

Leasing Notes: Primary Schools

These notes were designed to brief Primary schools with regard to the leasing initiative implemented for the Autumn term 2004. They will be helpful to all schools as a review of how it will work in the Spring term 2005 and, generally, what leasing is all about.

Please read them as they do highlight some issues and risks which you may not be aware of if you haven't leased before. Even so the benefits outweigh any disadvantages as it allows for planned purchase of equipment over a number of years instead of stop-start capital purchase. So, planning replacement and affordability become easier.

The first thing to say is the LEA is not forcing schools to lease PCs. They can be purchased if you wish. We've offered leasing because a number of schools asked the Director to help set up a facility. The advantage of leasing is that you can plan replacement rather than find large sums of money for stop and start capital purchase.

The important thing is that procurement of PCs and other desktop equipment - whether purchased or leased - should be planned by schools and follow guidelines so we can support implementation effectively.

Current Position

Leasing includes the following activities:

1. A school indicates its requirements.
2. Equipment is ordered from a supplier.
3. The purchase order is transferred from IT Learning Support's procurement unit to Corporate Finance.
4. The Corporate Finance department checks with Education Finance that the school's annual budget has the revenue to pay for each year of the lease before approving the purchase (yes all leased equipment starts with a purchase) and then goes to tender on the finance market. So, you don't need to worry if a lease can be afforded.
5. The purchase is sold to a finance company that recharge a fixed figure over a number of years. The actual cost of a lease is not known in advance of purchase, therefore, so there may be a gap between purchase (where the price is actually known) and the lease value, which is unknown but set by market conditions. That said, the lease value can be predicted fairly accurately so there are no shocks for you. At present market rates you tend to pay around £320 per year for every £1000 worth of purchase value.
6. At the end of the lease period, the equipment must have at least a 10% residual value (i.e. the equipment can be sold on for at least 10% of its original capital value) and this value will be stated at the outset of the lease.

Certain equipment such as PCs has a known lease value. With most of the companies with which the Council tenders, PCs and laptops have a three year lifespan (so in the above scenario of £320 per thousand that would be £960 over three years plus the residual amount which has to be found at the end if the equipment does not go back to the lessor).

The Council has never leased whiteboards and projectors so we don't know what the lease term will be. The risk at present is the stated number of years may be too low for the known lifespan of whiteboards in particular.

Leased equipment belongs to the company providing the cash. It is never owned by the school during the lease term. The value at the end can increase beyond the stated residual minimum if the condition of the equipment is such that it is worth less than the company deem appropriate. This becomes an unknown cost issue if the equipment has got into poor condition. It's also the lessee's responsibility and cost to get the equipment back to the leasing company. In the past this has led to somewhat unsatisfactory position where a Mertec PC made and purchased in Swansea has had to be got back to a leasing company in Liverpool. The ICT technical service will support the organisation of returning the equipment to the leasing company, but schools are responsible for the shipping costs involved.

Clearly, these current financial arrangements do not necessarily fit best into schools' needs. The system is based on best value in the open market for paying for the purchase price, but doesn't recognise additional costs that a school might have to bear, or the management issues in exchanging stock. **Even so, the facility currently on offer is more advantageous than previously experienced by those primary schools that have leased.**

Future Position

We need to work with Corporate Finance to implement an improved system for the new service in 2005. What we need to achieve eventually is a relationship with one or two suppliers where the process of refreshment (getting one PC in and the old one out) is managed in one system. That way all a school (and the LEA) needs to focus on in management terms is the lease cost each year. It is inevitable though, as in the costs incurred by schools when whiteboards and projectors are installed, that some the costs of installation will have to be borne by the school. Depending on the arrangement it may be possible to integrate such costs into the lease cost (unpacking and putting onto the network, for example). However, the more costs are integrated into PC procurement, the fewer Council staff are needed for implementation of new equipment. The costs are basically the same. The difference is paying in a SLA or paying when procured.

Recommendations

To work out if you can afford leasing for PCs, please assess if you can afford it based on the ratio of £320 annually based on each £1000 capital value of equipment you wish to purchase. **The LEA has constructed a calculator for helping you do this (attached).** For laptops and PCS we can safely recommend this route if you wish to pursue it. With respect to whiteboards and projectors we can only test the market so our advice is for schools to request a lease for projectors and whiteboards and we will assess if the deal you get is worth pursuing, and advise you of the position whenever a lease is taken out by the Council (the Council normally lease on four set dates each year: late Sept, Dec, March, June). You may be best thinking of outright purchase for this type of equipment at this moment in time, so please bear that in mind.

If there is a link in your planning between leasing laptops to go with projectors and whiteboards do bear in mind the risks in potentially different residual values or lease periods which will be an issue when it comes to replacement for each bit of the kit. For projectors you also need to think of the cost of installation (currently about £300) which cannot form part of the lease).

Our procurement section (phone service desk on 636900) can help.

Kieran Costello
LEA ICT and E-Learning Co-ordinator
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