

The Southern Co-operative

BOARD COMPOSITION CHARTER

Approved by the Board of The Southern Co-operative Limited (“the Society”) on 25 February 2016

1. Principle

- 1.1. The Rules of The Southern Co-operative Limited (“the Rules”) provide that the Board are responsible for maintaining:

“a Board of Directors elected by Members that is individually and collectively qualified to lead an organisation of the size and complexity of the Society.”

Rule 69 gives the Board the power to

“determine a Board Composition Charter including eligibility criteria for all Directors and for specific Board roles to ensure that the Board and its Committees have the appropriate balance of skills, experience and knowledge of the Society and its businesses to enable them to discharge their respective and collective duties and responsibilities effectively.”

- 1.2. This Charter sets out the approach that the Board, together with the Governance Committee (and any Nominations Committee that may be established) will adopt to ensure that it creates and maintains an effective board that satisfies the above principle.
- 1.3. The Society is a registered society under the Co-operative and Community Benefit Societies Act 2014. As such it is not mandatory for the Society to comply with the UK Corporate Governance Code published by the Financial Reporting Council; in fact, the democratic nature of the Society and its ownership by Members makes certain provisions of the Code difficult to apply. However, where possible and appropriate, the Board aims to conform to the key principles of the Code to ensure alignment with good practice. The Society also adheres to the spirit of the Corporate Governance Code for Consumer Co-operatives, published by Co-operatives UK.

2. Board size and composition

- 2.1. The Board should be of sufficient size to ensure that:
- the collective experience and skills of the Directors is broad enough to enable the Board to provide effective oversight of the Society and its various businesses as a whole;
 - It reflects a diverse range of backgrounds, views and perspectives;
 - It provides an effective voice for Members;
 - It allows all Directors to participate effectively in meetings;
 - Changes to the composition of the Board can be managed without undue disruption; and
 - Committees can function without placing over reliance on particular individuals.
- 2.2. Having regard to the above factors, the Board believes that an appropriate size for a Board governing a business of the current scale and complexity of the Society is between 9 and 11 Directors consisting of:
- nine Member elected Directors (up to one third of which may be colleagues of the Society); and
 - up to two Co-opted Independent Non-Executive Directors.

- 2.3. Not more than one half of the places on the Board, in aggregate, shall be held by members of the Society who are:
- employees of the Society; or
 - recent former employees of the Society; or
 - co-opted Independent Non-Executive Directors; or
 - spouses or partners of any of the above.

3. Duty to act in the Society's best interests

All Directors are under a duty to act in the best interests of the Society. Regardless of their categorisation, Directors are appointed in a personal capacity and must not represent or act under the direction or instruction of a particular section of the Membership or any third party.

4. Conduct of Directors

- 4.1. All Directors will be required to sign an acceptance of, and abide by, a Code of Conduct for Directors.
- 4.2. Each Director shall take personal responsibility for their own training and development throughout their term of office, including completing a minimum twelve hours of training per year. The Secretary shall assist the Board in arranging appropriate and relevant training courses.

5. Society Chair

- 5.1. The Chair of the Board (the "Society Chair") shall be appointed by the Board. The Chair may not be an employee of the Society, nor a former employee who has left in last 3 years.

6. Member Elected Directors

- 6.1. In accordance with the Rules, the Board will include Nine Member elected Directors, who will be nominated and elected by the Members in accordance with the Rules of the Society.

7. Independent Non-Executive Directors

- 7.1. The Board may co-opt professional external Directors to the Board in addition to the number of elected Directors and may co-opt professional expertise to Board sub-committees provided that in both cases the number of professional external co-optees shall be in the minority on the Board and Board sub-committees.
- 7.2. All Co-optees shall be members of The Southern Co-operative. Co-optees shall serve for a fixed period determined by the Board at the time of co-option, subject to a review at least every three years, and provided that no co-optee may serve for more than 9 consecutive years.
- 7.3. Independent Non-Executive Directors should be demonstrably independent in both character and judgement and free of relationships or circumstances which are likely to affect, or could appear to affect, their judgement.
- 7.4. The following are examples of relationships that the Board should take into account in determining whether a Director is or can be regarded as independent:
- Has been an employee of the Society within the last three years;
 - Has, or has had within the last three years, a material business relationship with the Society;
 - Has received or receives additional remuneration from the Society apart from a director's fee, participates in a performance-related pay scheme, is a member of the Society's pension scheme or is dependent on any fees payable by the Society as a material source of their income;
 - Has, or has had, close family or personal ties with any of the Society's advisers, Directors or senior employees;

- Holds cross-directorships or has, or has had, significant links with any of the Society's advisers, Directors or senior employees through involvement in other organisations or trade bodies;
- Has served on the Board for more than nine years from the date of their first election;
- Has served as a Member elected Director of the Society within the last nine years; or
- Serves or has served as a Director or employee of a society that has or has had a significant trading relationship with the Society (through CRTG or otherwise).

7.5. The Board should satisfy itself of the independence of each Independent Non-Executive Director upon their appointment.

8. Independent Non-Executive Director Co-option process

8.1. The Board, led by the Society Chair, is responsible for ensuring that the Board is functioning effectively and has the right balance of skills and experience to provide effective oversight of the business.

8.2. The Board delegates the task, but not the ultimate decision, of selecting Independent Non-Executive Directors to a Nominations Committee. The decision to co-opt Directors to the Board is a matter for the Board as a whole on the recommendation of the Nominations Committee. The remuneration for any co-opted Directors shall be fixed by the Board.

8.3. The name of any co-optee(s) to the Board shall be submitted to the next general meeting for ratification by the members.

8.4. Any Director may be removed from office at any time by two-thirds of the votes cast at a special meeting called for such purpose. Pending the decision of such special meeting a Director may be suspended from their duties by resolution of the Directors if in their opinion they have been guilty of conduct detrimental to the interests of the Society or are otherwise thought to be unfit to carry out their duties.

9. Membership Criteria

9.1. A Director must be a member and remain a member at all times while on the Board. They must also satisfy the qualifications and disqualifications for office set out within the Rules of the Society (Appendix A).

9.2. In the event that a Director ceases to satisfy the qualification and disqualifications set out within the Rules they shall immediately vacate their office.

10. Eligibility Criteria

In accordance with the Board's powers under Rule 69, this paragraph and the Appendix to this Charter set out the Eligibility Criteria for Directors.

10.1. The Board and its committees should have the appropriate balance of skills, experience and knowledge of the Society and its businesses to enable them to discharge their respective and collective duties and responsibilities effectively.

10.2. All Directors are required to demonstrate a strong personal commitment to co-operative Values and Principles, as defined by the International Co-operative Alliance (Appendix B).

10.3. All Directors are expected to meet and maintain the high standards of competence commensurate with the needs of a business of the scale and complexity of the Society.

10.4. The Board must be individually and collectively qualified and equipped to act at all times in the best interests of the Society.

- 10.5. All candidates standing for election to the Board must meet the qualifications set out in Rule 58 (Appendix A).
- 10.6. The skills and experience requirements for Directors are as follows:
- For all Directors, the skills and experience set out in Appendix C; and
 - In the case of the Society Chair, the additional skills and experience set out in Appendix D;
 - In the case of the chair of the Audit Committee, the additional skills and experience set out in Appendix E;
 - In the case of the chair of the Remuneration Committee and the Chair of the Nominations Committee, the additional skills and experience set out in Part 4 of the Appendix F.
- 10.7. The Society Chair working with the Nominations Committee is responsible for keeping the overall composition of the Board under review, for assessing the contribution and skills of individual Directors as well as the collective skills of the Board as a whole and for recommending any changes required.
- 10.8. The Governance Committee will at least annually, identify and, on an ongoing basis, review the Board's skills requirements, including any gaps that need to be addressed (the "Annual Board Evaluation"). The Annual Board Evaluation will inform the collective skills and competency matrix and the standards expected of all Directors. The collective skills and competency matrix shall directly inform the Nominations Committee's search and appointment strategy and the eligibility criteria for any Independent Non-Executive Director co-option.
- 10.9. The Board will, every three years, conduct an externally facilitated Board evaluation, which will include an appraisal of the performance and capabilities of the Board. This will play an important role in assessing the adequacy of skills and in identifying areas to be addressed.

11. Diversity

- 11.1. The Board recognises the importance of a diverse board that is representative of its Members. This includes, but is not limited to, gender and race. Diversity is as much about differences of approach, skills and experience, and it is very important in ensuring high quality deliberations and decisions, as well as effective engagement with Members and other key stakeholders. The Board recognises that having Directors from different backgrounds and with different skills is key to being a challenging and effective Board and believes that by having a diverse board it will:
- Help the Board represent the views of the Members as a whole
 - Bring a broad range of skills and knowledge to the Board
 - Support good governance through challenge and discussion from a diverse range of viewpoints
 - Uphold the co-operative Values and Principles of honesty, openness, equality and equity
 - Gain a leadership position in the UK with regards to good governance and board composition
- 11.2. With regard to board appointments, the UK Corporate Governance Code states that:
- "The search for board candidates should be conducted, and appointments made, on merit, against objective criteria and with due regard for the benefits of diversity on the board."*
- 11.3. In order to voluntarily comply with the above principle, the Board, Governance Committee and Nominations Committee shall seek to ensure an appropriate balance and diversity in the broadest sense including (but not limited to) diversity of gender, ethnicity, sexual orientation, age, religion and geography.

11.4. In line with the UK Corporate Governance Code, the Board has adopted and has regard to a policy on diversity.

12. Term of office

All Directors shall be subject to the terms of office and election/re-election provisions as set out in the Rules.

13. Review

This Charter is owned by the Board and will be reviewed annually as part of the Annual Board Evaluation and/or as required.

14. Interpretation

Terms used in this Charter but not defined shall have the meaning given to them in the Rules.

APPENDIX A

RULE 58 – QUALIFICATIONS OF DIRECTORS

The following qualifications and disqualifications shall apply to all candidates standing for election to the office of Director:-

- (a) A Director shall be a member of the Society of at least 18 years of age and shall not hold any place of profit under the Society other than an office remunerated in manner provided by Rule 68 or (subject to Clause (g) of this rule) as an employee.
- (b) A candidate who will have served on the Board of the Society for nine consecutive years or more as at the date of the Annual General Meeting in the year of their nomination is eligible to stand for election in that year, subject to that person being subject to annual re-election during any term of office for which they are elected.
- (c) Each candidate must have been a member of the Society (or a society which has transferred engagements to this Society) for a period of at least one year immediately preceding nomination and shall reside within the trading area of the Society.
- (d) Each candidate must meet the eligibility criteria set out in any Board Composition Charter determined by the Board of Directors and shall make a declaration of their commitment to maintaining the Co-operative status of the Society and support for Co-operative Principles in such form as the Directors may from time to time prescribe.
- (e) A candidate must have spent at least £250 on purchases or services acquired from businesses operated by the Society or its subsidiary companies (or a Society which has transferred engagements to this Society) during the year preceding their nomination. The above annual rate of purchases must be maintained during service on the board. Directors in office will be required to evidence the above rate of annual purchases on a rolling year basis measured on 1st March, 1st June, 1st September and 1st December in each year. Purchases shall be evidenced by use of the member's Southern Co-operative Share of the Profits card or by production of receipts obtained at the time of purchase.
- (f) No member shall be eligible who or whose family member
 - (i) deals to an extent deemed by the Directors to be significant in any goods or services sold by the Society or holds any position of control or agency in any business competing with the Society or,
 - (ii) is an employee of another retail co-operative society or,
 - (iii) is a member of any committee of another retail co-operative society (unless such member is a duly appointed representative of the Society).
- (g) Not more than one third of the places on the Board shall be held by members of the Society who are employees of the Society. Such members shall have the same qualifications and shall be elected in the same manner as other Directors. In the event that the number of candidates elected who are employees, would cause the number of employees on the Board to exceed the maximum allowed under the Rules, the candidates polling the greatest proportion of votes cast shall fill the vacancies up to the limit. Any remaining vacancies shall be filled by other candidates.
- (h) Not more than one half of the places on the Board, in aggregate, shall be held by members of the Society who are:
 - (i) employees of the Society; or
 - (ii) recent former employees of the Society; or

(iii) spouses or partners of either of the above.

In the event that the number of candidates elected who are employees, recent former employees, or spouses or partners of the former, would cause the number of such on the Board to exceed the maximum allowed under the Rules, the candidates polling the greatest proportion of votes cast shall fill the vacancies up to the limit. Any remaining vacancies shall be filled by other candidates.

A Director shall retire from the Board if the Director having been elected to the Board later becomes an employee with the result that the limit on the number of employees set out in Rules 58(f) or 58(g) is exceeded.

- (i) No two family members shall be permitted to serve as Directors at any one time.
- (j) No member of the Society's Leadership Team shall be permitted to serve as a Director.
- (k) Any Director having been removed from the Board (otherwise than by defeat at election), or who resigns from office during a suspension from office pending members' approval for such a removal, shall not be eligible for the office of Director for a period of ten years immediately following such removal or resignation.
- (l) Any person who:
 - (i) is, or becomes an undischarged bankrupt, or has been declared bankrupt in the last five years;
 - (ii) is a member of a partnership or a Director, Secretary or controller of a company, that has gone into administration, gone into voluntary or compulsory liquidation, been the subject of a winding up order or gone into administrative receivership in the last ten years, save that former members of a partnership or a Director, Secretary or controller of a company which has ceased by way of a voluntary striking off and dissolution shall be excluded from sub-clause 58(l)(ii);
 - (iii) is disqualified under the Company Directors Disqualification Act 1986;
 - (iv) has been disciplined by, or refused membership of, a professional organisation or trade association, or is a member of a partnership, or Director, Secretary or controller of a company, that has been disciplined by or refused membership of a professional organisation or trade association;
 - (v) has had a county court judgment made against them in the last five years, or has been a member of a partnership, or Director, Secretary or controller of a company, that has had a County Court judgement made against it in the last five years, unless such county court judgement has been satisfied within a period of six months from the date of judgement,
 - (vi) has been convicted of any offence which is not spent under the Rehabilitation of Offenders Act, or is a member of a partnership, or Director, Secretary or controller of a company, which has been convicted of any offence in the last ten years. For the purpose of this Rule driving offences which do not result in a court appearance and are dealt with by way of points applied to a person's driving licence and/or a fine shall not be considered offences so as to disqualify a member from the office of Director,
 - (vii) holds any recognised political office,
 - (viii) has been dismissed from employment with the Society, or who resigns during a disciplinary process which would have led to their dismissal from employment with the Society,

shall be disqualified from being a Director and if a sitting member of the Board shall thereupon vacate their office.

- (m) A Director must at all times comply with the requirements of legislation, regulation and licensing in relation to the operations of the Society and as an individual. Where the personal actions of a Director prejudice the Society's ability to obtain necessary licenses or compromise the Society's full operation the Director shall thereupon vacate their office.
- (n) A person who is incapable through disorder or disability of mind of managing their own affairs shall not be a Director.

A Director shall be disqualified from holding office if they are absent from 25 per cent of the meetings of the Board during any financial year for a reason other than sickness or absence through engagement on the business of the Society unless in the opinion of the Board such reason is acceptable as a proper explanation for absence.

- (o) Should any serving Director cease to have any of the qualifications required by Rule 58 they shall thereupon vacate their office.

APPENDIX B

CO-OPERATIVE VALUES AND PRINCIPLES

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.

1. 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 age, gender, social, racial, political or religious discrimination.

2. Democratic Member Control

Co-operatives are democratic organisations controlled by their members, who actively participate in setting their policies and making decisions. Persons 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.

3. 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.

4. 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.

5. 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.

6. 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.

7. Concern for Community

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

APPENDIX C

ALL DIRECTORS – SKILLS AND EXPERIENCE REQUIREMENTS

All Directors must have:

- A good level of knowledge and understanding of, and commitment to, The Southern Co-operative's co-operative and democratic structure and the Rules of the Society
- A good level of knowledge and understanding of the role of the board and the legal duties of directors
- A good level of knowledge and understanding of the Society's business activities, products and services
- A good level of knowledge and understanding of the Society's key stakeholders, the wider co-operative movement and co-operative values and principles (Appendix B)

An Information Session will be held ahead of each election process which will include information on the above areas. The Post-Election/Appointment Induction programme is also designed to build Directors knowledge in these areas.

All Directors must have:

- Financial Acumen – the ability to understand and analyse statutory and management accounts and take appropriate action
- Business Acumen – the ability to interpret external market conditions and the inter-relationships of internal forces eg people, finance and process

All Directors must also:

- Act with Integrity and honesty and apply co-operative values and principles in their role as Director
- Have the ability to think strategically in order to take a long term and visionary view of the direction the Society should follow in the future, and the ability to look at issues in a wider context in order to rise above day to day detail and challenge status quo
- Exercise good independent judgement and have the ability to evaluate people and situations and reach a logical, unbiased decision, interpreting key messages and meanings
- Possess analytical skills, having the ability to analyse and interpret data, verbal or numerical, about people or situations
- Have the ability to focus on key issues and to seek information and questions, advance ideas and have a willingness to speak their mind.
- Gain credibility and respect and possess self confidence
- Command good communication skills and diplomacy, having the ability to clearly, objectively and concisely deliver a message whilst being sensitive to the views of others and have the ability to work in a team and to listen to the views of others
- Demonstrate accountability and be aware of their own personal limitations, being willing to accept constructive criticism to assist personal development.

APPENDIX D

SOCIETY CHAIR – ADDITIONAL SKILLS AND EXPERIENCE REQUIREMENTS

In addition to the requirements in Appendix C, the Society Chair should possess:

- Independence from executive management (ie not have been employed by the Society in last 3 years, not served on board for more than 9 years, no business or other relationship with management, advisers, employees directly or through other organisations)
- Strong public presentational skills coupled with confidence and ability to Chair AGM and respond, fully, to any questions from members on the activities and decisions of the Board and deal with issues as they arise
- Gravitas and credibility with CEO, Members and wider stakeholders to ensure their confidence and ability to manage relationships with them
- A clear sense of direction
- The ability to assess the possible future outcomes from Board decisions and appreciation of potential risks
- Broad experience of organisational management and people management
- The ability to manage meetings in an effective and efficient manner and encourage involvement by all members with an impartial, inclusive, fair and objective approach
- Strong leadership qualities, the ability to delegate and the ability to mentor, coach, team build and offer support and advice
- An ability and willingness to challenge and probe
- Tact and diplomacy with the ability to respect confidences

- A commitment to promoting diversity
- Strong networking skills

APPENDIX E

AUDIT COMMITTEE CHAIR – ADDITIONAL SKILLS AND EXPERIENCE REQUIREMENTS

In addition to the requirements in Appendix C, the Audit Committee Chair should possess:

- Independence from executive management (ie not have been employed by the Society in last 3 years, not served on board for more than 9 years, no business or other relationship with management, advisors, employees directly or through other organisations)
- Strong public presentational skills coupled with confidence and ability to attend AGM and respond, fully, to any questions from members on the financial statements or the activities and decisions of the Audit Committee
- Gravitas and credibility with CEO, Members and wider stakeholders to ensure their confidence and ability to manage relationships with them
- A detailed understanding of generally accepted accounting principles and financial statements and the ability to assess the general application of such principles in connection with the accounting for estimates, accruals and reserves
- A detailed understanding of internal controls and procedures for financial reporting
- Experience preparing, auditing, analysing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the Society's financial statements, or experience actively supervising one or more persons engaged in such activities
- The ability to assess the possible future outcomes from Board decisions and appreciation of potential risks
- Clear communication skills to effectively enable reporting of key audit and risk issues back to the Board
- An ability and willingness to challenge and probe
- The ability to manage meetings in an effective and efficient manner and encourage involvement by all members with an impartial, inclusive, fair and objective approach
- Strong leadership qualities

APPENDIX F

REMUNERATION AND APPOINTMENTS COMMITTEE CHAIR **NOMINATIONS COMMITTEE CHAIR** **– ADDITIONAL SKILLS AND EXPERIENCE REQUIREMENTS**

In addition to the requirements in Appendix C, the Remuneration and Appointments Committee Chair/Nominations Committee Chair should possess:

- Independence from executive management (ie not have been employed by the Society in last 3 years, not served on board for more than 9 years, no business or other relationship with management, advisers, employees directly or through other organisations)
- Strong public presentational skills coupled with confidence and ability to attend AGM and respond, fully, to any questions from members on executive remuneration or the activities and decisions of the Remuneration and Appointments Committee, as public scrutiny increases
- Gravitas and credibility with CEO, Members and wider stakeholders to ensure their confidence and ability to manage relationships with them
- Sound understanding of all aspects of executive remuneration
- The ability to balance the need to attract, retain and motivate executive management with interests of members and wider stakeholders
- The ability to assess the possible future outcomes from Committee decisions and appreciation of potential risks/behavioural impact on executive management and employees
- An ability and willingness to challenge and probe
- Clear communication skills to enable effective reporting of key issues back to the Board
- The ability to manage meetings in an effective and efficient manner and encourage involvement by all members with an impartial, inclusive, fair and objective approach
- Strong leadership qualities
- A commitment to promoting diversity