

**EAST OF ENGLAND CO-OPERATIVE SOCIETY LIMITED
BOARD MEETING
12TH JANUARY 2008**

MATTERS RESERVED FOR THE BOARD

CO-OPERATIVES^{UK} COMMENTARY

An effective board controls the business but delegates day-to-day responsibility to the management executive. Directors need to remind themselves constantly of the distinction between 'direction' and 'management'. Whilst the distinction is not always clear-cut, it is critical that there should be an all round awareness of it. Only by working together can directors and professional managers create the appropriate conditions for a successful co-operative business. The board and management executive must function as a team. It is vital that they have trust and respect one another in their respective roles.

The Society's rules should clearly specify the respective duties and responsibilities of the board and of the management executive.

Periodically, the board should consider those matters which require its approval.

There are a number of matters which are required, or that in the interests of the society, can be decided only by the board as a whole.

The Combined Code states that, "There should be a formal schedule of matters specifically reserved for [the board's] decision". It is incumbent upon the board to make it clear what these Matters Reserved for the board are. Without a clear and documented statement, the board may find itself faced with some difficulties in attempting to discipline executives and/or seek redress, in circumstance where the board considers that transactions have been undertaken, the authority for which is open to question. The board must ensure that any schedule of reserved matters is provided to the management executive.

The notes which follow attempt to provide a model schedule of matters that could be reserved for the board's approval in medium to large-sized primary consumer co-operative Societies. They are taken from the Institute of Chartered Secretaries and Administrators UK Guidance Notes and Best Practice Guides⁶ and appendix one of the original Corporate Governance Code of Best Practice (1995). It is recognised that the relative importance of some matters included in this appendix will vary according to the size and nature of the society's business.

Multiple signatures

In drawing up a schedule of Matters Reserved for the board, societies should clarify which transactions require multiple board signatures on the relevant documentation.

(Secretay's comment: Multiple Director signatures are only required for the purposes of witnessing the Society seal. Documents executed as deeds without the seal require either two Directors or one Director and the Secretary. Transactions on the Society's bank accounts (including direct debit mandates) require the Chief

Executive's or Secretary's signature. Contracts should be signed by the Chief Executive or another member of the Management Executive.)

Delegation

Some of the matters included in this appendix should, under the recommendations of the Cadbury committee and/or Combined Code, be the responsibility of the audit, search or remuneration committees. However, full delegation is not permitted in these cases, as the final decisions on the matter are required to be taken by the whole board.

Urgent matters

In drawing up a schedule of Matters Reserved for the board it is important to establish procedures for dealing with matters which often have to be dealt with urgently, often between scheduled board meetings. If the matter is routine and discussion is not necessary the approval of all the directors may be obtained by means of a written resolution. In all cases however the procedures should balance the need for urgency with the overriding principle that each director should be given as much information as possible, the time to consider it properly and an opportunity to discuss the matter prior to the commitment of the society.

(Secretary's comment: The Board has established an Urgent Action Committee for property transactions. Written resolutions are not permissible at Board or Committee level.)

The following schedule has been produced to assist boards of directors and society secretaries in preparing a schedule of Matters Reserved for the Board in accordance with good corporate governance practice.

APPENDIX

MATTERS RESERVED FOR THE BOARD

1. Membership Issues

- 1.1 All matters concerning the determination and operation of the society's rules
- 1.2 Reporting to members – i.e. frequency, location and content of members' meetings and directors' reports (ref rules)
- 1.3 Profit distribution policies (ref rules) and determination for members' approval
- 1.4 All aspects of membership policy and achievements, including interface with any member committees where appropriate
- 1.5 Encourage the growth of membership and its involvement in the affairs of the society in recognition that co-operative societies are membership based
- 1.6 Approval of resolutions and corresponding documentation to be put forward to members at a general meeting.

2. Strategy and Management

- 2.1 Responsibility for ensuring that the society's affairs are conducted in accordance with its rules, the best interests of the society and its members, and in accordance with Co-operative Values and Principles
- 2.2 Approval of the society's long term objectives and commercial strategy.
- 2.3 Approval of the annual operating and capital expenditure budgets and any material changes to them.
- 2.4 Oversight of the society's operations ensuring:
 - 2.4.1 Competent and prudent management
 - 2.4.2 Sound planning
 - 2.4.3 An adequate system of internal control
 - 2.4.4 Adequate accounting and other records
 - 2.4.5 Compliance with statutory and regulatory obligations
- 2.5 Review of performance in the light of the society's strategy, objectives, business plans and budgets and ensuring that any necessary corrective action is taken.
- 2.6 Approval of the extension of the society's activities into new business or geographic areas.

3. Financial reporting and controls

- 3.1 Approval of preliminary announcements of interim and final results
- 3.2 Approval of the annual report and financial statements (including the corporate governance statement and remuneration report)
- 3.3 Approval of any changes in accounting policies or practices.

4. Internal Controls

- 4.1 Ensuring maintenance of a sound system of internal control and risk management including:
 - 4.1.1 Receiving reports on, and reviewing the effectiveness of, the society's risk and control processes to support its strategy and objectives
 - 4.1.2 Undertaking an annual assessment of these processes
 - 4.1.3 Approving an appropriate statement for inclusion in the annual report

5. Contracts

- 5.1 Approval of Capital Expenditure exceeding £150,000 (sums below this limit being delegated to the Chief Executive subject to such sums being covered by the overall capital budget approved by the Board) (Board 1st November 2005)
- 5.2 Approval of all business acquisitions and disposals.
- 5.3 Approval of all property acquisitions and disposals.
- 5.4 Approval of all land and building leasing transactions.
- 5.5 Approval of all funding arrangements proposed for the society. In general, directors should seek independent external advice before considering proposals for property sale and leaseback transactions.
- 5.6 Approval of all openings and closings of either branches or member services, but not for changes to merchandise ranges in branches.

6. Constitution of the board and senior personnel appointments

- 6.1 Ensuring adequate succession planning for the management executive
- 6.2 Selection of the chair and vice-chair(s) of the board (ref rules)
- 6.3 Appointment of the chief executive, including terms and delegated authority, his/her performance appraisal and his/her removal from office including compensation terms for loss of office.
- 6.4 Approval of the Executive Management structure.
- 6.5 Membership of board committees.
- 6.6 Appointment or removal of the society secretary and other members of the Management Executive in partnership with the Chief Executive (ref rules).
- 6.7 Appointment, reappointment or removal of the external auditor to be put to members for approval, following the recommendation of the audit committee.
- 6.8 Appointments to boards of subsidiaries.
- 6.9 Approval and review of the society's personnel policies.

7. Directors' fees and remuneration

- 7.1 Recommending the fee level for directors for approval by members.
- 7.2 Determining the remuneration of the chief executive, society secretary and other members of the Management Executive, following the recommendations of the remuneration committee.
- 7.3 Determining the remuneration of any professional external directors following the recommendations of the remuneration committee, subject to the society Rules and member approval as appropriate.

8. Delegation of Authority

- 8.1 The division of responsibilities between the board and the management executive, which should be in writing.
- 8.2 Approval of the terms of reference of board committees.
- 8.3 Receiving reports from board committees on their activities.

9. Corporate Governance Matters

- 9.1 Undertaking a formal and rigorous review [annually] of its own performance, that of its committees and individual directors.
- 9.2 Considering the balance of interests between members, employees, customers, suppliers and the community.
- 9.3 Review of the society's overall corporate governance arrangements.
- 9.4 Receiving reports of the views of the society's members.

10. Policies

- 10.1 Approval of policies, including:
 - 10.1.1 Directors' Code of Conduct
 - 10.1.2 Health and Safety policy
 - 10.1.3 Tendering policy
 - 10.1.4 Human Resources policy
 - 10.1.5 Communications policy
 - 10.1.6 Key Social and Co-operative Performance Indicator policy
 - 10.1.7 Work with other co-operatives
 - 10.1.8 Charitable donations policy

11. Other

- 11.1 The making of political donations
- 11.2 Approval of the appointment of the society's principal professional advisers
- 11.3 Approval of the overall levels of insurance for the society including directors' and officers' liability insurance [and indemnification of directors]
- 11.4 General policy on the use of litigation and major decisions on any particular piece of litigation capable of having a substantial financial bearing or impact on the reputation of the society

- 11.5 Changes to the rules of the society's pension scheme, or changes of - Appointed trustees or (when this is subject to the approval of the society) changes in the fund management arrangements.
- 11.6 This schedule of matters reserved for board decisions.
- 11.7 Approval of any changes to the business's structure i.e. any new subsidiaries etc.

In addition, the board will receive reports and recommendations from time to time on any matter which it considers significant to the society.