

**31 January 2022**

Via Email to: [cp21-33@fca.org.uk](mailto:cp21-33@fca.org.uk)

## **FSB Response to the Consultation on Regulatory Fees and Levies: Policy Proposals for 2022/23**

FSB is a non-profit making, grassroots and non-party political business organisation that represents 160,000 members in every community across the UK. Set up in 1974, we are the authoritative voice on policy issues affecting the UK's 5.5 million small businesses, micro businesses and the self-employed.

This submission raises points that relate to the proposed FCA fee and levy changes for 2022/23 that will significantly impact small businesses operating within their respective industries.

Under the new fee and levy proposals set out in the Regulatory Fees and Levies consultation paper,<sup>1</sup> small businesses could be facing up to a ten-fold increase in their minimum fees by 2023/24 depending on their credit-related income. At the very minimum, these businesses will face a doubling of their fees over the next two years as laid out in Table 2.1.<sup>2</sup>

Small businesses have felt the brunt of the Covid-19 pandemic and subsequent restrictions that have been periodically put into place. Just under two-thirds of small businesses have some form of debt as of our 2021 Small Business Index Q2 survey, with 37 per cent stating that they view their current debt level as unmanageable.

Debt repayments are now another cost many small businesses are having to cope with as a result of taking out covid-related finance (BBLs and CBILs) at a time where economic recovery has stalled. Small businesses are not where they expected to be

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<sup>1</sup> FCA, Regulatory fees and levies: policy proposals for 2022/23, November 2021, <https://www.fca.org.uk/publication/consultation/cp21-33.pdf>

<sup>2</sup> FCA, Regulatory fees and levies: policy proposals for 2022/23, November 2021, <https://www.fca.org.uk/publication/consultation/cp21-33.pdf> p.10

after two years into the pandemic, and many are still struggling to keep their businesses operating.

In addition to the debt repayments, in the last quarter of 2021, 78 per cent of small businesses cited that their operating costs have increased. Notably, one fifth (20%) stated that costs have increased in excess of 10% compared to the same period 12 months prior. These cost increases result from supply-chain disruption leading to increased input costs and higher utility and fuel bills. However, one in six (16%) also cited regulation as a primary cause, of which these proposals will only exacerbate.<sup>3</sup>

These minimum fee increases are being proposed without taking into consideration the context of the UK economy and current business welfare. Small businesses are facing an existential crisis as they emerge from the economic turmoil of the past two years. They face uncertain and disrupted consumer demand as a result of frequent changes in covid guidance to covid by the Government. At the same time, they have to cope with significant energy price increases, debt repayments, increases to National Insurance Contributions in spring and uncertainty over their general recovery. It is not the right time to be considering increasing the fees required to be able to conduct business in the UK.

The scale of increase itself is also too large. For a small business with less than £10,000 credit-related income within credit block CC.1, they will have paid £106 in 2020/21. This has more than doubled to £250 in 2021/22 and is being proposed to increase to £500 and then £1,100 by 2024. Effectively, businesses with less than £10,000 credit-related income will begin to be priced out of the market as over 10% of all income will be spent on consumer credit fees, a ten-fold increase.

Worse yet the proposed increases will create a regressive fee system. In 2020/21, those with credit-related income below £10,000 paid £106 in fees and those with greater than £100,000 income paid £530, with two other stepped increases in between. By 2024, all businesses within fee block CC.1 will pay a flat rate of £1,100. This proposed fee system is very regressive to the smaller businesses operating within the consumer-credit field. The current segmented structure of fees should be maintained with those with greater incomes paying proportionally more.

FSB understands the desire for the fees to better reflect the cost of regulation and as stated in the consultation paper, the proposals will enable the FCA to fund the activities that need to be undertaken. However, one of the largest issues with these proposed fee increases is the indirect impact it will have on the markets in which businesses operate. These fees will price out the smallest of businesses and raise significant barriers to entry. It will have the effect of concentrating the markets in the hands of the larger businesses as they are more able to absorb the additional costs than smaller businesses while retaining profitability.

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<sup>3</sup> FSB, FSB Voice of Small Business Index, Quarter 4, 2021, January 2021, <https://www.fsb.org.uk/resource-report/sbi-q4-2021.html>

The likely effect of the proposed minimum fee increases contradicts this statement made:

*"These proposals enable us to fund the activities we need to undertake. These activities include meeting our duty to promote effective competition in the interest of consumers. Fees are not intended in themselves to influence firm's behaviour."*<sup>4</sup>

The fees themselves will influence small business behaviour, whether intended or not. The scale of increase will create some debate by business owners if it is still profitable and worthwhile competing in their respective industries – simply stating that the fees themselves have no intent to change behaviour doesn't mean it won't. Likewise, we understand the need for the FCA to bring in funds to regulate the markets, but the manner in which these fees are proposed will shift the markets in favour of larger businesses, thereby reducing the competition that the regulation itself is aimed at promoting.

The likely effect will create less competitive markets with less innovation and an overall worse outcome for consumers. The greater the competition, innovation, and access to markets, the better they tend to operate. We urge the FCA to reconsider the levels at which the fees are set to allow small businesses a chance to compete fairly with larger organisations and implement a more progressive fee system than currently proposed.

As noted in the consultation paper, the FCA has not yet decided whether to introduce the fee increases immediately or spread them over a longer period. We would urge that any increases firstly be delayed until the economy is fully recovered, allowing small businesses to rebuild and adapt following the pandemic. Small businesses are still, on average, operating below capacity. Secondly, we also urge the FCA to introduce any fee increases over a significantly longer time horizon than proposed. The current proposal of two years is not long enough, especially for the sizeable increases. The longer the time horizon, the greater flexibility small businesses have in adapting to change. Given their resource constraints, many of which larger businesses do not have, small businesses can struggle to adapt to changes implemented in quick succession.

In addition to the issues detailed above, we have concerns about how the increased AR and IAR fees will impact competition. The focus of the FCA should be on streamlining the authorisation process for small businesses, in order to promote competition. The current framework for AR and IAR permissions already shifts the market in favour of larger businesses with little commercial justification. The increased costs of the FCA regulatory process may create a situation whereby it is too expensive for many small businesses to have any involvement with some regulated products in future.

In summary, we urge the FCA to reconsider the levy and fee increases proposed for 2022/23 and 2023/24 and amend the IAR and AR relationship such that small businesses are not disadvantaged while simply trying to conduct business. The current proposals will alienate small businesses, reduce competition in markets and concentrate

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<sup>4</sup> FCA, Regulatory fees and levies: policy proposals for 2022/23, November 2021, <https://www.fca.org.uk/publication/consultation/cp21-33.pdf> p.22

the markets in the hands of larger organisations. Should the fee increases occur, we encourage the FCA to reduce the rate of the increase, maintain the current form of a progressive fee such that larger organisations pay proportionally more and to impose the increases over a longer time horizon to allow small businesses to adapt.

We trust that you will find our comments helpful and that they will be taken into consideration.

Yours sincerely,

Tony Baron, Tax and Finance Chair

Federation of Small Businesses