

6.6 Leasing and Rental of Equipment

Introduction

There are two kinds of leases, operating leases and finance leases.

Finance leases are in substance borrowing and therefore schools are not empowered to enter into such leases without the specific borrowing approval of the Secretary of State.

Operating leases are in substance rental agreements and therefore an option available to schools. Schools should always read the terms and conditions of operating leases and rental agreements very carefully. Particular care should be taken over cancellation clauses, which can be extremely onerous, e.g. some photocopier contracts.

The option of renting a piece of equipment should be considered carefully. Various factors are:

- Is the need short term or for equipment that may become obsolete quickly. Short term rental may cost a fraction of the purchase price.
- The costs of repair and insurance are usually the responsibility of the hiring company (this of course should be checked and be specifically stated in the hire contract)
- Equipment that does not live up to expectation or is used less frequently than anticipated can be returned, subject to termination clauses.
- Contracts can be terminated in times of financial constraint as a cost saving measure, (subject to termination clauses.)
- The full purchase price is not immediately payable and the instalments spread the cost thus improving cash flow; however schools may be able to obtain a loan from the LA.
- Rental can be the most effective way of procuring equipment that is used infrequently
- Long term rental may ultimately be more expensive than outright purchase.

Loans are available from the LA in certain circumstances. Details are given in the Scheme for Financing Schools paragraph 4.10 which includes the option to repay from capital for certain items.

Operating Leases

The LA is unable to obtain quotes for leasing of computer and other equipment. Schools must obtain the quotes for leases ensuring that adherence to 'Contract Standing Orders' is maintained. (Section 6 of the guide)

The parties to the lease will be the leasing company (chosen by the governing body of the school from a shortlist of quotes) and the School.

The main features of an operating lease are as follows:

- The equipment belongs to the leasing company

- The equipment must have a residual value at the end of the initial lease period of at least 10% of the initial capital value
- At the end of the lease there are three options available:
 1. The equipment can be returned to the leasing company
 2. An extension to the lease can be obtained (at a much lower cost than the original lease charge) or
 3. Purchase of the equipment can be made by a third party. This cannot be the authority or the school but can be the PTA or a local business for example.

The usual initial length of leases is 3 or 5 years.

Procedures for Pursuing an Operating Lease

Contract Standing Orders for Schools must be complied with in relation to the value/purchase price of the equipment.

Unless specifically delegated to school staff in the school's financial procedures, the governing body or appropriate committee must be consulted before the process commences and be presented with a shortlist of quotes for the final selection to be made.

Accounting Entries

The expenditure must be accounted for in the revenue budget and cannot be charged to capital. CFR coding examples are;

E20 ICT lease
E19/E22 Photocopier lease
E18 CCTV Equipment lease

Leased assets should be included in the school's inventory but the entry clearly annotated as to the nature of the lease to prevent inappropriate disposal.