

Avian Telecoms have partnered with Tower Leasing to provide a finance solution for the education sector. Providing finance for the education sector requires a ‘thinking outside the box’ mind frame to meet the needs of schools, colleges and universities. Legislation restricts how these organisations can raise finance and an Operating Lease is the product that is most widely used in the sector.

What type of lease is right for our school?

There are two different types of lease – operating leases and finance leases – but schools should generally only enter into operating leases, as the use of finance leases require the Secretary of State’s approval.

Understanding the main differences between a finance lease and an operating lease is essential:

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| <p>Operating lease agreements typically have a shorter duration than the working life of the equipment. Under an operating lease, the leasing company (“lessor”) retains the risks and rewards of ownership, and it will also retain an investment in the equipment being leased, known as the Residual Value. You will not own the equipment at the end of the agreement.</p> | <p>Finance lease agreements usually run for all, or a substantial proportion, of the equipment’s estimated working life. Under a finance lease, the leasing company (“lessor”) transfers all of the risks and rewards of ownership of the equipment to the customer (“lessee”). You will not own the equipment at the end of the agreement. Leases that do not meet the operating lease criteria will be finance leases.</p> |
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The difference between a finance and operating lease depends on the substance of the transaction rather than the form of the contract. The table below may help:

| Questions to ask | Answer is YES | Answer is NO |
|--|----------------------|---------------------|
| Is the lease term for the major part of the economic life of the asset, even if title is not transferred? | Finance lease | Operating lease |
| At the inception of the lease does the Net Present Value of the minimum lease payments amount to at least substantially all of the fair value of the leased asset? | Finance lease | Operating lease |
| If still unsure as to type of lease, i.e. a mix of yes and no answers to the section above, consider the next set of questions: | Answer is YES | Answer is NO |
| If the lessee is entitled to cancel the lease, are the Lessor’s losses associated with the cancellation borne by the lessee? | Finance lease | Operating lease |
| Does the lessee have the ability to continue to lease for a secondary period at a rent that is substantially lower than market rent? | Finance lease | Operating lease |

Avian have in-depth experience of structuring transactions in a way which benefits our customers. In the education sector we appreciate that it is crucial that any lease is properly structured so that it will qualify for treatment as an operating lease. We work hard with our customers and their advisers to ensure that leases are correctly set up on the right basis.

One of the methods we employ in order to achieve operating lease treatment is to take the fair market value of the equipment and subtract from it the anticipated residual value of the equipment at the end of the lease term.

We calculate the amount of the rentals by reference to this net value. As well as ensuring that the lease is categorised as an operating lease, this process means that the rentals are lower, since they are calculated by reference to a lower capital amount.

How Avian can assist customers in the education sector

Academies must ensure that any lease arrangement maintains the principles of value for money, regularity and propriety whether or not the Education Funding Agency's prior approval is required.

It is important to understand that schools and academies have funding allocated to them so they are able to operate on a day-to-day basis. Teachers' wages, books and equipment are a few of the items making up operating costs for schools. Funding equipment under operating leases is seen as incurring operational expenditure rather than capital expenditure.

When doing this the educational body must:

- Receive a discount on the equipment value.
- The length of the lease should be less than the anticipated lifespan of the equipment (so the telephone system with a 7 year lifespan could be supplied on operating lease for 5 years).
- Not acquire ownership of the equipment at the end of the lease directly from the lessor (although it can do so from Avian if Avian regains title at the end of the term).

Under an operating lease structured by Tower Leasing, Avian can supply equipment on finance to the educational sector knowing that the arrangements meet the regulatory and accounting requirements which apply to the sector. To find out more, contact the Avian Education Team with the contact information below.