

## **Information Released under Freedom of Information Act**

**Subject:** Pricing model for CHD and WebCheck.

**Date Released:** 6 August 2008

**Summary of request:** Request for the pricing model for CHD and WebCheck, including when the current pricing came into effect and details of how this was determined.

### **Information released:**

Companies House does not have a specific pricing model for Companies House Direct and Webcheck. However, I have attached a copy of the latest Pricing Review undertaken on Companies House pricing which also contains the Companies House 'Principles of Cost Allocation'.

The Report was completed in June 2004 and the current pricing dates from February 2005. You will see that some parts of the Report have been redacted as the information contained in these areas is deemed to be exempt under Part II of the Freedom of Information Act and, wherever possible, the exemption that applies to each area has been cited.

Some information redacted under section 43(2), commercial interests, will also fall under section 35, formulation of Government policy. Information covered by these exemptions is of a sensitive nature and could prejudice the commercial interests of Companies House. The intention of the Report was to review past and current procedures and make recommendations for the future. Parts of the Report have also been redacted on reliance on the exemption under section 42 of the Act, as the information detailed legal advice and as such would fall under professional legal privilege. Information has also been removed from the Report that would identify individual people, as departmental advice requires that only senior civil servants identities should be disclosed.

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**POLICY AND COMMERCIAL**

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**Companies House Pricing Review**

**Final Report**

**June 2004**

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## **1. Executive Summary**

### The Review

1.1 The purpose of the Pricing Review was to provide a report to Companies House on the current pricing structures with recommendations for future price levels including the potential for free electronic output services.

1.2 The specification for the Review was agreed by the Companies House Steering Board in December 2002 and the Review was carried out at Companies House between July 2003 and June 2004. A separate Steering Group, chaired by an external Steering Board Member supervised the review process.

### Position at the outset

1.3 At the start of the Review, after a long period of relative stability, Companies House was aware that changing circumstances were affecting both the cost of providing services and demand for them. The process for producing and reviewing cost allocations, and hence product prices, required extensive manual work to allocate direct costs and overheads. As a result, special exercises were often required to support product pricing decisions. The accounting system is not configured to support the cost allocation process.

1.4 The Companies Act provides for fees to be set for the services provided under the Act. Some fees are set in Fees Regulations (a Statutory Instrument) and others are set by the Registrar. Companies House was considering, as circumstances changed, if more fees should be set in Regulations.

1.5 One of the changes was the significant growth in electronic information services. Most company searches are now provided electronically and their success has reduced the demand for other non-electronic services.

1.6 Companies House is aware of different forces driving changes to its business. These included changes in technology, in customer preferences and expectations, in demand for both registration and information services, and in cost. Companies House wants to ensure that product prices take all these factors into account. The specification for the Review also acknowledges that the pricing structure has become increasingly complex as more and more products had been added: the January 2003 price list describes 151 products and services.

### A framework for costing

1.7 The Review process helped to develop a set of costing principles for Companies House. These took forward and improved the existing cost allocation methodology. For example, the approach to the grouping and allocation of overhead costs was improved and the categorisation of products was updated.

1.8 Companies House now has a costing framework that is up to date. This will allow Companies House to prepare actual and forecast cost allocations to support annual reviews of product pricing, in accordance with Treasury guidelines and to demonstrate compliance with the

EC Capital Taxes and First Company Law Directives. Regular reviews of the underlying activities will be required to ensure that costs are allocated to the appropriate products.

1.9 Companies House can now consider configuring its accounting systems to produce the information needed for costing reports, or to produce suitable reports directly.

#### A framework for pricing

1.10 The Review concluded that the majority of fees for established Companies Act services should be set in Regulations. This will mean that fees for the electronic information services will be set by Regulations for the first time. The list of chargeable services has been kept as simple and as straightforward as possible. In addition, different prices can be set for electronic submission of some documents, based on cost differences, and this would encourage the take-up of electronic filing services.

1.11 Streamlining the process of setting fees by Regulations, which is currently quite burdensome, will require amendments to the Companies Act. Action on this is already in hand.

1.12 Where Companies House provides similar services for other business entities, (such as Limited Liability Partnerships), it is proposed that fees are harmonised with those for companies where this is consistent with cost recovery.

1.13 It is Companies House policy that products are priced on a cost recovery basis. The Review identified that prices and costs were out of line in a number of areas, often because of changes in demand or changes in costs.

#### Pricing proposals

1.14 The Review has put forward detailed pricing proposals, for consideration by the Companies House Board. These proposals are on the basis of cost recovery for each main product. The intention is that the proposals are implemented in new consolidated Fees Regulations, to take effect in February 2005. Companies House will need to consider all the implications of the proposed price changes, including the need to communicate changes to stakeholders, including customers and staff, to make the necessary changes to computer systems and internal procedures, and to consider in more detail the impact of the changes on the market for company information.

1.15 The Review considered how Companies House might achieve its aim of offering electronic information without charge. This is effectively a funding issue: who will fund the free service? There are legal and other practical constraints which limit what Companies House can do on its own. Proposals for limited free information services have been put forward for consideration by the Companies House Board.

#### The future

1.16 Companies House is operating in an environment that is increasingly fast moving. To help ensure that its recommendations were 'future proof' the Review considered the possibility of offering free information, incentive pricing, new products (including products that would deliver

more than just statutory information), and the possible impact of a new Companies Bill. Some of these changes will require consultation and this will be taken forward next year.

1.17 The Companies House Board will wish to consider all of the recommendations set out in detail in the body of the report.

## **2. The Pricing Review**

### Introduction and background

2.1 A number of factors have resulted in a need to look again at Companies House pricing policy. There have been significant changes in customer demand, in computer technology, and in the environment in which Companies House does business.

2.2 The last Quinquennial review (QQR) noted that “Companies House has encountered difficulties in allocating and apportioning costs to determine the full unit costs of each of its function, approximately 50% of Companies House operating costs are overheads”. The QQR recommended that Companies House needed to review the principles governing its pricing and allocation of costs with a view to enabling it to reduce significantly its charges for information provided electronically; and to undertake a comprehensive exercise to analyse the full costs of each product and service.

2.3 The Office of Fair Trading (OFT) investigated the pricing of Companies House products in 2002. It found that Companies House had not infringed the Competition Act by abusing its dominant position in the market for company information. It did, however, highlight the need to look again at pricing in order to ensure it was based on volumes and cost allocations that were up to date, and to take account of the impact of the increasing use of electronic services.

### Specification

2.4 Taking account of the matters raised by the QQR and OFT, the Companies House Steering Board agreed a specification for the Pricing Review in December 2002. The Review was to be led by an external expert, with appropriate support provided by Companies House. It was to provide a report to Companies House on the current pricing structures with recommendations for future price levels including the potential for free electronic output services. The detailed specification is attached at Annex A.

### Timetable

2.5 The Review began in July 2003 and took twelve months to complete. The recommendations of the Review should be implemented in consolidated Fees Regulations, which are expected to be made in Autumn 2004 and to take effect in February 2005.

### The Pricing Review Team

2.6 The Review was led by David Luckhurst, an accountant employed by DFES and on loan from the Government Office for the South-West. Ron Gwen, a member of staff from Companies House with experience in fees policy, provided full time support. Administrative support was provided as required by other Companies House staff.

## Pricing Review Steering Group

2.7 A Steering Group was set up to support the Pricing Review. The purpose of the Group was:

- (a) to oversee the delivery of the Pricing Review as set out in the separate terms of reference already agreed by the CH Steering Board.
- (b) to offer advice on the scope, direction, and extent of the Review
- (c) to advise on any specific topics as requested by the Review Team

2.8 The Steering Group met five times during the Review to consider a wide range of issues. The members of the Steering Group were:

Nigel Paul, Chair (and independent member of the Companies House Steering Board)  
Peter Mason, FRM  
Lynn Lynch, Marketing Director  
Jack Mansfield, Finance Director  
Helen Thewlis, Director of Policy and Planning  
David Luckhurst, Director, Pricing Review  
Ron Gwen, Senior Manager, Pricing Review Team

## Cost of the Review

2.9 The Review has cost approximately £112,000.

### **3. Companies House**

#### Functions

3.1 The business of Companies House is the registration of company details and the provision of company information.

3.2 The Trading Fund Order describes the scope of Companies House operations, which are, for “companies and other forms of business organisation required...to register, or register information, with the registrar,...

- a) the registration and striking off the register of such entities
- b) the regulation of the registered names of such entities
- c) the registration or recording of information required by law to be submitted to the registrar in respect of such entities
- d) the maintenance of records required by law to be kept by the registrar concerning such entities
- e) the making available for inspection of those records and the provision of copies of such records or of any information contained in or based upon those records
- f) the administration and enforcement of laws relating to such entities, including the consideration and pursuit of complaints about the breach of such laws
- g) the provision of guidance on matters relating to the law and practice governing such entities”

3.3 The Companies Act and other legislation specifies the information and documents that companies (and other entities) are required to provide. Most of the information required is submitted on paper, although there is a program to increase significantly the take up of electronic filing over the next three years. The documents received are scanned and stored in a computer database. The overwhelming majority of the requests for company information are now fulfilled electronically, by downloading electronic copies.

#### The legal and financial framework

3.4 Companies House became an Executive Agency of the DTI in 1988 and was granted Trading Fund status in 1991. A Trading Fund has standing authority to meet outgoings from receipts thus removing the requirement for detailed advance approval by Parliament. This covers all operating costs and receipts, capital expenditure, borrowing and the Fund’s net cash flow.

3.5 The financial performance target for Companies House is set out in the Framework Document. It is “to recover the full cost of services provided to companies and the public from fees charged for delivering those services”. The Agency’s financial objective “is to recover its costs through fees charged for its services and achieve an average annual return on net capital taking one year with another of 3.5%”. An updated Framework Document is in the process of being agreed with the DTI.

3.6 Companies House had total income of approximately £53m in 2003/4 (Monthly Management Report, March 2004). This can be analysed as follows:

- £35m came from charges for registration services (including incorporation, annual returns, mortgage registration );
- £14m came from charges for information (mainly from electronic services);
- £4m came of other income (the largest element is reimbursement from DTI for the costs of administering the late filing penalty regime)

The arrangements for setting fees are described in chapter 6.

#### Volumes of work

3.7 The size of the register of companies has steadily increased in recent years. At March 2004 the number of live companies on the register had reached 1.84m compared with, for example, 1.3m in March 2000. This increase is equivalent to a growth rate of more than 9% per annum. 6.9 million documents were filed in 2003/4, mostly on paper.

## 4. Costing

### Costing: legislation and guidance

4.1 This section covers the European and domestic legislation and other guidance relevant to costing. There are relatively few references to costing in the legislation, although the position has been illuminated in case law. The legal constraints on pricing are dealt with separately.

4.2 The European Capital Taxes Directive imposes constraints on company registration fees (to prevent the setting of fees that are effectively taxes. Our understanding of the Directive is clarified by case law, including the judgements in the Italian Tax Cases (Ponente Carni) in 1993 and in the Fantask case in 1997.



4.4 The Fantask case provides some fairly detailed guidance on the costs that may (and may not) be properly taken into account. The judgement in this case states that “a Member State is entitled to take account of all the costs related to the effecting of registration, including the proportion of the overheads which may be attributed thereto.” The judgement refers to the examples of overhead costs given in the Advocate General’s opinion and these are “lighting and heating, staff management costs, computer operation and development costs, office rents or depreciation, depreciation of other fixed assets...” The judgement also states that “there is nothing to prevent...charges from being set for an indefinite period, provided that the Member State checks at regular intervals, for example once a year, that they continue not to exceed the registration costs” (para 32).

4.5 The DTI Fees Order 1988 sets out the costs which may be taken into account for fee setting. For example, it confirms that “all costs...directly attributable to the functions specified...” and “that proportion of the costs...incurred...in relation to staff, equipment, premises, facilities and matters connected, whether directly or indirectly, therewith...”. (The “functions specified” are those of the registrar and Secretary of State in respect of the Companies Acts.) In accounting terms, these extracts make it clear that both direct costs and a proportionate share of overhead costs are to be taken into account.

4.6 The principal domestic guidance on the treatment of costs is the Fees and Charges Guide (F&CG), recently updated (HM Treasury. March 2004). This document sets out the Treasury’s expectations regarding costing and fee setting, and Companies House is expected to follow this guidance unless there are good reasons to depart from it. In brief, the Treasury requires prices to be set to recover costs, including an appropriate rate of return, for each service. The expectation is that forecasts will be prepared, and fees reviewed, for each financial year. The F&CG gives detailed guidance on costing and fee setting for statutory and commercial services. Some additional guidance is given in Charges for Information: When and How? (HM Treasury, 2001),

4.7 When costing commercial services, Companies House must ensure that it does not act in a way that could be considered to be abuse of its dominant market position.

4.8 To summarise, the legislation and guidance deals mainly with questions of scope - the costs that may, and may not, be properly taken into account. In European law, the normal principles of cost and management accounting are considered appropriate. Domestic guidance, in the F&CG, sets out these principles in more detail. The position has changed over time, as the law has been tested and clarified. In addition, the Treasury guidance was updated in March 2004.

#### An overview of the approach to costing since 1991

4.9 This section provides a brief commentary on the approach to costing taken by Companies House since the making of last consolidated Fees Regulations in 1991.

4.10 Product costing papers, where available, show that both direct and overhead costs have been taken into account. Direct costs have included, for example, the cost of staff, equipment, supplies, and depreciation. Overhead costs have included a proportion of the cost of marketing, finance, and senior management.

4.11 However, comprehensive product costings, involving the allocation of all annual costs across all products, have not been undertaken regularly. There is a risk, as costs and customer demand change, that product costs are not matched by the income received.

#### The 2002 costing exercise

4.12 Companies House carried out a more comprehensive costing exercise in 2002, partly to provide information to the OFT. The costings were prepared manually, using Microsoft Excel, using figures taken from the budgeting and accounting systems. These costings were based on the actual, budget and forecast costs for each cost centre and allocated all Companies House costs to products, including all overhead costs and depreciation. Costs which could not be attributed directly to products were treated as part of a single pool of overheads and allocated them, after considering different methods of doing this, based on headcount.

4.13 These calculations allocated costs according to the products and services available at the time (which included microfiche) and according to the methods by which they were delivered.

4.14 Cost allocations were prepared based on the actual costs for 2000-1, on forecast outturn costs for 2001-2 and on budget costs for 2002-3. A considerable amount of work was done on that project, but there is no written summary of the overall approach or of the key assumptions. By inspecting the documents it is possible to determine some of the key elements of the approach to costing taken at that time:

- (a) The costing was based on cost centre information produced from the accounting system.
- (b) Registration services were separated into three areas: annual registration, charge registration and incorporation/dissolution.

- (c) Information services were separated by media (microfiche and other) and channel (CHIC, post, CHD). WebCheck, certificates, magnetic tape, bulk image and LFP are treated as separate services.
- (d) Direct costs (including operational, direct support, information centres, and customer services) were allocated directly to products. Some cost centre costs are allocated to single products; some are shared between products either on an 'actual' basis or apportioned. For example, some input costs are shared 80:10:10 to annual registration, mortgage registration and incorporation/dissolution.
- (e) Overhead costs (such as building services, purchasing, personnel, most IT project costs) were mainly allocated on the basis of headcount. £13.3m of costs (31% of total costs) are allocated this way for 2002-3.
- (f) CHIPS project costs, to the extent not capitalised, were allocated to annual registration

4.15 There were no further developments of this work, and no further cost allocations produced, as it became clear that Companies House needed to conduct a more wide ranging review of costing and pricing to ensure that changes in its business environment, in technology and in customer demand were taken into account. This led to the commissioning of the Pricing Review.

#### Current approach to costing

4.16 At present there is no regular and consistent system, or agreed set of procedures, for producing or reviewing product costings and cost allocation information. Costing information, when required, is produced ad hoc. The accounting system does not produce costing reports other than the conventional cost centre report and no further manual costing reports have been produced since 2002, pending the completion of the Pricing Review.

#### Costing best practice

4.17 The Treasury Fees and Charges Guide (F&CG) gives comprehensive guidance on costing for the purpose of fee setting. The fundamental point is that fees and charges should normally be set to recover the full cost of the service. Government Accounting states that the Accounting Officer of a Trading Fund will normally be supported by a Finance Director who is responsible (among other things) for ensuring that fees and charges are set and recovered in accordance with the Treasury's Fees and Charges Guide.

4.18 The F&CG provides detailed guidance on which costs can, and cannot, be included in costings used for fee setting and on the processes that should be applied. This guidance has been applied in detail in the costing proposals referred to later in this report.

4.19 The Pricing Review team visited a number of similar bodies, for comparison purposes. These visits gave some insight into costing issues and provided some useful examples of good practice elsewhere. However, it was also clear that the importance of accurate cost information to each body depended on its particular circumstances.

4.20 For example, one trading fund produces quarterly costing reports, showing cost allocations to each main business area. The process is largely based on data extracted from the accounting

system, although some further adjustments are required. The report was summarised on a single page, in a format suitable for review by senior management. They had categorised their costs as direct costs, accommodation costs and IT costs.

4.21 One European registry shared their regular costing analysis with us. This showed that they have taken steps to demonstrate compliance with European Directives. Their analysis showed how their fees are set to recover costs. The method of cost allocation had been developed with professional help, and has been applied consistently for a number of years. We considered this to be good practice.

4.22 The Pricing Review included consideration of costing methods, and of Activity Based Costing (ABC), which is an approach which has been popular in the private sector. The approach to costing proposed by the Review is not a full implementation of ABC, but is a more rigorous application of conventional costing procedures.

#### A proposed approach to costing

4.23 As part of the Review, an up to date set of cost allocation principles has been developed. These principles, set out in detail in Annex B, will allow Companies House to prepare comprehensive product costings regularly and on a consistent basis. The principles have been applied to the Companies House budget figures for 2003/4 and 2004/5 to prepare detailed product costings and provide a basis on which to make recommendations for future product prices.

4.24 The issues raised by these exercises are set out in detail in Chapter 6.

#### Recommendations

Rec. 4.1 Companies House should prepare comprehensive product costings annually, to ensure compliance with the relevant legislation and guidance. Consideration should be given to automating this process as this would allow regular reports to be produced for review by management and would ensure that reports were prepared on a consistent basis.

Rec. 4.2 Product costings and fee setting should be reviewed by Internal Audit (ARC), as part of their regular programme of work. The ARC team should take account of costing issues (including the use of staff time) reviewing the work of teams within Companies House.

## 5. Pricing

### Legal framework and guidance.

5.1 The legislation governing prices is as follows:

In European Law:    The Capital Taxes Directive  
                          The First Company Law Directive  
                          The Directive on the Re-use of Public Sector Information  
                          European Case Law

In Domestic Law:    The Companies Acts etc.  
                          The Competition Act 1998

In addition, there is guidance on pricing in the Fees and Charges Guide, and Charges for Information, When and How? The following paragraphs summarise the main constraints on fee setting.

5.2 Under the Companies Act 1985, sections 709 and 710, requires Companies House to provide:

- for inspection, by any person, of any records kept by the registrar,
- a copy... of any information contained in those records,
- a certified copy of, or extract from, any such record, and
- a certificate of incorporation of a company

5.3 The power to charge fees for these and other services are set out in Section 708, but there are several constraints arising from EU and UK law on how fees are set. The principal rules that Companies House is required to follow are:

- (a) as a Trading Fund, Companies House has a statutory duty to break even over time (“taking one year with another”) and to achieve an average annual return (surplus) of 3.5%.
- (b) the Treasury Fees and Charges Guide requires fees to be set to break even (ie to recover the full cost) for each separate service after allowing for a cost of capital of 3.5%. This effectively prohibiting cross-subsidy between different statutory services
- (c) The EC Capital Taxes Directive allows company registration costs to be met from fees, but prohibits charges that are effectively taxes. This means that prices cannot lawfully be set above costs for the relevant services. Case law provides further guidance on the costs that can, and cannot, be taken into account for fee setting.
- (d) The EC First Company Law Directive, as amended, requires copies of company records to be made available to the public at a price not exceeding the “administrative cost” of producing them.
- (e) The Directive on Re-use of Public Sector Information says that “the total income from supplying and allowing re-use of documents shall not exceed the cost of collection, production, reproduction and dissemination, together with a reasonable return on

investment. Charges should be cost-oriented over the appropriate accounting period and calculated in line with the accounting principles applicable to the public sector bodies involved.”

- (f) The Competition Act 1998 prohibits the abuse of a dominant position in a market. As Companies House is dominant in the market for company information (by virtue of its statutory function), it must ensure that it does not abuse this position either by exploiting customers or by anti-competitive behaviour.

### Fee Setting Powers

5.4 In the early nineties, CH’s core or “statutory” services were considered to be microfiche and paper copies of documents. Fees for these services were set by Statutory Instrument, in Fees Regulations, in accordance with Section 708(1) of the Companies Act 1985. New electronic services were developed during the 1990s, but the fees for these were never added to the Fees Regulations. Originally, it was considered that setting fees by Regulations was too cumbersome to encompass new products, where the market might initially be unknown, and rapid changes to prices might be necessary once the size of the market became known. At the time, the intention was gradually to integrate these products into the Fees Regulations.

5.5 The legal basis for setting fees outside Regulations is Section 708(5) of the Companies Act. This allows the Registrar to charge a fee for any service “otherwise than in pursuance of an obligation imposed by law.” [REDACTED]

[REDACTED] In addition to powers conferred by the Companies Act 1985 (and other legislation), charges can be made using the common law powers of the Secretary of State. [REDACTED]

5.7 When Companies House sought Counsel’s advice in 1996 on the boundaries of 708(5), he conceded that there was an argument that this Section could be taken to mean that only core services need to be included in Fees Regulations. Although Counsel advised at the same time that the safer route would be to set fees for all Companies House products by Regulations. The advice effectively removed any incentive to set fees for new services by Statutory Instrument and prices for new electronic information services were then set administratively, and not in Regulations. With the ending of microfiche updating, all references to microfiche products were removed from the Regulations, leaving just paper products as the core service.

[REDACTED]

[REDACTED]

[REDACTED]

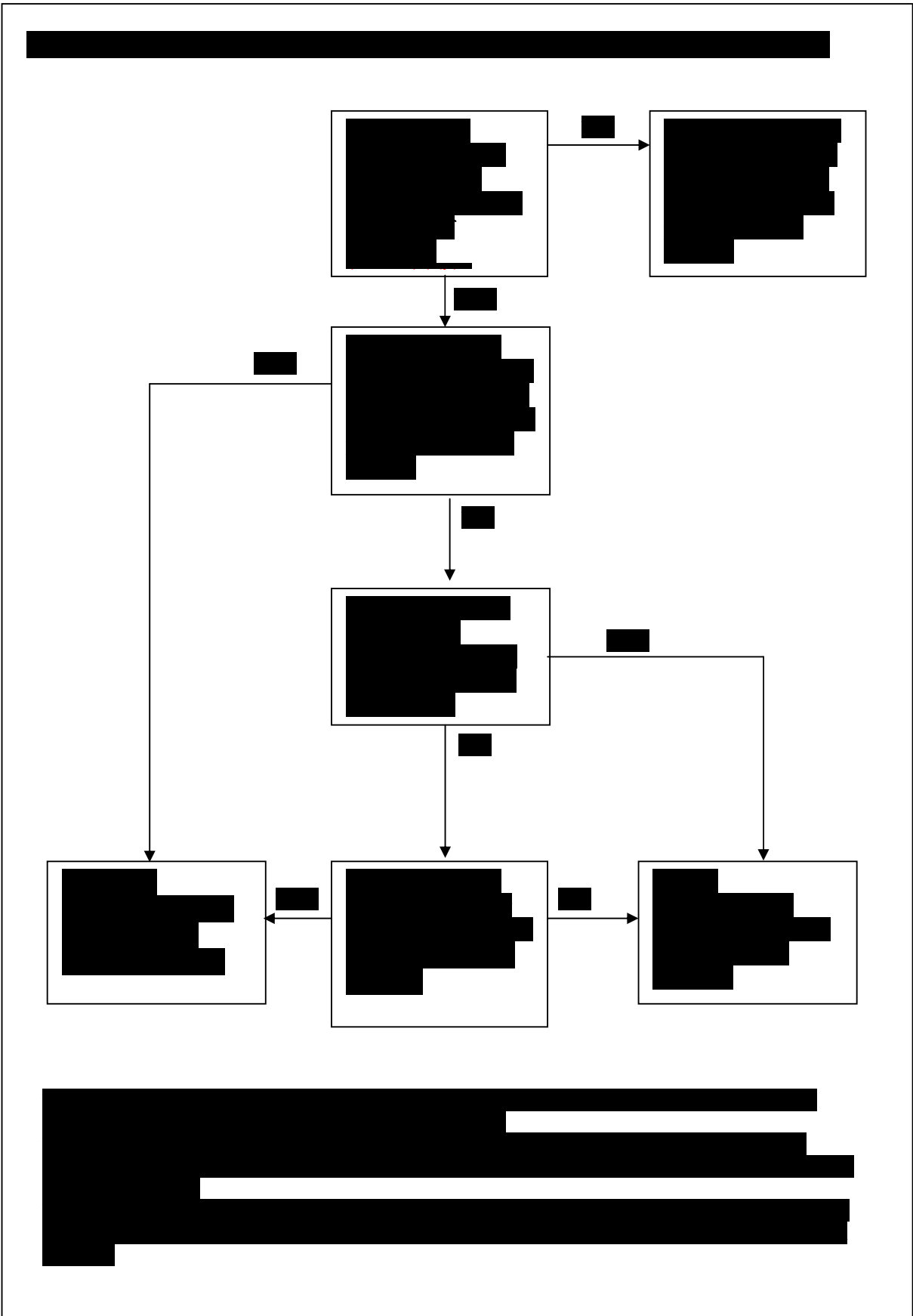
[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]



## The approach to fee setting since 1991

5.11 As already explained, fees for core services are set by Statutory Instrument. The Companies (Fees) Regulations 1991 have since been amended eight times. The reasons for each amendment are set out in Companies House files. Broadly, the reasons for these amending Regulations at each stage can be described as being in one or more of the following categories:

- a) to implement changes required for legal or policy reasons. For example in 1994, following the judgement in the Ponente Carni (Italian Tax cases), the costs of administering company law and the cost of company investigations were taken out of Companies House fees. This resulted in significant fee reductions - the incorporation fee was reduced from £50 to £20, for example.
- b) to reflect changes in demand for products. For example, as demand for company information on microfiche reduced the unit cost increased and fees were raised accordingly.
- c) to reflect changes in methods of supplying customers. For example, Companies House stopped updating microfiche records at the end of 2002 and the costs of producing daily microfiche updates were avoided. Fees for company information provided on microfiche were removed from the Regulations in 2003.
- d) for financial reasons. For example, the introduction of the new fee for mortgage registration in 1999 recognised that there were significant costs of servicing companies registering mortgages. Separating these costs out, and setting a separate fee, was in compliance with European law and avoided an increase in the annual return fee.
- e) as the result of a comprehensive review of product costings. Although comprehensive reviews have been carried out periodically (eg in 1996), they have not been carried out regularly. Annual reviews are now considered to be best practice.

5.12 Similar factors appear have been taken into account when considering the costs of services for which fees were set administratively (eg for Companies House Direct, and for 'same day' services). For administrative reasons, the changes in these fees have usually been introduced at the same time as changes in fees set by Regulations.

5.13 There were wide ranging adjustments to prices in 1996 following an assessment of the impact of the ECJ ruling in the Italian Tax cases. At other times price changes have often been made in response to specific issues. The price increases for microfiche products in 2002 would fall into this category.

5.14 Although the majority of Companies House income is generated from fees for registration services and for the dissemination of company information, there are also fees for certain specialist services. For example, fees relating to the Directors Secure Register, and for services for Limited Liability Partnerships are set by separate Statutory Instruments.

## Current pricing

5.15 The current Price List, dated 2 January 2003, lists Companies House services under the following headings:

- Company Incorporation and Registration
- Limited Liability Partnerships
- WebCheck
- Companies House Direct
- Information Centres
- Contact Centre
- Certified Copies and Certificates of Fact
- CD-ROM Directories
- Companies House Monitor
- Other Services
- Magnetic Tape Products
- Bulk Image Tape Products
- Other Prices

5.16 The Price List describes the services offered by Companies House in plain English (not the precise legal words in the Fees Regulations). It presents them in a format which tells customers what is services are available so that they can choose how to access them. The full range of services is covered - from the simplest services for infrequent users (eg WebCheck), to the most specialised services for commercial users (eg bulk information services). Customer feedback on the price list (at focus group meetings, road shows and in customer satisfaction surveys) is that it is complex and difficult to understand. The specific issues raised have included questioning the first document/second document fees, price differences between WebCheck and CHD, and the price differences for different ways of ordering information. The level of prices seems to be less important to customers and does not appear to be a priority issue for search customers. When prompted, customers will generally ask for lower prices.

5.17 The policy for all products and services is one of cost recovery. Almost all of the services available are included in the price list, with only a few minor services omitted. Such examples include directors' seminars, certain bulk products, and bespoke search services.

5.18 Prices for most registration services are set by Regulations made under section 708(1) of the Companies Act. Prices for the majority of dissemination services are set administratively, and not by Regulations, under section 708(5) of the Act.

## Review of Practice Elsewhere

5.19 The Review Team's visits to comparator bodies illustrated a wide variety of approaches to pricing within the basic Treasury framework of cost recovery. Different bodies had agreed product and service definitions, and pricing structures, that were appropriate to their circumstances.

5.20 For example, patent renewal fees increase in steps for each successive annual renewal, within a framework of cost recovery each year. This approach is seen as encouraging patent

registration in the first instance, but relating renewal fees (however broadly) to the perceived economic value of the patent.

5.21 The Charity Commission provides information about registered charities to the public. No charges are made and the costs of dissemination are Vote funded. Although this is seen as appropriate in the circumstances, it is not likely to be a practical option for Companies House.

5.22 The Land Registry has a simple and attractive approach to electronic pricing, with a range of information available electronically for £2 and by other methods at £4. This tells customers that there are different ways of getting the information and that the electronic services have the lowest costs.

5.23 In summary, the lessons from the comparator bodies visited, suggested that Companies House could and should be flexible in defining services and setting prices (within the legal and other constraints) in a way that was appropriate for customers.

#### Pricing Issues and Findings

5.24 The changes in statutory fees and service have resulted in some anomalies in the Price List. For example:

- (a) the statutory fee for a paper copy of a list of members delivered by post is £9, although the Price List shows a price of £16.50 for a “paper copy of a bulk shareholders list”.
- (b) The fee for a copy of a company document from the contact centre is £12 by fax and £5 by email. Since these fees were first set, fax and email technology has converged, and fax copies are now transmitted electronically. The basis on which the fax fee was set has almost certainly been overtaken. Similarly, a document image by email costs £5 from the contact centre, but only £3 by post, even though the cost of the latter is certainly greater.
- (c) the most recent Fees Regulations introduced a fee of £3 for a “paper copy of a company document”. However, the Price List also shows a price of £10 for a “paper copy of a document not held on microfiche”. A well-informed customer could presumably object to the £10 charge and insist on paying the (statutory) £3 fee instead. This illustrates the importance of checking the presentation of products and prices in the Price List with that in the Fees Regulations themselves.
- (d) The Price List shows, in a number of places, reduced charges for subsequent documents. For example, the first document downloaded from CHD in each session costs £2 and subsequent documents cost £1. These prices follow the arrangements for searches based on microfiche records, but the same logic does not apply to searches of electronic records. In addition, this tiered pricing causes technical difficulties for the CHD XML product. Consideration should be given to replace such tiered charges with a single charge per document.
- (e) The Price List still gives prices for “paper copies of DTI returns” from insurance companies. The responsibility to receive returns and make them available to the public was passed to the Financial Services Authority (FSA) in the Financial Services and Markets Act 2000.

5.25 Bespoke search services are priced to recover the cost of staff time to service the request (usually IT staff) with a mark up (currently 3.5%) to reflect the return required by the Treasury. Charges do not take account of overhead costs, which are estimated to be approximately 40% of the staff costs.

5.26 Seminars for new Directors are currently charged at cost and VAT is charged. Companies House should clarify the basis for the charge. The authority is either s708(5) CA85, or the charge is an exercise of the common law powers of the Secretary of State. Companies House needs to be clear about its authority to charge for seminars and should ensure that it is correct to charge VAT. At the current low level of provision there is significant demand and seminars are fully booked months in advance. The service is potentially sensitive, as private sector training providers offer similar services.

5.27 The Price List offers customers “Northern Ireland company information” at a price of £15 per paper document. This service has been offered to customers as a convenience over a long period, presumably to provide a ‘one-stop shop’ for UK company information. The number of requests in 2003/4 was in single figures. Requests are processed simply by obtaining the required information directly from Companies House Northern Ireland (CHNI), as Companies House holds no documents on Northern Ireland companies. As information can now be obtained directly from CHNI by telephone or on-line, there appears to be little need for Companies House to act as intermediary in this way.

#### Recommendations:

- Rec. 5.1 Companies House should have a formal process for approving new fees to ensure that there is an appropriate power to charge, to ensure that they are properly set in accordance with the legal and other constraints, and to ensure that fees are correctly treated for VAT purposes.
- Rec. 5.2 Companies House should seek expert advice to confirm that all registration and dissemination services are outside the scope of VAT.
- Rec. 5.3 Subject to legal advice currently being sought from Counsel, the fees for all services involving the delivery of statutory information (extracts from the registers, or copies of documents) should be set by statutory instrument, with the exception of bespoke search services (see below).
- Rec. 5.4 As the supply of bespoke searches is infrequent, dependent on the availability of resources, and in response to one-off requests, Companies House should consider if fees for the service can properly be set (on a cost recovery basis, and including a proportionate share of overheads) other than by Fees Regulations. In addition, Companies House should review the legal implications of undertaking bespoke work (for example, under the Data Protection Act and Human Rights Act).<sup>1</sup>

- Rec. 5.5 Companies House should simplify and clarify the format of the Price List, so that customers understand what services are available and the different ways in which they can be accessed. It may be appropriate to separate the 'standard' services (providing for inspection of register information, copy documents and certificates) from the more specialised services such as bulk data and bulk image products.
- Rec. 5.6 Companies House should ensure that all prices (including those set out in the Price List) are checked periodically to ensure that fees are either as specified in Fees Regulations, or that there is other valid authority for the charge.
- Rec. 5.7 The inclusion in the Price List of the fee for the register of disqualification orders (a bulk product, priced at £960 p.a.), raises a question about the charging power. Companies House should consider if it would be more appropriate to set fees for such information under the Company Directors Disqualification Act 1986 , which makes provision for fees to be specified in regulations (section 18(4)).
- Rec. 5.8 Companies House needs to agree the practical arrangements for the FSA to take on their responsibilities for receiving returns from insurance companies, for disclosing them to the public and for setting any associated fees.
- Rec. 5.9 Customers using 'assisted' services should be made aware of the other ways in which they could access the information on a self-service basis, eg via the Internet.
- Rec. 5.10 Companies House should clarify the power to charge for Directors' Seminars and confirm that it is correct to charge VAT.
- Rec. 5.11 Given the small number of places available on Directors' Seminars and the considerable demand, Companies House should review the objectives of this service and consider if they are being met.
- Rec. 5.12 Companies House should consider if it should continue to act as an intermediary with Companies House Northern Ireland for customers seeking information about companies registered in Northern Ireland.

## 6. Analysis of Cost Allocations

### Product categorisation

6.1 Companies House segments its financial results in its annual report as Registration activities, Dissemination activities, and Other services. For costing and pricing purposes a more detailed analysis is required, because of the different constraints on pricing. The first step is, therefore, to set out the list of services that need to be treated separately for costing and pricing purposes. These are:

- (a) Annual return and statutory documents
- (b) Incorporation (including re-registration and change of name)
- (c) Charge Registration
- (d) Dissolution
- (e) Limited Liability Partnerships
- (f) Directors Secure Register
- (g) Dissemination (electronic)
- (h) Dissemination (other)
- (i) Bulk products
- (j) Certificates
- (k) Late Filing Penalties
- (l) Minor Occupiers

6.2 The detailed reasoning that supports this categorisation is attached at Annex B. The separate treatment of registration services (items (a) to (e) above) is needed to demonstrate compliance with the Capital Taxes Directive. The cost of processing annual returns and other statutory documents is funded from a single annual fee, payable on submission of the annual return.

6.3 There is a significant change from past practice in the separation of dissemination service into two categories - electronic and other. Dissemination services have previously been categorised as microfiche and other, with further sub-categorises based on the method by which the product was delivered (by CHIC, post or CHD). The new approach recognises that the overwhelming majority of company information is now supplied 'self service' by electronic means. The 'other' services are those provided by the Contact Centre and at Information Centres (CHICs).

6.4 There is no separate category for commercial services. It would be necessary to separate out the cost of delivering commercial services if Companies House offered them (or planned to offer them) on any significant scale, as different guidance applies. Companies House must ensure that it has statutory authority to undertake any significant continuing service (Fees and Charges Guide, para 7.2.1). The arrangements put in place by the Land Registry, in its revised Trading Fund Order, to provide authority for 'wider markets' services<sup>1</sup>, might provide Companies House with a suitable model. The main differences for commercial services are that a different rate of return might be agreed (depending on the circumstances) and to ensure that there is fair

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<sup>1</sup> As described in the policy note *Selling into Wider Markets* - HM Treasury, December 2002

competition where there are, or might be, other competing providers. Annex E of the Fees and Charges Guide summarises the Competition Act issues.

#### Matters arising from the cost allocation exercises

6.5 The cost allocations to products for 2005/6, together with the forecast income at current prices, are summarised in the following table:

Product	Forecast Cost	Forecast income	Forecast surplus / (deficit)	% difference (on cost)
	£k	£k	£k	%
<i>Registration:</i>				
Annual Return	45,326	26,660	-18,666	-41%
Incorporation	5,819	6,484	665	11%
Charge Reg.	2,166	1,797	-369	-17%
Dissolution	949	1,000	51	5%
LLP	268	536	268	100%
DSR	181	60	-121	-67%
<i>Dissemination:</i>				
Electronic dissemination	6,250	11,744	5,494	88%
Other dissemination	809	460	-349	-43%
Certificates	505	928	423	84%
Bulk products	287	1,326	1,039	362%
<i>Other Products:</i>				
Late Filing Penalties	3,804	2,833	-971	-26%
Minor Occupiers	443	1,034	591	133%
<b>Grand total</b>	<b>66,807</b>	<b>54,861</b>	<b>-11,946</b>	<b>-18%</b>

6.6 The comparison of product costings for 2005/6 with forecast income (at current prices), shows that a large deficit is forecast and that prices need to rise to cover costs. In addition, the costs and prices for some product groups are out of line and need to be re-balanced. For example, the deficit on the annual return fee is forecast to be almost £19m. The imbalances arise, inter alia, because of changes in the way Companies House does business, significant changes in costs, and changes in demand for Companies House services. For example, the total costs for fee setting purposes have risen from £50m in 2003/4 to £67m in 2005/6, an increase of 34%.

6.7 The exercise shows that there are substantial forecast deficits on the following services:

- Annual return
- Charge registration
- Directors Secure Register
- Other dissemination (non-electronic)
- Late Filing Penalties

6.8 The deficits on the costs of processing annual returns and statutory documents, and on charge registration, can be addressed by increasing the associated fees. The deficit on the annual return fee arises because of large cost increases, which largely fall on registration services

(because they are the costs of handling increased volume or of updating computer systems). The under-recovery in recent years has been masked by the over-recovery on dissemination services.

6.9 The deficit on the Directors Secure Register is not easily addressed. Fees for confidentiality orders and access to the register are set under the Companies (Competent Authority) (Fees) Regulations 2002. The income generated does not, at current volumes, cover the costs of maintaining the separate register.

6.10 The deficit on non-electronic services dissemination is also not easily addressed, as increases in fees are likely to reduce demand still further. An alternative to increasing fees would be to consider if costs can be reduced or if customers could be encouraged to move to the electronic services. The cost of the CHICs is a significant element of these costs (see paragraph 6.21).

6.11 Companies House receives a specified contribution for administering late filing penalties, currently £2.8m. (The income does not derive from fees set in Regulations.) The sum was agreed some years ago and does not now cover the full cost of the work, which is calculated to be £3.5m in 2004/5. The current shortfall of £0.7m is forecast to rise to £1.0m in 2005/6. The mismatch should be addressed by negotiating an increase in the contribution received.

6.12 There are surpluses on the following services:

- Incorporation
- Dissolution
- Limited Liability Partnerships (LLPs)
- Dissemination (electronic)
- Bulk products
- Certificates
- Minor Occupiers

6.13 There are modest surpluses on incorporation and dissolution. The need to amend prices should take into account the likely variation in demand. The income from incorporation could be addressed by fine tuning the fees for the premium service.

6.14 Prices for LLP services are generally set higher than the equivalents for companies. The surplus on LLPs arises because the current costs are exceeded by the income generated at current volumes. The original forecasts of demand have fallen short of expectations – at March 2003 there were just over 4,000 registered LLPs. In Treasury terms the service does not need to be treated separately. As the processing costs for LLP services are very similar to the equivalents for company transactions, then there is a good case for charging the same fees to LLPs as to companies. The similarity in cost is not a surprise, as there are considerable similarities in the processing of LLP documents and company documents.

6.15 The surplus on dissemination products by electronic means arises mainly because sales have increased dramatically year on year. The surplus can be addressed by reducing prices.

6.16 The surplus on bulk products appears to have arisen because changes in technology have reduced the cost of providing these products and because the number of customers has increased. Changes in the allocation of costs to the service also have a significant impact. As Companies

House policy is to price bulk products at cost, the forecast surplus can be addressed by reducing prices.

6.17 The surplus on certificates arises because, at current volumes, total income exceeds total costs. It can be addressed by adjusting prices.

6.18 The surplus on minor occupiers arises because Companies House charges a market rent to its tenants rather than the actual costs of providing accommodation. As Companies House operates within the trading fund regime, any surplus arising would be expected to be offset with expenditure or deficits elsewhere, to meet the overall financial targets.

#### Other issues

6.19 The costs of the contact centre (£1.94m for 2004-5, about 4% of total costs) have been allocated 75% to input services and 25% to output services for costing purposes. This is based on current (and incomplete) estimates about the subject matter of the contacts handled. Better information would enable a more precise allocation.

6.20 The cost of prosecutions and compliance work is forecast to be approx. £2.4m in 2004/5, including £0.6m of allocated overhead), and these costs have taken into account when setting the annual return fee. Although permitted by domestic law (the DTI Fees Order 1988) Companies House may need to consider how far costs of inspection may be taken into account. The same consideration should be given to any work by policy and planning on company law reform, for example (although this is likely to be much less significant in monetary terms).

6.21 Although not significant in financial terms, the income generated by the Companies House Information Centres (CHICs) in London, Edinburgh and Cardiff, fall far short of their costs. Maintaining the London CHIC will cost £500k in 2004/5 and search income is forecast to be less than £200k. It is unlikely that CHIC search fees could realistically be set to recover their full cost (including the maintenance of the customised CHIC computer software), as higher prices would probably reduce demand even further. Companies House is aware of the cost of maintaining the CHICs and of the changing patterns of use. For the time being, income from other information services is funding the CHICs. The Board may consider this to be the unavoidable consequence of maintaining a wide range of channels for accessing Companies House services, but should note the additional financial burden placed on other customers.

#### Recommendations

- Rec. 6.1 Where there are significant surpluses and deficits, fees should be adjusted so that costs are recovered for each significant product and service.
- Rec. 6.2 Companies House should consider if the mismatch between the income generated by CHICs their costs is significant, and how it might be addressed.
- Rec. 6.3 Companies House needs to ensure that it has adequate and appropriate management information from the contact centre. It is important to know who uses the contact centre and the services that they are accessing as well as the information about the methods of contact. Although this would be helpful for costing purposes, it is more important to have this information for operational reasons.

- Rec. 6.4 Companies House should review the inclusion of prosecution and compliance costs when setting the annual return fee and confirm that it still regards this as appropriate.
- Rec. 6.5 Companies House should consider how it can ensure that the costs of administering the Late Filing Penalty regime (including a fair share of overheads) match the funding available. An arrangement to deduct administration costs from the fines collected would be one way of ensuring that Companies House was reimbursed correctly. Alternatively, the costs could be calculated by an agreed method that recognises that both the costs and the volume of work change from year to year.
- Rec. 6.6 Although not significant in monetary terms, Companies House should consider if the charging regime for confidentiality orders could be modified so that the annual costs of running the Secure Register are covered by income.
- Rec. 6.7 Companies House should harmonise the fees charged to Limited Liability Partnerships (LLPs) with those charged to companies. This is a reasonable approach because there is not a significant number of LLPs, because the cost of processing of LLP documents is very similar to that for companies, and because it would simplify the price list. The same logic can be applied to EEIGs and to the European Company (SE), although fees for these will not be set under the authority of the Companies Act. The difficulty of harmonising fees charged to Limited Partnerships (these are currently set in the Limited Partnerships Act 1907) is acknowledged.

## 7. Pricing proposals

### Introduction

7.1 This chapter makes detailed pricing proposals for Companies House products and services. These pricing proposals are intended to recover costs, based on the forecast of costs for 2005/6 and the forecast volumes of business set out in Annex C.

7.2 A secondary aim has been to simplify the price list as far as possible and to address the specific issues that emerged during the review, such as those described in paragraph 5.24.

### Setting fees on a cost recovery basis

7.3 In principle the full cost of services should be recovered each year. However, it is legitimate in the interests of administrative efficiency to apply a degree of tolerance to this principle (Fees and Charges Guide, 1992ed. para 2.3). For example, a fee may be rounded even though this may produce a small surplus or deficit. In addition, the Treasury has set Companies House the objective of achieving a return, averaged over the 5-year period from 1 April 2004 to 31 March 2009 as a whole, of 3.5% (Treasury minute of 22 June 2004). The reference to an averaged return implies that prices can be adjusted to achieve this return on average (but not necessarily year by year).

7.4 In addition, Treasury guidance recognises that charges may be adjusted if there is a high risk of error in the forecast (F&CG, Appendix C1, step 8). However, any flexibility does not alter the overriding requirements to set prices on a cost recovery basis and that prices should not be set to deliberately make a surplus.

## Detailed pricing proposals - company registration

7.5 The proposed registration fees are set out in the table below:

Fee No.	Service Description	Proposed Fee	Current Fee
1	Incorporation, Registration, Re-Registration	£20	£20
2	Same day incorporation	£50	£80
3	Electronic incorporation	£18	n/a
4	Annual fee a) on submission by electronic means of an annual return, or b) on submission of a paper annual return	£24  £28	) ) ) £15 ) )
5	Change of name	£10	£10
6	Same day change of name	£50	£80
7	Registration of mortgage or charge	£13	£10
8	Voluntary strike off of private company	£10	£10

### Rationale

7.6 **Fee Nos. 1-3: company incorporation, re-registration, and registration of overseas companies.** The separate fee for electronic incorporation reflects the policy decision to offer incentives for e-transactions and to allow for CH to offer a ‘citizen’s incorporation’ service in future. The difference in fees is based on the forecast cost savings of electronic receipt. The same day service fee was previously set administratively and will appear in the Fees Regulations for the first time. It is a (non-electronic) premium service and the differential price is allowed by Treasury guidance. The fees for the basic and premium services will recover (in total) the costs of both services. The reduction in the price of the same day service is ‘fine tuning’, to better balance income and costs. CH forecasts that the same-day service will decline as the electronic service will offer similar or better service at a significantly lower price. Incorporation fees generate approximately 10% of CH income.

7.7 **Fee No. 4 - Annual (return) fee.** This is the most important single fee to Companies House. It generates over half of Companies House’s total income and a £1 difference in the fee would make a difference of £1.7m to total income. It is therefore essential that this fee is set correctly.

7.8 It is proposed that the annual fee would replace the current annual return fee. The name change is intended to avoid the impression that the fee is solely to cover the cost of processing the annual return. The fees are set on a cost recovery basis to recover the costs of receiving, processing and retaining the statutory documents that must by law be delivered to the registrar. Consideration will be given to charging the first annual fee on incorporation (to cover the costs of handling statutory documents in the first year), but this will not be implemented until customers have been consulted, probably in 2005.

7.9 The introduction of a reduced fee for the electronic submission of an electronic annual return (based on the lower processing costs) is intended to promote the take up of e-filing. The intention is to encourage companies to sign up for electronic services. Once registered for filing of an annual return, it is then believed that companies would transact electronically for a range of other services (eg notifying changes of company officers, or of the registered office address), many of which do not have a separate fee. Each year a company will file, on average, an annual return, a set of accounts and two other documents. Encouraging e-filing with a reduced annual fee for an annual return is therefore capable of making a significant contribution towards targets for the take up of electronic services.

7.10 Consideration was given to charging a different annual return fee to PLCs. The Capital Taxes Directive permits different charges to different classes of company, providing that they are based on the different costs. It would be legitimate, therefore, to charge a higher fee to PLCs if, for example, they are more expensive to process. As PLCs form only a very small percentage of the companies on the Register, a higher charge to each PLC would not result in a significantly lower charge to each limited company. This option has not therefore been pursued.

7.11 **Fee Nos. 5 and 6 - change of name.** The basic fee is unchanged, and is set on a cost recovery basis. The premium fee, previously set administratively, will be set by SI for the first time. The reduction in the premium fee is to 'fine tune' income to match costs more closely, and is set at the same level as same day incorporation, for consistency. There are no plans for a separate fee for electronic change of name. Once the service has been introduced a separate fee could be considered if the costs of the electronic service were significantly different from the manual services.

7.12 **Fee No. 7 - registration of charge.** The fee is increased to £13, and is set based on cost recovery. There is no fee for recording that a charge has been satisfied. The work requires the submission and scrutiny of original documents, making it unlikely that there will be significant cost savings from e-filing in this area.

7.13 **Fee No. 8 - voluntary dissolution.** The fee is unchanged, and is set based on recovering the cost of all company dissolutions, voluntary and otherwise. This is a pragmatic solution to covering the costs of removing insolvent companies from the Register, as they may not be able to pay a fee.

Detailed pricing proposals - dissemination

7.14 The proposed fees for main dissemination services are as follows:

Fee No.	Service Description	Proposed Fee	Current Fee
9	Index Information: a) inspection of the indexes, self service b) copies of index information, (assisted service), per page	free £2	most indexes free electronically mortgage index £1 (CHD and CHIC) £1-£4 per page CEU
10	Basic company information: a) inspection or download of information by self service electronic means b) copy information, assisted service	free* free*	free electronically and CHIC £1-£4 per page CEU registered office address free by telephone from CEU
11	Register information: a) inspection or download of information by self service electronic means b) copy information provided by any other method	£1 £3	£1-£2.50 CHD £1-£2.50 CHIC £1-£4 per page CEU
12	Company reports: a) self service, by electronic download b) by any other method	£1 £3	£1-£3.50 CHD £2.50-£5 WebCheck £1.50-£4 CHIC £2.50-£6.50 CEU
13	Documents: a) inspection of documents stored electronically viewed on screen, self service b) provision of copy documents by electronic download, self service c) printing or copying of on-line document at CH information centre, per page d) copy documents provided by any other method	£4 £1 £0.10 £3	£4 CHD, £2 CHIC £2 first page + £1 page (CHD) £4 (WebCheck) 0.10 £5 first doc + £2 subs. doc (CEU)

Notes: CHD = Companies House Direct (electronic service)  
CHIC = Information Centre (Cardiff, Edinburgh, London only)  
CEU = central enquiry unit (call centre).  
\* can be excluded from Fee Regulations, as provided free

Rationale - main dissemination fees

7.15 Prices for electronic services and non-electronic services have been set to cover their respective costs in total in each case. The fees are not set on the basis that each service element is set individually on a cost recovery basis. Electronic services cover delivery by download and (electronically generated) fax from CHD and WebCheck and the prices for these services are now harmonised, removing the current price differentials. Non-electronic services cover delivery on

paper or other physical media (eg microfiche). CHICs and the CEU provide both electronic and other forms of delivery.

7.16 The aim has been to set a pricing structure that is reasonable, consistent and fair to all users. The general reduction in prices for dissemination products provides Companies House with an opportunity to simplify the charging structures.

7.17 **Fee Nos. 9 & 10 - Index information and basic information.** Companies House has taken incremental steps over a long period to increase the amount of company information available to customers without charge. Companies House has now agreed that index information and basic company information should be provided without charge for all 'self service' customers and this will allow considerable simplification of the current price list.

7.18 Charging for the provision of basic information by the CEU was considered - at present customers can obtain the registered office address of a company by telephone without charge. Although this incurs additional costs for Companies House (because it is an 'assisted' service), and although the information is readily available online (via WebCheck), it was considered inappropriate to reintroduce a charge for this service. However, Companies House will wish to consider how to signpost users towards the online service to reduce demands on the CEU.

7.19 Index information comprises: company names index, company number index and mortgage index. Basic company information comprises: registered office address, status, made up dates/due dates for accounts and annual return filing dates, date of incorporation, country of registration, insolvency details, previous names, company type, nature of business, branch details, overseas company information.

7.20 **Fee No. 11 - Register information.** This comprises mortgage and charge details, company appointments, personal appointments - information extracted by Companies House from the statutory submissions and entered onto 'the register'. Members of the public are entitled to inspect "any records kept by the registrar" and to a copy of any information contained in those records (section 709, CA85). Companies House has agreed to simplify the price list by setting one price for register information delivered electronically, and one price for delivery by any other means.

7.21 **Fee No. 12 - Company reports.** At present Companies House offers three reports which are available to download (only). These are the Appointments Report, the Mortgage Report and the Company Report. These contain summary information and are provided for the convenience of customers. All three include basic company information (see above) and recent filing history. The Appointments Report also includes company appointments details. The Mortgage Report provides details of registered charges. The Company Report provides a comprehensive report that includes all of the information in the Appointments and Mortgage report. Although these may be valued differently by customers, the differences in cost of producing different reports are very small. It is therefore proposed to set a single price for any of these reports.

7.22 **Fee No. 13 - Documents.** The majority of documents are now supplied electronically by CHD or WebCheck. The pricing proposal recognises this and sets a single fee for a document supplied by download (the current prices range between £1 on CHD and £5 on WebCheck). All customers will benefit from this reduction, and the complications of different fees for first and subsequent documents (on CHD) is removed. A fee is set for documents supplied by other means

(eg on paper, via the Contact Centre). There is a separate fee, as at present, for viewing documents on screen. This is essentially a premium service, and priced as such to manage demand - the service must be rationed because of the demands on system resources needed to provide immediate document viewing. The price for this service is unchanged. There are separate fees for document packages (see below).

Detailed pricing proposals - other fees

7.23 The proposed fees for other services are as follows:

Fee No.	Service Description	Proposed Fee	Current Fee
14	Document packages: a) Ordered from CHD and delivered by electronic download, up to 50 documents b) Ordered from CHD and delivered by post, up to 50 documents c) Ordered and delivered at a CHIC, up to 25 documents	£4 £20 £7	£4 £20 £7
15	Bulk shareholder lists: a) Provided other than on paper b) Provided on paper	£12.50 £12.50 + £0.20 per page	£12.50/£15.50 (on microfiche) £9.50/£16.50
16	Inspection, and copies of, original documents: a) inspection and paper copy of an original document, where the electronic record is illegible or unavailable, per document b) inspection only of an original document, where the electronic record is illegible or unavailable, per document	£9 £6	£10 CEU £6 CHIC £20 - archive search
17	Company records to 31.12.2002 on microfiche	£12.50	£9
18	Bulk products (data and images)	see below	27 separate prices covering a range of snapshot and daily update products that are provided electronically and on tape
19	Subscription services: a) - CHD sign on fee b) - CHD monthly subscription	£5 nil	£50 £7.50
20	Discount on fees 9 - 14, where applicable, for the supply of electronic information to intermediaries	15%	15%
21	Certified copies and certificates of fact: a) Up to 10 pages b) each page thereafter c) same day service	£15 £1 £50	£25 £1 £50
22	Certificate of incorporation: a) First certificate supplied b) Additional certificates on same occasion	£15 £10	£25 £10

Rationale - other fees

7.24 **Fee No. 14 - Document packages.** This service was introduced when the provision of microfiche copies of company information was being phased out. The documents supplied in the package are selected according to pre-set criteria and are designed to supply similar information as that on company microfiche. The different price and specification for the CHIC service has been retained to ensure that printers are not printing large document packages to the exclusion of other customers. Approximately 120,000 packages were supplied via CHD in 2003-4 and approximately 700 supplied via CHICs.

7.25 **Fee No. 15 - Bulk shareholder lists.** Section 364A(4) requires companies to provide, as part of the annual return, a list of names and addresses of members. Where the list is long, it is provided separately from the Annual Return form. Companies House outsources the processing of these 'bulk shareholder lists' and they are converted to microfiche records at present. The separate fee reflects the additional costs in providing this information to customers, although volumes are relatively low. Companies House is working on receiving and storing this information in other formats. A fee is therefore set for provision on paper (including a per-page handling charge) and for provision by other means (currently microfiche, but in other formats in future). This amends the current charging structure which has a flat fee for the first 20 pages of a paper list and a per-page charge thereafter.

7.26 **Fee No. 16 - Inspection, and copies, of documents not available electronically.** Section 709(2) CA85 allows for the inspection of original documents where the record kept by the registrar is illegible or unavailable. The separate fee reflects the additional costs in providing the service to customers. Volumes are low.

7.27 **Fee No. 17 - Archive microfiche.** This product provides a copy of company documents in microfiche form at 31/12/2002. Companies House stopped updating microfiche records after this date. This is a specialist (non-electronic) product and one which is likely to be of diminishing value. The fee is set as part of the portfolio of fees for non-electronic products and has been set at the same level as the bulk shareholders list, as this product is also supplied on microfiche.

#### Bulk products.

7.28 Reaching agreement on the treatment of bulk products has proved difficult. Bulk products include snapshots of the company directory and directors register, daily updates to these, and daily updates which provide copies of all the company documents added to the image database. The bulk products designed to meet the needs of commercial information providers (IPs) who re-sell the information, often as part of added value products (that is, combined with information from other sources).



7.30 Companies House is considering if it can continue to set bulk fees administratively, as recommended by the Companies House Steering Board. Subject to the legal point above, Companies House should then be prepared to explain why the fees for bulk products are not set in Regulations when almost all other fees are.

7.31 It is proposed that fees are set on a cost recovery basis, and detailed proposals have been set out in a separate paper. It is acknowledged that the significant changes in prices is likely to present Companies House with some handling issues and that, ideally, changes in bulk prices would be co-ordinated with other changes now planned for 2005. It is also acknowledged that the price reductions for bulk products might have adverse consequences for the customised variations of CHD that are aimed at information re-sellers (CHD Extranet and XML).

7.32 **Fee No. 19 - CHD sign-on and subscription fees.** At present Companies House charges a sign on fee for new users, to cover the cost of credit checks and account set up. There is a separately monthly flat fee, to cover the fixed costs of the service (eg maintaining customer accounts). Both of these fees have been set administratively. In addition, users pay transaction fees for downloads and most other company information. It is proposed to retain the sign-on fee, at a reduced level, for the time being and to set the fee in Regulations. The income from sign-on fees is insignificant, but will deter users from setting up accounts that they will not use. There is a difficult balance to strike between managing demand for accounts and in facilitating wider access to, and use of, the service. In future, customers would not need an account if other payment options are developed for CHD (eg immediate payment by credit card, as for WebCheck). It is proposed to remove the monthly subscription fee and to recover all the costs of running the service from usage charges. This approach was agreed at a Board meeting in June.

7.33 **Fee No. 20 - CHD discounts** (for re-sellers). Subscribers to CHD Extranet and CHD XML are intermediaries who re-sell information from CHD on their own websites. They pay the standard fees for information and documents. Companies House has allowed these users a 15% discount, related to the costs of account management and support. It is proposed that this discount should be set in Regulations in future - this would demonstrate that all users are treated in the same way. The discount is part of the package of fees and charges that recovers the costs of the electronic dissemination products in total.

7.34 **Fee Nos. 21 & 22 - Certificate fees.** Section 709(1)(b) CA85 entitles any person to a certified copy of, or extract from, any record kept by the registrar. As the registrar 'certifies' the information, there are additional costs in checking the accuracy of the extracts made from the records and the fees reflect this. In addition, Section 710 entitles any person to a certificate of the incorporation of a company. The standard and same day fees are reduced to bring them into line with the costs of providing the services.

#### Other issues

7.35 If bulk product fees are set administratively, then Companies House should consider if prices for its CD-ROM products should be set in Regulations.

7.36 The fees for company information provided by the current CH Monitor service will be the standard documents fees (eg Fee No. 13) and no separate fee is proposed.

7.37 It is not proposed that a fee be set for bespoke search work in the Fees Regulations. It is proposed that such work, when undertaken, could properly be charged for under other authority.

The effect of the proposed changes on surpluses and deficits

7.38 The table summarises the forecast effect of the proposed prices. For convenience, the effect of the proposed prices is shown alongside the current prices. A detailed commentary on the current prices is provided in chapter 6.

2005/6	Current prices/forecasts				Proposed prices		
Product	Forecast Cost	Forecast income	Forecast surplus / (deficit)	% difference (on cost)	Forecast income	Forecast surplus / (deficit)	% difference (on cost)
	£k	£k	£k	%	£k	£k	%
<i>Registration:</i>							
Annual Return	45,326	26,660	-18,666	-41%	47,091	1,765	4%
Incorporation	5,819	6,484	665	11%	5,832	13	0%
Charge Reg.	2,166	1,797	-369	-17%	2,340	174	8%
Dissolution	949	1,000	51	5%	1,000	51	5%
LLP	268	536	268	100%	322	54	20%
DSR	181	60	-121	-67%	60	-121	-67%
<i>Dissemination:</i>							
Dissem - electronic	6,250	11,744	5,494	88%	6,858	608	10%
Dissem - other	809	460	-349	-43%	170	-639	-79%
Certificates	505	928	423	84%	695	190	38%
Bulk products	287	1,326	1,039	362%	287	0	0%
<i>Other Products:</i>							
Late Filing Penalties	3,804	2,833	-971	-26%	3804	0	0%
Minor Occupiers	443	1,034	591	133%	1,034	591	133%
<b>Grand total</b>	<b>66,807</b>	<b>54,861</b>	<b>-11,946</b>	<b>-18%</b>	<b>69,493</b>	<b>2,686</b>	<b>4%</b>

Notes to table:

- The surplus on the annual return is acceptable given the uncertainties in forecasts. It is equivalent to just under £1 for each return submitted.
- The surplus on charge registration is reasonable - reducing the fee by £1 would not quite cover costs.
- The LLP surplus is small in money terms.
- The deficit on the Directors Secure Register is hard to address for the reasons given in Chapter 6.
- The surplus and deficit on electronic and non-electronic dissemination almost cancel out. Electronic fees should not be reduced too much as the introduction of any free service is likely to have some effect on demand.
- It is assumed that bulk fees will be set to recover costs exactly and that Companies House will be able to recover the full cost of LFP work from 2005/6.

## Business implications for CH and stakeholders

7.39 The Companies House Marketing Strategy (May 2003) identifies the following groups of stakeholders in Companies House:

- Filing customers
- Information distributors
- Search customers (end users)
- Suppliers, contractors and service providers
- DTI
- Steering Board
- Employees
- Other Government Departments
- Local Community

7.40 The main external stakeholder groups affected by the proposed fee changes are as follows:

- (a) filing customers will be affected by the increase in the annual return fee and we can expect small business groups to lobby against it
- (b) customers who can file electronically may benefit from the incentive price for electronic submission, but those who file manually will pay a higher fee
- (c) search customers will benefit from reductions in electronic search fees and from the free service. The reductions in the price of company information, and the wider range of free information, should generate new business from new customers. These are likely to include small businesses and members of the public.
- (d) information providers and bulk users will benefit from reductions in the fees for bulk information, but may be affected by our search fee reductions if they are forced to change their prices as a result (either to retain customers, or because of customer expectations). It is possible that bulk customers might ask for fee reductions to be backdated. This should be resisted on the grounds that the fees are set to recover current forecast costs, based on current forecast volumes. For example, one factor that contributes towards the current price reductions is the increase in the number of customers for the directory and directors register products.

7.41 Within Companies House, detailed work will be required to implement the changes, in the following areas:

- (a) communicating the price and service changes to customers, for both 'self service' and 'assisted service' options
- (b) making the necessary changes to computer systems and internal procedures
- (c) communicating the changes to staff
- (d) working with suppliers, contractors and service providers to ensure that they understand the reasons for, and implications of the changes

## Impact on the market for company information

7.42 The structure of the market for company information is described in the document 'Companies House - Market Context' (June 2002). Companies House describes the other players in the market as 1<sup>st</sup> tier information resellers and agents, 2<sup>nd</sup> tier information resellers and agents and information users (end-users). Companies House provides information to each of these groups and the monopoly supplier to the market. The re-sellers usually add value to the raw data (by combining it with information from other sources, or by making judgements based on it), but may also sell on raw data as well. Information users range from high volume users (eg. some banks and solicitors) to low volume and occasional users, including members of the public.

7.43 The market for company information is both dynamic and competitive. It provides companies with information to support decisions making, and in this way enhances the competitiveness of British economy. Companies House is not able to estimate the economic benefit to the country as a whole that flows from the availability of company information.

7.44 Companies House recognises that it is part of the market, because of its statutory obligations to provide information, and seeks to serve the re-sellers efficiently and effectively. Companies House supplies re-sellers in two main ways - either by supplying information in bulk on tape or by file transfer, or through variations of the Companies House Direct (CHD) service which have been developed for re-sellers, called CHD Extranet and CHD XML. Companies House benefits from the activities of the re-sellers benefit because they reduce the need for Companies House to supply information directly.

7.45 Because the re-sellers operate in a dynamic and competitive market, they can be very sensitive to any changes in the way Companies House operates, including price changes. For example, the bulk users complained to the Office of Fair Trading (OFT) about pricing in 2002.

7.46 The recommendations on pricing will have a direct impact on the customers for those products. For the re-sellers, there may also be indirect effects because the prices of other products have changed. These direct and indirect effects on the market for company information are now considered.

7.47 The direct effect of the prices would be to reduce costs for bulk users and for re-sellers. It is unclear if there would be a consequential reduction for end users. The price reductions for bulk users would be significant. The price reductions for CHD Extranet and XML users, would not be on the same scale. The price changes should be a pro-competitive force, and may encourage new sales of bulk products, although this would make additional demands on Companies House capacity. The price changes may also encourage Extranet and XML customers to consider transferring to the bulk service because of the savings that could be made.

7.48 The indirect effects of other price change may also be significant. The price reductions for 'retail' CHD services might be to increase the size of the market for company information (by drawing in new customers). They might also change the dynamics of the market. It is not possible to quantify these effects as Companies House has no reliable information about the elasticity of demand for company information, and no information about the customer base of the re-sellers.

7.49 The Competition Act 1998 prohibits the abuse of a dominant position in a competitive market and the OFT have stated that Companies House holds a dominant position in the market for raw company information. Companies House must not, therefore, abuse its position by exploiting customers or engaging in anti-competitive behaviour.

7.50 The OFT have not regarded prices for statutory services, set on a cost recovery basis, as falling within the Competition Act. However, some care is required, as OFT have taken a different view on statutory and competing services from that within Companies House. In 2002, the OFT treated CHD and WebCheck as competing (and not statutory) services. One reason for this appears to have been that fees for CHD and WebCheck were not set by Statutory Instrument.

7.51 OFT have suggested that effective consultation and suitable notice would help re-sellers to deal with the changes that affect them, and that this might, in turn, help to avoid a complaint (under the Competition Act) that Companies House had abused its dominant market position. Companies House policy is that it does not consult on prices where they are set on a cost recovery basis.

### Recommendations

- Rec. 7.1 Companies House will want to give detailed consideration to the pricing proposals set out in this chapter, in the light of its financial objectives. Any significant changes to the planning assumptions, or to the forecast costs, are likely to mean that the fee proposals should be revisited. In any event, fees will need to be reviewed again in time for 2006-7.
- Rec. 7.2 Companies House needs to determine whether fees for bulk products must be set in Regulations, or whether the Registrar can use her discretion to set fees administratively under s708(5).
- Rec. 7.3 Companies House will need to consider all the practical issues that will need to be addressed internally, and by stakeholders, so that new fees can be implemented as planned in February 2005.
- Rec. 7.4 Companies House should consider how to manage the impact on re-sellers and other customers of the changes flowing from the Pricing Review.

## 8. Future Direction

### Introduction

8.1 In a steady state, a regime of reviewing cost allocations each year and adjusting prices accordingly would be straightforward. Although Companies House has clear strategic objectives (set out in the Strategic Direction 2003/06 document), it is also experiencing a number of dramatic changes to its technology, business environment and customer base. Each of these is now discussed briefly.

### Technological change

8.2 The delivery of electronic incorporation services and an electronic service for filing company accounts are key government targets. In addition, the current Gershon review is driving Companies House to increase the take-up of e-services as a means of increasing efficiency. The speed of take-up of e-services will affect product pricing and the differential prices for paper and electronic submission of annual returns are likely to need regular adjustment. The scope to use incentive prices to encourage the take-up of electronic services is considered in more detail in Chapter 10.

8.3 The increasing use of electronic filing for routine transactions will change the way in which Companies House does business. For example, Companies House is likely to receive more e-mail and less by conventional mail. The electronic receipt and validation of data will reduce the need for paper handing and manual checks by Companies House staff. In the long term, the increasing use of electronic communications (and increasing joining-up of government systems) will change the cost base of Companies House. However, it is unlikely that all of the current tasks can be performed automatically and that a substantial rump of 'manual' process (involving analysis and judgement) will remain.

8.4 It seems likely that the recent innovations in e-delivery in the dissemination of company information will, in due course, be matched by similar innovations in the receipt, processing and maintenance of statutory information from companies. The substantial investments in CHIPS are already beginning to increase the fees for registrants and this seems likely to continue. This contrasts with the relatively stable position on dissemination (although managing volume is still a live issue) in which the benefits of earlier investment are now being reaped, and the prices to customers are beginning to fall.

8.5 It is hard to forecast what the Companies House cost base will be once the majority of transactions are conducted electronically and difficult to forecast the rate at which customers will adopt e-services. The experience in other countries, such as New Zealand and Denmark, seems to be that e-services can take off rapidly in the right circumstances. Companies House has prepared financial forecasts that are consistent with e-services targets over the period to 2009-10. Over the next few years the depreciation charges (representing the use of fixed assets, including IT hardware and software developments such as CHIPS) will grow significantly. These charges will need to be taken into account in fee setting.

8.6 The filing of accounts in a standard, electronic, format, such as XBRL would offer new possibilities to intermediaries for the automatic extraction and processing of company

information. These possibilities are likely to be of greater interest to the private sector information providers than to Companies House. However, this innovation is some years away at present.

### Business environment

8.7 The Pricing Review has tested the appetite in Companies House to offer more commercial services in competition with private sector providers. There are no plans at present to offer such services. To enable such services to be offered in future, Companies House should seek statutory authority for 'wider markets' services when the Companies Act is amended. The approach taken by Land Registry (see paragraph 6.4) may provide a useful model. Consequential changes to the Framework Document and to the Trading Fund Order would also be needed.

8.8 The planned amendments to the Companies Act include proposals would clarify the status of the Registrar, update the powers to charge for services, and provide statutory authority for Companies House to offer 'wider markets' services in future. It is important that any remaining difficulty [REDACTED] about the authority of Companies House to offer services, or to set fees for them, is resolved.

### Customer base

8.9 Making reliable forecasts of the future volume of business remains challenging. For example, between March 2002 and March 2004 the number of companies on the register increased by more than 25%. This increase was partly driven by tax changes introduced in the 2002 budget. Another example would be the difficulty of forecasting the rate at which companies will make the change from manual to electronic filing. Companies House has made forecasts of future volumes for the years up to 2009/10 and these forecasts, and the underlying planning assumptions should reviewed regularly to ensure that they remain realistic and appropriate in the light of external factors that are outside the control of Companies House. This will ensure that the basis for each fee remains well founded.

8.10 The introduction of a more extensive free company information service, planned for 2005 and subject to consultation, will affect sales volumes for the paid search products. Prices may need to be adjusted to ensure that costs are recovered. Customer expectations for free service seem likely to increase, driven by the provision of free on-line services that are funded either from commercial profits (like Ordnance Survey and Met. Office) or in other ways (like the Charity Commission, which provides services from vote funding). Chapter 9 sets out the issues about free information in more detail.

### Product development

8.11 The introduction of new services could affect costing and pricing significantly. For example, the introduction of a free electronic company information service would affect the existing chargeable services, but it is very difficult to forecast what the impact would be. In this case, Companies House expects to research the demand for, and impact of, such a change. Another example would be any move to develop and offer commercial services. These might be priced to generate a higher rate of return, and would need to be accounted for separately, so that the income, cost and surplus or deficit could be disclosed, as required, in the annual report.

8.12 Companies House research with one customer group (Accountants) indicates that awareness of e-filing services is high (82%), usage remains low. Of those who were aware of the e-filing service, 93% have never tried to use it. The main reason given for not using web-filing is the lack of incentive to do so. The research suggests that 72% of those surveyed would be more likely to use web-filing if there was a financial incentive to do so. Although the recommendations include modest price differentials based on cost, it is likely that Companies House will want to see if it could justify larger differences in price to encourage better, faster take-up. Incentive pricing is considered in more detail in Chapter 10.

8.13 Existing services will continue to be enhanced and upgraded. CH Monitor is being upgraded this year and work on a new bulk image FTP service has begun. These upgrade projects are often 'one-off' and need to be adjusted for in cost allocations and for price setting.

#### Possible future products

8.14 The Companies House Marketing Strategy sets out the likely direction for the development of new products and product enhancements. Four areas are now considered briefly, to illustrate some of the issues that might arise. These are: new technology, seminars, voluntary information and joined-up services:

*New technology* might be used to deliver existing services in new ways. For example, Companies House is considering if the alerts provided by the CH Monitor services could be sent to mobile phones. Companies House is already working to e-enable the majority of its services by 2007. As take-up of electronic services increases, and as new technologies are brought into use, Companies House will need to review its pricing for both paper and electronic services to ensure that prices remain in line with costs.

*Training seminars* for company directors are already offered by Companies House, albeit on a small scale. They are heavily over-subscribed and Companies House might wish to expand the service to help educate more directors. However, this would bring Companies House into direct competition with the private sector. Companies House would need to ensure that it had the authority to offer and charge for such a service and would need to consider how to charge – at cost or at a market rate.

*Voluntary information* describes additional information that companies might submit to Companies House so that it could be made available to searchers. An example would be a company's web address, which could then be added to standard search reports and/or displayed on screen with the company's basic information. This service would fall outside the Registrar's functions and would require new authority.

*Joined up services* involve streamlining public services by joint working. For example, Companies House might offer to forward company accounts to the Inland Revenue (with permission). The customer is saved the trouble of submitted copies to each body. This might raise issues about cost-sharing between the public sector bodies.

## Recommendations

- Rec. 8.1 The Companies House Board should formalise its longer-term financial and operational plans, for example, by agreeing a five year forecast each year. If appropriate, a forecast could be included in each annual Business Plan. This would set the context for the priorities set out in the annual plan, show the direction of change in future and provide a framework for business planning.
- Rec. 8.2 Companies House should seek authority to offer 'wider markets' commercial services, by amendment to the Companies Act. This will enable such services to be offered in future, should the Companies House wish to do so.

## 9. Free Information

### Policy Objective

9.1 One of the strategic objectives of CH is to make “electronic information available more cheaply, preferably with no charge at all.” The 2004/5 Business Plan re-iterates the policy aim of enabling free access to electronic information.

9.2 The underlying reason behind this policy is that companies information is an important resource for business and for consumers and the more readily it is available the greater will be its potential contribution to the country’s economic growth. This is echoed in the recent EC Directive on the Re-use of Public Sector Information (2003/98/EC), which states in its preamble, “wider possibilities of re-using public sector information should inter alia allow European companies to exploit (their) potential and contribute to economic growth and job creation.”

9.3 In addition, achievement of the objective will make a contribution towards the DTI PSA Targets 2003-2006. The relevant targets are:

- PSA 3 - improving consumer empowerment and protection
- PSA 6 - improving the productivity of small firms
- PSA 8 - making the UK the best place in the world for e-business

### Background

9.4 The first practical steps towards offering free information were taken in 1996, when a thorough review of Companies House’s fees policy was undertaken in response to a European Court of Justice ruling in the Ponente Carni (Italian Tax) cases. Most of Companies House’s fees were reduced at the time and the opportunity was taken to supply certain basic company information, such as the registered office address free of charge. Since then, further basic details, such as date of incorporation and insolvency details, have been added to the roster of free information, but full company searches and access to company documents have remained chargeable.

9.5



## Practice in Europe and elsewhere

9.6 In view of the constraints imposed by European law, a study was carried out of the practices of other European, (and some non-European for comparison purposes), companies registration systems. The object was to see whether they had embraced the concept of free information, and if so how any costs involved in its provision were covered. Unfortunately, there is no common system and all European registration systems have very different features from the British system. It was, therefore, difficult to obtain meaningful comparisons.

9.7 However, taking a very broad view, it appeared that countries were not moving in the direction of free information, although several provided free inspection of their register at the place it is held. Therefore no strategies useful to the furtherance of Companies House's objective emerged from the study.

## UK Practice

9.8 Other Government bodies and Agencies provide free information on a limited basis. In some cases the free services are funded by profits from related commercial services and help to generate business (eg Met. Office, Ordnance Survey). Some examples of free services provided by public sector bodies are set out below:

- (a) The Patent Office allows free searches of all patents by internet, as part of their duty to promote innovation and to enable potential applicants to search for already registered patents before submitting their own applications. This is funded from patent registration and renewal fees.
- (b) The Charity Commission provides free information about the objects and financial position of charities to help promote charitable giving. This service is vote funded.
- (c) Ordnance Survey provides a limited free mapping service on their web site, which helps generate commercial sales. This is funded from commercial profits.
- (d) The Financial Services Authority provides free information about its members, to inform dealings with them. This is funded from the fees paid by members.

## Considerations

9.9 Since 1998, the take up of electronically delivery has increased to the extent that currently 95% of all company information is accessed by this method. This has caused the cost per enquiry to Companies House of providing information by electronic means to decrease substantially. This in turn has enabled reconsideration of the possibility of offering company registration details without charge.

9.10 There are however a certain number of questions and barriers to be taken into consideration before all electronically disseminated company information can be provided free of charge:

- There are residual costs associated with the provision of information, which, under current European law and Treasury rules, cannot legally be recovered from a charge on those

users registering documents. At present, there are several identifiable costs of supporting search customers. These costs include marketing, support, the cost of providing an account-based payment system, and the cost of a separate IT system providing electronic access. These costs must be funded in a way that is compatible with the relevant European and domestic laws and guidance. The cost cannot be recovered from users of other statutory services.

- Companies House would need to have sufficient capacity to meet the demand for free company information. It is hard to estimate what the demand would be.

9.11 The main legal obstacle lies in the EC Capital Taxes Directive. The Directive makes it unlawful for registration charges to exceed the cost of registration and restricts the costs to those directly related to registration work (and a proportionate share of overhead costs). To allow for the funding of free information, the Directive would therefore need to be amended to allow the associated costs to be taken into account in setting registration fees. The argument for this would, presumably, be that it is in the interests of consumers and businesses generally, that companies registering information should bear all of the registration *and* disclosure costs.

9.12 An alternative would be to seek the amendment the First Company Law Directive to allow the costs of providing a 'public interest' free service to be recovered from users of other chargeable information services.

9.13 There is an established market for company information being catered for by information re-sellers, both large and small. As noted in Chapter 7, Companies House would need to consider if the introduction of a free information service would destabilise this market.

#### Development of Companies House policy

9.14 During the Pricing Review the policy on free information was revisited by the Companies House Board. The Board confirmed the policy goal of delivering free information while recognising the constraints. The Board envisaged that the free service would co-exist with chargeable services to begin with. The ultimate goal of providing all information free to all comers could only be delivered if an acceptable method of funding the costs of the service (and of any future developments and enhancements) could be found.

9.15 The options for funding a free information service are as follows:

- Vote funding
- To fund from unconstrained surpluses
- To fund from Companies House reserves
- To fund the free service as part of a package of free and chargeable dissemination services
- To fund the free service by recovering the cost from users of other services
- External funding (eg sponsorship, funding from advertising)

9.16 These options can be appraised as follows:

- Vote funding - in current circumstances there is little chance that DTI could provide this.
- fund from surpluses - Companies House cannot set fees to make surpluses deliberately, and does not generate surpluses on the scale required.
- fund from reserves - not possible as they are fully committed to funding the CHIPS programme, a more urgent priority.
- external funding - unlikely that sufficient funding could be obtained. The Met. Office indicated, for example, that the advertising revenue generated by their web-site (one of the first public sector sites to carry advertisements) was relatively small.
- funding from other (unrelated) services - this would breach Treasury guidelines which require charges to be related to (relevant) costs and European law prevents the costs being recovered from users of certain other services (eg incorporation).

9.17 The only option at present, therefore, appears to be to provide the free service as part of a package of free and chargeable services. This is an extension of the current position in which a limited range of information is made available without charge (eg most index information, basic company information, registered office address by telephone), with the costs being covered by the income from related chargeable services.

9.18 Various ways of delivering a free information service were considered in Spring 2004 and a paper that proposed a free 'off peak' service on WebCheck was accepted by the Companies House Board as the best way forward. The additional costs of allowing 'off peak' use of the existing facilities are negligible and the free service would be putting unused 'surplus' capacity to good use. The costs of the free service are borne by the customers who use the chargeable services.

9.19 At the request of the Pricing Review Steering Group, a separate document was prepared to set out how the WebCheck proposal fitted with the ultimate achievement of the goal. This 'road map' could not set out a definite sequence of steps that would deliver the objective, but it set out some different ways in which it might be achieved, and highlighted some of the obstacles to be overcome.

9.20 As the proposal to provide some company information free is a change in policy, a Regulatory Impact Assessment (in accordance with the guidance issued by the Better Regulation Task Force) is required. As new Fees Regulations were needed during 2004/5, for financial reasons, the Board agreed that a free service could not be introduced at the same time as the new Regulations. The Board expects that free services can be introduced during 2005/6. Although it might have been preferable to implement all of the changes flowing from the Pricing Review at the same time, the delay will allow Companies House to assess the impact of the price changes in the new Regulations on demand. This, in turn, will allow a better assessment to be made of the impact of the free services on the chargeable services.

## Recommendations

- Rec. 9.1 Companies House should, by consulting stakeholders, research the demand for and the impact of providing electronically delivered company information free of charge. The main issues to be addressed in the consultation process are:
- the demand for, and value to customers of, a free service
  - the impact on demand for other paid services
  - the impact on the market for business information
  - incentives and barriers to e-filing
- Rec. 9.2 Companies House should consider if it should commission an economic impact assessment of the benefit to the UK economy of providing free information. A credible estimate of the economic benefit might be helpful in securing funding for the service.
- Rec. 9.3 Companies House should continue to review the funding options for free information to see if more information can be provided within current constraints, including those arising from European law, the Competition Act and Treasury guidance. Companies House should consider if it is worthwhile seeking to amend European law so that a free service can properly be funded from fees for other services.
- Rec. 9.4 In order to ensure that any increase in demand is manageable, Companies House should consider using a step-by-step approach to introducing free information. The next step would be to allow documents to be accessed free of charge in off-peak hours via WebCheck.
- Rec. 9.5 Companies House should explore the possibility of providing free information more widely by making it available through public access computers such as those in libraries, or via the Small Business Service.

## 10. Differential Fees

### Introduction

10.1 The Pricing Review was asked to consider the scope for policy changes to support differential fee levels.

### Current practice

10.2 Companies House charges a higher fee for premium (same day) services in respect of incorporations, change of name, re-registrations and certified copies than for the equivalent respective standard services. The difference in level of fees between these two types of service is based on the management of demand and of cost recovery in total for the standard and premium services taken together.

10.3 At present, Companies House does not charge different fees according to the method of filing, even though there is a cost saving to the Agency in processing documents received electronically. This is because, until now, the volume of electronic filings has been relatively low.

10.4 The question examined by the Pricing Review was whether a lower fee should be introduced for electronic filing, not only to acknowledge cost savings, but also set at a level that would provide an incentive to file electronically. The greater the take up of electronic services, both on the registration and on the information sides, the greater will be the efficiency savings to Companies House. Such an outcome would be in line with one of the priorities of the Gershon Review, which aims to achieve major efficiencies by accelerating the usage of modern technology. As a further incentive to embrace such a direction, there is a Government target to enable all dealings with Government to be possible electronically by 2005 and an amendment to the First Company Law Directive requires most company information to be available electronically by 2007.

10.5 At present Companies House charges for company information according to the way customers request the information and according to the form in which they receive it. These differentials, based on costs, are seen as correctly implementing the Fees and Charges Guide requirement to recover costs for each separate service. However, the very detailed price list for company information obtained from information centres, from the contact centre, and via electronic means can now be simplified, as most company information is now provided electronically.

### Premium services

10.6 Same day services have been a long-standing facility offered by Companies House, initially because of customer demand for a speedier service than was available through a normal application. Fees for the premium services have been set administratively.

10.7



[REDACTED]

In addition, the Treasury Fees and Charges Guide recognises that differential charges for standard and premium service can be appropriate, with the proviso that the fee charged should only cover the costs of both forms of the service. The differential charge is seen as beneficial to both classes of customer - the premium price is seen as an acceptable way of managing demand.

#### Incentives for electronic filing

10.8 Companies House has traditionally received the information that companies are required to deliver to the registrar on standard forms delivered by post. Over the past few years, Companies House has gradually introduced the possibility of filing more and more forms electronically. Currently 12 forms can be filed electronically, including incorporations, the annual return, and appointment/change/resignation of directors and secretaries. These will be expanded to meet Government and European targets and requirements.

10.9 In order to achieve the maximum benefit both to Companies House and to users of the availability of electronic services, the Agency is undertaking a programme of actions and enablers to encourage electronic filing. The target is to achieve 85% of documents filed electronically by 2009-10.

10.10 As part of this exercise, the Pricing Review has been asked to consider the possibility of providing some incentive through pricing for using electronic methods. For maximum effect, this would require sufficient a differential between paper and electronic filing to make it financially worthwhile for companies to choose the latter, given that there is a range of barriers that might discourage companies from filing electronically.

#### Possible barriers

10.11 The ideal situation for Companies House would be if electronic and paper filing could be treated as subdivisions of the same service, in the same way as premium and standard formats are treated. This would allow charges to be set for the different means of filing to provide a cost incentive to file electronically while respecting the principles of cost recovery for the respective service taken as a whole.

10.12 However, the Fees and Charges Guide seems to require that different forms of services are costed and charged for separately. This is in contrast to the treatment of standard and premium services, explained in paragraph 10.7.

10.13 In addition, the EC Capital Taxes Directive may prevent some of the costs of electronic filing being paid for by those who continue to file by paper.

10.14 It would, nevertheless, be possible to set a lower fee for electronic filing to reflect the lower costs of processing electronic information as against paper. That would be in line with the legislation and rules.

10.15 There is an overseas precedent for such an action. New Zealand has adopted a policy of providing incentives for on-line filing. For example, it is intended that annual returns filed electronically will be free, while paper filing will still incur the full fee. This differential is based on cost, since we are told the cost of electronic filing to the New Zealand Registry is minimal.

#### Recommendations

- Rec. 10.1 Fees for premium services should be set by Regulations in future.
- Rec. 10.2 Companies House may set different prices for electronic and paper filing where this is supported by costings for the different forms of service. The intention is that this will be done in the 2004 Fees Regulations.
- Rec. 10.3 Companies House should investigate the possibility of setting incentive prices for electronic services which are not related to costs. This might be justifiable if the prices for the electronic and paper services recover the full cost of both services, but legal advice on this interpretation is needed.

### Specification for the Pricing Review

1. The purpose of the Pricing Review is to provide a report to Companies House on the current pricing structures with recommendations for future price levels including the potential for free electronic output services.
2. The report should include the following elements:
  - i) a review of cost allocations, based on Treasury guidance, for each product and service based on current and predicted future volumes, overheads, and differing delivery channels; and a comparison of these allocations with current prices;
  - ii) examination of the effect that any such revision of fees would have on market dynamics, and in particular the main players in the field of business information;
  - iii) the cost and impact of offering free information; including the need to factor in future technological development to maintain a consistently high level of customer service;
  - iv) the scope for policy changes to fund differential fee levels (for electronic services , SMEs etc), to subsidise free services or to fund centrally;
  - v) recommendations on what legislative action would be needed to deal with any statutory barriers to providing free information;
  - vi) establishing the parameters of our service delivery in respect of adding value (such as the scope to include premium services and packages of information);
  - vii) scenario planning of the business implications of pricing changes.
3. The analysis for the report will include the following aspects:
  - i) consultation with Treasury and Partnerships UK to ensure compliance with guidance to ensure Companies House competes fairly with the commercial sector;
  - ii) an exploration of industry best practice for allocation of costs across services being delivered from a common cost base;
  - iii) consultation with HMSO and Treasury on the terms of supply of company information to ensure that they reflect current standards;
  - iv) an investigation of the way in which European registries comply with the requirements of European law (surrounding the cross subsidisation of fees);

- v) the possible impact of a new Companies Bill, and EU initiatives such as the European Company Statute, the first Company Law Directive, and the Directive for reusing public sector documents;
- vi) a review of pricing strategies of other government bodies, and trading funds to discover how they propose to deal with moves to providing free electronic information;
- vii) an examination of the charging regimes of other providers of information (such as in IPR regimes);
- viii) an analysis of how the existing statutory framework for setting fees is being used by Companies House.

## Principles of cost allocation

### Introduction

1. This Annex sets out the approach to costing taken for the Companies House Pricing Review. The intention is to establish an approach that meets current guidelines and can be applied consistently (with appropriate updating) in future.

### Purpose of cost allocation - price setting, free information

2. The purpose of cost allocation is to set prices for products and services that comply with the relevant law and Treasury guidance.
3. Treasury guidelines require all services (statutory and otherwise) to be separately identified, costed and charged for. Prices for statutory services must be set to recover full cost, including an appropriate rate of return on capital; prices for competitive services must be set to recover full cost and an agreed rate of return. Companies House must be able support and defend its product pricing against these criteria.
4. In addition, information about income and costs supports operational and strategic decision making by the Companies House Board. An understanding of current product costs is essential in planning moves towards providing more search information free or at low prices.

### Legal requirements and Treasury guidance

5. The legal constraints on cost allocation are summarised in the Chapter 4 of the report.
6. Companies House is expected to follow the detailed guidance given by the Treasury in The Fees and Charges Guide (F&CG), when setting prices. A revised and update version of the Guide was published in March 2004. The main points are as follows:

#### Cost recovery basis for pricing

The Guide states the prices should be set to recover the ‘full cost’ of statutory services (para 4.2.3). Companies House must not set prices to deliberately make a surplus (para 4.1.2). Prices for commercial services should be set to recover the full cost plus an agreed rate of return (paras 7.3.1, 7.3.3).

#### Cost each separate service

The Guide states that “the full cost of every service should be determined whatever charging policy is to be adopted” (para 3.1.2). The Guide does not give definitive guidance on identifying separate services, so Companies House would need to justify the approach that it had taken. The Guide requires the disclosure of information about separate services where full costs exceed £1m in the annual accounts. Standard and

premium versions of the same service need not be treated separately – they can be priced to recover, in total, the costs of providing both versions (para. 4.2.4b).

### Annuality

The Guide states that “fees and charges should normally be reviewed... annually” (para 3.1.2). The judgement in the European Fantask case also emphasised that prices should be reviewed regularly. The implication is that costs, and the cost allocation, will also be reviewed annually. In reviewing prices, Companies House should consider the costs and the levels of demand for services for the current and future years.

### Definition of full cost

Full cost is defined as “the total cost of all the resources used in providing a service (direct and indirect costs of producing the output, including a full proportional share of overhead costs and any selling and distribution expenses, depreciation and the cost of capital, both cash costs and “non-cash” costs.”

### Allocation of overhead costs

There is no specific guidance on the allocation of overhead costs. The only reference is to services bearing “a full proportional share” of overheads. The Guide recommends consulting experts on all technical accounting issues (para. 3.3.7)

## **Establishing a robust framework for cost allocation**

7. The Quinquennial Review and the OFT investigation both highlighted the need to improve costing. It is clear that Companies House needs a robust and defensible cost allocation to support its product pricing. The Pricing Review has proposed a method of cost allocation to meet this requirement, taking account of the issues set out below.

### The challenges of costing and cost allocation

8. The production of cost allocations in Companies House is, at present, not a trivial exercise because the information needed is not readily available. The main accounting system does the traditional job of recording and controlling expenditure against cost centres. Although the cost centres show the responsibility for expenditure, the match between cost centres and products is not always straightforward. The Companies House accounting system does not produce the costing information needed for pricing and this has always been produced manually, requiring considerable additional work. The cost and difficulty of producing full cost information for pricing purposes may have meant that Companies House has not included a “full proportional share” of overheads when amending prices or when pricing new products.
9. In addition, costing has been made more complicated by changes in the pattern of business, in technology, and in the legal and regulatory environment.
10. The following recent changes in the way Companies House does business, and in the way customers deal with Companies House will all affect costs and hence price setting:
  - the withdrawal of microfiche in 2002,

- the introduction of electronic incorporation in 2002,
- the increase in incorporations
- the introduction of LLPs
- the implementation of CHIPS for indexing
- the closure of four regional offices

11. In addition, there will always be differences from year to year in one-off expenditure, such as building maintenance, refurbishment, IT projects, product development and marketing.
12. Finally, costing is difficult because overhead costs which cannot be easily associated with products. Overhead costs are considered in more detail below.

#### The characteristics of overhead costs

13. A traditional approach to costing would be to classify costs as direct costs or as overhead costs. Direct costs are those which can be clearly and directly associated with an output (a product or service). Overhead costs (sometimes called indirect costs) include all other costs. As Companies House must price its products to recover its costs, it is important to be able to demonstrate that overhead costs have been allocated in a fair and reasonable way.
14. There is usually a wide variety of costs that fall into the category of overheads. It is helpful to describe three different categories<sup>2</sup>, as follows:
  1. Costs which cannot be definitively associated with the product because their incurrence is common to a variety of outputs (eg rates, general management)
  2. Costs which could be directly associated with products but which (on grounds of materiality and/or convenience) are not (eg desktop stationery)
  3. Costs which are directly associated with individual products but which are deemed to be more appropriately treated as relating to all output (eg office refurbishment - because there is an element of chance about which staff and product areas that benefit).
15. The examples provided here are all real issues for Companies House. It is clear from these description that judgements must be made about overhead costs - are costs “definitively associated” with a product, or not? What is “material” for cost allocation purposes? Which costs are “more appropriately” treated as relating to all (or some) outputs? The next section sets out a framework to address these questions.

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<sup>2</sup> Overhead Cost, Innes, J & Falconer, M, London, 1999, Academic Press/CIMA

## Principles of cost allocation

### Over-riding principles

16. The cost allocation process should:

***Support fee setting*** - The purpose of the cost allocation is to enable Companies House to set prices in compliance with relevant law (including case law) and the Fees and Charges Guide.

***Take a straightforward approach*** - The cost allocation should be straightforward and based on an understanding of the business. The approach taken should be a simple one as far as possible, as this will be easier to explain to others. Unneeded complexity and spurious accuracy should be avoided. The benefits of greater precision in one area should be considered in the context of the estimates and judgements made elsewhere.

***Be consistent*** - The cost allocation should be capable of consistent application in successive years, so that a track record can be built up. The cost allocation should not be so specific to one year that it would be inappropriate or difficult to apply it in the same way in other years.

***Rely on existing information as far as possible*** - The cost allocation should make use of existing information, financial and otherwise, wherever possible, as long as it is considered reliable. The need to gather additional information for costing purposes in one year might discourage re-use of the allocation model in later years. The costs of commissioning additional information for costing purposes, if needed, should be considered alongside the benefits.

***Focus on material figures*** - There is a balance to strike between figures that are material to Companies House costs in total and those material in percentage terms to some products, even though they are small in absolute terms. It may therefore be appropriate to seek greater accuracy in these areas than elsewhere.

***Consistent treatment*** - Treat similar cost centres in similar ways. For example, cost centres are separated into three groups - Service Delivery, Service Support and IT. The Service Delivery group contains all the cost centres where the majority of staff costs can be directly allocated to products. The Service support group contains the cost centres where staff costs cannot fairly be allocated to products, although they may be fairly allocated to an overhead cost pool. The IT group contains the cost centres providing IT services.

***Treating similar overhead cost in similar ways*** - Taking account of past cost allocations in Companies House and elsewhere, and following some trial and error, three groupings of overhead costs (cost pools) were considered appropriate. The three groups are:

- costs that are largely related to staff numbers (eg personnel costs),
- costs that are largely related to accommodation used (eg rates, cleaning, maintenance)
- costs that are incurred for the organisation as a whole (eg Board members, audit costs)

## The detailed application of costing principles

17. This section describes in detail how the general principles, set out above, have been applied in producing detailed costings.

### Staff costs

18. The figures for staff costs for each cost centre are taken from the accounting system. These costs include those summarised under the captions “staff pay and pension costs” (including overtime), “T&S” and “other staff costs”. These costs are allocated to products or overheads in proportion to staff numbers. The staff costs have not been separately analysed by grade group or individually, as this would have added significantly to the complexity of the task. Checking the split of work between grade groups or individuals in future (when checking and re-using the model) would also be a lengthy task.

19. The same principles apply in Service Support cost centres. The focus in these areas is on identifying the costs that should be directly allocated to products (and not to assume that all the costs incurred are overhead costs).

20. The IT cost centres are probably the most complex, although the same general principles apply. Costs are allocated against separate products where possible. Support for desktop computers is allocated to the ‘headcount’ cost pool. All other costs are allocated to registration functions on the basis that these are “core” (the costs have to be incurred to support registration, independently of the number of searches).

### Non- staff costs

21. Where non-staff costs are immaterial in total, or where the cost centre services a small number of products, then the costs are allocated in the same way as staff costs. Where there are material non-staff costs servicing different products then they are allocated appropriately (based on information about cost centre activity).

### Overhead costs

22. **Overhead costs related to headcount** - The pool of overhead costs related to headcount is allocated to Service Delivery cost centres, pro-rata to headcount. A more complex allocation (to all cost centres) was not considered worthwhile as this was judged to be unlikely to produce a significantly better result. (There is a discussion in Innes & Falconer about the costs and benefits of complexities in overhead allocation.)

23. **Overhead costs related to area** - The pool of overhead costs related to area (mainly accommodation costs) is allocated to Service Delivery cost centres, pro-rata to the area occupied. Although there is often a correlation between staff numbers and office space, there are parts of Companies House that require significant additional space. The repository, used for storing company records, is one example. The costs in this pool all relate to the Cardiff office. The similar costs for the Edinburgh and Bloomsbury offices are dealt with at cost centre level. An adjustment is made to reflect the lower standard of services provided in the Repository.

24. **Overheads related to the organisation as a whole** - The pool of overhead costs related to the whole organisation is allocated pro-rata to all other costs, and after the allocation of all other costs and overheads. The argument is that the resources used in product areas is a reasonable basis on which to allocate the cost of these overhead functions (which including top management, policy and planning and some accounting functions).

Some specific points

25. **IT projects** - Project costs have been allocated to specific products wherever possible. For example, CHIPS costs and work on core systems have been allocated to input functions. These costs have been allocated according to current work plans and would therefore need to be reviewed periodically.
26. **New Product Development and start up costs** - These costs have been allocated according to current work plans and would therefore need to be reviewed periodically.
27. **Capital costs** - The F&CG does not allow capital costs to be taken into account for fee setting. The consumption of capital assets is reflected in the depreciation charge.
28. **Depreciation** - Depreciation costs are based on the allocation of assets to cost centres (from the fixed asset register software). The inclusion of depreciation is allowed by the F&CG as it recognises the consumption of capital assets and builds reserves for replacements (because the income received from fees will exceed the cash costs). The allocation of depreciation charges is based on the allocation of assets to cost centres shown on the fixed asset register.
29. **Accommodation costs** - Accommodation costs, in line with F&CG, include the actual costs incurred. The costs therefore include the actual depreciation charge on the Cardiff building. The element of return on capital relating to fixed assets (principally buildings) is included here. Building project costs mainly concern reorganisation and moves to facilitate the implementation of CHIPS. They are, accordingly, allocated to input functions only. This will need to be reviewed periodically.
30. **Late Filing Penalties** - The costs of administering Late Filing Penalties are funded from the penalties collected. The costs and income are shown gross to highlight any mismatch between actual costs (including a fair share of overheads and IT costs). The LFP activity is treated in the same way as the other products and the full cost of LFP work will therefore include a full proportional share of overheads.
31. **Minor occupiers and other shared costs** - The costs associated with minor occupiers and staff counsellors, and the recoveries from them, are shown gross.
32. **Return on capital** – this has been split into three parts. The return on buildings is treated in the same way as accommodation costs, the return on IT equipment and on software development is treated as a cost to registration activities, and the return on financial assets is grouped with the organisation level overhead costs. The required return is built in as a notional cost to simplify the process of fee setting.
33. **Quality assurance** - The cost allocation should be fair and reasonable as a whole as well as for individual products. This should be achieved by quality assuring the allocation. This has

been done by internal discussion with Companies House staff. In future the QA function would be carried out by the Assurance, Risk and Consultancy team.

#### Product and product groups for cost allocation purposes

34. The following categories have been used for cost allocation purposes. Separate spreadsheets show the allocation of costs between areas, using the principles set out in the body of the paper.

##### Product areas

- (a) Annual return and statutory documents
- (b) Charge Registration
- (c) Incorporation, re-registration and change of name
- (d) Dissolution
- (e) Dissemination (electronic)
- (f) Dissemination (other)
- (g) Certificates
- (h) Bulk products
- (i) Limited Liability Partnerships
- (j) Late Filing Penalties
- (k) Minor Occupiers
- (l) Directors Secure Register

##### Overheads

- Overhead costs related to headcount
- Overhead costs related to area
- Overheads related to the organisation as a whole

35. This new product categorisation recognises that most company information is now provided to customers electronically and also that the provision of information on microfiche has all but stopped. Accordingly, the dissemination functions are now covered under two headings – electronic and other.
36. For disclosure purposes (in the annual accounts) Companies House uses three products categories: Registration Services, Dissemination Services and Other.

**Planning assumptions – forecast volumes**

1. The tables in this Annex set out the volumes of Companies House business forecast for 2004/5 and 2005/6. These forecasts have been used to develop the pricing proposals set out in detail in Chapter 7 of the report.

Registration services - forecast volumes

2. The 2004/5 figures are taken from the Business Plan. The 2005/6 figures were prepared by Companies House as part of its planning to meet the targets for the take up of electronic services. The key figures are those for new incorporations and for the size of the register, because the annual return fee and the incorporation fee will generate almost two thirds of the required income. The number of incorporations has been hard to forecast. There has been a significant increase in incorporations following tax changes in the 2002 budget, but it appears that this ‘blip’ may now have passed.

	<b>04-05</b>	<b>05-06</b>
Register size -start of year	1,889,000	1,975,000
Register size -end of year	1,975,000	2,052,000
Number of standard incorporations	88,000	88,000
Number of electronic incorporations	204,000	204,000
Number of same day incorporations	8,000	8,000
Total incorporations (all methods)	300,000	300,000
Change of name volume	64,000	64,000
Same day change of name volume	8,000	8,000
Number of companies removed from reg.	214,000	223,000
Number of voluntary dissolutions	100,000	100,000
Number of charge registrations	180,000	180,000
Compliance rate for annual returns	95%	95%
Number of annual fees received	1,692,900	1,770,325
LLP incorporations	3,000	3,000
LLP annual returns	5,000	8,000

Dissemination services – forecast volumes

3. The 2004/5 Business Plan does not include detailed forecasts for dissemination products. In financial terms, the income forecast is shown only as a total. For the Pricing Review more detailed forecasts of sales volumes were developed and agreed, drawing on the detailed information in the Companies House monthly Management Information packs and from the accounting system. Volume forecasts have been made only for the most significant products. The forecasts for 2005/6 make the prudent assumption that the proposed price changes (eg for

WebCheck) do not significantly affect demand. In particular, no account has been taken of the impact on chargeable services of proposals to offer more information free.

4. The most significant figures are those for electronic document downloads and for screen enquiries. The figures demonstrate the popularity of the electronic services.

	<b>04-05</b>	<b>05-06</b>
CHD images downloaded	2,650,000	2,650,000
CHD screen enquiries (chargeable)	2,300,000	2,200,000
CHD images viewed	152,000	152,000
CHD document packages	140,000	140,000
WebCheck accounts downloaded	95,000	95,000
WebCheck annual returns downloaded	40,000	40,000
WebCheck accounts & annual return	225,000	225,000
WebCheck company record	45,000	45,000
WebCheck current appointments	140,000	140,000
Certificates	21,000	21,000
Certificates - same day	6,000	6,000
CEU – Image electronic	75,000	75,000
CEU – Image posted	40,000	40,000
CEU – Directors register (e-delivery)	25,000	25,000

CEU - Central Enquiry Unit (contact centre)

CHD - Companies House Direct