Queensland Government Procurement

DELIVERING FOR QUEENSLAND

Value Risk Matrix User Guide

Queensland Government

Value Risk Matrix User Guide

Version	Date	Comments
v1.0	February 2015	Published
v2.0	April 2022	Updates
v2.1	August 2025	Minor updates made – highlights: • DHPW corporate branding • Machinery-of-government changes • Hyperlinks verified and updated or removed • Document date updated • New version history log and 'Administration' section added • Edits to improve clarity

Contact us

We are committed to continuous improvement. If you have any suggestions about how we can improve this document, or if you have any questions, contact us at betterprocurement@hpw.qld.gov.au.

Disclaimer

This document is intended as a guide only for the internal use and benefit of government agencies. It may not be relied on by any other party. It should be read in conjunction with the Queensland Procurement Policy, your agency's procurement policies and procedures, and any other relevant documents.

The Department of Housing and Public Works disclaims all liability that may arise from the use of this document. This document should not be used as a substitute for obtaining appropriate probity and legal advice as may be required. In preparing this document, reasonable efforts have been made to use accurate and current information. It should be noted that information may have changed since the publication of this document. Where errors or inaccuracies are brought to attention a reasonable effort will be made to correct them.

Administration

Version 2.1 of this document replaces all previous versions of this document and takes effect immediately.

Table of Contents

Value Risk Matrix (VRM) background

The Queensland Audit Office recommended a value/risk approach to contract management using a VRM. A 'value risk' approach means that there is flexibility in how you manage a contract based on its dollar value and risk to the organisation if the contract is not properly performed. This recognises that there is no 'one-size-fits-all' approach when it comes to contract management.

The whole-of-government Contract Management Framework adopts a value/risk approach to contract management. The VRM is a tool that helps in determining the level of complexity of a contract (or group of contracts) based on an assessment of value and risk. Once completed, the VRM will classify a contract as either routine, leveraged, focused or strategic.

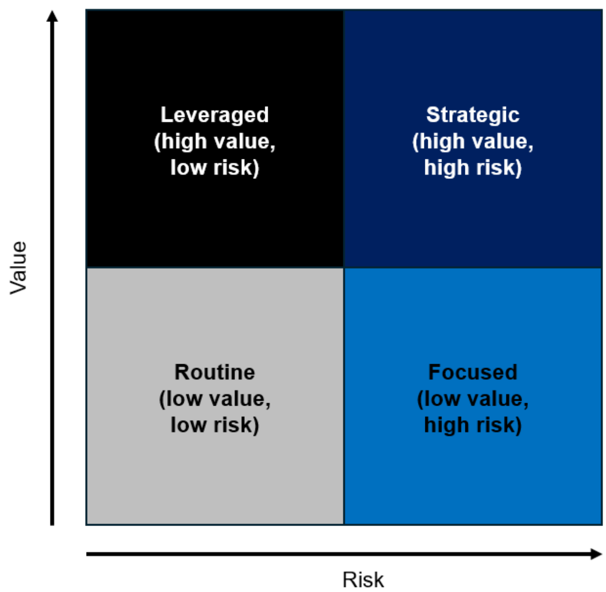
The classification itself provides an indication of how to approach contract management for that contract. The activities, focus, documentation, resources/expertise and amount of effort to manage a contract varies depending on how it is classified, and the risks that need to be managed.

What do the classifications mean?

Refer to **Figure 1** below as you read through the following descriptions of each classification:

- **Routine** – These contracts are low in value and low risk. A light touch approach is recommended.
- **Leveraged** – These contracts are high in value but low risk. A priority for managing these contracts will be on how to leverage the value as much as possible.
- **Focused** – These contracts are higher risk than routine contracts, but not high value. The priority for managing these contracts will be to focus on contracts management activities that help minimise risk.
- **Strategic** – These contracts are high value and high risk to the organisation. These contracts require the most amount of rigour and attention to manage the contract and experienced contract managers.

Figure 1: Contract classifications



When to use the VRM?

Use the VRM when:

- developing a contract management plan
- updating a contract management plan to incorporate significant changes
- a contract is under consideration for extension or renewal
- conducting any formal contract reviews, including reviews of multi-year contracts and common-use supply arrangements
- a significant event occurs which might change the risk profile or your contract (e.g. political or environmental change, major supplier breach or changes to the market).

Reapplying the VRM to a contract as a result of any of these events may be as simple as validating whether the answers previously selected are still valid, or determining which adjustments need to be made.

If you review and update the VRM, record the date and save a copy of it in your contract management solution.

How to use the VRM?

Refer to **Figure 2** below as you read the following steps on using the VRM to classify a contract:

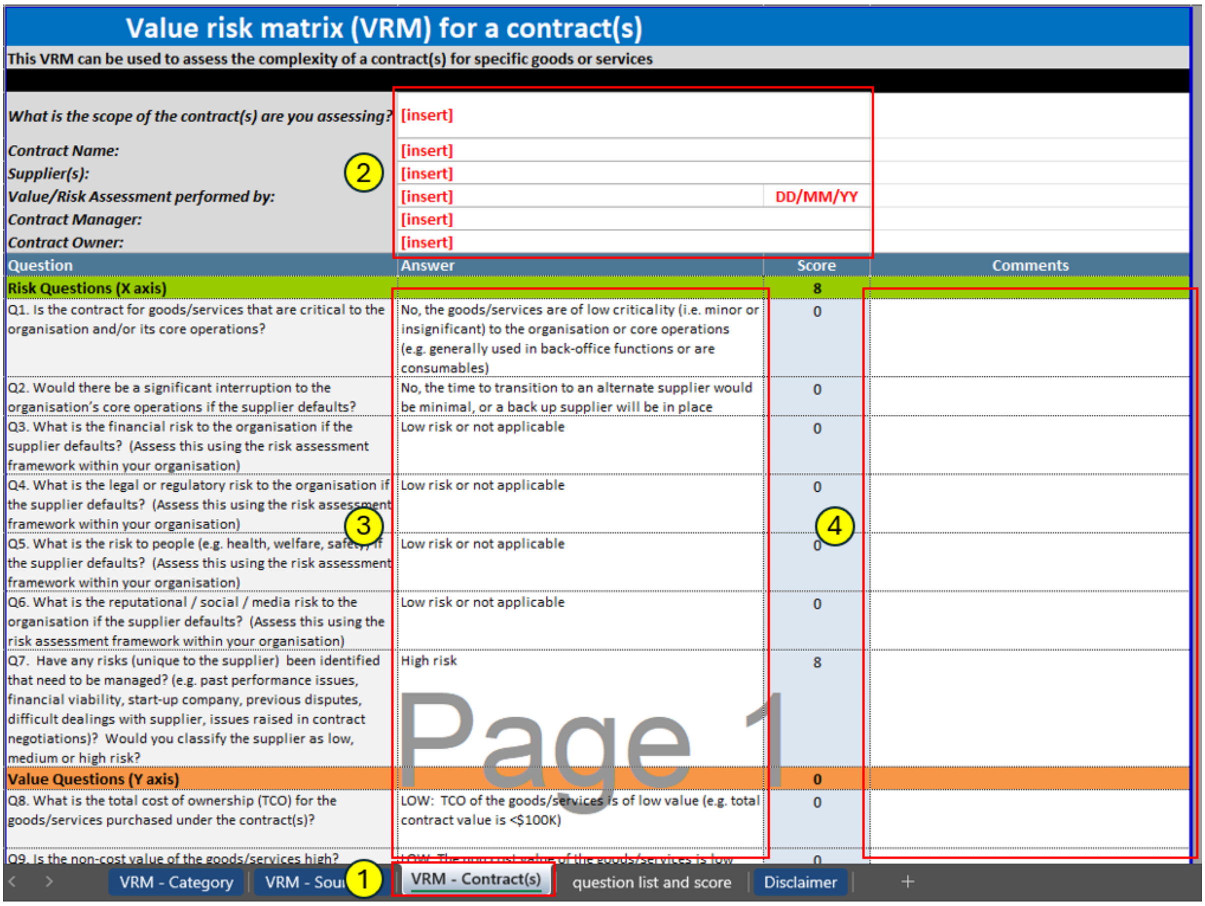
1. Open the Contract(s) tab in the VRM.

2. Complete the empty fields at the top of the page. This includes contract scope, contract name, supplier(s) name, person completing the VRM, contract manager, contract owner and date of VRM assessment. The date is important, so ensure this is completed.

3. Answer questions listed under 'Risk Questions (X axis)' and 'Value Questions (Y axis)' by selecting from the drop down menus (in column B) the most relevant answer for your contract. A score will automatically be calculated in column C.

4. In the Comments column, record your reasons for your selection, particularly if you selected medium or high risk. This provides insights to the reason for your selections.

Figure 2: Using the VRM to classify a contract



Value risk matrix (VRM) for a contract(s)

This VRM can be used to assess the complexity of a contract(s) for specific goods or services

What is the scope of the contract(s) are you assessing?	[insert]		
Contract Name:	[insert]		
Supplier(s):	[insert]		
Value/Risk Assessment performed by:	[insert]	DD/MM/YY	
Contract Manager:	[insert]		
Contract Owner:	[insert]		
Question	**Answer**	**Score**	**Comments**
Risk Questions (X axis)		**8**	
Q1. Is the contract for goods/services that are critical to the organisation and/or its core operations?	No, the goods/services are of low criticality (i.e. minor or insignificant) to the organisation or core operations (e.g. generally used in back-office functions or are consumables)	0	
Q2. Would there be a significant interruption to the organisation's core operations if the supplier defaults?	No, the time to transition to an alternate supplier would be minimal, or a back up supplier will be in place	0	
Q3. What is the financial risk to the organisation if the supplier defaults? (Assess this using the risk assessment framework within your organisation)	Low risk or not applicable	0	
Q4. What is the legal or regulatory risk to the organisation if the supplier defaults? (Assess this using the risk assessment framework within your organisation)	Low risk or not applicable	0	
Q5. What is the risk to people (e.g. health, welfare, safety) if the supplier defaults? (Assess this using the risk assessment framework within your organisation)	Low risk or not applicable	0	
Q6. What is the reputational / social / media risk to the organisation if the supplier defaults? (Assess this using the risk assessment framework within your organisation)	Low risk or not applicable	0	
Q7. Have any risks (unique to the supplier) been identified that need to be managed? (e.g. past performance issues, financial viability, start-up company, previous disputes, difficult dealings with supplier, issues raised in contract negotiations)? Would you classify the supplier as low, medium or high risk?	High risk	8	
Value Questions (Y axis)		**0**	
Q8. What is the total cost of ownership (TCO) for the goods/services purchased under the contract(s)?	LOW: TCO of the goods/services is of low value (e.g. total contract value is <$100K)	0	
Q9. Is the non-cost value of the goods/services high?	LOW: The non-cost value of the goods/services is low	0	

How to answer questions about risk?

The questions listed under 'Risk Questions (X axis)' are designed to identify potential risks to the organisation if there is a major breach of the contract or termination.

Broad risk areas have been identified including:

- criticality to the organisation (Q1)
- impact/interruption to core operations (Q2)
- financial risk to the organisation (Q3)
- legal or regulatory risk to the organisation (Q4)
- risk to people (Q5)
- reputational/social/media risks (Q6)
- risks unique to a particular supplier (Q7).

Your organisation may have its own risk management framework that can help assess the risks depending on the likelihood of it arising and consequences if it does.

Example
A supplier risk has been identified due to past performance issues. Organise to meet with the supplier on a more frequent basis to track performance, ensuring open dialogue takes place so that

any issues may be quickly resolved. **Table 1 below is provided as an example** to help identify if the risk is low, medium or high.

Table 1: Example risk rating table

		Consequence		
		Minor	**Moderate**	**Major**
Likelihood	**Likely**	Medium Risk	High Risk	High Risk
	Possible	Low Risk	Medium Risk	High Risk
	Unlikely	Low Risk	Low Risk	Medium Risk

What does the total contract value mean?

For the purpose of classifying a contract under the VRM, the total contract value is the sum of the total cost of ownership (also known as ‘whole-of-life’ costing) plus non-cost value as represented in **Figure 3** below.

Figure 3: Total contract value

How to calculate total cost of ownership?

Calculations of the total cost of ownership (also known as ‘whole-of-life’ costing) should be scaled to the value, risk and complexity of the procurement.

Whole-of-life costs can include:

- acquisition costs, such as the contract price
- initial transactional costs
- ongoing payment options
- operating costs
- maintenance and support costs
- transition out and disposal costs.
- acquisition costs, operating costs, ongoing maintenance and support costs, refurbishment costs, disposal/shutdown costs.

What does 'non-cost' mean?

Non-cost factors capture any other value that a supplier delivers under the contract that is not necessarily part of the price paid under the contract. It provides an opportunity to recognise this additional value as part of 'weighing up' the total value of the contract.

At a minimum, this must consider:

- fitness-for-purpose (this may include alignment with procurement objective(s), compliance with specifications, and quality)
- supplier capability, capacity, experience, including delivery and after-sales service and support
- risk (this may include operational and reputational risks).

Examples
• Value added services is what a supplier provides at no extra cost which benefit the customer or end users (e.g. A supplier provides a community service on a pro-bono basis) • Improvements to service delivery, quality, sustainability.

How to answer questions about value

Because of the diversity in the volume and size of the contracts that are entered into by the agencies, there are two options for answering this question about total cost of ownership (refer to **Table 2** below):

1. Based on the $ thresholds. This is recommended for agencies that enter into a large number of contracts
2. The ranking of the contract within your agency based on its value. This is recommended for agencies that do not have a large number of contracts that are valued more than $500,000. Adopt this approach if prioritising contract management makes better sense based on its ranking within the agency.

Table 2: Options for determining total cost of ownership

Value	Option 1 ($ value)	Option 2 (ranking)
Low	<$100K	
Moderate	$100K - $500K	
Med-high	$500K - $1M	Top 20
High	$1M - $5M	Top 10
Very high	>$5M	Top 5

Value is designed to identify when the importance of a contract increases because of "non-cost" factors.

- simply assess the non-cost value as either low, moderate or high based on the guidance provided
- for many contracts, the non-cost value may be low or not applicable (in which case choose 'low' as your answer').

Resources

- Contract management resources
- Value risk matrix