



**LEASEGUARD**

Winning the benefits  
of leasing

## About Leaseguard

For more than 20 years, Leaseguard has been a leading provider of lease advisory, procurement and contract management solutions to NHS Trusts, helping them drive down costs, enhance control and improve compliance over a broad range of contracts, including maintenance, leasing, MES, consumables, estates and medical contracts.

To discuss any of the issues raised in this Technical Note please contact Carrie Rudge on 01865 340800. For more information on how we can assist Trusts with the procurement and on-going management of maintenance, leasing or MES contracts, please call Stuart Jefcoate on 01865 340800.

Leasing can reduce the requirement for capital, achieve a lower cost of borrowing than other sources of funding and enable expenditure to be profiled imaginatively against income. It can help an organisation reduce the risk of equipment obsolescence and keep up to date with technology.

But these are not benefits that drop in your lap. They are benefits an organisation achieves when it understands how to make leasing work effectively for it, when it plans its use of leasing thoughtfully, procures leases in the optimum way, and manages them actively over their whole life.

And this is where Leaseguard comes in. Like all other contract types we manage, our goal is to plan, procure and manage effectively to deliver best value for money. But to understand how we add value, and why we are the best at what we do, it's really important to understand some of the underlying issues.

First, a statistic. Something like 77% of all leases are extended beyond their primary term of lease, and something like 28% are extended again after this. We know these facts from own experience. We have procured and managed more than 5,000 leases on over £750M of assets. This suggests focussing on day one price is really only part of the financial equation.

To put some meat on the bone, a 5-year lease operating lease on an asset worth £100,000 might cost around £20,000 pa. If we assume an interest rate of 6%, this equates to slightly over 89% of capital cost in today's money. If the lease is extended for a further 2 years at the same cost the total that will have been paid, however, equates to over 118% of capital cost in real terms. Even negotiating the extension costs down by 20% or so only brings this down to 112% of the original asset value. And that's before a lessor adds on any return costs.

This is really the key point about leasing that lessees don't take into account. For a lessor, leasing is a risk management business. If they get the asset back at the end of the lease term they may very well lose a lot of money so, when they have an opportunity to generate a lot of margin on a particular deal, they will. And this will almost always be when something changes. This is normally an extension but upgrades, early terminations or any other kind of deviation from the base deal can equally prove very expensive.

And, of course, leasing isn't always the best option. Depending on your circumstances you might actually be better off in the long run to use a different funding method. What is important is to have a robust way of making this decision, and of evaluating and comparing the options. This is our starting point. We get involved in planning at both a strategic and tactical stage. At a strategic level we have developed a Capital Planning methodology that enables an organisation to better understand the right and the wrong things to lease.

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The very first time we implemented this, our client was able to acquire 13% more equipment for the same overall spend than they had originally thought possible. And every year we provide a headroom assessment for our clients. This identifies opportunities to reduce costs by restructuring some or all of the leases in the portfolio. Then, on a tactical basis, we work with stakeholders to support them throughout every deal – everything from providing indicative numbers for business cases to producing full lease/purchase evaluations and from coming up with innovative deal structures to resolve issues around legacy leases. Whatever it is, we are there to provide comprehensive and expert advice and guidance.

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And then we come to the procurement of the lease. There is a view in some quarters that leasing can be reduced to a commodity. That, by standardising on contract terms and then evaluating on headline price, that the best deal will be won. We don't look at it this way. Of course, getting lessors to bid on a similar set of terms and conditions is a huge benefit, but it is critical to recognise that this is only part of the solution. It's really all about making sure the bits that could cost you money downline are agreed and documented at the outset. That's why Leaseguard invented the concept of 'capping', where there is an unambiguous formula within the lease which sets out the maximum that can be charged no matter how long the lease is extended. And that's why, when we manage any lease procurement, the evaluation we give you takes into account all the relevant factors that will impact on whole life costs and flexibility - rather than just drawing a line underneath the deal that looks the cheapest.

And when it comes to lease management, we have over 25 years' experience. Without a doubt we have the best lease management systems available in the world, but we recognise that this is just the platform for effective lease management – not a solution in itself. For us, effective lease management means not only being able to demonstrate to our clients that we (and they) are in complete control, but also that our approach is saving them money and making leasing work for them.

As an example, we don't just ring our clients up a few days before a lease ends to see what they fancy doing – we start work months in advance of a decision being needed, researching the marketplace, talking to the stakeholders and understanding the issues, so we can develop the options and present this in a way that allows our clients make timely decisions - and give us the time to negotiate the very best deals on our clients' behalf.

## Get in touch

To understand how Leaseguard can help drive down your organisation's leasing costs, call Stuart Jefcoate, our Commercial Director, on 01865 340 800. He will be happy to explain more about our service and demonstrate the success we have had elsewhere.

## About Leaseguard

Following our proven Contract Lifecycle methodology, Leaseguard helps its clients better procure and manage their contracts to:

- Reduce whole life costs,
- Deliver absolute control and compliance, and
- Improve supplier performance

In particular, we have specialist expertise in the procurement and management of leasing, maintenance, managed services, software and green technology contracts.

We have more than 5,000 contracts under active management, representing an annual spend in excess of £50m and have generated savings in excess of £50m for our clients.

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