Appendix B(ii)

WEST DEVON BOROUGH COUNCIL – TECHNICAL APPENDIX TO THE FINANCIAL STATEMENTS 2014/15

1. FINANCIAL INSTRUMENTS CAPITALISATION OF BORROWING COSTS

Due to the costs of the Authority's Capital Programme, the Authority borrowed £2.1 million from the Public Works Loan Board (PWLB) on 2nd August 2007 at a fixed rate of 4.55% for 45 years and 6 months. This external borrowing was undertaken during 2007/2008 under the Prudential Code.

Any costs of borrowing are borne in the Comprehensive Income & Expenditure statement by interest charges and the Minimum Revenue Provision for the repayment of debt. The Minimum Revenue Provision (MRP) is charged on the Asset Life Method and provisions are made over the estimated life of the asset for which the borrowing is undertaken. MRP is applied in the financial year following the one in which the asset became operational.

For West Devon Borough Council the asset, Kilworthy Park offices, became operational in 2009/10 which means 2010/11 was the first year when MRP of £42,000 was applied (£2.1 million over 50 years).

FINANCIAL INSTRUMENTS BALANCES

The borrowings and investments disclosed in the Balance Sheet are made up of the following categories of financial instruments

	Long-term			**Current**	
	31 March 2014 £000	**31 March 2015 £000**		**31 March 2014 £000**	**31 March 2015 £000**
Cash and cash equivalents	**-**	**-**		**1,274**	**1,245**
Investments					
Loans and receivables (principal)	2	2		2,000	6,000
Loans and receivables (accrued interest)	-	-		1	3
Total Investments	**2**	**2**		**2,001**	**6,003**
Debtors					
Loans and receivables	142	139		-	-
Financial assets carried at contract amount	-	-		3,860	2,360

Total Debtors	**142**	**139**		**3,860**	**2,360**
Creditors					
Financial liabilities at amortised cost (principle)	(2,100)	(2,100)		-	-
Financial liabilities (accrued interest)	-	-		(16)	(16)
Financial liabilities at amortised cost	(37)	(315)		-	-
Financial liabilities carried at contract amount	-			(2,339)	(4,767)
Total Creditors	**(2,137)**	**(2,415)**		**(2,355)**	**(4,783)**

Under accounting requirements the carrying value of the financial instrument value is shown in the balance sheet which includes the principal amount borrowed or lent and further adjustments for breakage costs or stepped interest loans (measured by an effective interest rate calculation) including accrued interest. Accrued interest is shown separately in current assets/liabilities where the payments/receipts are due within one year. The effective interest rate is accrued interest receivable under the instrument, adjusted for the amortisation of any premiums or discounts reflected in the purchase price.

FAIR VALUE OF ASSETS AND LIABILITIES

Financial liabilities and financial assets represented by loans and receivables are carried on the balance sheet at amortised cost (in long term assets/liabilities with accrued interest in current assets/liabilities). Their fair value can be assessed by calculating the present value of the cash flows that take place over the remaining life of the instruments, using the following assumptions:

- For loans from the Public Works Loan Board (PWLB), borrowing rates have been applied to provide the fair value under PWLB debt redemption procedures;
- No early repayment or impairment is recognised;
- Where an instrument has a maturity of less than 12 months or is a trade or other receivable the fair value is taken to be the carrying amount or the billed amount;
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

In addition for financial assets or liabilities not being carried at fair value (e.g. amortised cost) the Code of Practice requires disclosure of these fair values by each class of assets and liabilities.

The fair values are as follows:

£000s	**31 March 2014**		**31 March 2015**	
	Carrying amount	Fair Value	Carrying amount	Fair Value
PWLB debt	2,100	2,639	2,100	3,394
Long Term Debtors	142	142	139	139
Long Term Creditors	37	37	315	315

RECOGNITION AND MEASUREMENT OF FINANCIAL INSTRUMENTS

The main measurement bases used by the Authority in preparing the treatment of Financial Instruments within its financial statements are as follows:

Financial Instrument	**Basis of measurement**	**Note**
Investments – Fixed Rate	Carrying amount adjusted for interest owed at year end.	Investments have both fixed term and fixed interest rates.
Investments – Other	Held at carrying value on basis of materiality.	Money Market Funds.
PWLB Debt	Carrying value and interest due at year end shown as a current liability.	Borrowing is both fixed term and fixed interest rate.
Operational Debtors	Held at invoiced amount less a provision for uncollectable debts.	Carrying amount is reasonable approximation of fair value for these short term receivables with no stated interest rate.
Operational Creditors	Held at invoiced amount	Carrying amount is reasonable approximation of fair value for these short term liabilities

2. DEFINED BENEFIT PENSION SCHEMES

A. GENERAL

As part of the terms and conditions of employment of its officers, the Authority makes contributions towards the cost of post employment benefits. Although these benefits will not actually be payable until employees retire, the Authority has a commitment to make the payments that need to be disclosed at the time that employees earn their future entitlement.

The Authority participates in the Local Government Pension Scheme (LGPS).
The LGPS is a defined benefit statutory scheme administered in accordance with the Local Government Pension Scheme Regulations 2014, is contracted out of the State Second Pension and currently provides benefits based on career average revalued salary and length of service on retirement.

The administering authority for the Fund is Devon County Council. The Pension Fund Committee oversees the management of the Fund whilst the day to day fund administration is undertaken by a team within the administering authority. Where appropriate some functions are delegated to the Fund's professional advisers.

Contributions are set every 3 years as a result of the actuarial valuation of the Fund required by the Regulations. The next actuarial valuation of the Fund will be carried out as at 31 March 2016 and will set contributions for the period from 1 April 2017 to 31 March 2020. There are no minimum funding requirements in the LGPS but the contributions are generally set to target a funding level of 100% using the actuarial valuation assumptions. Funding levels are monitored on an annual basis.

Further information can be found in Devon County Council Pension Fund's Annual Report, which is available upon request from the Devon Pension Services, Estuary House, Peninsula Park, Rydon Lane, Exeter EX2 7XB.

The figures have been prepared in accordance with International Accounting Standard 19 (IAS 19). The advice complies with all Generic Technical Actuarial Standards (TASs) and the Pension TAS. The report also complies with Financial Reporting Standard 17. The information supplied is from a report by Barnett Waddingham Public Sector Consulting.

The figures quoted form the basis of the balance sheet and funding status disclosures to be made by the Authority as at 31 March 2015 in respect of its pension obligations under the LGPS.

The LGPS is a defined benefit statutory scheme administered in accordance with the Local Government Pension Scheme Regulations 2014/15; it is contracted out of the State Second Pension and benefits accrued up to 31 March 2015 are based on final salary and length of service on retirement. Changes to the LGPS came into effect from 1st April 2014 and any benefits accrued from this date will be based on a career average re-valued salary, with various protections in place for those members in the scheme before the changes take effect.

West Devon Borough Council is required to disclose certain information concerning assets, liabilities, income and expenditure related to pension schemes for its employees. This includes disclosure of any other employer provided benefits which are not paid from the Fund (Devon County Council Pension Fund) itself; examples include additional pensions paid on retirement under the Discretionary Payment Regulations.

The Actuaries are not aware of any material changes or events since the data used was received.

B. DATA SOURCE

In completing their calculations the Actuaries have used the following items of data, as received from Devon County Council:

- The results of the funding valuation as at 31 March 2015 which was carried out for funding purposes
- Estimated whole fund income and expenditure items for the period to 31 March 2015
- Estimated fund returns based on assets used for the purpose of the funding valuation as at 31 March 2015, a Fund asset statement as at 31 March 2015, and market returns (estimated where necessary) thereafter for the period to 31 March 2015
- Estimated Fund income and expenditure in respect of the Employer for the period to 31 March 2015
- Details of any new early retirements for the period to 31 March 2015 that have been paid out on an unreduced basis, which are not anticipated in the normal employer service cost.

ASSETS

The return on the fund for the year to 31 March 2015 is estimated to be 11%. This is based on the estimated Fund value used at the previous accounting date and the estimated Fund value used at this accounting date. The actual return on Fund assets over the year may be different.

The estimated asset allocation for West Devon Borough Council as at 31 March 2015 is as follows:

	Asset split at 31 March 2015 %	£000's	Asset split at 31 March 2014 %	£000's
Equities	59	13,914	60	13,045
Property	10	2,352	9	1,956
Gilts	6	1,497	7	1,522
Other bonds	3	818	5	1,087
Cash	2	406	2	435
Target return portfolio	15	3,469	15	3,261
Infrastructure	3	652	2	435
Alternative assets	2	418		
Total	**100**	**23,526**	**100**	**21,741**

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The bid values have been estimated where necessary. Based on the above, the Employer's share of assets of the Fund is approximately 1%.

Of the total fund asset at 31 March 2015, the following table identifies the split of those assets with a quoted market price and those that do not:

		31 March 2015	
		% Quoted	**% Unquoted**
Fixed interest government securities	UK	0.5%	-
	Overseas	5.9%	-
Corporate bonds	UK	0.5%	
	Overseas	3.0%	
Equities	UK	23.4%	1.3%
	Overseas	29.4%	5.1%
Property	All	-	9.9%
Others	Absolute return portfolio	14.7%	-
	Infrastructure	-	2.8%
	Multi sector credit fund	1.8%	-
	Cash/Temporary investments	-	1.8%
Net current assets	Debtors	-	1.3%
	Creditors	-	(1.4%)
Total		**79.2%**	**20.8%**

EMPLOYER MEMBERSHIP STATISTICS

The table below summaries the membership data, as at 31 March 2014 for members receiving funded benefits, and as at 31 March 2015 for any members receiving unfunded benefits.

Member data summary	Number	Salaries/Pensions £000's	Average Age
Active	117	2,944	45
Deferred Pensioners	85	206	46
Pensioners	155	1,241	71
Unfunded Pensioners	38	88	77

UNFUNDED BENEFITS

In the year to 31 March 2015, £88,807 of unfunded benefits was paid.

C. ACTUARIAL METHODS AND ASSUMPTIONS

Valuation Approach

To assess the value of the Employer's liabilities as at 31 March 2015, the actuaries have rolled forward the value of the Employer's liabilities calculated for the funding valuation as 31 March 2014, using financial assumptions that comply with IAS19.

The full actuarial valuation involved projecting future cashflows to be paid from the fund and placing value on them. These cashflows include pensions currently being paid to members of the scheme as well as pensions (and lump sums) that may be payable in the future to members of the fund and their dependants. These pensions are linked to inflation and will normally be payable on retirement for the life of the member or a dependant following a member's death.

It is not possible to assess the accuracy of the estimated liability as at 31 March 2015 without completing a full valuation. However the actuaries are satisfied that the approach of rolling forward the previous valuation data to 31 March 2015 should not introduce any material distortions in the results provided that the actual experience of the Authority and the Fund is broadly in line with the underlying assumptions, and that the structure of the liabilities is substantially the same as at the latest formal valuation. There appears to be no evidence to suggest that this approach is inappropriate.

To calculate the asset share the assets have been rolled forward allowing the investment returns (estimated where necessary), contributions paid into, and estimated benefits paid from, the Fund by and in respect of the Authority and its employees.

Valuation Method

As required under IAS19, the projected unit method of valuation has been used to calculate the service cost.

Demographic/Statistical Assumptions

Life Expectancy in years from age 65			
		31.3.2015	31.3.2014
Retiring today	Males	22.8	22.7
	Females	26.1	26.0
Retiring in 20 years	Males	25.1	24.9
	Females	28.4	28.3

Financial Assumptions

Financial Assumptions used for the purpose of the IAS19 calculations are as follows:

Assumptions as at	31 March 2015		31 March 2014		31 March 2013	
	% p.a.	Real	% p.a.	Real	% p.a.	Real
RPI Increases	3.2	-	3.6	-	3.4	-
CPI Increases	2.4	-0.8	2.8	-0.8	2.6	-0.8
Salary Increases	4.2	1.0	4.6	1.0	4.8	1.4
Pension Increases	2.4	-0.8	2.8	-0.8	2.6	-0.8
Discount Rate	3.3	0.1	4.4	0.8	4.4	1.0

D. RESULTS AND DISCLOSURES

Balance Sheet Disclosure as at 31 March 2015

Pension asset as at	**31 March 2015 £000's**	**31 March 2014 £000's**	**31 March 2013 £000's**
Present value of funded obligation	44,426	38,186	38,168
Fair Value of scheme assets	(23,526)	(21,741)	(20,962)
Strain Payment	149	-	-
Net Liability	**20,900**	**16,445**	**17,206**
Present value of unfunded obligation	1,100	1,053	1,008
Net Liability in Balance Sheet	**22,000**	**17,498**	**18,214**
TOTAL Liability in Balance Sheet	**22,149**	**17,498**	**18,214**

Income and Expenditure Account Costs for the year to 31 March 2015

The amounts recognised in the I & E Account statement are	**Year to 31 March 2014 £000's**	**Year to 31 March 2015 £000's**
Service Cost	799	655
Net interest on the defined liability (asset)	778	752
Administration expenses	12	12
Total	**1,589**	**1,419**
Actual return on scheme assets	967	2,295

Asset and Benefit Obligation Reconciliation for the Year to 31 March 2015

Reconciliation of opening and closing balance of the present value of the defined benefit obligation	**Year to 31 March 2014 £000's**	**Year to 31 March 2015 £000's**
Opening defined benefit obligation	**39,176**	**39,239**
Current service cost	799	608
Provision for strain liability arising from early retirements	-	149
Interest cost	1,691	1,698
Changes in financial assumptions	833	5,244
Changes in demographic assumptions	250	-
Experience loss/(gain) on defined benefit obligation	(2,027)	26
Liabilities assumed/(extinguished) on settlements	-	-
Estimated benefits paid net of transfers in	(1,586)	(1,430)
Past service costs, including curtailments	-	47
Contributions by scheme participants	189	183
Unfunded pension payments	(86)	(89)
Closing defined benefit obligation	**39,239**	**45,675**

Reconciliation of opening and closing balances of the fair value of Scheme assets	**Year to 31 March 2014 £000's**	**Year to 31 March 2015 £000's**
Opening fair value of scheme assets	**20,962**	**21,741**
Interest on assets	913	946
Return on assets less interest	54	1,349
Other actuarial gains/(losses)	267	-
Administration expenses	(12)	(12)
Contribution by employer including unfunded benefits	1,040	838
Contributions by scheme participants	189	183
Estimated benefits paid	(1,586)	(1,430)
Unfunded benefits	(86)	(89)
Closing fair value of fund assets	**21,741**	**23,526**

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Remeasurements in Other Comprehensive Income	**Year to 31 March 2014 £000's**	**Year to 31 March 2015 £000's**
Return on plan assets in excess of interest	54	1,349
Other actuarial gains/(losses) on assets	267	-
Changes in financial assumptions	(833)	(5,244)
Changes in demographic assumptions	(250)	-
Experience gain/(loss) on defined benefit obligation	2,027	(26)
Changes in effect of asset ceiling	-	-
	1,265	**(3,921)**

Projected Pension Expense for the year to 31 March 2016	**Year to 31 March 2016 £000's**
Service cost	543
Net Interest on defined liability (asset)	715
Administration costs	13
TOTAL	**1,271**
Employer Contributions	**658**

Note that these figures exclude the capitalised cost of any early retirements or augmentations which may occur after 31 March 2015. These projections are based on the assumptions as at 31 March 2015.

Amounts for the current and previous periods	**Year to Mar 2015 £000's**	**Year to Mar 2014 £000's**	**Year to Mar 2013 £000's**	**Year to Mar 2012 £000's**	**Year to Mar 2011 £000's**
Defined Benefit Obligation	(45,526)	(39,239)	(39,176)	(35,605)	(30,242)
Scheme assets	23,526	21,741	20,962	18,512	18,376
Surplus (Deficit)	(22,000)	(17,498)	(18,214)	(17,093)	(11,866)
Experience adjustments on Scheme liabilities	(26)	2027	17	10	1,424
Percentage of Liabilities	0%	5.1%	0%	0%	4.7%

Sensitivity Analysis

	£000	**£000**	**£000**
Adjustment to discount rate	+0.1%	0.0%	-0.1%
Present value of total obligation	44,727	45,526	46,340
Projected Service cost	529	543	557
Adjustment to long term salary increase	+0.1%	0.0%	-0.1%
Present value of total obligation	45,625	45,526	45,428
Projected Service cost	543	543	543
Adjustment to pension increases and deferred revaluation	+0.1%	0.0%	-0.1%
Present value of total obligation	46,248	45,526	44,818
Projected Service cost	557	543	529
Adjustment to mortality age rating assumption	+1 Year	None	-1 Year
Present value of total obligation	43,924	45,526	47,143
Projected Service cost	525	543	562

3. Nature and Extent of Risks Arising from Financial Instruments

Key risks

The Authority's activities expose it to a variety of financial risks. The key risks are:

- **Credit risk** the possibility that other parties might fail to pay amounts due to the Authority;
- **Liquidity risk** the possibility that the Authority might not have funds available to meet its commitments to make payments;
- **Re-financing risk** the possibility that the Authority might be requiring to renew a financial instrument on maturity at disadvantageous interest rates or terms.
- **Market risk** the possibility that financial loss might arise for the Authority as a result of changes in such measures as interest rates movements.

Overall procedures for managing risk

The Authority's overall risk management procedures focus on the unpredictability of financial markets, and are structured to implement suitable controls to minimise these risks. The procedures for risk management are set out through a legal framework based on the Local Government Act 2003 and associated regulations. These require the Authority to comply with the CIPFA Prudential Code, the CIPFA Code of Practice on Treasury Management in the Public Services and investment guidance issued through the Act. Overall, these procedures require the Authority to manage risk in the following ways:

- by formally adopting the requirements of the CIPFA Treasury Management Code of Practice;
- by the adoption of a Treasury Policy Statement and Treasury Management clauses within its constitution;
- by approving annually in advance prudential and treasury indicators for the following three years limiting:
  - The Authority's overall borrowing;
  - Its maximum and minimum exposures to fixed and variable rates;
  - Its maximum and minimum exposures to the maturity structure of its debt;
  - Its maximum annual exposures to investments maturing beyond a year.
- by approving an investment strategy for the forthcoming year setting out its criteria for both investing and selecting investment counterparties in compliance with Government guidance.

These are required to be reported and approved at or before the Authority sets the annual council tax budget or before the start of the year to which they relate. These items are reported within either the annual treasury management strategy or the Capital Programme and Prudential Indicators report which outlines the detailed approach to managing risk in relation to the Authority's financial instrument exposure. Actual performance is also reported after each year, as is a mid-year update.

The annual treasury management strategy and annual investment strategy and the Capital Programme which incorporates the prudential indicators was approved by Council in 2014. All of these documents are available on the Council website. The key issues within the strategy were:

- The Authorised Limit for 2014/15 was set at £6m. This is the maximum limit of external borrowings or other long term liabilities.
- The Operational Boundary was expected to be £3m. This is the expected level of debt and other long term liabilities during the year.

These policies are implemented by the finance team. The Council maintains written principles for overall risk management, as well as written policies (Treasury Management Practices – TMPs) covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash. These TMPs are a requirement of the Code of Practice and are reviewed periodically.

Credit risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Authority's customers.

This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria. The Council applies the creditworthiness service provided by Capita Asset Services. The creditworthiness methodology used to create the counterparty list fully accounts for ratings and watches published by all three ratings agencies with a full understanding of what these reflect in the eyes of each agency. Using the Capita Asset ratings service, banks' ratings are monitored on a real time basis with knowledge of any changes notified electronically. The Annual Investment Strategy also considers maximum amounts and time limits in respect of each financial institution. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria outlined above. Details of the Investment Strategy can be found on the Authority's website:

www.westdevon.gov.uk

Customers for goods and services are assessed, taking into account their financial position, past experience and other factors, with individual credit limits being set in accordance with internal ratings in accordance with parameters set by the Authority.

The Authority's maximum exposure to credit risk in relation to its investments in banks and building societies of £2 million cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of recoverability applies to all of the Authority's deposits, but there was no evidence at the 31 March 2014 that this was likely to crystallise.

No breaches of the Authority's counterparty criteria occurred during the reporting period and the Authority does not expect any losses from non-performance by any of it's counterparties in relation to deposits and bonds.

The Authority does not generally allow credit for its customers, the past due amount can be analysed by age as follows:

	31 March 2014 £000's	31 March 2015 £000's
Less than three months	165	288
Three to six months	11	19
Six months to one year	38	29
More than one year	111	130
Total	**325**	**466**

Collateral

During the reporting period the Authority held no collateral as security.

Liquidity risk

The Authority manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well as through a comprehensive cash flow management system, as required by the CIPFA Code of Practice. This seeks to ensure that cash is available when needed.

The Authority has ready access to borrowing from the money markets to cover any day to day cash flow need, and the PWLB and money markets for access to longer term funds. The Authority is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.
The maturity analysis of financial assets, excluding sums due from customers, is as follows:

	31 March 2014 £million	31 March 2015 £million
Less than one year	2	6
Between one and two years	0	0
Between two and three years	0	0
More than three years	0	0
Total	**2**	**6**

Refinancing and Maturity risk

The Authority maintains a debt and investment portfolio. Whilst the cash flow procedures above are considered against the refinancing risk procedures, longer-term risk to the Authority relates to managing the exposure to replacing financial instruments as they mature. This risk relates to both the maturing of longer term financial liabilities and longer term financial assets.

The approved treasury indicator limits for the maturity structure of debt and the limits placed on investments placed for greater than one year in duration are the key parameters used to address this risk. The Council approved treasury and investment strategies address the main risks and the finance team address the operational risks within the approved parameters. This includes:

- monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or the rescheduling of the existing debt; and
- monitoring the maturity profile of investments to ensure sufficient liquidity is available for the Authority's day to day cash flow needs, and the spread of longer term investments provide stability of maturities and returns in relation to the longer term cash flow needs.

The maturity analysis of financial liabilities is as follows, with the maximum and minimum limits for fixed interest rates maturing in each period:

	Approved minimum limits	Approved maximum limits	Actual 31 March 2014 £million	Actual 31 March 2015 £million
Less than 1 year	0%	10%	0	0
Between 1 and 2 years	0%	10%	0	0
Between 2 and 5 years	0%	30%	0	0
Between 5 and 10 years	0%	50%	0	0
More than 10 years	0%	100%	2.1	2.1
Total			**2.1**	**2.1**

Market risk

Interest rate risk - The Authority is exposed to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Authority, depending on how variable and fixed interest rates move across differing financial instrument periods. For instance, a rise in fixed interest rates would have the following effects:

- Borrowings at fixed rates – the fair value of the borrowing will fall (no impact on revenue balances);
- Investments at fixed rates – the fair value of the assets will fall (no impact on revenue balances).

Borrowings are not carried at fair value on the balance sheet, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in the Other Comprehensive Income and Expenditure Statement.

The Authority has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy and the Capital Programme and Prudential Indicator report draws together the Authority's prudential and treasury indicators and its expected treasury operations, including an expectation of interest rate movements. From this Strategy a treasury indicator is set which provides maximum limits for fixed and variable interest rate exposure. The finance team will monitor market and forecast interest rates within the year to adjust exposures appropriately. For instance during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns, similarly the drawing of longer term fixed rates borrowing would be postponed.

Price risk - The Authority, excluding the pension fund, does not generally invest in equity shares or marketable bonds.

Foreign exchange risk - The Authority has no financial assets or liabilities denominated in foreign currencies. It therefore has no exposure to loss arising from movements in exchange rates.