	–
At 28 January 2017	146,878	(175,996)	(29,118)

Analysis of the amount charged to the revenue account

	2017 £000	2016 £000
Interest income	4,496	3,921
Interest on pension liabilities	(4,689)	(4,379)
Total expense recognised in revenue account	(193)	(458)

5.3 PENSION OBLIGATIONS (CONTINUED)

Return on plan assets

	2017 £000	2016 £000
Interest income	4,496	3,921
Return on plan assets less interest income	23,821	(7,856)
Total return on plan assets	28,317	(3,935)

Colchester and East Essex Co-operative Society Limited Employees' Superannuation Fund (closed to new members on 31 December 2007)

The Society operates a defined benefit pension fund for its employees (the Colchester and East Essex Co-operative Society Limited Employees' Superannuation Fund). A full actuarial valuation was carried out at 31 December 2015 and updated to 28 January 2017 by a qualified independent actuary.

The service cost has been calculated using the projected unit credit method. The major assumptions used by the actuary are:

	2017	2016
Rate of increase of pensions in payment		
– prior to 31 August 2008	3.30%	2.95%
– post 31 August 2008	2.15%	2.05%
Rate of increase of pensions in deferment	3.55%	3.05%
Discount rate	2.85%	3.75%
Rate of inflation	3.55%	3.05%

	2017 years	2016 years
The mortality assumptions used were as follows:		
Longevity at age 65 for current pensioners		
– Men	22.6	22.2
– Women	25.2	24.6
Longevity at age 65 for future pensioners		
– Men	24.4	23.9
– Women	27.2	26.5

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale involved, may not necessarily be borne out in practice.

The fair value of the scheme's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the scheme's liabilities, which are derived from cash flow projections over long periods and are thus inherently uncertain, were:

	Value at 28/01/2017 £000	Value at 23/01/2016 £000
Equities	22,985	39,444
Diversified growth funds	23,045	–
Multi-asset credit	8,377	–
Bonds	8,403	28,320
Liability-driven investment	17,900	–
Cash	244	163
Amounts owed to the Society	(200)	(191)
Total market value of assets	80,754	67,736
Actuarial value of liability	(97,281)	(79,732)
Total deficit in the scheme	(16,527)	(11,996)

The liability-driven investment holds a mixture of cash, government bonds and swaps, with the aim of hedging inflation and interest rate risk within the pension fund. It currently aims to hedge 70% of the movement in the liabilities.

To develop the expected long-term rate of return on assets assumption, the Society considered the current level of expected returns on risk-free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for the future returns of each asset class. The expected return for each asset class was then weighted based on the target asset allocation to develop the expected long-term rate of return on assets assumption for the portfolio.

During the year, the Society made pension payments on behalf of the scheme. The amount owed to the Society of £200,000 (2016: £191,000) above represents the balance due from the scheme in respect of these payments.

5.3 PENSION OBLIGATIONS (CONTINUED)

Reconciliation of scheme assets and liabilities

	Assets £000	Liabilities £000	Total £000
At 24 January 2016	67,736	(79,732)	(11,996)
Interest income/(expense)	2,492	(2,929)	(437)
Remeasurement gains/(losses)			
Actuarial losses	–	(17,905)	(17,905)
Return on plan assets excluding interest income	13,124	–	13,124
Contributions by employer	687	–	687
Benefits paid	(3,285)	3,285	–
At 28 January 2017	80,754	(97,281)	(16,527)

Analysis of the amount charged to the revenue account

	2017 £000	2016 £000
Interest income	2,492	2,209
Interest on pension liabilities	(2,929)	(2,750)
Total expense recognised in revenue account	(437)	(541)

Return on plan assets

	2017 £000	2016 £000
Interest income	2,492	2,209
Return on plan assets less interest income	13,124	(4,511)
Total return on plan assets	15,616	(2,302)

Stakeholder scheme

The stakeholder pension scheme is a defined contribution plan. The contributions due to the plan during the year were £3,518,000 (2016: £3,417,000). As at 28 January 2017, no unpaid contributions were outstanding (2016: Enil).

OTHER RETIREMENT BENEFITS

The Society has in place an UURBS (pension promise) in respect of the former Chief Executives, into which the Society has paid Enil in the year (2016: Enil). These amounts are fully provided for and the liability calculated each year by external actuaries. The actual assumptions are consistent with those of the defined benefit schemes.

	2017 £000	2016 £000
Benefit obligation at the beginning of the year	1,725	1,915
Interest cost	65	58
Actuarial losses/(gains)	299	(167)
Benefits paid	(81)	(81)
Benefit obligation at the end of the year	2,008	1,725

Section 6 – Equity

IN THIS SECTION

This section contains details of reserves and the share capital invested by members through their membership and any share accounts held with the Society.

6.1 CAPITAL AND RESERVES

KEEPING IT SIMPLE – CAPITAL AND RESERVES

The Society's share capital is raised via contributions from members, comprising money paid into member share accounts. A dividend distribution, or share of profits, is made to members once a year based on membership points earned within the period. The value apportioned per point is agreed by the members of the Society. Reserves represent profits earned in earlier years.

Accounting policy:

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that gives a residual interest in the assets of the Group after deducting all of its liabilities.

Equity instruments issued by the Society are recorded at the proceeds received, net of direct issue costs.

Dividends are paid using dividend vouchers and calculated by reference to dividend points earned rather than as a return on capital invested. They are therefore recorded in the group revenue account as an expense of the business rather than directly in reserves as an equity distribution. The dividend vouchers issued during the year are valid until 31 December of the relevant year and as such only those that have been redeemed have been accounted for as payments at the year end. No liability is therefore held for those dividend vouchers not redeemed at the balance sheet date. Any unredeemed dividends are released to the revenue account for the year. Dividend distribution to the Society's members is recognised as a liability in the Society's financial statements in the period in which the dividends are approved by the members at the Annual Members' Meeting.

The members' share capital is maintained at a fixed nominal value and attracts a rate of interest. Share interest is disclosed as a movement in equity and in the Statement of Changes in Equity.

SHARE CAPITAL

Called-up share capital represents the nominal value of shares that have been issued.

Share capital comprises 8,147,000 (2016: 9,303,000) shares of £1 currently attracting interest at 1% per annum.

Shares are withdrawable on varying periods of notice dependent on the amount involved.

Each member is entitled to one vote.

Member rights on winding up are contained in the Society rules.

RESERVES

Fair value reserve

This reserve is used to record increases in the fair value of investment properties and decreases to the extent that such decrease relates to an increase on the same asset.

Revenue reserve

This reserve includes all current and prior period retained profits and losses.

Section 7 – Other notes

IN THIS SECTION

This section contains details of operating leases, capital commitments, cash flow and subsidiaries.

7.1 OPERATING LEASES

KEEPING IT SIMPLE – OPERATING LEASES – LEASING FROM OWNER

An operating lease is where rent is paid to the owner of an asset to allow the Society to use it, for example a property.

Operating leases

At 28 January 2017, the Group had the following minimum lease payments under non-cancellable operating leases for each of the following periods:

	Land and buildings		Other	
	2017 £000	2016 £000	2017 £000	2016 £000
Operating leases expiring:				
Within one year	914	826	453	610
Later than one year and not later than five years	3,372	2,397	799	1,035
After five years	5,426	3,619	–	3
	9,712	6,842	1,252	1,648

KEEPING IT SIMPLE – OPERATING LEASES – LEASING TO TENANTS

The Society leases assets to tenants, such as property. The asset is still owned by the Society and the tenant pays rent to use it.

Accounting policy:

Leasing and hire purchase commitments

Rentals payable under operating leases are charged to income on a straight line basis over the term of the lease. Rental income from operating leases, excluding charges for insurance and maintenance, is recognised on a straight line basis over the period of the lease, even if payments are not made on this basis.

The future minimum rental receivables are as follows:

	Land and buildings	
	2017 £000	2016 £000
Within one year	7,243	6,366
Later than one year and not later than five years	19,270	17,077
After five years	16,144	15,625
	42,657	39,068

7.2 CAPITAL COMMITMENTS

KEEPING IT SIMPLE – CAPITAL COMMITMENTS

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

Capital commitments

At 28 January 2017, there were capital commitments of £4.0 million (2016: £0.5 million) which have not been provided for in the financial statements.

7.3 NOTES TO CASH FLOW STATEMENT

KEEPING IT SIMPLE – CASH FLOW STATEMENT

This is the breakdown of the total cash flow from operating activities shown on the cash flow statement.

	2017 £000	2016 £000
RECONCILIATION OF PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES		
Profit for the financial year	1,917	4,174
Adjustments for:		
Tax on profit on ordinary activities	822	(182)
Distributions	3,342	3,777
Net interest income	(1,339)	(2,392)
Profit before interest, distributions and taxation	4,742	5,377
Grants and donations	(610)	(917)
Depreciation	6,441	6,544
Amortisation	1,625	1,435
Profit on sale of tangible fixed assets	(21)	(2,773)
Changes in fair value of investment properties	(1,571)	205
Unrealised impairment of tangible and intangible fixed assets	605	–
Change in value of fixed asset investments	–	55
Unrealised gain on funeral bond investments	858	2,502
Decrease in stocks	1,416	624
(Increase)/decrease in debtors	(729)	143
(Decrease)/increase in creditors	(245)	10,092
Dividend paid	(2,732)	(2,860)
Pension contributions	(2,831)	(2,764)
UURBS current service cost/(credit)	364	(109)
Net cash from operating activities	7,312	17,554

	2016 £000	Cash flow £000	2017 £000
ANALYSIS OF MOVEMENT IN NET FUNDS			
Cash at bank and in hand	25,541	(9,062)	16,479
Current asset investments	1,000	1,014	2,014
	26,541	(8,048)	18,493

MAJOR NON-CASH TRANSACTIONS

During the year, the Society had no major non-cash transactions (2016: £nil).

7.4 ACQUISITIONS AND DISPOSALS

KEEPING IT SIMPLE – ACQUISITIONS AND DISPOSALS

These are purchases or sales of companies by the Society.

ACQUISITIONS

On 17 August 2016, the Group purchased Ben’s Limited, a company formerly operating three supermarkets, for a total consideration of £1,303,000. The total adjustments required to the book values of the assets and liabilities of the company acquired in order to present the net assets of the company at fair values in accordance with group accounting policies was £1,402,000, details of which are set out below, together with the resultant amount of goodwill arising. This purchase has been accounted for as an acquisition.

For the period since acquisition, a loss of £123,000 is included within the consolidated revenue account. This has not been separately disclosed on the face of the statement, as the acquisition is not considered material.

	Book values	Adjustments	Working capital adjustments	Fair value
Tangible fixed assets – property	4,202	(1,402)	–	2,800
Tangible fixed assets – other assets	90	–	–	90
Investments	13	–	–	13
Debtors	146	–	3	149
Creditors	(3,427)	–	15	(3,412)
Taxation	(105)	–	4	(101)
Cash	68	–	–	68
Net liabilities acquired	987	(1,402)	22	(393)
Goodwill				1,696
Consideration				1,303
Consideration satisfied by:				
Cash				1,303

The book values of the assets and liabilities have been taken from the completion statement of Ben’s Limited at 17 August 2016, the date of acquisition. Revaluation adjustments in respect of tangible fixed assets relate to freehold properties.

The consideration includes £204,000 of stamp duty and professional fees that have been paid by the Society as part of the acquisition.

Goodwill will be amortised over a period of ten years from the date of acquisition.

7.5 WHOLLY OWNED SUBSIDIARIES

KEEPING IT SIMPLE – WHOLLY OWNED SUBSIDIARIES

These are separate legal entities that form part of the East of England Co-operative Society which are owned, managed and controlled by the Society.

SUBSIDIARY EXEMPTION

The following subsidiaries of the Society, with the exception of Ardencrest Limited, have taken advantage of the exemption from an audit for the period ended 28 January 2017 available under s479A of the Companies Act 2006 as the Society has given a statutory guarantee of all of the outstanding liabilities of the subsidiaries (with the exception of Ardencrest Limited) as at 28 January 2017.

SUBSIDIARY SOCIETIES AND COMPANIES

The subsidiaries of the Society are listed below.

Ardencrest Limited (27074R)
A Co-operative and Community Benefit Society holding investment properties.

INCS Limited (30032R) – dissolved 21/9/16
A Co-operative and Community Benefit Society, currently dormant, established to hold properties for the Society.

A Smith & Sons (Funerals) Limited (04015388)
A dormant company formerly operating the Smith and Sons funerals business.

W. H. Shephard Funeral Furnishing Service Limited (00354547)
A dormant company formerly operating the W H Shephard funerals business.

Colchester and East Essex Co-operative Society (Trustees) Limited (1005897)
A company holding the trusteeship of the Colchester and East Essex Co-operative Society Employees' Superannuation Fund.

INCS (Trustees) Limited (8292252)
A company holding the trusteeship of the Ipswich and Norwich Co-operative Society Limited Employees' Pension Fund.

Colchester Funeral Services Limited (2768938)
A dormant company formerly a possible holding company for the funeral business of the Colchester and East Essex Co-operative Society.

Anglian Convenience Stores Limited (03244781)
A company operating the Anglian Convenience Stores business.

Local Convenience Stores Limited (04066060)
A property holding company acquired with Anglian Convenience Stores Limited.

H L Perfitt Limited (01012287)
A company operating the H L Perfitt stonemasonry business.

Perfitt Holdings Limited (03806203)
A dormant holding company.

Anglia Memorial Services Limited (4071526)
A dormant company acquired with H L Perfitt Limited.

East of England (SLP) General Partner Limited (SC436963)
A company registered in Scotland, established to administer the East of England Scottish Limited Partnership.

East of England Scottish Limited Partnership (SL011854)
A property holding partnership registered in Scotland, established in connection with the Society's defined benefit pension schemes (see note 5.3).

Ben's Limited (05741336)
A company formerly operating three supermarkets.

East of England Co-op Travel Limited (10588432)
A company operating the society's travel business from 29 January 2017.

DORMANT COMPANY EXEMPTION

The following subsidiaries have taken advantage of the exemption from preparing accounts for a dormant subsidiary available under s394c of the Companies Act 2006 for the period ended 28 January 2017:

A Smith & Sons (Funerals) Limited

Colchester Funeral Services Limited

Perfitt Holdings Limited

W. H. Shephard Funeral Furnishing Service Limited

Members and Community Services' Expenditure Statement (unaudited)

	2017 Net Expenditure	
	£	£
Co-operative sponsored groups		
Co-op Juniors*	28,683	44,899
Other	16,216	
Membership activities		
Member magazine	72,862	191,603
Member recruitment campaign	14,983	
Members' events	83,046	
Other	20,712	
Co-operative learning and related events		
Healthy Living promotional activity		
Advertising	700	40,951
Co-op Cuppa	2,692	
Defibrillators	6,482	
Projects	22,536	
Vehicle depreciation	8,519	
Other	22	
		40,951
		277,453
Office costs		
Personnel costs	248,652	330,678
Other operating costs	82,026	
		330,678
Members and Community Services expenditure (note 2.3)		608,131

*Special provision from the Board.

Donations totalling £131,289 were made to organisations during the financial year from the Society's Community Dividend Fund. The Community Dividend Fund is supported by members who kindly divert their dividend to the '660' share account.

This statement does not form part of the financial statements.

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