Sound investments with planned finance

Budgeting for future course machinery purchases is one of the most difficult tasks faced by any golf club.

Although it is comparatively straightforward to compile a shopping list of new equipment that one might like to acquire over the coming years, unexpected breakdowns, failures or other pressing course requirements can disrupt even the best-laid plans.

By the time the specified item has reached the top of the list, needs may have changed or the machine may have been superseded by a new model. Result? Insufficient money is available for the purchase, leading to a frustrating delay for another year or so.

Although many clubs still feel most comfortable with the cash purchase, there is a growing realisation that the investment of a large sum of money at one time in a single item of machinery is not the most effective use of available funds. It may avoid the payment of finance interest charges, but it can also seriously affect cash flow. Paying cash to buy a machine outright also means that one has purchased a depreciating asset using today's money.

Many successful businesses have failed not because they were unprofitable but simply because they ran out of cash. There has long been a trend in Britain for smaller companies to use short-term funding – usually cash or the overdraft – to invest in items which have a medium to long-term working life.

This is madness. Whoever heard of a machine which worked harder for you because you paid cash for it? The most sensible way to take the pressure off cash flow is to spread the cost of capital investments over periods more closely matched to their working life.

This argument is reinforced by the fact that many finance schemes are currently available at a low, fixed rate of interest – reflecting the lowest UK bank rate for more than 20 years. One can also take advantage of manufacturer-subsidised finance offering zero and low cost finance over a realistic period of time.

No machine works better or harder for you because you paid cash for it. Using planned finance to spread the cost of capital investments over periods more closely matched to their working life can help ease the pressure on cash flow.

Exhibitions such as Saltex and BTME provide an excellent opportunity for golf clubs to plan a replacement schedule and budget for the key machines on the course.

Cash or the overdraft are much better used to fund the day-to-day running of the club and to pay for variable inputs such as fertiliser, seed, chemicals, fuel and wages. If surplus cash is available, then it should be directed initially to reducing any short-term borrowings, such as the overdraft. Liquidity is valuable and should not be discarded lightly.

When planning a replacement machinery programme, golf clubs should first estimate the value of its principal equipment fleet and any additional seasonal items such as specialist aerators, a hollow tiner or drainage machine.

Assuming a core equipment valuation of £90,000 to £100,000, it would not be unreasonable to set up a five year replacement programme to ensure that the key items of machinery are kept up to date and maintenance costs are kept in check.

"The most budget-friendly way of achieving this would be through a five-year rolling finance scheme equating to a finance requirement of about £25,000 in each of the five years," commented John Westrope of leading golf course equipment finance company, FAF.

"Although many machines are needed daily throughout the year, certain items are used solely on a seasonal basis. It could be more cost-effective to hire these in when needed or arrange to share them with a neighbouring club."

When looking at a club's overall machinery budget and ways to optimise cash flow, certain finance options are more favourable than others. The principal consideration at the outset is whether one wishes to own the equipment. If the answer is yes, then other than cash from existing funds, the two standard funding methods are a bank loan or hire purchase.

Mr Westrope points out that a bank loan can leave one vulnerable to rising interest rates and can be called in at any time if one has difficulty in meeting payments. Furthermore, the equipment is not regarded as security for the loan putting pressure on the assets of the club.

Hire purchase involves a deposit (normally between 10 and 20 per cent of the amount financed) and a series of fixed repayments over an agreed period. The deposit can often be covered by the value in any trade-in machine.

Once the final instalment has been made, title passes to the user, with depreciation being shown on the club's accounts. Clubs run as businesses or with an annual expenditure of about £44,000 or less can normally reclaim the VAT, which is paid in one lump at the start of the agreement.

Methods of acquiring equipment which do not involve ownership have gained rapid ground in recent years due to the appreciation that it is not necessary to actually own something to derive maximum benefit from it.

A finance lease is one option which allows full use of a machine without giving final ownership.

In principal, the business uses and maintains the machine for a given period in return for a fixed monthly "rental", enabling easy budget forecasting. At the end of the period, the item can be traded-in and the club shares in the sale proceeds.

Following the new VAT regulations of 1994, FAF recommends a finance lease as the best option for non-profit making members' clubs. Because the VAT element is spread across the whole period of the lease, this method reduces pressure on cash flow for those clubs unable to reclaim all the VAT at the outset.

An alternative to the finance lease is the operating lease, also known as contract hire. This is equivalent to a long term hire and can include all maintenance and servicing costs. Unlike a finance lease, where the lessee and lessor share in the risks and rewards associated with ownership, an operating lease agreement reflects solely the operating costs of the machine over a fixed "hire" period.

Neither the equipment nor any maintenance charges appear on the accounts as a capital asset, an important consideration for those clubs run as businesses.

At the end of the period, the item is simply returned to the contract hire company, leaving the user free to start a new agreement. Beware, however, hidden extras such as charges for excess hours and damage or wear and tear to the paintwork and main components.

Whichever finance option selected, John Westrope points out that FAF is happy to structure repayments to suit each club's income and cash flow.

A members' club, for example, may prefer to pay annual instalments in the month following subscription renewals. A pay and play course will normally wish to arrange monthly or quarterly repayments. The length of agreement period can also be tailored according to the machine's level of use and its importance on the course.

While highlighting the flexibility offered by medium to longer-term finance schemes, John Westrope stresses the importance of seeking professional advice before making the final decision.

The expression 'act in haste, repent at leisure' could well have been coined as a warning to those who make important financial decisions without considering all of the options or the long-term consequences.

■ Thanks to John Westrope of FAF for assistance in the preparation of this article. For further information or to discuss a finance quotation, call the FAF Free Phone Help Line on 0800 225567.

Using a finance lease, Coventry Golf Club has acquired new equipment valued at more than £200,000 at lower outlay than that required previously each year to hire in specialist machines and to replace, repair and maintain the club's existing equipment fleet.