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Date: **22 September 2011**

Cllr Bull
Chairman
North Central London Joint Health Overview and Scrutiny Committee
Haringey Council
7th Floor, River Park House
225 High Road
London N22 4HQ

Dear Cllr Bull

Re: Independent Business Review of Camidoc Limited

As promised please find attached a copy of the above report for circulation to Committee members. As you know the report was jointly commissioned by Camidoc Limited and the Commissioners representing the four Primary Care Trusts of Camden, City & Hackney, Haringey and Islington. The purpose was to explore the financial position of the company following their request for extra funding at the beginning of 2010. It did not look at broader issues such as service quality or the commissioning process.

I realise that members have waited a long time for this and it is now old but it is only recently that we have received permission form the authors to release this.

Yours sincerely

Martin Machray
Deputy Director – Governance and Communications

cc
Mr Rob Mack – JHOSC Committee Clerk, Haringey Council

Grant Thornton

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NHS Camden

Independent Business Review of Camidoc Limited

16 July 2010

GrantThornton

Private and Confidential

Our reference: GN/BN

16 July 2010

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For the attention of Peter Buckman

Dear Sirs

Camidoc Limited ("Camidoc" or "the Company")

We refer to our engagement letter dated 24 June 2010 and have pleasure in enclosing our report.

Our conclusions and recommendations are included within the Executive Summary, but stress that for a full understanding it is necessary to read this in conjunction with our detailed commentary set out in Sections 2 to 5.

Your attention is drawn to our engagement letter in Appendix A which defines the scope of our work. This report is confidential and has been prepared exclusively for NHS Camden. Whilst other parties may be interested in receiving a copy of this report we stress that we cannot accept any responsibility whatsoever in respect of any reliance that these parties may place on our report in any decision that they may make in relation to the Company. We reiterate, therefore, that this report should not be used, reproduced or circulated to any other party in whole or in part, without our prior written consent.

Our work commenced on 26 June 2010 and our fieldwork was completed on 9 July 2010. We have not undertaken to update our report for events or circumstances arising after that date.

In preparing our report, our primary source has been information provided by the management of the Company listed in Appendix B and their representations made to us. We do not accept responsibility for such information which remains the responsibility of the Company.

The contents of this report have been reviewed by the management of the Company who have therefore confirmed in writing the factual accuracy of this report in Appendix D.

If you would like to discuss this report then please contact either Giles Newman (020 7728 3453) or Brian Ng (020 7865 2508).

Yours faithfully

Grant Thornton UK LLP

Glossary

A&E	Accident and emergency
CAGR	Compound Annual Growth Rate
CEO	Chief Executive Officer
CHIP	Camden Health Improvement Practice, a service for homeless people commissioned by NHS Camden
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
Financial Model	Full Camidoc Cash Flow March.xls
FYXX	Financial year ended/ending 31 March 20XX
GP	General Medical Practitioners
GT	Grant Thornton UK LLP
k	'000
KPIs	Key Performance Indicators
Management	Senior management and/or the directors of the Company
NHS Camden	Camden Primary Care Trust
OOH	Out of Hours
P&L	Profit and loss account
p.a.	per annum
PUCC	Primary Urgent Care Centre
the PCTs	Four Primary Care Trusts (i.e. NHS Camden, NHS Islington, NHS Haringey and NHS City and Hackney) which are the commissioners of the OOH Service
SLA	Service Level Agreement
SUI	Serious Untoward Incident
the Company or Camidoc	Camidoc Limited
WTE	Whole Time Equivalent (Staff)
Year 1	The first 12-month period from the date of commencement of the new OOH contract which is yet to be agreed between Camidoc and the consortium of four PCTs (NHS Camden, NHS Islington, NHS Haringey and NHS City and Hackney). The current expectation is 1 October 2010
Year 2 and 3	The second 12-month and third 12-month periods from the date of commencement of the new OOH contract
YTD	Year To Date

Contents

Section 1

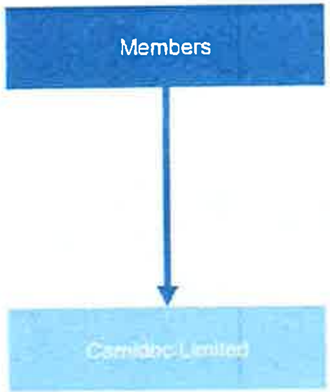
Executive summary

Headlines

Solvency	• Camidoc was technically insolvent as at 31 May 2010 as its total assets are less than total liabilities by £37k • The main liability, the amount owed to the NHS Pension Scheme in terms of top-ups for GP pensions totalling £797k at 31 May 2010 does not seem to have a due date. Total pension liability as at 31 March 2010 was £670k • Whilst the Company continues to use this as working capital, the PCTs need to understand the extent of this liability and agree its treatment prior to the commencement of the new contract
Ongoing contract	• The new contract does allow for the Company to make a small profit, however it is open to a number of different sensitivities • As a result, it is uncertain whether the new contract will enable Camidoc to trade profitably into the future without either additional payments or renegotiated contract terms • The PCTs should ensure that the risks highlighted in this report are considered before finalising the contract with Camidoc and, if necessary, redraft the contract to ensure there is scope for in year reviews to establish trading variations, especially activity
Key business drivers	• Camidoc needs to invest in its managerial capacity to ensure that it concentrates on productivity and profitability • The Company needs to agree with commissioners how productivity will increase over the first year/two years of the contract and recast its financial forecasts to take into account identified productivity gains • A considered cost improvement plan needs to be actioned including as a minimum agreed levels of productivity targets and the method by which the Company is going to achieve the required improvements, along with specific responsibility and dates and key milestones • Management should split out key contracts and report profitability for each contract to enable assessment of individual contract profitability and financial performance
Management and contractual interaction	• Currently the Company does not provide the PCTs with information of sufficient frequency and depth, other than the quarterly Performance Quality Report which provides activity trends and reports compliance of quality requirements • Monthly reporting packs should be agreed and put into the new contract, and a schedule of meetings agreed for regular (monthly, weekly if escalated) management meetings agreed • The PCTs should review the level of operational and financial controls and establish whether any further issues need to be reflected in the contract • Currently the Company does not have sufficient operational management capacity to ensure that the key issues are addressed

Overview of Camidoc Limited

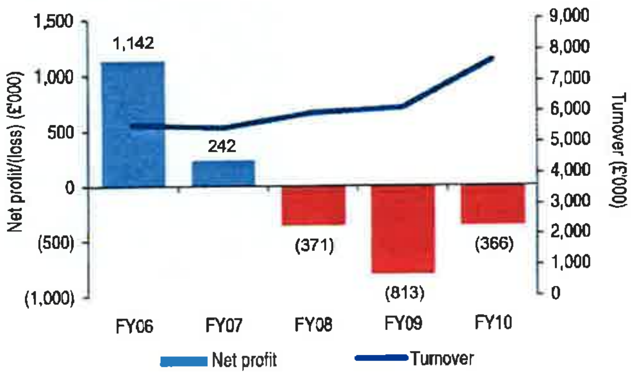
Legal structure



Key information

- a company limited by guarantee and not having a share capital
- standalone company with no parent company or subsidiary
- considered a social enterprise, not-for-profit organisation
- commenced trading from 1 April 2005 for the provision of out of hours (OOH) service
- prior to that, the provision of OOH Service was undertaken by a GP cooperative
- members comprise local GPs

Summary financial results from FY06 to FY10



Sources: 1. Audited accounts FY06-FY09; 2. Draft management accounts FY10

Business overview

- Camidoc is the provider of Out of Hours (OOH) Service to four local PCTs - NHS Camden, NHS Islington, NHS Haringey and NHS City and Hackney. Nearly 70% of the Company's turnover in FY10 relates to the OOH contract
- The Company provides telephone answering services and clinical cover for patients when their GP practice is closed, either during the day or at evenings and weekends
- The clinical services can take the form of:
  - telephone consultation by Camidoc doctors
  - provision of face-to-face services at Camidoc local centres where patients visit Camidoc doctors if required following a telephone assessment
  - home visits by Camidoc doctors if required after an initial telephone assessment
- The current OOH Contract, a block contract covering from 2005 to 2008, has been extended for no later than 30 Sept 2010 pending finalisation of the procurement process for the new OOH Contract (anticipated to commence from 1 Oct 2010) which will link payments to activity
- Other than the OOH Contract, the remaining 30% of income for Camidoc is from contracts for additional primary care services such as GP services to homeless residents in Camden, support to A&E departments at local hospitals, overnight GP cover and GP event cover

Statutory Directors

- There are currently 2 statutory directors based on the latest records obtained from Companies House:
  - Dr Mayur Gor
  - Dr Ivor Robinson
- Other than Dr Gor, none of the current leadership team (listed on Appendix B) are listed as statutory directors of the Company
- Based on the records obtained from Companies House, Michael Golding (the previous CEO) was the Company Secretary until his resignation on 31 March 2010

Key issues

Solvency	
Camidoc was technically insolvent as at 31 May 2010 due to its total assets being less than total liabilities	• Based on management accounts as at 31 May 2010, total assets are less than total liabilities by £37k. The Company is therefore technically insolvent • The reasons behind this financial difficulty include: – poor financial planning and management as well as lack of financial governance and focus – erosion of profitability due to increased expenditure and fixed costs e.g. salaries and overheads as the Company sought to increase its service quality and infrastructure capability. This is compounded by the block arrangement for the main OOH Contract in which unit price is based on population rather than activity volume. A benchmarking study carried out by the Primary Care Foundation indicated the current unit price at the lower quartile compared to other OOH providers – additional in session payments to doctors as activity increases – Camidoc is part of the NHS Pension Scheme, hence doctors and staff are entitled to additional 14% pension contribution by Camidoc. The outstanding contribution currently totals £797k at 31 May 2010. The PCTs need to ensure Camidoc agrees how this liability will be settled before signing the new contract • Management believes this adverse financial position will be mitigated by moving to the new OOH Contract which will link income to activity. However, we note that the contract is significantly sensitive to activity volume in which case any significant decrease in volume will reduce the Company profitability and cash flows • Despite the positive cash position of the Company as at 31 May 2010, the directors of Camidoc should ensure that they take appropriate legal advice as to their current responsibilities under the Companies Act 2006 and the Insolvency Act 1986 and in particular provisions with respect to wrongful trading

Key issues (continued)

Trading performance

Camidoc has reported significant net losses over the last 3 years to FY10, resulting in a yearly reduction in reserves

Management considers the OOH Contract was under-funded as the unit price did not commensurate with the increased activity volume and additional investment in IT and resources by Camidoc which allows it to deliver a clinically better and higher quality of service

Summary P&L

£'000	FY09 Audited	FY10 Unaudited	% year-on-year
P&L			
Total Income	**6,137**	**7,673**	**25.0%**
Cost of sales	(4,492)	(4,643)	3.4%
Gross profit	1,645	3,030	84.2%
Salaries and wages	(1,948)	(2,649)	36.0%
Other overheads	(493)	(720)	46.1%
EBITDA	**(796)**	**(338)**	**(57.5)%**
Depreciation, interest and tax	(17)	(28)	69.0%
Net loss	**(813)**	**(366)**	**(54.9)%**
Normalised EBITDA	(747)	(562)	(24.8)%
Normalised net loss	**(764)**	**(590)**	**(22.7)%**
KPIs			
Gross margin	26.8%	39.5%	12.7%
EBITDA margin	(13.0)%	(4.4)%	8.6%
Total activity (calls) ('000)	89	105	17.7%

Sources 1 FY10 draft management accounts; 2 FY09 audited accounts

- Camidoc made net losses of £813k and £366k in FY09 and FY10 respectively. Management has attributed the adverse trading performance to be due to:
  - significant under-funding of its OOH Contract by the PCTs as unit price was set at a constant/reduced rate per registered patient population which did not commensurate with the increased activity volume
  - higher pay costs and overheads as a result of:
    - investment in IT infrastructure
    - operational staff (call handlers, nurses)
    - clinical governance in order to provide better services and clinical quality in response to a past SUI incident
- The Company also ensures that all doctor pensions are topped up with additional 14% contribution as a result of activity undertaken by the Company. Management has accounted these pension payments as a liability due by the Company. However, it is unclear whether or not this pension contribution is effectively for distribution to the GPs
- The reduced net losses in FY10 from FY09 is mainly due to additional one-off income funding received as well as income generated from new contracts
- Camidoc received one-off income totalling £514k in FY10 in respect of swine flu funding (£114k) and additional income funding (£400k) to assist Camidoc for liquidity purposes

Key issues (continued)

Balance sheet and cash flow

May 2010 management accounts indicated that the Company is insolvent and therefore its going concern is dependent upon PCT support and the new OOH Contract in order to generate profit and sufficient cash headroom

Summary balance sheet and cash flow

£'000	FY09 Audited	FY10 Unaudited	% growth
Balance sheet			
Fixed assets	71	44	(38.1)%
Net current assets/(liabilities)	335	(5)	(101.4)%
Cash balances	357	387	8.4%
Retained profits	405	39	(90.3)%
Cash flow			
Operating cash flow	(546)	31	(105.7)%
Capital expenditure	(60)	(1)	(97.6)%
Net cash flow	(592)	30	(105.1)%

Sources 1 FY10 draft management accounts 2 FY09 audited accounts

- The Company is currently insolvent. Management accounts as at 31 May 2010 indicated that total assets are less than total liabilities by £37k
- The Company's ability to continue as a going concern is heavily dependent upon the commencement of the new OOH Contract from which it needs to generate sufficient profit and cash headroom
- Camidoc currently has no overdraft facility or working capital facility and has sought assistance or support from the PCTs rather than other forms of support or debt
- At 31 March 2010, the Company had a total pension liability of £670k in relation to unpaid NHS Pension Scheme contribution for doctors. Total pension liability at 31 May 2010 was £797k. The Company has budgeted to repay the outstanding pension liability at an amount of £60k per month effective August 2010
- Latest cash flow forecast suggests that the Company will have insufficient cash to trade in September 2010 and is heavily reliant on cash flows from the new OOH contract

Key issues (continued)

Governance and financial control	
Weaknesses have been recognised in governance and financial control. Actions have been taken to address these. The service improvement plan has actions to further improve governance and financial control arrangements	• Historically, the Company has been reactive in improving governance arrangements and the control environment. Following an adverse SUI investigation in 2007, the Company improved clinical governance arrangements and introduced three new "lay" Board members • These Board members have been introducing improved corporate governance arrangements. It is recognised that further improvements can be made and reflected within the Service Improvement Plan • The Directors acknowledge that historic financial controls have been weak. In November 2009, the Company first started to use the Sage accounting package. Prior to this accounting records were held on Excel spreadsheets. The number of staff with finance experience and expertise has increased from 1 to 3 during the last year, including the recruitment of a qualified accountant as a "lay" Board member • Board meetings have not been held on a timely basis. The Company recognise that the frequency of Board meetings should increase, and this is due to improve in FY11. Performance reports will go to every Board meeting in advance of the meeting (whereas in the past this was not always the case), and in months where no Board meeting is scheduled, directors will receive a performance report • The focus of performance reporting to the Board has been on clinical governance and targets. Finances have been reported to the Board, but not in a way which informs evidence based decision making. Cost centre and service line reporting has not been in place. Productivity performance of the Company has been reported to the Board once in the last three years, and performance in this area does not compare well compared to other OOH providers

Key issues (continued)

Financials

Issues	Summary observations	Comment/recommendation
Pension liability	• Camidoc is liable to pay an additional 14% of doctor fees as pension contribution to the doctor pension scheme • As at 31 March 2010, the Company had £670k unpaid pension contribution for doctors. Total pension liability at 31 May 2010 was £797k	This suggests management reliance on not paying doctor pensions for working capital purposes We recommend that the PCTs seeking legal advice in relation the outstanding pension liability and to consider the impact to Camidoc
Management information	• Camidoc is a private business and was considered a small company which was exempted from statutory audit until FY07 • With no finance director, no requirement to report results to stakeholders, the quality of the accounting processes and monthly routines is not at the level that one might expect for a business of this size • Management has historically not maintained information to undertake analysis of contract performance	• The timeliness and quality of information available for our work has been an issue and we have had to spend time undertaking analysis work and data that we would normally have expected to be provided by the Company • The Company has recently recruited a part time Finance Manager to take responsibility of preparing monthly management accounts and financial planning Although the Company is a private limited company, management appeared to have considered it part of the NHS and not in a private sector. It should seek to adopt a more commercial approach in managing its finances with regular and vigour contract performance be undertaken to identify gaps and any material variances against expectation
Forecasts	• Our work on forecasts has been based on the three-year Financial Model prepared by management for the bid submission of the new OOH Contract • Management has recently revisited certain assumptions made in the model including activity volume, doctor rates and length of activity time (a productivity metric). We also understand that there are recent changes in other contracts e.g. increased income for District Nurse Messaging and cessation of John Howard contract • However, management has not yet updated these changes and consider their impact to other assumptions in the Financial Model	• Management needs to update the forecasts to reflect latest assumptions and recent changes to other contracts in order to produce an integrated financial model for Camidoc • In addition, the forecasts need to link to the current trading results and opening balances (assets and liabilities) which include the planned repayment of the unpaid pension liability for doctors

Key issues (continued)

Financial control environment

Issues	Summary observations	Comment/recommendations
Board reporting	• Board meetings in FY10 were held on a quarterly basis. The Company has recognised that Board meeting should be held more frequently • The Company has a service improvement plan drafted to deliver change. Actions to be taken to improve Board processes have been noted as: – Review information currently presented to the Board and its committees – Define roles for every Board member • Reports have not been made to the Board on company-wide productivity	• The Board should receive information on productivity metrics on a Company wide basis. This will identify areas for improvement which will help the Board deliver key contracts in a more efficient way
Financial reporting	• Historically, financial reporting has not been timely or presented in a clear way • Actions have been developed to improve financial reporting, such as migration of financial data onto the Sage system and having more frequent Board meetings • The finance capacity and capability has recently been improved, which gives some assurance that further improvements in the financial reporting arrangements can be made	• The Board should put in steps processes to ensure that finance information is reported to the Board taking into account: – timeliness of information including submission of monthly management accounts, rolling cash flow and forecasts – separate identification of significant contracts by income and costs – integration of finance and other performance information, such as productivity and clinical indicators
Board composition	• There is no current substantive CEO appointment. It is hoped that a CEO will be appointed on a permanent basis by January 2011. Currently one of the non-executive directors is filling this post on a part time basis. It is important that the Company consider the skill set of the CEO when making the appointment, especially with the changes expected within the NHS in the next 12-24 months	• The Board should draw up a job specification detailing the desired and essential skills and experience that is required for the CEO. This will help the Board in choosing the most appropriate candidate to be appointed to this position • The appointment will be an important step to the Company increasing its operational management capacity

Key issues (continued)

Financial control environment

Issues	Summary observations	Comment/recommendations
Governance structure	• The Company has a service improvement plan drafted to deliver change. Actions to be taken to improve Board processes have been noted as: – Review information currently presented to the Board and its committees – Define roles for every Board member	• The Company should ensure that the actions contained within the Service Improvement Plan are delivered. To achieve this reporting of performance against this plan should be made to the Board at each meeting

Section 2

Historical trading performance

Financial overview

Summary financials

£'000	<--Old OOH contract--> FY09 Audited	FY10 Unaudited	<------New OOH contract------> Year 1 Forecast	Year 2 Forecast	Year 3 Forecast
P&L					
Total Income	**6,137**	**7,673**	**6,929**	**6,933**	**6,938**
Cost of sales	(4,492)	(4,643)	(3,396)	(3,401)	(3,405)
Gross profit	1,645	3,030	3,533	3,533	3,533
Salaries and wages	(1,948)	(2,649)	(2,528)	(2,579)	(2,629)
Other overheads	(493)	(720)	(650)	(658)	(666)
EBITDA	(796)	(338)	355	296	238
Depreciation, interest and tax	(17)	(28)	(24)	(32)	(39)
Net (loss)/profit	**(813)**	**(366)**	**330**	**265**	**199**
Balance sheet					
Fixed assets	71	44	n/a	n/a	n/a
Net current assets/(liabilities)	335	(5)	n/a	n/a	n/a
Cash balances	357	387	n/a	n/a	n/a
Retained profits	405	39	n/a	n/a	n/a
Cash flow					
Operating cash flow	(546)	31	(99)	298	239
Capital expenditure	(60)	(1)	(30)	(30)	(30)
Net cash flow	(592)	30	(129)	268	209
KPIs					
Gross margin	26.8%	39.5%	51.0%	51.0%	50.9%
EBITDA margin	(13.0)%	(4.4)%	5.1%	4.3%	3.4%
Total activity (calls) ('000)	88.9	104.6	70.0	70.0	70.0

Notes 1 Management has not updated the 3 Year Financial Model with the opening balance sheet as the start date for the new OOH Contract was unknown at the time of preparing the model. We have therefore not included the balance sheet forecast within the table above
2 Total activity (calls) is for the calendar year basis (i.e. 1 January to 31 December)

Sources 1 Management information 2 Financial Model

Overview

- Since FY08, Camidoc is reporting net losses for the year, most recently amounted to £813k and £366k in FY09 and FY10 respectively

- Management has attributed the adverse trading performance to be due to:
  - significant under-funding of its OOH Contract by the PCTs as unit price was set at a constant/reduced rate per registered patient population which did not commensurate with increased activity volume
  - higher fixed overheads as a result of investment in IT infrastructure, operational staff (call handlers, nurses) and clinical governance in order to provide better services and clinical quality in response to a past SUI incident
- The Company is technically insolvent at present and its going concern is dependent upon granting of the new OOH Contract which it needs to generate profit and improve cash in Year 1 to 3 of operation

New OOH Contract

- Camidoc is currently in negotiation with the PCTs in relation to the new OOH Contract
- Management has considered the Company financial forecast on the assumption that the new OOH Contract is to start from 1 October 2010
- Under the new contract, Camidoc is forecasting to achieve net profit of £0.3 million in Year 1, reducing to £0.2 million in Year 3
- When sensitised, the contract may not provide sufficient headroom for ongoing trade, especially if activity levels decrease (see Section 4 of this report)

Update to the Financial Model

- Year 1 to 3 forecasts presented in the table opposite was derived based on management assumptions made for the purpose of its bid submission
- Management has recently revisited certain assumptions made in the bid including activity volume, doctor rates and length of activity time (a productivity metric). We also understand that there are recent changes in other contracts e.g. increased income for District Nurse Messaging and cessation of John Howard contract. However, management has not yet updated these and consider their impact to other assumptions in the Financial Model

FY10 trading performance against estimated outturn

FY10 trading performance - actual versus estimation

£'000	FY10 Actual	FY10 Estimated	FY10 Variance
Total Income	**7,673**	**5,935**	**1,738**
Cost of sales			
Doctors' Fees	(4,405)	(3,267)	(1,138)
Medical Supplies	(136)	(128)	(8)
Others	(102)	(116)	14
Gross profit	**3,030**	**2,424**	**606**
Salaries and wages	(2,649)	(2,047)	(602)
Rent	(102)	(84)	(19)
Overheads	(617)	(265)	(352)
EBITDA	**(338)**	**29**	**(367)**
Depreciation	(28)	(25)	(3)
Net (loss)/profit	**(366)**	**4**	**(370)**
KPIs			
Gross margin	39.5%	40.8%	(1.4)%
EBITDA margin	(4.4)%	0.5%	(4.9)%
Total activity (calls) ('000)	104.6	92.3	(12.3)
Doctors' Fees as % of Income	57.4%	55.0%	(2.4)%

Sources 1 Management information; Budget Proposal 09-10 (2).xls

- £400k one-off income funding from the four PCTs to improve Camidoc liquidity position
- £114k one-off income to address the impact of swine flu on activity
- £1,224k new income streams not previously estimated i.e. CHIP contract (£768k), provision of GP services at A&E department at North Middlesex Hospital (£227k), Whittington Hospital (£120k) and John Howard Care Centre (£109k)

- higher expenditure on doctor fees to meet higher demand from swine flu (£103k) and general increase in activity volume for the OOH Contract
- provision of new contracts as discussed above (e.g. CHIP and hospital support)

- recruitment of new Medical Director and clinical governance lead who joined part year through in FY10
- additional headcount (nurses, call handlers, salaried GPs) to meet new contracts obtained

- back-pay of rent and service charges for premises (£116k) relating to the previous two years
- IT-related expenditure i.e. system maintenance, website development and upgrade
- higher than expected legal fees, professional fees

Overview

- The Company does not undertake annual budgeting process nor does it monitor its performance against budget on a regular basis
- The FY10 estimated outturn in the above table represents breakeven financial forecast estimated by the previous CEO
- The lack of sufficient financial monitoring has left the Company dependent on subsidy from the PCTs
- Whilst greater levels of financial management are put in place, the Company has yet to provide confidence that the finances are being managed robustly enough to avoid future cash flow problem

Quality of earnings and cash

Management identified normalisation adjustments

£'000	FY09 Audited	FY10 Unaudited
EBITDA		
Reported EBITDA	**(796)**	**(338)**
Income:		
Swine flu one-off income funding	-	(114)
One-off additional income funding	-	(400)
Expenditure:		
Additional costs due to swine flu	-	114
Back pay of rent	-	116
Consultation events	49	-
Bid costs	-	60
Total management adjustments	49	(224)
Normalised EBITDA	**(747)**	**(562)**
Cash balance		
Reported cash balance	**357**	**387**
Total management adjustments	49	(224)
Normalised cash balance	**406**	**163**

Sources : Management information

Income support from the PCTs to address the step increase in activity relating to swine flu epidemic between April-July 2009 prior to the start of the National Flu Helpline and website. Camidoc has quantified the cost associated to swine flu to be £114k which was largely made up of additional doctor fees and call handlers

Further funding from the PCTs to assist Camidoc improving its liquidity position

Back payment of rent expense for the premises at St Prancas Hospital in which Camidoc operates (administration and clinics)

Costs incurred in relation to the preparation and submission of Camidoc bid for the new OOH contract

Consultation events to seek feedback from general public regarding Camidoc service and operational matters

Income

Income analysis by contracts

Service	Commissioners	Contract type	FY10 income £'000	% of income
OOH contract (existing)	NHS Camden, NHS Islington, NHS Haringey and NHS City and Hackney	Block	4,784	68.5%
Other recurring contract				
CHIP	NHS Camden	Block	768	11.0%
Practice income	166 surgeries at present	Hybrid	600	8.6%
North Middlesex Hospital support	North Middlesex Hospital	Block	287	4.1%
PUCC overnight care	NHS City and Hackney	Block	280	4.0%
Whittington Hospital suppport	NHS Islington	Block	120	1.7%
District Nurse Messaging	NHS Camden, NHS Islington and NHS City and Hackney	Block	75	1.1%
Safe Haven	NHS Camden and NHS Islington	Block	30	0.4%
Dental triage	NHS Camden, NHS Islington and NHS Haringey	Block	23	0.3%
OOH prison cover	NHS Islington	Block	15	0.2%
PCT event cover	NHS Camden	Block	8	0.1%
Subtotal			**6,989**	**100.0%**
Non-recurring and a ceased contract				
Additional funding for Swine Flu	NHS Camden, NHS Islington, NHS Haringey and NHS City and Hackney		114	n/a
One-off additional funding	NHS Camden, NHS Islington, NHS Haringey and NHS City and Hackney		400	n/a
John Howard support	North East London Mental Health		170	n/a
Total Income in FY10			**7,673**	**n/a**

Sources: 1. Management information

Overview

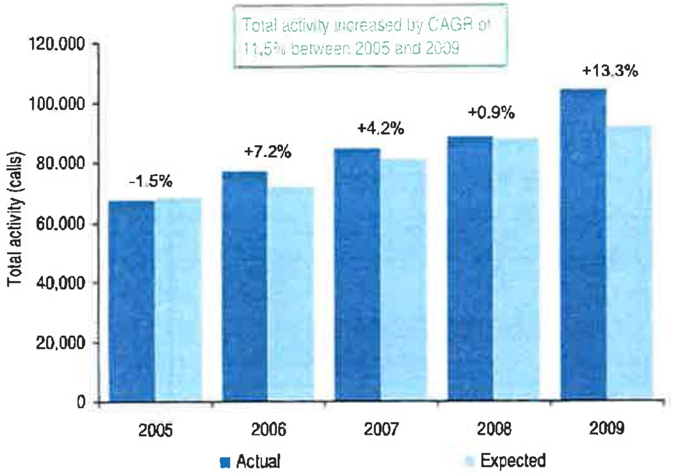
- The table opposite provides the list of Camidoc's contracts and income breakdown for FY10 based on discussion with management

OOH Service with four local PCTs

- The current OOH Service is contracted under block contract arrangement
- Income is based on a standard unit price of £5.31 per registered population within the area, generating a total revenue of £4.8 million in FY10 irrespective of the actual activity volume
- The contract was originally awarded to Camidoc covering a period of three years from 1 April 2005 to 31 March 2008. However, the provision of OOH Service has been extended at the PCTs request pending conclusion of the procurement process for the new OOH contract which will be driven by activity demand rather than a block contract. At present, the extended contract will end by 30 Sept 2010
- The Company invoices on a quarterly basis in advance until January 2010 when invoices were raised on a monthly basis in advance to assist Camidoc liquidity
- Analysis on activity is provided overleaf

Income (continued)

OOH Contract - activity trends



Note: Total activity shown in the chart above is for the calendar year basis i.e. 1 January to 31 December to exclude the timing difference and impact from Easter weekend each year. Total activity relates to the OOH Contract only and excludes daytime calls

Sources: 1. Management information

OOH Service with four local PCTs (continued)

- The chart above shows the total activity for the OOH Contract over the last five calendar years in comparison to the level expected by Camidoc at the beginning of the year
- Camidoc has experienced an increase in activity year-on-year since the contract commencement with a CAGR of 11.5% between 2005 and 2009
- Total activity generally exceeded expectation with over-activity ranging from +0.9% and +13.3% per year. The highest over-activity in 2009 of 13.3% is mainly caused by exceptional demand relating to the swine flu epidemic

Other key contracts

CHIP

- This relates to provision of GP service to homeless residents in Camden
- The service was commissioned by NHS Camden from 1 June 2009 for a period of 5 years on a block contract arrangement

Practice income

- These are income from GP surgeries which have not opted out from the OOH Service commissioned by the PCTs. At present, Camidoc generates income by way of a standard price per patient list for call handling arrangement plus additional income from additional clinics provided by Camidoc doctors

North Middlesex Hospital support

- This relates to provision of Camidoc's doctors to support the A&E department at North Middlesex Hospital in delivery of A&E activity and meeting the hospital 4-hour A&E target

PUCC overnight care

- This is an additional service in addition to the existing OOH Contract with NHS City and Hackney where Camidoc provides overnight GP support and receptionist at Homerton Hospital

Other key contract

- Camidoc provides GP support for A&E department at Whittington Hospital

Cessation of a contract in June 2010

- The provision of primary care service to John Howard Centre in Hackney has recently been terminated in June 2010

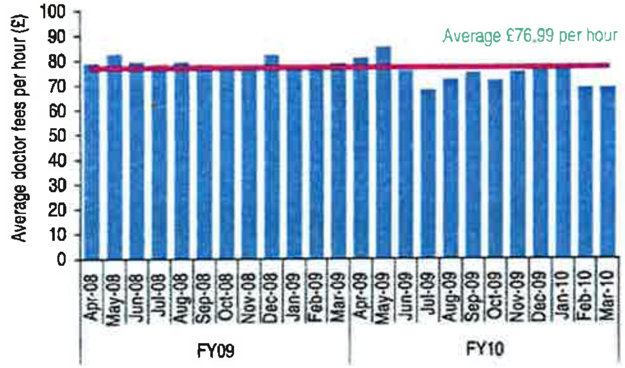
Gross margin

Gross profit analysis

£'000	FY09 Audited	FY10 Unaudited
Total Income	**6,137**	**7,673**
Cost of sales		
Doctors' Fees	(4,266)	(4,405)
Medical Supplies	(130)	(136)
Motor Expenses and Travel	(36)	(23)
Telephone and internet charges	(60)	(78)
Total cost of sales	(4,492)	(4,643)
Gross profit	**1,645**	**3,030**
KPIs		
Gross margin - as reported	26.8%	39.5%
Gross margin - excludes one-off income	26.8%	36.6%
Doctors' fees as % of income - as reported	69.5%	57.4%
Doctors' fees as % of income - excludes one-off income	69.5%	61.5%
Average doctor fees per hour (£)	£79.25	£74.73

Sources: 1. Management information 2. FY09 audited accounts and FY10 draft management accounts

Doctor fees per hour



Sources: 1. Management information 2. GT analysis

Overview

- The Company has shown an improved gross margin from 26.8% in FY09 to 36.6% in FY10 predominantly driven by a net decrease in doctor fees per hour

Doctors Fees

- Doctors fees are the largest variable costs for the Company, representing 95% of cost of sales in both FY09 and FY10

Doctor rates per hour

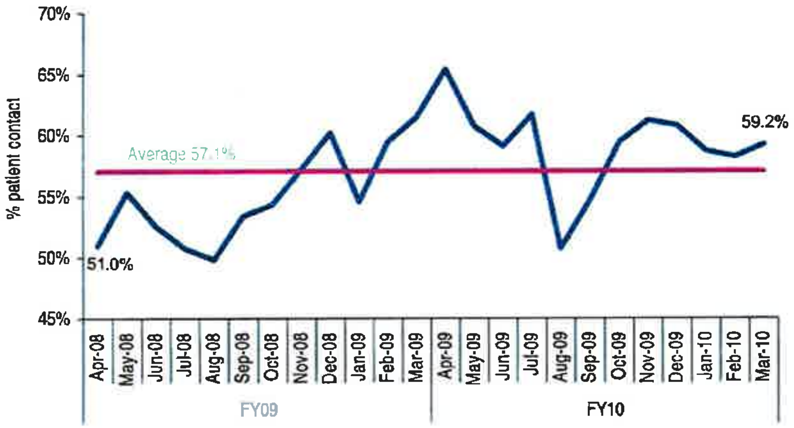
- Below are the doctor rates payable by Camidoc at present in 2010:

	Pre-May 2010	May-June 2010	From July 2010
– Monday to Friday evening:			
from 7.00 pm to midnight	£60	£55	£60
from midnight to 8.00 am	£76	£70	£75
– Saturday and Sunday			
from 7.00 am to midnight	£70	£60	£70
from midnight to 7.00 am	£82	£70	£80

- Doctor fees per hour for the last 2 years to March 2010 averaged at £77 per hour which is closer to the highest rates for shifts after midnight
- In response to financial pressures experienced by the Company, management has reduced the hourly rates paid to doctors at the beginning of 2009 and again in May 2010. This contributes to the overall decrease in doctor fees per hour which resulted in improved profit margin in FY10 compared to FY09
- Management has recognised the need to increase doctor rates to mitigate against the risk of doctors not willing to fill shifts and has brought forward the increase from 1 October 2010 to 1 July 2010. We have considered the financial impact of further increase of doctor rates in Section 4 of this report

Gross margin (continued)

% of patient consultation per doctor allocated hours



Sources | Management information 2 GT analysis

Doctors Fees (continued)

Productivity

- The Company does not currently report or analyse the level of doctor productivity in delivery of the demand activity
- The chart opposite analyses the extent of doctors time spent to deliver patient consultation for a period of last 2 years to March 2010 on a monthly basis
- In the absence of other data, this measurement represents a proxy of doctors productivity and how well the Company manages its doctors time in accordance with activity pattern within the OOH shifts
- Based on the analysis presented opposite, an average of 57% of doctors' paid hours were spent to deal with patient consultation with an overall improvement from 51% in April 2008 to 59% in March 2010
- In addition, our analysis from the data suggests that Camidoc has an average of 2 calls per doctor hour in 2009 (calendar year basis). This is in line with the benchmarking study carried out by the Primary Care Foundation which put Camidoc productivity level at the lower quartile of other OOH providers
- Management ability to increase the productivity of its doctor workforce would allow Camidoc to become increasingly competitive and profitable

Expenditure

Expenditure summary

£'000	FY09 Audited	FY10 Unaudited
Salaries and wages		
Salaries and wages	Not available	(363)
Administrative	Not available	(340)
Call Handlers	Not available	(646)
Management	Not available	(263)
Supervisors	Not available	(176)
Board	Not available	(189)
Drivers	Not available	(290)
Receptionists	Not available	(230)
Nursing	Not available	(124)
Healthcare Assistant	Not available	(1)
Subtotal	(1,923)	(2,622)
Directors' Emoluments	(25)	(27)
Total salaries and wages	**(1,948)**	**(2,649)**
Overheads		
Rent	-	(102)
Service charges	(18)	(99)
IT related expenditure	(152)	(155)
Advertising	(26)	(44)
Public and patient external consultancy	(55)	(39)
Consultation events	(49)	-
Course and training	(35)	(37)
Legal and professional fees	(19)	(32)
Depreciation charge	(35)	(28)
Other overheads (individually below £28k)	(140)	(211)
Total overheads	**(528)**	**(748)**
Total expenditure	**(2,476)**	**(3,397)**
% of Total Income	40.4%	44.3%

Sources: 1 FY09 audited accounts and FY10 management accounts

Pay costs

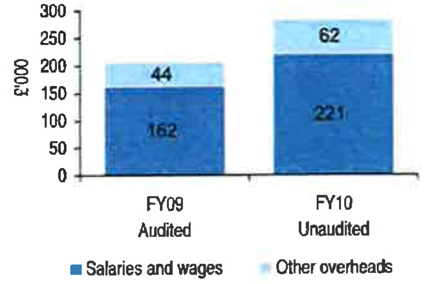
- Payroll accounted for c.78% of total expenditure in FY09 and FY10
- The increase in pay costs from £1.9 million in FY09 to £2.6 million in FY10 is mainly due to the following:
  - additional staff resources such as call handlers and nurses to deal with both increasing demand in activity for the OOH Contract and provision of new services/contracts e.g. CHIP, hospital support
  - new Medical Director and clinical governance lead during FY10
- Analysis of headcount/WTEs is currently not readily available for our work

Other overheads

- Total overheads increased from £528k in FY09 to £748k in FY10 mainly as a result of additional premises costs relating to back payment of rent and service charges for the previous two years for the premises at St Pancras Hospital

Average monthly expenditure

- The average monthly expenditure has increased between the last two years to FY10 as shown in the chart below:



Sources: 1 FY09 audited accounts and FY10 management accounts

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Section 3

Historical cash flow and balance sheet

Cash flow overview

Summary cash flow

£'000	FY09 Audited	FY10 Unaudited
EBITDA	**(796)**	**(338)**
Working capital movement		
Stock	(5)	-
Debtors	107	(108)
Creditors	148	477
Operating cash flow	**(546)**	**31**
Interest income	24	0
Tax	(9)	-
Capital expenditure	(60)	(1)
Net cash flow	**(592)**	**30**
Opening cash balance	950	357
Closing cash balance	**357**	**387**

Sources: 1. FY10 draft management accounts; 2. FY09 audited accounts; 3. GT analysis

Basis of preparation

- The Company's audited and management accounts did not contain a cash flow statement
- The table opposite shows the cash flow summary of the Company derived based on information available from the accounts

Commentary

- The Company had a cash balance of over £350k as at the last two balance sheet dates

FY09

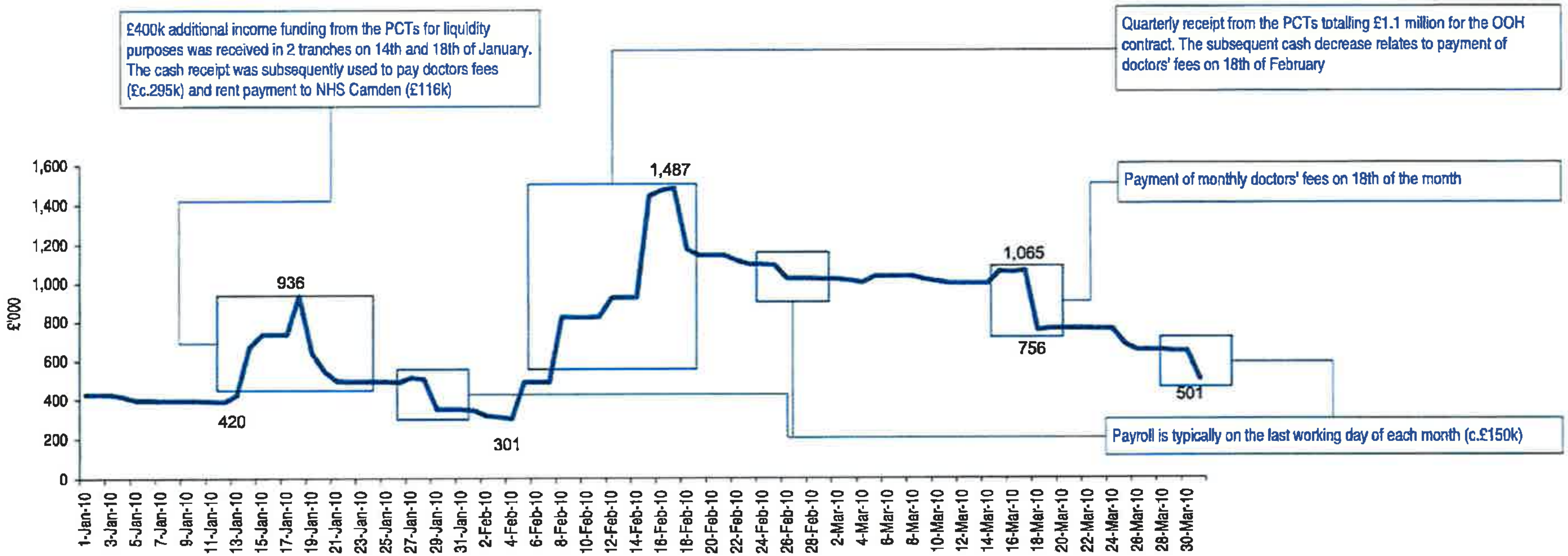
- The negative cash flow of £592k is mainly caused by the Company recording losses at the operating level (EBITDA)

FY10

- A marginal positive operating cash flow of £31k was recorded in spite of operating losses due to cash released from working capital
- This is largely due to the Company using the increase in doctor pension liability owed by the Company (c.£300k) as working capital in FY10
- Total doctors pension liability as at 31 March 2010 was £670k. This has still not been paid

Cash flow overview (continued)

Intra month cash analysis from January - March 2010



Note The chart above represents total cash balances in three bank accounts i.e. the main current account, deposit account and CHIP bank account
Sources 1 Bank statements

Monthly cash flow forecast outturn to December 2010

Summary cash flow forecast from July to December 2010

£'000	Jul-10 Forecast	Aug-10 Forecast	Sep-10 Forecast	Oct-10 Forecast	Nov-10 Forecast	Dec-10 Forecast
Cash inflows						
OOH Contract - old contract	258	406	406	406	-	-
OOH Contract - new contract	-	-	-	451	451	451
CHIP	64	64	64	64	64	64
Practice Income	50	50	50	50	50	50
Other	14	14	14	14	14	14
Total receipts	**387**	**534**	**534**	**985**	**579**	**579**
Cash outflows						
Doctors Fees	(273)	(270)	(270)	(270)	(270)	(270)
Doctors' pension contribution	-	(120)	(120)	(120)	(120)	(120)
Salaries and wages	(286)	(140)	(140)	(140)	(140)	(140)
PAYE	(70)	(70)	(70)	(70)	(70)	(70)
Staff pension	(25)	(25)	(25)	(25)	(25)	(25)
Medical Supplies	(12)	(12)	(12)	(12)	(12)	(12)
Premises Rent & Service Charges	(5)	(23)	(18)	-	-	-
Telephone and travel costs (fuel)	(8)	(7)	(7)	(7)	(7)	(7)
IT equipment	-	-	-	(30)	-	-
IT Licenses	-	-	-	(8)	-	-
IT Support/Development	(24)	(25)	-	-	(25)	-
Staff training and welfare	(2)	(2)	(2)	(2)	(2)	(2)
Recruitment	(6)	-	-	-	-	-
Membership fees and subscriptions	(2)	(2)	(2)	(2)	(2)	(2)
Insurance	(3)	(3)	(3)	(3)	(3)	(3)
Office Supplies	(4)	(3)	(3)	(3)	(3)	(3)
Cars maintenance	(2)	(2)	(2)	(2)	(2)	(2)
Board Meetings	(1)	(1)	(1)	(1)	(1)	(1)
Legal/Professional/Accounting	(5)	(2)	-	(2)	(2)	(2)
Marketing materials and website	(3)	(1)	(1)	(1)	(1)	(1)
Total payments	**(729)**	**(707)**	**(675)**	**(697)**	**(684)**	**(659)**
Net cash flow	**(342)**	**(173)**	**(141)**	**288**	**(105)**	**(80)**
Opening cash balance	528	186	13	(128)	161	56
Closing cash balance	**186**	**13**	**(128)**	**161**	**56**	**(24)**

Commentary

- The table opposite summarises management forecast of monthly cash flow to 31 Dec 2010 from the actual cash balances as at 30 June 2010
- Management has not prepared a cash flow statement to bridge the balance sheet as at 30 June 2010 from the year end position at 31 March 2010. We are therefore unable to consider the impact of this to the monthly cash flow forecast provided opposite
- The cash flow forecast opposite is prepared by management based on the following assumptions:
  - that the existing old OOH contract is extended up to 30 Sept 2010. The new OOH contract is assumed to start on 1 Oct 2010
  - the Company had an opening cash position of £528k as at 1 July 2010
  - there are no material changes in the Company's trading performance and cash flow profile for the period from 31 March 2010 to 30 June 2010 including unwinding of working capital balances
  - forecast repayment of the existing pension liability for doctors by an amount of £60k per month from August 2010 onwards

It is assumed that the new OOH contract will commence from 1 October 2010. High cash inflow of £857k is made up of the following:

- £406k cash receipt relating to Sept 2010 billing under the old contract (monthly in advance)
- £451k cash receipt relating to October 2010 billing under the new contract (monthly in arrears)

Management has included in the cash flow forecast the impact of increase in doctor rates with effect from 1 July 2010

The Company expects to pay pension contribution for doctors in arrears. The payment of £120k in Aug 2010 comprises pension contribution for July 2010 of £60k and settlement of existing liability amounting to £60k per month. Monthly doctors pension is made up of 14% pension contribution by the Company and voluntary contribution by the doctors

The lowest cash headroom is expected at the end of August 2010 with lowest cash balance of £13k

Source CFF v Actuals July 10 onwards 050710 xls

Balance sheet overview

Summary balance sheet

£'000	31-Mar-09 Audited	31-Mar-10 Unaudited
Fixed assets		
Computer Equipment	51	30
Office Equipment	20	14
Total fixed assets	71	44
Current assets		
Stock	29	29
Trade debtors	680	679
Other debtors	7	119
Prepayments and accrued income	21	17
Cash at bank and in hand	357	387
Total current assets	1,094	1,232
Current liabilities		
Trade creditors	(305)	(392)
Doctors pension liability	(370)	(670)
Other taxes and social security costs	(43)	(99)
Other creditors	-	(10)
Accruals and deferred income	(37)	(60)
Corporation Tax	(5)	(5)
Total current liabilities	(760)	(1,237)
Net current assets/(liabilities)	**335**	**(5)**
Net assets	**405**	**39**
Capital & Reserves		
Share Capital	-	-
Retained profits - opening balance	1,218	405
Net loss for the year	(813)	(366)
Shareholders' funds	**405**	**39**
KPIs		
Trade debtor days	40.4	32.3
Trade creditor days	24.8	30.8

Sources: 1. FY10 draft management accounts; 2. FY09 audited accounts

Overview

- The Company had a low level of reserves as at 31 March 2010 with retained profits of £39k which represents 11% of its current year loss
- As at 31 May 2010, the Company is technically insolvent as its total assets are less than total liabilities by £37k

Working capital

- As at 31 March 2010, a high proportion of trade debtors (53%) are owed more for than 3 months. Management has stated that long outstanding debtor balance is one of the factors which resulted in the Company not paying the doctor pension liability (further explained below)
- Other debtors as at 31 March 2010 includes £90k amount owed by Laurels Healthcare Limited which is the joint-partner of GP-led health centre in Haringey
- The Company has a high outstanding liability relating to doctors' pension contribution by Camidoc (i.e. 14% contribution on top of doctor fees) totalling £670k as at 31 March 2010 (31 March 2009: £370k). Management has advised that the outstanding pension liability did not include the voluntary pension contribution by doctors

Movement in reserves

Movement in reserves

£'000	31-Mar-05 Audited	31-Mar-06 Audited	31-Mar-07 Audited	31-Mar-08 Audited	31-Mar-09 Audited	31-Mar-10 Unaudited
Retained profits						
Opening balance	211	412	1,346	1,589	1,218	405
Net profit/(loss) for the year	201	1,142	242	(371)	(813)	(366)
Distribution to members	-	(207)	-	-	-	-
Closing balance	**412**	**1,346**	**1,589**	**1,218**	**405**	**39**

Sources: 1. FY10 draft management accounts 2. FY05-FY09 audited accounts

Commentary

- As at 31 March 2010 the Company has a low level of reserves with retained profits of £39k, equating to 11% of its FY10 net losses
- The erosion of reserves over the years since FY08 was due to losses made by the Company
- Camidoc had £412k retained profits as at 1 April 2005 when the current OOH contract commenced
- The Company made a £0.2 million distribution of reserve to its members in FY06 and managed to increase its retained profits to £1.6 million as at 31 March 2007
- No further distribution to its members was made subsequent to FY06

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Section 4

Projections for Year 1 to Year 3

Forecast P&L for Year 1 to Year 3

Forecast P&L for Year 1 to Year 3 under new OOH contract

£'000	<——New OOH contract——> Year 1 Forecast	Year 2 Forecast	Year 3 Forecast
Income			
OOH contract	4,381	4,385	4,390
Incentive income	400	400	400
CHIP	768	768	768
Practice income	600	600	600
Other contracts	780	780	780
Total Income	**6,929**	**6,933**	**6,938**
Cost of sales			
Doctors' Fees	(3,177)	(3,177)	(3,177)
Medical Supplies	(132)	(135)	(137)
Others	(88)	(89)	(91)
Gross profit	**3,533**	**3,533**	**3,533**
Salaries and wages	(2,528)	(2,579)	(2,629)
Rent	(84)	(85)	(87)
Overheads	(566)	(573)	(579)
EBITDA	**355**	**296**	**238**
Depreciation	(24)	(32)	(39)
Net profit	**330**	**265**	**199**
KPIs			
Gross margin	51.0%	51.0%	50.9%
EBITDA margin	5.1%	4.3%	3.4%
Total activity (calls) ('000)	70.0	70.0	70.0
Doctors' fees as % of income	45.8%	45.8%	45.8%

Sources: 1. Financial Model

Based on assumed total activity volume of 70,000 per annum in each of the three-year forecast. The year-on-year increases are due to a marginal inflation of 0.1% per annum

Management has assumed a 2% pay increase year-on-year on payroll which largely result in erosion of EBITDA margin and net profit over the 3-year forecast

Overview

- The table opposite shows the Company's forecast P&L for the first to third year of operating under the new OOH contract based on the 3-year Financial Model used by Camidoc for the bid purposes
- Management has recently revisited certain assumptions made in the bid including activity volume, doctor rates and length of activity time (a productivity metric). We also understand that there are recent changes in other contracts e.g. increased income for District Nurse Messaging and cessation of John Howard contract. However, management has not yet updated these and consider their impact to other assumptions in the Financial Model

Commentary

- We have considered the assumptions within the financial model and stress tested to identify assumptions which are most sensitive to Camidoc profitability and cash flow. These assumptions are:
  - activity volume
  - incentive payment
  - doctor rates per hour
  - length of activity type (measured in minutes)
- Our summary findings are provided in tables that follows later part of this section

Forecast cash flow for Year 1 to Year 3

Forecast cash flow for Year 1 to Year 3 under new OOH contract

£'000	Year 1 Forecast	Year 2 Forecast	Year 3 Forecast
	<——New OOH contract——>		
Cash inflows			
OOH Contract	4,016	4,385	4,390
Incentive income	240	400	400
CHIP	768	768	768
Practice Income	505	600	600
Other	611	780	780
Total receipts	**6,140**	**6,933**	**6,938**
Cash outflows			
Doctors Fees	(2,938)	(3,177)	(3,177)
Salaries and wages	(1,837)	(1,871)	(1,905)
PAYE	(634)	(707)	(723)
Medical Supplies	(124)	(134)	(137)
Premises Rent & Service Charges	(84)	(85)	(87)
Telephone and travel costs (fuel)	(80)	(89)	(91)
IT equipment	(160)	(163)	(166)
IT Licenses	(40)	(41)	(42)
Staff training and welfare	(41)	(46)	(47)
Recruitment	(22)	(24)	(25)
Membership fees and subscriptions	(5)	(5)	(5)
Insurance	(46)	(50)	(50)
Office Supplies	(28)	(30)	(30)
Cars maintenance	(26)	(29)	(29)
Board Meetings	(28)	(30)	(30)
Marketing materials and website	(28)	(30)	(30)
Consultation event	(10)	(10)	(10)
Sundries	(41)	(45)	(45)
Contingency	(69)	(69)	(69)
Capital expenditure	(30)	(30)	(30)
Total payments	**(6,269)**	**(6,665)**	**(6,728)**
Net cash flow	**(129)**	**268**	**209**

Sources: 1 Management information 2 Financial model

Commentary

- The table opposite shows the Company's forecast cash flow for the first to third year of operating under the new OOH contract based on the 3-year financial model used by Camidoc
- The forecasts did not include consideration of opening balances (assets and liabilities) as the timing of the commencement of the OOH Contract was unknown. Hence the forecast represents cash flow generation from the new OOH Contract
- In Year 1, Camidoc expects to experience a cash shortfall of £129k due to the assumption of cash collection and payment
- The cash flow forecast opposite does not include payment for outstanding pensions liability

Key assumptions

Key assumptions - income

<table>
<tr><th>Area</th><th>Assumptions for Year 1</th><th>Previous year's track record</th><th>Extent of sensitivity</th><th>GT comment</th></tr>
<tr><td>OOH contract
• Activity volume</td><td>• Total activity volume of 70,000 per the bid submission is made up of:
– Phone: 29,000 (41%)
– Clinic: 32,000 (46%)
– Home visits: 9,000 (13%)</td><td>• Total activity in 2008 calendar year (the recent year with no impact of swine flu) was 88,880, made up of:
– Phone: 39,405 (44%)
– Clinic: 37,845 (43%)
– Home visits: 11,629 (13%)</td><td>• A 10% increase in activity volume will:
– increase net profit by £327k in Year 1, i.e. doubling from the base case
– increase cash balance by £300k at the end of Year 1
• A 5% decrease in activity volume will:
– decrease net profit by £117k in Year 1
– decrease cash balance by £107k at the end of Year 1</td><td>• The results suggest that activity volume is a highly sensitive assumption to profitability and cash
• Lower activity volume is based on assumption that overall activity will reduce following initiatives around GP extended hours, walk-in-centres and GP led health centres
• Management's assumed types of activity is based on historical trends. However, we note the assumed ratio of clinic (46%) is higher than actual in 2008</td></tr>
<tr><td>• Tariff</td><td>Unit price per activity
<table><tr><th></th><th>Unit price (£)</th></tr><tr><td>Phone</td><td></td></tr><tr><td>Above 29,001</td><td>39.95</td></tr><tr><td>Between 27,001-29,000</td><td>36.99</td></tr><tr><td>Below 27,000</td><td>48.75</td></tr><tr><td>Clinic</td><td></td></tr><tr><td>Above 25,001</td><td>71.28</td></tr><tr><td>Below 25,000</td><td>84.95</td></tr><tr><td>Home Visits</td><td></td></tr><tr><td>Above 5,501</td><td>114.16</td></tr><tr><td>Below 5,500</td><td>133.48</td></tr></table></td><td>• Based on Camidoc bid price</td><td>• Not applicable</td><td>• The unit price set by Camidoc reflects management assessment of the complexity and time taken for activity type</td></tr>
</table>

Key assumptions (continued)

Key assumptions - income (continued)

Area	Assumptions for Year 1	Previous year's track record	Extent of sensitivity	GT comment
OOH contract • Incentive payment	• £400,000 income per annum	• There were no incentive payment under the existing OOH Contract	• Removal of incentive payment will: – take Camidoc into loss position by reducing net profit by £396k in Year 1 – reduce cash balance by £236k at the end of Year 1	• The assumed incentive payment is highly sensitive and critical to Camidoc profitability and cash • Camidoc should assess the likelihood of meeting the criteria for incentive payment and consider taking mitigating actions in the event of non-compliance • In addition, we understand from management that there is a risk of penalty of up to £200k per annum being imposed by the PCTs in the event Camidoc fails to meet the performance targets in accordance with the current terms for the new OOH Contract
Other contracts • CHIP	• £64,000 per month, equating to £768,000 per annum	• In line with FY10 turnover	• A 10% decrease in income is expected to result in a marginal impact to profitability and cash	
• Practice income	• £50,000 per month, equating to £600,000 per annum	• In line with FY10 turnover	• A 10% decrease in income is expected to result in a marginal impact to profitability and cash	
• Other income	• £65,000 per month, equating to £780,000 per annum	• In line with FY10 turnover	• A 10% decrease in income is expected to result in a marginal impact to profitability and cash	

Key assumptions (continued)

Key assumptions - cost of sales

Area	Assumptions for Year 1	Previous year's track record	Extent of sensitivity	GT comment
Doctors' fees • Doctor rates per hour	Weekdays • 1900 hours to midnight: £62.70 • midnight to 0800 hours: £79.80 Weekends • 0700 hours to midnight: £68.40 • midnight to 0700 hours: £79.80	• The assumed rates are in line with the doctor rates applicable in May -June 2010 (before the recent increase from 1 July 2010) • The rates are inclusive of 14% pension contribution by Camidoc	• A 5% increase in doctor rates will: – reduce £100k net profit in Year 1 or 30% – reduce cash by £92k at the end of Year 1	• The results suggest that doctor rates are highly sensitive to profitability and cash • Management should model any future changes in doctor rates and assess the implication to the Company's profitability and liquidity position
• Length of activity type (measured in minutes)	• Phone: 10 minutes per call • Clinic: 25 minutes per clinic visit (including 10 minutes call) • Home visits: 60 minutes per home visit (including 10 minutes call)	• The assumed 10 minutes per call suggest the Company is assuming 6 calls per hour • Based on activity data for 2009 and the benchmarking study by the Primary Care Foundation, the Company was operating at an average of 2 calls per hour • Management considers the benchmarking data not to be a like-for-like comparator as it includes time taken by doctors undertaking face-to-face consultations and home visits	• A 5 minutes increase in time per activity will: – take Camidoc into loss position by reducing net profit by £429k in Year 1 – reduce cash by £394k at the end of Year 1	• The results suggest that time per activity is highly sensitive and critical to Camidoc profitability and cash position • Management should undertake detailed assessment of its productivity to identify areas where productivity can be improved • Productivity indicators should be regularly monitored and reported together with action plans to address any adverse variance

Key assumptions (continued)

Key assumptions - expenditure

Area	Assumptions for Year 1	Previous year's track record	Extent of sensitivity	GT comment
Expenditure • Salaries and wages	• £211k per month, equating to £2.5 million per annum	• £221k per month in FY10	• A 5% increase in payroll will: – reduce net profit by £126k in Year 1 – reduce cash by £124k in Year 1	• Pay costs are largely fixed in nature and any incremental cost will broadly result in an equivalent reduction in profit and cash • Management has stated that the current operational workforce (nurses, call handlers) is to remain broadly static due to previous investment made on human resources
• Other overheads	• £56k per month, equating to £674k per annum	• £62k per month in FY10	• A 5% increase in overheads is expected to result in a marginal impact to profitability and cash	• Overheads are largely fixed in nature and any incremental cost will broadly result in an equivalent reduction in profit and cash

Key assumptions (continued)

Key assumptions - cash flow

Area	Assumptions for Year 1	Previous year's track record	Extent of sensitivity	GT comment
Collection • OOH Contract	• Monthly billings in arrears with collection within 30 days upon invoice	• In line with the current OOH contract		• The assumption appears in line with current contract terms
Payment • Doctor fees	• Monthly payment in the following 1 month	• In line with FY10		• The assumption appears in line with current cash pattern
• Salaries and wages	• In the current month	• In line with FY10		• The assumption appears in line with current cash pattern

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Section 5

Financial control environment

Governance Structure

Financial Control Environment

Area of focus	Exception commentary
Comment on the procedures adopted by the Board to ensure the effective management and control of the business • The Company has an informal Board of Directors which includes executive and non-executive directors. Only 1 Executive Director is the statutory director of Camidoc based on records obtained from Companies House • The split of directors is roughly equal between clinicians and non-clinicians. The Company's articles determine that there must be a majority of clinicians on the Board. This majority is currently one • The Board is supported by sub-committees: – Finance and Corporate Governance – Clinical Governance – Information Management and Technology • Each sub-committee is chaired by a non-executive director who is a non-clinician • There are a sub-set of working groups that support the Board including: – Clinical audit – Service quality and improvement – Medicines management – Community and public engagement	• During FY10 the Board of Directors met on a quarterly basis. We understand that meeting frequency was the same in prior years • The Company plans to hold meetings of the Board every other month in FY11. In the months where a Board meeting is not due to be held, the Company plans to issue Directors with finance and performance information for service and comment • Sub-committees to the Board have been used to deal with specific risks facing the Company. In response to a critical SUI report in 2007, the Company used a Clinical Governance committee to address improvement points arising from this report. To address non-clinical governance concerns the Finance and Corporate Governance committee has been meeting monthly. These concerns arose from a deterioration in the cash position of the Company in 2008 • The Company has a service improvement plan drafted to deliver change. Actions to be taken to improve Board processes have been noted as: – Review information currently presented to the Board and its committees – Define roles for every Board member • Management has commented that information presented to the Board has often been late and not necessarily presented in a format that is user-friendly. Aligned with meetings being held infrequently in the past, this would suggest that there was a high risk that Board actions to address concerns would be reactive and not timely • Some Board members have clearly defined responsibilities already. For example, Mariette Davies has an oversight for improving the control environment and finances although she is not a statutory director of Camidoc according to records from Companies House. Responsibilities should be clearly defined for all Board members. The Company recognises this and have committed to complete this action in the Service Improvement Plan by August 2010

Management team

Financial Control Environment

Area of focus	Exception commentary
Comment on the Board composition • The split of directors is roughly equal between clinical and non-clinical staff • There is currently no substantive CEO appointment. It is hoped that this post is filled by January 2011. Currently one of the non-executive directors is filling this post on a part time basis • Board members have experience of the NHS both within the local economy and with other NHS organisations	• The current Board appears to be highly experienced within the NHS. This includes Board members with non-executive roles within other NHS organisations, including at a large London acute provider trust and a local primary care trust • The Board has good local health economy connections, including with local GPs and commissioners • Over time the Company has recruited non-executive directors to fill skill gaps within the organisation. In response to criticism in a SUI report issued in 2007 the Company recruited three non-executive non-clinical directors. This was to increase the corporate governance skill set of the Board of Directors to improve the governance arrangements of the Company. Historically, the Company has been clinically able at the Board level due to the strong doctor representation on the Board • During 2009 the Board first recognised that there may be a potential problem with cash flow. This could have led to the Company trading whilst insolvent. As a result of this, the Board established that there were weaknesses in financial controls (evidenced through late and inadequate reporting of financial information to the Board). An additional Board member with finance and audit experience was recruited with remit to improve the financial control environment of the Company • The Board has recognised that they were over dependent on the previous CEO. This has led to the senior management team being under utilised. Also, the potential of the clinical workforce to play a role in wider service improvements has yet to be fully realised • There is no current substantive CEO appointment. It is hoped that a CEO will be appointed on a permanent basis by January 2011. Currently one of the non-executive directors is filling this post on a part time basis. It is important that the Company considers the skill set of the CEO when making the appointment, especially with the changes expected within the NHS in the next 12-24 months • Also it has been recognised that a substantive operational director may be needed. However, there are currently no plans in place to recruit such a person
Comment on whether the Finance Department is fit for purpose • The Company has a small finance team of two people • A new Finance Manager was recently recruited who is working part-time on 3 days a week	• The Company has a small finance team of two people. Both of these have been recruited in June 2010 • This represents an increase in numbers of the finance team. Furthermore, both recruitments have experience of using the Sage accounting system. The Company migrated to Sage in November 2009 • Neither member of the finance team is an exam qualified accountant. However, there is a qualified accountant within the non-executive directors • The Company should consider whether the finance team has the capacity and capability to deliver timely finance information to the Board in a format that the Board can use to understand the financial position of the Company

Reporting to the Board

Financial Control Environment

Area of focus	Exception commentary
Comment on quality of reporting to the Board • The Company has recognised that improvements can be made in financial reporting. We have commented on this on the next page • Clinical governance and performance reporting has been the focus on the Company, more so since a critical SUI report in 2007 • Since this report the Company has improved clinical outcomes and is recognised as a high quality OOH provider • However, benchmarking reports suggest that the Company does not compare well with other OOH providers when reviewing productivity metrics	• Board reporting packs are made on clinical performance and governance to the Clinical Governance committee and to the Board. These would cover quality and performance against standards and targets. A report is made to each committee meeting and the Board consider that the Company's clinical performance is effective. These reports were first made to the Board in 2008 • The Company has arrangements in place to review the productivity of individual doctors, for example through reviewing calls made on shift or patients seen in a shift. These reviews will be conducted on a sample basis • The outcomes of these reviews will be reported to the Clinical Governance committee and action taken against individual doctors if they do not achieve desired productivity levels. However, this process does not appear to be integrated to give a Company-wide view on productivity • Reports have not been made to the Board on productivity, apart from a recent benchmarking report which showed that the Company performed poorly against other OOH providers when using productivity metrics. Performance reports to the Board should build on the reported concerns and integrate finance, productivity and clinical performance • We note that in FY09 the Company saw activity levels increase significantly due to swine flu. The Company was able to quantify increased costs as a result of swine flu following additional doctor shifts and resources to meet additional activity demand. This enabled the Company to seek additional funding for this activity from the PCTs

Financial reporting

Financial Control Environment

Area of focus	Exception commentary
Comment on the financial reporting arrangements of the Company • Historically, financial reporting has not been timely or presented in a clear way • Actions have been developed to improve financial reporting, such as migration of financial data onto the Sage system and having more frequent Board meetings • The finance capacity and capability has recently been improved, which gives some assurance that further improvements in the financial reporting arrangements can be made	• The Company employs external accountants to produce year end accounts. Prior to the Company migrating to the Sage accounting system the external accountants helped produce management accounts • Although management accounts were produced, the Board were not satisfied with the financial reports received by the Board. Criticisms included: – Timeliness of finance reports. Often they were tabled at Board meetings rather than in advance of the meeting. Late tabling of finance reports would make it difficult for effective Board challenge and decision making on the Company's financial position – Clarity of finance reports. Finance reports were often presented in a format convenient for the preparer, rather than giving the Board the information in a format they needed – Style of reporting. Cost centre reporting is only just being established in the Company. The Board do not have the information on the profitability of services or contracts. Therefore decisions on which services to provide are made on intuition rather than on evidence • We understand that Sage has capacity for cost centre reporting. This will require costs and income to be accurately recorded within the Sage system so that the Board can more accurately report and manage on a contract by contract basis. For Board reporting to be timely, accounts will need to be closed down soon after each month end. Historically, month end accounts have not been closed down in a timely way • FY11 will be the first full year that accounts will be prepared on the Sage system • Historically, the Board has not had financial information sufficient to make operational decisions. Decisions on operations (e.g. cutting doctors fees, closing services at the Royal Free) have been made intuitively, rather than on evidence. Introducing cost centre accounting and service line reporting will provide the finance department with the information to make decisions based on service level performance • Again, an investment in senior operational management will be key to driving productivity and profitability going forward

Audit arrangements

Financial Control Environment

Area of focus	Exception commentary
Comment on audit arrangements • No internal audit function as expected for a small Company • External limited assurance audit until FY09 due to small size • No adverse comments on the control environment • "Except for" audit opinion on accounts due to going concern	• Prior to FY09 the Company was subject to a limited assurance audit regime. This was due to turnover being below the threshold for a full audit • This changed in FY09 due to the increase in turnover above the audit threshold • Despite this the external auditors have not provided the Company with a written Report to those Charged with Governance. This is not unusual for an audit of a Company of this size • Discussions with management has established that an "except for" opinion was issued on the FY09 accounts. The "except for" was in respect of going concern due to the OOH contract not being renewed, but rather extended for a short period • External audit of FY10 accounts expected to take place in July 2010 • The external auditors did not comment adversely on the control environment of the Company • There is no internal audit function due to the size of the Company

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Appendices

A. Letter of engagement
B. Principal sources of information
C. Monthly cash flow forecast from July 2010 to December 2010
D. Factual accuracy confirmation letter

A. Letter of engagement

Grant Thornton

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For the attention of Peter Buckman

24 June 2010

Dear Sirs

Independent Business Review of Camidoc Limited, the Out of Hours Provider Service for NHS Camden

1 Introduction

1.1 Further to Liz Clark's email on 22 June 2010, we are writing to confirm our understanding of the work Grant Thornton UK LLP will undertake in relation to the Independent Business Review ("IBR") of Camidoc Limited, the Out of Hours Provider Service ("the Company") for NHS Camden ("the PCT").

1.2 This letter, together with the attached Appendix A of our standard terms and conditions sets out the basis on which Grant Thornton UK LLP will provide the services set out below to you. It also summarises the respective areas of responsibility of your directors and of ourselves.

2 Scope of work

2.1 We will prepare a report to provide an IBR of the Company that cover the scope of work set out in Appendix B.

2.2 Our work may be based on internal management and external information. Where this is the case an audit examination of the management and external information and accounts is not required. The PCT confirms that we shall have unrestricted access to the books and records of the Company and the full co-operation of its directors and senior management, who will keep us informed of any matters that they consider are relevant to our work.

2.3 The scope of our work will be limited both in terms of the areas of the business and operations which we review and the extent to which we review them.

2.4 Our report will be in powerpoint format and addressed to the PCT.

2.5 During the course of the engagement we may show drafts of our report to you. This is done on the basis that they are subject to revision and alteration and no reliance should be placed on any draft document without our prior written consent. A document remains 'draft' for these purposes until it has been manually signed by a Grant Thornton UK LLP partner.

2.6 Draft copies of our report will be provided to the directors of the Company to confirm the factual accuracy of the information contained therein.

2.7 We will require a written representation from the directors of the Company to confirm the factual accuracy of the information contained in our report.

2.8 During the period of this assignment we shall not be required to undertake any responsibility for directing or making decisions about the PCT's affairs, sole responsibility for which remains with the management of the PCT. Any decisions made as a result of our work will be the sole responsibility of the directors of the PCT.

3 Tax advice

3.1 For the avoidance of doubt the scope of our work does not include the provision of any tax advice. Should you require additional tax advice then this will be the subject of a separate letter of engagement. Additional tax advice work may be subject to amended terms.

4 Fees

4.1 In accordance with normal professional practice, our fees are based upon the degree of responsibility and skill involved and the time necessarily occupied on the work. Our total fees will be fixed at £36,630 and are based on our assessment of the actual time we will need to spend on the engagement and a 10% discount as set out below:

Breakdown of fee	Cost per day	No. of days	Total (£)
Partner	2,800	1.5	4,200
Manager	1,900	10.0	19,000
Executive	1,750	10.0	17,500
Subtotal		21.5	40,700
10% discount			(4,070)
TOTAL			36,630

4.2 VAT and out of pocket expenses will be added to these fees at standard rates.

4.3 In the event that the engagement is terminated for any reason, other than completion, you agree to pay us an abort fee. The abort fee will be calculated at our actual time incurred at the discounted rates set out above up to the point at which the engagement is terminated.

Assumptions

4.4 Our fees are based on the following assumptions:

- we will have disclosed to us all relevant accounting records and related information, and the information we require will be reliable and will be provided to us without undue delay;
- we will receive full co-operation from all relevant personnel at the Company and the PCT, and their other professional advisers;
- there is no delay in the date we agree with you to commence our fieldwork;

- there are no periods during the engagement where it is necessary for all or part of our team to stop their work due to information unavailability or inaccuracy (in such circumstances we will discuss this with you in advance of suspending our work).

4.5 If these assumptions are not met, we reserve the right to charge an additional fee for any extra work involved in carrying out the engagement or to compensate us for our staff being inefficiently utilised. Additional fees will be charged at the discounted rates set out above. We will endeavour to mitigate the cost to you arising from delays in the commencement of our fieldwork/temporary suspension of our work by reassigning staff to alternative engagements if we consider this to be a reasonable course of action, unless you request us not to.

5 Payment of fees

5.1 Our fees are payable on presentation of our invoice and this will be issued once you have received our final report, or on termination of the engagement.

5.2 We reserve the right to add an interest charge at a rate of 1% per month simple interest on any bills that remain unpaid 10 days after presentation.

5.3 Our invoice will be addressed and sent to the PCT. The invoice will be payable direct to Grant Thornton UK LLP's account, details of which are as follows:

Barclays Bank plc
Sort code: 20-11-39
Account no. 00811297
Account name: Grant Thornton UK LLP

6 Timetable

6.1 In accordance with your timetable, we expect to commence our work on 24 June 2010.

6.2 Assuming that information is available on a timely basis, we will prepare a draft report for your consideration on or before 9 July 2010 in advance of your reporting deadline of 23 July 2010.

7 Other matters

7.1 This engagement will terminate, unless previously terminated or mutually extended by agreement, on completion of the engagement. We reserve the right at any time and without any liability or continuing obligation to you to terminate this engagement if:

- you are in material breach of any of the terms of this engagement,
- you fail to accept our advice on a material regulatory or professional matter concerning the engagement, or;
- we are not satisfied that we can proceed with the engagement without being in default of applicable laws and/or ethical guidelines.

7.2 In any circumstances where this engagement is terminated (including those set out in paragraph 7.1 above), save on completion of the engagement, any abort fees as set out in paragraph 4.3 of this engagement letter and all fees and expenses incurred by and due to us or to which we may be committed in connection with this engagement to the date of termination will be payable by you immediately after termination of the engagement.

7.3 The expiry or termination of this engagement will not affect the respective rights and obligations of the parties which may have already accrued to, or been incurred by, any one of us prior to such date (including in particular our rights to remuneration) nor any representations, confirmations or indemnities given by you herein, including the provisions of sections 4 and 5 which will continue in full force and effect notwithstanding such termination.

7.4 Any amendment or modification to the terms herein shall be agreed in writing and signed by the PCT and Grant Thornton UK LLP.

8 Limitation of liability

8.1 Our liability in connection with this engagement shall be limited, on the basis set out in the additional terms and conditions of engagement in Appendix A, to a maximum aggregate amount of £2,000,000 and, subject to that cap, to the part of any loss suffered which is proportional to our responsibility.

9 Conflicts of interest and independence

9.1 The rules governing our profession restrict the extent to which we can deal with companies in certain circumstances if they or any of their directors have been our clients at any time during the previous three years. There are also restrictions if there is any other relationship between us that could prejudice our objectivity or could be seen to do so.

9.2 It should be noted that Grant Thornton UK LLP was engaged by the PCT to undertake work on information provided by two candidate organisations for the Out of Hours Service and to provide high level commentary on their financial health and risks to the PCT in contracting with these organisations. That assignment was subject to a separate engagement letter dated 6 October 2009 and we reported to you on 12 October 2009.

9.3 Save for those set out in paragraph 9.2 above, our internal enquiries indicate that neither the PCT nor any of its directors have been our client or a client of RSM Robson Rhodes LLP within the last three years. We have not identified any other relationship that could prejudice the objectivity of Grant Thornton UK LLP or be seen to do so in undertaking the assignment to which this letter of engagement relates.

9.4 By agreeing to the terms of this letter you confirm your understanding of the roles Grant Thornton UK LLP is undertaking and you consider that there are neither any conflicts of interest nor any independence issues in relation to these roles. Should a conflict of interest or an independence issue arise then this shall be promptly disclosed to the other party and appropriate safeguards discussed If it is not possible to put appropriate safeguards in place, either party may terminate this engagement

10 Additional terms and conditions of engagement

10.1 Our report is confidential and will be prepared exclusively for the PCT with a copy to the directors It should not be used, reproduced or circulated in whole or in part for any purpose without our written consent Such consent will only be given after full consideration of the circumstances at the time

10.2 The additional terms and conditions included in Appendix A to this letter apply to this engagement as if they were set out in this letter. They should be read and understood in conjunction with this letter as they form an important and integral part of the overall terms of engagement.

11 Acceptance of terms

11.1 Once agreed, this agreement/contract with you sets out the entire terms agreed between the parties relating to this engagement/contract and supersedes all previous representations, warranties and terms (whether in writing or not) previously made between the parties Any amendments, additions or alterations to this agreement shall not be effective unless in writing and signed by a duly authorised representative of each party.

11.2 We should be grateful if you would confirm our understanding of your instructions and your agreement to the terms of this letter, including those contained in Appendices A and B by signing and returning the enclosed copy of this letter

Yours faithfully

GRANT THORNTON UK LLP

Terms of engagement acknowledged and agreed by:

Signed Peter Buchanan .... Date 12/July/10 ....

On behalf of NHS Camden, Camden Primary Care Trust (PCT)

These additional terms and conditions of engagement should be read together with the accompanying letter from Grant Thornton UK LLP which identifies the engagement to which they relate (the 'engagement letter').

1 LIMITED LIABILITY PARTNERSHIP

1.1 [illegible] responsibility

2 VERIFICATION

2.1 [illegible] contemporaneous) engagement.

2.2 Our review of the affairs of the Company will not constitute an audit in accordance with Auditing Standards and no verification work will be carried out by us. Consequently we will not express an opinion on the financial statements and management accounts which we discuss in our reports

2.3 [illegible]

3 LIMITATION OF LIABILITY

3.1 The aggregate liability of this firm, its partners, agents and employees or any of them (together referred to in this and subsequent clauses as the 'Firm') for the Total Damage will be limited to the amount of [illegible] as set out in our engagement letter to which these additional terms and conditions of engagement are appended.

3.2 [illegible]

3.3 [illegible]

PROPORTIONALITY

3.4 [illegible]

CLAIMS

3.5 [illegible] Third Parties) Act 1999

SCOPE OF LIMITATION OF LIABILITY

3.6 The limitation of liability referred to in paragraph 3.1 of this appendix refers to all assignments undertaken by us that are covered by this engagement letter. Our maximum liability for all assignments undertaken by us in relation to this engagement letter is [illegible] as determined by section F of it.

4 OWNERSHIP OF BOOKS AND PAPERS

4.1 All documents in whatever form, paper, electronic, or otherwise such as (for example, but without being an exhaustive list) working papers, letters (including [illegible]), memoranda, file notes of meetings and telephone calls, draft computations and returns etc and copies of other original documents which we create or which we receive either as principal or in our own right or as agent for you belong to Grant Thornton UK LLP. For the avoidance of doubt, we do not assert such ownership rights to documents such as, for example, title documents, original invoices and other original primary accounting records, tax deduction certificates etc belonging to you, but we may retain possession of them by exercising a lien because our fees remain outstanding after becoming due for payment.

5 RESPONSIBILITY FOR LEGAL DOCUMENTS

5.1 For the avoidance of doubt, although you may wish us to comment on the commercial aspects of legal documents that may be drawn up by lawyers in connection with this engagement, we will not be involved in their drafting and/or preparation as we believe that is within the realm of the professional business of lawyers. Further, while every care will be taken in the advice we give in relation to any information contained in such documents, such advice and/or comments should not be taken as verifying the documents, which will have been drafted in your interest. Accordingly, we cannot accept any liability or responsibility for any loss or damage suffered as a result of any defects in such documents arising from their drafting, preparation, completion or the mechanics of putting them into effect.

6 STAFF

6.1 Our staff are assigned to you on the mutual understanding that neither party will offer employment to, nor employ, the staff of the other who have been involved during our engagement, or dealing with you, within twelve months unless written consent has been obtained from either party. If such consent is given either party reserves the right to bill an appropriate fee of 20% of the annual salary on appointment plus VAT.

7 CLIENT FUNDS

7.1 Whilst you may not have asked us to do so, from time to time some clients request us to hold monies on their behalf and the following paragraphs provide information on the current basis of these arrangements if you choose to ask us to hold such monies at some time in the future and we agree to do so.

7.2 i) Agreement for payment of interest

The Clients' Money Regulations of the Institute of Chartered Accountants in England and Wales require us to write to you to confirm formally the treatment of interest received.

All client monies held on the PCT's behalf which are in excess of £10,000 and are unlikely to be reduced below that amount within three days of receipt, will be placed in an interest bearing designated deposit account in the PCT's name. All client monies held on the PCT's behalf, other than amounts stated above, will be held in trust for the PCT in our general clients' bank account for which no interest will be accountable to the PCT. However, such monies may be transferred to a designated deposit account where it is considered appropriate, or as a result of specific instructions to that effect being received from the PCT. All interest received on designated deposit accounts will be credited thereto and will be accounted for as belonging to the PCT.

ii) Operation of bank accounts holding client funds

As a matter of best practice and internal control no single partner or member of staff is permitted by the rules of Grant Thornton UK LLP to be a sole signatory on a client's bank, building society or similar account other than for sums of £5,000 or less in respect of each transaction. No partner or member of staff of Grant Thornton UK LLP, whether singly or jointly, is permitted to receive in his/her/their own name, monies due and payable to or from a client.

8 OUR SERVICE

8.1 If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, please let us know by contacting [illegible] at our London office. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. If we have given you a less than satisfactory

service, we undertake to do everything reasonable to put it right and, if you are still not satisfied, you may of course take up matters with the Institute of Chartered Accountants in England and Wales.

9 GOVERNING LAW

9.1 This engagement letter shall be governed by and construed in accordance with UK and European Law and you hereby agree with us to submit for all purposes in connection with this engagement to the exclusive jurisdiction of the UK Courts.

10 CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

10.1 In the course of our work for you under this contract/engagement we may obtain advice and/or other services from one or more member firms of Grant Thornton International. You and we agree that in that event, the terms of this contract/engagement will apply for the benefit of each member firm of Grant Thornton International with respect to any work that they carry out in respect of or in relation to this contract/engagement. Other than in relation to the advice and/or services provided by the said member firm(s) of Grant Thornton International, and except for the benefit of partners and employees of Grant Thornton UK LLP as set out below it is hereby agreed between us that the Contracts (Rights of Third Parties) Act 1999 does not apply to the terms of this contract/engagement or any subsequent amendment to it unless expressly confirmed in writing that the said Act does apply.

10.2 Except to the extent that our partners and employees can benefit from the provision "[illegible]" herein, it is hereby agreed between us that the Contracts (Rights of Third Parties) Act 1999 does not apply to the terms of this engagement or any subsequent amendment to it unless expressly confirmed in writing that the said Act does apply.

11 FORCE MAJEURE CLAUSE

11.1 No party to this agreement shall be held in any way responsible for any failure to fulfil an obligation under this Agreement if such failure has been caused (directly or indirectly) by circumstances beyond the control of the defaulting party. This shall include war, riot, acts of terrorism, industrial action, accident or equipment failure (except where such accident or equipment failure has been caused by the negligence of the defaulting party, its employees, sub-contractors, subcontractors, agents or otherwise).

12 CIRCULAR TRANSACTIONS AND INPUT TAX AT RISK

12.1 For the avoidance of doubt, unless specifically included in the agreed Scope of Work, the work that we will undertake under this engagement is not intended to consider or identify any possible VAT liability arising from 'Carousel Fraud' (whose goods are repeatedly traded within a group of companies without being sold to an end user), or from the provisions of Section 77A of the VAT Act 1994 whereby businesses in a supply chain may be held jointly and severally liable for the VAT debts of any other party involved at any stage in the supply of the goods specified in that section.

13 INTERNATIONAL STATUS

13.1 For the avoidance of doubt please be aware that Grant Thornton International is not an international/global/worldwide partnership or limited liability partnership either in relation to all of the members collectively or any two or more members together. In particular, Grant Thornton UK LLP does not carry on business in the United States of America or Canada and is a separately owned and managed business from entities known as Grant Thornton LLP carrying on business in those territories.

14 TERMINATION CLAUSE

14.1 In the event of non-payment of any bill rendered by us in accordance with our terms for payment, we reserve the right to unilaterally suspend or terminate our engagement/contract with you and the services provided under it. Any such suspension or termination of our engagement/contract with you will be communicated to you in writing and sent by post or by facsimile transmission or e-mail.

14.2 Such Notice shall be deemed to be delivered to you two days after posting. If the Notice is sent to you by facsimile transmission or e-mail it shall be deemed delivered to you at the date and time of transmission or sending. Following any such suspension or termination our contractual or tortious duty of care to you will cease for any future actions or advice required under our engagement/contract with you. You will remain liable for all fees and disbursements and VAT arising together with interest chargeable thereon.

15 DISPUTES AND MEDIATION

15.1 In the unlikely event of a dispute arising out of or relating to this contract/engagement it is mutually agreed that before embarking on litigation proceedings we will attempt to resolve it through negotiations between senior executives of our respective organisations, who have authority to settle the same. If the matter is not resolved through negotiation, we shall endeavour to agree upon the nomination and appointment of an independent Mediator upon receipt of a written notice, by

[illegible]

10 DATA PROTECTION ACT

10.1 [illegible]

10.2 [illegible]

10.3 [illegible]

10.4 [illegible]

Scope of Work

We set out below the scope of work and the headline content of our report.

1 Executive Summary

1.1 We will provide a summary of key issues arising from the course of our work, most particularly

- historical trading results for the year ended 31 March 2010 and year to date performance in the current financial year ending 31 March 2011
- key drivers of the financial projections for the years ending 31 March 2013 and consideration of key risks to the delivery of these projections
- funding requirements based on these projections and sensitivity analysis

2 Historical trading results for the year ended 31 March 2010

2.1 High level comment on the historical trading performance of the financial year ended 31 March 2010, commenting on material variances to budget and specific commentary on the most significant client accounts

2.2 We will consider the quality of earnings to analyse the underlying EBITDA and cash generation for the year to 31 March 2010.

2.3 Comment on key drivers and contributing factors for any material variances in EBITDA and cash generation against budget for the financial year ended 31 March 2010 and year to date performance in the financial year ending 31 March 2011.

2.4 Comment on key drivers and contributing factors to any under-performance, highlighting between externally driven factors (i.e. market factors, etc) versus internal (i.e. Company specific factors). Specifically:

- GP cost/hour
- GP availability rates
- other KPIs as determined by the Company.

2.5 Comment on actions taken by management to deal with any under-performance, including timing and depth of measures taken.

3 Current outturn for the year ending 31 March 2011 and two-year projections for the years ending 31 March 2012 and 2013 (the projections)

3.1 We will review the Company's projections and report by exception on the following.

- correct compilation on the basis of the stated assumptions
- consistency with the accounting policies normally adopted by the Company, as amended by known future changes in accounting standards.

3.2 We will analyse the projections for each of the years ending 31 March 2013 (profit and loss, balance sheet and cash flow, including working capital) by commenting on key underpinning assumptions. We will analyse and comment on the following:

- current revenue and margin for significant clients
- new revenue initiatives and assumed new wins of key clients, and associated implementation costs
- seasonality
- analytical review of overheads, corporate costs, capital expenditure and exceptional costs
- cost saving initiatives (both implemented and any further planned)
- conversion of EBITDA to cash, in the context of the cash profile of new contracts
- commentary on the working capital requirement of these contracts.

3.3 Comment on the annual bridges of EBITDA and cash from 31 March 2010 to 31 March 2013.

3.4 For the avoidance of doubt we will not review the calculations or assumptions in respect of any treasury numbers included in the projections.

4 Cash flow and liquidity

4.1 We will consider vulnerabilities and upsides to the projections, and comment on the sensitivity of the projections to changes in underlying assumptions and estimates. We will test any sensitised forecasts for correct compilation and comment thereon.

4.2 We will analyse the estimated impact of loss of a key client, including the viability of other services if a contract was to be lost.

4.3 We will consider mitigating actions available to management in the event of underperformance, to achieve projections and the cost and timing for implementation.

4.4 We will analyse the monthly cash position and liquidity in the financial year ended 31 March 2010, including intra-month positions. We will consider the Company's funding requirements and required bank facilities based on the projections and sensitivity analysis thereon.

4.5 We will comment on further funding requirement that could be needed, in the event of vulnerabilities to the projections.

4.6 We will analyse the movement in reserves including distributions in the financial year ended 31 March 2010.

5 Financial control environment

5.1 High level comment based on discussions with management of the Company on the current financial controls in place. We will summarise and comment on areas of concern around financial controls.

5.2 We will consider areas for improvement in the current financial control environment solely based on the high level discussions.

5.3 We will report instances of any recent audit qualifications. We will report on audit management letters issued by the Company's auditors in the last 12 months by summarising the key points included and steps that management have taken to address the issues.

6 Strategy

6.1 Based on our discussions with the Company's management and our work on the projections as set out above, we will provide a high level commentary on management's strategy to meet the Company's budget for the 3 years ending 31 March 2013.

7 Other

7.1 Based solely on our interaction with the management team during the course of our work, we will provide observations, if relevant, on key strengths and perceived weaknesses of the management team of the Company. We will comment in our report on areas where additional resource or expertise may be required, if relevant.

7.2 We will summarise the current legal and ownership structure of the Company (for the avoidance of doubt legal due diligence may be required in this area).

B. Principal sources of information

In conducting our work we held discussions and/or exchanged correspondence with the following individuals:

Camidoc Limited

Leadership team

- James Hood, Interim Chief Executive
- Dr Mayur Gor, Executive Director
- Mary Elford, Chair
- Mariette Davies, Finance and Corporate Governance Committee
- Michael Golding, former Chief Executive

Management team

- Stephen Grant, part time finance manager

NHS Camden

- Mike Gill, Project Manager

Ineum Consulting

- Morag Inglis, Senior Manager

C. Monthly cash flow forecast from July 2010 to December 2010

Summary cash flow forecast from July to December 2010 assuming new OOH contract start date of 1 October 2010

	Jul-10 Forecast by weeks				Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10
£'000	Week 1	Week 2	Week 3	Week 4	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
Cash inflows										
OOH Contract - old contract	6	253	-	-	258	406	406	406	-	-
OOH Contract - new contract	-	-	-	-	-	-	-	451	451	451
CHIP	-	64	-	-	64	64	64	64	64	64
Practice Income	-	20	20	10	50	50	50	50	50	50
Other	0	-	12	2	14	14	14	14	14	14
Total receipts	**6**	**337**	**32**	**12**	**387**	**534**	**534**	**985**	**579**	**579**
Cash outflows										
Doctors Fees	(3)	-	(270)	-	(273)	(270)	(270)	(270)	(270)	(270)
Doctors' pension contribution	-	-	-	-	-	(120)	(120)	(120)	(120)	(120)
Salaries and wages	(156)	-	-	(130)	(286)	(140)	(140)	(140)	(140)	(140)
PAYE	-	-	(70)	-	(70)	(70)	(70)	(70)	(70)	(70)
Staff pension	-	-	-	(25)	(25)	(25)	(25)	(25)	(25)	(25)
Medical Supplies	(0)	(6)	-	(6)	(12)	(12)	(12)	(12)	(12)	(12)
Premises Rent & Service Charges	(5)	-	-	-	(5)	(23)	(18)	-	-	-
Telephone and travel costs (fuel)	(1)	(0)	(7)	(0)	(8)	(7)	(7)	(7)	(7)	(7)
IT equipment	-	-	-	-	-	-	-	(30)	-	-
IT Licenses	-	-	-	-	-	-	-	(8)	-	-
IT Support/Development	(24)	-	-	-	(24)	(25)	-	-	(25)	-
Staff training and welfare	-	-	(2)	-	(2)	(2)	(2)	(2)	(2)	(2)
Recruitment	-	-	(6)	-	(6)	-	-	-	-	-
Professional membership fees and subscriptions	-	-	-	(2)	(2)	(2)	(2)	(2)	(2)	(2)
Insurance	(1)	-	-	(2)	(3)	(3)	(3)	(3)	(3)	(3)
Office Supplies	(0)	-	(3)	-	(4)	(3)	(3)	(3)	(3)	(3)
Cars maintenance	-	-	(2)	-	(2)	(2)	(2)	(2)	(2)	(2)
Board Meetings	-	-	-	(1)	(1)	(1)	(1)	(1)	(1)	(1)
Legal/Professional/Accounting	(5)	-	-	-	(5)	(2)	-	(2)	(2)	(2)
Marketing materials and website	(2)	(0)	(0)	-	(3)	(1)	(1)	(1)	(1)	(1)
Total payments	**(197)**	**(6)**	**(360)**	**(166)**	**(729)**	**(707)**	**(675)**	**(697)**	**(684)**	**(659)**
Net cash flow	(191)	330	(328)	(154)	(342)	(173)	(141)	288	(105)	(80)
Opening cash balance	528	337	667	340	528	186	13	(128)	161	56
Closing cash balance	**337**	**667**	**340**	**186**	**186**	**13**	**(128)**	**161**	**56**	**(24)**

D. Factual accuracy confirmation letter

CAMIDOC
North London Healthcare Cooperative

15 July 2010

Grant Thornton UK LLP
30 Finsbury Square
London EC2P 2YU

Attention: Giles Newman – Brian Ne

Dear Sirs

Report of the Independent Business Review of Camidoc Limited

We have read the report on Camidoc Limited prepared by Grant Thornton UK LLP dated 14 July 2010 and confirm the following:

- we are not aware of any factual inaccuracies within the report;
- opinions and representations, which have been attributed to persons referred to in the report, are properly attributed to those persons.

Signed

Name ___James Hood___

Position Interim Chief Executive Officer ___

Date___15 July 2010___

For and on behalf of the Board of Directors
Camidoc Limited