

# The case for hire

**WE HAVE** always done it that way. Fred likes it. I don't like it because I've never tried it. It's the cheapest.

These comments and many like them are often used when any change from an accepted pattern of work is suggested. The planning of work and the purchase of machinery is often carried out on the basis of "Well, we spent that much money last year so if we don't rock the boat, we can spend that much money next year." If the machinery purchased is cheap, it must be the most economical, and a man's labour is often based on the same surmise.

But what is the motive for this attitude? Is it that the persons concerned are frightened to make a decision? Are they frightened of making a decision that is wrong? Is it that they don't care or, which is the most likely, is it that they don't have the right information on which to make a measured decision?

I feel that, rightly, these ideas are changing and that more and more Local Authority officers and Grounds Management Committees are beginning to view things in a different light.

Hire, lease or buy? There is no golden rule for any particular piece of machinery or situation. The final decision must be left to the expertise of the management, but I hope that some of the examples I will be showing you will suggest that things may not always be as they appear, and I trust will give you some food for thought.

Why buy a machine? For small items, it is obviously the most sensible and straightforward method of purchase — accepting of course that the initial enquiries as to product, suitability and viability have been explored and it is the right tool for the job. The procedure for cash purchase is relatively simple.

A capital purchase shows as an asset on the balance sheet in most instances, which gives solidarity to the organisation concerned. You are saving interest charges and you are obtaining competitive terms from the supplier. In this

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**By Bruce Scott, Managing Director,  
Tractor & Farm Aid Limited.**

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day and age of inflation and devaluation of our currency, you are also changing pound notes into real tangible assets.

If you have an unlimited source of capital for whatever needs you require, then this could prove to be a sensible method of obtaining equipment, even on the large items. But who among us has unlimited sources of that rare commodity nowadays?

If it is a choice of either/or, or "we can only afford so much this year", then the logic of paying for items in full at the time of purchase must be looked at more closely.

We must accept that inflation is with us, and that to buy tomorrow will cost us more. Therefore, if we don't have the capital to buy all the machines, another source of obtaining them must be examined.

We may have decided to purchase our machine, but have we really calculated the cost of keeping it in regard to tie up of capital, to maintenance costs, to storage costs and to operator training costs? Have we considered that its purchase may hinder our flexi-

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bility in the future for changing procedures or methods? (See chart below.)

Don't fall prey to the replacement syndrome. By this I mean the "it's now worn out, we had better get another one or its closest equivalent" idea or even the "we must need it because it's worn out" idea. I wonder how often "we used it probably because it was there" is a truer approximation.

"It is very useful" is a phrase which often starts off the chain of events that lead to an old machine being replaced. It probably is very useful when it is being used, but has anyone ever recorded how long it was actually used for and then related its total costs to

the work done? I doubt it, for very few machines except for motor cars ever have a record of a simple log book of the number of hours per year it has been in use.

We can all get fed up with forms but, providing the information is kept simple, this can be an invaluable aid. For new machinery purchase, relating time saved or being able to do a job that you were unable to do before is important.

I have often heard people discussing whether another labourer is needed. After quite short deliberations, they decide yes, they had better have another man, and he is duly taken on. Over

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	A Capital Purchase	B Lease	C Continuation Rental
<b>Capital Cost of Machinery, say</b>			
<b>Cost Factors:</b>	<b>£1,000</b>	<b>£1,000</b>	
Depreciation ... ..	£200		
Annual Leasing Charge ...		£320	
Cost of Borrowed Money or Earning Power thereof at, say, 10% ... ..	£100		
Maintenance ... ..	£100	£100	
Storage Costs ... ..	£25	£25	
Training Expenses ... ..	£5	£5	
Annual Costings ... ..	£430	£450	
<b>Cost Over Five Year Period ...</b>	<b>£2,150</b>	<b>£2,250</b>	
<b>Machinery at End of Period ...</b>	<b>(£250)</b>		

### Own Property

#### 1. Continuation Rental

Charge approx.  $2\frac{1}{2}\%$  of Capital  
Value ... ..

£25 p.a.

#### 2. Re-Lease

Value of New Equipment ...  
Less Value of Ex-Lease Equip-  
ment ... ..  
Balance on New Lease ... ..

£1,000

£250

£750 i.e. £240 p.a.

#### 3. Leasing Refund

Leasing Company sell Machinery  
and Refund Leasing Payments  
with Amount Realised ...

(£250)

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five years this could represent an outlay of £10,000. On the other hand, the suggestion that £10,000 is spent on capital equipment is often looked on with horror. I am often told that the cash is not available. Yet this equipment would comfortably survive five years of work and would improve the efficiency of the total operation and save manpower.

The last comment leads us naturally into leasing. If you have decided that you need the machine, you can justify its use, the price is right, but you cannot afford the capital expense, then you should look at leasing. This applies even more so when you are considering not just one machine, but several which will form part of a system and can give you definite savings.

One does not consider employing a man for five years and paying him his salary in the first week for the total period. By paying weekly or monthly,

the on-costs are spread against income and the expenses in any particular year are related to the income for the same period. Why not apply the same logic to your machinery purchases?

I have stated previously that we are in a world of inflation; what you buy today is certainly far cheaper than you will buy tomorrow. Although leasing involves the extra expense of interest over the period concerned, the following example will show that it is not as expensive as often thought. (See chart.)

What is a lease? A lease is a long-term hire of machinery. This can be two, three, four, five years or longer in exceptional circumstances. For monthly or quarterly payments, you have the use of the machine or machines required to do the job.

"But I want to own it." Why? As I have already said, you have the advantage that, if you own it, it shows as an asset, but it is a depreciating

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asset. If you lease, it is not shown as a contingent liability on the balance sheet. You can put the total expenses against tax. You can budget for future years knowing that the outlay will be fixed, and you can therefore avoid the ups and downs that sudden capital expenditure brings.

Cash flow is on everyone's lips these days. The reason is often because companies have tied up their money in fixed assets as opposed to funding them from income.

You treat a lease machine as if you owned it. You insure it yourself. You maintain it and repair it exactly as you look after your own machinery.

What happens at the end of a lease? Well, many items are valueless at the end of the period of, say, five years. Whether you own or lease them, they are only fit for scrap. Some items have many years' use left in them and then, for a nominal payment, the machine can be leased on an annual basis almost indefinitely.

Some items again such as, say, a tractor, have a relatively high value even at the end of a five year period. In this instance, the selling price of this item can be refunded to you as return of leasing payments or the money can be placed against a new unit, for example. (See chart on Page 7.)

As we have seen from the two examples, the difference between capital purchase and leasing is negligible in true net costs.

Although leasing is a long-term hire, it is a totally different beast to short-term hire, and the two, as you will see, should not be confused. Short-term hire probably gives greater scope for capital and financial saving than most people realise.

The hire facility is often used as a stop-gap measure to replace a machine which has broken down or to fill in until a new one is delivered. Although

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this fulfils an important need at the time, it should not be regarded as the only purpose of hiring.

We have already analysed the true cost of keeping machinery, either through capital purchase or lease. If these costs are related to the actual hours or days that the machine will be used, only then can a real management decision on hire policy be made.

There are many reasons why hire can be justified. It is rarely possible for all units engaged in grass maintenance to have all the machines they need for all their jobs at the same time. Hire gives them the ability to use the right machine at the right time at the right price without tying up that precious commodity, capital.

A Local Authority will accept that, if one department has, for example, a turf cutter, it makes economic sense to cross hire to other departments who have need of such a machine. Often, however, when it comes to an outside source, "it must be cheaper if we have our own" or "it must be more convenient" can be the guiding light.

Do you have a list of the machines that are available for hire on your files? Do your foremen have them? If not, why not?

If you are considering hiring a specialist machine, why not also a specialist operator? By hiring a machine with a man, you save that most expensive of all items, labour. Again, this comment "Our men only cost £1 an hour and if we hire them from outside, they could cost £3". But even your own labour costs are far higher than it initially seems—you have insurance contri-

butions, holidays, sickness, management costs, etc., to take into account.

Indeed, some machines cannot be hired without operator, but this is often for the benefit of both parties, as a sophisticated machine in the hands of an untrained man is a waste of both resources.

Don't be frightened of a price for the job when you hire machines with operators. It is this fear of paying too much that often leads to this very thing happening. Often people want day rates, hourly rates, time sheets and job cards to prove that they are paying for the actual hours they have been charged. If this is the method of hiring you are using, then obviously you do need these details as a safeguard. But if you have accepted the contractor's price for the job, then it is up to his management expertise and labour skills to make sure that the job is done to your satisfaction. It is to his advantage to complete the job in the shortest possible time but, as long as you are satisfied, it is immaterial how long it takes.

With hire, the running costs of the machine are often included, except for damage caused by negligence, and again it enables you to budget the costs of the job exactly and to pay out of income.

Hiring is not an excuse for bad management. People say "When we want to hire a machine, it is not available or we have been let down". With respect, the man who plans ahead and books his machine well in advance is seldom let down. It is the man who tries to obtain it on the day after he wants it and discovers it is all in use who feels let down.



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