Richard Rayner is one of Textron's Regional Sales Managers and until recently was Groundscare Manager with the financial services company, Lombard. Here he looks at the various finance options that are available to golf course operators.

Buy now, pay later

Above: Finance packages ensure that equipment that is needed today, can be obtained without a large initial outlay

Finance for buying equipment has in the past been viewed as a dirty word. Visions of loan sharks and "shady deals" have often deterred golf clubs from using finance companies. In addition, it is often viewed as both complicated and confusing. However, the various financial packages available can enable golf clubs to use their limited subscription fees and residual money better, by making it go further when buying equipment instead of using their hard earned cash. Using a financial package may be the way a club can get the equipment it wants, at the right time, in a way which matches its income streams. So let's look at some of the benefits that finance can offer:

- Equipment that is needed today can be obtained without the large initial outlay.
- Equipment can be purchased at today's costs with tomorrow's money.
- Equipment can be paid for as it improves the course and generates income for the club.
- Finance can assist in the planning and budgeting for the club.
- Unlike a bank loan, a finance loan is non-repayable on demand. This means that as long as the club makes the required payments the finance company cannot close the loan.
- By using finance to buy equipment, it enables structured and long term buying policies to be incorporated.

The different types of finance

Although some finance companies may give grand names to their products, in reality there are really only three types of finance arrangements:

1 Hire Purchase
2 Finance Lease
3 Operating Lease/Contract Hire

The selection of a preferred option should really only be based on two issues:

a) Ownership
b) VAT

If a course wants to own the equipment and is able to claim all the VAT back from the Inland Revenue, then the choice should be Hire Purchase. From an accounting point of view HP purchases can be treated in the same

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Right: Moatlands Golf Club in Kent used a finance package to purchase new course maintenance equipment recently.

way as buying with cash. As such, all the VAT on the purchase price of the machine can be claimed back in the normal way at the time of buying the equipment and once the final instalment has been made the club owns the equipment.

If ownership is not an issue and a club is VAT exempt then Finance or Operating Leasing should be investigated. With both of these options the finance house will always own the equipment and the golf club will have full use of the products until the end of the term. In addition, rather than paying all the VAT on the purchase price on Day One, the VAT can be spread over the course of the agreement, being added on to each rental payment. This may be a sensible option for golf clubs that are partially VAT exempt and only able to claim back a percentage of their VAT.

The similarity between these two leasing options ends here. For a Finance Lease the length of the agreement is termed as the primary rental. Once the agreement has reached the end of the primary rental there are three choices:

i) Continue to use the equipment and pay a secondary rental that is made on an annual basis. This will continue as long as the equipment is used.

ii) Sell the equipment on behalf of the finance company having gained their permission first. Once the equipment is sold many finance companies may offer a rebate of rentals and, as such, return a percentage of the sale price to the customer.

iii) Hand the equipment back to the finance company.

In addition, a Finance Lease may be treated for accounting purposes on the Balance Sheet, and shown as a leased asset.

At the beginning of an Operating Lease, a third party takes a view on the residual value of the equipment at the end of the lease. The rentals are calculated based on this third party guaranteeing the agreed residual value. This often results in the rentals being lower with an Operating Leasing as opposed to a Finance Lease. However, at the end of the term of the agreement, the equipment is handed back to this third party, although some finance companies do offer the golf club additional options such as

Below: Contract Hire enables a club to budget for the full cost of running a machine over a given period of time.

extending the lease period or making an offer to buy the equipment at a fair market price.

An additional option for an Operating Lease is to add a maintenance programme to the rental and this arrangement is termed Contract Hire. The maintenance can be adapted specifically to the club's needs but usually covers the standard servicing costs and the usual wear and tear products. The major benefit of Contract Hire is that it enables the club to budget for the full cost of running a machine over a given period of time.

Repayment Terms

Greater flexibility of repayment terms is another benefit that finance companies offer. In what is a very seasonal industry, finance houses may offer flexible repayment periods of up to seven years. This means that repayments can be made to match the income stream of the club.

For example, clubs often have a surplus of money at the beginning of their finance year as subscriptions flow in. Some clubs may prefer to make a one-off, annual repayment with the payment being made a month after the club subscriptions have been made.

Clubs with a high percentage of summer green fees or those that are "Pay and Play" will have lower incomes during November to March. These clubs will benefit from a flexible repayment arrangement that allows for higher payments in the summer months, when income generation is greater, with reduced or no payments during the winter. This has the added benefit of paying for the equipment as it generates income. Traditionally, course maintenance equipment is locked up in the shed during the winter months, but by using flexible repayment terms it is possible to make the majority of payments when the equipment is being used and when cash flow is at its highest.

Using finance is certainly not complicated and it allows golf clubs the flexibility to purchase equipment without the initial outlay of cash. Many course managers and greenkeepers do not enjoy the benefits of limitless equipment budgets and this often restricts the choice of equipment. Invariably the choice of equipment is made predominantly on price, rather than on the benefits that the machinery will provide for the club. This in turn restricts the quality and productivity of work, and in the long term may prove to be a costly choice. If you use finance effectively it may just open up a few additional alternatives, improving both the quality of equipment and the playing conditions for your members.