

# Aspiring Social Enterprise - Eligibility Criteria

## Principles

- The **Social Enterprise Mark** is the long-standing accreditation for businesses who are primarily dedicated to trading in support of serving social purposes (including environmental objectives) ahead of individual and shareholder profit interests. It is designed for genuine social enterprises committed to demonstrating their credentials by standing up to the scrutiny of external assessment, thereby proving they have met the sector agreed criteria that define what social enterprise is, earning the recognition and credibility this bestows.
- The **Aspiring Social Enterprise accreditation** demonstrates a business is in the process of establishing itself as a social enterprise – one that can show it is already committed to Social Enterprise Mark criteria but is in the process of becoming sustainable through trading and may not yet have achieved any social objectives. It is therefore aimed at businesses who may have only recently registered, that have not necessarily started trading (or just begun to), and those that may have been running for some time but have been grant dependent, reliant on loans or investment income.
- In order to build a credible and trustworthy brand, documentary evidence is relied upon in support of the operational credentials of social enterprise that both Marks embody – principally governing documents that a business registers when setting up. This evidence is usually available in the public domain (i.e. Companies House) and will be referred to as part of the assessment process. An Aspiring Social Enterprise will also need to answer questions about its trading plans (including a financial forecast), along with the social outcomes and benefits it hopes to generate over time.
- *An organisation may hold the Aspiring Social Enterprise accreditation for a maximum of three years. By the end of this period, it must be able to show it has become reliant on trading activities as its primary source of income and that it has started to fulfil its social purposes: in other words, during this time an **Aspiring Social Enterprise accreditation** holder should have achieved the standards required for the full **Social Enterprise Mark** accreditation and would be expected to make this transition as soon as this is determined within this three year period (or lose any Mark status).*
- An **Aspiring Social Enterprise accreditation** holder will therefore be reviewed every year to determine what progress has been made towards achieving full **Social Enterprise Mark** accreditation. This will involve confirming that there have been no changes to original governing documents, an update on business plans, including financial forecasts relevant to trading activities.
- The Social Enterprise Mark CIC (SEMCIC) reviews all applications and subsequent annual licence renewals relevant to both Marks. Awards are overseen by a Certification Panel, who are independent to SEMCIC. They consider and make judgements on all cases that do not readily conform to existing precedents governing eligibility with Mark criteria and the assessment of evidence in support of this. They routinely examine a selection of all assessments conducted by SEMCIC across the year, to ensure consistent standards of assessment are being applied.

## The Eligibility Criteria

	Criteria	Rationale	Relevant Evidence (not necessarily all compulsory)	Commentary
A	An aspiring social enterprise must be primarily dedicated to social objectives <sup>1</sup> .	Transparency of purpose is a vital element of being a social enterprise.	Governing documents. <sup>2</sup>	<p>In the case of organisations who retain profits to pursue their own social purposes, social purpose should be clearly articulated within the legal objects of the organisation (NB: social purpose includes environmental purposes). Ideally speaking, this purpose should be articulated in the form of the overarching social aims the organisation is working to achieve, and not be a simple description of the activities that may contribute to the fulfilment of these aims (which may vary over time).</p> <p>This social purpose may be directly relevant to an organisation’s trading activities but must clearly hold precedence over all other non-social objects.</p> <p>Governing documents may refer to other objects, but it must be clear that these are only pursued in support of achieving these primary social purposes.</p> <p>Organisations with overtly commercial objects or non-social objectives may still qualify. However, they must have a relevant profit distribution clause and be able to regularly prove how they distribute annual profits in support of the social objects of others – as defined under Criterion D below (e.g. the trading arms or other businesses that gift aid profits to registered charities).</p> <p>If an organisation supports purposes or acts in a way that might reasonably be considered unethical or socially questionable, then this may render them ineligible.</p>

<sup>1</sup> Social objectives should clearly be concerned with addressing some sort of local community or wider societal need or problem: all references to social objectives throughout this criteria document are meant to encompass any that fulfil this basic definition, including environmental related objectives.

<sup>2</sup> The term “governing documents” refers to a company’s constitution – typically memorandum and articles of association or company rules that are available in the public domain.

B	<p>An aspiring social enterprise must be an independent business.</p>	<p>Independence and self-governance distinguish businesses from the public sector, from projects within larger organisations, and from other corporate interests.</p> <p>It also ensures a social enterprise is primarily committed to pursuing social purposes in line with Mark criteria, without undue influence or control from other legally registered entities who do not clearly share similar purposes.</p>	<p>Governing documents (including Annual Returns or Shareholding Statements, Lists of Members, etc.).</p> <p>Additional evidence may be required for externalisations from the public sector.</p>	<p>Independence means that no public or government agency or body, or other private, corporate bodies, hold majority ownership and therefore final 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 or member (and/or director representation) is made up of organisations who are registered charities or social enterprises. In some circumstances this allowance may extend to organisations with other sorts of legal structure; in such cases, their other operational interests should not evidently compromise social and ethical business principles and they must be able to demonstrate their social purpose in setting up the applicant subsidiary.</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 of their parent organisation, if the parent 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>
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C	An aspiring social enterprise must be planning to become sustainable through trading income (i.e. aiming to earn 50% or more of its income from trading, within 3 years).	50% traded income is currently accepted as a way of distinguishing a business from an organisation that is reliant on donations, or grants, investment or similar income.	<p><i>Where available, a relevant business plan and financial forecast.</i></p> <p><i>When available, annual company accounts (preferably registered in the public domain).</i></p> <p>Other financial statements that are produced in support of annual accounts.</p>	<p>As a minimum an organisation must answer a few short questions describing their business plans and broadly confirm their expected sources of income and expenditure for the forthcoming year. If one is available, a copy of a business plan that includes a financial forecast of trading activities can also be forwarded.</p> <p>If an organisation has already started trading or been in receipt of other forms of income, they may have already produced annual accounts. <i>When they are available</i> (at the time of initial application and at subsequent annual renewals of the Mark licence), these should be forwarded. 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><b>Abbreviated accounts are not acceptable</b> and full financial statements supporting such accounts will be required. The details required are:</p> <ul style="list-style-type: none"> <li>• a breakdown of different sources of income;</li> <li>• main areas of expenditure;</li> <li>• confirmation of any profits generated;</li> <li>• confirmation of any dividend or similar distributions.</li> </ul> <p>Trading income most commonly derives from the sale of goods and other services. This is typically evident in the receipt of payments and other fees, income from contracts or other agreements. It can sometimes be labelled as grant income; some grants are <i>solely</i> 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>Typically, pure grant income is recognisable in that it is not <i>solely</i> directed at service outputs. It may be awarded according to quite general terms linked with supporting a particular project or directed at organisational inputs – that is, the resources required to provide services (e.g. premises, tools, equipment, staff etc.).</p>

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				<p>Some grants may include service delivery conditions but if the grant is not <i>solely</i> payable on delivery of agreed outputs and outcomes it does not constitute trading income.</p> <p>In distinguishing if grant payments may constitute trading, asking the following questions may help:</p> <ul style="list-style-type: none"> <li>▪ are the services provided ones that the paying body is statutorily obliged to provide? If yes, it is likely to be a fee and is therefore trade;</li> <li>▪ does the paying body benefit directly from the services provided? If yes, it is likely to be a fee and is therefore trade.</li> </ul> <p>Most loans, investments and interest receivable count against the balance of trading income compared to overall turnover. Capital loans and investments may be an exception, as is interest receivable in organisations who deliver financial services as part of their core trading purposes.</p> <p>If an organisation is on the cusp of the 50% trading requirement or has received a grant or loan, causing them to dip below this, then trading levels in previous years and plans for future years can considered in determining whether or not they are primarily trade dependent.</p>

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D	An aspiring social enterprise is committed to dedicating a principal proportion (51%+) of any annual profit or financial surplus generated to social purposes.	Social enterprises are driven by social objectives rather than the maximising of profit or surplus for private gain by shareholders and owners.	Governing documents. <i>When available</i> , annual company accounts (preferably registered in the public domain). Other financial statements that are produced in support of annual accounts.	<p>There should be relevant clauses in governing documents, which confirm an organisation's commitment to how any profits or financial surplus generated is distributed. Such clauses should unequivocally commit to the stated Criterion requirement, clearly holding precedent over any other clauses that might otherwise serve to undermine or contradict the required application of annual profits.</p> <p>The business may distribute its profits/surplus 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 or retention of profits/surplus;</li> <li>▪ <b>donated to other organisations or resources for social benefit</b>, e.g. a registered charity, or investment in some other socially beneficial activity or resource that is external to the organisation.</li> <li>▪ <b>distributed to shareholders or members who primarily serve social purposes</b> (most typically this will be formally constituted charities or other social enterprises).</li> </ul> <p>If an organisation has already started trading or been in receipt of other forms of income, they may have produced annual accounts which should be forwarded when available. If any profits or surplus has been generated, it must be clear that at least 51% have been distributed as above. Any dividend, profit, interest or similar payments made to shareholders, owners or members should not exceed 49% of the total net profits generated in that same year. On occasion there may be legitimate circumstances where the amount distributed to such entities exceeds 49% (e.g. late dividend claims from previous years); in such cases further clarification will be sought to justify why and to explore profit distribution trends from previous years.</p> <p>NB: this criterion requirement does not allow for the use of profits as alternative means of paying director or employee salaries (possibly to reduce tax implications), beyond this 49% distribution allowance.</p>

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E	An aspiring social enterprise is committed to distributing any residual assets to social purposes, on dissolution of the business.	As for (d) above.  A commitment on residual asset distribution demonstrates a commitment to social objectives.	Governing documents.	<p>There should be relevant clauses in governing documents, which confirm an organisation's commitment to how any residual assets would be distributed in the event of dissolution ("winding up" of the company).</p> <p>The Mark is not limited to Charities, Community Interest Companies (and some forms of Industrial Provident Society/Co-operative) where such "asset locks" are subject to legal statutes. Other legal forms may also be eligible if they have an appropriate dissolution clause that commits all residual assets to the furtherance of social purposes. This usually takes the form of the residual assets being committed to other organisations who are primarily constituted to serve social purposes; in such cases, their registered governing documents will contain clearly defined social objectives and clauses having equivalent or even greater restrictions on private profit distribution and asset distribution on dissolution, than those described in this criteria document.</p> <p>Any outstanding company debts are payable before any residual assets are finally calculated. Shareholders may also be repaid the <i>nominal value</i> of their shareholding at the date shares were issued, prior to the distribution of remaining assets (i.e. the original price of the shares at the point of issue – not the price it may have changed to at the point of dissolution or the price the shareholder may have purchased the shares for during the lifetime of the business).</p>
F	An aspiring social enterprise has a vision of how social objectives will be achieved.	Social enterprises exist to produce social benefit.  A social enterprise must at least be able to describe the social difference it hopes to achieve.	Where available, a copy of a relevant business plan.	<p>As a minimum an organisation must answer a few short questions describing their business plans, the social beneficiaries and nature of the social outcomes being targeted.</p> <p>Organisations will eventually be required to answer a set of questions designed to explore their social impact, as part of the transition from being an <b>Aspiring Social Enterprise</b> to achieving full <b>Social Enterprise Mark Holder</b> status. These will provide social impact statements that will form part of a public declaration promoted via the Mark Holder directory on the SEMCIC website.</p> <p>Further details of these questions can be found on the <a href="#">SEMCIC website</a>.</p>