

Annual Report and Accounts

2001/2



An Executive Agency of the Ministry of Defence

Annual Report and Accounts 2001/2

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Vision

Through unrivalled know-how, to enable individuals, society and enterprises everywhere to make the most of the weather and the natural environment

Goals

- To lead the world in advice on the weather and the natural environment
- To make the Met Office a source of pride to our staff, our owner and the public

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Vision and goals

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Introduction

This report

Think of our business as a process. Very simply, it starts with the gathering of observations, then moves on to the processing of these data, and then to the development of new techniques for analysis and presentation. Ultimately it provides you, our customers and stakeholders, with the vital information that saves time, money or lives. Delivering the results in a form you need — whether a TV or radio broadcast, a fax or web page, or a dedicated consultancy — is the final but very important part of this process, helping you achieve your desired outcome.

After we **meet the management team**, our report this year will take you through these stages, summarising the changes made throughout 2001/2. Let's start with the **building blocks** of our success: the data, our basic raw material; the science of how we handle it; and the underpinning world-class research. Then we go **behind the scenes** to see advances in the technology we rely on. The real key to our success, though, is our people — and here we show how we are unlocking this enormous resource of energy. The final stage of the process is really about you, our customers and stakeholders, and how we have helped to **unlock your potential**.

Although intended for the Ministry of Defence (MoD), as our owner, and Parliament, we hope that our report will also be of interest to members of the public. We also produce a related publication — the *Scientific and Technical Review 2001/2* — which informs the worldwide scientific community about our scientific and technical programmes.

For a copy of the *Scientific and Technical Review 2001/2*, please contact our Stakeholder Management Branch — see inside back cover for details. Alternatively, you might like to view all these documents on our web site, www.metoffice.com



Met Office

We are an internationally renowned centre of excellence, providing a wide range of meteorological and environmental services to customers throughout the world.

We were formed in 1854 as a small department within the Board of Trade. Taken under the wing of the Air Ministry just after the First World War, we later moved into the Ministry of Defence. We became an Executive Agency in 1990, and started operating as a trading fund in 1996.

We employ around 2,100 people, over 70% of them scientists. Some 950 staff are spread across more than 80 locations around the UK and overseas. The remainder work at our main offices in Bracknell, Berkshire.

Highlights of 2001/2

- Successfully achieved five out of six key targets
- Achieved £15.1 million of strategic investment
- Began construction of our new building in Exeter
- Supported UK and US armed forces in Afghanistan
- Achieved *Investors in People* re-accreditation
- Launched weatherXchange joint venture
- Opened our Innovation Centre, a place to showcase new ideas
- Unveiled the new WTHR4 mobile phone service

Weather of 2001/2

June — Severe localised storms affected south-west England along the spine of Cornwall. St Mawgan received 51 mm of rain. These events were well forecast.


August — Intense thunderstorms across southern England, with large hailstones and tornadoes reported. Again, we forecasted these storms well.

October — The first of the autumn storms took place on the 7/8th when heavy rain and strong winds swept across England and Wales. Early warnings were issued 24 hours before the storms, though the wet weather had been signalled further ahead.

November — The first cold blast of the winter occurred on the 8/9th. Although this event was not particularly severe, we issued an early warning and press statement.

December — The cold weather up to and over Christmas was well forecast with an early warning for snow and a press release issued for the weekend before Christmas.

January/February — On 28 January, we had stormy conditions over much of the UK. Customers, including bridge operators, were able to take action based on our warnings of the worst weather. This event was given much coverage in the media because of the 12 fatal accidents caused by the high winds, despite the warnings.

February — On 1 February, very strong winds brought a tidal surge to the west coast, along with heavy rain, causing flooding problems. These events were well signalled in advance by early warnings and by press releases. 

Chief Executive's overview

The year 2001 will be a memorable one for us all — the Met Office, our owner the MoD and our many customers. The tragic events of 11 September 2001, and then the subsequent war on terrorism, saw the Met Office at its best, responding to the needs of the MoD and our armed services. This was based on up-to-date contingency plans and displayed our ability to deploy resources rapidly, both at our operations centre and in the field through our Mobile Met. Unit. At the same time, we maintained our activities in support of the fight against foot-and-mouth disease, and successfully forecast the many storms that hit the UK, which brought flooding as well as storm damage to business and domestic properties. Tragically, and in spite of the early and detailed warnings, the new year storms also led to a number of fatalities, raising the question of how to minimise the impact of such events, even when they are forecast well in advance.

In terms of overall business performance, we met five out of six key performance targets. In particular, we made an unprecedented improvement in the Numerical Weather Prediction Index — a measure of our forecasting accuracy — firmly establishing ourselves as the best in the world. We also made further improvements in cost-effectiveness, enabling us to invest some £15 million in future capability (a key element in our strategy) and to pass on some real cost benefits to our customers. Although it was disappointing to miss our commercial contribution target again, we nonetheless made a contribution of £3.3 million from commercial sales to offset the cost to the taxpayer of the Public Met. Service. Finally, in terms of performance, we met over 80% of our Business Plan targets on time and within planned cost.

More widely, our work on climate change — carried out in our Hadley Centre for Climate Prediction and Research — has once again received international prominence and acclaim, particularly in support of the World Meteorological Organization's annual climate assessment and the Intergovernmental Panel on Climate Change's Third Assessment Report. We successfully launched our first joint venture — weatherXchange — which deals in weather derivatives, and we received high praise for our new health forecasting service, which is already saving many hundreds of thousands of pounds in the health service. We also won a number of major contracts for the provision of weather forecasting services to the private sector, including Shell and Granada.

Innovation plays a key role in our development both as Europe's leading national met. service and as a business. It is therefore pleasing to be able to report that we are well on the way to establishing a culture of innovation in the Met Office. Our new Innovation Centre is being well used by our staff,



often in conjunction with our customers. Our first Innovation Awards Ceremony — attended by customers and a representative of the Defence Met. Board — was a great success.

Any report of the past year would be incomplete without mention of our planned relocation to Exeter. I am pleased to be able to report that we signed an agreement with our private-sector partner Stratus in November 2001, and are determined to meet our demanding schedule, which transfers our operations to Exeter by September 2003 and culminates with the last staff moves that December. Thanks to some good weather (well forecast by the Met Office!), site preparations were completed ahead of schedule and the building work is now well under way. There is, encouragingly, increasing excitement among our staff now that progress is visible and many of us are less than a year away from moving. For anyone wishing to keep up with progress, current pictures are available on our web site.

In reporting on our progress, I must acknowledge the vital role played by our people. Although it is something of a cliché to say that people are the most important asset of any business, it is nonetheless true of the Met Office. Our standing among the international science community, our performance in meeting our customers' needs and our success as a business are all ultimately down to the quality and commitment of our people — not just our scientific staff but also the many other technical, professional and support staff. I am therefore pleased to have this opportunity to pay tribute to them all, and to re-affirm our commitment to them, to their training and development and to their well-being, especially over the next 18 months as we move to Exeter. It is also an opportunity to assure our customers that we will do everything possible to ensure that our services to them are not interrupted or degraded during the move.

April 2002 saw the introduction of a new management structure: we moved away from being a 'functionally managed' organisation to a 'process-managed' business. This change will enable senior line managers to take real control of the operational business and to do so from a customer perspective. At the same time, it will allow directors to focus on strategy, business development and performance management. This change ties in with the transition strategy for our move to Exeter and with our approach to ISO 9001 accreditation, both of which have an emphasis on 'process' rather than 'function'.

Last year I said in my overview that the weather business was changing fast. One year on and, if anything, it is changing faster than we expected. Not only has the economic, political and business climate changed, but we are also faced with new challenges, such as European Union data policy and competition policy. However, I am sure that our overall strategy of investment and growth is right, although growth will take longer to come through than originally planned. I am equally sure that our major themes relating to Europe, diversification into the wider natural environment, innovation and exploitation of internet technology are sound. We now need to redouble our efforts to build on our strengths, keeping a firm eye on our vision, goals and strategy, and delivering our plans on time and to cost. Above all, we must continually strive to do better in responding to our customers' needs, especially in offering better value for money. We can and will work with them to give real business benefit, unlocking their potential and, in so doing, ensuring we remain the supplier of choice for all our customers. 🗝️

Meet the management team

Our operations are overseen by the Defence Meteorological Board, which advises the Secretary of State for Defence, our owner. We manage our organisation through quarterly meetings of the Met Office Board and monthly meetings of the Management Committee (from 1 April 2002, we will be managed by a smaller Executive Board comprising the Chief Executive, Chief Scientist, Operations Director, Business Director, Finance Director and Company Secretary).

Board members (see below, clockwise from top left) at 31 March 2002 were:

Peter Ewins, Chief Executive

Roger Hunt, Public Sector Business Director

Colin Flood, Operations Director

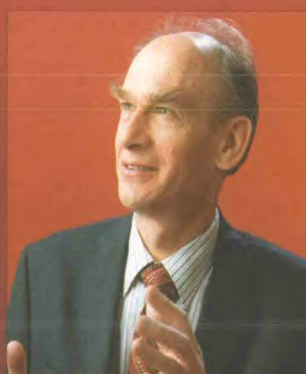
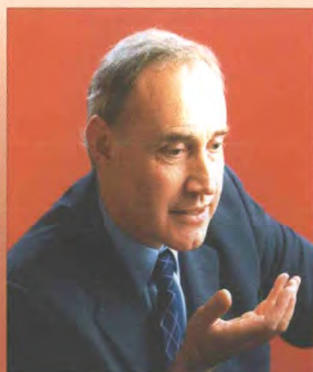
Jim Caughey, Technical Director

Stephen Lawrenson, Managing Director Commercial

Paul Mason, Chief Scientist

Philip Mabe, Finance Director

Martin Sands, Company Secretary



External members

James May, Director-General, UK Offshore Operators Association

Ms Anabel Gammidge, AMEC Border Wind

The Management Committee comprised Board members (excluding external members) plus Steve Noyes, Director of Relocation; John Ponting, Chief Information Officer; Alan Thorpe, Director Climate Research; and Alan Dickinson, Director NWP. In July 2001, David Griggs replaced Alan Thorpe and, in February 2002, Alan Douglas replaced Steve Noyes, who became Director of Core and Defence.

Defence Meteorological Board

The Defence Meteorological Board advises the Secretary of State for Defence, owner of the Met Office. The Board comprises members with relevant scientific and commercial experience, and normally meets four times a year.

Members of the Defence Meteorological Board at 31 March 2002 were:

Ian CF Andrews CBE TD, Second Permanent Under Secretary, MoD
(replaced Sir Roger Jackling KCB CBE in March 2002)

Prof. Sir Keith O'Nions, Chief Scientific Adviser, MoD

Mr Richard Hatfield CBE, Personnel Director, MoD
(replaced Mr JM Legge CB CMG in June 2001)

Air Vice Marshal Peter Walker CBE, Assistant Chief of the Defence Staff
(Operations), MoD

Mr Peter Ewins, Chief Executive, Met Office

Non-executive members

Sir Brian Fender CMG

Mr Clayton Brendish CBE

Mr David Filkin

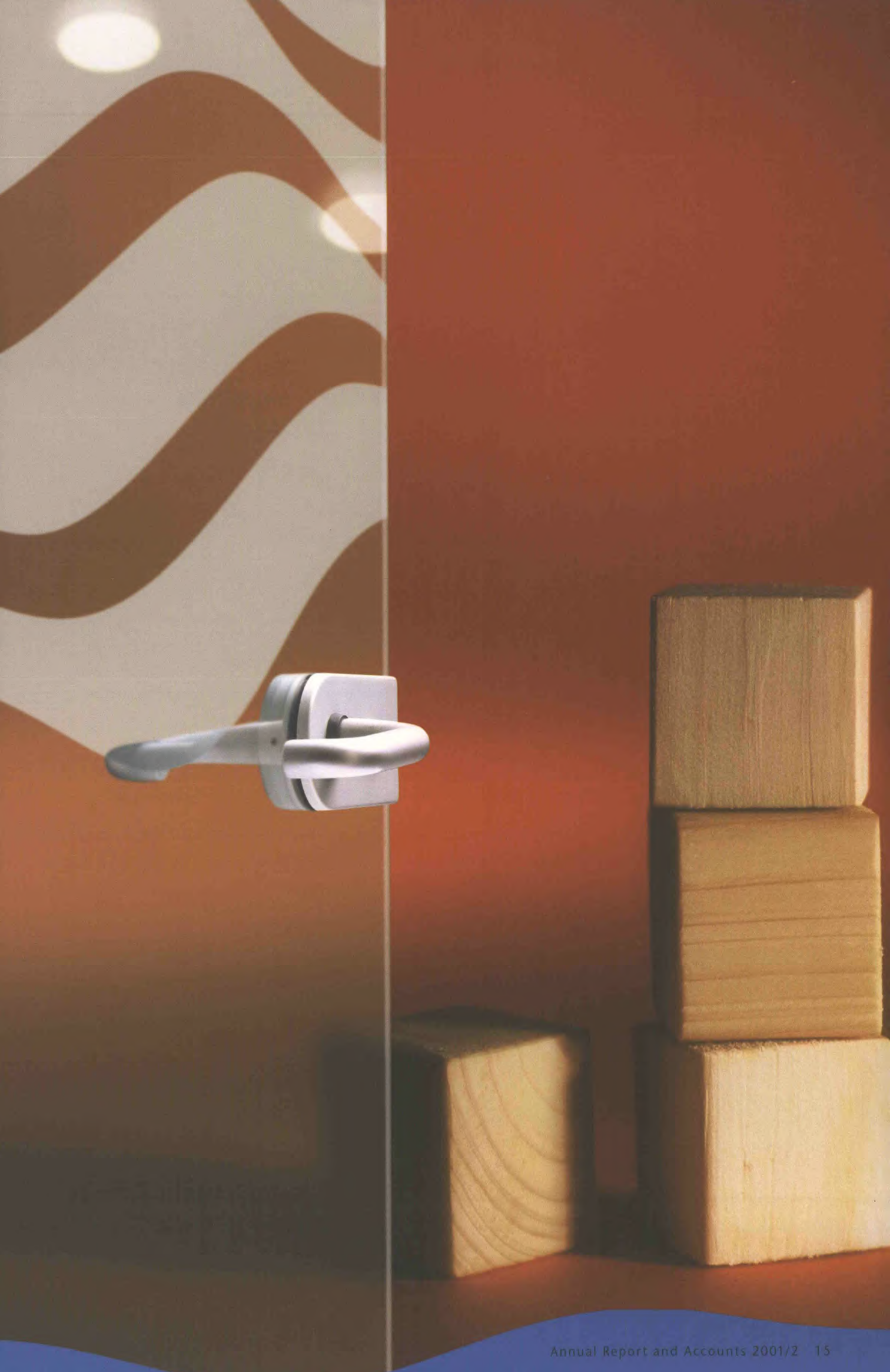
Building blocks

New data sources

New Dynamics

New techniques

Developments in research





The US NOAA-16 satellite.

New data sources

Major improvements in our numerical weather prediction (NWP) performance were made in 2001 by using two new types of satellite data. On 16 April 2001, we accepted 'sounding' instrument data from the new United States NOAA-16 satellite. Then we began using data from our Advanced Microwave Sounding Unit, AMSU-B (our instrument, designed and tested by us, also on-board NOAA-16).

New Dynamics

A radical new method of modelling the atmosphere in our Unified Model is now outperforming the current operational model in trials. Called the 'New Dynamics', it provides more-accurate solutions to the mathematical equations used in the model. It uses 'non-hydrostatic' equations that are necessary for very high-resolution modelling. These revisions, plus changes in the representation of cloud, low-level turbulence and radiation, have made a significant improvement in model performance. We plan to introduce the New Dynamics operationally from June 2002 and expect to see further improvements.

New techniques

In October 2001, we began using an improved method of handling wind data derived from satellite images. We also changed the way satellite sounding data are selected, with sea-ice information and surface winds now being used. Based on extensive testing, we expect an improvement in the NWP Index, with the largest benefits being seen in forecasts for the southern hemisphere.




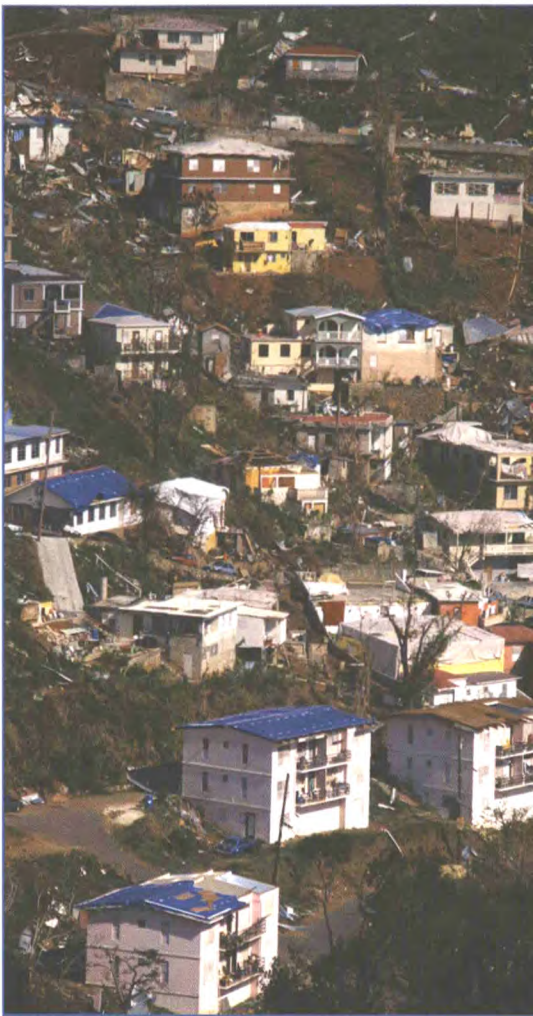
Sea-ice formation now being used from satellite sounding data.

Developments in research

In a set of climate change experiments, global average air temperature was projected to increase by between 2 and 5 °C, and sea level was projected to rise by between 0.27 and 0.46 m by the end of the century. These projections, with scenarios covering different future economic, social and technological developments, were completed last year and included in the Third Assessment Report of the Intergovernmental Panel on Climate Change. The results mean that choices made by the nations of the world could have a large influence on the magnitude of future climate and sea-level change.

We have developed a version of our Hadley Centre Regional Climate Model which runs on a PC and can be easily set up to cover any region of the world. Developing countries will be able to use these systems to study future climate scenarios for themselves, allowing the assessment of possible climate change impacts as required by the UN Framework Convention on Climate Change (UNFCCC). This system was demonstrated at the Seventh Conference of the Parties to the UNFCCC in Marrakech and will be released later in 2002.

Our Hadley Centre for Climate Prediction and Research once again contributed to the annual climate assessment for the World Meteorological Organization, showing that 2001 was the second warmest year in the instrumental record (0.42 °C above the long-term average). 



Choices made by nations of the world could influence future climate and sea-level change.

Behind the scenes

New supercomputer

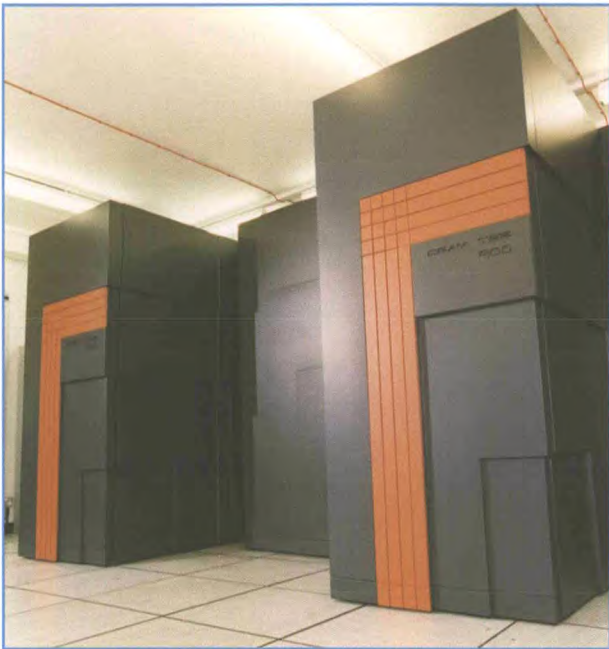
New internet platform

Award-winning system

New network technology



New supercomputer



The Cray T3E supercomputers.

Currently we use two supercomputers — Cray T3E ‘massively parallel’ machines, one with 880 processors and one with 640. We had to increase the size of our first Cray T3E by adding another one to it, but now we need to upgrade these again, and are planning for a replacement supercomputer in 2003/4.

This next upgrade will allow us to use new processing methods, increase the sophistication of our models and use more satellite data, thereby improving the quality of the services to our customers, both in weather forecasting and climate prediction. We expect to retain our world-leading position as an NWP provider. We will choose the supplier for the new machine in 2002 so it will be ready for installation and commissioning at Exeter towards the end of 2003.

New internet platform

We are working to transfer our internet service for commercial customers to a Unix platform. This new system will not only increase capacity, deliver operational resilience and reduce costs, but can also be built on for future enhancements to our expanding internet services.



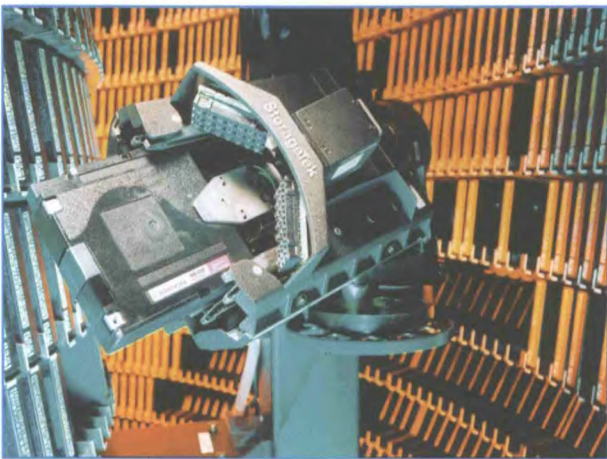
Met Office home page.

Award-winning system

Our upgraded ‘managed archive storage system’, or MASS, won the Innovation Award at the Kinetics Award ceremony in the USA in August 2001. MASS is used to store and archive data from long climate simulations and is also used for archiving other data. The upgrades provide greater-capacity tapes and new drives to meet the increasing demands on the system. MASS will enable more flexible and rapid access to an enormous store of information.

New network technology

WIN was the communication network infrastructure that delivered weather data to and from front-line stations. It was designed before internet protocol (IP) standards became widespread and was based on highly specialised software. Our project to move to using IP methods was completed in December 2001, giving access to a wider skills pool and to cheaper technology, allowing us to retire many old communications lines. 🔑



Tape-grabbing robot arm used in MASS.



External view of MASS.

Key to our success

Our people

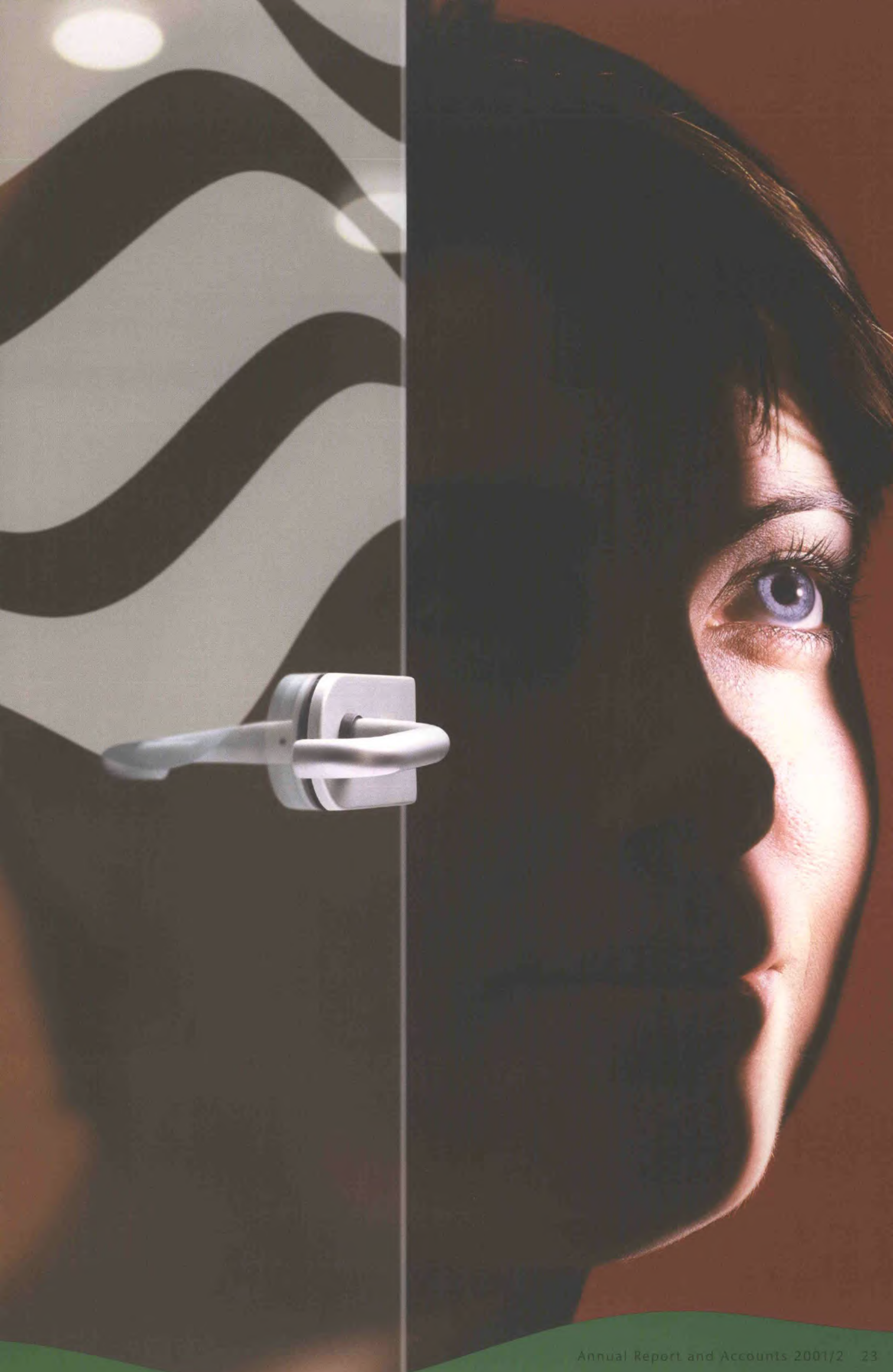
Improving efficiency

Investors in People

Relocation

Best practice





Our people

The skills and commitment of our people are an essential resource, with unlimited potential for exploiting opportunities, delivering success and rising to the many challenges that we will face.

To help unlock this potential, we are now a 'process-based' organisation and we will be moving to Exeter in 2003 — both changes will allow us to meet the needs of the longer-term business strategy and to embrace new ways of working. Support for staff through this transitional phase will include considering what training, skills or experience we will need to maximise the benefits of the new organisation.

Significant developments have included:



Nicole Beckey, at our Relocation Advice Centre, demonstrates some of our material available to staff.

- putting in place a Human Resources Strategy to support the development of our staff to meet future needs and to improve the responsiveness of personnel services;
- increasing personnel-related work in support of the relocation, including policy development;
- operating a Relocation Advice Centre, planning outplacement and redeployment services and support to managers;
- operating the first Assessment and Development Centres in May and June 2001 for the promotion of staff to the first level of senior management — found to be more thorough, fair and objective than the system used previously (52 candidates attended, 58% pass rate achieved);
- completing a comprehensive programme of Equal Opportunities awareness training for all staff;
- a diversity survey to update our information on disability and ethnicity, which will help us to target support for individual employees and create and maintain the diverse workforce we need to support our business aims.

Staff numbers have reduced slightly over the year, reflecting some changes to business requirements, with a small increase in staff turnover probably associated with relocation. To improve efficiency, we introduced a system of

continuous recruitment. As in previous years, a high proportion of our new entrants hold graduate qualifications in mathematics, physics or computing, in line with the need to maintain our lead in the field of meteorology and the natural environment. We also recruit staff with specialist qualifications for roles such as sales and marketing.

Staff recruited during 2001/2					
	Male	Female	Total	Ethnic minority*	Disabled people*
Total	122	79	201	1	0
*All entrants were surveyed but some chose not to respond.					

It is our policy to recruit staff in accordance with the Civil Service Commissioners' Recruitment Code 1999. Individual appointments are made on the basis of fair and open competition. We have not made any permitted exceptions to the code this year.

Improving efficiency

We are working to achieve greater efficiency in the Met Office by improving our business processes, ultimately leading to ISO 9001 accreditation. We will also use the same ISO 9001 framework for the move to Exeter, with business processes being relocated as entire working units. So far, our business structure has been analysed and 23 processes identified. Many improvements have been made, with process documentation meeting the ISO 9001 standard in January 2002. The next step is to prepare for certification by July, confirming that we actually do what we say we do.

Investors in People

We were re-accredited with the *Investors in People* standard following our second review in February 2002. The assessor commented that 'this was especially noteworthy in the light of the amount of ongoing organisational change'.



Progress on site in early 2002.



Relocation

Since we announced our decision in 2000 to move our headquarters and operations centre from Bracknell to Exeter, we have made considerable progress with our relocation programme. During April and May 2001, we evaluated the tender bids. We awarded the contract to the Stratus consortium, comprising Costain, Skanska and Group 4 Falck, to design, build and maintain our new facility. Stratus will also manage the transfer of staff and equipment from Bracknell during 2003. The contract was finalised and signed in November, allowing work to begin on the site.


In Bracknell, preparations are well advanced for the move. The first staff reconnaissance visits were completed in July 2001, and we continued the series of seminars given by directors, members of the relocation team and guest speakers from Exeter City and Devon County Councils.

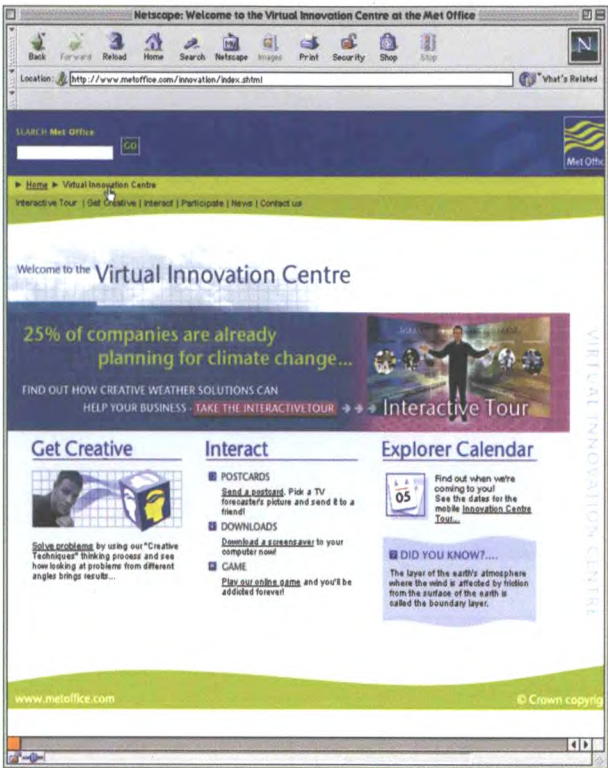
We will be moving IT systems into the new building next January, with our forecasting and operations centre established by the end of the summer. The move will be complete by the end of December 2003, by which time some 1,150 people will be working on the site. We have received a warm welcome from the people of Exeter and we are confident that the move will be good for them, good for the south-west and good for the Met Office.



Artist impression of the inside of our new building.

Best practice

Also in February, our innovation and improvement strategies were acknowledged as examples of best practice in action when we received an award from the Management Consultancies Association for our work with Impact Plus on redesigning our web site. Our partnership succeeded in producing a cutting-edge web site within a tight deadline. Our relocation partnership with consultants Mouchel was also highly commended. 



Our cutting-edge web site.

Unlocking your potential

Active in defence

Exploiting the internet

Highlights in aviation

Business successes

Public services

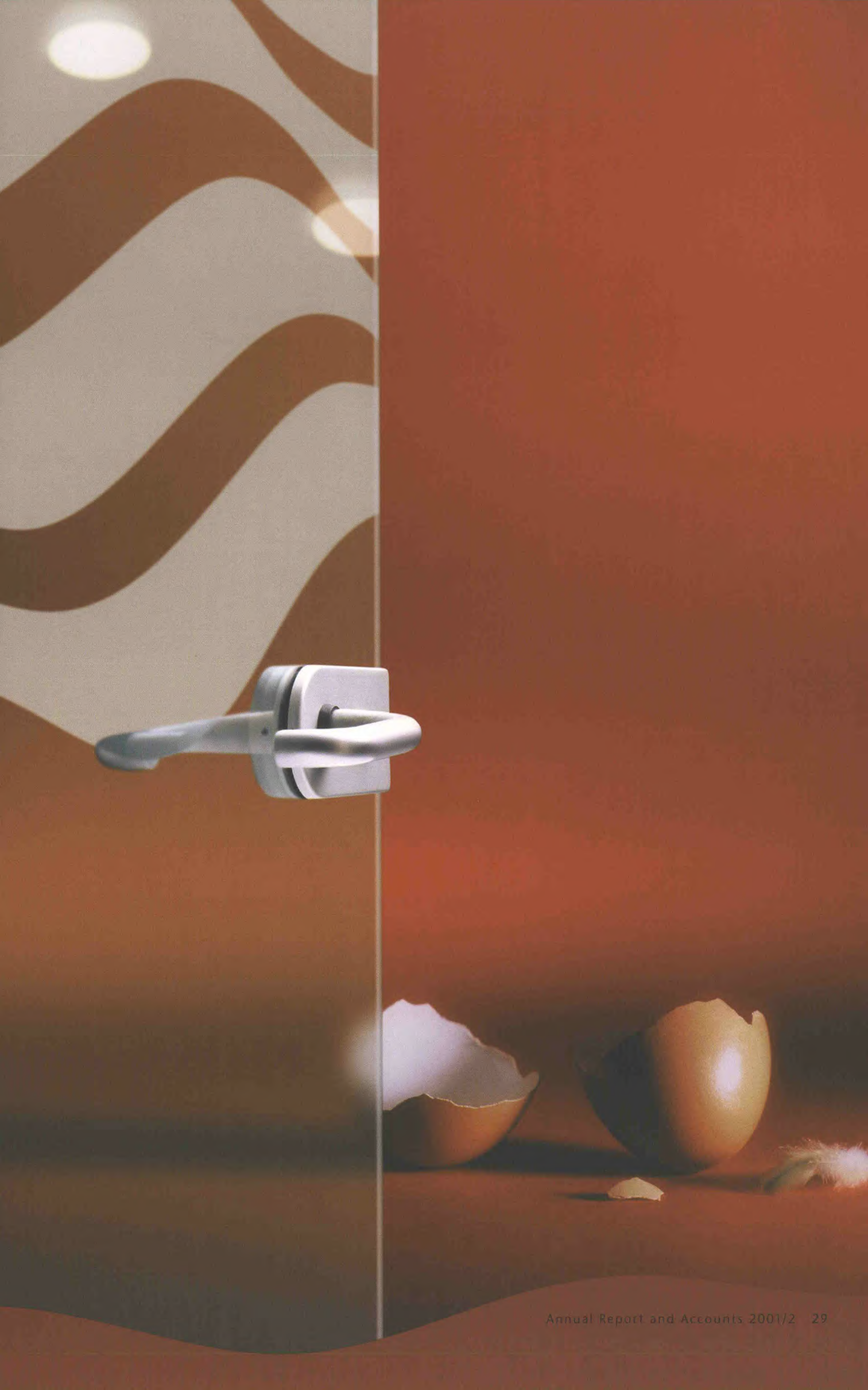
Bigger, better coverage

Healthy interest

Humanitarian aid

Deeper into hydrology

Environmental development



Active in defence

Vital meteorological support was provided to UK military commanders and to our US allies in Operation Veritas and subsequent activity. This ranged from climatological summaries and output from new Crisis Area Models, to routine seasonal outlooks that continued to predict the low snowfall in Afghanistan and its fourth consecutive annual drought. Our Mobile Met. Unit was deployed to Kabul to support the International Stabilisation Assistance Force led by troops from the UK. The Unit has provided weather information to help both the war on terrorism and the humanitarian aid effort. Additionally, forecasts and information have been made available on our web site (under password) to a variety of users, ranging from the United Nations to heavy-lift specialists.



An RAF Chinook: we provided vital support for UK and allied forces in Afghanistan.

As the preferred met. supplier to Supreme Headquarters Allied Powers Europe, we have made further sales of our PC-based NATO Automated Meteorological Information System to other member states and Partners for Peace nations.

Our services are now available to the RAF on their Command and Control Information Systems. This will allow several hundred military users to have desktop access to real-time weather information via their web browsers.

Exploiting the internet

Internet highlights include working with ITV on the further development of itv.com football weather and the addition of more UK cities data. In December, registrations to our aviation services web pages passed the 30,000 mark — reflecting the success of our decision to make the basic UK civil aviation products available free via the web. In March, weather radar data became available, rapidly becoming a very popular page and increasing traffic to our web site as a whole!

Highlights in aviation



We were congratulated in our role as World Area Forecast Centre (WAFC) London in May 2001 by the International Civil Aviation Organization (ICAO). Together with WAFC Washington, we met all the main objectives first set out in 1984 for the final phase of the ICAO World Area Forecast System (WAFS) — on time and at a reduced cost. Our close co-operation now provides an excellent basis for the future development of WAFS — one of the key elements in ensuring safety and efficiency in international air navigation.

In April 2001, the Civil Aviation Authority (CAA) took over from National Air Traffic Services as the UK Met. Authority — new contracts signed in July 2001 meant the transfer of £25 million of our civil aviation business to CAA. Both we and the CAA are committed to reviewing the existing arrangements to ensure that UK services to civil aviation continue to meet customer requirements.

In December, we provided an enhanced low-visibility forecasting service to the British Airports Authority at Heathrow — supporting their replacement of an Instrument Landing System on one of the runways at the world's busiest international airport. The performance we achieved over the replacement period was exceptional — in effect, almost doubling the achieved forecast accuracy.

Business successes

- Together with Umbrella Brokers, we set up weatherXchange, the first Met Office joint venture. Launched at the Weather Risk Management Association conference in Bermuda in June 2001, it takes us into the weather derivatives market, estimated at being worth \$9 billion in the United States alone.
- Between October 2001 and January 2002, we promoted our new WTHR4 mobile phone service through third parties, including Vodafone. The WTHR4 campaign has also been extended with the help of 22 key strategic partners, including *The Times*, GMTV, Scoot, Lycos and MultiMap.
- In January 2002, Granada TV awarded us a three-year contract to provide weather services for their regional ITV franchises, raising the profile of our London Media Unit. We also secured the contract to provide tailored weather services to S4C Wales for a further three years.
- We commissioned research to assess the impact of weather on business in the UK. The results showed that UK firms lose over £7.6 billion a year because of the weather. The study showed that, while over 95% of those questioned admit they have lost up to 10% of their profits in the last year alone due to unexpected weather, only a quarter say they occasionally take the weather into account when planning ahead. These impacts are caused by late or absent staff, delayed deliveries, surplus or insufficient stock and cancellation of projects.

Brisk business on the stock market.



Graphics from the WTHR4 campaign.

Public services



Prediction of dispersion of airborne pollutants continues to be important.

We provided support to the Department for Environment, Food and Rural Affairs and other agencies involved with the foot-and-mouth disease outbreak. Our work focused on determining areas at risk from infected farms, assessing the risk of virus transport from pyres and analysing outbreaks to assess the role of airborne transmission. Understanding and predicting the dispersion of airborne pollutants continues to be important for a range of problems, including emergency response and air quality.

Bigger, better coverage

More than 30 Met Office weather broadcasters, mostly at our BBC Weather Centre, provide services for BBC World, News 24, BBC1, BBC2 and BBC Regions, and the British Forces Broadcasting Service. In 2001, these services moved from the BBC's 'Broadcast and Presentation' section to 'News'. This not only strengthened our partnership, but will also give us the opportunity to build a higher profile and gain more coverage for vital weather warnings. Part of the new contract agreed in 2002 includes developments in new media, such as interactive TV and online broadcasts — plenty of opportunity to shine in innovative, leading-edge technology!

Healthy interest



Our ground-breaking research into weather and health linkages has drawn a lot of interest. Funded by HM Treasury, the work is being developed in partnership with the Department of Health and the National Health Service, with valued support from health professionals. The pilot health forecasting service saved one hospital £400,000 over a few weeks during December 2000 and January 2001. We now plan to expand our health-related activities all over the world.

Humanitarian aid

We provided assistance to the Department for International Development and aid agencies wherever major natural disasters occurred. These included the earthquake in Gujarat in early 2001 and flooding in the Mekong Delta in October.

Our work on natural disasters is one of our diversification activities now being grouped into a single team, along with health and hydrology. The new team will be established as the Environmental Prediction and Impacts Centre, a ‘one-stop shop’ for advice for government departments. It will also benefit a wide range of customers, including charities and the general public, operating in partnership with government agencies and aid organisations around the world.

Deeper into hydrology

As part of our developing relationship with the Environment Agency, we held a successful conference called ‘Two by two’ in October 2001. As a result we created two posts for staff from both organisations to work jointly on various hydrological projects.

In another collaboration with the Environment Agency to improve flood forecasts, we will be capturing real-time data from about 300 of their rain gauges. We have selected the sites and started upgrade work; the first data will appear in Spring 2002.

Environmental development

We won a contract to supply air-quality services to the Welsh Air Quality Forum. An air-quality specialist has been employed to strengthen our existing team, and we see the service and the model developed being used in other parts of the UK.



Assistance is provided to aid agencies, wherever natural disasters occur.




Future business strategy

We became a trading fund in 1996. Its early years were marked by increasing efficiency and under-investment. Given that most of our business is sold on a 'cost plus' basis, this led inexorably to declining revenues that clearly could not be sustained over the longer term if the business were to prosper.

Over the past three years, our strategy has been to continue to improve efficiency while also increasing investment. This investment has been vital both to maintain the infrastructure necessary to support our operations and to win new business, thereby offsetting the decline in existing business and achieving overall growth.

The results for the year continue to show how we are putting this strategy to work. Major strategic investments total some £15 million. Profitability and return on capital employed therefore continue at low levels. Recognising the need for investment, the MoD, as owner, has agreed to waive the payment of a dividend. The results also demonstrate that overall revenue growth has been more difficult than expected. But we remain confident that the strategy is correct and that growth will be achieved.

Key to that strategy is the investment in our new headquarters and operations centre in Exeter. This is being delivered through a public-private partnership in which we purchase the land and buildings, which are designed and built by our private-sector partner. Our partner will then maintain and operate the buildings for a period of 15 years. Funding the land and buildings has already reduced our substantial cash holdings, which will further reduce over the coming year.

The Met Office remains a robust business with world-class staff, products and services. The challenge is to unlock the organisation's massive potential and achieve growth. 

Performance against key targets 2001/2

Each year the Chief Executive and the Secretary of State for Defence agree targets for our key performance indicators (KPIs). These targets are how we measure the performance of our business and are intended to be challenging but achievable.

Forecast accuracy

The accuracy of our published forecasts is heavily dependent on the accuracy of our NWP models, which are run twice a day on a global scale and four times on a local scale for the UK. Our NWP Index monitors this performance on a rolling three-year basis.

During 2001/2, the NWP Index benefited from the recent upgrades (see *Building blocks*), resulting in this target being greatly exceeded.

Quality

The Service Quality Index covers a representative range of services provided to defence, civil aviation, public and commercial users. Each year the target level is derived from specific customer requirements for the accuracy and timeliness of these services.

Another excellent performance from the Storm Tide Forecasting Service, along with significant improvement in the UK Cities internet forecasts and gale warnings, has produced a result well above the target.

Efficiency

Our Efficiency Index measures the change in outputs in relation to the costs for three major areas of our activities — core services, defence services and civil aviation services.

We have had significant success in both improving the quality of our outputs and in maintaining tight control of costs in these areas, the latter having been reduced in real terms. This target has been exceeded.

Financial


Return on capital employed (ROCE) and strategic investments

As part of our plan to make significant investment in the business, this year we agreed with our owner that we would deliver only a token ROCE. In fact, we have generated a ROCE of 2.1% while also investing £15.1 million in projects to support our future growth, meeting both these targets.

Commercial activities contribution

This indicator measures the financial contribution to core and central services from our commercial activity. Although commercial revenue has fallen slightly in real terms, we have increased the contribution by 22% since last year. Even so, we have been unable to meet the ambitious target we set for ourselves.

Other performance

The Staff Skills Index takes the average of the competency markings awarded to all employees in their annual appraisals and compares it to the competency level in March 2001. These data are only collected on an annual basis, so no interim targets have been set towards the overall March 2004 target. 

Targets for 2002/3

- To increase the NWP Index to 109.5
- To achieve a Service Quality Index of 115.4
- To achieve an Efficiency Index of 120.5
- To achieve a positive ROCE while making operating profit of at least £13.3 million before strategic investments
- To make further strategic investments of £19.4 million ± £1.5 million
- To deliver £3.8 million contribution from our commercial activities
- To continue working towards the target for our Staff Skills Index of 107.5, to be achieved by March 2004

Performance against key ministerial targets

Key ministerial targets		Targets, outturns, achievements			Targets
		1999/2000	2000/1	2001/2	2002/3
Efficiency					
Efficiency Index	Target	n/a	103.7	111.0	120.55
	Outturn	100.0	109.6	120.1	
Quality					
Service Quality Index ⁽¹⁾	Target	105.0	107.1	107.8	115.4
	Outturn	119.1	120.5	134.7	
Financial					
Return on capital employed ⁽²⁾	Target	2.9%	0.0%	>0.0%	>0.0%
	Outturn	3.5%	2.8%	2.1%	
Profit before strategic investments	Target	n/a	£13.7m	£14.4m	£13.3m
	Outturn	n/a	£17.6m	£18.5m	
Strategic investments ⁽²⁾	Target	n/a	£13.5m	£15.9m±£1.5m	£19.4m±£1.5m
	Outturn	n/a	£13.6m	£15.1m	
Commercial activities contribution ^(2,3)	Target	£2.2m	£3.57m	£4.4m	£3.8m
	Outturn	£0.3m	£2.67m	£3.3m	
Forecast accuracy					
NWP Index	Target	n/a	101.6	105.2	109.5
	Outturn	100.0	103.2	107.5	
Other performance					
Staff Skills Index ⁽⁴⁾	Target	n/a	n/a	n/a	n/a
	Outturn	n/a	100.0	Note 4	

The Comptroller and Auditor General has examined the statement of performance against key targets reported above and he is satisfied that the performance achieved is fairly stated.

- (1) The baseline for the Service Quality Index is 100.0 as at 31 March 1997. The target for this measure is set in direct consultation with the relevant customers and so reflects changes in their service quality requirements.
- (2) See note 2 to the accounts on page 54.
- (3) The basis of the commercial activities contribution changed with effect from 2000/1. The targets and results are therefore not directly comparable across each of the past three years.
- (4) The Staff Skills Index has a target of 107.5 for the period to 31 March 2004. Due to the nature of this measure, interim targets have not been set. The outturn for 2001/2 was not available at the time of going to print.
- (5) A three-year target to achieve a value for the Efficiency Index of at least 111.6 by 31 March 2003 had previously been announced but has been surpassed ahead of schedule. A revised target has therefore been set.

Glossary

Advanced Microwave Sounding Unit (AMSU-B)

An instrument for making humidity measurements through the atmosphere from space, carried on-board the US polar-orbiting satellite NOAA-16.

Crisis Area Model

A relocatable high-resolution model that can be applied to any area in the world where we require enhanced meteorological support for military operations.

Investors in People (IiP)

A national quality standard that improves investment in staff development and training, which we hope to achieve as part of the *Improving our Performance* process.

ISO 9000/1

ISO 9000 is the generic name of a family of international standards that describe how quality management systems should be set up and managed corresponding to the working practices expected from an ‘excellent’ company. ISO 9000 is actually a document in its own right, giving an overview and a glossary of terms, but ISO 9001 is the standard itself.

Mobile Meteorological Unit (MMU)

Our team of Met Office weather forecasters, ready to deploy anywhere in the world to provide local forecasts and advice to our defence customers.

Numerical weather prediction (NWP)

Our primary method of weather forecasting — by processing observations to establish an initial state and then solving a set of equations, a computer model of the atmosphere shows how weather conditions are forecast to change with time.

Weather derivatives

Weather derivatives are financial tools designed to protect companies against weather conditions that would adversely affect revenue.

Weather Information Network (WIN)

This is the means of transporting data to and from the front-line stations. WIN currently uses the Met Office Remote Sites Network (MORSN) and leased lines from BT.

WTHR4

These are our new mobile services enabling you to get up-to-date, detailed weather information whenever you need it. You can access detailed hourly forecasts for your exact location both on land and at sea.

World Area Forecast Centre (WAFC)

The Met Office is one of only two World Area Forecast Centres (called WAFC London). The other is WAFC Washington. Since 1984, WAFC London has provided forecasting services to meet the needs of international civil aviation. This means having the ability to provide global forecasts of upper winds and temperatures for all flights throughout the world, enabling operators to optimise safety and fuel consumption for their aircraft.

World Meteorological Organization (WMO)

Comprising over 160 states and territories, the WMO is a specialised agency of the United Nations, encompassing the field of meteorology.

Accounts and financial information

Foreword to the accounts

*Statement on the system of
internal control*

*Statement of the responsibilities of
the Agency and the Chief Executive*

*Certificate and report of the
Comptroller and Auditor General
to the Houses of Parliament*

Profit and Loss Account

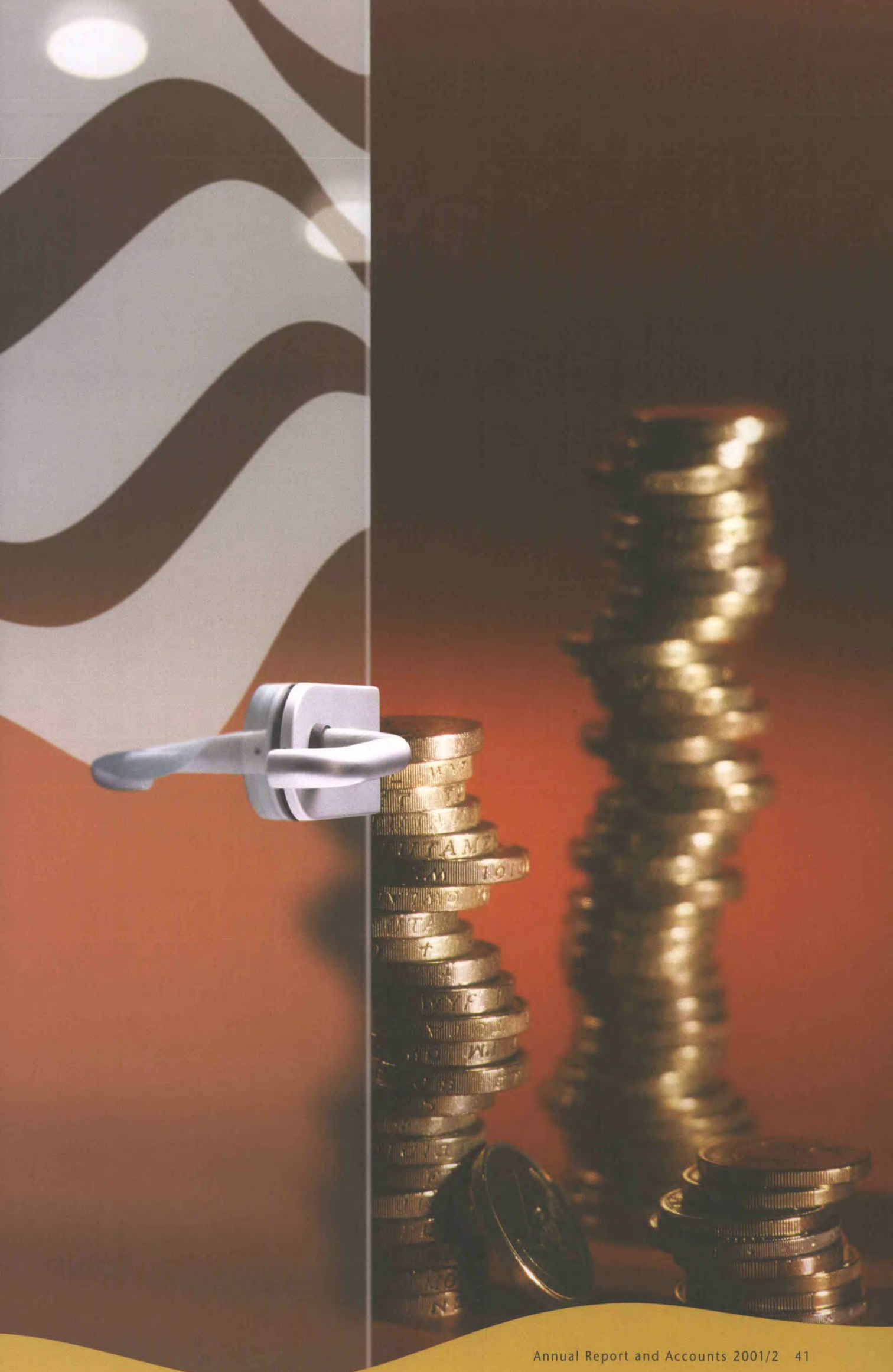
Balance Sheet

Cash Flow Statement

*Statement of Total Recognised
Gains and Losses*

Notes to the accounts

Treasury Accounts Direction



Foreword to the accounts

Statutory background

These accounts have been prepared following the Direction given by HM Treasury on 21 February 2002 in line with section 4(6) of the Government Trading Funds Act 1973 (see page 72).

History

The Met Office was set up as the Meteorological Department of the Board of Trade in 1854. Separate meteorological branches for each of the armed forces were created in 1914. We became part of the Air Ministry in 1920 and then part of the Ministry of Defence in 1964. We became an Executive Agency in 1990 and started operating as a trading fund in 1996, following Statutory Instrument SI 1996/774.

Review of activities

Our principal activities are set out on page 2, in our vision and goals.

Board members

Our operations are overseen by the Defence Meteorological Board, which advises the Secretary of State for Defence, our owner. We manage our organisation through quarterly meetings of the Met Office Board and monthly meetings of the Management Committee (see page 12). An audit committee ensures that appropriate financial risk management procedures are in place, following the Code of Best Practice from the Cadbury Committee on Financial Aspects of Corporate Governance. Also, a remuneration committee considers executive and 'incentivised' remuneration matters for the Met Office on behalf of the Defence Meteorological Board.

Major initiatives during 2001/2

Our relocation project has continued, with the contract with the Stratus consortium signed in November 2001, allowing construction on the new site to begin.

Our staff have been consistently consulted and informed of the progress of the relocation project, through regular seminars and involvement in working groups, internal communications media and monthly briefs.

Payment policy

We pay suppliers direct from the Met Office. Our policy is to pay within contracted payment terms or, without specifically agreed terms, within 30 days of receiving a valid invoice (see Better Payment Practice Code) or of the delivery date if later. This year, we paid 99.6% of our bills on time (31 March 2000, 100%).

Results and appropriations

Our turnover for the year was £155 million (2000/1, £154 million). Total expenditure, before exceptional items and interest, was £151.4 million (2000/1, £150.4 million) and operating profit was £3.4 million (2000/1, £4.0 million). Net assets as at 31 March 2002 were £168.1 million (31 March 2001, £161.9 million). The positive return on capital employed (ROCE) key target was met with a performance of 2.1%. Profit after interest was £5.4 million (2000/1, £6.1 million). As explained on page 34, no dividend is to be paid in respect of 2001/2.

Market value of land

It is expected that there will be a significant difference between the market value and the book value of land, but it is not being disclosed on the grounds of commercial confidentiality.

Research and development

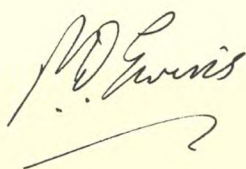
We carry out a programme of applied research and development in support of our operational services. We also carry out additional research and development into the understanding and prediction of man-made climate change.

Disabled persons

We are committed to a policy of Equal Opportunity, recognised in 1999 through 'Positive about Disabled People' accreditation. The only test we apply for recruitment, retention or advancement is the ability to do the job.

Employee involvement

The Met Office Functional Whitley Committee and its sub-committees and local committees undertake formal consultation with staff. We regard the health, safety and welfare of our employees (and others) as of paramount importance. We employ a full-time Health and Safety Officer to ensure that everyone is fully aware of new and existing requirements and of their responsibilities. Employees can be involved through the Health and Safety sub-committee of the Functional Whitley Committee. In addition, we consult the Trades Unions on a range of special issues, including the introduction of *Investors in People* as part of the *Improving our Performance* initiative. We informed staff of new developments in the Met Office through monthly briefings and *Mercury*, the staff magazine.



PD Ewins
Chief Executive
15 May 2002

Statement on the system of internal control

As Accounting Officer, I acknowledge my responsibility for maintaining a sound system of internal control that supports the achievement of the Met Office's policies, aims and objectives, whilst safeguarding its assets and public capital.

The system of internal control is designed to manage rather than eliminate the risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an ongoing process designed to identify the principal risks to the achievement of the Met Office's policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. As at 31 March 2002, I had in place the procedures necessary to meet Treasury guidance on Corporate Governance.

During the year, our key risks, which were identified during 2000/1, were reviewed with groups of senior managers in a series of workshops facilitated by external experts on risk management, provided by PKF, our internal auditors. As a result of these workshops, a revised corporate risk register was agreed by the Met Office Board.

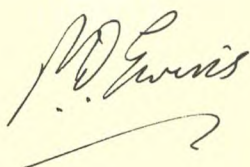
The Met Office Board has reviewed the revised Corporate Risk register on a regular basis. Risk management is being incorporated more fully into our corporate planning and decision-making processes.

As part of the ISO 9000 project, the Board specified and approved a risk management process. This has been rolled out across the organisation and requires the development and maintenance of risk registers in all areas of the business.

The Met Office's internal audit function was carried out through the year by PKF to the standards defined in the Government Internal Audit Manual. The work of the internal audit team is informed by an analysis of the risk to which the Met Office is exposed, and the annual internal audit plans are based on this analysis. The analysis of risk and the internal audit plans are endorsed by the Met Office's Audit Committee and approved by me. The reports include the internal auditors' independent opinion on the adequacy and effectiveness of the Met Office's system of internal financial control.

The internal audit plans are continuously reviewed and, in addition to the planned audit reviews, a number of additional reviews have been carried out, at my request, in areas identified as being potentially high risk or impact.

My review of the effectiveness of the system of internal control is informed by the work of the internal auditors, the Audit Committee which oversees the work of internal auditors, the executive managers within the Met Office who have responsibility for the development and maintenance of the internal control framework, and comments made by the NAO in their management letter and other reports.



PD Ewins
Chief Executive
15 May 2002

Statement of the responsibilities of the Agency and the Chief Executive

Under section 4(6) of the Government Trading Funds Act 1973, HM Treasury has directed the Met Office to prepare a statement of accounts for each financial year in the form and on the basis set out in the Treasury Accounts Direction on page 72. The accounts are prepared on an accruals basis and must give a true and fair view of the Met Office's state of affairs at the year-end, and of its income and expenditure, total recognised gains and losses and cash flows for the financial year.

In preparing the accounts, the Agency is required 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 have been followed, and disclose and explain any material departures in the financial statements;
- prepare the financial statements on the 'going concern' basis, unless it is inappropriate to presume that the Agency will continue in operation.

HM Treasury has appointed the Chief Executive of the Met Office as the Accounting Officer for the Trading Fund. His relevant responsibilities as Accounting Officer, including responsibility for the propriety and regularity of the public finances and for the keeping of proper records, are set out in the Accounting Officer's Memorandum, issued by HM Treasury and published in Government Accounting.

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

I certify that I have audited the financial statements on pages 48 to 71 under the Government Trading Funds Act, 1973. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 52 and 53.

Respective responsibility of the Met Office, the Chief Executive and Auditor

As described on page 45, the Met Office and the Chief Executive are responsible for the preparation of the financial statements and for ensuring the regularity of financial transactions. The Met Office and Chief Executive are also responsible for the preparation of the other contents of the *Annual Report*. My responsibilities, as independent auditor, are established by statute and guided by the Auditing Practices Board and the auditing profession's ethical guidance.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Government Trading Fund Act 1973 and HM Treasury directions made thereunder, and whether, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Agency has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I read the other information contained in the *Annual Report* and consider whether it is consistent with the audited financial statements. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements.

I review whether the statement on page 44 reflects the Met Office's compliance with HM Treasury's guidance *Corporate governance: statement on the system of internal financial control*. I report if it does not meet the requirements specified by the Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements.

Basis of opinion

I conducted my audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Met Office and Chief Executive in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Met Office's circumstances consistently applied and adequately disclosed. I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by error, or by fraud or other irregularity, and that, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I have also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the Met Office at 31 March 2002 and of the profit, total recognised gains and losses and cash flows for the year then ended, and have been properly prepared in accordance with the Government Trading Funds Act 1973 and directions made thereunder by the Treasury;
- in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

John Bourn

Comptroller and Auditor General

20 May 2002

National Audit Office

157–197 Buckingham Palace Road

Victoria

London SW1W 9SP

Profit and Loss Account for the year ended 31 March 2002

		2001/2	2000/1
	Note	£ '000	£ '000
Turnover	3	154,759	154,413
Cost of sales	4, 6	121,912	122,651
Gross profit		32,847	31,762
Selling and distribution costs	4, 6	8,043	7,630
Administrative expenses	4, 6	21,426	20,111
Operating profit		3,378	4,021
Loss on disposal of fixed assets		(324)	(252)
Profit on ordinary activities		3,054	3,769
Interest receivable		2,350	3,095
Interest payable	5	–	(709)
Retained profit		5,404	6,155
There were no discontinued operations in the period			
Return on capital employed (ROCE)	2	2.1%	2.8%
Target		>0.0%	0.0%
Average return on capital since 1 April 1996		9.5%	11.0%
Target			7.0%

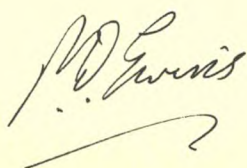
The notes on pages 52 to 71 form part of these accounts.

The movement on the General Reserve is set out at note 15 on page 68.

Balance Sheet as at 31 March 2002

		31 March 2002		31 March 2001	
	Note	£ '000	£ '000	£ '000	£ '000
Fixed assets					
Tangible assets	7		133,841		104,151
Investments	8		500		—
			134,341		104,151
Current assets					
Stocks	9	1,736		1,481	
Debtors and prepayments	10	33,048		28,199	
Cash on deposit	11	33,200		53,400	
Cash at bank and in hand	11	<u>678</u>		<u>749</u>	
		68,662		83,829	
Creditors: amounts falling due within one year	12	<u>(34,944)</u>		<u>(26,093)</u>	
Net current assets			33,718		57,736
Total assets less current liabilities			168,059		161,887
Financed by:					
Provisions for liabilities and charges	13		2,211		2,710
Capital and reserves					
Public dividend capital		58,867		58,867	
Revaluation Reserve	14	10,213		11,677	
General Reserve	15	96,768		88,633	
Government funds		165,848		159,177	
			168,059		161,887

The notes on pages 52 to 71 form part of these accounts.



PD Ewins, Chief Executive, 15 May 2002

Cash Flow Statement for the year ended 31 March 2002

		2001/2	2000/1
	Note	£ '000	£ '000
Reconciliation of operating profit to net cash inflow from operating activities			
Operating profit		3,378	4,021
Depreciation charges	7	19,036	16,702
Provisions for liabilities and charges		320	1,564
Cash flow relating to early retirement provision		(819)	(230)
(Increase) in stocks		(255)	(312)
(Increase) in debtors		(4,937)	(5,481)
Increase/(decrease) in creditors		8,283	5,325
Net cash inflow from operating activities		25,006	21,589
Cash Flow Statement			
Net cash inflow from operating activities		25,006	21,589
Returns on investments and servicing of finance	17	2,438	2,356
Capital expenditure	17	(47,215)	(14,465)
Acquisitions and disposals	8	(500)	—
Management of liquid resources	17	20,200	1,600
Financing	17	—	(10,936)
Increase/(decrease) in cash		(71)	144
Reconciliation of net cash flow to movement in net debt			
Increase in cash		(71)	144
Decrease in cash on deposit	17	(20,200)	(1,600)
Other movements	17	—	10,936
Change in net funds		(20,271)	9,480
Net funds at 1 April	17	54,149	44,669
Net funds at 31 March		33,878	54,149

The notes on pages 52 to 71 form part of these accounts.

Statement of Total Recognised Gains and Losses for the year ended 31 March 2002

		2001/2	2000/1
	Note	£ '000	£ '000
Profit for the financial year		5,404	6,155
Surplus on revaluation of fixed assets credited to the Revaluation Reserve	14	(1,464)	2,470
Total Recognised Gains and Losses relating to the year		3,940	8,625
Reconciliation of movements in Government funds			
		2001/2	2000/1
		£ '000	£ '000
Government funds at 1 April		159,177	153,120
Total Recognised Gains and Losses relating to the year		3,940	8,625
Movements in long-term loans		–	(2,568)
Transfer to General Reserve	15	2,731	–
Net movement in Government funds		6,671	6,057
Balance at 31 March		165,848	159,177

The notes on pages 52 to 71 form part of these accounts.

Notes to the accounts

1. Accounting policies

(a) Basis of accounting

The accounts have been prepared in accordance with the accruals concept and the historical cost convention, modified to include revaluations of fixed assets and stocks. They comply with the accounting and disclosure requirements of the Companies Act 1985 and the Accounting Standards Board, and all applicable accounting standards where appropriate.

An exception is the treatment of the cash balance, held in Euros, relating to the EUMETSAT working capital fund (WCF). This balance is included within the satellite assets in Note 7. Under SSAP 20, monetary assets and liabilities should be translated into the reporting currency using the rates of exchange ruling at the Balance Sheet date. The Euro transactions making up the WCF have been translated during the year using the exchange rates set by forward contracts exercised by the Met Office.

Translating the WCF using the €/£ exchange rate on 31 March 2002 would produce a notional loss of £66,000 (2000/1, a notional profit of £11,000).

(b) Turnover

Turnover comprises the invoiced value of services (net of VAT) supplied to the private sector, the wider public sector and other Government departments. Income received under collaborative arrangements for the capital installation of rainfall radar systems is credited as deferred income within creditors until tangible fixed assets are acquired.

(c) Research and development

An amendment to the trading funds accounts guidance for 2001/2 removes the option for capitalising development expenditure. Providing it meets the requirements of SSAP13, it makes capitalisation mandatory. There is no development expenditure meeting SSAP13 requirements for capitalisation, therefore all expenditure has been charged to the Profit and Loss Account.

(d) Tangible fixed assets

Valuation

Freehold land and buildings are revalued by qualified valuers every five years, or at shorter periods if it is considered that values have changed materially. Because of the forthcoming relocation, the value of the building will be fully written off by 2003.

Plant and equipment, including computers, are capitalised where the useful life exceeds three years and the cost of acquisition and installation exceeds £5,000 (excluding VAT). From 31 March 1996, the Met Office has also capitalised networked minor computers, and related equipment, which individually do not meet the criteria. Major items are revalued annually using the Gross Domestic Product Deflator Index.

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.

The Met Office is a member of EUMETSAT and, as such, contributes to the cost of its satellite programmes. The Met Office benefits from the data and services resulting from these programmes. Expenditure other than research and development on programmes to date is capitalised and revalued annually using the Aerospace Combined Input Cost Index.

Depreciation

Freehold land is not depreciated.

Depreciation on buildings is calculated to write off the cost, or value, by equal instalments over the asset's estimated useful life (not exceeding 50 years). As a consequence of the relocation project, an accelerated depreciation charge is being applied in order to write off the full value of the buildings by 2003.

Computers, plant and equipment are depreciated by the straight-line method at a rate calculated to write off the cost, or value, over the asset's estimated useful life. Currently, policy is to write off computers, plant and equipment over three to ten years.

Satellite assets are depreciated using the straight-line method, based on the expected operational life, currently to 2014.

(e) Leasing commitments

All leasehold property and vehicles are held under operating leases which are charged to current expenditure.

(f) Stocks

Stocks are valued at the lower of cost, or net current replacement cost if materially different, and net realisable value.

(g) Insurance

The Met Office reviews its risk exposures and ensures that appropriate insurance is provided.

(h) Pensions

All staff are covered by the provisions of the Principal Civil Service Pension Scheme except for locally employed civilians, staff on short-term contracts and staff who have opted out of the schemes. Payments are made into the Consolidated Fund at contribution rates determined by HM Treasury.

(i) Cash

Cash includes cash in hand and deposits payable on demand with any qualifying institution, less overdrafts from any qualifying institution repayable on demand.

(j) Financial instruments

Currency risk

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 payments are in respect of annual subscriptions and contributions including payments for satellite programmes. In this case, payments are accounted for in sterling at the forward purchase rate. All other foreign currency payments are accounted for at the sterling equivalent at the exchange rate ruling on the day the payment is made.

Interest rate risk

The Met Office follows the HM Treasury rules by investing all surplus funds in the National Loans Fund.

Liquidity risk

The Met Office has no exposure to liquidity risk as it has no borrowings. Short-term debtors and creditors are excluded from financial instruments.

(k) Consolidated accounts

The Met Office has no subsidiaries, associates or joint ventures which require consolidated accounts.

2. Key financial targets

The Met Office's key financial targets for 2001/2

- a) To achieve a positive return on capital employed in 2001/2, while returning an operating profit of at least £14.4 million before strategic investments.
- b) To achieve strategic investments in 2001/2 of £15.9 million ±£1.5 million.
- c) To achieve a total contribution from commercial activities in 2001/2 of at least £4.4 million.

Results

a) Return on capital employed (ROCE)

ROCE is calculated as operating profit, after profit/loss on disposal of fixed assets and after allowing for exceptional items, as a percentage of the average Government funds (excluding unrealised capital reserves) employed in the business at the beginning and end of the year.

The table below shows the in-year and averaged ROCE over the period from the beginning of the trading fund to 31 March 2002. The table has been prepared in accordance with FRS12 requiring a restatement of the 1996/7 and 1997/8 reported ROCE (1996/7 reported as 20.7% and 1997/8 as 17.6%).

	1996/7	1997/8	1998/9	1999/2000	2000/1	2001/2
ROCE	21.8%	20.6%	6.3%	3.5%	2.8%	2.1%
ROCE target (post-FRS12 only)	–	–	–	2.9%	0.0%	>0.0%
Average ROCE to date	21.8%	21.2%	16.3%	13.1%	11.0%	9.5%

The reduced level of ROCE in the last two years is the result of significant investment in strategic projects (see b) below), primarily the HQ relocation project and polar satellite development.

b) Strategic investments

Strategic investment is defined as the total of expenditure on Corporate Investment Fund Projects and Corporate Projects. These projects include HQ relocation, rebranding, polar satellite development and innovation.

	31 March 2002	31 March 2001
	£ '000	£ '000
Polar satellite development	7,236	6,368
HQ relocation	6,320	2,128
Other strategic investments	1,525	5,126
Total strategic investments	15,081	13,622
<i>Strategic investments target</i>	<i>15,900 (±1,500)</i>	<i>13,500</i>

c) Commercial activities contribution

Commercial activities contribution represents the contribution made towards the Met Office's non-commercial operations as a result of its participation in competitive markets. The cost basis used attributes only those costs to commercial activities which would no longer be borne by the Met Office should commercial activities cease.

	31 March 2002	31 March 2001
	£ '000	£ '000
Commercial activities revenue	21,547	21,407
Commercial activities costs	(18,285)	(18,731)
Commercial activities contribution	3,262	2,676
<i>Commercial activities contribution target</i>	<i>4,400</i>	<i>3,575</i>

3. Turnover and segmental analysis

		2001/2			2000/1		
Main customer		£ '000	£ '000	£ '000	£ '000	£ '000	£ '000
		Core	Direct Services	Total	Core	Direct Services	Total
Defence	MoD	27,200	29,790	56,990	26,331	29,363	55,694
Civil Aviation	CAA	16,711	9,642	26,353	16,276	9,390	25,666
Civil Departments		27,200	9,919	37,119	26,650	9,700	36,350
Climate Research	DEFRA	–	7,758	7,758	–	7,493	7,493
Commercial		–	21,547	21,547	–	21,407	21,407
Other		–	4,992	4,992	2,900	4,903	7,803
Total turnover		71,111	83,648	154,759	72,157	82,256	154,413

- (i) All turnover relates to the same class of business, the provision of meteorological and related services. There were no acquisitions or discontinued operations.
- (ii) 'Core' is the programme of work necessary to generate, and make available centrally, the underpinning weather forecasts and climatological services which are the basis for specified 'Direct Services' to Core customers.
- (iii) 'Commercial' contracts are subject to open competition.
- (iv) The net asset proportions related to the segments above are not separately identifiable.

4. Cost of sales, selling and distribution and administrative charges

Cost of sales has been defined as that expenditure which is directly related to a service or product being supplied to a specific third-party customer or market. This will include direct materials and labour, development costs and fixed and variable overheads to the extent that they relate specifically to production.

Selling and distribution includes costs relating to marketing and market research, the Customer Centre, and the costs associated with maintaining the Met Office web site.

Administrative expenses includes all costs relating to the general management of the business, training, technical support, and any research and development that has not been included under cost of sales. It also includes the cost of strategic investment projects as well as projects such as ISO 9000 accreditation.

	2001/2	2000/1
	£ '000	£ '000
Cost of sales	121,912	122,651
Selling and distribution costs	8,043	7,630
Administrative expenses	21,426	20,111
	151,381	150,392

Administrative expenses includes the costs of strategic investment and may be further analysed as follows.

Head office relocation	6,320	2,128
Other strategic investments	8,761	11,494
General administrative expenses	6,345	6,489
	21,426	20,111

The costs are further analysed by expenditure type as follows.

		2001/2	2000/1
	Note	£ '000	£ '000
Staff costs	6	73,205	74,415
Early retirement costs		344	1,943
Travel and subsistence		4,389	4,186
Equipment and services		26,797	27,562
Accommodation		7,672	8,018
Operating leases – plant and machinery		1,363	312
Operating leases – other		2,579	2,355
Depreciation	7	19,036	16,702
International services and subscriptions		13,864	12,527
Other administrative expenses		2,132	2,372
Total		151,381	150,392

- (i) The early retirement cost is the full cost of providing for all staff who have been granted early retirement as at 31 March 2002.
- (ii) Accommodation includes £1.6 million (2000/1, £1.8 million) operating lease rentals of property.
- (iii) Depreciation contains the extra charge resulting from the reduced life of assets due to the future relocation.
- (iv) International services and subscriptions include £8.3 million (2000/1, £7.2 million) to the European Organization for the Exploitation of Meteorological Satellites (EUMETSAT) (excluding amounts capitalised as satellite assets), £3.2 million (2000/1, £2.9 million) to the European Centre for Medium-range Weather Forecasts (ECMWF) and £1.4 million (2000/1, £1.4 million) to the World Meteorological Organization (WMO).

Membership of these organisations enables the Met Office to engage in, and benefit from, the European meteorological satellite programme; to receive support in its provision of medium-range weather forecasts and associated research; and both to promote and benefit from co-operations between members in the exchange of observational data, forecasts and a widening range of environmental programmes.
- (v) Other administrative expenses include an audit fee of £50,000 (2000/1, £50,000) and £10,000 (2000/1, £10,000) for the review of performance indicators.
- (vi) The total cost of research and development, which was funded by customers including the Department for Environment, Food and Rural Affairs, was £23.5 million (2000/1, £22.5 million).

5. Interest payable and similar charges

		2001/2	2000/1
	Note	£ '000	£ '000
On loans wholly repayable within five years		–	709
Total interest payable and similar charges		–	709

6. Staff

(a) Staff costs

		2001/2	2000/1
	Note	£ '000	£ '000
Salaries, bonuses and allowances		60,650	61,398
Early retirement costs		344	1,943
Social security		4,842	5,182
Pension contributions		7,713	7,835
Total staff costs		73,549	76,358

The employees of the Met Office are Civil Servants to whom the conditions of the Superannuation Acts 1965 and 1972, and subsequent amendments, apply. For 2001/2, contributions of £7.7 million (2000/1, £7.8 million) were paid to the Paymaster General at rates determined from time to time by the Government Actuary and advised by the HM Treasury. These rates ranged from 12% to 18.5%, unchanged since 1998/9 — see note 1(h).

(b) Average staff numbers

		2001/2	2000/1
	Note	number	number
Senior management		12	11
Scientific, managerial, technical		1,552	1,616
Support		493	531
Locally engaged civilians overseas		19	19
Monthly average staff numbers		2,076	2,177

There were 2,096 staff employed at 31 March 2002 compared with 2,114 at 31 March 2001, both figures expressed as full-time equivalents.

(c) Directors' remuneration

(i) Salaries and benefits

Salaries and benefits are reviewed annually. Basic salaries for members of the Senior Civil Service were increased with effect from 1 April 2001. The pay award was dependent on performance and ranged from 4.2% to 7.3%.

(ii) Performance-related bonuses

These are calculated in accordance with a fixed formula which measures performance against the Met Office's key performance targets. It is paid to Board members on the recommendation of the Remuneration Committee.

(iii) Pensions

Pension benefits are provided through the Principal Civil Service Pension Scheme. This is a defined benefit scheme in which the employer's share of the underlying assets and liabilities is not separately identifiable. It provides benefits on a 'final salary' basis at a normal retirement age of 60. Benefits accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. Members pay contributions of 1.5 % of pensionable earnings. Pensions increase in payment in line with the Retail Price Index. On death, pensions are payable to the surviving spouse at a rate of half the member's pension. On death in service, the scheme pays a lump sum benefit of twice pensionable pay and also provides a service enhancement on computing the spouse's pension. The enhancement depends on length of service and cannot exceed 10 years. Medical retirement is possible in the event of serious ill-health. In this case, pensions are brought into payment immediately without actuarial reduction and with service enhanced as for widow(er) pensions.

It was agreed that the Met Office would continue Professor Thorpe's contributions to the University Superannuation Scheme (USS) during the period of his employment. The Met Office paid both the employer's and employee's contributions on his behalf.

(iv) Directors' emoluments

Name	Age	2001/2			2000/1		
		Emoluments 2001/2	Real increase in pension at at 60	Total accrued pension at 60 at 31 March 2002	Emoluments 2000/1	Real increase in pension at 60	Total accrued pension at 60 at 31 March 2001
		£ '000	£ '000	£ '000	£ '000	£ '000	£ '000
PD Ewins	59	100-105	2.5-5	40-45	95-100	2.5-5	40-45
PJ Mason	56	85-90	0-2.5	35-40	80-85	0-2.5	30-35
CR Flood	58	65-70	0-2.5	25-30	60-65	0-2.5	25-30
SJ Caughey	56	65-70	0-2.5	25-30	60-65	0-2.5	20-25
RD Hunt	53	60-65	0-2.5	20-25	55-60	0-2.5	20-25
S Lawrenson		consent to disclosure withheld			consent to disclosure withheld		
P Mabe	43	85-90	0-2.5	10-15	80-85	0-2.5	5-10
JF Ponting	52	50-55	0-2.5	15-20	50-55	0-2.5	15-20
AJ Thorpe	49	30-35	n/a	20-25	65-70	0-2.5	15-20
M Sands	53	70-75	2.5-5	25-30	65-70	n/a	20-25
S Noyes	42	60-65	0-2.5	15-20	55-60	0-2.5	10-15
A Dickinson	52	55-60	0-2.5	15-20	50-55	n/a	15-20
D Griggs	44	55-60	n/a	10-15	n/a	n/a	n/a
A Douglas	55	55-60	n/a	20-25	n/a	n/a	n/a

Members of the pension scheme have the option to pay Additional Voluntary Contributions (AVCs); any AVCs made are not included in the above table.

In the calculation of the real increase in pension an assumption of 2.5% inflation has been made.

Notes

- (a) The Chief Executive, Peter Ewins, received emoluments comprising a basic salary and a performance bonus and pension.
- (b) Stephen Lawrenson was employed on a three-year fixed-term contract. He resigned with effect from 30 April 2002.
- (c) Alan Thorpe resigned as Director NWP and left office on 31 August 2001.

The emoluments and pension shown are from 1 April 2001 until 31 August 2001.

- (d) Alan Dickinson was appointed as Director NWP effective from 1 August 2001.
- (e) David Griggs was appointed as Climate Research Director from 1 April 2001.
- (f) Alan Douglas was appointed as Director of Relocation, taking over from Steve Noyes from 25 February 2002, although his emoluments are shown for the whole year.
- (g) Steve Noyes was appointed as Director of Core and Defence from 25 February 2002.

(v) Early retirement

		2001/2	2000/1
	Note	£ '000	£ '000
Expenditure incurred in current year		819	307
Total early retirement expenditure		819	307

This represents payments made in-year to all employees who have been granted early retirement.

7. Tangible fixed assets

The movements in each class of assets were:

	Satellite programme	Land and buildings	Assets in course of construction	Plant and equipment	Total tangible
	£ '000	£ '000	£ '000	£ '000	£ '000
Cost or valuation:					
At 1 April 2001	129,117	15,596	1,458	57,545	203,716
Additions	6,955	7,447	28,860	4,584	47,846
Disposals	–	(135)	(20)	(1,168)	(1,323)
Transfers	–	–	(336)	336	–
Revaluation	2,445	–	–	85	2,530
At 31 March 2002	138,517	22,908	29,962	61,382	252,769
Depreciation:					
At 1 April 2001	64,350	2,427	–	32,788	99,565
Charged during year	9,726	1,822	–	7,488	19,036
Disposals	–	–	–	(936)	(936)
Revaluation	1,219	–	–	44	1,263
At 31 March 2002	75,295	4,249	–	39,384	118,928
Net book value:					
At 1 April 2001	64,767	13,169	1,458	24,757	104,151
At 31 March 2002	63,222	18,659	29,962	21,998	133,841

- (i) Land and buildings include one leasehold building at a net book value of £974,000 with a lease expiring in 2014.

Leasehold buildings are depreciated over 18 years. All other land and buildings are held as a freehold.

- (ii) The net book value of freehold land and buildings includes £13.2 million of freehold land (1 April 2001, £5.8 million) which has not been depreciated. The addition of £7.4 million relates to the purchase of land in Exeter.

Freehold buildings are depreciated in full over the estimated life (not exceeding 50 years). However, in light of the relocation to Exeter, the life of the Bracknell buildings was re-assessed. The effect of the change was to increase the in-year depreciation charge by £1.3 million.

- (iii) The net book value of plant and equipment is based on a valuation at 14 December 1995 by Grimley, updated by appropriate indices. Plant and equipment includes computers and supercomputer. These are depreciated over three to ten years.

The supercomputer was 're-lived' by a further six months to reflect its expected operating capacity after relocation.

The effect on the accounts is a reduction in the depreciation charge of £0.12 million.

- (iv) Land and buildings were valued by Chesterton Chartered Surveyors on 2 November 1999, in accordance with the Practice Statements and Guidance Notes set out in the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors, on the basis of open market values for existing use, except that a specialised building has been valued on the basis of depreciated replacement cost.
- (v) Costs of £22 million directly attributable to the construction of the new Met Office building have been capitalised and are included within assets in the course of construction.
- (vi) The Accounting Officer is aware of a material change in the value of land and buildings that has not been reflected in the financial statements.

A revaluation has not been included because of its commercial sensitivity due to the proximity of the forthcoming relocation.

8. Investment

The Met Office holds 499 Class 'A' Shares (this equates to 49.9%) in a joint venture, weatherXchange Ltd, an entity governed by UK law.

The entire consideration for the shares was paid in cash. The registered head office of weatherXchange Ltd is 4th Floor, 127 Clerkenwell Road, London, EC1R 5LP.

The date of incorporation was 11 May 2001. The nature of the business is providing weather data and derivatives trading.

The financial year end of weatherXchange Ltd is 31 March. However, the first published accounts are not yet available. weatherXchange Ltd has made no contribution to the turnover and operating profit to date.

Investment

£ '000

Cost or valuation:

At 1 April 2001	—
Additions	500
At 31 March 2002	500

9. Stocks

		31 March 2002	31 March 2001
	Note	£ '000	£ '000
Meteorological equipment		1,172	1,134
Reserve equipment		483	258
Consumable stores		81	89
Total stock		1,736	1,481

10. Debtors

		31 March 2002	31 March 2001
	Note	£ '000	£ '000
Trade debtors		23,313	18,866
Other debtors		872	882
Prepayments and accrued income		8,863	8,451
Total debtors		33,048	28,199

11. Analysis of changes in cash at bank and in hand

		31 March 2002	31 March 2001
	Note	£ '000	£ '000
Balance at 1 April		749	605
Net cash inflow/(outflow)	17	(71)	144
Balance at 31 March		678	749

The Met Office holds a Euro bank account, in which there is an amount of £571,000 belonging to third parties (31 March 2001, £nil).

Cash that is surplus to immediate requirements is held in short-term interest-bearing accounts. As at 31 March 2002 the amount was £33.2 million (31 March 2001, £53.4 million) with the National Loans Fund.

12. Creditors

		31 March 2002	31 March 2001
	Note	£ '000	£ '000
Operating expenditure amounts falling due within one year:			
Trade creditors		2,560	1,292
Taxation and social security		4,860	7,192
Accruals		15,214	7,865
Deferred income		12,310	9,744
Total amounts falling due within one year		34,944	26,093

13. Provisions for liabilities and charges

	Early retirement	Dilapidations	Reorganisation	Total
	£ '000	£ '000	£ '000	£ '000
Balance at 1 April 2001	1,638	654	418	2,710
Transferred from Profit and Loss Account	147	355	84	586
Unwinding of discount	99	0	11	110
Utilised in-year	(819)	(174)	(202)	(1,195)
Balance at 31 March 2002	1,065	835	311	2,211

- (i) The early retirement provision represents the pension costs associated with 49 staff who had been granted early retirement as at 31 March 2002 and comprises capital lump sums at the point of departure together with the full cost of meeting each individual's pension payments up until normal retirement age. The total amount provided for, before discounting and in-year payments, is £2.2 million. The provision has been discounted at 6% to give a net provision of £1.0 million.
- (ii) The total amount provided for dilapidations, before discounting, is £ 0.9 million. The provision has been discounted at 6% to give a net provision of £0.8 million.
- (iii) The Reorganisation Provision is in respect of future cost of leasehold properties which are surplus to requirements following reorganisation. The total amount provided for, before discounting, is £0.6 million. The provision has been discounted at 6% to give a net provision of £0.4 million.

The commitments provided for fall due in the following periods:

	Early retirement	Dilapidations	Reorganisation	Total
	£ '000	£ '000	£ '000	£ '000
Amounts payable within:				
Under one year	419	324	95	838
One to five years	605	457	76	1,138
Over five years	41	54	140	235
	1,065	835	311	2,211

14. Revaluation Reserve

	31 March 2002		31 March 2001	
	£ '000	£ '000	£ '000	£ '000
Revaluation Reserve at 1 April		11,677		9,207
Revaluation of satellite assets	1,226		2,399	
Revaluation of land and buildings, plant and equipment	41		91	
Transfer to General Reserve	(2,731)			
In-year disposals	<u>—</u>		<u>(20)</u>	
		(1,464)		2,470
Revaluation Reserve at 31 March		10,213		11,677

15. General Reserve

	31 March 2002	31 March 2001
	£ '000	£ '000
General Reserve at 1 April	88,633	82,478
Transfer from Revaluation Reserve	2,731	—
Retained profit	5,404	6,155
General Reserve at 31 March	96,768	88,633

16. Related parties

The Ministry of Defence (MoD) is regarded as a related party. During the year, the Met Office has had material transactions with the department and with other entities for which MoD is regarded as the parent department. In addition, the Met Office has had material transactions with a number of other public bodies, Government departments and their agencies, principally the Civil Aviation Authority, Department for Transport, Local Government and the Regions, Home Office and the Department for Environment, Food and Rural Affairs.

None of the Met Office Board members, key managerial staff or other related parties has undertaken any material transactions with the Met Office during the year.

Joint venture with weatherXchange Ltd

Met Office Director Philip Mabe and senior manager Paul Hardaker are also directors of weatherXchange Ltd. Stephen Lawrenson was a director of weatherXchange Ltd until his resignation effective from 30 April 2002.

17. Cash Flow Statement

a) Gross cash flows

	31 March 2002		31 March 2001	
	£ '000	£ '000	£ '000	£ '000
Returns on investments and servicing of finance				
Interest received	2,438		3,065	
Interest paid	—		(709)	
		2,438		2,356
Capital expenditure				
Payments to acquire satellite assets	(6,955)		(8,074)	
Payments to acquire plant and machinery, land and buildings	(40,323)		(6,391)	
Receipts from/(costs of) sales of tangible fixed assets	63		—	
		(47,215)		(14,465)
(Acquisitions)/disposals investment in joint venture	(500)			
Management of liquid resources				
Net receipts from	20,200		1,600	
National Loans Fund deposit account		20,200		1,600
Financing				
Loan repayment	—		(10,936)	
		—		(10,936)

b) Analysis of changes in net funds

	At 1 April 2001	Cash flows	Other changes	At 31 March 2002
	£ '000	£ '000	£ '000	£ '000
Cash at bank and in hand	749	(71)	—	678
Cash on deposit	53,400	(20,200)	—	33,200
Total	54,149	(20,271)	—	33,878

18. Operating leases

	2001/2	2000/1	2001/2	2000/1
	£ '000	£ '000	£ '000	£ '000
Annual commitments are as follows:	Land and buildings		Vehicles	
Leases expiring within:				
Under one year	155	19	44	141
One to five years	171	122	1,154	–
Over five years	1,568	1,680	–	–
	1,894	1,821	1,198	141

19. Capital commitments

	2001/2	2000/1
	£ '000	£ '000
Contracted	1,207	1,986
Relocation	54,309	–
Contribution for satellite programme	2,710	3,509

The commitment for the satellite programme represents the unpaid portion of the UK approved contribution to EUMETSAT programmes for the current calendar year. Future payments are subject to annual approval by the EUMETSAT Council.

20. Losses and special payments

One contract was terminated at a cost of £85,000 (31 March 2001, £nil). There was a cost of £112,000 in respect of retention of an empty property (31 March 2001, £nil).

21. Contingent liability

Loan facility

The Met Office has provided an unsecured loan facility to weatherXchange Ltd for £600,000.

HR relocation cost

Relocating staff is estimated to cost £28.1 million.

22. Derivatives

The Met Office makes significant foreign currency payments for subscriptions and contributions to international meteorological organisations. These costs are recovered from customers of Core services on fixed-price contracts. To manage the risk of currency movements, the Met Office has a policy of buying forward foreign currency.

Treasury Accounts Direction

Accounts Direction given by HM Treasury in accordance with section 4(6)(a) of the Government Trading Funds Act 1973.

1. The Met Office shall prepare accounts for the year ended 31 March 2002 in compliance with the accounting principles and disclosure requirements of the edition of *Trading Funds — Accounts Guidance* issued by HM Treasury ('the guidance') which is in force for 2001/2.
2. The accounts shall be prepared so as to give a true and fair view of the income and expenditure, total recognised gains and losses, and cash flows of the trading fund, and of the state of affairs as at 31 March 2002.
3. Compliance with the requirements of the guidance will, in all but exceptional circumstances, be necessary for the accounts to give a true and fair view. If, in these exceptional circumstances, compliance with the requirements of the guidance is inconsistent with the requirement to give a true and fair view, the requirements of the guidance should be departed from only to the extent necessary to give a true and fair view. In such cases, informed and unbiased judgement should be used to devise an appropriate alternative treatment which should be consistent with both the economic characteristics of the circumstances concerned and the spirit of the guidance. Any material departure from the guidance should be discussed in the first instance with HM Treasury.

David Loweth
Head of the Central Accountancy Team, HM Treasury
18 February 2002



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