

<b>Title:</b> Procedure for resolving disputes about the registered offices that companies state on the public register of companies.  <b>IA No:</b> RPC15-BIS-3059(2)  <b>Lead department or agency:</b> Department for Business, Innovation and Skills  <b>Other departments or agencies:</b> Companies House	<b>Impact Assessment</b>				
	<b>Date:</b> 2/02/2016				
	<b>Stage:</b> Fast Track Validation				
	<b>Source of intervention:</b> Domestic				
	<b>Type of measure:</b> Secondary legislation				
<b>Contact for enquiries:</b> Rob Cottam@bis.gsi.gov.uk 02072150169					
<b>Summary: Intervention and Options</b>					<b>RPC Opinion: Green</b>

Cost of Preferred (or more likely) Option				
Total Net Present Value	Business Net Present Value	Net cost to business per year (EANCB on 2014 prices)	In scope of Business Impact Target?	Measure qualifies as
£ - 1.53 m	£ - 1.53 m	£0.18m	Yes	IN

**What is the problem under consideration? Why is government intervention necessary?**

All UK companies must have a registered office within the UK to which all communications and notices can be addressed. Companies House receive complaints that some companies cite as their registered office the address of another business or private individual, which they are not authorised to use. This leads to undesirable consequences (which vary in severity) for the individuals or businesses affected. The Companies Act 2006 currently only allows the company itself to change voluntarily its registered office address. The aim of the proposed regulations is to address this regulatory failure, and provide a quick and expedient process for the Registrar of Companies to change a company's registered office address when a complaint is made and the Registrar considers that the company is not authorised to use the address.

**What are the policy objectives and the intended effects?**

The registered office disputes provisions of the Small Business Enterprise and Employment Act 2015 are intended to deal with cases where the address of an individual or business is used by a company, but no authorisation to do so has been provided. These situations need addressing as the negative impact they can have on the individuals and businesses affected can be significant and distressing (e.g. where credit ratings are negatively affected or individuals and businesses receive visits from debt collectors or bailiffs). The intended effect of the regulations is to provide an expedient process for the Registrar to change a company's registered office when a complaint is made and the Registrar considers that the company is not authorised to use the address, so these negative consequences are avoided.

**What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)**

**Option 0: Do Nothing.** This is undesirable because the regulatory failure, where by law a company's registered office address is what it says it is and the Registrar cannot intervene, will persist.

**Option 1: Establish a procedure to resolve registered office disputes,** where third parties can object to the Registrar about a company's address. If a company fails to give satisfactory evidence that it is authorised to use an address, the Registrar will change the address to an alternative (e.g. a PO Box at Companies House). It is unlikely companies using unauthorised addresses for mischievous or fraudulent reasons will voluntarily change. Therefore regulatory action, not alternatives to regulation, is necessary.

Will the policy be reviewed? It will be reviewed. If applicable, set review date: Before April 2021						
Does implementation go beyond minimum EU requirements?			N/A			
Are any of these organisations in scope? If Micros not exempted set out reason in Evidence Base.	<b>Micro</b> Yes	<b>&lt; 20</b> Yes	<b>Small</b> Yes	<b>Medium</b> Yes	<b>Large</b> Yes	
What is the CO <sub>2</sub> equivalent change in greenhouse gas emissions? (Million tonnes CO <sub>2</sub> equivalent)			<b>Traded:</b> N/A		<b>Non-traded:</b> 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:

Baroness Neville-Rolfe Date: 3 February 2016

# Summary: Analysis & Evidence

## Policy Option 1

Description: Establish a new procedure to resolve registered office disputes (preferred option)

### FULL ECONOMIC ASSESSMENT

Price Base Year	PV Base Year	Time Period Years	Net Benefit (Present Value (PV)) (£m)		
2014	2015	10	Low: £ - 2.04m	High: £ - 1.02m	Best Estimate: £ - 1.53m

COSTS (£m)	Total (Constant Price)	Transition Years	Average (excl. Transition Price)	Annual (Constant Price)	Total (Present Value)	Cost
Low		0.0		0.1		1.0
High		0.0		0.2		2.0
Best Estimate		0.0		0.2		1.5

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

Based on our best estimate that there will be 1,700 disputes each year, our best estimate of the average annual business cost is £178,000. This comprises: 1) £14,500 total annual familiarisation costs for businesses subject to disputes (based on directors of companies subject to a dispute taking 20 minutes to familiarise themselves with the new procedure); and 2) £163,500 total annual costs that affected businesses incur providing evidence to the Registrar of Companies in the event of a dispute, assuming it take a company director (who is paid the UK company director median wage) 3.75 hours to do this.

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

Companies House administration costs are expected to be minimal. Justice system costs are also expected to be negligible. Costs in raising a dispute (though benefits are expected to outweigh these).

BENEFITS (£m)	Total (Constant Price)	Transition Years	Average (excl. Transition Price)	Annual (Constant Price)	Total (Present Value)	Benefit
Low		N/A		N/A		N/A
High		N/A		N/A		N/A
Best Estimate		N/A		N/A		N/A

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

We have not been able to robustly monetise the benefits to individuals, businesses and wider society.

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

Avoided negative consequences for individuals and businesses that can arise if a company uses registered office without authorisation (e.g. unsolicited correspondence; association with negative credit ratings, bailiff visits). An effective dispute resolution procedure could also potentially deter future fraudulent or illicit activity involving the unauthorised use of a registered office. The quality of information on the register will improve if, because of the evidence provided to the Registrar in registered office disputes, non-trading or fraudulent companies are struck off the public register more quickly.

#### Key assumptions/sensitivities/risks

Discount rate (%) 3.5

- That the number of disputes each year in the ten year appraisal period will be higher than in year between December 2013 and November 2014, due to complaints from registered office providers.
- It takes directors of affected companies 20 minutes to familiarise themselves with the new procedure.
- That the 2013 UK economy wide gross hourly median wage, excluding overtime, of a corporate manager or director (uplifted to 2014 prices) is a good approximation of the wage of the individuals who will familiarise their companies with the regulations and will provide evidence to the Registrar.
- Wages are uprated by 19.8% for non-wage labour costs – based on annual Eurostat data for the UK.
- Company directors will take half a day (3.75 hours) to provide evidence to the Registrar.

### BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m:			In scope of OITO?	Measure qualifies as
Costs: 0.2	Benefits: 0.0	Net: - 0.2	Yes	IN

# Evidence Base (for summary sheets)

## Executive summary

### 1. Problem under consideration and rationale for intervention

All UK companies must have a registered office within the UK to which all communications and notices must be addressed – and is made available for others to see on the UK’s public register of companies.<sup>1</sup> The Registrar of Companies<sup>2</sup> at Companies House<sup>3</sup> receives complaints that some companies use as their registered office the address of another business or private individual, which they are not authorised to use. This leads to undesirable consequences for the individuals or businesses affected. It also reduces the quality of information available via the public register for those who trade with, lend to and invest in UK companies. The Companies Act 2006 currently only allows the company itself voluntarily to change its registered office address. The aim of the proposed regulations is to address this regulatory failure of continuing to allow companies to use unauthorised addresses to the detriment/cost of unrelated third parties.

### 2. Options and policy objectives

The aim of the regulations is to provide an expedient process for the Registrar to change a company’s registered office when a dispute is raised with them and they consider that the company is not authorised to use the address. To achieve this, the proposed regulations take up the power contained in Section 99 of the Small Business, Enterprise and Employment Act (SBEE) 2015.<sup>4</sup>

Alternatives to regulation are not considered appropriate to achieve the Government’s policy objectives. The Companies Act 2006 provides that, by law, the registered office address is whatever the company says it is – which is clearly undesirable. It is unlikely that companies which are using an unauthorised address for mischievous or fraudulent purposes will voluntarily change their behaviour – so a process for the Registrar to act upon complaints received is needed. Consequently the problem of unauthorised registered office addresses can only be properly addressed by regulatory action.

The Do Nothing option is not considered desirable, as it would allow the current regulatory failure, whereby a company’s registered office address is what it says it is and the Registrar cannot intervene, to persist.

### 3. Costs and Benefits

The preferred option should avoid the negative consequences for individuals or other businesses that can arise if a company chooses to use their address as a registered office without authorisation. For example the result may be that: individuals or companies receive unsolicited correspondence; and individuals or companies can become associated with a negative credit rating or receive visits from bailiffs. There may also be wider benefits, if the dispute process leads to a more timely identification and removal from the register of non-trading or fraudulent companies. We have not been able to quantify and monetise these benefits of the regulations.

Our best estimate is there will be approximately 1,700 registered office disputes each year. Our best estimate of the average annual cost to business is £178,000, comprising: 1) estimated total

<sup>1</sup> See Part 6 of Companies Act 2006, <http://www.legislation.gov.uk/ukpga/2006/46/part/6>

<sup>2</sup> The UK has three Registrars of Companies who are part of Companies House. The Registrar of Companies for England and Wales, and Chief Executive of Companies House is Tim Moss. Helen Shilliday is the Registrar of Companies for Northern Ireland. Aoife Martin is the Registrar of Companies for Scotland.

<sup>3</sup> Companies House is a partner organisation of BIS that operates in the UK to incorporate and dissolve limited companies, register the information companies are legally required to supply to them, and makes this information available to the public.

<sup>4</sup> See [http://www.legislation.gov.uk/ukpga/2015/26/pdfs/ukpga\\_20150026\\_en.pdf](http://www.legislation.gov.uk/ukpga/2015/26/pdfs/ukpga_20150026_en.pdf)

annual familiarisation costs of £14,500 for businesses that are the subject of a registered office dispute; and 2) £163,500 estimated total annual costs that affected businesses incur providing evidence to the Registrar in the event of a registered office dispute.

#### **4. Small and micro business assessment**

The Better Regulation Framework Manual<sup>5</sup> states Departments ‘must apply the SaMBA for all domestic measures that regulate business, except if they qualify for the Fast Track [Impact Assessment process]’. Therefore we have not conducted a SaMBA for the proposed regulations, because the measures outlined in this Impact Assessment were confirmed by the Regulatory Policy Committee to qualify for the Fast Track Impact Assessment process.

#### **5. Conclusion**

Overall our analysis indicates that this measure will be ‘low cost’ for business (i.e. have an impact on UK businesses that is less than £1 million per annum). The equivalent annual net cost to business is £0.18 million (in 2014 prices, using the Better Regulation Executive Impact Assessment Calculator). The total net present value of benefits minus costs (to both society and business) over a ten year period is £ - 1.53 million.

However the measure is likely to give rise to un-monetised benefits to businesses and individuals, by allowing the resolution of situations that give rise to distress and undesirable consequences for individuals and companies. The change could also potentially have a deterrent effect on future fraudulent or illicit activity that involves the unauthorised use of an address as a registered office and lead to better quality of information on the public register. We believe that the small cost to business is outweighed by the potential, non-monetised benefits to individuals, business and wider society.

### **1. Problem under consideration**

1.1 All UK companies must have a registered office within the UK to which all communications and notices may be addressed. The registered office can be a business address, the address of the company’s accountants/Trust & Company Service Provider, or any other address the company chooses (including a residential address).

1.2 The Registrar of Companies and Companies House receive complaints that some companies use as their registered office the address of another business or private individual with whom they have no connection, or an address which they are not authorised to use.

1.3 The consequences vary in severity, but all are likely to be considered undesirable by the individuals or businesses affected. For example the result may be that: individuals or companies receive unsolicited correspondence intended for the company with the incorrectly registered office address; and individuals or companies can become associated with a negative credit rating or receive visits from debt collectors or bailiffs due to their address being incorrectly used as a company’s registered office. In some cases, this can be the result of an innocent mistake by the company, but in some instances it is a deliberately mischievous or fraudulent act by a company.

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<sup>5</sup>BIS (2015), ‘Better Regulation Framework Manual: Practical Guidance for Government Officials’, March 2015, [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/421078/bis-13-1038-Better-regulation-framework-manual.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/421078/bis-13-1038-Better-regulation-framework-manual.pdf)

1.4 Currently in the Companies Act 2006 the only procedure which would allow for the removal of a registered office address filed by a company, is if that company itself voluntarily chooses to change their registered address. This is clearly not adequate given situations can arise where an innocent third party's address is wrongfully used by a company with mischievous or fraudulent intentions.

## **2. Rationale for intervention**

2.1 The aim of the proposed regulations is to address the regulatory failure arising out of the Companies Act 2006 provisions, and provide a quick and expedient process for the Registrar to change a company's registered office address when a complaint is made and the Registrar considers that the company is not authorised to use that address. Without regulatory action this situation will persist. When a company uses, without authorisation, the address of a member of the public or another unrelated business as its registered office, this can have undesirable consequences. These range from receiving unsolicited correspondence intended for the company, to the more serious effects such as individuals or companies being associated with a negative credit rating or receiving visits from debt collectors or bailiffs.

2.2 In October 2013 the 2010-2015 Conservative and Liberal Democrat Coalition Government consulted on reforms to company filing requirements – including registered office disputes.<sup>6</sup> The Government response was published in April 2014.<sup>7</sup> There was strong support for tackling the unauthorised use of registered offices, with 91% of responses received (121 out of 131 responses) supporting the idea that a company's registered office should have a link to that company.

## **3. Policy objective**

3.1 Section 99 of the Small Business, Enterprise and Employment (SBEE) Act 2015 contains a power for the Secretary of State for Business, Innovation and Skills to make regulations setting up a new system to enable an address which a company is not authorised to use to be changed to an alternative one. These situations need addressing when they arise, as the negative impact they can have on the individuals and businesses affected can be significant and distressing (e.g. where credit ratings are negatively affected or individuals/businesses receive visits from debt collectors or bailiffs).

3.2 The aim of the regulations is to provide an expedient process for the Registrar to change a company's registered office when a dispute is raised with them and they consider that the company is not authorised to use the address.

## **4. Description of options considered (including do nothing)**

4.1 This section of the Impact Assessment outlines the policy options under consideration, including the Do Nothing option.

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<sup>6</sup> BIS (2013), Company Filing Requirements – Red Tape Challenge Consultation, October 2013 [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/246020/URN\\_13-1219\\_Company\\_Filing\\_Requirements\\_Consultation\\_October\\_2013\\_1.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/246020/URN_13-1219_Company_Filing_Requirements_Consultation_October_2013_1.pdf)

<sup>7</sup> BIS (2013), Company Filing Requirements – Red Tape Challenge Consultation Government Response, April 2014, [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/304946/bis-14-635-company-filing-requirements-response.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/304946/bis-14-635-company-filing-requirements-response.pdf)

4.2 **Option 0: Do Nothing.** This is undesirable because the regulatory failure, where by law a company's registered office address is what it says it is and the Registrar cannot intervene to alter the registered office a company has entered onto the public register of companies, will persist. The Do Nothing option provides the counterfactual against which the costs and benefits of the preferred policy option (Option 1) are assessed.

4.3 **Option 1: Establish a procedure to resolve registered office disputes.** Under this option a new procedure will be established, under which third parties (any member of the public or other business, including registered office service providers) can formally object to the Registrar about the registered office address a company has provided on its entry on the public register and ask the Registrar to investigate. Companies House will notify the company of the application and ask for evidence that the company is authorised to use the registered office address it has stated on its entry to the public register of companies. After considering the evidence Companies House will notify the affected parties (i.e. the person or organisation who filed the complaint and the company who is the subject of the complaint) of its decision. If the company provides satisfactory evidence of authorised use then no changes will be made. If the company does not respond or fails to provide satisfactory evidence<sup>8</sup> that it is authorised to use the address, the registered office address will be changed to an alternative address. The current policy intention is that the alternative address is a PO Box at Companies House. This is intended to be a temporary measure. If the company does not respond or communicate with the Registrar, then the Registrar may conclude that the company is not in business or operation and move to strike it off the register.

4.4 Alternatives to regulation are not appropriate here to address the identified regulatory failure. The Companies Act 2006 provides that, by law, the registered office address is whatever the company says it is – which is an undesirable situation. It is unlikely that companies which are using an unauthorised address for mischievous or fraudulent purposes will voluntarily change their behaviour (no data is available on this). Consequently the problem of unauthorised registered office addresses can only be properly addressed by regulatory action.

## **5. Monetised and non-monetised costs and benefits of each option (including administrative burden);**

### **Timing**

5.1 Subject to Parliamentary clearance it is planned that the regulations (Option 1) will be brought into force on 6<sup>th</sup> April 2016.

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<sup>8</sup> The regulations will not set out an exhaustive list of the evidence that a company may use to show that it is authorised to use an address – but will set out some examples of what is considered valid evidence. We expect that, where a company is using a registered office legitimately, providing evidence will not be costly or time consuming because the evidence they will likely submit to prove authorisation be at hand and straightforward to supply (e.g. a copy of their lease or freehold).

## Option 0 – Do Nothing

### Benefits

5.2 Not taking policy action will not result in any benefits.

### Costs

5.3 Taking no action will mean that the benefits of the preferred option (Option 1) – described below – will be forgone.

## Option 1 - Establish a new procedure to resolve registered office disputes (preferred option)

### Which businesses will be affected by the change?

5.4 All UK limited companies and Limited Liability Partnerships (LLPs) are required to have a registered office. However the proposed regulations will only impact on the companies where a third party objects to the use of an address as a registered office. These are a very small subset (see next paragraph) of the overall population of several million companies and other corporate entities in the UK.

5.5 Under the new procedure all businesses and individuals are able to formally file complaints about a company's use of a registered office, and have the Registrar investigate and take action if there is not sufficient evidence the company is authorised to use that address. By consequence, the new dispute procedure will also be available to businesses that may have provided registered office services that no longer represent that company, but the company has not changed its address on the public register.

5.6 Companies House do not have a readily available, consistent time series available on the number of registered office disputes that they receive. However, Companies House officials have been able to investigate recent disputes<sup>9</sup>, for the preparation of the (unpublished) Regulatory Triage Form and this Fast Track Validation Stage Impact assessment. The data gathered suggests that between December 2013 and November 2014, Companies House received approximately 1,200 complaints about companies using unauthorised registered office addresses (and therefore affecting around 0.04% of the total number of UK companies/LLPs on the UK public register).<sup>10</sup> Given there is no procedure in place for the Registrar to act upon these complaints, it is currently unknown how many are legitimate. In our subsequent analysis we assume all these disputes are raised legitimately.<sup>11</sup> Discussions with stakeholders confirm that currently complaints arise from individuals and individual businesses who perceive that their address is being used without authorisation as a company's registered office address. Registered office providers, specialist businesses who rent registered office space to businesses, do not currently register disputes with Companies House about perceived

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<sup>9</sup> It was not considered proportionate to gather data for previous years.

<sup>10</sup> Companies House internal data

<sup>11</sup> At present, as the Registrar has no power to investigate or act upon a complaint, it would make little sense for someone with mischievous intent to submit a false complaint. Therefore we assume that all current complaints received are people who have a legitimate concern that a business is using their address as their registered office without their authorisation.

unauthorised use of their addresses as registered office addresses. This is because registered office providers are fully aware of the regulatory failure that currently exist – that the Registrar cannot move to change a company’s registered office address on the register, only a company can voluntarily do this. Therefore because they know no action will result from their complaints they do not make them, even in situations where they think that a company is using one of their offices as it registered office without authorisation. This position was confirmed to BIS officials in discussions with registered office providers.

5.7 Therefore under the new procedure we expect the Registrar will receive complaints from individuals, individual businesses and registered office providers who perceive that a company is using their address as a registered office without their permission. In the absence of firm evidence or forecasts about how the annual number of registered office disputes may change in future, we base our analysis of the impact of the new dispute resolution procedure on the number of disputes received by Companies House in the past. Because there are a number of uncertainties around the exact number of complaints that Companies House will receive in future, we conduct sensitivity analysis and estimate low, best and high estimates of the number of disputes that will arise in future (see Table 1). Also we describe the uncertainties in the number of disputes that we are unable to quantify precisely and robustly within our analysis.

5.8 Table 1 below shows our low, best and high estimates of the number of registered office disputes we expect in each subsequent year. How these have been calculated is described in subsequent paragraphs.

*Table 1: Estimated future annual number of registered office address disputes*

<b>Estimate</b>	<b>Total estimated number of disputes</b>
Low estimate	1,200
Best estimate	1,700
High estimate	2,300

*Note: dispute figures in Table 1 are rounded to the nearest hundred*

5.9 As low estimate we assume that in future years the number of disputes each year is the same as it was in the last year we have data available for – and will be approximately 1,200 a year. This is a low estimate as currently evidence from stakeholders suggests that complaints are made only by individuals and individual businesses, and not by registered office providers.

5.10 In consultation with registered office providers, some have suggested that they will use the new dispute resolution procedure, because it offers a chance of resolving disputes, whereas currently the Registrar cannot act on complaints. Other registered office providers suggested they do not plan to use the new dispute procedure, because they have no past experience of registered office disputes, and do not anticipate any in the future. Therefore there is uncertainty about the precise increase in the number of disputes coming from registered office providers.

5.11 As a high estimate of the future number of annual registered office disputes we assume that there will be double the current number of disputes, at 2,300 a year. This assumes that registered office providers raise as many disputes as individuals and individual businesses do at present. As a best estimate we take the mid-point between the high and the low estimate. In



this scenario there will be an estimated future annual number of disputes of 1,700. This recognises the evidence provided from consultation with registered office providers, where some providers suggest they will use the new dispute procedure, whereas others suggest they will not.

5.12 To the extent that the level of disputes in future years differ from the number recorded between December 2013 and November 2014, the actual cost to business will differ. However we have no reason to believe that the data from this period is unrepresentative. Our estimates assume in future the number of registered office complaints will be unchanging over time. This profile of disputes is used because we lack the evidence to forecast robustly a more sophisticated profile of complaints over time. It is possible that the number of complaints could be higher in year one (due to pent up demand, where complaints haven't been raised because resolution is not possible under the current system). It is also possible that over time the number of disputes could decline, as the existence of an effective dispute resolution procedure could provide a deterrent effect that reduces future fraudulent or illicit activity that involves the unauthorised use of an address as a registered office.

## **Benefits**

### **Monetised benefits**

5.13 We have not been able to quantify and monetise any of the benefits of the proposed regulations, which are described under the next heading.

### **Non-monetised benefits**

5.14 When a company uses, without authorisation, the address of a member of the public or another business as its registered office, this can have undesirable consequences. These range from receiving unsolicited correspondence intended for the company, to the more serious such as individuals or companies being associated with a negative credit rating or receiving visits from debt collectors or bailiffs. Visits from debt collectors and bailiffs can be distressing for individuals. A poor credit rating can negatively affect an individual's or a business's: 1) ability to lend money (e.g. through loans, mortgages, overdrafts and credit cards); 2) the interest rates they are charged when lending money<sup>12</sup>; 3) the ability to open bank accounts; 4) ability to enter into contracts (e.g. mobile phone companies may be reluctant to enter into contracts, utility firms may charge a security deposit before supplying utilities); 5) insurance premiums (i.e. companies may charge higher premiums to individuals with poor credit ratings); and/or 6) ability to get a job (some employers check applicant's credit ratings as part of the application and sifting process).<sup>13</sup> Where a person has been incorrectly visited by a debt collector or bailiff, or become associated with a negative credit rating, remedying the situation can take time, effort, and could involve expense (e.g. if affected individuals or business chooses to seek legal or other professional advice).

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<sup>12</sup> Individuals with poor credit ratings may have to use financial products like credit rebuilding cards, which have much higher rates of interest than standard credit cards and lack the rewards that standard credit cards offer customers (e.g. cashback). On the 21<sup>st</sup> July 2015 the representative annual percentage rate of interest on credit rebuilding cards was between 29% and 40%, compared to rates of around 16-20% for standard credit cards <http://www.confused.com/credit-cards/credit-building-ppc>

<sup>13</sup> <http://www.moneysavingexpert.com/loans/credit-rating-credit-score> and <http://credit.about.com/od/creditrepair/tp/bad-credit-side-effects.htm>

5.15 It was considered disproportionate to attempt to identify individuals in the UK who have been affected by registered office disputes in the past (given the time and cost this would involve), to gather evidence from them of the impact a dispute resolution procedure could have. We have however been able to readily identify and speak to registered office providers, to discuss the impact unauthorised use of one of their registered offices can have on them. One provider said that currently they spend time and resources returning official correspondence for the company to HMRC and Companies House. Across the sample contacted there was a consensus that visits from debt collectors and bailiffs, looking to collect debts/seize assets from companies, were the most problematic consequence of unauthorised registered office use. However, they were not able to provide robust information on these impacts, in order to allow us to monetise the benefits of avoiding them through an effective dispute resolution procedure.

5.16 By providing an effective dispute resolution procedure, the policy could also potentially deter future fraudulent or illicit activity involving the unauthorised use of an address as a registered office.

5.17 Where a registered office dispute leads the Registrar to conclude a particular company is not in business, and therefore move to strike that company off the register, the accuracy of the register as an information source about UK companies will be improved. This should be of benefit to users of the register (e.g. members of the public, businesses etc.) when making economic decisions (e.g. about investing, lending or trading with UK companies).

5.18 Therefore overall the measure could benefit individuals and businesses affected by registered office disputes – and possibly have some wider benefits if the procedure improves the accuracy of the Companies House’s public register of companies. However, we lack the necessary evidence to quantify robustly and monetise the identified benefits.

## **Costs**

### **Monetised costs**

#### **Familiarisation costs**

5.19 In line with other analyses of regulatory policy we believe it is likely that, as a result of the introduction of the proposed regulations, affected businesses will incur costs familiarising themselves with the new regulations. Although guidance on the new procedure will be made available, all companies in the UK would not be required to read the guidance to become familiar with the new regulations. We believe it is likely that only be companies that are the subject of a dispute that will need to become familiar with the dispute process, in order to comply with it.

5.20 As previously noted only a very small number of companies are the subject of a complaint about their registered office each year (1,200 in the last available annual data, and 0.04% of the total number of UK companies and LLPs on the public register). The vast majority of UK companies have never been subject to (and are not likely to be subject to) such a complaint. Therefore, because the majority of companies name a legitimate registered office on their entry on the public register, the regulations around the dispute process will be relevant to a very small minority of companies.

5.21 In our familiarisation cost calculation we use the low, best and high estimates of the future annual number of disputes, as set out in Table 1. Our analysis assumes that each year a completely new set of businesses will be affected by disputes and need to familiarise themselves with the regulations. If some companies are repeatedly subject to other companies incorrectly or without authorisation registering their address as a registered office address, then the annual familiarisation costs in future years will be lower than our estimate suggests.

5.22 During evidence gathering for our (unpublished) Regulatory Triage Assessment of the proposals we spoke to five stakeholders to gather further information on the potential costs of registered office disputes. When asked about which staff would be involved in familiarisation with the proposed regulatory change, companies that expressed a view varied in their responses:

- One respondent stated that 'managerial [staff] or above' would be involved.
- Another stated 'there is no general need for staff to be familiar with the new procedures, especially if guidance is produced by Companies House, when writing to the company'.
- And finally 'the company secretary would do this'.

5.23 Given these responses, we chose to keep our analysis in line with the 2014 BIS Company Filing Requirements - Red Tape Challenge Validation Stage Impact Assessment<sup>14</sup> and assume that a company director will be the person who would need to familiarise the company with the new regulations. This is a conservative assumption in terms of estimating the overall impact on business, because it is possible that staff in less senior positions, whose time has a lower value, familiarise their companies with the new regulations. If this were the case then the costs to business would be lower than we have estimated. It is also possible, as one consultee stated, that there could be no familiarisation cost if companies do not feel the need to familiarise themselves with the change.

5.24 The stakeholders to whom we spoke did not provide specific estimates of the amount of time it would take staff familiarise themselves with the procedure. A range of unquantified views were expressed. Therefore, we keep in line with the previous Company Filing Impact Assessment, and assume that it will take 20 minutes (or 0.33 hours) for the relevant staff to familiarise themselves with a regulatory change. This is a conservative estimate of the familiarisation costs of the registered office dispute change as the filing reforms covered by that Impact Assessment were wider in their scope than the registered office dispute change, and therefore familiarisation with this change should take a slightly shorter amount of time. This would reduce the cost to business below our estimates.

5.25 We use data from the Office for National Statistics (ONS) Annual Survey of Hours and Earnings (ASHE) 2013 to estimate the cost of directors' wages.<sup>15</sup> The gross hourly median wage excluding overtime of a corporate director or manager was £20.56. We use gross hourly wages excluding overtime as we assume regulatory tasks will occur in 'normal working hours'

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<sup>14</sup>BIS (2014), 'Company Filing Requirements - Red Tape Challenge' Fast Track Validation Stage Impact Assessment, [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/327259/bis-14-909-impact-assessment-company-filing-requirements.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/327259/bis-14-909-impact-assessment-company-filing-requirements.pdf)

<sup>15</sup>Office for National Statistics (ONS) Annual Survey of Hours and Earnings (ASHE) 2013 Table 14.6a <http://www.ons.gov.uk/ons/rel/ashe/annual-survey-of-hours-and-earnings/2013-revised-results/index.html>

displacing existing activities and this wage rate acts as the best proxy for this. Our estimate of familiarisation costs is conservative in that the actual costs could be lower in reality if less senior staff undertakes familiarisation in some or all of the affected companies.

5.26 We uplift the wage rate to account for non-wage labour costs (such as National Insurance and pension contributions). Eurostat data suggest that this uplift should be 19.8%.<sup>16</sup> We also uplift the 2013 wage data to 2014 prices, using HM Treasury GDP deflators.<sup>17</sup> This gives a best estimate of the value of an hour of a company director's time of £25.01.

5.27 The calculation for total annual familiarisation costs is set out below.

Total annual familiarisation costs = estimated annual number of disputes \* time (in hours) taken by director to familiarise company with new regulations \* company director hourly wage (uplifted for non-wage labour costs)

5.28 Table 2 sets out the low, best and high estimates of the annual familiarisation costs.

*Table 2: Estimated annual familiarisation costs*

<b>Estimate</b>	<b>Calculation</b>	<b>Total Annual Familiarisation Costs</b>
Low estimate	1,200 disputes * 0.33 hours * £25.01	£9,500
Best estimate	1,700 disputes * 0.33 hours * £25.01	£14,500
High estimate	2,300 disputes * 0.33 hours * £25.01	£19,500

*Note: annual cost figures in Table 2 are rounded to the nearest five hundred*

*Costs to business of providing evidence if the subject of a dispute*

5.29 On receipt of an objection to the use of an address as a registered office, the Registrar will write to the company requesting satisfactory evidence that the company is authorised to use the address as their registered office. If the company does not provide this evidence, the Registrar will change the registered office to a default address.

5.30 As previously stated the regulations will not set out an exhaustive list of the evidence that a company may use to show that it is authorised to use an address. However, the regulations will set out examples of evidence on which the Registrar will be allowed to rely as evidence that the company is authorised to use the address. Examples include: 1) documentation showing that the company has property rights in the address (e.g. freehold or leasehold); 2) a written agreement entitling the company to use the address; and 3) a recent utility bill addressed to the company at the address. The aim of this is to prevent the Registrar from having to make further enquiries when certain evidence has been provided and is uncontested, which would be costly for the Registrar and would impose further burdens on business.

<sup>16</sup> [http://ec.europa.eu/eurostat/statistics-explained/index.php/File:Labour\\_costs\\_per\\_hour\\_in\\_EUR,\\_2004-2014\\_whole\\_economy\\_excluding\\_agriculture\\_and\\_public\\_administration.png](http://ec.europa.eu/eurostat/statistics-explained/index.php/File:Labour_costs_per_hour_in_EUR,_2004-2014_whole_economy_excluding_agriculture_and_public_administration.png)

<sup>17</sup> HM Treasury (2015), GDP deflators at market prices, and money GDP: July 2015 (Summer Budget 2015), <https://www.gov.uk/government/statistics/gdp-deflators-at-market-prices-and-money-gdp-july-2015-summer-budget-2015>

5.31 We do not consider that it would be onerous or time consuming for companies which have the authority to use a registered office address to provide such evidence. This is because the evidence will likely be easily at hand and straightforward to supply to the Registrar.

5.32 As previously stated BIS officials consulted five stakeholders when preparing a Regulatory Triage Assessment of the registered office dispute proposals. These stakeholders were asked about the process companies would go through providing evidence in the event of a dispute and the cost it would result in. We asked stakeholders' views about: 1) how much time it would take, in the event of a dispute, for companies to provide evidence; 2) who within companies would provide the evidence to the Registrar; and 3) whether there are any others costs they could envision companies incurring in the process of providing evidence. Paragraphs 5.36 to 5.47 discuss the possible different costs relating to companies providing evidence to the Registrar.

#### *Staff time involved in companies providing evidence to the Registrar*

5.33 Companies that are subject to a dispute will incur costs in responding to a request from the Registrar to provide evidence on their authorisation to use a registered office. Responding to requests will involve staff time in affected companies.

5.34 As previously stated there is uncertainty over how companies will be affected by the new dispute process. To produce estimates of the total cost to business across the UK of providing evidence we use the low, best and high estimates of the number of disputes annually (set out in Table 1). We make the conservative assumption that in all disputes companies that are the subject of a dispute provide evidence to / prepare a response to the Registrar. This could potentially lead to an overestimate of the impact of the regulations on business for the following reasons: 1) some companies will be wrongly stating an address as their registered office address for fraudulent or mischievous purposes, and therefore not respond to the Registrars' requests for evidence; and 2) some companies, when a valid complaint is made, may choose to correct their entry on the public register, and not provide evidence to the Registrar to defend their previous entry on the public register. However from available evidence we are unable to precisely quantify how often either of these scenarios occurs.

5.35 Our cost estimates include costs to both companies that are found to be authorised to use addresses under the new procedure, and companies that are found not to be authorised to use addresses. However, at this stage we have no robust way to break these costs down into businesses who are authorised to use their registered offices, and ones who are not. This is because Companies House data records the number of complaints currently received about companies' stated registered offices. However, as there are no powers in place for Registrar to investigate complaints they receive/adjust the register in response to a complaint, no judgement is made on whether the complaints currently received are valid (because the company is using an unauthorised address) or invalid (because the company is authorised to use the address that is the subject of the complaint).

5.36 When asked about how long providing such evidence to the Registrar would take, two consultees believed that the costs would be minimal given the nature of the tasks involved (although they did not precisely quantify minimal). Another suggested it may take half a day's worth of time to respond to. Given these responses, in our analysis we make the conservative

assumption that providing evidence to Registrar will take half a day of a company director's time. Company director's median weekly basic working hours, according to the ASHE 2013 data, are 37.5 hours a week. Therefore, assuming they work a standard 5 day working week, a day's work equates to 7.5 hours and half a day equates to 3.75 hours.

5.37 The consulted stakeholders expressed a range of views on who within a company would be responsible for dealing with the request for evidence. The majority of respondents believed that the company's board of directors would be ultimately responsible for providing the evidence to the Registrar. One respondent suggested if the company had a company secretary, they would be responsible. Given the information received, we assume that a company director/corporate manager would be responsible for dealing with any objections to the use of a registered office address. The best estimate of the value of an hour of their time is £25.01. This is a conservative assumption because it is possible lower paid staff could be involved in providing evidence.

5.38 Therefore, in summary, we calculate the cost of staff time in providing evidence to the Registrar as set out below:

Annual cost to business of providing evidence in the event of dispute = estimated annual number of disputes \* time (in hours) taken by director to gather, check and provide evidence to the Registrar \* company director hourly wage (uplifted for non-wage labour costs)

5.39 Table 3 below sets out our best low and high estimates of the total annual costs to companies of providing evidence to the Registrar in the event of a dispute.

*Table 3: Estimated total annual costs of companies providing evidence to the Registrar*

<b>Estimate</b>	<b>Calculation</b>	<b>Total Annual Costs of Providing Evidence to the Registrar</b>
Low estimate	1,200 disputes * 3.75 hours * £25.01	£109,000
Best estimate	1,700 disputes * 3.75 hours * £25.01	£163,500
High estimate	2,300 disputes * 3.75 hours * £25.01	£218,000

*Note: annual cost figures in Table 3 are rounded to the nearest five hundred*

5.40 It is planned to conduct a post implementation review of the new dispute procedure. As part of the review we will gather the evidence necessary to identify whether the process is set up in a way that avoids generating unnecessary costs for companies that have authorisation to use their registered office address.

5.41 We do not expect companies who are found to be authorised to use their registered offices to incur any costs other than the costs of staff time spent providing evidence to the Registrar (described above). We describe the costs to companies found by the Registrar not to be authorised to use their stated registered office address in the paragraphs 5.48 and 5.49.

### *Other possible costs in providing evidence to the Registrar*

5.42 Apart from staff time involved in administering the provision of evidence to the Registrar, only one other possible cost was raised by stakeholders in our consultations while preparing the Regulatory Triage Assessment. One stakeholder suggested that in some particularly sensitive cases they believed companies could choose to seek legal advice before providing evidence to the Registrar. They tentatively estimated this cost at the cost of between £2,000 and £5,000. However, the four other stakeholders contacted at this stage did not believe that companies would seek legal advice before providing evidence to Companies House, and the stakeholder who believed some companies could seek legal advice, believed such cases would be exceptional. Therefore when preparing this Fast Track Validation Stage Impact Assessment we spoke to stakeholders to gather more evidence on whether companies would seek legal advice in registered offices disputes and, if companies would do so, how prevalent such cases would be.

5.43 Of the additional stakeholders we consulted none believed that companies would routinely seek legal advice as part of a registered office dispute. It was believed that seeking legal advice would be quite rare and limited to exceptional circumstances.

5.44 Assuming that those who run companies behave rationally, it seems unlikely that they would seek recourse to legal advice in the event of a registered office dispute. This is because it is far quicker, easier and cheaper for a company who is using an unauthorised address simply to change its registered office to a new one, rather than go to the expense of obtaining legal advice about keeping the address which is the subject of the dispute. Data we gathered from a small sample of registered office providers indicates that the annual charge for rental of a registered office address is around £20 - £45 (compared to legal advice which stakeholders estimate would cost thousands of pounds). Furthermore the question of whether or not a company is authorised to use an address as its registered office is a factual one that is straightforward for the Registrar to verify – and as such the new regulations are unlikely to raise questions of legal interpretation that would usually prompt involved parties to seek expert legal advice. The Regulations also provide examples of the types of evidence that the Registrar will consider in making a judgement – so parties subject to a dispute should be familiar with the types of evidence expected to demonstrate they are authorised to use a registered office address. Also to the extent affected companies seek legal advice in the event of a registered office dispute this would be a voluntary cost they incur, rather than a direct cost imposed as a result of the new regulations. Overall, we believe that it is unlikely that companies will seek legal advice as part of registered office dispute, and consequently we have not included these costs in our equivalent annual net cost to business calculations.

### *Costs to business where an address is changed*

5.45 If a company does not provide satisfactory evidence that it is authorised to use the address, the registered office address will be changed to an alternative address.

5.46 However, any additional costs incurred by companies as a result of the change to a default address would be direct consequences of not providing the necessary evidence when requested to do so or because they do not have a registered office which they are authorised to use. The costs to such companies that are not compliant with regulations are not included in

our estimates of the cost to business of this proposed regulatory change, as is standard practice in cost benefit analysis of regulations.

### Summary of monetised costs

Table 4: Estimated total cost to business of Option 1

	<b>Low Estimate</b>	<b>Best Estimate</b>	<b>High Estimate</b>
Best estimate of total annual familiarisation costs	£9,500	£14,500	£19,500
Best estimate of the total annual costs to businesses incurred providing evidence to the Registrar in the event of a registered office dispute	£109,000	£163,500	£218,000
<b>Total annual cost to business</b>	<b>£119,000</b>	<b>£178,000</b>	<b>£237,500</b>

*Note: cost figures in the first two rows are rounded to the nearest five hundred and figures in the third row to the nearest thousand, so may not sum exactly*

### Non-monetised costs

#### Costs of making a complaint

5.47 We have not been able to gather evidence to robustly quantify the costs (e.g. time costs) involved in raising a registered office address dispute with the Registrar. However these costs (to individuals or businesses making the complaint) are voluntarily incurred and expected only in cases where the perceived costs of raising a complaint outweigh the costs of doing so.

#### Costs to the public sector

5.48 Companies House currently incurs some administrative costs processing and recording complaints to do with registered office disputes. It will incur some additional administration costs as a result of new procedure. We have not been able to quantify these costs at this stage, though they are expected to be minimal given the expected caseload and tasks involved. In future years Companies House will incur the following administration costs (some of which it currently incurs, some which are new):

- processing and recording complaints about companies' registered offices;
- writing to companies who are the subject of disputes to ask them to provide evidence about their authorisation to use a registered office;
- processing and assessing the evidence received, in order to make a decision about whether a company is authorised to use a registered office;
- updating the register with an alternative address where a company is not authorised to use their previously recorded registered office address; and
- in some cases undertaking further investigation and action to see whether a company can be struck off the register because it is either non-trading or fraudulent.

5.49 The registered office provisions allow for an appeal to the courts against a decision by Companies House; they also allow Companies House to refer a question to the court for determination. We have completed a separate Justice System Impact Assessment about the impact on the court system. We lack any evidence to quantify precisely or monetise the impact



on the justice system. However we consider that this impact will be negligible as appeals are very unlikely (i.e. the costs are likely to far outweigh the benefits, given the availability of comparatively cheap alternative registered offices – see paragraph 5.47) and we do not expect many referrals.

### **Summary of costs and benefits of Option 1**

5.50 We have not monetised any benefits relating to Option 1. Our best estimate of Option 1's gross annual cost to business is £178,000. The total net present value of benefits minus costs (to both society and business) over a ten year period is £ - 1.53 million. The equivalent annual net cost to business is £0.18m (in 2014 prices, using the Better Regulation Executive Impact Assessment Calculator). Therefore the measure has been classified as an IN, under the Government's Business Impact Target – because the estimated direct incremental cost to business exceeds the direct incremental benefit to business. However, it is believed that the small cost to business is outweighed by the potential, non-monetised benefits to individuals and businesses affected by disputes, and potential benefit to users of the public register of companies (if fraudulent or defunct companies are struck off the public register in a more timely manner).

## **6. Rationale and evidence that justify the level of analysis used in the Impact Assessment (proportionality approach)**

6.1 This Fast Track Validation Stage Impact Assessment builds upon the (unpublished) Regulatory Triage Form, which was approved by the Regulatory Policy Committee as qualifying the policy for the Fast Track Impact Assessment process as a 'low cost' measure. This assessment has also used a range of further available data and evidence (e.g. official data and stakeholder information) to estimate the potential impact this regulatory change will have on business.

## **7. Risks and assumptions**

7.1 Below we provide a list of the key analytical assumptions that underlie this Impact Assessment's cost benefit analysis:

- That the number of disputes each year in this next decade will be higher than the year between December 2013 and November 2014 (internal Companies House data provided to BIS), as some registered office providers will raise disputes, in addition to disputes raised by individuals and companies.
- It takes directors of affected companies 20 minutes to familiarise themselves with the new procedure.
- That the 2013 UK economy wide gross hourly median wage, excluding overtime, of a corporate manager or director (£20.56), uprated for non-wage labour costs and uplifted into 2014 prices, is a good approximation of the wage of the individuals who will familiarise their companies with the regulations and will provide evidence to the Registrar of Companies.
- Wages are uprated by 19.8% for non-wage labour costs – based on annual Eurostat data for the UK.

- That company directors subject to a dispute will take half a day (3.75 hours) to provide evidence to the Registrar.

## **8. Wider impacts**

### **Statutory Equality Duties**

8.1 An analysis of the equalities impact of the proposed regulations has not been conducted. We carried out an Equalities Impact Assessment screening exercise on the company filing measures in the SBEE Act in June 2014. This exercise covered the power to make regulations on registered office disputes. We did not consider that the policy would affect different people or groups in different ways. The measure relates to companies which are legally distinct from the people who own and run them.

### **Economic Impacts**

#### *Competition Impact Test:*

8.2 The regulations are not expected to have any impacts on competition between businesses within the UK.

#### *Small and Micro Business Assessment (SaMBA):*

8.3 The Better Regulation Framework Manual states Departments 'must apply the SaMBA for all domestic measures that regulate business, except if they qualify for the fast track'. Therefore we have not conducted a SaMBA for the proposed regulations, because the measures outlined in this Impact Assessment were confirmed by the Regulatory Policy Committee to qualify for the Fast Track Impact Assessment process.

### **Environmental Impacts**

8.4 The regulations are not expected to have an impact on the environment.

### **Social Impacts**

#### *Health and Well-Being:*

8.5 Some individuals may find having their address used without authorisation – and the associated consequences described earlier in this Impact Assessment – distressing. To the extent that this distress has a negative impact on individual well-being and health, and the regulations lead to quick and expedient resolution of registered office disputes (and their attendant consequences), the measure will lead to improved well-being. However the evidence base as it stands does not allow us to quantify robustly and monetise this possible well-being impact.

#### *Human Rights:*

8.6 The regulations are not expected to have any human rights impact.

### *Justice System:*

8.7 A separate Justice System Impact Assessment for this measure has been prepared. The registered office provisions allow for an appeal to the courts against a decision by Companies House; they also allow Companies House to refer a question to the court for determination. We have completed a separate justice impact assessment about the impact on the court system. We lack any evidence to quantify precisely or monetise the impact on the justice system. However we consider that this impact will be negligible as appeals are very unlikely (i.e. the costs to companies are likely to far outweigh the benefits, given the availability of comparatively cheap alternative registered offices – see paragraph 5.47 and we do not expect many referrals.

### *Rural proofing:*

8.8 The regulations are not expected to have any differential impact on individuals or businesses in rural areas of the UK.

### *Sustainable Development:*

8.9 The regulations are not expected to have any impact on sustainable development.

### *Family Test*

8.10 The DWP Family Test<sup>18</sup> sets out the following questions from officials to consider during policy-development.

- What kinds of impact might the policy have on family formation?
- What kind of impact will the policy have on families going through key transitions such as becoming parents, getting married, fostering or adopting, bereavement, redundancy, new caring responsibilities or the onset of a long-term health condition?
- What impacts will the policy have on all family members' ability to play a full role in family life, including with respect to parenting and other caring responsibilities?
- How does the policy impact families before, during and after couple separation?
- How does the policy impact those families most at risk of deterioration of relationship quality and breakdown?

8.11 The regulations outlined in this Impact Assessment do not give rise to any direct or indirect impacts for families relating to any of the above questions.

## **9. Summary and preferred option with description of implementation plan**

9.1 Our best estimate of the annual gross cost to business is £178,000. This comprises: 1) total annual familiarisation costs of £14,500 for affected businesses; and 2) £163,500 total annual costs that affected businesses incur providing evidence to the Registrar in the event of a registered office dispute. Therefore overall our analysis indicates that this measure will be 'low

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<sup>18</sup> DWP (2014), The Family Test: Guidance for Government Departments, [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/368894/family-test-guidance.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/368894/family-test-guidance.pdf)

cost' for business (i.e. have an impact on UK businesses that is less than £1 million per annum). This is the case under low, best and high estimates of the cost to business of the policy.

9.2 We have not been able to monetise any of the benefits of the preferred option. We believe that the measure is likely to give rise to un-monetised benefits to businesses and individuals, by allowing the resolution of situations that give rise to distress and undesirable consequences for individuals and companies. The change could also potentially have a deterrent effect on future fraudulent or illicit activity that involves the unauthorised use of an address as a registered office. We believe that the small cost to business is outweighed by the potential, non-monetised benefits to business and individuals.

9.3 The equivalent annual net cost to business is £0.18 million. The total net present value of benefits minus costs (to both society and business) over a ten year period is £ - 1.53 million.

9.4 The regulations will, subject to Parliamentary clearance, will come into force on the 6<sup>th</sup> April 2016.

9.5 The regulations contain a requirement that they must be reviewed and a report setting out the conclusions of the review must be published before December 2020. The review will assess the extent to which the objectives of the measure have been achieved; whether the objectives remain appropriate and, if so, whether they could be achieved with a system that imposes less regulation. We will monitor the operation of the new administrative procedure on an ongoing basis. We will review the procedure earlier if it appears that it is unduly imposing costs on companies that are authorised to use their registered offices.