

# Social Enterprise Mark- qualification criteria

## Principles

- The Social Enterprise Mark CIC is the national and international certification authority for social enterprise. In order to assess and certify genuine social enterprises, eligibility must be evidenced through official documentation that is clearly auditable. Eligibility must be evidenced largely through documents that are already in existence within the social enterprise.
- The Social Enterprise Mark is for organisations which are committed to genuine social enterprise principles and want to safeguard their integrity. It is the pathway to becoming a more effective social enterprise.
- Social enterprises can be very different from one another. The Social Enterprise Mark CIC should not dictate one legal form or one way of evidencing impact, so long as applicants fulfil the criteria below.
- Assessing annual applications to the Social Enterprise Mark is a technical process e.g. reviewing legal documentation, accounts, etc. To ensure consistency and transparency a dedicated Assessment Team reviews all applications, overseen by an independent Certification Panel. All precedents concerning social enterprises meeting the criteria are set by the Certification Panel.
- Not everyone achieves or keeps the Social Enterprise Mark. Any social enterprises which don't meet the criteria are given advice on required changes to achieve the Social Enterprise Mark and keep it.

## The criteria

There are six key criteria which together demonstrate that they are a social enterprise whose key driver is trading and that they operate for wider social / environmental benefit. These are explained below with a commentary on what evidence is required to support an application.

	<b>Criteria</b>	<b>Rationale</b>	<b>Test/Evidence</b>	<b>Commentary</b>
A	Have social and/or environmental objectives.	Transparency of purpose is a vital element of being a social enterprise.	Constitutional documents. <sup>1</sup>	Social and environmental purpose will be clearly articulated within the legal objects of the organisation.
B	Be an independent business.	Independence and self-governance distinguishes businesses from the public sector and from projects within larger organisations.	Constitutional documents  Additional evidence may be required for externalisations from the public sector.	<p>Independence means that no public or government agency, or other private, corporate bodies, hold decision-making control of the organisation: this may be evident in any external agencies or companies holding a dominant shareholding, membership, or director representation on the company board.</p> <p>The only exception to this is if the dominant shareholder, member and/or director representation is made up of organisations who are charities, social enterprises (and possibly some other forms of primarily social purpose organisations).</p> <p>Projects within other larger organisations are not eligible for the Mark as they are not independent businesses with their own constitutional documents. Such projects may still be able to benefit from using the Mark if their parent organisation successfully applies.</p> <p>Externalisations from the public sector may still retain some level of public sector involvement or control. In such cases, assurances will be required regarding the autonomy of the applicant.</p>
C	Earn 50% or more of its income from trading.	50% traded income is currently accepted as a way of distinguishing a	Company Accounts (preferably	As a minimum, a declaration of an organisation's last recorded annual turnover is required, along with confirmation of how much of this is derived from sources of trade. Ideally, a copy of annual accounts that have been registered in the public domain should be provided to

<sup>1</sup> The term "constitutional documents" within this paper refers to memorandum and articles of association, rules, or governing documents that are in the public domain.

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		business from a grant reliant organisation.	registered in the public domain).	<p>corroborate this i.e. accounts that have been submitted to Companies House, the FSA or the Charity Commission. (If these are not available, the declaration will suffice when initially applying but organisations may still be required to provide this corroborative evidence at any time to demonstrate compliance and retain the Mark).</p> <p>Accounts should provide an adequate breakdown of different sources of income in order to distinguish the proportion of trading income. If filed accounts fail to provide such a breakdown, then alternative forms of evidence <i>may</i> be sufficient (e.g. management accounts).</p> <p>If an organisation has been trading under a different guise and has only recently incorporated, accounts from the previous trading history may be considered, if the activity is the same.</p> <p>Trading income most commonly derives from the sale of goods and services. This is typically evident in the receipt of payments and other fees, income from contracts or other agreements, but can often be labelled as grant income; many grants are now paid according to strict expectations of delivering specific activities and outputs that are subject to service level agreements or other contractually defined conditions, which effectively constitutes trading income.</p> <p>Loans, investments and interest receivable count against the balance of trading income compared to overall turnover. The exception to this is interest receivable in finance organisations, where the nature of their trading activity is directly linked to investments and other financial activities e.g. a Community Development Finance Institution.</p> <p><i>Pure</i> grant income also counts against the balance of trading income compared to overall turnover. Such grants are usually recognisable in that they are directed at organisational resource requirements (that may be required to deliver a service) but are not solely directed at the delivery</p>

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				<p>of the service itself; there may be some service conditions attached but they are not only payable on set delivery outputs and outcomes.</p> <p>In distinguishing if grant payments received from public bodies, charitable institutions or trusts constitutes trading, asking the following questions may help:</p> <ul style="list-style-type: none"> <li>▪ are the services provided those a payer is statutorily obliged to provide? If yes, it is likely to be a fee and is therefore trade;</li> <li>▪ does the payer benefit directly from the services provided? If yes, it is likely to be a fee and is therefore trade.</li> </ul> <p>If an applicant is on the cusp of 50% trading, or if an applicant receives a one-off grant or loan (e.g. capital loans) that causes them to dip below this level, then trading levels in previous years and plans for future years can be taken into account when determining whether or not they are primarily trade dependent.</p> <p>If an organisation has only been trading for less than a year (or has been in operation for longer but is beginning to become trade dependent), they may still be able to apply for the Mark, based on their projected income breakdowns. In these instances, an organisation must be able to commit to achieving the 50% level of trading income within 18 months of being approved for the Mark.</p>
D	A principal proportion (50%+) of any profit made by the business is dedicated to social/environmental purposes	Social enterprises are driven principally by social and environmental objectives rather than the maximising of profit for private gain.	<p>Constitutional documents.</p> <p>Company Accounts (preferably registered in the public domain).</p>	<p>The relevant clauses from constitutional documents must be quoted, which confirm an organisation's commitment to how profits are distributed.</p> <p>The business may distribute its profits in a number of different ways that have a positive social/community and/or environmental benefit:</p> <ul style="list-style-type: none"> <li>▪ if the <b>trading activity</b> of the social enterprise is, in itself, socially beneficial, then direct reinvestment is eligible;</li> </ul>

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				<ul style="list-style-type: none"> <li>▪ <b>donated to other organisations or resource for social benefit</b>, e.g. a registered charity; investment in some other socially beneficial activity or resource, external to the organisation.</li> <li>▪ <b>distributed to shareholders or members who are confirmed, formally constituted charities or social enterprises.</b></li> </ul> <p>It must be clear that at least 50% of any annual profits generated are distributed as above. The remaining profit (or less) may be shared between any private, commercially orientated members or shareholders (i.e. organisations who are not formally constituted, primarily social purpose organisations).</p>
E	On dissolution of the business, all residual assets are distributed for social/environmental purposes.	<p>As for (d) above.</p> <p>A commitment on residual asset distribution demonstrates a commitment to social/environmental objectives.</p>	Constitutional documents	<p>The relevant clauses from constitutional documents must be quoted, which confirm an organisation's commitment to how any residual assets would be distributed in the event of dissolution (or winding up).</p> <p>The Social Enterprise Mark is not limited to Charities, Community Interest Companies (and some forms of Industrial Provident Society/Co-operative). Other legal forms may also be eligible if they have an appropriate dissolution clause that commits all residual assets on dissolution to the furtherance of social/environmental purposes (usually in the form of being committed to other organisations who are formally constituted charities or social enterprises serving similar objectives).</p> <p>Any outstanding company debts are payable before any residual assets are finally calculated. In the case of Companies Limited by Shares, shareholders are then also allowed to be repaid the <i>nominal value</i> of their shareholding, prior to the distribution of remaining assets (i.e. the original price of shares at the point the company was formed – not the price it may have changed to at the point of dissolution or when they may have purchased the shares).</p>

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F	<p>Can demonstrate that social/ environmental objectives are being achieved</p> <p>Applicants must agree a statement that as a Mark Holder they would strive to maximize social impacts and minimize environmental damage.</p>	<p>Social enterprises exist to produce social and environmental benefit as well as a financially sustainable operation.</p> <p>Achievement of mission needs to be demonstrated.</p>	<p>A range of evidence can be provided.</p> <p>Applicants commit to Social Enterprise Mark values and statements within the application.</p>	<p>Organisations are required to commit to a statement that they have strived to fulfil their social purpose over the previous year. They are also required to provide three statements illustrating this.</p> <p>When thinking about these statements, an organisation is encouraged to consider the following elements of information (and what else they can separately provide in the form of existing reports or other supporting evidence they possess):</p> <ul style="list-style-type: none"> <li>▪ the specific social and/or environmental actions/activities that illustrate exactly how they have fulfilled their social purpose and “made a difference”;</li> <li>▪ the measures of social or environmental output that qualify their impact e.g. quantitative data relative to achievements (or aims, in the case of applicants who are new start businesses);</li> <li>▪ the context of the above actions and measures. This may relate to a specific problem or situation that the organisation has set out to improve, that helps explain why the actions are important or the extent to which different concerns have been addressed.</li> </ul> <p>Organisations can also consider how they have involved stakeholders in planning processes, consulting on matters relevant to them and the social purposes being served, in order to make sure products and services are being targeted in ways that are addressing key interests.</p>