20. Financial Instruments and Related Disclosures

a. Treasury Policy

The Group's treasury department's main responsibilities are to:

- Ensure adequate funding and liquidity for the Group;
- Manage the interest risk of the Group's debt;
- Invest surplus cash;
- Manage the clearing bank operations of the Group, and
- Manage the foreign exchange risk on its non-sterling cash flows.

Treasury activities are delegated by the Board to the Chief Financial Officer ("CFO"). The CFO controls policy and performance through the line management structure to the Group Treasurer and by reference to the Treasury Committee. The Treasury Committee meets regularly to monitor the performance of the Treasury function.

Policies for managing financial risks are governed by Board-approved policies and procedures, which are reviewed on an annual basis.

The Group's debt management policy is to provide an appropriate level of funding to finance the Business Plan over the medium term at a competitive cost and ensure flexibility to meet the changing needs of the Group. Details of the Group's current borrowing facilities are contained in Note 16.

b. Accounting Classifications and Fair Value

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

		Carrying amount					
29 March 2019	Note	Fair value – hedging instruments £m	Mandatorily at FVTPL – others £m	FVOCI – equity instruments £m	Amortised cost £m	Other financial liabilities £m	Total carrying amount £m
Financial assets measured at fair value							
Forward exchange contracts used for hedging		**3.2**	–	–	–	–	**3.2**
Equity investments	12	–	–	–	–	–	–
		3.2	–	–	–	–	**3.2**
Financial assets not measured at fair value							
Trade and other receivables*	14	–	–	–	**26.7**	–	**26.7**
Cash and cash equivalents	15	–	–	–	**9.8**	–	**9.8**
		–	–	–	**36.5**	–	**36.5**
Financial liabilities measured at fair value							
Forward exchange contracts used for hedging		**(1.4)**	–	–	–	–	**(1.4)**
		(1.4)	–	–	–	–	**(1.4)**
Financial liabilities not measured at fair value							
Borrowings	16	–	–	–	–	**(81.0)**	**(81.0)**
Current tax liabilities		–	–	–	–	**(1.3)**	**(1.3)**
Finance lease liabilities	16	–	–	–	–	**(10.6)**	**(10.6)**
Trade and other payables**	17	–	–	–	–	**(95.2)**	**(95.2)**
		–	–	–	–	**(188.1)**	**(188.1)**

* Prepayments and accrued income of £32.4m are not included as a financial asset.

** Other taxation and social security payables of £25.3m, deferred income of £31.4m, accruals of £39.6m and other payables of £13.0m are not included as a financial liability.

Notes to the Financial Statements

20. Financial Instruments and Related Disclosures continued

30 March 2018	Note	Carrying amount: Fair value – hedging instruments £m	Mandatorily at FVTPL – others £m	FVOCI – equity instruments £m	Amortised cost £m	Other financial liabilities £m	Total carrying amount £m
Financial assets measured at fair value							
Forward exchange contracts used for hedging		0.3	–	–	–	–	0.3
Equity investments	12	–	–	8.1	–	–	8.1
		0.3	–	8.1	–	–	8.4
Financial assets not measured at fair value							
Trade and other receivables*	14	–	–	–	28.1	–	28.1
Cash and cash equivalents	15	–	–	–	27.0	–	27.0
		–	–	–	55.1	–	55.1
Financial liabilities measured at fair value							
Forward exchange contracts used for hedging		(5.4)	–	–	–	–	(5.4)
		(5.4)	–	–	–	–	(5.4)
Financial liabilities not measured at fair value							
Borrowings	16	–	–	–	–	(103.2)	(103.2)
Current tax liabilities		–	–	–	–	(3.3)	(3.3)
Finance lease liabilities	16	–	–	–	–	(11.6)	(11.6)
Trade and other payables**	17	–	–	–	–	(112.4)	(112.4)
		–	–	–	–	(230.5)	(230.5)

* Prepayments and accrued income of £27.9m are not included as a financial asset.
** Other taxation and social security payables of £15.2m, deferred income of £36.3m, accruals of £36.2m and other payables of £18.1m are not included as a financial liability.

The fair values of each class of financial assets and liabilities is the carrying amount, based on the following assumptions:

Trade receivables, trade payables and finance lease obligations, short-term deposits and borrowings	The fair value approximates to the carrying amount because of the short maturity of these instruments, using an interest rate of 7.1% for long-term finance lease obligations.
Long-term borrowings	The fair value of bank loans and other loans approximates to the carrying value reported in the balance sheet as the majority are floating rate where payments are reset to market rates at intervals of less than one year.
Forward currency contracts	The fair value is determined using the market forward rates at the reporting date and the outright contract rate.

20. Financial Instruments and Related Disclosures continued

Fair Value Hierarchy

Financial instruments carried at fair value are required to be measured by reference to the following levels:

- Level 1: quoted prices in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

All financial instruments carried at fair value have been measured by a Level 2 valuation method.

c. Financial Risk Management

The Group has exposure to the following risks arising from financial instruments:

- Credit risk
- Liquidity risk; and
- Market risk.

i) Risk management framework

The Company's Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board of Directors are responsible for establishing the Group's risk management policies.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are regularly reviewed to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to maintain a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group Audit Committee oversees how management monitors compliance with the Group's risk management framework in relation to the risks faced by the Group. The Group Audit Committee is assisted in its oversight role by internal audit. Internal audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

ii) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's receivables from customers.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was £39.7m (2018: £55.4m).

Impairment losses on financial assets recognised in profit or loss were as follows:

£m	**52 weeks to 29 March 2019**	52 weeks to 30 March 2018
Impairment loss on trade and other receivables	**0.1**	0.5
Impairment loss on cash and cash equivalents	**–**	–
	0.1	0.5

Trade receivables

The Group does not have any individually significant customers and so no significant concentration of credit risk.

The majority of the Group's sales are paid in cash at point of sale which further limits the Group's exposure. The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Board of Directors has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment terms and conditions are offered. The Group limits its exposure to credit risk from trade receivables by establishing a maximum payment period of one month for customers. All trade receivables are based in the United Kingdom.

The Group has taken into account the historic credit losses incurred on trade receivables and adjusted it for forward-looking estimates. The movement in the allowance for impairment in respect of trade receivables during the year was £0.2m.

20. Financial Instruments and Related Disclosures continued

Cash and cash equivalents

The Group held cash and cash equivalents of £9.8m at 29 March 2019 (2018: £27.0m). The cash and cash equivalents are held with bank and financial institution counterparties which are designated 'A-' by Standard & Poor and Fitch and A3 by Moody's. The Group does not consider there to be any impairment loss in respect of these balances (2018: £nil).

Derivatives

The derivatives are entered into with bank and financial institutions counterparties which are designated at least BBB by Standard & Poor and Fitch and Baa3 by Moody's.

iii) Market risk

The Group's exposure to market risk predominantly relates to interest, currency and commodity risk. These are discussed further below. Commodity risk is due to the Group's products being manufactured from metals and other raw materials, subject to price fluctuation. The Group mitigates this risk through negotiating fixed purchase costs or maintaining flexibility over the specification of finished products produced by its supply chain to meet fluctuations.

Foreign currency risk

The Group has a significant transaction exposure with increasing direct-sourced purchases from its suppliers in the Far East, with most of the trade being in US dollars. The Group's policy is to manage the foreign exchange transaction exposures of the business to ensure the actual costs do not exceed the budget costs by more than 10% (excluding increases in the base cost of the product).

The Group does not hedge either economic exposure or the translation exposure arising from the profits, assets and liabilities of non-sterling businesses whilst they remain immaterial.

The Group determines the existence of an economic relationship between the hedging instrument and hedged item based on the currency, amount and timing of their respective cash flows. The Group assesses whether the derivative designated in each hedging relationship is expected to be and has been effective in offsetting changes in cash flows of the hedging item using the hypothetical derivative method.

In these hedge relationships, the main sources of ineffectiveness are:

- The effect of the counterparty and Group's own credit risk on the fair value of the forward exchange contracts, which is not reflected in the change in the fair value of the hedged cash flows attributable to the change in exchange rates; and
- Changes in the timing of the hedged item.

During the 52 weeks to 29 March 2019, the foreign exchange management policy was to hedge via forward contract purchase between 75% and 100% of the material foreign exchange transaction exposures on a rolling 18-month basis. Hedging is performed through the use of foreign currency bank accounts and forward foreign exchange contracts.

At 29 March 2019, the Group held the following instruments to hedge exposures to changes in foreign currency:

		Maturity	
Forward exchange contracts	**1–6 months**	**6–12 months**	**More than one year**
Net exposure (in £m)	**85.6**	**45.3**	**21.8**
Average GBP:USD forward contract rate	**1.3267**	**1.3243**	**1.3519**

At 30 March 2018, the Group held the following instruments to hedge exposures to changes in foreign currency:

		Maturity	
Forward exchange contracts	1–6 months	6–12 months	More than one year
Net exposure (in £m)	119.3	46.8	27.0
Average GBP:USD forward contract rate	1.3483	1.3647	1.3891

20. Financial Instruments and Related Disclosures continued

The amounts at the reporting date relating to items designated as hedged items were as follows:

Forward currency risk	Change in value used for calculating hedge ineffectiveness £m	Cash flow hedge reserve £m	Balances remaining in the cash flow hedge reserve from hedging relationships for which hedge accounting is no longer applied £m
At 29 March 2019			
Inventory purchases	**20.0**	**1.8**	**–**
At 30 March 2018			
Inventory purchases	20.1	(5.1)	–

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date is as follows:

	29 March 2019		30 March 2018	
	USD £m	**Other £m**	USD £m	Other £m
Cash and cash equivalents	**–**	**0.5**	0.2	0.5
Trade and other payables	**(9.6)**	**(0.4)**	(23.8)	(0.9)
	(9.6)	**0.1**	(23.6)	(0.4)

The table below shows the Group's sensitivity to foreign exchange rates on its US dollar financial instruments, the major currency in which the Group's derivatives are denominated.

	2019 Increase/ (decrease) in equity £m	2018 Increase/ (decrease) in equity £m
10% appreciation of the US dollar	**17.3**	15.3
10% depreciation of the US dollar	**(14.2)**	(12.5)

A strengthening/weakening of sterling, as indicated, against the USD at 29 March 2019 would have increased/(decreased) equity and profit or loss by the amounts shown above. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

The movements in equity relates to the fair value movements on the Group's forward contracts that are used to hedge future stock purchases.

Interest rate risk

The Group's policy aims to manage the interest cost of the Group within the constraints of the Business Plan and its financial covenants. The Group's borrowings are currently subject to floating rate interest rates and the Group will continue to monitor movements in the swap market.

If interest rates on floating rate borrowings (i.e. cash and cash equivalents and bank borrowings which attract interest at floating rates) were to change by + or – 1% the impact on the results in the Income Statement and equity would be a decrease/increase of £0.7m (2018: £0.6m).

Interest rate movements on deposits, obligations under finance leases, trade payables, trade receivables, and other financial instruments do not present a material exposure to the Group's statement of financial position.

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group manages capital by operating within a debt ratio, which is calculated as the ratio of net debt to underlying EBITDA. This was 0.8:1 in 2019 (2018: 0.8:1).

20. Financial Instruments and Related Disclosures continued

Pension liability risk

The Group has no association with any defined-benefit pension scheme and therefore carries no deferred, current or future liabilities in respect of such a scheme. The Group operates a number of Group Personal Pension Plans for colleagues.

Liquidity risk

The Group ensures that it has sufficient cash or loan facilities to meet all its commitments when they fall due by ensuring that there is sufficient cash or working capital facilities to meet the cash requirements of the Group for the current Business Plan. The minimum liquidity level is currently set at £30m, such that under Treasury Policy the maximum drawings would be £170m of the £200m available facility, to include the Overdraft Facility of £20m.

The process to manage the risk is to ensure there are contracts in place for key suppliers, detailing the payment terms, and for providers of debt, the Group ensured that such counterparties used for credit transactions held at least an 'A-' credit rating at the time of the amend and extend agreement (September 2017). The Group may, subject to Board approval in any and every such incidence, allow a counterparty to have a credit rating of less than A but no less than investment grade at the time of signing the facilities on the basis that the counterparty only has a junior role in the debt syndicate and has zero ancillary business until if/when its credit rating is designated A-. At the year-end the senior banks within the banking group maintained a credit rating of A- or above, in line with Treasury policy, with the junior bank holding a credit rating of BB+. The counterparty credit risk is reviewed by the Chief Financial Officer regularly as part of the Treasury Committee process. In addition, the Head of Tax & Treasury reviews credit exposure on a daily basis.

The risk is measured through review of forecast liquidity each month by the Head of Tax & Treasury to determine whether there are sufficient credit facilities to meet forecast requirements, and through monitoring covenants on a regular basis to ensure there are no significant breaches, which would lead to an "Event of Default". Calculations are submitted biannually to the Group banking agent. There have been no breaches of covenants during the reported periods.

The contractual maturities of finance leases are disclosed in Note 11. All trade and other payables are due within one year.

The contractual maturity of bank borrowings, including estimated interest payments and excluding the impact of netting agreements is shown below:

	29 March 2019 Bank borrowings £m	30 March 2018 Bank borrowings £m
Due less than one year	**1.2**	1.1
Expiring between one and two years	**1.2**	1.3
Expiring between two and five years	**65.0**	85.0
Expiring after five years	**–**	–
Contractual cash flows	**67.4**	87.4
Carrying amount	**63.8**	83.7

The following table provides an analysis of the anticipated contractual cash flows for the Group's forward currency contracts. Cash flows receivable in foreign currencies are translated using spot rates as at 29 March 2019 (30 March 2018).

	2019 Receivables £m	**2019 Payables £m**	2018 Receivables £m	2018 Payables £m
Due less than one year	**133.2**	**(130.9)**	133.6	(138.4)
Due between one and two years	**22.6**	**(21.7)**	20.7	(20.7)
Contractual cash flows	**155.8**	**(152.6)**	154.3	(159.1)
Fair value	**3.2**	**(1.4)**	0.3	(5.4)

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.