

# CHESHIRE EAST COUNCIL

## ADVISORY PANEL - PEOPLE

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**Date of meeting:** 8 December 2008  
**Report of:** John Weeks, Strategic Directory Designate (People)  
**Title:** **LEASING CONTRACTS FOR SCHOOLS**

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This paper, which is in the format of a Cabinet report, is presented to the Advisory Panel (People) to enable Panel Members to be aware of a forthcoming Cabinet issue and to contribute views to inform the decision making of the Cabinet.

### **1.0 Purpose of Report**

- 1.1 The purpose of this report is to gain Executive approval to a change in the process for schools taking out leasing agreements. The benefits of the proposed arrangements are:
- Schools can benefit from Office of Government Commerce contracts.
  - Schools can benefit from “finance lease” arrangements.
  - The Local Authority can look to improve Local Authority/School purchasing power from the increase in business generated from the schools.
  - The School would not be left with a disposal issue.

### **2.0 Decision Required**

- 2.1 The proposed new procedures to enable schools to benefit from Office of Government Commerce (OGC) contracts be approved.

### **3.0 Financial Implications for Transition Costs**

- 3.1 There are no transitional costs arising from the proposal.

### **4.0 Financial Implications 2009/10 and beyond**

- 4.1 The proposal is self financing.

### **5.0 Legal Implications 2009/10 and beyond**

- 5.1 The aim of the proposal is to allow schools a wider range of procurement options within the legal framework.

## **6.0 Risk Assessment 2009/10 and beyond**

- 6.1 There are no identified major risks with these proposed procedures.

## **7.0 Background and Options**

- 7.1 Currently, schools are unable to take out finance leases for photocopiers and other equipment as a consequence of requirements contained in the Schools Standards and Framework Act 1998 that prevents schools from borrowing monies without the prior approval of the Secretary of State for Children, Schools and Families. Schools were reminded of this requirement on 7 December 2005. Local Authorities are not restricted on their ability to take out finance leases at the moment.
- 7.2 This in effect means that schools can currently only benefit from the Office of Government Commerce contracts for photocopiers, computers etc by taking out a loan from the Authority to purchase equipment that then leaves the school with the issue of disposal at the end of the loan period, should they wish to update/replace their equipment. Local Authorities can, however, benefit from the OGC contracts that include for the disposal of equipment.
- 7.3 The OGC offers a number of contracts for the procurement of equipment and a variety of finance options. The Contracts have been market-tested and the terms and conditions surrounding procurement, lease or rental are fully transparent.
- 7.4 It is considered that this procurement route represents value for money and is risk free for schools and the Local Authority.
- 7.5 The whole issue of corporate procurement of printers, photocopiers and computers etc will need to be examined by the new authorities.

## **PROPOSED PROCEDURES**

- 7.6 Following discussions with officers from Children's Services, Procurement and County Finance Services it is proposed to introduce the following process/procedure to enable schools to benefit from OGC contracts without the need to dispose of the equipment at the end of the contract period:
  - a. the School to negotiate with OGC contractor for the provision of equipment and obtain a lease proposal for the required equipment and contract period;
  - b. the School to submit a lease proposal to the Local Authority for approval who then arranges for the IBS order to be sent to the contractor. Order will be from the Local Authority with school as the receiving body;

- c. the School to sign an agreement with the Local Authority accepting full responsibility for the equipment and ensuring sufficient insurance cover in place in respect of fire/damage/theft etc.;
- d. the County Council sets up payment arrangements with the contractor for the **lease charges only** and at the same time a journal transaction with the school to reimburse Cheshire for the lease charges only. This would effectively be a standing order arrangement;
- e. lease charges would cover the lease of equipment/any in-built maintenance costs/free copies, etc.;
- f. the Local Authority would arrange with the school/contractor for any additional charges for copies/toners etc not included within the lease to be sent directly to the school for payment;
- g. the School would be able to track **all** charges for the equipment on the IBS systems;
- h. the Local Authority to charge school “administrative fee” of £100 for a three year lease and £150 for a five year lease. The full fee to be paid in full in the first year of the contract;
- i. at the end of the lease OGC contractor removes equipment from school free of charge in accordance with the terms of the contract;
- j. in the event that a school may close during the term of the lease, the Local Authority to deduct any outstanding charges requested by the company from the school budget.
- k. the Local Authority will resolve all accountancy requirements.

## **FINANCIAL REQUIREMENTS**

- 7.7 The equipment acquired by the County Council under finance leases will need to be shown as both a fixed asset and as associated creditor liability in the balance sheet.
- 7.8 The annual payments made to the leasing company under the terms of the lease will be used to write down the lease creditor to nil over the lease term. In addition, the school making use of the equipment will receive a charge equal to the amount paid by the County Council to the leasing company. The income generated by this recharge will exactly offset the additional minimum revenue provision (MRP) and interest payable charges that the County Council will incur as a result of entering into the finance lease.

- 7.9 The introduction of this new procedure now will enable schools to benefit immediately.
- 7.10 There is potential for significant savings both from schools and by the new Councils from improved procurement and significantly greater buying power. The cost of the individual leases is relatively small but if the scheme is popular the total of the individual leases could be sizable. In view of this, the views of the two Shadow Authorities should be sought.
- 7.11 Cheshire County Council **Executive** and the Executive Headteacher Groups (CAPH/CASH/CASSH) have agreed in principle to these proposals.

## **8.0 Overview of Day One, Year One and Term One Issues**

- 8.1 No issues are anticipated.

## **9.0 Reasons for Recommendation**

- 9.1 To improve value for money for schools in terms of procurement efficiency and contract costs, to give schools the option of buying from a corporate contract, to increase the Councils spending power and potentially reduce prices to the whole of the Council.

### ***For further information:***

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### ***Background Documents:***

*Documents are available for inspection at:*

## Briefing Note - LEASING CONTRACTS FOR SCHOOLS

We have had a problem with schools procurement since the Schools Standards and Framework Act 1998, the implications of this Act meant that schools can't take out finance leases. Many leases are set up as finance leases and some suppliers have been adjusting finance leases to make them look as though they are operating leases. There have also been problems with expensive de-commissioning of equipment.

This has come to be more of an issue with schools not being able to take advantage of the Office of Government Commerce (OGC) contracts for photocopiers, which the rest of the County use and computers. Added to this is the roll out of I Procurement as part of Transforming Cheshire and the vision of procurement from large County contracts. The OGC contracts are a cost effective procurement solution but have the reputation of not being the cheapest method of procurement (in other words some Authorities have negotiated better deals) so we hope that the new authorities can move to their own corporate contracts sooner rather than later.

The proposal to move to OGC has three main advantages; it reduces the amount of illegal procurement in schools by reducing the number of finance leases schools enter into directly, it helps remove schools from the sharp salesmen who trap schools into disadvantages contracts thus improving value for money and it increases the County buying power. The change would also save the school time, reduce the number of suppliers and help pull schools into all of the shared services products. The OGC contracts can also include removal of the equipment making it full life costs clearer.

In existing structural terms the School will consult Procurement about options, the Service Department will raise the requisition which will be converted in the usual way. The admin fee would be payable to CFO for doing the book-keeping for supporting the process over the contract period years.

Principle has been agreed by Mark Wynn, Su Moan, Gerry Budd and Steve Ashton.

Cheshire County Council **Executive** and the Executive Headteacher Groups (CAPH/CASH and CASSH) have also agreed to these proposals.

Agreement from Cheshire West and Chester Council and Cheshire East Council is now required to ensure continuity beyond 31 March 2009.

Terry Harrop  
November 2008