Glossary of terms

A

Accession states: New member states joining a union or federation, for example the enlargement of the European Union.

Arbitrage: Earning profit from differences in price when the same security, currency, or commodity is traded on two or more markets. For example, an arbitrageur simultaneously buys one contract of gold in the New York market and sells one contract of gold in the Chicago market, thereby making a profit because at that moment the price on the two markets is different.

Arms Length Organisation: A company or trust that operates separately and independently from a public body. It may lease public sector assets, receive public funding and/or receive some support services from the host public body, but is otherwise financially and operationally independent.

Asia-Pacific Economic Cooperation (APEC): A regional economic forum consisting of 21 countries located in Asia and the Pacific Rim.

Asset Monetisation: The long-term leasing of public assets to the private sector for an up-front lump sum. The private sector operator maintains and operates facilities and collects and retains tolls and charges.

Asset-backed security: A security whose payments are linked to a portfolio of assets such as receivables.

Asset Based Welfare State: Increasing the role of property, personal savings, insurance and other financial mechanisms to help to fund welfare services. Associated with individual rather than collective responsibility.

B

Back-office services: Services such as transactional and financial services, human resources, property management, legal services.

Balanced budget: A budget is balanced when current expenditures are equal to income from taxes and charges.

Barriers to entry: The ease with which private firms can gain access to or exit a market. Barriers could include the cost, regulatory frameworks and/or size of contracts.

Baseline or Measurement Starting Point: The starting point for comparison purposes – in general the metric for a measurement at the start of the measurement period against which change over time can be assessed.

Benchmarking: The selection of criteria such as quality, performance, productivity, resources, cost and user satisfaction, which are compared with the same or comparable services provided by similar organisations. The purpose is to identify differences or gaps in performance and identify the reasons for differential performance.

Benefit-Lag: Where there is a time delay between the commencement of an initiative and the start of the benefit being accrued.

Bilateral debt: Money owed by one country to another country.

Bond: A debt instrument issued by a borrower usually includes regular interest payments plus a final repayment of principal. Bonds are exchanged and traded in financial markets.

Book Value: Net amount at which an asset or liability is carried on the books of account (also referred to as carrying value or amount). It equals the gross nominal amount of any asset or liability minus any allowance or valuation amount.

Bretton Woods: An agreement reached in 1944 at Bretton Woods, New Hampshire that led to the creation of the post-war international economic order. The monetary system was centred on fixed exchange rates, but ended in 1971. The agreement created the World Bank and the IMF.

Broker: A broker acts as an intermediary between buyers and sellers of derivatives or securities, effectively channelling orders to the market for execution and charges a commission for this service.

Business Plan: A plan setting out how an organisation will operate, invest and improve in the future, usually a three-year period.

C

Capital Account: An item in a country's balance of payments that measures the investment of resources abroad and in the home country by foreigners.

Capital spending: Expenditure of construction or acquisition of new facilities, networks and buildings, plant and equipment – improving and/or extending the physical infrastructure.

Cartel: A group of firms that enter into an agreement to set mutually acceptable prices.

Cashable/Non-Cashable: Cashable efficiency gains include those where cash savings have been realised, or input costs have been decreased, releasing cash. Increased input levels (e.g. through reduced absenteeism) or increased output levels represent non-cashable efficiency gains.

Cherry picking: Treating low cost cases or those, which are the most profitable, selecting tasks, which can be completed quickly or easily,

Choice: Having the option of more than one provider of a service.

Client/contractor: The functional and managerial separation of responsibilities in an organisation between those commissioning or purchasing services and those responsible for delivering the service (see purchaser/provider).

Collateral: Financial or other tangible assets pledged by a borrower to secure an obligation. If the borrower defaults, the collateral is used to full the obligation.

Collateralized Debt Obligation (CDO): A security whose payments are linked to a portfolio of debt. Usually several classes (or tranches) of securities with different returns are created from a debt portfolio. Repayment for these classes differs in the case of borrowers in the portfolio defaulting on their debt. As securities, CDOs have to be differentiated from derivatives (contracts).

Commercialisation: The process by which the university/college and public sector organisations adopt private sector values and organisational structures.

Commissioning: The term has traditionally been used to describe a decision to appoint architects to design a building or to engage consultants. It is also used at a strategic level, for example by the NHS commissioning services from NHS Trusts. In social care it is used to describe the delivery of services at the individual, community or local university/college levels. The Audit Commission, the Social Services Inspectorate and the National Assembly of Wales have jointly defined social care commissioning as: Having the vision and commitment to improve services; Connecting with the needs and aspirations of users and carers; Making the best use of all available resources; Understanding demand and supply;

Linking financial planning and service planning and making relationships and working in partnerships.

Community benefit: Employment, training and social benefits provided by a contractor in the delivery of services or capital works.

Competitive sourcing: Another name for competitive tendering and commonly used in the USA.

Competitive tendering: The process by which public services are required to compete with the private sector through the procurement process.

Concession: Concession contracts are similar to Design, Build, Operate and Finance arrangements, except that the private sector contractor recovers its costs either through direct user charges or through a mixture of user charging and public subventions. Concession can be awarded for a new facility or the sale and operation of existing public assets.

Contestability: The degree to which a market has comparable competing firms and organisations to ensure clients receive competitively priced and qualitative bids.

Contract condition: The rules governing the operation of a contract, which sets out the legal responsibilities of both client and contractor.

Contract management: A client responsibility covering how the university/college monitors and enforces the contract and relations with the contractor.

Contracting out: Contracting out is another term for outsourcing. Services or functions (and staff) are transferred to a private contractor or voluntary organisation for a specific period.

Core activities: Activities that are integral to the delivery of front-line services.

Corporate welfare complex: A system that prioritises the interests of contractors, consultants and business associations.

Corporate citizen: The idea that a company should be treated as citizen with rights and responsibilities.

Corporate Social Responsibility: The social, community and environmental responsibilities that some companies use to guide investment and activities.

Cream skimming: see cherry picking.

Credit Derivative: Whereas derivatives' most common underlying assets include stocks, bonds, commodities and currencies, a credit derivative's price is driven by the credit risk of either private investors or governments.

Credit Default Swap (CDS): A financial product designed to transfer between parties fixed-income products' exposure to credit risk. The buyer of a credit swap receives credit protection, whereas the seller guarantees the credit-worthiness of the product. By doing this, the risk of default is transferred from the holder of the fixed-income security to the seller of the swap.

Credit Rating: An assessment of a borrower's (company, organisation, country or individual) ability to repay debt, based on their credit history and current assets and liabilities.

Current Account: This is a summary item in a country’s balance of payments that measures net exports and imports of merchandise and services, investment income and payments, and government transactions.

D

Decile group: One tenth of population divided up in order of income, wealth etc.

Default: Failure to meet any obligation or term of a credit agreement, grant, or contract. Often used to refer accounts more than 90 days in arrears.

Deficit: A budget deficit occurs when an entity spends more money than it takes in.

Defined benefit pension: The amount of the pension depends on final salary rather than investment returns.

Defined contribution pension: The amount of pension depends on how much is paid in to the pension fund and on subsequent investment returns.

Democratic accountability: The mechanisms by which the management, activities and performance an organisation is reported to and held accountable by a publicly elected body.

Deregulation: The relaxation or elimination of regulations to allow business greater freedom to operate in service and labour markets.

Design, Build, Finance and Operate: DBFO contracts are contractual relationships between the public sector and private sector contractors for the design, construction, operation and financing of public facilities or infrastructure.

Derivative: A financial contract whose value is based on, or "derived" from, a traditional security (such as a stock or bond), an asset (such as a commodity), or a market index. Its value is determined by fluctuations in the underlying asset.

Direct payments: Payments made to individuals to choose, organise and pay for the social care or other services they need, rather than using the services provided by a local authority or public body.

Discount rate: The percentage rate applied to cash flows to enable comparisons to be made between payments occurring at different times. The rate quantifies the extent to which a sum of money is worth more to the Government today than the same amount in a year's time.

Dividend: The amount of a company's profits that the board of directors decides to distribute to ordinary stockholders. It is normally expressed as a percentage of the nominal value of the ordinary share capital or as an absolute amount per share.

Dividend yield: A given percentage of the company's share price paid to shareholders in the form of dividends. It is the annual dividend market capitalisation within the index divided by the investable market capitalisation of the index.

E

Earnings per share: Determined by a constituent's earnings divided by the outstanding shares. Based on the latest fiscal year earnings from: minority interests, continuing operations after tax, preferred dividends but before extraordinary items and amortization for goodwill. Earnings can be adjusted for dilution.

Efficiency: The Gershon Review defined 'efficiencies' as being achieved by five types of reform to delivery processes and resource (including workforce). Efficiency in the context of Productive Time is defined as: producing more output for the same input cost and with the same or greater quality, or producing the same output at lower input cost and with the same or greater quality.

Electronic Toll Collection: The use of electronic devices such as transponders, cameras, and photo-recognition technology to identify, classify, and toll vehicles entering and/or leaving a toll highway, bridge, or tunnel without the need for direct human involvement in the process or the handling of cash.

Enabling: The state funds and facilitates the private and voluntary sectors to deliver services and perform public functions. Government only directly provides services as a last resort.

Equity: The capital contributed by the shareholders of a project company. The value of the equity is the value of a company or project after all liabilities have been allowed for. The shareholders own the equity. Also commonly called a stock, as in the stock market.

Evaluation: The process by which proposals and bids are assessed including financial, technical, employment, management and corporate assessment.

Evidence based practice: The collection, analysis and integration of research and user-based evidence on the performance of policies, projects and programmes.

Exchange controls: The control by governments of dealings in foreign currencies and gold.

Exotic derivative: A nonstandard derivative with e.g. an unusual pay-off structure.

Expropriation: The confiscation of assets and property. Expropriation is one of the political risks associated with foreign investments. It is characterized by confiscation of assets by host country governments.

Externalisation: The transfer or trade sale of Direct Service Organisations or business units from the public to the private sector.

F

Facilities Management: Management of services relating to the operation of a building. Typically includes such activities as maintenance, security, catering, and external and internal cleaning.

Financial Close: The point at which all parties involved in a project sign all contracts.

Financialisation: The process that attempts to turn the exchange or provision of services or access to goods or intellectual knowledge, into financial transactions. It can also involve the creation of financial instruments or derivatives in the securitisation of loans and mortgages.

Fiscal stimulus: A financial package of measures including increased public spending, tax concessions and other measures intended to increase unused/under-used productive capacity in the economy and reduce unemployment.

Fitness for purpose: The extent to which a service or building meets users needs, requirements and quality standards set out in a specification. It can also be applied to the capability of an organisation to fulfil its objectives.

Fixed Exchange Rate: A rate of exchange between one currency and another that is fixed and maintained by governments.

Floating Exchange Rate: Movement of a foreign currency exchange rate in response to changes in the market forces of supply and demand. It is also known as a flexible exchange rate. Currencies strengthen or weaken based on a nation's reserves of hard currency and gold, its international trade balance, its rate of inflation and interest rates, and the general strength of its economy.

Foreign Direct Investment: An investment in a country by foreigners in which real assets are purchased. These include real estate or plant and equipment assets and involve effort to manage and control. FDI flows have three components: equity capital, reinvested earnings, and other capital (intra-company loans as well as trade credits). FDI inflows are capital received, either directly or through other related enterprises, in a foreign affiliate from a direct investor. FDI outflows are capital provided by a direct investor to its affiliate abroad.

Front-line staff: Staff who serve their organisation's aims directly, usually through regular, direct contact with the people for whom the service is provided, by undertaking core activities.

Fully open market: creating conditions to allow new entrants into a competitive market for public services.

Future (or futures contract): A standardized derivatives contract for the delivery or receipt of a specific amount of an underlying, at a set price, on a certain date in the future. Futures are traded in the derivatives market.

G

Gaming: Tactics used by service providers to avoid or minimise delivering services to users who require a high level of resources, time and/or specialist support. See also parking.

Gateway Review: An Office of Government Office designed process for best practice procurement and project evaluation.

Gershon Review: A review of ways of increasing public sector efficiency carried out for HM Treasury by Sir Peter Gershon and published with the 2004 Spending Review in July 2004.

Gini Coefficient: index of inequality (equal to zero if all households or individuals have the same and 1 or 100% if one person has everything and the rest nothing.

Gold Standard: An international monetary system in which the value of national currencies was fixed to gold and national central banks were obliged to give gold in exchange for any of its currency presented to it. This system existed from the 1870s to 1914 and briefly after the First World War.

Green procurement: Another way of describing sustainable procurement.

Greenfield Investment: When a transnational corporation opens a new facility in a foreign country as opposed to entering a market by acquiring an existing facility.

G8 (Group of 8): The 'club' of the world's most powerful countries: Canada, France, Germany, Italy, Japan, Russia, UK, and USA.

G20 Group of countries: Is made up of the finance ministers and central bank governors of 19 countries plus the European Union, represented by the rotating Council presidency and the European Central Bank. The countries are Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, United Kingdom and USA

H

Heavily Indebted Poor Countries (HIPC): Refer both to the major international debt relief scheme, and to the countries eligible for it, established in 1996 and implemented by the World Bank and IMF.

Hedging: The strategy used to offset investment risk. Investors often hedge against inflation by purchasing assets that will rise in value faster than inflation, such as gold, real estate, or other commodities. For example, Starbucks Coffee Company hedges its supplies of coffee in the futures market to limit the risk of a rise in coffee prices.

Hedge Fund: Hedge funds pool the capital of a small number of high net worth individuals or institutions under the direction of a single manager or small team. A key technique is to use short as well as long positions. This can provide protection against a falling market hence the description 'hedge fund'.

I

Implementation-Lag: Where implementation issues, e.g. introduction of business process changes or changes to ICT support, contribute to a time delay between defining a measurement and having the ability to collect metrics.

Independent sector: Delivery of services by private companies, voluntary organisations or social enterprises.

Individual budgets: A sum given to an individual, to allow them control over the way the money is spent on their care needs.

Individualisation: The provision of services via direct payments and individual budgets allowing service users to purchase services from a range of different providers. Often requires additional personal contribution or top-up.

Infrastructure Fund: Similar to mutual or private equity funds except that the fund invests in infrastructure projects such as funding new projects or the acquisition of public assets through privatisation.

In-house bid: A bid prepared by a public body to provide a service internally.

Internationall Finance Reporting Standards (IFRS): Standards for the preparation and presentation of financial statements and accounts. They also cover specific rules for the treatment of assets and liabilities.

Institutional Investor: A financial institution such as a mutual fund, insurance company, or pension fund that purchases securities in large quantities.

Internal Rate of Return (IRR): The IRR is the discount rate at which the present value of the investors' receipts from a project equals that of their payments, including their initial investment. The IRR percentage return aggregates a series of annual percentages. It does not mean the investors will receive the IRR rate as a constant return each year.

Interest Rate Swap: A financial instrument that can be used to change the basis on which interest is paid on an asset or liability, for instance a floating rate is turned into a fixed rate or vice versa.

Investment Fund: A generic term used to describe mutual funds, private equity fund and infrastructure funds.

Inward Investment: Investment by foreign investors or companies into a host economy.

J

Joint Venture Company (JVC): A company in which public and private bodies both have a stake.

Joint Venture: When two or more organisations and/or companies share the ownership of a direct investment.

K

Keynesian economics: Named for British economist John Maynard Keynes, it is an economic theory that advocates government intervention, or demand-side management of the economy, to achieve full employment and stable prices. Keynesian economics promotes a mixed economy, where both the state and the private sector play an important role.

L

Leverage: A financial mechanism used to increase available funds usually by issuing debt (typically bonds) or by guaranteeing or otherwise assuming liability for others' debt in an amount greater than cash balances.

Liberalisation: Usually a mixture of deregulation and new regulatory frameworks to create more open and accessible goods and services markets.

LIBOR: London interbank offered rate. The interest rate at which banks will lend to each other.

Life-Cycle Costs: The costs of a project over its entire life, from project inception to the end of a facility's design life.

Liquidity: A measure of the ease of trading given to a security or index. Refers to an investor's ability to sell an investment as a means of payment or easily convert it to cash without risk of loss of nominal value.

Listed infrastructure funds: Funds whose shares are publicly traded on a stock exchange. The fund will have a portfolio of infrastructure assets.

Loss leader: submitting a low bid in order to win contracts and gain/sustain market share, contractor usually tries to recoup earlier losses later in contract.

M

Maastricht Criteria: The criteria, set out in the Treaty of Maastricht, that need to be met by European countries if they wish to become full members of the Economic and Monetary Union. They include: 1) inflation of no more than 1.5 percentage points above the average rate of the three member states with the lowest inflation 2) a national budget deficit close to or below 3 per cent of gross national product and 3) public debt not exceeding 60 per cent of gross national product.

Managed services: The delivery of a group or package of services, usually corporate services, by a single contractor.

Marketisation: Marketisation is an ideology, an economic activity and a management process. It is a process of preparing public services so that they can be commodified, packaged and priced into a contract and open to competitive tendering. The process may also include establishing regulations, subsidies and other mechanisms to encourage the development of market conditions.

Megacity: A metropolitan area with a total population in excess of 10 million people.

Mega region: Networks of metropolitan areas that share ecosystems and topography, draw workers from overlapping labour markets, and are linked by highways, air travel, industrial supply chains, and shared cultural affinities.

Mercosur: A regional free trade agreement among the countries of Brazil, Argentina, Uruguay, and Paraguay that came into effect in January 1995. Bolivia, Chile, Colombia, Ecuador and Peru are associate members.

Mezzanine finance: Mezzanine finance can be unsecured debt, or preference shares. This type of funding offers a higher return than debt due to higher levels of risk. However, returns are less than equity where returns are treated as residual payments. Mezzanine finance tends to be used when bank borrowing limits are reached and the firm cannot or will not issue more equity.

Monoline credit: Monoline insurance companies guarantee the timely repayment of bond principal and interest when an issuer defaults. The economic value of bond insurance to the governmental unit, agency, or company offering bonds is a saving in interest costs reflecting the difference in yield on an insured bond from that on the same bond if uninsured.

Mortgage-backed security (MBS): A security whose payments are linked to a portfolio of debt. As securities, MBSs have to be differentiated from derivatives (contracts).

Most-Favoured-Nation Treatment: The principle of not discriminating between one's trading partners. MFN is a status accorded by one nation to another in inter- national trade. WTO member countries give MFN status to each other. Exceptions exist for preferential treatment of developing countries, regional free trade areas, and customs unions.

Multilateral Debt Relief Initiative (MDRI): The debt cancellation initiative that came out of the 2005 G8 meetings and is implemented by the World Bank and IMF.

Multilateral debt: National debt owed to international financial institutions, such as the World Bank, or regional institutions, such as the African Development Bank.

Mutual fund: A managed collective investment scheme that pools money from lots of investors and invests it in stocks, bonds and other securities. Profits or losses are usually distributed to investors annually.

N

Nationalisation: The process of taking private sector companies or assets into public ownership and control, with or without compensation. Renationalization occurs when state-owned assets are privatised and later nationalised again.

Needs assessment: The process of gathering information and evidence about the well-being of the population and specific groups of people to identify the services and programmes required to meet social and economic needs.

Net Asset Value: The Net Asset Value is simply the Book Value of the company's net assets divided by the number of shares issued. The resulting figure is the company's Net Asset Value (NAV) or book value per share - a base-line indicator of what a share would be worth if a company's assets were sold off i.e. in the event of a bankruptcy.

Net Present Value (NPV): The discounted value of a series of future costs, benefits or payments, ie. the value of future cash flows in today's money.

Nominal value: Nominal value is the actual financial value of the debt.

O

Offshoring: Offshoring is the combination of outsourcing and transfer of services and functions overseas, usually to Asia.

Oligopoly: A type of industry in which there are only a small number of producers and in which there are barriers preventing new firms from entering the industry. Usually, firms in an oligopolistic industry are able to affect prices and often engage in at least tacit collusion.

Operational risk: The risk that deficiencies in information systems or internal controls, human error, or management failure result in unexpected losses.

Options appraisal: The assessment of the effects of options and selection of the option, which is most effective and efficient in meeting the objectives and priorities.

Option (or options contract): A derivatives contract giving the buyer the right to buy (call) or sell (put) a specific quantity of a specific underlying, at a fixed price, on, or up to, a specified date. The seller is obliged to deliver or accept the asset, when the option is exercised.

Outsourcing: Outsourcing is another term for 'contracting out'. Services or functions (and staff) are transferred or seconded to a private contractor or voluntary organisation for a specific period.

Over the counter (OTC): Bilateral transactions between (two) trading parties that are not conducted on a regulated exchange. In the derivatives market, the over-the-counter segment is by far the largest part of the market.

P

Paris Club: An informal group of 19 creditor countries that negotiates debt relief with individual debtor countries that approach them over debt crises.

Parking: the non-treatment of harder to help clients - leaving difficult and complex (and therefore costly) cases for the public sector or another contractor, for example, in employment training targeting those with aptitude and basic skills and 'parking' those without to another training programme.

Personalisation: The new term used for the design and funding of services built around the needs of individuals - means putting people at the centre of the design and delivery of services, acting to respect their rights and choices, and providing support to enable people to live their lives the way they wish.

Petrodollars: It refers to the profits made by oil exporting countries when the oil price rose during the 1970s, and their preference for holding these profits in US dollar-denominated assets. A significant portion of these dollars was in turn lent by Western banks to the developing world.

Portfolio Investment: An investment in a country by foreigners in which debt or stock ownership is involved. The result is a claim on resources, but typically no participation in the management of the companies involved.

PPP equity: The shares in the special purpose vehicle (usually financed by 10%-20% equity and the remainder is financed by debt). The main partners in the project initially own the equity, usually the contractor, the main bank or financial institution and the facilities management operator.

Preferred bidder: Selection of a provisional contractor, which will be followed by detailed negotiations on service delivery, employment and prices.

Price-Earnings Ratio: Determined by the price of the constituent divided by the earnings per share. This provides a simple way of comparing different shares, usually within a given industry.

Primary circuit:

Prime Contractor: a single contractor who acts as the sole point of responsibility to a public sector client for the management and delivery of a project. Widely used in construction industry.

Private equity fund: A pooled fund in which companies, pension funds and wealthy individuals invest which is then used to acquire other companies and assets.

Private Finance Initiative (PFI): A policy introduced by the Government in 1992 to harness private sector management and expertise in the delivery of public services, while reducing the impact on public borrowing of providing these services.

Privatisation: The sales of assets or transfer of services and functions from the public to the private sector (companies and families/individuals) or voluntary organisations.

Procurement: "the process for acquiring goods, works and services, covering both acquisition form third parties and from in-house providers. The process spans the whole cycle from identification of need, through to the end of a service contract or the end of the useful life of an asset. It involves options appraisal and the critical 'make or buy' decisions, which may result in the provision of in-house services in appropriate circumstances." (National Procurement Strategy, LGA 2003)

Productive time: Time spent by public service staff on core service delivery activities.

Productivity: Commonly defined as a ratio of a volume measure of output to a volume measure of input.

Progressive taxation: tax system where those with higher resources pay taxes that are a greater proportion of those resources.

Public debt: Also referred to a government or national debt, is the sum of money owed at any given time by any branch of the government – central/federal, regional and local/municipal government. It includes both internal and external debt, such as money owed by the government to foreign lenders that invest in government bonds.

Public infrastructure: The networks, buildings and equipment required sustaining and improving the economy and quality of life, and distinct from the corporate infrastructure in companies and industries.

Public investment: Expenditure on fixed or capital assets – tangible or intangible assets – but excludes investment in human capital to provide services and carry out research, which are classified as current or revenue expenditure.

Public Private Partnership: A long-term contractual relationship between a public body and a private contractor or consortia to provide new buildings or networks, operate existing facilities and/or supply services.

Public Sector Comparator: A crude mechanism for identifying public sector costs and risks of a project and comparing them with private sector bids.

Public Service Agreement (PSA): An agreement between a government department and the Treasury, as part of the Spending Review, including objectives and targets.

Purchaser/provider split: The functional and managerial separation of responsibilities in an organisation between those commissioning or purchasing services and those responsible for delivering the service (see client/contractor).

R

Ramp up: To increase or build up an activity or focus on acquiring shares with the intention of pushing up the share price.

Rating Agency: An organisation that assesses and issues opinions regarding the relative credit quality of bond issues. The three major municipal bond rating agencies are Fitch Investors Service, Moody's Investors Service, and Standard and Poor.

Refinancing: The process by which the terms of the finance put in place at the outset of a PFI contract are later changed (to take advantage of reduced risk in the project) through negotiation with the senior lenders, to create refinancing benefits for the shareholders and public sector authority, eg. improved interest rates and repayment terms.

Regulatory capital: The capital that banks must maintain according to certain statutory rules (often based on the BIS' capital standards). The amount of regulatory capital required depends on the riskiness of the bank's assets. A bank active in the derivatives market must maintain certain regulatory capital to cover part of the exposure (mostly in the form of counterparty risk) from its open positions.

Refinancing benefits: The benefits to shareholders of increasing and/or bringing forward their returns from the project as a result of changes to the financing structure of the consortium company.

Return on Equity (ROE): The net income divided by averaged common equity. Common equity is averaged over the accounting year. It may be adjusted to include goodwill written-off and is attributed across different share classes, where common stock is comprised of more than one share type. ROE is expressed as a percentage and is not calculated when average common equity is negative.

Returns to shareholders: Payments made by a company or consortium to its shareholders in the form of dividends and interest on subordinated debt.

Revenue Bonds: Instruments of indebtedness issued by the US public sector to finance the construction or maintenance of a transportation facility. Revenue bonds, unlike general obligation bonds, are not backed by the full faith and credit of the government, but are instead dependent on revenues from the roadway they finance.

Risk transfer: The identification and pricing of risk and its transfer from the public to the private sector.

S

Secondary circuit:

Secondary Market: A market in which an investor purchases a security from another investor rather than the issuer, subsequent to the original issuance in the primary market. In the PFI market this tends to take the form of the sale of equity by investors in the project company in many cases to secondary funds that wish to build a portfolio of PFI assets. There is also a secondary market in debt (the syndicated debt market) usually between banks but also to other types of investors.

Secondment: Public sector staff remain public employees retaining current terms and conditions but are engaged and managed by a public/private joint venture company or by a private contractor.

Security: An investment instrument, which offers evidence of debt or equity usually issued by a corporation, government or other organisation.

Securities: Includes stocks, bonds, and other tradable financial assets.

Securitisation: The original holder of loan assets (the "originator") transfers them to a special purpose vehicle ("asset backed securitisation") in order to capture incremental benefits derived from the lower probability of loss associated with a mixed pool of loan assets rather than an individual loan. Alternatively the originator may transfer only the economic risk and not the assets themselves ("synthetic securitisation"). This is typically done through a financial instrument, such as a credit default swap, and funding relating to the portfolio's risk is raised without using the originator's balance sheet.

Senior debt: The major funding component (typically 90% of the funds required for construction, etc.) provided by banks or bonds. Debt that, in the event of bankruptcy, must be repaid before subordinated debt receives any repayment. Senior debt lenders take security over the borrowers assets such that they have the highest-ranking claim over the assets of the project company compared to all other lenders and investors.

Shadow Tolling: Shadow tolls are per vehicle amounts paid to a facility operator by a third party such as a sponsoring governmental entity. Shadow tolls are not paid by facility users. Shadow toll amounts paid to a facility operator vary by contract and are typically based upon the type of vehicle and distance travelled.

Shared services: Joint provision of corporate services such as ICT, financial and human resources between two or more public bodies.

Social Enterprise: A business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community.

Soft Services: Cleaning, catering, routine repairs and maintenance, security and similar support services which are considered separate from the 'hard' services, which are directly connected to the building fabric.

Sovereign Wealth Fund: A Sovereign Wealth Fund (SWF) is a state-owned investment fund composed of financial assets such as stocks, bonds, real estate, or other financial instruments funded by foreign exchange assets. These assets can include: balance of payments surpluses, official foreign currency operations, and the proceeds of privatisations, fiscal surpluses, and/or receipts resulting from commodity exports.

Special Purpose Company (SPC) or Vehicle (SPV): A company especially established to carry out the contract, owned by its shareholders, the providers of equity finance for the scheme.

Specification: A description of the work, quality, standards and inputs, outputs, outcomes and processes required in the delivery of a service.

Speculation: The purchase or sale of stocks, bonds, commodities, real estate, currencies, derivatives or any other financial instruments to profit from fluctuations in their prices as opposed to buying them for use or for income derived from their dividends or interest.

State guarantees: Government provided minimum revenue or exchange rate conditions, which financially protect PPP companies if road/passenger traffic fails to meet certain levels. May also afford some protection from large fluctuations in exchange rates when projects are financed by foreign investors.

Strategic Partnerships: There are different types of partnerships but those, which involve the delivery of services, and functions are usually determined through the commissioning and procurement process and are established by contract.

Strategic Service-delivery Partnerships: SSPs are long-term, multi-service, multi-million pound contracts involving the secondment or transfer of between 100 – 1000 staff to a private contractor. Usually include ICT, human resources, financial, property management and other corporate services.

Subcontracting: When a contractor engages another contractor to undertake part of the contract.

Subordinated debt: Debt over which senior debt takes priority. In the event of bankruptcy, subordinated debt lenders receive payment only after senior debt is repaid in full. A form of mezzanine finance is a term used to describe debt that is unsecured or has a lesser priority than other debt claims on the same asset. If the party that issued the debt defaults on repayments, people holding subordinated debt get paid after the holders of the senior debt. A subordinated debt carries more risk than a normal debt, and earns a higher expected rate of return than senior debt due to the greater inherent risk.

Subprime Loan: A type of loan offered to individuals who do not qualify for a lender's best-available (or “prime”) rate. They often do not qualify because of poor credit history. Subprime loans tend to have higher interest rates than traditional loans.

Supplier: An organisation or company delivering goods, services and works.

Supply chain: Suppliers and sub-contractors that are involved in the supply and transport of materials, goods, services and equipment during the construction and operation of the building and services.

Sustainable procurement: Procurement that takes maximum account of environmental and sustainable development factors.

Swap (contract): A derivatives contract under which the two counterparties agree to exchange cash flows at future dates as stipulated in the contract.

Syndication: Syndication is the private placement of debt (or equity) securities to third parties. By employing debt syndication, several banks, investment firms, or other companies share the profits and diversify the risk of making a large loan. For ADB, syndications are used to transfer some or all of the risk associated with its loans and guarantees to its cofinancing partners, and include fronting (CFS), non-funded risk participations, and sell-down arrangements.

Synthetic Collateralised Debt Obligation: A CDO that invests in credit default swaps or other non- cash assets.

Systemic risk: The risk that the failure of one market participant has adverse effects on other participants, destabilizing the market as a whole.

T

Tax avoidance: Tax avoidance is a practice of using legal means to pay the least amount of tax possible.

Tax evasion: Unlawful attempt to minimize tax liability through fraudulent techniques to circumvent or frustrate tax legislation, such as deliberate under-statement of taxable income or wilful non-payment of due taxes.

Tax haven: A tax haven is a jurisdiction that offers favourable tax or other conditions to its taxpayers as relative to other jurisdictions and promise privacy of deposits and earnings.

Tendering: Tendering is the ‘old’ term used to describe the contracting process which usually began with the selection of services to be tendered, specification and contract documents through to contract award. The system remains largely the same.

Commissioning and procurement encompass the earlier stages of planning, needs analysis, service review and options appraisal.

Time Lag: Where there is a delay between the delivery activity and reporting of a metric.

Toll Credits: Toll credits are earned when a State, a toll authority, or a private entity funds a capital highway investment with toll revenues from existing facilities. States may increase the use of available eligible Federal funding on a project, up to the normal State/local matching amount, and debit the sum of the toll credits that have been earned by that same amount.

Tolling: The process of collecting revenue whereby road users are charged a fee per roadway use. Tolls may be collected on a flat-fee basis, time basis, or distance basis and may vary by type of vehicle.

Transaction costs

The costs incurred in the process of planning, contracting and procuring goods and services including the cost of advertising contracts, engaging consultants, officer time in preparing contract documentation, client costs of managing and monitoring the contract.

TUPE (Transfer of Undertakings (Protection of Employment) Regulations 2006, UK): Regulations that provide employment rights to employees and trade union representatives when their employer changes as a result of a transfer of an undertaking. They implement the European Community Acquired Rights Directive (77/187/EEC, as amended by Directive 98/50 EC and consolidated in 2001/23/EC).

TUPE Plus: Agreements that build on TUPE rights, guaranteeing that there is no deterioration in pay and conditions during the life of a contract and improves trade union bargaining rights for all staff, including new starters.

Turnkey: A generic term for a variety of public/private partnership arrangements whereby a public sector entity awards a contract to one or more private firms to undertake the development, construction, and/or operation of an infrastructure project for a predetermined period of time before turning the project back over to the public entity. Turnkeys may take various forms, including design-build-transfer and build-operate-transfer.

U

Underwriting: In banking, underwriting encompasses detailed credit analysis preceding the granting of a loan, based on credit information furnished by the borrower. Underwriting also can refer to buying corporate bonds, commercial paper, or government securities by a dealer bank for its own account, or for resale to other investors.

Unitary charge: The single payment, usually monthly, due from the Authority to the consortium in respect of the provision and operation of the asset.

Universal services: Services provided for the whole community, including education and health, housing, leisure facilities and transport.

Unlisted infrastructure funds: Funds that are normally only open to institutional investors. Funds invest in new and/or existing infrastructure assets.

V

Value for Money (VFM): The optimum combination of whole life costs and quality to meet the user's requirements. However, frequently used to assess only the financial implications of projects rather than their economic, social and environmental impact.

W

Weighting: A means of expressing the prioritising criteria by allocating different numerical values to each criteria.

Whole-life costs: Assessing the total costs of a building or projects over a contract period taking account of responsive repairs and maintenance, planned maintenance and renewal/replacement cycles.

X

Y

Z

Sources

National Audit Office; Financial Times; Federal Highway Authority; Why Investment Matters – Kavaljit Singh; The Global Derivatives Market - Deutsche Borse Group; Unfinished Business - Jubilee Debt Campaign; Bloomberg.