



HM Treasury

HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

For enquiries about distribution of this and other DAO letters please contact the Treasury Officer of Accounts at TOAEnquiries@hmtreasury.gov.uk

www.gov.uk/hm-treasury

DAO 05/26

15 June 2026

All live DAO letters may be found at: www.gov.uk/government/collections/dao-letters

Service Level Costing & Income

Dear Accounting Officer

Contact

Please address enquiries to TOAEnquiries@hmtreasury.gov.uk

Action

Accounting officers should ensure that service-level cost information underpins the management of income across their organisation. They should have regard to the guidance in this letter, which supplements existing guidance in Managing Public Money (MPM) on income and fees and charges. Accounting officers should ensure that: service-level costing is prioritised and owned; fees and charges are set using robust service costs; and income is handled lawfully and transparently.

Background

Service-level costing

Understanding the full cost of services is essential to lawful and defensible fee setting and to good financial management of income. Fees/charges and service costing are mutually reinforcing: service-level cost information informs the level of fees and charges, and fees/charges must then be set and maintained at the appropriate level to achieve the intended cost recovery position in line with MPM.

Accounting officers should therefore prioritise the identification, accuracy and continuous improvement of service-level cost information, including clear visibility of cost drivers and productivity opportunities.

Accounting officers are accountable for ensuring that service-level cost information is robust, actively informs decision-making, and is subject to appropriate senior oversight within their organisation.

Accounting officers should, where proportionate, ensure:

- explicit senior ownership of service-level cost information
- named Service Owners are appointed with responsibility for cost, performance and continuous improvement at service level, aligned to MPM and value-for-money expectations.

The Treasury, working with the Government Finance Function, will support, monitor and hold departments to account for progress through existing mechanisms (including End of Year Assessments) and through cross-government forums that share good practice and address common issues. Where systemic barriers are identified, the Treasury will agree proportionate remediation plans with accounting officers.

Levies, Fees and Charges

The distinction between fees and charges and levies is primary related to whether the level of service provided relates to the cost charged to the service user. It is for this reason enforcement costs are generally excluded from the allowable costing of fees. Whether something is a fee, charge or levy will generally depend on the scope of the statutory authority under which it is charged. Organisations should have regard to this authority both in terms of calculation of the amount charged but also in terms of whether the income can be lawfully retained or whether it should be remitted to the parent department or Consolidated Fund.

As set out in MPM A.6.1.12, surpluses and deficits will inevitably arise from time to time. Organisations should therefore ensure that the assessment of recoverable costs is undertaken over a defined period. Charges should be set to achieve full cost recovery over that period, or an alternate level that has been agreed at the spending review. Where there is significant variation between costs and charges over time, organisations should consider both the legal authority for, and the fairness of, such variation, in line with MPM A.6.1.13.

When seeking Treasury agreement for a new fee or charge, departments should ensure that proposed legislation allows for the intended approach to retention of income and the treatment of costs.

Expenditure of funds generated from income

The source of funds supporting a given service, be it general taxation, dedicated levy or other income is not a factor in determining whether public money should be subject to the rules set out in MPM. As such, accounting officers should be aware that their duties (for example, fraud risk assessments) apply to all public resources applied to their organisation's policies, regardless of source. Where income subject to the authorisation of Parliament is collected on behalf of the Secretary of State by a third party, the responsible accounting officer should ensure their accounting officer duties are met. Accounting officers should have regard to concerns expressed by the Public Accounts Committee regarding the propriety of spending and risk of fraud in such circumstances.¹ A4.9.6 of MPM sets out the

¹PAC report: [Faulty energy efficiency installations](#) – Session 2024-25 (HC 1229)

requirement for fraud risk assessments for areas of new major spend, and accounting officers should engage as appropriate with the Public Sector Fraud Authority for these, whether funded by income or general taxation.

Efficiencies in respect of services funded through income

Efficiencies are important and incentivised through the Government Efficiency Framework. All fees and charges should be routinely reviewed in detail at least every two years as part of the spending review process, with periodic deep dives to ensure all fees and charges are set at the right level. In particular accounting officers should note that where the costs of delivering a fee or charge service have been reduced through a technical efficiency and the fees/charges have been reduced (in line with Chapter 6 of MPM), and this can be clearly evidenced, this can be included as a monetisable, non-cash releasing efficiency in terms of efficiency reporting.

Furthermore, consistent with the general spending framework, accounting officers have an ongoing duty to always ensure value for money expenditure. They should seek to promote maximum efficiency of the service and consistently minimise costs on an ongoing basis in line with the requirement to take stock annually as set out at 6.12 of MPM.

Treasury approval of new fees and charges and amendment to existing fees and charges

All new or amended fees and charges must be submitted to the Treasury for approval using the attached template. In respect of changes to existing fees and charges that have already been subject to a business case, the Treasury will generally agree that completion of the template can substitute for a business case. For new fees and charges, the completed template should be annexed to the business case when submitted.

Departments should ensure that the template is populated in sufficient detail to allow prompt approval or rejection of the proposed approach.

Departments should also ensure that, as part of the spending review process, expected levels of income from and expenditure funded by fees, charges and levies are incorporated in departmental returns including providing clarity on whether the proposed approach will require Parliamentary approval.

Transparency

Accounting officers should note the updates made in 2025 and 2026 to both MPM section 6.11 and to the Government Financial Reporting Manual (FReM) section 6.7.1(f) to ensure Parliament has full and transparent sight of the use of charges. These set out that organisations should ensure that annual reports and accounts include for each fee and charge where material:

- the amounts charged
- full costs and unit costs
- total income received
- the nature and extent of any subsidies and/or overcharging
- the financial objectives and how far they have been met

- the statutory authority for the charge.

Compulsory services

When Parliament requires a public service to be provided, it will often also specify how that service is to be funded. For example, in some cases funding may come either from taxation connected to the service (a levy) or from fees linked to the cost of providing the service.

If Parliament does not provide clear authority to charge for a service that must be provided, it is likely to be unlawful to impose a charge. In those circumstances, the assumption should be that Parliament intended the service to be funded through general taxation.

Discretionary services

Parliament may also provide for services to be supplied on a discretionary basis, for example provision of financial assistance through loans or guarantees. Because these powers are discretionary, it may be appropriate to charge a fee connected with their exercise.

Services provided in commercial markets

Where a service is supplied in a commercial market, MPM expects it normally to be provided on commercial terms.

- Charges should usually reflect commercial rates.
- Charges should cover the cost of capital.
- The arrangement must be compatible with the Subsidy Control Act.

Charging where there is no explicit power to supply the service

An organisation may wish to charge for services that it does not have explicit statutory authority to provide. In such cases, it is important to remember that propriety requires expenditure to rest on statutory authority, as set out in sections 2.5 and 2.6 of MPM. The spending needed to deliver the service must therefore be usually authorised by explicit powers and consistent with Parliament's expectations.

Illustrative example

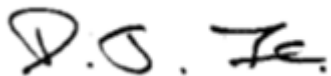
A government department or arm's length body may lease or acquire a multi-storey office building to use as its headquarters. That would usually fall within Parliament's expectations and may be explicitly authorised by statute or constitute administration costs for which the department can rest on the sole authority of a Supply and Appropriation Act.

If the organisation needs only four of the five floors, it may, in line with the principles in MPM 7.15.1 onwards, rent out the surplus space to a private sector tenant or another public sector body.

It would not, however, be acceptable for the department to rent a building solely for the purpose of onward leasing, without parliamentary authority.

Engagement with the Treasury

Departments should generally engage with the Treasury on this type of revenue-generating activity. This helps accounting officers to meet their duty to ensure that value for money is secured for the Exchequer as a whole and that proposals align with wider central commercial strategies. For instance, in the example above, it would usually be sensible to work with the Government Property Agency rather than rely only on in-house expertise. Accounting officers should ensure they have clear legal advice on the authority to charge in such circumstances.

A handwritten signature in black ink, appearing to read 'D. S. Fe.' with a stylized flourish at the end.

David Fairbrother

Treasury Officer of Accounts