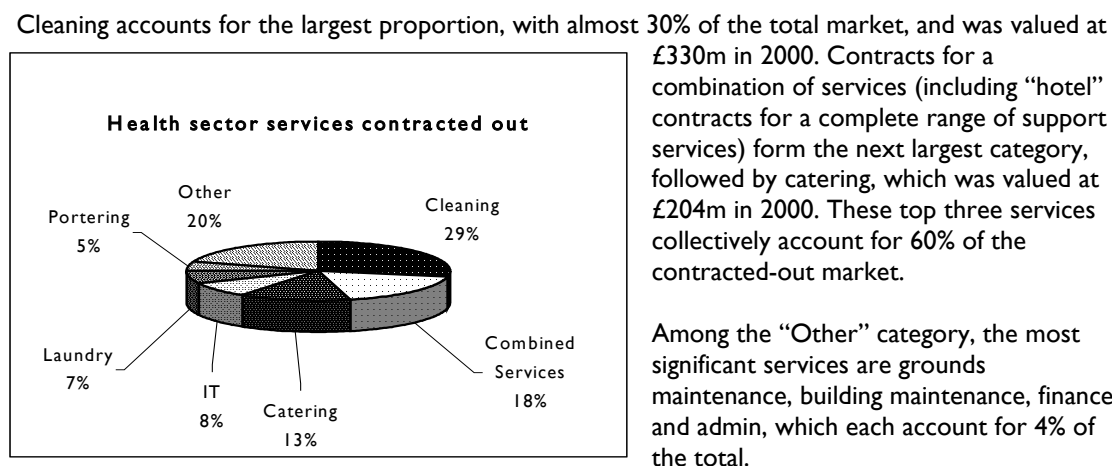


NHS MARKET REPORT

MARKET STRUCTURE

The private sector has penetrated around 35% of the total NHS market in “soft” facilities management services (covering such areas as catering, cleaning, security, reception and grounds maintenance).

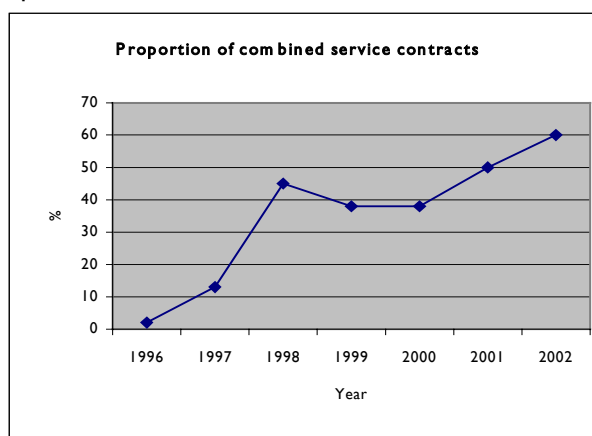
The total value of facilities management services contracted out by the health sector (excluding providers of long-term care) is around £1.1bn. The market is split according to the types of service shown by the pie chart below.



TRENDS

The NHS tends to change contractors less frequently than other areas of the public sector as contracts are often “rolled over” as they come up for renewal. However, the new contracts awarded over the last seven years have shown a dramatic shift toward combined service contracts. The graph on the right shows that such contracts have risen from a negligible proportion of the total in 1996 to around 60% in 2002.

This pattern has been mainly driven by two pressures. First, companies are trying to cut costs by targeting large contracts that provide them with economies of scale. Second, there has been very substantial growth in PFI contracts that typically include agreements to provide support services over 25 to 30 years.



COMPANIES

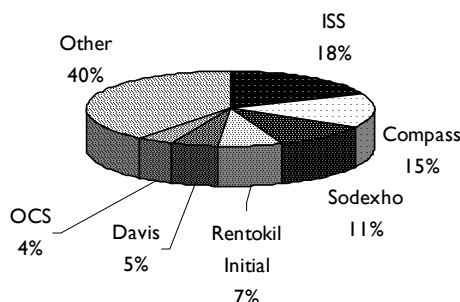
The trend toward multi-service contracts has enhanced the position of the large contract catering and cleaning firms, which have an advantage over smaller private sector competitors because they have the scale necessary to deal with the relatively high volume, low profit margin services typical of the NHS.

The concentration of the market into the hands of the largest firms is reflected by the pie chart on the right, showing the company share of the outsourced market, according to current Bargaining Support Group data.

This data is not complete, but it is a fair representation of the strength of the top four firms. In fact, if the data were fully updated, it would probably show an even greater concentration.

The top four firms (ISS, Compass, Sodexho and Rentokil Initial) now handle 51% of the total and the top six companies (including The Davis Service Group and OCS Group) handle 60%. The "Other" category covers all firms with a market share of 3% or less.

Company share of contracted out services



The largest firms are restructuring themselves as "facilities managers," offering to take over a much wider range of services.

Companies such as ISS and Compass, for example, are not restricting themselves to cleaning and catering contracts. They are offering cleaning and catering in combination with portering, reception, parking and security services.

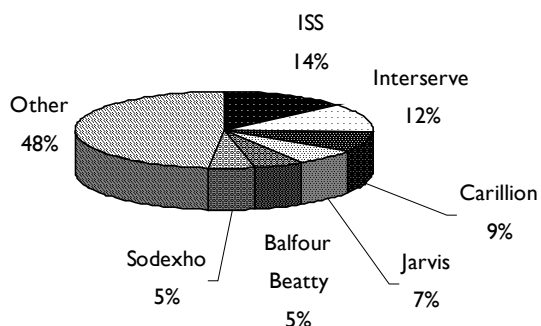
ISS specifically states that, during 2002, it made acquisitions in the UK to plug a gap in its building maintenance capability that was important for completing its facilities management services. Similarly, the OCS Group strategy is built on providing "one complete solution" for customers.

PRIVATE FINANCE INITIATIVE

There have now been 192 PFI contracts signed in the health sector (worth an estimated £3.5bn), of which 126 have been signed in England, 42 in Scotland, 18 in Wales and 6 in Northern Ireland. The total includes 64 major hospital developments in England.

PFI contracts make up around 13% of the total outsourced market in terms of number of contracts, but they account for a significantly higher proportion in terms of value.

Company share of PFI facilities management



The major firms in the outsourced NHS market have been very active in establishing themselves as part of PFI consortiums. However, the pie chart on the left shows that the rise of PFI has also drawn firms with their roots in the construction industry into NHS facilities management.

After ISS, construction firms Interserve, Carillion, Jarvis and Balfour Beatty hold the most contracts for the operational side of PFI contracts to design, build, finance and operate NHS facilities.

Construction companies may

subcontract elements of facilities management (particularly those aspects most alien to their core business, such as catering, to the likes of Compass and Sodexho), but their share of the market reflects the fact that they are making big strides in expanding their facilities management capability.

For example, Interserve's facilities management division is the fastest growing element of its business (it more than doubled operating profits in 2001). The firm's contracts include the 40-year contract for support services at Dudley Group of Hospitals as part of the Summit Healthcare consortium and the 45-year year contract for support services at Cumberland Royal Infirmary as part of the Health Management Group (a contract that recently received damning criticism from the Commission for Health Improvement).

In most cases, PFI consortiums are led by construction companies, but Sodexho has bucked the trend by playing a leading role in the UK Detention Service consortium because most of the revenue comes from support services rather than construction. The Bargaining Support Group will keep future PFI contracts under review to see if this pattern spreads into the health sector.

PROFILES

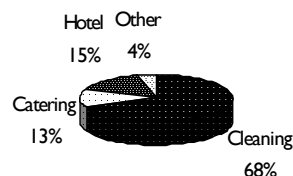
The following pages provide short profiles of the top six firms operating in the outsourced NHS market.

ISS

A Danish company that has become one of the 10 biggest employers in Europe and the largest contractor in the NHS.

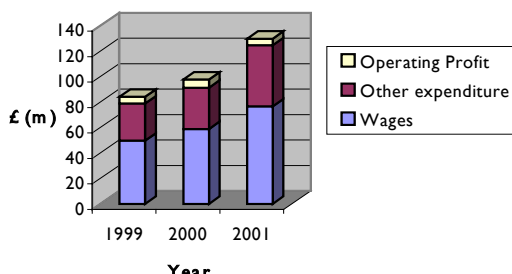
ISS conducts its UK health business through subsidiary ISS Mediclean, which reflects ISS origins as a cleaning firm by drawing almost 70% of revenue from cleaning services (see pie chart right).

Health revenue by service



With sales of £129.8m in 2001 (see graph below), Mediclean recorded an operating profit of £5.2m (giving it a profit margin of 4%). Average pay for the 10,442 employees stands at £10,437.

Breakdown of ISS Mediclean Revenue



Mediclean has picked up 12 PFI contracts and ISS also participates in the PFI market as part of consortiums with construction firms employed to design, build and operate health facilities. It provides the support services for Catalyst Healthcare, Criterion Healthcare and Meridian Hospital Company.

In April 1994, ISS signed a national recognition agreement with UNISON. However, there have been frequent disputes over terms and conditions among hospital staff, as can be seen below.

ISS PROBLEM CONTRACTS

Hotel contract at Homerton University Hospital NHS Trust – December 2002

Staff voted to start the process for industrial action in protest at the two-tier workforce. Those who started work before cleaning was privatised in 1996 still work under national NHS terms and conditions, receiving £4.64 before London Weighting. Those who started work after privatisation receive £4.45. In addition, the post-privatisation staff receive no overtime pay, £1 an hour extra for Saturday and Sunday shifts, no sick pay, no carer's or compassionate leave, no occupational pension and just 12 days annual leave on top of the eight statutory bank holidays. Trust chairman Reverend Andrew Windross has admitted that the situation is "morally wrong."

Cleaning contract at Swansea NHS Trust – October 2002

Swansea hospital telephonists, porters and cleaning staff took strike action that eventually won a pay rise from £4.35 to £4.62 an hour, bringing wages closer to NHS rates.

Hotel contract at Whipps Cross University Hospital NHS Trust – October 2002

Hospital cleanliness was rated poor by the government and ISS Mediclean came under attack from community group Telco for the terms and conditions of cleaners at Whipps Cross Hospital. Telco damned the £4.30 an hour wage rate and absence of sick pay as a disgrace.

Support Services contract at Lanarkshire Acute Hospitals NHS Trust – October 2002

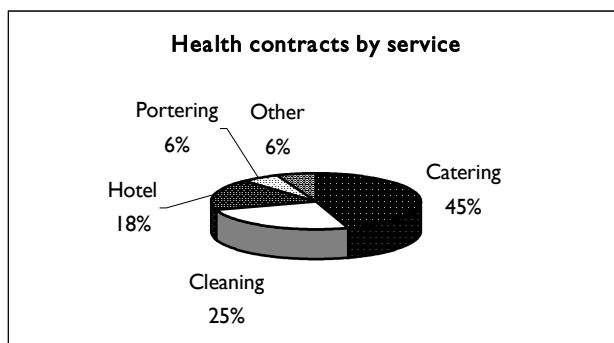
Cleaners at Hairmyres Hospital, East Kilbride, accepted a deal that will raise pay rates to £5 an hour and phase in improved conditions (such as sick pay) over the next 18 months. The staff, who had voted for strike action, won a promise to reach NHS terms and conditions by spring 2004. Staff shortages led to filthy wards and toilets, while Mediclean was also criticised for transporting food more than 200 miles from Manchester to be reheated. Councillor Archie Buchanan said: "One lady whose mother is in the hospital said that she has to take fresh food in, as the hospital food is awful."

Cleaning contract at Heatherwood & Wexham Park Hospitals NHS Trust – August 2002

Contract axed after twice grading poor under the government's clean hospital programme.

COMPASS GROUP

As the world's largest contract food service company, Compass is mainly reliant on catering contracts, but it has diversified into other areas of facilities management. The firm operates its UK health business under the brand name Medirest. However, the contracts are conducted through the subsidiary Compass Contract Services (UK).



Catering forms the largest portion of Medirest contracts, accounting for 45% of the total (see pie chart above).

It is not possible to establish the health sector element of Compass Contract Services (UK) accounts, but the firm generated total revenue of £674.7m and made an operating loss of 106m in 2001. The 29,442 employees received an average wage of £9,090.

The firm has not been as active as competitors in the PFI market, but it has gained two PFI contracts in the health sector as part of the United Healthcare consortium.

COMPASS PROBLEM CONTRACTS

Cleaning contract at Kingston Hospital NHS Trust – September 2002

Porters (who are paid £175 after tax for a 40-hour week) and switchboard operators at Kingston Hospital have been told that they must bring their own cleaning materials to work and clean their own departments. UNISON has stated that the undermanning crisis at the heart of the announcement has been caused by the firm significantly underpricing its bid for support services at the hospital. UNISON also says that it has been inundated with complaints from staff about errors on pay slips and delays by Medirest in honouring pay awards. One Medirest employee said that morale among staff was at an all-time low. The man, who did not want to be named for fear of losing his job, said: "It is getting beyond a joke. Medirest actually ran hotel services, they are not experienced in working in hospitals. They have no idea how the job actually works."

Cleaning contract at Basildon & Thurrock General Hospitals NHS Trust – July 1999

Areas cleaned by Medirest received poor ranking in government assessment of cleanliness.

Cleaning contract at South Essex Partnerships NHS Trust – July 1999

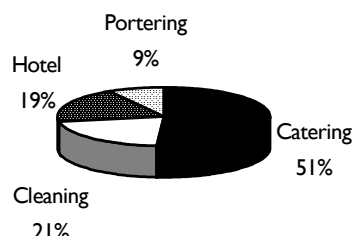
Areas cleaned by Medirest received poor ranking in government assessment of cleanliness.

SODEXHO ALLIANCE

A French company that has become the world's second largest contract food services firm after Compass, but is also involved in a variety of other support services. Most of the firm's contracts in the health sector are handled by its UK subsidiary Sodexho Ltd (formerly Gardner Merchant).

Sodexho Ltd enjoys revenues of £757.5m and an operating profit of £39.6m, while the 39,606 workers receive an average wage of £8,810. However, declining profitability across Sodexho's UK operations prompted the replacement of the UK management team in 2002.

Health contracts by service



The pie chart above shows that around half the firm's health contracts are for catering, but Sodexho does not provide any indication of the proportion of revenue coming from its UK health contracts.

Sodexho has been active in the PFI market as part of the consortiums South Manchester Healthcare, Enterprise Healthcare, Catalyst Healthcare, Mercia Healthcare and Hospital Partnership. It now holds long-term support service contracts awarded as part of 11 PFI contracts for design, building and operating health facilities.

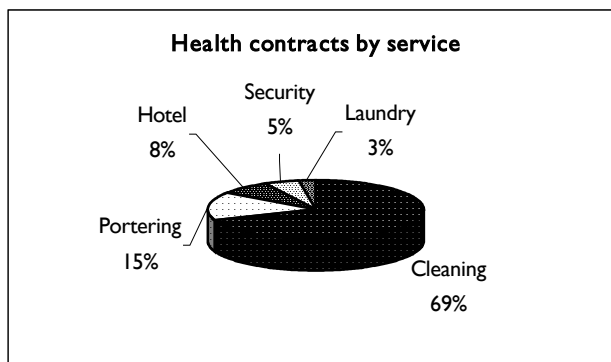
UNISON has a national agreement with Sodexho Ltd, but the problems of health service employees are reflected in the table below.

SODEXHO PROBLEM CONTRACTS
Cleaning contract at South Glasgow University Hospitals NHS Trust – July 2002 The contract was terminated and brought back in house after three deaths at Glasgow's Victoria Infirmary. An investigation commissioned by the Scottish Executive into the salmonella outbreak that caused the deaths damned the cleaning contract with Sodexho as "inadequate."
Hotel contract at South Manchester University Hospitals NHS Trust – June 2002 Withington Hospital was given the red (poor) ranking in the Government's traffic-light category of hospital cleanliness. In June 2002, South Manchester Community Health Council found stains and debris on the floor of an acute ward and stained toilet seats, dusty ventilation areas, debris under beds and open waste bins used to wedge open fire doors in a high observation ward just after it had been cleaned.
Hotel contract at Royal Liverpool University Hospitals NHS Trust – November 2002 Hospitals were given the red (poor) ranking in the Government's traffic-light category of hospital cleanliness. In 2002, 320 porters, caterers and domestic staff employed by Sodexho at Liverpool's Royal Liverpool and Broadgreen hospitals voted for a series of one-day strikes every Friday. The staff, who are paid £4.15 an hour, rejected an offer of £4.50. GMB regional organiser Jackie French said: "These low-paid workers within the NHS are only asking for a reasonable increase in pay in line with local authority workers."
Hotel contract at Fife Acute Hospitals NHS Trust – April 2002 Services returned in-house when contract expired.
Catering contract at North Glasgow University Hospitals NHS Trust – August 2002 Ancillary staff were engaged in a series of strikes, during which bosses brought in scab labour. The workers eventually won their demand to bring pay and benefits up to the level of those employed directly by the NHS. They will receive a minimum wage of £5 an hour (they currently receive £4.30) backdated to April, sick pay and a 20% shift allowance.

RENTOKIL INITIAL

One of the world's biggest support services groups, Rentokil Initial's business has grown from pest control to encompass hygiene, cleaning, catering, security, transport, parcel delivery and conference services.

The subsidiary Initial Hospital Services generated revenue of £31.8m and operating profit of £2.3m in 2001, while its 3,507 employees received an average wage of £6,673. But it is impossible to establish the firm's total health sector revenue as other subsidiaries (Initial Contracts Services, Initial Catering Services and Initial Security) also hold health contracts.



Rentokil is reliant on cleaning for around 70% of its health contracts (see pie chart above).

The firm has recognised UNISON at certain local sites, but refuses national recognition. Rentokil's notorious anti-union culture was led by former CBI president Sir Clive Thompson, who stepped down as chief executive in January 2003 after 20 years in the role. It is likely to continue under new chief executive James Wilde.

RENTOKIL INITIAL PROBLEM CONTRACTS

Hotel contract at Argyll and Clyde Acute Hospitals NHS Trust – October 2002

Catering staff and cleaners at Paisley's Royal Alexandra Hospital voted to strike over a two-tier wage structure that leaves them on £4.47 an hour, with no sick pay and annual leave of 20 days. NHS trust bosses have already admitted that private provision of support services provides a cheaper but inferior service.

Cleaning contract at Bristol Royal Infirmary – August 1999

Hospital cleanliness was rated poor by government inspectors.

Cleaning contract at Victoria Hospital, Kirkcaldy – January 1995

The firm refused to accept application of TUPE conditions, leading to a sit-in by ancillary workers. Cleaners gained victory when the firm agreed to guarantee NHS hours of work for one year, as well as pay and other conditions for three years.

Cleaning contract at St George's Healthcare NHS Trust – August 1999

The firm refused sick pay for the 300 transferred staff.

THE DAVIS SERVICE GROUP

A firm built on a range of rental services, The Davis Service Group's operations in health are entirely laundry services operated through the subsidiary Sunlight Service Group.

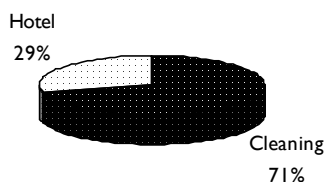
Sunlight Service Group generated revenue of £204.6m and an operating profit of £33.5m in 2001, while the 7,155 staff received an average wage of £10,230. The firm does not state the contribution of health contracts to its total revenue.

OCS GROUP

A firm that has built on a cleaning base to provide a variety of other support services, including laundry, security, catering and other facilities management operations.

The main subsidiary handling public sector contracts is OCS Ltd, which generated revenue of £87.8m and an operating profit of £3.5m in 2002. The firm's 11,136 employees received an average wage of £5,350, reflecting the high proportion of part-time staff.

Health contracts by service



Around 70% of the firm's health contracts are for cleaning services (see pie chart above).

OCS supplies support services for the KINTRA consortium, which won the PFI contract to design, build, finance and operate Chepstow Community Hospital.