

Title: Company Filing Requirements- Red Tape Challenge Lead department or agency: Department for Business Innovation and Skills (BIS) Other departments or agencies:	OITO Verification
	Date: 2 July 2014
	Stage: Validation
	Source of intervention: Domestic
	Type of measure: Primary legislation
	Contact for enquiries: Maureen Beresford: 0207 215 3342
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?
£144.8m	£144.8m	£-13.8m	Yes	OUT

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

The Government wants to reduce the number of unnecessary regulations (regulatory failure) that hold back businesses while ensuring that both workers and the public are protected.

1) If companies are required to file unnecessary information they incur compliance costs without any corresponding benefits. For instance, stakeholders have highlighted (as part of the Company and Commercial Law Red Tape Challenge) duplication in relation to requirements to hold information both at Companies House and at a company's Registered Office; and requirements to file information with Companies House more than once (companies having to file a return each year setting out the basic details of the company where these details had not changed in the year or where information has already been updated within the year).

2) If information that is publicly available about a company is inaccurate, this may have adverse consequences for those who search this information to decide whether to deal with the company. For example, there have been complaints about individuals being appointed as directors without their knowledge. Incorrect information on the public register may have adverse consequences for those involved with companies. Where a person has been registered as a director without their permission, the only way of resolving the issue is to go to court, with the associated costs. Government intervention is therefore necessary to ensure that the public register is as accurate as possible and that mechanisms are in place to rectify any inaccuracies on the register.

What are the policy objectives and the intended effects?

The objective is to ensure that the filing requirements on companies do not impose unnecessary burdens on business whilst also ensuring that the information on the public register is as accurate as possible. In particular the aim is to remove duplication and make it simpler for all companies, especially small companies, to file their statutory information with Companies House (the public register). The policy aims to simplify the current processes and offer companies flexibility when filing company information on the public register. The proposals will not change the information that a company needs to gather or hold but will reduce the number of interactions with the company register.

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

Respondents to the Company and Commercial Law Red Tape Challenge raised concerns about certain company filing requirements and also raised wider problems associated with inaccurate information on the public register of companies. The Government has consulted on proposed ways of addressing these concerns. The proposed changes are:

- i. Annual filings: The requirement for companies to submit an annual return on a specified date (regardless of whether they have made any changes to their information within the year) is being replaced with a requirement for companies to check and confirm the information at least once in a 12-month period.
- ii. Company registers: Currently all private companies are required to hold certain registers (see evidence base for further details) at either their Registered Office or an alternative specified location. This will no longer be required if the information is on the public register instead.
- iii. Statement of capital: We are removing the requirement for a company to list the amount unpaid and paid up on each share and replacing it with a requirement to show the aggregate amount unpaid.
- iv. Resolving problems: The procedure to strike off and dissolve a company from the public register is being amended to reduce the timescale that the process takes. This will improve the accuracy of the register. In addition, the filing requirements on companies for newly appointed directors and company secretaries are being simplified. Companies House will write to newly appointed directors following their appointment and directors will be able to object to their names being included as a director if they believe that they are not in fact a director of the company. This will ensure that any director who is not correctly appointed will be removed from the register ensuring that the public register will be more accurate.

Will the policy be reviewed? It will be reviewed. The review date will be dependent on the passage of the appropriate legislative vehicle. The intention is to review five years following the implementation of the legislation associated with these proposals.

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.	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: 22 June 2014

Summary: Analysis & Evidence

Policy Option 1

Description: Measures to Simplify Company Filing Requirements

FULL ECONOMIC ASSESSMENT

Price Base Year 2012	PV Base Year 2014	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: 26.8	High: 335.0	Best Estimate: 144.8

COSTS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	55.8		0.7	61.8
High	55.8		0.9	63.5
Best Estimate	55.8		0.8	62.7

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

There are transition familiarisation costs for companies and their advisors (where applicable) for all the measures in this package (totalling £50.8m) There are also transition costs to software providers associated with updating their standard packages (£5m) Familiarisation cost have been calculated by multiplying the number of eligible companies by estimations of time taken to complete actions (based on Companies House internal modelling) and by ASHE median earnings. Software costs are derived from Companies House consultations with industry stakeholders.

The proposals will offer companies flexibility and enable them to take advantage of deregulatory measures when filing company information. There will still be on-going costs associated with filing company information (£0.8m per annum), but these will be lower than the avoided costs of the current system. On-going costs are estimated in a similar way to familiarisation costs – by multiplying the number of eligible companies by estimations of the time taken to complete actions (based on Companies House internal modelling) and by ASHE median earnings.

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

None

BENEFITS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	0		10.3	88.7
High	0		46.3	398.5
Best Estimate	0		24.1	207.4

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

There are ongoing monetised benefits associated with time and accountancy/agent charge savings of not having to complete the annual return within year (£23.2m) and also savings on having to send information to Companies House regarding directors appointments (£0.9m) Annual return savings are based on the opportunity cost of time for companies who complete their own returns (based on internal Companies House modelling and ASHE data as discussed above) and on market prices for accounting services for those companies who use an agent to complete their returns. Administration savings on directors' disputes are based on multiplying the number of eligible companies by an estimate of time taken (based on CH modelling) and ASHE data as above.

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

There are non-monetised benefits associated with companies having the option no longer to hold registers. There are benefits relating to improved functionality of the register. Lastly there are savings from having to provide less financial information in statements of capital.

Key assumptions/sensitivities/risks

We assume that the charges made by agents reflect the average market prices (e.g. companies do not get a cheaper price due to a contractual arrangement). We have assumed that a company director/corporate manager would generally deal with the annual return and with the information regarding director appointments.

Discount rate (%) 3.5

BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m:	In scope of OIOO?	Measure qualifies as
Costs: 6.0	Yes	OUT
Benefits: 19.8		
Net: 13.8		

Evidence Base

1. The Company Filing Requirements measure is a Red Tape Challenge initiative. This measure is within scope of one-in-two-out (OITO), as a deregulatory 'OUT'. This note summarises our estimates of the impact on business over a 10 year period. A description of the key evidence and methodology is contained within the pages that follow. The monetised estimated average annual cost to business (EANCB) is £-13.8m.

a) Problem under consideration

2. There are advantages to people in doing business through a vehicle which is legally distinct from its owners, i.e. a company. One benefit is that the liability of the owners and managers for the company's debts is limited – for example to the amount of the shares owned by a person (for a company limited by shares) or the amount of the guarantee given by a person (for a company limited by guarantee). Limited liability is seen as a privilege and there are corresponding responsibilities; in order to benefit from limited liability UK companies are subject to certain legal requirements. One of these is to file information on a public register held by the Registrar of Companies at Companies House in a timely manner, to allow anyone considering working with a company to obtain information about the business and make more informed decisions about its financial health.

Simplifying company law requirements:

3. Responses to the Company and Commercial Law Red Tape Challenge indicated that there are a number of areas where filing requirements for companies could be simplified without reducing the wider benefits to society. Respondents highlighted duplication in relation to requirements to hold information both at Companies House and at a company's Registered Office; and requirements to file information with Companies House more than once (for example, respondents queried why companies had to file a return each year setting out the basic details of the company where these details had not changed in the year).

4. Requirements to provide duplicate information impose compliance costs on companies without any corresponding benefits for those dealing with companies. There are 2.9 million active companies on the public register¹²³ and the majority of them are small - over 80% of the companies on the register have two directors or fewer and five shareholders or fewer.

Improving information on the public register:

5. In addition, responses raised a number of wider problems associated with the information on the public register. For example, there have been complaints about individuals being appointed as directors without their knowledge. Incorrect information on the public register may have adverse consequences for those involved with companies. Where a person has been registered as a director without their permission, the only way of resolving the issue is to go to court, with the associated costs.

b) Rationale for intervention

¹ For the purposes of this impact assessment, we are using the number of active companies on the public register (i.e. not including those companies that are in liquidation or in the course of dissolution) at 2 February 2014. Source: Companies House: Company register statistics for January 2014, available at: <http://www.companieshouse.gov.uk/about/companiesRegActivities.shtml>.

² For the purposes of this impact assessment, we are using the number of active companies on the public register (i.e. not including those companies that are in liquidation or in the course of dissolution) at 2 February 2014. Source: Companies House: Company register statistics for January 2014, available at: <http://www.companieshouse.gov.uk/about/companiesRegActivities.shtml>.

³ These are companies which Companies House classifies as active, in other words are not subject to any Insolvency process or in the course of being removed by the Registrar or application for voluntary dissolution. "Active" does not necessarily mean "trading".

6. The problems identified above represent a regulatory failure because the regulatory framework around the limited liability corporate vehicle is not fit for purpose in achieving its policy objective of encouraging business growth and entrepreneurialism, due to unnecessary costs it imposes on business. The aim of the intervention is to reduce the number of times a company must interact with the Registrar of companies to leave the company free to get on with its day to day business and achieve growth. The proposals offer companies more flexibility when interacting with Companies House. The proposals will also ensure that the company register is more accurate, up to date and transparent. This will benefit those people who search the company register. These changes can only be made via primary legislation.

c) Policy Objective

7. The Government's Plan for Growth published in March 2011⁴ set out four overarching ambitions to ensure progress is made towards achieving the economic goal of achieving strong, sustainable and balanced growth. One of these ambitions is to make the UK one of the best places in Europe to start, finance and grow a business. One of the benchmarks to support this is a lower domestic regulatory burden.

8. The Government believe that it is important that we have a company law framework that gives companies the flexibility to compete and grow effectively. It is important to ensure that creditors, customers and suppliers have the information they need in order to be able to do business with a company with confidence.

9. Business regulations are necessary to protect the public and workers, but they can also stop businesses from reaching their potential. The Government wants to reduce the number of unnecessary regulations that hold back businesses while ensuring that both workers and the public are protected. At the same time it is important to ensure that we do not require companies to file unnecessary information and that the process for filing company information is as simple as possible.

d) Summary of the policy

10. The Government is proposing a package of measures to reduce regulatory burdens on companies and improve the information on the public register, with four strands:

- i. *Annual filings.* We are replacing the requirement for companies to submit an annual return on a specified date (regardless of whether they have made any changes to their information within the year) with a requirement for companies to check and confirm the information at least once in a 12 month period. The changes will remove duplication and enable companies to align their annual check with their accounts return (accounting returns must be filed with Companies House 9 months after the financial year). The changes will also remove the requirement to submit information when there have been no changes to the information held.
- ii. *Company registers.* Currently all private companies are required to hold the following registers at either their Registered Office or an alternative specified location: register of directors; director's residential addresses; secretaries; members; debenture holders. The registers must be available for inspection by shareholders or third parties on request. As part of the Red Tape Challenge it was highlighted that much of the information that companies were holding on registers was also available publicly on the Companies House register, therefore highlighting possible duplication. We are therefore giving

⁴ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/31584/2011budget_growth.pdf

private companies the option not to keep any, or all, of the following registers: register of directors, directors' residential addresses, secretaries, members, and the proposed register of beneficial ownership⁵. Where the company exercises this option the information currently held in a company register will be held at Companies House on the public register instead.

Some companies may well decide to keep this information in some form – for example details of directors and shareholders to ensure that they are able to contact the individuals - but they will no longer have to hold it as a register in a specified form or make it available on request for third parties to inspect.

- iii. *Statement of capital.* We are simplifying a company's statement of capital by removing unnecessary requirements. We are removing the requirement for a company to list the amount unpaid and paid up on each share and replacing it with a requirement to show the aggregate amount unpaid. We are changing the law to ensure that throughout the Companies Act all requests to complete a statement of capital are consistent, requiring the same information. A company will still be required to file an updated statement of capital if changes are made to capital but we will remove duplication by not requiring them to submit the statement of capital once again as part of the new check and confirm process. The company will simply confirm once in a 12 month period that the statement of capital is up to date.
- iv. *Resolving problems.* We are amending the procedure to strike off and dissolve a company from the public register to reduce the timescale that the process takes. We are also simplifying the filing requirements on companies for newly appointed directors and company secretaries. We will remove the requirement to send a 'consent to act' document to Companies House. The 'consent to act' is a document that currently must be sent to Companies House clearly stating that the individual has agreed to become a director or secretary of the company. If the document is sent in hard copy this requires the individual's signature or if electronically information which helps to identify the individual. The consent to act is not made available on the public register.
- v. Companies House will write to newly appointed directors following their appointment and directors will be able to object to their names being included as a director if they believe that they are not in fact a director of the company.

⁵ Part of the Transparency and Trust measures

e) Assessment of business impacts

Impacts

- *The benefit of this package of measures is that companies will avoid the on-going costs associated with current legislative requirements.*
- *There will be on-going costs for companies to comply with the new deregulatory requirements and one-off costs to familiarise themselves with new procedures.*

KEY CONTEXT/ASSUMPTIONS

- *There are currently 2.9 million⁶ companies on the Company Register. This figure includes active and dormant companies, but not those who are in the process of being struck off or undergoing insolvency. We consider that companies being struck off or undergoing insolvency will not, during this process, make a decision to hold their registers at Companies House as they will not be on the register in the future. Nor would we expect these companies to file a check and confirm. They are therefore out of scope of this analysis.*
- *For the appraisal period, it has been assumed that the number of companies is fixed which could underestimate the impacts as in recent years the number of companies on the register is growing - active companies have increased by 0.7m since 2009/2010.*
- *59% of companies - i.e. 1.7m - file their own annual return to Companies House⁷.*
- *41% of companies – i.e. 1.2m – use an agent to file their annual return.*
- *25% of companies – i.e. 725,000 – file information such as updating directors ‘in year’. We assume that only one change is made per year⁸.*
- *486,100 new directors and secretary appointments are made each year. This is in addition to those notified on incorporation.*
- *We assume that 50% of all companies will take advantage of de-regulatory changes. This is based on work undertaken from the Micro exemptions and audit exemptions Impact Assessment. These IAs considered the likelihood of whether companies would take up deregulatory proposals. Both concluded that 50%⁹ of companies would do so. The Companies considering whether to take up the de-regulatory measures offered in this package will be the same companies that considered the impact of the audit and micro exemptions changes, therefore similar responses would be expected.*
- *We assume that 25% of companies who currently use an agent would no longer use an agent to file their annual return, as a result of the simplified process. This figure has*

⁶ Companies in the process of being struck off or who are undergoing insolvency will however be required to obtain information on their beneficial owners and maintain a beneficial ownership register during this time. For that reason they were included in scope of the cost/benefit analysis on the central registry of company beneficial ownership information.

⁷ Companies House data, 2013

⁸ Companies House data, 2013

⁹ The Audit exemptions and micro exemptions IAs deal with take up in areas where a professional accountant or auditor is normally used, therefore where a professional is not necessary as in the case of filing non-accounting information we suggest that take up will at minimum be along similar lines and perhaps even higher.

support from the IOD, however there remains uncertainty around how companies would react to the proposed simplifications. Our analysis therefore includes sensitivity analysis around this assumption, with an upper bound of 50% based on the percentage of companies expected to take advantage of deregulatory measures, and a lower bound of 10% based on the views from stakeholders that at least some companies will dispense with their agents. Agents have been contacted and responded to the consultation stating that they recognise that some companies will move from using an agent to filing their company information themselves. Agents have not been willing to suggest a percentage figure. The changes will be highlighted by Companies House and representative bodies who will inform companies of the simplicity and ease of filing directly with Companies House. This will encourage more companies to use this method.

- We assume a company director/corporate manager would be responsible for the majority of regulatory changes in this document. Typical wages have been calculated using ASHE data. We have based our wage assumptions on small private companies: 80% of companies on the register have two directors and 5 shareholders or fewer. Based on this, we assume that a company director earns the mid point between the median wage (£13.26 per hour) and the median wage of a 'Corporate Manager or Director' (£23.67 per hour)¹⁰. This figure already includes the standard non wage uplift (17.8 percent) - to take into account non-wage employment costs. This gives a cost of £18.47 per hour¹¹.
- We assume that the number of accountants is a reasonable proxy for the number of agents used by companies to engage with Companies House. It is not possible to break down all organisations offering business support into one category. However, given that engagement with Companies House covers financial accounting as well as general information provision and that accountants often offer a package of corporate services, we take the number of accountants as a proxy for the type of professional who would undertake this activity. The BIS Micro-exemptions Impact Assessment¹² indicates that there are 312k accountants of this nature in the UK which we use as a proxy for the number of agents, and assume the average hourly wage including non-wage uplift to equal that of accountants at £22.75¹³.
- CH has strong links with companies and their agents. They hold nationwide focus groups and have a dedicated area within Companies House to undertake in-house modelling - a usability suite. This facility allows officials to run software which monitors usage of their software packages and therefore accurately determine how long users take to complete forms and supply information. For example when assessing the time required to complete a 'consent to act' a tool called Piwik was able to monitor companies in real time and from 1 January to 30 April 60,000 companies were monitored. Monitoring includes how a company got to a specific page, how long they were on the page and where they exited to. For our purposes the length of time on the page is significant. This information can then be combined with softer information gained from talking to companies and their agents. This suite also allows companies House to test ex ante the time taken to complete new forms.

¹⁰ The director's wage from ASHE 2012 data essentially refers to "Director" as someone who holds a senior position in a corporation whilst in many cases the "company director" is also the individual undertaking the business activity of the company. We have used the ASHE data as the high estimate and the UK median wage as the low, with a mid-point for the best estimate.

¹¹ ASHE data 2012

¹² BIS 2013 - Micro Exemptions IA. This is based on evidence from the Professional Oversight Board (2012) which notes that in 2011 there were 312,104 members of the seven accountancy bodies in the UK.

¹³ ASHE data 2012

- *Figures have been rounded as appropriate to avoid a spurious degree of accuracy in the way figures are reported. Figures within the text may not sum to totals due to rounding.*

11. The benefits and costs to each of the policy measures outlined in the previous sections are set out below.

Consultations

12. The Company and Commercial Law Theme was the on the Red Tape Challenge website from 26 January to 16 February 2012. Responses highlighted potential duplication in requirements to hold and file information. A number of respondent also commented on wider problems associated with information on the public register. As part of the spotlight, a discussion document was produced and the Institute of Directors held a web based discussion on company filings. Subsequently BIS and Companies House jointly undertook two focus groups with stakeholders to discuss issues relating to Company Filing. Between 7 October and 22 November 2013, BIS consulted on specific proposals to improve and simplify the current filing requirements for companies. In total, 150 responses were received from a range of stakeholders, including 80 responses from businesses (of which, 40 were from small and micro businesses).

13. The analytical approach to calculating these benefits and costs, including the Companies House modelling, has been presented to the two Red Tape Challenge Champions, one accountant and a Member of the Institute of Directors. The role of the champion throughout the Red Tape Challenge process is to encourage government to make appropriate proposals which will save business time and money. The Champions have supported the general approach and assumptions made in the Impact Assessment. In addition a cost benefit analysis was included in the formal consultation process. As part of the consultation we specifically asked for views on the costs and benefits received. Of the 150 responses 25 responded to the request for views on the assumptions and estimates used in the cost benefit analysis.

14. The majority of responses were general. Key quotes are –

One suggested including accounting fees would reduce if a company combined its annual return with accounts.

“We accept that the updating and modernisation of the CH Annual Return will provide small savings to companies concerned, and are pleased to note you identify the front end 'investment' by directors to become familiar with the new arrangements.”

15. Only one or two responses suggested significant changes to the assumptions made or provided additional detailed costs and benefits. For example one person suggested the annual return might take three hours, this claim could not be substantiated. Formation agents noted that there would be an effect on their income, if clients chose to submit their information to Companies House themselves.

(i) Annual Return

16. Currently all companies must submit an annual return once a year on a specified date. The annual return is a snap shot of basic company information on a given date, usually on the anniversary of incorporation. We are removing this requirement.

17. The annual return for the majority of private limited companies contains the following information –

- Company Number
- Type of Company Traded or not
- Registered Office Address
- Location of Company Registers
- Details of Directors
- Standard Industrial Classification
- Details of share capital
- Details of Shareholders, and their holdings

18. If a company has notified Companies House of changes to any of this information within the year there is still a legal requirement to submit an annual return containing all the relevant information on a specified date. Equally, if the company information is exactly the same as the annual return submitted 12 months earlier a new annual return must still be submitted.

19. Annual returns are completed either by the company or by an agent on behalf of the company. In such cases the agent will charge a fee for undertaking this work. In many cases this will involve writing to the company to tell them that the annual return is due, sending the company details of what is held at Companies House and a request for the company to make any relevant changes to the company information held and return it to the agent who will then forward on the annual return to Companies House either electronically or in paper form.

20. We are removing this Annual Return requirement but the new regime will continue to require a company to ensure that company information is up to date but additional flexibility will be built into the process. The requirement will be for a company to check the information held at Companies House and confirm that it is correct at least once in a 12 month period. The legislation will enable companies to check and confirm at any point in the 12 month period, therefore if the company updates its directors' information 'in year' then at the same point they will be able to confirm all other information. If this option is taken up the company will not be required to submit any further information or check information until a further 12 months has passed. This change removes duplication. Under the current regime a company would make an 'in year' change and then re-submit the same information at the 12 month stage.

21. Additionally, if the company wishes to align its confirmation of information with its financial accounts return the company will simply need to complete a check and confirm on the same day as submitting the accounts. This change will mean that many more companies will be able to reduce the number of times they have to interact with Companies House. All dates can be aligned to one that suits the company rather than those imposed by legislative processes.

Benefits

22. The benefits of this deregulatory proposal are the **avoided costs** of complying with the current system.

Current system:

- All companies – i.e. 2.9m – are required to complete an Annual Return and provide to Companies House details of in-year changes to information about the company.
- 25% of companies – i.e. 725,000 - complete an in-year change of details on their registers. We assume that only one change is made per year¹⁴.
- 59% of companies - i.e. 1.7m - make the filings to Companies House themselves¹⁵.
- 41% of companies – i.e. 1.2m – employ an agent to make an Annual Return to Companies House on their behalf.

23. Based on this information, we have assumed that 59% of the 725,000 companies making an in-year return do so themselves – i.e. 427,750 companies. Thus we also assume that 41% use an agent – i.e. 297,250.

24. *Completing an Annual Return:* Companies House have used their “usability suite”¹⁶ and modelling to estimate that it currently takes between 2 and 7 minutes to complete an annual return electronically. The modelling took into account time associated with entering information into a web based form and moving through the required fields, essentially the time taken to input information into the computer package. Based on this information we have therefore taken an average of 4.5 minutes for an annual return to be completed as the best estimate, with sensitivity analysis with respect to the higher and low bounds. As part of the consultation on this measure we asked whether our assumptions were correct and if not what figures should be included for the Impact Assessment. The respondents did not supply any additional figures; a number of comments were received ranging from ‘seems about right’ to very specific points for example noting that it was good that familiarisation costs were included and that agents may lose income.

25. *Making an in-year change:* Companies House modelling also suggested that it takes around 1 minute to make changes which are required to be included in the annual return during the year (e.g. a change in Director’s details). The information that is required to be updated ‘in year’ may include updating director’s details or updating a change of registered office address. This information is exactly the same as the current policy requirement. The new policy will allow the company to check and confirm at the same time as this updating information and therefore remove the administrative burden of updating information in year and then updating at the time of the annual return. The policy creates an administrative saving but policy changes are minimal.

(i) *The 59% of companies undertaking the return themselves:*

26. We have assumed that companies who already complete the annual return themselves will complete the check and confirm themselves. As it will be simpler to complete the check and confirm we do not consider that these companies will move to using an agent.

27. Under the new proposals we assume that not every company which makes an in-year change will also check and confirm at the same time. As discussed in assumptions (p.7-9) we assume that only 50% will take up the opportunity – i.e. 1.7m companies * 25% which do in-year changes * 50% that check and confirm at the same point in-year = 214,000 companies.

¹⁴ Companies House data, 2013

¹⁵ Companies House data, 2013

¹⁶ A workshop where individuals were asked to work through and understand the proposed changes and then timed

28. We assume a company director/corporate manager would be responsible for filing the information, with an average wage cost of £18.47 per hour¹⁷¹⁸.

29. To estimate the time saved for the 214,000 companies who will no longer undertake an additional in-year filing we multiply the 1 minute time saved from not doing the extra in-year filing by the average wage for the type of employee who might have done that filing. Thus the avoided costs are as follows:

- 214,000 companies with 1 separate in-year filing * £18.47/60 = £66,000

30. To estimate the avoided costs for the 1.7m companies who will no longer need to complete the Annual Return (ie who will complete the new 12 monthly check and confirm themselves) we multiply 1.7m companies by the 4.5 minutes time saved from no longer filling in the annual return by the average wage of the type of employee that might fill out the form. Thus the avoided costs are as follows:

- 1.7m companies with 1 annual return * £18.47/60*4.5 = £2.4m

31. Sensitivity analysis¹⁹ relating to the time take, using the range of 2-7 minutes provided by Companies House modelling, implies a range of benefits from £1.1m - £3.7m

- 1.7m companies with 1 annual return * £18.47/60*2 = £1.1m
- 1.7m companies with 1 annual return * £18.47/60*7 = £3.7m

(ii) The 41% of companies that use an agent to make the returns on their behalf

32. If a company uses an agent to complete their annual return the agent will also complete any in year changes as well as the annual return. Agents charge a fixed fee which will cover both the annual return and in year filings.

33. For the 41% of companies who use an agent to complete the Annual Return, the costs savings from the changes would be considerably larger if they chose not to continue to use an agent. Market data from an average of 11 firms online indicated that accountancy firms charge an average of £70 to complete and file an annual return²⁰. The 11 companies were identified as a result of online internet searches. They provided a cross section of companies offering these services. Multiplying this cost by the total for companies using an agent to file their annual return is £83.2m (2.9m companies *41% using agents * £70 fee)

34. Companies and businesses obtain information on conducting their business and ensuring that they comply with legislation from many sources. From whom they seek information will depend on the nature of the issue or the query/problem. For example it is highly likely that a company will ask an accountant to advise on accounting matters. An agent who files information to Companies House may be an accountant but in many cases will offer a wider range of company secretarial services.

35. A recent survey entitled "FSB Voice of Small business Panel Survey, October 2013" undertaken by the Federation of Small Business provided to BIS Enterprise Directorate shows that information on regulatory change can be obtained from sources such as gov.uk, solicitors, accountants, Trade bodies, local authorities, and private discussions, others such as friends

¹⁷ ASHE data 2012

¹⁸ See Assumptions text box on p. 8

¹⁹ More detail on scenario analysis is included in Annex A.

²⁰ Based on internet search (individual company estimates will be supplied to the regulatory policy committee but we have not published details for confidentiality reasons)

and colleagues and banks. The benefits associated with the proposed changes to the company filing regime are likely to be highlighted by trade bodies and business representative bodies in the course of their usual updates to their members.

36. We recognise that not all companies will dispense with using an agent to complete the much simplified check and confirm and other filing requirements and those that do switch will only do so after they have become aware of the new, simpler, rules. There is no direct evidence on the likelihood of no longer using an agent in this specific context, however existing evidence of take up of deregulatory filings exemptions indicates²¹ that, where companies are able to take advantage of deregulatory proposals on audit around 50% will nevertheless choose not to take advantage of these. This assumption is supported by stakeholders.

37. However, we assume here that 25% of companies who currently use an agent would no longer use an agent to file their annual return, as a result of the simplified process. This figure has support from the IOD, however there remains uncertainty around how companies would react to the proposed simplifications. Our analysis therefore includes sensitivity analysis around this assumption, with an upper bound of 50% based on the percentage of companies expected to take advantage of deregulatory measures, and a lower bound of 10% based on the consensus from stakeholders that at least some companies will dispense with their agents. Agents have been contacted and responded to the consultation stating that some companies will move from using an agent to filing their company information themselves. Agents have not been willing to suggest a percentage figure. As noted above, the new regime will be publicised by Companies House, representative bodies and similar organisations. We expect this will aid companies to make decisions as to whether it would benefit them to move from using an agent to filing directly with Companies House.

38. Therefore using the central assumption, the saving to those who previously used an agent would be 25 percent of the cost above, £83.2m. This equals £20.8m. We assume that the agent who continues to act for a company will not alter its fees.

39. Sensitivity analysis²² relating to the proportion of companies who will dispense with their agent as a result of the proposed changes, using the range of 10%-50% set out in the assumption on p. 9, implies a range of benefits for companies who no longer use an agent of between £8.3m - £41.6m

- $(2.9m * (41% * 10% \text{ who dispense with agent}) * £70) = £8.3m$
- $(2.9m * (41% * 50% \text{ who dispense with agent}) * £70) = £41.6m$

40. The best estimate for the total ongoing saving from avoiding the costs of the current system is £23.2m (£2.4m + £66,000 + £20.8m).

41. Sensitivity analysis²³ relating to the proportion of companies who will dispense with their agent and the time taken to complete an annual return is covered in more detail in Annex A. This analysis implies a range in the total avoided costs of £9.4m – £45.4m.

42. Note that all companies which in future undertake the new check and confirm themselves (whether they currently use an agent or not) still need to make at least one filing - ie one check and confirm at the end of the year and/or when they complete an event driven filing. See the cost section below.

²¹ BIS (2012)- Audit Exemptions Impact Assessment https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/259149/bis-12-927-audit-exemptions-impact-final.pdf

²² More detail on scenario analysis is included in Annex A.

²³ More detail on scenario analysis is included in Annex A.

Costs

43. The monetised costs of these deregulatory proposals include familiarisation costs and the costs of applying with the new requirements.

(i) One-off costs

44. The changes to the annual return would impose a transitional cost on business. Companies would incur the costs of familiarising themselves with the new procedure. All companies on the register would have previously needed to complete the annual return. There are 2.9m active companies on the register²⁴.

45. Research commissioned by Companies House²⁵ indicates that 59% of companies complete the annual return themselves filing the information directly with Companies House. This leaves 41% who use the services of an accountant or agent, who make a charge for this service. However we recognise that if any company was to move to the new system they will have to familiarise themselves with the system. Information from Companies House or from an agent, trade association or other as described in earlier paragraphs.

46. Internal modelling by Companies House²⁶ estimated that it would take approximately 20 minutes for a company to become familiar with the new arrangements. This is the time taken to read new guidance understand the changes and move on the inputting new data.

47. We assume that the company director would be the person who would need to know of any changes to filing requirements. We recognise that in larger companies this might well be a company secretary or specialist role but for the purposes of this process a company director is assumed, with an estimated average wage cost of £18.47 per hour^{27,28}.

48. Multiplying the total number of companies on the register by this figure $2.9m * (£18.47/3)$ implies a transition familiarisation cost of £17.9m.

49. We then need to consider the familiarisation costs incurred by agents. Given that engagement with Companies House covers financial accounting as well as general information provision and that accountants often offer a package of corporate services, we take the number of accountants as a proxy for the type of professional who would undertake this activity. The BIS Micro-exemptions Impact Assessment²⁹ indicates that there are 312k accountants of this nature in the UK. We assume that these individuals will spend the same amount of time familiarising themselves with these new arrangements as a company would. The average hourly wages for accountants including the non-wage uplift gives £22.75³⁰ per hour. At 20 minutes of an average accountant's time this gives a total cost of £2.4m ($312,000 * (£22.75/3)$).

50. Adding together the familiarisation costs incurred by companies and by agents gives £20.2 (£17.9m + £2.4m).

(ii) on-going costs

²⁴ Companies House 2014 FAME Database.

²⁵ Illuminus 2012

²⁶ Companies House held a workshop in their "usability suite" where individuals were asked to work through and understand the proposed changes and then timed

²⁷ ASHE data 2012

²⁸ See Assumptions text box p. 7-9

²⁹ BIS 2013- Micro Exemptions IA. This is based on evidence from the Professional Oversight Board (2012) which notes that in 2011 there were 312,104 members of the seven accountancy bodies in the UK.

³⁰ ASHE data 2012

51. We consider that the cost to the company of the new regime (which is essentially a tick box approach) will be less than that of an annual return but about the same as the cost of making a single in year change. The company will simply scroll through two screens of information and confirm at the end that the information held is correct (or, based on Companies House data, 25% will make a change then confirm at the end). We are removing the requirement to submit a statement of capital each year and also the requirement to re-submit shareholder information. The removal of these two requirements plus the need to simply tick one box leads us to believe that the cost of the new regime will be very low. The assumption that the costs are very small is supported by stakeholders.

52. As noted above, Companies House estimates that it currently takes 1 minute to complete an in-year change. All companies which will do the check and confirm themselves will incur this cost at some point during a 12 month period. As noted in the Benefits section above 1.7m currently undertake the annual returns themselves and we expect that a further 297,000 companies to move from using agents to doing the filing themselves under the simplified system (i.e. 25% of the 1.2m companies).

53. As with the Benefits, we similarly assume that 50% of those that move from using an agent to self-reporting and currently have in-year filing done on their behalf will continue to undertake the in-year filing but do so themselves (297,000 companies (move from using agents to doing the filing themselves under the simplified system) * 25% who do in-year filing currently * 50% who continue to do so = 37,000).

54. We also assume that there will be no change in the costs that agents charge the companies for whom they do work, and that those that currently do an in year filing themselves will continue to do so, but that no extra companies will undertake in year filings as a result of this proposal.

55. On this basis the ongoing additional cost of this proposal is ((1.7m companies + 297,000) * £18.47/60) + (37,000* £18.47/60) = £630,000.

Net impact summary:

Annual Returns	£m
Benefits – one-off	None quantified
Benefits – ongoing (pa)	23.2
Costs – one-off	20.2
Costs – ongoing (pa)	0.6

Risks and assumptions:

56. We assume that agents would not charge extra for in-year updates to annual returns and will not change their fees following the proposals here.

57. We assume that the number of accountants is a reasonable proxy for the number of agents used by companies to engage with Companies House

58. We assume that the charges made by agents reflect average market prices (e.g. companies do not get a cheaper price due to an existing contractual arrangement)

59. An obvious question is why companies do not complete the annual return themselves when it is so much more expensive to employ an agent. One possible explanation is that the firms which choose to commission an agent to complete the Annual Return are less confident about completing the process accurately and so are willing to pay the excess fee for 'peace of mind'. It is important for Companies House to use effective channels of communication to ensure that all companies understand the new system and remove concerns about complexity.

60. In addition, some agents offer a service which will include holding registers, providing a registered office and completing all company secretarial work. We recognise that some companies may still want agents to do all of this work but by making changes to all filings we expect this to enable many companies to consider whether they can complete these filings themselves. Therefore we have assumed that only 25% of companies dispense with the use of their agent as a result of the simplified processes.

61. We have assumed that a company director/corporate manager would generally deal with the annual return. This is in the absence of any information on others who may do this. For example in the very smallest companies an unpaid partner may undertake the role, or someone within the company who has a specific role other than the director.

62. Wage estimates are used from the Annual Survey of Hours and Earnings, 2012.

Stakeholder comments:

63. The department received the following comments as part of the consultation which supports the proposed measure:

'Yes, the proposal allows a simple check and confirmation that the information is correct and to allow for a simple on-line amendment of any changes appears to be a sensible and workable solution which allows for data to be both confirmed and for small companies to make a positive declaration'.

'Yes. We think this would be useful for both searchers and companies. It shouldn't present too much of a burden for those companies that have already complied with their event driven filings'

'We believe that the requirements to confirm whether the information provided on the register is correct will not only prove to be beneficial to FTSE 100 companies but most importantly to smaller companies'.

'We believe that this would be appropriate as it maintains the integrity of the current system it also reduces the burden on small businesses.'

(ii) Company Registers

64. All companies are required to keep registers which contain details about certain aspects of the company: the company's members; directors; directors' residential addresses; and (where they have one) company secretary.

65. The following table sets out which information in these registers must also be sent to Companies House.

Name of register	Information held on register	Information also held by Companies House?	
Register of members	Name of member	Yes	
	Address of member	Only if member on incorporation	
	Date on which person was registered as a member	Yes	
	Date on which person ceased to be a member	Yes	
	Number and class of shares held by each member	Yes	
	The amount paid or agreed to be paid on the shares	For whole share class, not for individuals	
	If any shares have been converted to stock and if that has been notified to the registrar	Yes	
	In the case of joint holders of shares, the name of each joint holder	Yes	
Register of directors	Natural directors		
	Name and any former name	Yes	
	Service address	Yes	
	Country or state of residence	Yes	
	Nationality	Yes	
	Business occupation	Yes	
	Date of birth	Yes	
	Corporate directors		
	Corporate or firm name	Yes	
	Registered or principal office	Yes	
	If an EEA company, the register where the file is kept and the company number	Yes	
	In any other case, the legal form of the company and the law by which it is governed; if applicable, the register in which it is entered and its number	Yes	
	Register of directors' residential addresses	Usual residential address of each natural person director	Yes (but not available for public inspection)
		If the usual residential address is the same as the service address in the register of directors, the entry may state that this is the case (this does not apply if the service address is stated to be the registered office)	
Register of company secretaries	Natural person secretaries		
	Name and any former name	Yes	
	Address	Yes	
	Corporate secretaries		
	Corporate or firm name	Yes	
	Registered or principal office	Yes	
	If an EEA company, the register where the file is kept and the company number	Yes	
	In any other case, the legal form of the company and the law by which it is governed; if applicable, the register in which it is entered and its number	Yes	
In the case where all of the partners in a firm are joint secretaries it is sufficient to state the particulars that would be required if the firm were a legal person and the firm had been appointed as joint secretary	Yes		

66. All company registers must be kept at a single place: either the company's registered office, or at a single alternative inspection location, for example at the premises of an agent.

Registers can either be kept in a paper form, such as single bound book or loose-leaf binder, or electronically. Registers must be kept up to date: when there are changes in the company, for example when a person is appointed as a director, the relevant register must be updated to reflect this change. The register of members, directors and secretaries are available for inspection by any member of the company free of charge, or any other person on payment of a prescribed fee. (The register of directors' residential addresses is not available for public inspection.)

67. Companies either keep and maintain their own registers or employ an agent to do this on their behalf.

68. The costs to a company of holding their own register fall into two categories. The first is the cost of maintaining the register. This will depend on the number of amendments that have to be made to the register during a year. Clearly, if there is little or no turnover in company officers the cost will be negligible. The second type of cost arises only where a person (either a member or a third party) makes a request to inspect the register.

69. The costs to a company of employing an agent to keep and maintain their registers also fall into two categories. The first is the fee charged by the agent for this service (which may be included in a package of services, for example including filing of company information with Companies House as well as keeping the registers). The second is the cost for the company of informing the agent of any changes.

70. We are proposing to allow companies to opt out of the requirement to keep these registers and make them available for inspection. A company which takes advantage of this option will instead be required to send the information to Companies House who will make it available in the correct format on the public register, thereby removing duplication.

71. There are other, non-cost, considerations (relating to the public availability of information) which will influence a company's decision about whether to exercise the option. Companies that exercise the option will be required to put information that is currently only available on the company register onto the public register (for example, the residential addresses of members). All the members of a company would need to agree to this before the option can be exercised; a member who does not wish to have this information available on the public register could therefore prevent the option being exercised. However, this option may be attractive to those small companies that are run from a residential address or flat management companies where the address is the location of the company.

Benefits

72. The measure will enable companies to choose which registers could be held at Companies House. Some companies may choose all whilst others one or none. The main benefit to business arises because companies may no longer have to incur the costs associated with holding registers. However, neither we nor stakeholders are able to quantify this benefit.

73. The proposal would reduce the costs for companies which keep the registers themselves instead of using an agent. Companies would no longer have to enter the details (and any changes to the details) in the registers; instead they would send this information to Companies House. As noted above, much of the information included in registers (particularly in respect of the registers of directors, directors' residential addresses and secretaries) currently has also to be sent to Companies House; the Companies Act requires this information to be notified to Companies House within 14 days. This information is currently available in two places so not keeping a register would reduce this duplication. There is less information about members on

the public register and changes do not have to be notified to Companies House as they occur; instead, certain details are contained in the annual return. There would therefore be less of a net benefit to companies in exercising the option in respect of the register of members.

74. The extent of the benefit to companies would depend on the extent to which there are changes in the company. For example, the costs to the company of keeping the register of directors in a year where there are no changes to the directors would be very low as the company would not need to make any entries in the register. It would also depend on the extent to which people wish to inspect the company registers, as registers are available for inspection. We consider that small companies where there are few directors and members are less likely to receive requests for inspection of the register.

75. We were able to quantify how many companies used an agent to file their annual return, as it is clear on the return itself if an agent has made the filing. However, this is not the case in respect of who holds a register as companies simply have to make them available to the public. Very few agents break down the costs of secretarial work. However, a small internet survey of agents indicated that annual fees to companies for holding registers on their behalf were in the region of £70 - £150.

76. Where a company uses an agent to keep its registers, the fewer changes there are in the company, the more benefit there would be in keeping the information on the public register (in contrast to the situation where the company itself keeps the registers).

77. As noted above, there are legal requirements to notify Companies House when certain changes are made to the register and the agent would typically file this information on behalf of the company as well as updating the register itself. We consider it is unlikely that companies which employ agents to undertake a package of company services (including holding company registers) would decide to no longer use agents solely as a result of this measure, as the company itself would have to send notifications to the registrar of companies.

78. Because of this, we are unable to make an evidence based assessment about the number of companies which would no longer use an agent as a result of the measure.

79. We consider that it is unlikely that companies would use agents only to hold their company registers; generally, holding company registers will be part of a package of wider company services. Companies who decide to dispense with using an agent to complete their check and confirm requirements may also decide to no longer use agents to hold their registers and therefore may gain an indirect benefit.

80. There are also some unquantifiable benefits to those who search the register (businesses or individuals). Being able to search company registers on a public register rather than go directly to the company will save time and money.

Costs

81. The changes proposed, in relation to company registers, would also impose a transitional cost on business. Firstly, companies would have to familiarise themselves with the new procedures and then make decisions as to whether to make any change to their own company procedures. All companies on the register are required to hold company registers. However,

this proposal only relates to private companies. There are approximately 2.9m of these companies on the register³¹.

82. As stated above 41% of companies use an accountant or an agent to file their annual return and 59% complete it themselves. However, as above, we recognise that if any company was to move to the new system they will have to familiarise themselves with the system. Information from Companies House or from an agent, trade association or other as described in earlier paragraphs.

83. Internal modelling by Companies House³² (and supported by stakeholders) estimates that it would take approximately 20 minutes for a company to become familiar with the new arrangements with a range of 10 minutes to 30 minutes.

84. We use the same wage estimate as above which is £18.47 per hour³³. Multiplying (2.9m)*(£18.47 /3) implies a transition cost of £17.9m.

85. We then add the familiarisation costs to companies and agents. As stated above, there are 312k professionals employed in this area. Multiplying the adjusted (for non-wage costs) hourly accountants wage rate for twenty minutes (£22.75/3) by the total number of accounting companies gives a total cost of £2.4m (312k*£22.75/3).

86. Therefore the total familiarisation costs are £20.2m (£17.9m +£2.4m).

Net impact summary:

Company registers	£m
Benefits – one-off	None quantified
Benefits – ongoing (pa)	None quantified
Costs – one-off	20.2
Costs – ongoing (pa)	None quantified

Risk and assumptions:

87. Although we have been unable to quantify the benefits of this measure we have assumed that there will be benefits. This is based on the assumption that some companies will decide to hold their registers on the public register. This will involve a saving in direct company resources or the reduction in costs a company pays to an agent.

88. A low take-up of the measures could be due to concerns as to who has access to all the registers and making additional information available on a public register. Currently, a company can refuse access to a register if it believes that the information could be used for improper purposes, although the Courts can be asked to uphold or reject this decision.

Stakeholder comments:

³¹ Companies House (January 2014) Monthly Statistics on register information. The proposal is only available to private companies but these constitute over 99% of the register so we have used the figures for total active companies on the register.

³² Companies House held a workshop in their “usability suite” where individuals were asked to work through and understand the proposed changes and then timed

³³ ASHE data 2012

³⁴ See Assumptions text box p. 7-9

89. Businesses made the following quotes, in response to the consultation document which support this measure:

'We believe that this would be a de-regulatory option'

'Yes, we agree this should be optional'

'Smaller companies happy to take up the proposal to have their Company registers held at CH as they often work out of their home address and have only one shareholder'.

(iii) Statement of Capital

90. A statement of capital is a snapshot of a company's issued share capital at a given time introduced by the Companies Act 2006. A statement of capital must be prepared and submitted to Companies House on formation and in a number of situations, generally when the company does something to change its share capital.

91. A statement of capital must currently include the following financial information:

- the number of shares and their aggregate nominal value;
- the total number of shares in a particular class of share (e.g. ordinary, preference share) and their aggregate nominal value; and
- the amount unpaid (if any) and paid up on each share.

92. Companies have expressed two concerns about the requirement to show the amount paid up on each share. The first concern is that the requirement to set out separate information about shares issued for different amounts is burdensome for companies which allot shares frequently (for example, in connection with employee share schemes) and does not provide useful information. The second concern is that where a company has done more than simply issue shares (for example where the company's share premium account has been reduced without being allocated to particular shares), it may not be able to allocate the total amount paid for all the shares between the shares currently in issue.

93. Stakeholders said that it is potentially more useful for someone who wants to know more about a company to know the aggregate unpaid amount, since it shows the capital that the company can call up without issuing more shares. Retaining the requirement to break down this information by class of share would be unnecessary and burdensome for companies. We therefore propose to remove the requirement for a company to list the amount unpaid and paid up on each share; instead companies will only have to show the total amount unpaid (if there is any).

Benefits

94. A company will no longer have to provide the amount unpaid and paid up on each share. This will particularly benefit companies that have allotted shares at different prices. For some companies that allot shares frequently, for example in connection with employee share schemes, the current requirement would mean many pages of information must be provided. It will also benefit companies that have bought back, cancelled or consolidated shares as these companies may not be currently able to allocate the total amount paid up between the shares in issue.

95. There was considerable support from stakeholders for the proposal to simplify the financial information in the statement of capital. However, stakeholders were unable to quantify the time and cost saving associated with the changes. Following the consultation we wrote to a further six stakeholders (including providers of corporate services) asking for more information about the savings. A wide range of views on the benefits and costs were expressed. One stakeholder argued that it would not be possible to give a meaningful figure about savings as this would depend on the complexity of the company's historical share structure and the accuracy of its detailed record-keeping over time. Some stakeholders thought that there would be no savings or no material savings, on the grounds that the information has already been entered into statements of capital. On the other hand, one stakeholder thought that the proposal would save considerable time. Another stakeholder suggested that 50-75% or more of the time taken to complete a statement of capital for a company with a fairly complex (but not unusual) history could be taken up by working out the amount paid and unpaid per share (which we are removing).

Costs

96. There will be some familiarisation costs for the new requirements of a statement of capital. In 2013, 76k companies filed a Statement of Capital with Companies House. This represents the population of businesses that would need to familiarise themselves with the new requirements. Companies House undertook modelling in their usability suite. A cross section of individuals were given information about the new processes and timed to determine how long it would take them to read the guidance and understand it. Results estimate that it would take around 10 minutes for a company director to familiarise themselves with the new requirements. We assume that same hourly wage for a company director as above. This implies that the total familiarisation costs are £234k per annum (76k* (£18.47/6)).

Net impact summary:

Statement of capital	£m
Benefits – one-off	None quantified
Benefits – ongoing (pa)	None quantified
Costs – one-off	0.2
Costs – ongoing (pa)	None quantified

Stakeholder comments:

97. Businesses made the following quotes, in response to the consultation document which support this measure:

'We would very much welcome a decision to include only aggregate unpaid amounts in Statements of Capital. The requirement to calculate the amount paid-up per share for companies with historic allotments at premium and consolidations/redesignations etc is, in our opinion, onerous and of little value.'

'The proposed simplification would save us some considerable time which in my view equates to money and enables the Company Secretariat to focus on

supporting the commercial activities of our business units. It also reduces the potential for error.'

(iv) Accelerated Strike Off

98. The legislation associated with the time required to strike off a company has not been amended since 1908. The origins are based in a time when paper was the only method of informing interested parties about such things. We are now in a time of almost instant communications and with processes undertaken electronically. In order to ensure that the public register is as up to date as possible and that companies who are no longer trading are removed quickly from the register we will reduce the time it takes to strike off a company.

99. We are amending the procedure to strike off and dissolve a company from the public register from 6 months down to 3 months in all cases. Three months allows creditors to be made aware of the proposals to strike off a company, and seek to keep the company on the register. Where such requests are not made the company can be removed as quickly as possible which will improve transparency for those consulting the public register.

Benefits

100. There will be advantages to those searching the public register as it will improve the integrity of the register and enable the faster removal of fraudulent companies from the register. However we do not have sufficient information to quantify these benefits. By removing a company from the register will help those considering entering into a contract with the company.

Costs

101. There are no familiarisation costs associated with this measure. Strike off is procedural and once a company is to be struck off standard communications will clearly state the amount of time that third parties have to comment on the proposals. For the last financial year 2012/13 280,000 companies were struck off the public register across the whole of the UK.

Net impact summary:

102. No costs or benefits have been quantified for this measure.

(v) Directors disputes

103. We are removing the requirement for companies to file a "consent to act" for newly appointed directors and company secretaries. Under the current requirements each time a company appoints a new director or company secretary they must complete a 'consent to act', including upon registration. This information is delivered within the form which notifies Companies House of the details of the director. The 'consent to act' can be delivered either in hard copy or electronically. The hard copy requires the newly appointed director to sign the form. The electronic form requires information about the individual. The company must provide the following information on the director/company secretary:

- Eye Colour
- Hair colour
- Mothers maiden name
- Fathers first name
- Passport number
- National insurance number
- Town of birth

104. The consent to act is sent to Companies House but the information is not made available on the public register. Nor does Companies House check the information supplied within the consent to act with the individual the document relates to.

105. Company directors are appointed in many different ways. New directors may attend the Head Office or registered office of the new company or they might not and therefore signing documents or providing personal information may not be a straightforward process and may take the company time to ensure that all the paperwork is correct.

106. We also know that many companies (as a matter of good governance) enter into contracts with directors setting out roles and responsibilities.

107. Therefore the requirement to send consent to act to Companies House is a legal requirement which serves a limited purpose.

108. The new process will add a confirmation tick box to the existing notification of director form stating (in the form of a statement of truth) that the new director has consented to act as a director/secretary for the company. This change does not require companies to hold any additional information. Should the director contest the appointment the company will be asked to provide evidence that the director agreed to be a director, this would normally be in the form of a contract or agreement between the two parties.

109. Companies House will write to directors following their appointment to notify them that their appointment has been recorded on the public register and to direct them to information about their legal duties as a director. Directors will be able to object to their names being included as a director if they assert that they are not in fact a director of the company. If the company is not able to provide evidence of agreement by an individual to be either a director or company secretary the name will be removed from the register.

Benefits

110. There will be a reduction in costs to companies as they will no longer be required to complete the Consent to Act section of the form notifying Companies House that a director has been appointed. Companies House has used a tool called Piwik, a web analytical tool which monitors the use of Companies House services. When electronic forms are being completed this tool is able to work out average times taken for inputting of data. The tool shows that for the year up to 28/04/2014 the average time spend on the Officers section of the form notifying a new director or secretary is 7 minutes 40 seconds. In addition to this we know that it takes time for a company to gather the required information which is included in the consent to act. To try

and understand how long it takes for a company to gather this information Companies House Customer Care team has contacted a range of companies and agents. They have regular contact with the largest formation agents and companies, as this is a channel used for updating information. They used this network to ask on average how long it would take to ask an individual for the information required in the electronic consent to act form. The majority explained that normally compiling the information for the consent to act meant making a phone call which would last around 2-3 minutes where the individual was asked for the information required. Thus we assume it takes some 10 minutes to complete a 'consent to act'.

111. Some companies explained that they preferred to have all the information in writing from individuals and therefore getting the required information could take a number of days. We do not have any figures to quantify how many companies prefer this option and therefore have not included this in our calculations.

112. In 2013, there were 486,100 newly appointed directors and company secretaries of existing companies. Taking 486,100 as a typical number of companies that currently complete a consent to act per year, assuming that the 59% of these companies would otherwise have completed the form themselves (and hence will now avoid this cost) and assuming the same hourly wage rate as the other measures of £18.47 per hour, there are ongoing benefits (ie avoided costs) of £0.9m ($486,100 * 0.59 * £18.47/6$). Changes to one form, 'the consent to act', are not assumed to be significant enough to trigger companies moving their business away from an agent. Unlike the annual return the consent to act is not a document that all companies have to fill in each year (only required when you appoint a new director / company secretary), and therefore its removal is unlikely to impact on a decision whether or not to use an agent.

113. There will also be a benefit associated with the reduction in the cost of court cases associated with director's disputes. Information on the number of disputes of this nature is not collected. The measure is intended to deal with situations when one party states that they have never been a director. At the moment, a person must go to court. It can cost an individual £700 - £1000 on average to pursue an uncontested claim in the courts. For a business, which may be the subject of a vexatious claim, court costs will be significantly higher. We will give Companies House a power to ask for evidence to avoid court proceedings in the majority of cases. However, these impacts do not fall on business and so are not in scope of this Validation Impact Assessment.

Costs

114. There will be some familiarisation costs for the requirement to file a statement of truth as opposed to consent to act. These costs will, however, only arise where a company appoints a new director. In 2013, there were 486,100 newly appointed as directors and company secretaries of existing companies. Companies House estimates that it would take a company 10 minutes to familiarise themselves with the new requirement. As explained above Companies House have used their usability suite to ask individuals to read new guidance and understand it.

115. Based on the above number of appointed directors and company secretaries, we know that there is a maximum of 486,100 companies which would have to use the new system. Due to the fact that a number of companies may have made more than one appointment in the course of the year, this represents an upper limit, and is likely to be an overestimate of the familiarisation costs as we would expect the majority of the churn to occur in medium and large firms, meaning that significantly fewer companies may in fact bear the this cost.

116. First, looking at the familiarisation costs, we assume that all companies will need to familiarise themselves with the new system. Taking the 10 minutes familiarisation time, and

assuming the same hourly wage rate as the other measures of £18.47 per hour, there is a one-off cost of (2.9m companies) * (18.47/6) = £8.9m. In addition 31% (41% * 75%) of companies will continue to use an agent, who will also need to familiarise themselves with the new system: as noted above there are 312,000 accountants and this number is used as a proxy for the number of agents. The one-off cost for these 312,000 accountants is (312k * 22.75/6) = £1.2m. Thus the total one-off is £10.1m.

117. As with the annual return, we estimate that the cost associated with the proposed replacement requirement is 1 minute, as the company will simply have to tick one box stating that the director/secretary has consented to act. On this basis the ongoing cost is £150,000 (486,100 companies * £18.47/60).

Net impact summary:

Director Disputes	£m
Benefits – one-off	None quantified
Benefits – ongoing (pa)	0.9
Costs – one-off	10.1
Costs – ongoing (pa)	0.15

Risks and assumptions

118. We have assumed that the majority of companies will already hold documentation which will be appropriate evidence of a directors’ appointment. Therefore companies will not have to complete additional paperwork to replace the ‘consent to act’, this is because there will no longer be a legal requirement for companies to hold any form of ‘consent to act’.

119. We would not expect any company, including the smallest, to undertake any additional activity to ‘prove’, if asked, that an individual had been appointed a director.

Stakeholder comments:

120. In response to the consultation, businesses made the following quotes which supported the proposed measure, these have been anonymised, but names could be provided to RPC for verification purposes:

‘Yes remove the consent to act. That would remove the administrative burden. Holding proof of appointment is legally the best solution’.

‘We believes that the proposal to replace the consent to tact with simple confirmation is reasonable providing the company is making clear and challengeable confirmation’

Cross cutting software costs

121. This measure will also result in transition costs to those companies who are involved in providing company secretarial software. These include costs associated with technical development, testing and roll out. Companies House consultation with industry representatives regarding this figure provided an estimated cost of £5m in total across all of five the measures set out above. Software providers provide updates on a regular basis and, after considering the nature of the changes, Companies House deem it unlikely that any additional training requirements will be needed above those normally given with every update. It expects that these changes will be introduced as part of the existing update cycle. To test this assumption Companies House asked an additional 100 software providers whether there would be additional training requirements associated with the new company filing regime. Those which responded considered there would be no additional training requirements. On this basis, no training costs have been included in this analysis.

Summary of costs and benefits

122. The table below summarises the monetised costs and benefits set out above. The NPV estimate for this measures based on the standard Green Book discount rate of 3.5 percent is £144.8m. The measures are in scope in one-in-two out as an OUT given that they concern the regulation of business and have an EANCB of =£-13.8m.

Policy	Benefits – ongoing £mpa	One-off costs £m	Ongoing costs £mpa
Annual return	23.2	20.2	0.6
Company Registers	-	20.2	-
Statements of capital	-	0.2	-
Accelerated Strike-off	-	-	-
Directors' disputes	0.9	10.1	0.15
Software costs		5.0	
TOTAL	24.1	55.8	0.8

f) Rationale and evidence that justify the level of analysis used in the IA (proportionality approach)

Cost/ Benefit	Evidence/ Data gap	Why this evidence has not been included in the validation IA
Cost of no longer having to hold the registers (unquantifiable)	Proportion of companies who use an agent to hold their register. Figures for likely take-up of the measure.	Companies House do not ask companies to provide details of agents who hold registers. All companies must provide is the location of their register. Responses to the consultation said that there might be high take up for this measure; however, no one suggested the extent to which this would mean that companies no longer used an agent to hold their registers.

Benefits of searching the register	We only have statistics for the number of searches undertaken on the company register, not on how the information is used.	We do not have any feedback from those who search the public register about the quantifiable benefits of searching the register or how the information searched is used.
Saving from having to provide less information on statements of capital	We specifically asked companies who had sought changes to the statement of capital to estimate savings. Unfortunately the only information supplied (from one stakeholder) was that it takes 50-75% more time to complete a statement of capital that includes amounts for paid and unpaid shares.	Due to the complex nature of some statements of capital it has not been possible to work out an average time to complete a typical statement of capital as they are all very different and personal to the individual company, levels of capital in the company and levels of shareholding.

Annex A: Scenario and NPV analysis

Scenario analysis has been included with respect to the following 2 assumptions:

- **The proportion of companies who currently use an agent, that would no longer use an agent to file their annual return as a result of the simplified process:** The central assumption is that 25% of companies who currently use an agent would no longer use an agent to file their annual return, as a result of the simplified process but our analysis includes sensitivity analysis around this assumption, with an upper bound of 50% based on the percentage of companies expected to take advantage of deregulatory measures, and a lower bound of 10% based on the consensus from stakeholders that at least some companies will dispense with their agents.
- **The time taken to complete an Annual Return:** Our central assumption assumes it takes 4.5 minutes to complete an annual return electronically, based on Companies House modelling which suggests it would take 2-7 minutes. Our sensitivity analysis uses the upper and lower bound of this range.
- The 'high' scenario assumes that 50% of companies would dispense with their agent, and that the time taken to file an annual return is 7 minutes (i.e. greater avoided costs).
- The 'low' scenario assumes that 10% of companies would dispense with their agent and that the time taken to file an annual return is 2 minutes (i.e. lower avoided costs).

Best estimate: 25% drop agents; 4.5 minutes to file annual return:

Policy	Benefits – ongoing £mpa	One-off costs £m	Ongoing costs £mpa
Annual return	23.2	20.2	0.6
Company Registers	-	20.2	-
Statements of capital	-	0.2	-
Accelerated Strike-off	-	-	-
Directors' disputes	0.9	10.1	0.15
Software costs		5.0	
TOTAL	24.1	55.8	0.8

High scenario: 50% drop agents; 7 minutes to file annual return:

Policy	Benefits – ongoing £mpa	One-off costs £m	Ongoing costs £mpa
Annual return	45.4	20.2	0.7
Company Registers	-	20.2	-
Statements of capital	-	0.2	-
Accelerated Strike-off	-	-	-
Directors' disputes	0.9	10.1	0.15
Software costs	-	5.0	-
TOTAL	46.3	55.8	0.9

Low scenario: 10% drop agents; 2 minutes to file annual return:

Policy	Benefits – ongoing £mpa	One-off costs £m	Ongoing costs £mpa
Annual return	9.4	20.2	0.6
Company Registers	-	20.2	-
Statements of capital	-	0.2	-
Accelerated Strike-off	-	-	-
Directors' disputes	0.9	10.1	0.15
Software costs		5.0	
TOTAL	10.3	55.8	0.7

When constructing the net present value of 'high' and 'low' scenarios, one would usually use the high estimate of benefits and the low estimate of costs to construct the 'high' NPV and the low estimate of benefits and the high estimate of costs to construct the 'low' NPV.

However, in this instance, the assumption around the proportion of firms which will dispense with their agent as a result of the changes effect both the costs and benefits, such that in the 'high' benefit scenario is linked to the high cost scenario. This is because the more companies dispense with their agents, and avoid the associated costs, the more companies will also incur the ongoing (reduced) cost of filing the annual return themselves, and therefore costs will also be higher.

In this analysis therefore, we have calculated the high NPV by netting the high cost present value from the high benefit present value, to represent the scenario where 50% of companies will dispense with their agents, and netting the low cost present value from the low benefit present value, to represent the scenario where 10% of companies will dispense with their agent.