

Title: Companies House Fees Regulations IA No: BIS0353 Lead department or agency: BIS Other departments or agencies:	Impact Assessment (IA)		
	Date: 26/04/2012		
	Stage: Final		
	Source of intervention: Domestic		
	Type of measure: Secondary legislation		
Contact for enquiries: Mark Buckley, Companies House			
Summary: Intervention and Options		RPC Opinion: GREEN	

Cost of Preferred (or more likely) Option			
Total Net Present Value	Business Net Present Value	Net cost to business per year (EANCB on 2009 prices)	In scope of One-In, One-Out? Measure qualifies as One-Out?
£-0.04m	£13.5m	£-2.9m	No NA

What is the problem under consideration? Why is government intervention necessary?
Aligning Companies House (CH) fees with costs, as required by European legislation, case law and UK guidance on Managing Public Money. As a Trading Fund, CH must operate on the basis of cost recovery, ensuring fees accurately reflect the costs incurred in the provision of a service. The most recent review of costs highlighted that efficiency gains should be passed on to customers through amending fees.


What are the policy objectives and the intended effects?
To align CH fees with costs and ensure savings are passed onto business.
The proposed amendments will reduce the overall burden on business in line with the Coalition's Better Regulation policy. We need to align costs with fees for some electronic registration services and search products, passing any savings on to customers in the form of reduced fees. Providing more company information free of charge is in line with the Coalition's stated aim to make more raw data available free of charge in line with the Transparency Agenda.

What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)
Option 0 – Do Nothing
Option 1 – Amend Fees

CH must meet its obligations as a Trading Fund and a company registry (under EU law) and therefore should change fees to accurately reflect the cost of providing each service.

Will the policy be reviewed? It will be reviewed. If applicable, set review date: 04/2013					
Does implementation go beyond minimum EU requirements?			No		
Are any of these organisations in scope? If Micros not exempted set out reason in Evidence Base.	Micro Yes	< 20 Yes	Small Yes	Medium Yes	Large Yes
What is the CO ₂ equivalent change in greenhouse gas emissions? (Million tonnes CO ₂ equivalent)			Traded: N/A	Non-traded: N/A	

I have read the Impact Assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) that the benefits justify the costs.

Signed by the responsible Minister:  Date: 25 June 2012

Summary: Analysis & Evidence

Policy Option 1

Description: To amend fees to align them with the cost of providing the service

FULL ECONOMIC ASSESSMENT

Price Base Year 2011	PV Base Year 2011	Time Period Years 5	Net Benefit (Present Value (PV)) (£m)		
			Low:	High:	Best Estimate: -0.04

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	0	0	0
High	0	0	0
Best Estimate	0.04	5.33	24.9

Description and scale of key monetised costs by 'main affected groups'

Companies House will incur some one off implementation costs (£43,000). There will also be annual costs to CH (£5.33m) due to loss of revenue as a result of the reduction in fees.

Other key non-monetised costs by 'main affected groups'

N/A

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	0	0	0
High	0	0	0
Best Estimate	0	5.33	24.9

Description and scale of key monetised benefits by 'main affected groups'

A reduction in registration fees will benefit limited companies and Limited Liability Partnerships (LLP) through electronic incorporations and electronic filing of annual returns- savings of approx £2.89m. We estimate reducing or removing search fees will benefit businesses and any member of the public accessing CH's public register (approx £2.44m) . Based on current trend analysis and volumes this will provide savings of £5.33m per annum.

Other key non-monetised benefits by 'main affected groups'

n/a

Key assumptions/sensitivities/risks

Discount rate (%)

3.5

This analysis is based on the current position, as fees are reviewed regularly and in particular 6 months after the implementation of a set of fees regulations. We do not anticipate any significant increase or decrease in the volumes of products and services, highlighted below, during the next review period. The risk of not changing fees, means CH will not be accurately recovering costs and will not pass on savings to customers. This is not in line with HMT Guidance and EU law on fees.

BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m:			In scope of OIOO?	Measure qualifies as
Costs: 0	Benefits: 2.89	Net: 2.89	No	NA

Evidence Base (for summary sheets)

There is discretion for departments and regulators as to how to set out the evidence base. However, it is desirable that the following points are covered:

- Problem under consideration;
- Rationale for intervention;
- Policy objective;
- Description of options considered (including do nothing);
- Monetised and non-monetised costs and benefits of each option (including administrative burden);
- Rationale and evidence that justify the level of analysis used in the IA (proportionality approach);
- Risks and assumptions;
- Direct costs and benefits to business calculations (following OIOO methodology);
- Wider impacts (consider the impacts of your proposals, the questions on pages 16 to 18 of the IA Toolkit are useful prompts. Document any relevant impact here and by attaching any relevant specific impact analysis (e.g. SME and equalities) in the annexes to this template)
- Summary and preferred option with description of implementation plan.

Evidence Base (for summary sheets)

Scope of the Impact Assessment

1. CH is a Trading Fund and is a public registry for limited liability company information. The main function of the Registrar of Companies is to:

- incorporate and dissolve limited companies;
- examine and store company information delivered under the Companies Act and related legislation; and
- make this information available to the public.

2. There are currently 2.6m¹ companies on the active register.

(Types of companies included are private limited, public limited, private unlimited, private limited by guarantee and community interest companies. The Register does not include overseas companies or any other companies not incorporated under the Companies Act).

The active register is the total register size less those companies on the strike off path or subject to insolvency proceedings.

3. There are currently 49,000² Limited Liability Partnerships (LLP) on the active register.

4. This Impact Assessment (IA) considers the costs and benefits to the UK in implementing fees regulations for the Registrar of Companies. The aim is to align fees to costs.

5. This IA covers a period of 5 years. This is based on past experience and is expected to be an appropriate period over which costs and benefits are expected to accrue. Even though costs are reviewed annually, fees aren't expected to change on an annual basis and 5 years would be a reasonable period over which we can expect the regulations to be effective based on current cost analysis.

6. The Registrar does not consult on fees because as a Trading Fund CH must operate on the basis of cost recovery.

7. The proposal is to align fees to costs by amending fees and consolidate the existing fees regulations which are:

Companies, Overseas Companies and Limited Liability Partnerships

- [The Registrar of Companies \(Fees\) \(Companies, Overseas Companies and Limited Liability Partnerships\) Regulations 2009 \(SI 2009/2101\)](#)
- [The Registrar of Companies \(Fees\) \(Amendment\) Regulations 2009 \(SI 2009/2439\)](#)
- [The Registrar of Companies \(Fees\) \(Companies, Overseas Companies and Limited Liability Partnerships\) \(Amendment\) Regulations 2011 \(SI 2011/309\)](#)

European Economic Interest Grouping and European Public Limited-Liability Company (SE)

- [The Registrar of Companies \(Fees\) \(European Economic Interest Grouping and European Public Limited-Liability Company\) Regulations 2009 \(SI 2009/2403\)](#)

¹ Volume figures taken from latest CH monthly statistics report
<http://www.companieshouse.gov.uk/about/busRegArchive/businessRegisterStatisticsMarch2012.pdf>

² Volume figures taken from latest CH monthly statistics report

- The Registrar of Companies (Fees) (European Economic Interest Grouping) (Amendment) Regulations 2011 (SI 2011/324)

8. This IA examines the impact of introducing two sets of consolidated regulations collectively, one for limited companies, OS companies and LLPs and a second set of regulations for EEIGs and European Public Limited-Liability Companies (SE). The implementation costs to CH will be shared equally across both regulations. However 99% of the net benefit for customers will come from introducing the regulations relating to limited companies, LLPs and OS companies, due to the proportion of each type of entity.

Affected Groups

9. The amendments to registration fees will only apply to limited companies and LLPs.
10. The changes to search will significantly benefit the general public and businesses who search the register, for limited company, OS company, LLP and EEIG information.

Problem under consideration

Cost Recovery Principles

11. The principal fees rules and statute that CH follows are:
- As a Trading Fund, CH has a statutory duty to break-even over time (“taking one year with another”) and to achieve an average annual return of 3.5% on average capital employed.
 - Managing Public Money which is HM Treasury guidance on fees and charges requires fees to be set to break-even (i.e. to recover the full cost) for each separate service after allowing for a cost of capital of 3.5%. This effectively prohibits cross-subsidy between different statutory services.
12. Companies House is unique to other Trading Funds in that as a company registry it is caught by European Legislation that it needs to consider when setting fees:
- The EC First Company Law Directive, as amended, requires copies of company records to be made available to the public at a price not exceeding the “administrative cost” of producing them.
 - The EC Capital Taxes Directive allows company registration costs to be met from fees, but prohibits charges that are effectively taxes. This means that prices cannot lawfully be set above costs for the relevant services.
 - Case law (notably *Fantask A/S e.a. v Industriministeriet (Erhvervministeriet)*. European Court case C-188/95 and *Ponente Carni SpA and Cispandana Costruzioni SpA v Amministrazione delle Finanze dello Stato* European Court joined cases C-71/91 and C-178/91).

This case law provides further guidance on the detailed costs that can, and cannot, be taken into account for fee-setting such as a proportion of overhead costs. It also requires organisations to ensure costs are checked at regular intervals to ensure they were still relevant.

A major result of these cases is that Companies House must never cross subsidise between products and services and must ensure that only the costs directly associated with a service or product are used when calculating fees.

It is important to note that EU law quoted above affects how CH must calculate its costs and has no bearing on setting fees regulations.

- The Directive on Re-use of Public Sector Information says that “the total income from supplying and allowing re-use of documents shall not exceed the cost of collection, production, reproduction and dissemination, together with a reasonable return on investment. Charges should be cost-oriented over the appropriate accounting period and calculated in line with the accounting principles applicable to the public sector bodies involved.”
- The Competition Act 1998 prohibits the abuse of a dominant position in a market. CH is dominant in that it is the only source for this type of information, by virtue of its statutory function.

13. CH reviews its costs annually and in addition will review its costs 6 months after implementing fees regulations. By comparing the forecast cost with the forecast volumes of each service we calculate which fees need to be adjusted in order to achieve accurate cost recovery. To calculate costs Companies House uses a forecast model.

The forecast model has been derived using activity based costing principles using a mature software product. Direct operational costs are driven directly onto the product groups with which they are associated. For example, teams associated with processing incorporations are grouped into cost centres specific to that task, and the costs are driven directly to those incorporation products. Other overhead costs are allocated using generally accepted accounting rules such as by floor area, number of employees etc.

The volume assumptions made throughout this impact assessment have been derived using historical trend analysis and application of known policy.

To ensure accuracy against targets these volumes are assessed quarterly by a cross-directorate team and on an annual basis to assist with the formal business plan. The volume assumptions have proved extremely accurate over the past ten years, reducing any volatility in the fee setting process.

The main assumptions applied are:

- that cross-subsidy must not arise between input and output services;
- that fees should underpin the strategic direction of Companies House, such that the added efficiencies of electronic services are passed on to customers as soon as possible through lower fees; and
- the model has been constructed in line with the principles of Managing Public Money.

The model has proved to be extremely robust in previous years.

The model was assessed in 2006 by the Office of Fair Trading as part of a Report on “The Commercial Use of Public Information (CUPI)”. This report highlighted CH as a good example of applying cost allocation consistently when setting fees for its products and services.

14. Following the latest review of costs and based on predicted volumes, using the above methodology, fees for the electronic annual fee and electronic incorporation need to be reduced. Our analysis shows there is no requirement to change any other registration fee at this time, and these are being held at the current level.
15. The reduction in costs has been achieved through efficiency savings and as a result of increased take up of electronic filing for incorporation and the annual return, which is around 97%, impacting the unit cost.
16. CH has a statutory duty to break even taking one year with another. However if accidental surpluses are generated (for example as a result of an increase in take up compared to forecasted volumes) then where possible, if volume trends show a continued increase in demand, fees are adjusted to ensure surpluses are not generated in future periods. This ensures costs are recovered and CH does not knowingly continue to generate a surplus for a product or service year on year.

Benefit Analysis

Transitional Benefits

17. There are no transitional benefits, all the benefits highlighted below will be annual benefits realised each year from implementation based on current volume trend analysis.

Annual Benefits

18. The benefits to business will be through passing on savings made through efficiencies in the form of reduced fees for the following products:

Registration Services³

- Incorporation (software)

The fee for electronic incorporations made through an agent (take up currently at 80%) will be reduced from £14 to £13.

The reduced fee will apply to limited companies and LLPs.

This represents a saving to business of around £331k a year based on 331,000 electronic incorporations per annum.

- Incorporation (web filing)

The fee for electronic incorporations made via the web filing service (take up currently at 17%) will be reduced from £18 to £15. This fee has reduced significantly, because development costs have now been recovered. The differential in fee between web and software reflects the additional support offered by CH to web customers, although this is on a downward trend and we expect the fees to align over time.

The reduced fee will apply to limited companies only.

This represents a saving to business of around £180k a year, based on 60,000 electronic incorporations per annum.

³ All figures in this section are taken from CH Workload Planning statistics

- Annual Returns

The efficiencies made by CH allied with the high percentage of customers filing electronically (take up currently at 97%) will allow us to reduce fees for annual returns filed electronically from £14 to £13.

The reduced fee will apply to limited companies and LLPs.

This represents a saving to business of around £2.347m a year based on 2.347m annual returns filed electronically per annum.

Note: Although there are 2.6 million active companies on the register not all will file an annual return, this is because a percentage of the active companies will be removed from the register within the year, either as a result of insolvency or be struck off under the Companies Act 2006.

Search Services⁴

CH efficiencies must also be passed on to customers, both businesses and members of the public, accessing company information via our on line services. We believe the majority of these services are accessed by businesses. However it is disproportionate to calculate the searches made by the public and businesses⁵ because CH IT system cannot interrogate e-mail addresses to determine with any certainty whether it is a business request or otherwise.

- Download an image

The fee to download an image will be reduced from £4 to £1. It is possible to reduce this fee, due to technical improvements.

This represents a saving to society of around £450k a year, based on 150,000 searches made on this product per annum.

The reduced fee will apply to anyone downloading images on limited companies, LLPs, OS companies and EEIGs.

- Director's details by company and appointments report

Information relating to directors of companies will be made available free of charge (£1 previously).

This represents a saving to society of around £1.992m a year, based on 1.992m searches performed on this information annually.

These savings apply to anyone accessing directors or members information on limited companies and LLPs.

NOTE: Customers will still be charged to search on individual directors appointments across companies.

⁴ All figures in this section are taken from CH Workload Planning statistics

⁵ Where this is unknown the savings are attributed to society.

- Usual Residential Address Bulk Data Product

The fees for providing bulk information, to credit reference agencies and authorised public bodies, relating to the director's usual residential address will be reduced from £43k to £28k per annum.

From our database we know there are only two companies taking this bulk product annually and represents the £15K saving each will make annually. **This represents a saving to business of £30k a year.**

The information contained within this bulk product relates to limited companies and LLPs.

19. The combination of the above will result in the total benefits to business and society of **£5.33m** per annum as summarised below:

Service	Benefit p/a
Incorporations (electronic) (<i>Business saving</i>)	£511,000
Annual returns (electronic) (<i>Business saving</i>)	£2,347,000
Search Income (<i>Society saving</i>)	£2,442,000
Search Income (<i>Business saving</i>)	£30,000
Average ongoing benefits per annum	£5,330,000

Cost Analysis

20. There are costs to third party software agents in making changes to their software to account for the changes in fees. Software agents routinely make changes to their software packages and roll these out to their clients as part of their contractual obligations. Essentially changes to fees are business as usual upgrades and would be rolled out as part of these regular updates. Therefore these costs do not form part of the cost analysis for this impact assessment.
21. There are one-off transitional costs to Companies House to upgrade all systems and outputs with new fees. Total project costs are expected to be approx. £43,000. These costs are calculated based on our experience from implementing previous fees regulations and making changes to our systems.

Transitional Cost	
Companies House (one off cost)	£43,000
Total Transitional Cost	£43,000

22. There are annual costs to Companies House of £5.33 million p.a. due to loss of revenue as a result of the reduction. These costs are being passed on to customers in the form of reduced fees.

One In – One Out (OIOO)

23. Changes to rates and fees are currently out of scope of OIOO, whereby a measure that has a net cost to business must have a measure or measures of equivalent cost removed in order to be implemented. Nevertheless this measure provides an overall net benefit to business and by consolidating the regulations reduces regulation overall.

Impact Tests

24. The Impact Assessment Guidance sets out a number of tests which need to be assessed.

Statutory equality duties

The impact assessment has not highlighted any equality issues.

Small Firms Impact Test

The changes to the fees will have a beneficial impact on small to medium enterprises (SME). The latest statistics show there are currently 1.3 million⁶ companies which fall into the SME category.

Any SME incorporated electronically from 1 October 2012 will benefit from the reduced fees and all SMEs will benefit from the reduced electronic annual fee if they choose to file this information electronically.

Economic impacts

CH is dominant in that it is the only source for this type of information, by virtue of its statutory function. The Office of Fair Trading historically have not regarded prices for statutory services, set on cost recovery basis, as falling within the Competition Act.

Legal Aid and Justice Impact Test

There is no impact on legal aid or the justice system.

Human Rights

The proposals are compliant with the Human Rights Act.

Rural Proofing

Amending fees regulations will have no impact on rural communities.

Health Impact Assessment

There is no health impact.

Carbon Impact and Other Environmental Assessment

The environment impact of this proposal is likely to be positive as customers continue move away from paper filing to electronic filing. However, it is not possible to quantify or monetise the impact.

Post Implementation Review Plan (PIR)

⁶ Source: ONS Statistical Press Release URN 10/92

25. In line with Better Regulation Principles there will be a PIR undertaken as part of this impact assessment five years after implementation to ensure that the policy objectives have been realised and that costs have been passed on to customers.

The PIR will be undertaken in line with current best practice and will cover but is not limited to:

- An overview of the policy objectives of the regulatory measure.
- An overview of whether the original policy objectives were met.

Glossary

The following abbreviations have been used throughout this impact assessment.

CH	Companies House
Companies Act	Companies Act 2006
EEIG	European Interest Economic Grouping
LLP	Limited Liability Partnership
OS company	Overseas Company
SE	European Public Limited-Liability Company
SME	Small to Medium Enterprise