

Insider secrets: A guide to equipment funding

Secure the best new equipment for your school or academy without having to break your budget



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Introduction

Schools and academies want to provide their students with the best possible tools to help them achieve the grades and skills they require before heading on to the next stage of their lives. Yet, with budgets tightening and teachers' time becoming even more stretched, it can be hard to provide all of the assets (computers, vehicles, catering equipment etc.) you'd like for your pupils' individual needs.

Schools and academies need to make the most of their current assets and acquire new ones using the most efficient methods and one way to do this is to take out an operating lease or rental agreement that enables the institute to 'rent' an asset for a part of its lifecycle. The school or academy only needs to use the asset for as long as required, and if an upgraded version is released, it can be acquired and implemented quickly.

This is an attractive proposition for many educational establishments but, before you embark on this route, there are a few things you should keep your eye out for in order to ensure you get the best deal for your school or academy.

To help you, we have listed our top tips on how to provide your pupils with the equipment they need without breaking your budget...



Existing equipment

In addition to considering leasing new assets, if the school or academy has existing old assets, they may wish to consider selling these assets to raise capital, which can be reinvested in an operating lease for the new equipment, therefore lowering the leasing costs and extending the benefits of leasing to every department.

Tips:

- 1** Ask a leasing company to value your existing assets
- 2** Use the money raised as a deposit to lower the cost of your lease rentals
- 3** If selling assets with data storage and/or electrical equipment, ensure you get certification of data destruction and WEEE disposal



Remain compliant

As the leader of a state-funded school or academy, you must ensure your establishment remains compliant in all activities including operating leases. Schools cannot borrow money and therefore cannot enter into a finance lease agreement. For that reason, you have to be extra scrupulous when choosing to work with a leasing company (lessor). Remember, just because an agreement is called an operating lease or rental agreement doesn't mean that it's compliant. And remember the net present value of the agreement must be less than 90% of the total equipment cost.

Tips:

- 1** An operating lease or rental agreement does not guarantee compliance
- 2** Always check with your lessor to ensure you are operating within compliance frameworks
- 3** Ask your leasing company to provide a net present value (NPV) calculation showing the NPV of primary rentals to be less than 90% of the equipment cost



Understand the terms of your existing lease agreements

Lease agreements have different terms and conditions which state what exit fees you'll be liable for when the contract comes to the end of its term. By understanding the type of agreement you have and your liabilities, you'll be better positioned to negotiate the terms of exit fees with your lessor. This can lead to massive savings, depending on the contract type, asset and value and negotiating could potentially reduce the cost of your final bill.

Tips:

- 1** Before taking out a new lease agreement, look at the terms and conditions of your existing leases and calculate your liabilities
- 2** Understanding the type of agreement you have and what your liabilities are can help you to negotiate better exit fees
- 3** You may spend time negotiating pricing on a new lease but the biggest savings often come from negotiating better exit terms from your existing agreements



New lease or extended lease?

At the end of an agreement, lessors often give clients an opportunity to extend their agreement beyond the initial lease period. Though this saves time and hassle (which can make it an attractive proposition), you are essentially entering a new agreement that carries its own costs. Therefore, before agreeing to an extension, calculate the costs and benefits of all the options available to you and negotiate with different parties until the best deal for your establishment has been reached.

Tips:

- 1** Compare the cost of extending an existing lease against agreeing a new one
- 2** Use an upcoming lease end date as an opportunity to negotiate liabilities on a new agreement
- 3** Check to see if you are able to sell the asset – you could make a profit?



Consolidating current agreements

As budgets and time continue to be squeezed, it can be tempting to consolidate all of your existing credit agreements into one to save administration time, make it easier to calculate and keep track of costs and resources. However, rarely will this tactic provide you with the best value or a compliant operating lease. It can also lead to schools and academies having to maintain old equipment.

Tips:

- 1** Negotiate separate agreements for different assets
- 2** Before finalising any deal, ask a third party to run a sanity check on the figures
- 3** Ask the leasing provider how much profit it is making out of the agreement



Residual values

In order to offer you a compliant operating lease, lessors required make a residual investment in the equipment, and at the end of the agreement a lessor will try to recover this investment by charging you (the customer) a lease extension rate or by selling the equipment. Both options carry an element of risk that the lessor will try to negate by using the agreements' terms and conditions. Often these terms and conditions stipulate that if the investment cannot be recovered then the customer has to compensate the lessor.

Tips:

- 1 Always maintain equipment to the highest standard possible
- 2 Be aware that low leasing quotes are likely to carry high residual values
- 3 Ask the lessor what residual value it has in the agreement, then ask yourself if the equipment will be worth that in three years' time



Payment frequency

Your rental payment plan, either monthly or quarterly, annually should be dictated by your funding frequency. An annual payout plan is always cheaper, so if you receive your funding yearly this is likely to be the best option for you. That said, there are some schools and academies that prefer to pay on a quarterly basis because it helps with their cash flow. Lessors know they should never offer a monthly payment profile for schools and academies, so avoid those who do.

Tips:

- 1 It is always cheaper to pay annually in advance
- 2 Pay close attention to your establishment's cash flow forecasts and align these with your lease agreement
- 3 Sometimes a quarterly rental may work better for your cash flow but always request quotations for annual as well and weigh up your options

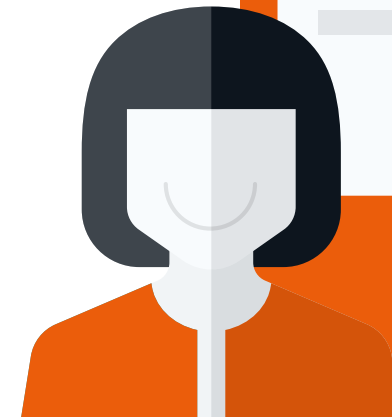


Flexibility

Scalability, reduced overheads and flexibility are the three main reasons that schools and other companies take out a lease, so make sure that yours fits the following criteria. Primarily, the agreement has to work within your school's budget and provide you with the equipment that you need. Again, checking the terms and conditions will help you to establish whether or not the lease fits your needs – if it doesn't, negotiate or change it. Entering into a lease with no flexibility (but a cheaper rental) will often come back to bite you.

Tips:

- 1 Ensuring that you are happy with your agreement will help things to run smoother
- 2 Check that you are happy with the return conditions
- 3 Keep your options open – do you have the option to return some of the equipment at the end and extend the lease for the rest?

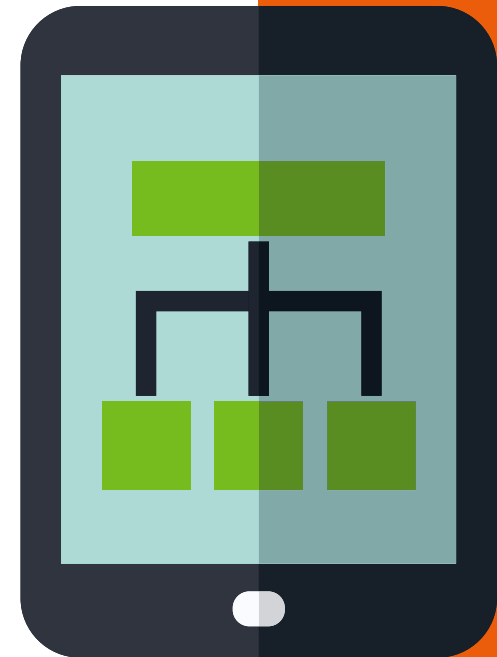


Have a clear strategy

Schools and academies should have a clear strategy in place before they seek quotations for leasing agreements. It's worth including the IT department when formulating a strategy because that team will have the best understanding about the lifecycles of your equipment. This will ensure you get accurate quotations for your needs and don't miss out anything. Accurate quotations will also help you to negotiate with finance providers and make sure you get the best deal for each piece of equipment you require.

Tips:

- 1** Having an understanding of your IT lifecycle strategy is key before discussing pricing with a leasing company
- 2** A good leasing company will help you to develop a strategy and work with you over a number of years
- 3** Different equipment has a different lifespan so don't just lump it all together on a single lease schedule



For more information about securing assets for your school or academy without straining your budget, speak to one of our financing specialists on:



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