

# Annual Treasury Management Report 2020/21

as at 15/6/21 - GB



## **1. Introduction and Background**

This Council is required through regulations issued under the Local Government Act 2003 to produce an annual treasury report reviewing treasury management activities and the actual prudential and treasury indicators for 2020/21. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

During 2020/21 the minimum reporting requirements were that the full Council should receive the following reports:

- an annual treasury strategy in advance of the year (Council - February 2020)
- a mid year (minimum) treasury update report (Council – January 2021)
- an annual report following the year describing the activity compared to the strategy (this report)

In addition, the Cabinet and Scrutiny (Audit and Value for Money Council Services) Committee has received quarterly treasury management updates as part of the overall financial reporting during the course of the year.

The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

This Council also confirms that it has complied with the requirement under the Code to give prior scrutiny of treasury management reports by the Scrutiny (Audit and Value for Money Council Services) Committee before they were reported to the full Council.

## **2. This Annual Treasury Report Covers**

- the strategy for 2020/21 – a summary;
- the council's treasury position as at 31 March 2021;
- Borrowing and Investments outturn
- the economy and interest rates in 2020/21;
- compliance with treasury limits and prudential indicators;
- Other treasury related issues.

### **3. The Strategy for 2020-21 - Summary**

The Treasury Management Strategy Statement and Annual Investment Strategy for 2020/21 was approved by the Council on 24th February 2020.

#### Capital Programme and Borrowing

The approved capital programme for 2020-21 contained no external borrowing requirements for financing. Therefore no additional external borrowing was undertaken during the financial year. External loan debt was repaid as individual annuity loan repayments (from PWLB) were due and the balance on all finance leases were repaid in the year. The level of external debt of the Council at 31 March 2021 was £11.172m.

#### Capital Financing Requirement (CFR)

The approved strategy includes the proposal to utilise capital receipts to support the reduction in the underlying debt requirement and generate savings to the revenue budget. This strategy was maintained with £1.375m, from a capital receipt, being used to reduce the CFR in the year. The CFR is higher than originally anticipated at 31 March 2021 due to the timing of capital receipts allocated towards reducing the underlying debt requirement

#### Borrowing Limits

The Council maintained its borrowing position within all set limits for the financial year.

#### Investments

The Treasury Management Annual Investment Strategy has been impacted by the Covid 19 pandemic during 2020-21. The emergency reduction of base rates by the Bank of England in March 2020 meant the base rate was reduced to 0.10%. This led the way to very low investment rates being achieved during the year and for most of the year the investment rates on the money market funds and via the debt management office has been around 0.01%. There were also a number of occasions where rates were at 0.00% and even negative for a short period. Set alongside this was the receipt of additional government grants provided by the Government to support business and individuals in the Borough. These grants have served to temporarily increase the average investment balances during the year albeit at historically low interest rates. The net impact is that investment interest earned is below the budget by £137k.

The Council's investment approach during the year has been to maintain a very cautious position ensuring all counterparties meet our strict lending criteria in terms of approved counterparties, lending amounts and durations. One area we have invested more during the second half of the financial year was to other Public Sector organisations and the investment position at 31 March 2021 reflects this position.

The following sections of the report provide further detail and analysis of the treasury management activity for each area of the Treasury Management Strategy and Annual Investment Strategy.

#### 4. Treasury Position as at 31 March 2021

The Council's debt and investment portfolio is organised by the financial management service in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks with all treasury management activities. Procedures and controls to achieve these objectives are well established through member reporting detailed in the introduction, and through officer activity detailed in the Council's treasury management practices.

The Council's treasury portfolio position (excluding borrowing from finance leases) and the average interest rates on the portfolio as at the beginning and end of the year were as follows:

Table 1

2019/20 £000	Average Rate		2020/21 £000	Average Rate
<u>Borrowing</u>				
6,315		- PWLB	6,261	
4,912		- Market and other	4,911	
<b>11,227</b>	<b>5.4%</b>	<b>Total Borrowing</b>	<b>11,172</b>	<b>5.4%</b>
<u>Investments</u>				
32,703	<b>0.7%</b>	Core Deposits*	45,686	<b>0.2%</b>
91		Cash and Bank	(910)	
<b>32,794</b>		<b>Total Investments</b>	<b>44,776</b>	

\*excludes Icelandic deposits

The maturity structure of the **borrowing** was as follows:-

Table 2

2019/20 £000		2020/21 £000
565	Under 1 Year*	565
56	Maturing in 1-2 Years	57
178	Maturing in 2-5 Years	6,753
6,771	Maturing in 5-10 Years	3,766
3,657	Maturing in 10-15 Years	31
0	Maturing in excess of 15 Years	0
<b>11,227</b>	<b>Total</b>	<b>11,172</b>

\*This includes accrued interest as at 31<sup>st</sup> March, consistent with the financial statements.

The maturity structure of the **investments at 31<sup>st</sup> March** was as follows:-

Table 3



## 5. Borrowing Outturn for 2020/21

### 5.1 Capital Financing Requirement

The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the council's debt position. The CFR results from the capital activity of the council and what resources have been used to pay for the capital spend. It represents unfinanced capital expenditure as at the year end.

The Council's CFR is not allowed to rise indefinitely. Statutory controls are in place that require the authority to make an annual revenue charge, called the Minimum Revenue Provision (MRP) to reduce the CFR. This is effectively a repayment of non-housing borrowing.

The Council's 2020/21 MRP policy (as required by MHCLG guidance) was approved as part of the Treasury Management Strategy Statement for 2020/21. The CFR position is set out in the table below:-

Table 4

<b>CFR</b>	<b>2020/21 Actual £'000</b>	<b>2019/20 Actual £'000</b>
Opening Balance	15,047	15,824
Add unfinanced capital expenditure	0	999
Less MRP	(284)	(358)
Less Voluntary Debt Repayment	0	(865)
Less Debt Repayment from Capital Receipt	(1,375)	0
Less finance lease repayments	(318)	(536)
Change in long term debtors	0	(17)
<b>Closing Balance</b>	<b>13,070</b>	<b>15,047</b>

The CFR is higher than had originally been anticipated, due to the timing of capital receipts being received. Overall the CFR has reduced by £1.977m, which is a combination of the MRP, finance lease repayments and the set aside of a capital receipt.

It can be seen from table 2 and above that the Council's total external borrowing remains below the CFR by £1.898m (£13.070m less £11.172m) indicating the use of internal reserves and balances to effectively finance some capital expenditure thereby saving on external borrowing costs.

The Council's borrowing activity is constrained by affordability, and prudential indicators including the CFR, operational boundary and the authorised limit.

## 5.2 The Authorised Limit and Operational Boundary

The authorised limit is the "affordable borrowing limit" required by Section 3 of the Local Government Act 2003. The Council does not have the power to borrow above this level. The table below demonstrates that during 2020/21 the Council has maintained gross borrowing within its authorised limit.

The operational boundary level is set at £17.5m to allow some headroom. Periods where the actual position is either above or below the boundary are acceptable subject to the authorised limit not being breached.

Table 5

2019/20 £'000	Borrowing Limits and Boundaries	2020/21 £'000
19,500	Authorised Limit	19,500
17,500	Operational Boundary	17,500
11,545	Gross Borrowing at 31 <sup>st</sup> March (inc, Finance Leases)	11,172
11,227	Gross Borrowing at 31 <sup>st</sup> March (excl. Finance leases)	11,172
15,047	Capital Financing Requirement	13,070

### 5.3 Short-term Borrowing

No short term borrowing was necessary during the year.

### 5.4 Debt Rescheduling

During the year debt rescheduling opportunities were explored but these have proven to be financially uneconomical in the current climate and consequently there has not been any restructuring undertaken during 2020/21.

### 5.5 Borrowing in advance of need

The Council has not borrowed more than, or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed.

## 6. Investments Outturn 2020/21

### 6.1 Investment Policy

The Council's investment policy is governed by MHCLG guidance, which has been implemented in the annual investment strategy approved by the Council in February 2020. The policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit agencies supplemented by additional market data (such as credit outlooks, credit default swaps, bank share prices).

The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

### 6.2 Investments as at 31<sup>st</sup> March 2021

The Council's core investments as at 31<sup>st</sup> March amounted to £45.686m (excluding Icelandic deposits). These balances were, in the main, held with short

term notice accounts (£10.7m), AAA rated Money Market Funds (£7m) and fixed term deposits (£28m) which includes £21m with other public sector organisations. This position reflects a continuation of the Council's relatively low risk appetite in relation to its investments – particularly in light of the current economic uncertainties in relation to the Covid-19 Pandemic.

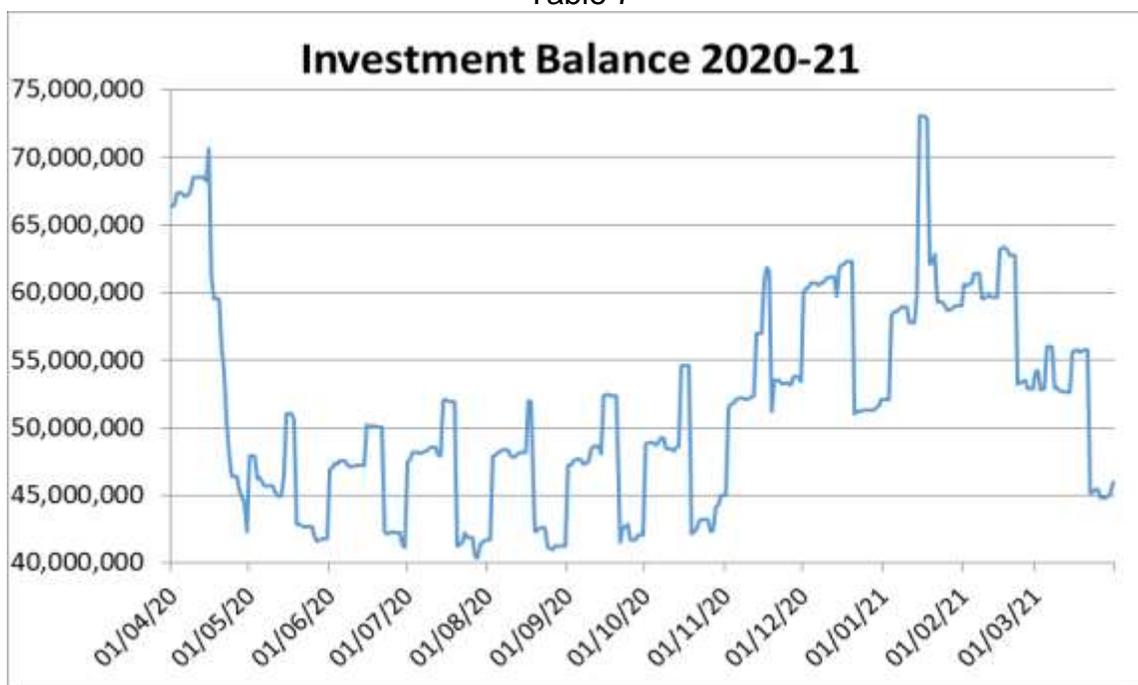
The Council's Investments as at 31<sup>st</sup> March 2021 were as follows:

Table 6

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date
<b>Call Accounts and Money Market Funds</b>				
RBS SIBA	1,186,505	0.01%		
Barclays	43	0.05%		
Santander Notice Account	3,500,000	0.40%		95 day notice
Bank of Scotland Notice Account	2,500,000	0.30%		95 day notice
Lloyds Notice Account	3,500,000	0.10%		95 day notice
MMF Federated	3,000,000	0.01%		Call
MMF CCLA	4,000,000	0.04%		Call
<b>Fixed Deposits/ Certificates of Deposit</b>				
National Westminster Bank CD	1,000,000	0.26%	12/08/2020	12/08/2021
National Westminster Bank CD	1,000,000	0.13%	25/11/2020	24/11/2021
National Westminster Bank CD	1,000,000	0.14%	30/03/2021	30/12/2021
National Westminster Bank CD	2,000,000	0.09%	18/02/2021	18/02/2022
DMO (UK debt management)	2,000,000	0.01%	14/01/2021	14/04/2021
Wrexham CBC	2,500,000	0.10%	21/12/2020	21/06/2021
Derbyshire CC	2,000,000	0.07%	26/03/2021	16/04/2021
Rugby BC	1,500,000	0.08%	29/03/2021	29/04/2021
Powys CC	5,000,000	0.03%	01/03/2021	01/06/2021
Basildon BC	5,000,000	0.04%	22/03/2021	22/06/2021
Merseyside PCC	5,000,000	0.10%	18/03/2021	20/09/2021
Total	45,686,548			

The chart below illustrates the movement in the level of investments held by the Council throughout the year, with the peak being £73.1m in January and the average being £51.5m.

Table 7



The “usual” graph for the investment pattern has been affected by the movements arising from grant allocations by the Government to support business, individuals and the Council from the impact of the pandemic during 2020/21.

### 6.3 Investment Rates

The average rate of investment return that was assumed in the 2020/21 budget was 0.65%, which at the time was a cautious forecast. Due to the Covid-19 Pandemic there have been two emergency cuts to the bank base rate by the Bank of England during March 2020, which means the rate was reduced and has remained at 0.10% for all of 2020/21. The bank rate is not expected to increase in the short to medium term. A comparison with other benchmarks of the rate of return on investments achieved by ESBC in the year to 31 March 2021 is shown below:

Table 8

	Average Rate Year to 31/03/21
ESBC	0.21%
3 Month LIBID Rate	0.02%
6 Month LIBID Rate	0.08%
Base Rate	0.10%
Budget	0.65%

\*\*LIBID = London Inter Bank Deposit Rate

The low interest rates during the year means that investment income returns were lower (£137k) than budget. However, the ESBC average return for the year exceeds both the base rate and other benchmarks.

## 7. The Economy and Interest Rates

A commentary on the economy and interest rates is provided by our Treasury Management advisors (Link) and is detailed in **Appendix 1**.

## 8. Compliance with Treasury Limits

During the financial year the Council operated within the treasury limits and Prudential Indicators set out in the Council's annual Treasury Strategy Statement. The outturn for the Prudential Indicators is shown in **Appendix 2**.

## 9. Other Treasury Matters

### a) Icelandic Bank Defaults

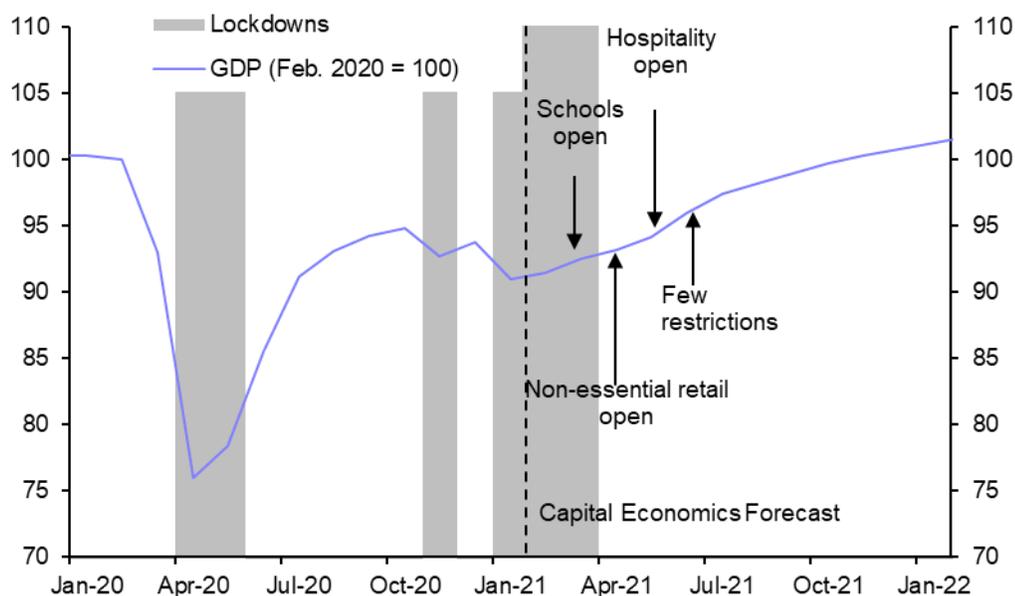
This authority currently has the following investments outstanding in Icelandic banks:

Borrower - Icelandic Exposure	Principal (£)	Interest Rate	Start Date	Maturity Date
KSF	264,000	5.41%		08/10/2008

The administrators for Kaupthing, Singer and Friedlander Ltd made dividend payments of £3k during the financial year, with total dividend payments to date of 86.8%. Further repayments are expected during 2021-22 taking the estimated total repayments to 87%.

## Appendix 1: The Economy and Interest Rates

**UK. Coronavirus.** The financial year 2020/21 will go down in history as being the year of the pandemic. The first national lockdown in late March 2020 did huge damage to an economy that was unprepared for such an eventuality. This caused an economic downturn that exceeded the one caused by the financial crisis of 2008/09. A short second lockdown in November did relatively little damage but by the time of the third lockdown in January 2021, businesses and individuals had become more resilient in adapting to working in new ways during a three month lockdown so much less damage than was caused than in the first one. The advent of vaccines starting in November 2020, were a game changer. The way in which the UK and US have led the world in implementing a fast programme of vaccination which promises to lead to a return to something approaching normal life during the second half of 2021, has been instrumental in speeding economic recovery and the reopening of the economy. In addition, the household saving rate has been exceptionally high since the first lockdown in March 2020 and so there is plenty of pent-up demand and purchasing power stored up for services in the still-depressed sectors like restaurants, travel and hotels as soon as they reopen. It is therefore expected that the UK economy could recover its pre-pandemic level of economic activity during quarter 1 of 2022.



Both the Government and the Bank of England took rapid action in March 2020 at the height of the crisis to provide support to financial markets to ensure their proper functioning, and to support the economy and to protect jobs.

The **Monetary Policy Committee** cut Bank Rate from 0.75% to 0.25% and then to 0.10% in March 2020 and embarked on a £200bn programme of quantitative easing QE (purchase of gilts so as to reduce borrowing costs throughout the economy by lowering gilt yields). The MPC increased then QE by £100bn in June and by £150bn in November to a total of £895bn. While Bank Rate remained

unchanged for the rest of the year, financial markets were concerned that the MPC could cut Bank Rate to a negative rate; this was firmly discounted at the February 2021 MPC meeting when it was established that commercial banks would be unable to implement negative rates for at least six months – by which time the economy was expected to be making a strong recovery and negative rates would no longer be needed.

**Average inflation targeting.** This was the major change adopted by the Bank of England in terms of implementing its inflation target of 2%. The key addition to the Bank's forward guidance in August was a new phrase in the policy statement, namely that "it does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and *achieving the 2% target sustainably*". That seems designed to say, in effect, that even if inflation rises to 2% in a couple of years' time, do not expect any action from the MPC to raise Bank Rate – until they can clearly see that level of inflation is going to be persistently above target if it takes no action to raise Bank Rate. This sets a high bar for raising Bank Rate and no increase is expected by March 2024, and possibly for as long as five years. Inflation has been well under 2% during 2020/21; it is expected to briefly peak at just over 2% towards the end of 2021, but this is a temporary short lived factor and so not a concern to the MPC.

**Government support.** The Chancellor has implemented repeated rounds of support to businesses by way of cheap loans and other measures, and has protected jobs by paying for workers to be placed on furlough. This support has come at a huge cost in terms of the Government's budget deficit ballooning in 20/21 and 21/22 so that the Debt to GDP ratio reaches around 100%. The Budget on 3rd March 2021 increased fiscal support to the economy and employment during 2021 and 2022 followed by substantial tax rises in the following three years to help to pay the cost for the pandemic. This will help further to strengthen the economic recovery from the pandemic and to return the government's finances to a balanced budget on a current expenditure and income basis in 2025/26. This will stop the Debt to GDP ratio rising further from 100%. An area of concern, though, is that the government's debt is now twice as sensitive to interest rate rises as before the pandemic due to QE operations substituting fixed long-term debt for floating rate debt; there is, therefore, much incentive for the Government to promote Bank Rate staying low e.g. by using fiscal policy in conjunction with the monetary policy action by the Bank of England to keep inflation from rising too high, and / or by amending the Bank's policy mandate to allow for a higher target for inflation.

**BREXIT.** The final agreement on 24<sup>th</sup> December 2020 eliminated a significant downside risk for the UK economy. The initial agreement only covered trade so there is further work to be done on the services sector where temporary equivalence has been granted in both directions between the UK and EU; that now needs to be formalised on a permanent basis. There was much disruption to trade in January as form filling has proved to be a formidable barrier to trade. This appears to have eased somewhat since then but is an area that needs further work to ease difficulties, which are still acute in some areas.

**USA.** The US economy did not suffer as much damage as the UK economy due to the pandemic. The Democrats won the presidential election in November 2020 and have control of both Congress and the Senate, although power is more limited in the latter. This enabled the Democrats to pass a \$1.9trn (8.8% of GDP) stimulus package in March on top of the \$900bn fiscal stimulus deal passed by Congress in late December. These, together with the vaccine rollout proceeding swiftly to hit the target of giving a first jab to over half of the population within the President's first 100 days, will promote a rapid easing of restrictions and strong economic recovery during 2021. The Democrats are also planning to pass a \$2trn fiscal stimulus package aimed at renewing infrastructure over the next decade. Although this package is longer-term, if passed, it would also help economic recovery in the near-term.

After Chair Jerome Powell spoke on the **Fed's adoption of a flexible average inflation target** in his Jackson Hole speech in late August 2020, the mid-September meeting of the Fed agreed a new inflation target - that *"it would likely be appropriate to maintain the current target range until labour market conditions were judged to be consistent with the Committee's assessments of maximum employment and inflation had risen to 2% and was on track to moderately exceed 2% for some time."* This change was aimed to provide more stimulus for economic growth and higher levels of employment and to avoid the danger of getting caught in a deflationary "trap" like Japan. It is to be noted that inflation has actually been under-shooting the 2% target significantly for most of the last decade, (and this year), so financial markets took note that higher levels of inflation are likely to be in the pipeline; long-term bond yields duly rose after the meeting. There is now some expectation that where the Fed has led in changing its policy towards implementing its inflation and full employment mandate, other major central banks will follow, as indeed the Bank of England has done so already. The Fed expects strong economic growth during 2021 to have only a transitory impact on inflation, which explains why the majority of Fed officials project US interest rates to remain near-zero through to the end of 2023. The key message is still that policy will remain unusually accommodative – with near-zero rates and asset purchases – continuing for several more years. This is likely to result in keeping treasury yields at historically low levels. However, financial markets in 2021 have been concerned that the sheer amount of fiscal stimulus, on top of highly accommodative monetary policy, could be over-kill leading to a rapid elimination of spare capacity in the economy and generating higher inflation much quicker than the Fed expects. They have also been concerned as to how and when the Fed will eventually wind down its programme of monthly QE purchases of treasuries. These concerns have pushed treasury yields sharply up in the US in 2021 and is likely to have also exerted some upward pressure on gilt yields in the UK.

**EU.** Both the roll out and take up of vaccines has been disappointingly slow in the EU in 2021, at a time when many countries are experiencing a sharp rise in cases which are threatening to overwhelm hospitals in some major countries; this has led to renewed severe restrictions or lockdowns during March. This will inevitably put back economic recovery after the economy had staged a rapid rebound from the first lockdowns in Q3 of 2020 but contracted slightly in Q4 to end 2020 only 4.9% below its pre-pandemic level. Recovery will now be delayed

until Q3 of 2021 and a return to pre-pandemic levels is expected in the second half of 2022.

Inflation was well under 2% during 2020/21. **The ECB** did not cut its main rate of -0.5% further into negative territory during 2020/21. It embarked on a major expansion of its QE operations (PEPP) in March 2020 and added further to that in its December 2020 meeting when it also greatly expanded its programme of providing cheap loans to banks. The total PEPP scheme of €1,850bn is providing protection to the sovereign bond yields of weaker countries like Italy. There is, therefore, **unlikely to be a euro crisis** while the ECB is able to maintain this level of support.

**China.** After a concerted effort to get on top of the virus outbreak in Q1 of 2020, economic recovery was strong in the rest of the year; this has enabled China to recover all of the contraction in Q1. Policy makers have both quashed the virus and implemented a programme of monetary and fiscal support that has been particularly effective at stimulating short-term growth.

**Japan.** Three rounds of government fiscal support in 2020 together with Japan's relative success in containing the virus without draconian measures so far, and the roll out of vaccines gathering momentum in 2021, should help to ensure a strong recovery in 2021 and to get back to pre-virus levels by Q3.

**World growth.** World growth was in recession in 2020. Inflation is unlikely to be a problem in most countries for some years due to the creation of excess production capacity and depressed demand caused by the coronavirus crisis.

**Deglobalisation.** Until recent years, world growth has been boosted by increasing globalisation i.e. countries specialising in producing goods and commodities in which they have an economic advantage and which they then trade with the rest of the world. This has boosted worldwide productivity and growth, and, by lowering costs, has also depressed inflation. However, the rise of China as an economic superpower over the last 30 years, which now accounts for nearly 20% of total world GDP, has unbalanced the world economy. In March 2021, western democracies implemented limited sanctions against a few officials in charge of government policy on the Uighurs in Xinjiang; this led to a much bigger retaliation by China and is likely to mean that the China / EU investment deal then being negotiated, will be torn up. After the pandemic exposed how frail extended supply lines were around the world, both factors are now likely to lead to a sharp retrenchment of economies into two blocs of western democracies v. autocracies. It is, therefore, likely that we are heading into a period where there will be a reversal of world globalisation and a decoupling of western countries from dependence on China to supply products and vice versa. This is likely to reduce world growth rates.

**Central banks' monetary policy.** During the pandemic, the governments of western countries have provided massive fiscal support to their economies which has resulted in a big increase in total government debt in each country. It is therefore very important that bond yields stay low while debt to GDP ratios slowly subside under the impact of economic growth. This provides governments with a good reason to amend the mandates given to central banks to allow higher average levels of inflation than we have generally seen over the last couple of

decades. Both the Fed and Bank of England have already changed their policy towards implementing their existing mandates on inflation, (and full employment), to hitting an average level of inflation. Greater emphasis could also be placed on hitting subsidiary targets e.g. full employment before raising rates. Higher average rates of inflation would also help to erode the real value of government debt more quickly.

## Appendix 2: Prudential Indicators

PRUDENTIAL INDICATOR	2019/20	2020/21	2020/21
	£'000	£'000	£'000
	Actual outturn	Original Estimate	Actual outturn
Capital Expenditure (a)	2,104	6,932	5,916
Ratio of financing costs to net revenue stream (b)	11.10%	7.78%	9.98%
Capital Financing Requirement as at 31 March (excluding finance leases) (c)	14,730	10,794	13,070
Capital Financing Requirement as at 31 March (including finance leases) (d)	15,047	10,794	13,070
External Debt (including leasing) (d)	11,545	11,155	11,172

- (a) This reflects the timing of capital spend/commitments in the capital programme. The actual includes £3m expenditure for the Washlands Burton Flood Defences.
- (b) The reduction in interest rates in the year impacted on investment income pushing the ratio higher than originally anticipated.
- (c) The outturn is higher than the original estimate due to the timing of the capital receipts committed towards the repayment of debt.
- (d) There are no finance leases outstanding at 31 March 2021.

<b>PRUDENTIAL INDICATOR</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2020/21</b>
<b>(2). TREASURY MANAGEMENT PRUDENTIAL INDICATORS</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
	<b>Actual Outturn</b>	<b>Original</b>	<b>Actual Outturn</b>
<b>Authorised Limit for external debt -</b>			
Borrowing	<b>16,500</b>	16,500	<b>16,500</b>
other long term liabilities*	<b>3,000</b>	3,000	<b>3,000</b>
TOTAL	<b>19,500</b>	<b>19,500</b>	<b>19,500</b>
<b>Operational Boundary for external debt -</b>			
Borrowing	<b>15,500</b>	15,500	<b>15,500</b>
other long term liabilities*	<b>2,000</b>	2,000	<b>2,000</b>
TOTAL	<b>17,500</b>	<b>17,500</b>	<b>17,500</b>
<b>Upper limit for total principal sums invested for over 1 year</b>	<b>5,000</b>	5,000	<b>5,000</b>

\*This provides an allowance for on-balance sheet finance leases, as set out in previous reports.