CFS Management Services Limited

Financial Statements

Registered number 5564787

Year ended 31 December 2020

Corporate Information

Directors
The Directors who held office during the year and thereafter were as follows:

SM Reay	Appointed 10.03.2021
SK Nuttall	Appointed 10.03.2021
SA Bourne	Resigned 20.03.2020
AP Lee	Resigned 10.03.2021
SA Roberts	Resigned 15.02.2021
JM Wormald	Resigned 10.03.2021

Secretary
C Dalton

Auditors
Ernst & Young LLP, Statutory Auditor
Chartered Accountants
24 Marina Court
Hull
HU1 1TJ

Registered Office
1 Angel Square
Manchester
M60 0AG

Contents

Strategic report

The Directors present their annual strategic report and the audited financial statements for the year ended 31 December 2020.

Principal activities

The principal activities of the Company during the year were providing contract management services to the Co-operative Group Limited ("Group"). The Company incurs a number of central costs for the Co-operative Group Limited, the Company's ultimate parent. These costs are fully recharged to other group entities.

Business review

The results of the Company for the year are set out in the profit and loss account on page 12. Turnover for the year was £45,262k (2019: £60,549k), with profit before taxation of £19k (2019: £643k). During the year the Company paid out dividends amounting to £nil (2019: £nil).

Future development and performance of the business

The Directors expect that the company will continue to trade for the foreseeable future with no changes to its nature or operations.

Principal risks and uncertainties

The Company faces the same principal risks and uncertainties as its ultimate parent, Co-operative Group Limited. Further discussion of these risks and uncertainties and how these risks are being managed, in the context of the Group as a whole, is provided on pages 50-53 of the Group's annual report which does not form part of this report.

Key performance indicators

The Company produces its own monthly financial management and operational information specifically tailored to provide management assurance relating to key business drivers. The key business drivers reported to Board are operating profit, net assets and the Company's cash balances. .

In addition to monitoring revenue and profitability of the Company, the Directors also monitor a number of key performance indicators of the Co-operative Group ("the Group"). These include financial performance, growth in and engagement of members of the group, growing customer loyalty and corporate reputation of the group. Further details on these key measures can be found on page 44 of the Group's annual report.

Section 172 statement

The Directors of CFS Management Services Limited ("CFSMSL") are required to act in a manner compliant with their duties as set out in the UK Companies Act 2006.

This includes a duty to promote the success of the Company for the benefit of its shareholders. Board processes are designed to support the Directors in discharging this duty, particularly in relation to decision making processes. Here, we set out our engagement activities with our key stakeholders. In order to fulfil this duty, Directors must consider the following:

- likely consequences of any decisions in the long term:
- *interests of the Company's employees:*
- need to foster the Company's business relationships with suppliers, customers and other stakeholders;
- impact of the Company's operations on the community and environment;
- Company's reputation for high standards of business conduct;
- need to act fairly between members of the Company.

The following is an overview of how the Board has performed its duties during the year.

<u>Customers</u>
Customer focus and experience is a priority of the Board. The Company provides contract management services to customers and engages with all of them during regular executive processes including meetings and regular dialogue and reports.

Strategic report (continued)

Section 172 statement (continued)

Employees
CFSMSL requires a small number of employees in order to provide its services to customers. In addition however, CFSMSL was the employing entity which seconded employees to CIS General Insurance Limited ("CISGIL") prior to its sale in December 2020. CISGIL executive management were responsible for the management of those seconded colleagues including all employee relations matters prior to the sale.

CFSMSL executive management are solely responsible for the management of its own small team of colleagues noted above.

CFSMSL is part of the Co-op and all colleagues are given the opportunity to have their say on a number of matters and give feedback to management. Colleagues' views are considered by way of Talkback and Pulse surveys which all employees of Co-operative Group Limited ("Group") and its subsidiaries have the opportunity to complete. Co-operative Group Limited considers colleagues and any impact on them when making decisions. Communication with all employees continues through channels including Colleague Voice Forums, and regular Colleague Communications newsletters and briefings.

Shareholders
CFSMSL is a wholly owned subsidiary of Angel Square Investments Limited. The Board of Angel Square Investments Limited receives reports at its board meetings on business performance and strategy.

CFSMSL's ultimate parent entity is the Co-operative Group Limited, the UK's largest consumer co-operative with 4.6 million active members.

Suppliers
CFSMSL has a range of suppliers, services of which are provided to our customers. Our customers invariably negotiate the terms of those supplies directly and CFSMSL advises on the commercial aspects of them.

Regular contact is made with suppliers and payment terms agreed with them. Day to day relationships with CFSMSL's suppliers are maintained by our customers. CFSMSL is in the process of reducing its supplier base as customer demand reduces.

Creditors
The Company doesn't have significant external creditors or lenders beyond day-to-day suppliers (covered above). The Board ensure all creditors are paid in-line with agreed payment deadlines.

Community
Through our ultimate parent entity, the Co-operative Group Limited, our vision is *Co-operating for a Fairer World.*

The Co-operative Group Limited has also produced a section 172 (1) statement which details how the society has engaged with stakeholders and can be found within the its Annual Report & Accounts at:
www.co-operative.coop/investors/annual-results

Further details can be found in the Group's financial statements on page 27.

Environment
The Company's environmental policy is set at Group level. The Co-operative Group Limited is committed to managing its environmental impact. Further detail can be found in the Group's annual report at www.co-operative.coop/investors/reports and in the Co-operate Report, which can be found at www.co-operative.coop/ethics/sustainability-reporting.

By order of the Board

C Dalton

C Dalton
Secretary

Registered Office:
1 Angel Square
Manchester
M60 0AG

Date 08 September 2021

Directors' report

The Directors present their report and financial statements for the year ended 31 December 2020.

In accordance with the provisions of s414c(11), we have included sections within the Strategic Report as we feel they are of strategic importance to the Company, although Companies Act 2006 would otherwise prescribe them to be included within the Directors report.

Proposed dividend and transfer to reserves

The Company made a dividend payment in the year of £nil (2019: £nil).

The profit after tax for the year retained in the Company is £2,528k (2019: £410k).

Directors

The Directors who held office during the year were as follows:

SM Reay	Appointed 10.03.2021
SK Nuttall	Appointed 10.03.2021
SA Bourne	Resigned 20.03.2020
AP Lee	Resigned 10.03.2021
SA Roberts	Resigned 15.02.2021
JM Wormald	Resigned 10.03.2021

The Directors benefited from qualifying third party indemnity provisions in place during the financial year and at the date of this report.

Employees

The main communication with employees is via the Co-operative Group Limited intranet site. Co-operative Group Limited is the Company's ultimate parent undertaking (see note 13). All managers are kept informed about the Group's performance through annual, interim and social accountability reports, management bulletins and Newsline, the electronic weekly news service.

The Company's policy is to recruit disabled workers for those vacancies they are able to fill. All necessary assistance with initial training courses is given. Once employed, a career plan is developed so as to ensure suitable opportunities for each disabled person. Arrangements are made, where possible, for retaining employees who become disabled, to enable them to perform work identified as appropriate to their aptitudes and abilities.

Employees are also consulted on a regular basis so that the views of the employees can be taken into account in making decisions which are likely to affect their interests.

Going concern

The Company is reliant on the support of Co-operative Group Limited ("the Group") in order to meet its day to day working capital requirements because the Group operates a central treasury function. The Company meets these requirements through cash generated from its operations and participation in facility arrangements provided by external lenders to the Group and certain of its subsidiaries, including the Company ("the Group facilities"). A letter of support has been obtained from the Group as evidence of its intention to give continued financial support. The Group has confirmed that it has the ability to provide such financial support and has committed to providing such support until at least 30 September 2022.

As such, an assessment of the Group was undertaken by the Group Directors to determine the appropriateness of the going concern basis of preparation for its subsidiaries, including the Company.

In making their assessment the Group Directors have noted that the consolidated group accounts show a net current liability position, as a result of the current debtors cycle being significantly shorter than the working capital cycle for current liabilities. The Group meets its working capital requirements through a number of separate funding arrangements, certain of which are provided subject to continued compliance with certain covenants. Profitability and cash flow forecasts for the Group, prepared for the period to 30 September 2022 (the forecast period), and adjusted for sensitivities considered by the Group Board to be reasonably possible in relation to both trading performance and cash flow requirements, indicate that the Group will have sufficient resources available within its current funding arrangements to meet its working capital needs, and to meet its obligations as they fall due. Sensitivities have been applied to the market conditions of each of the Group's trading businesses, as well as applying sensitivities to our key strategic activities and in respect to the ongoing impact of Covid-19.

Directors' report (continued)

Going concern (continued)

More detail in regard to the going concern assessment is provided in note 2 of these financial statements.

After conducting the financial projections exercise set out in note 2 and making all appropriate enquiries, the Group Directors have a reasonable expectation that the Company and the Group have access to adequate resources to enable them to continue in operational existence for the foreseeable future. The Company Directors have considered the exercise performed by the Group Directors and have made appropriate enquiries where necessary. The Company Directors have also reviewed internal forecast documentation, management accounts and publicly available information relating to the Group's performance and are satisfied that the Group has access to sufficient funds to honour its commitments set out in the letter of support obtained from the Group. For this reason, the Company Directors continue to adopt the going concern basis in preparing the Company's financial statements.

Disclosure of information to auditors

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditors

The Company's auditors are Ernst & Young LLP. In accordance with s.487 of the Companies Act 2006, the Auditors will be deemed to be re-appointed and Ernst & Young LLP will therefore continue in office.

By order of the Board

C Dalton

C Dalton
Secretary

Registered Office:
1 Angel Square
Manchester
M60 0AG

Date 08 September 2021

Statement of Directors' responsibilities in respect of the Directors' report and the financial statements

The Directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law).

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that year.

In preparing these financial statements, the Directors are required to:

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Independent auditor's report to the members of CFS Management Services Limited

Opinion

We have audited the financial statements of CFS Management Services Limited for the year ended 31 December 2020 which comprise the Profit and loss Account, the Statement of comprehensive income, the Balance Sheet, the Statement of changes in equity and the related notes 1 to 13, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for the assessment period to 30 September 2022. Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant are direct laws and regulations relating to tax legislation, and the financial reporting framework i.e. FRS 101 "Reduced Disclosure Framework and Companies Act 2006. Our considerations of other laws and regulations that may have a material effect on the financial statements include Health and Safety at Work Act 2015, National Minimum Wage Act 1998, Money Laundering Regulations 2019 and The Coronavirus Act 2020.

- We understood how CFS Management Services Limited is complying with those frameworks by making enquiries with management, internal audit, and those responsible for legal and compliance matters.

- We assessed the susceptibility of the company's financial statements to material misstatement, including how fraud might occur by considering the controls that the Company has established to address risks identified by the entity, or that might otherwise seek to prevent, deter or detect fraud. We also considered areas of significant judgement including complex transactions, performance targets, economic or external pressures and the impact that these have on the control environment. Where the risk was considered to be higher, we performed audit procedures to address each identified fraud risk. These procedures included testing manual journals by corroborating the entries made to underlying documentation.

Based on this understanding we designed our audit procedures to identify noncompliance with such laws and regulations. Our procedures involved; making enquiries with those charged with governance and senior management for their awareness of non-compliance with laws and regulations, inquiring about policies that have been established to prevent non-compliance with laws and regulations by officers and employees, inquiring about the Company's methods of enforcing and monitoring compliance with such policies and inspecting significant correspondence with regulatory authorities.

Independent auditor's report to the members of CFS Management Services Limited (continued)

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud (continued)

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Ernst & Young LLP

Matthew Fox (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Hull

September 9, 2021

Profit and loss account
for the year ended 31 December 2020

	Notes	**For year ended 31 December 2020 £'000**	For year ended 31 December 2019 £'000
Revenue	3	**45,262**	60,549
Operating expenses		**(45,262)**	(60,372)
Operating profit	4	**-**	177
Interest receivable	7	**19**	466
Profit before taxation		**19**	643
Taxation	8	**2,509**	(233)
Profit for the year		**2,528**	410

All amounts relate to continuing activities.

Statement of comprehensive income
for the year ended 31 December 2020

The Company has no recognised income or expenses in the current or prior year other than those included in the income statement shown above.

The notes on pages 15 to 23 form an integral part of these financial statements.

Balance Sheet
as at 31 December 2020

	Notes	As at 31 December 2020 £'000	As at 31 December 2019 £'000
Non-current assets			
Deferred tax assets	11	**19,602**	21,365
Total non-current assets		**19,602**	21,365
Current assets			
Trade and other receivables	9	**17,450**	14,600
Cash and cash equivalents		**13,649**	13,679
Total current assets		**31,099**	28,279
Total assets		**50,701**	49,644
Current liabilities			
Trade and other payables	10	**2,772**	4,243
Total current liabilities		**2,772**	4,243
Total liabilities		**2,772**	4,243
Net assets		**47,929**	45,401
Equity			
Called up share capital	12	**40,000**	40,000
Retained earnings		**7,929**	5,401
Total equity		**47,929**	45,401

The notes on pages 15 to 23 form an integral part of these financial statements.

These financial statements were approved and authorised by the Board of Directors on 08 September 2021 and were signed on its behalf by:

SMReay

SM Reay
Director

Statement of changes in equity

for the year ended 31 December 2020

	Called up share capital £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2020	**40,000**	**5,401**	**45,401**
Profit for the year	**-**	**2,528**	**2,528**
Balance at 31 December 2020	**40,000**	**7,929**	**47,929**
Balance at 1 January 2019	40,000	4,991	44,991
Profit for the year	-	410	410
Balance at 31 December 2019	40,000	5,401	45,401

All items are shown net of tax.

The notes on pages 15 to 23 form an integral part of these financial statements.

Notes
(forming part of the financial statements)

1 General Information

CFS Management Services Limited is a private limited company and is registered and domiciled in England and Wales. The address of the Company's registered office is 1 Angel Square, Manchester, M60 0AG.

The principal accounting policies adopted by the Company are set out in Note 2.

2 Accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

Basis of preparation

The Company meets the definition of a qualifying entity under FRS 101 (Financial Reporting Standard 101) issued by the Financial Reporting Council. The financial statements have therefore been prepared in accordance with FRS 101 (Financial Reporting Standard 101) 'Reduced Disclosure Framework' for the year ended 31 December 2020. The comparative period was for the year ended 31 December 2019.

The financial statements have been principally prepared on the basis of historical cost. Areas where other bases are applied are explained in the relevant accounting policy.

Where applicable, the following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101. The specific exemptions that the Company has taken advantage of are :

- IFRS 7 Financial instruments : Disclosures
- Para 91-99 of IFRS 13 Fair Value Measurements
- Para 38 of IAS 1 Presentation of Financial Statements in respect of comparative information
- Para 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40C, 40D, 111 and 134 to 136 of IAS 1 Presentation of Financial Statements
- IAS 7 Statement of Cash flows
- Para 30-31 of IAS 8 Accounting policies, changes in accounting estimates and errors
- *Para 17 and 18A of IAS 24 Related party disclosures*
- IAS 24 Intra-group transactions
- The second sentence of para 110 and paras 113(a), 114, 115, 118, 119(a) - (c), 120-127 and 129 of IFRS 15 Revenue from Contracts with Customers
- The requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d) to 134 (f) and 135(c) to 135(e) of IAS 36, Impairment of Assets
- The requirements of paragraph 52, 58, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16 Leases.

New and amended standards adopted by the Company

The Company has considered the following standards and amendments that are effective for the Company for the year commencing 1 January 2020 and concluded that they are either not relevant to the Company or do not have a significant impact on the financial statements:

- Amendments to References to the Conceptual Framework in IFRS Standards;
- Definition of Material (Amendments to IAS 1 and IAS 8);
- Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 37 and IFRS 7)
- Definition of a Business (Amendments to IFRS 3)
- Covid-19 Related Rent Concessions (Amendments to IFRS 16)

Notes to the financial statements (continued)

2 Accounting policies (continued)

Standards, amendments and interpretations issued but not yet effective

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2020 reporting periods and the Company has not early adopted the following standards and statements. The adoption of these standards is not expected to have a material impact on the Company's accounts:

- Interest Rate Benchmark Reform Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 & IFRS 16)
- IFRS 10 and IAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- Amendments to IAS 1 Classification of Liabilities as Current or Non-current
- Amendments to IFRS 3 Reference to the Conceptual Framework
- Amendments to IAS 16 Property, Plant and Equipment - Proceeds before Intended Use
- Amendments to IAS 37 Onerous Contracts - Cost of Fulfilling a Contract
- Annual Improvements to IFRS Standards 2018-2020 Cycle - Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IFRS 16 Leases and IAS 41 Agriculture
- IFRS 17 Insurance Contracts

Critical accounting estimates and judgements

The preparation of financial statements in conformity with FRS 101 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses.

The estimates and underlying assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

There are no significant estimates or judgements made by management in the application of FRS 101 that have a significant effect on the financial statements.

Going concern

The Company generated a profit of £2,528k in the year (2019: £410k) and at the balance sheet dates holds net assets of £47,929kk (2019: £45,401k).

The Company is reliant on the support of Co-operative Group Limited ("the Group") in order to meet its day to day working capital requirements because the Group operates a central treasury function. The Company meets these requirements through cash generated from its operations and participation in facility arrangements provided by external lenders to the Group and certain of its subsidiaries, including the Company ("the Group facilities"). A letter of support has been obtained from the Group as evidence of its intention to give continued financial support. The Group has confirmed that it has the ability to provide such financial support and has committed to providing such support until at least 30 September 2022.

As such, an assessment of the Group was undertaken by the Group Directors to determine the appropriateness of the going concern basis of preparation for its subsidiaries, including the Company.

This assessment of going concern relies heavily on the ability to forecast future cashflows over the going concern assessment year, to 30 September 2022. Although the Group has a robust planning process, the current economic uncertainty caused by the ongoing Covid-19 pandemic and UK recession means that additional sensitivities and analysis have been applied to test the going concern under a range of downside test scenarios. The following steps have been undertaken to allow the Group Directors to conclude on the appropriateness of the going concern assumption:

- Understand what could cause the Group not to be a going concern

In making their assessment the Group Directors have considered a wide range of information relating to present and future conditions, including future forecasts of profitability; cash flow and covenant compliance; and available capital resources. The potential scenarios which could lead to the Group not being a going concern are:

a) Not having enough cash to meet the Group's liabilities as they fall due. Throughout the going concern year the facility limit within which the Group needs to operate is £1,169m, which includes £769m non-bank facilities and £400m bank syndicate facilities; and/or
b) A breach of the financial covenants implicit in the Group's bank facility agreement.

Notes to the financial statements (continued)

2 Accounting policies (continued)

Going concern (continued)

- Board review and challenge of the base case forecast produced by management including key investment choices

The Group Directors conducted a highly detailed forward planning exercise as part of the strategic plan. The Group's base case forecast includes prudence due to the uncertainty in the market and impact from recession. The Group have also planned for ongoing pandemic-related costs and provide contingency for risks materialising through the year. The Group Board have reviewed, challenged and approved these plans.

- Consider downside sensitivities across the base case forecast as part of going concern

In undertaking their going concern assessment, the Group Directors have included assumptions related to the impact of the pandemic and sensitivities of internal and external factors on the financial projections including, but not limited to:

a) A reduction in the sales demand in the Retail business, with a prudent 1% LFL reduction to sales calculated versus 2019.
b) A reduction in the timely realisation of the transformation and working capital initiative benefits across the businesses.
c) A reduction in the demand of the Funeralcare business, with a prudent 2% reduction in LFL sales. A lower return on the funeral plan investments was also modelled.
d) Additional Covid-19 pandemic risks in high staff absence rates, lower fuel sales volumes and higher PPE safety costs. Covid-19 risks reverse in 2022 as they represent one-off costs that are only necessary during pandemic conditions.

The sensitivities identified do not risk the validity of the Group as a going concern even before applying the mitigating actions set out below.

- Examine what mitigating actions would be taken in the event of these scenarios.

Whilst out of line with the Group's strategic ambition, there are several options within the Group's control which could be exercised, if certain risks materialised. Options include:

a) The Group's ability to control the level and timing of its capital expenditure programme (circa £550m over the going concern timeframe).
b) Apply cost control measures across both variable and overhead budgets.
c) The Group's options to slow down and reduce investment into price and membership.

- Perform reverse stress tests to assess under what circumstances going concern would become a risk, assess the likelihood of whether they could occur and any further mitigating actions.

Whilst the initial going concern approach assesses likely risks to the Group's base case forecasts through severe but plausible downside scenarios and options to mitigate them, the reverse stress test represents a worst-case scenario at which point the model breaks. Whilst unlikely, to demonstrate the above, the Group Directors have modelled a significant downturn in the grocery market of a further -3% retraction in Retail sales and a further reduction in funeral volume of -4%. In addition, the Group Directors have modelled the impact of a significant shortfall in the Group's transformation programme benefits delivery.

It is noted, however, that the Group could mitigate the reverse stress test scenario through a further reduction or delay in capital expenditure and a change in the timing of the Group's investment into operational improvements. There is also the option to apply further cost control measures. Whilst all remain undesirable strategically there is also the option to apply further stringent cost control measures.

- Conclude upon the going concern assumption.

For the purposes of going concern the Group Directors assume that no new facilities from re-financing are required or needed by the Group. In addition, the Group has an accordion option with the banking syndicate to obtain £100m of additional revolving credit facilities. Whilst available to the Group, this has not been included in the assessment as the Group's base facilities are enough to cover the Group's going concern calculations without any breach of covenants.

Therefore, after conducting the financial projections exercise set out above and making all appropriate enquiries, the Group Directors have a reasonable expectation that the Company and the Group have access to adequate resources to enable them to continue in operational existence for the foreseeable future. The Company Directors have considered the exercise performed by the Group Directors and have made appropriate enquiries where necessary. The Company Directors have also reviewed internal forecast documentation, management accounts and publicly available information relating to the Group's performance and are satisfied that the Group has access to sufficient funds to honour its commitments set out in the letter of support obtained from the Group. For this reason, the Company Directors continue to adopt the going concern basis in preparing the Company's financial statements.

2 Accounting policies (continued)

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, cash at bank and short-term deposits with banks with a maturity of three months or less, which are subject to an insignificant risk of changes in value. Cash and cash equivalents includes debit and credit card payments made by customers which are receivable from banks and clear the bank within three days of the transaction date.

Pensions and other post-retirement benefits

The Company's employees were members of a Group wide pensions scheme, the Co-operative Group Pension (Average Career Earnings) Scheme (the Pace Complete Scheme). This Pace Complete Scheme is a defined benefit scheme. The Company contributed to the Pace Complete Scheme in respect of its employees who were members of the Scheme up until the end of October 2015 when it was closed to future accrual. The Company is unable to identify its share of the underlying assets and liabilities of the scheme and therefore contributions to the scheme up until the end of October 2015 were accounted for as if it were a defined contribution scheme. There is no contracted agreement or stated Group policy for charging the net defined benefit cost for the plan as a whole measured in accordance with IAS 19 to individual Group entities, therefore the Company, in its individual financial statements, cannot recognise the net defined cost so charged. Refer to disclosure of information relevant to the scheme in Note 6.

A defined contribution scheme is a pension plan under which the Company pays contributions into a separate entity and has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets. Obligations for contributions to defined contribution plans are expensed as the related service is provided. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

Taxation

(i) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

(ii) Deferred taxation

Deferred tax is provided, with no discounting, using the balance sheet liability method, providing for temporary difference between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of assets or liabilities that affect neither accounting nor taxable profits and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised. In the case of investment properties it is assumed that uplifts on valuation principally reflect future rentals.

Revenue

Revenue is recognised in line with IFRS 15 (Revenue from Contracts with Customers). IFRS 15 defines performance obligations as a 'promise to provide a distinct good or service or a series of distinct goods or services'. Revenue is recognised when a performance obligation has been delivered which reflects the point when control over a product or service transfers to a customer. Revenue is measured based on the consideration set out in the contract with the customer and excludes amounts collected on behalf of third parties.

Revenue consists of recharges of expenses incurred on behalf of its customers and is recognised in the income statement when the associated services are provided.

All revenue is derived from the Company's principal activity in the United Kingdom.

Notes to the financial statements (continued)

3 Revenue

	For year ended 31 December 2020 £'000	For year ended 31 December 2019 £'000
Revenue comprises the following:		
Management fees	**45,262**	60,549
	45,262	60,549

4 Operating profit

	For year ended 31 December 2020 £'000	For year ended 31 December 2019 £'000
Operating profit is stated after charging:		
Employee benefits expense (note 5)	**39,038**	46,751

The auditor's remuneration of £28,537 (2019: £19,289) is borne by the ultimate parent undertaking.

5 Staff numbers and costs

The average number of persons employed by the Company (including Directors) during the year was as follows :

	Number of employees for year ended 31 December 2020	Number of employees for year ended 31 December 2019
Average for year	**979**	1,108

The aggregate payroll costs of these persons were as follows:

	For year ended 31 December 2020 £'000	For year ended 31 December 2019 £'000
Wages and salaries	**31,999**	37,910
Social security costs	**3,460**	4,005
Other pension costs	**3,448**	4,085
Other staff costs	**131**	751
	39,038	46,751

Notes to the financial statements (continued)

5 Staff numbers and costs *(continued)*

Staff costs not directly relating to payroll expenses are included within other staff costs.

	For year ended 31 December 2020 £'000	For year ended 31 December 2019 £'000
Directors' remuneration		
Directors emoluments	**496**	723
Company contributions to money purchase pension plans	**45**	45
	541	768

The emoluments in the table consist of basic pay, benefits in kind and performance related pay. They relate to the services of those Directors of the Company whose remuneration is paid by the Company.

The cost of remuneration paid to Directors who are also executive Directors of the Co-operative Group Limited cannot be meaningfully apportioned to the Company. The full amounts of their total remuneration are fully disclosed in the annual report and accounts of the Co-operative Group Limited and not included here.

The cost of remuneration paid to other Directors, who are employed and paid by the Co-operative Group Limited but not recharged to the Company, cannot be meaningfully apportioned to the Company. No emoluments are paid directly to them by the Company.

The aggregate amount of emoluments and amounts receivable under long term incentive schemes of the highest paid Director of the Company was £297,000 (2019: £414,000) and £26,000 company pension contributions were made on that Directors' behalf (2019: £26,100).

6 Pension Scheme

The Company has been involved in two different types of pension schemes:

1) Pace Complete Scheme

The Company is a wholly owned subsidiary of Co-operative Group Limited which operated a defined benefit scheme (the Pace Complete scheme) until the end of October 2015 when it was closed to future accrual. The assets are held in a separately administered trust. Until December 2013, the Pace scheme was defined as a Group plan, as all participating entities were under the common control of the Co-operative Group Limited (the sponsoring employer). Following the recapitalisation of The Co-operative Bank plc in December 2013, the various entities participating in the Pace plan are no longer under common control of the Co-operative Group and as a result, the Pace scheme became a multi employer scheme. Full details of the Pace plan are disclosed in the Co-operative Group's consolidated financial statements.

2) Pace DC Section

In October 2015, the Pace DB scheme closed to future accrual, therefore going forward the Company will only incur charges relating to the Pace DC scheme.

Notes to the financial statements (continued)

7 Interest receivable

	For year ended 31 December 2020 £'000	For year ended 31 December 2019 £'000
Interest income on bank deposits	**19**	466
	19	466

8 Taxation

Analysis of credit in year	**For year ended 31 December 2020 £'000**	For year ended 31 December 2019 £'000
UK corporation tax		
Current tax credit for the year	**4,272**	5,119
Adjustments in respect of prior year	**-**	(2)
Total current tax	**4,272**	5,117
Deferred tax (see note 11)		
Current year items	**(4,276)**	(4,808)
Effect of rate change on closing balance	**2,513**	(542)
Total deferred tax	**(1,763)**	(5,350)
Tax credit / (charge) on profit before taxation	**2,509**	(233)

Factors affecting the tax charge for the current year

The tax on the net profit before tax differs from the theoretical amount that would arise using the standard applicable blended rate of corporation tax of 19% (2019: 19%) as follows:

	For year ended 31 December 2020 £'000	For year ended 31 December 2019 £'000
Current tax reconciliation		
Profit before tax	**19**	**643**
Current tax charge at 19% (2019: 19%)	**(4)**	**(122)**
Effects of:		
Tax rate changes on deferred tax movement	**2,513**	(109)
Adjustments in respect of prior years	**-**	(2)
Total income tax (charge) / credit (see above)	**2,509**	(233)

Notes to the financial statements (continued)

8 Taxation (continued)

Following last year's Budget, on 11 March 2020, the Chancellor revoked the enacted corporation tax rate reduction from 19% to 17%, thereby leaving it at 19%. Accordingly, each deferred tax balance has been re-measured individually based on the 19% enacted tax rate, (2019: 17%). The impact on the deferred tax assets was an increase of £2,513k.

Following the 2021 Budget, on 3 March 2021, the Chancellor has announced that with effect from 1 April 2023 the corporation tax rate will increase by 6% to 25%. Under FRS 101 it is the rate(s) actually enacted at the balance sheet date that determine the amount of deferred tax to be recognised. Accordingly, this announcement does not effect how the deferred tax balance has been measured as at 31 December 2020.

Due to the enactment of the 2021 Budget in May 2021, for subsequent reporting periods the Company will take account of this increased rate for determining the amount of deferred tax to be recognised. If this 6% rate increase in 2023 had been applied instead of the current enacted rate of 19% the impact on the balance sheet would have been to increase the deferred tax assets by £4,175k.

Tax policy

The ultimate parent undertaking published its Tax Policy on its website http://www.co-operative.coop/corporate/ investors/tax-policy. The disclosures made in these financial statements comply with the commitments made in that policy.

9 Trade and other receivables

	As at 31 December 2020 £'000	As at 31 December 2019 £'000
Current assets:		
Amounts due from group undertakings	**16,535**	14,154
Other debtors	**-**	51
Prepayments and accrued income	**915**	395
	17,450	14,600

Amounts owed by group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

10 Trade and other payables

	As at 31 December 2020 £'000	As at 31 December 2019 £'000
Current liabilities:		
Amounts owed to group undertakings	**-**	2
Other payables including taxation and social security	**1,163**	3,646
Accruals and deferred income	**1,609**	595
	2,772	4,243

Amounts due to group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

Notes to the financial statements (continued)

11 Deferred Taxation

Deferred income taxes are calculated on all temporary differences under the liability method using an effective rate of 19% (2019: 17%).

	As at 31 December 2020 £'000	As at 31 December 2019 £'000
Deferred taxation asset		
At beginning of the year	21,365	26,715
Income statement charge	(1,763)	(5,350)
At end of the year	**19,602**	21,365
Comprising:		
Capital allowances	19,602	21,363
Provisions	-	2
At 31 December 2020	**19,602**	21,365

The £19,602k deferred tax asset (2019: £21,365k) relates to capital allowances against tangible and intangible assets which have been fully depreciated in prior years.

12 Called up share capital

	As at 31 December 2020 £'000	As at 31 December 2019 £'000
Allotted, called up and fully paid		
40,000,000 Ordinary shares of £1 each	**40,000**	40,000

There is a single class of share capital.

All shares rank pari passu in all respects.

13 Ultimate parent undertaking

The Company is a wholly owned subsidiary of Co-operative Group Limited, a Registered Society under the Co-operative and Community Benefit Societies Act 2014 registered in England and Wales. This is the smallest and largest group of which the Company is a member and for which consolidated accounts are prepared. A copy of the group accounts can be obtained from the Secretary, Co-operative Group Limited, 1 Angel Square, Manchester, M60 0AG.