Glossary

Alliance contract. Alliancing is a 'relationship contract' that effectively becomes a joint venture operating under a cost-plus, no-blame, no-dispute and good faith basis.

Asset recycling. Governments themselves build the infrastructure and, after it is tried and tested, sell it to investors wanting to buy 'mature' infrastructure assets.

Behavioural economics. Drawing on experimental evidence compiled by cognitive psychologists, behavioural economics examines the biases that arise when people form beliefs and make decisions based on those beliefs, that is, behavioural decision theory.

Belt and Road Initiative (BRI). Originally known as 'One Belt, One Road', this Chinese infrastructure initiative comprises a series of land-based trade and transport corridors known as the Silk Road Economic Belt and the shipping routes called the Twenty-First Century Maritime Silk Road.

Benchmarking. A process of comparing a project with similar precedent projects in order to identify issues that may impact on the project.

Bidder. A respondent to a request for expressions of interest or an invitation to submit a bid in response to a project brief. Typically, a bidder will be a consortium of parties with one lead party responsible for the provision of all contracted services on behalf of the consortium.

Build, own, operate (BOO). The developer is responsible for design, funding, construction, operation and maintenance of the facility during the concession period, with no provision for transfer of ownership to the government. At the end of the concession period, the original agreement may be renegotiated, a new agreement may be negotiated, or the facility may be purchased by the government.

Build, own, operate, transfer (BOOT). An arrangement whereby a facility is designed, financed, operated and maintained by a concession company. Ownership rests with the concessionaire until the end of the concession period, at which point ownership and operating rights are transferred to the government (normally without charge).

Bundling. This refers to the integration in a PPP of functions such as design, construction, financing, operations and maintenance of the facility, often in the form of a special-purpose vehicle.

Business case. The business case provides an overview of a procurement approach, a preliminary view on how the project will be delivered, an analysis of the various impacts of the project, and an indication of the likely level of market interest, before significant resources are spent on its development.

Capital asset pricing model (CAPM). A model of the market for different financial assets which suggests that asset prices will adjust to ensure that the return an on asset precisely compensates investors for the risk of that asset when held with a perfectly diversified portfolio.

Concession. Concession-based approaches are the oldest form of public–private partnership, and a variety of arrangements are based on the concept of a fixed-term concession, using various combinations of private sector resources to design, construct, finance, renovate, operate and maintain facilities. Ownership of the facility may remain with government or be transferred to the government upon completion of the construction or at the end of the concession period.

Confirmation bias. Selective thinking where individuals or groups search out information that confirms their beliefs, and ignore or downplay information that contradicts their beliefs.

Contracting out. An 'outsourcing' arrangement in which a public agency contracts with an external supplier for the provision of goods and/or services.

Conventional procurement. A conventional (traditional) public procurement contract is one in which a public agency secures the finance directly and pays the contractor as works progress.

Core activities. Those operational elements, involving making key decisions (setting service strategy) and/or the delivery of services, that may remain with government.

Crossrail. Scheduled to open as the Elizabeth underground ('Tube') line in 2018, Crossrail will run over 100 kilometres from east to west across London, connecting the outer suburbs to the City, Canary Wharf and the West End, as well as linking the City's key financial, business, retail and entertainment locations directly with Heathrow Airport.

Default. The failure of a party to perform a contractual requirement or obligation, including failures to meet deadlines, to perform to a specified standard, to meet a loan repayment or to meet its obligations in relation to a materialized risk.

Design, build, finance (DBF). A form of PPP that involves the procurement of an asset using private finance, without private sector operation of the associated services.

Design, build, finance, operate, maintain (DBFOM). The main form of contract in the PFI whereby the service provider is responsible for the design, construction, financing, operation and maintenance of an asset.

Design, build, operate, maintain (DBOM). A form of PPP, in which the public sector provides finance for a capital investment project but the providers of the projects retain the design and construction, and deliver operational and maintenance elements.

Discount rate. The rate used to calculate the present value of future cash flows, usually determined on the basis of the cost of capital used to fund the investment from which the cash flow is expected.

Discounted cash flow. A general term for analysis which discounts a stream of future cash flows in order to calculate a net present value.

Expected value. The weighted average of possible values of a variable, where the weights are the probabilities of cost estimates.

Funding. The revenue sources (for example, taxes, service charges, user payments) tapped, for example by government, to repay the finance raised to pay for the cost of building infrastructure.

Internal rate of return (IRR). That discount rate which would give a project a present value of zero.

Joint venture (JV). A distinct legal form of PPP arrangement involving public and private bodies assuming some form of equity stake in a PPP.

Key performance indicators (KPIs). Measures developed under a performance management regime to indicate how well specified performance targets are being realized.

Megaproject. A large-scale complex investment project that typically costs US$1 billion or more.

National Audit Office (NAO). The UK's National Audit Office scrutinizes public spending on behalf of Parliament. Totally independent, it audits the accounts of all government departments and agencies as well as a wide range of other public bodies, and reports to Parliament on the economy, efficiency and effectiveness with which government bodies have used public money.

National Health Service (NHS). The UK's National Health Service.

NHS Trust. The organizational structure adopted in the UK to manage individual hospitals.

Net present value (NPV). The discounted value of a stream of either future costs or benefits, with NPV used to describe the difference between the present value of a stream of costs and a stream of benefits.

Optimism bias. The demonstrated systematic tendency for appraisers to be overoptimistic about key project parameters, including capital costs, operating costs, works duration and benefits delivery.

Output specification. The output specification sets out the range of services that government is seeking to procure and the performance levels required for each of those services.

Partnerships UK. Partnerships UK is the successor to the Treasury Taskforce. It works with the government in the development of PPP policy and contract standardization, helps with project evaluation and implementation, and supports PPPs in difficulty. It also works closely with 4Ps (a local government agency set up to help local authorities develop and deliver PPPs) in local authority projects.

Partnerships Victoria. Partnerships Victoria is a policy in the state of Victoria, Australia giving effect to a commitment to optimize the level of infrastructure spending through a responsible use of the resources of both the public and private sectors. Value for money and the public interest are keynotes of the policy.

Private Finance Initiative (PFI). A UK programme encompassing arrangements whereby a consortium of private sector partners comes together to provide an asset-based public service under contract to a public body.

Private party. The private sector entity with which the government contracts in a PPP. Traditionally the private party has been a special purpose vehicle created specifically for the purposes of the project.

Procurement. The component of the commissioning process that deals specifically with purchasing a service from a provider. This occurs once decisions have been taken over what outcomes or outputs are to be secured and involves the negotiation of contracts.

Procurement options analysis. A procurement options approach involves comparing one set of features of a contractual arrangement against those of others in order to choose the model that best suits the infrastructure services being considered.

Project brief. The project brief details government's objectives, service delivery requirements, policy and commercial matters, material background information and the processes for lodging and evaluating submissions.

Project finance. A way of financing capital projects that depends for its security on the expected cash flow of the project itself rather than guarantees from the borrower or third parties.

Public interest test. An assessment of the impact of the project on effectiveness, accountability and transparency, affected individuals and communities, equity, consumer rights, public access, security and privacy.

Public–private partnership (PPP). A risk-sharing relationship based upon a shared aspiration between the public sector and one or more partners from the private and/or voluntary sectors to deliver a publicly agreed outcome and/or public service.

Public sector. Refers to public agencies and enterprises that are state financed, owned and controlled.

Public Sector Comparator (PSC). A hypothetical constructed benchmark to assess the value for money of conventionally financed procurement in comparison with a privately financed scheme for delivering a publicly funded service.

Regulatory asset base (RAB). RAB assesses the value of assets in a regulated activity as a base for calculating a 'fair' return for investors.

Risk. A situation involves risk if the randomness facing an economic entity can be expressed in terms of specific numerical probabilities (objective or subjective).

Risk allocation. The allocation of responsibility for dealing with the consequences of each risk to one of the parties to the contract, or agreeing to deal with the risk through a specified mechanism which may involve sharing the risk.

Shadow toll. A payment for road usage made by the government, rather than road users, based on vehicles using a kilometre of the project road, in accordance with a tolling structure. Now supplemented or replaced in the UK by availability and performance measures.

Special-purpose vehicle (SPV). An organization that can be established as a distinct legal entity to bring together the companies involved in a PPP in order to manage the project and share the risks and rewards.

Systematic risk. Risk that is correlated with movements in the economic cycle and therefore cannot be diversified away.

Uncertainty. There is uncertainty where an economic entity cannot assign actual probabilities to the alternative possible occurrences.

Unitary payment. Payment for services delivered by an SPV under a PFI or PPP-type arrangement.

Value capture. Employment of a variety of methods (betterment levies, property taxes, developer contributions) to generate revenue by levying charges upon those benefitting from an infrastructure project.

Value for money. The optimum combination of whole-life costs, risks, completion time and quality in order to meet public requirements.

Whole-of-life cycle. Costs associated with the ongoing repair and maintenance of a facility for the term of a facility's economic life.