



REPORT

# Financial management of fees and charges

HM Treasury

# Key facts

£8.9bn

collected by government for  
fee-charging services in 2022-23

88%

mean average cost recovery rate  
in 2023-24 across the services  
we examined with a 100%  
recovery target

63 weeks

average time it took departments  
to change fees, based on the  
seven fee-charging services  
we reviewed

- 4 out of the seven fee-charging services we reviewed met their cost recovery target in 2023-24
- £340 million revenue shortfall in 2023-24 for the six services we looked at aiming to fully cover their costs
- 0 of the public bodies we looked at met all of HM Treasury’s disclosure requirements on their fees and charges
- 1 out of the seven services we looked at reduced the fees charged in the last 10 years by making efficiency savings

# Summary

## Introduction

**1** Government charges users for some services, including applying for a passport or a visa<sup>1</sup>, as well as licences to operate in specific sectors, such as gambling or finance. Government usually sets fees and charges to recover the costs of providing a service. Cost recovery reduces the need for taxpayer funding and avoids cross-subsidies between services or over-charging users. Setting fees on this basis also improves transparency about the costs and efficiency of government services. In 2022-23 (the latest audited data),<sup>2</sup> central government collected around £8.9 billion from charged services.

**2** Although government bodies are responsible for setting their own fees and charges, they must obtain permission before they introduce fees, or when they change them. Where a government body wants to over-recover (by charging more for a service than it costs to provide it), it needs ministerial approval and Parliamentary consent. For under-recovery (charging less than the cost), HM Treasury consent, and sometimes statutory authority, is required. Certain information about fees and charges must be disclosed in the public bodies' annual report and accounts. It is the accounting officer's duty to ensure these rules are followed.

**3** Because fees and charges change relatively infrequently and cost can change each day, there will often be a slight under- or over-recovery of costs. HM Treasury expects government bodies to redress this imbalance within a reasonable time. Persistent imbalance between fees and costs creates risks for the resilience of public services (if costs are not recovered), the taxpayer who may need to subsidise these services, and fairness – if users are over-charged. In setting fees and charges, government bodies must therefore demonstrate strong financial management, an accurate understanding of service costs, and effective processes for applying and updating fee levels.

<sup>1</sup> For the purposes of this report, 'visa' means visa and immigration fees.

<sup>2</sup> HM Treasury, *Whole of Government Accounts year ended 31 March 2023*, November 2024. The C&AG audited these accounts but gave a disclaimed audit opinion due to insufficient evidence.

## Scope

**4** This report considers how effectively government bodies manage fees and charges for services including:

- an explanation of fees and charges, roles and responsibilities, governance and oversight arrangements, and the key principles (Part One);
- the management of fees and charges, including performance in recovering costs (Part Two); and
- the challenges around, and opportunities to improve, financial management of fees and charges (Part Three).

**5** In assessing government's management of fees and charges, we have compared current practice against HM Treasury guidance and the principles of good financial management which we have set out in our series of good practice guides for government, covering enablers of success,<sup>3</sup> strategic planning and budgeting,<sup>4</sup> allocating resources,<sup>5</sup> and monitoring and forecasting.<sup>6</sup> For more information, see Appendix One.

**6** We selected seven case study examples to show how fees and charges work in practice, and to identify good practice examples where departments used innovative approaches. The case studies include a range of administrative activities, product types and industry regulation. Some bodies seek to recover only their costs, while others over- or under-recover costs depending on the approach agreed with ministers and HM Treasury. The case studies, with 2023-24 revenues and costs, are included in **Figure 1** – these represent around a third of the charged-for services by revenue. The revenue shortfall in 2023-24 was £340 million for the six services we looked at aiming to fully cover their costs. Appendix One describes our audit approach and evidence base.

**7** This report covers central government charged services. Out of scope are: service performance, local government, commercial services, and charges clearly defined as a tax (such as income tax, property tax and tariffs).

<sup>3</sup> National Audit Office, *Good practice guide, Financial management in government: Enablers of success*, July 2023.

<sup>4</sup> National Audit Office, *Good practice guide, Financial management in government: Strategic planning and budgeting*, September 2023.

<sup>5</sup> National Audit Office, *Good practice guide, Financial management in government: Allocating resources*, December 2024.

<sup>6</sup> National Audit Office, *Good practice guide, Financial management in government: Monitoring and forecasting*, January 2025.

**Figure 1**

Revenue and costs of charged services in 2023-24 that we examined

The revenue for financial year 2023-24 of the services in our sample represent around a third of the total revenue<sup>1</sup> for charged services across government

Charged service	Organisation	Cost (£mn)	Revenue (£mn)
Visa and immigration fees	UK Visas and Immigration	1,245	2,626
Passport fees	HM Passport Office	852	629
Driving licence fees <sup>2</sup>	Driver & Vehicle Licensing Agency	331	331
Court and tribunal fees <sup>3</sup>	HM Courts & Tribunals Service	307	202
Company filing fees	Companies House	88	86
Data protection fees	Information Commissioner's Office	76	66
Gambling licence fees	Gambling Commission	24	24
<b>Total</b>		<b>2,923</b>	<b>3,964</b>

**Notes**

- 1 In 2022-23 (the latest data available from the Whole of Government Accounts), central government collected £8.9 billion from charged services.
- 2 The income and costs of driving licences are pooled together with vehicle registrations to achieve cost recovery under the Driver & Vehicle Licensing Agency's Section 102 order, so vehicle registrations are included in the revenue and costs.
- 3 For court and tribunal fees, the fees reviewed are family court fees.
- 4 All services except for visa fees pursue full cost recovery.

Source: National Audit Office analysis of case study annual report and accounts, and fees and charges documentation

**Key findings**

## Performance in managing fees and charges

**8 It is unlikely that government services achieve cost recovery through fees and charges.** Across the last five years, none of the case study bodies we looked at consistently met their cost recovery targets. In our sample of seven, six aimed to achieve 100% cost recovery, but they averaged only 88% in 2023-24 – a shortfall of £340 million. Some service charges, such as court and tribunal fees and passport fees, persistently under-recovered costs, meaning taxpayers are subsidising the service. Others, such as data protection fees, mostly over-recovered costs, meaning service users were paying more than the costs to provide the service (paragraph 2.21 and Figures 11 and 12).

**9 The charges for a service may not reflect the true costs of providing it, because the data is often estimated.** To set charges at the correct level requires accurate data on the number of users and the costs of providing each product. Charging bodies in our case study sample used a range of approaches to estimate costs and demand. These estimates often differ from the actual demand or cost which will result in under- or over-charging; performance varies in terms of how accurately charges reflect costs. For example, in 2017 the Ministry of Justice identified that it had set some court and tribunal fees too high due to a lack of robust data. In its 2023-24 annual report and accounts, HM Courts & Tribunals Service (HMCTS) estimated that £8.4 million could be claimed in refunds. We found a couple of examples where government bodies have made efforts to improve the data used to calculate costs and set fees. For example, in 2024 HMCTS developed a new costing model to provide more detailed cost estimates (paragraphs 2.11, 2.17, 2.22 and 3.9 to 3.10).

**10 Persistent undercharging has led to cumulative deficits that are unlikely to be recovered.** Treasury principles state that deficits should be recovered within a reasonable period. Persistent deficits lead to large cumulative losses which are difficult to recover and risk creating high fees for service users in later years. This can create generational unfairness where services are used only periodically, such as adult passport renewals which happen every ten years. HM Passport Office (HMPO) has not fully recovered the costs of providing passports since 2017-18 despite its full cost recovery target. HM Treasury did not approve this long-term deficit which has resulted in a shortfall of £223 million in 2023-24, and a total deficit of £916 million over 5 years (paragraphs 1.8 and 2.25 and Figures 11 and 12).

**11 These issues of setting charges at the wrong level have persisted because there is limited disclosure and a lack of central monitoring.** HM Treasury sets requirements for disclosure of certain information related to fees and charges in departmental annual reports and accounts. No case study bodies fully met these requirements. HM Treasury does not keep a central record of approvals for fee regimes, nor does it regularly check if departments are charging the appropriate fees, or meeting cost-recovery targets. However, the primary responsibility for ensuring compliance with fee-setting rules lies with the Accounting Officer of each department. Accounting officers are accountable for maintaining effective governance and internal controls, including ensuring that fees are set appropriately and disclosed in-line with HM Treasury guidance. Consequently, significant deficits can build up without HM Treasury, or the public body, taking corrective action. This lack of disclosure and monitoring means that opportunities for scrutiny are limited, and that stakeholders often do not know whether charges reflect the costs of providing a service (paragraphs 2.24, 2.25 to 2.27 and Figure 13).

**12 The process for updating fees is slow, so it will take some time for charging bodies to move towards full cost recovery.** We found that, on average, it took bodies over a year to amend fees – with the longest case being over two years. Government bodies must first propose changes to their parent department, including information around costs and potential impacts on users. The department must then seek HM Treasury approval. In the absence of clear requirements for data, there is sometimes a ‘back and forth’ between bodies to agree an estimate of costs. Then secondary legislation is needed which requires Parliamentary timetabling. The length of time to update fees and charges reduces opportunities to recover costs in a timely way and creates funding uncertainty for government bodies as they wait for approval. This issue can be exacerbated during periods of high inflation, as we saw between 2021 and 2023, when costs may be rising but fees and charges are static. Both the Gambling Commission and the Driver & Vehicle Licensing Agency (DVLA) suggested the fee amendment process could be simplified (paragraphs 1.4, 1.6, 2.13, 2.14 and 2.26 and Figure 9).

#### Opportunities to improve

**13 HM Treasury’s guidance on setting fees and charges could go further to provide more help for fee-setting bodies.** Managing Public Money clearly sets out HM Treasury’s and Parliament’s principles for public bodies that implement fees and charges. Government bodies find these principles helpful because they are simple, easy to understand, and can be applied in different situations. However, the principles do not cover many challenges that bodies face, such as how to deal with uncertain forecasts of demand and how to handle complex trade-offs. For example, to make sure services are accessible to vulnerable groups, providers may choose to apply exemptions or subsidise fees. HM Treasury could learn from international examples, such as New Zealand Treasury, which provides guidance to fee-setting bodies on how to design, implement and evaluate fees - using case examples to explain the process (paragraphs 1.7, 3.3 to 3.5 and Figure 6 and 14).

**14 Departments and public bodies are keen to set charges correctly but need more support to do so.** Our case study organisations were all interested in learning from others and sharing good practice. They felt they were lacking a clearly identifiable place to turn for support in addressing the challenges they faced, whether on improving forecasting, getting reliable data or making complex trade-offs in charging structures. One case study body contacted the Cabinet Office to learn more about good practice in cost-modelling; and two others looked at other countries to learn lessons from organisations providing similar services. A lack of signposting to centres of expertise means bodies are not making the most of others’ experience (paragraphs 2.22, 3.3 and 3.4).

**15 HM Treasury's principles for fees and charges encourage efficiencies**

**but do not incentivise them.** With charges covering costs, any cost reductions directly benefit the fee-payer, not the government body. Conversely when costs rise, they can be passed on. This reduces the incentives for charging bodies to find efficiencies. Greater transparency on the costs underlying fees and services would help. Our case studies suggest that limitations in cost information and a lack of oversight of fees reduce the external pressure for efficiency savings. We found bodies used a range of cost models, some of which provided little information to management on what was driving service costs, making it difficult to support strategic decisions. We also found little consideration of large-scale efficiency savings programmes. Only one service we looked at had reduced fees in the last 10 years in nominal terms because of efficiency savings (paragraphs 2.8 to 2.10, 2.23, 2.24, 3.14, 3.15 and Figure 7 and 10).

**16 Investment in improving charged services may be disincentivised by a cost recovery approach.**

Charged services that are available online and automated are usually cheaper to run and speed up the process for users. DVLA, HMPO and HMCTS have improved operations and service delivery by using digital approaches to change how services are delivered. For instance, over 90% of passport applications and 72% of photocard driving licence ten-year renewals are now done online, which is cheaper and faster than the old paper-based systems. Several bodies still use legacy IT systems that limit the opportunity for process improvement and efficiencies. Our past work on digital transformation has highlighted the challenges of updating legacy IT systems which requires an upfront investment in time, money and skills. The lack of clear cost information makes it more difficult to establish the business case for this type of investment, and the risks that digital transformation create may make the investment unattractive when costs can be recovered irrespective of performance (paragraphs 2.15, 2.22, 3.14 and 3.16).

**Value for money conclusion**

**17** Many government departments rely on charging fees to recover the costs of providing services to people and businesses. But none of the services we looked at recovered costs consistently, and the charges for the services may not accurately reflect the costs. HM Treasury does not provide enough oversight, challenge and guidance on how to manage charged services effectively. As a result, charging bodies are left to figure out separately how best to handle common operational challenges, financial risks from over- or under-recovery, and difficult trade-offs.

**18** The government is missing opportunities to deliver efficiencies and share good practice. This poses risks to the financial resilience of public services, the costs of which are likely to be borne by future fee payers. Without adequate guidance, support and incentives it is unlikely that the current arrangements for fees and charges will deliver value for money for customers, businesses and taxpayers.



## Recommendations

**19** To secure value for money from its management of fees and charges, the government needs to take action to improve how it operates.

**20** Accounting Officers should proactively monitor whether charged services are recovering costs, and act where they persistently deliver unplanned surpluses or deficits, or fail to comply with the principles of Managing Public Money. This should include ensuring they have the appropriate legislative and Treasury approvals for their approach so that the regularity of the expenditure can be effectively audited and transparently presented to Parliament.

**21** HM Treasury should:

- a** ensure that disclosure requirements are aligned between Managing Public Money and the Financial Reporting Manual, and that the requirements support transparency and accountability while being proportionate in their level of detail relative to their risk to public money;
- b** extend its guidance in chapter six of Managing Public Money to include: a template to standardise the process of proposing or amending fees and charges; additional support on data collection, strategic decision-making, and monitoring; and the relative merits of alternative approaches where appropriate;
- c** determine how incentives and levers can be used to encourage greater efficiencies or quality improvements, especially where there may be opportunities to transform customer service or invest to save;
- d** assess options, including legislative approaches, to streamline and make more flexible the fee amendment process to better support government bodies in their financial management of fees and charges; and
- e** set out what action it will take to better support good financial management of fees and charges across government with good practice, tools, guidance and examples on issues like navigating trade-offs and addressing data limitations.

In doing so it is likely to want to consult with government functions (including analysis, finance and commercial) and other interested parties.