PORTFOLIO GOVERNANCE:

A framework for managing governance risks and issues between portfolio entities

Summary: Developing and implementing portfolio governance

The nature, role and focus of a portfolio governance function is not well defined and, when they do exist, the role tends to be highly bespoke. To make it easier to understand the utility and implementation of the concept, we have outlined some key points you should consider.

1. Understand why portfolio governance is relevant and important in your context.
2. Understand your portfolio's governance risk profile, and where things are likely to go wrong.
3. Understand the strategies and operating model that would work for your portfolio.

Each of these points is discussed in further detail in this piece.

Portfolio governance is generally understood in the field of project, program and portfolio management. However, it is becoming increasingly important in public administration as a mechanism for supporting cooperative and robust governance across the range of entities within a Minister's portfolio.

In our recent work, we have seen portfolio governance functions established to provide strategic advice and guidance to the portfolio Secretary and portfolio entity counterparts in relation to complex shared risks and issues that impact the achievement of whole-of-portfolio objectives. In some ways, portfolio governance (and the relationship between the department of state and other portfolio entities) shares similarity with the relationship between holding and subsidiary companies that can be observed in the private sector. However, the legislative and policy frameworks applicable to the public sector create complexities that weigh into the equation when considering the need for and suitability of establishing a portfolio governance function.

Q1: Why is robust cross-entity governance important?

To successfully design and implement a cross-entity governance function for your portfolio, you and your key stakeholders need to understand and agree why the concept is important and relevant. One underlying source of authority for Commonwealth entities is the *Public Service Act 1999*. Specifically, s 57 of the Act imparts a range of duties to Secretaries of Departments, including in relation to collaborating and maintaining clear lines of communication within the portfolio, and ensuring strong strategic capability for considering complex, whole-of-government issues across the portfolio. Additionally, the Commonwealth Risk Management Policy requires entities to understand and manage shared risk. This is relevant to governance risks and issues which are likely to require shared oversight and management across portfolio entities.

The underpinning premise of why portfolio governance is important to your context will drive the concept's design and drive for implementation. Therefore, it is important that this is clearly defined and tested with your stakeholders.

Q2: What does your portfolio's governance risk profile look like?

It is important to consider and assess the risk profile of your portfolio to inform the design and areas of focus for your portfolio governance function. In particular, understanding your portfolio's potential sources of governance risk, known issues, organisational capability and capacity, and degree of shared responsibility or management for governance components are key considerations. It is also important to recognise that this risk profile can change across different types of portfolio entities (with consideration of their mandate, how large or small they are, and so on). The governance risk profile can also change as the public administration landscape and priorities shift. Becoming familiar with what governance risks and issues are more significant and how and when they may lie outside your risk appetite, is a key step to effectively designing a portfolio governance function.

Q3: What strategies and models should you employ?

Organisations that are leading implementation of a portfolio governance function can employ different strategies and operating models to manage, seek assurance, and maintain communication with portfolio entities in relation to portfolio governance risks and issues.

While there is no one size fits all, there are a spectrum of approaches, with varying degrees of centralised influence and control – ranging from a light-touch, advisory and facilitative approach, to a much more highly centralised and controlled approach between portfolio entities. The approach must carefully consider the preferred balance between the degree of oversight exercised by the department of state (or other leading entity), with the autonomy of portfolio entities and their accountable authorities. Other relevant factors that influence the preferred approach also include:

- The objectives of the portfolio or leading entity in relation to the portfolio governance function.
- The portfolio's governance risk profile and where issues may be likely to arise.
- The existing relationships between the leading entity and other portfolio entities.
- The existing capability and capacity within the leading entity and across the portfolio.

Regardless of the model selected, the articulation of roles and responsibilities (both of internal and external stakeholders) is vital to effectively set expectations and operationalise portfolio governance.

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CONTACT US

If you are looking to examine what portfolio governance arrangements would best suit your organisation, Sententia Consulting's experienced governance and risk consultants can assist.

Our personnel have unparalleled experience and exposure with public sector portfolio governance functions, and also have an understanding of how analogous relationships in the private sector have been designed and operate.

Contact our portfolio governance experts today.

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