



Infrastructure
and Projects
Authority



Guide: portfolio management

Portfolio management overview



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This document is published by the Infrastructure and Projects Authority and supports the [Government Functional Standard for Project Delivery](#), which sets expectations for the direction and management of portfolios, programmes and projects across government, and the Government Project Delivery Framework, which sets the requirements and provides guidance for programmes and projects through their life cycle.

The full suite of functional standards, and associated guidance, can be found at [GOV.UK government functional standards](#).

The meaning of words are as defined in the Shorter Oxford English Dictionary, except where defined in the Glossary at Annex B or where a government specific definition exists in the [Functional Standards Common Glossary](#).

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Contents

1 Portfolio management overview	3
Government Functional Standard GovS 002: Project Delivery - Expectations	4
1.1 What are the benefits of applying portfolio management?	4
1.2 What is meant by portfolio management and how do portfolios differ from projects and programmes?	5
1.2.1 When is Portfolio Management not appropriate?	7
1.3 What are the key factors upon which effective portfolio management depends?	7
Supplementary Guidance	9
1.4 Implementing Portfolio Management	9
1.4.1 Taking an incremental approach to implementation	9
1.4.2 Thinking about sustainability from the start	9
1.4.3 Focusing on the changes that make the greatest difference	10
1.5 What are the common mistakes organisations make in implementing portfolio management	10
Tools, templates and examples	12
1.6 Example of implementation	12
1.7 Inconsistent application	12

1 Portfolio management overview

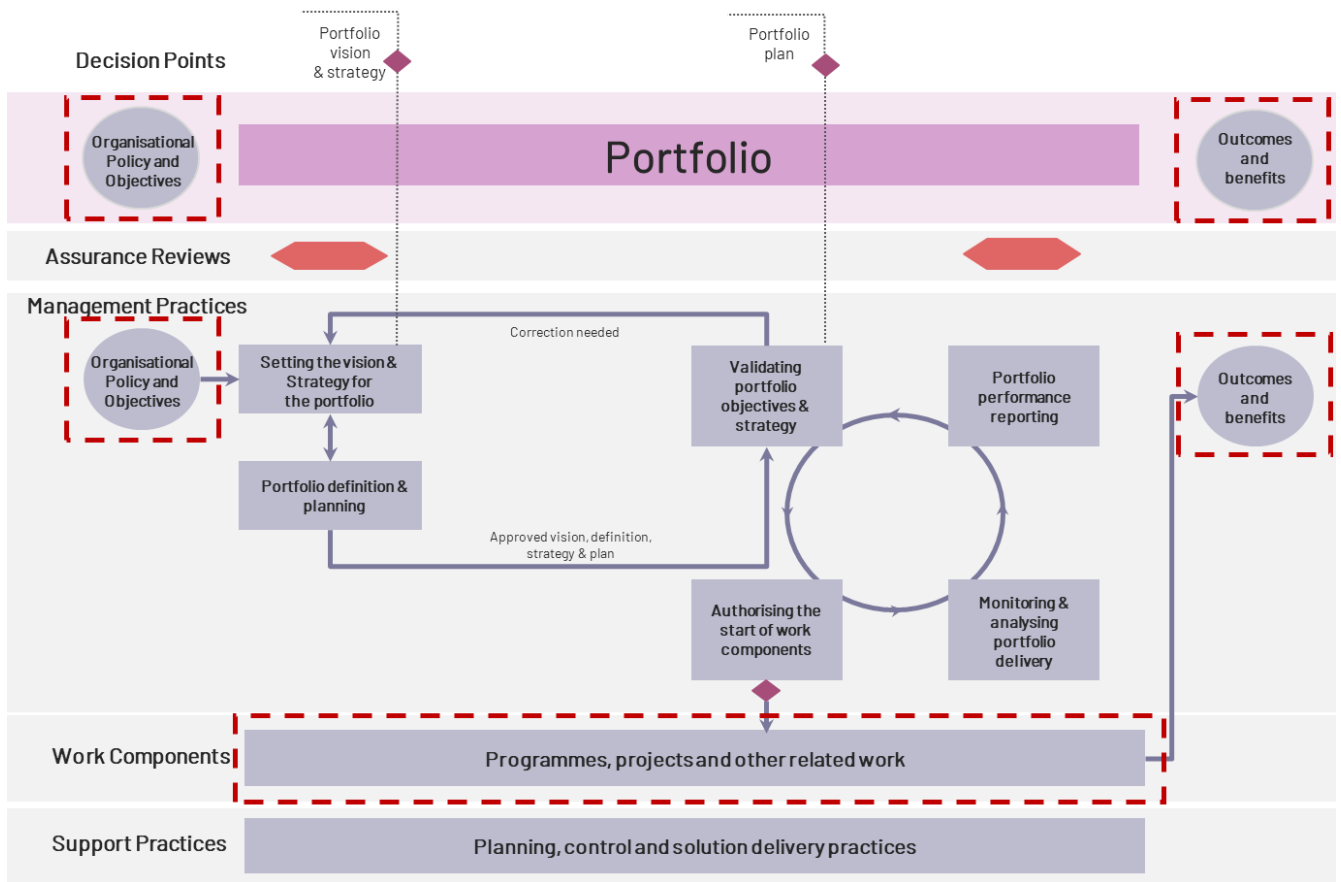


Figure 1 The Portfolio life cycle: Areas marked with a will be discussed in this module.

1. Government Functional Standard GovS 002: Project Delivery - Expectations

1.1 What are the benefits of applying portfolio management?

The primary objective of portfolio management is to optimise the contribution to strategic and business objectives, which in the central government context includes priority outcomes as well as ministerial priorities. The portfolio should be the bridge between strategy formulation and initiative delivery. This is achieved by ensuring that: The portfolio is collectively sufficient, and all initiatives included in the portfolio are individually necessary, to achieve the desired contribution to strategic objectives and business priorities, subject to being affordable and at an acceptable level of risk;

- Obstacles to, and constraints on, initiative delivery are managed effectively; and
- Benefits realisation is optimised (rather than maximised, in the sense that there is usually a balance to be struck between the scale of benefits realised and the costs of realising them).

Portfolio management is concerned with **'Doing the right things'**, **'Doing them right'** and **'Doing them at the right time'**:

'Doing the right things' - investing in the set of initiatives that collectively offer the greatest strategic contribution, subject to consideration of risk and affordability. This is not a one off or annual planning exercise but an active, dynamic process in which resource allocation is adjusted to match initiative performance and changes in organisational strategy and business priorities. GovS 002 Section 5.3.4 mandates that **the portfolio's objectives and strategy should be periodically reviewed to ensure: they are still current and affordable; the right programmes, projects and other related work components are being undertaken; and if required, corrective action should be taken to amend the portfolio's vision, objectives and strategy, or adjust the portfolio's scope and content.**

'Doing them right' - enabling successful delivery by ensuring constraints, risks, dependencies and crucially benefits realisation, are effectively managed. This does not mean that portfolio management takes responsibility for initiative delivery or 'micro-manages' projects and programmes; responsibility remains with the project and programme manager (and accountability with the Senior Responsible Owner). Rather, it means the portfolio is concerned with ensuring constraints, risks, and dependencies which may impact delivery and are either not visible at the initiative level, or require escalation, are identified and effectively managed at a collective level. In this way, strategic contribution is optimised in practice. Portfolio management is therefore an enabler for both initiative delivery and strategy execution.

Doing them at the right time - scheduling initiatives at a collective level to reflect the organisation's capacity to deliver and to absorb business change.

Portfolio management should provide greater transparency on the organisation's initiatives, the collective risk profile and the potential benefits. This in turn enables more effective governance and management oversight. The specific benefits derived from applying portfolio management have been found to include:

1. A more strategically aligned and balanced portfolio in terms of strategic coverage, life cycle stage, and risk/return profile;
2. Removal of redundant, duplicate, low value and poorly performing initiatives - research finds just achieving an organisation-wide view of all project activity can deliver substantial financial benefits by stopping under-performing and poorly aligned initiatives, and from gaining an insight into how investments in one part of the organisation can be leveraged elsewhere;

3. Savings from more disciplined control over the start of initiatives and streamlined investment appraisal processes.
4. More efficient use of constrained resources;
5. Improved initiative delivery from more effective management of constraints, risks and dependencies;
6. Increased benefits realisation and strategic contribution; and
7. Improved reputation for effective investment of taxpayers' funds – including benefits in terms of enhanced public trust and earned autonomy.

The primary focus of portfolio management is on contributing to the achievement of strategic objectives. In practice, ministerial and departmental priorities can emerge that were not apparent when strategic objectives were agreed. The benefits of a portfolio management approach include being able to respond promptly to such emerging priorities by:

1. Adapting the portfolio investment criteria for such investments to reflect the fact that the usual considerations of balancing risk with a required rate of return may not be appropriate in such cases. (See module 3);
2. Facilitating funding to address these priorities by retaining a central contingency/management reserve, and application of the technique of staged release of funding; and
3. The implications on the current portfolio will be better understood – for example, in understanding where resources can be reallocated and where current initiatives can be re-scheduled or de-scoped, to enable new priorities to be addressed, whilst minimising the knock-on impact on achievement of the agreed portfolio objectives.

Aside from the benefits identified above, two drivers for the adoption of portfolio management stand out. Firstly, a failure to deliver strategy successfully because resources are not prioritised on the most strategically important initiatives. Secondly, the continued poor track record of projects of all types in terms of on time/to budget delivery and benefits realisation. Ultimately the success of portfolio management depends on addressing these two issues, by ensuring:

- a greater proportion of projects and programmes are driven by a measurable strategic contribution that is realistically achievable; and
- that these initiatives are implemented successfully, and fundamentally, that we optimise strategic contribution via increased benefits realisation.

These two issues are examined in detail in Modules 2, 3 and 4.

1.2 What is meant by portfolio management and how do portfolios differ from projects and programmes?

The formal definitions adopted in the Government Functional Standard GovS 002: Project Delivery are as follows:

A portfolio comprises part or all of an organisation's investment required to achieve its objectives. Governed through its portfolio (or business) plan, a portfolio comprises work components, such as other portfolios, programmes, projects, other related work and work packages. Table 1.1 – Definitions of Project Portfolio Management

Portfolio management is a coordinated collection of strategic practices and decisions that together enable the most effective balance of organisational change and business as usual.

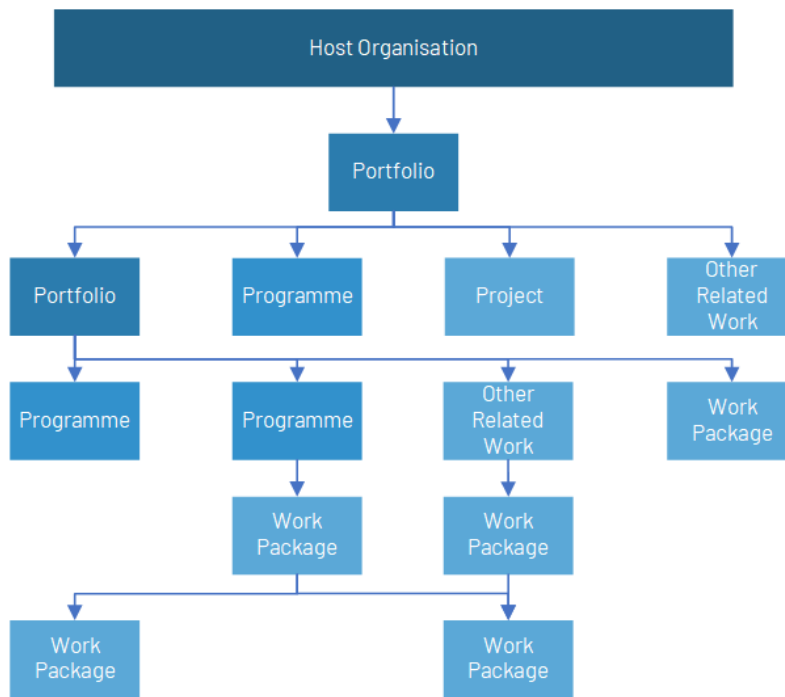


Figure 2 Work components overview

The key themes to note from these definitions are that:

- A portfolio consists of components (sub-portfolios, programmes, projects and other related work) or what we will refer to in this guide as ‘initiatives’. The portfolio includes initiatives not formally managed as projects and programmes. This highlights that when managing a portfolio of projects and programmes, it should be done in the context of the ‘other related work’ undertaken by business as usual. In deciding the scope of a specific portfolio, see module 2.
- Portfolio components may be related or unrelated, may be independent or interdependent, and may have related or unrelated objectives;
- These initiatives are treated from a portfolio perspective as investments. It is not just concerned with delivery of initiatives on time and to budget, but focused on ensuring a return on these investments, including achieving strategic objectives and addressing ministerial priorities in the most cost-effective way.
- There may not necessarily be a single portfolio in an organisation. Portfolio management can be applied at functional or business unit level, as well as at the corporate level, and even at cross-departmental level (see in Module 2). Initiatives may also be subject to oversight by more than one portfolio – for example, where departmental initiatives are included in the Government Major Projects Portfolio (GMPP).
- The emphasis is on balance between the portfolio and business as usual (BaU). The portfolio coordinates the successful delivery of initiatives, which when embedded within BaU, realise benefits that contribute to improved organisational performance and achievement of strategic objectives.

Comparing portfolios with projects and programmes, the main points of difference are:

- A **project** is a unique, temporary management environment, undertaken in stages, created for the purpose of delivering one or more business products or outcomes. A project might be standalone within a portfolio or part of a programme.
- A **programme** is a unique, temporary, flexible organisation created to coordinate, direct and oversee the implementation of a set of projects and other related work to deliver outcomes and benefits related to a set of strategic objectives. Programmes can be undertaken in one or more tranches (phases), each of which is structured around distinct step changes in the solution delivered and the resultant benefit realised.

■ A portfolio:

- has an ongoing existence for as long as the organisation has projects and programmes
- has constituent initiatives that will change over time
- the primary focus is on the contribution of these products, outcomes and benefits to strategic objectives at a collective level
- is normally described as having a permanent lifespan, however, some will be temporary. For example, portfolios established to deliver specific priorities, such as some departmental EU Exit portfolios.

A project or programme is governed through a business case or equivalent document, in accordance with HM Treasury Green Book requirements. The portfolio in contrast is managed through a business plan.

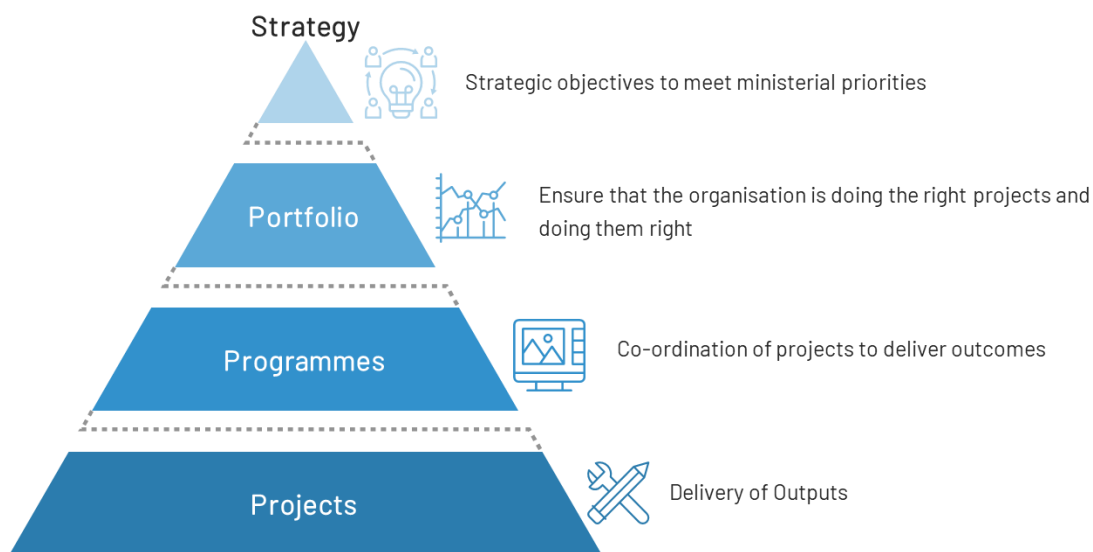


Figure 3 Conventional portfolio management

1.2.1 When is Portfolio Management not appropriate?

All organisations with projects and programmes have a portfolio, and while they may not manage it as such, many of the elements of portfolio management will already be in place. For example, initiative selection process, defined delivery methods, and reporting processes. What effective portfolio management brings is a coordinated and disciplined approach to managing these processes in an integrated manner. However, there may be certain conditions when this is not necessary.

If an organisation has only a handful of projects and programmes which deliver required change through business as usual, there may not appear to be a strong case for portfolio management. Similarly, if the organisation's initiatives are mostly mandatory/non-discretionary (and so consequently, prioritisation is not an issue) and it has a highly mature delivery capability that delivers projects and programmes consistently, on time, to budget and achieves the intended outcomes and benefits realisation there may not be a compelling case for portfolio management.

But even if this is the case, there are benefits to streamlining and integrating processes, removing duplicate initiatives and enhancing the ability to respond to emerging priorities.

1.3 What are the key factors upon which effective portfolio management depends?

There are five key factors that underpin the effectiveness of portfolio management:

1. **Senior Management Engagement** – and active championing of, and participation in, the portfolio management processes. This is of fundamental importance to portfolio management as it encourages stakeholders to collaborate in pursuit of shared goals rather than silo-based interests. The NAO report that senior level engagement is crucial to successful delivery in three ways:
 - By providing mechanisms to prioritise the portfolio in line with business objectives, ensuring there is capacity to support them, and that the portfolio represents the optimum balance between benefits and risk.
 - By creating a clear governance structure, with agreed lines of accountability, so that the right decisions are made swiftly and in line with business strategy; and
 - By demonstrating that senior management is committed to the change.

Mechanisms to achieve this will be discussed in later modules but they include:

- Mechanisms to achieve this will be discussed in later modules but they include:
 - Nomination of a portfolio director, as outlined in the project delivery capability framework, who can influence other executives, provide leadership and direction, and who owns the portfolio's vision and strategy. The portfolio director is accountable to a defined higher-level authority for the direction and governance of the portfolio, and for optimising the required benefits at an acceptable level of risk. The personal relationship between the portfolio director and this 'defined higher-level authority' (often the Accounting Officer) is of crucial importance and is heavily dependent on the credibility of the former. (See Module 5.)
 - Agreeing a set of organisationally-specific benefits categories to demonstrate strategic contribution – so executives can see the impact of the portfolio on the organisation's strategic objectives.
 - The use of decision conferencing as an integral part of portfolio prioritisation exercises.
2. **A portfolio governance structure that is understood by stakeholders** – A portfolio governance and management framework defining how a portfolio is to be directed and managed, shall be established, maintained, and communicated to appropriate stakeholders and should align to the government standard for project delivery. (See Module 5)
 3. **A clearly articulated strategy** – Without this it is difficult to reliably prioritise the allocation of financial and other resources on the basis of greatest strategic contribution (see Module 2). Even when such strategic clarity is not yet present, progress can be made via techniques such as portfolio categorisation (see Module 2), decision conferencing and force ranking initiatives via pair-wise comparisons (see Module 3).
 4. **Greater use of modular development and application of staged release of funding** – Where this is addressed, wasted expenditure is minimised when resources are reallocated in response to changed strategic objectives or new ministerial and departmental priorities.
 5. **A Portfolio Office** – to provide impartial and credible analysis and decision-making support to the portfolio governance bodies, along with support and challenge to initiatives. (See module 5).

2. Supplementary Guidance

1.4 Implementing Portfolio Management

There is no standard, off the shelf approach to implementing portfolio management that can be applied to all organisations. Each organisation needs to build its own version of portfolio management practice that addresses their own business needs. So, portfolio management will need to be tailored to suit the organisation and specifically its: strategic objectives; existing processes encompassing business planning and performance, financial, risk and resource management; the size of the portfolio and project & programme management (PPM) maturity; governance structure; and organisational culture.

Implementing and sustaining progress are facilitated by strong leadership and in particular an executive sponsor – the portfolio director – who is respected by senior management, including by the Accounting Officer. Beyond this, a clearly articulated and documented portfolio governance structure is crucial, particularly a portfolio committee in a single board structure, or investment committee & portfolio progress group in a dual board structure. (See module 5)

Progress is facilitated, not by a ‘command and control’ approach where processes and documentation are designed centrally and then issued for delivery teams to comply with, but by an active, participative stakeholder-engagement approach, based on collaborative working with colleagues. In this way the portfolio office can leverage its’ influence for maximum impact by engaging stakeholders in the collaborative pursuit of shared objectives.

One useful first step in the implementation of portfolio management is to assess the current state and maturity to identify areas of comparative strength and areas requiring most improvement. This can be informed by a survey of stakeholder perceptions and/or by an assurance review (See module 6)

1.4.1 Taking an incremental approach to implementation

Most organisations find an incremental approach to be more effective than attempting to adopt the full range of portfolio management practices to the entire organisational portfolio from Day 1.

An incremental approach is applied in two ways:

1. To the adoption of portfolio management practices by starting with those that have the greatest impact, as outlined below; and/or
2. Starting with a manageable subset of the portfolio to gradually build momentum and commitment by demonstrating the value of portfolio management. It is then easier to add additional initiatives to an already efficiently operating process.

Successful implementation also builds on the organisation’s existing planning, financial management, risk management, resource allocation, and performance reporting systems and processes. Similarly, the portfolio function should work collaboratively with the organisation to agree how data on delivery, spend and benefits realisation status can be provided, making use of the existing delivery ‘highlight’ reporting processes where possible. See ‘tools, templates and examples’ section for an example of implementing portfolio management.

1.4.2 Thinking about sustainability from the start

Sustainability should be factored in from Day 1. This should include the three interrelated areas of:

- practices and processes that enable more informed investment decisions and portfolio delivery;
- governance with a focus on benefits realisation and clarity over decision rights; and
- an organisational culture underpinned by collaborative stakeholder engagement.

In this way, a mutually reinforcing cycle of practices, governance and culture, with joint working in pursuit of shared portfolio objectives can be built.

1.4.3 Focusing on the changes that make the greatest difference

At a portfolio level, there should be a clear view of the priority areas that need addressing. Each organisation will need to decide this for themselves, although insight can be gained via a stakeholder survey or an assurance review (see module 6).

The five portfolio management changes with the greatest impact are:

3. **Clear alignment with business strategy** – this is crucial to ensuring departments ‘do the right things.’ The portfolio manager and the portfolio office should collaborate with the organisation’s strategic planners in developing a portfolio benefits categorisation framework that provides two-way traceability between initiatives and strategy. The portfolio office should then work with initiatives in developing benefits maps that demonstrate the strategic contribution from each initiative. (See module 2)
4. **A centralised inventory of all projects** – a crucial first step is to obtain visibility on spend, delivery status and strategic contribution across the portfolio. Just having a clear view on all ‘in flight’ activity can prove useful in identifying duplicate, poorly performing, and low return/high risk initiatives and thus facilitating resource reallocation. (See module 3)
5. **Standardisation of initiative data and analysis** – considering strategies to improve the reliability of cost and benefit forecasts, and developing scorecards for assessing attractiveness and achievability, and investment criteria tailored to each portfolio category. (See module 3)
6. **Consideration of project dependencies and interdependencies** – this is crucial to ensuring departments ‘do things right’. The portfolio office should work with delivery staff to identify and document dependencies and interdependencies. (See module 4)
7. **A governance framework** – fully integrating portfolio and BAU governance to support and speed up decision making at various levels of the organisation. This will optimise investments and support achievement of strategic goals. (See module 5)

1.5 What are the common mistakes organisations make in implementing portfolio management

1. **Many organisations believe that a necessary first step is to procure a software solution for data collection.** Practical experience however shows that repeatable processes and effective governance come first.
2. **Organisations develop portfolio management practices, but they are not applied consistently.** Initiatives are allowed to bypass the agreed procedures and apply agreed decision criteria inconsistently. (See module 6).
3. **Focusing on the means not the end.** It is crucial that portfolio management focuses on developments that make a tangible difference to organisational performance. These include:
 - applying a benefits categorisation framework that links initiatives to strategic objectives;
 - improving the reliability of initiative forecasting to enable better investment decisions;
 - agreeing portfolio investment criteria that better reflect strategic priorities and so facilitate portfolio prioritisation; and
 - working with initiatives to identify and manage resource constraints, risks and dependencies that may de-rail successful delivery. This issue of focusing on improving performance is considered across all the modules in this guide.

4. **Trying to boil the ocean.** Some organisations attempt to start by centrally managing all initiatives and rapidly find themselves swamped by the scale of the challenge. It is recommended that departments and ALB's do not attempt to manage all initiatives as a single portfolio until the organisation has achieved at least Level 3 maturity ('managed') in the IPA Portfolio and portfolio management assurance framework (see Module 6). Attempting to centrally manage all initiatives is likely to be at odds with the organisational governance model adopted in many large complex government departments (and thus fails to meet the advice to align the portfolio governance with organisational governance). (See modules 2, 5 & 6.)

8. Tools, templates and examples

1.6 Example of implementation

It is commonly advised that implementation be managed as a project or a programme. Either way, a structured, managed approach to a phased implementation, incorporating lessons learned and continuous improvement, is associated with success.

Example - Implementing Portfolio Management

The objective of the Portfolio Director is to build on existing good practice portfolio management by spreading good practice more widely across sub-portfolios, and to an enterprise level portfolio of cross-organisational initiatives.

The approach adopted may start with an intensive training programme to provide key stakeholders with a common understanding of what 'good' portfolio management looks like, and a common language to use when discussing it. This stakeholder group can then be established as a Portfolio Management Forum (PMF) to advise and monitor implementation progress alongside the enterprise portfolio office.

The PMF can be split into sub-groups to develop proposals for four areas: portfolio planning, portfolio delivery, portfolio governance, and capability development. These proposals can be consolidated into a prioritised rolling plan so that for each of the four areas there are: three priority actions for the short term (the next three months), three priority actions for the medium term (3-12 months), and three priority actions for the longer term (beyond 12 months).

Responsibilities for progressing the 12 short term actions are assigned and monitored actively by the PMF. They can deliver rapid progress and real stakeholder engagement and participation in the adoption and evolution of portfolio management across the organisation.

1.7 Inconsistent application

If application of portfolio management is treated inconsistently across the organisation, certain behaviours can develop which can have a detrimental effect and undermine the culture of successful portfolio management.

Example of poor behaviours

- The '**closer**' - argues for his/her projects based on charisma, past success and personal relationships.
- The '**screamer**' whose advocacy is based on the 'decibels' rather than the data.
- The '**end-arounder**' who goes straight to the top, bypassing the portfolio management process.
- The '**strategist**' whose sole justification is some unarticulated and unquantified strategic contribution.
- The '**doomsdayer**' who's advocacy of a project is premised on fear of what would happen if the investment is not made.
- The '**optimist**' who ignores sunk costs and past history believing it will all turn out right in the end.

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