



## **Social Enterprise Trade Association: membership criteria**

This document sets out the membership criteria for joining the Social Enterprise Trade Association (TA). It is written to inform and update a range of interested parties as we reach the end of the development phase and move towards implementation. As the TA goes 'live' other information and leaflets will be available for each different audience, including application guidance for social enterprises, and an information leaflet to funders and policy-makers.

This document should be read in tandem with "Social Enterprise Trade Association: an overview" which provides the context.

### **Principles behind the TA membership criteria**

The TA will change the place of social enterprises in the market place. The principles behind the TA membership criteria are:

- The TA will indicate to customers that in trading with/buying from TA members you are achieving a social outcome.
- Members of the TA will be established social enterprises who achieve a social outcome.
- The TA will be a 'destination' and will be inspiring for emerging groups who are aiming to become members. Some support will be available through the TA. It will also broker on to the business support service that now covers the South West, to local networks and to other specialist training/interventions.
- Social enterprises can be very different from one another. The TA should not dictate one legal form or one way of evidencing impact, so long as applicants fulfil the criteria below. The TA is the consumer agent and is responsible for understanding the different approaches.
- Social enterprises are often small organisations and as such joining the TA should not be too onerous. Therefore the TA 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 the TA will have a dedicated staff member who will review all applicants. They will then make recommendations to the TA panel for consideration and approval. When established, this will be made up mainly of TA members.

### The criteria

In order to be eligible as a member, applicants must demonstrate that they are a social enterprise and that they operate for social/community benefit.

TA MEMBERS WILL:	NOTES/EXPLANATION
<p>a. Be an eligible legal form</p>	<ul style="list-style-type: none"> <li>▪ Sole traders, partnerships, unincorporated associations, traditional profit distributing companies, some co-ownership co-operatives and most Limited Liability Partnerships (LLPs) are not eligible.</li> <li>▪ Other legal forms will be eligible if they meet all other criteria.</li> <li>▪ The trade association 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.</li> </ul> <p>Eligible legal forms must provide their Company or Industrial &amp; Provident Society (IPS) registration number or similar</p>
<p>b. Adhere to certain shareholders restrictions</p>	<p>Applicants that have shareholders must state who they are. This could include:</p> <ul style="list-style-type: none"> <li>▪ A shareholder that is a registered charity</li> <li>▪ Social investors – one of the methods by which social enterprises can raise investment capital without compromising social values is to offer shares. The result of this is that some of the profits are used to repay investors. As long as there is some limitation on ownership of investment shares, the social enterprise would still be eligible.</li> </ul>
<p>c. Have own constitution and governing body</p>	<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 will be eligible to join the Trade Association.</p>
<p>d. Only provide any</p>	<p>Distribution of profits restrictions – must provide Constitutional document (and possibly further documentary</p>

<p>distributable profit to individual and/or organisational members that are socially beneficial.</p>	<p>evidence).</p> <ul style="list-style-type: none"> <li>▪ 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.</li> <li>▪ The business may distribute its profits in a number of different ways that have a positive social/community benefit.</li> <li>▪ If the <b>trading activity</b> of the social enterprise is, in itself, socially beneficial, then direct reinvestment is eligible.</li> <li>▪ 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 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.</li> </ul> <p>The following should be considered, relating to co-operatives, Industrial &amp; Provident Societies and some Community Interest Companies.</p> <ul style="list-style-type: none"> <li>▪ Investor members should constitute a maximum of 45% of total membership.</li> <li>▪ A maximum of 50% of profits should be distributed to members</li> </ul> <p>Limited Liability Partnerships (LLP) must provide evidence from its LLP Agreement of:</p> <ul style="list-style-type: none"> <li>▪ 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.</li> </ul>
<p>e. Have traded for a minimum of one year and earn 50% or more of its income from trading</p>	<p>Trading - Audited accounts or an abbreviated balance sheet</p> <ul style="list-style-type: none"> <li>▪ The organisation must confirm, on the application form to join the Trade Association, that it earns more than 50% or more of its income through trading.</li> <li>▪ The organisation must confirm as at the end of the last financial year: <ul style="list-style-type: none"> <li>- Turnover</li> <li>- Total income generated through trading activities</li> <li>- % of income generated through trading activities</li> </ul> </li> </ul>

- Page where evidenced in accounts

- Evidence should be provided in the form of either audited accounts, or abbreviated balance sheet, as submitted to the Registrar of Companies. If the organisation does not have these documents it must state why.
- 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 raised by the Trade Association.

Most Limited Liability Partnerships (LLP) are not eligible. If this is the organisational form of the applicant then the following is needed:

- 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.

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

	<p>really a contract, or classed as a grant from a Public Authority (see Operator’s Manual for further details).</p> <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 objectives are being achieved.</p>	<p>The social objects from the governing document must be provided, together with a minimum of one externally verified piece of evidence that demonstrates social benefit is being achieved. The evidence they should produce should be at an appropriate scale to reflect their social 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><b>IMPACT TOOLS</b></p> <ul style="list-style-type: none"> <li>- Social Accounting</li> <li>- Local Multiplier 3 (LM3)</li> <li>- Social Return on Investment (SROI)</li> <li>- Prove It!</li> </ul> <p><b>QUALITY STANDARDS (Externally verified quality standards)</b></p> <ul style="list-style-type: none"> <li>- Investors in People</li> <li>- Matrix (advice and guidance)</li> <li>- Eco-Management and Audit Scheme (EMAS)</li> <li>- EFQM Excellence Model, European Foundation for Quality Management</li> <li>- ISO 14000 Series, International Organisation for Standardisation</li> <li>- ISO 9000 Series, International Organisation for Standardisation</li> <li>- Practical Quality Assurance System for Small Organisations (PQASSO)</li> <li>- AA1000 Assurance Standard</li> <li>- SIGMA Sustainability Guidelines</li> <li>- Global Reporting Initiative (GRI) Guidelines</li> </ul> <p><b>OTHER EVIDENCE</b></p>

	<ul style="list-style-type: none"> <li>- External evaluations of your work</li> <li>- Annual Trustee's Report</li> <li>- Sector specific regulatory requirements, e.g. Ofstead inspection; Waste management standards; Food hygiene certificates</li> <li>- General regulatory requirements, e.g. Health and Safety Certificate.</li> <li>- Evidence you have produced in order to win public sector contracts</li> <li>- Any other documented evidence which is not mentioned above</li> </ul> <ul style="list-style-type: none"> <li>• 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.</li> </ul>
g. Be based in or operational in the South West	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.

\*\* **More information** regarding the context and vision of this work is available in the "Social Enterprise Trade Association: an overview" document.

\*\* Also available is a more detailed version of the membership criteria. If you would like to see this please email [info@rise-sw.co.uk](mailto:info@rise-sw.co.uk) and we will email it to you.