



Corporate governance code for agricultural co-operatives

Contents

<i>Preamble</i>	4
<i>Summary of High Level Principles</i>	6
<i>Members</i>	7
<i>Voting Opportunities and the Annual General Meeting (AGM)</i>	9
<i>The Role of the Board</i>	10
<i>The Role of Directors</i>	12
<i>Board Size</i>	13
<i>Board Balance and Independence</i>	14
<i>Co-optation of External (Non-member) Directors</i>	15
<i>The Chair</i>	16
<i>The Chief Executive</i>	17
<i>The Secretary</i>	17
<i>Election, Renewal of the Board and Succession Planning</i>	18
<i>Induction, Information and Ongoing Professional Development</i>	19
<i>Independent Professional Advice</i>	20
<i>Board Performance Evaluation</i>	20
<i>Committees of the Board</i>	21
<i>The Nomination Committee</i>	21
<i>The Remuneration Committee</i>	22
<i>The Audit Committee</i>	24
<i>The Auditor's Report to the Board</i>	26
<i>The Annual Report</i>	26
<i>Compliance Assessment</i>	27
<i>The International Co-operative Alliance Statement of Co-operative Identity</i>	28

Preamble

Co-operatives are member-owned businesses founded on the International Co-operative Alliance's Statement of Co-operative Identity and agricultural co-operatives have long been among the most successful of these in the UK. Agricultural co-operatives are legal entities in which farmers work together to achieve some commercial objective that they cannot achieve working independently of each other.

Key to the success of the model is governance. A neglect of governance weakens the framework of accountability and carries multiple risks to the business and its strategy over time. Conversely, good governance supports the board of the co-operative in its task of creating and maintaining a strong and sustainable business. The co-operative sector has therefore long recognised the value of good governance practice. Co-operatives UK and SAOS have combined their extensive experience of governance across all sectors of the Co-operative Movement to produce this first comprehensive code for agricultural co-operatives. The Code draws on best practice from a wider business setting, (including the UK Corporate Governance Code applicable to listed companies), but reflects the distinctive characteristics of agricultural co-operatives. There are many areas of overlap because good governance is, in many respects, about the same underlying principles. However, in a co-operative, the board must lead the co-operative and at the same time operate in line with the International Co-operative Alliance Statement of Co-operative Identity, actively engage and maintain close relations with its members and encourage active member participation in its governance practices.

Governance concerns the way co-operatives are directed and controlled and is therefore central to the work of the board. This Code is a guide to the key elements of effective board practice. It is designed to assist boards in carrying out their governance role and to provide a measure of accountability and assurance to members.

Using the Code

The Code is structured on three levels. First, the high-level principles briefly set out the key principles of governance applicable to all co-operatives. Each high-level principle has one or more supporting principles. These supporting principles give illustrations of what might constitute good governance compliance with the high-level principles. The provisions are the specific points on which all co-operatives should report annually.

Flexibility of the Code

It is recognised that different co-operatives may choose to apply the provisions of the Code in different ways and that 'one size does not fit all'. Smaller agricultural co-operatives in particular may feel that it is not appropriate or necessary to comply with all provisions of the Code. However, it is suggested that the high-level principles and supporting principles are universal and every board should be satisfied that these are reflected in governance practices.

Reporting against the Code

The Code requires co-operatives to provide statements in their annual reports disclosing the extent to which they have followed it during the reporting period. They may make any statements they see fit concerning their approach to governance and the Code. However, they must disclose whether or not they have complied with the Code provisions and, where they have not done so, give an explanation of the action they have taken instead. Such explanations should:

- State what alternative measures the co-operative is taking to deliver on the principles set out in the Code and mitigate any additional risk.

Co-operatives UK and SAOS are able to provide external assurance to co-operatives on their level of compliance with the Code. An evaluation of governance matters, advice and assistance in developing practices consistent with the Code can also be provided.

Reviewing the Code

The Code will be subject to periodic review in light of changes in law and good practice.

January 2014

Summary of High Level Principles

- Agricultural co-operatives are member-owned democratic organisations and the board should promote the growth and development of their membership and encourage members to actively participate in their governance.
- Agricultural co-operatives should use the AGM, interim meetings, and other opportunities and methods to communicate with members and encourage them to exercise their democratic rights and their active participation.
- Every agricultural co-operative should be headed by an effective board which is accountable, based on a mutual understanding of its objectives, to its membership and is collectively responsible for the long-term success of the business.
- The directors are responsible for ensuring that the co-operative is a successful co-operative business committed with its members to deliver value for them and to serve the interests and protect the assets of its members by exercising independent and objective judgement.
- The board should be of an appropriate size to ensure it represents its diverse membership and is able to lead the co-operative in pursuing its strategic and other objectives.
- The board should act objectively and fairly in the interests of the co-operative and of its members as a whole.
- To ensure that the board can fulfil its role properly and act to its full potential the board should consider the need to, and the benefits of, co-opting external (non-member) directors to bring appropriate expertise and balance.
- The chair is responsible for the leadership of the board and should ensure that the board is in effective control of the co-operative's affairs and alert to its obligations to its members.
- The chief executive of the co-operative is responsible for the executive management of the co-operative's operations. He or she is the senior executive in charge of the management and to whom all members of the management report.
- The secretary has responsibility for advising the co-operative on all governance matters relating to the co-operative. The board has a right to expect the secretary to give impartial advice and to act in the best interests of the co-operative.
- Procedures should be in place for regular renewal of the membership of the board and its committees to ensure that the democratic rights of members can be exercised and that the board is accountable to members and able to challenge the management effectively in light of the objectives, policies and strategies of the co-operative.
- Directors should be comprehensively inducted into their role and should be properly briefed and informed at all times in order to enable them to carry out their duties effectively.
- The board should be well informed and have access to all the information and advice necessary to enable it to perform its role, to act in the best interests of the members and to protect their assets.
- The board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors to ensure that roles can be carried out effectively. The chair should act on the results of the board evaluation by recognising the strengths and weaknesses of the board and taking any appropriate action to address weaknesses.

- The board should establish committees to work on specialist aspects of its remit in order that it can be provided with sufficient information and ensure that it is able to carry out its role effectively.
 - The board should establish a search committee.
 - The board should establish a remuneration committee.
 - The board should establish an audit committee.
- The Board should ensure that the annual report presents a fair, balanced and understandable assessment of the co-operative's business model, strategy and performance.

A. Members

High level principle

Agricultural co-operatives are member-owned democratic organisations and the board should promote the growth and development of their membership and encourage members to actively participate in their governance.

Supporting principles

Co-operatives should develop structures and policies that permit and promote active member involvement at a level below the board.

Members have clearly defined rights and responsibilities and should hold the board to account, based on a mutual understanding of objectives, for the policies and performance of their co-operative. Members should ensure that policies and performance are in line with the stated aims of the co-operative and the International Co-operative Alliance Statement of Co-operative Identity, which is the basis of all co-operative enterprises.

Members of area committees or regional boards, if applicable to the co-operative, who directly elect the main board, should be equipped in terms of information and resources to hold the main board to account.

Co-operatives should be clear on the value that they will generate for their members, and should communicate with members in the course of developing strategies that respond to their needs.

Provisions

1. The board and the secretary should advise members of their right to stand for election to the board and/or regional boards and area committees and what that will entail and make clear what the relevant qualifications for standing for office are.

2. Depending on the size, complexity and risk profile of the co-operative the board should ensure that preparatory training or briefings are available to members indicating an interest in participating in elections to main boards, regional boards, and/or area committees.
3. The board should ensure that information on the availability of such information is widely publicised.
4. The secretary should maintain an accurate and up to date membership register.
5. The board should provide opportunities for consultation and discussion with members to help inform strategy development that responds to members' needs.
6. The board should draft a statement providing details of the value that the co-operative aims to generate for members and annually review progress against this statement.
7. In monitoring member participation policies the board should take note of the following:
 - Number of members joining and leaving the co-operative
 - Number of members attending members' meetings
 - Number of members' committees and/or other member groups and schemes and the number of members attending
 - Turnout at elections to ascertain whether the electoral turnout is demographically representative of the membership
 - Extent of member economic involvement with the co-operative
 - Participation of members in training and other co-operative events.

Significant efforts should be made to improve these figures on an annual basis.
8. The board should endeavour to put inclusive member participation policies into practice and ensure that the democratic rights of members are made clear and that elections are contested wherever possible.
9. Where applicable, members of area committees or regional boards should receive sufficient information appropriate to their role, and not necessarily confined to their region, in order for them to discharge this function.
10. Where applicable, members of area committees or regional boards should be subject to obligations of confidentiality equivalent to those applicable to the members of the board of directors of the co-operative. Members of area committees or regional boards should conduct themselves in accordance with a directors' code of conduct suitably adapted to the purpose by the co-operative.

B. Voting Opportunities and the Annual General Meeting (AGM)

High-level principle

Agricultural co-operatives should use the AGM, interim Meetings, and other opportunities and methods to communicate with members and encourage them to exercise their democratic rights and their active participation.

Supporting principles

Co-operatives should seek to encourage all members to attend the AGM, and where appropriate an Interim Meeting.

Co-operatives should promote a vibrant democracy and ensure the maximum level of voting at meetings and participation in elections.

There should be a formal, rigorous, transparent and wide reaching voting procedure. Members have a responsibility to make considered use of their vote.

The board should ensure that the format, organisation and content of the AGM, and where appropriate interim meetings, should be as open and accessible as possible including utilising electronic methods when appropriate.

Provisions

11. The board should ensure that meetings are held at times and in venues convenient to the greatest possible number of the co-operative's members.
12. Provision should be made for members with disabilities.
13. Co-operatives should advertise AGMs, Interim Meetings and director elections by the most appropriate means possible, for example, mail-outs, at premises, advertisements in the local press, social media and online.
14. Appropriate notice, of at least twenty one days, should be provided to members prior to the AGM.
15. Sufficient information should be given to members to enable them to make an informed decision to stand for election.
16. The board should consider which procedures are appropriate in order to maximise members' participation at meetings and in elections, for example, postal, telephone and electronic methods.
17. Sufficient information should be given to members to enable them to make an informed decision on their vote.
18. The board should put in place processes to ensure that elections, including canvassing activity, are fair and transparent and free from fraud and undue influence.
19. The board should put in place a fair and transparent method of counting votes and this procedure should be explained to members.
20. Any uncontested elections for positions onto the main board, regional boards and/or area committees should be documented in the annual report, along with any efforts made by the board to enhance member participation in the governance of their co-operative.
21. A board proposing transactions, acquisitions or disposals, involving 25% or more of the co-operative's members' funds, should report on this to members at a consultative meeting. Co-operatives may wish to go further and invite members' approval for such decisions in the interests of democratic accountability.
22. A board considering the acceptance of a transfer of engagements to another co-operative must satisfy itself that members' interests are safeguarded in transfer of engagements negotiations, and it must provide members with all the information they need to make an informed choice as to whether or not to approve the transfer.

23. A board considering the acceptance of a transfer of the engagements of another co-operative, where this transaction is over 25% of the accepting co-operative's members' funds, must also be mindful of the interests of members and should consult members and provide them with all the information they need to express an informed preference as to whether or not the transfer should be approved.

C. The Role of the Board

High-level principle

Every agricultural co-operative should be headed by an effective board which is accountable, based on a mutual understanding of its objectives, to its membership and is collectively responsible for the long-term success of the business.

Supporting principles

The board's role is to provide leadership of the co-operative. It should set the co-operative's strategic aims taking into account the needs of members, and it should ensure that the resources are available for it to meet them and review the management's performance.

The board should set the values, ethos and culture of the co-operative, having regard to the International Co-operative Alliance Values & Principles. The board must ensure that, in running the business, the management maintains the values, ethos and culture and should ensure that the co-operative's obligations to members and other stakeholders, in particular employees, customers, suppliers and the community, are understood and met.

The board, with input from the Chief Executive, should be responsible for setting the remuneration of external (non-member) directors.

The board is responsible for ensuring that risk management is properly addressed within the co-operative.

The board, with input from management, has the ultimate responsibility for identifying the key business risks faced by the co-operative and should develop plans to control, monitor and minimise these risks.

The board should determine the types of risk the co-operative is prepared to take.

The board should ensure that the management maintains a sound system of internal control and risk management to safeguard members' investment and the co-operative's assets.

The board should ensure that it has appropriate means of controlling and receiving information on any subsidiaries or related businesses.

Provisions

24. The board should meet sufficiently regularly to carry out its duties.
25. There should be a formal schedule of matters specifically reserved to the board.
26. The annual report should state how the board operates and which types of decision are taken by the board and which are delegated to the management.
27. The annual report should set out the number of meetings of the board and committees held during the year and individual attendance at these by directors.
28. The board should ensure that the co-operative maintains robust and defensible risk management and internal control systems and how it has done this should be set out in the annual report. See section 'Internal Control and Risk Management'.
29. The board should satisfy itself, having received advice from the management and the auditor, on the integrity of financial information and other critical structural and operational procedures.
30. The secretary should arrange appropriate insurance cover in respect of potential legal action against directors.
31. At least once a year, the board should carry out an in-depth review of strategy, and when necessary should update strategy, to ensure that it responds to the evolving needs of members and markets.
32. At least once a year the board should meet, or hold a part of its meeting, without any employee directors, management directors or the management present.
33. The Board should determine provisions and protocols that preserve an appropriate degree of confidentiality of its discussions.
34. The board must satisfy itself it has spent an appropriate amount of time discussing reports on the performance of any subsidiaries and related businesses.
35. In the event of a solvent dissolution any surplus arising should be distributed in accordance with Co-operative Principles.

D. The Role of Directors

High level principle

The directors are responsible for ensuring that the co-operative is a successful co-operative business committed with its members to deliver value for them and to serve the interests and protect the assets of its members by exercising independent and objective judgement.

Supporting principles

Directors should be aware that issues involving conflicts of interest might arise and be clear on how they are dealt with.

The directors should understand and have a commitment to adhere to the co-operative status of the business should discharge their duties accordingly and in line with the International Co-operative Alliance's Statement of Co-operative Identity and support co-operatives in other sectors.

All directors are equally responsible in law for the decisions of the board.

Directors must act in good faith in the best interests of the co-operative as a whole. They should act at all times with integrity and probity. Directors who do not do so may be removed by the board.

Directors should discharge their duties in ways that are consistent with the International Co-operative Alliance Values & Principles and the ethical values of their co-operative.

Directors should attend meetings of the board wherever possible in order to be actively involved in the decision making process.

Directors should ensure that they have the appropriate information to take an active role in the decision making process.

Directors should sign, and abide by, a Code of Conduct for Directors.

Provisions

Directors should attend sufficient meetings to carry out their duties.

36. The annual report should include a chart of each director's board and committee meeting attendance.
37. The board should ensure that any conflicts of interest affecting directors are dealt with appropriately and in accordance with this Code.
38. All directors should inform the co-operative's secretary of any connections they have that may lead to a potential conflict of interest.
39. The secretary should maintain a register of directors' interests that is available for inspection by members.
40. Persons closely associated with the co-operative's competitors, or with suppliers (other than members in the course of their day to day member business with the co-operative), which in the opinion of the board are dependent on the co-operative's patronage to a material extent, (and the partners of the foregoing), should not serve on the board.
41. Directors should respect the confidentiality of board meeting discussions and be aware that some information made available to directors is commercially sensitive.
42. Directors should respect the collective basis of board decision making and decisions made accordingly.
43. Directors should report to members each year in the annual report on the reasons for their view that the co-operative can be regarded as a going concern with the necessary supporting assumptions or qualifications.
44. The terms and conditions of elected directors and co-opted external (non-member) directors should be made available for inspection by members.

45. A letter of appointment should be provided with a broad indication of the time involved and the work and responsibilities expected of directors.
46. Before undertaking their appointment, directors should satisfy themselves that they would have enough time to fulfil the role to the best of their ability.
47. They should determine whether they would be provided with sufficient training to equip them for their role and to allow them to give strategic direction to a business that operates as a co-operative at both times of growth and periods of challenge.
48. Following their appointment Directors should sign, and abide by, a Code of Conduct.

E. Board Size

High-level principle

The board should be of an appropriate size to ensure it represents its diverse membership and is able to lead the co-operative in pursuing its strategic and other objectives.

Supporting principle

The size of the co-operative's board should reflect the nature, diversity and scale of the co-operative, the complexity of the risks faced by it and the need to ensure appropriate representation.

Provision

49. The board should have a minimum of five members, the maximum number should be agreed by the board dependant on the needs of the co-operative.

F. Board Balance and Independence

High-level principle

The board should act objectively and fairly in the interests of the co-operative and of its members as a whole.

Supporting principles

To ensure a measure of board balance and independence, the board should be structured so that no one group of individuals dominates it. The board should ensure that the composition of the board reflects the diversity of its membership.

The board should ensure that there is fair and equitable treatment of members at all levels of the co-operative. The board should promote and encourage diversity.

Provisions

50. The number of directors, who are also employees of the co-operative, should not exceed 33% of the board.
51. Current employees and employees who have retired from the business in the last three years should not hold the position of chair.
52. The combined number of current employees, superannuated employees who have retired from the business in the last three years and their spouses/partners and any external (non-member) directors should not exceed 49% of the board.
53. The annual report should identify the chair, the vice chair (where there is one), the chief executive, secretary and the chair and members of the audit, risk, search and remuneration committees.
54. The annual report should include a list of external directorships of each director and members of management.
55. Every board should develop a written policy designed to ensure that it reflects the interests of all its members.
56. Meetings should be as accessible as is practicable.
57. Directors should be reimbursed for any loss of earnings associated with fulfilling their role.

G. Co-option of External (Non-member) Directors

High level principle

To ensure that the board can fulfil its role properly and act to its full potential the board should consider the need to, and the benefits of, co-opting external (non-member) directors to bring appropriate expertise and balance.

Supporting principles

The board should consider the co-option of external (non-member) directors when agreeing a policy on succession planning and maintaining an appropriate balance of skills and experiences within the co-operative and on the board.

The search committee should make recommendations to the board on the need for co-option and identify suitable candidates to take on this role. If there is no search committee the whole board should consider this. The board may wish to consider using external search consultants and advertising the vacancy.

Provisions

58. The name of any co-optee(s) should be submitted to the next general meeting for ratification by the members.
59. External (non-member) directors should be appointed for specified terms and their continuing appointment should be reviewed at least every three years and reaffirmed by members at the AGM.
60. It is recommended that in order to safeguard the democratic status of the board, a co-operative should ensure that external (non-member) directors and management directors should not exceed 49% of the board.
61. A letter of appointment should be provided with a broad indication of the time involved and the work and responsibilities expected of directors.
62. Before undertaking the appointment directors should satisfy themselves that they would have enough time to fulfil the role to the best of their ability.
63. They should determine whether they would be provided with sufficient training to equip them for their role and to allow them to give strategic direction to a business that operates as a co-operative at both times of growth and periods of challenge.
64. They should undertake their own thorough examination of the co-operative to satisfy themselves that it is a viable organisation of high integrity to which they will be well suited to contribute.

H. The Chair

High level principle

The chair is responsible for the leadership of the board and should ensure that the board is in effective control of the co-operative's affairs and alert to its obligations to its members.

Supporting principles

The chair should ensure that at all times the strategy of the co-operative is consistent with its purpose and objectives and in line with co-operative values and principles and the International Co-operative Alliance's Statement of Co-operative Identity.

Care should be taken to ensure the integrity and independence of the relationship between the chief executive and chair. The chair should be confident of his or her ability to challenge the chief executive where necessary.

The chair should act as the primary link between the board and the chief executive and secretary. He or she should promote and maintain effective working relationships amongst the chair, the secretary and the chief executive in managing and administering board processes, and with directors, and should encourage the active engagement and participation of all the members of the board.

Provisions

65. The board should appoint, from its own number, a chair and at least one vice chair. Individuals should be selected on the basis of their chairing skills, leadership capacity, interpersonal skills, ability to challenge the management and knowledge of the business.
66. A chair should have served at least one term of office as a director before being appointed to the role, unless the co-operative appoints an external (non-member) director as chair and this provision shall not apply.

67. The term of office of the chair will be no longer than three years and may be renewed up to a total maximum service as chair of 6 years at which point they should stand down for a period of at least one year before being eligible for reappointment.
68. There should be provisions for the board to review and if necessary remove a poorly performing chair.
69. The chair should not be a current employee or employee who has retired within the last three years or their spouses/partners.
70. The chair should have regular contact with the directors, chief executive and secretary outside of the board cycle.
71. The chair should establish effective links with regional boards/area committees (where appropriate) and any other groups designed to facilitate consultation with members.

I. The Chief Executive

High level principle

The chief executive of the co-operative is responsible for the executive management of the co-operative's operations. He or she is the senior executive in charge of the management and to whom all members of the management report.

Supporting principle

The chief executive is answerable to the board for the way the co-operative is run and its business performance.

Provisions

72. The chief executive's appointment and removal should be a matter for the board as a whole.
73. There should be a chief executive succession plan. The board, or a nominated committee of the board, (normally the Nomination Committee), should review the plan regularly.
74. The posts of chair and chief executive should not be held by one individual.
75. The positions of chief executive and secretary should not be held by one individual.
76. The service contracts of the chief executive and other senior executives, where applicable, should not provide notice periods in excess of one year.
77. In instances where a member of the management is provided with a notice period in excess of twelve months, reasons for this must be stated in the annual report.

J. The Secretary

High-level principle

The secretary has responsibility for advising the co-operative on all governance matters relating to the co-operative. The board has a right to expect the secretary to give impartial advice and to act in the best interests of the co-operative.

Supporting principle

All directors should have access to the advice of the secretary.

Provisions

78. The secretary's main reporting line should be to the board and in between board meetings his/her first point of contact should be the chair.
79. The secretary is responsible for ensuring that committees of the board are serviced.
80. The secretary's appointment and removal should be a matter for the board as a whole.

K. Election, Renewal of the Board and Succession Planning

High-level principle

Procedures should be in place for regular renewal of the membership of the board and its committees to ensure that the democratic rights of members can be exercised and that the board is accountable to members and able to challenge the management effectively in light of the objectives, policies and strategies of the co-operative.

Supporting principles

The board should satisfy itself that appropriate succession planning is in place for orderly succession for appointments to the board and the management, so as to maintain an appropriate balance of skills and experiences within the co-operative and on the board.

The board should ensure that there is a vigorous, active, transparent and democratic approach to renewal of the board.

The board should ensure that there is a balance of experienced directors and those who have been newly elected to ensure continuity in the decision making process and a balance of experience and new ideas and perspectives.

Provisions

81. Directors should be subject to election by members, and to re-election thereafter by members, at intervals of no more than three years.

Either:

82. No director should serve more than three consecutive three year terms and should step down for a period of at least one year before becoming eligible for election for a further term.

Or

83. The board should ensure a balance of experienced and newly elected board members which should be reported in the annual report.
84. The co-operative should not discriminate against any director by reason of his or her age or any other matter.

L. Induction, Information and Ongoing Professional Development

High level principle

Directors should be comprehensively inducted into their role and should be properly briefed and informed at all times in order to enable them to carry out their duties effectively.

Supporting principle

The objective of induction is to educate the director such that he or she can become as effective as possible, as quickly as possible, in the new role. Ongoing professional development is to ensure that he or she remains up to date with all matters necessary for the proper performance of his or her duties.

It is important that directors are provided promptly with all the information they require to carry out their duties, both before a board or committee meeting and more generally as required.

Provisions

85. Every board should develop its own comprehensive induction programme that is tailored to the needs of the co-operative and its individual directors and is completed by each director.
86. On appointment, a new director should be provided with an up-to-date copy of the co-operative's rule book and this Code and documents detailing board issues, directors' duties and the co-operative's business.
87. The board should recognise the importance of frequent and structured training and there should be a requirement for all directors to develop their skills and knowledge on an ongoing basis.
88. The secretary is responsible for ensuring that the directors receive accurate and clear information well in advance of a board meeting, and at least 5 days in advance.

89. Directors must ensure that they receive all the information necessary for them to discharge fully their responsibilities as directors.

M. Independent Professional Advice

High level principle

The board should be well informed and have access to all the information and advice necessary to enable it to perform its role, to act in the best interests of the members and to protect their assets.

Supporting principle

The board may occasionally need to have access to independent professional advice, at the co-operative's expense, in order to discharge its responsibilities.

Provisions

90. Where a director considers it to be essential for the proper performance of his or her duties, he or she may obtain, at the co-operative's expense, independent professional advice through the secretary, or the chair if the matter is directly related to the secretary.
91. Any committee of the board should also be authorised to obtain, at the co-operative's expense, external legal or other professional advice on any matter within its terms of reference.

N. Board Performance Evaluation

High level principle

The board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors to ensure that roles can be carried out effectively. The chair should act on the results of the board evaluation by recognising the strengths and weaknesses of the board and taking any appropriate action to address weaknesses.

Supporting principles

Individual evaluation should assess the effectiveness of a director's contribution to the board and his or her commitment to the role (including his or her contribution to and attendance at board and committee meetings). It should identify the training needs of each director and the board as a whole and assess whether these have been met and agree upon a method of addressing any skills gaps through ongoing professional development.

The board should consider whether the evaluation of its effectiveness should be facilitated by an external provider, having regard to the benefits of objectivity and independence this can bring to the process.

Provisions

92. The board should state in the annual report how performance evaluation of the board, its committees, and its individual directors has been conducted and how any ongoing professional development needs are being addressed.
93. Appraisal of the chair should be carried out at least annually in his or her absence to evaluate his or her performance and on other such occasions as are deemed appropriate.

O. Committees of the Board

High-level principle

The board should establish committees to work on specialist aspects of its remit in order that it can be provided with sufficient information and ensure that it is able to carry out its role effectively.

Supporting principles

Individuals should be selected to serve on committees having regard to their experience and qualifications.

Only members of a committee, and the secretary or officer servicing that committee, have the right to attend that committee's meetings. However, other individuals such as the chief executive, the chief finance officer and the chair may be invited to attend for all, or part of, any meeting as and when appropriate.

Committees operate under the delegated power of the board. In the case of disputes, decisions made by the board must override those of any committee.

Provisions

94. The board should regularly review the work, structures, composition and terms of reference of its committees.
95. Committee membership should be frequently reviewed so that undue reliance is not placed on particular individuals.
96. The chairs of all board committees or a nominated deputy should attend the AGM and be prepared to answer any questions from the members on their work and the production of their annual and interim reports. Where a co-operative holds an AGM over a number of locations, the chairs of board committees, or their nominated deputies, should attend the final meeting.
97. Committees should be provided with sufficient resources to undertake their duties including the use of external experts.

P. The Nomination Committee

High level principle

The board should establish a nomination committee. However, if the board is of the view that, owing to the size, complexity and risk profile of the co-operative, a nomination committee is not necessary this section of the Code will not apply to it.

Supporting principle

The nomination committee should evaluate the balance of skills, knowledge and experience on the board. After undertaking this evaluation, it should prepare a recommendation to the board on the profile of individuals that would be required to fill any significant skills shortages. It may also be appropriate to inform members of such identified skills gaps and encourage those with the necessary skills to come forward for election.

Provisions

98. The committee should comprise at least three members and its number should not exceed 50% of the total number of directors.
99. Appointments to the committee should be for a period of up to three years, which may be extended for two further three-year periods.
100. The annual report should describe the work of the nomination committee, including (if relevant) the process it has used in relation to the appointment of external (non-members) directors.
101. The terms of reference of the nomination committee should be available to members.
102. The nomination committee should:
 - Formulate plans for succession for the board and the management
 - Regularly evaluate the balance of skills, knowledge and experience on the board
 - Inform the secretary and chair of any skills deficiencies on the board and ensure that the necessary training is provided

- Manage the search programme for external (non-member) directors if and when needed and in accordance with the policy and Rules of the co-operative.

Q. The Remuneration Committee

High level principles

The board should establish a remuneration committee.

Supporting principles

Remuneration should be sufficient to attract members of the management of the appropriate calibre to the co-operative but should not be excessive.

The committee should judge where to set salaries in relation to other businesses of a similar size and nature.

The committee should be sensitive to pay and employment conditions elsewhere in the business when determining annual remuneration increases.

Management and director remuneration should be paid having regard to the size, complexity and turnover of the business.

Provisions

103. The committee should comprise a minimum of three board members and its number should not exceed 50% of the total number of board members.
104. A director who is also a consultant of the co-operative, or who has a paid contract, other than as a director, should not sit on the remuneration committee.
105. Directors who are current employees of the co-operative or employees who have retired from the business in the last three years that are appointed to the remuneration committee should be in the minority.
106. No director or manager should determine his or her own remuneration.
107. Appointments to the committee should be for a period of up to three years, which may be extended for two further three-year periods.

108. The committee should meet at least once a year. This meeting should be held close to the financial year-end to prepare the remuneration report which will be included in the annual report.
109. The terms of reference of the remuneration committee should be available to members.
110. The committee should make recommendations to the board on the level of remuneration for each elected director and co-opted professional external director.
111. The members should have responsibility for approving fee levels for all elected and co-opted external (non-member) directors at the AGM on the basis of board recommendations.
112. The committee should prepare a report each year for inclusion in the annual report.
113. Larger agricultural co-operatives should provide details of the individual remuneration packages of the chair, the chief executive, members of the management, external (non-member) directors and the fees of elected directors and the process by which their remuneration and fees have been determined in the annual report.
114. Any compensation payments for loss of office that have been made to any members of the management executive and any inconsistencies with their current employment contracts should be disclosed in full in the annual report.
115. The committee should determine and agree with the board the remuneration and terms of employment of the chief executive, secretary and other members of the management as agreed with the board.
116. The committee should approve the design of, and determine targets for, any directors' or managements' performance related pay schemes operated by the co-operative and approve the total annual payments made under such schemes.
117. The committee should consider what compensation commitments (including pension contributions and all other elements) the directors' or managements' terms of appointment would entail in the event of early termination.
118. The committee should oversee contractual arrangements for the management.
119. The committee should agree an expenses policy for directors.
120. External information and/or advice on remuneration should be obtained.

R. The Audit Committee

High level principle

The board should establish an audit committee.

Supporting principles

Audit committee arrangements need to be proportionate to the committee's remit and will vary according to the size, complexity and risk profile of the co-operative.

The audit committee should have regard to considering value for money across the expenditure of the business as a whole.

Provisions

Composition

121. The committee should comprise a minimum of three board members and its number should not exceed 50% of the total number of board members.
122. The board should satisfy itself that at least one member of the audit committee has recent and relevant financial experience and preferably a professional accountancy qualification.
123. The chair of the co-operative should not be a member of the audit committee.
124. No director, who is also a current employee or an employee who has retired from the business in the last three years, shall serve on the audit committee.
125. A director who is also a consultant of the co-operative, or who has a paid contract, other than as a director, should not sit on the audit committee.
126. Appointments to the committee should be for a period of up to three years, which may be extended for two further three-year periods.
127. The role and responsibilities of the audit committee should be set out in written terms of reference.
128. The audit committee should have the right to report any decision by the board to override its recommendations to the external auditors and to the members.

The financial statements

129. The audit committee should monitor the integrity of the annual report and should discuss, review and challenge the management and external auditor.
130. The management should prepare accurate financial statements and disclosures in accordance with financial reporting standards and applicable rules and regulations on behalf of the board.
131. The audit committee should consider significant accounting policies, any changes to them and any significant estimates and judgements.
132. The board should observe the recommended Co-operative Accounting Standards.

The External Auditor

133. The audit committee should make recommendations to the board in relation to the appointment of the external auditor and approve the remuneration and terms of engagement of the external auditor following appointment by the members.
134. The audit committee should monitor and review the independence, objectivity, remit and effectiveness of the external auditor.
135. The audit committee should, at least annually, meet the external auditors, without management to discuss matters relating to its remit and any issues arising from the audit.
136. No audit engagement partner should remain in charge of the audit of a co-operative for a period exceeding five years.

- 137. The audit committee should develop and implement a policy for the engagement of the external auditor to supply non-audit services.
- 138. Fees paid to audit firms for non-audit and audit work should be disclosed in the co-operative's annual report.
- 139. The board should have an agreed policy for re-tendering the provision of the external audit at least every ten years.

Internal Control and Risk Management

- 140. The audit committee should, at least annually, conduct a review of the effectiveness of the co-operative's system of internal controls and risk management and should report to members that it has done so.
- 141. The review should cover all material controls, including financial, operational and compliance controls and risk management systems.
- 142. The audit committee should ensure that it receives reports on control effectiveness from the internal audit function, or equivalent, or from an outsourced provider of internal audit services.
- 143. Where there is no internal audit function, the audit committee should consider annually whether there is a need for an internal audit function and make a recommendation to the board, and the reasons for absence of such a function should be included in the annual report.
- 144. The resources allocated and the nature of the provision of internal audit services should be reviewed annually by the audit committee and based on the size, complexity and risk profile of the co-operative.
- 145. Issues relating to the appointment, dismissal or resignation of the internal auditor should be considered by the audit committee who should make recommendations to the board.
- 146. The audit committee should review the effectiveness of the internal audit and risk management services and ensure that the provider of such services has direct access to the audit committee including meeting them at least annually without any management directors or the management present.

Whistleblowing Procedure

- 147. The board should have a documented procedure to enable employees to raise concerns, in confidence, in matters of financial reporting, financial control or any other issues.
- 148. This procedure should be in line with the Public Interest Disclosure Act 1998.
- 149. Matters raised under the procedure should be investigated in a consistent, proportionate and independent manner and appropriate follow-up action taken.
- 150. All employees should be made aware of this procedure.
- 151. The audit committee should ensure that the above procedure is effective and review the key conclusions and actions arising from investigations stemming from whistleblowing.
- 152. The procedure should make it clear that the co-operative encourages employees to raise concerns honestly and in good faith and that no action will be taken against them for doing so.
- 153. The board should make clear its policy on disciplining employees found to have been making malicious allegations.

S. The Auditor's Report to the Board

Provisions

154. Every director should receive a copy of the auditor's report (commonly referred to as the Audit Highlights Report) which contains the auditor's findings from the external audit. (This should not be confused with the Independent Auditor's Report).
155. The board should be given the opportunity to raise any queries and feedback its comments at a designated board meeting.
156. In addition, adequate time must be provided for the audit committee to:
 - Discuss in full the auditor's report and the management's response
 - Consider remedial actions or changes to procedures proposed by the management
 - Monitor progress in carrying out the proposed actions.

T. The Annual Report

High level principle

The board should ensure that the annual report presents a fair, balanced and understandable assessment of the co-operative's business model, strategy and performance.

Supporting principle

The report should include a coherent explanation of the co-operative's performance and prospects. Areas of poor performance should be shown with the same prominence as business success areas.

Provisions

157. The annual report should include a statement of how the board operates, including a high level statement of which types of decision are to be taken by the board and which are to be delegated to the management.
158. The annual report should include details of how the board has identified and dealt with risk.
159. The annual report should include the auditor's statement of opinion on the accounts.
160. It should also include a statement of compliance with this Code.

Compliance Assessment

Societies should submit to Co-operatives UK or SAOS:

- A completed questionnaire, as provided by Co-operatives UK and SAOS, outlining its implementation of each of the provisions
- A commitment in the annual report to make this statement available to members upon request.

Monitoring Compliance

In order to ensure the integrity, transparency and accountability of the process, every year the annual report and financial statements should include a governance page or section referring to the existence of the Code, outlining the co-operative's adherence to the Code and providing reasons for any decisions not to apply any of the provisions of this Code.

Co-operatives UK and SAOS reserve the right to expel or suspend any co-operative that persistently fails to significantly comply, or appropriately explain any reasons for non-compliance, with any material respects with the Code.

Updating the Code

Co-operatives UK and SAOS will ensure that appropriate arrangements are established to keep the model rules updated to reflect the Code and that the Code itself is revised as and when necessary.

The International Co-operative Alliance

Statement of Co-operative Identity

Definition:

A co-operative is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly owned and democratically controlled enterprise.

Values:

Co-operatives are based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity. In the tradition of their founders, co-operative members believe in the ethical values of honesty, openness, social responsibility and caring for others.

Principles:

The co-operative principles are guidelines by which co-operatives put their values into practice. All co-operative boards should act in accordance with these following seven principles: -

1st Principle: Voluntary and Open Membership

Co-operatives are voluntary organisations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political, or religious discrimination.

2nd Principle: Democratic Member Control

Co-operatives are democratic organisations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary co-operatives members have equal voting rights (one member, one vote), and co-operatives at other levels are also organised in a democratic manner.

3rd Principle: Member Economic Participation

Members contribute equitably to, and democratically control, the capital of their co-operative. At least part of that capital is usually the common property of the co-operative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing their co-operative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the co-operative; and supporting other activities approved by the membership.

4th Principle: Autonomy and Independence

Co-operatives are autonomous, self-help organisations controlled by their members. If they enter into agreements with other organisations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their co-operative autonomy.

5th Principle: Education, Training and Information

Co-operatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their co-operatives. They inform the general public – particularly young people and opinion leaders - about the nature and benefits of co-operation.

6th Principle: Co-operation Among Co-operatives

Co-operatives serve their members most effectively and strengthen the co-operative movement by working together through local, national, regional, and international structures.

7th Principle: Concern for Community

Co-operatives work for the sustainable development of their communities through policies approved by their members.

Co-operatives UK

Co-operatives UK works to promote, develop and unite co-operative enterprises. It has a unique role as a trade association for co-operatives and its campaigns for co-operation, such as Co-operatives Fortnight, bring together all those with a passion and interest in co-operative action.

Any organisation supportive of co-operation and mutuality can join and there are many opportunities online for individuals to connect to the latest co-operative news, innovations and campaigns. All members benefit from specialist services and the chance to network with other co-operatives.

www.uk.coop

SAOS

SAOS (The Scottish Agricultural Organisation Society) is a specialist in the development and governance of agricultural co-operatives with over 100 years of experience. We provide farming and food industry development services to a wide range of industry and public sector clients. SAOS is a co-op society owned and governed by 70 agricultural co-ops.

www.saos.coop



CO-OPERATIVES UK

Co-operatives UK Limited
Holyoake House
Hanover Street
Manchester M60 0AS
Tel: 0161 246 2900
www.uk.coop

Published 2013



SAOS Ltd
Rural Centre
West Mains, Ingliston
Newbridge EH28 8NZ
Tel: 0131 472 4100
www.saos.coop