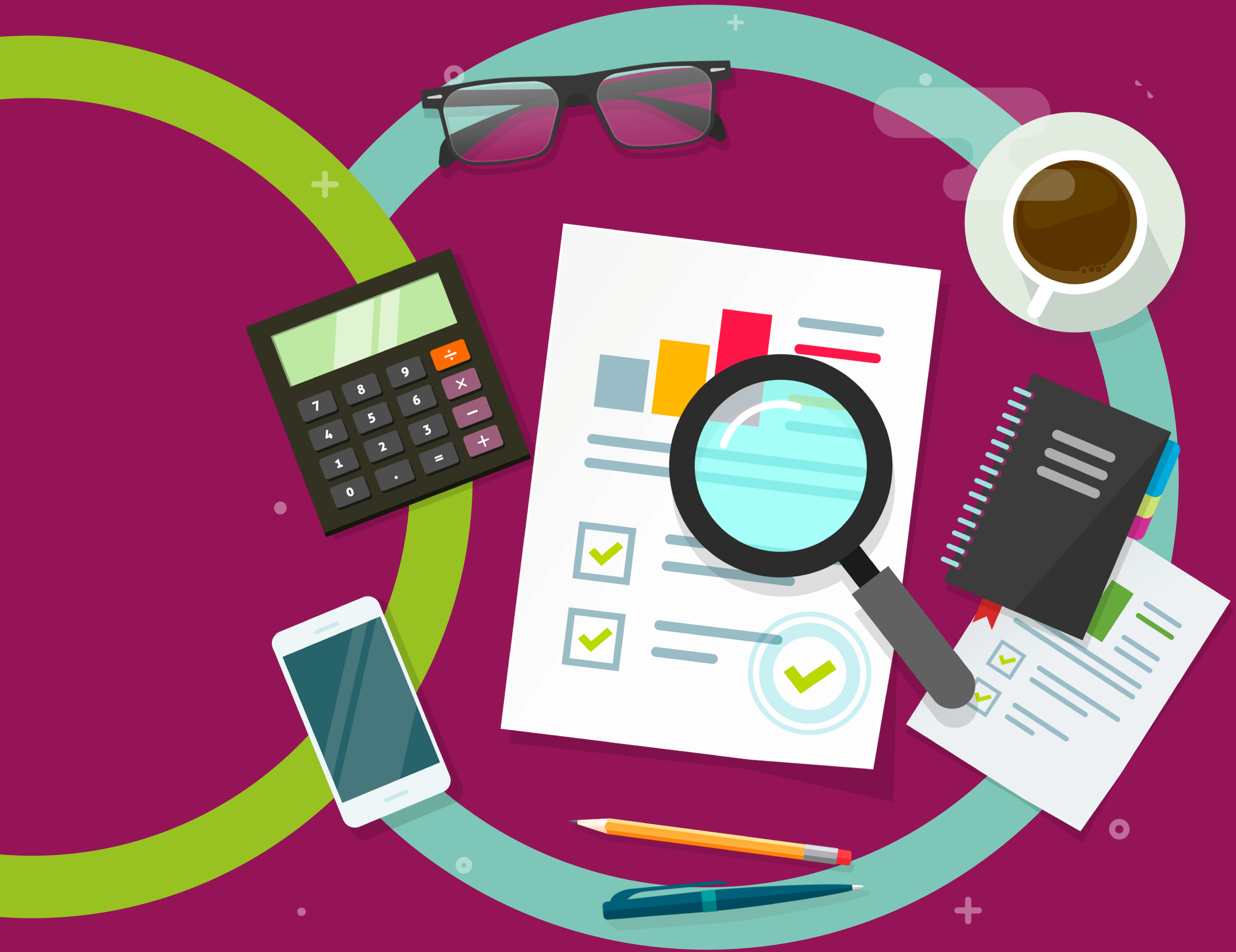
Good practice guide

Framework to review portfolios

NAO

National Audit Office



January 2022

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Introduction

Government broadly defines a portfolio as the programmes, projects and wider work required to meet a common objective. A portfolio differs from a programme, where all activities need to be delivered to achieve the end goal, as there can be choices over the activities undertaken.

Our work across government has touched on portfolios brought together to achieve high-profile objectives, such as achieving net zero carbon emissions by 2050 or modernising the justice system. Through this work we have seen the value of portfolio thinking in in helping prioritise activities to meet a strategic objective. Portfolio thinking can improve the chances of success by bringing everything together to translate objectives into activities and make effective decisions. It can help to reinforce:

- **a shared understanding of an objective** across decision-makers, practitioners and stakeholders to bring together the activities that can achieve it;
- **a whole system and longer-term perspective** to help understand the totality of change required to meet an objective;
- **an understanding of the aggregate risk**, to then assess this against the risk appetite and tolerance of an organisation; and
- **complete and comparative information** to help consider all the activities within the portfolio and make effective decisions.

Across our work, we have also seen common factors contributing to the success or failure of bringing together activities within a department or across government.

Our insights have helped us develop questions that we, and others, can ask to assess whether a portfolio is set up to achieve value for money. These questions can also be used to decide if portfolio thinking could be valuable, for example, when delivering large programmes with some of the characteristics of portfolios.

This framework outlines these questions and also provides examples from our reports to help readers better understand what to look out for.

We found that successful, value-adding portfolios have a **clear purpose** with a well-defined objective; are **set up** to ensure the right funding, resources, management and controls are in place to achieve these objectives; and their **delivery is managed** to consider changes to the environment, resources, and at times, the overall strategic direction.

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The framework

This framework sets out questions that can be used to assess whether a portfolio is set up to achieve value for money. We have structured our questions around what we have seen as the core elements of a successful portfolio.

Value

Would portfolio thinking be valuable in delivering value for money?

Purpose

1 Purpose

A clear and consistent understanding of the portfolio's objectives, alongside clear accountability, can help align activities across the portfolio.

Set-up

2 Information

Information needs to be collected and structured in a way to help understand performance at a programme and portfolio level to inform any necessary changes.

3 Planning

Planning and reprioritisation is easier when there is a clear understanding of the funding and capability that is needed and available to deliver the portfolio.

4 Governance

A centralised function can provide the overarching governance and assurance required for a portfolio to be managed as a whole.

Delivery and variation management

5 Alignment

Understanding how activities interrelate and the impact of change across the portfolio helps maintain alignment with strategic objectives.

6 Risk

A cross-portfolio view of risk allows organisations to assess, and therefore mitigate, the full impact of risk.

Using the framework

The framework questions are not intended as a checklist. They are prompts to help us, and others, consistently assess whether the management of a portfolio provides value for money. Our audit approach depends on the context of each examination, the nature of the portfolio being examined and the stage of its development. We may apply the framework within a wider set of audit questions, or just focus on those questions relevant to the stage or risks of a portfolio.

This is an evolving framework, which we may add to or amend as we refine our thinking.

The framework complements other reports and resources available on our website such as our Framework to review programmes. Many of the programme management good-practice points apply to portfolios.

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Purpose

1 A clear and consistent understanding of the portfolio's objectives, alongside clear accountability, can help align activities across the portfolio

Is there a consistent understanding, across the organisation and stakeholders, of the **strategic objectives the portfolio** aims to achieve?

Do the **portfolio's objectives align** with government policy and the strategy and direction of the organisations which will deliver it?

Is there **clear accountability** for the portfolio achieving its objectives? Do those responsible have the levers to realign, stop or reprioritise aspects of the portfolio?

Are the portfolio's objectives, and their alignment across the organisation's wider aims **regularly reviewed**, for example when new strategic objectives are announced?

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Clear and consistent understanding of the portfolio's objectives

Between 2014 and 2020 the Department of Health & Social Care brought together a portfolio of programmes across the NHS and associated arm's-length bodies (the Digital Transformation portfolio) to "support frontline staff, patients and citizens in taking better advantage of the digital opportunity". In 2020, we found that the portfolio had undergone various iterations since its publication in 2014, which made it difficult to assess progress against the portfolio's original aims. A significant target – a paperless NHS by 2018 – had been missed and a new target to reach a "core level of digitisation" by 2024 had been set. We concluded that clearer objectives, set at the beginning of the portfolio, and consistent monitoring throughout the portfolio lifecycle would have allowed better oversight and an earlier identification of problems. It would also have reduced the risk of adding to the scope of the strategy without fully considering what this meant.

In our 2020 report on Improving the lives of women and girls overseas we found that because of the broad nature of the former Department for International Development (DFID)'s 2018–2030 Strategic Vision for Gender Equality (Strategic Vision) and the decentralised nature of its delivery model, DFID needed to understand better how well its portfolio of work on gender equality was performing. We found that DFID's Strategic Vision aimed to set a broad framework rather than a 'blueprint' for specific action and that DFID did not intend to support its Strategic Vision with a costed plan for implementation and specific outcome measures. We considered that this approach limited DFID's ability to assess progress and consider value for money and suggested that a portfolio perspective would help DFID consider whether it had the right mix of programme interventions to achieve its objectives, and if it had the right balance of work (within and across programmes) between short-term activity and a longer-term focus on tackling social norms.

Clear accountabilities

When we looked at cross-government funding of research and development we found that while there were examples of well-coordinated research and development, some important areas of science lacked sufficiently developed leadership. Our examination demonstrated that strong leadership was the driving force for coordination and making everything else happen – this included setting priorities and having good information to make decisions and evaluate the impact of investment. We found that where there was effective leadership, funders worked together to prioritise research investment. We found that investment priorities were well coordinated in one research area (human health) where funders used opportunities provided by forums such as the Office for Strategic Coordination of Health Research (OSCHR) to discuss and align research priorities.

Clear accountability and aligning activities across the portfolio

In 2013 HM Revenue & Customs (HMRC) set up a portfolio bringing together its transformation change projects under a single coordinating body. Through this it wanted to better align activities to its strategic objectives and manage the complexities and risks of cross-departmental transformation. We have assessed HMRC's progress managing the portfolio each year since 2013. In 2016 we found strong senior-level engagement, with all members of HMRC's senior team responsible for delivering and supporting transformation, with a Director General for Transformation acting as a focal point.

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Information

2 Information needs to be collected and structured in a way to help understand performance at a programme and portfolio level to inform any necessary changes

Is **clear, consistent and timely information** collected on the portfolio and its constituent parts to assess performance and make decisions?

Does the portfolio identify and assess **poor performance** in its component parts and across the portfolio as a whole?

Are there **early warning indicators** of slippage or over/under-spend across the portfolio with robust oversight processes to help address it?

Does the organisation conduct **scenario planning** to identify uncertainties, assess impacts and test risk mitigations across the portfolio?

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Collecting and structuring information

In 2020, we reported on government's early progress with implementing net zero, and the risks it would need to manage to achieve net zero efficiently and effectively. At the time of the report the Department for Business, Energy & Industrial Strategy (BEIS) told us that it recognised it needed to do more to establish monitoring arrangements to track progress towards net zero. Neither BEIS nor HM Treasury were collating information on the total costs and benefits of government policies that contributed to achieving net zero. At the time we also found weaknesses in performance monitoring. For example, BEIS only collected data on greenhouse gas emissions annually and did not draw together performance indicators that would enable it to track progress on a more regular basis. BEIS was developing performance indicators and working with the Climate Change Committee (CCC) to develop new measures of progress that would be more straightforward to understand and expected that these could be used both for monitoring and in public communication of progress towards net zero.

Our review of BEIS's portfolio of business support schemes recommended that in managing the portfolio BEIS should coordinate a review of its schemes and develop some standard metrics across them with similar aims. This would enable it to better compare their effectiveness and monitor schemes' compliance with good-practice principles. BEIS had taken steps to improve data across its portfolio and at the time of our report was developing a central analysis, monitoring and evaluation database to bring together impact assessments, post-implementation reviews, business cases and evaluations, which it expected would provide a more accurate estimate of optimism bias when setting up new schemes.

Using information to understand performance

In 2016, HM Courts and Tribunals Service (HMCTS) brought together an ambitious portfolio of reforms to modernise the justice system through introducing new technology, streamlining processes and reducing demand for physical hearings and therefore freeing up court capacity. In early 2019, HMCTS found it could not proceed with its original timetable and, following a value-for-money assessment, revised its plans to close courts. At the time we found that it was difficult to understand overall progress across the portfolio without a high-level view of progress using indicators such as spending against budget, savings achieved, proportion of work complete or measures of user feedback. It was not clear how savings claimed across the portfolio had been validated and HMCTS did not check whether savings materialised as expected. As a result it could not trace changes delivered through to reforms. In June 2019 HMCTS revised its approach to monitoring progress and introduced new measures to its portfolio reporting that incorporate wider measures of progress. It also plans to use critical path milestones to better present and manage progress.

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Using information to understand performance *continued*

The former Department for International Development (DFID)'s Strategic Vision for its work on gender equality aimed to achieve improvements across a broad range of issues and types of intervention between 2018 and 2030. In 2020 we reported on its progress and found that DFID had been slow to bring together the information needed to provide an accurate picture of progress across the full portfolio of its activities. However, we found that some programmes within the portfolio were taking positive steps to get a portfolio-wide perspective on performance. For example, DFID's Nepal office was assessing performance against three key issues it had identified as relevant to Nepal. It had in place an approach to assess coherence across its work on gender equality and was introducing ways to monitor and evaluate portfolio performance.

The Nepal office told us that this initiative was intended to help it prioritise its spending and reduce complexity by, for example, reducing the number of funding agreements it had in place. Overall, we concluded that DFID had taken positive steps to improve its oversight and understanding of performance but it needed to make significant further progress in getting better management arrangements in place before it could have a good understanding of whether it was on track to secure value for money.

Using information for scenario planning

In our 2020 report on implementing net zero we found that the Department for Business, Energy & Industrial Strategy (BEIS) had used modelling to test key uncertainties across the portfolio, producing a set of scenarios with varying rates of technology deployment and innovation. BEIS had used this modelling to identify actions that were very likely to be required over the following five years regardless of the route to net zero. BEIS also told us the net zero strategy would set out regular review points where government would reconsider the actions required to achieve its net zero target.

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Planning

3 Planning and reprioritisation is easier when there is a clear understanding of the funding and capability that is needed and available to deliver the portfolio

- Does the organisation have the **capacity to manage** the scale of change required?
- Are **the whole-life costs** of delivering the portfolio estimated and managed (including the costs of any relevant business-as-usual activity)?
- Are there effective **levers to control costs** across the portfolio?
- Are the **skills** needed to deliver the portfolio clear and understood?
- Is there sufficient **flexibility to allow resources** (people, capability and funding) **to move** across the portfolio as needed?
- Is there an **overarching budget limit** within which the portfolio needs to be delivered?

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Planning and reprioritisation

In response to its own risk assessment and to address a previous National Audit Office recommendation, in 2018 HM Revenue & Customs undertook a major exercise to prioritise the projects in its portfolio to reduce costs and release capacity. This was primarily to manage the impact of the UK's exit from the EU on HMRC but also to ensure its transformation plans could be delivered. To reduce some of the subjectivity in evaluating the projects, HMRC followed a clear and structured process in prioritising the projects in its portfolio. It reviewed the transformation portfolio, consulted with business groups, and set up a 'war room' where HMRC developed and refined criteria to score and rank projects according to strategic priority. The prioritisation proposals were scrutinised and challenged by HMRC's Executive Committee and then submitted to the Financial Secretary to the Treasury for approval.

Understanding capacity

In 2015 we found that the Department for Work & Pensions (DWP) had begun several welfare reform programmes without fully assessing its capacity to manage them. It had progressed programmes without recognising the risks of doing so, at the same time as reducing costs and reorganising itself. At this time, following a period of austerity during which DWP cut its headcount by nearly a quarter, it estimated that demand exceeded supply by 9% for central service expertise and 20% for IT skills. As such, to reduce demand on resources, it was in a position where it could only consider changes that were exceptionally urgent and important.

Reporting in June 2019 on the effectiveness of Official Development Assistance (ODA) spending across government, we concluded that government clearly met the ODA spending target but there was insufficient focus on departments' capacity to implement programmes and their effectiveness.

Centrally, government had made limited use of the performance information generated by departments and this had inhibited its ability to make changes to improve effectiveness. While there was good evidence that many programmes within the £14 billion portfolio were securing an impact individually, government overall was not in a position to be confident that the portfolio in its totality was securing value for money. We recommended that as part of the next Spending Review, HM Treasury should develop a systematic approach to assessing departments' capability and capacity to deliver their plans for ODA expenditure and their plans to consider the effectiveness of that spending.

Understanding funding

The Ministry of Defence (MoD) publishes its Equipment Plan (the Plan) report each year, setting out its intended investment in equipment and support projects over the following 10 years and whether this is affordable within its future budget. Its original intention was to assure Parliament that its spending plans were affordable. By 2021 the MoD faced the fundamental problem that its ambition had far exceeded its available resources. In 2021 we found that, once again, the Plan was unaffordable, with the MoD estimating that costs would be £7.3 billion higher than budget between 2020 and 2030. As a result, its short-term approach to financial management had led to increasing cost pressures, which had restricted the development of military capabilities. The growing financial pressures had also created perverse incentives to include unrealistic savings, and to stop investment in new equipment to address capability risks. A government announcement in 2021 of additional defence funding, in the context of its Integrated Review, provided opportunities for the MoD to set out its priorities and develop a more balanced investment portfolio.

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Governance

4 A centralised function can provide the overarching governance and assurance required for a portfolio to be managed as a whole

- Is there a portfolio **office that coordinates and communicates** across the portfolio?
- Are there robust **governance and assurance** arrangements in place for the portfolio as a whole?
- Is there a **portfolio plan** in place bringing together critical outputs, milestones, timescales, (inter)dependencies, benefits and risks?
- If a portfolio spans across organisations, **are roles and responsibilities clear**?

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Centralised function providing overarching governance and assurance

In 2019 the Ministry of Defence (MoD) monitored most of its Major Projects Portfolio programmes centrally, but delegated some smaller programmes to military commands such as the Army and Navy. MoD mandates good-practice approaches to project, programme and portfolio management for commands, but when we looked at how various command portfolio offices delivered defence capabilities we found that the offices varied in their maturity and the roles they carried out, and all had shortfalls in staffing. We found these commands did not all have processes in place for measuring outputs against original requirements, nor did they have information on all the projects and programmes within their portfolios. They used different tools to collect this information, and these may have duplicated the centrally approved system. Overall, we found errors in command-level information, which could have provided a misleading picture of capability delivery.

Clear roles and responsibilities for cross-organisation working

In 2020 we drew together learning from our work across EU Exit preparations and found that despite the former Department for Exiting the European Union (DExEU)'s role to coordinate cross-government work, when departments looked for information, or for decisions to be made which required cross-government input, they did not know where to go. In our 2017 report on DExEU and the centre of government we highlighted the complex structures of boards, from ministerial-level downwards, which were supposed to oversee domestic preparations for EU Exit.

In 2019 a new structure was established comprising two ministerial committees which cascaded into simpler official-level structures, with clearer accountabilities and a more direct route for decisions to be made. However, we also noted that some decisions could not be taken outside of these forums, which could hinder progress.

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Alignment

5 Understanding how activities interrelate and the impact of change across the portfolio helps maintain alignment with strategic objectives

Is there an **effective strategy** to manage how different policies, teams and organisations interrelate?

Is it clear who owns and is **accountable for managing interfaces** across the portfolio?

Are the **implications of decisions** considered across the portfolio?

Have **synergies and opportunities** been identified and exploited across aspects of the portfolio to maximise its value?

Is there a clear **process for understanding and managing** those activities that may need to be brought within, or taken out of, the portfolio?

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Understanding how activities interrelate

Our work across complex major government programmes demonstrates the value of portfolio thinking to align the multiple programmes, projects and work overarching programmes include. When we looked at the Home Office's Digital Services at the Border (DSAB) programme in 2020 we found that while the DSAB programme had started to bring together the various individual technical elements required, it still needed to deliver the necessary integrity, resilience and performance of the overall end-to-end system, with documented standards, across the portfolio of interdependent programmes that made up DSAB.

In 2019, we looked at the effectiveness of the former Department for International Development (DFID)'s Official Development Assistance expenditure. We found that DFID had a system in place in Somalia to make sure its portfolio of programmes complemented that of other departments and donors. This was achieved by consulting widely during the design phase of aid programmes with wider stakeholders; liaising with other government departments to, for example, assess shared operational risks; and working with various forums so all stakeholders were aware of programmes' objectives and that lessons learned were being shared.

Understanding the impact of actions and changes

Achieving net zero requires wide-ranging changes across society and the economy supported by effective cross-government working, such as integrated planning and progress monitoring and the effective management of interdependencies. In our 2020 report we found that some of these essential components were not in place and government still needed to identify how it would manage the links between different aspects of achieving net zero and how it related to other government priorities. It had not yet provided sufficient clarity over the aims, responsibilities and interdependencies between the bodies involved.

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Risk

6 A cross-portfolio view of risk allows organisations to assess, and therefore mitigate, the full impact of risk

Is there a **portfolio risk profile** (different from the sum of individual project and programme risks)?

Has this been assessed against the **overarching risk appetite and tolerance** of the portfolio and the organisations involved?

Is the **aggregate risk** across the portfolio monitored, managed and reported to critical stakeholders?

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Cross-portfolio view of risk

In 2015 we looked at the Department of Work & Pensions (DWP)'s approach to managing its portfolio of Welfare reform programmes. We found that DWP had relied too heavily on reacting to problems across the portfolio and had not always been able to anticipate likely points of failure or set up leading indicators for performance and progress. We recommended that DWP should build an integrated view of portfolio risks and capacity. We noted that DWP could not reliably assess its overall tolerance for risk without clear measures of programme needs and available capacity. Since our report, DWP has established a change portfolio approach and a cross-portfolio understanding of risk.

Assessing the impact of risks on the portfolio as a whole

We found in our report on Achieving government's long-term environmental goals that the Department for Environment, Food & Rural Affairs (Defra) was taking steps to mitigate cross-portfolio risks by developing portfolio reporting. In January 2020 Defra piloted a portfolio performance report with data for three of its planned 10 environmental goals. This process highlighted the lack of a consistent approach to monitoring delivery and that, to track progress each quarter, Defra needed to identify interim milestones for key delivery programmes. In July 2020 Defra produced a portfolio performance report covering all 10 goals in its plan and other cross-cutting and international work. Defra plans to produce this report quarterly and expects to include for each goal a status update for policies, an assessment of performance against targets linked to outcome indicators, and an evaluative commentary from the goal sponsor.

The portfolio report did not include information about spending on interventions that would allow Defra's oversight boards to consider the value for money of spending on the Plan as a whole.

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Government bodies have developed definitions and guidelines for effective portfolio management. The Infrastructure and Projects Authority (IPA) is now embarking on a major initiative to carry out structured and periodic reviews of departmental portfolios to help departments manage their strategic alignment; monitor and respond to risks; respond to capability and capacity needs; and build the right culture.

Organisation	How is term used?
Infrastructure and Projects Authority (IPA) Government Functional Standard	The standard is mandatory and applies to portfolios, programmes and projects undertaken within or across government departments and their arm's-length bodies. It states that portfolio management shall be an integral part of an organisation's business planning and control activities and for each portfolio mandates: ● establishment of a portfolio governance and management framework defining how a portfolio is to be directed and managed; ● definition of a strategy, describing the objectives and desired delivery outputs and outcomes of the portfolio; and ● reporting of performance against a portfolio plan.
Infrastructure and Projects Authority (IPA) Assurance Workbook Portfolios and portfolio management	A portfolio is defined as the investment **required for departments and arm's-length bodies** to achieve their objectives and involves the effective **balance of business change and business as usual** while remaining **within a specific funding envelope**, allowing the organisation to **adapt when circumstances change**. In 2021, IPA started to assure departmental portfolios in terms of: ● managing strategic alignment and appropriate construction in line with delivery constraints; ● monitoring and responding to performance and risk across the portfolio; ● building the right culture and processes to manage the portfolio; and ● understanding and responding to the capability and capacity requirements of the portfolio.
HM Treasury The Green Book	HM Treasury does not have formal processes for approving investment across a portfolio. It describes a portfolio as: "A collection of programmes and/or projects to structure and manage investments to **optimise strategic benefits and/or operational efficiency**." Portfolio appraisal involves the optimisation of a portfolio of programmes and projects within a limited budget. The Green Book states that: ● where portfolios are considered as capital spending proposals (programmes and projects that are required to realise a strategic policy objective) they should be assessed on the basis of contribution to government priorities as well as their Benefits to Cost Ratio (BCR) including whole-life costs; ● account may be taken of unquantifiable and unmonetised factors and risks. Consideration may be given to the overall balance of the portfolio in terms of factors such as risk, uncertainty or the distribution of impacts; and ● future spending commitments should be taken into account in approval of individual spending decisions and when strategically reviewing a portfolio.