

BUREAU OF THE BUDGET CIRCULAR NO. A-54

After studying the various factors affecting lease-purchase decisions, the Bureau of the Budget issued Circular No. A-54, in October 1961, prescribing policies to be observed by Federal agencies in acquiring ADP equipment. This circular requires that agencies use a 6-year factor in ascertaining which method is most favorable from the standpoint of expenditures. In other words, if rental charges over a 6-year period exceed purchase and related maintenance costs, the decision to purchase should be made. Normally, most systems would be purchased under this policy. However, the application of the policy is dependent upon the user's having a continued need for the particular equipment throughout the 6-year period. If a user anticipates changes in data processing requirements which might necessitate equipment changes prior to the expiration of the amortization period, he need not purchase.

As indicated by the statistics on computers in use or planned (see p. 7), the Bureau's circular has apparently had little effect so far on lease-purchase decisions by individual agencies.

LIMITED PERSPECTIVE USED IN DETERMINING THE USEFULNESS OF DATA PROCESSING EQUIPMENT TO THE GOVERNMENT

With more than 1,000 systems now in use (exclusive of certain military tactical, intelligence, and surveillance systems), the Federal Government is the world's largest user of electronic data processing equipment. For the most part, the equipment is general purpose in nature; that is, it can be used to perform numerous different kinds of tasks once programmed to do so. Because of the wide variety of Government equipment needs, most equipment installed can be considered to be useful to the extent that, if purchased and no longer needed for its originally intended purpose, it can be placed in use for other purposes in other activities.

Government applications range from critical scientific and defense operations to many less demanding administrative functions. In making lease versus purchase determinations, each Federal agency considers only the various factors involved from its own standpoint, and this practice has had much to do with the fact that 86 percent of the systems now in use are leased. If, however, the usefulness of equipment is considered from the standpoint of advantage to the Government as a whole, including consideration of use for subsequent or less demanding tasks as well as for the primary or originally intended purposes, the economic advantage of purchasing becomes more evident. Had this viewpoint been used in making lease versus purchase decisions in the past and if an effective procedure had existed for transferring equipment within the Government, the fears of a loss of flexibility through purchasing, which has to some extent influenced individual agency decisions to lease, should have been overcome.

In some cases, because of defense or other critical national needs, it is necessary to use the latest models of equipment. However, most EDP equipment is general purpose in nature and it could fulfill data processing needs in less demanding areas for a number of years after it has outlived its usefulness for the original task.

ECONOMIC OBSOLESCENCE VERSUS TECHNOLOGICAL OBSOLESCENCE

Development of new equipment has been so rapid that much electronic equipment is technologically surpassed by more advanced models by the time it is installed. However, from an economic point of view, considering overall Government needs, most equipment can be considered as having a useful life of at least 5 years. The physical life of such equipment may extend well beyond a 5-year period after which maintenance and upkeep charges become the main cost factors to be considered. If the originally installed equipment can be productively and satisfactorily used at a lower cost than newly developed equipment, it would seem that, unless timeliness of data processing or some other feature becomes the overriding factor, the older equipment should be retained in use until the cost advantage favors conversion to the technically superior equipment.