



## PUBLIC EXCLUDED

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**Committee** Policy, Finance and Strategy  
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### Information Technology and Support Services Department Business Plan Variation

#### 1. Purpose

To seek the committees approval to change the Information and Technology and Support Services business plan to directly purchase replacement personal computers rather than to enter into a lease agreement.

#### 2. Public Excluded

Grounds for exclusion of the public under section 48 (1) of the Local Government Official Information and Meetings Act are that the public conduct of the whole or relevant part of the proceedings of the meeting would be likely to result in the disclosure of information for which good reason for withholding exists (i.e. to preserve commercial confidentiality).

#### 3. Background

The Information Technology and Support Services department's business plan makes provision to lease computers on a three year cycle. As our main lease expires in December we need to acquire approximately 251 personal computers and laptops as replacements together with a small number of additional PCs required to meet increased requirements from various departments.

The actual number of PCs and laptops is being finalised and may vary by up to 5 units. This analysis in this report is based on the current estimate of 251 units.

#### 4. Quotations received

Quotations have been obtained for equipment from IBM, HP and DELL.

All of the equipment offered meets the technical specifications to meet our requirements and are backed up with adequate warranties and service arrangements.

The IBM costs are significantly higher than the other two prices and have not been analysed in detail.

##### Summary of purchase price

	Purchase Price
IBM	\$594,201
HP	\$453,117
DELL	\$445,855

#### 5. Financial analysis

Over the last few years the personal computer market has been very competitive and computer manufacturers companies have been partnering with finance companies to make leasing attractive by offering very low interest rates. However recently the financial difference between purchasing and leasing has reduced. Therefore it is appropriate to reconsider the method of funding these items.

##### Leasing compared to Purchasing

Advantages	Disadvantages
<b>Leasing</b>	
Spreads the cost over the life time of the asset.	Lack of flexibility in the term, the lease charge is only marginally reduced if the term is extended beyond that initially agreed.  We effectively loose 6 to 8 weeks at the end of the lease during the change over period.  With modern computers we could often extend there life by some months without any operational impact and so choose the time to replace computers when it was

Advantages	Disadvantages
	most convenient.
<p>The supplier handles disposal of the equipment at the end of the lease.</p> <p>We are unable to obtain as much value from the old equipment as the lease company.</p>	<p>Any accidental damage, scratching etc beyond reasonable wear and tear is the responsibility of the council.</p>
<b>Direct purchasing</b>	
<p>Increased flexibility on when to replace equipment.</p>	<p>Funding has to be found in one particular year.</p> <p>It makes operational sense to change all PCs at the same time so that performance and software versions can be standardised.</p>

To compare the financial implications of purchasing rather than leasing the present day value of the future cash flows associated with each lease has been calculated.

	Purchase		Lease	
	Price	Present day value	Details	Present day value
IBM				
HP	\$453,117	\$416,351	\$29.11 per \$1,000 per month	\$452,386
DELL	\$445,855	\$409,648	\$82.57 per \$1,000 per quarter	\$415,303

The following assumptions were used:

- Interest rate 7%
- Residual value at the end of three years - 10% of purchase price

As can be seen from the financial analysis there is not a significant difference in cost between leasing or purchasing based on the DELL proposal. That being so the preferred option is to purchase the equipment and obtain the increased

flexibility available around choosing our upgrade time available from direct ownership.

## **6. Communications**

No communications are required.

## **7. Recommendations**

*(1) That the Committee:*

- (a) Approves a change to the Information Technology and Support Services Business Plan to purchase rather than lease Personal Computers.*
- (b) Authorises the Chief Financial Officer to accept the lowest complying quotation once the number of units has been finalised.*

Report prepared by:

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Public excluded