



# I'LL BUY

Every buying decision means someone must make a financial decision. A greenkeeper can put enormous effort into researching the best machines for the course and making a selection after carefully evaluating demonstration performance and price. But if the person responsible for the financial decision says 'We can't afford it', then the proposal, irrespective of its value, is halted.

All too often a Club can afford it, but ignorance of the funding alternatives means that decisions are based on the assumption of a fixed financial 'pot' to cover all investment for the year. As a result, capital is rationed to balance investment priorities against the need for any substantial increase in membership subscriptions. Put simply, fixing the clubhouse roof may defer a decision on a new greens triple mower.

There is an amazing array of funding sources - from cash to banks and finance companies - but the funding options can be divided quite simply into 'Buy' or 'Hire'. The key difference between the two is who retains title (legal ownership)

to the asset? Under purchase options title passes to the purchaser either immediately (cash and loans) or at some later date (hire purchase and other deferred sale options). Under 'hire' options (eg. leasing) title never passes to the hirer, but that is not to say that Clubs which lease lose out. Some could have a lot to gain, particularly when the overall cost of funds is taken into account.

Where the Club is aware of the funding alternatives and is prepared to consider them, the question then becomes 'What is the best way to fund it?' and there are a number of basic criteria that a Club can apply to make a better financial decision:

• **Cost of Funds:**

Price and cost are two different concepts. For example, you know the price of a machine the day you buy it, but you only know what it cost the day you sell it. That is after you have totalled-up the running costs, including repairs and maintenance - not to mention how well it performed under different conditions. It's the same with funding. Lease or buy, you know the price at

the outset, expressed either as a rate of interest or as a repayment in pounds (£s) per thousand borrowed. However, the real cost is only known when all the costs and the benefits, eg. tax concessions and cashflow advantages are taken into account, together with any special fees charged in connection with the facility. For example, an arrangement fee charged by a bank for a loan or the percentage rebate of rentals passed to the lessee at the end of the lease. These are costs which are not immediately obvious. Interest too, can be expressed in a variety of ways. Simple interest expressed as a Flat Rate Percentage always looks more attractive than the corresponding True Rate. Therefore to compare the cost of one finance deal against another, techniques like Discounted Cashflow are valuable, even to non-commercial organisations.

• **Availability of Funds:**

For most Clubs the first call for additional funds will be the bank, either for working capital through current account and overdraft facilities or for longer term loans. How-

ever, it makes good sense to use a number of different sources of funds to spread the cost of investment and to relieve pressure on existing lines of credit. Finance companies, often subsidiaries of major banks, provide a choice of lease and purchase facilities at competitive cost to fund vehicles, machinery and fixed equipment.

• **Cashflow:**

There is a popular misconception that a deal done for cash must be the best deal, but will a new machine work any harder because you pay cash for it on day one? Instead, paying cash 'up-front' probably places an additional strain on existing lines of credit. It can even increase the overall cost if the funds are borrowed on overdraft. Better to plan investment with repayments matched to income. Monthly payments may be fine for most businesses, but not for organisations with seasonal income. The size and timing of payments should be fixed in advance to minimise impact on cashflow and to fit in with budgets. For example, it may be better for many Clubs to make payments in

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Sometimes things happen that fall outside existing plans and budgets. For example, a tractor breaks down and repairs are uneconomic compared with replacement. A carefully structured lease or hire-purchase agreement can put a new tractor on course in mid-season with payments timed to coincide with the following years subscription income. This reduces stress on current lines of credit. In addition, using credit instead of cash does not reduce your bargaining power, because the supplier is not aware of how you intend to fund the machine.

• **Investment Incentives:**

Excluding low cost loans or grants that may be available (eg. brewery loans) substantial savings can often be made by acquiring machinery and equipment on low cost Lease or Hire Purchase finance available with the machine through

the supplying dealer.

Whilst zero percentage finance is attractive, don't overlook longer term alternatives. If you intend to keep a machine for five years, why not pay for it over the same period. Where low cost funds are available it may pay to lock into funds with a true cost well below bank base rates for as long as you can. In addition, the fixed payments will help you budget more accurately.

Capital investment is essential if Clubs are to deliver what the members want - whatever that may be. One thing is certain, with increasing playing demands being made on every course, the green staff need up to date machinery and equipment to cope and that means additional investment. So, when putting a proposal to committee, or making your own evaluation, look beyond the technical justification for the machine, to the way in which it can be funded.

■ **The author, Eddie Henderson, is a director of NMB Farm Finance. He is also the current captain of the Agricultural Engineers Association Golf Society and a member of Aldwark Manor Golf Club.**

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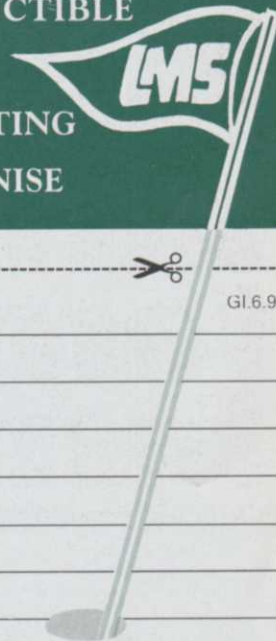
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