



Department  
for Education

# **Leasing and subscription services for school equipment**

**Guidance for school leaders, school staff  
and governing bodies**

**January 2017**

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# Summary

## About this guidance

New technologies with the potential to enhance teaching are constantly emerging and are often offered to schools on a lease rental or subscription basis. As with most opportunities, there are some excellent agreements available from suppliers that will be a good match to a school's needs - as well as others that should be avoided.

The complexity of leasing arrangements has led to difficulties in schools in the past, with a small number of cases causing significant cost to the school. So while leasing and subscription service agreements may in many cases be a sensible option, it is always prudent to carefully consider the pros and cons of each individual arrangement before signing up.

This document has been prepared to help schools select a cost-effective solution and also highlights some of the common pitfalls.

This is a non-statutory guidance document issued by the Department for Education. It has been produced to help schools understand some of the key considerations when thinking about leasing or subscription services to fund equipment and/or classroom technology. We've tried to make all the content as non-technical as possible. It is supplier independent.

The [Academies Financial Handbook](#) sets out the financial management, control and reporting requirements that apply to all academy trusts. Section 3.9 refers to leasing arrangements.

## Expiry or review date

This guidance will be reviewed in the event of relevant changes in the law or before July 2017.

## Who is this publication for?

This guidance is for school leaders, school staff and governing bodies in all maintained schools, academies and free schools.

## Why consider subscription services or leasing?

Leasing or service agreements can be a great way for schools to secure the equipment they need to provide a first-class education for their students. It can also free up much

needed capital for use in other areas of the school and save you from having to use valuable funds to buy equipment outright.

It is highly recommended that schools make use of public sector frameworks agreements specifically set up to provide value for money agreements for public bodies. These can be accessed online at [Crown Commercial Services framework](#) and [ESPO framework for MFDs](#)

There are a number of advantages when leasing equipment:

- The school doesn't have to pay the full cost of the asset upfront, so you don't need to use up other much-needed funds
- Leasing may mean you have access to a higher standard of equipment, which might be too expensive for you to buy otherwise
- The asset is effectively paid for over the fixed period of time that you use it, which helps you budget for the future
- As monthly rental costs are usually fixed, it can be easier to forecast cashflow

However, there are also some disadvantages of leasing equipment:

- It can work out to be more expensive than if you buy the assets outright
- You may have to put down a deposit or make some payments in advance
- Lease agreements are usually for a minimum period and there will almost certainly be a cost payable should you wish to terminate early
- Some agreements may require you to give notice of termination even though an expiry date has been specified. Ensure you check for financial implications of terminating early
- When you lease an asset, you don't own it, although you may have the opportunity to buy it (or enter into a secondary lease term) at the end of the agreement

Schools themselves are best placed to decide how best to fund the acquisition of equipment in a cost effective way. There are clearly several reasons why rental agreements may make sense and there are equally scenarios that should be avoided. It is also important that schools do not enter into a contract which may cause a financial deficit position in the future so any leasing agreements must link in with financial planning and monthly forecasting.

Academy Trusts must ensure that any lease arrangement maintains the principles of value for money, regularity and propriety whether or not EFA's prior approval is required. Trusts should seek advice from their professional financial adviser and/or external auditor if they are in any doubt over whether a lease involves an element of borrowing. And, where an arrangement requires the advance approval, that must be sought.

Schools must ensure that agreements are lawful. The first question that needs to be answered is whether the proposed agreement complies with government procurement requirements in respect of schools.

## Is the proposed agreement legal?

Under existing regulations, the only type of lease agreement that can be taken on (without prior specific approval) by a state-funded school is an operating lease. Finance leases, on the other hand, are viewed as a form of borrowing and are prohibited unless prior approval is obtained from the Secretary of State. In practice this means that finance leases are rarely allowed.

The key question to be answered initially when considering lease arrangements is whether the proposed agreement is an operating lease or a finance lease.

Should you be in any doubt as to whether an agreement is a finance lease or operating lease, please seek professional advice before committing to the arrangement. HMRC has also published [guidance on leasing](#).

## Subscription services

It may sometimes be unclear from sales brochures or even the legal documentation exactly which type of lease agreement is being offered. Equipment may also be provided by way of a subscription-type service that includes support, maintenance and training. Whilst some of these arrangements may make sense, it is always important that the overall value for money of the service is assessed and that schools do not commit to agreements that do not provide value for money. Some considerations might include:

- What is the total cost of the agreement and does it represent good value?
- What is the actual value of the equipment being provided?
- What is the sum total of the lease payments required?
- Is it clear who has the responsibility to provide important add-ons such as support and maintenance?
- Is the cost of add-ons such as support and maintenance clearly stated?
- Is there an opportunity to upgrade the equipment if required (at reasonable cost)?
- What happens at the end of lease? Make sure end of lease arrangements are perfectly clear
- What happens if the school would like to keep the equipment beyond the lease term?
- Can the school settle the agreement mid-term at a reasonable figure should it so wish?
- Is the supplier a respectable company with a proven track record?

As with all school purchases, it is always good practice to get competitive quotes, ask for references, run a procurement exercise, and talk to neighbouring schools. The schools sector can be targeted by unscrupulous suppliers, so do be vigilant for poor value contracts for equipment such as photocopiers.

## Best practice

There are some important principles to follow when deciding upon an operating lease or similar service agreement.

**Know the supplier and/or the finance company.** Although some equipment manufacturers may supply both equipment and finance, many businesses offering leasing arrangements to schools are equipment suppliers who offer finance via third party finance companies. When you are dealing with an equipment supplier you should always check who the finance company will be. Most finance companies are members of the Finance and Leasing Association (FLA). FLA members follow the FLA's Business Finance Code which sets out standards for providing information, customer service and complaints procedures.

**Minimum lease period.** This is the shortest period for which the school will have to make rental payments for equipment. The period is fixed regardless of other factors such as changes in technology or changes in the school's needs. When taking out a lease you should consider how long the school has tended to keep similar equipment in the past or speak to other schools leasing similar equipment to ensure that the minimum lease period is appropriate.

**What happens at the end of the lease.** Your school will not own the equipment at the end of the lease. Before taking out a lease you should always check what options are available at the end of the lease period and what this means for the school. At the end of a lease you will generally be offered the opportunity to continue leasing the equipment at fair market rentals or return the equipment to the leasing company. Either option might be appropriate for your school but you should ensure you understand each alternative and what you might need to do in each instance (e.g. the length of notice period you will need to give if you will be returning the equipment).

**Maintenance and supplies.** It should always be clear when maintenance or supply services are included in or excluded from the lease. These simple checks can help you understand the obligations of each party and who will provide any services under the lease agreement:

### Maintenance

- Check whether the maintenance contract is a separate agreement to the lease. If it is, check whether the length of the two agreements is the same and how much notice might be required to terminate each one.
- Check what level of service you will get – for example will there be regular maintenance visits or will you need to alert the maintenance provider in the event that a fault occurs. If a fault does occur, what response time is stated and is replacement equipment provided whilst repairs are carried out and so on.

- Check the maintenance charge amounts and whether there is the potential for variable charges, If there is, ensure that the basis for charging is fully understood. It is also a good idea to find out whether a similar level of service could be obtained from a different supplier at lower cost.
- Check that any necessary software upgrades are specified in the maintenance agreement and properly costed.
- Consider what would happen if the company providing the maintenance went out of business and how this might impact on your use of the equipment and lease payments.

## Supplies

- Check whether the provision of supplies is a separate agreement from the lease. If it is, check whether the length of the two agreements is the same and how much notice might be required to terminate each one.
- Check that it is clear what supplies and/or consumables will be provided and by whom.
- Check whether it would be better value to buy supplies separately over time as and when they are required.
- Check what would happen if the company providing the supplies went out of business and how this might impact on your use of the equipment and lease payments.

**Equipment upgrades.** During the minimum lease period you may find it necessary to upgrade the equipment or you may be approached by an equipment supplier and asked whether you would like to upgrade or change your existing equipment.

Keeping the equipment you have and waiting until the end of the minimum lease period before upgrading will almost always be cheaper than upgrading before the end of the agreement. If your needs do change, and you need to upgrade, you should always speak with your current finance company as they will be able to provide you with details of the available options.

Should you choose to upgrade your equipment then you will normally be required to settle the remaining balance on your existing agreement.

Schools may be offered the option of adding outstanding balances on to the cost of the new equipment and included into the new lease payments. Not only would this prove to be poor commercial practice, but also the inclusion of an upgrade figure in a new lease could be considered to be a form of borrowing. The new lease would therefore require Secretary of State approval which, in practice, is rarely provided.

The sensible option is to settle any outstanding lease payments prior to upgrading.

When considering upgrading you should also go through all the same checks you have done for a new lease agreement, assess alternatives and seek appropriate advice.

**Cashback, free equipment and subsidised rentals.** Incentives such as cash-back, ‘free’ equipment or accessories, subsidised rentals, offers of the school being used for marketing purposes can sound very appealing in the short-term but you should not lose sight of the terms of the lease agreement and the regular payments this will entail. If it sounds too good to be true it probably is.

## Practical tips

In summary, schools can check the merits of any particular deal by taking the following actions.

### Do

- Review any existing agreements within your local authority (LA) that are available to the school. These may have been negotiated on behalf of the public sector and so are likely to offer better value. Consider the [Crown Commercial Services' MFD framework](#) and also consider other Public Sector Buying Organisation (PSBO) frameworks available.
- Seek advice if you are in any doubt.
- Use an expert resource and run a tender for competitive quotes – it will save time and money.
- Know exactly what you are signing up to. If you are not sure, ask for explanations and take advice to avoid paying over the market rate for equipment leases and consumables. Research tells us that many schools pay over the odds for the costs of printing and photocopying.

### Don't

- Sign an incomplete agreement. Ensure costs are clearly broken down and the contractual obligations are clear, that is, what are the monthly or quarterly payments and what is the total cost of the contract. Generally the total amount being charged under an operating lease should not exceed 90% of the value of the equipment being hired.
- Sign if there is anything in the contract that isn't clear. Seek advice from a source such as the department, PSBO, or local authority.
- Let the supplier representative take all copies of the paperwork away. Always take a photocopy of any documents that are signed or preferably request two identical agreements that are both signed.
- Assume the supplier representative is looking after the best interest of the school.
- “Roll over” or carry forward outstanding balances on to new agreements without seeking specialist advice. “Rolling over” is a commitment to a further fixed lease term for several years and may prove very expensive. It may also be a form of borrowing that is prohibited.



- Breach the school's financial regulations. They are there for a reason and help reduce the potential for poor value agreements.

## Accessing support

If your school is about to sign a lease, you could save money in the long term by seeking some advice first.

- The Department has produced guidance on [how to plan and run an efficient procurement process to buy goods, works or services for your school](#).
- For further advice on service agreements and leasing, please contact the Schools Commercial Team at [Schools.ICTSUPPORT@education.gov.uk](mailto:Schools.ICTSUPPORT@education.gov.uk) or our central e-mail address, which is [CG.Communications@education.gov.uk](mailto:CG.Communications@education.gov.uk)
- The FLA's Checklist for business finance customers offers [additional guidance on successful leasing](#).



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