Assessing the finances of NHS subsidiary companies (“subcos”)

Report for UNISON

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Introduction

NHS foundation trusts have set up subsidiary companies ("subcos") primarily to provide non-healthcare services back to themselves.[1] These services typically cover buildings and facilities management but sometimes also include: outpatient pharmacies, procurement, IT services, decontamination/cleaning, catering, car park operations, managing private care facilities, laboratories, or servicing and maintaining ambulance vehicles.

Trusts traditionally give a number of reasons for setting up of subcos. These include: [2]

- They can employ staff on non-NHS terms and conditions. This can lead to significant savings particularly by avoiding paying employers' NHS pension contributions.[3]
- They can allow NHS trusts to claim back VAT on services. Typically, VAT is only recoverable on certain services if they are outsourced. A subco can be set up to allow the VAT incurred to be reclaimed thus creating a tax saving for the NHS body.[4] A NHS Improvement review of subcos found that "*a significant proportion of savings are predominantly VAT-savings*".[5]
- They can generate external income. As a more commercial organisation the subcos can, in theory, compete for external contracts for services such as cleaning or buildings management.
- They can improve operational efficiency. This can be through providing greater autonomy and focus to managers and speeding up decision making and problem solving.

Since their creation there have been a number of recent policy changes and initiatives which could alter many of the perceived benefits of operating a subsidiary company:

- HM Treasury has, since 2020, been reviewing the way public sector bodies reclaim VAT.[6] Its current preferred option (a full refund model) would likely remove the VAT benefits from operating a subco.[7]
- NHS England updated its guidance in 2024 to make it easier for smaller and lower risk subcos to be set up without its review and approval.[8]
- NHS England wrote to trusts in September 2025 to say that new subcos involving the transfer of staff will only be approved "*in a limited number of circumstances, and only where there is clear union support and protection of NHS terms and conditions, including pension access*".[9] It is unclear how this will affect subcos that have already been established.

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[1] Whilst NHS Trusts can only set up subsidiaries for income generating purposes and so have not been included here.

[2] See for example: https://www.hfma.org.uk/system/files/hfma-response-to-vat-and-the-public-sector-reform-to-vat-refund-rules.pdf p4

[3] See for example: https://www.hsj.co.uk/workforce/exclusive-the-trusts-offering-thousands-of-staff-inferior-pensions/7034063.article

[4] Some consider VAT savings to be a powerful driver for setting up subsidiary companies. For example: https://www.rsmuk.com/insights/health-matters/nhs-and-public-health/how-vat-could-change-the-nhs

[5] https://www.england.nhs.uk/wp-content/uploads/2021/07/300120-pb-subsidiaries-board-paper.pdf para 7

[6] https://www.gov.uk/government/publications/vat-and-the-public-sector-reform-to-vat-refund-rules

[7] https://www.hfma.org.uk/publications/vat-reform-public-sector-bodies-under-sections-41-and-33e-vat-act

[8] https://www.england.nhs.uk/long-read/guidance-for-assuring-and-supporting-complex-change/

[9] https://www.england.nhs.uk/long-read/change-in-national-policy-regarding-subsidiaries/#update-on-an-important-change-in-national-policy-regarding-subsidiaries

How well have NHS subcos done?

Despite the proposed policy changes there has been a recent push from senior NHS leaders for trusts to reduce their costs. One suggestion was to set up subcos.[10] But is this worth pursuing? A number of subcos have been operating since 2017/18 and have been able to enjoy VAT reclaims and lower cost staff terms and conditions.[11] The purpose of this report is to analyse the financial performance of existing NHS subcos to understand:

A. How profitable have they been? This is particularly important as current subcos have been able to enjoy tax and employment cost savings that new ones will likely not have access to.
B. Who has benefitted from their profitability? How much has gone to staff, directors, and back to trusts (as donations or dividends)?
C. How have staff pay and benefits changed over time, especially when compared to NHS pay?

Approach

Identifying subcos
Using the NHS provider directory we identified all NHS foundation trusts and then examined their latest annual reports and websites for any subsidiary companies ("subcos"). We found 55 trusts which had at least one subco or joint venture.

We excluded any subcos that did not provide buildings and facilities management (or ambulance maintenance and repair for ambulance trusts), such as those solely providing outpatient pharmacy, pathology, or equipment cleaning services. This left us with 31 subcos. We note that in addition to buildings and facilities management a number of these subcos provide a range of smaller additional services, which often included outpatient pharmacy and other services (listed in the Introduction).

Extracting information
We then reviewed the latest four to five years of accounts for each company. This covered financial year ("FY") 2021 (year ending 31 March 2021) to FY24 (year ending 31 March 2024) for most companies, with seven reporting accounts for FY25 too (year ending 31 March 2025). From these accounts we extracted information to answer our research questions.

	FY21	FY22	FY23	FY24	FY25
Number of companies reporting	31	31	31	30	7

TABLE 1: NUMBER OF SUBCOS WITH FINANCIAL INFORMATION BY FINANCIAL YEAR

[10] https://www.england.nhs.uk/long-read/working-together-in-2025-26-to-lay-the-foundations-for-reform/

[11] See for example: https://www.hsj.co.uk/workforce/exclusive-the-trusts-offering-thousands-of-staff-inferior-pensions/7034063.article

Findings

1. Subcos made over £2bn in revenues in 2023/24

From FY21 to FY24 revenues at the subcos grew by 37% from £1.5bn to £2.0bn. Based on a review of their accounts the overwhelming majority of this income is from the NHS trusts that own these subcos, with few reporting any notable level of external income. When a breakdown of revenue sources was provided most of this income came from facilities management contracts with the parent NHS trust. This shows that over time trusts have outsourced more of their activities to their subcos.

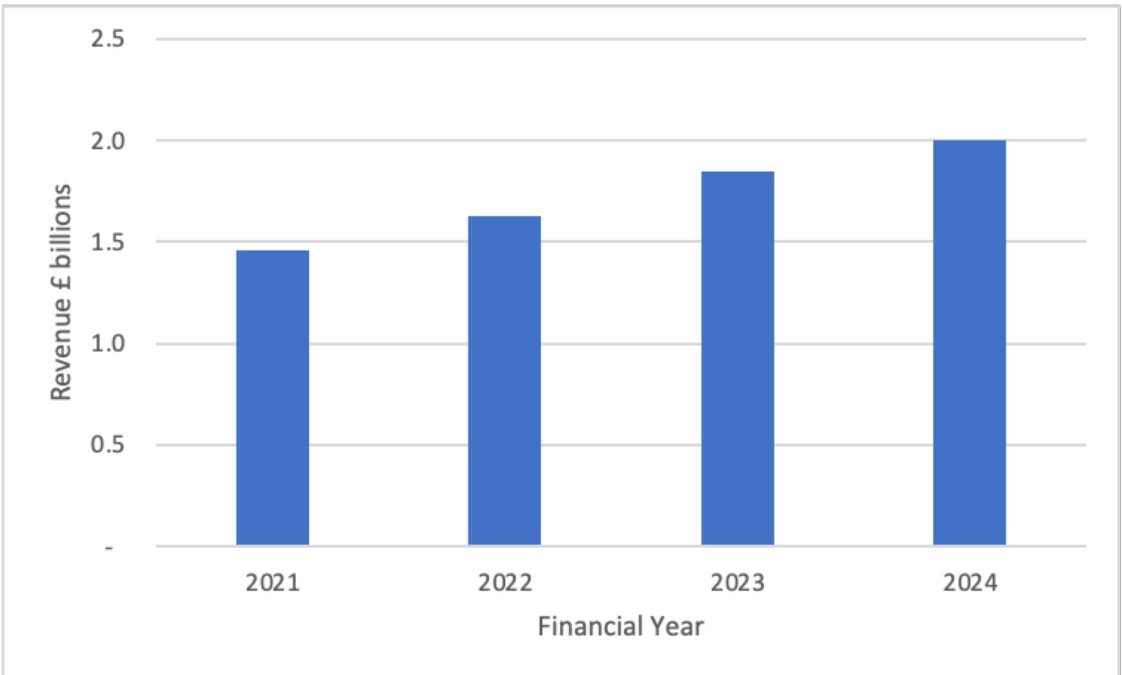

CHART 1: REVENUE OF SUBCOS BY FINANCIAL YEAR IN £ BILLIONS

2. Profits have grown in line with income but margins are low

From FY21 to FY24 **operating profits** grew by 37.9% from £35m to £48m. The operating profit margin (operating profit divided by revenue) stayed at around 2.5%, apart from in FY23 where it halved to 1.2% - this appears to be due to high levels of cost inflation. This margin is low and, whilst some subcos state that they deliberately operate at a low margin (to provide good value for money to the trust),[12] most have performance targets to increase profitability but struggle to do so. This may imply that beyond VAT and staff cost savings there are few accessible avenues for them to find additional profitability.

Operating profit is a preferable measure of profitability because profit before tax is distorted by interest payments to and from the trusts. Subcos have typically borrowed money from their parent NHS trust in order to buy buildings off the trust, which they then lease back to the Trust with additional charges for buildings management. The shuffling of money and buildings between the trusts and their subcos is a necessary legal pantomime in order to extract these low profit margins.

[12] See for example: p3, https://find-and-update.company-information.service.gov.uk/company/10525158/filing-history/MzQ0ODY2Mjk3NWFkaXF6a2N4/document?format=pdf&download=0

From FY21 to FY24 **profit before tax** grew by 30.9% from £34m to £44m, with an average margin of 2.4% (excluding FY23 where it was 0.9%).

Profit before tax may fall for some subcos in the future, as they note that the buildings they have acquired (from the trust) require remedial repairs or significant investment to maintain.[13] Given their relatively low profit levels, this will likely have to be financed through additional loans (or a capital injection) from the trust.

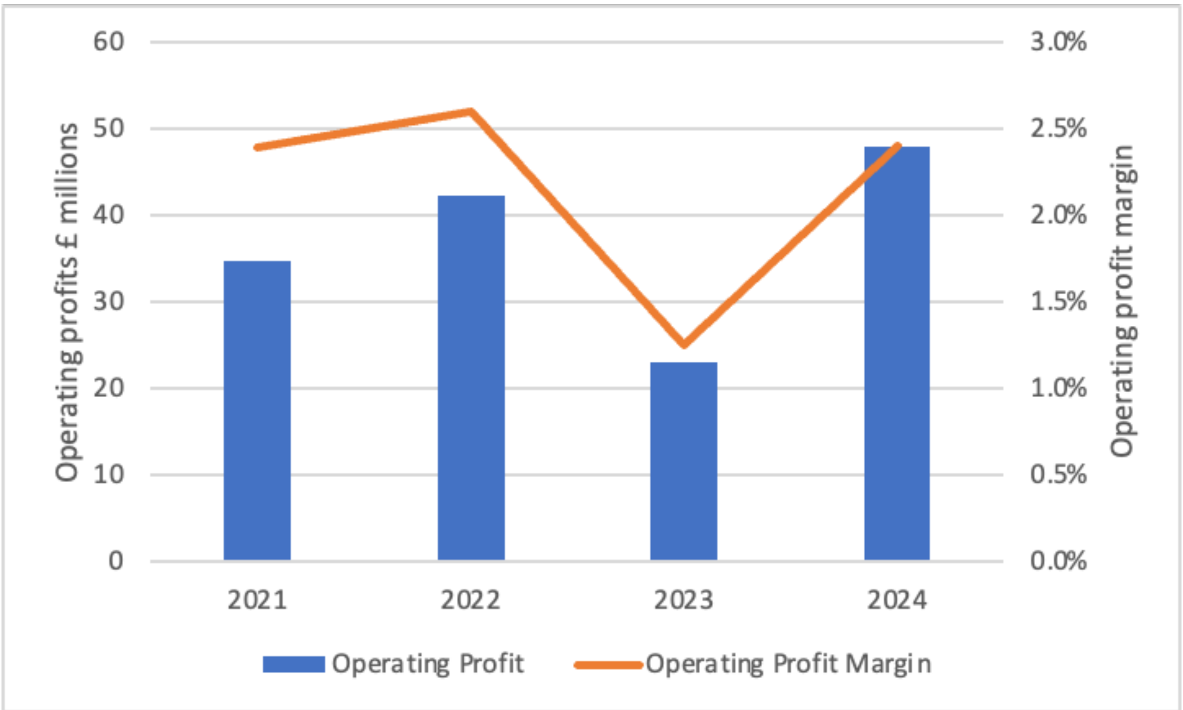

CHART 2: OPERATING PROFIT AND MARGIN OF SUBCOS BY FINANCIAL YEAR

£m	FY21	FY22	FY23	FY24	FY25	*Change FY21-24*
No of subcos reporting	*31*	*31*	*31*	*30*	*7*	
Revenue	1,457	1,629	1,847	2,002	360	*37%*
Operating profit	34.8	42.3	23.0	48.0	10.3	*38%*
Operating profit margin	2.4%	2.6%	1.2%	2.4%	2.9%	
Profit before tax	33.7	42.4	16.5	44.1	9.3	*31%*
Profit before tax margin	2.3%	2.6%	0.9%	2.2%	2.6%	

TABLE 2: REVENUE, PROFITS AND MARGINS OF SUBCOS BY FINANCIAL YEAR

[13] See for example: p1, https://find-and-update.company-information.service.gov.uk/company/11385580/filing-history/MzQ0NDkzNzE2NmFkaXF6a2N4/document?format=pdf&download=0

3. Dividend payouts and donations have stayed consistent

Dividends and donations have averaged £13.2m a year, with donations being counted when they went to the trust or trust-related charities. In most years this represents around a third of all profits (before tax), apart from in FY23 (when profits more than halved). The relatively consistent levels suggest that this money is recycled back (after paying tax) into the parent trusts for use elsewhere.

On top of this the subcos are typically paying interest on the loans from the trust. The fact that in FY23 the dividends paid out were 98% of profit before tax suggests that this flow of cash back to the trusts was needed. Most likely reflecting the poor financial situation of many trusts and their confidence that the subcos wouldn't need the reserves on hand to perhaps survive similarly tough years ahead.

	FY21	FY22	FY23	FY24
Dividends and donations £m	9.4	15.1	16.1	12.0
Dividends as a % of profit before tax	28%	36%	98%	27%

TABLE 3: DIVIDENDS AND DONATIONS BY SUBCOS BY FINANCIAL YEAR

4. Employee numbers and costs have not grown in line with revenue and profits

Whilst revenues and profits have grown at around 31-38%, employee numbers have grown by only 10% and remuneration by 30%. This means that revenue and profits per employee have grown by 19-26%. Overall, this means that their growth has not been equally shared with employees.

	FY21	FY22	FY23	FY24	FY25	*Change FY21-24*
No of subcos reporting	*31*	*31*	*31*	*30*	*7*	
Number of employees	11,037	11,445	11,675	12,099	1,964	*10%*
Revenue per employee £	131,967	142,292	158,185	165,462	183,539	*25%*
Operating profit per employee £	3,151	3,694	1,973	3,965	5,255	*26%*
Profit before tax per employee £	3,054	3,704	1,412	3,646	4,751	*19%*

TABLE 4: REVENUE AND PROFITS PER EMPLOYEE FOR SUBCOS BY FINANCIAL YEAR

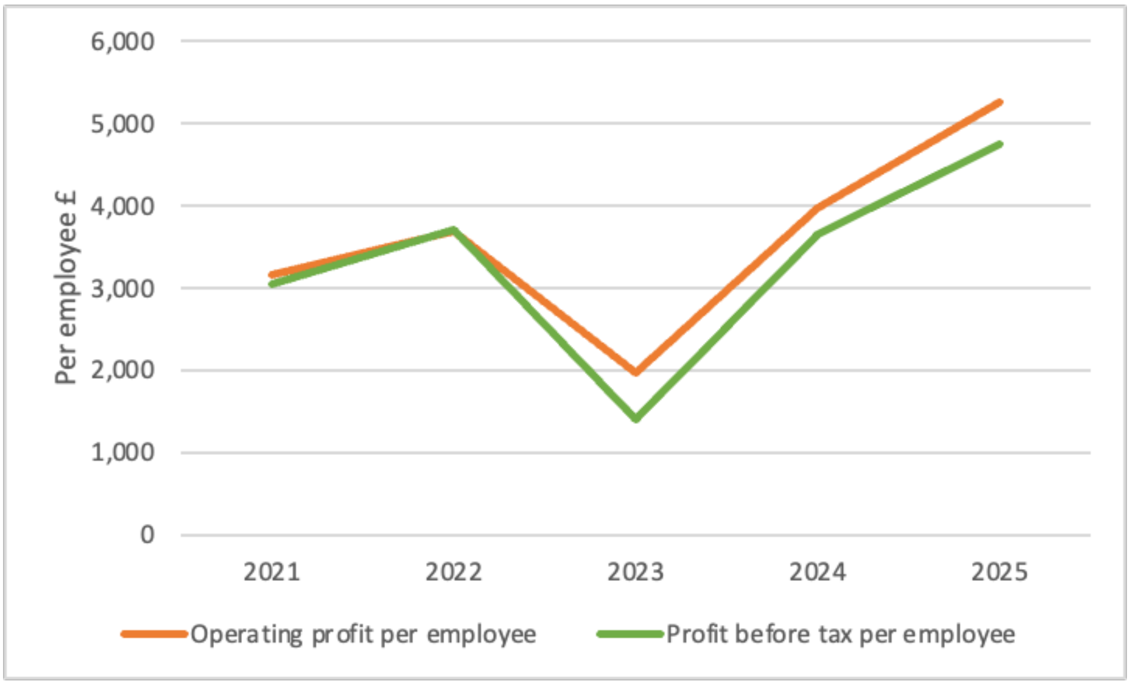

CHART 3: OPERATING PROFIT AND PROFIT BEFORE TAX BY EMPLOYEE FOR SUBCOS BY FINANCIAL YEAR

5. Remuneration and wages have fallen as a proportion of revenue over time

Both wages and remuneration (which includes wages, pension payments, and social security contributions) have grown at a slower pace than revenue and profits.[14] This means that they make up a lower proportion over time.

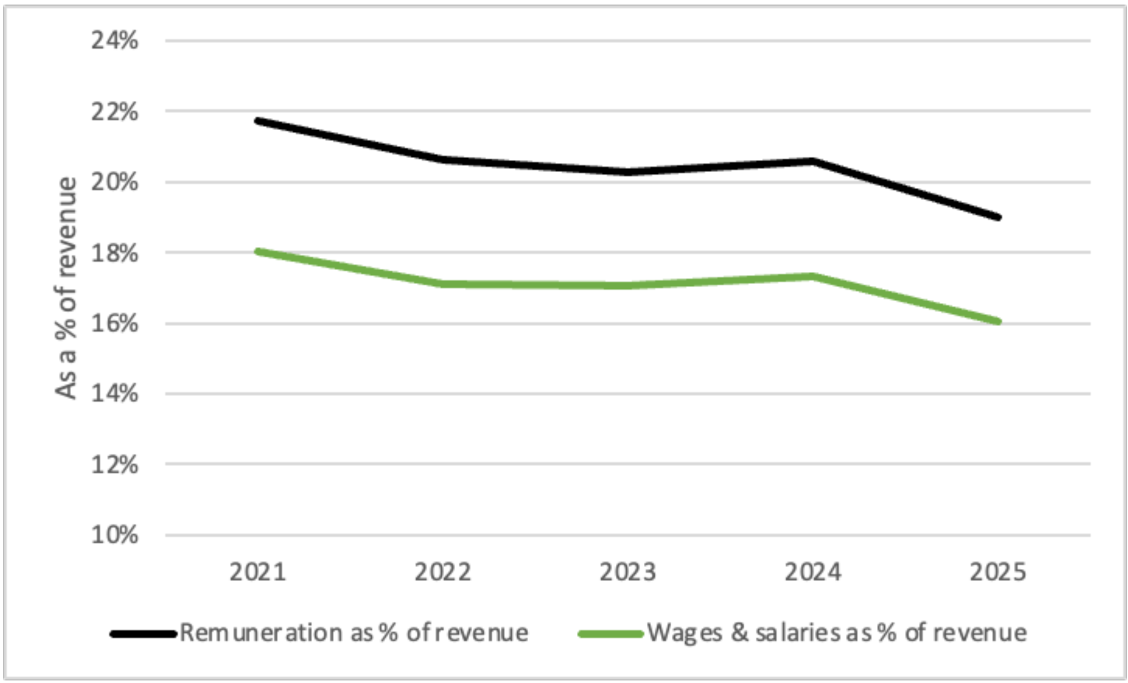

CHART 4: REMUNERATION AND WAGES AS A PROPORTION OF REVENUE FOR SUBCOS BY FINANCIAL YEAR

[14] NB. These figures are excluding directors' remuneration.

	FY21	FY22	FY23	FY24	FY25
No of subcos reporting	*31*	*31*	*31*	*30*	*7*
Remuneration £m	316	336	375	412	69
Remuneration as % of revenue	21.7%	20.6%	20.3%	20.6%	19.0%
Wages £m	262	279	315	347	58
Wages as a % of revenue	18.0%	17.1%	17.0%	17.3%	16.1%

TABLE 5: REMUNERATION AND WAGES FOR SUBCOS BY FINANCIAL YEAR

6. Employee pay has not kept up with inflation

After adjusting for RPI inflation the average wage per employee has **fallen by** 7% whilst the average remuneration per employee has fallen by 8% (for FY21 to FY24). This equates to a **pay cut** of £2,188 per employee in wages, and a pay cut of £2,906 per employee in remuneration.

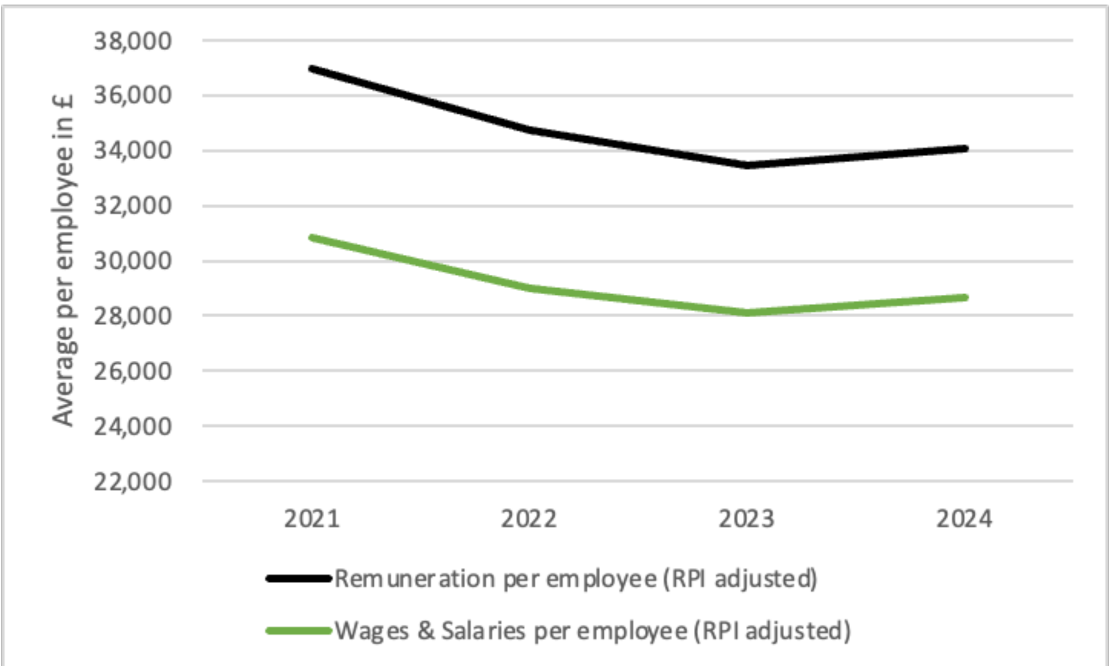

CHART 5: AVERAGE REMUNERATION AND WAGES PER EMPLOYEE IN £ FOR SUBCOS BY FINANCIAL YEAR

£	FY21	FY22	FY23	FY24	Change FY21 to FY24
Remuneration per employee (RPI adjusted)	36,978	34,731	33,476	34,072	-2,906
Wages & salaries per employee (RPI adjusted)	30,851	28,994	28,131	28,663	-2,188

TABLE 6: AVERAGE REMUNERATION AND WAGES PER EMPLOYEE IN £ AFTER ADJUSTING FOR RPI INFLATION FOR SUBCOS BY FINANCIAL YEAR

If employees were compensated for the loss of earnings due to inflation this would cost:

- £26.5m to bring wages back up to FY21's level. This is 60% of profits before tax (in FY24).
- £35.2m to bring remuneration back up to FY21's level. This is 80% of profits before tax (in FY24).

Many of the subcos note that, due to rising inflation, they have experienced increases in the cost of consumables and other inputs forcing them to increase prices to maintain profitability. Staff pay has not risen with inflation, which benefits the subcos (as seen above) but comes at the expense of their staffs' declining ability to afford what they need in life. If the subcos were more competitive (with the NHS, each other, or external organisations) then staff pay may have increased by more as they competed to attract and retain them.

7. Wages have fallen by more than NHS pay

It's important to note that over time an increasing proportion of many of the subcos' employees are on non-NHS terms and conditions. This means that there may be an increasing disparity with NHS wages, but a starker disparity for overall remuneration because of differences in pension contributions.

In order to compare pay over time we used NHS data on mean annual earnings per person by staff group across NHS trusts.[15] As most subcos reported employee numbers as averages (and not as full time equivalents) this was a more comparable measure.

We looked specifically at the pay for the staff group NHS Infrastructure Support, and at the managers, central functions, and hotel, property & estates sub-groups. These seemed to be the most similar to the grades within the subcos. We took the mean annual earnings for these staff groups (for the equivalent financial years) and weighted it by the proportional size of each sub-group.[16]

After adjusting for RPI inflation we found that the average pay per person had **fallen by 6% (£2,326) for NHS staff**, versus a fall of 7% (£2,188) for subco staff. This gap is not very large and may be because a proportion of the subcos' staff are on NHS terms whilst newer ones may not be. Therefore the true difference is masked in the aggregate figures. It may also be true that wages have not deviated much from NHS ones as they are publicly available and would cause issues if similar workers were not paid the same.

£	FY21	FY22	FY23	FY24	Change FY21 to FY24
Subco average pay	30,851	28,994	28,131	28,663	-2,188
NHS infrastructure support average pay	36,192	34,689	32,057	33,866	-2,326

TABLE 7: AVERAGE PAY PER EMPLOYEE AFTER ADJUSTING FOR RPI INFLATION IN SUBCOS AND ACROSS NHS INFRASTRUCTURE SUPPORT IN £ BY FINANCIAL YEAR

[15] Table 2b. https://digital.nhs.uk/data-and-information/publications/statistical/nhs-staff-earnings-estimates/june-2025

[16] Using information from Table 1. https://digital.nhs.uk/data-and-information/publications/statistical/nhs-staff-earnings-estimates/june-2025

8. However, pension contributions appear to be far lower

One of the areas in which subcos can save money is through not paying NHS pension contributions for new staff. This is likely a more preferable area to cut because it is less visible to employees than wages. NHS employer pension contribution rates are 23.7% of pay, whilst it is as low as 3% for other schemes such as NEST (which appears to be a common choice for subcos).[17] [18] [19]

Not all subcos reported the exact split of their NHS and non-NHS terms staff. However we can estimate their pension costs assuming all employees were part of the NHS pension scheme and compare it to what they reported in their accounts. To do this we multiplied average wages by 14.38% (the share of NHS pensions paid locally by the employers) with the rest paid centrally by NHS England. We then compared this to the figure reported in the accounts to get an estimate of the possible savings from having some staff on non-NHS pensions.

	FY21	FY22	FY23	FY24	FY25
Current pension costs £m	25.6	25.9	26.7	28.2	4.4
Pensions costs if all employees on NHS pension £m	38.0	40.3	45.3	49.9	8.3
Underspend (actual versus estimate) £m	-12.4	-14.4	-18.6	-21.7	-3.9
Underspend as a % of operating profit	35%	34%	81%	45%	38%

TABLE 8: CURRENT AND ESTIMATED PENSION COSTS FOR SUBCOS BY FINANCIAL YEAR

The difference between actual pension costs and the estimated costs (if all employees were on NHS pensions) is **large and growing yearly**. This is expected as staff turnover reduces the number of original employees that were transferred over on TUPE terms. It's noticeable that **operating profit would dramatically reduce** (by around 35-45%, excluding FY23) if pension costs were roughly similar to typical NHS organisations.

9. Directors' pay is a large share of operating profits

Most of the directors on the subcos are also on the boards of the NHS trusts and are paid by them. However, most subcos pay a share of their directors' remuneration (for time spent on the company). In addition many employ commercial directors specifically to run services. An average of 14% of operating profit is spent on paying directors. This is arguably high given that a large share of the profits come from employment savings (due to regulatory arbitrage) and scant external income is generated by most subcos.[20]

When stated, the highest paid directors' remuneration tends to be a large share of overall remuneration (suggesting only a few are paid for fully by the subcos) and averaged £145k in FY24.

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[17] https://www.nhsbsa.nhs.uk/contributions-nhs-pension-scheme-are-changing

[18] https://www.nestpensions.org.uk/schemeweb/nest/employers/get-ready-for-auto-enrolment/contributions

[19] But note that 14.38% is collected from employers with the rest paid for centrally by NHS England.

[20] This is as a share of operating profit (for subcos which state the level of directors' remuneration) made before the deduction of directors' remuneration.

	FY21	FY22	FY23	FY24	FY25
No of subcos reporting	*27*	*27*	*26*	*26*	*6*
Directors' remuneration £m	6.3	6.7	6.6	7.1	1.3
Directors' remuneration as a % of operating profit (pre-deduction)	16%	14%	24%	14%	12%
Highest paid directors' total remuneration £m	2.4	2.3	2.7	2.7	0.7
Average pay of the highest paid director - £000s	128	123	141	145	143

TABLE 9: DIRECTORS' REMUNERATION FOR REPORTING SUBCOS BY FINANCIAL YEAR

Conclusion

Subcos have grown rapidly over the past few years. However, little of this growth is due to winning external contracts. Instead more work has been outsourced over time to these subcos from their NHS trust owners. The majority of these subcos have been operational for a number of years (often since 2017/18) and despite expressing a keen desire to win external contracts, they have achieved little over the last decade.

To enable this arrangement subcos have to borrow money from the trusts in order to buy its buildings and then rent them straight back to the trust. All this is done in return for low profit margins.

An increasing share of these profits appear to be driven by pension cost savings. For example, FY24's operating profit of £48m would almost half if the £21.7m of pension cost underpayments (Table 8) were included. In addition, if pay had kept pace with inflation it would result in an overall loss. The remaining profitability left (after accounting for pension underpayments) is likely largely derived from VAT savings, which are not a net gain to the public sector.

Against these outcomes it feels like poor value for money to be spending around 14% of operating profits on paying directors. The lack of commercial income earned by these subcos does not suggest that such a premium is warranted.

Upcoming changes to VAT savings and prohibitions on altering workers' conditions (away from NHS terms) suggest that these two major reasons for operating subcos will soon disappear, which throws into question whether it is still desirable to encourage NHS trusts to set them up.

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