National Audit Office

REPORT

Financial management of fees and charges

HM Treasury

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National Audit Office

Financial management of fees and charges

HM Treasury

Report by the Comptroller and Auditor General

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Gareth Davies
Comptroller and Auditor General
National Audit Office

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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[1], 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),[2] 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.

1 For the purposes of this report, 'visa' means visa and immigration fees.
2 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,[3] strategic planning and budgeting,[4] allocating resources,[5] and monitoring and forecasting.[6] 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).

3 National Audit Office, *Good practice guide, Financial management in government: Enablers of success*, July 2023.
4 National Audit Office, *Good practice guide, Financial management in government: Strategic planning and budgeting*, September 2023
5 National Audit Office, *Good practice guide, Financial management in government: Allocating resources*, December 2024.
6 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[1] 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[2]	Driver & Vehicle Licensing Agency	331	331
Court and tribunal fees[3]	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
Total		2,923	3,964

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.

Part One

Introduction

1.1 This part of the report sets out:

- the types of fees and charges, and why government bodies collect them;
- roles, responsibilities, and governance arrangements; and
- the key principles for fees and charges – as set out in HM Treasury's Managing Public Money (MPM) – with which accounting officers must comply.

Background

1.2 Most government activity is funded by taxes but some public bodies fund certain services by charging people and businesses. Examples of these fees and charges include filing a return at Companies House, or applying for a passport or driving licence. According to the Whole of Government Accounts,[7] fees and charges totalled £8.9 billion in 2022-23.

1.3 According to the Office for National Statistics (ONS) guidelines which HM Treasury applies, fees have two characteristics that distinguish them from taxes (**Figure 2**):

- **cost recovery** – fees are usually set to recover the cost of providing the service, not to generate a surplus; and
- **requited** – when one pays a fee, one should get something of equal value in return such as a product or service.

For the purposes of this report, we use 'fees' and 'charges' collectively and interchangeably.

7 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.

Figure 2

Similarities and differences between fees, charges, and taxes

Fees and charges are distinguished from taxes as they recover costs as a default and the payee receives a direct benefit from paying

Categories	Made under legislative authority[3]	Payee receives direct benefit from paying	Set to recover costs as default
Fees	✔	✔	✔
Charges		✔	✔
Taxes	✔		

Notes

1 The categories are taken from government documentation and Office for National Statistics (ONS) definitions.

2 The terms fee and charge are often used interchangeably (although a fee is normally a charge made under legislative authority, such as a driving licence fee).

3 The payment is deemed compulsory when the government has made this a requirement in legislation to be able to use the service.

4 Taxes are not in scope for this report.

Source: National Audit Office analysis of Office for National Statistics definitions and government documentation

Roles, responsibilities and governance arrangements

1.4 Government departments are responsible for setting their own fees and charges: primary legislation gives government ministers the power to set and charge a fee, while secondary legislation is used to change a fee.[8] In the context of this legislative framework, HM Treasury sets out the principles for how charges are set and managed – which includes that government departments must obtain HM Treasury permission before introducing fees or changing them.

1.5 Government bodies must operate within these principles, and accounting officers have a duty to ensure that spending is regular (they have legal authority to do so) and proper (they follow the rules HM Treasury outlines). In addition to a body's own control systems, HM Treasury spending teams will monitor compliance with its principles, but it is the accounting officer's duty to ensure the rules are followed. **Figure 3** overleaf outlines the roles and responsibilities.

1.6 The process for changing fees for driving licences shows how approvals work in practice when it involves an arm's-length body: The Driver & Vehicle Licensing Agency (DVLA) proposes fee changes to its Agency Board. Once agreed, DVLA seeks approval from the Department for Transport (DfT) – its sponsor department. DfT then asks HM Treasury to give consent for DVLA to make the changes.

8 Sometimes, secondary legislation can be used instead of primary legislation to significantly alter or restructure a fee. In such cases, ministers are allowed in legislation to make rules to change fees, but they must first have explicit permission from HM Treasury to do so.

Figure 3

Roles and responsibilities within fees and charges

There are many bodies and functions concerned with approving and advising on fees for charged services

HM Treasury (HMT)

Scrutinise proposals for changes to fee levels or structures for Managing Public Money (MPM) compliance, budgetary and classification purposes.

Treasury Officer of Accounts

Maintain, update and advise departments on MPM.

Departmental Spending Teams

Scrutinise and challenge departments' proposals to introduce or amend fees.

Departments

Manage fees policy, basis of setting fees (cost recovery), changing of fees through legislation and (if a departmental operating segment) fee collection.

The Accounting Officer

Ensure regularity and propriety through compliance with MPM, including appropriate consents.

Audit and Risk Committee

Make sure good financial management practices are followed, for example obtaining data on service costs and setting fees to recover them.

Arm's-length body (ALB) sponsor teams

Day-to-day management of relationship between ALB and sponsoring department.

Arm's-length bodies

Collect fees, monitor income and non-compliance, create forecasts to predict necessary fee changes, may manage fees policy.

Audit and Risk Committee

Make sure good financial management practices are followed, for example obtaining data on service costs and setting fees to recover them.

Government Functions

A grouping aligned across government to manage functional work, forming a framework for collaboration across organisational boundaries.

Government Finance Function

Maintain the Finance Standard and NOVA guidance on best practice and help parts of government to learn from each other.

Government Debt Management Function

Ensure any fees or charges that become overdue are recovered in a way that's fair and proportionate.

Commercial Function

Ensure consistency and clear standards for buying goods and services and that bodies follow guidance to get value for money and quality from suppliers.

Analysis Function

Set expectations for how analysis should support well-informed decision-making.

Government Internal Audit Agency

Provide assurance on governance, risk management, and control arrangements in government bodies. This is done using the risk and control framework as set out in the Orange Book.[1]

Governance of fees and charges

Supporting bodies

Oversight of charged services

Separates the bodies that govern fees and charges from supporting bodies

Note

1 HM Treasury, *The Orange Book: Management of Risk – Principles and Concepts*, May 2023.

Source: National Audit Office analysis of evidence from case studies and publicly available information

Guidance and requirements

1.7 HM Treasury's Managing Public Money (MPM) provides mandatory guidance on handling public funds. It outlines government's key principles for setting and managing fees and charges.[9]

1.8 The primary principle is that unless agreed otherwise with HM Treasury, charges must cover the costs of providing the service, so that government neither profits from users nor creates losses that taxpayers must subsidise: this is referred to as 'cost recovery'. Since fees and charges change infrequently but costs can change daily, there will often be a slight difference between the fees collected and the actual costs. But where fees do not cover the full costs of providing a service, MPM states that bodies should agree with HM Treasury a plan to recover full costs within a reasonable period. Where a government body wishes to under- or over-recover its costs, it must have ministerial approval, Parliamentary consent, and disclose certain information in its annual report and accounts.

1.9 The principles cover how to introduce or change a charged service, including setting the cost recovery strategy and the level of fees to recover costs. When government bodies introduce or change a charge, they need to estimate the costs of providing the service. They calculate both direct and indirect costs to set appropriate fees, using actual costs if available (or estimates, for new services). Treasury guidance specifies which costs[10] should be included in the fees, like staff salaries, and which should not, such as enforcement costs. Generally, those paying for the same service must be charged the same amount. However, the charges can differ depending on how the service is provided, the level of service, and the quality of the service – for example, one can pay more to expedite the service, such as on a premium one-day passport application.

1.10 MPM states that accounting officers must also comply with functional standards. Government functions seek to form a framework for collaboration within organisations and across organisational boundaries on areas such as finance, analysis and procurement. They set and assure standards related to their area of expertise, which apply across the government. For example, the Government Finance Function manages the Government Finance Standard, which sets expectations for how public funds should be managed and used.

9 These principles are explained in Managing Public Money chapter six: Fees, charges and levies.
10 See Figure 4, note 2.

1.11 Drawing on the principles in MPM and the functional standards, we have set out the key stages for setting or changing fees. **Figure 4** summarises each stage, incorporating the good practices highlighted in our financial management guides, and insights from charged services we reviewed. These include:

- developing a cost-recovery strategy that aligns with wider objectives;
- setting the fee level based on understanding costs;
- delivering the service and setting performance indicators;
- monitoring and evaluating the charged services, including reviewing fees; and
- improving efficiency to reduce charges and provide value.

Figure 4
How departments should set and manage fees and charges

To improve the process of setting and managing fees, good practice from our financial management guides can be implemented within the five stages we have identified

Stage name	What the stage involves	What good financial management looks like based on National Audit Office guides
1 Developing a strategy	• Identify a need for a new fee or fee change. • Assess possible options for fee levels to meet costs. • Consider which cost recovery strategy is most appropriate. • Consult with stakeholders. • Propose new fee or fee change to HM Treasury for approval.	• Financial planning that aligns with wider strategic objectives. • Aligning good-quality financial data with risk management data to assess risks. • Supporting decision-makers to identify, consider and make trade-offs. • Strong non-technical skills to enable collaboration with stakeholders. • Using data to enhance accuracy and timeliness of decision-making.
2 Setting the fee level	• Estimate the costs of the services provided (including overheads and asset depreciation) and the level of fee required to meet these costs. • Communicate service requirements and how they are measured. • Introduce the new fee or fee change and set-up the payment mechanism.	• Understanding data strengths and limitations. • Accurate forecasting of demand and costs to charge the correct amounts. • Regular review of outturn data to revise assumptions.
3 Delivering the service	• Deliver service being charged for, at the service level promised. • Collects fees for the service. • Communicate with service users to provide any necessary support.	• Using data to enhance decision-making. For example, setting defined service objectives and key performance indicators (KPIs) to measure service performance. • Managing risks and uncertainties in financial planning.

Figure 4 *continued*

How departments should set and manage fees and charges

Stage name	What the stage involves	What good financial management looks like based on National Audit Office guides
4 Monitoring and evaluation	• Continuously monitor how the service delivery is performing; for example, KPIs, feedback from service users, identifying inefficiencies. • Review the service regularly to check charging level – HM Treasury guidance recommends this should be annual at a minimum. • Evaluate whether the service is meeting its objectives.	• Using reliable and comprehensive data. • Monitor effectively to improve decision-making. For example: – reviewing the service is in line with objectives; – reviewing and reporting on financial performance; and – actively monitoring and reporting.
5 Improvement and innovation	• Action issues identified from the monitoring stage. • Think innovatively on how service delivery can be improved. • Identify opportunities to reduce costs and improve efficiency; for example, invest in new technologies, share data across government, or learn from other government bodies and international partners.	• Using reliable data to identify cost savings. • Identifying opportunities to improve the quality and efficiency of management information systems and processes. • Encouraging openness about mistakes and learning lessons from others.

HM Treasury considers the following to be mandatory requirements:

- approvals: HM Treasury approval for all fee and charge proposals;
- recovery: full cost recovery by default, otherwise approval from Ministers and/or Parliament;
- costs: only certain costs should be recovered;[2]
- accounting basis: costs calculated on an accruals basis;
- charges: same charges for all users of a service category; and
- disclosures: disclosures in the annual report and accounts.

Notes

1 A cost recovery strategy is how much of the costs to run the charged service will be recovered. The default for most services is full cost recovery, but some charged services have agreements with HM Treasury to under- or over-recover costs to meet strategic objectives.

2 Managing Public Money lists costs to be included in calculating the annual cost of delivering a service. Not all costs will apply in every situation, and the list may not be complete. Costs include: accommodation, including capital charges for freehold properties; fixtures and fittings; maintenance, including cleaning; utilities; office equipment, including IT systems; postage, printing, telecommunications; total employment costs of those providing the service, including training; overheads, such as (shares of) payroll, audit, top management costs, legal services, etc; raw materials and stocks; research and development; depreciation of start-up and one-off capital items; taxes: VAT, council tax, stamp duty, etc; capital charges; notional or actual insurance premiums; fees to sub-contractors; distribution costs, including transport; advertising; bad debts; compliance and monitoring costs; and provisions.

Source: National Audit Office (NAO) analysis based on HM Treasury's Managing Public Money, NAO's financial management good practice guides and from reviewing case study processes

1.12 Appendix One sets out how we developed our evaluative framework.

1.13 Government bodies that charge fees are also responsible for reporting the financial information to Parliament. HM Treasury publishes the Financial Reporting Manual (FReM) which provides statutory guidance for government bodies preparing annual reports and accounts. It states that where income is material, financial disclosures for fees and charges must include:

- full costs and unit costs;
- total income received;
- the nature and extent of any subsidies and/or over-charging; and
- the financial objective(s) and performance against the financial objective(s).

MPM requires disclosure of the same items, irrespective of materiality, plus it includes a requirement to disclose:

- the amounts charged.

1.14 Part Two explains why good financial management is important. It evaluates how well the government manages fees and charges against HM Treasury principles and our view of good financial management practices.

Part Two

Management of fees and charges

2.1 In this part we examine the management of fees and charges, including performance in recovering costs. It covers:

- how government performs at each of the key stages of the process; and
- an assessment of HM Treasury's oversight of fees and charges.

2.2 Financial management means planning, directing, monitoring and controlling an organisation's resources to achieve its goals. Good financial management helps government bodies operate strategically, meet their objectives and be financially responsible. Key indicators of good financial management include accurately forecasting revenues, managing service costs, charging the right amounts, and addressing any surpluses or deficits in a timely manner. This is outlined in our evaluative framework in Appendix One.

Stages that government must manage with fees and charges

2.3 Using the key stages in Figure 4, we reviewed seven charged-for services to understand how fees and charges are managed in practice across different government bodies and types of service (**Figure 5** overleaf). Appendix One provides more detail on our approach.

Developing a fee strategy

2.4 As described in Figure 4, government bodies propose a fee strategy in the context of departmental and wider objectives. We found good practice examples such as:

- **Reflecting government policy and departmental objectives** – In 2024, Companies House raised its fee for setting up a company digitally from £12 to £50, to fund the new responsibilities under the Economic Crime and Transparency Act. This increase funded the delivery of expanded services to improve corporate transparency and tackle economic crime.
- **Considering the wider economy** – The Home Office had HM Treasury agreement to over-recover visa and immigration ('visa') processing costs by 212% in 2023-24 to generate income for other immigration related activity. The Home Office was aware that if it sets visa fees too high, it can discourage people from applying to work in the UK. This might reduce economic growth and make it harder for government to achieve wider goals. The Home Office therefore estimates these impacts of proposed visa fee changes.

Figure 5

Descriptions, costs and cost recovery targets of charged services we examined (2023-24)

Charged services we examined aim to recover all their costs, except for visa and immigration fees which aim to generate a surplus

Charged service	Description	Value of charges	Cost recovery target[1] (%)
Company filing fees	Paid by businesses when incorporating or registering a company	£50 for incorporation and £34 for confirmation statements[2,3]	100
Court and tribunal fees	Paid by businesses and individuals when dealing with court and tribunals	50p to £10,000 depending on claim[4]	100
Data protection fees	Paid annually by organisations or individuals who process personal data unless exempt	£52 to £3,763 depending on size[4]	100
Driving licence fees	Fees are paid by individuals applying for, replacing, updating, renewing, exchanging or reinstating driving licences in Great Britain	Applying for first full or provisional licence: £34 Replacement and exchanging licence: £20 Updating details and renewing licence: £14 – £20 Getting licence back after it has been revoked: £50 – £90[2,5]	100[8]
Gambling licence fees	Paid annually by individuals and businesses to get or keep their gambling licence	£40 to £1,077,027 depending on type of licence	100
Passport fees	Paid by individuals when applying for or updating a passport	Passport [2,4,6] £94.50 (adult) £61.50 (children) £222 (1-day premium)	100
Visa fees	Paid by individuals and businesses when dealing with visas	£35 to £3,250 depending on type[4,7]	212[9]

Notes

1 The cost recovery target shows the percentage of costs that the charged services aim to recover.

2 The amount relates to submissions made online.

3 For company filings via paper, the fee is higher: £71 for incorporation and £62 for a confirmation statement.

4 Data protection fees increased in February 2025. Passport fees, visa fees and court and tribunal fees increased in April 2025.

5 For driving licence applications via post, the fees are: £43 for a full or provisional licence, £20 to replace a licence and £17-20 to update details.

6 For passport applications via paper, the fee is higher: £107 for an adult passport and £74 for a child's passport.

7 This range does not include premium sponsorship fees.

8 The income and costs of driving licences are pooled together with vehicle registration fees to achieve a cost recovery target of 100%.

9 The surplus generated from visa fees is used to subsidise other activities.

Source: National Audit Office analysis of cost data from case study bodies and Managing Public Money requirements

2.5 Some charged services we examined did not seek feedback from users to understand how charges might affect them and service demand. HM Treasury principles for managing fees and charges neither mentions nor requires bodies to consult with the public and businesses. However, regulators, responsible for two of the charged services we examined, are legally required to consult businesses under the Better Regulation Framework. Across the seven charged services we examined, we found that only four, including both regulators, conducted public consultations to get feedback before their most recent fee changes. This supported transparency and allowed fee payers to give feedback on proposals.

2.6 It is important to prioritise effectively when managing trade-offs to support objectives and deliver good value for money. Government bodies running charging regimes must make difficult decisions when balancing trade-offs and we found that HM Treasury provides limited guidance. Trade-offs we identified include:

- **Accessibility versus cost recovery** – Some bodies balance their objective to recover 100% of their costs against making services accessible to the public, which can be expensive for departments. For example, paper-based services can be more expensive to run than digitalised services but not everyone can access the latter. Government bodies must find a balance between covering their costs and making sure everyone can use the service.

- **Quality of data versus cost recovery** – Keeping data accurate involves processing costs; passing these charges on to the user can discourage compliance and result in data gaps. Government bodies must find a way to maintain accurate data among departments without disproportionately raising charges.

- **Fee compliance versus cost recovery** – Charging high fees can help recover costs but can also cause compliance issues. For example, Companies House found that an increase in winding-up fees led to evasion. Government bodies must ensure charges are at a reasonable level to recover costs and not discourage compliance.

- **Simplicity versus fairness** – A simple fee structure, such as a fixed price for all, might encourage greater compliance but may not accurately reflect costs and therefore be unfair to some users. Government bodies must strike a balance between simplicity and ensuring proportionality in fees for users.

- **Charging versus promoting growth** – High fees can reduce economic growth. Government bodies must consider how fees might impact new businesses, other government departments and overall market competitiveness.

- **Fee stability versus flexibility** – Changing fees regularly can help government bodies meet financial goals, but users may prefer stable fees. Government bodies must balance adjusting fees for cost recovery with stability for users.

2.7 We found examples from our case studies of how government bodies managed some of these challenges (**Figure 6** on pages 24 and 25).

Setting the fee level

2.8 To charge the correct amount when aiming for cost recovery requires public bodies to know their costs. Only when departments understand the different components of their costs can they ensure they are providing the service at the lowest possible price. Managing Public Money (MPM) sets out what costs can be recovered through fees to estimate the cost per unit of each product (see paragraph 1.9).

2.9 Government bodies use different methods to calculate costs with varying levels of detail. This means some bodies do not have the data they need to understand how their processes contribute to costs. MPM does not provide guidance on the relative merits of different cost-modelling approaches, each of which have benefits and challenges. The two most common cost models we identified are outlined in **Figure 7** on page 26.

2.10 Case study bodies told us they are left to seek advice from others and draw conclusions for themselves on what good looks like on cost-modelling. All case study bodies said they find it challenging to develop a detailed understanding of the costs of providing their services. The challenges to doing so vary by charge type – for example, calculating the cost of a product – like a passport – is easier than for a service that can vary annually, such as charges for operating licences.

2.11 We found examples of where poor data makes it a challenge to set fees accurately for cost recovery:

- In 2017, the Ministry of Justice (MoJ) reviewed its court and tribunal fees and identified that they had set several fees too high due to inaccurate data on the actual costs involved. Its cost-model lacked data on the volume of cases, and used historical financial data that did not reflect the current ways of working. This meant that it collected more revenue than its costs without the legal authority to do so. In its 2023-24 annual report and accounts, HM Courts and Tribunals Service (HMCTS) stated that it estimated £8.4 million could be claimed in refunds.

- Companies House maintains a register of companies. However, it is poor quality because it includes companies that are not active, or in some cases set up fraudulently. Without knowing the number of companies that will file returns, it cannot accurately apportion costs to create a fee per company. Moreover, in 2024, Companies House raised its fee, from £8 to £33, to digitally apply for voluntary dissolution of a company, but it found that this discouraged compliance and led to more inactive companies remaining on its register. This made it harder to forecast demand and recover costs.

- The Information Commissioner's Office (ICO) aims to charge a fee to all organisations processing personal data, unless they have an exemption. But it lacks accurate information on the numbers of organisations it should charge and the amount of data protection work it will need to do in any given year. Because some regulatory tasks are demand-led, it cannot predict accurately the amount of data protection work needed. This makes it hard to set data protection fees accurately to recover its costs. The ICO is exploring with its parent department, the Department for Science, Innovation & Technology (DSIT), how to improve its information on who should pay by using data from other government bodies. Progress has been slowed by barriers to sharing data across government.

2.12 When we looked at what represented the highest proportion of costs across the services in our sample, we found a wide variation (**Figure 8** on page 27). For example, the two services provided by regulators (Gambling Licences, and Data Protection Fees) show staff costs of over 70% of the total service costs that need to be collected, which was higher than other case studies. On the other hand, operating costs (including postage and printing) account for 60% of the cost of providing driving licences. This variation highlights that different services have different cost structures, which will impact how they are managed and priced. Variation can also occur across different providers of a service; for example, a group of members of Parliament highlighted that the cost of providing a shotgun licence ranged from £90 to £500, depending on the issuing police constabulary.

2.13 We found that a common problem for the charged services we studied is that changing fees takes a long time. On average, it takes about 63 weeks to complete (**Figure 9** on page 28). This is mainly because the process involves passing secondary legislation, which requires Parliamentary timetabling and multiple approvals from parent departments and HM Treasury. Both the Gambling Commission and the Driver & Vehicle Licensing Agency (DVLA) suggested the fee amendment process could be simplified. Data protection fees took the longest to amend, at 130 weeks. In contrast, changing fees for passports and visas was quicker, taking 27 and 30 weeks respectively. This is because the Home Office manages these services entirely on its own, without involving an arm's-length body, and does not conduct formal public consultations. This gives them more flexibility and control over the process.

Figure 6
Common trade-offs faced by government bodies

Case examples of how to manage the challenges and impacts of three common trade-offs

Trade-Off	Recovering costs and keeping services accessible	Simplicity, fairness and recovering costs	Achieving wider goals while covering costs
Challenge	Government bodies must strike a well-informed balance between recovering costs and making sure that services are affordable for people and businesses. There are also laws, like the Courts Act 2003, that say that charges should not stop people getting access to justice.	Government bodies can set different charges for services that vary in cost to provide. Variations can include the type of service, speed, quality, or cost of delivery. Government bodies must balance the simplicity of fee structures, which helps with administration and encourages compliance, while also considering the fairness of charging organisations of different sizes similar fees. Government bodies must also make judgements about how frequently to change fees to reflect changes in costs. Keeping fees steady is important to service users, whilst government bodies benefit from flexibility in their fee structures.	Government bodies may pursue a range of wider goals when they charge for services. In doing this they must follow the principles set out in Managing Public Money (MPM) such as making sure that fees cover the full cost of activities.
Case study example	Free or subsidised services: ● The Driver & Vehicle Licensing Agency (DVLA) offers free driving licence renewals for those over 70 and for those with certain medical conditions. Costs associated with these services are recovered via income from other charged-for driver licensing services. ● HM Courts and Tribunals Service (HMCTS) does not recover the full cost of each of its services, in line with Ministry of Justice (MoJ) policy, for example to support access to justice or offer fee discounts to certain groups – like those receiving certain benefits. These cross-subsidised services need to be well designed so that the right people get help, but not so generous that public funds are put under undue pressure, or the quality of the service is compromised. Avoiding digital exclusion: ● HM Passport Office (HMPO) highlighted that manual paper-based routes are more time consuming and expensive than processing an application digitally, but it needs to keep paper routes to make sure its services are accessible to everyone.	Charging structures of regulated services: ● The Information Commissioner's Office (ICO) has a straightforward three-tier fee structure which is simple to understand and comply with. This encourages compliance and minimises administrative burdens. ● The Gambling Commission categorises fees based on sector, product, and the gross gambling yield of the operator. This means that fees more accurately reflect the regulatory burden associated with each operator. Fee stability vs Flexibility: ● Companies House prefers stable fees for its stakeholders, but this limits its ability to be flexible to changing costs and circumstances. ● The gambling sector is a fast-paced industry so the Gambling Commission wants more flexibility to vary its fees more frequently than the current 5-year period.	Digital options: ● This could include setting different fees to encourage people and businesses to use digital services, which tend to be cheaper, instead of manual paper-based services. An example is where HMPO charges less for online passport applications and renewals. Growth: ● The charges that government bodies set to cover licencing and regulation can affect the financial health of businesses within an industry sector and can also affect the degree of competition. Data integrity: ● Some government bodies forego revenue to make sure that data is accurate to support wider goals. For example, DVLA does not charge people to update their name and address on their photocard driving licence. DVLA and other government bodies use this data for other purposes such as legal enforcement and so data quality is important. Economic impact: ● Visa fees can be set to encourage or discourage different types of workers to settle and work in the UK. While higher fees may bring greater revenue to the Home Office, it can also hinder wider government departments in meeting goals.
Impact	When government bodies don't get the balance right it can mean under recovery of costs, affecting delivery of priorities, taxpayers have to pay the bill, and some people and businesses don't get the services they need.	Sometimes government bodies don't make the right balance and they need to make changes. Large increases in charges can lead to unintended impacts such as people or businesses trying to avoid them. For example, in 2024 Companies House increased the fee for closing down a company to £33 (from £8). After this change, it noticed companies were not paying the fee. The cost of closing those companies fell on to Companies House. The consequence of not getting this trade-off right is administrative complexity, poor cost recovery and unfairness.	If government bodies don't get the balance right it can affect wider government objectives and department goals, or make it hard to recover costs.

Source: National Audit Office analysis of case study bodies' documentation and fees and charges policies

Figure 7
Examples of cost-modelling approaches

The case studies we looked at followed one of these two cost-modelling approaches to set fees

Cost-model[1]	Description	National Audit Office evaluation of cost model
Absorption costing	Total costs of a service or activity are apportioned over the volume of transactions processed for each service or activity.	Benefits This is straightforward and can provide a good indicator of costs. Challenges Indirect costs may be allocated uniformly across all activities, regardless of actual resource usage. This can lead to misleading data for decision-making and make it difficult to identify process efficiencies, due to insufficient cost information.
Activity-based costing	Total costs of a service or activity are calculated by identifying the key activities that contribute to the service. This involves determining the resources used in each activity and identifying the cost drivers.	Benefits This can lead to more accurate unit cost estimates. Challenges It requires detailed information on how activities drive costs, along with more sophisticated accounting systems and business processes. For instance, timesheets would be necessary to accurately link costs to specific activities.

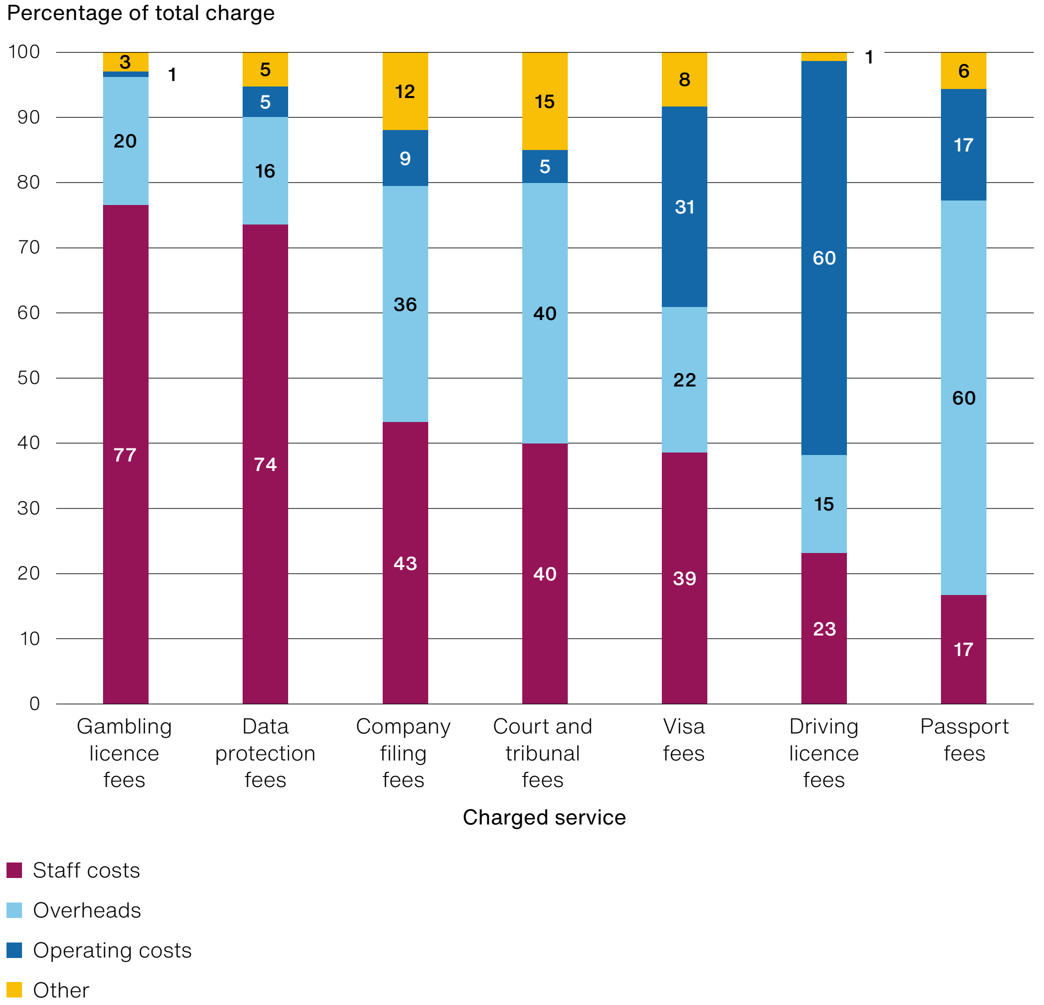
Note
1 These are the common cost-models we identified from the seven charged services we examined.

Source: National Audit Office analysis of cost model walk-throughs of case study bodies

Figure 8

Breakdown of 2023-24 cost elements of charged services we examined

Staff costs, operating costs and overheads are all significant costs to be recovered by fees



Notes

1 'Staff costs' include: salaries, travel and subsistence expenses, recruitment, expenses, and (in the case of the Home Office) some wider costs relating to border force. For court and tribunal fees, staff costs include costs associated with judges.

2 'Overheads' include: audit, top management, legal, professional fees, research, IT costs, estates costs and some wider costs specific to the Home Office. For passport fees, overhead costs primarily include costs associated with border force.

3 'Operating costs' include: postage, printing, telecommunications, raw materials and stocks, research and development, distribution costs (including transport) and advertising.

4 'Other' includes all other costs, such as depreciation.

5 For court and tribunal fees, the fee reviewed was the divorce fee.

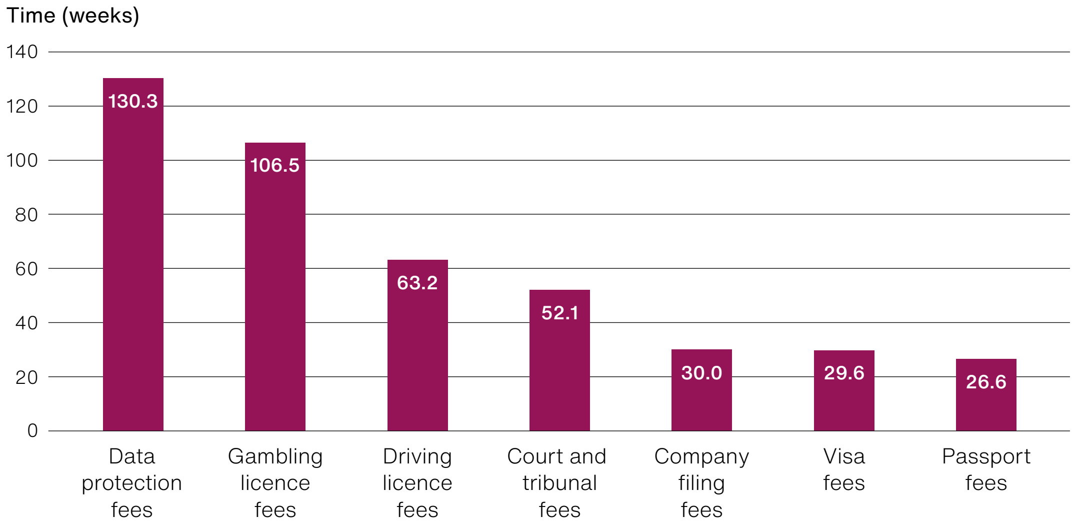
6 Figures may not sum due to rounding.

Source: National Audit Office analysis of cost data from case study bodies and Managing Public Money requirements

Figure 9

Time taken to implement the most recent fee change for charged services we examined

There is large variation in how long case studies took to amend fees – from 27 to 130 weeks



Process stage	Data protection fees	Gambling licence fees	Driving licence fees	Court and tribunal fees	Company filing fees	Visa fees	Passport fees
	Charged service (weeks taken)						
1. Determine approach	25.5	41.0	14.0	13.0	12.0	6.0	5.0
2. Development of options to amend the fee regime	65.3	17.0	12.0	0.0	0.0	8.0	6.0
3. Consultation approvals	7.5	10.0	14.0	8.7	0.0	0.0	0.0
4. Consultation period and initial drafting of the statutory instrument[1]	5.0	12.0	8.0	13.0	8.0	6.0	6.0
5. Response to consultation and finalising the draft statutory instrument	25.0	13.0	14.0	8.7	2.0	6.0	6.0
6. Clearance to lay statutory instrument	1.0	4.0	0.2	4.4	4.0	3.0	3.0
7. Laying statutory instrument	1.0	9.5	1.0	4.4	4.0	0.6	0.6
Total (weeks)	**130.3**	**106.5**	**63.2**	**52.1**	**30.0**	**29.6**	**26.6**

Notes

1 The process for amending data protection fees differs from other case studies. Instead of preparing the statutory instrument during the consultation period, the Department for Science, Innovation & Technology does this afterwards. Specifically, Stage 4 covers the consultation period only, while Stage 5 includes 8.5 days to prepare the statutory instrument.

2 This chart assumes that one week is equal to five working days.

3 Where a stage may occur over a range of weeks, this chart uses the middle value of that range.

4 Passport fees, visa fees, data protection fees and court and tribunal fees were last amended in 2025. Company filing fees were last amended in 2024. Gambling licence fees were last amended in 2021. Driving licence fees were last amended in 2014. Some of these fees are currently in the process of being amended.

5 Figures may not sum due to rounding.

Source: National Audit Office analysis of data from case study bodies

2.14 While transparency and challenge are vital, the lengthy process and multiple approvals often lead to unforeseen delays. This creates difficulties for government bodies who need to review and adapt to changing demand or issues such as high inflation, as we saw between 2021 and 2023, when costs may be rising but fees and charges are static. For example:

- The Gambling Commission changes its fees approximately every four years but must adapt to technological changes and developments in the sector it regulates. Uncertainty about fee changes complicates long-term planning. With fees staying the same for around four years, the Commission over-recovers costs initially and under-recovers as costs rise.
- ICO had a fee revenue deficit of nearly £10 million (13%) in 2023-24. This was largely because of an investment in their transformation programme. DSIT and ICO worked together on the fee review which took 130 weeks to complete, which included a delay caused by the 2024 general election. It took time for DSIT and ICO to assess and discuss the fee structure and the fee changes needed to cover ICO's data protection costs.
- DVLA is exploring options to streamline this legislative change process. It is in the process of preparing a Fee Strategy in conjunction with other DfT agencies, whereby arm's-length bodies could amend fees using the same piece of legislation, as well as considering options to revise legislation to allow for greater fee flexibility – such as inflation-linked increases.

Delivering the service

2.15 Performance metrics differ across our sample because of the range of services, but we found some good practice examples of targeted charging approaches to support and encourage different user preferences and move users towards lower-cost options. For example:

- The Home Office charges less for online passport applications and renewals to encourage the public to use the digital service rather than the paper one. In April 2025, the Home Office increased passport fees. An adult standard passport is £94.50 online, compared to £107 by paper form. The Home Office told us this charge reflects the additional time and costs to the HM Passport Office (HMPO) of performing the manual process. Over 90% of customers use the online channels in preference to paper-based routes. HMPO provides most passports within three weeks (in 2024, around 99.7% of standard applications not requiring further information met this target). It also provides a fast-track passport service at a higher price of £178 for a one-week service and £222 for a one-day service.
- The ICO offers a £5 discount to data controllers paying via direct debit, simplifying payments and encouraging renewals. Nearly 70% of the ICO's fees are collected by direct debit.

2.16 If some users evade fees, others ultimately pay more to cover that shortfall in revenue. Managing compliance helps recover costs from the expected revenue (see paragraph 2.6). We found a good practice example of managing the risks of non-payment of fees:

- The Gambling Commission has a policy to actively manage its fee collection and risks. This helps assess the risk of operators not paying each fee type, and the impact on revenue. It also set a timeline for pursuing outstanding charges, with several stages of escalations if operators fail to make a full payment on time.

Monitoring and evaluation

2.17 We outline in Figure 4 that effective monitoring and evaluation is important to improve decision-making. When looking at how government bodies review their charged services, we found some examples of bodies evaluating performance against strategic objectives including monitoring costs and revenues.

- For example, in 2022, MoJ's policy team carried out a strategic review of its charges and developed design-principles for setting charges to achieve policy objectives while complying with HM Treasury's principles. By reviewing past performance and setting realistic expectations, MoJ created recommendations that it plans to action to improve service delivery.

2.18 Effective monitoring requires government bodies to have reliable and comprehensive data on the revenue generated by fees and the costs of providing the good or service. We found that bodies did not always have this, and that practices varied:

- DVLA's financial forecasts provide projected fee surpluses and deficits, which are used to assess if current fee levels are appropriate or should be reviewed. In April 2024, the Government Internal Audit Agency reviewed DVLA processes for forecasting and concluded that those processes were effective and clear monitoring mechanisms were in place.
- MoJ does not monitor or evaluate its court and tribunal fee structures or processes. The department charges some fees (like divorce fees) above cost recovery, at £612, to subsidise other services (such as domestic abuse cases) for which there is no charge. However, there is no cost recovery target set for the fees that over-recover highlighting a lack of objectives and metrics for monitoring.

2.19 Government bodies should regularly review financial performance. We found that most bodies report monthly on the services. Examples of good practice include:

- DVLA provides monthly financial performance updates to its Executive Team and Board, and to the Department for Transport (DfT), which sponsors DVLA, along with a list of financial pressures and opportunities facing the agency. DVLA's finance team also produces an annual report which helps it to assess surpluses or deficits.
- The Gambling Commission asked businesses to submit, from 2024, standardised quarterly performance data; previously some businesses had submitted data only once a year. This helps it more accurately forecast fee income and make plans. It allows it to quickly assess the impact of policy changes and whether it is meeting cost recovery targets.

2.20 It is good practice to review periodically whether fees are set at the correct level to recover costs. Six out of the seven case studies we examined review their services annually. The ICO is the exception, because DSIT has a statutory requirement to review the data protection fee regime only every five years. While no other formal reviews occur on an annual basis, DSIT and the ICO aim to manage the risk of fee income failing to recover costs for prolonged periods by ongoing monitoring. This allows for fee adjustments to be made outside of the statutory review periods, although no interim changes have been made to date. **Figure 10** overleaf shows the number of changes in fees for the charged services we examined.

2.21 In 2023-24 four of the seven charged services we examined recovered costs broadly in line with their targets (**Figure 11** on page 33). The mean average cost recovery rate in 2023-24 was 88% across the six services we examined that have a 100% recovery target. However, across the last five years (2019-24), none of the case study bodies we looked at consistently charged the correct amount in relation to the costs of the services (**Figure 12** on page 34). Passports and family court fees have repeatedly missed their cost recovery target by more than 10% in each of the past five years. In contrast, driving licences and company filing fees (which had seen significant fluctuations in service demand between 2019-20 and 2021-22) have improved their cost recovery rates since the COVID-19 pandemic. Poor monitoring can lead to the wrong level of charges, poor cost recovery and missed opportunities for service improvements.

Figure 10

Number of fee changes of charged services we examined over time, 2005–2025

Over the past 20 years, some fees have changed more frequently than others

Period (years)	Data protection fees	Driving licence fees	Gambling licence fees	Company filing fees	Court and tribunal fees	Passport fees	Visa fees
2005–2010	0	2	0	1*	2	4	2
2011–2015	0	1*	1*	1*	1	1*	5
2016–2020	1	0	1*	1*	1	1	3
2021–2025	1	0	1	1	2	3	3
Total number of fee changes	**2**	**3**	**3**	**4**	**6**	**9**	**13**

Notes

1 * Denotes a decrease in fees.

2 We have chosen commonly used services to show number of fee changes, including any reductions over the time period. The specific service chosen for each is detailed in the following notes.

3 The data protection fee regime has three fee tiers for data controllers, based on their size and turnover. In this figure, data protection fees refer to tier one, which covers the smallest organisations – the majority of fee payers.

4 Gambling licence fees are non-remote general betting standard operating licence renewal (band A/A1). Fee categories had been banded by the number of premises up to April 2017, changing to gross gambling yield at this point. The lowest band, band A, was split into two at this point to reduce barriers to entry, with the lowest becoming band A1.

5 Filing fees are Companies House incorporation fees using software approved by Companies House to file it. The other methods of filing – postal and digital – also have different fees.

6 Driving licence fees are first provisional licences for new drivers in Great Britain.

7 Passport fees are adult standard (34-page) passport application and renewal fees. There are different fees for filing applications online or by post, but both have changed the same number of times.

8 Visa fees are for the Skilled Worker visa being extended up to three years. This allows an applicant to come to or stay in the UK to do an eligible job with an approved employer. This was introduced in 2020 and replaced the Tier 2 (General) work visa which was introduced in 2008. There are different fees for applications from those living in the UK and not currently living there – both have changed the same number of times.

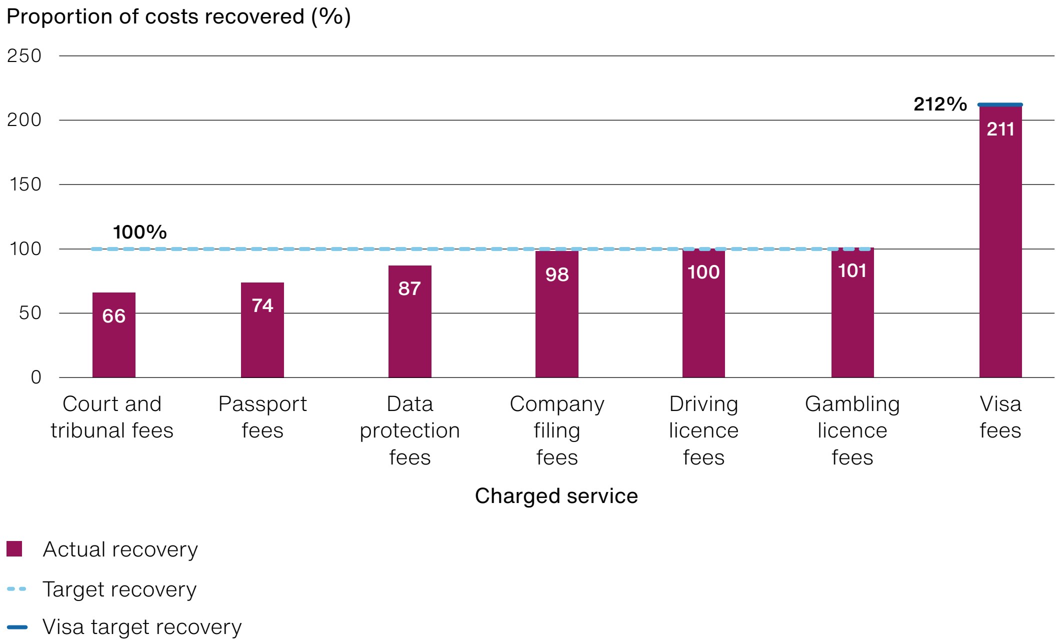
9 For court and tribunal fees, the fee reviewed was the divorce fee.

10 In the last 10 years there have been two fee reductions: Companies House due to efficiency savings and Gambling Commission due to the restructure of its fee bands.

Source: National Audit Office summary of data supplied by case study bodies

Figure 11
Actual versus target cost recovery rates in 2023-24 of charged services we examined

In 2023-24, four out of seven charged services we examined recovered costs in line with their targets. Three under-recovered costs at rates between 66% and 87%



Notes
1 Cost recovery is the process of setting charges for goods or services provided by public bodies to ensure that the revenue aligns with the costs incurred. The actual cost recovery percentages have been calculated as: total fee income divided by total fee expenditure, these figures were rounded to the nearest 1,000.
2 All case study bodies, except visa fees, have a target of full cost recovery (100%) – shown by the lighter blue line.
3 The court and tribunal fees included in this analysis are fees for family cases only.
4 Visa fees have a 2023-24 target of 212% – shown by the dark blue line.
5 We have deemed the target to be met if cost recovery is within five percentage points of the target.
6 All percentages have been rounded to the nearest whole number.

Source: National Audit Office analysis of government bodies' 2023-24 Annual Report and Accounts and documents from case study bodies

Figure 12

Cost recovery rate of charged services we examined, 2019–2024

Out of the seven charged services we reviewed, passports and family court fees have consistently missed their cost recovery targets for the past five years

		Charged service						
		Passport fees	Court and tribunal fees	Visa fees	Driving licence fees	Gambling licence fees	Data protection fees	Company filing fees
		(%)	(%)	(%)	(%)	(%)	(%)	(%)
Financial year	2019-20	81	66	179	111	91	103	91
	2020-21	51	49	97	89	95	107	92
	2021-22	73	54	165	103	109	109	103
	2022-23	84	66	214	97	134	103	105
	2023-24	74	66	211	100	101	87	98

Met – within ± 5% points of target

Near miss – within ± 10% points of target

Miss – more than ± 10% points from target

Notes

1 Cost recovery is the process of setting charges for goods or services provided by public bodies to ensure that the revenue aligns with the costs incurred. The actual cost recovery percentages have been calculated as: total fee income divided by total fee expenditure, these figures were rounded to the nearest 1,000.

2 The target recovery rate for all charged services was 100% except visa fees. The visa fee target recovery rate was as follows: 203% in 2019-20, 192% in 2020-21, 149% in 2021-22, 202% in 2022-23, and 212% in 2023-24.

3 The court and tribunal fees included in this analysis are fees for family cases only.

4 The recovery rate for driving licence fees also includes vehicle registration fees, as the Section 102 order they are charged under requires the income and costs of both to be pooled together to achieve cost recovery.

5 All percentages have been rounded to the nearest whole number.

6 Exceeding the target recovery rate, as in the case of visas for 2022-23, is considered a miss or near miss because it indicates that the public body is charging over its agreed target.

Source: National Audit Office analysis of accounts and funding documents from case study bodies

Improvement and Innovation

2.22 Good financial management and innovation can improve service quality and boost public service productivity. We found examples of government bodies making efficiencies, streamlining operations, sharing good practice and improving management information systems. For example:

- **Using data to help identify cost savings** – HMCTS developed a new activity-based, transactional costing-model in 2024, from a 'total volume' based model. Improving its cost-model by introducing more granular data has helped show how much specific stages of the operational process cost the organisation as well as producing good data to set its fees.
- **Upgrading management information systems and processes** – DVLA and HMPO told us that they have undergone digital transformation programmes to improve service operations and customer experience.
  - DVLA processed 72% of ten-year renewals digitally in 2023-24, compared to 17% in 2013-14. Improving digital systems can enhance efficiency and reduce costs but requires significant up-front investment. DVLA's 2023-24 business plan highlights improvements in digital capability and its services, saving around £300 million from 2015 to 2020.
  - Balancing short-term costs and long-term savings is crucial. The Home Office estimates that the passport transformation programme will deliver benefits of £229 million – which includes over £43 million in efficiency savings – over 8 years, starting from 2024-25. By March 2024, the Passport Transformation Programme spent £315 million, and the Accounting Officer Assessment in 2024 estimated the whole life cost of running the programme to be £1 billion. The passport service has not completely moved away from its legacy systems, due to the complexity and risks involved.
- **Learning from a range of other service providers can help solve common problems.** Although HM Treasury and the government functions do not share good practice on fees and charges, we found the following examples of learning from others:
  - International comparisons – HMPO engages with other international passport service providers (such as Ireland, Australia, Canada and the US) to share and gain insights.
  - UK comparisons – MoJ liaise with Scotland and Northern Ireland to share learning, as they have similar judicial systems.
  - Sharing across central government – The Gambling Commission engaged with other regulators (such as the Financial Conduct Authority, Ofcom and the Environment Agency) as part of the research that informed its fee review.
  - Department family – DfT has a Fee Strategy Group, which includes representatives from DVLA's Strategic Finance Group. This serves as a forum through which best practice and lessons learned can be shared across the DfT family in respect of making changes to fee levels.

HM Treasury oversight of the fee regime

2.23 We found that HM Treasury has limited central oversight of the fee regime. This can have serious consequences, especially when it comes to fee approvals for departments' arm's-length bodies and their agents that collect fees. For example, in 2025, the UK Parliament's Secondary Legislation Scrutiny Committee found that some government bodies charged the public for services without having proper legal authority. It observed that third-party providers to the Home Office charged visa applicants fees for language tests without clear legal authority.

2.24 Government bodies must submit fee proposals to HM Treasury for approval after considering the aims, risks and impacts. There is no formal, standardised process for doing so, and HM Treasury does not keep a central record of these approvals. We found that individual HM Treasury spending teams record fee regime approvals, but they are not held centrally. Instead, HM Treasury relies on the knowledge of its staff in the spending teams and Treasury Officer of Accounts team to scrutinise the value for money of spending on each proposal. This means common themes and approaches can often be missed and it makes it difficult to compare how charges are set, the reason for fee changes, or to find good practice across government. This lack of documentation and central oversight means inconsistent engagement between HM Treasury and the government bodies we spoke to.

2.25 HM Treasury does not closely monitor departments' recovery of costs. Instead, it relies on its scrutiny during spending reviews, and places primary reliance on the Accounting Officer to ensure that adequate governance and internal controls are in place to monitor cost recovery and fee-setting compliance. This means that fees can be under-charged for some time without remedial action. For example, HMPO aims to recover full costs for the passport service. However, it has been under-recovering since 2017-18 without explicit approval from Home Office Ministers or HM Treasury, leading to a deficit of £223 million (26%) in 2023-24. Passport-related costs have gone up because of the addition of border force costs to its cost-model HMPO found it hard to predict demand following the pandemic, which made it more difficult to recover costs as volumes fluctuated significantly. The Home Office has taken some action by increasing fees by 25% in recent years to help better recover costs, but it is still missing its target. Its average cost recovery rate over the past five years is around 72% – resulting in a total under-recovery of £916 million – and it is yet to agree a strategy or timeline to remedy this. Persistent imbalances 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. Where services are used only periodically (such as adult passport renewals which happen every ten years) this can also create generational unfairness.

2.26 HM Treasury spending teams told us that when departments seek approval to change fees they do not provide enough detail, making it hard for HM Treasury to review proposals properly. There is sometimes a 'back and forth' between bodies to agree on the data needed such as an estimate of costs. Departments that manage fees directly (as the Home Office does for visas and passports) rather than through arm's-length bodies are likely to have fewer issues. Services managed by arm's-length bodies cannot usually raise concerns directly with HM Treasury, because it is common practice for parent departments to liaise with HM Treasury on behalf of arm's-length bodies. Parent departments lack visibility over the detail behind submissions from their arm's-length bodies, leading to missing information and extra work for HM Treasury, the parent departments and the arm's-length bodies. Our case studies suggest that limitations in cost information and a lack of oversight of fees reduce the external pressure for efficiency savings.

2.27 We described the disclosure requirements that government bodies are mandated to follow in paragraph 1.13. However, we found that none of the charged services we examined complied fully. This means that Parliament, the public, and those who pay do not have complete information on the charged services we examined (**Figure 13** overleaf). Some government bodies manage a wide range of fees and charges, while others are smaller in scale. It is important that financial reporting requirements are proportionate. Our work on accountability[11] highlights the need for meaningful and proportionate reporting for smaller bodies, including the potential to streamline annual reporting and disclosure requirements.

11 National Audit Office, *Accountability in small government bodies*, June 2025.

Figure 13

Disclosures of charges in annual reports and accounts 2023-24 for the charged services we examined

No charged services met HM Treasury's disclosure requirements for fees and charges

		Charged service						
		Visa fees	**Passport fees**	**Company filing fees**	**Driving licence fees**	**Data protection fees**	**Court and tribunal fees**	**Gambling licence fees**
Material to accounts		✔	✔	✔	✔	✔	✔	✔
Disclosure Requirements[1]	Full costs and unit costs[2]	O	O	O	O	O	O	O[3]
	Total income received	✔	✔	✔	✔	✔	✔	✔[3]
	The financial objectives and performance against the financial objective[4]	✔	✔	O	O	O	✘	O
	The nature and extent of any subsidies and/or overcharging[5,6]	✔	O	O	O	O	O	✘

✔ FReM requirement met

O FReM requirement partially met

✘ FReM requirement not met

Notes

1 The disclosure requirements are set out in the Financial Reporting Manual (FReM) that HM Treasury publishes. The FReM provides statutory guidance for government bodies preparing annual reports and accounts. It states that where the income is material, financial disclosures for fees and charges must include: the full cost and unit costs charged in year, the total income received in year, the financial objectives and performance against the financial objectives, and the nature/extent of any subsidies or over-charging.

2 Where the FReM specifies 'unit costs' we deem this to be the cost of providing the service once, for example, one product for one user. Across all case studies, only the aggregate costs are disclosed; unit costs were not included.

3 The Gambling Commission discloses its fee income by industry sector and its costs by its operating segments. As these are different service categories, they are not comparable to each other.

4 Where the FReM specifies 'financial objectives and performance against the financial objective' we deem this to mean that the bodies are required to show their cost recovery targets and their progress towards achieving them.

5 Where the FReM specifies 'nature and extent of any subsidies and/or overcharging' we deem this to mean that bodies are required to provide both the value of the financial surplus/deficit and an explanation. Where case studies partially met this disclosure, it is due to them not providing an explanation along with the value of the surplus or deficit.

Source: National Audit Office analysis of case study bodies' 2023-24 annual report and accounts

Part Three

Cross-cutting challenges and opportunities

3.1 This part examines the challenges around, and opportunities to improve the financial management of fees and charges. It draws on our past work on areas such as financial management, digital transformation and evaluating public services, to show how the government can improve. We cover the same five strategic themes outlined in our evaluative framework in Appendix One.

Leadership, governance and culture

3.2 HM Treasury publishes and maintains Managing Public Money (MPM), which contains the main principles for dealing with resources in public sector organisations, including when setting charges. However, government bodies do not always follow HM Treasury's principles, which can lead to problems if the bodies are not monitored effectively, as we highlighted in Part Two. Poor governance increases the risk of financial pressures on the public purse and reputational damage, which may reduce both fee collection rates and public trust.

3.3 Government bodies told us they find HM Treasury guidance helpful because the principles are simple, easy to understand and can be applied in different situations. However, they would like practical examples of how to address common operational problems faced, such as forecasting user demand, or when and how to reflect inflationary pressures, so they can consider options on how best to handle them. They would also value more signposting of where to go for expert advice and support and to learn from others' experience.

3.4 HM Treasury spending teams told us that they help government bodies understand basic principles and clarify existing guidance, but they do not have the insights that those bodies seek. Neither HM Treasury, nor the cross-government functions, provide a forum for sharing good practice or lessons learned on management of fees and charges. We saw examples of situations where the bodies were doing the best with what they had: Companies House adapted Cabinet Office costing guidance meant for projects and programmes, not fees and charges. While it is good that it sought out and adapted existing advice, there is still a significant gap in cost-modelling support, for fees and charges.

3.5 We looked at the guidance provided to spending departments by the central finance function in other countries and found scope for HM Treasury to add more value, including in areas around monitoring and reporting (**Figure 14**). For example, using standardised templates can help departments provide sufficient detail when they propose fee changes. This could help speed up the decision-making process, which is often slow when changing fees (see paragraph 2.13). HM Treasury also agreed its guidance could outline more clearly the hierarchy of trade-offs and risks faced by charging bodies and how best to manage these. HM Treasury told us it was open to learning from international comparisons such as New Zealand.

Strategic planning and budgeting

3.6 Spending reviews can be an opportunity to take a more strategic look at fees and charges across the public sector to assess whether they are supporting government's policy and financial priorities. Our previous work on Government's planning and spending framework[12] sets out its importance for value for money and identifies eight lessons for government to learn.

3.7 Many of the lessons are relevant for managing fees and charges. This includes how government bodies work together across organisational boundaries, their understanding of costs and risks, and balancing short term objectives with sustainability and resilience to risk. It is important to properly prepare for risk and uncertainty when setting and amending charges. Departments do not always build flexibility into plans nor consider optimism bias. Considering different scenarios can help. For example, the Home Office consults with departments to consider how raising visa and immigration fees might affect other government departments' costs and objectives. It presents fee change proposals, timings and economic analysis for consideration by HM Treasury and other government departments.

3.8 Government bodies must manage changing costs while deciding how to reflect those in charges. Government bodies need to plan flexibly and understand the perspectives of those who use services. This can help with decisions on how to deal with rising costs and future issues. For example, during a public consultation in 2024, the Department for Science, Innovation & Technology (DSIT) proposed a 37.2% increase in data protection fees to be paid by data controllers to the Information Commissioner's Office (ICO). After considering feedback from data controllers, including how cost pressures could affect business growth, DSIT decided on a 29.8% fee increase.

12 National Audit Office, *Lessons learned: a planning and spending framework that enables long-term value for money*, October 2024.

Figure 14
International comparisons of UK guidance for fees and charges

HM Treasury could improve its guidance by learning from other countries

	Comparison of Treasury guidance with other countries[1]				
Limitation with HM Treasury's Managing Public Money Guidance	**New Zealand**	**Australia**	**Canada**	**USA**	**Summary of good practice from these countries**
Costing – Limited detail on how to allocate and calculate costs, causing departments to handle it inconsistently.	✔	✔	✔	–	Detailed costing guidance, including clear definitions of costs, treatment of overheads and worked examples for consistency.
Managing trade-offs – Little guidance on how to balance cost recovery with affordability, access or wider policy objectives.	✔	–	✔	–	Guidance recognises the need to balance financial and social priorities and the necessary tools or prompts to explore trade offs.
Templates for fee amendments – No standardised templates for proposing or amending fees, causing departments to develop their own methods.	✔	✔	–	–	Standard templates to help departments present fee amendments consistently and explain assumptions clearly.
Achieving policy and financial objectives – Does not link fee design to broader policy or financial outcomes, and focuses solely on compliance.	✔	✔	✔	–	Guidance requires departments to show how fees align with wider departmental objectives and financial sustainability.
Equity considerations – Lack of practical advice on how to embed equity and fairness in the fee-setting structure.	✔	–	✔	–	Good practice guidance encouraging assessment of affordability, fairness and distributional impacts throughout the fee-setting process.
External consultations – Lack of expectation or process for consultations, leading to inconsistencies in how government engages with users during the fee amendment process.	✔	✔	✔	–	Clear consultation process to help departments engage users and stakeholders early in the fee amendment process.
Monitoring and regular reporting – High-level expectation to monitor performance, but no structured approach to regular, ongoing reviews or public reporting.	✔	✔	–	–	Defined requirements for performance monitoring and reporting to help track delivery of objectives and support transparency.

✔ **UK can learn from other countries** – The other country has more detailed guidance than UK Treasury guidance

– **Similar to UK guidance** – The country's guidance is broadly similar to UK Treasury guidance

Note

1 The Australian Government Department of Finance is responsible for charging policy and issues guidance. All other countries' guidance is issued by their respective treasury departments.

Source: National Audit Office analysis of international treasury guidance on fees and charges

Data quality and data sharing

3.9 We found that some case study bodies lack accurate and detailed data, making it hard to make well-informed estimates of costs and fees (see paragraph 2.11). Case study bodies also face data issues with cost-modelling. While the case studies we examined generally had a good understanding of the total costs of providing the services they charge for, most did not have more granular cost data, such as detailed costs associated with different stages of their processes or the customer journey. This detailed data would enable them to better understand their activities and identify opportunities to address any inefficiencies and related costs (see paragraph 2.10). In paragraph 2.24 we point out that HM Treasury does not keep a central record on fee regimes. This makes it hard to share insights across spending teams.

3.10 Data-sharing across government can help unlock efficiencies, reduce duplication and improve financial management of fees and charges. Our previous work on *Digital transformation in government* highlight how data-sharing practices can drive efficiencies and modernisation.[13] However, due to legal, operational and other barriers, departments do not share information effectively (see paragraph 2.11).

Skills and capabilities

3.11 HM Treasury and government bodies running charged services should have good financial capability and capacity within their teams. HM Treasury spending teams told us that submissions from departments to amend fees vary in quality and data completeness. This can make it challenging for spending teams to scrutinise the evidence and evaluate the case being made. HM Treasury also told us that departments have limited understanding of the classification of different charges and its significance, so HM Treasury spends significant time and resources clarifying this.

3.12 The Government Finance Function (GFF) has put in place support to help government departments improve their financial management. In 2024 it introduced a *Continuous Improvement Assessment Framework*[14] as a self-assessment tool for departments to measure capability against the finance functional standards. These standards set expectations for the effective management of public funds, on a range of activities such as planning, risk management, financial control and reporting. The GFF will review those assessments to understand how well government is doing based on the standards and will identify areas of good practice and areas that need to be improved. However, while MPM expects accounting officers to comply with functional standards, the assessment framework is not compulsory.

13 Comptroller and Auditor General, *Digital transformation in government: addressing the barriers to efficiency*, Session 2022-23, HC 1171, National Audit Office, March 2023.

14 Government Finance Function, *Continuous Improvement Assessment Framework*, September 2024.

3.13 While the Assessment Framework can be helpful for general financial management skills, we found that government bodies need more support to address skill and capability gaps around fees and charges. There is a lack of support from centres of expertise and signposting of good practice for charging bodies. This makes it difficult to effectively navigate trade-offs and address common issues like data limitations.

Allocating resources to improve efficiency

3.14 Using new technology or transforming ways of working can improve the efficiency of government bodies. Because charged services operate on a cost-recovery basis as a default, any savings made do not benefit the public body but go to the fee-payers instead. This means there is very limited incentive to seek efficiency savings as, unlike the private sector, they will not lead to an increase in profits. In the last 10 years, we found only one case study (Companies House in 2016) that made fee reductions from efficiency savings. While the Driver & Vehicle Licensing Agency (DVLA) cut driving licence fees in 2014 by making efficiency savings, other bodies have generally only allowed fees to come down in real terms due to inflation between fee reviews but increased them periodically in cash terms.

3.15 HM Treasury allows government bodies to include in fees, the costs associated with activity intended to increase efficiency and effectiveness – the intention being that a more efficient service will deliver better value for money, and lower costs, in the long term. Raising fees requires explicit HM Treasury approval and may require statutory backing. For example, HM Courts & Tribunals Service (HMCTS) received approval to recover around £250 million through its fees over four years to cover the costs of digitalising existing services as part of its reform programme. However, there is a lack of incentives and levers available to encourage greater efficiencies or quality improvements.

3.16 Investment in new technology, when done well, can improve services and reduce costs (see paragraph 2.22). But 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. For example, Companies House told us it invested efficiency savings of around £0.3 million in 2024, to explore how artificial intelligence could enhance productivity. But sometimes the up-front costs are large, and can lead to service disruption, especially if the programme is not handled well. For example, HMCTS uses a combination of old and new systems, which has made the accounting process more complicated. The lack of clear cost information makes it more difficult to establish the business case for this type of investment. Government must, therefore, balance the benefits and risks of investing in new technology to make improvements for the public and businesses. Government bodies need to consider whether managing the short-term risks of new technology is worth it in the long term.

Appendix One

Our audit approach

Our scope

1 This report covers central government charged services. It examines how effectively the government is managing fees and charges by assessing how its approach compares with good financial management practice and HM Treasury's Managing Public Money (MPM) (version published in May 2023) – the key source of government guidance. In doing so, it examines the clarity and effectiveness of roles, responsibilities, governance, and oversight arrangements of HM Treasury in relation to fees and charges. The report includes seven case studies of different charged services across government to understand how fees and charges are managed in practice; for example, how strategies and objectives are set, how the structure and level of a fee are formulated and how government bodies manage costs and revenues. It also draws comparative insights to identify both examples of good practice and areas of concern. This report notes several insights on key challenges, opportunities and trade-offs faced by government bodies with charging powers that HM Treasury can consider as part of its central role.

2 Our examination excludes local government and charges for services provided by local authorities, including council tax. Commercial services are also out of scope; these services compete with private-sector suppliers of similar services, so they recover full costs as well as an additional commercial rate of return. We have also excluded charges clearly defined as a tax such as income tax, property tax and tariffs.

Our evidence base

3 We reached the conclusions contained within this report based on primary fieldwork we undertook between the beginning of December 2024 and the end of March 2025.

Evaluative framework

4 We drew on a variety of evidence sources for this report, including previous National Audit Office (NAO) reports, Parliamentary reports and published HM Treasury documents. This helped us to understand the fees and charges landscape and good practice in setting and managing fees. We used this research to develop an evaluative framework, with a focus on good financial management on both an operational and a strategic level. This was informed by the NAO's published work on financial management guides and was refined during fieldwork.

5 Our *Financial management in government* series includes:

- *Enablers of success* – looks at the fundamental themes that underpin each stage of the financial management lifecycle;
- *Strategic planning and budgeting* – sets out how finance leaders can plan strategically and realistically in the face of an uncertain landscape;
- *Allocating resources* – focuses on how finance leaders can allocate resources effectively when resources are scarce and trade-offs need to be made; and
- *Monitoring and forecasting* – outlines how finance leaders can monitor budgets and their performance and ensure forecasting is effective.

The final guide in the series is expected to publish in Autumn 2025, this will be on how finance leaders can enhance their reporting processes to aid decision-making within organisations.

6 We drew out key themes of good financial management that are applicable to fees and charges that we identified from these good practice guides (**Figure 15** overleaf). After establishing these strategic themes, we highlighted the key areas of good financial management within each that would be applicable to specific stages of the operational process. This was refined as we went through fieldwork to create our evaluative framework in **Figure 16** on pages 48 and 49.

Fieldwork with the centre of government

7 We conducted fieldwork in the form of internal meetings with NAO experts, and external discussions with HM Treasury and with representatives from government functions and the Government Internal Audit Agency. Between December 2024 and March 2025, we talked to bodies involved in fees and charges. These included:

- Treasury Officer of Accounts team in HM Treasury;
- HM Treasury Spending teams (for selected case studies);
- Government Functions, including the Finance Function, Analysis Function, Commercial Function and the Government Debt Management Function; and
- Government Internal Audit Agency (for selected case studies).

Figure 15

Key strategic themes of financial management

We have identified the following key themes for good financial management in government, based on the National Audit Office's good practice guide series

Leadership, governance and culture

Our guide on *Enablers of success*[1] shows that good leadership, strong governance and clear accountabilities are important. Government bodies should make sure that financial management is central to decision-making and integrated fully within the organisation. Good governance, with a culture of openness and transparency, provides the right level of oversight and challenge, helping accounting officers in their financial management duties.

Strategic planning and budgeting

Our guide on *Strategic planning and budgeting*[2] explains that government bodies should ensure objectives are supported by financial plans to help to use resources wisely and adjust to new priorities. It is important to properly prepare for risk and uncertainty when setting and amending charges. Long-term and flexible planning allows government bodies to respond to uncertainties and unexpected challenges, building resilience into budgeting processes. Consulting with stakeholders also ensures that different perspectives and needs are considered.

Data quality and data sharing

Our guides on *Enablers of success* and *Monitoring and forecasting*[3] highlight why good data and management information is important. Government bodies must have access to good-quality data to make informed and timely decisions about costing, setting and amending fees to avoid unintended consequences such as over- or under-charging. Good data also helps government departments share insights, improve efficiencies and better manage fees.

Skills and capabilities

Our guides on *Enablers of success* and *Monitoring and forecasting* explain that good financial management skills and capabilities are important for government bodies. These skills are essential to monitor finances effectively and make accurate forecasts to support decision-making. It is also important to learn and apply lessons. Finance teams need a range of skills to work effectively and collaborate well with internal and external stakeholders.

Allocating resources to improve efficiency and manage trade offs

Our guide on *Allocating resources*[4] explains how finance leaders can manage resources effectively. It includes using reliable data to support strategic goals, helping make choices and trade-offs to achieve good value for money, and balancing immediate needs with long-term priorities.

Notes

1 National Audit Office, *Good practice guide – Financial management in government: Enablers of success*, July 2023.

2 National Audit Office, *Good practice guide – Financial management in government: Strategic planning and budgeting*, September 2023.

3 National Audit Office, *Good practice guide – Financial management in government: Monitoring and forecasting,* January 2025.

4 National Audit Office, *Good practice guide – Financial management in government: Allocating resources*, December 2024.

Source: UK National Audit Office analysis of our good practice guides

8 We also reviewed published documents that support the fees and charges regime in central government, such as: MPM, the Better Regulation Framework and Functional standards. We drew comparisons between old and new versions of HM Treasury guidance on fees and charges to see how it had evolved over the years.

9 We identified, during this value-for-money audit, that there was a misalignment in the disclosure requirements set out in MPM in comparison to the Financial Reporting Manual (FReM). We raised this with the Treasury Officer of Accounts team (responsible for the FReM) within HM Treasury, and with audited bodies. This is subject to a recommendation in this report. Audits will be conducted in line with any changes to disclosure requirements as set out in the FReM.

Case studies

Case study selection

10 Our analysis focused on seven services (shown in Figure 1) where a government body has the authority to charge fees. Our aim was to purposively sample a range of charged services across central government to see how well the departments and arm's-length bodies manage them to achieve their objectives on cost recovery and service delivery.

11 Our primary sampling criteria were the objectives of the service charge which included three categories: administrative services, licencing and regulating activity, and provision of service or product. We chose these criteria to enable us to compare and contrast the processes of initiating, setting, monitoring and maintaining fees. From our initial research we found that these processes will vary depending on the objective of the service. Our analysis looked at key stages of the process of managing a charged service, and this selection gave us coverage of different approaches. We chose a minimum of two case studies for each category, to ensure comparability.

12 Our secondary sampling criteria ensured we selected a range of services with different types of service users, different bodies as service providers and varied approaches to operations - such as the cost recovery strategy and fee setting strategy.

13 The selected sample included two that charge for administrative services (HM Courts and Tribunals Service, and Companies House), two that charge for licensing or regulatory activities (Gambling Commission and Information Commissioner's Office), and three that charge for the provision of a product (HM Passport Office, UK Visas and Immigration, and Driver & Vehicle Licensing Agency). Using this varied range of bodies gave us broad insights into both the key challenges and trade-offs that charging bodies must consider, and the opportunities that exist to improve the system of fees and charges across government. This selection of case studies does not, however, constitute a representative sample of fee charging bodies across government.

Figure 16

Evaluative framework for good financial management [1]

We have identified the following key themes for good financial management in government on a strategic and operational level, based on National Audit Office good practice guide series

	Evaluative framework					
	On a strategic level	On an operational level (Key stages of the process)				
	What good financial management looks like based on National Audit Office guides	1 Developing a strategy	2 Setting the fee level	3 Delivering the service	4 Monitoring and evaluation	5 Improvement and innovation
Leadership, governance and culture	Setting the tone from the top using strong organisational leadership creates an environment where finance is central to decision-making and integrated fully within the organisation.	●	●	●	●	●
	Make sure Financial Management has effective oversight and drives continual development.	●	●	●	●	●
	Develop clear accountability and a transparent culture.	●	●	●	●	●
Strategic planning and budgeting	Match strategic goals with financial plans for well informed decisions.	●			●	
	Allocate resources efficiently.	●	●	●	●	●
	Adapt flexibly to changing priorities.	●		●	●	●
	Manage risks and uncertainties in financial planning.	●	●	●		●
Data and management information	Understand strengths and limitations of data because quality is key for financial management.	●	●		●	●
	Using data to enhance accuracy and timeliness of decision-making.	●	●	●	●	●
	Look for ways to improve the quality and efficiency of management information systems and processes.				●	●
Skills and capabilities	Finance leaders should focus on skills and capabilities to improve the quality of financial management.	●	●	●	●	●
	Strong non-technical skills to enable collaboration with stakeholders.	●				
	Monitor effectively and forecast accurately to improve decision-making.		●		●	
	Build flexible teams by creating a learning culture.					●
Allocating resources to improve efficiency and manage trade offs	Use reliable and unbiased information well to allocate resources effectively to support strategic goals.	●	●	●	●	●
	Finance leaders should provide support for decisions and trade-offs to achieve good value-for-money.	●				
	Balance short-term needs and long-term goals in decisions and align with strategic objectives.	●			●	●

Notes

1 Part Two of this report is structured around the five stages of the operational process, and Part Three examines what we have found at a strategic level.

2 A blue circle indicates where an element of a theme is applicable to a key stage of the process.

Source: National Audit Office analysis of our good practice guides

Fieldwork with the case study bodies

14 Our key interviews with the case study parent departments and the arm's-length bodies they oversee were initially set up with the same interview questions for all case studies, to help us draw comparisons on how bodies manage their charged services differently. We developed a query log to gain more insight on the key stages of the process. We started with a hypothesis of five main stages of the process based on our desk-based research and MPM, and assigned questions to each stage. This included areas of focus on the respective roles and responsibilities of each organisation; the tools, resources and guidance available to them; how they designed their overall fee strategies; how they handled the initial set up of their fees (including how they managed any data and trade-offs related to their fees); how they collected fees and how they delivered on their policy objectives; and what arrangements they had in place for monitoring and evaluation of their fee policies. Finally, we also investigated examples of innovation and key challenges. With each department, we arranged a 'cost-model walkthrough', which took us through its internal process of setting fees. The aim of these sessions was to understand the best practice for costing, valuation and setting fees.

15 We analysed responses from each of the different bodies against our evaluative framework to identify emerging themes, challenges and lessons. We also refined our key process stages based on case study responses and as we continued to work through the study and findings.

Case study document review

16 We reviewed a range of departmental documents to assist with understanding the bespoke fee-setting structure for each case study and to identify emerging themes, challenges and opportunities. This included a review of:

- annual reports and accounts;
- business cases;
- impact assessments;
- equality assessments;
- cost-model approaches;
- framework/management agreements between parent departments and arm's-length bodies; and
- internal audit reviews.

International comparisons

17 We analysed responses from each of the different bodies against our evaluative framework to identify emerging themes, challenges and lessons. We also refined our key process stages based on case study responses and as we continued to work through the study and findings. We conducted desk-based research of international approaches to central guidance on fees and charges to inform our analysis. We used this to identify potential gaps in HM Treasury's guidance and examples of international good practice. We identified that the Australian Government Department of Finance and New Zealand (NZ) Treasury had detailed guidance readily available and comparable to HM Treasury's MPM. The Office of the Auditor-General New Zealand also has a good practice guide on this topic: *Setting and Administering Fees and Levies for Cost Recovery*,[15] as well as a previous version, so we spoke to both the Office of the Auditor-General and the New Zealand Treasury about fees and charges. We also drew comparisons from the United States (US) and Canada to the UK guidance to identify gaps, but the US was comparable to HM Treasury's MPM guidance and so had similar limitations. We drew out learning for the UK by focusing on examples of good and innovative practices. The examples identified through the desk-based research and consultation are summarised in Figure 14.

15 Office of the Auditor-General New Zealand, *Good practice guide: Setting and administering fees and levies for cost recovery*, August 2021.

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