

Step 9: Tender

Tool 2: Guidance on developing the specification for the financial model

This tool is for use in conjunction with Step 9 of the Commissioning Toolkit document

Early and careful consideration of the objectives financially will assist in creating a financial model which both provides confidence for the commissioner and also guide the supplier to present a response which meets commissioner's needs. The process of creating the financial evaluation model is weighted towards thinking through the commercial stance, and converting this into a set of coherent statements that a model should test.

Questions and perspectives for commissioners

- What are the main features of the pathology service which need to be understood eg consolidation of services, separation of direct and indirect access services, geographic coverage, trading or commercial models, outsourcing versus internal re-structuring and residual services may all feature
- The complexity of the transformation (eg invigorating existing services with new equipment and processes compared to a full regional Hub arrangement) will drive the complexity, and also the level of depth of the financial model
- How will you identify the costs that are retained historically within existing organisations and recognise these in the model eg a Trust may not be able to relinquish all accommodation and business costs if it were to outsource or move its internal services
- Understanding how you will revisit the initial case within the Outline Business Case, and at what point decisions will be made on implementation will be vital. For instance, what tolerances will be allowed before the case needs to be re-examined by the Programme
- Understanding the critical tests which the model is to examine will help to provide clear and coherent inputs through to a 'number' which allows comparison. Critical tests will often include
 - The affordability of the new pathology service compared to commissioners needs
 - Checks that the supplier's model will be sustainable
 - How sensitive the model is to changes and fluctuations in demand for tests or other costs
 - Investment implications and how these are timed throughout the contract
 - The points at which step changes in cost would be incurred as demand for tests rises or falls
 - The residual value of assets
- What are the quality objectives you are to achieve and how will these be examined against the financial case to provide an understanding of value for money
- How will you collate the assumptions that providers use in developing their model for future testing. Eg The assumptions around take-up of test volumes if an organisation proposes a business model to supply a wider population

Commissioners will need to:

- Develop a robust and tested financial model, which can be clearly understood by the potential providers
- Check the realism of numbers entered into the model by providers to ensure that assumptions they have used
- Determine the level of sustainability
- How the assessment process will work – feed into evaluation and the final business case (FBC)