VRM User Guide

How to use the Value Risk Matrix for Contract Management

Department of Housing and Public Works
Value Risk Matrix - 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.

**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.

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

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.
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
- Risks unique to a particular supplier
- 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
How to answer questions about risk?

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.

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 organisation’s risk assessment framework to answer the question about whether the risk is classified low, medium or high.)
What does the total contract value mean?

How to calculate total cost?

When identifying the total cost under the contract, calculate the TOTAL cost of ownership, which includes but not confined to:

- The initial term plus any extensions
- Acquisition costs, operating costs, ongoing maintenance & support costs, refurbishment and disposal/shutdown costs.

What does ‘non-cost’ mean?

Non-cost items capture any other value that a supplier delivers under the contract that is not necessarily part of the price paid. It provides opportunity to recognise value adding as part of the total value of the contract. For example:

- Value added services are those the supplier delivers at no extra cost that may benefit the customer or end users
- Improvement to service delivery, quality or sustainability

An example could be a supplier delivering a community service on a pro-bono basis.
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 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.
- Or many contracts, the non-cost value may be low or not applicable.
Other resources

For more information go to the following resources –

• Qld government Procurement URL - https://www.forgov.qld.gov.au/procurement


• Email questions to – betterprocurement@hpw.qld.gov.au