# Value Risk Matrix User Guide

Queensland Government Procurement

Queensland Government

*Value Risk Matrix User Guide*
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**Contact us**

Queensland Government Procurement is committed to continuous improvement. If you have any suggestions about how we can improve this guide, or if you have any questions, contact us at betterprocurement@epw.qld.gov.au.

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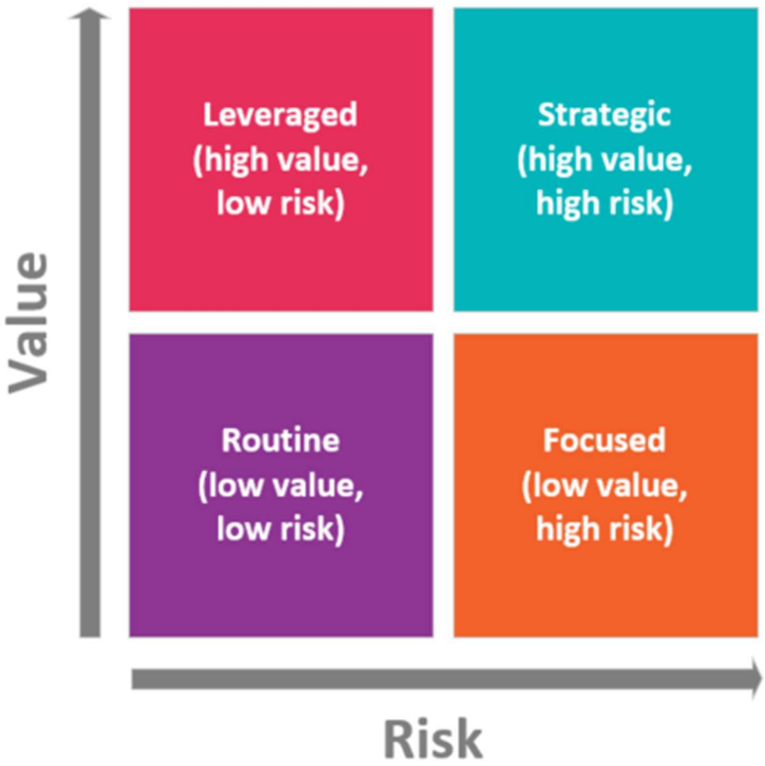
## Value Risk Matrix (VRM) background

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 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.

## What do the classifications mean?



**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.

**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.

**Routine** – These contracts are low in value and low risk. A light touch approach is recommended.

**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.

## When to 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 SOAs, when conducting any formal contract reviews.
- If a significant event occurs which might change the risk profile or your contract (such as 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.

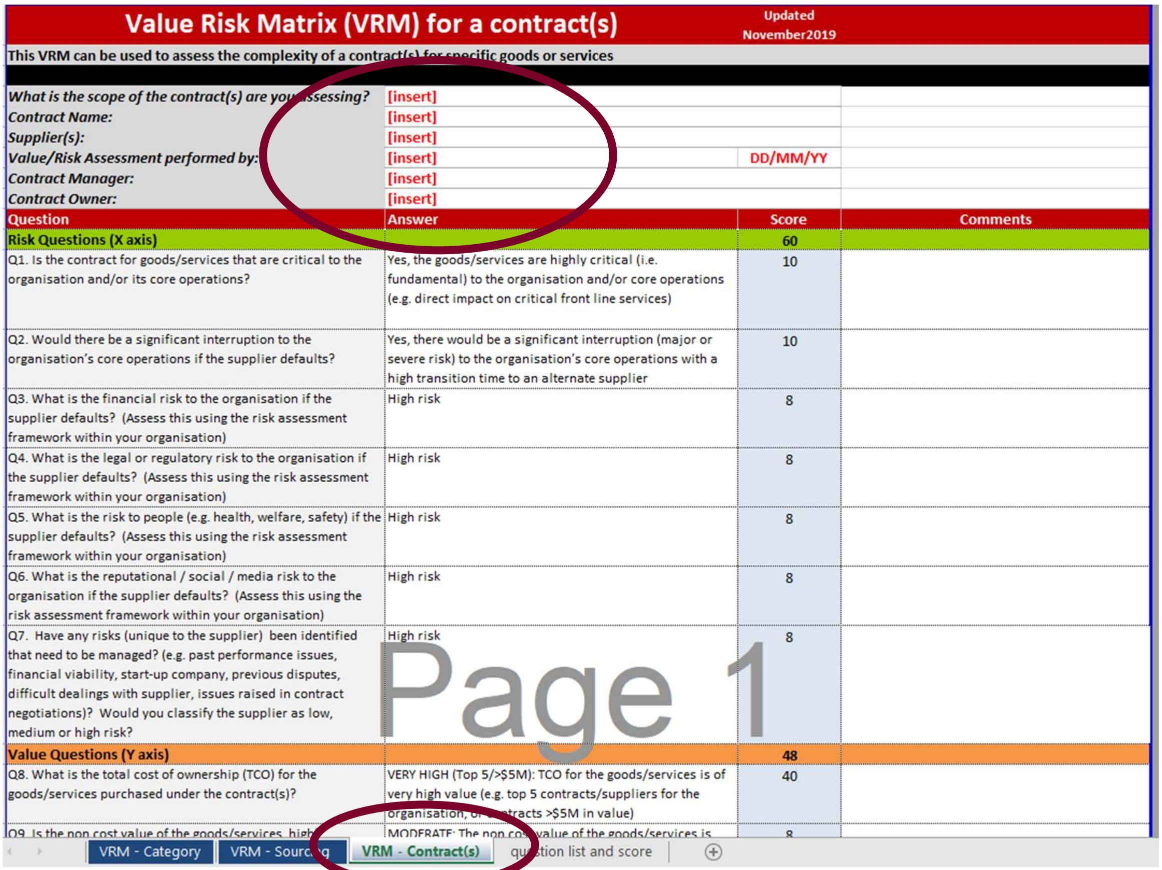
## How to use the VRM

1. Open the Contract(s) tab in the VRM. This is the only tab you use for contract management, so you can ignore the Category and Sourcing tabs.

2. Complete the empty fields at the top of the page. This includes – the 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 important, so ensure this is completed.

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.

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.



**Value Risk Matrix (VRM) for a contract(s)** Updated November2019

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)** | | **60** | |
| Q1. Is the contract for goods/services that are critical to the organisation and/or its core operations? | Yes, the goods/services are highly critical (i.e. fundamental) to the organisation and/or core operations (e.g. direct impact on critical front line services) | 10 | |
| Q2. Would there be a significant interruption to the organisation's core operations if the supplier defaults? | Yes, there would be a significant interruption (major or severe risk) to the organisation's core operations with a high transition time to an alternate supplier | 10 | |
| Q3. What is the financial risk to the organisation if the supplier defaults? (Assess this using the risk assessment framework within your organisation) | High risk | 8 | |
| 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) | High risk | 8 | |
| 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) | High risk | 8 | |
| 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) | High risk | 8 | |
| 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)** | | **48** | |
| Q8. What is the total cost of ownership (TCO) for the goods/services purchased under the contract(s)? | VERY HIGH (Top 5/>$5M): TCO for the goods/services is of very high value (e.g. top 5 contracts/suppliers for the organisation, or contracts >$5M in value) | 40 | |



# 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 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 dialog takes place so that any issues may be quickly resolved. Use **Table 1** to identify if the risk is low, medium or high. |

**Table 1 –** Assessing risk

**When answering questions in the value/risk assessment of contracts about risk, use the table below to identify whether a risk is low, medium or high based on likelihood of the risk arising, and consequences if it does.**

(Or you can refer to your organisations risk assessment framework to answer the question about whether the risk is classified low, medium or high)

| | | 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?

## 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 'whole of life' costing). See **Figure 1** below.

This includes:

- the initial term plus any extensions
- 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. For example:

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

| **Example** |
|---|
| A supplier provides a community service on a pro-bono basis |

**Figure 1** – Total contract value


## 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:

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>$500k. Adopt this approach if prioritising contract management makes better sense based on its ranking within the Agency.

| 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’).

## Other resources

Putting Queenslanders first when securing value for money

Contract management resources

Value risk matrix tool

## Questions

Email questions to: betterprocurement@epw.qld.gov.au