VRM User Guide
How to use the Value Risk Matrix for Contract Management
User guide outline

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The whole-of-government Contract Management Framework (CMF) adopts a value/risk approach to contract management. The VRM is a tool that helps in assessing the value and risk of a contract (or group of contracts)

- The Queensland Audit Office recommended a value/risk approach to contract management using a Value Risk Matrix. A ‘value risk’ approach simply 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 is a common sense approach, as there is no such thing as a ‘one size fits all’ when it comes to contract management.
- The ‘Contract(s)’ tab in the VRM is designed to support this approach, by helping users to identify and assess the value and risk(s) of a contract. Once completed, the VRM will classify a contract as either routine, leveraged, focused or strategic (see next slide for more information).
- 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. (See table on page 7 of the CMF identifying whether key activities are required, recommended or optional).

Where to find the VRM:
- The VRM is available on the Department of Housing and Public Works website
2. What do the classifications mean?

Contracts can be classified as either routine, leveraged, focused or strategic.

<table>
<thead>
<tr>
<th>Description</th>
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<tbody>
<tr>
<td><strong>Routine</strong></td>
</tr>
<tr>
<td><strong>Leveraged</strong></td>
</tr>
<tr>
<td><strong>Focused</strong></td>
</tr>
<tr>
<td><strong>Strategic</strong></td>
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3. When to use the VRM?

For Contract Management, it is recommended that you use the VRM:

- when you are developing a contract management plan
- when you are updating a contract management plan (to incorporate significant changes)
- whenever a contract is under consideration for extension or renewal
- for multi-year contracts and SOA’s, when conducting any formal contract reviews
- if a significant event occurs which might change the risk profile of your contract (such as political environment changes, major breach by supplier 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 (and reasons) are still valid, or determining adjustments need to be made.

If you review and update the VRM, record the date and save a copy of it in Q-Contracts (or your contract management system).

Tip: If the contract classification changes from routine to either strategic, focussed or leveraged, you will need to prepare a Contract Management Plan (because the Contract Management Checklist will no longer be sufficient).

Tip: It is possible that the VRM was used during the procurement process. If so, obtain a copy of the results of the VRM as some of the risks identified may still be relevant to your contract.
4. How to use the VRM

Step 1: Open the ‘Contract(s)’ tab in the VRM. (This is the only tab you need to use for contract management. Ignore the ‘Category’ and ‘Sourcing’ tabs).

Step 2: Complete the empty fields at the top of the page (i.e. nature of the contract, contract name, supplier(s) name, person completing the VRM, contract manager, contract owner and date of VRM assessment). The date is very important so don’t forget to insert this!

Step 3: Answer questions 1 to 7 about ‘Risk’, and questions 8 and 9 about ‘Value’ 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).

Step 4: In the ‘Comments’ column, record your reasons for your selection, especially if you selected medium or high risk. This provides invaluable insights about the reason behind your selection. Please provide as much detail as possible.

If your answers are based on a risk assessment previously performed for the contract (e.g. during the procurement process), you might like to refer to that document or attach a copy of it.

Tip: To see the full text of each drop down option either make a selection (to view it in full), or you can look up all the possible answers in the ‘Question list and score’ tab. You are not able to change the questions, answers or scores allocated to each answer.
5. How to answer questions about risk

Questions 1 to 7 are designed to identify potential risks to the organisation if there is a major breach of the contract (or the contract is terminated)

- 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 (health, welfare, safety) (Q5)
  - Reputational/social/media risk (Q6)
  - Risks unique to that supplier (Q7)

- Rate each risk as either low, medium or high

- If a risk is identified, then consider how best it can be managed under the contract and ensure this is incorporated in your Contract Management Plan

Your organisation may have its own risk management framework that can help assess the risks in questions 1 to 7 (or you can read the Department of Housing and Public Works’ Risk Management Framework).

You can also use the table below as a guide to assessing risk depending on the likelihood of it arising and the consequence is it does.

**Example:** A supplier risk is identified due to past performance issues. Organise to meet with the supplier on a more frequent basis to track performance, ensuring open dialog so that issues can be resolved.

**Tip:** Check whether your organisation has its own Risk Management Framework as it may provide information & guidance that can help inform your decision when assessing the risks identified in questions 1 to 7.
6. What does total contract value mean?

The total contract value is a combination of its total ‘cost’ to the organisation and any ‘non-cost’ value of the contract.

**How to calculate total ($) cost**

When identifying the total cost (the price paid) under the contract, calculate the TOTAL cost of ownership (also known as the whole of life costing). This includes:

- Not just the initial term, but any possible extensions
- Acquisition costs, operating costs, ongoing maintenance and support costs, refurbishment and disposal costs
- See [Value for Money](#) fact sheet for more information about calculating the cost of the contract

**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. For example:

- **value added services** are what a supplier provides at no extra cost which may benefit the customer or end users
- improvements to service delivery, quality and sustainability

*Example: A supplier provides a community service on a pro-bono basis or at no extra cost to the customer*

**Tip:** The sourcing strategy (or Contract Management Plan) might contain information that help calculate the total contract value.
7. How to answer questions about value

The question is designed to help prioritise contract management based on $ value as an indicator of importance

Because of the diversity in the volume and size of the contracts that are entered into by agencies, there are two options for answering this question about total cost of ownership:

1. **Based on the $ thresholds.** *This is recommended for agencies that enter into a large number of contracts including multi-million dollar 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 >$500k. Adopt this approach if prioritising contract management makes better sense based on its ranking within the Agency, eg. Top 5, 10 or 20 contracts*

<table>
<thead>
<tr>
<th>Q8 Answers:</th>
<th>Option 1 ($ value)</th>
<th>Option 2 (ranking)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low:</td>
<td>&lt;$100K</td>
<td></td>
</tr>
<tr>
<td>Moderate:</td>
<td>$100K - $500K</td>
<td></td>
</tr>
<tr>
<td>Med-High:</td>
<td>$500K - $1M</td>
<td>Top 20</td>
</tr>
<tr>
<td>High:</td>
<td>$1M - $5M</td>
<td>Top 10</td>
</tr>
<tr>
<td>Very High:</td>
<td>&gt;$5M</td>
<td>Top 5</td>
</tr>
</tbody>
</table>

This question 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, select ‘low’ as your answer).
Other resources

- **Video** recordings of an information session delivered in December 2014 about the new *Contract Management Framework* is now available on [GovNet](https://www.govnet.qld.gov.au) with a chapter on value risk matrix. If you are unable to view GovNet, please email betterprocurement@hpw.qld.gov.au

- The *Introduction to the One Government Contract Management Framework* presentation includes detailed speaker notes providing further information about the *Contract Management Framework* and supporting tools.

**More Information**

- Email betterprocurement@hpw.qld.gov.au

- Join the *ProQr* – our procurement community of practice on QG Yammer. Just email betterprocurement@hpw.qld.gov.au to be invited to the *ProQr* Yammer Group.

- Not on Yammer? Simply email join@qgyammer.qld.gov.au