Asset Finance – a guide for waste management companies

Why use asset finance (leasing and hire purchase)

Business efficiency often depends on having the right equipment for the job. But if cash flow is frustrating your plans, it's time to consider leasing or hire purchase.

Both can be used to obtain a wide range of assets – everything from office equipment, balers, shredders, yellow plant, and material recycling facilities to vehicles – and regular monthly payments make these options workable for firms on tight budgets.

Interest rates are generally fixed and there may also be accounting or tax benefits, but discuss this with your accountant or adviser. In addition, because leases and hire-purchase agreements are secured wholly or largely on the asset being financed, the need for additional collateral is much reduced.

How it works

Decide whether you ultimately want to own the asset, or just have use of it for a particular period.

If you want to own it, then opt for Hire Purchase (HP).

How it works – the finance company purchases the asset on your behalf, and retains ownership until the final instalment is paid, at which point the customer is given the option to buy it for a nominal sum.

If you just want use of the asset, opt for leasing.

How it works – the leasing company (lessor) buys and owns the equipment on your behalf. You (the lessee) pay a rental for the use of the equipment over a predetermined period.

There are two main types of lease:

- A finance lease transfers all the rights and obligations of ownership (like maintenance and insurance) to the lessee, and over the lifetime of the agreement, the lessee will pay at least 90% (and generally 100%) of the fair value, or market value of the asset.

- An operating lease may be appropriate if the business doesn't need the equipment for the entirety of its working life. The agreement period will be shorter, and so the lessor will retain responsibility for maintenance and insurance, and will take the equipment back at the end of the agreement.

Things to consider when using asset finance

Know the finance company: Leasing and hire purchase are available directly from specialist finance companies, or indirectly through equipment suppliers or finance brokers. Most firms providing asset finance in the UK are members of the Finance & Leasing Association (FLA), and are subject to the stringent standards set out in the FLA's Business Finance Code. Doing business with an FLA member means you are dealing with a reputable firm.

Length of the agreement: This is likely to be fixed regardless of other factors such as changes in technology or changes in your needs, so when taking out a lease or hire purchase agreement, consider how long you've tended to use similar equipment in the past. You should also ensure that the length of the agreement is appropriate for the expected working life of the equipment.

Return Conditions: Leases (and in particular, operating leases) require lessees to return equipment in good and serviceable condition, "fair wear-and-tear" only being excepted. Waste management companies often use equipment in challenging working environments, so negotiate carefully and record the return conditions at the outset to avoid disputes at the end of an agreement.

Maintenance and supplies: It should always be clear when maintenance or supply services are included or excluded in a finance agreement. The following simple checks can help you understand the obligations of each party and clarify who will provide any services under the lease agreement:

- Check whether the maintenance or supply contract is a separate agreement from the lease. If it is, check whether that the length of the two agreements are the same and how much notice would be required to terminate each one;
- Check what level of service you will get – for example will there be regular maintenance visits and supply deliveries, or will you need to request when necessary;
- Check the maintenance or supply costs and whether a similar level of service could be obtained from a different supplier at lower cost;
- Check what would happen if the company providing the maintenance or supplies went out of business, and how this might impact on your use of the equipment and lease payments.

Upgrades: Keeping the equipment until the end of the agreement before upgrading will almost always be cheaper than upgrading during the term of the agreement. However, if your needs change and an upgrade is necessary, always seek advice before proceeding.

Last but not least: If a deal sounds too good to be true it probably is. The FLA's Checklist for business finance customers offers additional guidance on successful leasing:

1. Read your business finance agreement carefully, and never sign any agreement which is incomplete. Retain copies of all documentation.

2. Ensure that the final contract:

   a. corresponds with any verbal or written quotation on the rental amount and period of hire;
   b. accurately reflects what you are agreeing to pay for, including any maintenance or services included in the repayments;
   c. accurately describes the equipment you are expecting to receive (e.g. whether it is new or used) and that its working life is appropriate to the length of the finance agreement.

3. Make it clear who has the authority within your own organisation to sign the agreement.

4. Make sure you understand and agree with all terms and conditions of the business finance agreement. If you are unsure, seek advice.

5. Make sure you understand all the costs involved and whether these will change during the course of the finance agreement.

6. Check that the supplier of the equipment is reputable.

7. Confirm whether there are any notice period or settlement terms required to terminate the agreement.

8. If the name of the leasing company contracting with you is not shown on the agreement, ensure that you are informed as soon as possible.

9. If any amendments are made to the business finance agreement or a further agreement is required to replace an existing agreement, do not sign it until you have made the same checks as you did for the original agreement.

10. If a new business finance agreement includes an element of refinancing from a previous agreement with a different provider, check that the settlement figure provided by the former provider matches the refinancing figure used by the new provider.

11. Check whether the funder is a member of the FLA, as all our asset finance members adhere to the FLA Business Finance Code.