

Social Enterprise Mark- qualification criteria

Principles

- The Social Enterprise Mark Co is the only certification authority that guarantees when an organisation is a social enterprise. In order to build a credible and trustworthy brand, eligibility must be evidenced through official documentation that is clearly auditable.
- Social enterprises are often small organisations and as such joining the Social Enterprise Mark should not be too onerous. Eligibility must be evidenced largely through documents that are already in existence within the social enterprise.
- Social enterprises can be very different from one another. The Social Enterprise Mark should not dictate one legal form or one way of evidencing impact, so long as applicants fulfil the criteria below.
- Assessing applications to the Social Enterprise Mark is largely a technical process e.g. reviewing legal documentation, accounts, etc. To ensure consistency and transparency a dedicated Assessment Team reviews all applications. Awards are verified by an Certification Panel.

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.

	Criteria	Rationale	Test/Evidence	Commentary
A	Have social and/or environmental objectives	Transparency of purpose is a vital element of being a social enterprise.	Constitutional documents ¹	Social and environmental purpose will be evidenced by the legal objects of the business.

¹ The term “constitutional documents” within this paper refers to memorandum and articles of association, rules, or governing documents that are in the public domain.

	Criteria	Rationale	Test/Evidence	Commentary
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 required for externalisations from the public sector.	<p>The public sector often plays a role in social enterprise, however applicants must be able to demonstrate they are independent businesses.</p> <p>If the governing body is a public authority, such as a local authority, college or health trust, then this is not an independent social enterprise. If the governing organisation is a charity or other voluntary group and the social enterprise is part of a separate trading organisation then it may qualify to use the Social Enterprise Mark. Projects within other larger organisations are not eligible as are not independent businesses with their own constitutional documents.</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 business from a grant reliant organisation.	Accounts in the public domain	<p><i>Typically</i> annual accounts that have been submitted to Co House/FSA/Charity Commission will be required. These are generally available c15 months after trading begins and a) use standard accounting practices, b) are usually in the public domain, and c) indicate the level of trading over a reasonable period (trading levels can fluctuate).</p> <p><i>However</i> alternative sources of financial evidence will be considered where these factors are demonstrated.</p> <p>Where an applicant has a high level of income from the public sector, a closer assessment may be required to confirm this is from contract/s and not grant/s.</p> <p>If you are unsure whether payments received from a public body are grants or fees (trading), you may wish to consider your response to the following questions:</p>

	Criteria	Rationale	Test/Evidence	Commentary
				<ul style="list-style-type: none"> ▪ Are the services provided those a payer is statutorily obliged to provide? If yes, it is likely to be a fee, if no, then: ▪ Does the payer benefit directly from the services provided? If yes, it is likely to be a fee ▪ If no, payment is probably a grant. If this is the case, but you still feel your income may qualify as trading, then please contact us for further advice. <p>Additionally to the evidence required in the online application process, internal directors' financial records and/or financial plans would be helpful as they will be more likely to show how profits are distributed and how the business invests time and money in its social purpose.</p> <p>If an applicant is on the cusp of 50% trading, or if an applicant receives a one-off grant (e.g. capital) then trading levels in previous years and plans for future years are reviewed.</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.	Constitutional documents and cross reference to accounts	<p>The relevant clauses from the M&A, Articles or Rules, must be quoted that relate to how the organisation distributes profits.</p> <p>The business must distribute 50% or more of its profits in one or more ways that have a positive social/community benefit.</p> <ul style="list-style-type: none"> • If the trading activity of the social enterprise is, in itself, socially beneficial then direct reinvestment in the business is eligible • donated to another organization/s for social benefit, e.g. a trading arm of a charity donating profits to the charity, or to another member of a group trading for social purpose <p>The remaining profit of 50% or less, may be shared between members or shareholders.</p>

	Criteria	Rationale	Test/Evidence	Commentary
				If the applicant can provide evidence to show that distributions to shareholders or members are socially beneficial, then the requirement for restrictions to such profit distribution may be waived.
E	On dissolution of the business, all residual assets are distributed for social/environmental purposes.	As for (d) above. A commitment on residual asset distribution demonstrates a commitment to social/environmental objectives.	Constitutional documents	An appropriate dissolution clause that ensures distribution for social/environmental purposes is essential. The Mark is not limited to Charities, CICs and IPS Ben Coms (whose asset locks are statutory and regulated). Other legal forms may also be eligible if they have the appropriate dissolution clause and restrictions on profit distribution.
F	Can demonstrate that social/environmental objectives are being achieved Applicants must agree a statement that as a Mark holder they would strive to maximize social impacts and minimize environmental damage.	Social enterprises exist to produce social and environmental benefit as well as a financially sustainable operation. Achievement of mission needs to be demonstrated	A range of evidence can be provided. One must be from a source external to the applicant or externally verified.	Flexibility with regard to scale of the operation and sector in which the social enterprise operates is important. A test phase revealed that more stringent criteria here would prevent the Mark from achieving any viable scale. Tools and techniques to measure social and environmental impact are becoming more sophisticated and user-friendly. At an appropriate stage the Social Enterprise Mark may 'raise the bar' in terms of requirements.

New starts

New starts will have to meet criterion A, B, D and E and provide the same level of supporting evidence as all other applicants. They **must** be a registered company and have started trading at some level. There is currently no requirement for them to have been trading for a specific period of time (Criterion C), so evidence in support of their business objectives will be required, e.g.:

- Management accounts
- Income/expenditure forecast for years 1&2
- A business plan
- Copies of contracts
- Details of any grants secured; source, value and term

New starts will have to pledge to meet criterion C (within 18 months from award of the Mark) and F.