SCOTTISH FUTURES TRUST

PPP General Terminology
Glossary of Terms

Term	Meaning
Abnormals	Site specific elements (e.g. effect of ground conditions, depth of drainage) which cannot be priced by the contractor without site investigation reports.
Advance Loss of Profits ("ALOPS") Insurance	A form of revenue replacement insurance to cater for insurable incidents that prevent income being earned as predicted.
Affordability Limit	The budget envelope within which a public authority has the ability to make payments under a NPD/DBFM contract.
Agency Fee	Annual administration / monitoring fees payable under a loan facility. These may vary during the construction and operational phases of a Project
All Risks Insurance	Insurance of the physical damage to a project.
Annual Debt Service Cover Ratio ("ADSCR")	Annual Operating Cashflow Pre Financing / Annual Senior Debt Service (Capital and Interest) The number of times the Borrower of a loan can service the amount due in any given year out of Cashflows.
Arrangement Fee	Upfront arrangement fee payable to the lender - usually a percentage of the amount borrowed.
Authority	The local authority or other government body procuring the Project.
Availability	The ability of a project to make its service (e.g. power generation, or accommodation in a NPD/DBFM project) capable of use by the client. Deductions are normally made from contractual payments to a project if availability requirements are not fully met.
Base Rate	See Gilt rate
Balloon Payment	A large final principal repayment of a loan (after a series of smaller payments).
Bank Financing	Refers to the raising of finance for a project through the borrowing of funds from a banking institution (or building society). See Senior Debt.
Base Case / Base Case Model	This is the default scenario for the financial performance of a project and will form the basis on which sensitivity analyses start. It is also the underlying position on which changes to the Project will be based.
Basis Points ("bps")	Often pronounced "bips". A basis point is equal to one hundredth of one percent, i.e.0.01%. Basis points are often

	referred to when discussing interest rate movements.
Batching	Grouping together of projects for procurement under a single framework agreement within one project structure but leading to individual Project Agreements for each.
Benchmarking	Process of comparing the cost (generally of facilities management services) of the undertaking with similar activities in other areas. Undertaken on a periodic basis in line with the underlying contract.
Blended Equity IRR	A measure of financial return. The nominal internal rate of return on an investment calculated on the aggregate of the Equity and Subordinated Debt invested. This can be referred to on a "Real" or "Nominal" basis.
Boilerplate Clauses	Standard clauses that occur in most types of contracts. They provide the mechanics of how the agreement is to operate, for example clauses dealing with applicable law, the means by which notices may be served and jurisdiction clauses.
Bond Financing	Refers to the raising of finance for a project through the issuance of a project specific bond. Typically this bond will be purchased by financial institutions such as pension funds.
Bond Arrangement Fee	Charged by the bond arranger to place the bond with investors. If the bond is underwritten the bond underwriter will arrange to buy any of the bonds that have not been sold to investors at the end of the placement period at a previously agreed price. The arrangement fee is quoted in terms of basis points of the total bond size.
Bullet Repayment	Repayment of a loan in one final instalment rather than a series of principal repayments
Bundling	The grouping together of associated services/projects in order to acquire (more advantageous) financing as a single service/project effected by a single Project Agreement
Business Interruption ("BI") Insurance	A form of revenue replacement insurance to cater for insurable incidents that prevent income being earned as predicted.
Call-off	Appointment made from a framework of providers for a specified element of work.
Capex	Capital expenditure – the build cost provided by the partnering building contractor or supply chain contractor.
Capital Contribution	This is usually a payment from the procuring authority made at the completion of the construction phase. The effect is to reduce the Unitary Charge.
Capital Markets Solution	See Bond Financing

Capitalise	Usually a term referred to in the context of interest being added to the balance of a loan (usually construction period interest incurred prior to project revenues being received by the project company) and repaid over the life of the loan facility.
Cash Sweep	This is a means of a lender using all available cash in a Project to repay the Loan Facility. Usually occurs when there has been a failure to repay or refinance as agreed.
Cashflow Cascade (or Waterfall)	The agreed order of priorities in which the project's cash flow will be applied.
CDM Regulations	Construction (Design and Management) Regulations 2007(Click here) – Places safe working obligations on all parties involved in delivering a facility or service.
Change in Law ("CiL") Provisions	Provisions contained within a contract which relate to the impact upon the project, and the allocation of associated risks, in connection with a change in law. This may result in an amount being provided for within the Financial Model in respect of the risk borne by the project with respect to any potential changes in law during the project term. N.B. Can be general or discriminatory. See General Change in Law and Discriminatory Change in Law.
Change orders	Confirmation of client change instruction that includes capital, Lifecycle, FM costs and any change to the contract service obligations.
Code of Practice 10 ("COP 10")	COP 10 (Click here) is a certification process which allows potential tax treatments to be considered by HMRC. Most standard structures do not require this process, although comfort may still be sought from HMRC.
Collateral Warranty/ Direct Agreement	A contract between the SPV and its key sub-subcontractors or professionals (such as design team) giving the SPV (and its lenders) direct access in the event that the principal Subcontractor fails to perform. See also "Funder Direct Agreement".
Competitive Dialogue	A procurement route to be used for complex contracts where there is a need for the contracting authorities to discuss all aspects of the proposed contract with candidates. Click here.
Commercial Close	The point at which agreement is reached on all the commercial terms of the Project Agreement.
Commitment Fees	This is an amount payable to a lender in respect of sums which it has committed to lend but which have not been borrowed. Commitment fees are a means of the lender obtaining recompense for the use of its capital. Also known as non-utilisation fees.
Common Terms Agreement	Agreement between different lenders to a project on common

	loan terms such as events of default.
Compensation Event	An event which may occur during the construction phase of a project, which triggers a compensation payment to the project company. For example public sector omission or breach of contract, industrial action or other events defined in the project agreement.
Compensation on Termination Payment	A payment made by the public sector body upon termination of the project agreement by the public sector body as a result of, for example; an event of default, force majeure termination event or voluntary termination. The payment amount will be determined by the contract (termination payment schedule) and the level of payment will depend on the reason for the termination.
Composite Trader	A tax treatment which allows all of the expenditure incurred in design and construction to be relieved against trading income, thereby reducing the SPC's tax burden. This reduction in the tax paid by the SPC offers scope to reduce the unitary charge paid by the procuring body.
Concession Length	The duration of the contract from Financial Close
Condition Precedent	A contractual condition that suspends the coming into effect of a contract unless or until a certain event takes place. For example, an estate contract may have a condition precedent which states that the contract is not binding until and unless the property is subjected to a professional inspection, the results of which are satisfactory to the purchaser. Compare with Condition Subsequent.
Condition Subsequent	A condition in a contract that causes the contract to become invalid if a certain event occurs. This is different from a Condition Precedent. The happening of a Condition Subsequent may invalidate a contract which is, until that moment, fully valid and binding. In the case of a Condition Precedent, no binding contract exists until the condition occurs.
Contingency	Unallocated reserve in the project cost budget, covered by contingency funding.
Conventionally Procured Assessment Model ("CPAM")	See PSC.
Corporation Tax	Tax levied on corporate entities by HMRC (Click here).
COSHH	Control of Substances Hazardous to Health (Click here). Most materials involved in the construction process include chemicals or create dust residue that maybe hazardous to the user so must be subject to a COSHH assessment. To ensure it is handled safely.
Coupon	A more formal term for Interest, usually used in the context of Subordinated Debt or Loan Stock as the rate there is typically

	fixed, so the context might be “The Subordinated Debt carries a fixed Coupon of XX%”.
Covenant	Likely to be used in the context of a loan where “covenant” is the generic term for conditions or requirements of the Lender (often expressed as a cover ratio).
Cover Ratios	Cover ratios measure the financial robustness of a project i.e. whether the project can pay the interest and principal on its debt and whether sufficient reserves have been accumulated to cushion any reductions in revenues. The debt providers insist that the project company maintain certain cover ratios and usually have the right to step in and manage the contract if these ratios are broken. See ADSCR, LLCR and PLCR.
Credit Rating	An appraisal by a recognised rating service of the soundness of an investment.
Credit Spread	Most often used in the context of an Interest Rate Swap, the “Credit Spread” is the risk margin added to the market interest rate to reflect the potential of non-payment or default.
Data Book	This forms part of the Financial Model and sets out all of the underlying assumptions contained in that model. It may also provide user Instructions
Data Protection Act (“DPA”)	Click here for further details.
DBFM	Design, Build, Finance and Maintain – this is generally the convention under which NPD/DBFM projects are carried out where the majority of risk and reward is transferred to the Private Sector.
DBFO	Design, Build, Finance and Operate – very similar to DBFM, this is the generally used term for PPP/PFI roads projects where the majority of risk and reward is transferred to the Private Sector.
DCMF	Design, Construct, Maintain and Finance – very similar to DBFM, this is generally the convention for PPP/PFI prison projects. The key difference being that, under DCMF prison projects, the majority of the services provided within the prison are carried out by private sector employees, unlike, for example, a school where the maintenance is undertaken by the private sector but the core teaching function remains within the public sector.
Debt Service	Payment of interest and debt principal instalments.
Debt Service Cover Ratio (“DSCR”)	See ADSCR, although could be for a different period.
Debt Service Reserve Account (“DSRA”)	This is an account which is often required to provide a “buffer” to cater for unforeseen shortfalls in Cashflow. Generally funded to meet a pre defined number of months of forthcoming debt

	service costs on a loan facility
Debt Service Reserve Facility ("DSRF")	Offered in lieu of a Debt Service Reserve Account, a sum of financing that can be drawn to meet unforeseen shortfalls in cashflow.
Decant	A phased refurbishment project will usually require the decant (or transfer) of the facility users and their equipment into alternative accommodation to allow refurbishment works to be undertaken.
Default Interest	The higher rate of interest applied to a borrower who fails to effect a repayment when due.
Defects / defect rectification	Construction contractor liable for building defects during the defects period (generally 12/ 24 months). The construction contractor is also liable for latent defects (defects which were not apparent during the defects period) for a further period (generally 12 years). The PPP contracts include mechanisms which allow the SPV / operating contractor to rectify defects and seek cost recovery from the construction contractor.
Delay in Start-Up ("DSU") Insurance	Insurance policy that covers (1) all non-site force majeures, (2) changes in law or regulations, and (3) contingent liability of a contractor. A form of revenue replacement insurance to cater for insurable incidents that prevent income being earned as predicted.
Derivative Instrument	See Interest Rate Swap and/or RPI Swap
Design & Build ("D&B")	The D&B contractor enters into a contractor to design and build a project that complies with a performance specification.
Discount Rate	The Discount Rate is used to calculate the NPV of a series of Cashflows (positive or negative). The level of Discount Rate is a matter for commercial judgment depending on the perception of risk.
Discounted Cashflows	The revenue and costs of each year of an option, discounted by the respective discount rate. This is to take account of the opportunity costs that arise when the timing of cash flows differ between options.
Discriminatory Change in Law	A change in law which discriminates directly against the project, or the project company (or specifically all PPP contracts), provided that such a change was not reasonably foreseeable at the time of signing the contract. Also referred to as a Specific Change in Law.
Dispute Resolution Procedure ("DRP")	The process which is agreed within a PPP contract for managing any disputes that may arise during the concession.
Distribution	This is the generic term for payments to shareholders by way of dividends or to subordinated debt providers in the form of

	Coupon or capital repayments.
Distribution Lockup	See Lockup.
Drawdown	A loan payment made by the lenders to the SPV in accordance with the terms of the Senior or Junior Debt facilities.
Due Diligence	The process of assurance / validation of information provided in connection with a transaction, prior to entering into binding agreements
Economic Assumptions	These are the assumptions of inflation, interest, taxation etc. Used in the Financial Model.
Elemental Breakdown	Construction price based on an agreed schedule of elements (e.g. foundations, external walls, roof). These elements costs can be scheduled in elemental lump sums or cost/m^2 of floor area.
EPC (1)	Energy Performance Certificate. Click here.
EPC (2)	Engineer, Procure and Construct
Equity	Ordinary share capital invested in the project company by the sponsors and any third party investor. A wider definition of Equity includes loan stock or loans made by shareholders. Typically equity has the last claim upon the project's income, hence the highest risk and is therefore is the most expensive source of finance.
Equity Bridge Loan	This is a loan made to defer the making of an investment by the shareholders in order to reduce project costs. Generally, Equity Bridge Loans are repayable by the project company at or around the completion of the construction phase.
Equity Subscription Agreement	A legally binding agreement which sets out the basis on which the shareholders or subordinated debt providers agree to make payments in respect of shares or subordinated loans.
Escrow Account	This refers to an arrangement where a trusted independent third party receives and distributes money and/or documents for two or more transacting parties.
European Investment Bank (“EIB”)	The long-term lending institution of the European Union.
European System of Accounts 95 (“ESA 95”)	European Union publication detailing the public versus private classification of assets and expenditure for national accounting purposes. Click here.
Events of Default	Events which allow one party to terminate a contract. The right to terminate a NPD/DBFM contract is often subject to: 1) allowing parties time to rectify the event of default; 2) the lenders’ step in rights.

Evergreen Financing	A revolving Credit Arrangement in which the borrower periodically renews the debt financing rather than having the debt reach maturity. An evergreen funding arrangement allows the ability for the Project to renew its debt periodically, pushing back the maturity date each time so that the time until maturity remains relatively constant while the arrangement is in place.
Facilities Management ("FM")	The provision of services ranging from catering and cleaning ("Soft FM") to minor repairs and decoration, major component (e.g. Heating systems) replacement ("Hard FM").
Financial Close	The point at which all of the documents in a transaction become legally binding and the financing for the project should become available. It is at this point that the interest rate for the project is "fixed".
Financial Model	A computer model which produces all of the outputs necessary for analysis, decision making, fund raising and ongoing monitoring of a Project based upon agreed inputs.
Fixed Interest Rate	This refers to an interest rate that will remain fixed, i.e. will not vary with any other factors over an agreed period of time. For example, a 5 year personal loan with a fixed rate of 5% means that, irrespective of any other factors, the recipient of the loan will repay interest at 5% real (see below) over the period of the loan. The repayments are therefore known and certain over the period of the loan.
Floating Interest Rate	This refers to an interest rate which does not remain fixed over time. An example may be a tracker mortgage, which is a fixed interest margin over an underlying, movable, index (in this case, Bank of England Base Rate). The loan repayments over time are therefore not fixed.
Force Majeure	Force Majeure events are those which inhibit the carrying out of contract obligations by parties to a contract which are considered to be on a 'no fault' basis to either party, such as war, terrorism or nuclear/ biological contamination. Force Majeure provisions give relief from liability and, if the event continues for a certain period, an opportunity to terminate the contract.
Framework	A framework contract is an agreement with suppliers, which establishes the terms governing contracts which are awarded during a given period, in particular price and quantity. A framework is a general term given to agreements with suppliers which set out terms and conditions under which specific purchases (Call-Offs) can be made throughout the term of the agreement.
Full Business Case ("FBC")	Produced for major infrastructure investments prior to contract award

Funder Direct Agreement/ Lender Direct Agreement	If the public sector awards a PFI contract to company X, it may simultaneously conclude a direct agreement with some or all of company X's funders. The direct agreement allows the funders to replace company X as the PFI partner under the main contract (without the contract being terminated) in a situation where company X was failing to perform and the public sector would otherwise terminate the contract. A direct agreement is advantageous for the funders, because it gives them an extra degree of protection for the finance they have provided for the contract; and for the public sector, because it provides extra insurance that the private sector will perform. See also Step-in Rights.
Funding Competition	The process by which the private sector manages the selection and appointment of funding partners for PPP projects. The public sector will want comfort that the Funding Competition is robust and will generate value through lower cost of finance.
Gearing	The ratio of shareholders funds to debt – the riskier a transaction, the lower the ratio. As debt is a cheaper form of finance than equity, typically the greater the gearing (i.e. higher levels of debt to equity) will have a lower cost of financing.
General Change in Law	A change in law which is generally applicable and does not discriminate against the project, or project company or specifically PPP contracts.
Gilts	Government securities traded on the London Stock Exchange.
Gilt Rate	The rate of interest paid on a government security. The gilt rate is often considered to be the risk free rate of interest because of the very high likelihood that the interest will be paid.
Grace Period	The time a borrower is allowed after a payment is due to make that payment without incurring penalties.
Green Book	The document which sets out HM Treasury's guide for Appraisal and Evaluation in Central Government. Click here.
Gross internal floor area ("GIFA")	The area measured to the internal face of the perimeter walls at each floor level in accordance with the Code of Measuring Practice published by The Royal Institute of Chartered Surveyors (RICS)). Click here.
Gross Service Units ("GSU")	The number of service units attributed to an area of the building as a measure of its usage.
Guaranteed Investment Contract ("GIC")	A contract that guarantees repayment of principal and a fixed or floating interest rate for a predetermined period of time. GICs are frequently used in bond funded projects as a vehicle into which the proceeds of the bond financing are deposited at Financial Close. These proceeds will earn a return within the GIC and will be drawn down by the SPC in agreed amounts at prescribed dates throughout the construction of the project facilities.

Handback	Refers to the return of the project assets to the public sector at the end of the concession. Frequently the contract will specify the condition in which the project assets must be in at the point of Handback and it is the SPV's duty to ensure that the assets meet these conditions.
Hard FM	The maintenance and replacement of building components (e.g. roofs, heating equipment, windows, lamps, doors).
Hedging	Hedging is a way of reducing some of the risk involved in holding an investment. There are many different risks against which one can hedge and many different methods of hedging. A hedge is a way of insuring an investment against risk.
HMRC	Her Majesty's Revenue & Customs (Formerly Inland Revenue). Click here.
Holding Company	A company set up to sit between the individual shareholders and the actual operational company entering into a transaction.
Indemnity	An indemnity is an undertaking which is given by one contracting party to compensate the other contracting party for a loss which may arise as a result of an event occurring (or not occurring) as specified in the contract. Unlike a breach of warranty claim, there is no onus on the party seeking to enforce the indemnity to show that a breach has arisen or that a loss has been suffered.
Independent Certifier/ Independent Tester	A suitably qualified professional/technical/engineering firm not linked to any party to the Project contracts who will undertake all work necessary to permit the issue of any certificate(s) of practical completion, commissioning completion certificate(s) and snagging notice(s) in accordance with and as required by the Project contracts. Specific duties will include: • Witnessing and reporting on commissioning, testing and other completion processes; • Inspection of rooms and areas for compliance with design data and performance criteria; • Checking/confirming building consents; • Inspection of works in progress including attendance at progress meetings and submission of regular reports; General liaison with all project parties.
Indexation	The basis for calculating changes in revenues or costs over time due to price inflation / deflation.
Information Memorandum ("IM")	Document provided to potential bidders at prequalification stage to set out the details of the proposed Project and give background information on the procuring body.
Inter-Creditor Agreement	An agreement between the creditors of a project/company on joint procedures on an Event of Default, and on their

	entitlements in case of default.
Interest During Construction ("IDC")	See Capitalised or Rolled Up Interest.
Interface Agreement	A contract between the SPV and its subcontractors governing the allocation of risk between these parties.
Interest Rate Swap ("IRS" or commonly just "Swap")	This is the means by which a variable interest rate is turned into a fixed interest rate.
Internal Rate of Return ("IRR")	See Blended IRR
Invitation to Negotiate ("ITN")	A form of invitation to tender for projects managed under the Negotiated procedure.
Invitation to Participate in Dialogue ("ITPD")	A form of invitation to tender for projects managed under the Competitive Dialogue process.
Invitation to Submit Final Tenders ("ITSFT")	Upon the cessation of the Dialogue phase under Competitive Dialogue procedure, bidders will be asked to submit their final tenders which will be evaluated and the Preferred Bidder selected accordingly.
Invitation to Submit Outline Solutions ("ISOS")	Typically seen on waste PPP Project, this stage of a Competitive Dialogue procurement asks for bidders to submit initial solutions, which may or may not involve a price.
Invitation to Tender ("ITT")	A form of invitation to tender for projects managed under the Negotiated/Restricted procedure.
Infrastructure UK ("IUK")	UK national level infrastructure body following discontinuation of Partnerships UK. Click here.
Judicial Review ("JR")	A statutory challenge or appeal against the legality of any grant of planning permission or other decision.
Junior Debt	Debt that is either unsecured or has a lower rank than Senior Debt. See also Subordinated Debt.
Key Performance Indicators ("KPIs")	Key Performance Indicators or "KPIs" are the financial or non-financial indicators used to measure progress or success of the private party/ contractor during the operating term.
Key Stage Review ("KSR")	A multi-faceted review of a project carried out at key stages of its development and procurement to recommend improvements and increase confidence in outturn predictions.
Latent Defects	When any building or construction is complete it will have some obvious defects which should be quickly remedied. Over a period of time other defects may become apparent – such a defect is generally referred to as a latent defect, provided it is attributable to:

	a. Defective design; b. Defective workmanship or defective materials, plant or machinery used in construction; c. Defective installation of anything in or on the buildings; d. Defective preparation of the site on which the building is constructed; e. Defects brought about by adverse ground conditions of by reason of subsidence, water table or any other change to ground conditions. Within PFI projects involving refurbishment the transfer to the private sector of latent defect risk within the existing estate can be a contentious issue.
Legal Opinion	A legal opinion is usually required from lawyers/ solicitors as a Condition Precedent to Financial Close, and confirms a company's legal capacity and corporate powers to enter into and perform its obligations under the project documents to which it is a party.
Letter of Credit ("LC" or "LoC")	Document issued by the providers of finance which, typically, provides an irrevocable payment undertaking.
Lifecycle	Lifecycle relates to the replacement of the major components of a building so as to ensure the performance of the facility is maintained for the full contractual period. Projects generally require a reserving regime based on the timing and cost of replacement in order that funds are available as and when required.
Limited Recourse	A lending arrangement where the lender is permitted to request repayment from the sponsor if the borrower fails to meet their payment obligation provided certain conditions are met. Generally, limited recourse only applies to a specific and limited amount.
Liquid and Ascertained Damages ("LADs")	These are a means of establishing, in advance, the reasonable, pre-estimate of the loss of a party due to the failure of another party. A typical example would be for LADs to be paid by a building contractor if it is late in completing a contract.
Liquid Market	This term applies under termination of a contract, generally following a default of the SPV. Some contracts require a Liquid Market to exist, before re-tendering can take place, to ensure that there is a genuine competition to take over the asset, resulting in a true market value being offered. The alternative is usually some form of fair value estimate of the contract's value.
Liquidated Damages ("LDs")	See LADs.

Liquidity	The ability of being easily converted to cash, e.g. an asset or contract which can easily be sold/ traded to raise cash. Liquidity sometimes refers to the availability of cash to a project.
Loan Life Cover Ratio ("LLCR")	A financial covenant which is calculated by comparing the debt outstanding at any time over the life of a loan against the NPV of the future Cashflows available to pay debt up until the final repayment date under the loan and any current cash amounts held by the SPV.
Loan Facility	The provision of finance by a financial institution to a project.
Lockup	This term relates to the restriction placed by Lenders on the ability of the SPV to pay dividends or subordinated debt payments to its investors. Lock-up can be for financial, operational or administrative reasons. Also referred to as "Distribution Lockup".
London Inter-Bank Offer Rate ("LIBOR")	London Inter-Bank Offer Rate. This is the rate (which varies according to the period for which the loan or advance is to be made) to which the interest margin is added. Generally LIBOR is for periods of up to 6 months. LIBOR is more variable than Base Rate.
Maintenance Reserve Account ("MRA")	The account into which funds are placed in order to meet the costs of future lifecycle works. Generally, this is done on a three year look forward basis.
Mandated Lead Arranger ("MLA") (1)	A bank in charge of organising a syndicated loan.
Mandatory Liquid Assets ("MLAs") (2)	This is the cost to a lender of placing a proportion of its liquid assets with the Bank of England to underpin its overall loan exposure. Typically this amounts to 0.02%.
Margin	The margin included in the interest charge on a loan facility. This will usually differ through the construction and operation phases and may increase over time.
Margin Step Down	This refers to a pre-agreed reduction in the debt margin, often at the end of the construction period when the project is viewed as less risky.
Market Tester	See Benchmarking
Material Adverse Change ("MAC") Clause	A provision in a loan agreement which allows the lender to call a default, generally at its discretion, for anything which happens which the lenders feels threatens repayment of its loan. It can be a contentious provision in loan agreements, as it is non-specific and open to interpretation.
Maturity Date	The date upon which the project agreement ceases to be enforceable and the project ends. Maturity may also refer to debt maturity, i.e. the date upon which the debt is fully repaid.

Maximum debt/equity ratio	The maximum ratio of Senior Debt to Equity (Senior Debt divided by the sum of senior debt, sub-debt and equity) permitted under the funding terms
Mechanical and Electrical Works (“M&E”)	Generally includes all the building services included in the M&E design consultant package and services contractor installation package
Method statement	A detailed description of how a facility or service will be delivered.
Mezzanine Debt	See Junior Debt/Subordinated Debt.
Mini-Perm Financing	Short-term financing used to pay off income-producing construction or commercial properties, usually payable in three to five years. "Perm" is short for "permanent". Mini perm financing is something a developer may use until a project has been completed and can therefore start producing income. In other words, a developer will use this type of financing prior to being able to access long-term financing or permanent financing solutions. It can be applied to project financing, in which the senior debt financier implements a structure in which repayment of senior debt takes place well ahead of the natural conclusion of a project.
Minimum/Average LLCR	The Loan Life Cover Ratios required to be met on the base case model – these levels are set by the funders
Minimum ADSCR/Average ADSCR	The Annual Debt Service Cover Ratios required to be met on the base case model – these levels are set by the funders
Model Audit	The term used for the tasks performed when conducting due diligence on a Financial Model, in order to eliminate/mitigate spreadsheet error. Typically required by funders in order to reassure lenders and sponsors that the calculations and assumptions within the model are correct, and that the results produced by the model can be relied upon. The review may extend to include tax and accounting, sensitivity testing and the checking of data contained within the model back to the original financing and legal documentation.
Monoline Wrap/Insurance	In order to raise the rating of a PPP bond instrument to a Government Gilt level (i.e. where investors know that the repayment of the interest and capital amount is close to risk free), a service is available whereby issuers of a bond pay a premium to a third party (called a Monoline Insurer), who will provide interest and capital repayments as specified in the bond in the event of the failure of the issuer to do so. The effect of this is to raise the rating of the bond to the rating of the insurer; accordingly, a bond insurer's credit rating must be almost perfect. The premium requested for insurance on the bond is a measure

	of the perceived risk of failure of the issuer (i.e. the Project). The economic value of bond insurance to the Public Sector is a saving in interest costs reflecting the difference in yield on an insured bond from that on the same bond if uninsured (less the cost of that insurance).
Monte Carlo Simulation	A statistical method of calculating the effect of risk on outcome by producing a probability distribution of possible outcomes
Negative Carry	It arises when a project financing is drawn down ahead of when those funds are deployed. The rate on the resulting cash balances is normally less than the cost of the finance drawn. Hence the cost of financing exceeds the return earned. For example if a project obtained finance at 6.5% but did not immediately use all of the funds, resulting in the unused funds earning 1%, the interest received would not cover the interest owing, so the Project would end up paying 5.5% on the unused funds.
Negotiated Procedure	A tendering procedure permitting the procuring authority to negotiate detailed pricing and other terms with prospective contractors.
Net Present Value ("NPV")	This is the value of future amounts discounted back at the Discount Rate (see definition) to a specific date.
Nominal	An amount is Nominal when it is expressed including the effects of inflation.
Non-Profit Distributing ("NPD")	A form of infrastructure procurement where the asset is paid for as it is used, with project company profits returned to the public sector.
Non-Recourse Finance	A lending arrangement where the lender is not permitted to request repayment from the parent company if the borrower (its subsidiary) fails to meet their payment obligation, or in which repayment is limited to a specific source of funds.
Non-Utilisation Fees	See Commitment Fees
Off Balance Sheet	An asset or a liability that does not appear as an asset or a liability in the financial statements of the relevant entity.
Office of National Statistics ("ONS")	Click here.
Official Journal of the European Union ("OJEU")	The forum in which public procurements are first advertised to the market. Click here.
Optimism Bias ("OB")	A tendency to budget for the best possible (often lowest cost) outcome rather than the most likely. This creates a risk that predicted outcomes do not fully reflect likely costs

Outline Business Case ("OBC")	Produced for major infrastructure investments prior to launching a procurement to demonstrate that new infrastructure is required, the best option for delivering it has been taken, this option is affordable and can deliver value for money. .
Output Specification	The requirements set out by the client in terms of what they want to achieve, leaving the tenderers to decide on how they will deliver those requirements (for example a number of operations to be done rather than theatres to be build). The services detailed in the output specification should be capable of objective assessment so that the performance of the supplier can be accurately monitored.
Parent Company Guarantee ("PCG")	This underwrites the obligations of, for example, a subsidiary of a plc, which in itself would not ordinarily enter into a contract directly. The provision of a PCG generally ensures that the counterparty covenant is improved.
Pari Passu	Ranking equal. Often used in the context of different lenders ranking Pari Passu for repayment purposes.
Payment Mechanism ("Paymech")	The means by which payments due under a contractual structure are computed, including the deductions for sub-standard performance, or non-provision of services.
Performance Bond	Security provided by the building contractor for performance under the construction contract.
Performance Guarantee	An undertaking that a project will be completed adequately by the contractor, and cover against loss if the contractor fails to do so.
PFI	The UK Government's Private Finance Initiative. PFI is one tool in the PPP toolbox (see "PPP" below). PFI was launched in 1992. The principle of PFI is that a public sector body obtains a service rather than an asset. A private sector contractor funds any asset required and is then paid for the services provided. Usually payments will be made by the Authority, but in some projects payment, either in full or in part, will be made y users (e.g. toll roads).
Pinpoint Equity	This is equity provided by the project's Private Sector sponsors. The return on pinpoint equity is the dividend stream earned by the project. It is therefore the most risky form of funding for a project as dividends are at the bottom of the cash cascade and will therefore only be paid if cash remains available for distribution after all other project uses of cash have been met. As it is the riskiest form of finance it generally is also the most expensive. It is rare to have pinpoint equity of greater than 1% in a NPD/DBFM Project for this reason.
Post-tax Blended Equity IRR	The internal rate of return calculated on the aggregate of the Equity and Subordinated Debt post tax (in relation to any tax paid by the SPV cash flows.

Post-tax Equity IRR	The internal rate of return calculated on the Equity post tax (in relation to any tax paid by the SPV) cash flows.
PPP	Generally, any public private partnership between the public and private sectors for the provision of works and/ or services.
Preferred Bidder ("PB")	The successful bidder following the tender process who it is intended to appoint to undertake the Project.
Preliminaries ("Prelims")	Costs required to facilitate the construction process (e.g. scaffolding, site accommodation, temporary access, temporary weather protection.)
Prequalification Questionnaire ("PQQ")	A document, distributed by a contracting Authority in response to initial expressions of interest, under which suppliers must satisfy the contracting Authority that they have the technical and financial resources, as well as the experience, necessary to undertake and complete the relevant PPP contract.
Pre-tax Blended Equity IRR	The internal rate of return calculated on the aggregate of the Equity and Subordinated Debt pre tax (in relation to any tax paid by the SPV cash flows.
Pre-tax Equity IRR	The internal rate of return calculated on the Equity pre tax (in relation to any tax paid by the SPV cash flows.
Private Placement	The sale of stocks, bonds or other investments directly to an institutional investor such as an insurance company.
Project	The project under procurement by the procuring Authority.
Project Agreement ("PA")	Main contractual document in respect of the Project which requires signature by Authority and SPV prior to or at Financial Close.
Project Finance	A form of financing projects, primarily based on claims against the financed asset or project rather than on the sponsor of the project. However, there are varying degrees of recourse possible. Repayment is based on the future cash flows of the project.
Project IRR ("PIRR")	The nominal internal rate of return calculated on the post tax (in relation to any tax paid by the SPV pre financing (senior debt, subordinated debt and equity) Cashflows.
Project Life Cover Ratio ("PLCR")	A financial covenant which is calculated by comparing the debt outstanding at any time over the life of a loan against the NPV of the future Cashflows available to pay debt up until the end of the Project plus any current cash balances. .
Public Sector Comparator ("PSC")	The public sector funded alternative to a NPD/DBFM solution, expressed in cost terms, historically used to test Value for Money.

Pure Equity	See Pinpoint Equity.
Real	An amount is Real when it is expressed excluding the effects of inflation
Refinancing ("Refi")	Prepayment of the debt and substitution of new debt on more attractive terms (e.g. lower cost or longer maturity).
Relief Event	An event anticipated in the contract which may cause the supplier to breach the terms of the contract but which will not result in termination of the contract. A relief event will result in relief from the public sector body in terms of time but not money (i.e. no compensation).
Residual Value	The expected value of a capital asset at some future date, normally at the end of a contract.
Retail Price Index ("RPI")	Click here for statistics.
RPI Swap	A derivative instrument which allows the project company to manage the risk of inflation being higher or lower than expected at financial close, i.e. an RPI Swap hedges against adverse future movements in cash flows as a result of a changes in the rate of inflation from that assumed at financial close.
Retention Mechanism	The withholding of an element of the service fee at the end of the contract until the supplier has met the required conditions for handover of the assets
Reviewable Design Data ("RDD")	The design information relative to a project which will be developed post Financial Close by SPV, its subcontractors and the procuring Authority.
Revolving Credit Facilities ("Revolver")	A revolving credit facility is one which does not have a fixed number of payments. Typically this facility can be used to provide an entity with liquidity for their day to day operations. Generally revolving facilities have the following characteristics: • Lender may withdraw funds up to a pre-approved credit limit; • Amount of credit decreases and increases as funds are borrowed and repaid; and • In addition to capital and interest repayments upon any borrowed amount, the borrowed will pay the lender a fee in respect of any funds that are undrawn on the facility. This fee is in effect a payment for the flexibility offered by the revolving facility.
Risk Matrix	A schedule of all the risks inherent in a project, who assumes these risks, and how they are mitigated (e.g. by insurance).
Rolled up interest	This is interest which cannot be paid as it falls due and is carried

	forward into a loan balance to be paid later
RPIx	Retail Price Index excluding mortgage repayments. Click here for statistics.
Scottish Capital Investment Manual ("SCIM")	Click here for details.
Scottish Trade Union Congress Staffing Protocol ("STUC Protocol")	Agreement between the Scottish Executive and the Scottish Trades Union Congress which sets out how staffing should be managed in the NPD/DBFM process and how employment matters should be handled. Click here.
Security Package	This is a wide ranging reference which could cover such matters as collateral for construction contract obligations (e.g. cash retentions and performance bonds) or security for deferred equity obligations (typically cash collateral or a letter of credit)
Senior Debt	A loan typically provided by a financial institution to a Project. This debt will have first call on a project's cash flows and security arrangements
Sensitivity Analyses	Analysis of the effects on an appraisal of varying the projected values of important variables
Service Availability Date ("SAD")	The date on which a facility meets the various criteria required to make it "available" - this will generally trigger payments from the procuring Authority to the SPV.
Service Commencement	See Service Availability Date.
Service Level Agreements ("SLAs")	Contractual arrangements with sub-contractors who provide services at agreed levels of quality.
Shadow Tolls	Tolls paid by the procuring Authority rather than the general public when they use the project facilities.
Shareholder Agreement	An agreement between Sponsors relating to their investment in and management of the Project Company
Sinking Fund	A fund that is built up by periodic payments from an entity with the purpose of paying future liabilities.
SME	Small and Medium Enterprises.
Soft FM	Certain operational services including - cleaning, security, porterage, catering, grounds maintenance, litter picking, car park management, churn management (e.g. setting out furniture)
Special Purpose Vehicle or Special Purpose Company ("SPV/SPC")/ Project Company	A company set-up solely with the intention of carrying out a specific project or activity. This allows the operations of the company to be ring-fenced from other activities. Also assists with off balance sheet treatment.

Specific Change in law	See Discriminatory Change in Law
Spens Formula	Formula that applies to listed bonds in the UK which provides for a termination payment that compensates the bond holders when a bond is redeemed before its maturity.
Sponsor/ Shareholder	A party providing part or all of the equity financing for the project.
Spread	See Margin.
Standardisation of PFI Contracts Version 4 ("SoPC4")	HM Treasury Guidance for undertaking PPP/PFI Projects. Click here.
Standby Facility	A Facility, usually given by the Senior Debt providers, to cover additional agreed expenditure through the Variations process and sometimes cost overruns.
Step-in Rights	(a) The contractual rights under a Direct Agreement for parties to take over the management of the Contract in the event that the SPC is not undertaking the Contract to an agreed standard. For example, the funders will have the right to step-in to replace the provider of a service under the Contract in order to ensure that the SPC does not create a termination event. (b) The contractual rights of the contracting Authority to take over the provision of services on a temporary basis where a serious risk exists to health, safety or the environment, or where the contracting Authority needs to discharge a statutory duty.
Subcontractor	An individual or company that provides services for a main contractor.
Subordinated coupon	The annual coupon (i.e. "Interest") payable on subordinated debt.
Subordinated Debt ("Sub Debt")	Funding generally provided by the shareholders and in the same proportion as they have subscribed for shares. In terms of order of priorities in a project, Subordinated Debt ranks behind Senior Debt. Senior Debt providers will have powers under the loan documentation to prevent payments flowing to the subordinated lenders. Subordinated debt is a more efficient means of investing into Projects.
Swap	See Interest Rate Swap
Swap rate	The interest rate provided under the Interest Rate Swap.
Syndication	The process by which the Lead Managers reduce their underwriting by placing part of the loan with other banks. The Mandated Lead Arranger (see MLA (1)) may invite additional lenders to participate in the Senior or Junior Debt through a syndication or a sell down. This process usually takes place after Financial Close and allows other financiers with a relationship with the project's sponsors or with an interest in the sector to join the financing. It also allows the MLA to reduce their exposure to

	the Project allowing them to free up capital for other projects.
Tail	The number of months between the final repayment date on the facility and the end of the concession.
Tax Incremental Financing ("TIF")	An innovative form of funding infrastructure to unlock regeneration by hypothecating future property taxes from the economic growth unlocked to repaying debt raised to pay for un-locking infrastructure, led in Scotland by SFT
Tenor	The term of a loan facility
Term	See Tenor.
Termination Payment	A payment made by the relevant contracting party on termination of the contract, the amount will be dependent on the reason for termination.
Termination (Authority Default)	Cessation of the project due to the procuring Authority breaching its obligations under the Project Agreement.
Termination (Contractor Default)	Cessation of the project due to the SPV breaching its obligations (for example, through consistently poor performance) under the Project Agreement.
Transfer of Undertakings (Protection of Employment) Regulations 1981 ("TUPE")	TUPE generally applies when employees are moved from one employer to another. Click here.
Turn Key	A term used when the subcontractor provides all materials and labour for a job
Ultra Vires	"Outside the powers of". A contract is Ultra Vires if one of the parties does not have the necessary legal power to enter into that contract.
Underwriter	A financial institution that guarantees to the Project Company that it will provide a specified amount of debt or equity for a project financing on pre-agreed terms. An Underwriter takes the risk that it will subsequently be able to syndicate or "sell down" the debt to other lenders. Both bank debt and Bonds may be underwritten.
Unitary Payment/Charge	The payment made under the terms of a NPD/DBFM contract.
Usage Payment	Element of the Unitary Charge which varies according to usage.
Value Added Tax ("VAT")	Currently 20%.
Value for Money ("VfM")	Value for Money is a term used to assess whether or not a procuring organisation has obtained the maximum benefit from the facilities and services it procures, for a certain defined level of cost. Consequently, some elements may be subjective, difficult to measure, intangible and easily misunderstood. Judgement is therefore required by procuring authorities and

	those funding organisations/Directorates when considering whether VfM has been satisfactorily achieved or not. It not only measures the cost of facilities and services, but also takes account of the mix of quality, cost, resource use, fitness for purpose, timeliness, and convenience to judge whether or not, together, they constitute good value. This is one of the key requirements a NPD/DBFM project must meet. Value for Money should be considered at all stages in the development, procurement, delivery and operation of a Project.
Variations	Changes made to a contract after it has been signed. Generally, there is a clear mechanism within the project documentation to deal with these.
Variant Bid	An alternative bid which the prospective contractor believes provides more value for money than a standard bid.
Warranty	A warranty is a contractual assurance made by one contracting party to the other. A breach of warranty claim is an action for breach of contract and is subject to the normal legal requirements of proving that the warranty was breached and that as a result the other party incurred loss.
Wrapped Bonds	Bonds which are guaranteed ("wrapped") by a monoline insurer. See Monoline Wrap/Insurance.
Weighted Average Cost of Capital ("WACC")	The weighted average cost of capital for a project represents the sum total of the weighted portions of each source of finance for the project, i.e. equity, subordinated debt and senior debt. For example, if a project is structured in the following way (figures in brackets represent the interest rate payable on each element of finance): • Equity – 1% (20%); • Subordinated Debt – 9% (10%); and • Senior Debt – 90% (6%) The WACC is calculated as follows: WACC = (1% x 20%) + (9% x 10%) + (90% x 6%) WACC = (0.2%) + (0.9%) + (5.4%) WACC = 6.5% See also Blended Equity IRR.