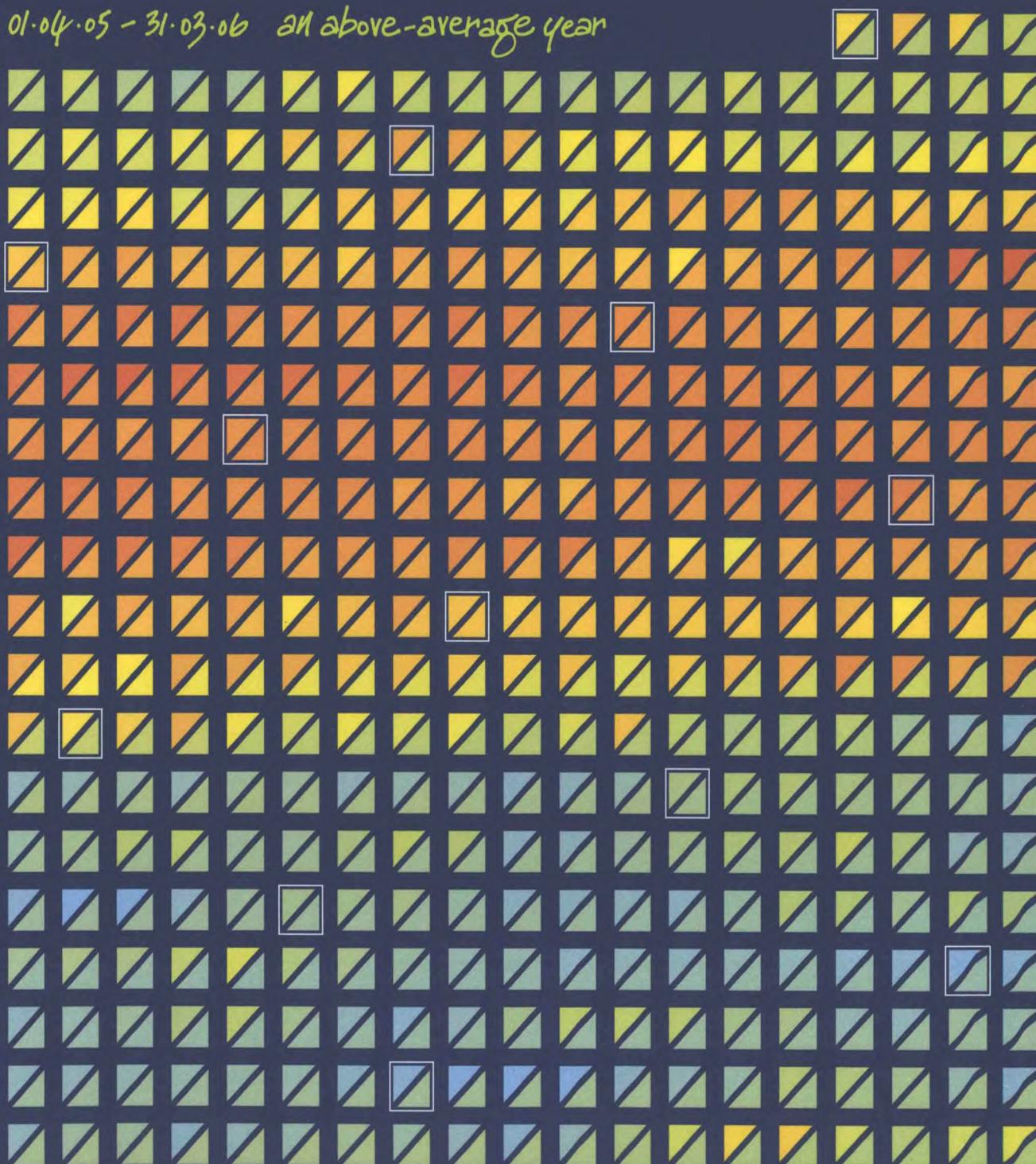


2005/6 Annual Report and Accounts

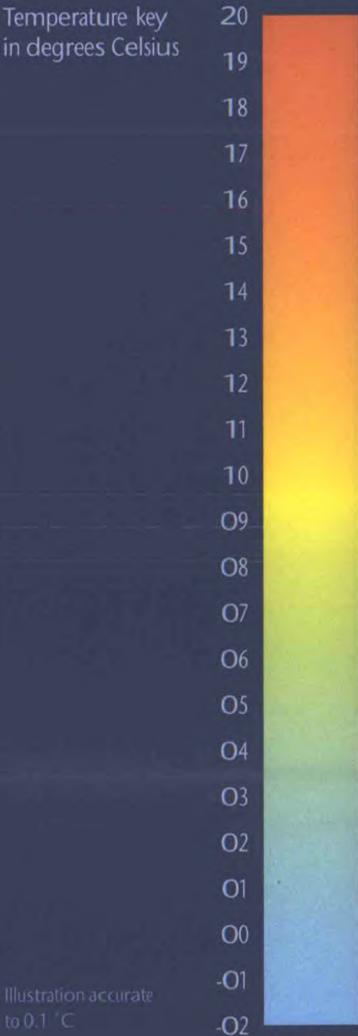
01.04.05 - 31.03.06 *an above-average year*



Key to the cover



- 1 First day of month
- 2 Actual 24-hour mean UK temperature for day
- 3 30-year average UK temperature, 1971 – 2000



Met Office

An Executive Agency of the Ministry of Defence

Annual Report and Accounts 2005/6

Presented to Parliament pursuant to section 4(6) of the Government Trading Funds Act 1973 as amended by the Government Trading Act 1990

These accounts have been prepared following the direction given by HM Treasury on 16 January 2006 in line with section 4(6)(a) of the Government Trading Funds Act 1973

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OUR VISION

To use world-class science to predict the weather and climate for maximum benefit to the nation.

Directors' report

Introduction

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 (MoD) in 1964. We became an Executive Agency in 1990 and started operating as a Trading Fund in 1996, following Statutory Instrument SI 1996/774.

As this year's Annual Report and Accounts shows, with over 150 years' experience, our expertise lies in helping others make important weather and climate change-related decisions, from the general public, Government and local authorities, to civil aviation, utilities, transport and almost every other industry sector. Over 80% of our funding comes from the public sector, with the MoD our major source of government funding.

As an integral part of Government, this year the Met Office was involved in, amongst other things, the emergency response to the fire at the Buncefield Oil Storage Depot near Hemel Hempstead, Hertfordshire. Our dispersion modelling scientists tracked the smoke plume and worked with agencies and groups at the scene to provide up to date assessments of events following the explosion. We found that the smoke was non-toxic but had the potential to make conditions unpleasant for local residents and, acting on our advice, as a precautionary measure the Health Protection Agency closed a number of schools in the affected area.

Operating as a Trading Fund means that we must also work effectively as a business, identifying ways of meeting customers' needs at an agreed price, and constantly looking for new opportunities to provide ever more useful products and services for them. This year, for the first time, our experts were able to brief officials and leaders from the Government and businesses on the long-range prospects for the coming winter, enabling contingency planners to consider well ahead their

requirements. Our high-profile and successful multi-media campaign achieved 71% awareness among the general public and helped position the Met Office as a critical partner in future contingency planning for businesses and the Government.

Using our powerful supercomputer, the Met Office Hadley Centre produces predictions of longer-term climate change for the Government, businesses and the worldwide community. To make critical decisions relating to climate change, it is also important that our customers understand what has happened in the past, what is happening now, and what is likely to happen in the future and why. To help them, for the first time this year we made our climate observations and model predictions freely available online, through a wide range of other media and via partnership organisations. We also submitted a significant amount of climate-related information to the Government's Stern Review into the economic challenges of climate change and how they can be met in the UK and globally.

Introduction from the Chair of the Met Office Board



Clay Brendish CBE
Chairman

It is with great pleasure that I introduce this Annual Report and Accounts 2005/6 to you.

The year can be best described as the first major step in an exciting and significant journey for the Met Office. This journey, better known to us as our Corporate Plan, centres around two fundamental cornerstones — our customers and our staff.

An organisation without a Plan is doomed to oblivion. A Plan without staff who are motivated to deliver will not succeed. It is vital for our success that we have top quality people, in the right positions, with the correct level of authority. It is also important that the culture is conducive to success. Mark Hutchinson, our Chief Executive, is committed to this concept and has made important changes to the management and management structure to reflect the need to be responsive to customers and staff alike.

Responsiveness to customers, both inside and outside Government, is a necessary attribute of a successful service organisation. We must continue to play to our many strengths. The weather and climate change are already high on many agendas and will become increasingly important in the future. We, at the Met Office, must rise to the challenge to be at the forefront of all we do.

The Met Office has demonstrated its ability to be successful by meeting, for the first time ever, all of its Key Performance Targets. I would like to thank everyone at the Met Office for their contribution to this achievement and look forward to more to come.

Finally, and on a valedictory note, this will be the last Met Office Annual Report which I will introduce as Chairman. I have been involved with the Met Office in one form or another for many years. Over this time, I have developed an enormous admiration and affection for an organisation which strives so hard and so successfully to serve the public and business. I am proud to have played a part in its development and look forward to its continued success.

I hope you enjoy reading this Report and find its content useful and that it gives you a valuable insight into the capabilities of the Met Office.

Chief Executive's overview



Mark Hutchinson
Chief Executive

This has been a year of significant change and unparalleled success for the Met Office.

Much of the change incurred this year has been self-driven and in recognition of the need to keep pace with the evolving requirements of our customers. We have reflected this in our five-year Corporate Plan — a strategic and tactical change programme to ensure we improve our ability to respond effectively to our customers' needs. We have also, as an organisation, undergone a number of changes at senior management level culminating in my appointment as Chief Executive in January 2006.

Our successes are captured within the pages of this Annual Report and Accounts and clearly show that the policy and processes of the Corporate Plan alone, although important, would not have propelled the Met Office so far this year. It is thanks to the outstanding efforts of Met Office staff that, for the first time ever, we have achieved all our challenging Key Performance Targets and much more.

I have been hugely grateful for the advice of the members of the Met Office Board — in particular our Chairman, Clay Brendish — as we have planned and implemented our challenging Corporate Plan. Clay's departure later this year will cap a long association

with the Met Office and an enormous personal contribution to our direction and success.

Our business strategy is focused on identifying new and innovative ways to sustain income from outside Government whilst offering existing Government customers better value for money. My fellow Executive Directors and I have, over the year, sought to put this into practice and lay the foundations for our successful growth.

The Met Office played a critical role in the management of several high-profile weather and environmental events this year, which grabbed headlines and cast the Met Office into a positive media spotlight. One such event was the fire at the Buncefield Oil Storage Depot near Hemel Hempstead in which our experts tracked the vast plume of smoke and flew a special high-tech aircraft into it to test for toxic fumes. Our prompt response to the Buncefield incident was acknowledged by the Deputy Prime Minister in his statement to the House of Commons the next day, and the lasting media attention earned by our staff helped establish the Met Office as a critical partner in civil emergencies.

In a bold move, and for the first time ever, we published a long-range winter forecast in Autumn 2005, which highlighted the probability of a colder-than-average winter for much of Europe, including southern regions of the UK, and a drier-than-average season over much of the UK. A high-profile media campaign, regular updates to the forecast on our website, a specialist briefing event in London and critical meetings with the Energy and Transport Ministers and industry Chief Executives ensured our forecast reached as many and as wide-a-spread of the population as possible, ahead of what was the coldest winter for a decade. Not only did this help raise our scientific credibility, it also

positioned the Met Office as a critical partner in contingency planning.

Climate change is always high on the political agenda and never more so than in 2005 when the UK made it the top priority for its presidencies of the G8 and the European Union, with the Met Office contributing its research findings to the discussion. Following the record number of named tropical cyclones in the North Atlantic this year, Met Office climate research scientists, along with international colleagues, have been investigating the connection between high-impact tropical cyclones and global warming. In February 2006 the group reported there was no conclusive evidence to link climate change with the frequency of tropical cyclones worldwide but there was growing evidence that it is affecting their intensity.

Looking ahead, our desire is to continue building the Met Office around what our customers need and we have defined the services to be provided to key central government departments in Customer-Supplier Agreements which will, over the period 2006–2010, realise significant savings for the same volume of services provided today. We listen closely to our business customers' needs to supply the products and services that fulfil their unique requirements; and have a strong international presence, particularly through our world-class research. Internally too, we strive for organisational excellence — it is credit to the commitment of Met Office staff that they found ways to adjust successfully to the changes in leadership and strategy in 2005/6.

This adds up to an exceptionally strong performance in Year 1 of our successful five-year Corporate Plan and sees the Met Office fit to take on the challenges that lie ahead and further into the future.

Management structures

Met Office Owner's Council
Strategic oversight on behalf of our Owner, the Secretary of State for Defence, is provided by the Met Office Owner's Council.

Met Office Board (as pictured)
Our strategic and operational performance is directed by the Met Office Board which includes a number of Non-Executive Directors who provide general counsel and a different perspective on Met Office matters. Having served as a Non-Executive Director in a range of business contexts, Clay Brendish brings his considerable experience to the Board; James May offers his environmental expertise; Prof. Brian Hoskins the views of science and academia; and Denise Harker her finance and media acumen.

Executive
The Executive is responsible for the strategic and corporate management of the Met Office on a day-to-day basis. It is accountable to the Met Office Board.

National Met. Service Commissioning Group (NMSCG)
The NMSCG represents all customers of the Met Office in endorsing the requirement for NMS, as well as determining its focus and content.

Prospect
With over 70 years' experience in the public sector, Prospect is the only recognised Trade Union for Met Office staff. Current membership is in excess of 70% of employees.

Executive Directors



Mark Hutchinson
Chief Executive



Prof. John Mitchell
Chief Scientist



Dr. David Griggs
Director Climate Research and Deputy Chief Scientist



Ian Carlson
Interim Director Sales and Marketing



Diana Formby
Director Finance and Corporate Services



Steve Noyes
Director Production



Dr. Alan Dickinson
Director Science and Technology

Non-Executive Directors



Clay Brendish
Chairman



James May
Non-Executive Director



Denise Harker
Non-Executive Director



Prof. Brian Hoskins
Non-Executive Director

Met Office Owner's Council	Met Office Board	Executive	Audit Committee	NMSCG	
•	•	•			<i>Membership at 31 March 2006</i>
	•	•			Mark Hutchinson Chief Executive
					Prof. John Mitchell OBE FRS Chief Scientist
		•			Steve Noyes Director Production
	•	•			Diana Formby Director Finance and Corporate Services
		•			Dr. David Griggs FRS Director Climate Research and Deputy Chief Scientist
		•			Ian Carlson Interim Director Sales and Marketing
		•			Dr. Alan Dickinson Director Science and Technology
•	•				Clay Brendish CBE Chairman
	•		•		James May Non-Executive Director
	•				Prof. Brian Hoskins CBE FRS Non-Executive Director
	•		•		Denise Harker Non-Executive Director
*	*				Mark Preston Director of Business Delivery, Ministry of Defence
	*				Jim Cooper Prospect
•				•	Don Touhig MP Under Secretary of State for Defence – Chair
•					Ian Andrews CBE TD 2nd Permanent Under Secretary, Ministry of Defence
•		•	•		Dr. Gwynneth Flower FIEE Chair of the National Met. Service Commissioning Group
•					Peter Schofield Shareholder Executive
•					Prof. Roy Anderson FRS Chief Scientific Advisor, Ministry of Defence
•		•			David Filkin CBE Non-Executive Director (Advisor on Public Met. Service)
•					David McMillan Department for Transport
•					Henry Derwent Department of the Environment, Food and Rural Affairs (replaced Dr. Colin Church)
			•		Dr. Bruce Callander Ministry of Defence
			•		Cpt. Joe Collins Maritime and Coastguard Agency
			•		Philip Hopwood Ministry of Defence
			•		Andrew Lane BBC
			•		David Richardson Department for Environment, Food and Rural Affairs
			•		Gp. Cpt. Nick Seward Royal Air Force
			•		John Curtin Environment Agency

* Invited attendees • Replaced by Tom Watson MP 05.05.06

Register of Interests

The Met Office maintains a public Register of Interests which details company directorships and other significant interests held by Board members which may conflict with their management responsibilities. Persons wishing to view the Register should apply in writing to the Director Finance and Corporate Services, Met Office, FitzRoy Road, Exeter, EX1 3PB.

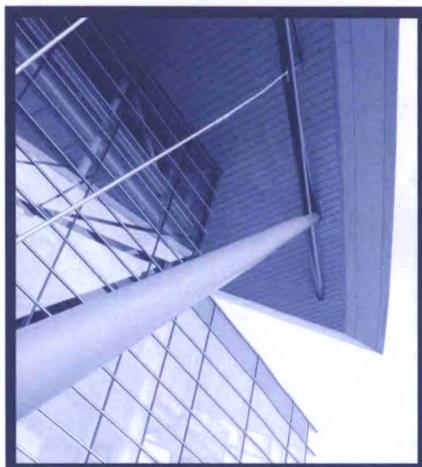
Highlights of 2005/6

- **Achieved** all of our challenging Key Performance Targets for the first time ever, raising the bar for years 2–5 of our successful Corporate Plan
- **Published** a winter forecast to warn our customers to prepare for colder-than-average conditions, becoming a critical partner in their contingency planning
- **Alerted** emergency responders to the movement and toxicity of smoke from a fire at the Buncefield Oil Storage Depot, advising on its ground level effects
- **Warned** British Embassies in America of the formation and path of Hurricane Katrina, allowing early warnings to be issued and evacuations made
- **Contributed** vital knowledge to the Stern Review on the economic challenges of climate change, showcasing our world-class research capabilities
- **Reached** agreement with the BBC to broadcast Met Office weather across all BBC platforms for another four and a half years, broadening our reach
- **Introduced** a 4 km grid model for the UK to predict localised severe weather and other meteorological events in greater detail, improving our forecast accuracy
- **Started** a programme to focus civil forecasting at our Exeter headquarters and at our centre in Aberdeen; delivering substantial savings to our customers whilst managing the impact of job losses sensitively and sympathetically
- **Established** a team of six Public Service Weather Consultants in the regions, helping the Met Office respond quickly to civil emergencies
- **Confirmed** plans to double our weather radar capability in Scotland at no extra cost to the public



HIGHLIGHT 2005/6

We published a winter forecast to warn our customers to prepare for colder-than-average conditions.



HIGHLIGHT 2005/6

The Met Office five-year plan sets out our intention to develop an even more effective role within Government; one which strengthens our position as the trusted advisor on weather and climate change-related policy.

Our five-year plan

In July 2005, the Met Office published a five-year Corporate Plan, endorsed by the Met Office Board and the Met Office Owner's Council, and shared it widely with staff, key stakeholders and the public.

It set out our intention to develop an even more effective role for the Met Office within Government; one which strengthens our position as the trusted advisor on weather and climate change-related policy while helping government departments and agencies meet their high-level objectives and, together, deliver better, joined-up services to customers.

The Plan also recognised our need to provide a cost effective public meteorological service for the nation whilst generating revenue through our non-government business. As a Trading Fund, this means that much of the money needed to invest in technology and infrastructure to safeguard our future must be generated by profit derived from our commercial products and services.

The Corporate Plan is being implemented through the following five key themes:

- Demonstrating the value of our services to **government**;
- Improving the recognition and quality of our services to **the public**;
- Creating a thriving **commercial** business;
- Developing an **excellent organisation**;
- Building **international** partnerships.

Together, these lay the groundwork for success at the Met Office over five years and communicating them has been a priority in 2005/6 to ensure the most critical elements were in place — the active commitment of Met Office staff to the Corporate Plan and the essential buy-in of our key stakeholders.

The next five sections of this Annual Report and Accounts highlight our achievements over the first year of the Corporate Plan under its five key themes, and set a strong foundation for the Met Office over the coming years.

All five KPTs achieved for the first time ever

☑ Forecast accuracy

- ☑ Customer-supplier agreements
- ☑ Commercial profitability
- ☑ Staff satisfaction
- ☑ Return on capital employed

Key performance target 2005/6 – Forecast accuracy

To demonstrate an increase in accuracy we will:

[a] achieve an increase in the value of the Numerical Weather Prediction Index (measuring forecasting skill) of at least 1.2 to 114.9;

[b] achieve for the next day 11 cities forecast at least 83% on accuracy for maximum temperature within 2 °C of forecast, and at least 78% on accuracy for minimum temperature within 2 °C of forecast (36-month rolling mean);

[c] achieve for the next day 11 cities forecast a positively orientated Brier Score of at least 0.855 for probability of precipitation (36-month rolling mean).

83% accuracy

for maximum temperature

Commentary – Forecast accuracy

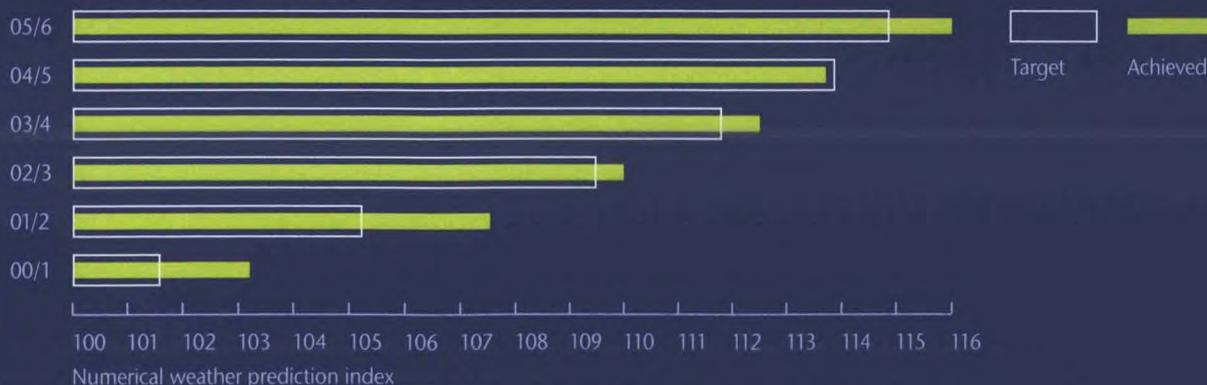
In 2005/6:

[a] the Numerical Weather Prediction Index comfortably surpassed its target of 114.9 with a year-end figure of 116.0;

[b] both temperature elements of the 11 cities forecast were achieved with a 36-month rolling mean of 83% accuracy for maximum temperature and 78% accuracy for minimum temperature, within 2 °C of forecast;

[c] a Brier Score of 0.855 for probability of precipitation over 36 months was achieved.

Our performance over the past six years



Management commentary

Our government strategy

Demonstrating the value of our services

The Corporate Plan focuses on how the Met Office can help government departments achieve their high-level objectives and seeks to make the Met Office the first point of contact for all their weather and climate information needs.

Highlights of the year:

- **Cold winter forecast** — helping planners and resilience teams prepare for winter;
- **Buncefield Oil Storage Depot fire** — analysing the movement and toxicity of the smoke;
- **Hurricane Katrina** — sending forecasts and other vital information to America;
- **Climate programme** — contributing to an increasing awareness of climate change across Government, industry and the public;
- **Operational oceanography** — working to make operational oceanography routinely available across all ocean models and for major events;
- **Customer-supplier agreements** — defining and costing our services for MoD, National Meteorological Service (NMS) and Department for Environment Food and Rural Affairs (Defra).

Cold winter forecast

For the first time ever in 2005/6 we were able to publish a winter forecast based largely on our statistical method linked to the North Atlantic Oscillation. This statistical correlation between sea-temperature anomaly and colder-than-average European winters, works on about two out of three occasions. This year, there was also an indication for a drier-than-average winter over much of the UK; and prompt release of this information recognised our duty of care to Government partners and others to share information to help contingency planning.

A successful media campaign ensured we achieved 71% awareness of the winter forecast among the general public. We also organised a briefing event for decision-makers in the utilities, finance and insurance, marine, aviation, transport and engineering sectors as well as some local authorities, regional resilience planners and charities. At the event, we talked about the science behind the forecasts and provided an update on the latest winter predictions. Delegates then had the opportunity to discuss their contingency plans with experts from our business and long-range forecasting teams.

Key ministerial meetings

As a direct result of this work, the Met Office was invited to two key Ministerial meetings — the first with Chief Executives of the UK's main road, rail and air transport organisations to brief the Secretary of State for Transport, the Rt. Hon. Alistair Darling MP, on plans to cope with the cold weather; and another with Energy Minister, Malcolm Wicks MP, providing him with detailed winter briefing ahead of his meeting with energy industry leaders.

Updates to the winter forecast

As part of the winter campaign, we published regular updates to the forecast on the Met Office website, helping planners and resilience teams adapt their readiness through the winter.

The final figures for the full winter period revealed that mean temperatures were the lowest since 1996/7 for England and Wales, and that all regions of the country had a drier-than-average winter, in line with our probabilistic forecast. In the event, the winter fortunately had little severe impact for most industry sectors although the combined dry and cold conditions through to March 2006 put water, energy and some other companies and their supplies under heavy pressure. In particular, the Rt. Hon. Patricia Hewitt MP, Secretary of State for Health, commended the National Health Service for coping well through the coldest winter for a decade, assisted by our forecasts.

Meanwhile, much of the rest of Europe experienced a very severe winter with, in some circumstances, tragic consequences. We are working with other European forecasting centres to establish why they did not give long-range notice of the colder-than-average conditions.

Many of our customers and Government stakeholders have since expressed an interest in receiving future seasonal forecasts and we plan to develop our seasonal forecasting capability further, using scientific research to improve our operational services.

Buncefield Oil Storage Depot fire

When the Buncefield Oil Storage Depot near Hemel Hempstead, Hertfordshire exploded in the early hours of 11 December 2005, Met Office experts were among the first to respond to the incident by joining a multi-agency team that included the emergency services, the voluntary services, local authority staff, other central government officials and local residents.

An intense fire had quickly engulfed more than 20 large storage tanks at the depot and continued to burn for several days, emitting a vast plume of thick black smoke into the atmosphere which dispersed over southern England and beyond. Our Environment Monitoring and Response Centre (EMARC) kept a close eye on the plume, using computer dispersion models to predict its development and movement. It also flew a special high-tech Met Office/ Natural Environment Research Council (NERC) aircraft into the smoke to determine its composition and kept the emergency response team fully apprised on the changing situation; particularly on how much pollution could reach the ground and affect air quality.

As the fire slowly came under control, EMARC also predicted the impact of the remaining smoke according to local weather conditions; advising that levels in the immediate area might increase as the plume – largely made up of carbon dioxide, carbon monoxide and hydrocarbons – ceased to be carried high into the atmosphere. Acting on our advice that the smoke was non-toxic but could be unpleasant for local residents, particularly those with lung conditions, the Health Protection Agency closed a number of schools in the area as a precautionary measure.

Hurricane Katrina

Of the tropical cyclones that occurred in 2005, during an exceptionally active Atlantic hurricane season, Katrina was undoubtedly the costliest ever to have struck the USA in terms of damage to infrastructure, and in the top five for loss of life. Tracking the formation and path of the hurricane from our Exeter headquarters, the Met Office sent forecasts and other vital weather information to the National Hurricane Center in America every 12 hours, predicting the location of landfall to an accuracy of 60 km as

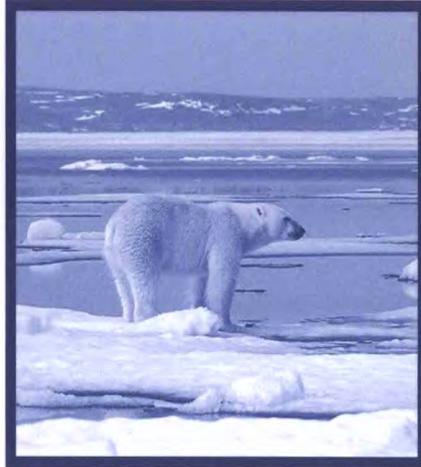
early as three days before Katrina hit and caused a vast swathe of damage along the US Gulf Coast.

As Katrina developed into a category 1 hurricane, crossing southern Florida and heading towards New Orleans, we kept the Cabinet Office, Department for International Development (DFID) and the Foreign and Commonwealth Office (FCO) fully briefed. FCO was delighted with the timeliness of our hurricane forecasting and our world-leading capacity in predicting the track and landfall of hurricanes. It has thus commissioned a hurricane forecasting service specifically tailored to the British Territories and protecting UK citizens abroad.



HIGHLIGHT 2005/6

Our Environment Monitoring and Response Centre (EMARC) kept a close eye on the Buncefield plume, using computer dispersion models to predict its development and movement.



HIGHLIGHT 2005/6

The climate change debate was furthered in 2005/6 against a backdrop of a series of weather-related disasters; and the result is a wide acceptance that climate change is happening.

Climate programme

There is increasing awareness of climate change across Government, industry and the public, due in part to the high importance the Prime Minister attached to the issue, putting it at the top of the G8 agenda in 2005. The debate was also furthered in 2005/6 against a backdrop of a series of weather-related disasters; and the result is a wide acceptance that climate change is happening.

Our Climate Prediction programme, funded by Defra and the MoD through the Government Meteorological Research programme, has been delivered successfully this year. 2005/6 has, for example, seen many contributions to the fourth Intergovernmental Panel on Climate Change assessment report due in 2007. This includes a range of new climate predictions including assessments of uncertainty, and numerous papers representing significant advances in our understanding of climate change and its impacts. Met Office Hadley Centre output this year also included climate observations and climate model predictions that are made freely available to enable Government, industry and individuals to make informed decisions on climate change issues.

The Rt. Hon Gordon Brown MP, Chancellor of the Exchequer, announced on 19 July 2005 that he had asked Sir Nick Stern to lead a major review of the economics of climate change, to understand more comprehensively the nature of the economic challenges and how they can be met, in the UK and globally.

Sir Nick Stern and members of the Treasury visited the Met Office for an overview of the latest state of knowledge on the climate. Subsequently, our Hadley Centre has submitted a significant amount of climate-related information to the Stern Review, including recent research into the uncertainties of climate change.



HIGHLIGHT 2005/6

Our Mobile Met Unit — a Sponsored Reserve Regiment of the RAF — was deployed in a range of locations including Afghanistan, Iraq and the Balkans this year.

Operational oceanography

In 2005/6 we continued to make very good progress in the transition to a new ocean model framework called the Nucleus for European Modelling of the Ocean (NEMO) that will, in time, become the single model used in all ocean modelling at the Met Office. Elsewhere, we defined and initiated a programme of work with our partners that together form the National Centre for Ocean Forecasting (NCOF) — a collaboration between the Met Office, Proudman Oceanographic Laboratory; Plymouth Marine Laboratory; National Oceanography Centre, Southampton; and Environmental System Science Centre — and made an excellent start on a project to implement a much improved operational ocean surface temperature and sea-ice analysis (OSTIA) system. Testing our capabilities in making operational oceanography routinely available, the Met Office also supplied surface current forecasts to the Fleet Weather and Oceanographic Centre at Northwood in support of the Royal Navy's Trafalgar 200 festival marking the bicentenary of Admiral Lord Nelson's death at the Battle of Trafalgar.

Customer-supplier agreements

A major project began in 2005/6 to define in costed-output terms the services to be provided to key central government departments and to agree formal Customer-Supplier Agreements (CSAs) with each such department. As part of this activity, the Met Office undertook to pilot with MoD a new incentive pricing mechanism which allows the benefits of cost-reductions to be shared between both organisations.

The resulting CSAs, put in place by 31 March 2006 between the Met Office and Defra, MoD and the National Meteorological Service Commissioning Group (NMSCG), form the overarching agreements which set out the agreed terms and conditions and, where appropriate, the associated fully-costed output-based service definitions against which delivery and performance can be measured.

MoD

In agreeing the new CSA with the MoD this year, the Met Office has been involved in critical discussions with our key customer about the UK's future defence needs; acting as supplier, business partner and consultant to ensure objectives contained within the CSA were mutual and clearly understood.

Our scientists, this year, continued to work with MoD on the Future Defence

Environmental Capability along with other research and development projects, such as the new NEON (electro-optical) prediction system and the Joint Environmental Dynamic Data Server that will help the military exploit a coherent digital environmental dynamic data source for operational planning.

Forecasters and observers have served with frontline forces for more than 40 years and personnel in our Mobile Met Unit — a Sponsored Reserve Regiment of the RAF — were deployed in a range of locations including Afghanistan, Iraq and the Balkans this year.

In doing so, the Met Office continued to align its meteorological support with the changing requirements of our Armed Forces, directly improving the UK's strategic defence advantage and helping minimise collateral damage during operations.

In 2006/7 the Met Office will, with MoD customers, further refine the output-based service definitions in preparation for the introduction as appropriate of incentive pricing-based service delivery from April 2007 onwards. Met Office and Royal Navy forecasters who currently work closely together in specialised areas will also increasingly undertake joint training in the common core subjects.

National Meteorological Service

A new CSA has been agreed between the Met Office and the NMSCG for delivery of the National Meteorological Service (NMS) on the basis of fully-costed output-based service definitions.

The NMS is currently delivered through two channels: the Public Meteorological Service (PMS) and the National Meteorological Programme (NMP). The PMS outputs deliver 'free at the point of use' forecasts and warnings to the public and professional partners responsible within Government for the protection of life and the environment, based on its knowledge of customers' needs. The NMP delivers the intermediate outputs on which PMS and other direct services to Government are based and is funded by the MoD, Civil Aviation Authority (CAA) and sources such as the European Union (EU).

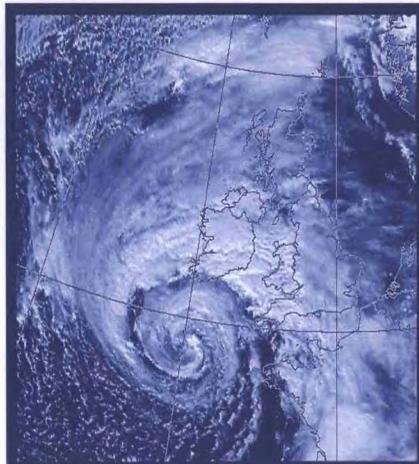
User reference groups were set up by the NMSCG in 2005/6 to inform the future development of the 'free at the point of use' services within the PMS and to move the focus of the NMS towards performance management of output-based services.

During 2006/7 the Met Office will work with the NMSCG to review the PMS and ensure that the full scope of PMS requirements is identified and translated into specific customer outputs. Following this review, the existing PMS and NMP will be merged to form a single programme encompassing the underpinning and operational activities required to deliver the defined customer outputs.

Defra

This year the 2006/7 Climate Prediction Programme (CPP), supporting Defra climate policy objectives, was agreed as part of a new Defra-wide CSA. The new CSA is based on agreed standard conditions for the supply of research and development and data services. The joint intention is that all future research agreements with Defra will be performed under the new CSA, whilst already existing research contracts will complete under their current contract terms. Research outputs have now been defined and the Met Office is working with Defra towards a new output-based and longer-term CPP agreement to commence from April 2007.

During 2006/7 we will explore with Defra the introduction, where applicable, of incentivised pricing for output-based services and will continue to extend and develop the CSA to encompass standard terms for operational and international representational services.



HIGHLIGHT 2005/6

The PMS outputs deliver 'free at the point of use' forecasts and warnings to the public and professional partners responsible within Government for the protection of life and the environment.

All five KPTs achieved for the first time ever

- ☑ Forecast accuracy
- ☑ **Customer-supplier agreements**
- ☑ Commercial profitability
- ☑ Staff satisfaction
- ☑ Return on capital employed

Key performance target 2005/6 – Customer-Supplier Agreements and Defence pricing

To demonstrate our move to output-based measurement, we will:

[a] create Customer-Supplier Agreements (CSAs) which clearly define the outputs and the costs associated with them for key central government customers by the end of FY 2005/6;

[b] agree CSAs with key central government customers by the end of FY 2005/6 which will form the framework for all products and services provided in FY 2006/7;

[c] develop, analyse and evaluate a new incentivised pricing mechanism for our Defence customer by the end of FY 2005/6.

100%

implementation of CSAs with key customers

Commentary – Customer-Supplier Agreements and Defence pricing

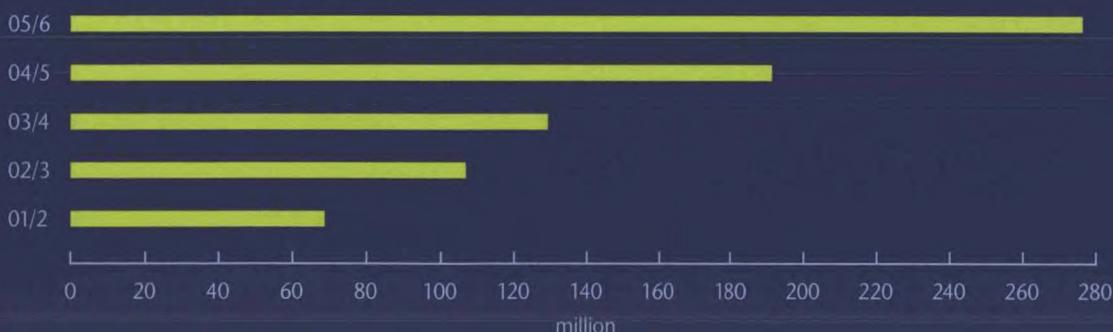
In 2005/6:

[a] CSAs were created which clearly define the outputs and associated costs provided to MoD, Defra and the NMSCG by the Met Office;

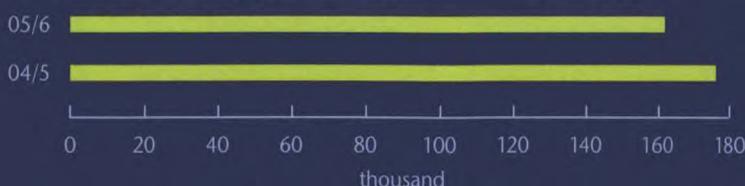
[b] all CSAs were signed by the customer and the Met Office by the end of the year, meeting the target;

[c] a new incentivised pricing scheme was piloted with MoD and the next steps jointly agreed, allowing both organisations to share the benefits of cost reductions.

Annual Met Office website page impressions



Total Met Office customer centre enquiries



Our public strategy

Improving the recognition and quality of our services

The Corporate Plan describes our aims for services to the general public. Broadly speaking, these are the services that are freely available at the point of use.

Overall, we aim to provide the public with access to ever more useful, accurate and verified products and services; to create and deliver new products and services based on our science; and to make these available through an increased number of delivery channels.

Highlights of the year:

- **Public Weather Service Consultants** — supporting civil emergencies work in the regions;
- **Met Office online** — improving the website and exploiting new technologies;
- **11 cities forecast accuracy measure** — explaining our accuracy more accessibly;
- **Observations** — working in partnership to upgrade and centralise our systems;
- **Numerical Weather Prediction** — improving the NWP Index, investing in 4D-Var and introducing a 4 km UK model;
- **Supercomputer** — increasing forecast reliability and accuracy with the NEC SX-8.

Our Public Weather Service Consultants

A team of six regionally-based Public Weather Service Consultants has been set up to enable regional access to Met Office capabilities and support civil emergencies work. The team has a critical role to play in UK Resilience — a remit of the Civil Contingencies Secretariat at the Cabinet Office that is working to improve the emergency preparedness of the UK.

As well as helping to develop regionalised risk assessments, our Public Weather Service Consultants actively take part in large-scale exercise planning and role plays which test the responses of various agencies, including the Met Office, to civil emergencies. In addition, 500,000 Public Weather Service leaflets raising awareness of our severe weather warnings have been distributed to 600 Tourist Information Centres and 150 libraries across the UK.

Met Office online

The Met Office website (www.metoffice.gov.uk) has undergone a number of changes this year, bringing severe weather warnings more clearly to the front of the site, with further changes planned in 2006/7 to position it as the authoritative source of information on high-impact weather events and climate prediction research. We have also begun to investigate the potential use of new technologies (i.e. digital and WAP) from 2006/7. Our media partners remain crucial to our role as they are our primary means of providing 'free at the point of use', highly accessible information to the public.

11 cities forecast accuracy measure

In 2005/6, the Met Office took steps to improve the public accessibility of its Key Performance Targets (KPTs) by introducing the 11 cities forecast accuracy measure. Published on the website, it points to both the accuracy of our automated forecast and the value added by our forecasters' input. Each forecaster involved in the process has a personal objective directly linked to the accuracy of the 11 cities forecast; and each day our forecasters are assessed and systematic model biases identified to help improve subsequent forecasts.

From 2006/7, the accuracy of our automated forecasts will be measured across 180 sites, while the value added by our forecasters will continue to be measured at the existing 11 sites. Following a recent Royal Met Society study, we also propose to change the accuracy measure for the probability of precipitation to a skill score from next year.

Observations

Partnership was a key strategic theme in observations, in a year which saw the Met Office, together with the Environment Agency, install weather radars at Thurnham in Kent and Dean Hill in Wiltshire. The year also marked the launch of EUMETSAT's second new generation weather satellite (MSG2) from Kourou in French Guiana. EUMETSAT is an intergovernmental organisation of 19 European Member States which jointly funds the meteorological satellites that monitor the evolution of weather and climate. Satellites are delicate instruments, so when EUMETSAT's MSG2 – or Meteosat Second Generation 2 – satellite becomes operational in August 2006 (at which point it will be renamed Meteosat-9) it will significantly improve resilience as both satellites begin to work in tandem.

Elsewhere, the Met Office continued to have a strong international influence in observations. On behalf of Defra, for example, we again represented the UK at meetings of the Group on Earth Observations (GEO) – a body consisting of 60 countries, the European Commission and 43 international organisations, each of whom is committed to the sharing of weather and environmental observations across the world.

2005/6 was also characterised by the upgrade and centralisation of many of our systems. For example, the Met Office centre for real-time monitoring of weather observations was relocated to our headquarters in Exeter. Similarly, our engineering service centres in Larkhill in Wiltshire and Camborne in Cornwall were combined and moved to Exeter. We also continued to upgrade our observing network, which included updating our radiosondes – the small, lightweight packages of instruments suspended from helium balloons that measure pressure, temperature and humidity at regular intervals to a height of 20–30 km.

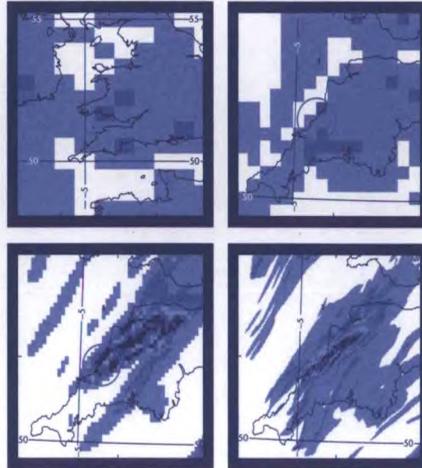


HIGHLIGHT 2005/6

The year marked the launch of EUMETSAT's second new generation weather satellite (MSG2) from Kourou in French Guiana. The satellite becomes operational in August 2006 (at which point it will be renamed Meteosat-9).

HIGHLIGHT 2005/6

These images show the Boscastle storm, re-run in older, low resolution models and the models of the future.



Clockwise from top left:

1986 60 km resolution

Low resolution. Light rain everywhere – a poor forecast.

1999 12 km resolution

Increased detail but only sufficient for a general forecast.

2006 4 km resolution

This model predicts the violent storm but lacks geographical accuracy.

2011 1 km resolution

In future, 1 km models will accurately predict the intensity and location of such storms.

Numerical Weather Prediction

Within the Numerical Weather Prediction (NWP) area, the most important achievement in 2005/6 was the increase in forecast accuracy, as measured objectively by the NWP Index based on comparison with observations. Several scores from the global and UK versions of the model are combined in the Index to summarise the overall forecast accuracy. Improvements this year were principally the result of investment in the four dimensional data assimilation (4D-Var) scheme – a process that takes into account time, as well as the three dimensions of space, when assimilating observational information into the model. Together with improvements in the computer models and post-processing, and the introduction of ensembles, this has led to more reliable forecasts of different weather elements.

Several upgrades to the NWP system were implemented during the year to improve short-range forecasting. Amongst these, the refinement of the global model grid-length to 40 km and the implementation of 4D-Var in the regional model were of particular significance. A major milestone was the introduction of a 4 km grid model to improve UK forecasting, particularly of localised severe weather. Each grid point in the models is like a pixel in a digital photograph, so the smaller the grid-length, the better the resolution of the picture. When it becomes fully operational next year, the 4 km grid model for the UK will routinely help forecasters to see in detail what may happen on a local scale, resulting in more detailed and accurate very short-range forecasts of fog, cloud, precipitation and severe convective storms.

Supercomputer

Many of these achievements were only made possible this year by our supercomputer – the NEC SX-8 – that was installed in February 2005, passed its acceptance tests in March and became fully operational in April last year. A technology strategy was developed in tandem with the installation to define and cost the essential upgrades to our IT infrastructure necessary to take advantage of the increased capacity and data processing powers of the new supercomputer.

All five KPTs achieved for the first time ever

- ☑ Forecast accuracy
- ☑ Customer-supplier agreements
- ☑ **Commercial profitability**
- ☑ Staff satisfaction
- ☑ Return on capital employed

Key performance target 2005/6 – Commercial profitability

To show a profit contribution of £2.8 million from services provided on a commercial basis.

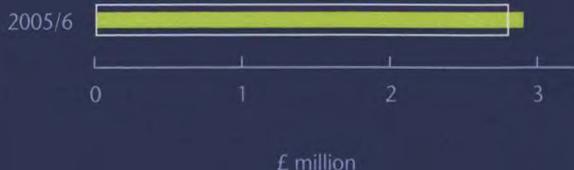
£2.9 million
commercial profit exceeds our target by £120,000

Commentary – Commercial profitability

In 2005/6:
Focused efforts across the organisation led to commercial profit finishing the year at £2.9m.

Commercial profit in 2005/6

☐ Target ■ Achieved



Our commercial strategy

Creating a thriving and profitable business

The Corporate Plan puts commercial success at the heart of our future strategy by calling for a steady increase in revenue and, more critically, profit over five years to support new investment. From aviation to marine and energy to retail, our priority is to develop services that help businesses worldwide thrive by managing the risks and making the right business decisions based on the weather and climate.

Highlights of the year:

- **BBC** — securing a new four and a half-year contract;
- **Road** — ensuring safe traffic flow in north-west Scotland;
- **Rail** — helping companies respond to everyday weather challenges;
- **European energy** — conducting an unprecedented climate change scoping study;
- **Corse Hill** — doubling our radar capacity north of the border;
- **Health forecasting** — promoting greater take-up across the NHS.

Public service broadcasting

Broadcast of the Public Met. Service — including weather forecasts, severe weather warnings, the shipping forecast and the inshore waters forecast — to reach as many and as wide-a-spread of the UK population as possible, is a critical part of the Corporate Plan. The BBC, with its own aims of increasing and broadening its reach, is a logical partner for the Met Office in this.

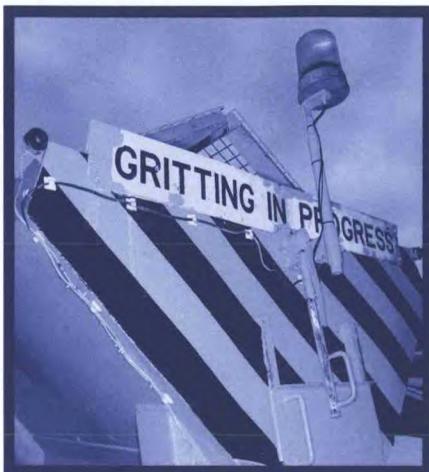
At the beginning of October 2005, the Met Office reached agreement to work with the BBC for another four and a half years to broadcast Met Office weather across all BBC platforms, including BBC1, News24, Radio 4, 5Live and bbc.co.uk. In future, and for the first time, delivery of our data to the BBC will be linked to a key performance indicator (KPI) and inflation-related (RPI) increases from one year to the next will be subject to meeting this KPI — a positive move for the BBC and the Met Office.

In May 2005, we supported the BBC in introducing its new weather graphics system, attracting great interest and some controversy. The aim was to improve the clarity of weather broadcasts and to deliver more, and better, information targeted at those who need it. Because of their exposure to new television channels, the internet, computer gaming technology and mobile devices, people today have high expectations, so the latest BBC designs give viewers a realistic-looking forecast with rain dripping and clouds casting a shadow on the land. Tours around the country and the new dynamic graphics help Met Office presenters better communicate a particular weather story to BBC audiences. Another key feature of the new system is that weather data are consistent across all BBC platforms. Research by the BBC suggests that these new weather broadcasts are proving popular, now that people have had a chance to get used to them.

Independent broadcasting

A new three-year contract was also awarded to the Met Office this year by GMTV, Europe's largest Independent Television breakfast show. National weather bulletins are provided throughout the broadcast using the latest weather graphics technology.

Despite competition, this contract was awarded on the quality of our forecasting and the reliability of our media team. Our joined up approach for this multi-media broadcaster comprises the provision of value-added consumer weather services including web and telephone-based solutions in addition to the compelling TV bulletins.



HIGHLIGHT 2005/6

The Met Office issues more than 75,000 individual forecasts in a typical winter for roads around the UK.

Marine

Operated by a team based at the Met Office, Aberdeen, our marine services this year secured a contract with Chinese undersea pipeline company, SB Submarine Systems. In doing so, the company dropped a forecasting service delivered locally in Asia (by one of our major competitors in the marine market) in favour of Met Office forecasts delivered remotely from the UK.

There have been a number of other contract wins and renewals in the marine sector this year. Offshore contractor Saipem asked us to look after its forecasting for 2006/7 while Cal Dive chose us to provide forecasting for its oil well intervention services. Oil company Marathon and underwater engineering company Subsea7 also renewed their contracts with the Met Office.

Road

The Met Office won a five-year deal, beginning in 2005/6, with Scotland TranServ — an executive agency of the Scottish Executive formed in January 2006 that is tasked with managing and maintaining the north-west Scottish trunk road network. Informed by a network of sensors on major roads and by our forecasters' input, the Met Office issues more than 75,000 individual forecasts in a typical winter for roads around the UK. As part of our new partnership with Scotland TranServ, we also deliver the site-specific ice prediction forecasts that enable the agency to ensure safe traffic flow in icy and snowy road conditions. Likewise, our 24-hour forecasts enable gritting crews to be placed on standby; while our two- to five-day forecasts help it gauge gritting requirements further in advance.

In preparation for winter 2005/6, the Met Office developed Snow Desk in conjunction with Atkins — the technical consultants of the Highways Agency (HA). Run over two days, and for the first time in Birmingham, Snow Desk tested the responses of various agencies — including the Met Office, the police and Atkins/HA — to a fictitious high-profile event where the weather was a major influence in its successful management. With seven new Atkins/HA regional control centres taking over a range of motorway traffic roles from the police (including signals, CCTV monitoring and traffic incident response) Snow Desk offered a valuable test of the centres' winter emergency preparedness.

Rail

Being an island, the UK has always been at the mercy of the water surrounding it and throughout the centuries many severe storms and flooding events have ravaged coastal areas. But if we know in advance what is headed our way, we can take steps to reduce loss of life and damage to homes and businesses. That is why we reached agreement in 2005/6 with Network Rail to supply coastal forecasts for three years for Scotland to help keep the travelling public safe and the country moving.

Most types of extreme weather can cause problems for the rail network — the autumn leaf-fall period, for example, brings with it a unique set of problems. Leaf-fall can lead to trains having difficulty with accelerating and braking so train drivers must adjust their driving style, particularly to accommodate increased braking distances in the slippery conditions. Leaf-fall depends on a variety of weather factors such as frost, wind, precipitation, the amount of daylight and temperature. It also depends on the types of trees growing in a particular location. To help predict where problems will occur, the Met Office has joined forces with specialist environment consultancy ADAS to produce a daily leaf-fall and adhesion forecast and in 2005/6 produced a leaf-fall scoping study for the Chiltern Line.

Utilities — Energy

Climate change scoping study

The Met Office has been commissioned to provide an unprecedented climate change scoping study, agreed by three energy market project members (EDF Energy, E.ON-UK and National Grid). The objective for phase 1 — the scoping study — is to understand what is required in a later in-depth study (phase 2) on the effects of climate change across the UK, and following that Europe, on the entire energy market, looking at the issue from the physical, corporate and socio-economic perspectives.

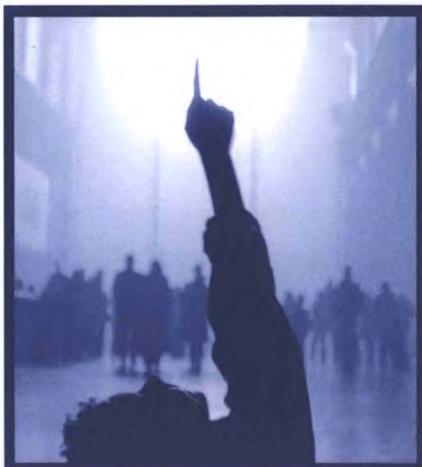
Demand forecasters and energy traders at E.ON also take part in a weekly conference call with Met Office experts, allowing discussion of medium-range, monthly and seasonal forecasts and ensuring that E.ON staff are kept in touch with the latest weather trends across the UK, Europe and America.

EDF Energy

In January 2006, EDF Energy announced that, following open competition, the Met Office was its preferred supplier for wind-farm forecasts and consultancy services. The amount of profit generated for the Met Office by this new contract will be directly linked to the number of agreements EDF Energy signs with the owners/operators of existing wind-farms and the quantity of new wind-farms that EDF Energy commissions.

Corse Hill

The Met Office and Scottish Power have agreed a deal that will result in the site of our Corse Hill radar in Scotland being transformed into Europe's largest onshore wind farm. The existing radar will be replaced by new equipment at two other sites, giving the people of Scotland (especially Edinburgh) much improved coverage. The deal is worth a total of £4.9 million to the Met Office over the next 15 years.



HIGHLIGHT 2005/6

The Met Office has been commissioned to provide an unprecedented climate change scoping study.

Aviation

All of our Civil Aviation Authority (CAA) performance indicators were exceeded this year while our SADIS (satellite distribution system) targets were met in full, with implementation of portable network graphics (PNG) formatted significant weather charts on track for completion by November 2006, as required by the International Civil Aviation Organization (ICAO).

The sale of value-added products delivered by the Met Office direct to airlines, airports and Air Traffic Control continues to grow. Good examples are our de-icing service and specialised training to the whole of the aviation community. During the year, the Met Office also signed a revenue share agreement with the world's third largest pre-flight briefing company SITA, with a view to selling value-added web-based products to a significant number of the world's airlines.

As the Volcanic Ash Advisory Centre (VAAC) for the UK, North Sea and Iceland, the Met Office similarly met all of its targets in 2005/6, developing a new volcanic ash graphical display that is now being tested.

Health forecasting

In a unique collaboration with the National Health Service (NHS), the Met Office issues twice-weekly risk forecasts of Chronic Obstructive Pulmonary Disease (COPD) – a serious respiratory condition affecting more than 1.5 million people in the UK, particularly during the winter. Following a successful trial in 2004/5, involving eight Primary Care Trusts (PCTs), the service was refined for winter 2005/6 with greater focus on training and education of both health care professionals and COPD patients.

To evolve this important business opportunity further, in 2005/6 we investigated more cost effective ways of delivering forecasts and messages direct to patients, including outbound calling from NHS Direct, forecasts in local newspapers and text messaging. In total 35,000 patients across 36 PCTs benefited from the service this year and we are now seeking a partner to help embed the service further within the NHS from 2006/7.

New business development

A new Business Development team was established in 2006 at the Met Office to identify and assess longer-term opportunities for commercial business growth. All new ideas for commercial exploitation will be fully explored and those that are most viable invested in. This will follow careful assessment of customer needs and increasing engagement with Met Office staff to turn their ideas into commercial propositions.



HIGHLIGHT 2005/6

The Met Office is developing a new volcanic ash graphical display that is now being tested.

All five KPTs achieved for the first time ever

- ☑ Forecast accuracy
- ☑ Customer-supplier agreements
- ☑ Commercial profitability
- ☑ **Staff satisfaction**
- ☑ Return on capital employed

Key performance target 2005/6 – Staff satisfaction

Benchmark for staff perception of leadership:

To establish with Met Office staff a benchmark of our leadership and the level of satisfaction with implementation of the Corporate Plan,

measured by specific questions in our Employee Attitude Survey. Future surveys will measure improvements in staff satisfaction and

their perception of Met Office leadership.

64% proud
to work for the Met Office

Commentary – How we achieved the target

In 2005/6:

The 69% response rate to the Employee Attitude Survey was higher than any previous similar survey at the Met Office.

The results thus created a benchmark for future surveys, particularly with regard to the successful implementation of our Corporate Plan and the

perception among staff of leadership at the Met Office

Extract from Met Office Employee Attitude Survey

Question 7. What would you use to gauge the Met Office's overall management performance?



Developing an excellent organisation

As an organisation, the Met Office will achieve excellence by working together as one team while forging strong external partnerships across Government and business, building a solid foundation for the Met Office for years to come to the benefit of all our customers and staff.

Highlights of the year:

- **Our people** — putting the right people, with the right skills, in the right place;
- **Diversity** — bringing fresh ideas and perspectives to the Met Office;
- **Met Office College** — offering domestic and international forecaster training;
- **Centralising civil forecasting** — focusing civil forecasting at our Exeter headquarters and at our centre in Aberdeen;
- **Corporate Social Responsibility** — meeting our responsibilities on a social, environmental and economic level.

Our people

Our staff appraisal system was reviewed in 2005/6 and a new system (Electronic Planning and Review Process – EPRP) introduced from 1 April 2006. The key driver for the changes was to ensure that the appraisal system is fully aligned with the aims and objectives of the organisation and concentrates on a balance between outputs and personal development. Preparatory and supporting work this year included piloting the revised performance assessment form with groups of staff, rolling out a programme of mandatory training on the new system for managers and jobholders and publishing user-friendly guidance notes. All of this work has been carried out in close liaison with Prospect, the recognised Trade Union for Met Office staff. The jobholder's overall performance rating will be entered into the Met Office Human Resources (HR) department via a self service HR system called Yourself, saving time and dramatically cutting down on paper resources. Yourself had already undergone development in 2005/6 to record the periods of sickness absence of individual staff and, over time, will be further adapted to book and keep a record of staff training and development. We also plan to develop a career framework to provide staff with a better understanding of how their job fits within the organisation and what is required for career advancement. The idea is to make more transparent the links between staff performance and assessment, development and training, and pay and career progression.

Changes at the top

Following consultation with the MoD, the Executive team was restructured this year to provide the framework to lead and support the strategic direction of the Met Office. These changes led to revisions at Senior Civil Servant and senior management (JL1) level.

We have begun to put in place training plans for all levels of the organisation to ensure we have the right mix of skills to deliver the Corporate Plan.

In support of this activity, we will be conducting a skills audit to identify the skills we have already while a long-term scoping study, to be developed in 2006/7, will identify the skills we will need in the future. In this way, from 2005/6 we aim to recruit and retain the right people in the right jobs and link the personal objectives of all staff to the successful delivery of the Corporate Plan.



HIGHLIGHT 2005/6

The five key themes of the Corporate Plan have been addressed one by one on a monthly basis with cascaded presentations complemented by pocket sized step-by-step guides.

Diversity

The Met Office is committed to working towards a diverse organisation and to valuing and utilising the visible and non-visible individual differences that people bring.

Last year, we established a Diversity Council made up of elected representatives from across the organisation. We have now published a Diversity Action Plan for 2005–2007, which sets out our approach to fostering a culture of dignity and respect. An intranet-hosted website was launched in 2005/6 to provide staff with a ‘one-stop-shop’ on diversity matters, while our Diversity Advisers have begun awareness-raising workshops for all staff, including the Executive team.

Disabled persons

We are committed to a policy of Equal Opportunity, recognised in 1999 through Positive about Disabled People accreditation, including a Guaranteed Interview Scheme for applicants with disability who meet the criteria for advertised vacancies. The only test we apply for recruitment, retention, advancement or any other selection process is the ability to do the job.

Internal communications

Keeping our people informed about life at the Met Office is always important. During the past year, the emphasis for the Executive team has been on engaging staff with the new Corporate Plan. The five key themes of the Corporate Plan have been addressed one by one on a monthly basis with cascaded presentations complemented by pocket sized step-by-step guides.

Employee involvement

The Met Office Functional Whitley Committee and its sub-committees provide more formal mechanisms for consultation with staff. We regard the health, safety and welfare of our employees, and others working on our behalf, to be 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 have a constructive relationship with the Trade Union, negotiating with Prospect on pay and consulting on a range of other staff-related issues, including terms and conditions of employment and our Investors in People accreditation (that is due for renewal in 2007).

Met Office College

The Met Office College was brought within the HR department this year to improve the integration of our people and training programmes. For example, our Initial Forecasting Course was updated in 2005/6 bringing it in line with the extended World Meteorological Organization (WMO) syllabus, as required by the ICAO, and is now linked to a National Vocational Qualification. Further internal training for our forecasters at JL2 and JL3 level was revised to blend management training with meteorological training and is now delivered in partnership with the Government's Emergency Planning College in Easingwold, near York, to focus on crisis management from a multi-agency perspective. We are also building strong links with Exeter University and continue to work regularly with Reading University, with both institutions involved in delivering meteorological training to our scientists in 2005/6.

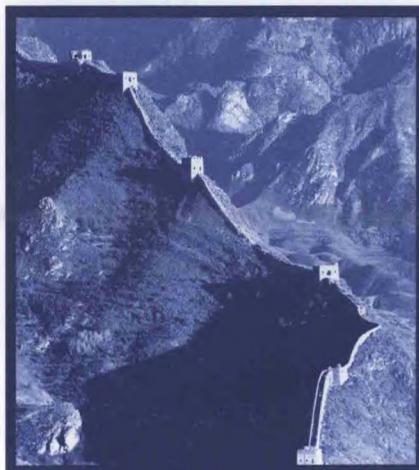
In addition, we continue to offer our acclaimed meteorological programmes internationally and hosted training courses this year in China, Ireland, Jersey, Kosovo and Malta. We also continued to deliver meteorological training from our Exeter headquarters and in 2005/6 welcomed delegates from Belgium, the Czech Republic, Estonia, Portugal, Romania and Switzerland. Our specialist courses too have continued to thrive, with 'Met. for Aviators' and 'Met. for Gliders' successfully launched and well attended this year.

The Bracknell property

We have now disposed of our leasehold liabilities for Johnson House, Sutton House and the former Met Office Hadley Centre site in Bracknell. The complex transaction comprised purchasing the freehold interests and selling these to a developer. The overall net savings from these transactions will be approximately £2.5 million.

Centralising civil forecasting

In 2005/6, the Met Office carefully considered a number of options for its civil forecast production network and a formal consultation took place on five options (including the choice to do nothing). Following the Minister's decision, a programme to implement the agreed changes has begun. This will result in the closure of forecast production centres at Belfast, Manchester, Birmingham, London and Cardiff with an impact on over 120 jobs. Some of these posts will be moved to our Headquarters in Exeter, which, together with our centre in Aberdeen, will in future be responsible for issuing public weather services across the UK. There are a number of important concerns: handling the people impacts; ensuring the continued quality of our civil forecasts; considering accommodation issues; regularly communicating programme developments to our owners, customers and staff; and delivering the expected financial benefits. We are working closely with staff and the Trade Union to deliver the programme before March 2007.



HIGHLIGHT 2005/6

The Met Office continues to offer its acclaimed meteorological programmes internationally and hosted training courses this year in China, Ireland, Jersey, Kosovo and Malta.

Corporate Social Responsibility

The Met Office recognises the importance of behaving responsibly towards people and the environment. Our aim is to act in a positive way in all our dealings with staff, customers, suppliers and the wider community.

Our headquarters in Exeter, for instance, was built to be as environmentally-friendly as possible.

Measures include:

- using the large amount of heat from the site's generators to warm or cool the rest of the building as the seasons and weather dictate;
- installing a fully automated lighting system that responds to occupancy and natural light levels;
- collecting rainwater from the site, treating it with UV light and then reusing it to flush the toilets;
- providing recycling points across all of our sites;
- increasing the use of recycled paper, especially in our printed material such as brochures, the Annual Report and Accounts and Christmas cards;
- reducing business travel by encouraging staff to utilise video-conferencing equipment provided at the majority of our sites;
- encouraging the use of green transport, by operating a car-sharing scheme and providing pool bicycles.

Community support

As part of our Corporate Social Responsibility we are committed to communicating with and responding quickly to the needs, interests and concerns of local communities and supporting activities that enhance the quality of community life.

We send speakers on our work, meteorology and climate change to hundreds of groups around the country every year. We now open the doors of our headquarters for public visits four times a year, and through the Voluntary Cooperation Programme of the WMO, help to improve the use of science and meteorology in developing countries.

Our sponsorship programme is used to support the local community and increase the public's understanding of meteorology, climatology and other connected science.

Current and recent projects include:

- **Gemini FM Charitable Trust** – Since 2003 we have been supporting this Charitable Trust that provides grants to various community projects and charities.
- **Arctic Foxes Greenland Exhibition** – The Met Office provided free forecasts for this expedition that became the first British all-female team to cross the Greenland ice-cap.
- **Scouts** – For nine years we have sponsored the Scouting Organisation's weather badge.
- **Royal National Lifeboat Institution (RNLI)** – At Christmas 2005, for the second consecutive year, the Met Office encouraged staff to send an electronic Christmas card instead of a paper one to their customer and supplier contacts. As a result, £1,000 of the money saved was donated to the RNLI's Lifeboat Fund 2005 Annual Appeal.
- **Lectures** – The Met Office works in partnership with Exeter University to bring high-profile national figures to the region to speak publicly on a variety of topics. In the last twelve months visitors have included the Rt. Hon. Lord Woolfe as the former Lord Chief Justice, former UN ambassador Sir David Hannay and the Rt. Hon. Lord Patten former Governor of Hong Kong.
- **Prince's Trust** – The Met Office has sponsored the Prince's Trust Coach of the Year award for the South West and encourages staff to become leaders of Prince's Trust programmes.

All five KPTs achieved for the first time ever

- ☑ Forecast accuracy
- ☑ Customer-supplier agreements
- ☑ Commercial profitability
- ☑ Staff satisfaction
- ☑ Return on capital employed

Key performance target 2005/6 – Return on Capital Employed

To achieve a Return on Capital Employed of at least 3.5% in 2005/6 in support of a longer term target to achieve 3.5% over the five-year period commencing April 2004.

5.3% ROCE

1.8% higher than our in-year target

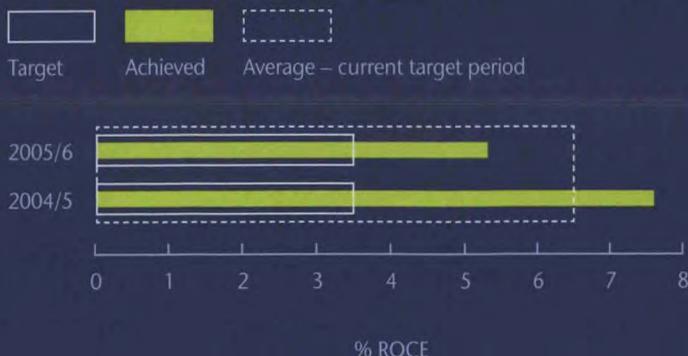
Commentary – How we achieved the target

In 2005/6:

The ROCE measurement finished the year at 5.3%, well above the target figure of 3.5%.

The average for the current target period April 2004 – March 2006 is 6.5% (in support of the long-term target of 3.5% April 2004 – March 2009).

In year and averaged ROCE



Building international partnerships

The Met Office, in many cases representing the UK, has used its position of influence in what has been an important year internationally. The Hyogo Declaration on Disaster Reduction of January 2005 and the Indian Ocean Tsunami of December 2004, for instance, have given the global community new impetus to cooperate on improving environmental observation and services. The Corporate Plan describes our commitment to working in partnership across the world and to using advances in relevant knowledge and technology for the benefit of UK citizens.

Highlights of the year:

- **Voluntary Cooperation Programme** — improving the use of science and meteorology in developing countries;
- **EUMETSAT** — updating its 25-year strategy;
- **European Centre for Medium-Range Weather Forecasting** — improving European forecasting capability;
- **GMES / European Union** — sharing critical environmental data and information across Europe;
- **EUMETNET** — enhancing European NWP capability;
- **Commonwealth** — organising and hosting the Conference of Commonwealth Meteorologists.

Voluntary Cooperation Programme

Working closely with the WMO, this year we continued to manage the UK contribution to the Voluntary Cooperation Programme (VCP) that has three objectives: helping National Meteorological Services (NMSs) in developing countries provide weather and climate change information; assisting them in sustainable development and disaster mitigation work; and restoring life-critical weather and climate information services after disasters.

In 2005/6, VCP continued to support the Global Climate Observing System (GCOS) Upper Air Network stations at Seychelles, Gough Island, Funafuti, Tarawa and Penrhyn. Upgrades for Honiara, Nairobi and Addis Ababa are in progress and Yerevan completed with USA funds. Media weather presentation systems were supported with training and upgrades for 25 countries in Africa. A climatology database workshop for nine Pacific Islands was held using trainers from African NMSs. An e-learning version of the Statistics in Applied Climatology course was developed with co-funding from DFID. The Africa Limited Area Model was introduced and associated training started. Finally, support for the GCOS Regional Action Plan process is culminating in a major Climate and Development Programme for Africa with DFID as the leading donor.

EUMETSAT

The successful launch of the MSG-2 satellite, as reported on page 18, will bring the second generation improvements to Meteosat into fully resilient operation and is the culmination of a programme that began about 20 years ago.

Because of the long timescales associated with satellite development, EUMETSAT maintains a 25-year strategy which is revised every five years; and this year's review has taken into account developments in the space policy of the European Union (including Global Monitoring for Environment and Security (GMES) — see over), the emergence of the GEO and the evolving needs of EU Member States for meteorological and climate observations beyond the current programmes. The UK has pressed for targets and milestones to be associated with the revised strategy and has ensured that Member States retain important decision-making responsibility.

European Centre for Medium-Range Weather Forecasting

The Met Office continued to work with the European Centre for Medium-Range Weather Forecasting (ECMWF) this year on improving forecasting capability, including collaborative work on ensemble predictions as part of the Thorpex Interactive Grand Global Ensemble. We also worked with ECMWF and the other Member States to develop a ten-year strategy focused on improving medium-range weather forecasts.

GMES / European Union

The Met Office has been working closely with Defra (as the UK government department lead), NERC and the Department of Trade and Industry on GMES and is a member of the core team for the development and implementation of the UK GMES programme. Overall GMES aims to bring together, through user-friendly services, providers of data and information on the environment and security with their users. We have also been closely monitoring progress within the Infrastructure for Spatial Information in Europe (INSPIRE) programme of the European Union which includes a draft Directive on the exchange and availability of data which, if implemented, could have a significant impact on our operations.

EUMETNET

EUMETNET is a network of 21 European NMSs that cooperate in basic meteorological systems such as observations, basic forecasting, research and development, and training. Following the establishment of a Working Group to consider a vision for NWP in Europe, the Met Office and ECMWF co-hosted a workshop to develop the vision and identify proposals to encourage best use of existing capabilities. The outline plan, which focuses on model interoperability, an improved framework for collaboration, socio-economic impacts, an interactive regional multi-model for Europe, and adaptation to enhanced NWP capability, was supported by the EUMETNET Council. The Met Office will continue to work proactively within the Working Group to develop ideas and proposals for the coming years.

Commonwealth

The Met Office organised and hosted the four-yearly Conference of Commonwealth Meteorologists this year. Thirty-five heads of NMSs, representatives of organisations such as the WMO, the World Bank, DFID and the Commonwealth Secretariat attended the four-day conference to discuss improving disaster mitigation and preparedness. Following this, the Met Office represented the Conference of Commonwealth Meteorologists at the Commonwealth People's Forum on the occasion of the Heads of Government Meeting in Malta, raising awareness at government level of the work of the National Meteorological and Hydrological Services in the area of climate change and impacts as well as disaster mitigation.

Financial review

Dividend payable

A dividend of £6.3 million is payable to our Owner, the Ministry of Defence in respect of 2005/6 (2004/5 £6.0 million). The 2004/5 dividend was paid in May 2006.

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. In 2005/6, we paid 99.48% of our bills on time (2004/5, 98.73%).

Treasury policy

Certain payments to international bodies in respect of international subscriptions and contribution to satellite programmes are paid in foreign currency. To manage the foreign exchange risk the Met Office policy is to buy forward foreign currency to meet these payments in accordance with anticipated payment profile. The Met Office follows Treasury rules by investing all surplus funds on deposit with the UK Debt Management Office at HM Treasury.

The Met Office has limited exposure to liquidity risk due to loan funding from the Ministry of Defence.

Further details of our derivatives and other financial instruments are contained in note 27 to the Accounts.

Cash flows and liquidity

Cash balances totalled £30.7 million as at 31 March 2006, an increase of £10.0 million when compared to 31 March 2005. Of this balance, £4.0m comprised cash in transit at the year end (2004/5, nil). Net cash inflow from operating activities was £35.7 million (2004/5, £24.9 million). This increase has arisen primarily as a result of our increased operating profitability compared with 2004/5 (an extra £3.9 million) and the difference in the relative movements in creditors between 2005/6 (£3.1 million decrease) and 2004/5 (£10.7 million decrease). The second instalment of sale proceeds relating to the disposal of our site at Shinfield Park, Reading, resulted in a cash inflow of £11.7 million. A final instalment of £11.7 million was received early in 2006/7.

Total debtor balances decreased by £14.7 million compared to 2004/5. This was due largely to the Shinfield disposal receipt. Average debtor days fell from 44 days at 31 March 2005 to 40 days at 31 March 2006. Total creditor balances decreased by £11.2 million compared to 2004/5. This was largely the result of the settlement of deferred payments in respect of international subscriptions and payments made in respect of finance leases.

Disclosure of information to auditors

In accordance with the s234ZA of the Companies Act 1985:

- so far as the Accounting Officer is aware, there is no relevant audit information of which the entity's auditors are unaware, and
- the Accounting Officer has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the entity's auditors are aware of that information.

Performance against Key Ministerial Targets

Target achieved ■ Target failed ■

	2000/1		2001/2		2002/3		2003/4		2004/5		2005/6	
	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
Targets met		5/6		5/6		3/6		6/7		3/6		5/5
Efficiency Index	103.7	109.6	111.0	120.1	120.55	118.40	120.1	121.0				
SQI	107.1	120.5	107.8	134.7	115.4	130.3	120.1	149.3				
Direct Services Growth:												
Government									4.1%	5.7%		
Non-Government									4.1%	0.0%		
Maintain Profitability									7.9%	10.6%		
ROCE	0.0%	2.8%	>0.0%	2.1%	>0.0%	-3.4%	Av >4% for 04/2-03/7	1.4% (restated)	3.5% in-year average for 04/4-03/9	7.6%	3.5% in-year average for 04/4-03/9	5.3%
									3.5%	7.6%	3.5%	6.5%
Profit (before strategic investments)	£13.7m	£14.4m	£17.6m	£18.5m	£13.3m	£13.8m	£14.0m	£14.8m	£15.5m	£15.9m		
Strategic Investments	£13.5m	£13.6m	£15.9m +/- 1.5m	£15.1m	£19.4m +/- 1.5m	£18.9m			£6.3m +/- 0.5m	£6.4m		
Commercial Contribution	£3.575m	2.676m	£4.4m	£3.3m	£3.8m	£3.65m	£4.0m	£4.5m				
Profit on Commercial Services											£2.8m	£2.9m
NWP Index	101.6	103.2	105.2	107.5	109.5	110.0	111.8	112.5	113.9	113.7	114.9	116.0
Max Temp Accuracy											83.0%	83.0%
Min Temp Accuracy											78.0%	78.0%
Precip Accuracy											0.855	0.855
Staff Skills Index		100.0		101.5		104.0	107.5	105.1				
Operational in Exeter							Sept 03	Aug 03				
Freedom of Information									Set up	Achieved		
Efficiency Measure									Develop	Failed		
Customer Service Agreements with central government customers											Create and Agree	Achieved
Pricing mechanism for Defence											Establish	Achieved
Staff satisfaction benchmark											Establish	Achieved

Key Performance Targets 2006/7

The following Key Performance Targets (KPTs) have been set for the Chief Executive of the Met Office and announced in Parliament for the financial year (FY) 06/7. The targets are designed to drive further improvements to the Agency's performance and are as follows:

Forecast accuracy

To achieve three out of four of the following forecast accuracy measures. However, any failed element will be required to meet the same level as the FY 2005/6 outturn for the overall KPT to be met:

[a] improve the forecasting skill score, using the combined Numerical Weather Prediction Index, to at least 118.5;

[b] more skilfully predict whether precipitation will occur in selected locations to achieve a skill score of at least 0.345;

[c] predict maximum temperature to within 2 degrees accuracy 83.5% of the time;

[d] predict minimum temperature to within 2 degrees accuracy 79.0% of the time.

Commercial profitability

To achieve a commercial profitability target of £3.6 million.

Return on capital employed

In line with Treasury requirements to achieve a Return on Capital Employed of at least 3.5%.

Support to wider Government goals

To achieve all of the following:

[a] introduce fully-costed output-based Customer-Supplier Agreements to all Government customers where agreed;

[b] prepare for the introduction of incentivised pricing across all agreed areas of Government-funded services for 1 April 2007;

[c] as a result of [a] and [b] to create a baseline for future output efficiency targets to be established for FY 2007/8.

Report by the Comptroller and Auditor General on the Met Office's Statement of Performance against 2005/6 Key Performance Targets

The Chief Executive of the Met Office has asked me to validate performance against the 2005/6 Key Performance Targets.

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

The Met Office and the Chief Executive are responsible for the measurement and reporting of the Trading Fund's performance against the Key Performance Targets.

I examine and conclude on whether the Trading Fund has:

- provided full details of performance against all the Met Office's Key Performance Targets;
- ensured that all performance information is reliable and fairly presented.

Basis of conclusion

The validation includes an examination, on a test basis, of evidence relevant to the amounts and disclosures of the outturns and achievements included within the Statement. It also includes an assessment of the significant judgements and methodologies made by the Met Office and the Chief Executive in the Statement's preparation.

Conclusion

The Statement of Performance above includes all the Met Office's 2005/6 Key Performance Targets and it reliably and fairly presents the Agency's performance against the Key Performance Targets. I have no observations to make on this Statement.

John Bourn

Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
London
SW1W 9SP
22 June 2006

Remuneration report

Remuneration policy

The executive members of the Met Office Board are members of the Senior Civil Service.

The remuneration of senior civil servants is set by the Prime Minister following independent advice from the Review Body on Senior Salaries.

In reaching its recommendations, the Review Body has regard to the following considerations:

- the need to recruit, retain and motivate suitably able and qualified people to exercise their different responsibilities;
- regional/local variations in labour markets and their effects on the recruitment and retention of staff;
- Government policies for improving the public services including the requirement on departments to meet the output targets for the delivery of departmental services;
- the funds available to departments as set out in the Government's departmental expenditure limits;
- the Government's inflation target.

The Review Body takes account of the evidence it receives about wider economic considerations and the affordability of its recommendations.

Further information about the work of the Review Body can be found at www.ome.uk.com

Service contracts

Civil service appointments are made in accordance with the Civil Service Commissioners' Recruitment Code, which requires appointment to be on merit on the basis of fair and open competition but also includes the circumstances when appointments may otherwise be made.

Unless otherwise stated below, the officials covered by this report hold appointments, which are open-ended until they reach the normal retiring age of 60. 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 www.civilservicecommissioners.gov.uk

Met Office Reward and Recognition Committee

The Reward and Recognition Committee is a sub-committee of the Met Office Board.

The members of the Reward and Recognition Committee are the non-executive directors of the Met Office Board, together with the Director of Finance and Corporate Services. The Committee is chaired by the non-executive chairman of the Met Office Board.

The purpose of the Committee includes the consideration and approval of the Met Office annual pay remit; consideration of distributions to staff under the Met Office Corporate Bonus scheme, based on an assessment of the performance of the Met Office against its Key Performance Targets and the level of declared profit.

The Committee also considers, if appropriate, whether Senior Civil Servants at the Met Office should either be included in the Met Office Corporate Bonus scheme or the wider MOD SCS bonus scheme, and subsequently:

- either to agree the bonus to be paid to Met Office Senior Civil Servants within the overall amount of money set for distribution under the Met Office Corporate Bonus scheme;
- or to review and approve the Chief Executive's recommendations on Met Office Senior Civil Servants bonuses to the MoD Pay Committee.

Salary and pension entitlements

The following sections provide details of the remuneration and pension interests of the executive directors of the Met Office.

Remuneration

(This information is subject to audit)

Name	Notes	2005/6	2004/5
		Salary, including performance pay £ 000	Salary, including performance pay £ 000
M Hutchinson		85–90	5–10 (55–60 full year equivalent)
DP Rogers (until 15 July 2005)		40–45 (130–135 full year equivalent)	100–105 (130–135 full year equivalent)
JFB Mitchell		80–85	75–80
D Formby (from 14 Nov 2005)		25–30 (65–70 full year equivalent)	N/A
S Noyes		75–80	75–80
D Griggs (from 25 August 2005)		40–45 (65–70 full year equivalent)	N/A
A Dickinson (from 25 August 2005)		35–40 (65–70 full year equivalent)	N/A
RD Hunt (until 31 December 2005)	3	70–75 (70–75 full year equivalent)	70–75
S Penfold (until 20 Nov 2005)		45–50 (70–75 full year equivalent)	65–70
I Carlson	1	50–55	N/A
J Brigham	2	25–30	N/A

Notes

1. I Carlson was appointed Acting CFO for the period 15 June to 10 November 2005 and interim sales and marketing director for the period 5 December to 31 March 2005. The full year equivalent was £70–75k.
2. J Brigham was appointed acting sales and marketing director from 30 June to 1 December 2005. The full year equivalent was £60–65k.
3. R Hunt received an early retirement package paid under the terms of the Civil Service Compensation Scheme.
4. Pay awards and bonuses are performance related.
5. No director received any benefits in kind in either 2005/6 or 2004/5.

Pension benefits

(This information is subject to audit)

Name	Notes	Total accrued pension at age 60 at 31/3/06 and related lump sum £ 000	Real increase in pension and related lump sum at age 60 £ 000	CETV at 31/3/06 £ 000	CETV at 31/3/05 £ 000	Real increase in CETV £ 000
M Hutchinson		25–30 plus 80–85 lump sum	5–10 plus 20–25 lump sum	526	302	136
DP Rogers	3	Nil	Nil	Nil	Nil	Nil
JFB Mitchell		30–35 plus 90–95 lump sum	0–5 plus 0–5 lump sum	718	516	20
D Formby		25–30 plus 75–80 lump sum	0–5 plus 0–5 lump sum	530	392 CETV at 14/11/05	21
S Noyes		25–30 plus 75–80 lump sum	0–5 plus 0–5 lump sum	419	315	13
D Griggs		15–20 plus 50–55 lump sum	0–5 plus 0–5 lump sum	300	228 CETV at 25/08/05	15
A Dickinson		25–30 plus 75–80 lump sum	0–5 plus 0–5 lump sum	587	415 CETV at 25/08/05	26
RD Hunt	1	30–35 plus 95–100 lump sum	0–5 plus 0–5 lump sum	720	541	19
S Penfold	2	40–45	0–5	793 CETV at 20/11/05	734	8
I Carlson	2	0–5	0–5	40	22 CETV at 15/06/05	6
J Brigham		5–10 plus 15–20 lump sum	0–5 plus 0–5 lump sum	88	72 CETV at 30/06/05	8

Notes

1. CETV at 31/12/05, R Hunt received an early retirement package paid under the terms of the Civil Service Compensation Scheme.
2. All Directors, with the exception of S Penfold and I Carlson, have chosen the 'Classic' option of the new Principal Civil Service Pension Scheme. S Penfold and I Carlson have chosen the 'Premium' option; with the 'Premium' option lump sums cannot be commuted and are thus not shown. Further details of the new arrangements are disclosed within the accounting policy note.
3. On leaving the Met Office, D Rogers took a contributions refund and therefore there has no liability against the Met Office in respect of pension rights.
4. No Director opted for a Partnership Pension Account.

Civil Service Pensions

Pension benefits are provided through the Civil Service pension arrangements. From 1 October 2002, Met Office staff, as civil servants may be in one of three statutory based 'final salary' defined benefit schemes (Classic, Premium, and Classic Plus). Pensions payable under Classic, Premium, and Classic Plus are increased annually in line with changes in the Retail Prices Index. New entrants after 1 October 2002 may choose between membership of Premium or joining a good quality 'money purchase' stakeholder arrangement with a significant employer contribution (partnership pension account).

Employee contributions are set at the rate of 1.5% of pensionable earnings for Classic and 3.5% for Premium and Classic Plus. Benefits in Classic 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. 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 (but members may give up (commute) some of their pension to provide a lump sum). Classic Plus is essentially a variation of Premium, but with benefits in respect of service before 1 October 2002 calculated broadly in the same way as in Classic.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a selection of approved products. 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 to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

Further details about the Civil Service pension arrangements can be found at the website www.civilservice-pensions.gov.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 CETV figures, and from 2003/4 the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service pension arrangements and for which the Civil Service has received a transfer payment commensurate with the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

Please note that the factors used to calculate the CETV were revised on 1 April 2005 on the advice of the Scheme Actuary. The CETV figure for 31 March 2005 has been restated using the new factors so that it is calculated on the same basis as the CETV figure for 31 March 2006.

Real increase in CETV

This reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

Fees paid to Non-Executive Directors

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

Fees paid to Non-Executive Directors were as follows:

	2005/6	2004/5
	£ 000	£ 000
C Brendish	20–25	20–25
J May	15–20	10–15
B Hoskins	5–10	0–5
A Gammidge	0–5	0–5
D Harker	40–45	–



Mr. Mark Hutchinson
Chief Executive
19 June 2006

Accounts

Statement on the system of internal control

1. Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Met Office's policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting.

The Met Office is a Trading Fund within the Ministry of Defence and as such is accountable to the Secretary of State for Defence. The Met Office owner's Council (MOOC), which is Chaired by the Under-Secretary of State and which acts as the representative of our owners, convenes bi-annually (or as required) to review the performance of the Met Office against its Key Performance Targets and Corporate Plan objectives that are agreed by Parliament. The MOOC also advises and assists me with the management of major strategic risks. In addition the Audit Committee comprising Non-Executive members of both the MOOC and the Met Office Board, and which reports to the Met Office Board, supports me in my Accounting Officer role.

2. The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all 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 departmental policies, aims and objectives; to evaluate the likelihood of those risks being realised and the impact should they be realised; and to manage them efficiently, effectively and economically. The system of internal

control has been in place in the Met Office for the year ended 31 March 2006 and up to the date of approval of the Annual Report and Accounts, and accords with Treasury guidance.

3. Capacity to handle risk

A corporate risk management process is one of the key processes of the Met Office's Business Management System. This process provides guidance to all staff involved in risk management activities and includes best practice guidance on managing risk in all Met Office activities but especially project, programme and corporate risk. The Met Office Board and the Audit Committee have endorsed this process. All Directors are personally accountable to me for the way in which risks falling within their jurisdiction are managed, and senior management have the authority and resources to manage risks as part of their responsibilities, underpinned by regular training courses to assist in the management of operational risk on a day-to-day basis.

4. The risk and control framework

The Met Office Board has accepted the "Good Governance Standard for Public Services", which includes a commitment to manage risk effectively as an integral part of the decision-making process. The major corporate risks are continually identified and refined through workshops and structured interviews with Directors and senior managers. These risks are recorded in the Corporate Risk Register. This is maintained by the Corporate Risk Co-ordinator and reviewed on a monthly basis by the Risk and Issues Review Committee (RIRC). The Audit Committee oversees the operation of this process through representation on the RIRC, and through regular review of the Corporate Risk Register. The assigned risk owner, in conjunction with the Corporate Risk

Co-ordinator, assesses the risks and identifies potential risk mitigation activities for agreement by the Met Office Board. The Board is also responsible for determining the Met Office's appetite for risk. This is carried out as an on going process dictated by current circumstances. The Audit Committee reviews the risk management strategy adopted by the Met Office and, in particular, assesses the adequacy of the internal controls operating within all key processes in relation to risk identification, assessment, response and monitoring. It also reviews the Corporate Risk Register on a regular basis.

Maintaining continuity of services, especially those deemed critical by our customers, is always a high priority for the Met Office. The risks to services are continually monitored and action taken to either prevent risk or mitigate its impact. This year as a consequence of a small fire in one of our computer centres (which had an adverse impact on some services) we have taken a fresh look at our resilience and continuity plans. This is particularly important as we plan the centralisation of services for commercial and public met service customers in Exeter and Aberdeen. A programme of investment, changes to plans and subsequent testing of our continuity arrangements designed to minimise the risks, is being given high priority. I am confident that the changing risk profile is being managed effectively.

During the course of the year I instituted a major planning exercise, resulting in an agreed 5-year Corporate Plan. This is the vehicle by which we will deliver our owner's requirements for creating value, providing services to central government and the public, and competing effectively in the commercial market, whilst acting as a beacon of excellence within the public sector.

The planning round identified 12 key risks to our strategy, which were then refined, firstly by the RIRC, and then through a Board workshop to produce the Corporate Risk Register. This is subject to monthly review by the RIRC, and regular review by the Audit Committee, and is underpinned by programme and project risk registers, ensuring that risk management is embedded at all levels in the Met Office. Risks arising from the programmes and from the external environment are identified, integrated, escalated, and managed as appropriate within this framework.

As part of our commitment to demonstrating value for money to the taxpayer, we are lowering our margins on Government work, and seeking significant profits growth in the commercial arena. This shift implies an acceptance of a higher risk profile at the organisational level, and increases the importance of effective risk management as an engine of business growth, but I am confident that the processes we have in place are fit for purpose.

5. Review of effectiveness

As Accounting Officer, I also have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and 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 external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board, the Audit Committee, and the RIRC, and a plan to address weaknesses

and ensure continuous improvement of the system is in place.

The Met Office Board is responsible for defining Met Office strategy. The Executive is responsible for managing the implementation of Met Office strategy. The Met Office Board monitors the strategic performance of the Met Office and the key corporate risks. The Executive reviews the day-to-day business performance of the Met Office, including the achievement of our Corporate Plan objectives and the associated risks. The system of internal control is enhanced further through the Bid and Investment Appraisal Committee (BIAC) which advises me on the strategic coherence of programmes and projects, and tracks delivery of their benefits, the RIRC, which advises the Executive on risk management, and the Audit Committee, which has full oversight of the internal control framework, and advises the Met Office Board of its effectiveness.

The Met Office's internal audit function was carried out during 2005/6 by an independent firm of accountants and business advisors (Pannell Kerr Forster (PKF) up to October 2005, and PricewaterhouseCoopers (PwC) afterwards), to the standards defined in the Government Internal Audit Manual. The internal audit plans are informed by the Met Office's risk profile, and by the work of other review mechanisms. These plans are continuously reviewed for effectiveness and synergy with other audit activity. In addition to the planned audit reviews, a number of additional reviews have been carried out in areas identified as being potentially high risk. The Audit Committee approves the Internal Audit programme, which includes the review of business continuity plans.

The Met Office Business Management System contains clearly defined processes for our key business activities, as demanded as part of our ISO9001 certification. These processes, including the Risk Management Process, are currently being re-defined in accordance with business requirements for increased organisational efficiency and agility, and enhanced customer focus.

6. Significant issues associated with risk and control

It was reported last year that "during 2004/5 an investment decision was taken and certain financial agreements made (regarding weatherXchange) that may not have been in the best financial interests of the Met Office". This is a reference to further investment, in three stages, of up to £500,000 in the joint venture, and to other related agreements, including new articles of association, shareholder agreements, and a data supply agreement. These decisions could have resulted in a conflict of interests, since some members of the Met Office Board were also Board members of weatherXchange during 2004/5.

MoD internal audit (DIA) were commissioned to review the circumstances surrounding the decision and agreements. Whilst their review highlighted significant failures of governance, a range of financial controls and approvals procedures that address these issues have been implemented and will prevent similar circumstances arising again. These controls will be subject to ongoing audit scrutiny.



Mr. Mark Hutchinson
Chief Executive
19 June 2006

Statement of the responsibilities of the Agency and the Chief Executive

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 2005/6 financial year in the form and on the basis set out in the Accounts Direction issued on 16 January 2006. 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, recognised gains and losses 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;
- 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 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 the Accounting Officer's Memorandum, issued by HM Treasury and published in Government Accounting.

The 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 2006 under the Government Trading Funds Act 1973. These comprise the Profit and Loss Account, the Balance Sheet, the Cashflow Statement and Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out within them.

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

The Met Office and the Chief Executive are responsible for preparing the Annual Report, the Remuneration Report and the financial statements in accordance with the Government Trading Funds Act 1973 and HM Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of responsibilities of the Agency and the Chief Executive.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Government Trading Funds Act 1973 and HM Treasury directions made thereunder. I also report 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 to you if, in my opinion, the Annual Report is not consistent with the financial statements, if the Met Office has not kept proper accounting records, if I have not received all the information and

explanations I require for my audit, or if information specified by relevant authorities regarding remuneration and other transactions is not disclosed.

I review whether the statement on pages 44 and 45 reflects the Met Office's compliance with HM Treasury's guidance on the Statement on Internal Control, and I report if it does not. I am not required to consider whether the Accounting Officer's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Met Office's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Director's report, the Management Commentary, the unaudited part of the Remuneration Report and the Financial Review. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Met Office and Chief Executive in the preparation of the financial statements, and of whether the accounting policies are most 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 and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error 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 also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinion

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Trading Fund Act 1973 and directions made thereunder by HM Treasury, of the state of the Met Office's affairs as at 31 March 2006, and of its profit, total recognised gains and losses and cashflows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Government Trading Fund Act 1973 and HM Treasury directions made thereunder; and
- 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
22 June 2006

Profit and loss account

for the year ended 31 March 2006

	Notes	2005/6 £ 000	2004/5 £ 000
Turnover	3	170,361	165,580
Cost of sales	4, 9	(133,741)	(129,091)
Gross profit		36,620	36,489
Selling and distribution costs	4, 9	(7,205)	(7,800)
Administrative expenses	4, 9	(15,945)	(18,836)
Other operating expense	5	(51)	(329)
Operating profit		13,419	9,524
Profit on disposal of fixed assets	6	20	3,975
Exceptional items	7	(2,285)	(463)
Amounts written-off investments	11	(1,533)	—
Profit on ordinary activities		9,621	13,036
Interest receivable		1,574	1,051
Interest payable	8	(1,700)	(1,811)
Profit for the financial year		9,495	12,276
Dividend payable		(6,272)	(5,998)
Retained profit		3,223	6,278
Return on capital employed (ROCE)	2	5.3%	7.6%

The notes on pages 50 to 71 form part of these accounts.

The movement on the General Reserve is set out at note 20 on page 65.

Balance sheet

as at 31 March 2006

	Notes	31 March 2006		31 March 2005	
		£ 000	£ 000	£ 000	£ 000
Fixed assets					
Tangible assets	10		187,354		191,457
Investments	11		—		1,533
			187,354		192,990
Current assets					
Stocks	12	618		559	
Debtors and prepayments	13	41,938		56,631	
Investments	14	248		—	
Cash on deposit	15	26,500		20,500	
Cash at bank and in hand	15	4,205		226	
		73,509		77,916	
Creditors: amounts falling due within one year	16	(64,600)		(68,987)	
Net current assets			8,909		8,929
Total assets less current liabilities			196,263		201,919
Creditors: amounts falling due after more than one year	16	(4,900)		(11,674)	
Provisions for liabilities and charges	18	(9,070)		(14,492)	
Net assets			182,293		175,753
Capital and reserves					
Public dividend capital			58,867		58,867
Revaluation Reserve	19	14,625		12,314	
General Reserve	20	108,801		104,572	
Total Government funds			182,293		175,753



Mr. Mark Hutchinson
Chief Executive
19 June 2006

The notes on pages 50 to 71 form part of these accounts..

Cash flow statement

for the year ended 31 March 2006

	Notes	2005/6 £ 000	2004/5 £ 000
Net cash inflow / (outflow) from operating activities	23	35,662	24,853
Payments for exceptional items	23	(8,764)	(3,427)
Returns on investments and servicing of finance	23	(348)	739
Net capital expenditure	23	(15,446)	(13,029)
Acquisitions and disposals	11, 23	—	(333)
Management of liquid resources	23	(6,000)	(1,700)
Increase / (decrease) in financing	23	(1,125)	(7,177)
Increase / (decrease) in cash		3,979	(74)

The notes on pages 50 to 71 form part of these accounts.

Statement of total recognised gains and losses

for the year ended 31 March 2006

	Notes	2005/6 £ 000	2004/5 £ 000
Profit / (loss) for the financial year		3,223	6,278
Movement on revaluation of fixed assets charged to the Revaluation Reserve	19	2,311	(3,493)
Total recognised gains and losses relating to the year		5,534	2,785
Reconciliation of movements in Government funds			
Government funds at 1 April		175,753	167,575
Total recognised gains and losses relating to the year		5,534	2,785
Transfer to General Reserve		1,006	5,393
Net movement in Government funds		6,540	8,178
Balance at 31 March		182,293	175,753

The notes on pages 50 to 71 form part of these accounts.

Notes to the accounts

1 Accounting policies

(a) Basis of accounting

These financial statements have been prepared in compliance with an Accounts Direction dated 16 January 2006 in accordance with Section 4(6)(a) of the Government Trading Funds Act 1973 and the 2005/6 Government Financial Reporting Manual (FRoM) issued by HM Treasury. The accounting policies contained in the FRoM follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector. Where the FRoM permits a choice of accounting policy, the accounting policy which has been judged to be most appropriate to the particular circumstances of the Trading Fund for the purpose of giving a true and fair view has been selected.

The accounts follow the accruals concept and have been prepared under the historical cost convention, modified to account for the revaluation of fixed assets and stocks. EU Greenhouse Gas Emission allowances are valued at their fair value.

(b) Exceptional items

Items are treated as exceptional if they derive from events or transactions that fall within ordinary operating activities and which individually, or if of a similar type in aggregate, need to be disclosed, by virtue of their size or incidence, for the financial statements to give a true and fair view.

(c) Turnover

Turnover 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 creditors. 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 debtors.

(d) Research and development

Expenditure on research is charged to the Profit and Loss Account as incurred. Development expenditure is charged to the Profit and Loss Accounts unless the expenditure meets the capitalisation criteria set out in SSAP 13 - Research and Development. Where development expenditure comprises internal costs that relate to activities that can only be undertaken by in-house staff, such expenditure is not capitalised. As there is no expenditure meeting SSAP13 capitalisation criteria, all development expenditure has been charged to the Profit and Loss Account.

(e) Tangible fixed assets

Valuation

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 open market values for existing use, except that elements of one site have been valued on the basis of depreciated replacement cost.

Plant, equipment and informational technology equipment is capitalised where the useful life exceeds three years and the cost of acquisition and installation exceeds £5,000 (excluding VAT). From 31 March 1996, networked minor computers and related equipment, which individually do not meet the criteria, have also been capitalised. Major items of plant and equipment 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.

Funding 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.

The Met Office, on behalf of the UK, is a member of EUMETSAT and, as such, contributes to the cost of its satellite programmes. The Met Office and its customers benefit 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 published by the Office for National Statistics.

Fixtures and fittings include improvements to leasehold buildings and are depreciated over five to 25 years.

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). Plant and equipment and information technology assets 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 plant and equipment over three to 30 years and information technology equipment over three to five years. Satellite assets are depreciated using the straight-line method, based on the total cost of the programme (including future planned expenditure) and the expected operational life, currently 15 years.

(f) Leased assets

Assets held under finance leases are included in the balance sheet as tangible fixed assets at their equivalent capital value and are depreciated over their estimated economic lives or the finance lease period, whichever is shorter. The corresponding liability is recorded as a creditor. The interest element of the rental costs is charged against profits, using the actuarial method, over the period of the lease. Both a general purpose computing server and a supercomputer are held under finance leases. Rents for those leasehold properties and vehicles which are held under operating leases are charged against profits.

(g) Stocks

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

(h) Insurance

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

(i) Pensions

Pension benefits are provided through the Civil Service pension arrangements. From 1 October 2002, Met Office staff, as civil servants, may be in one of three statutory based "final salary" defined benefit schemes (Classic, Premium, and Classic Plus). New entrants after 1 October 2002 may choose between membership of Premium or joining a good quality "money purchase" stakeholder based arrangement with a significant employer contribution (partnership pension account).

Classic Scheme

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. 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 ten 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.

Premium Scheme

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, but members may commute some of their pension to provide a lump sum up to a maximum of 3/80ths of final pensionable earnings for each year of service or 2.25 times pension if greater (the commutation rate is £12 of lump sum for each £1 of pension given up). For the purposes of pension disclosure the tables assume maximum commutation. Members pay contributions of 3.5% of pensionable earnings. On death, pensions are payable to the surviving spouse or eligible partner at a rate of 3/8ths the member's pension (before any commutation). On death in service, the scheme pays a lump-sum benefit of three times pensionable earnings and also provides a service enhancement on computing the spouse's pension. The enhancement depends on length of service and cannot exceed ten years. Medical retirement is possible in the event of serious ill health. In this case, pensions are brought into payment immediately without actuarial reduction. Where the member's ill health is such that it permanently prevents them undertaking any gainful employment, service is enhanced to what they would have accrued at age 60.

Classic Plus Scheme

This is essentially a variation of premium, but with benefits in respect of service before 1 October 2002 calculated broadly as per classic.

Pensions payable under Classic, Premium, and Classic Plus are increased in line with the Retail Prices Index.

Partnership Pension Account

This is a stakeholder-type arrangement where the employer pays a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product. The employee does not have to contribute but where they do make contributions, these will be matched by the employer up to a limit of 3% (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of risk benefit cover (death in service and ill health retirement). The member may retire at any time between the ages of 50 and 75 and use the accumulated fund to purchase a pension. The member may choose to take up to 25% of the fund as a lump sum.

(j) Cash

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

(k) 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 Treasury rules by investing all surplus funds with HM Treasury. Surplus funds are deposited with the UK Debt Management Office.

Liquidity risk

The Met Office has limited exposure to liquidity risk due to loan funding from the Ministry of Defence. Short term debtors and creditors are excluded from financial instruments.

(l) Consolidated accounts

The Met Office has no subsidiaries, associates or joint ventures which require the production of group accounts.

2 Key financial targets

The Met Office's key financial targets for 2005/6, as announced in Hansard (13 July 2005, column 28WS), were:

- (a) To achieve a return on capital employed of at least 3.5% in support of a longer term target to average 3.5% over the five year period commencing 1 April 2004.
- (b) To achieve a profit contribution of £2.8 million from services provided on a commercial basis.

Results

(a) Return on Capital Employed (ROCE)

ROCE is a measure of how effectively an organisation is using its capital. It is calculated as the surplus on ordinary activities before interest and dividends, expressed as a percentage of average capital employed. Capital employed equates to the capital and reserves.

The table below shows the in-year and averaged ROCE over the period from the beginning of the current target period (1 April 2004) to 31 March 2006.

	2005/6	2004/5
Actual	5.3%	7.6%
Target – in year	3.5%	3.5%
Target – 5 year average	3.5%	3.5%
Average – current target period	6.5%	7.6%

(b) Commercial profitability

This measures profitability on revenue from services provided on a commercial basis from sources not directly funded by the Exchequer, including local government organisations, public bodies overseas and private sector companies. This will normally be in competition with other service providers. The Met Office is permitted to seek business from central government departments, provided a process or competition applies to assure value for money to the taxpayer.

	2005/6	2004/5
	£ 000	£ 000
Actual	2,923	n/a
Target	2,800	n/a

3 Turnover and segmental analysis

	2005/6	2004/5
	£ 000	Restated £ 000
National Met. Programme	78,288	75,250
Defence	34,825	34,290
Civil departments	9,357	9,329
Climate research	12,706	11,833
Commercial	27,836	28,606
Government Met. Research and other	7,349	6,272
Total turnover	170,361	165,580

- (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) Following the change to a programme-led organisation there has been a significant change to how the Met Office manages its activities. The segmental analysis has been updated to reflect these changes and it has therefore been necessary to restate the figures in respect of 2004/5.
- (iii) NMP, the National Met. Programme represents the programme of work necessary to generate, and make available centrally, the underpinning environmental forecasts and climatological services that are the basis for specified services to customers. The National Met. Programme is funded as follows:

	2005/6	2004/5
	£ 000	£ 000
Ministry of Defence	59,785	44,131
Civil Aviation Authority	17,448	16,845
Civil Departments	—	12,565
Other	1,055	1,709
Total NMP funding	78,288	75,250

During 2005/6 the Civil Department funding was transferred to the Defence funding line.

- (iv) Commercial represents the area of business managed under the Met Office's commercial programmes and includes Aviation (£11.0 million 2005/6, £10.4 million 2004/5). This revenue differs from the revenue used within the calculation of the commercial profitability key performance target, which comprises all revenue gained on a competitive basis.
- (v) The share of net assets relating to each class of turnover is not identifiable.
- (vi) Turnover includes £768,000 of income derived from EU contracts (2004/5 £767,000).

4 Cost of sales, selling and distribution and administrative charges

Following the change to a programme-led organisation there have been significant changes to how the Met Office manages its activities. The analysis of cost of sales, selling and distribution and administrative charges has been updated to reflect these changes and it has therefore been necessary to restate the figures in respect of 2004/5.

	2004/5 Restated £ 000	2004/5 As reported £ 000
Cost of sales	129,091	126,933
Selling and distribution	7,800	8,755
Administrative expenses	18,836	20,039
Total	155,727	155,727

Cost of sales is defined as that expenditure which is directly related to a service or product being supplied to a specific third-party customer or market. This includes direct materials and labour, development costs and fixed and variable overheads to the extent that these relate specifically to production. Cost of sales also includes the cost of the National Meteorological Library.

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

Administrative expenses includes all costs relating to the general management of the business, training, technical support, and any research and development costs not included under cost of sales. It also includes the costs of strategic investment projects.

Administrative expenses includes relocation costs of £0.8m (2004/5 restated £2.9m). Also included within administrative expenses are general administrative costs of £12.8m (2004/05 restated £13.5m).

The costs are further analysed by expenditure type as follows:

	Note	2005/6 £ 000	2004/5 £ 000
Staff costs (excluding exceptional items)	9	76,589	73,151
Early retirement costs		858	1,289
Relocation – staff accommodation, travel and subsistence		779	2,570
Other travel and subsistence		4,682	5,274
Equipment and services		26,177	26,964
Accommodation		6,618	8,289
Operating leases – plant and machinery		1,249	1,180
Operating leases – other		1,652	1,169
Depreciation – on owned assets		18,519	18,237
– on assets held under finance leases		4,419	4,349
International services and subscriptions		12,660	11,604
Other expenses		2,689	1,651
Total		156,891	155,727

- (i) The early retirement cost excludes relocation early retirement costs which are shown as an exceptional item.
- (ii) Accommodation includes £2.0 million (2004/5, £2.1 million) operating lease rentals of property.
- (iii) International services and subscriptions include £1.7m (2004/5 £2.2m) to the European Organisation for the Exploitation of Meteorological Satellites (EUMETSAT) (excluding amounts capitalised as satellite assets), £2.0m (2004/5 £2.0m) to the British National Space Centre, £4.5m (2004/5 £4.4m) to the European Centre for Medium-Range Weather Forecasts (ECMWF), £1.8m (2004/5 £1.6m) to the World Meteorological Organization (WMO) and £0.5m (2004/5 £0.3m) to the Network of European Meteorological Services Composite Observing System (EUCOS).
- 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.
- (iv) Other administrative expenses include an audit fee of £58,000 (2004/5 £62,000) and a fee of £17,000 (2004/5, £18,000) for the review of key performance indicators. The Met Office also incurred non-audit fees amounting to £8,000 (2004/5 £ NIL) in respect of the certification of certain EU contracts.
- (v) The total cost of research was £34.3m (2004/5, £30.9m).
- (vi) Relocation travel and subsistence relates to the costs of housing removal, temporary accommodation and travel between Bracknell and Exeter, for those staff who relocated to, or are in the process of relocating to, Exeter.

5 Other operating expense

	2005/6 £ 000	2004/5 £ 000
Foreign exchange rate differences	51	329

6 Profit on disposal of fixed assets

	2005/6 £ 000	2004/5 £ 000
Net profit on disposal of fixed assets	(20)	(3,975)

The Met Office's freehold sites at Beaufort Park and London Road, Bracknell were sold during 2004/5 and the profits on disposal are included above.

7 Exceptional items

	2005/6 £ 000	2004/5 £ 000
Early retirement and severance costs	600	463
Leaseholds provision	1,664	—
Net gain on the disposal of Bracknell leaseholds	(124)	—
Legal and professional fees	145	—
Total	2,285	463

- (i) The early retirement and severance costs of £600,000 relates to the provision arising from the decision to centralise the Met Office's civil forecast production network. The early retirement and severance costs for 2004/5 relate to staff who left the Met Office, primarily as a result of the relocation from Bracknell to Exeter.
- (ii) The leasehold provision relates to rents and other costs of leasehold properties which will become non-operational following the decision to centralise civil forecast production and weatherXchange Limited vacating the leasehold property sublet to them by the Met Office.
- (iii) The net gain on the disposal of the Bracknell leaseholds arises from the simultaneous purchase and sale of the freehold interest in three leasehold properties previously occupied in Bracknell. The provision for rent and other associated costs relating to these properties was also released resulting in the net gain above. The transaction results in the Met Office relinquishing its leasehold liabilities for these properties.
- (iv) The legal and professional fees relate to advice received in respect of the administration of weatherXchange Limited.

8 Interest payable and similar charges

	2005/6 £ 000	2004/5 £ 000
On amounts wholly repayable within five years	871	1,270
On finance leases wholly repayable within five years	19	33
Discounting of provisions	810	508
Total interest payable and similar charges	1,700	1,811

9 Staff

(a) Staff costs

	Note	2005/6 £ 000	2004/5 £ 000
Salaries, bonuses and allowances		60,658	60,102
Early retirement costs	7	1,458	1,752
Social security		5,200	5,182
Pension contributions		10,731	7,867
Total staff costs		78,047	74,903
Temporary / agency labour costs		3,422	5,164
Total		81,469	80,067

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme which prepares its own scheme statements. The Met Office is unable to identify its share of the underlying assets and liabilities. The Scheme Actuary (Hewitt Bacon Woodrow) conducted a full actuarial valuation as at 31 March 2003. Details can be found in the resource accounts of the Cabinet Office : Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2005/6, pursuant to the Superannuation Act 1972, employer's contributions of £10.7m were payable to the PCSPS (2004/5 £7.9m) at one of four rates in the range 16.2% to 24.6% of pensionable pay, based on salary bands (the rates in 2004/5 were between 12% and 18.5%). From 2006/7, the salary bands will be revised and the rates will be in a range between 17.1% and 25.5%. Employer contributions are to be reviewed every four years following a full scheme valuation by the Government Actuary. The contribution rates are set to meet the cost of the benefits accruing during 2005/6 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

Employees joining after 1 October 2002 can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employer's contributions, paid to appointed stakeholder pension providers, and also to the Principal Civil Service Pension Scheme to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees, were immaterial.

Staff costs include exceptional items in respect of early retirement and severance of £600,000 (2004/5 £463,000).

(b) Average staff numbers

	2005/6 number	2004/5 number
Senior Management	7	9
Scientific, managerial, technical	1,385	1,371
Support	352	400
Locally engaged civilians overseas	19	19
Monthly average staff numbers (all UK Government Civil Servants except locally engaged civilians)	1,763	1,799

There were 1,719 staff employed at 31 March 2006 compared with 1,767 at 31 March 2005, both figures expressed as full-time equivalents.

(c) Directors' remuneration

Details of Directors' emoluments are contained within the Remuneration Report on page 37. Details of fees paid to Non-Executive Directors are also contained in the Remuneration Report.

10 Tangible fixed assets

The movements in each class of assets were:

	Satellite programme £ 000	Land and buildings £ 000	Fixtures and fittings £ 000	Plant and equipment £ 000	Information technology £ 000	ACOC £ 000	Total tangible £ 000
Cost or valuation:							
At 1 April 2005	174,323	58,327	6,835	48,963	57,276	—	345,724
Additions	13,357	—	47	482	1,587	45	15,518
Disposals	—	—	—	—	—	—	—
Transfers	—	—	—	—	—	—	—
Revaluation	5,166	1,297	—	275	—	—	6,738
At 31 March 2006	192,846	59,624	6,882	49,720	58,863	45	367,980
Depreciation:							
At 1 April 2005	112,822	1,431	2,017	8,859	29,138	—	154,267
Charged during year	10,826	1,062	429	2,174	8,447	—	22,938
Disposals	—	—	—	—	—	—	—
Revaluation	3,347	(67)	—	141	—	—	3,421
At 31 March 2006	126,995	2,426	2,446	11,174	37,585	—	180,626
Net book value:							
At 1 April 2005	61,501	56,896	4,818	40,104	28,138	—	191,457
At 31 March 2006	65,851	57,198	4,436	38,546	21,278	45	187,354

Assets held under finance leases included above:

	Satellite programme £ 000	Land and buildings £ 000	Fixtures and fittings £ 000	Plant and equipment £ 000	Information technology £ 000	ACOC £ 000	Total tangible £ 000
Cost:							
At 31 March 2006	—	—	—	—	21,596	—	21,596
Depreciation:							
Charge for year	—	—	—	—	4,419	—	4,419
Depreciation:							
At 31 March 2006	—	—	—	—	10,427	—	10,427

- (i) All land and buildings are held as freehold. The net book value of freehold land and buildings includes £7.8 million of freehold land (1 April 2005, £7.8m) which has not been depreciated. Freehold Buildings are depreciated in full over their estimated life (not exceeding 50 years).
- (ii) Fixtures and fittings include improvements to leasehold buildings and are depreciated over five to 25 years.
- (iii) Land and buildings, excluding the Exeter headquarters, were valued by GVA Grimley, International Property Advisers on 30 June 2005 in accordance with the Appraisal and Valuation Standard (5th Edition), published by the Royal Institution of Chartered Surveyors. The properties are all held for operational purposes and have been valued on the basis of Existing Use Value (minor elements of one site were valued on a Depreciated Replacement Cost basis) as defined in the Appraisal and Valuation Standard.
- (iv) Assets held under finance leases comprise a supercomputer and equipment providing a general purpose computing service.

11 Investment

The Met Office has an investment in weatherXchange Limited, an entity governed by UK law. In October 2005 following a decision by the Board of weatherXchange Limited, the company was placed into administration. Grant Thornton were appointed Administrators. The Met Office wrote off the value of its investment in weatherXchange Limited amounting to £1,533,000 and also made a provision against the debts owed to the Met Office by weatherXchange Limited of £120,000. The Met Office also underwrote £63,000 in legal and professional fees incurred in advising the Board of weatherXchange Limited prior to the company being placed into administration.

Met Office revenue includes £217,000 in respect of services provided to weatherXchange Limited in 2005/6.

In addition to the direct investment, since 2001 the Met Office has incurred additional support costs of approximately £3.0 million provided through a range of indirect activities, the breakdown of which is:

	£ 000
Cost of services provided not invoiced	1,300
Legal and professional fees	1,100
Estimate of internal management time	400
Other	200
Total	3,000

The support costs detailed above have been expensed to the profit and loss account as incurred over the financial years 2001/2 to 2005/6.

The Administrators have sold the data supply business of weatherXchange Limited. The Met Office has agreed that it will supply data to those interested in taking over the continuing supply of services to customers. The provision of these data services will be charged on a normal commercial basis which will be agreed with the purchaser. The Met Office has also supported the Administrator by continuing to provide data products to the company so that it retains some of its existing customers. The costs of these services are being paid by the Administrator.

At the date of entering administration the Met Office held 4990 Class 'A' Ordinary Shares. This equates to 35.0% of the authorised ordinary share capital and 64.1% of the issued ordinary share capital in weatherXchange Limited, although the Met Office's voting rights are restricted to no more than 50%. The entire consideration for the shares was paid in cash. The Met Office also held 700,000 £1 Preference Shares and 655 £0.10 New Preference Shares.

The nature of the business was to provide brokerage and products to support trading in weather derivatives and weather risk management in financial markets. The financial year end of weatherXchange Limited is 31 March. In the 2004/5 year, weatherXchange Limited had an operating loss of £531,000. At 31 March 2005, weatherXchange Limited had capital and reserves of £34,000.

	Investment £ 000
Cost:	
At 1 April 2005	1,533
Amounts written off in year	(1,533)
At 31 March 2006	—

12 Stocks

	31 March 2006 Note £ 000	31 March 2005 £ 000
Meteorological equipment	485	383
Reserve equipment	97	135
Consumable stores	36	41
Total stock	618	559

13 Debtors

	31 March 2006 Note £ 000	31 March 2005 £ 000
Amounts falling due within one year:		
Trade debtors	13,989	16,827
Other debtors	12,198	24,036
Prepayments and accrued income	15,751	15,768
Total debtors	41,938	56,631

Other debtors include staff loans totalling £480,000 to 59 officers predominantly in respect of housing advances on relocation.

	31 March 2006 £ 000	31 March 2005 £ 000
	Note	
Intra-Government Balances		
Balances with central government bodies	11,999	10,639
Balances with local authorities	126	171
Balances with NHS Trusts	109	197
Balances with public corporations and trading funds	3,144	2,495
Subtotal: intra-government balances	15,378	13,502
Balances with bodies external to government	26,560	43,129
Total debtors at 31 March	41,938	56,631

All intra-government balances are due within one year.

14 Current Asset Investments

	31 March 2006 £ 000	31 March 2005 £ 000
	Note	
Intangible asset - Emissions Trading Scheme Allowances	248	—

During the year, the Met Office received allowances under the EU Greenhouse Gas Emission Allowance Trading Directive Scheme. Allowances are valued at open market value.

15 Analysis of changes in cash at bank and in hand

	31 March 2006 £ 000	31 March 2005 £ 000
	Note	
Balance at 1 April	226	300
Net cash inflow / (outflow)	23 3,979	(74)
Balance at 31 March	4,205	226

The Met Office holds three Euro bank accounts, in which there were amounts totalling £2,461,000 at 31 March 2006 belonging to third parties (31 March 2005 £1,702,000).

Cash in transit at 31 March 2006 amounted to £3,951,000.

Cash surplus to immediate requirements at 31 March 2006 amounted to £26.5 million and is held in short-term interest-bearing accounts (31 March 2005, £20.5 million) with the UK Debt Management Office at HM Treasury.

16 Creditors

	Note	31 March 2006 £ 000	31 March 2005 £ 000
Amounts falling due within one year:			
Trade creditors		15,640	22,165
Taxation and social security		7,027	6,514
Accruals		10,900	13,558
Dividend – payable		12,270	5,998
Deferred income		10,647	13,695
Obligations under finance leases		7,016	7,057
Long-term loan repayable within one year		1,100	–
Total amounts falling due within one year		64,600	68,987
Amounts falling due after more than one year:			
Trade creditors		–	4,590
Obligations under finance leases		–	7,084
Long-term loan (note 17)		4,900	–
Total amounts falling due after more than one year		4,900	11,674
Total creditors		69,500	80,661

The dividend payable at 31 March 2006 includes the dividend payable in respect of 2004/5. This was paid in May 2006.

	Amounts falling due within one year		Amounts falling due within one year	
	31 March 2006	31 March 2005	31 March 2006	31 March 2005
	£ 000	£ 000	£ 000	£ 000
Intra-Government Balances				
Balances with central government bodies	13,933	6,296	4,900	–
Balances with local authorities	1,184	1,111	–	–
Balances with NHS Trusts	–	–	–	–
Balances with public corporations and trading funds	–	8	–	–
Subtotal: intra-government balances	15,117	7,415	4,900	–
Balances with bodies external to Government	49,483	61,572	–	11,674
Total creditors at 31 March	64,600	68,987	4,900	11,674

17 Long-term loan

Ministry of Defence loan, repayable by instalments and bearing interest at 4.45% per annum:

	31 March 2006 £ 000	31 March 2005 £ 000
Amounts repayable:		
In not more than one year	1,100	—
In more than 1 year but not more than 2 years	1,148	—
In more than 2 years but not more than 5 years	3,752	—
Total	6,000	—

18 Provisions for liabilities and charges

	Early retirement £ 000	Dilapidations £ 000	Leaseholds £ 000	Civil Network £ 000	Emissions £ 000	Total £ 000
Balance at 1 April 2005	3,981	2,398	8,113	—	—	14,492
Provided in the year	780	218	2,031	600	119	3,748
Unwinding of discount	100	210	500	—	—	810
Utilised in year	(1,558)	(221)	(1,374)	—	—	(3,153)
Released to Profit and Loss Account in year	—	(1,412)	(5,415)	—	—	(6,827)
Balance at 31 March 2006	3,303	1,193	3,855	600	119	9,070

- (i) The Early Retirement Provision represents the pension costs associated with 112 staff who had been offered early retirement as at 31 March 2006 and comprises the full cost of meeting each individual's pension payments to normal retirement age. The gross amount provided for, before discounting, is £3.4m (2004/5 £4.1m). After discounting at 2.8% a net amount of £3.3m (2004/5 £4.0m) is provided.
- (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. The gross amount provided for, before discounting, is £1.4m (2004/5 £2.9m). After discounting at 2.2% a net amount of £1.2m (2004/5 £2.4m) is provided. Following the disposal of three leasehold properties in Bracknell (see note 6) the provision relating to these properties has been released.
- (iii) The Leaseholds Provision is principally in respect of future cost of leasehold properties which became surplus to requirements on relocation to Exeter. The gross amount provided, before discounting, is £4.2m (2004/5 £9.1m). After discounting at 2.2% a net amount of £3.9m (2004/5 £8.1m) is provided.
- (iv) The Civil Network Provision represents early retirement and severance costs associated with the decision to centralise the Met Office's civil forecast production network. It has not been discounted as it is all expected to be incurred within one year.
- (v) The Emissions Provision represents the obligation to deliver allowances in respect of emissions made under the EU Greenhouse Gas Emission Allowance Trading Directive.

The commitments provided for fall due in the following periods:

	Early retirement £ 000	Dilapidations £ 000	Leaseholds £ 000	Civil Network £ 000	Emissions £ 000	Total £ 000
Amounts payable within:						
Under one year	1,383	262	434	600	119	2,798
One to five years	1,815	64	2,015	–	–	3,894
Over five years	105	867	1,406	–	–	2,378
Total	3,303	1,193	3,855	600	119	9,070

19 Revaluation Reserve

	31 March 2006 £ 000		31 March 2005 £ 000	
Revaluation Reserve at 1 April		12,314		15,807
Revaluation of satellite assets	1,819		1,752	
Revaluation of land, buildings, plant and equipment	1,498		148	
Transfer to General Reserve	(1,006)		(5,393)	
		2,311		(3,493)
Revaluation Reserve at 31 March		14,625		12,314

20 General Reserve

	31 March 2006 £ 000		31 March 2005 £ 000	
General Reserve at 1 April		104,572		92,901
Transfer from Revaluation Reserve	1,006		5,393	
Retained profit / (loss)	3,223		6,278	
General Reserve at 31 March		108,801		104,572

21 Obligations under finance leases

	2005/6 £ 000	2004/5 £ 000
Repayable:		
After five years	—	—
Between two and five years	—	—
Between one and two years	—	7,084
Falling due after more than one year	—	7,084
Falling due within one year	7,016	7,057
Total	7,016	14,141

The total obligation at 31 March 2006 relates to a supercomputer and general purpose computing service equipment, each of which is held under a finance lease at implicit lease interest rates of nil% and 6.25% respectively.

22 Related parties

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

Investment in weatherXchange Ltd

Former Met Office director R. Hunt resigned as a director of weatherXchange Limited in April 2005. D. Harker, Met Office non-executive director, was appointed as a director of weatherXchange Limited in May 2005. J. Brigham, former Met Office Interim Sales and Marketing Director, was appointed a director of weatherXchange Limited in August 2005.

Senior manager Prof. P. Hardaker was also a director of weatherXchange Limited, throughout 2005/6.

In September 2005 the Board of weatherXchange Limited decided to apply to the courts to have weatherXchange Limited placed into Administration. Grant Thornton were appointed Administrators on 3 October 2005.

Met Office revenue includes £217,000 in respect of services provided to weatherXchange Limited in 2005/6.

Joint venture with EcoConnect Limited

Met Office Director Steve Noyes was a director of EcoConnect Limited (resigned 8 June 2006), a company incorporated in New Zealand. EcoConnect Limited is jointly owned by the Met Office and the National Institute of Water and Atmospheric Research Limited (NIWA). The company has not traded during the year and the Joint Venture Agreement has now been terminated.

23 Notes to the cash flow statement

(a) Reconciliation of operating profit to net cash inflow from operating activities

	Note	31 March 2006 £ 000	31 March 2005 £ 000
Operating profit / (loss)		13,419	9,524
Depreciation charges	4, 10	22,938	22,586
Provisions for liabilities and charges		651	1,038
Provisions utilised in year	18	(221)	(125)
(Increase) / Decrease in stocks		(59)	315
(Increase) / Decrease in debtors		1,986	2,256
Increase / (Decrease) in creditors		(3,052)	(10,741)
Net cash inflow / (outflow) from operating activities		35,662	24,853

(b) Gross cash flows

	31 March 2006		31 March 2005	
	£ 000	£ 000	£ 000	£ 000
Payments for exceptional items				
Early retirement	(1,558)		(1,940)	
Settlement to terminate Bracknell leaseholds	(5,832)		—	
Leaseholds	(1,374)		(1,487)	
		(8,764)		(3,427)
Returns on investments and servicing of finance				
Interest received	1,574		1,036	
Interest paid	(1,903)		(264)	
Interest element of finance lease rentals	(19)		(33)	
		(348)		739
Capital expenditure				
Payments to acquire satellite assets	(19,309)		(9,459)	
Payments to acquire plant and machinery, land and buildings	(7,857)		(16,056)	
Receipts from / (costs of) sales of tangible fixed assets	11,720		12,486	
		(15,446)		(13,029)
(Acquisitions) / Disposals				
Investment in Joint Venture		—		(333)
Management of liquid resources				
Net payments to / receipts from Debt Management Office deposit account		(6,000)		(1,700)
Financing				
Capital element of finance lease rental payments	(7,125)		(7,177)	
Loan advance received	6,000		—	
		(1,125)		(7,177)

(c) Analysis of changes in net funds

	At 1 April 2005 £ 000	Cash flows £ 000	Other changes £ 000	At 31 March 2006 £ 000
Cash at bank and in hand	226	3,979	–	4,205
Cash on deposit	20,500	6,000	–	26,500
Sub-total	20,726	9,979	–	30,705
Finance lease obligations	(14,141)	7,125	–	(7,016)
Debt due within one year	–	(1,100)	–	(1,100)
Debt due after one year	–	(4,900)	–	(4,900)
Total	6,585	11,104	–	17,689

(d) Reconciliation of net cash flow to movement in net debt

	Note	2005/6 £ 000	2004/5 £ 000
Increase / (Decrease) in cash	23	3,979	(74)
Increase / (Decrease) in cash on deposit	23	6,000	1,700
Other movements	23	1,125	7,177
Increase / (Decrease) in net funds		11,104	8,803
Net funds at 1 April	23	6,585	(2,218)
Net funds at 31 March		17,689	6,585

24 Operating leases

Annual commitments are as follows:

	Land and Buildings		Other	
	2005/6 £ 000	2004/5 £ 000	2005/6 £ 000	2004/5 £ 000
Leases expiring within:				
Under one year	81	56	1	–
One to five years	660	1,178	473	464
Over five years	594	846	1,097	940
Total	1,335	2,080	1,571	1,404

25 Capital commitments

	2005/6 £ 000	2004/5 £ 000
Contracted for but not provided for:		
Other	1,189	714
Contribution for Satellite Programme	5,949	7,422
Total	7,138	8,136

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.

26 Losses and special payments

There was a cost of £1,664,000 in respect of provisions relating to rents and other costs of leasehold properties which were non-operational at 31 March 2006 (31 March 2005 £Nil). Details regarding the losses associated with the Met Office's investment in weatherXchange Limited are contained within note 11 to the accounts.

27 Derivatives and other financial instruments

The Met Office's treasury operations are governed by the Met Office Trading Fund Order 1996, under the Government Trading Funds Act 1973 (a) as supplemented by the Met Office's Framework Document.

The Met Office's financial instruments comprise cash deposits, debtors, creditors, loans, provisions 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 Government Accounting.

Foreign Currency Risk

The Met Office makes significant foreign currency payments for subscriptions and contributions to international meteorological organisations. These costs are funded by the National Met Programme. To manage the risk of currency movements, the Met Office has a policy of buying forward foreign currency.

Liquidity Risk

The Met Office has maintained short-term liquidity throughout the year by management of its cash deposits. To finance the disposal of the leasehold properties in Bracknell the Met Office has borrowed £6.0 million from our sponsor department, the Ministry of Defence. This loan is repayable over five years. Loan funding has also been agreed with the Ministry of Defence to finance the centralisation of the Met Office's civil forecast production network and commercial strategy. It is anticipated that this borrowing will be drawdown in 2006/7.

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 the Ministry of Defence to fund specific strategic requirements.

Short term debtors and creditors are excluded from the following disclosures:

Financial Assets	Fixed rate	Floating rate	Total
	£ 000	£ 000	31 March 2005 £ 000
Cash on deposit	—	26,500	26,500

Cash on deposit at 31 March 2006 consists of 11 short term deposits with the UK Debt Management Office at HM Treasury for a weighted average period of 29.6 days at a weighted average interest rate of 4.38%. The fair value of financial assets approximates to the book value.

Financial Liabilities	Fixed rate	Floating rate	Total
	£ 000	£ 000	31 March 2005 £ 000
Ministry of Defence Loan (Note 17)	6,000	—	6,000

Cash on deposit at 31 March 2006 consists of 11 short term deposits with the UK Debt Management Office at HM Treasury for a weighted average period of 29.6 days at a weighted average interest rate of 4.38%. The fair value of financial assets approximates to the book value.

The fair value of the loan is assessed at £5.5 million as at 31 March 2006, discounted at the rate of 4.45%.

Forward foreign currency contracts

As at 31 March 2006 the Met Office held three forward contracts to buy a total of €46.5 million, equating to £32.5 million at the contracted exchange rates, with value dates in 2006/7 and 2007/8. The Met Office also held one forward contract to buy forward 3.6 million Swiss Francs, equating to £1.7 million at the contract rate with a value date in 2006/7.

Five-year financial summary

	2005/6 £ 000	2004/5 £ 000	2003/4 £ 000	2002/3 £ 000	2001/2 £ 000
Profit and loss account					
Turnover	170,361	165,580	160,775	157,398	154,759
Gross profit / (loss)	36,620	36,489	29,279	29,634	31,803
Operating profit / (loss)	13,419	9,524	(9,207)	(5,058)	3,378
Retained profit / (loss)	3,223	6,278	1,891	(7,351)	5,404
Capital expenditure					
Tangible fixed assets additions	15,518	22,107	57,600	48,856	47,846
Balance sheet					
Fixed assets	187,354	192,990	199,747	162,230	134,341
Net current assets	8,909	8,929	1,291	4,631	33,718
Non-current assets	—	—	11,700	—	—
Non-current liabilities	13,970	26,166	45,163	7,363	2,211
Number of employees					
Average for year	1,763	1,799	1,829	2,097	2,076

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