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Capitalisation of engine expenditure in Fleet Services

Date: 18 November 2024

Report of: Head of Finance (Strategy and Resources)

Report to: Interim Asst Chief Executive, Finance, Traded and Resources

Will the decision be open for call in? ☐ Yes ☒ No

Does the report contain confidential or exempt information? ☐ Yes ☒ No

Brief summary

1. This report seeks approval;

a) To create a new capital scheme for the replacement of engines in vehicles.

b) To fund this scheme from the existing Vehicle Replacement Programme.

c) To transfer relevant expenditure from the Fleet revenue budget to this new capital scheme. scheme 33695 (Vehicle Replacement Programme).

Recommendations

a) Inject into the 2024/25 capital programme a scheme for capitalising fleet expenditure on engines of up to, but not exceeding, £0.5m, funding this from re-profiling the 2027/28 year budget on scheme 33695 (Vehicle Replacement Programme).
b) Transfer expenditure currently recorded on the Fleet Services revenue accounts in respect of engines to the new capital scheme.
c) Spend against this scheme in relation to engines yet to be fitted up to the total value of the scheme.

What is this report about?

1 Within the Strategy and Resources directorate the expenditure on engine replacements in vehicles is currently recorded against the Fleet Services revenue budget. At period 5, the Fleet Service reported an overspend against budget of a projected £837k. This is in the context of an overall reported position for the council of approximately £22m.

2 The Fleet position reflects the ongoing pressure of an aging fleet and inflation, the consequence of which is increased occasional hire costs to maintain front line service operations. Capitalising the cost of engine costs will improve the in-year revenue position for Fleet Services and for the Passenger Transport service (which is recharged from the Fleet Service).

3 Replacing an engine;

a) involves replacing a component of the asset,

b) is not routine maintenance,

c) extends the life of the vehicle beyond what would have been expected originally,

This expenditure can therefore be capitalised.

4 This report seeks approval to create a new capital scheme specifically for expenditure on engine replacements by utilising up to £0.5m of the vehicle replacement programme budget from capital scheme 33695.

5 The Vehicle Replacement Programme on scheme 33695 is approximately £75.5m. Current expenditure, or planned expenditure, against this programme is approximately £7m. Whilst expenditure of the balance will be subject to the outcome of the Vehicle Programme Management review, there is considerable scope within this scheme facilitate the recommendations in this report.

What impact will this proposal have?

6 There will be no change to the outcomes to vehicle repairs. The fleet revenue account is currently forecast to overspend against the 2024/25 budget by £837k. The capital scheme is underspending and subject to reprofiling. At period 5 the projected cost for the year of engine replacements was £305k. Approximately £220k of this is projected within the Fleet service, with £85k (approximately £60k within the Children's and Families Directorate and £25k within the Adults and Health Directorate) with the Passenger Transport service. This proposal will transfer expenditure from the reported in-year revenue position for the Council to the reported capital position.

How does this proposal impact the three pillars of the Best City Ambition?

☐ Health and Wellbeing ☐ Inclusive Growth ☒ Zero Carbon

7 New engines are more efficient that those they replace. Replacing engines when appropriate to do so also extends the useful life of vehicles. However, this proposal is regarding accounting treatment of expenditure that has either already happened or is planned to happen.

What consultation and engagement has taken place?

Wards affected: N/A		
Have ward members been consulted?	☐ Yes	☒ No

8 Corporate Finance have been consulted in relation to the validity of capitalising expenditure on engines.

9 Civic Enterprise Leeds (CEL) fleet services have been consulted and are supportive of the proposal.

What are the resource implications?

10 There are no overall resource implications arising from these proposed changes as the proposal is to be funded by the existing Vehicle Replacement Programme capital scheme. The approval will reduce the current vehicle replacement programme by £0.5m and create a new scheme for engine capital expenditure of £0.5m. In 2024/25 this proposal will transfer expenditure £305k of expenditure from the reported in-year revenue position for the Council to the reported capital position.

What are the key risks and how are they being managed?

11 There is a risk that the existing capital budget for vehicle replacement will be utilised more quickly than would otherwise have been the case. However, the slippage against this scheme and regular monitoring of the capital programme will mitigate this risk.

12 A further risk is that the Vehicle Programme Management (VPM) scheme could be underfunded by capitalising this expenditure, however there is a potential to mitigate this as an aim of the VPM is to reduce the total size of the fleet if possible.

What are the legal implications?

13 There are no legal implications arising from these proposed changes.

Options, timescales and measuring success

What other options were considered?

14 Continuing to account for engine expenditure in revenue rather than capital is the only other alternative. This would leave a budget pressure on revenue rather than transfer that expenditure to a budgeted capital scheme.

How will success be measured?

15 The pressure will reduce on the fleet revenue budget. The capital budget will spend to the renewed profile.

What is the timetable and who will be responsible for implementation?

16 Expenditure will be transferred from revenue to capital in the financial reporting period following approval of this decision.

Appendices

- None

Background papers

- None