

ANNUAL REPORT AND ACCOUNTS

2016/17

Met Office Annual Report and Accounts 2016/17

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2016/17

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INTRODUCTION FROM THE CHAIRMAN

Our planet's weather is becoming more variable and more extreme and, as it does so, the Met Office's role in helping the UK respond to the challenges and opportunities this presents becomes ever more critical. The purpose of the Met Office – to work at the forefront of weather and climate science for society's protection, prosperity and well-being – is now more sharply in focus than ever before. We are a major national asset and a part of the critical national infrastructure and my job, as acting Chairman, is not only to ensure we continue forecasting for all who depend on us, but also to strengthen and grow our capabilities.

Key to achieving these goals was completion of the installation, on budget and ahead of schedule, of the final phase of our new supercomputer in December 2016. Now capable of more than 16,000 trillion calculations every second, this resource is central to our strategy for assessing both current and future weather and climate scenarios for at least the next five years. Our ground-breaking role in modelling extreme rainfall for the Government's National Flood Resilience Review, published in September, saw it put to very effective use and is a great example of our ability to respond quickly to support key Government objectives.

The year also saw us make headlines in other high profile areas. Our new weather app, which continues to gain new functionality, was ranked as Top Trending in Google's Best Apps of 2016 and has been used more than 30 million times. Likewise, our award-winning Name our Storms initiative – put firmly in the spotlight by Storm 'Doris' in February – has regularly seen us at the heart of the social media conversation.

At home, newly-signed contracts with ITV, 5 News and S4C, amongst others, have highlighted the enduring value of high-quality public TV weather content in an era of fragmented media. In the international arena, our work has continued to expand during a time of rapid change in the political landscapes of both Europe and further afield.

Of course, so much of the complex scientific and technical work we do relies on effective partnership and collaboration. Our role as one of 15 UK Delivery Partners for the Government's Newton Fund is a good example. This sees us working directly with emerging economies in Asia, Africa and South America to promote economic development and social welfare as part of the UK's commitments to Overseas Development Assistance. Recent work building meteorological capacity in Sub-Saharan Africa also typifies the value we can add in the context of a developing world.

Further evidence of the way we have combined resources to bring greater benefits can be seen through our partnerships with NGOs and the UN. Working with Save the Children we have been able to assess the impact of weather on search and rescue missions in the Mediterranean, and working with RNLI has meant we have been able to share forecasts, warnings and safety information to the widest possible audience. Our continuing work with the UN World Food Programme to support their airdrops has ensured essential supplies can be provided to 200,000 people who continue to be under siege in Eastern Syria.

Enhancing a co-ordinated national weather and climate capability through joined-up thinking is a theme that drives our work across Government Departments and Devolved Administrations. For example, as part of our Public Weather Service, funded through the Department for Business, Energy and Industrial Strategy (BEIS) Met Office staff are always on standby for the Government's COBRA committee in the event of emergencies, as well as the Scientific Advisory Group for Emergencies (SAGE). And we continue to evolve our direct work with specific Government departments, supporting their new programmes and priorities as they develop. These include the Ministry of Defence, with whom we've recently marked 100 years of military forecasting, the Department for Environment, Food & Rural Affairs (Defra), and the Department for Transport with its vital remit to ensure road, rail, air traffic and sea transport safety and continuity.

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My job is not only to ensure we continue to perform for all who depend on us, but also to strengthen and grow our capabilities.

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Professor Sir John Beddington CMG FRS

Supporting all the Met Office’s diverse activities is our multi-skilled Board and I would like to extend our collective gratitude on the Met Office’s behalf to former Chairman Greg Clarke for his hard work and leadership. My subsequent invitation to be acting Chairman has proved to be as exciting and rewarding as it’s been challenging. We also owe a special debt of thanks to our recently retired Chief Scientist Professor Dame Julia Slingo. Julia had a profound presence on the weather and climate stage throughout her illustrious career. Her contributions at both a national and global level have been rightly recognised through her Fellowship of the Royal Society and appointment as Dame Commander of the British Empire.

Although Julia may be a hard act to follow, the appointment of her replacement, Professor Stephen Belcher, in November is an excellent one. Stephen not only brings with him deep knowledge of the fundamental science of the atmosphere and oceans, but an equally profound understanding of the key issues the Met Office needs to address. We also warmly welcome Catherine Quinn and Robert Drummond who replace two Non-Executive Directors, Wendy Barnes and Christine Tacon. I’m confident their appointment will equip our Board with the skills and experience we need to support an ambitious programme of transformation and efficiency that will touch every part of our organisation.

The future inevitably brings challenge and uncertainty, both from financial and geo-political perspectives. But we face the future secure in the knowledge the Met Office can perform at the very highest level both financially and operationally. Our newly expanded supercomputing capabilities give us the tools to perform to an even higher level of world-class excellence, and so multiply the societal benefits from our services. Based, as we are, in one of the world’s most interesting meteorological regions, we have every reason to celebrate the fact that what we do, we do extremely well.

CHIEF EXECUTIVE'S SUMMARY

Whether it brings benefits to a government department, a multinational or an allotment gardener, forecast accuracy is pivotal for building trust with all who take decisions based on our weather and climate information. So it's satisfying to see that our record in 2016/17 continued an upward year-on-year, reaching 91.4% accuracy for our next day temperature forecasts at over 150 reference points around the UK. And the better our accuracy, the more people trust our advice, and so the greater our contribution to the protection, prosperity and wellbeing of our citizens.

Ultimately, the Met Office is about keeping people safe. Our National Severe Weather Warning Service (NSWWS) is the flagship for both the public and those organisations that protect them, including national and local governments and the blue-light services. As well as helping individuals to decide whether they should travel or undertake an activity, we partner with emergency responders to plan ahead. It's this proactive approach working together with the UK's civil resilience community that helps to protect life and property during periods of severe weather like this year's biggest storm, 'Doris'.

While today's forecasting is highly sophisticated, some big challenges remain which our new supercomputer, delivered ahead of schedule and on budget, will help us address. This is a critical piece of science infrastructure and will enable the UK to continue to lead the world in weather, climate and environmental science high-performance computing. One such challenge is the accurate forecasting of fog, the cause of occasionally severe disruption this winter at some major UK airports. We continue to work closely with our partners in the aviation industry to develop this area of weather prediction, with the ultimate aim of being able to match the Met Office's fog forecasting capability with that of our proven early warnings for snow and strong winds. It's an area of intensive research as we seek to understand the complex processes involved, and so improve our forecasting models.

Another of our forecasting challenges concerns sudden summer deluges. Here we anticipate our supercomputer investment will advance our forecasting skill as we push the boundaries of what science can deliver. We recognise all too well the impact that floods can have. Working in partnership with the Environment Agency through the Flood Forecasting Centre (FFC) will enable us to offer more precise warnings and better describe the risk of heavy summer thunderstorms.

The importance of trust in our services is critical for delivering economic benefits to the UK that are estimated to exceed £30 billion in the decade to 2025. Our relationship with civil aviation – a sector where we provide forecasts for two-thirds of all global

long-haul flights – clearly illustrates our huge contribution in this area. For example, our forecasts help pilots flying west-to-east anticipate jet stream tail winds of 100 miles-an-hour or more, so minimising the fuel they carry whilst still landing safely with fuel to spare. Constantly improving our wind speed accuracy doesn't just mean better business for airlines, it helps keep air travel safe and makes sense from a carbon footprint angle too.

Aviation is just one of many case studies that demonstrate the huge socio-economic benefits derived from accurate, reliable weather and climate advice. This is an important consideration as Government develops its new Industrial Strategy, and we are contributing to this strategy to help the UK build on its strengths and enable every part of the country to make the most of its human, physical and financial resources.

Further afield, the Met Office continues to have a major international role. Through the Government's Newton Fund, we're linking with UK partners to cooperate on 'big science' projects with scientists in emerging economies, including China, India, South Africa, Brazil and parts of South East Asia. We're also working with the Department for International Development (DFID) to support disaster risk reduction and climate change preparedness in Africa. A key focus for our DFID projects is equipping national meteorological services (NMSs) with the skills they need to develop long-term relationships with their governments. The aim is to build the capability of the NMS, increase their influence and so equip them to deliver weather and climate services that are relevant, listened to and acted upon. Importantly, in both our Newton Fund and our DFID programmes we have been appointed to commission science on behalf of Government, helping ensure that the government Overseas Development Assistance funds are well spent.

2016/17 has been another very successful year for the Met Office, but we don't take our continued success for granted. At the heart of our strategy is a programme of Transformation and Efficiency (T&E), re-assessing every aspect of the way we operate to make us fit to thrive into the 2020s. One of the key drivers for change is the increasing demands on our IT infrastructure as data volumes grow, and our services become more automated and more sophisticated. But T&E is far more than simply an IT project: it's a root and branch organisational change programme delivering the efficiency, capacity and agility we'll need to sustain our world-class services for the next decade. And we're already seeing the benefits of this approach through our semi-autonomous Business Group. Over the past year we have re-shaped our services to industry, bringing significant cost reductions and a renewed focus on maximising the value to the UK economy.

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Rob Varley **Chief Executive**

**Our input into advance
planning is a meteorological
game changer.**

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Alongside our drive for efficiency, sustainability in its broader sense remains fundamental to the way we all work at the Met Office. Our advice and services help government, businesses and citizens make wise choices that support well-being both now and for future generations. And we apply sustainable principles in countless other ways – from the solar panels on our Exeter HQ roof and an impressive track record on waste recycling, through to our outstanding programme of Science, Technology, Engineering and Maths (STEM) outreach to young people, our family-friendly approach to staff and the fair way we aim to treat all of our partners, suppliers and customers. And we're confident that the reduction in carbon emissions from global aviation through our accurate forecasts far outweighs our own carbon footprint.

Our commitment to the protection, prosperity and wellbeing of our citizens relies firmly on maintaining our position as the authoritative voice for weather and climate in the UK. So I'm delighted we've been chosen to provide broadcast TV services not only for ITV, for STV in Scotland, S4C in Wales and UTV in Northern Ireland, but also to 5 News and British Forces TV weather for whom we've created our own in-house TV studios – another Met Office first. We also continue to deliver severe weather warnings via all TV outlets in the UK, including the BBC.

As our award-winning app and vibrant social media presence take our content to new audiences and territories, one new but simple idea typifies the innovation the Met Office does so well. Our 'Name our Storms' initiative, in co-operation with Met Éireann, the Irish national meteorological service, and well-publicised during Storm 'Doris', became one of our most powerful communications tools of recent years. This initiative has engaged the public and has been covered widely in the media so that more people than ever know that severe weather is coming their way.

Looking ahead, the Met Office will continue to push the boundaries of what's possible to deliver on our promise for weather forecasting and climate advice, driving for further efficiency and greater socio-economic benefit. And we'll continue to apply the best scientific minds and cutting-edge science and technology in a way that brings real, lasting benefits for our collective well-being.

CHIEF SCIENTIST'S STATEMENT

The Met Office science programme performs world-class fundamental scientific research which we use to inspire, develop and deliver innovative weather and climate services. My priorities as Chief Scientist include nurturing scientific and technical excellence across weather, climate, and applied science; placing the Met Office at the heart of the UK science landscape; and ensuring this cutting-edge science is carried through into innovative and relevant services.

I am proud to act as a champion for Met Office science in order to maintain our leading position in weather and climate science. Increasingly this means that we need to work with experts in other fields, and deliver through partnerships. This builds on the legacy of Professor Dame Julia Slingo, my predecessor as Met Office Chief Scientist.

New science is already being successfully completed through collaborations with the UK and international science communities. For example, a new global climate model, the UK Earth System Model (UKESM), is being developed jointly with the Natural Environment Research Council (NERC) and wider academia, making this a true community model for the UK. Lessons learned from the successful delivery of UKESM will help replicate this success in other partnerships.

Another key part of our mission is to effectively communicate our weather and climate science. An important development this year has been the new Met Office science Twitter feed, which is a great way to reach wider audiences. By bringing together our scientists, programmers and designers we have also developed alternative ways of presenting our global climate data including a new animation of the global mean temperature record.

Our work to communicate the evidence on climate change, both to the UK government and internationally through the Intergovernmental Panel on Climate Change (IPCC), helped to provide a solid evidence base for negotiators at the United Nations Framework Convention on Climate Change (COP21) climate conference in Paris. As a result of this evidence base, 197 countries made a commitment through the Paris Agreement to tackle climate change. This was done at a time when the global mean temperature was reaching new levels: 2015 and 2016 were both record-breaking warm years globally and 2017 is on course to be another warm year. This adds to observations of sea level, Arctic sea ice extent, glacier extent, and a whole raft of other measurements all adding to the evidence of a warming climate.

This science and advice, which we provide to Government, helps ensure policy and decision makers have up-to-date, robust evidence on which to base their decisions. This not only aids their understanding of the consequences of different carbon emission pathways, but also supports their policies to encourage carbon emission reductions. The next set of Met Office UK Climate Projections (UKCP18), due to be launched next year, will provide information on seasonal weather patterns and their changes in the future, rather than just how the average climate changes. This will be a key tool for building UK resilience in a changing climate. Meanwhile, our international work means we are helping other countries develop climate services which enable them to build their own resilience, on both seasonal and long-term timescales.

Increasingly, we assess and predict environmental risks, drawing together a thread that runs right through weather, climate and applied science, to deliver world-leading services for our customers. For example when assessing flooding risk, as we did in the National Flood Resilience Review (NFRR), we use model simulations to assess present-day risk, which then informs how that risk will change in future. This is part of the ongoing challenge of translating weather and climate hazards into the impacts that matter for people.

Assessing environmental risk is one of the ways we will capitalise on our new supercomputer which was delivered ahead of schedule by our dedicated scientists and technologists. We have already made numerous improvements to our weather models that are now operational including updating our forecasts more frequently. Our climate models are also benefitting, with UKCP18 harnessing the extra computing power, for instance.

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Professor Stephen Belcher

Our Global Wave Model, which is used in a variety of contexts, including the shipping forecast and in industries such as offshore oil, gas and renewables, is another great example of the way we are taking full advantage of the new supercomputer. Science upgrades have improved the accuracy of the model so that forecasts of significant wave height 72 hours in advance are now as accurate as the former 24 hours ahead forecast.

Improvements to the weather and climate modelling system will also enable Met Office applied scientists to develop better services. For example, we are working with our Chinese partners through the Climate Science for Service Partnership China (CSSP China) to develop seasonal forecasts for the Yangtze River region which is of huge importance to agriculture and major cities in the area.

As a result of the strong El Niño in 2015/16, heavy rainfall and flooding was expected in the Yangtze River region. We worked with our Chinese partners to create seasonal forecasts each month leading up to Summer 2016 and successfully gave warnings of the risk of extremely heavy rainfall. Combined with forecasts provided by our partners, these seasonal forecasts helped decision makers in the region to make plans for controlling river flow and to take emergency response measures. In addition to these direct benefits, experience from these projects helps build the understanding and capability of the UK science base.

Looking ahead, while we make the most of our new supercomputer, and concentrate on translating science to services, we will address the technical and scientific challenge of exascale computing – the next generation of supercomputers that will be with us by the mid 2020s. That way, we will be able to continue to deliver world-class services that are all underpinned by a fundamental science programme.

About the Met Office

Right across the world, every single day, people make decisions based on the weather. Met Office weather and climate forecasts help with those decisions so people can be safe, well and prosperous.

Everything we do is based on world-leading science and enhanced by close working relationships with partner organisations around the globe. We collect and make sense of massive amounts of data every day, using cutting-edge technology for the benefit of humanity – and our planet.

Trusted expertise

Many people know us best as the people behind the weather forecasts that feature on TV, online and on your phone – keeping you in touch with our ever changing weather. Regularly ranked as one of the most accurate forecasters in the world, we are responsible for the UK's National Severe Weather Warning Service.

We are also trusted to help protect UK armed forces as they plan missions around the weather, and to keep technology safe with our space weather forecasts. Met Office science and technology enables significant socio-economic benefits. For example, we provide value and help improve productivity through our business partnerships. This includes advising energy and retail sectors of weather that might affect consumer trends. We also help airlines reduce costs, and run safely and on schedule.

We use our technological expertise and supercomputer to drive improvements in our weather and climate predictions. Meanwhile, our innovative content and delivery platforms, such as the Met Office weather app, help people make informed decisions.

Met Office climate change research helps determine the worldwide response to a changing climate. We provide evidence on climate change to the UK Government and internationally through the Intergovernmental Panel on Climate Change (IPCC). Met Office climate services help decision-makers and businesses across public and private sectors to manage risks and opportunities of a changing climate.

Working in partnership

Around the world, and around the clock, together with our partners, we work hard to make accurate weather and climate advice available to all. We support businesses, agencies and governments in making short- and long-term decisions, making the world a safer and more resilient place tomorrow, and for the years – and decades – to come.

Varied work around the UK and internationally makes the Met Office a great place to work with rewarding careers. We support our staff to develop their individual skills and also provide opportunities to experience different areas of the Met Office.

By working in collaboration with other national meteorological services, we help to build capacity to ensure sustainable delivery and improvement of weather and climate services. One example of our international work is our role as delivery partner for the UK Government's Newton Fund through the Weather and Climate Science for Service Partnership (WCSSP) programme.

Looking back, moving forwards

We are proud of our history – the Met Office was originally established in 1854 as a Meteorological Department within the Board of Trade, before periods within the Air Ministry and Ministry of Defence. After becoming a Trading Fund in 1996, the Met Office transferred to the Department for Business, Innovation and Skills (BIS) in 2011 which was replaced by the Department for Business, Energy & Industrial Strategy (BEIS) in July 2016.

In future, we will continue our multi-disciplinary approach to turning world-leading science into services, as well as working on grand challenges such as big data and climate change. It is vital that our science and services continue to be directed by the needs of business and industry and remain clearly linked to good economic outcomes for the UK.

Acknowledging and managing our corporate risks (as described in the Governance Statement on page 25) we will endeavour to maintain our operational resilience while expanding our partnerships to support development and delivery. We will transform, so we are simpler to work for and simpler to work with, and evolve to apply our expertise in ever more varied, innovative and valuable ways.

PERFORMANCE REVIEW

Our Key Performance Indicators (KPIs) are linked to corporate performance-related pay. This encourages employee engagement in driving the performance of the Met Office, as all employees can benefit. Progress is communicated to all staff through monthly briefings.

Appropriate action plans are formed where additional action is required to improve performance. Thanks to the collective efforts of individuals and teams the Met Office has had a good year, despite a challenging external environment, achieving or exceeding almost all of the sub-measures that make up our overall targets.

KPI	Measures	Performance
Forecast accuracy	Global position - at least second	MET
	Public forecast targets - achieve seventeen out of twenty of the public weather forecast targets focusing on accuracy in the one to five day period	EXCEEDED
	Customer targets - achieve three out of four customer specific forecast accuracy targets including root mean square error, mean absolute error and service quality index scores	EXCEEDED
Customer and service delivery	Deliver the outputs and performance indicators as defined by our customers in-service agreements for four customers: Public Weather Service (PWS) Civil Aviation Authority (CAA) Defence Met Office Hadley Centre Climate Programme	MET
	Deliver a range of products for our Commercial and Government customers by the target time (On time) and as described (In full). Overall target will be a score of 90% over 12 months	EXCEEDED
	Following analysis of our Customer Experience Survey, three identified actions will be completed during the financial year	MET
Reach and engagement	Digital reach	EXCEEDED
	a. Achieve average sessions of 40m per month across digital channels	MET
	b. Reach agreement with three additional media partners	EXCEEDED
	c. Achieve an average of 40,000 social media engagements per month	EXCEEDED
	Achieve at least 76% in three out of four quarterly trust tracker surveys	EXCEEDED
Reach of National Severe Weather Warnings achieve - 70% positive responses in each survey	EXCEEDED	
Sustainability excellence	Maintain recycling rate at 83%	EXCEEDED
	Offer 75 work experience placements	EXCEEDED
	Continue to hold and develop Science Camps (x4) and STEM (Science, Technology, Engineering and Maths) ambassador attended events (80 events)	EXCEEDED
	Achieve 75% of invoices received electronically	EXCEEDED
Financial performance	Total Met Office Revenue (£223.9m)	EXCEEDED
	Met Office Adjusted Profit (£8.6m)	EXCEEDED
	Business Group Profit (£0.3m)	NOT MET
Efficiency	Achieve a return on capital employed of 3.1%	EXCEEDED
Corporate Plan delivery	Achievement of phase 1c go live by 31 March 2017	EXCEEDED
	Transformation and Efficiency programme implementation commences by 1 October 2016 and additional milestones as agreed with the Met Office Board	MET

The BPM Met Office adjusted profit and Return on Capital Employed figures above exclude some accounting adjustments as agreed by the Met Office Board.

KPI 1 Forecast accuracy

Our world-class science and continuous improvement to our scientific models enabled the Met Office to meet or exceed its forecast KPIs. By ensuring this scientific excellence is pulled through directly into services, providing reliable and accurate forecasts, we enable the public and our industry customers to act on our advice and achieve their goals.

KPI 2 Customer and service delivery

Exceeding our customer expectations in terms of service delivery is critical to our success. As such, we have a range of measures around delivering our services and outputs to the standard required, all of which were met or exceeded in 2016/17.

KPI 3 Reach and engagement

We need to ensure that our core forecasts and warnings are reaching a wide audience and that we raise awareness and build trust. We measure our success in this area against targets on growing our digital reach and our social media engagement. These measures continue to increase whilst maintaining our high level of public trust.

KPI 4 Sustainability excellence

The Met Office is committed to delivering our objectives in a sustainable way by continuing to set challenging targets. All elements of the sustainability KPI were exceeded. We continue to strengthen our engagement with the wider community through STEM events, Science Camps and work experience. We again achieved UK Government-leading levels of recycling and continue to encourage our suppliers to invoice us electronically, providing mutual benefits in efficiency for both timely payment and receipt of invoices.

KPI 5 and 6 Financial performance and efficiency

The Met Office's new Corporate Plan was set against a backdrop of a tight public spending environment and increased global competition. This requires stretching financial targets to ensure we can respond to these challenges.

We have exceeded both our total revenue and adjusted profit targets of £223.9 million and £8.6 million respectively. The Business Group profit target was only narrowly missed despite delays to expected savings from voluntary exits. Our Return On Capital Employed (ROCE) measure was also exceeded.

KPI 7 Corporate Plan delivery

The Met Office completed installation of the largest operational high-performance supercomputer (HPC) in Europe. Operational delivery of the final phase was completed on budget and ahead of schedule.

The Met Office also embarked on the first stage of its multi-year Transformation and Efficiency Programme. This programme aims to both build a leaner, more agile and more focused organisation so we can make it simpler for others to work with us and for our staff to work for us, whilst also reducing our like-for-like costs by £15m each year by 2020.



FINANCIAL REVIEW

Summary

The Met Office met three out of its four financial Key Performance Indicators – Revenue, Met Office Profit and Return on Capital Employed. The Business Group profit target was narrowly missed due to lower than expected revenue from the energy sector and higher than expected product development costs.

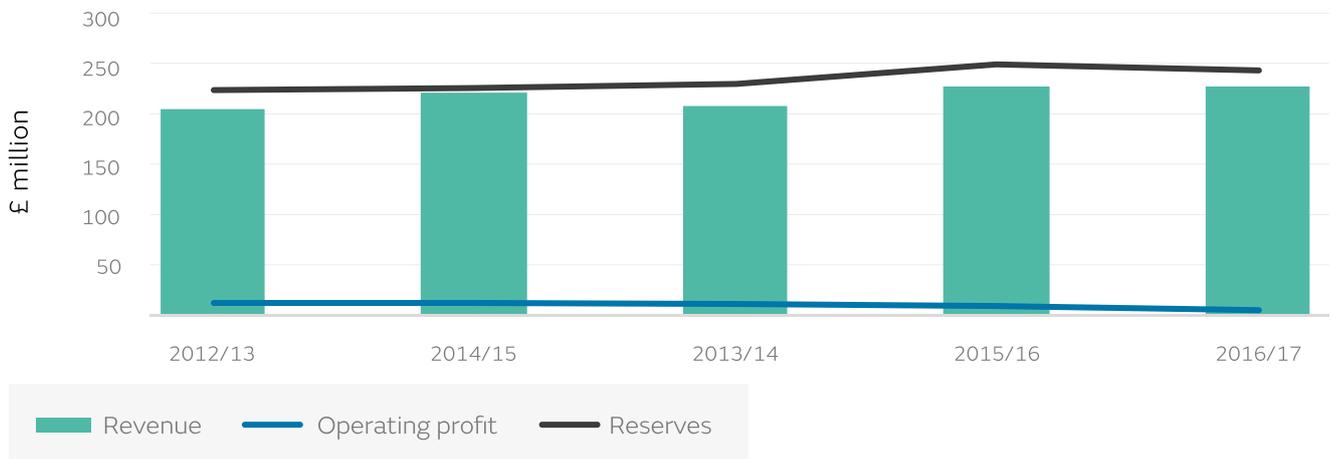
As a Trading Fund the Met Office is in a unique position between the public and private sector for weather and climate services. From 1 April 2016 the Business Group segment was formed to maximise the benefits of participating in the private sector for customers, the Met Office and wider UK. On a like-for-like basis operating profit for the Business Group segment reduced from £4m in 2015/16 to £0.02m in 2016/17. However, this reduction reflects one-off costs to set up the Business Group and increased expenditure on developing new services.

Operating profit

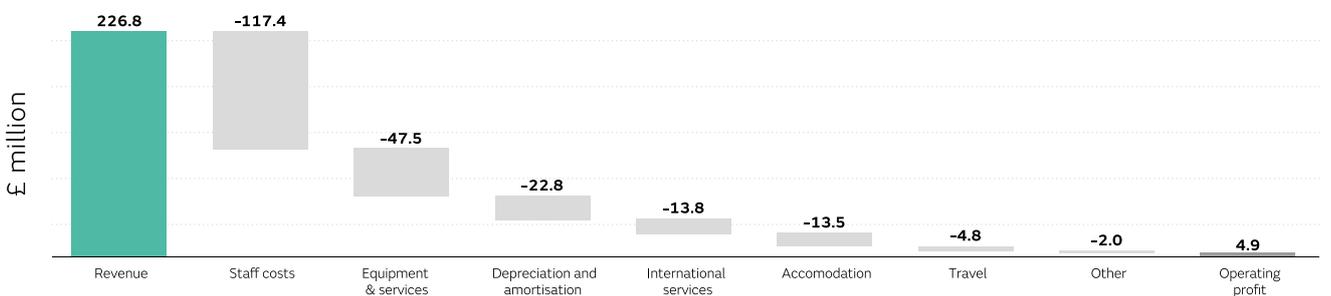
Operating profit reduced from £8.8m in 2015/16 to £4.9m in 2016/17. The Met Office manages its business in two primary segments: Government Services and Business Group who deliver services to government and industry sectors respectively.

Government Services profit also reduced slightly. A reduction in satellite data costs for the Public Weather Service (PWS) meant that the amount of profit recognised on this contract was also reduced. This contract is long-term and multi-year and overall profit on it is in line with expectations.

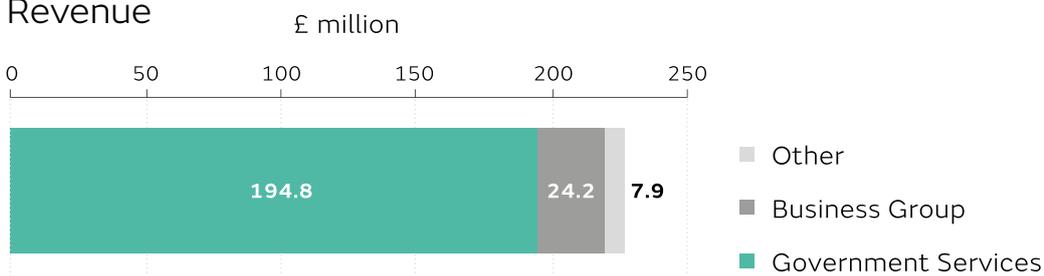
Five year summary

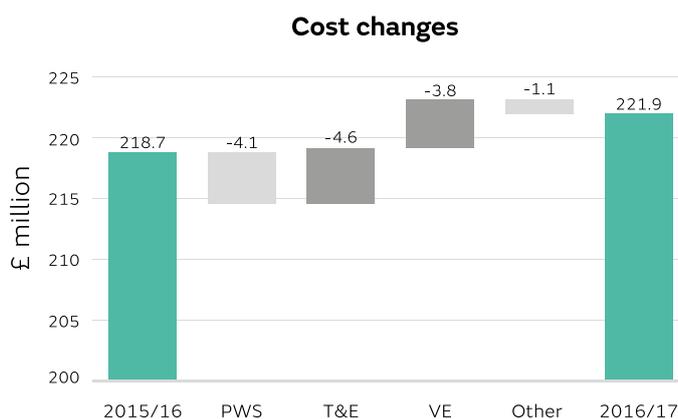
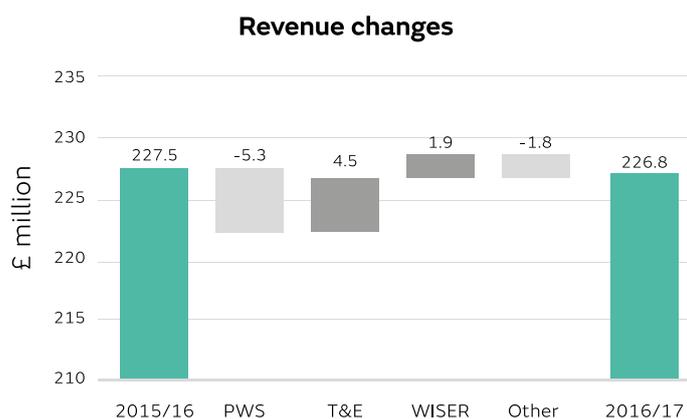


Summary financial performance 2016/17



Revenue





Revenue

Total Met Office revenue was £226.8m.

Funding of £4.5m was received through the PWS to fund the Met Office's T&E programme. Further information on this programme is presented below.

PWS revenue reduced and is matched by lower satellite data costs. The Met Office manages part of the Weather and Climate Services for Africa (WISER) programme on behalf of the Department for International Development (DFID). The increased revenue on this programme reflects good progress made in delivery on projects during the year.

Operating costs

Operating costs increased from £218.7m in 2015/16 to £221.9m in 2016/17.

PWS costs reduced largely due to a reduction in the amortisation costs for satellite data as the operational life of the Meteosat Second Generation programme was extended to March 2022 and so the annual cost has been reduced. This reduction in cost was matched by a reduction in PWS revenue as noted above.

Additional costs were incurred in the first year of the Met Office's Transformation and Efficiency (T&E) programme. This programme is due to continue until 2021 and is matched by funding as noted above. Further information on this programme is presented separately.

The Met Office launched a voluntary exit (VE) scheme during the year to deliver efficiencies and cost rationalisation. A provision of £3.7m has been made for costs associated with this scheme, with exits due to occur in 2017/18.

Transformation and Efficiency

The Transformation and Efficiency programme is a multi-year programme and aims to transform the way the Met Office works so that we are both simpler to work with and simpler to work for. It also aims to realise cost savings as part of the Met Office response to the most recent UK Government Spending Review.

Dividends

Total dividends payable to our owner, the Department for Business, Energy and Industrial Strategy (BEIS) are £4.0m (2015/16 £0.5m)

Cash flows and liquidity

Cash balances totalled £65.1m as at 31 March 2017 compared to £58.3m as at 31 March 2016. Significant investments in the new supercomputer (£51m) and satellite programmes (£40m) were partly offset by the receipt of grant (£47m) and loan funding (£16m) respectively from BEIS.

The Met Office holds cash deposits primarily to meet its short-term operating commitments. In the short to medium-term capital contributions to meet international obligations are expected to increase significantly.

Borrowing

Under the Met Office Trading Fund Order and Framework Document, the sole provider of loan funding is the Met Office's sponsor department, BEIS. Therefore, exposure to liquidity risk is limited to these arrangements. As at 31 March 2017, £34m in loans were outstanding (31 March 2016, £20m). Loan funding requirements are anticipated to increase over forthcoming years to finance the UK contribution to the EUMETSAT satellite programmes.



SUSTAINABILITY SUMMARY

At the Met Office, we are committed to meeting our objectives in a sustainable way. This means minimising our environmental impact, acting in a positive way in our dealings with our staff, customers and suppliers and maximising our contribution to the wider community.

Energy

The energy consumed by our headquarters-based High-Performance Computer (HPC) accounts for most of our energy consumption and associated emissions.

Our new HPC became fully operational in December 2016 resulting in increased electricity consumption. In 2016/17, we moved into the steady state phase for the new HPC and will be able to baseline our consumption.

The decrease in our oil consumption against the previous year was due to there being no Triad runs so the generators have only been run for maintenance purposes. The Triad runs allow the National Grid to meet maximum demand for electricity during peak period in the winter months.

The renewable figure for FY16/17 is less than previous years as our solar panel installation at our HQ site was not operational for part of the year.

The Government's Crown Commercial Services (CCS) Energy Team has agreed with the Energy Suppliers (EDF Energy and British Gas Business) on the CCS Electricity contract to provide a greater proportion of electricity from a "green" source (i.e. from renewable and low carbon sources - supported by appropriate Levy Exemption Certificates although not constituting a 'renewable' supply under the Defra carbon reporting guidance). As a result of this initiative, we pay a reduced Climate Change Levy (CCL).

Travel

Our travel policy encourages staff to question whether their planned travel is essential. If the trip is necessary then staff are encouraged to use the most sustainable form of transport. We calculate the emissions from all of our business journeys and are continually looking at ways to minimise these, such as investment in video conferencing and smarter ways of working.

Waste

In 2016, our total waste arising was 231 tonnes – an increase from 207 tonnes in 2015/16. Office refurbishment work and IT refreshes were ongoing in this year but we continue to strive to keep our total waste to a minimum through initiatives such as selling old office furniture for re-use and ensuring that all our IT waste is either re-used or recycled. Since December 2015, we have been sending all our residual waste for incineration for Energy from Waste at a local facility in Plymouth.

We work closely with our suppliers and contractors to ensure that they remove all of their waste and packaging from our sites. At our headquarters contractors are briefed on our waste and recycling policies.

Recycling

In 2016/17, we achieved a recycling/reuse rate of 61.4% and a recovery rate of 37.4% which means that less than 2% of our waste went to landfill. Our Waste Management Corporate KPI for 2016/17 was to achieve a rate of 83% or more of total waste recycled or recovered (excluding Energy from Waste). This applies to Exeter HQ site only and is a measure of the total waste produced. We succeeded in achieving a rate of 84.3%.

We currently recycle or reuse cardboard, metal, food, batteries, glass and all types of plastic. We also recycle or reuse our electrical/ICT waste. We have recycling champions who encourage their colleagues to be more proactive and use the wide range of recycling facilities.

Greenhouse Gas Emissions (GHG)		2013/14	2014/15	2015/16	2016/17
Non-financial indicators (tCO ₂ e)	Total gross emissions for scopes 1 & 2 (including white fleet)	18,170	20,015	18,258	19,251
	Gross emissions scope 3 - business travel (less white fleet)	1,424	1,352	1,541	1,570
Related energy consumption (MWh)	Electricity: non-renewable (see Performance Commentary)	38,643	38,639	37,530	43,904
	Electricity: renewable (see Performance Commentary)	-	-	-	-
	Electricity: GQCHP	-	-	-	-
	Self generated renewable (solar PV installation at HQ site)	242	239	231	105
	Natural gas	4,092	3,765	3,889	5,383
	Gas oil (diesel)	152	294	149	65
Financial indicators (£'000)	Expenditure on energy	3,534	3,615	3,705	4,698
	Expenditure on business (administrative) travel	2,379	2,438	2,383	2,202
	Expenditure on Carbon Reduction Commitment Energy Efficiency Scheme allowances	249	318	292	316

Waste			2013/14	2014/15	2015/16	2016/17
Non-financial indicators (t)	Total waste arising (t)		162.69	210.32	206.91	231.13
	Hazardous waste	Total	0.63	1.23	0.16	1.27
		Recycled and reused	132.17	185.40	178.42	142.01
	Non-hazardous waste	ICT waste recycled and reused (externally)	8.70	19.52	8.24	24.38
		Composted	14.79	20.22	17.66	20.51
		Anaerobic digestion	-	-	30.27	32.41
		Incinerated/energy recovery	-	-	10.97	33.61
		Landfill	29.88	24.92	17.35	3.13
Financial Indicators (£'000)	Total disposal cost	81	83	84	85	

Water			2013/14	2014/15	2015/16	2016/17
Non-Financial Indicators (m3)	Water consumption	Imported (potable)	39,531	34,312	37,899	27,740
		Abstracted (borehole)	17,640	22,633	15,457	26,857
		Grey water (harvested rainwater)	3,133	318	-	-
		Recycled water (discharge from cooling towers)	-	8,015	6,628	7,907
Financial indicators (£'000)	Water supply costs	81	70	76	56	

Finite resources (water)

We have metering at our headquarters to monitor and record our onsite water usage, most of which goes to cool our HPC. In 2016/17, we saw a decrease of 27% in our mains water consumption. This was due to making more use of water from our borehole which, once treated, can be mixed with mains water to be used safely in the cooling systems. Since June 2014, we have been able to recycle water discharged from our cooling systems and use this to flush our toilets.

Sustainable procurement

We continue to monitor our performance against Government Buying Standards, in line with the Greening Government Commitments and benchmark our performance with other government departments on key commodities and services. Through these supplier engagement activities, we aim to continually improve our compliance to mandated and best practice Government Buying Standards on common goods and services.



Rob Varley

Chief Executive and Accounting Officer
15 June 2017

In conjunction with our Observations group and the supply base, we continue to reduce the environmental impact of real-time observations, addressing the use of batteries, consumption of gas and both the biodegradability and recyclability of sensors and instrumentation.

We continue to adopt a prudent approach to maximising the return on capital investment in observing systems, taking these beyond their original financial life, through ongoing upgrades, extending operational life, and keeping instrumentation at the forefront of technology.

Biodiversity action planning

We are proud to have retained the Wildlife Trust's Biodiversity Benchmark Award for our headquarters where our staff-led Biodiversity Working Group continues to work closely with colleagues in our Property Management team to protect and enhance biodiversity. Our ongoing work includes grassland management to benefit different butterfly species as well as the addition of nettle patches. We continue to record species observations so we can monitor the impact our work is having - during 2016 we conducted a Phase 2 habitat survey of our meadow as well as our ongoing butterfly transects and bird surveys.

CORPORATE GOVERNANCE REPORT

Directors' report

The following items, required as part of the Directors' report, are included in the Governance Statement on page 25:

- Composition of the Met Office Board.
- Disclosure of other interests held by members of the Met Office Board.
- Disclosure of personal data related incidents.

Statement of the Met Office and Accounting Officer's responsibilities

Under section 4(6)(a) of the Government Trading Funds Act 1973, HM Treasury has directed the Met Office to prepare a statement of accounts for the 2016/17 financial year in the form and on the basis set out in the Accounts Direction issued on 20 December 2016 and in guidance received on 20 February 2015.

Accounts are prepared on an accruals basis and must give a true and fair view of the Met Office's state of affairs as at 31 March 2017 and of the income and expenditure, changes in taxpayers' equity, and cash flows for the financial year.

In preparing the accounts, the Accounting Officer is required to comply with the requirements of the Government Financial Reporting Manual and in particular to:

- observe the Accounts Direction issued by HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards, as set out in the Government Financial Reporting Manual, have been followed, and disclose and explain any material departures in the financial statements.

HM Treasury has appointed the Chief Executive of the Met Office as the Accounting Officer for the Trading Fund. His responsibilities as Accounting Officer, including responsibility for the propriety and regularity of the public finances, for which he is answerable, for keeping of proper records and for safeguarding the Met Office's assets, are set out in Managing Public Money published by HM Treasury.

The Accounting Officer confirms that there is no relevant information of which the auditors are unaware and that he has taken all necessary steps to ensure they have been made aware of all relevant audit information throughout the business. The Accounting Officer also confirms that he takes personal responsibility for the annual report and accounts and the judgements required to ensure that they are fair, balanced and understandable.

GOVERNANCE STATEMENT

Scope of responsibility

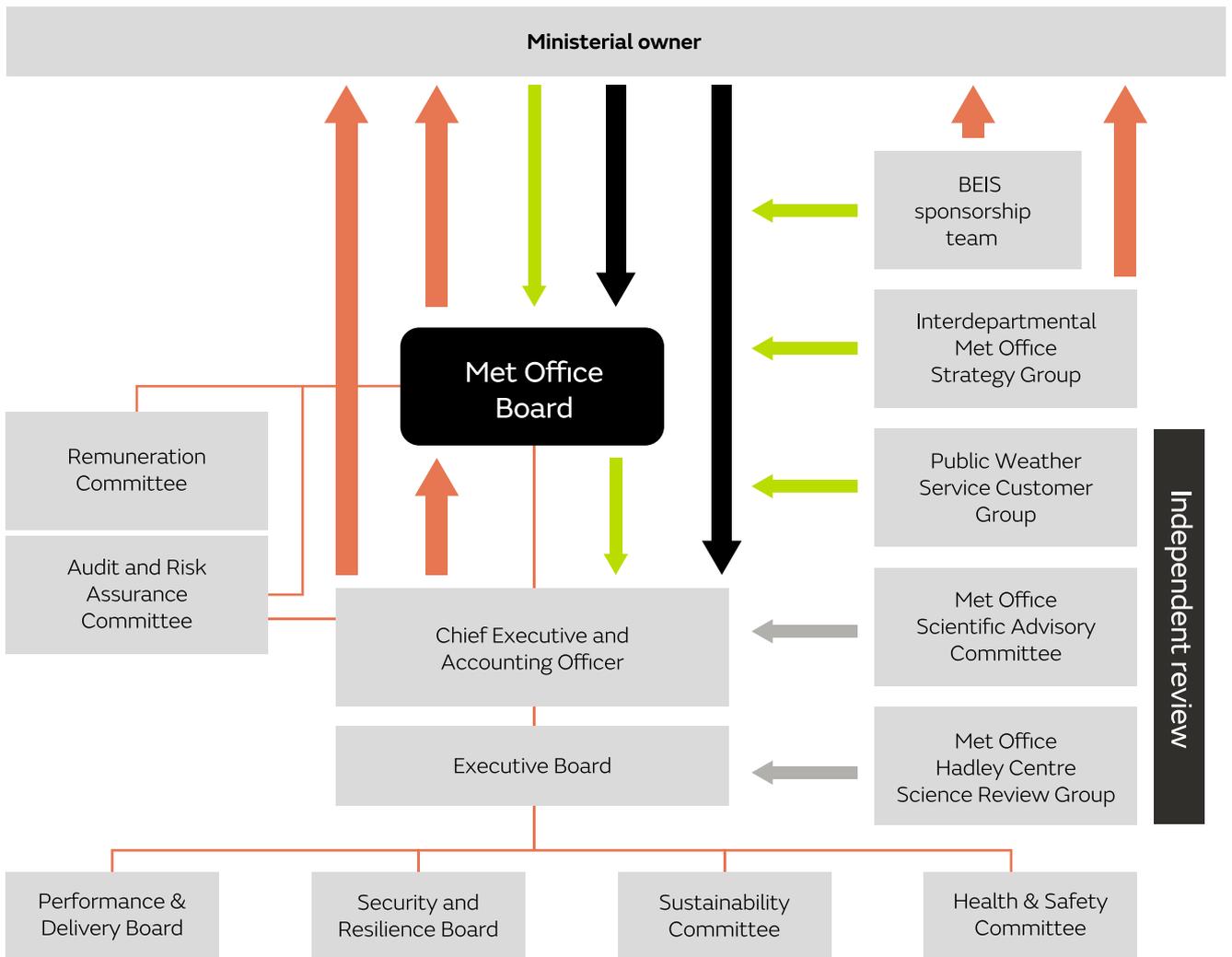
As Accounting Officer it is my responsibility to ensure that there is a sound system of governance, risk management and internal control in place; and that Met Office business is conducted in accordance with Managing Public Money to ensure public money is safeguarded, properly accounted for and used economically, efficiently and effectively.



The purpose of the governance statement

The Governance statement, for which I, as Accounting Officer, take personal responsibility, gives a clear understanding of the dynamics of the Met Office and its control structures. These control structures provide an adequate insight into the business of the Met Office and its use of resources to enable me to make informed decisions about progress against business plans, and if necessary steer performance back on track. In doing this I am supported by a governance framework which includes the Met Office Board, its committees and senior management.

This statement also explains how the Met Office has complied with the principles of Good Governance and reviews the effectiveness of these arrangements.



Met Office governance structure

Our governance structure

The Met Office's parent Department changed from the Department for Business, Innovation and Skills (BIS) to the Department for Business, Energy and Industrial Strategy (BEIS) in July 2016 as part of a machinery of government change. Under revised portfolios, the Met Office's sponsor Minister is the Minister of State for Universities, Science, Research and Innovation. The Met Office Framework Document is being refreshed following the move of the Met Office to BEIS.

Met Office Board and committees

Role of the Met Office Board

The Met Office Board challenges and supports the Executive team and carefully scrutinises its proposals and performance, particularly in relation to the development of the Met Office's long-term business strategy, and delivery of the approved Corporate Plan, including performance against Key Performance Indicators. In addition, the Met Office Board takes an overview of corporate risk and works with the Executive Board to agree the organisation's risk appetite.

Met Office Board composition

The Chairman is responsible for leading the Board and ensuring that it is effective in discharging its role. He is supported by additional non-executives, chosen to ensure an appropriate mix of skills and experience. The Met Office Board has two committees – the Audit and Risk Assurance Committee and the Remuneration Committee – each chaired by a non-executive board member.

There were non-executive vacancies on the Board for a considerable part of 2016/17 which affected the work of the Board and its committees. Greg Clarke stood down as Met Office Chairman and left the Board in September 2016. Professor Sir John Beddington became interim Chairman and the process began to recruit a new Chairman through open competition. This has not yet completed. The process also began to recruit two new non-executive directors to replace Wendy Barnes and Christine Tacon who left in March 2016 and May 2016 respectively. Paul Hadley attended the May

2016 Audit and Risk Assurance Committee meeting and replaced Graham Turnock as a member of the Board and the Audit and Risk Assurance Committee in February 2017 (representing BEIS). Robert Drummond and Catherine Quinn joined the Board in March and April 2017 respectively. Both will also sit on the Audit and Risk Assurance Committee and the Remuneration Committee.

Met Office Board activities in 2016/17

During 2016/17 the Met Office Board met six times. A summary of each Board meeting is published on the Met Office website. Themes discussed at Board meetings during 2016/17 included: the Met Office's corporate targets, performance and achievements towards its purpose working at the forefront of weather and climate science for protection, prosperity and well-being; and, in this context, the Met Office's new 2016-2021 Corporate Plan, including a programme of transformation and efficiency; establishment and performance of the Met Office Business Group; the Met Office's authoritative voice and public reach through new content and platforms; services in support of international humanitarian relief efforts; input into the National Flood Resilience Review; and a review of effectiveness of the Met Office Board.

Audit and Risk Assurance Committee

Three of the four members of the Audit and Risk Assurance Committee in March 2016 had left the Board by May 2016. David Burrige joined Mary Keegan to form the core of a new Committee in the Spring of 2016; Graham Turnock joined them in September 2016 but was replaced by Paul Hadley in February 2017. The Chairman of the Committee has repeatedly requested the addition of further expertise, particularly in the critical risk area of information and cyber security; this has not yet happened. Members of the Committee met three times during 2016/17. Results of the Internal Audit team's work, including assurance ratings for individual audits and summaries on the progress of the implementation of agreed actions, were reported to members of the Committee on a monthly basis, as well as at each Committee meeting. The Committee reported to the Met Office Board after each meeting.

The nature and status of key corporate risks is reported routinely to the Audit and Risk Assurance Committee, along with details of mitigating actions being taken. The Committee challenges management where necessary to gain the assurance it needs over the robustness of these actions.

BEIS sponsorship team

The BEIS sponsorship team advises BEIS Ministers on the management of the Government's interest in the Met Office. A BEIS representative sits on the Met Office Board and its committees.

Executive Board and committees

As Chief Executive I am responsible for the day-to-day leadership and management of the Met Office. I am accountable to the Ministerial Owner and the Met Office Board (acting, where appropriate, on the Ministerial Owner's behalf) for the performance of the Met Office in accordance with the Met Office Framework Document and Corporate Plan. I am also Accounting Officer for the Met Office, personally responsible and accountable to Parliament for the organisation and quality of management in the Met Office, including its use of public money and the stewardship of its assets.

The Executive Board, which I chair, is responsible for supporting me in implementing the strategy set out by the Met Office Board. The Executive Board agreed a number of changes to its supporting structure during 2016/17 and now has four sub-committees: the Performance and Delivery Board (PDB), the Security and Resilience Board, the Sustainability Committee and the Health and Safety Committee. These changes were made to provide stronger governance in some key areas and to enable the Executive Board to spend more time considering organisational strategy, including how we are transforming and driving efficiency, and horizon scanning, while maintaining overall accountability for corporate planning and performance. As the Met Office moves towards implementing its Target Operating Model (TOM), as part of the wider transformation and efficiency programme, with an enhanced management system, we will keep the governance structure under review and ensure that it continues to adapt to meet the changing needs of the organisation and its stakeholders.

Additional review bodies

The following bodies provide additional independent review of Met Office activities:

- Interdepartmental Met Office Strategy Group (IMOSG) – comprising relevant government departments, the devolved administrations and the Met Office, IMOSG meets periodically to review, at a strategic level, Government's overall priorities for the Met Office.
- Public Weather Service Customer Group (PWSCG) – oversees the Public Weather Service from a customer point of view, ensuring the quality, suitability and value for money of the service provided. The PWSCG comprises independent members and representatives from government departments, agencies, emergency responders, local authorities, the Scottish and Welsh Governments and the Northern Ireland Assembly. The PWSCG is chaired by Dr Wyn Williams and its Annual Report is available through the Met Office website.
- Met Office Scientific Advisory Committee (MOSAC) – provides an independent assessment of the quality and relevance of the Met Office's scientific research which underpins our weather, climate and oceanographic services. MOSAC is chaired by Professor Huw Davies and has a membership of leading scientists from UK academia and other national meteorological services from around the world.
- Met Office Hadley Centre Science Review Group (SRG) – provides an independent review, on behalf of BEIS and Department for Environment, Food and Rural Affairs, of the climate research carried out by the Met Office Hadley Centre. The SRG is chaired by Professor Ted Shepherd, who took over from Professor Gabi Hegerl in December 2016, and membership of the group includes leading UK and international scientists.

Board and committee composition and attendance	Committee memberships	Board meetings	Audit and Risk Assurance Committee	Remuneration Committee
Total number of meetings		4	3	1
Rob Varley Chief Executive	Remuneration	6/6	-	1/1
Steve Noyes Deputy Chief Executive and Chief Operating Officer	-	6/6	-	-
Nick Jobling Chief Financial Officer	-	6/6	-	-
Prof Dame Julia Slingo¹ Chief Scientist	-	4/4	-	-
Prof Stephen Belcher¹ Chief Scientist	-	1/2	-	-
Greg Clarke² Met Office Chairman	Remuneration	2/3	-	1/1
Prof Sir John Beddington² Non-executive Director	Remuneration	6/6	-	0/1
David Burridge Non-executive Director	Remuneration, ARAC	5/6	2/3	0/1
Dame Mary Keegan Non-executive Director and Chair of ARAC	Remuneration, ARAC	6/6	3/3	1/1
John Kimmance Non-executive Director	Remuneration	6/6	-	1/1
Christine Tacon³ Non-executive Director	Remuneration, ARAC	0/1	1/1	0/1
Robert Drummond⁴ Non-executive Director	Remuneration, ARAC	1/1	0/0	0/0
Graham Turnock⁵ Non-executive Director BEIS representative	ARAC	5/5	1/2	1/1
Paul Hadley⁶ Non-executive Director BEIS representative	Remuneration, ARAC	1/1	2/2	1/1
Helen Stevens Prospect union representative	-	3/6	-	-

1. Professor Dame Julia Slingo retired from the Met Office (and Board) in December 2016 and Professor Stephen Belcher joined the Met Office (and Board) in the same month.
2. Greg Clarke left the Board in September 2016 and Professor Sir John Beddington became interim Chairman in the same month. He also chairs the Remuneration Committee.
3. Christine Tacon left the Board in May 2016.
4. Robert Drummond joined the Board in March 2017.
5. Graham Turnock represented BEIS on the Board until February 2017. He joined ARAC (but not the Remuneration Committee) from September 2016 to February 2017.
6. Paul Hadley attended the ARAC in May 2016, is BEIS representative on the Remuneration Committee and joined the Board and ARAC from February 2017.

Evaluation of Board performance

The performance of the Met Office Board was evaluated using a structured questionnaire. The review highlighted no serious issues, and the Board endorsed the implementation of recommendations for improvement. In addition, following an external assessment, changes have been implemented that are helping to increase the efficiency and effectiveness of the Executive Board.

Conflicts of interest

The Met Office maintains a public Register of Interests that details company directorships and other significant interests held by Board members which may conflict with their responsibilities. The register is reviewed at least on an annual basis. Where appropriate, conflicts of interest were declared during 2016/17 and, where there was any perceived conflict, the member in question was excluded from the relevant conversation and any decisions made on that subject. The register is available to view by applying in writing to my Private Secretary at the Met Office, FitzRoy Road, Exeter EX1 3PB.

Compliance with Corporate Governance Code

Where applicable, the Met Office has complied during 2016/17 with the provisions of Corporate governance in central government departments: Code of Good Practice 2011.

Risk management

Risk management strategy and how the risk profile is managed

The new Met Office Corporate Plan was approved by the Minister in February 2017. This plan describes the direction of the organisation and highlights key corporate objectives for the period 2016 to 2021. Each directorate derives its objectives from the Plan; these are cascaded to form individual objectives. Performance is represented on the Corporate Dashboard and covers all business areas, corporate objectives and Key Performance Indicators (KPIs).

Assessing and managing risk is a fundamental part of day to day business management across the Met Office. Directors, Executive Heads and Heads play a vital role in the identification, mitigation and, if necessary, escalation of risks as appropriate across all business areas, programmes and projects.

Our risk management approach is designed to achieve a cost-effective balance between mitigation and acceptance of risk, with targets set for individual risks. Our risk management process supports the ongoing identification, quantitative and qualitative assessment, ranking and reporting of risks and assessing the significance of the risk against our corporate risk appetite.

This approach enables us to understand the scale of the risks we face and to respond in an appropriate, effective and efficient manner.

Accountability and Responsibility framework

The Met Office Board provides an external perspective on all risks. The Board reviews the most serious risks threatening strategic objectives twice a year.

The Executive Board drives risk management from the top down and ensures all major decisions are subject to risk assessment and effective mitigation actions. The Executive team identifies and manages risk in accordance with the risk appetite. Individual Executive members review risks within their Directorate at least quarterly and corporate risks are frequently reviewed at Executive Board meetings.

The Audit and Risk Assurance Committee plans to review the corporate risks three times a year, and to discuss the risk management strategy, so that it can report to the Accounting Officer and the Met Office Board its opinion on the effectiveness of the risk management framework and the effectiveness of mitigation actions in the Met Office.

The Performance and Delivery Board (PDB) reviews actions on all corporate and significant business risks and is the main champion of risk management within the Met Office. The PDB sits monthly. It supports and challenges the Met Office Executive in identifying risks and opportunities, highlighting where risks are being ineffectively managed and addressing these areas with management.

The Executive Heads and senior management ensure that they understand the risk policy, process and reporting requirements, ensuring that a Risk Register is compiled and maintained for each major activity, and escalate risks to the PDB in conjunction with the Corporate Risk and Benefits Manager as required.

The Corporate Risk and Benefits Manager works across all levels of the Met Office to ensure risks are managed, reported and mitigated effectively.

Risk management information is used:

- to help inform the annual planning process, especially at business area and corporate objective level;
- at all levels in the organisation i.e. corporate, individual business area and project, with escalation procedures clearly established;
- to help inform key business decision-making processes such as Corporate Investment Appraisals; and
- to help inform the assurance needs of the organisation.

Risk management assurance

The annual audit concluded that the design and effectiveness of internal controls merited Moderate assurance. There are a number of areas of good practice reported, in particular the updating of the risk appetite framework to align it with the 18 corporate objectives within the new Corporate Plan, and a series of Fraud Risk Awareness workshops which were held to raise awareness and to identify and assess fraud risk exposure. Action plans are in place to improve the management of project and partnership risks and strengthen compliance with the risk process.

Risk appetite

Risk appetite is defined as the level of risk the organisation is willing to face to achieve its objectives, whilst continuing to provide the required level of assurance to stakeholders that their assets are safeguarded. Risks which are on track to be within the risk appetite, after the appropriate controls and mitigation actions have taken place, are monitored regularly to make sure the actions stay on track. Risks where the mitigations or controls go off track, and are not likely to be brought within the risk appetite, are given further attention and escalation. Additional controls have been designed and implemented where business decisions are outside the defined risk appetite.

The organisation's Risk Appetite Framework is based on "Thinking about Risk, Managing your risk appetite: A practitioner's guide" HM Treasury, November 2006. Our risk appetite has been updated to ensure it is directly aligned with the corporate objectives outlined in the new Corporate Plan, and is framed against the categories of Legal/Regulatory/Security, Financial, Operational Delivery and Reputation. This provides a granular view of the risk appetite for each corporate objective. It is reviewed regularly as part of the planning process.

Significant risks in 2016/17

Overall 2016/17 has been a year in which significant corporate risks and issues have had to be managed. The risk portfolio has included the following key risks:

- Future funding of the National Climate Capability and Met Office Hadley Centre to provide climate impacts, adaptation and vulnerability information. We continue to actively engage with Government to agree on a sustainable way forward.
- Continued pay constraint and scarcity of skilled resources in the areas of science and technology, leading to difficulties in recruiting, retaining and engaging skills and expertise.
- The recognition and mitigation of the possible threat posed by cyber attacks and denial of service threats. This risk is being mitigated via the self-assessment of key systems, investments in technology and improvements in monitoring and awareness.
- Maintaining operational resilience, which is a priority for the organisation. We have focused on improving the resilience of our key services and this will continue to be an area of focus, particularly during the implementation of our Transformation and Efficiency programme.
- The potential risks and/or opportunities for the Met Office following the outcome of the June 2016 referendum for the UK to leave the European Union. We also need to support our staff throughout this process.
- Ensuring that our Transformation and Efficiency programme delivers the required changes to our people, processes (such as product development) and technology to place us in a strong position for the future, being careful to ensure that it does not have an adverse impact on our operational resilience as we make the required changes.

The overall number of risks being escalated for management on the Corporate Risk Register remained fairly constant through the year, and mitigation action plans are in place for all corporate risks.

Other control and governance structures

Control framework

A new Corporate Plan for 2016–2021 ensures we continue to have clear strategic direction, objectives, responsibilities and Key Performance Indicators which balance the financial, customer and policy interests of the Met Office.

Funds and assets

We ensure efficiency, value for money, integrity and regularity in the use and stewardship of funds and assets. Clear accountability for expenditure and stewardship of assets is in place through a variety of control systems including:

- A corporate investment appraisal process to provide support and guidance in deciding on business cases for significant bids, expenditures or items that may be considered novel or contentious. This process ensures that a proposed investment or bid submission offers value for money, considers affordability, business requirement and justification (including fit with corporate strategy). Risk appetite, benefits, outcomes and risk management are also considered. The corporate investment appraisal process also addresses the financial propriety and other requirements from Managing Public Money, the Green Book and other HM Treasury guidance;
- A formal system of delegation of financial and contractual authority as defined in the Met Office Framework Document, fully integrated with the corporate investment appraisal process, is cascaded to members of the Executive Board, Heads, Executive Heads and other managers within the organisation;
- A centralised procurement model deployed to support and ensure financial and contractual delegations are followed. The Procurement team acts as the focal point for procurement expertise within the Met Office. Good procurement is a pre-requisite for the organisation, making sure we get the services we need, from suppliers we can trust at a price we can demonstrate to be competitive;
- A robust system of budgetary control with budget managers fully involved in the budget setting and rolling forecast processes. Budgets are set in a controlled manner, based on realistic and informed assumptions. Budgetary variations are analysed, investigated, explained and acted upon. Budgetary control is supported by a planning, budgeting and forecasting system which is used to collect and process data for financial forecasts, budgets and plans;
- The Met Office's accounting system, comprising core ledgers (sales, purchase, and nominal) together with integrated modules including stock, procurement, fixed assets, procurement card and sales invoicing. The integrated nature of the system ensures robust and consistent reconciliation between the different areas. There exist well-established links to other software systems including financial forecasting, sales order processing, reporting and payroll;
- A reporting structure of monthly financial and business performance reports, monitored by both the Finance and Business Performance teams. Detailed reviews and discussions of corporate and programme performance are held on a monthly basis with the Met Office Executive. Any necessary action is taken to ensure the Met Office and its groups perform to the desired level, supporting strategic goals and delivering benefits;
- Asset management and control procedures, including the appropriate segregation of duties and processes to ensure accurate recording, accounting and safeguarding of Met Office assets;

Independent assurance that management controls are working as intended is also provided through an annual internal audit programme of assurance work.

Business critical analytical models

An inventory of business critical models used within the Met Office has been provided to BEIS, along with commentary on the relevance of each to the organisation and its customers. We continue to ensure that robust quality assurance arrangements are in place for each of these models, reflecting their importance in continuous service provision.

Counter fraud

We treat the risk of fraud extremely seriously and operate a policy of 'zero tolerance'. We expect and require all our employees to observe the highest standards of personal honesty and integrity and to ensure that all our business is carried out in a manner that conforms to those same standards. In addition to a Counter Fraud Policy we also have an Anti-Bribery Policy, guided by the Bribery Act 2010. This policy, published on our website, declares our public position on bribery and we expect all staff, contracted parties and partner organisations to conform to it. Internal guidance has been published to help staff implement the policy, supplemented with periodic training opportunities.

The Met Office's Head of Legal is responsible for maintaining and implementing the policies. The Met Office's Head of Internal Audit is responsible for investigating and reporting on potential incidents of fraud and bribery in line with our Whistleblowing Policy. Multiple fraud risk workshops have taken place throughout the year, addressing issues raised by Internal Audit. There is increasingly closer working within the BEIS Counter Fraud Network which shares expertise, intelligence and information.

Health and safety

We are committed to the provision of a safe and healthy working environment ensuring, so far as is reasonably practicable, the health, safety and welfare of our employees and those affected by our activities. The monitoring and review processes at a corporate level were strengthened during the year.

Line managers are responsible for implementing our health and safety policy, ensuring appropriate implementation at local level and monitoring the subsequent performance. They are also responsible for ensuring sufficient resources are available, so far as reasonably practicable, to achieve and maintain a safe working environment.

Statutory compliance

The Met Office has undertaken and sought to comply with its legal obligations during the year. The Met Office has a number of professionally qualified employees who understand and advise us about our legal obligations, including those relating to employment, procurement, advertising, consumer rights, health and safety, competition, freedom of information, personal data protection, re-use of public sector information, intellectual property, defamation, contracts and treaties. In addition, we work closely with other parts of government to comply with their additional requirements as owners, customers and as government policy makers.

Information security

We have a Senior Information Risk Owner (SIRO) at Executive Director level who is supported by Information Asset Owners (IAOs) who cover information assets across the whole of the Met Office. Thirty five Information Asset Guardians (IAGs) support these IAOs. They work with the SIRO to ensure business critical and sensitive information assets are risk managed appropriately so that the value of our information assets is protected as described by our risk appetite. Wider governance is delivered through the new Security and Resilience Board (SRB), which first met in September and is chaired by the Chief Operating Officer and oversees Met Office Security and Business Continuity/Resilience. In addition, the SRB has several working groups targeted at a lower level on Threat and Vulnerability; Policy; Information Assurance and Resilience.

The Met Office has complied with the HMG Security Policy Framework for the financial year and has evidenced this through a completed Security Health Check Report, which has been independently validated by Internal Audit and returned to the BEIS SIRO. In addition, the Met Office successfully achieved certification against the National Cyber Essentials scheme, which helps us to demonstrate a good foundation of information security compliance to our partners and customers. Protective security is the joint responsibility of the Chief Information Security Officer and Security Manger (Physical and Personnel) who jointly fulfil the role of Departmental Security Officer (DSO) at the Met Office. A Major Cyber Incident Management/Gold business continuity exercise was held in 2016/17, which included the Executive Board.

Following a review we have identified the need to improve control procedures and record keeping around access to Met Office email accounts; these improvements will be implemented in the first half of 2017/18.

Audit and Risk Assurance Committee's reports on the organisation's assurance arrangements and risk profile

The Audit and Risk Assurance Committee arranges for management representatives to attend its meetings to explain how corporate risks are being reduced to an acceptable level or how issues of particular concern identified in Internal Audits are being managed effectively. During the current year there was specific focus on the management of major revenue-earning contracts, the bids review process, fraud risk management and the safety management of high risk observation and services activities.

The Audit and Risk Assurance Committee annually reviews the effectiveness of the internal and external audit functions, and has expressed the view that these functions continue to operate effectively for 2016/17 in the provision of assurance on Met Office standards of governance, risk management and control.

Accounting Officer's annual review of governance effectiveness

As Accounting Officer, I have responsibility for conducting an annual review of the effectiveness of the system of the organisation's governance, risk management and internal control. This review is informed by the work of executive managers and the programme of work delivered by the Internal Audit team and comments made by the external auditors in their management letter and other reports. The Governance Statement represents the end product of the review of the effectiveness of the governance framework, risk management and internal control.

Processes for reviewing governance, risk management and internal control systems

Internal Audit assessed the systems of governance, risk and control via a planned programme of assurance-generating work over the course of the year. A structured process identified the activities to be audited, with corporate risk a key consideration in determining the actual audits to be undertaken.

Executive Directors, Executive Heads and Heads provided Annual Assurance Statements describing the extent to which, and how, they have complied with internal rules and regulations that form a key part of the organisation's governance framework. Internal Audit reviewed these statements to identify any material issues or trends. The assessment of effective operation of the organisation's business and environmental management systems has also been obtained via the retention of its certifications for ISO 9001:2008 and ISO 14001:2004.

Protecting personal data

During 2016/17, no protecting personal data related incidents were reported to the Information Commissioner's Office.

Internal audit's opinion on the quality of the systems of governance, risk management and internal control

The Head of Internal Audit has concluded that 'moderate' assurance can be provided over the adequacy and effectiveness of the Met Office's systems of governance, risk management and internal control. Compared to last year the moderate rating has slightly reduced. This is due to a higher number of low assurance ratings and a lower number of substantial ratings given during the year. Seven engagements undertaken by the team found issues connected to immature governance arrangements or frameworks, leading to the identification of one key theme: "Governance at a time of transformational change". Management are undertaking actions to address these issues and challenges. The Internal Audit team is tracking progress of these actions.

Last year's internal audit opinion drew attention to three themes. Management is making progress in all three of these as follows:

1. Gaps in process design: The high-level Target Operating Model is now in place and a new team (the Centre for Sustainable Improvement) has been created to provide process design expertise.
2. Lack of management review: The Met Office has adopted a "Four Lines of Defence" model, which has emphasised the responsibilities of management in reviewing the effectiveness of controls. The Performance and Delivery Board is leading a drive to improve the quality of information that is provided by management. It is expected that this improved assurance provided by management review will lead to better decision making.
3. Lack of skills or expertise: Skills, capability and capacity challenges identified for the Transformation and Efficiency programme are being resolved. Specialist skills have been hired and the team are considering the use of a delivery partner. During the coming period of change, workforce planning and monitoring across the Met Office to ensure we have the right skills for the future is essential.

Significant governance and control issues

During the year, an issue occurred with a particular product development and a bid which resulted in incorrect pricing and specifications for some key services. I consider these to be significant control issues. The specific issues have been addressed but these processes are being analysed to identify the root causes and to develop appropriate remedial actions.

Accounting Officer's conclusion

I have considered the evidence provided with regards to the production of the Annual Governance Statement. I conclude that the organisation's overall governance, risk management and internal control structures are effective.

REMUNERATION AND STAFF REPORT

Remuneration report

Remuneration policy

The remuneration of those who serve on the Met Office Board is disclosed within this report. The following Met Office Board members are also members of the Executive Board and are Met Office employees:

- **R. Varley**, Chief Executive
- **J. Slingo**, Chief Scientist (until 31 December 2016)
- **S. Belcher**, Chief Scientist (from 1 January 2017)
- **N. Jobling**, Chief Financial Officer
- **S. Noyes**, Deputy Chief Executive (previously Operations and Services Director until 20 February 2017)

Service contracts

The Constitutional Reform and Governance Act 2010 requires civil service appointments to be made on merit on the basis of fair and open competition. The Recruitment Principles published by the Civil Service Commission specify the circumstances when appointments may be made otherwise. Unless otherwise stated, the officials covered by this report hold appointments which are open-ended. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

Further information about the work of the Civil Service Commissioners can be found at <http://civilservicecommission.independent.gov.uk/>

Met Office employees

Met Office employees have their remuneration determined by a process consistent with HM Treasury civil service pay guidance.

Further details of HM Treasury civil service pay guidance can be found at <https://www.gov.uk/government/collections/civil-service-pay-guidance>

Subject to the constraints of government policies on public sector pay, the Chief Executive has delegation to determine pay and conditions for all Met Office employees. This delegation requires the Chief Executive to consult with the Department for Business, Energy and Industrial Strategy (BEIS), the Cabinet Office and HM Treasury and to gain ministerial approval from BEIS before negotiating any changes to pay and grading systems and arrangements with the recognised Trade Union. This is achieved through the civil service pay remit process.

The Met Office Reward Strategy approved by the Chief Executive is designed to drive the behaviours required to deliver the Corporate Plan.

Remuneration Committee

The Remuneration Committee is a sub-committee of the Met Office Board. The members of the Remuneration Committee are the Non-Executive Directors of the Met Office Board. The Committee is chaired by a Non-Executive member of the Met Office Board.

The purpose of the committee includes the consideration of distributions to employees under the Met Office Corporate Performance scheme. This is based on an assessment of the performance of the Met Office against its Key Performance Indicators and the level of declared profit. The committee also considers performance awards for directors under the Met Office Personal Performance scheme.

Remuneration (audited)

	2016/17				Total	2015/16				Total
	Salary	Other taxable allowances	Performance - related pay	Pension benefits ¹		Salary	Other taxable allowances	Performance - related pay	Pension benefits ¹	
	£'000	£'000	£'000	£'000		£'000	£'000	£'000	£'000	
R Varley Chief Executive	120-125	-	15-20	15	150-155	120-125	-	15-20	177	310-315
N Jobling Chief Financial Officer	100-105	0-5	0-5	36	140-145	100-105	0-5	0-5	31	135-140
J Slingo Chief Scientist (until 31 December 2016)	95-100 (140-145 full year equivalent)	-	10-15	70	180-185	140-145	-	15-20	61	215-220
S Belcher Chief Scientist (from 1 January 2017)	40-45 (135-140 full year equivalent)	-	0-5	25	65-70	-	-	-	-	-
S Noyes Deputy Chief Executive ²	80-85 (90-95 full time equivalent)	-	0-5	-	85-90	90-95	-	0-5	-	90-95

1 The value of pension benefits accrued during the year is calculated as (the real increase in pension multiplied by 20) plus (the real increase of any lump sum) less (the contributions made by the individual). The real increases exclude increases due to inflation or any increases or decreases due to a transfer of pension rights.

2 Previously Operations and Services Director until 20 February 2017, S Noyes worked reduced hours from August 2016.

Salary

Salary includes gross salary, overtime, non-consolidated pay, recruitment and retention allowances.

Other taxable allowances

Other taxable allowances primarily reflect payments for the provision of temporary accommodation in Exeter. Variances in the amounts paid are due to the timing of claims processed through payroll and not changes in the rate of allowances payable.

Performance-related pay

Performance-related payments are based on performance levels attained and are made as part of the appraisal process. Payments are non-consolidated and non-pensionable and represent part of Executive remuneration, which is at risk and needs to be re-earned each year. Amounts shown above relate to the performance attained in the relevant year and are paid in the following year.

Pay multiples (audited)

The banded remuneration of the highest-paid Director in the Met Office in the financial year 2016/17 was £155,000 to £160,000 (2015/16 £165,000 to £170,000). This was 4.46 times (2015/16 4.9 times) the median remuneration of the workforce, which was £35,533 (2015/16, £34,429). In 2016/17, no employees (2015/16, nil) received remuneration in excess of the highest-paid Director.

Total remuneration includes salary, non-consolidated performance-related pay, benefits-in-kind as well as severance payments. It does not include employer pension contributions and the Cash Equivalent Transfer Value of pensions.

Pension entitlements for each Director (audited)

	Accrued pension at pension age as at 31 March 2017 & related lump sum	Real increase in pension & related lump sum at pension age	CETV at 31 March 2017	CETV at 31 March 2016	Real increase in CETV
	£'000	£'000	£'000	£'000	£'000
R Varley Chief Executive from September 2014, previously Operations and Services Director	50-55 lump sum 155-160	0-2.5 lump sum 2.5-5	1062	1003	12
N Jobling Chief Financial Officer	20-25	0-2.5	355	319	17
J Slingo Chief Scientist	50-55	2.5-5	895	846	60
S Belcher Chief Scientist (from 1 January 2017)	10-15	0-2.5	135	115	14

S Noyes chose not to be covered by the civil service pension arrangements during the reporting year.

Civil service pensions

Pension benefits are provided through the civil service pension arrangements. From 1 April 2015 a new pension scheme for civil servants was introduced – the Civil Servants and Others Pension Scheme or alpha, which provides benefits on a career average basis with a normal pension age equal to the member's State Pension Age (or 65 if higher). From that date all newly appointed civil servants and the majority of those already in service joined alpha. Before that date, civil servants participated in the Principal Civil Service Pension Scheme (PCSPS). The PCSPS has four sections: three providing benefits on a final salary basis (classic, premium or classic plus) with a normal pension age of 60; and one providing benefits on a whole career basis (nuvos) with a normal pension age of 65.

These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, classic plus, nuvos and alpha are increased annually in line with Pensions Increase legislation. Existing members of the PCSPS who were within ten years of their normal pension age on 1 April 2012 remained in the PCSPS after 1 April 2015. Those who were between 10 years and 13 years and 5 months from their normal pension age on 1 April 2012 will switch into alpha sometime between 1 June 2015 and 1 February 2022. All members who switch to alpha have their PCSPS benefits 'banked', with those with earlier benefits in one of the final salary sections of the PCSPS having those benefits based on their final salary when they leave alpha. The pension figures quoted for officials show pension earned in PCSPS or alpha – as appropriate. Where the official has benefits in both the PCSPS and alpha the figure quoted is the combined value of their benefits in the two schemes. Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (partnership pension account).

Employee contributions are salary-related and range between 3.8% and 8.05% of pensionable earnings for all schemes. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years initial pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum. Classic plus is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 worked out as in premium. In nuvos a member builds up a pension based on their pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase legislation. Benefits in alpha build up in a similar way to nuvos, except that the accrual rate is 2.32%. In all cases members may opt to give up pension for a lump sum up to the limits set by the Finance Act 2004.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% up to 30 September 2015 and 8% and 14.75% from 1 October 2015 (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of providers. The employee does not have to contribute, but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary up to 30 September 2015 and 0.5% of pensionable salary from 1 October 2015 to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of classic, premium and classic plus, 65 for members of nuvos, and the higher of 65 or State Pension Age for members of alpha. The pension figures quoted for officials show pension earned in PCSPS or alpha – as appropriate. Where the official has benefits in both the PCSPS and alpha the figure quoted is the combined value of their benefits in the two schemes, but note that part of that pension may be payable from different ages.

Further details about the Civil Service pension arrangements can be found at the website

www.civilservicepensionscheme.org.uk

Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme, or arrangement to secure pension benefits in another pension scheme, or arrangement when the member leaves a scheme and chooses to transfer

the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

The figures include the value of any pension benefit in another scheme, or arrangement which the member has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their purchasing additional pension benefits at their own cost. CETVs are in accordance with the Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax, which may be due when pension benefits are taken.

Real increase in CETV

This is the element of the increase in accrued pension funded by the Exchequer. It excludes increases due to inflation and contributions paid by each Director. It is worked out using common market valuation factors for the start and end of the period.

Staff report

Staff numbers as at 31 March 2017 (audited)

	Full time equivalents		31 March 2017	31 March 2016
	Male	Female		
Directors	8	1	9	9
Other permanent staff	1,326	662	1,988	2,066
Met Office employees total	1,334	663	1,997	2,075
Temporary/agency staff			48	79
Total			2,045	2,154

Staff costs

	2016/17	2015/16
	£ '000	£ '000
Staff costs		
Salaries, performance-related pay and allowances	83,822	81,279
Social security	8,569	6,408
Pension contributions	15,135	15,067
Early retirement and exit costs	4,096	116
Temporary/agency labour costs	5,744	7,434
Total staff costs	117,366	110,304

Diversity

The Met Office values difference, openness, fairness and transparency to make work a better experience for our employees and help us to achieve our primary objectives.

We review our practices to ensure we do not discriminate unfairly or unlawfully, and actively seek to make the Met Office fully inclusive for all employees and applicants. As part of this we participate in the government's Disability Confident scheme, seeking level 2 re-accreditation. We have adopted the Workplace Adjustments Passports and introduced mental health awareness training and fully trained mental health first aiders across the organisation.

We support a range of staff-led diversity action groups with participants across the organisation. This improves work-life balance and flexible working for the benefit of all, including disabled employees.

To support and encourage women pursuing education and careers in science, technology, engineering and maths, we are working towards Athena Swann accreditation. We provide British Sign Language opportunities with accredited trainers. We provide leadership and commitment to these and similar initiatives by developing and monitoring our Diversity Action Plans and Diversity Policy.

Sickness and absence data

In 2016/17 the Average Working Days lost per person was 5.5 (2015/16 4.9 days). This is lower than the UK national average of 6.3 days.

Expenditure on consultancy

During the year the Met Office spent a total of £5k on consultancy.



Off-payroll engagements

Off-payroll engagements as of 31 March 2017, for more than £220 per day and that last for longer than six months .

Number of existing engagements as of 31 March 2017	30
Of which...	
Number that have existed for less than one year at time of reporting.	10
Number that have existed for between one and two years at time of reporting.	15
Number that have existed for between two and three years at time of reporting.	3
Number that have existed for between three and four years at time of reporting.	1
Number that have existed for four or more years at time of reporting.	1

New off-payroll engagements, or those that reached six months in duration, between 1 April 2016 and 31 March 2017, for more than £220 per day and that last for longer than six months

Number of new engagements, or those that reached six months in duration, between 1 April 2016 and 31 March 2017	25
Number of the above which include contractual clauses giving the department the right to request assurance in relation to income tax and National Insurance obligations	25
Number for whom assurance has been requested	25
Of which...	
Number for whom assurance has been received	22
Number for whom assurance has not been received	3
Number that have been terminated as a result of assurance not being received	0

The engagements above do not include any board members or senior officials with significant financial responsibility.

Fees paid to Non-executive Directors (audited)

Met Office Non-executive Directors are not Met Office employees and are not members of the Principal Civil Service Pension Scheme.

	2016/17	2015/16
	£'000	£'000
Greg Clarke (until 30 September 2016)	20-25 (35-40 full year equivalent)	35-40
Professor Sir John Beddington	30-35	20-25
Wendy Barnes (Until May 2016)	0-5 (20-25 full year equivalent)	20-25
Christine Tacon (Until May 2016)	0-5 (20-25 full year equivalent)	20-25
Dr David Burridge	20-25	20-25
Paul Rew	-	20-25
Dame Mary Keegan (From September 2015)	20-25	10-15 (20-25 full year equivalent)
Robert Drummond (From March 2017)	- (15-20 full year equivalent)	-

Graham Tunnock and Paul Hadley attended in conjunction with their responsibilities at the Department for Business, Energy and Industrial Strategy. Further details of their attendance are given in the Governance Statement. They are not entitled to receive separate remuneration in undertaking Met Office duties. John Kimmance does not receive any remuneration in his role as a Non-executive Director.

Exit packages (audited)

Exit package cost band	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band	
	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16
£0 - £10,000	-	-	-	-	-	-
£10,000 - £25,000	-	1	-	-	-	1
£25,000 - £50,000	-	-	2	-	2	-
£50,000 - £100,000	-	-	-	1	-	1
£100,000 - £150,000	-	-	-	-	-	-
Total number of exit packages by type	-	1	2	1	2	2
Total cost £'000	-	15	64	95	64	110

The above figures represent exit packages agreed/paid during the year. They do not include provisions made for schemes where the final settlement is as yet unknown.

the additional costs are met by the Organisation and not by the Civil Service pension scheme. Ill-health retirement costs are met by the pension scheme and are not included in the table.

Redundancy and other departure costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972. Exit costs are accounted for in full in the year of departure. Where the Met Office has agreed early retirements,

PARLIAMENTARY ACCOUNTABILITY AND AUDIT REPORT

Regularity of expenditure (audited)

During the year there were no reportable losses or special payments.



Rob Varley

Chief Executive and Accounting Officer
15 June 2017

Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements of the Met Office for the year ended 31 March 2017 under the Government Trading Funds Act 1973. The financial statements comprise: the Statement of Comprehensive Income, Statement of Financial Position, Statement of Cash Flows, Statement of Changes in Taxpayer's Equity; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration and Staff Report and the Parliamentary Accountability disclosures within the Accountability Report that are described in those reports as having been audited.

Respective responsibilities of the Met Office, Chief Executive and auditor

As explained more fully in the Statement of Met Office and Chief Executive's Responsibilities, the Chief Executive as Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Government Trading Funds Act 1973. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Opinion on regularity

In my opinion, in all material respects the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Met Office's affairs as at 31 March 2017 and of its profit for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Trading Funds Act 1973 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion:

- the parts of the Remuneration Report and the Parliamentary Accountability disclosures within the Accountability Report to be audited have been properly prepared in accordance with HM Treasury directions made under the Government Trading Funds Act 1973; and
- the information given in Performance Report and Accountability Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Met Office's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Met Office; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Performance Report and Accountability Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the parts of the Remuneration and Staff Report, and certain elements of the Parliamentary Accountability Report to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements

Sir Amyas C E Morse

Comptroller and Auditor General
29 June 2017

National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

ACCOUNTS

Statement of comprehensive income for the year ended 31 March 2017

		2016/17	2015/16
	Notes	£ '000	£ '000
Revenue	2	226,827	227,480
Other operating income:			
Operating costs	3	(221,888)	(218,679)
Operating profit		4,939	8,801
Finance income	4	122	167
Finance expense	5	(636)	(322)
Net finance income		(514)	(155)
Profit for the financial year		4,425	8,646
Dividend payable to Department for Business Energy and Industrial Strategy	11	(4,000)	(500)
Retained profit for the year		425	8,146
Other comprehensive income:			
Net (loss) / gain on revaluation of property, plant and equipment		(5,479)	2,038
Net gain on revaluation of intangible assets		1,616	252
Revaluation reserve realised on disposal of non-current assets		(33)	(19)
Revaluation reserve realised on impairment of non-current assets		-	(197)
Net gain on cash flow hedges	14	76	10,049
Other comprehensive income for the year		(3,820)	12,123
Total comprehensive income for the year		(3,395)	20,269

The notes on pages 48-66 form part of these accounts.

Statement of financial position as at 31 March 2017

		31 March 2017		31 March 2016	
	Notes	£ '000	£ '000	£ '000	£ '000
Non-current assets					
Property, plant and equipment	6		197,050		170,665
Intangible assets	7		116,283		89,556
Derivative financial assets	14		180		2,479
Total non-current assets			313,513		262,700
Current assets					
Inventories	8	1,599		1,509	
Trade and other receivables	9	51,744		46,132	
Derivative financial assets	14	4,696		2,468	
Cash and cash equivalents	10	65,136		58,260	
Total current assets			123,175		108,369
Total assets			436,688		371,069
Current liabilities					
Trade and other payables	11	(69,143)		(43,118)	
Borrowings	13	(3,552)		(2,370)	
Derivative financial liabilities	14	(196)		(343)	
Provisions for liabilities and charges	15	(13,287)		(3,619)	
Total current liabilities			(86,178)		(49,450)
Non-current assets plus net current assets			350,510		321,619
Non-current liabilities					
Trade and other payables	11	(73,831)		(54,162)	
Borrowings	13	(30,281)		(17,488)	
Provisions for liabilities and charges	15	(363)		(539)	
Total non-current liabilities			(104,475)		(72,189)
Assets less liabilities			246,035		249,430
Capital and reserves					
Public dividend capital			58,867		58,867
Revaluation reserve			29,865		37,540
General reserve			152,623		148,419
Hedging reserve			4,680		4,604
Total Government funds			246,035		249,430



Rob Varley

Chief Executive and Accounting Officer
15 June 2017

The notes on pages 48-66 form part of these accounts.

Statement of cash flows for the year ended 31 March 2017

		31 March 2017	31 March 2016
	Notes	£ '000	£ '000
Cash flows from operating activities			
Operating profit		4,939	8,801
Adjustments for non-cash transactions:			
Depreciation charges (net of capital grants)	3, 6	9,115	10,078
Loss on disposal of property, plant and equipment	3	11	97
Loss on revaluation of property, plant and equipment	3	65	-
Amortisation	3, 7	13,729	19,327
Impairment of property, plant and equipment		-	920
Deferred grants released		(641)	(670)
Increase in inventories		(90)	(253)
(Increase) / decrease in trade and other receivables		(4,338)	2,678
Decrease / (increase) in trade and other payables		6,460	(884)
Increase in provisions for liabilities and charges		9,363	3,350
Net cash inflow from operating activities		38,613	43,444
Cash flows from investing activities			
Payments to acquire satellite data		(40,493)	(35,333)
Payments to acquire property, plant and equipment		(51,465)	(55,493)
Government grants received	12	47,000	50,000
Proceeds from sale of property, plant and equipment		666	10
Payments to acquire intangible assets (excluding satellite data)		(571)	(1,512)
Interest received		120	166
Net cash outflow from investing activities		(44,743)	(42,162)
Cash flows from financing activities			
Dividends paid		(500)	(8,500)
Loan advance received		16,000	10,000
Loan repayments		(2,494)	(1,383)
Net cash inflow from financing activities		13,006	117
Net increase in cash and cash equivalents	10	6,876	1,399
Cash and cash equivalents at 1 April		58,260	56,861
Cash and cash equivalents at 31 March	10	65,136	58,260

The notes on pages 48-66 form part of these accounts.

Statement of changes in taxpayers' equity for the year ended 31 March 2017

	Public dividend capital	Revaluation reserve	General reserve	Hedging reserve	Total
	£ '000	£ '000	£ '000	£ '000	£ '000
Balance at 1 April 2015	58,867	37,626	138,113	(5,445)	229,161
Comprehensive income					
Profit for the financial year	-	-	8,646	-	8,646
Dividend	-	-	(500)	-	(500)
Retained profit for the year	-	-	8,146	-	8,146
Other comprehensive income					
Movement on foreign currency cash flow hedge	-	-	-	10,049	10,049
Net gain on revaluation of satellite assets	-	252	-	-	252
Net gain on revaluation of property, plant and equipment	-	2,038	-	-	2,038
Revaluation reserve realised as impairment of property, plant and equipment	-	(197)	-	-	(197)
Revaluation reserve realised on disposal of property, plant and equipment	-	(19)	-	-	(19)
Transfers between reserves	-	(2,160)	2,160	-	-
Total other comprehensive income	-	(86)	2,160	10,049	12,123
Total comprehensive income for 2015/16	-	(86)	10,306	10,049	20,269
Balance at 31 March 2016	58,867	37,540	148,419	4,604	249,430
Comprehensive income					
Profit for the financial year	-	-	4,425	-	4,425
Dividend	-	-	(4,000)	-	(4,000)
Retained profit for the year	-	-	425	-	425
Other comprehensive income					
Movement on foreign currency cash flow hedge	-	-	-	76	76
Net gain on revaluation of satellite data	-	1,616	-	-	1,616
Net loss on revaluation of property, plant and equipment	-	(5,479)	-	-	(5,479)
Revaluation reserve realised as impairment of property, plant and equipment	-	-	-	-	-
Revaluation reserve realised on disposal of property, plant and equipment	-	(33)	-	-	(33)
Transfers between reserves	-	(3,779)	3,779	-	-
Total other comprehensive income	-	(7,675)	3,779	76	(3,820)
Total comprehensive income for 2016/17	-	(7,675)	4,204	76	(3,395)
Balance at 31 March 2017	58,867	29,865	152,623	4,680	246,035

A description of the nature and purpose of each reserve is provided in Note 1.

The notes on pages 48-66 form part of these accounts.

Notes to the accounts

01 Accounting policies

Basis of preparation

These financial statements have been prepared in compliance with an Accounts Direction dated 20 December 2016 in accordance with Section 4(6)(a) of the Government Trading Funds Act 1973.

These statements also comply with the principles laid out in the 2016/17 Government Financial Reporting Manual (FReM) issued by HM Treasury, including additional guidance on the treatment of capital grants issued to the Met Office on the 20 February 2015.

The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which has been judged to be most appropriate to the particular circumstances of the Met Office for the purpose of giving a true and fair view has been selected. The particular policies adopted by the Met Office are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

The accounts have been prepared under the historical cost convention, modified to account for the revaluation of property, plant and equipment, intangible assets and inventories.

Accounting developments and changes

IFRSs, amendments and interpretations in issue but not yet effective or adopted

There are a number of IFRSs, amendments and interpretations that have been issued by the International Accounting Standards Board that are effective for financial statements after this reporting period.

The Met Office has not adopted any of these revised standards early and none are anticipated to have a future material impact on the financial statements of the Met Office.

In addition details of changes to the FReM, which will be applicable for accounting periods beginning on 1 April 2017 are available here from HM Treasury:

<https://www.gov.uk/government/collections/government-financial-reporting-manual-frem>

None of these changes to the FReM are anticipated to have a future material impact on the financial statements of the Met Office.

Critical accounting policies and key judgements

Valuation of property, plant and equipment

All property, plant and equipment are carried at fair value. In arriving at fair value a number of methods are used dependent on the nature of the asset.

Freehold land and buildings

Freehold land and buildings in continuing use are revalued by qualified valuers every five years, in accordance with the Practice Statements and Guidance Notes set out in the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors. Valuations are based on fair values for existing use from market-based evidence, except where the asset is considered specialised. These are assets where due to their location and/or specification, market-based evidence is either not available or does not reflect the full characteristics of the asset. Specialised assets are valued on the basis of depreciated replacement cost.

The quinquennial valuations are supplemented by a 'desk-based' review carried out by a qualified valuer for the Exeter headquarters building and for other assets by annual indexation using the following indices:

- Specialised property assets - Building tender price index and residential land value index
- Non-specialised property assets - Gross Domestic Product Deflator Index

Plant and equipment

Assets classified as plant and equipment assets are revalued annually using the Gross Domestic Product Deflator Index. Assets classed as Information Technology use historical cost as a proxy for fair value due to the shorter lives of these assets.

Depreciation on revaluation

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset.

EUMETSAT satellite data

The UK is a member of EUMETSAT and the Met Office, as the UK National Meteorological Service, has the right to receive all EUMETSAT data, products and services to fulfil its official duty. The Met Office uses the data to generate its weather forecasts and climate predictions used to deliver services to its customers.

Contributions other than research and development on programmes to date is capitalised and, once operational data are received, revalued annually at the lower of depreciated replacement cost (DRC) and value in use.

The value in use calculation measures the expected future cashflows generated from the use of EUMETSAT satellite data and discounts this at an appropriate rate to determine a value that will be generated from the use of the data.

EUMETSAT satellite data assets are amortised using the straight-line method to allocate the costs of the programmes over their estimated useful lives. This method reflects the principle that the economic benefit of satellite data remains constant between individual satellites.

The Meteosat Second Generation programme is estimated to remain as the primary geostationary programme until March 2022 and is valued at depreciated replacement cost.

The European Polar Satellite Programme is estimated to remain as the primary polar programme until December 2020 and is valued at value in use. The UK contribution to the cost of developing the Meteosat Third Generation and European Polar Second Generation programmes are capitalised but are not depreciated until they become operational programmes.

Computer software and software licences

Assets classed as computer software or software licences use historical cost as a proxy for fair value due to the shorter lives of these assets.

Capital grants

Grant funded property, plant and equipment assets are capitalised at their fair value on receipt. Where the donor has imposed a condition on how the future economic benefits embodied in the grant are to be consumed, the grant is deferred within liabilities and is carried forward to future financial years to the extent that the condition has not yet been met. This will usually result in the grant being deferred until the asset is completed and in active use. The grant is then released to the income statement to match depreciation costs associated with the asset.

Where no condition is imposed, the grant is recognised immediately in the income statement. Grant-funded assets are otherwise accounted for in the same way as other property, plant and equipment.

Key accounting policies

Revenue

Revenue comprises the accrued value of services (net of VAT) supplied to the private sector, Government departments and the wider public sector. Revenue is recognised in accordance with the substance of the customer's contractual arrangements and to the extent that the Met Office has performed or partially performed its contractual obligations. Where payments received from customers are greater than the revenue recognised under the contract, the amount in excess of the revenue recognised is treated as deferred income and included within trade and other payables. Where revenue is recognised as contract activity progresses and subject to the contractual arrangements, revenue is accrued. To the extent that the revenue is in advance of an invoice being raised, the amount is shown as accrued income within trade and other receivables.

Operating segments

The operating segments are reported based on financial information provided to the Met Office Executive. The Met Office Executive is considered to be the "Chief Operating Decision Maker" and is responsible for allocating resources and assessing the performance of the operating segments. Each segment has a senior manager who is responsible to the Chief Operating Decision Maker for the operating activities, financial results, forecasts and plans of their respective segments.

The Met Office has two reportable business segments: Government Services and Business Group. Both operating segments derive their revenue from the provision of weather and climate services. The Met Office derives over 80% of its revenue from public sector bodies. No operating segments have been aggregated to form the reportable segments.

The Met Office's management evaluates performance of the segments based on segment revenue and operating profit. Operating profit is further evaluated between that generated from activities falling within or outside the total and Business Group profit Key Performance Indicators.

Research and development

The Met Office receives funding for a variety of research and development activities. This funding is treated as revenue attributable to the relevant business programme. Externally funded research and development costs are recognised based on the stage of completion of the project. Related revenues are recognised on an equivalent basis and in accordance with the revenue recognition policy outlined above.

All research expenditure is charged to the income statement. Development expenditure is recognised in the income statement in the period in which it is incurred unless it is probable that economic benefits will flow to the Met Office from the asset being developed, the cost of the asset can be reliably measured and technical feasibility can be demonstrated. Where these criteria are met it is capitalised as an intangible asset.

Retirement benefits

Met Office staff are covered by civil service pensions arrangements. These are unfunded multi-employer defined benefit schemes. However, since the Met Office is unable to identify its share of the underlying assets and liabilities they are accounted for as defined contribution schemes. Contributions are paid at rates determined from time to time by the scheme's actuary. The scheme actuary (Aon Hewitt Limited) conducted a full actuarial valuation as at 31 March 2012. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservicepensionscheme.org.uk). Full provision for early retirements is normally made in the year of retirement.

Property, plant and equipment

Recognition

Plant, equipment and information technology expenditure is capitalised where the useful life exceeds three years and the cost of acquisition and installation exceeds £5,000 (excluding VAT). Networked minor computers and related equipment, which individually do not meet the criteria, have also been capitalised.

Certain meteorological equipment installed in commercial aircraft or at sea is not capitalised as it is outside the direct control of the Met Office and has an uncertain operational life.

Depreciation

Freehold land, assets in the course of construction and assets held for sale are not depreciated. Depreciation on other assets is calculated to write-off the cost, or value, by equal instalments over the asset's estimated useful life.

The lives assigned to the principal categories of assets are as follows:

Freehold buildings	Not exceeding 50 years
Plant and equipment	3-30 years
Fixtures and fittings (inc. leasehold improvements)	5-25 years
Information technology	3-12 years

Intangible assets

Computer software and licences

Where computer software forms an integral part of any hardware equipment (e.g. an operating system) this is capitalised under the hardware asset as a tangible asset. Computer software and licences are capitalised where the useful life exceeds three years and the cost of acquisition and installation exceeds £5,000 (excluding VAT). Amortisation is calculated using the straight-line method to allocate the cost of software and licences over their estimated useful lives of three to five years.

Impairment of non-financial assets

When an impairment test is performed, the recoverable amount is assessed by reference to the higher of the net present value of the expected future cash flows (value in use) of the relevant asset and the fair value less cost to sell.

Financial assets

Trade and other receivables

Financial assets within trade and other receivables are initially recognised at fair value, which is usually the original invoiced amount, and are subsequently carried at amortised cost less provisions made for doubtful receivables. Provisions are made specifically where there is evidence of a risk of non-payment, taking into account ageing, previous losses experienced and general economic conditions.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and current balances with banks and qualifying institutions, which are readily convertible to cash and are subject to insignificant risk of changes in value and have an original maturity of three months or less. Cash also includes any surplus funds held by EUMETSAT that are attributable to the Met Office.

Impairment of financial assets

The Met Office assesses at the end of each reporting period whether a financial asset or group of financial assets are impaired. Where there is objective evidence that an impairment loss has arisen on assets carried at amortised cost, the carrying amount is reduced with the loss being recognised in the income statement. The impairment loss is measured as the difference between that asset's carrying amount and the present value of estimated future cash flows.

Financial liabilities

Trade and other payables

Financial liabilities within trade and other payables are initially recognised at fair value, which is usually the original invoiced amount, and subsequently carried at amortised cost.

Borrowings

Borrowings are recognised initially at the proceeds received. After initial recognition, financial liabilities are subsequently measured at amortised cost using the effective interest method. The substance of a financial instrument, rather than its legal form, governs its classification on the Met Office's Statement of Financial Position.

Derivative financial instruments and hedge accounting

The Met Office uses derivative financial instruments such as foreign currency contracts to hedge the risks associated with changes in foreign exchange rates in relation to amounts payable to certain international bodies.

The payments are in respect of annual subscriptions and contributions, including payments for satellite programmes. The Met Office policy is to buy forward foreign currency for payments to international bodies as soon as amounts can be reliably estimated. The use of financial derivatives is governed by the Met Office's hedging strategy, approved by the Met Office Executive, which provides written principles on the use of financial derivatives consistent with the Met Office's risk management strategy. There is no trading activity in derivative financial instruments.

All the Met Office's derivative financial instruments are designated as cash flow hedging instruments. At the start of a hedging transaction, the Met Office documents the relationship between the hedged item and the hedging instrument together with its risk management objective and the strategy underlying the proposed transaction. The Met Office also documents its assessment, both at the start of the hedging relationship and on an ongoing basis, of the effectiveness of the hedge in offsetting movements in the cash flow of the hedged items.

To the extent that the hedge is effective, changes in the fair value of the hedging instrument arising from the hedged risk are recognised directly in other comprehensive income rather than in the income statement. The ineffective portions of any gain or loss on the hedging instrument are recognised in the income statement.

Derivative financial instruments are initially measured at fair value on the contract date and are remeasured to fair value at subsequent reporting dates.

Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease. Rents for those leasehold properties and vehicles which are held under operating leases are charged against profits.

The Met Office does not hold any assets under finance leases.

Capital and reserves

Public dividend capital

Public dividend capital represents the capital invested by the Ministry of Defence in the Met Office on becoming a Trading Fund on 1 April 1996. Following a Machinery of Government change during 2011/12, the public dividend capital held by the Ministry of Defence was transferred to the Department for Business, Innovation and Skills. In 2016 the Department for Business, Energy and Industrial Strategy was created from the Department for Business, Innovation and Skills and the Department of Energy and Climate Change. Public Dividend Capital is not an equity instrument as defined in IAS 32 Financial Instruments: Presentation.

General reserve

The general reserve represents the cumulative retained net income (after dividends) since the Met Office became a Trading Fund.

Revaluation reserve

The revaluation reserve reflects the unrealised element of the cumulative balance of indexation and revaluation adjustments to assets. Increases arising on revaluation are taken to the revaluation reserve. A revaluation decrease is charged to the Revaluation Reserve to the extent that there is a balance on the reserve for the asset and, thereafter, to the income statement.

Hedging reserve

The hedging reserve represents hedging gains and losses recognised on the effective portion of cash flow hedges.

02 Operating segments

The Met Office has two reportable business segments: Government Services and Business Group. These are disclosed to enable the users of these financial statements to evaluate the nature and financial effects of the Met Office's business activities. Both operating segments derive their revenue from the provision of weather and climate services. The Met Office derives over 80% of its revenue from public sector bodies. No operating segments have been aggregated to form the above reportable segments.

Each segment has a Director who is responsible to the Chief Executive for the operating activities, financial results, forecasts and plans of their respective segments.

The Met Office's management evaluates performance of the segments based on segment revenue and operating profit.

Year ended 31 March 2017					
	Revenue	Depreciation/ amortisation & impairments	Total	Interest receivable	Interest payable
Operating segment:	£'000	£'000	£'000	£'000	£'000
Government Services	194,790	22,139	17,206		
Business Group	24,160	732	21		
	218,950	22,871	17,227		
Other	7,877		(12,288)	122	(636)
Total per financial statements	226,827	22,871	4,939	122	(636)
Year ended 31 March 2016					
	Revenue	Depreciation/ amortisation	Total	Interest receivable	Interest payable
Operating segment:	£'000	£'000	£'000	£'000	£'000
Government Services	197,385	29,208	18,250		
Business group	25,454	1,117	4,092		
	222,839	30,325	22,342		
Other	4,641		(13,541)	167	(322)
Total per financial statements	227,480	30,325	8,801	167	(322)

Revenue includes £1,951,000 of income derived from EU contracts (2015/16 £1,448,000).



Government Services

The Met Office provides a range of services to other public sector bodies including Government departments and agencies. These services are gained either on a competed or non-competed basis.

The majority of the Met Office's non-competed services relate to the Met Office's public task, its role as the UK's National Meteorological Service and its support of the Ministry of Defence and other Government departments in respect of weather and climate related services. Where data or products are required for Met Office's commercial services which are not part of the Met Office's public task or the public task of other public bodies, they are supplied internally within the Met Office on the same terms and conditions as apply to external customers.

Business Group

The Met Office also provides a wide range of competed weather and climate related services to many private and public sector customers. This business is secured on a competed basis, with revenue streams being derived from a number of different sectors including transport, energy, industry, infrastructure and media.

The operating profit derived from this competed business is monitored through the Business Group profit KPI.

Government services are further analysed by revenue stream as follows:

	2016/17	2015/16
	£'000	£'000
Defence	29,794	31,192
Government Strategic Sectors	51,137	47,505
Public Weather Service	113,859	118,688
	194,790	197,385

Geographical analysis

All revenue reported above is derived from external customers. There is no inter-segment revenue. More than 80% of Met Office revenue is derived from UK sources. The Met Office Executive does not review the business on a geographical basis. A geographical analysis would not be necessary to aid users' understanding of these financial statements.

Other

This line comprises items that are not part of the Met Office's operating segments but are required to reconcile to the income statement. It includes corporate items which are not allocated to operating segments, such as the cost of Met Office wide initiatives or capabilities that underpin all activities, interest receivable and payable. These items are managed at a corporate level. 2016/17 also includes £4.5m of revenue and costs allocated from Public Weather Service funding for the Transformation and Efficiency programme.

No measure of assets or liabilities by segment are reported to the Chief Executive. Assets and liabilities are reported at a total corporate level and managed on that basis.

03 Operating costs

		2016/17	2015/16
	Note	£ '000	£ '000
Staff costs			
Salaries, performance-related pay and allowances		83,822	81,279
Social security		8,569	6,408
Pension contributions		15,135	15,067
Early retirement and exit costs		4,096	116
Temporary/agency labour costs		5,744	7,434
Total staff costs		117,366	110,304
Equipment and services (net of government grant income)		47,521	43,196
International services and subscriptions	(i)	13,839	15,266
Depreciation (net of government grant income)		9,115	10,078
Amortisation		13,729	19,327
Accommodation		13,531	12,704
Travel and subsistence		4,832	5,218
Other operating costs		1,955	2,586
Total operating costs		221,888	218,679
Operating costs include the following:			
Audit fees		58	58
Operating leases - plant and machinery		217	219
Operating leases - other		952	991
Foreign currency losses		(117)	(126)
Net loss on disposal of non-current assets		11	97
Loss on revaluation of property, plant and equipment		65	-
Impairment of property, plant and equipment		-	920
Release of government grant income	(ii) 12	(10,970)	(6,065)
Research and development expenditure		51,562	53,692
(i) International services and subscriptions includes the following:		2016/17	2015/16
European Organisation for the Exploitation of Meteorological Satellites (EUMETSAT)		3,279	4,874
European Centre for Medium-Range Weather Forecasts (ECMWF)		6,860	6,734
World Meteorological Organization (WMO)		2,281	2,352
Network of European Meteorological Services (EUMETNET)		775	795
Other international services and subscriptions		644	511
		13,839	15,266
<p>Membership of these organisations enables the Met Office, on behalf of the UK, to engage in and benefit from, the European meteorological satellite programme and to receive support in its provision of medium-range weather forecasts and associated research. Membership also enables the Met Office, on behalf of the UK, to promote and benefit from co-operations between members in the exchange of observational data and forecasts, together with a widening range of environmental programmes.</p>			
(ii) Government grants are analysed as follows:		2016/17	2015/16
BEIS new supercomputer		9,498	3,226
BEIS polar satellite transfer		653	928
DECC supercomputer		-	578
Defra supercomputer		19	487
Department for Transport LIDAR project		572	441
NERC supercomputer		58	176
Environment Agency Weather Radar Network Renewal		170	229
		10,970	6,065

04 Finance income

	2016/17	2015/16
	£ '000	£ '000
Interest receivable	122	167
Total finance income	122	167

05 Interest payable and similar charges

		2016/17	2015/16
	Note	£ '000	£ '000
On Department for Business, Energy and Industrial Strategy loans repayable within five years	13	507	327
Discounting of provisions		129	(5)
Total interest payable and similar charges		636	322

06 Property, plant and equipment

The movements in each class of assets were:

	Land and buildings	Fixtures and fittings	Plant and equipment	Information technology	Assets under construction	Total
	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000
Cost or valuation:						
At 1 April 2016	67,389	14,870	74,840	72,904	15,957	245,960
Additions	-	739	3,454	38,558	8,344	51,095
Transfers	19,427	328	2,579	1,094	(23,428)	-
Disposals	(22)	(5,343)	(1,429)	(11,794)	-	(18,588)
Revaluation	(8,242)	187	1,714	-	-	(6,341)
At 31 March 2017	78,552	10,781	81,158	100,762	873	272,126
Depreciation:						
At 1 April 2016	369	9,287	37,074	28,565	-	75,295
Charged during year	1,510	787	3,885	12,609	-	18,791
Transfers	(60)	-	60	-	-	-
Impairment	-	-	-	-	-	-
Disposals	(6)	(5,332)	(1,207)	(11,667)	-	(18,212)
Revaluation	(1,813)	77	938	-	-	(798)
At 31 March 2017	-	4,819	40,750	29,507	-	75,076
Net book value:						
At 1 April 2016	67,020	5,583	37,766	44,339	15,957	170,665
At 31 March 2017	78,552	5,962	40,408	71,255	873	197,050

Property, plant and equipment (continued)

	Land and buildings	Fixtures and fittings	Plant and equipment	Information technology	Assets under construction	Total
	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000
Cost or valuation:						
At 1 April 2015	66,963	13,998	75,174	54,081	4,849	215,065
Additions	6	392	87	41,227	14,485	56,197
Transfers	-	463	493	2,421	(3,377)	-
Disposals	-	(12)	(702)	(24,825)	-	(25,539)
Revaluation	420	29	(212)	-	-	237
At 31 March 2016	67,389	14,870	74,840	72,904	15,957	245,960
Depreciation:						
At 1 April 2015	271	8,592	32,883	44,294	-	86,040
Charged during year	1,615	690	3,972	9,075	-	15,352
Impairment	-	-	920	-	-	920
Disposals	-	(12)	(597)	(24,804)	-	(25,413)
Revaluation	(1,517)	17	(104)	-	-	(1,604)
At 31 March 2016	369	9,287	37,074	28,565	-	75,295
Net book value:						
At 1 April 2015	66,692	5,406	42,291	9,787	4,849	129,025
At 31 March 2016	67,020	5,583	37,766	44,339	15,957	170,665

(i) All land and buildings are held as freehold. The net book value of freehold land and buildings includes £12.2 million of freehold land (31 March 2016 £9.1m) which has not been depreciated. Freehold buildings are depreciated in full over their estimated lives (not exceeding 50 years).

(ii) The freehold assets which comprise the Met Office's property portfolio were subject to a quinquennial valuation for financial reporting purposes in 2016/17 (values at at 31 March 2017), in accordance with the RICS Valuation Standards (6th Edition) by external valuers the Valuation Office Agency, who are regulated by the RICS.

(iii) The basis of valuation adopted is Existing Use Value as defined in the Standards. In carrying out the valuation, a number of the assets were identified as specialised as a result of their location and/or specification. As a result they are considered to be assets which would rarely, if ever, sell on the open market. For these assets the Depreciated Replacement Cost methodology has been used. The sources of information and assumptions made in producing the various valuations are set out in the valuation report.

(iv) For further details of valuation and depreciation assumptions refer to Note 1 Accounting policies.

(v) The following amounts are included above for the new supercomputer:

	£ '000
Land and buildings	18,939
Information technology	65,107
Total	84,046

The assets are funded by capital grant.

07 Intangible assets

	EUMETSAT satellite data	Computer software	Software licences	EUMETSAT payments on account	CRC licences	Assets under construction	Total
	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000
Cost or valuation:							
At 1 April 2016	341,139	2,931	876	58,031	1,240	653	404,870
Additions	9,032	445	47	30,187	-	116	39,827
Transfers	-	769	-	-	-	(769)	-
Disposals	-	(944)	(30)	-	(292)	-	(1,266)
Revaluation	12,758	-	-	-	-	-	12,758
At 31 March 2017	362,929	3,201	893	88,218	948	-	456,189
Amortisation:							
At 1 April 2016	312,872	1,895	547	-	-	-	315,314
Charged during year	13,752	536	94	-	-	-	14,382
Disposals	-	(903)	(28)	-	-	-	(931)
Revaluation	11,141	-	-	-	-	-	11,141
At 31 March 2017	337,765	1,528	613	-	-	-	339,906
Net book value:							
At 1 April 2016	28,267	1,036	329	58,031	1,240	653	89,556
At 31 March 2017	25,164	1,673	280	88,218	948	-	116,283

	EUMETSAT satellite data	Computer software	Software licences	EUMETSAT payments on account	CRC licences	Assets under construction	Total
	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000
Cost or valuation:							
At 1 April 2015	327,649	2,641	598	38,123	936	-	369,947
Additions	12,081	290	278	19,908	304	653	33,514
Disposals	-	-	-	-	-	-	-
Revaluation	1,409	-	-	-	-	-	1,409
At 31 March 2016	341,139	2,931	876	58,031	1,240	653	404,870
Amortisation:							
At 1 April 2015	292,808	1,548	431	-	-	-	294,787
Charged during year	18,908	347	116	-	-	-	19,371
Disposals	-	-	-	-	-	-	-
Revaluation	1,156	-	-	-	-	-	1,156
At 31 March 2016	312,872	1,895	547	-	-	-	315,314
Net book value:							
At 1 April 2015	34,841	1,093	167	38,123	936	-	75,160
At 31 March 2016	28,267	1,036	329	58,031	1,240	653	89,556

(i) The EUMETSAT satellite data intangible asset represents the value of all EUMETSAT observational data used in generating Met Office forecasts. This principally includes data from both the Meteosat geostationary satellite and polar orbiting satellite and the Met Office, as the UK's National Meteorological Service, has the right to access and use this data to generate its weather forecasts and climate predictions in fulfilling its Public Task. The Met Office makes contributions on behalf of the UK to EUMETSAT's programmes.

(ii) EUMETSAT payments on account represent the contributions made by the Met Office, on behalf of the UK, to the Meteosat Third Generation satellite programme. This programme is currently in the build phase and is not expected to provide operational data until 2020 at the earliest.



08 Inventories

	31 March 2017	31 March 2016
	£ '000	£ '000
Meteorological equipment	1,530	1,456
Reserve equipment	26	18
Consumable stores	43	35
Total inventories	1,599	1,509

09 Trade and other receivables

		31 March 2017	31 March 2016
	Note	£ '000	£ '000
Amounts falling due within one year:			
Trade receivables		23,707	20,948
Less: provision for impairment of receivables		(37)	(52)
		23,670	20,896
Other receivables	(i)	250	319
Accrued income	(ii)	7,694	5,875
Prepayments		20,130	19,042
Total trade and other receivables		51,744	46,132

The carrying amount of receivables and current assets is a reasonable approximation to fair value.

(ii) Accrued income includes £568,000 relating to EU funding (£667,000 at 31 March 2016).

(i) Other receivables include staff loans totalling £250,000 to 82 employees predominantly in respect of housing advances on relocation and a cycle to work scheme (£319,000 and 104 employees at 31 March 2016)

10 Cash and cash equivalents

		31 March 2017	31 March 2016
	Note	£ '000	£ '000
Balance at 1 April		58,260	56,861
Net change in cash and cash equivalent balances	17	6,876	1,399
Balance at 31 March		65,136	58,260
The following balances at 31 March were held at:			
UK Debt Management Office, HM Treasury		62,901	54,500
EUMETSAT working capital fund		474	540
Total cash held on short-term deposit		63,375	55,040
Cash held at commercial banks and in hand		1,761	3,220
Balance at 31 March		65,136	58,260

Included in the above amounts is cash in transit of £463,000 (2015/16 - £3,148,000).

The Met Office holds four Euro bank accounts, in which there were amounts totalling £367,000 at 31 March 2016 belonging to third parties (31 March 2016, four accounts totalling £635,000). They are held or controlled for the benefit of third parties on projects where the Met Office is the lead co-ordinator and are not included in Met Office cash balances or accounts.

The Met Office Board has ring-fenced £5 million of the cash balances held at the UK Debt Management Office to meet the costs of any claims covered by the Met Office's decision to self-insure against professional indemnity claims.

11 Trade and other payables

		31 March 2017	31 March 2016
	Note	£ '000	£ '000
Amounts falling due within one year			
Trade payables		1,604	666
VAT		5,403	2,780
Other taxation and social security		3,567	3,505
Accruals		20,224	19,949
Dividend payable		4,000	500
Deferred income		16,979	14,713
Government grants	12	17,366	1,005
Total amounts falling due within one year		69,143	43,118
Amounts falling due after more than one year			
Government grants	12	73,831	54,162
Total non-current trade and other payables		73,831	54,162
Total trade and other payables		142,974	97,280

12 Government grants

		31 March 2017	31 March 2016
	Note	£ '000	£ '000
Government grants at 1 April		55,167	11,232
Grants received in year		47,000	50,000
Grants recognised through the statement of comprehensive income	3	(10,970)	(6,065)
Government grants at 31 March		91,197	55,167
Amounts falling due within one year		17,366	1,005
Amounts falling due after more than one year		73,831	54,162
The following balances are included in Government grants:			
BEIS new supercomputer		84,274	46,772
BEIS polar satellite transfer		2,964	3,617
Environment Agency Weather Radar Network Renewal (WRNR)	3	2,531	2,701
Department for Transport lidar project		1,428	2,000
Other Government grants		-	77
		91,197	55,167

The WRNR grants are repayable in full to the Environment Agency should the Met Office not deliver the agreed WRNR programme.

13 Borrowings

Loans from the Department for Business, Energy and Industrial Strategy repayable by instalments and bearing interest between 2.81% and 1.80% per annum.

	31 March 2017	31 March 2016
	£ '000	£ '000
Loans due within:		
One year	3,552	2,370
One to five years	15,004	8,657
Over five years	15,277	8,831
Total	33,833	19,858

14 Derivative financial instruments

The following table details the forward purchase currency contracts outstanding at the year end:

	Assets	Liabilities	Total
	£ '000	£ '000	£ '000
As at 31 March 2016	4,947	343	4,604
Movement on fair value	(71)	(147)	76
As at 31 March 2017	4,876	196	4,680
Analysed between:			
Current	4,696	196	
Non-current	180	-	
	4,876	196	

The following table details the forward purchase currency contracts outstanding at the year end:

Contract maturity date	Commitment hedged	Foreign currency	Foreign currency value	Contract value	Forecast spot rate on maturity	Fair value (discounted)	Assets	Liabilities
			'000	£ '000	Currency/£	£ '000	£ '000	£ '000
02 May 17	EUMETSAT	EURO	24,200	17,594	1.1629	3,213	3,213	-
01 September 17	EUMETSAT	EURO	10,400	7,608	1.1594	1,358	1,358	-
02 May 17	EUMETSAT	EURO	2,300	2,081	1.1629	(103)	-	103
01 September 17	EUMETSAT	EURO	2,000	1,815	1.1594	(90)	-	90
17 January 18	EUMETSAT	EURO	25,900	22,296	1.1551	125	125	-
02 May 18	EUMETSAT	EURO	26,500	22,879	1.1519	125	125	-
05 January 18	WMO	CHF	3,000	2,439	1.2317	(3)	-	3
04 September 18	EUMETSAT	EURO	12,400	10,747	1.1594	55	55	-
				87,459		4,680	4,876	196

Forecast spot rates are provided by the Debt Management Office of HM Treasury.

Forecast fair values are discounted at 0.7% based on rates provided by HM Treasury.

All cash flow hedges are in respect of forecast transactions. In line with IAS 39, gains or losses on effective cash flow hedges are held in equity; material gains or losses relating to the ineffective portion of the hedge will be recognised in the Income Statement when the forecast transaction occurs.

15 Provisions for liabilities and charges

	Early retirement and exits	Dilapidations	Leaseholds	Other	Total
	£ '000	£ '000	£ '000	£ '000	£ '000
Balance at 1 April 2015	121	266	426	-	813
Provided/(written back) in the year	17	55	(13)	3,400	3,459
Unwinding of discount	1	(2)	(4)	-	(5)
Change in discount rate	-	-	-	-	-
Utilised in year	(67)	-	(42)	-	(109)
Balance at 31 March 2016	72	319	367	3,400	4,158
Provided/(written back) in the year	3,733	28	-	5,915	9,676
Unwinding of discount	2	5	18	39	64
Change in discount rate	-	-	-	-	-
Utilised in year	(14)	(178)	(56)	-	(248)
Balance at 31 March 2017	3,793	174	329	9,354	13,650
Discount rate 2015/16	1.37%	-1.55%	-1.55%	-1.55%	
Gross provision before discount as at 31 March 2016	75	316	357	3,348	
Discount rate 2016/17	0.24%	-2.70%	-2.70%	-2.70%	
Gross provision before discount as at 31 March 2017	3,886	166	300	9,108	

(i) The Early Retirement and Exit Provision represents the outstanding liability for pension and severance costs. For staff offered early retirement, the provision represents the full cost of meeting each individual's pension payments to normal retirement age. There is some uncertainty on timing and amounts of payments relating to amounts provided in-year where final exit terms have not yet been agreed with affected staff.

(ii) The Dilapidations Provision relates to contractual future costs of making good leasehold properties when they are vacated. Discounting has been applied where payments are due in more than one year. There is no uncertainty as to the timing of amounts but the final amounts may change during final negotiations with the relevant landlord at the end of the lease.

(iii) The Leaseholds Provision is principally in respect of future cost of leasehold properties, which became surplus to requirements on relocation to Exeter.

(iv) Other provisions relate to costs associated with ongoing legal disputes - further information is not provided to avoid prejudicing resolution of those disputes.

(v) Amounts due under the Carbon Reduction Energy Efficiency Scheme are now included as accruals within Trade Payables, due to greater certainty over the amount and timing of payments.

The commitments provided for fall due in the following periods:

	Early retirement	Dilapidations	Leaseholds	Other	Total
	£ '000	£ '000	£ '000	£ '000	£ '000
Amounts payable within:					
Under one year	3,762	116	55	9,354	13,287
One to five years	14	58	219	-	291
Over five years	17	-	55	-	72
Total	3,793	174	329	9,354	13,650



16 Related parties

The Met Office's parent department is the Department for Business, Energy and Industrial Strategy (BEIS). BEIS is considered to be a related party and, during the year, the Met Office had material transactions with BEIS and with other entities for which BEIS is regarded as parent department. In addition, the Met Office had material transactions with a number of other public bodies, Government departments and their agencies, principally the Department for Environment, Food and Rural Affairs, the Cabinet Office, the Civil Aviation Authority, the Maritime and Coastguard Agency, the Environment Agency, the British Broadcasting Corporation and the Natural Environment Research Council. None of the Met Office Board members, key managerial staff or other related parties undertook any material transactions with the Met Office during the year.

R Varley, through his capacity as Met Office Chief Executive, is a Council / General Assembly / Executive Committee member of the following organisations: EUMETSAT, ECMWF, WMO and ECOMET. He is also President of EUMETNET and Chair of its General Assembly. The Met Office has had material transactions with these entities and these are disclosed in Note 4(ii) to the financial statements. There are no outstanding balances with these organisations as at 31 March 2017 (2016 - nil).

M Harrison and G Turnock acted as Met Office Non-Executive Directors during the year and are also employees of our owning department (BEIS).

17 Notes to the cash flow statement

Reconciliation of cash and cash equivalents to movement in net funds

	At 1 April 2016	Cash flows	At 31 March 2017
	£ '000	£ '000	£ '000
Cash at bank and in hand	3,220	(1,459)	1,761
Cash on deposit	55,040	8,335	63,375
Cash and cash equivalents	58,260	6,876	65,136
Borrowings due within one year	(2,370)	(1,182)	(3,552)
Borrowings due after one year	(17,488)	(12,793)	(30,281)
Total net funds	38,402	(7,099)	31,303

18 Commitments under operating leases

Total future minimum lease payments under operating leases are given in the table below for each of the following periods.

	Land and buildings		Other	
	31 March 2017	31 March 2016	31 March 2017	31 March 2016
	£ '000	£ '000	£ '000	£ '000
Leases expiring within:				
One year	691	702	185	93
One to five years	848	1,040	302	223
Over five years	766	964	-	-
Total	2,305	2,706	487	316

19 Capital commitments

	31 March 2017	31 March 2016
	£ '000	£ '000
Contracted but not provided for:		
Supercomputer	-	43,563
Information technology	189	196
Observations equipment	248	813
Property works	97	274
Contributions for satellite data	27,914	25,092
Total	28,448	69,938

The commitment for satellite data represents the unpaid portion of the UK approved contribution to EUMETSAT programmes for the current calendar year.

20 Contingent liabilities

As at 31 March 2017, the Met Office had contingent liabilities relating to ongoing legal disputes. The total value of these liabilities is highly uncertain and further information is not disclosed to avoid prejudicing their outcome.

21 Financial instruments and financial risk management

The Met Office's treasury operations are governed by the Met Office Trading Fund Order 1996, under the Government Trading Funds Act 1973 as supplemented by the Met Office's Framework Document. The Met Office's financial instruments comprise cash deposits, receivables, payables, loans and foreign currency forward exchange contracts. The main purpose of these financial instruments is to finance the Met Office's operations. The Met Office has limited powers to borrow or invest surplus funds. The main risks arising from the Met Office's financial instruments are foreign currency, liquidity and interest rate risks. The Met Office's policies for managing these risks are set to achieve compliance with the regulatory framework including the rules contained within Managing Public Money.

Credit risk

The Met Office is subject to some credit risk. The carrying amount of trade receivables, which is net of impairment losses (bad debt provision), represents the Met Office's maximum exposure to credit risk. Trade and other receivables consist of a large number of diverse government and non-government customers spread over a diverse geographical area.

Receivables are impaired where there is sufficient knowledge to indicate that recovery is improbable including the probability that customers will enter bankruptcy or financial reorganisation, that the customer is facing financial difficulties or that economic conditions are likely to lead to non-payment. The following provides details of trade receivables beyond the due date and impairments made:

	As at 31 March 2017			As at 31 March 2016		
	0-3 months	3-6 months	Over 6 months	0-3 months	3-6 months	Over 6 months
	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000
Trade receivables beyond the due date:						
Receivables beyond the due date - not impaired	1,000	5	3	1,047	3	(2)
Receivables beyond the due date - impaired	8	4		4	3	7
Total receivables beyond the due date	1,008	9	3	1,051	6	5

Liquidity risk

The Met Office maintains short-term liquidity throughout the year by management of its cash deposits. The Met Office aims to maintain cash levels to allow it to meet its short-term obligations. The Met Office follows Treasury rules by investing all surplus funds on deposit with the UK Debt Management Office at HM Treasury.

Under the Met Office Trading Fund Order and Framework Document, the sole provider of loan funding is the Met Office's sponsor department, BEIS. Therefore, exposure to liquidity risk is limited to these arrangements. Loan funding requirements are anticipated to increase over forthcoming years to finance the UK contribution to the EUMETSAT satellite programme, and additional supercomputing investment, in line with our corporate plan.

Foreign currency risk

The Met Office makes significant foreign currency payments for subscriptions and contributions to international meteorological organisations including payments for satellite programmes. These costs are funded by the Public Weather Service.

In order to manage foreign exchange risk the Met Office policy is to buy forward foreign currency for payments to international bodies as soon as amounts can be reliably estimated. The forward currency contracts are in hedging relationships under IAS 39 and the Met Office has elected to adopt IAS 39 hedge accounting rules.

Details of forward contracts held can be found in note 14.

£13 million of expenditure was undertaken in foreign currencies which are not funded through the forward purchase contracts.

Interest rate risk

The Met Office finances its operations through retained profits. Amounts retained in the business but surplus to immediate requirements are deposited in short-term interest-bearing accounts with the UK Debt Management Office at HM Treasury. The Met Office may also be funded by additional monies from its sponsor department to fund specific strategic requirements.

Details of cash on deposit are included in note 10. The fair values of cash and cash equivalents approximate to book value due to their short maturities.

Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial instrument, are disclosed in Note 1 to the financial statements.

22 Authorisation of accounts

The accounts were authorised for issue on the date the accounts were certified by the Comptroller and Auditor General.





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