



Social Enterprise Mark- qualification criteria

This document sets out the qualification criteria for organisations applying to access the Social Enterprise Mark.

Principles behind the Social Enterprise Mark qualifying criteria

The Social Enterprise Mark will change the place of social enterprises in the market place. The principles behind the qualification criteria are:

- The Social Enterprise Mark is a label which tells customers that a product or service comes from a social enterprise. The Mark is a way for social enterprises to promote their values-driven business to customers. Those qualifying to use the Social Enterprise Mark will be established social enterprises who achieve a wider social outcome.
- 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. The Social Enterprise Mark is the customer agent and is responsible for understanding the different approaches.
- Social enterprises are often small organisations and as such joining the Social Enterprise Mark should not be too onerous. Therefore it will work with applicants to review and interpret documents and evidence as already in existence within the social enterprise.
- Identifying social enterprises is partly a technical process e.g. legal forms, what constitutes trading, etc. To ensure consistency and transparency a dedicated Social Enterprise Mark Impact and Assessment Manager reviews all applications.

The criteria

In order to be eligible for the Social Enterprise Mark, applicants must demonstrate that they are a social enterprise whose key driver is trading and that they operate for social/environmental benefit.

Qualifying organisations will :	NOTES/EXPLANATION
a. Be an eligible legal form	<ul style="list-style-type: none"> ▪ Sole traders, partnerships, unincorporated associations and traditional profit distributing companies are not eligible; some co-ownership co-operatives and most Limited Liability Partnerships (LLPs) are unlikely to be eligible. ▪ Other legal forms will be eligible if they meet all other criteria. ▪ The Social Enterprise Mark is not primarily aimed at those organisations that have/are aiming for charitable status as this is already an effective signifier of their social impact. However, if trading is a key driver and if the charity meets the other criteria, then a charity would be eligible. <p>Eligible legal forms must provide their Company or Industrial & Provident Society (IPS) registration number or similar</p>
b. Adhere to certain shareholders restrictions	<p>Applicants that have shareholders must state who they are. This could include:</p> <ul style="list-style-type: none"> ▪ A shareholder that is a registered charity ▪ Where surpluses distributed to members constitute a social benefit
c. Have own constitution and governing body	<p>In all cases, 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.</p>
d. Only provide any distributable profit to individual and/or organisational members that are socially beneficial.	<p>Distribution of profits restrictions – must provide Constitutional document (and possibly further documentary evidence).</p> <ul style="list-style-type: none"> ▪ The relevant clauses must be quoted that relate to how the organisation distributes profits and how any residual assets are distributed if the business is wound up. ▪ The business may distribute its profits in a number of different ways that have a positive social/community benefit. ▪ If the trading activity of the social enterprise is, in itself, socially beneficial, then direct reinvestment is eligible. ▪ Some social enterprises earn income through commercial trading activity specifically to make profits, which are redistributed, to another organisation or to shareholder(s). If the income is distributed to individual and/or organisational members then there needs to be

	<p>some interpretation of whether providing income to these recipients is socially beneficial. For example, a workers co-operative that employs people who are otherwise disadvantaged in the labour market can be seen as providing social benefits.</p> <p>There is a cap on the level of interest investors can earn, contingent with that of the regulations for CICs</p> <p>Limited Liability Partnerships (LLP) must provide evidence from its LLP Agreement of:</p> <ul style="list-style-type: none"> ▪ Its social aims, what its trading activities are, how reasonable remuneration is agreed and how it is to be reinvested into the organisation's social aims.
<p>e. Have traded for a minimum of one year and earn 50% or more of its income from trading</p>	<ul style="list-style-type: none"> ▪ The organisation must confirm that it earns more than 50% or more of its income through trading; as evidenced in the form of either audited accounts, or abbreviated balance sheet, as submitted to the Registrar of Companies/FSA. If the organisation does not have these documents it must state why. ▪ Trading is defined as; 'the direct exchange of goods and services' and replicates the means by which most "traditional" businesses trade and make money. ▪ The definition trading excludes government grants, grants or donations. ▪ If a Public Authority contract is under £150,000 the organisation needs to decide whether the contract is really a contract, or classed as a grant from a Public Authority (see Operator's Manual for further details). ▪ The organisation must confirm as at the end of the last financial year: <ul style="list-style-type: none"> - Turnover - Total income generated through trading activities - Total profit made at the end of the last financial year - % of income generated through trading activities - Page where evidenced in accounts ▪ Additionally 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. ▪ If the organisation is considered on the cusp possibly because they are awarded a single large grant, for example for capital investment, then this might affect the trading income shown in a single year's accounts. If this is the case then they can submit other year's accounts as well, ideally the past 3 years, with two out of three showing more than 50% trading income. ▪ If the business is within 5% of the 50% threshold and is within the first three years of trading, then this can be acceptable as long as the drivers of the business are clearly trading rather than seeking grants. This should be interpreted from answers to other questions.

	<p>Most Limited Liability Partnerships (LLP) are not eligible. If this is the organisational form of the applicant then the following is needed:</p> <ul style="list-style-type: none"> ▪ LLP Agreement includes a statement of the social aims of the partnership, what its trading activities are, how reasonable remuneration is agreed and how profit is to be reinvested into the partnership's social aims. ▪ The challenge with this model is in the way the accounts of an LLP are written. The remuneration of the partners is shown in the accounts as profits, which can look misleading if the organisation is presenting itself as a social enterprise which reinvests its profits, after reasonable remuneration is paid out to the Partners for the work undertaken, back into its social aims. Therefore the accounts must be examined alongside the LLP Agreement. <p>Regarding VAT, a number of social enterprises attempt to keep their trading activity below the current VAT registration threshold of £64,000, as this would mean charging individual clients an additional 17.5% (for example for the provision of home care services), which they are reluctant to do to people on limited incomes. This can lead to them interpreting income from public authorities as non VAT-able grants. However, even if this is happening, it would not affect the nature of the relationship – if it is genuinely a contract it should be treated as a trading activity.</p>
<p>f. Be able to provide evidence that social/ environmental objectives are being achieved.</p>	<p>The social/environmental objects from the governing document must be provided, together with a minimum of one externally verified piece of evidence that demonstrates social/environmental benefit is being achieved. The evidence they produce should be at an appropriate scale to reflect these objectives in full. It should also reflect the size of the organisation and the likely resources they will have to collect this information.</p> <p>This could be achieved through the following tools:</p> <p>IMPACT TOOLS</p> <ul style="list-style-type: none"> - Social Accounting - Social Return on Investment (SROI) - Local Multiplier 3 (LM3) - Prove It! <p>QUALITY STANDARDS (Externally verified quality standards)</p> <ul style="list-style-type: none"> - Investors in People - AA1000 Assurance Standard - Matrix (advice and guidance) - SIGMA Sustainability Guidelines - Eco-Management and Audit Scheme (EMAS) - Global Reporting Initiative (GRI) Guidelines - Star Social Firm - EFQM Excellence Model, European Foundation for Quality Management - ISO 14000 Series, International Organisation for Standardisation - ISO 9000 Series, International Organisation for Standardisation - Practical Quality Assurance System for Small Organisations (PQASSO) <p>OTHER EVIDENCE</p> <ul style="list-style-type: none"> - External evaluations of your work - Annual Trustee's Report

	<ul style="list-style-type: none"> - Sector specific regulatory requirements, e.g. Ofsted Inspection - Evidence you have produced in order to win public sector contracts - Any other documented evidence which is not mentioned above <p>Many social enterprises offer additional social/ economic/ environmental/ educational benefits, above and beyond their primary objects. The ability to show additional benefits is not obligatory, but it will assist in assessing their application.</p>
<p>g. Be based in or operational in the South West</p>	<p>The business must have an address in the South West region or be able to demonstrate that it is currently operational in the region. This can be evidenced by contracts to deliver services in the region or evidence of supplying goods within the region.</p>

**** More information** regarding the context and vision of this work is available on the website: www.socialenterprisemark.co.uk.

** Also available is a more detailed version of the qualification criteria. If you would like to see this please email katl@rise-sw.co.uk and we will email it to you.

** If you have any further queries about the eligibility criteria, please see the 'FAQ' section of the website or contact the Impact and Assessment Manager, Sue Bladon, on 07813 151234, email sueb@rise-sw.co.uk.

