



Social Enterprise Mark- 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 (which include 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 Social Enterprise Mark is a brand that tells customers that a product or service comes from a social enterprise. In order to build a credible and trustworthy brand, documentary evidence is relied upon in support of the operational credentials of social enterprise that the Mark embodies.
- This evidence is often available in the public domain (i.e. Companies House) and this will be referred to as part of the assessment process. If information is not readily available organisations will be asked to provide this. They must also provide responses to a set of questions asking them to describe how they have strived to achieve their social objectives. These social impact statements will be published online via the [Social Enterprise Mark Directory](#), to both promote Mark Holders and reinforce interests of public accountability for their claims.
- Social enterprises can be very different from one another. The Social Enterprise Mark does not dictate one legal form or one way of demonstrating social impact, so long as organisations are able to show how they fulfil the criteria that follows below.
- As well as proving how they meet these criteria, all applicants must agree to the terms and conditions for holding the Mark, along with other declarations relevant to the assessment process. If ever there is reason to suspect a failure to comply with these conditions, Mark Holders may be required to submit additional evidence in support of how they are meeting different criteria.
- The Social Enterprise Mark CIC (SEMCIC) reviews all applications and licence renewals. Awards are overseen by an Accreditation Panel, who are independent to SEMCIC. They consider and make judgements on all new applications that do not readily conform to existing precedents governing eligibility and assessment of the evidence in support of this. They routinely examine a selection of all applications that have been approved by the SEMCIC across the year, to ensure consistent standards of assessment are being applied.
- Social Enterprise Mark status is subject to an annual renewal process, through which an organisation must be able to confirm that it remains committed to the same eligibility requirements, declarations and licence terms, as when they first applied. Unless there have been significant changes or other developments in an organisation's circumstances, this is usually a very straightforward process. Organisations will otherwise be required to submit to a fuller re-assessment at least once every three years, where all relevant evidence outlined in this framework must be updated and reviewed.



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Criteria A.

A social enterprise must be primarily dedicated to social objectives¹.

Rationale

Transparency of purpose is a vital element of being a social enterprise.

Relevant Evidence (not necessarily all compulsory)

Governing documents.²

Guidance and Evidence Requirements

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).

This social purpose may be directly relevant to an organisation's trading activities, but it must clearly hold precedence over all other non-social and commercial objects. 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.

Organisations with overtly commercial objects or non-social objectives may still qualify. However, they must have a profit distribution clause as defined under Criterion D below, stating how they will use profits to support the purposes of other primarily social purpose organisations (most typically charities, or other social enterprises); they must also be able to regularly prove how they distribute annual profits in line with this commitment.

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.

¹ 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.

² 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.



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Criteria B

A social enterprise must be an independent business.

Rationale

Independence and self-governance distinguish businesses from the public sector, from projects within larger organisations, and from other corporate interests.

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.

Relevant Evidence (not necessarily all compulsory)

Governing documents (including Confirmation Statements, Persons of Significant Control registrations, other Annual Returns or Shareholding Statements, Lists of Members, etc.).

Additional evidence may be required for externalisations from the public sector or for organisations that are majority owned or controlled by entities who are not primarily social purpose organisations themselves (i.e. charities or social enterprises).

Guidance and Evidence Requirements

Independence means that no public, government, or corporate entity, hold majority ownership and/or decision-making control of the organisation applying for (or already holding the Social Enterprise Mark): this may be evident in any external agencies or companies holding a dominant shareholding, membership, or director representation on the company board, or being declared as a person/entity with significant control.

The main exception to this is if the dominant shareholder or member (and/or director representation) is made up of primarily social purpose organisations (most typically charities, or other social enterprises); in such cases, the registered governing documents of the dominant shareholder(s) must 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 the remainder of this criteria document. However, in some circumstances community interest companies (CICs), and possibly some other forms of company, whose dominant shareholder(s) operate without such restrictions may still qualify; in such cases, the dominant shareholders operational interests should not evidently compromise social and ethical business principles, and they must be able to demonstrate their social purpose in setting up or taking a majority shareholding or control of the applicant, or existing Mark Holder (please check the precise nature of these requirements with SEMCIC).

Projects and unincorporated organisations are ineligible for the Mark as they are not independent businesses with their own constitutional documents.



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Criteria C

A social enterprise must earn 50% or more of its income from trading.

Rationale

50% traded income is a generally accepted way of distinguishing a business from an organisation that is reliant on donations, grants, loans or investment funding to fulfil its purposes.

Relevant Evidence (not necessarily all compulsory)

Annual company accounts (preferably registered in the public domain).

Other financial statements that are produced in support of annual accounts.

NB: The usual assessment of this criterion requires an organisation to provide recent accounting evidence in support of how they meet requirements (accounts that are no older than 18 months old at the point of submitting their first application, or their annual licence renewal date). The Covid pandemic and resulting lockdown have clearly affected the trading capacities of many businesses and how they may be able to demonstrate compliance with the criterion. In light of this, for the foreseeable future, the assessment of this criterion will take into consideration these circumstances.

Provided an organisation can show they were meeting criterion requirements in the accounting period immediately before the onset of the pandemic lockdown (up to March 2020), any failure to meet it following this will **not** count against them. However, where organisations have experienced changes in their financial circumstances as a result of the pandemic, they will be expected to provide an indication of when they hope to return to the required level of 50% or more of income deriving from sources of trade (as is defined below). This will include providing a forecast of income expectations for the current financial year-end they are in.

Please note, at this stage we are not proposing any permanent change to this criterion. Arrangements will continue to be reviewed as circumstances change, with a view to returning to previous requirements. As far as is reasonable though, individual circumstances will continue to be considered and organisations will be given the opportunity to return to the required standard.

Guidance and Evidence Requirements

If an organisation has been trading under a different guise and has only recently incorporated (or converted or changed name), accounts from the previous trading history may be considered, if the activity is the same.



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Abbreviated accounts are not acceptable and full financial statements supporting such accounts will be required. The details required are:

- a breakdown of different sources of income;
- main areas of expenditure;
- confirmation of any profits generated;
- confirmation of any dividend or similar distributions.

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.

General grants that bid for to support an organisation's activities, which are not specifically commissioned by the awarding body are unlikely to qualify as trading income and will count against this. These grants are typically funds awarded to an organisation in general support of their needs, which they have bid for support towards. Such grants may often be paid by organisations who have broad altruistic or public motives in supporting general social purposes, rather than any socially specific purpose. The grants may include payments in respect of service outputs, but more likely have been agreed and calculated in respect of the organisational resources required to provide the services concerned (e.g. premises, tools, equipment, staff etc.) i.e. *service inputs*.

However, some grant income may be classed as trading income. This mainly applies to grants that are primarily paid according to strict expectations of delivering specific activities i.e. *service outputs*. Such grants are typically subject to service level agreements or other contractually defined conditions, which effectively constitutes trading income. This includes grants which have been competitively tendered for, or directly commissioned by the awarding body, to deliver services that the awarding body typically has an obligation or specific purpose in providing or supporting.

Donations or similar bequests, which will also count against the balance when calculating the proportion of annual income that may be classed as trade. Interest payments from investments (shares, bank accounts etc.) will also count against the balance of trading income. However, interest receivable in respect of financial services that an organisation delivers as part of their core trading purposes, is trading income.

Most types of investment and loan income can be discounted from turnover *before* calculating the balance between trade and other income, provided this does not significantly exceed that element which may be classed as trading income. (Capital loans and investments are an exception and will generally always be discounted, whatever the level of trading income).

If an organisation is on the cusp of the 50% trading requirement, has received an unusual payment causing them to dip below this, then trading levels in previous years and plans for future years can be considered in determining whether or not they are primarily trade dependent.

Please seek further advice from SEMCIC regarding this guidance and the definition of trading income.



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Criteria D

A social enterprise dedicates a principal proportion (51%+) of any annual profit or financial surplus generated to social purposes.

Rationale

Social enterprises are driven by social objectives rather than the maximising of profit or surplus for private gain by shareholders and owners.

Relevant Evidence (not necessarily all compulsory)

Governing documents.

Annual company accounts (preferably registered in the public domain).

Other financial statements that are produced in support of annual accounts.

Guidance and Evidence Requirements

There should be relevant clauses in governing documents, which confirm an organisation's commitment to how profits or any 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.

The business may distribute its profits/surplus in a number of different ways that have a positive social/community and/or environmental benefit:

- if the **trading activity** of the social enterprise is, in itself, socially beneficial, then direct reinvestment or retention of profits/surplus is acceptable;
- **donated to other organisations or resources for social benefit**, i.e. other primarily social purpose organisations, such as charities or social enterprises (investment in some other socially beneficial activity or resource that is external to the organisation may also be acceptable);
- **distributed to shareholders or members who primarily serve social purposes** (most typically this will be registered charities or other social enterprises).

It must be clear that at least 51% of any distributable annual profits or surpluses generated are distributed as above, and that there are no questionable areas of expenditure that may constitute an "indirect distribution" or suppression of possible profits. Any dividend, profit, interest or similar payments made to shareholders, owners or members, (and possibly directors and employees), should not exceed 49% of the total net profits generated in that same year. However, 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, to ensure an overall balance has been maintained.



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Criteria E

On dissolution of the business, a social enterprise distributes all remaining residual assets for social purposes.

Rationale

Social enterprises are driven by social objectives rather than the maximising of profit or surplus for private gain by shareholders and owners. A commitment on residual asset distribution further demonstrates a commitment to social objectives.

Relevant Evidence (not necessarily all compulsory)

Governing documents.

Guidance and Evidence Requirements

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).

The Mark is not limited to charities, community interest companies (and some forms of industrial provident society/so-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 primarily social purpose organisation; 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.

Any outstanding company debts are payable before any residual assets are finally calculated. Shareholders may also be repaid the *nominal value* 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).



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Criteria F

A social enterprise can demonstrate that social objectives are being achieved.

Rationale

Social enterprises exist to produce social benefit.

A social enterprise must at least be able to describe how it has strived to achieve its social objectives.

Relevant Evidence (not necessarily all compulsory)

Existing social impact reports (reporting social outputs and outcomes that have been delivered in the previous 2 years).

Providing social impact statements in response to [questions](#) defined by SEMCIC.

Guidance and Evidence Requirements

Applicants must agree to a statement that as a Mark Holder they would strive to maximize social impacts and minimize negative environmental effects in the course of trading.

Evidence and responses should clearly identify what social purposes have been pursued, and the activities that illustrate how the organisation has strived to deliver these. Ideally, this evidence should include a description of the social needs being addressed, the social beneficiaries, and as far as possible help quantify and/or qualify the social benefits or outcomes that have been achieved or assessed.

Further details of these questions can be found on the [SEMCIC website](#).