



Met Office

An Executive Agency of the Ministry of Defence

Annual Report and Accounts 2010/11

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Contents

Directors' report

- 2 Introduction
- 4 Introduction from the Chairman of the Met Office Board
- 6 Chief Executive's overview
- 8 Management structures

Management commentary

- 10 Business performance
- 12 Sustainability report
- 16 Financial review

Remuneration report

- 18 Remuneration report

Accounts

- 22 Statement on internal control
- 28 Statement of the responsibility of the Agency and the Chief Executive
- 29 The certificate and the report of the Comptroller and Auditor General to the Houses of Parliament
- 30 Statement of Comprehensive Income for the year ended 31 March 2011
- 31 Statement of Financial Position as at 31 March 2011
- 32 Statement of Cash Flows for the year ended 31 March 2011
- 33 Statement of Changes in Taxpayers' Equity for the year ended 31 March 2011
- 34 Notes to the accounts

Directors' report

INTRODUCTION

The Met Office is a Trading Fund of the Ministry of Defence (MOD). Synonymous with the weather and climate, it's the only organisation that provides world-leading science in both disciplines, often in parallel, to customers across the globe. We provide an extensive range of services to government departments and the private sector, constantly aiming to improve and innovate. Operating as a business, we generate income to offset charges to the taxpayer and invest in our cutting-edge science and research.

Our internationally-renowned organisation began as a small Meteorological Department under the Board of Trade in 1854. Following acquisition by the Air Ministry in 1920, we came under MOD ownership in 1964. Statutory Instrument SI 1996/774 then made us an Executive Agency in 1990 and a Government Trading Fund from 1996.

ESSENTIAL SERVICES FOR ALL

The weather and climate affect all areas of life. This is reflected in the wide range of Met Office customers, from the general public through to the Government, local authorities and businesses of every kind. We provide information and expert advice to support informed decision-making on a huge variety of issues.

The majority of people in the UK know us for our Public Weather Service, which includes our National Severe Weather Warning Service and Public Weather Service Advisors — all of which were central to our success this year. Our weather forecasts not only help people make everyday decisions about what to wear or when to go out, which policy to adopt or where to invest, but help to keep lives safe from inclement conditions such as snow, ice, wind, storms and flooding.

The Met Office Hadley Centre helps us look still further into the future, underpinning our climate services as one of the world's leading climate research centres. Our experts advise governments, businesses, organisations and the public to help them make informed decisions about the future — whether it concerns a year or a century ahead.

Our specialists in the Mobile Met Unit (MMU) — a sponsored Reserve Unit of the Royal Air Force — provide full support to the Armed Forces, wherever they are in action. They give critical weather and environmental advice wherever military action is taking place — most recently, for example, in Afghanistan. From advising on ground weather risks, such as heat stress, through to predicting the dust impact on military aircraft at take-off and landing, the MMU helps to ensure mission success and safeguard service personnel.

2010: AN EVENTFUL 12 MONTHS

With a challenging backdrop of natural events, and increasing economic and operational pressures, the Met Office delivered effectively against its Business Performance Measures (BPMs). Not only did we meet weather forecasting BPMs — for example, accurately predicting extremely cold conditions in December 2010 — we also did well reducing carbon dioxide (CO₂) emissions and developing other areas of sustainability across the Met Office.

The challenges of 2010 were many and varied — beginning in April with the eruption of the Eyjafjallajökull volcano in Iceland and its unprecedented impact on international air travel. As one of nine Volcanic Ash Advisory Centres worldwide, we worked closely with the Civil Aviation Authority and National Air Traffic Services in the UK, as well as airports, airlines and other national weather services to inform decision-making through our understanding of the ash cloud's movements.

July then brought us closer to ground with another big international incident in Pakistan where we supported efforts to cope with the catastrophic monsoon floods that covered many thousands of square kilometres. The Japanese earthquake and tsunami of March 2011 then saw us advising the Cabinet Office Briefing Room — the Government's crisis response committee — on the possible risk from dispersion of radiation following damage to the nuclear power plant in Fukushima. We also got advice through to British citizens in Japan via the Foreign and Commonwealth Office, while supporting the planning and delivery of international aid to the people of Japan by providing forecasts for the areas affected.

As well as responding professionally to such extraordinary natural events, Met Office staff faced the effects of reduced budgets from both government and private sector customers. Always looking at creative new ways to increase the value for money we offer, they carried out their vital work diligently as background debates continued at MOD and the Cabinet Office about our organisation's long-term shape and function.

At the same time, we strengthened systems to encourage more sustainable procurement from local suppliers, improved staff volunteer links to promote biodiversity in our Exeter grounds, and developed new recycling streams. You can find out more about these and other important sustainability projects in 2010/11 on page 12.

Met Office excellence has not only been celebrated internally, but also outside the organisation. The achievements of individuals and teams have been recognised for diverse, high-quality work ranging from community engagement to engineering innovation and the Mobile Met Unit.

MAKING SCIENCE ACCESSIBLE

We have many world-leading scientists working at the Met Office, but to ensure we achieve our best we also work closely with others worldwide, including other National Meteorological Services (NMSs). Sharing our knowledge and skills, and learning from others' best practise, extends the quality and reach of our science. All this research feeds through into the operational side of the Met Office, which itself drives the research so that we're constantly developing and improving. Our strength comes from dealing with weather and climate as a combined entity. That is, literally, under one roof and using much of the same science, which makes us unique in the world. Measured against our peers and competitors, we're already an authoritative voice in these twin fields.

In all its diverse activities, the Met Office is foremost a science leader — dedicated to saying what we see as clearly as possible to help others with their lives now, as well as in planning for the future. By communicating our science in a clear, confident and inspiring way and using simple (but never simplistic) language, we help people to plan ahead.

This year, we have strengthened our voice through academic partnerships, and by working with other scientific bodies and ambassadors from both scientific and non-scientific backgrounds. We've also extended our reach through museum exhibits, consumer brands and newspaper collaborations. Our website has been improved — structurally and functionally as well as presentationally. We're always actively engaging with new media, such as our free phone apps, including the iPhone app, as well as in the debate on what more we can do to take forward understanding of the weather and climate.

SUCCESSES THIS YEAR

We're publishing a special, year-end edition of our corporate magazine, *Barometer*, which reviews key successes of 2010/11 through the 'making science accessible' theme. Here's a flavour of some of the highlights it includes:

- New services for wider audiences following the signing of a five-year BBC contract in July 2010.
- New communications projects — including 'atmosphere: exploring climate science' (a new Science Museum exhibit), the Open Air Laboratories (OPAL) climate survey project (Natural History Museum); Ultimate Climate Change FAQ (Guardian) and the Ambassador Programme featuring high-profile influencers such as comedian Ben Miller and geologist/TV presenter Dr Iain Stewart.
- Weather forecasts by mobile plus additional language services in Gaelic and Welsh.

- Supporting international response and monitoring — ongoing support in the aftermath of natural disasters including: the earthquake in Haiti (January 2010); volcanic eruption in Iceland (April 2010); record-breaking temperatures and monsoon flooding in Pakistan (July 2010); heatwaves and wildfires in Russia (August 2010); flash flooding in Australia (January 2011); the earthquake in New Zealand (February 2011) and the earthquake and tsunami in Japan (March 2011).
- Met Office acting as science advisor — for Climate Week (21–27 March 2011) which is the UK's annual renewal of its ambition and confidence to combat climate change.
- More power from less power — how our supercomputer is using less electricity and reducing CO₂ emissions, but working even harder.
- Building new academic partnerships and collaborations with universities and other expert bodies — for example with the Universities of Exeter, Leeds and Reading.
- The signing of a Memorandum of Agreement (MOA) between the Met Office and the US National Center for Atmospheric Research (NCAR) — increasing jointly-conducted research to tackle climate change.

LOOKING FORWARD TO NEW IDEAS, NEW PARTNERSHIPS

As the NMS for the UK, the Met Office is an active member of the global meteorological community. This means that the Met Office obtains and shares a significant amount of data with other organisations.

Observational data are obtained from a number of sources including the Met Office's network of weather stations in the UK and around the world together with observations from satellites, ocean buoys, weather balloons, ships and aircraft. These provides us with millions of observations each day which are fed into the Met Office models that support a host of vital weather forecasting and climate related services.

As we look to the future we will continue to focus on innovation — creating the best, most relevant products and services we can offer, based on our science — as well as making the most of our science by communicating it to ever wider audiences. Collaborating with the meteorological community and academia as well as extending our reach through our role as science advisor to many others in government and business will also ensure further success as we continue to explore vital new areas of weather and climate science.

Introduction from the Chairman of the Met Office Board

In conversation with Robert Napier, Met Office Chairman:



What were the key themes of 2010/11 for the Met Office from your perspective as Chairman?

The overarching theme of an extraordinary 12 months was the successful delivery of services in the face of some real challenges.

We met all of our Business Performance Measures relating to weather forecasts. In particular, we were widely recognised for accurately predicting the harsh conditions, including the extreme snow and freezing temperatures experienced in December 2010 and January 2011. This was especially important for Scotland, which was so badly affected.

Looking back to the early part of our financial year, we were faced with a volcanic ash challenge. As one of nine Volcanic Ash Advisory Centres around the world, we were responsible for advising international aviation on the location and movement of the ash cloud from the Eyjafjallajökull volcano in Iceland. Ultimately, it's up to the International Civil Aviation Organisation (ICAO) and aircraft manufacturers to set safety thresholds for flying planes through volcanic ash. The information we provided was used by the Civil Aviation Authority (CAA) and National Air Traffic Services (NATS) to inform their decisions. It was an exceptional test, but we came through well.

We also faced challenges of a different sort this year. The economic climate continued to be unfavourable for our private sector and government customers and they sought to reduce costs in many areas. Our priority was therefore not just to deliver excellent services, but to demonstrate how they represent good value for money. It's to the credit of our management and staff that this has not got in the way of consistently excellent delivery.

Are there any other areas of success you'd like to highlight — including specific team contributions?

While thanking all our teams for their hard work, I'd especially like to mention the Mobile Met Unit's (MMU's) continued contribution to operations in Afghanistan and elsewhere. MMU staff are always on standby to help the MOD, often at very short notice — and we're proud to offer such a highly successful service.

The award of the BBC contract once again in July 2010 was great news and reflects the excellence of our work and ability to deliver. It's also the best context for communicating extreme weather warnings — a vital public service for which we're responsible.

Other major successes included launching a range of free phone apps that have proved to be incredibly popular and have led the way in exploring how other publicly-funded Met Office data can be made more accessible.

Reducing the carbon emissions of our supercomputer and infrastructure by 3.4% was also especially significant — both for sustainability and hard economic reasons, given that the Direct Current (DC) power project is now saving us around £200,000 in electricity per year. The innovative work that delivered this is a tremendous achievement and the Met Office was recognised in the Civil Service Awards as well as in the Innovation Awards of the Institute of Engineering and Technology for its approach to sustainability through the use of evaporative free cooling and DC power.

The climate change debate continues worldwide. What has been the Met Office's latest approach to disseminating its world-leading knowledge and expertise in this area?

We probably offer a wider range of climate services than anybody else in the world — from presenting the facts simply to members of public though to in-depth business consultancy projects. Above all, we present our arguments clearly and rationally, helping everyone understand the science that is known and certain right through to exploring different future climate scenarios.

I think the Met Office is exceptionally good at distinguishing between areas of knowledge and hypothesis. We position ourselves as a voice of science — concerned only with the facts. What we certainly don't do is promulgate climate change as some kind of 'mission'. New academic partnerships such as those agreed with the Universities of Exeter, Reading and Leeds mean this voice of science now has an even wider platform.

In what other ways is the Met Office seeking to improve the way it communicates and widens access to its services — including weather and beyond?

The first thing is to get the weather right; which, yet again, we've forecast very well this year. It's a daily challenge that we rise to as our Business Performance Measures and public trust figures show, with 90% of those surveyed finding our warnings useful. However, the public also knows that it's not possible to be 100% accurate. Importantly, the Met Office is ranked as one of the top two National Meteorological Services in the world, so the UK public can be confident that they are getting the best advice possible.

Nevertheless, we did attract criticism in the early part of the year; largely from those who weren't aware of the full story of the organisations responsible for setting safety thresholds for flying planes through volcanic ash, following the eruption of the Eyjafjallajökull volcano. The finger of blame was mistakenly pointed at the Met Office. Mistakenly pointed anywhere, in fact, as all the agencies involved in coping with the fall-out from the volcano gave required priority to public safety.

Throughout the remainder of the year, coverage of the Met Office improved and there were lots of activities that contributed to this — putting even more resources on our website; widening the media we use to get weather information to people when they need it; increasing our computing capacity, the number of location forecasts and therefore the accuracy of our weather forecasts, to name a few.

We're also working with other 'credible messengers' to strengthen our voice on the science of climate change from museum exhibits, consumer brands and newspaper collaborations to famous faces from scientific and non-scientific backgrounds. We're keen to use as many different means as possible to get a consistent climate message out to people.

What strategic challenges will the Met Office face in the coming year?

In the face of big Government spending cuts we'll continue working hard to maintain the confidence of our government customers, such as the MOD, Department for the Environment, Food and Rural Affairs (Defra), Department for International Development (DFID) and the Department of Energy and Climate Change, which directly commission work through the Met Office Hadley Centre.

There have also been two parallel reviews about the status and ownership structure of the Met Office within Government. These reviews remain ongoing and the conclusions reached might have an impact on the strategic direction that the business takes.

Value for money will become ever more important as the coalition government's austerity measure start to bite. The Met Office is the authoritative voice in its field — something that continually opens doors for us but which we never take for granted. Our strength comes from dealing with weather and climate as a combined entity, in a way that is unique in the world. That is, literally, under one roof and using much of the same science. What we then have to do is ensure we offer the right products and services at the right price for our customers. Our focus in 2011/12 will remain on innovation. That is, how we can best tailor the products and services we offer — particularly those relating to climate change — to potential customers who don't necessarily know what they yet want or need.

Overall, the Met Office has much to offer in the way of scientific excellence in the twin areas of weather and climate. Our vision is: "To be recognised as the best weather and climate service in the world". It's not enough for us to simply be the best. We want to be recognised as such by our customers, collaborators and competitors. And I think we're well on the way to realising this aim.

Chief Executive's overview

In conversation with John Hirst, Met Office Chief Executive:



What were the highlights of 2010/11 as seen from your position as Chief Executive?

It's been a year packed with effort, achievement and big events — one that started with the volcanic ash crisis in April 2010, when previously low-level eruptions from the Eyjafjallajökull volcano in Iceland increased significantly. The Met Office responded fantastically well throughout the whole event, which lasted well into May. Everyone wanted to know what was going on — in particular, the Civil Aviation Authority (CAA) and National Air Traffic Services (NATS) that are responsible for safety within UK airspace and decide whether the skies above the country are open or closed. We kept both agencies updated on where the ash cloud would be every six hours and responded really quickly to requirements that changed rapidly throughout the time. We also worked hard with both the media and our colleagues around the world to help keep people up to date. Our experience is now being used to refine and develop arrangements for similar events around the world.

The year also saw some extreme weather across the world, including record-breaking temperatures and widespread monsoon flooding in Pakistan; heatwaves and wildfires in Russia; flash flooding and mudslides in China; and drought, followed by flash floods, in Niger. In the UK, 2010 came to a close with the coldest December for 100 years, with temperatures struggling to get above freezing during the day and regularly falling to below -10 and -20 °C overnight. In the run up to and during this prolonged spell of wintry weather, our forecasters' work was outstanding.

How specifically did the Met Office help people and organisations prepare for December's record-breaking cold spell?

We'd signalled the likelihood of a cold start to winter early. This year, we issued a seasonal forecast to our direct customers as well as the Cabinet Office, along with monthly forecasts to the public. Research had showed us these match our customers' planning schedules better. Our monthly forecasts provided good advice, while our day-to-day forecasts were exceptional, allowing responder communities such as the police and other emergency services to tailor their work to the predicted conditions. Feedback on our response from customers has been extremely positive and supportive.

March 2011 saw a devastating series of earthquake, tsunami and nuclear events in Japan. Did the Met Office offer assistance?

The volcanic ash incident taught us that in situations like this you need one authoritative voice, not several. So although we

have certainly supported the Japan Meteorological Agency — one of the very best in the world — it was the sole authority from the outset and remains so.

At home, we worked with the Cabinet Office Briefing Room — the Government's crisis response committee — advising on the risks from dispersion of radiation from the Fukushima Daiichi nuclear power plant that was badly damaged by the earthquake and tsunami. We also got advice through to British citizens in Japan via the Foreign and Commonwealth Office, while supporting the planning and delivery of international aid to the people of Japan by providing forecasts for the areas affected. Our corporate charity is Shelterbox, which arrived on the ground in Japan less than 24 hours after the earthquake struck, delivering emergency shelter, warmth and dignity to people in desperate need.

Another crucial lesson from such events is just how important it is to have direct, open relationships with other national weather services around the world. Environmental events like extreme weather, tsunamis and volcanic ash don't respect geographic boundaries. That's why we continue to work very closely with our international counterparts, offering assistance whenever we're needed.

How well did the Met Office's achievements match its Business Performance Measures for 2010/11?

We hit all our Business Performance Measures (BPMs) this year. Profitability is up, market share in a number of our services has increased, new products have been developed and are proving successful, and forecasting quality has risen.

We constantly review ways of improving our public weather service. Heavy snow, frosts... weather-wise, the start of 2010 was a challenge for the UK, disrupting travel, schools, work and home life. We worked hard to make sure that emergency services and the public were made aware of any potential severe weather. Then, we commissioned independently run ad-hoc surveys to check how our early warnings were received.

Of those surveyed, 90% said they saw or heard the warnings; and 90% thought the warnings were 'fairly' or 'very' useful. The preferred methods of accessing this critical information were: television (85%), radio (36%), and the internet (25%). We also asked recipients whether they took some form of action based on the warnings and 55% confirmed they did so.

Although the results of the survey were extremely positive — confirming the expertise of our forecasters and the way our early warnings are presented — there's always room for

improvement. Importantly, we're not only willing to ask the questions, we're also prepared to take the necessary steps to make sure we provide the best service possible.

I like to look beyond BPMs though, as a measure of our success, to a year in which we received awards almost every month — either as individual members of staff or for the organisation as a whole. Our achievements were recognised in areas as diverse as community engagement, engineering innovation and the Mobile Met Unit, which sees our forecasters deployed to support the Armed Forces wherever military action is taking place. We're a modest organisation — perhaps a little too modest at times — so it's fantastic to see Met Office staff so highly commended.

Were there any technical developments during the year that particularly supported Met Office work?

Increased computing capacity has helped us to improve weather and climate predictions, because it's enhanced our ability to put more science into the models. The result is more accurate forecasting across all timescales — from days to decades ahead.

Another significant change to our everyday forecasts for the UK this year was increasing the number of location forecasts to 5,000. Previously, we generated around 480 site-specific forecasts. Normally updated twice a day or sometimes more, these produced the forecasts shown, for example, on our website, iPhone app, and the BBC.

The advantage of having 5,000 sites is that we can now produce forecasts for nearly all population concentrations and other points of interest across the UK. This means that our customers can now get forecasts closer to their exact desired location — sometimes literally down the road. More locations provide a fuller picture of what the weather's doing, which also helps make our forecasts more consistent across different media.

It's not hard to find people who say: "Our winters are colder — I can't see much evidence of global warming!" How is the Met Office getting its climate change science across in this context?

Our main strategy is to develop and explain climate-change science using simple, everyday language; reminding people of the basics — the physics, the observations and the evidence of our changing climate. Of course, we're immensely proud of what we do and part of our success comes from the fact that we focus on the science rather than the politics.

Our experience of the weather is very personal, but you can't judge global trends just by looking out of your window. So,

although December 2010 may have been the coldest that the UK can remember for a long while, it was the second warmest December on record worldwide. In our communications, we have to keep drawing attention to the issue of how personal perception may not always be in line with the facts.

Another very important current strategy is strengthening our voice through partnership work to get our science across to a broader audience. Partnership and collaboration — such as the Science Museum exhibition 'atmosphere: exploring climate science', the Open Air Laboratories (OPAL) survey with the Natural History Museum, and the Ultimate Climate Change FAQ (Frequently Asked Questions) for the Guardian newspaper — were behind some of the big projects this year.

We help people to understand the science. What we can't do, though, is make them draw conclusions — they have to do that on their own. Above all, when people express a view — positive or negative — we engage them, whether or not they believe what we're saying. It's that spirit of engagement and the sharing of knowledge that's common to so many of our projects.

What's been the impact of a change of Government on the way the Met Office operates now and will do in the future?

Although there's inevitable uncertainty in the current political and economic climate, we'll continue to serve our customers and work hard to ensure that our science and integrity are well understood. Spending cuts in government departments — including the Ministry of Defence (MOD) through its Strategic Defence Services Review — could mean changes to the contracts they negotiate with us in future. During this time there have also been discussions that remain ongoing as to the potential ownership and status within Government of the Met Office. The outcome of these discussions could have a bearing on how the Met Office operates.

For now, we'll continue to deliver the services we have promised to all our customers. We also strive to let people know just how much more the Met Office can deliver for the benefit of society, both as an organisation and by working with partners in the UK and around the world.

Of one thing I am sure, however. Whatever the future may bring, the Met Office will never lose its objectivity and sheer professionalism. Met Office staff will continue to maintain an energy and enthusiasm for what they do and contribute towards our vision, 'to be recognised as the best weather and climate service in the world'.

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

The Met Office Board includes a number of Non-Executive Directors who approve the strategic direction of the Met Office and oversee its performance.

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.

PROSPECT

With over 90 years' experience in the public sector, Prospect is the only recognised Trade Union for Met Office staff. Current membership is in excess of 60% of employees.

MET OFFICE ORGANOGRAM

The Met Office's staffing structure is available online at www.metoffice.gov.uk, along with details of the posts and pay scales of junior and senior staff.

REGISTER OF INTERESTS

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

PROTECTING PERSONAL DATA

No protecting personal data related incidents were reported to the Information Commissioner's Office during 2010/11. There were no such incidents centrally recorded but not formally reported to the Information Commissioner's Office during the year.

MET OFFICE BOARD



John Hirst,
Chief Executive



Nick Jobling,
Chief Financial Officer



Prof. Julia Slingo,
Chief Scientist



Rob Varley,
Operations and Services
Director



Robert Napier,
Chairman



Dr Mike Goodfellow,
Non-Executive Director



Prof. Sir Brian Hoskins,
Non-Executive Director



James Currie,
Non-Executive Director



Paul Rew,
Non-Executive Director
& Chairman of Audit
Committee



Peter Shortt,
Non-Executive Director
— Shareholder Executive
representative



David Williams,
Non-Executive Director
— MOD representative

Met Office Owner's Council	Met Office Board	Audit Committee	Membership as 31 March 2011
•	•	*	John Hirst Chief Executive
*	•	*	Nick Jobling Chief Financial Officer
	•		Prof. Julia Slingo OBE Chief Scientist
	•		Rob Varley Operations and Services Director
•	•		Robert Napier Chairman
	•	•	Dr Mike Goodfellow Non-Executive Director
	•		Prof. Sir Brian Hoskins CBE FRS Non-Executive Director
	•		James Currie Non-Executive Director
	•	•	Paul Rew Non-Executive Director & Chairman of Audit Committee
*	•		Peter Shortt Non-Executive Director — Shareholder Executive representative
•	•	•	¹ David Williams Non-Executive Director — MOD representative
	*		Phillippa Childs Prospect National Negotiator
•			The Rt Hon. Andrew Robathan MP Minister for Defence Personnel, Welfare and Veterans
•			Jon Thompson Director General Finance, MOD
•			Prof. Mark Welland FRS FREng Chief Scientific Adviser, MOD

* Invited attendees.

¹ David Williams replaced Terence Jagger during February—March 2011.

Management commentary

BUSINESS PERFORMANCE

Overview

Despite the challenges we've faced, we have had a successful year in terms of business performance. This success has been built on the contributions of our managers and staff across all areas of the Met Office.

The table below provides a summary of the measures that contribute to our corporate bonus scheme.

BPM	Measures	Achieved?
Forecast accuracy	To achieve 3 out of 4 measures relating to the performance of our scientific models	Y
Business profitability	To achieve a business profitability target of at least £5.7m	Y
Return on Capital Employed	Meet HM Treasury requirements by achieving a Return on Capital Employed (ROCE) of at least 3.8%	Y
CSAs delivery	To deliver the outputs defined within agreed Customer Supplier Agreements (CSAs) to the satisfaction of customers from the Public Weather Service (PWS), Defence and DECC/Defra	Y
Carbon emissions	To meet all reduction targets relating to our supercomputer, estate energy consumption and air travel and to baseline organisation-wide emissions	Y
Corporate responsibility/ Sustainability	To meet 7 out of 8 measures including our contribution to local forums, timeliness of invoice payments, work experience placements, employee engagement and performance of contractors	Y
Building profitable revenue	To achieve a stretch business profitability target of £6.2m To grow commercial revenue to £31.97m	Y
On Time in Full	To deliver a range of products for our Commercial and Government customers by the target time (On time) and as described (In full)	Y
Reach	To increase our public and government reach through the value of strategic partnerships and our website	Y
Customer experience	To improve our customers' experience of the Met Office, our understanding of our customers' needs, and benchmark our performance against other public sector organisations	Y

Forecast accuracy

The accuracy of our forecasts forms a fundamental part of the services we provide. We use a range of established methodologies to measure this, which are widely recognised and used across the scientific community. One of which, the Brier Skill Score, is probably the most used verification measure for assessing the accuracy of probability based forecasts. Another method, using a Root Mean Square (RMS) error score is recognised and recommended by the World Meteorological Organization (WMO). For further information on the methodologies used please see www.metoffice.gov.uk/research/weather/numerical-modelling/verification

The following performance information relates directly to the accuracy of our forecasts and is measured from two different perspectives to satisfy the wide-ranging needs of our customers and stakeholders.

Improvements in the performance of our scientific models are measured using the following indicators which are the same as those that contribute to our Forecast Accuracy BPM:

We said we would:

- improve our forecasting skill, using the UK Numerical Weather Prediction (NWP) Index, from 117.5 to 118.0

This is a combination of forecasts across the UK, including temperature, wind, rain and cloud. Skill scores are given depending on the accuracy of these forecasts against agreed thresholds. The scores are then combined to give a single value.

We achieved 118.17

We said we would:

- improve our forecasting skill, using the global Numerical Weather Prediction (NWP) Index, from 138.4 to 141.7

This provides a measure of the accuracy of our global model forecasts, verified by comparing them with observations and model analyses. As with the UK Index, a skill score is calculated to give a single value.

We achieved 142.56

We said we would:

- more skilfully predict whether precipitation would occur at approximately 140 Met Office observing sites, improving the skill score from 0.270 to at least 0.272

This index measures the accuracy of forecasts of rainfall events at a fixed number of observing sites. The forecasts are verified using the Brier Skill Score which is a well-known verification measure for probabilistic forecasts

We achieved 0.271

We said we would:

- achieve an increase in the UK Cities Automated Temperature Index from 0.667 to at least 0.671

This index measures the accuracy of maximum and minimum temperature forecasts for a fixed list of UK sites covering 48-hour periods. The scoring system uses the 'percentage correct' score to compile a single index value for temperature.

We achieved 0.679

Additionally, we measure the performance of our forecast services to our customers. The following summarise some of the indicators which are specifically included within our CSA Delivery BPM:

We said we would:

- deliver Public Weather Service (PWS) warnings in accordance with accuracy thresholds defined by our PWS customers.

These included the accuracy and timeliness of our warnings for severe gales and heavy rain.

We achieved the requirements defined by our PWS customers.

- deliver our PWS weather forecasts in accordance with accuracy thresholds agreed by PWS customers.

These included the accuracy of our forecasts for maximum and minimum temperatures, rain, sun, wind speed and wind direction.

We achieved the accuracy thresholds defined by our PWS customers and significantly increased the number of location forecasts from around 480 to 5,000.

- achieve levels of accuracy for our Terminal Airfield Forecasts (TAFs) and weather warnings in accordance with thresholds defined by our Defence customers.

TAFs are forecasts relating to specific Defence airfields and cover visibility and cloud-base.

We achieved the levels of accuracy in accordance with the thresholds agreed by our Defence customers.

Sustainability report

Our work as a leading advisor on the weather and climate to governments, businesses and individuals is central to promoting sustainability both at home and abroad. The global nature of our activities, especially our climate science, is essential to the worldwide sustainability agenda. Through our work with the World Meteorological Organization's Voluntary Cooperation Programme we also help to ensure that the global weather and climate community works together in a sustainable way.

We are also aware of the impact of our own operations as an organisation. We're committed to meeting our objectives in a sustainable way and acting in a positive manner in dealings with our staff, customers, suppliers and the wider community. In 2011, our efforts were recognised with the award of a gold ranking in the Business in the Community (BITC) Corporate Responsibility Index, the UK's leading voluntary benchmark.

The sustainability commentary and data shown here focus on our environmental performance in 2010/11 and will become mandatory for our Annual Report and Accounts from 2011/12. This year, the new format is accompanied by a separate summary document detailing our other achievements in the area of sustainability — in the marketplace, workplace and local community, as well as the environment.

KEY ACHIEVEMENTS AGAINST 2010/11 BUSINESS PERFORMANCE MEASURES

A key Business Performance Measure (BPM) for 2010/11 was to reduce the carbon dioxide (CO₂) emissions from the energy consumed by our supercomputer and its associated infrastructure by 5% per teraflop. In fact, we achieved a CO₂ reduction of 23% per teraflop — a cut that means an overall reduction of 3.4% in CO₂ emissions from the running of our supercomputer.

In addition, we achieved further carbon reductions by exceeding our target to reduce energy consumption (per capita) at our headquarters in Exeter and other Met Office sites by 5%. We also exceeded our target to reduce by 2% the CO₂ emissions attributable to air travel, with a final cut of 21%.

Performance commentary

The energy consumed by our headquarters-based supercomputer accounts for the majority of our scope emissions. Work is continuing to significantly reduce these direct impacts through the use of emerging technical engineering solutions, and a target to further reduce greenhouse gas emissions from our IT halls has been set for the next financial year (2011/12).

Many of our achievements in these areas were the result of in-house innovation — our Direct Current (DC) power project is just one example. This was led by a Met Office engineer who calculated that less power would be consumed if we switched the Monsoon system, which we share with the Natural Environment Research Council, from Alternating Current (AC) to DC. Working with external partners including IBM and our power suppliers, an in-house team created a system that not only delivered a 10% power reduction, but also a £200,000 cost saving per year. It's the first time such a conversion has taken place on an IBM system anywhere in the world.

In addition, we achieved further carbon reductions this year by exceeding our target to reduce energy consumption (per capita) at our headquarters in Exeter and other Met Office sites by 5%.

Performance commentary

The reported energy data for the Met Office since 2009/10 is for our 82 UK-based sites and facilities for which we are invoiced, although associated costs for these sites are only included in 2010/11. Prior to this, there is insufficient data of reported consumption on our sites outside Exeter, so these figures are not included here. However, progress was made in-year to centralise utility management for our UK-based estate, for which we are actively transferring energy suppliers to those with a generation source of 10% renewable and 15% from a GQCHP (good quality combined heat and power).

We also exceeded our target this year to reduce by 2% the CO₂ emissions attributable to air travel, with a final cut of 21%.

Performance commentary

We are working to better account for our travel emissions, as well as to reduce the overall associated impact. For example, we're actively discussing reporting methodology with our travel service providers to help them improve the data they provide to us.

We also either met or exceeded our sustainability targets in the marketplace (including invoice payment times and local business procurement through the Green Accord and Devon Procurement Partnership); in the workplace (including work experience placements); and in the community (school and college outreach work nationwide plus visits from, and facilities made available to, local community groups).

Only in two areas of sustainability did we fall short. One was a project to secure the Wildlife Trusts' Biodiversity Benchmark — which we should be able to achieve this coming year with

Greenhouse Gas Emissions (GHG)		FY 08/09	FY 09/10	FY 10/11
Non-financial indicators (tCO ₂ e)	Total gross emissions for scopes 1 & 2 (including white fleet)	14,176	18,907	18,852
	Gross emissions scope 3 — business travel (less white fleet)	n/k	1,380	1,180
Related energy consumption (MWh)	Electricity: non-renewable	17,692	28,834	24,561
	Electricity: renewable	1,966	3,204	2,577
	Natural gas:	17,618	5,331	18,799
	Gas oil: (diesel)	709	762	1,327
Financial indicators (£m)	Expenditure on energy	2.3	2.4	2.8
	Expenditure on business (administrative), travel	1.9	1.9	1.8

improved auditing processes. The other was to deliver a 2% increase in our Employee Engagement Index score, which was a tough target in the current economic climate. Despite very challenging conditions, we still achieved a 1% improvement this year.

OTHER GREENHOUSE GAS EMISSIONS INITIATIVES

Alongside the pioneering DC power project, we also invested in evaporative free cooling for our supercomputer, which needs a great deal of water to keep it cool. Large tanks installed on the roof of our headquarters in Exeter mean we can now use water at the ambient temperature outside the building for much of the time, rather than relying completely on mechanical cooling.

We were delighted when evaporative free cooling was shortlisted for the Civil Service Awards in November 2010 and a Met Office team attended Buckingham Palace to meet Her Majesty the Queen and Prince Philip.

To control waste effectively, we know it's vital to communicate regularly with everyone across the Met Office estate. For example, we ask all contractors coming on site if their activities will involve packaging or any other type of associated waste — ensuring it's their responsibility to manage any generated. In the same way, we work closely with our facilities management partner, G4S, to make sure it has the appropriate facilities for recycling waste food, for instance.

Performance commentary

Through our procurement processes we are proactively working with our suppliers and contractors to minimise total waste generation, as well as continuing to find ways to improve our recycling process. Reported waste costs reflect the unitary charge attributable to our primary service provider. These costs include the collection, processing and subsequent disposal of all waste from our headquarters. Efforts are continuing to further capture waste data for our other sites, which will be included in future reports.

WASTE MINIMISATION AND MANAGEMENT

Waste			FY 08/09	FY 09/10	FY 10/11
Non-financial indicators (t)	Total waste generated		176.4	212.9	192.9
	Hazardous waste	Total	0.1	0.7	0.3
		Landfill	48.8	58.1	49.3
	Non-hazardous waste	Recycled	127.5	154.9	143.6
		Incinerated/energy recovery	0	0	0
Financial indicators (£)	Total disposal cost		66,944	68,529	71,700

We currently recycle in excess of 74% of the total waste generated at our headquarters and are always exploring new recycling themes, such as a recently introduced soft plastics scheme for the film wrapping found on magazines and journals. This initiative joins other recycling streams that are already well established across the Met Office and range from drink cans and newspapers to CDs and batteries.

Performance commentary

The Met Office headquarters has set itself a target to achieve an 80% recycling target by 2014/15, which we are currently on track to exceed. In addition, we are actively seeking to centralise management of all waste from our remote facilities to ensure best practice is followed across the organisation.

Performance commentary

We are able to include water consumption in 2010/11 from across our estate through a programme of smart metering which monitors and records the amounts used. Additional engineering solutions are being considered to further reduce the water used within our offices, and a target of 5% reduction in total water consumed by our offices has been set for 2011/12. However, the primary demand for water consumption is through the increased capacity of our supercomputer, which requires additional cooling. In conjunction with our suppliers, we are continuing to seek improvements through engineering technology to help reduce the amount of water used by our supercomputer and across the organisation in general.

FINITE RESOURCES

Rainwater is one of our most important resources, so we harvest it off the roof as well as from porous car park surfaces, to flush toilets and use elsewhere around our headquarters. Our on-site borehole then tops this up — reducing the demand for mains water supply. Although we're using more water overall, we're still reducing the amount we draw from the mains supply.

SUSTAINABLE PROCUREMENT

As part of the UK-wide Sustainable Procurement Task Force, we aim to work to best practice standards. During the year, the Met Office Procurement Team was recognised for its values by being awarded a certificate from the Chartered Institute of Purchasing and Supply (CIPS).

Small/medium enterprises (SMEs) — especially those based in the South West — were a particular focus this year. For

Water			FY 08/09	FY 09/10	FY 10/11
Non-financial indicators (m ³)	Water consumption	Imported (potable)	31,598	28,485	24,682
		Abstracted (borehole)	2,012	23,431	23,068
		Grey water (harvested rainwater)	6,638	6,880	11,729
Financial indicators (£)	Water supply costs		117,479	104,921	115,972

example, we enhanced our e-procurement system so that it now records the approach to sustainability and the environment taken by the SMEs and not-for-profit 'third sector' organisations that supply us. The Green Accord, as this assessment is known, was developed by Exeter City Council to reduce the impact on the environment throughout the whole supply chain.

Wherever possible, we prefer to purchase goods and services from suppliers with sound ethical as well as environmental policies, so have built International Labour Organization (ILO) fair and ethical trade considerations into the procurement lifecycle too.

We have also simplified our documentation, writing clear and accessible terms and conditions; and, joining other public sector organisations in the region, worked through Devon County Council to enable local suppliers to bid once for multi-agency contracts. This initiative — the Devon Procurement Partnership — has had a positive impact on the economy, saving public money while encouraging local growth.

BIODIVERSITY ACTION PLANNING

There were important new developments in biodiversity during the year. Many volunteer projects were already running successfully at our Exeter site, such as the wildflower meadows planted by staff in 2007. In 2010/11 we formalised this work by creating a Biodiversity Working Group to work closely with colleagues in Property Management and continue to make a difference.

The Group's ideas have led to modified mowing regimes; 'under planting' with wildflowers rather than bark; log piles in wooded areas to encourage creature habitats; and garden markers highlighting rare wild orchids and 'work in progress'. Our biodiversity policy for the site has been fully integrated within our Environmental Management System, which has been certified to the internationally recognised ISO 14001 since 2004.

LOOKING AHEAD

One of the most important future issues for the Met Office will be reducing CO₂ emissions from staff travel — both national and international — as we grow the business in a sustainable way. This means staff taking trains instead of planes where they can, and using more video conferencing — a technology we're upgrading at Exeter and our other UK sites.

We'll also need to tackle a potential increase in CO₂ emissions as our supercomputing power increases later in 2011. Along with a doubling in capacity of evaporative free cooling, making even more use of the external temperature rather than mechanical cooling, we'll be exploring if the supercomputer can run as effectively at higher temperatures (further reducing our cooling needs) and expanding cold aisle containment which traps and vents warm air in curtained-off IT areas.

Following the success of the DC power project, we look forward to even more in-house Met Office innovation to take on the sustainability challenges of the future.

Financial review

FINANCIAL PERFORMANCE AND POLICIES

Business model

The Met Office provides world-class value-added weather and climate related services to a broad range of customers in both the public and private sector. These services allow our customers to make informed decisions to benefit their business now and in the future and, in the case of government, keep lives safe from threats posed by the weather.

The Met Office's business model distinguishes clearly between two types of customer: central government bodies requiring services which cannot sensibly be competed; and services provided on a commercial (usually competed) basis to customers both inside and outside government. The Met Office's pricing policy is aligned to these types of customer.

In setting prices, the Met Office operates within all relevant and applicable legislative and regulatory requirements including HM Treasury Fees and Charges guidance. In its role as a National Meteorological Service, the Met Office provides a range of non-competed services to other government departments. These services account for the majority of Met Office revenues. Separate arrangements are made for each Customer Supplier Agreement and pricing of services conforms to the terms agreed. The prices for such services are set at a level consistent with HM Treasury guidance.

Competed commercial services are priced on an individual basis, depending on the nature of the service and the requirements of the customer. This applies equally to public sector and private sector customers, in cases where the contract is awarded through competitive tender. Commercial services are priced at a fair market value to deliver profit, ranging from standard services positioned for entry level/basic requirements to high quality, premium-price services exhibiting demonstrable financial or non-financial benefit.

Income statement

Turnover increased in-year by 2.2%, from £192 million in 2009/10 to £196.1 million. The majority of the growth has been in Commercial revenue streams, increasing by £2.9 million to £32.2 million. Government revenue streams held steady with a small increase compared to 2009/10.

Significant additional services have been provided to the aviation industry during the year in response to the Icelandic volcanic ash event in early 2010/11. The increases seen in commercial revenue streams have come about predominantly to match the additional costs incurred by the Met Office in providing these services. Other sources of commercial revenues have in total been maintained at similar levels to 2009/10.

The increase in Government revenues is driven by an increase in revenue received in respect of the Public Weather Service (PWS) with decreases in revenue from Government Services and Defence customers when compared to 2009/10. PWS revenue increased in line with the contracted price for the programme of work undertaken, together with additional revenue to match the extra international costs outlined below:

Government Service revenues (and associated costs) decreased, largely due to a reduction in climate research related revenues. This was a result of reduced costs due to extending the life of Phase 1 of the supercomputer, recruitment constraints in the early part of the financial year, and reduced revenue following the completion of a significant research contract during 2010/11.

Defence revenue fell, primarily due to a reduction in funding and associated costs in supporting routine defence operations.

Total operating expenditure (see note 4 to the Accounts) increased by £1.2 million from £185.3 million in 2009/10 to £186.5 million in 2010/11. Staff costs (excluding early retirement and exit costs) were comparable to 2009/10 with staff numbers slightly lower in 2010/11 compared to 2009/10. Equipment and services costs were £2.2 million lower, predominantly due to reduced levels of spend on contractors, marketing, and training. International services and subscriptions payable to bodies including EUMETSAT, ECMWF and WMO have increased £1.3 million compared to 2009/10. EUMETSAT costs have increased due to the Meteosat First Generation programme costs being expensed as the programme is now at the end of its already extended operational life. This is partly offset by a reduction in satellite depreciation costs. ECMWF costs have increased, reflecting increased operating costs of this organisation.

Operating profit increased from £6.7 million in 2009/10 to £9.4 million in 2010/11.

A Return on Capital Employed (ROCE) of 4.7% was achieved for the year. The Met Office Treasury Minute, agreed in 2009/10, is to achieve a ROCE of 3.5% over the five-year period to 31 March 2014. As at 31 March 2011, the Met Office has achieved an average ROCE of 3.9% over the first two years of this five-year period.

Total dividends payable to our Owner, the Ministry of Defence were £8.2 million in respect of 2010/11 (2009/10 £4.5 million).

Cash flows and liquidity

Cash balances totalled £39.5 million as at 31 March 2011, an increase of £2.9 million compared to 31 March 2010. Of this balance, £1 million comprised cash in transit at the year-end (2009/10, £1.2 million). The Met Office holds cash deposits to meet its short-term operating commitments including international obligations, capital expenditure and dividends. The amount on deposit represents approximately two months of cash outflow.

Net cash inflows from operating activities reduced to £28.6 million (2009/10, £40.9 million). This has largely been driven by the movement in trade and other receivable balances, partially offset by the increase in operating profit when compared to 2009/10. Trade receivable balances increased by £10 million compared to 2009/10, rising to £23.6 million; turnover increased by £4.2 million over the same period. The main contributor to the increase in debtor levels is the change in timing of receipt of the £6.7 million monthly PWS invoice, which, last year, was received in month, but this year is being received a month in arrears. In addition, £3.6 million of other Government invoices — which had reasonably been expected to have been paid by the end of the year — remained outstanding. Total trade and other payable balances increased by £7.7 million compared to 2009/10; the main contributors to this were increases in dividends payable (£3.7 million), capital grants (£1.8 million) and trade creditors (£1.2 million).

Net cash outflows from investing activities have also decreased due to a lower level of capital expenditure. This has largely been due to the cyclical nature of capital investment in satellite programmes and supercomputing assets. In particular, Phase 1 of the supercomputer was purchased during 2009/10 at a cost of £8.4 million. Investment in Phase 2 of the supercomputer is currently anticipated for 2011/12.

Net cash outflows from financing activities have also decreased primarily as a result of a lower level of dividend being paid of £4.5 million during 2010/11 compared to £11.2 million paid during 2009/10. The net cash outflow from financing has been partially offset by no loan advances being received during the year (2009/10, £4.4 million).

Supplier payment performance

For 2010/11, the Government changed its prompt payment target from paying at least 90% of valid invoices from UK suppliers within ten working days to paying at least 80% within five working days. The Met Office has worked hard to achieve this target; the five working days includes the time taken for payment to be processed by our bank. The target of 80% was reached in December 2010 and has been maintained

through to the end of the financial year with 86.7% of invoices processed within five working days in March 2011. The average performance over the whole of 2010/11 was 75.2%. In 2009/10, the Met Office achieved 93.7% against the ten working day target; this improved to 97.8% in 2010/11. Non-UK suppliers are paid within contracted payment terms or, where there are no specifically agreed terms, within 30 days of receiving a valid invoice or of the delivery date.

Met Office 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 buys forward foreign currency to meet these payments in accordance with the anticipated payment profile. The Met Office operates hedge accounting for such transactions. The Met Office follows Treasury rules by investing all surplus funds on deposit with the UK Debt Management Office at HM Treasury.

Under the Met Office Trading Fund Order and Framework Document, the sole provider of loan funding is the Ministry of Defence. Therefore, exposure to liquidity risk is limited to these arrangements. At 31 March 2011, the outstanding loan balance was £1.1 million. Loan funding requirements are anticipated to increase over forthcoming years to finance the acquisition of Phase 2 supercomputer and the UK contribution to the EUMETSAT Third Generation satellite programme.

Further details of our derivatives and other financial instruments are contained in note 22 to the Accounts.

Staff absence data

In 2010/11 the Average Working Days lost per person was 5.6 days (2009/10, 4.9 days). The minor increase compared to 2009/10 is insignificant and within the normal accepted year-to-year fluctuations of this measure. The Met Office's Average Working Days lost per person compares favourably against the Civil Service average which currently stands at 9.3 days lost per person per annum.

Disclosure of information to auditors

In accordance with the s418 of the Companies Act 2006:

- 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.

Remuneration report

REMUNERATION POLICY

Following a restructuring of the Met Office Executive during 2010/11, the Met Office has reviewed its interpretation of the guidance contained within the Financial Reporting Manual (FRM) with regard to its Directors. Following this review, it was considered the membership of the Met Office Board is more appropriately aligned to the “management board” requirements of the FRM. Therefore, the remuneration of those who serve on the Met Office Board is disclosed within this Remuneration Report.

The following Executive members of the Met Office Board are members of the Senior Civil Service and have been appointed on fixed-term contracts:

J Hirst Chief Executive
J Slingo Chief Scientist

The remaining Executive members of the Met Office Board are Met Office employees:

N Jobling Chief Financial Officer
R Varley Operations and Services Director

Senior Civil Servants

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

The Constitutional Reform and Governance Act 2010 requires Civil Service appointments to be made on merit on the basis of fair and open competition. The Recruitment Principles published by the Civil Service Commission specify the circumstances when appointments may be made otherwise.

Unless otherwise stated, the officials covered by this report hold appointments which are open-ended. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

Further information about the work of the Civil Service Commissioners can be found at www.civilservicecommissioners.org

Met Office employees

Met Office employees have their remuneration determined by a process consistent with HM Treasury Civil Service Pay Guidance. Further details of HM Treasury Civil Service Pay Guidance can be found at www.hm-treasury.gov.uk/tax_pay_index.htm. The Chief Executive has authority to determine pay and conditions for all Met Office employees, which are appropriate to its business needs and which take account of Government policies on Public Sector Pay. This delegation requires the Chief Executive to consult with the MOD, the Cabinet Office and HM Treasury and to gain Ministerial approval from the MOD before negotiating any changes to pay and grading systems and arrangements with the recognised Trade Union. This is achieved through the Civil Service Pay Remit process. The Met Office Reward Strategy, approved by the Chief Executive, is designed to drive the behaviours required to deliver the Corporate Plan. The Met Office Reward Strategy is aligned with the Met Office’s Corporate Plan and is consistent with the Civil Service Reward Principles. Further details of the Civil Service Reward Principles can be found at www.civilservice.gov.uk/about/resources/pay/reward.aspx

Met Office Reward and Remuneration Committee

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

The members of the Reward and Remuneration Committee are the Non-Executive Directors of the Met Office Board. 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 and consideration

of distributions to employees under the Met Office Corporate Bonus scheme, based on an assessment of the performance of the Met Office against its Business Performance Measures and the level of declared profit.

The Committee also considers, if appropriate, whether Senior Civil Servants at the Met Office should be included in the Met Office personal bonus scheme, the wider MOD SCS bonus scheme, or subject to a performance award under their service contract. It subsequently:

- agrees the bonus to be paid to Met Office Senior Civil Servants within the overall amount of money set for distribution under the Met Office personal bonus scheme;
- or reviews and approves the Chief Executive's recommendations on Met Office Senior Civil Servants bonuses to the MOD Pay Committee;
- or reviews and approves the level of performance award under individual service contracts.

Salary and pension entitlements

The following sections provide details of the remuneration and pension interests of the Executive Directors who sit on the Met Office Board.

Salary

'Salary' includes gross salary; reserved rights to London weighting or London allowances; recruitment and retention allowances.

Other taxable allowances

Other taxable allowances represent any other allowances to the extent that it is subject to UK taxation. These primarily reflect payments for the provision of temporary accommodation in Exeter and weekend travel home.

Performance related pay

Performance related payments are based on performance levels attained and are made as part of the appraisal process. Payments are non-consolidated and non-pensionable and represent part of Executive remuneration which is at risk and needs to be re-earned each year. They relate to the performance attained in the current year, therefore the amounts shown here for performance related pay in 2010/11 are based on 2010/11 performance and accrued within the 2010/11 Accounts. The performance related pay for 2009/10 is based on performance for 2009/10, which were accrued into the 2009/10 Accounts and paid during 2010/11.

As noted overleaf, members of the Met Office Executive are either members of the Senior Civil Service or Met Office employees. Performance related payments are governed by the arrangements for each of these groups with the non-Senior Civil Service Executive team members participating in the Met Office Reward arrangements that are open to all Met Office employees.

Remuneration

(This information is subject to audit).

	2010/11				2009/10			
	Salary	Other Taxable allowances	Performance related pay	Total	Salary	Other Taxable allowances	Performance related pay	Total
	£000	£000	£000	£000	£000	£000	£000	£000
J Hirst Chief Executive	155–160	10–15	45–50	220–225	155–160	15–20	45–50	220–225
N Jobling Chief Financial Officer	95–100		0–5	95–100	95–100		0–5	95–100
J Slings Chief Scientist	125–130	15–20	20–25	165–170	125–130	15–20	15–20	160–165
R Varley Operations and Services Director	75–80		0–5	75–80	70–75		0–5	75–80

No Director received any benefits in kind in either 2010/11 or 2009/10.

Pension benefits

(This information is subject to audit)

	Accrued pension at pension age as at 31/03/11 and related lump sum	Real increase in pension and related lump sum at pension age	CETV at 31/03/11	CETV at 31/03/10*	Real increase in CETV
	£000	£000	£000	£000	£000
J Hirst	15–20	5–7.5	233	126	84
N Jobling	10–15	2.5–5	131	85	31
J Slingo	25–30	2.5–5	430	340	40
R Varley	25–30 plus lump sum of 80–85	0–2.5 plus 2.5–5 lump sum	429	358	17

* The actuarial factors used to calculate CETVs were changed in 2010/11. The CETVs as at 31/03/10 and 31/03/11 have both been calculated using new factors, for consistency. The CETV at 31/03/10 therefore differs from the corresponding figure in last year's report which was calculated using the previous factors.

Civil Service pensions

Pension benefits are provided through the Civil Service pension arrangements. From 30 July 2007, Civil Servants may be in one of four defined benefit schemes; either a 'final salary' scheme (Classic, Premium or Classic Plus); or a 'whole career' scheme (Nuvos). These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under Classic, Premium, Classic Plus and Nuvos have increased annually in line with changes in the Retail Prices Index (RPI). From April 2011, Civil Service pensions will be increased in line with the Consumer Prices Index (CPI). Members who joined from October 2002 could opt for either the appropriate defined benefit arrangement or a good quality 'money purchase' stakeholder pension 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, Classic Plus and Nuvos. Benefits in Classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For Premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike Classic, there is no automatic lump sum. Classic Plus is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per Classic and benefits for service from October 2002 worked out as in Premium. In Nuvos, a member builds up a pension based on his pensionable earnings during their period of scheme

membership. At the end of the scheme year (31 March), the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year; and, immediately after the scheme year-end, the accrued pension is uprated in line with RPI (CPI from April 2011). In all cases, members may opt to give up (commute) pension for lump sum up to the limits set by the Finance Act 2004.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee. 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).

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of Classic, Premium and Classic Plus and 65 for members of Nuvos.

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 figures include the value of any pension benefit in another scheme or arrangement which the member has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their purchasing additional pension benefits at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

Real increase in CETV

This reflects the increase in CETV that is funded by the employer. It does not include 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:

	2010/11 £000	2009/10 £000
R Napier	35—40	35—40
B Hoskins	15—20	10—15
P Rew	15—20	—
M Goodfellow	15—20	15—20
J Currie	15—20	15—20
D Harker	—	15—20
T Jagger (until February 2011)	—	—
D Williams (February and March 2011)	—	—
P Shortt	—	—

P Shortt, T Jagger, D Williams have been appointed in conjunction with their responsibilities at Shareholder Executive and MOD respectively. They are not entitled to receive separate remuneration in undertaking their Met Office duties.



Mr J Hirst
Chief Executive
8 June 2011

Accounts

STATEMENT ON INTERNAL CONTROL

Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of Met Office 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 Managing Public Money.

As Chief Executive of the Met Office, a Trading Fund within the Ministry of Defence, I am accountable to the Secretary of State for Defence for the performance of the Met Office in accordance with the Met Office Framework Document and Corporate Plan. Day-to-day ministerial oversight and the formal business ownership role is delegated to the Under Secretary of State for Defence and Minister for Defence Personnel, Welfare and Veterans who takes advice in part through the Met Office Owner's Council (MOOC). I report on a regular basis to the Minister and MOOC on the Met Office's performance and progress. The MOOC approves the Corporate Plan for delivering the strategy.

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.
- is based on an ongoing process designed to identify and prioritise the 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.
- has been in place in the Met Office for the year ended 31 March 2011 and up to the date of approval of the Annual Report and Accounts, and accords with Treasury guidance.

Capacity to handle risk

The Met Office has a mature and comprehensive risk management process operating at every level of the business, from top level corporate decision-making to project management.

At Executive level, key business decisions are only made after due consideration is given to the potential trade-off between benefits and risks. A risk assessment is submitted as part of every Corporate Investment Appraisal business case reviewed by the Met Office Executive.

From a corporate perspective, the Executive has ownership of strategic risks which, through leadership and risk mitigation activities across Met Office teams, will leave the organisation in a stronger position to defend itself against threats such as, for example, potential reduction in Government funding, reputational damage and major incidents such as severe weather or other natural environmental events e.g. volcanic ash.

At Programme level, Programme Managers will help to mitigate threats to their achievement of elements of either the Corporate Plan or Business Performance Measures. Recent successes at this level have seen resource shortages overcome, more realistic and achievable product development schedules developed and the reduction of business continuity risks within operational teams.

Through setting out the Met Office's risk management policy, the Executive outlines the organisation's underlying approach to risk management and clearly defines the accountabilities and responsibilities of the Met Office Board, Executive team, Audit Committee, Risk Review Committee and senior managers within the risk management process. Through the development of a clearly articulated Corporate Risk Appetite, the Met Office has defined the level of risk exposure the organisation is prepared to accept in order to achieve its corporate objectives.

In order to ensure the risk management activities in the Met Office are effective and deliver benefit by removing unnecessary risks, a number of committees carry out regular reviews of the risk management processes. These include the Risk Review Committee, Audit Committee and Internal Audit, providing a range of sources of internal assurance.

We are committed to continual improvement in the management of risk. To help set a clear direction for this improvement, a plan has been established using the Office of Government Commerce (OGC) risk maturity framework. This plan will be monitored at regular intervals by appropriate Executives to ensure effective progress is made.

The Risk Manager acts as a focal point for risk management activities. He supports the Executive team in understanding the Met Office's exposure to risk, helping them eliminate intolerable risks and capitalise on opportunities that require an element of controlled risk taking.

Through the use of recognised techniques which identify, assess and mitigate risk, the Risk Manager offers workshops and training to help the organisation meet best practice. Risk management guidance is available to all staff through internal risk management web pages. Guidance is refreshed regularly to ensure that it is up to date and easy to follow.

One of the most significant strategic/operational level risks faced by the Met Office is the situation that a major weather or other natural event is inaccurately forecast. The Met Office's capacity to handle such a risk has been demonstrated during the year in how we have responded and reacted to both the Icelandic volcanic ash event and severe weather events.

The volcanic ash event demonstrated the Met Office's ability to respond to new issues very quickly, effectively and flexibly; deploying resources, expanding capability — including the development of new dispersion models — reacting to changing circumstances, and playing a central role in the Government's response to the event.

Having effectively managed this risk, the Met Office has further increased its capability through the expansion of its observation network. Our airborne observational capability has also been increased through securing additional funding for a civil contingencies aircraft. This will ensure we are in a much better position to improve the detection of volcanic ash and the forecasting of its movement, thus improving the accuracy of the guidance products produced for our customers. The aircraft could also be used for other civil contingency events. Further information can be found at: www.metoffice.gov.uk/aviation/volcanic-ash-development-activities

The Met Office's capacity to handle this risk was further demonstrated during this winter's severe weather events. The prolonged period of winter conditions provided a real challenge for the Met Office's forecasting capabilities. Evidence demonstrates that we performed well in modelling and applying expert interpretation in producing accurate forecasts for a sustained period over the entire UK as well as good communication of these hazards.

In response to the severe weather, the Met Office invoked local business continuity plans to ensure sufficient operational staff were available at all times throughout these events. The Met Office team of Public Weather Service Advisers worked alongside the emergency response community and local authorities to assist both during the severe weather event and in the following recovery period. In addition, an experienced forecaster was embedded within the Department for Transport to provide additional support and add value to ministerial briefings.

Throughout the event, regular briefings were supplied to ministers and officials and key customers and stakeholders. The Met Office website's resilience was demonstrated during this period with availability maintained throughout in the face of heavy traffic through web and mobile platform access. In addition, the Met Office's Weather Desk took a significantly increased volume of telephone calls in the month before Christmas.

Overall, we performed well, not only in forecasting the key hazards but in providing consistent, timely and useful advice to Government customers, the emergency response community and the public.

Risk and control framework

Risk Management

The Met Office, through our risk management policies, aims to ensure that risk management is viewed as a key part of day-to-day business decision-making.

Risks are assessed against a predefined and approved matrix covering probability and impact criteria. Individual risks are considered for their potential impact on the successful achievement of outcomes contained within the Corporate Plan or at Programme Operating Plan level.

The risk appetite can help to define what risk management plan needs to be deployed. Risks which fall within risk appetite may only need to be monitored whilst those risks which are currently outside of risk appetite may need to be reduced, removed or shared.

The Met Office Executive team take ownership of the management of those risks where the impact on Corporate Plan outcomes could be significant.

A hierarchy of risk registers (at Corporate, Programme and Project level) is used as the basis for the monitoring and reviewing of risks within the Met Office. These are reviewed on a regular basis by Programme Managers, the Executive team, Risk Review Committee, Audit Committee and Met Office Board.

In addition to the formal annual review of risk management conducted by Internal Audit, other well established governance structures — including the Audit Committee, Met Office Board and Risk Review Committee — appraise risk management activities and the risk landscape.

Governance

The corporate governance and accountability arrangements for the Met Office draw on best practice in both the public and private sectors, and reflect its position as a Trading Fund. To assist me in my role as Accounting Officer, I am supported by the following main governance arrangements:

Met Office Board — the role of the Met Office Board is to challenge and support the Executive team and carefully scrutinise its proposals and/or performance in relation to:

- developing a long-term business strategy, a four-year Corporate Plan, annual Business Performance Measures and other major business strategies in support of the Corporate Plan.
- delivering the approved Corporate Plan, including performance against the Business Performance Measures.

The Met Office Board will take an overview of corporate risk and work with the Executive team to agree the Office's risk appetite.

Met Office Executive — is responsible for supporting me in implementing the strategy set by the Met Office Board, ensuring that all operational matters within the Met Office at corporate or trans-programme level are managed efficiently and effectively. It also works with the Met Office Board to oversee corporate risk and set the Office's risk appetite.

Audit Committee — advises me, as Accounting Officer, and the Met Office Board on the adequacy, comprehensiveness and effectiveness of the audit arrangements (both internal and external) and of the assurances provided in respect of risk, control and governance in the organisation.

In addition, the following bodies provide additional independent review of Met Office activities:

Public Weather Service Customer Group — this group oversees the Public Weather Service from a customer point of view, ensuring the quality, suitability and value for money of the service provided. It comprises independent members and representatives from government departments, agencies, emergency responders, local authorities, the Scottish Executive and Welsh Assembly.

Met Office Scientific Advisory Committee (MOSAC) — provides an independent assessment of the quality and relevance of the Met Office's scientific research which underpins our weather, climate and oceanographic services. The committee is chaired by Professor Sir Brian Hoskins CBE, FRS and its membership consists of leading scientists from UK academia and other National Meteorological Services from around the world.

Met Office Hadley Centre Science Review Group (SRG) — provides an independent review, on behalf of Department of Energy and Climate Change (DECC) and Department for Environment, Food and Rural Affairs (Defra), of the climate research carried out by the Met Office Hadley Centre. The SRG is chaired by Professor John Pyle and membership of the group includes leading UK and international scientists.

Business continuity

Business continuity planning supports the proactive management of risk within the organisation.

Our Operations and Services Director is the sponsor for business continuity and plays an active role in its development, including chairing our Business Continuity Steering Group

(BCSG). The BCSG meets on a quarterly basis and assists in the implementation of the Met Office's Business Continuity Policy and Strategy. Business continuity is also a regular Executive agenda item.

We have seen a number of large-scale events in the last twelve months, such as the volcanic ash and severe weather. The Met Office performed well in these instances, however there is still room for improvement and we are continually learning from these experiences. We are focusing on enhancing our existing internal management processes and how we coordinate with external authorities. The Business Continuity Management System (BCMS), around which the framework of our business continuity arrangements are designed, is developed in line with good practice standards such as BS25999 and JSP 503.

Our BCMS is maturing, and efforts are increasingly focusing on the review, maintenance and exercising of our planning arrangements. An exercise schedule is in place and regular exercises are facilitated to validate planning assumptions and rehearse recovery arrangements.

Control framework

Objectives and targets — we have clear strategic direction, objectives, responsibilities and Business Performance Measures which balance the financial, customer and policy interests of the Met Office.

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

- a corporate investment appraisal process to provide support and guidance in deciding on business cases for significant bids, expenditures or items that may be considered novel or contentious. This process ensures that a proposed investment or bid submission offers value for money, considers affordability, business requirement and justification (including fit with corporate strategy). Risk appetite, benefits, outcomes and risk management are also considered.
- the corporate investment appraisal process also addresses the financial propriety and other requirements from Managing Public Money, the Green Book and other HM Treasury guidance.
- a formal system of delegation of financial and contractual authority, fully integrated with the corporate investment appraisal process, is cascaded from myself to members

of the Executive team, Programme Managers and other managers within the organisation.

- a centralised procurement model is deployed to support and ensure financial and contractual delegations are followed. The Procurement team act as the focal point for procurement expertise within the Met Office. Good procurement is a pre-requisite for the organisation, making sure we get the services we need, from suppliers we can trust, at a price we can demonstrate to be competitive.
- a robust system of budgetary control is in place with budget managers fully involved in budget setting and rolling forecast processes. Budgets are set in a controlled manner, based on realistic and informed assumptions. Budgetary variations are analysed, investigated, explained and acted upon. Budgetary control is supported by a planning, budgeting and forecasting system which is used to collect and process data for financial forecasts, budgets and plans.
- the Met Office's accounting system comprises core ledgers (sales, purchase, and nominal) together with integrated modules including stock, procurement, fixed assets, procurement card and sales invoicing. The integrated nature of the system ensures robust and consistent reconciliation between the different areas. There exists well-established links to other software systems including financial forecasting, sales order processing, reporting and payroll.
- the production of monthly financial and business performance reports, monitored by both the Finance and Business Performance teams. Detailed reviews and discussions of corporate and programme performance are held on a monthly basis with the Met Office Executive. Any necessary action is taken to ensure the Met Office and its programmes perform to the desired level, supporting strategic goals and delivering benefits.
- asset management and control procedures, including the appropriate segregation of duties and processes to ensure accurate recording, accounting and safeguarding of Met Office assets.

Fraud — a dedicated Fraud Focal Point coordinates action on fraud related matters. We treat the risk of fraud extremely seriously and, in line with the MOD, operate a policy of 'zero tolerance'. We expect and require all our employees to observe the highest standards of personal honesty and integrity and to ensure that all our business is carried out in a manner that conforms to those same standards.

Health and safety — we are committed to the provision of a safe and healthy working environment ensuring, so far as is reasonably practicable, the health, safety and welfare of our employees and those affected by our activities.

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

Statutory compliance — the Met Office has undertaken and complied with its legal obligations during the year. The Met Office has a number of professionally qualified employees who understand and advise us about our legal obligations, including those relating to employment, procurement, advertising, consumer rights, health and safety, competition, freedom of information, personal data protection, re-use of public sector information, intellectual property, defamation, contracts and treaties.

In addition, we work closely with other parts of government to comply with their additional requirements as owners, customers and as government policymakers.

Information security — we have a Senior Information Risk Owner (SIRO) and a Senior Data Protection Officer, both of whom are senior managers. Information Asset Owners (IAO) have been established to extend coverage beyond holdings of data to other business critical and sensitive information. Governance has been extended by the formation of IAO committees to address meteorological and business information issues.

A Steering Group has also been established to oversee the programme of work which will increase the organisational level of information assurance maturity. The Security Policy Committee, chaired by the SIRO, oversees all aspects of security, including information assurance. Policies for the protection of our personal data and for the management of information used within the Met Office have been reviewed and refreshed.

A programme of education to raise cultural awareness of information has begun and, as an initial step, all staff and contractors have refreshed their basic information assurance training. Those with key roles have refreshed their additional standard training and further focused training will be delivered in the coming year to IAOs and others with a key role.

Review of effectiveness

As Accounting Officer, I 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 department 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 Risk Review Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

The Corporate Risk Register is a key input when developing the risk-based Internal Audit annual plan that is approved and monitored by the Audit Committee. Other internal assurance mechanisms include:

- monthly budget and expenditure reviews with senior management;
- the use of rolling forecasts to monitor future expected spend;
- individual approval of all capital expenditure projects and reporting on the progress of major projects to Executive level; and
- annual management assurance statements by senior management confirming the operation of key controls within their areas of responsibility.

The majority of internal audits concluded that the governance, risk and control frameworks under review provided positive assurance that risks were being managed effectively and objectives would be achieved, with some opportunities for improvement being noted.

- full assurance was noted in relation to risk management, budgetary controls and environmental management activities, reflecting the progress made to further strengthen our corporate approach in these areas.
- substantial assurance was given on a wide variety of topics including core financial controls, corporate performance measures and operational activities such as payroll, resource and talent management and contract management.
- reduced levels of assurance were given over several operational activities, including contractor resource management, stock management, information assurance and product development. Key themes for improvement

include promoting efficiency, reducing gaps in policy and management frameworks, ensuring effective skills planning and knowledge transfer mechanisms are in place, and improving dependency management across the organisation.

In all cases, local management is taking action to improve and embed controls to ensure that these issues are addressed and do not recur, and these actions have either been completed or are due to be completed in 2011. Agreed actions from all audits are prioritised, tracked and followed up regularly with management; any overdue items are escalated to senior management and the Audit Committee as necessary. The results of audits and any trends regarding good practice or areas for improvement are reflected within the annual Internal Audit report, which gave substantial assurance on the adequacy and effectiveness of the Met Office's system of internal control.

In addition to internal audits, external reviews have been conducted in relation to:

- ISO9001 (Quality Management)
- ISO14001 (Environmental Management)
- Investors in People
- Information Fair Trader Scheme
- Business in the Community (BITC)

All accreditations have been retained, with recognition of the Met Office's drive for continuous improvement in all these areas. The Met Office also achieved a gold ranking in the BITC Corporate Responsibility Index.

In addition, Defence Security Administration Services conducted a review of our security, health and safety, environmental protection and business continuity arrangements, resulting in positive comment regarding our continuous improvement in these areas and some recommendations that are being taken forward with relevant management. We also take part in the EU Data Centre Best Practice Code of Conduct initiative, which focuses on improving the understanding of energy demand within our data centre, raising awareness, and recommending energy efficient best practice and targets.

The National Audit Office also conducted its annual external audit, looking at aspects of the Met Office's financial controls and material accuracy of the financial statements. Naturally, some minor opportunities for further improvement were identified by each of the above reviews, which are being progressed across the organisation.

Directors and senior managers have also completed annual management assurance statements to confirm the controls operated over finances, staff development and performance, risks, health and safety, and information management across the organisation. This exercise confirmed that there were no major or unreported weaknesses in these areas during the year.

During the year, the Met Office Fraud Policy & Response Plan and Whistleblowing policy have been reviewed and updated. Senior management and the Met Office Audit Committee were involved in reviewing these documents together with receiving regular briefings on any fraud or attempted fraud perpetrated within the Office.

One instance of fraud has been detected through the effective operation of internal controls. This was a minor and isolated case which did not result in any direct financial loss to the Met Office. Following this case, the relevant procedures were reviewed but did not require amendment as it was their effective operation that brought the problem to light. Preventative action taken during the year has included briefing senior managers and communicating to all staff to encourage vigilance against any attempts at fraudulent activity, reminding them of both the reporting procedures and the protection available for whistleblowers.

Internal and external reviews of our information assurance activities have been conducted during the year and actions have been addressed as a matter of priority. We achieved Level 2 in the Information Assurance Maturity Model and are on track to achieve the end target of Level 3 by 31 March 2012.

Conclusion

Based on the outcomes of the reviews and procedures that have been described above, I am confident that this Statement of Internal Control accurately reflects the position of the Met Office in respect of controls, governance and risk management. Actions are already in hand to address those areas where minor weaknesses have been identified and therefore I am content to sign this Statement.



Mr J Hirst
Chief Executive
8 June 2011

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 2010/11 financial year in the form and on the basis set out in the Accounts Direction issued on 22 December 2010. The accounts are prepared on an accruals basis and must give a true and fair view of the Met Office's state of affairs as at the 31 March 2011 and of the income and expenditure, changes in taxpayers' equity, and cash flows for the financial year.

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

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

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 the keeping of proper records, and for safeguarding the Met Office's assets, are set out in Managing Public Money published by HM Treasury.

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 2011 under the Government Trading Funds Act 1973. These comprise the Statement of Comprehensive Income and Statement of Changes in Taxpayers' Equity, the Statement of Financial Position, the Statement of Cash Flows and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Met Office, Chief Executive and auditor

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

Scope of the audit of the financial statements

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

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

Opinion on Regularity

In my opinion, 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.

Opinion on Financial Statements

In my opinion:

- the financial statements give a true and fair view of the state of the Met Office's affairs as at 31 March 2011 and of its profit for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Trading Funds Act 1973 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with HM Treasury directions made under the Government Trading Funds Act 1973; and
- the information given in the Directors' Report, the Chief Executive's Overview, the Management Commentary, the Financial Review and the unaudited part of the Remuneration Report, included within the annual report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records or returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Statement on Internal Control does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

Date

Statement of Comprehensive Income for the year ended 31 March 2011

	Notes	2010/11 £ '000	2009/10 £ '000
Revenue	3	196,118	191,965
Cost of sales	4, 7	(163,929)	(162,201)
Gross profit		32,189	29,764
Selling and distribution costs	4, 7	(12,047)	(11,756)
Administrative expenses	4, 7	(10,556)	(11,333)
Other gains/(losses) — net	5	(164)	(17)
Operating profit		9,422	6,658
Interest receivable		93	102
Interest payable	6	(130)	(272)
Profit for the financial year		9,385	6,488
Dividend		(8,200)	(4,500)
Retained profit for the year		1,185	1,988
Other comprehensive income:			
Net gain/(loss) on revaluation of property, plant and equipment		2,519	(9,741)
Revaluation reserve realised on disposal of property, plant and equipment		(59)	—
Net gain/(loss) on cash flow hedges		(1,532)	(3,088)
Other comprehensive income for the year		928	(12,829)
Total comprehensive income for the year		2,113	(10,841)
Return on Capital Employed (ROCE)	2	4.7%	3.2%

The notes on pages 34 to 63 form part of these Accounts.

Statement of Financial Position as at 31 March 2011

	Notes	31 March 2011		31 March 2010	
		£ '000	£ '000	£ '000	£ '000
Non-current assets					
Property, plant and equipment	8		168,396		176,774
Intangible assets	9		938		202
Derivative financial assets	15		—		233
Total non-current assets			169,334		177,209
Current assets					
Inventories	10	930		947	
Trade and other receivables	11	42,774		31,357	
Derivative financial assets	15	316		1,402	
Cash and cash equivalents	12	39,454		36,548	
Total current assets			83,474		70,254
Total assets			252,808		247,463
Current liabilities					
Trade and other payables	13	(47,170)		(42,114)	
Borrowings	14	(1,105)		(5,698)	
Derivative financial liabilities	15	(82)		—	
Total current liabilities			(48,357)		(47,812)
Non-current assets plus net current assets			204,451		199,651
Non-current liabilities					
Trade and other payables	13	(3,275)		(652)	
Borrowings	14	—		(1,104)	
Derivative financial liabilities	15	(111)		(120)	
Provisions for liabilities and charges	16	(3,668)		(2,491)	
Total non-current liabilities			(7,054)		(4,367)
Assets less liabilities			197,397		195,284
Capital and reserves					
Public dividend capital			58,867		58,867
Revaluation reserve			22,447		22,323
Hedging reserve			(17)		1,515
General reserve			116,100		112,579
Total Government funds			197,397		195,284



Mr J Hirst
Chief Executive
8 June 2011

The notes on pages 34 to 63 form part of these Accounts.

Statement of Cash Flows for the year ended 31 March 2011

	Notes	2010/11 £ '000	2009/10 £ '000
Cash flows from operating activities			
Operating profit		9,422	6,658
Adjustments for non-cash transactions:			
Depreciation charges	4, 8	26,369	26,364
Release of capital grants		(795)	(376)
Loss on disposal of property, plant and equipment		290	29
Impairment and diminution in value of property, plant and equipment		844	—
Amortisation		437	26
Fair value (gains)/losses on derivative financial instruments		(140)	—
(Increase)/Decrease in inventories		17	21
(Increase)/Decrease in trade and other receivables		(10,846)	7,416
Increase/(Decrease) in trade and other payables		1,884	1,148
Provisions for liabilities and charges		1,136	(338)
Net cash inflow from operating activities		28,618	40,948
Cash flows from investing activities			
Payments to acquire satellite assets		(8,395)	(8,695)
Payments to acquire property, plant and equipment (excluding satellites)		(8,538)	(18,208)
Capital grants received		2,588	2,169
Proceeds from sale of property, plant and equipment		7	1
Payments to acquire intangible assets		(1,173)	(228)
Interest received		91	104
Net cash outflow from investing activities		(15,420)	(24,857)
Cash flows from financing activities			
Dividends paid		(4,500)	(11,177)
Interest paid		(95)	(233)
Loan advance received		—	4,379
Loan repayments		(5,697)	(6,060)
Net cash outflow from financing activities		(10,292)	(13,091)
Net increase/(decrease) in cash and cash equivalents	12	2,906	3,000
Cash and cash equivalents at 1 April		36,548	33,548
Cash and cash equivalents at 31 March		39,454	36,548

The notes on pages 34 to 63 form part of these Accounts.

Statement of Changes in Taxpayers' Equity for the year ended 31 March 2011

	Public Dividend Capital £ '000	Revaluation Reserve £ '000	General Reserve £ '000	Hedging Reserve £ '000	Total £ '000
Balance at 1 April 2009	58,867	33,844	108,811	4,603	206,125
Comprehensive income					
Profit for the financial year			6,488		6,488
Dividend	—	—	(4,500)	—	(4,500)
Comprehensive income	—	—	1,988	—	1,988
Other comprehensive income					
Movement on foreign currency cash flow hedge	—	—	—	(3,088)	(3,088)
Net gain/(loss) on revaluation of satellite assets	—	102	—	—	102
Net gain/(loss) on revaluation of property, plant and equipment	—	(9,843)	—	—	(9,843)
Transfers between reserves	—	(1,780)	1,780	—	—
Total other comprehensive income	—	(11,521)	1,780	(3,088)	(12,829)
Total comprehensive income for 2009/10	—	(11,521)	3,768	(3,088)	(10,841)
Balance at 31 March 2010	58,867	22,323	112,579	1,515	195,284
Comprehensive income					
Profit for the financial year	—	—	9,385	—	9,385
Dividend	—	—	(8,200)	—	(8,200)
Comprehensive income	—	—	1,185	—	1,185
Other comprehensive income					
Movement on foreign currency cash flow hedge	—	—	—	(1,532)	(1,532)
Net gain/(loss) on revaluation of satellite assets	—	2,801	—	—	2,801
Net gain/(loss) on revaluation of property, plant and equipment	—	(282)	—	—	(282)
Revaluation reserve realised on disposal of property, plant and equipment	—	(59)	—	—	(59)
Transfers between reserves	—	(2,336)	2,336	—	—
Total other comprehensive income	—	124	2,336	(1,532)	928
Total comprehensive income for 2010/11	—	124	3,521	(1,532)	2,113
Balance at 31 March 2011	58,867	22,447	116,100	(17)	197,397

1. Notes to the accounts

Accounting policies

(a) Basis of accounting

These financial statements have been prepared in compliance with an Accounts Direction dated 22 December 2010 in accordance with Section 4(6)(a) of the Government Trading Funds Act 1973 and the 2010/11 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which has been judged to be most appropriate to the particular circumstances of the Met Office for the purpose of giving a true and fair view has been selected. The particular policies adopted by the Met Office are described below. They have been applied consistently in dealing with items that are considered material to the Accounts.

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

(b) Exceptional items

Exceptional items are those significant items which individually, or if of a similar type in aggregate, are separately disclosed by virtue of their size or incidence to enable a full understanding of the Met Office's financial performance. Items which may be considered exceptional in nature include business restructurings, asset write-downs and provisions for onerous contracts.

(c) Revenue

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

(d) Research and development

Externally funded research and development costs are recognised, based on the stage of completion of the project. Related revenues are recognised on an equivalent basis and in accordance with the revenue recognition policy outlined above.

The Met Office receives funding in respect of many research and development activities. Funding is derived from a variety of sources, including Government contracts, Research Councils, the European Union, overseas governments, and commercial customers. The funding for such projects is treated for accounting purposes as revenue attributable to the relevant Business Programme.

Self-funded research and development including product development costs, where applicable, are charged to the income statement in the year in which they are incurred unless the expenditure meets the criteria for capitalisation.

In accordance with IAS 38 Intangible Assets, expenditure incurred on research and development, excluding externally funded research and development expenditure, is distinguished as relating either to a research phase or to a development phase.

All research phase expenditure is charged to the income statement. For development expenditure, this is capitalised as an internally generated intangible asset only if it meets strict criteria, relating in particular to technical feasibility and generation of future economic benefits. Expenditure that cannot be classified into these two categories is treated as being incurred in the research phase.

Where the expenditure meets the criteria for capitalisation set out in IAS 38 Intangible Assets, development costs are capitalised and amortised over their useful economic lives. Intangible assets are assessed for impairment annually.

(e) Property, plant and equipment

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 fair values for existing use from market-based evidence, except where the asset is considered specialised and valued on the basis of depreciated replacement cost. The quinquennial valuations are supplemented by annual indexation using the following indices:

Specialised property assets — Building Tender Price Index and Residential Land Value Index

Non-specialised property assets — Gross Domestic Product Deflator Index

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

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

Increases in the carrying amount of property, plant and equipment assets arising on revaluation or indexation are credited to the revaluation reserve in equity. Decreases that offset previous increases of the same asset are charged against the revaluation reserve directly in equity; all other decreases are charged to the income statement. Each year, the difference between

depreciation based on the revalued carrying amount of the asset charged to the income statement and depreciation based on the asset's original cost is transferred from the revaluation reserve to the general reserve.

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, 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. Current policy is to write-off plant and equipment over three to 30 years and information technology equipment over three to 12 years (note: Phase 1 of the Met Office supercomputer is being depreciated over 2.1 years). Satellite assets are depreciated using the straight-line method over their estimated useful life. The remaining life of the current satellite programme (Meteosat Second Generation — MSG) at 31 March 2011 is currently assessed as 6.25 years providing the full operational service and a further 3.0 years as the operational hot spare for the follow-on programme. This method reflects the principle that the economic benefit of satellite data remains constant between individual satellites.

Fixtures and fittings include improvements to leasehold buildings and are depreciated over five to 25 years. Assets in the course of construction are not depreciated.

Where there is evidence of impairment, fixed assets are written down to recoverable amount.

(f) Intangible assets

Computer software and licences

Where computer software forms an integral part of any hardware equipment (e.g. an operating system) this is capitalised under the hardware asset as a tangible asset.

Computer software and licences are capitalised where the useful life exceeds three years and the cost of acquisition and installation exceeds £5,000 (excluding VAT). Amortisation is calculated using the straight-line method to allocate the cost of software and licences over their estimated useful lives of three to five years

(g) Leases

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

The Met Office no longer holds any assets under finance leases.

(h) Inventories

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

(i) Insurance

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

(j) Employee benefits

Pensions

Met Office staff are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS). The PCSPS is an unfunded multi-employer defined benefit scheme. However, since the Met Office is unable to identify its share of the underlying assets and liabilities it is accounted for as a defined contribution scheme. Contributions are paid at rates determined from time to time by the scheme's Actuary. Full provision for early retirements is normally made in the year of retirement.

Met Office staff may be in one of four statutory based defined benefit schemes (Classic, Premium, Classic Plus and Nuvos). Classic, Premium and Classic Plus are now closed to new members. New entrants after 30 July 2007 may choose between membership of Nuvos 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 leaving after 1 October 2007 also have an option to commute some of their pension for a further lump sum up to a maximum of 33/14 times pension (the commutation rate is £12 of lump sum for each £1 of pension given up). 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 30/7 times pension (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 1/160th of the member's final pensionable earnings for each year of reckonable service. 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.

- **Nuvos scheme**

Benefits accrue at the rate of 2.3% of pensionable earnings for each year of service. The maximum pension that Nuvos will provide is 75% of pensionable earnings. Nuvos has a pension age of 65. There is no automatic lump sum, but members may commute some of their pension to provide a lump sum up to a maximum of 30/7 times pension (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 two 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 65.

For 2010/11 pensions payable under Classic, Premium, Classic Plus and Nuvos were increased in line with the Retail Prices Index. From April 2011, pensions payable under these schemes will be increased in line with the Consumer 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.

(k) Capital grants

Capital grants relating to assets are released to the income statement on a systematic basis over the periods and in proportion to the depreciation expense on the asset recognised.

(l) Financial instruments

Financial assets and financial liabilities are recognised on the Statement of Financial Position when the Met Office becomes a party to the contractual provisions of the instrument. Financial assets or financial liabilities are initially recognised at its fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Short-term receivables and payables are measured at the original invoice amount where the effect of discounting is immaterial. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Met Office has transferred substantially all risks and rewards of ownership.

Financial assets and liabilities, including derivative financial instruments, denominated in foreign currencies are translated into Sterling at period-end exchange rates. Gains and losses are dealt with through the income statement, unless hedge accounting treatment is available.

Public Dividend Capital is not an equity instrument as defined in IAS 32 Financial Instruments: Presentation.

Cash and cash equivalents

Cash and cash equivalents includes cash at bank and in hand and short-term deposits payable (original maturity of three months or less) on demand with any qualifying institution, less overdrafts from any qualifying institution repayable on demand. Cash also includes any surplus funds held by EUMETSAT that are attributable to the Met Office.

Borrowings

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

Derivative financial instruments and hedge accounting

The Met Office uses derivative financial instruments such as foreign currency contracts to hedge the risks associated with changes in foreign exchange rates in relation to amounts payable to certain international bodies. The payments are in respect of annual subscriptions and contributions including payments for satellite programmes. The Met Office policy is to buy forward foreign currency for payments to international bodies as soon as amounts can be reliably estimated. The use of financial derivatives is governed by the Met Office's hedging strategy, approved by the Met Office Executive, that provide written principles on the use of financial derivatives consistent with the Office's risk management strategy. There is no trading activity in derivative financial instruments.

All the Met Office derivatives are designated as cash flow hedging instruments. In order to qualify for hedge accounting, the Met Office is required to document the relationship between the item being hedged and the hedging instrument. At the inception of a hedging transaction entailing the use of derivative financial instruments, the Met Office documents the relationship between the hedged item and the hedging instrument together with its risk management objective and the strategy underlying the proposed transaction. The Met Office also documents its assessment, both at the inception of the hedging relationship and subsequently on an ongoing basis, of the effectiveness of the hedge in offsetting movements in the cash flow of the hedged items.

Derivative financial instruments are recognised as assets and liabilities measured at their fair values at the balance sheet date. Where derivative financial instruments do not fulfil the criteria for hedge accounting contained in IAS 39, changes in their fair values are recognised in the income statement.

Where the hedging relationship is classified as a cash flow hedge, to the extent that the hedge is effective, changes in the fair value of the hedging instrument arising from the hedged risk are recognised directly in equity rather than in the income statement. Where the forecasted transaction or commitment results in a non-financial asset or non-financial liability, any gains or losses previously deferred in equity are recycled and included in the initial carrying amount of the related asset or liability. The ineffective portions of any gain or loss on the hedging instrument are recognised in the income statement.

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

Additional information can be found in note 15 to the financial statements.

(m) Capital and reserves

Public Dividend Capital

Public Dividend Capital represents the capital invested in the Met Office by the Ministry of Defence on becoming a Trading Fund on 1 April 1996.

General Reserve

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

Revaluation Reserve

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

Hedging Reserve

The Hedging Reserve represents hedging gains and losses recognised on the effective portion of cash flow hedges. When the forecasted transaction or commitment results in a non-financial asset or non-financial liability, any gains or losses previously deferred in the hedging reserve are recycled and included in the initial carrying amount of the related asset or liability (see accounting policy on financial instruments).

(n) Consolidated accounts

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

(o) Segmental reporting

The Met Office has disclosed its operating segments in accordance with IFRS 8. The operating segments are reported in a manner consistent with the internal reporting regularly provided to and reviewed by the Met Office Executive. The Met Office Executive is considered to be the “Chief Operating Decision Maker” and is responsible for allocating resources and assessing performance of the operating segments. Each segment has a director who is responsible to the Chief Operating Decision Maker for the operating activities, financial results, forecasts and plans of their respective segments.

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

IAS8, Accounting Policies, Changes in Accounting Estimates and Errors, require disclosures in respect of new IFRSs, amendments and interpretations that are, or will be applicable after the reporting period. There are a number of IFRSs, amendments and interpretations that have been issued by the International Accounting Standards Board that are effective for financial statements after this reporting period. The following have not been adopted early by the Met Office:

IFRS9 Financial Instruments

A new standard intended to replace IAS39. The effective date is for accounting periods beginning on, or after 1 January 2013.

IFRS1 First-time adoption of international financial reporting standards.

Two sets of amendments to the existing standard. The effective date of one set of amendments is for accounting periods beginning on, or after 1 July 2010. The effective date of the second set of amendments is for accounting periods beginning on, or after 1 January 2011.

IFRS3 Business Combinations

Amendments to the existing standard. The effective date is for accounting periods beginning on, or after 1 July 2010.

IFRS7 Financial Instruments: Disclosures

Two sets of amendments to the existing standard. The effective date of one set of amendments is for accounting periods beginning on, or after 1 July 2011. The effective date of the second set of amendments is for accounting periods beginning on, or after 1 July 2011.

IAS1 Presentation of Financial Statements

Minor amendment to the existing standard. The effective date is for accounting periods beginning on, or after 1 January 2011.

IAS24 Related Party Disclosures

Amendments to the existing standard. The effective date is for accounting periods beginning on, or after 1 January 2011.

IAS27 Consolidated and Separate Financial Statements

Amendments to the existing standard. The effective date is for accounting periods beginning on, or after 1 July 2010.

IAS34 Interim Financial Reporting

Amendments to the existing standard. The effective date is for accounting periods beginning on, or after 1 January 2011.

IFRIC13 Customer Loyalty Programmes

Minor clarification to the existing interpretation.

IFRIC14 Prepayments of a Minimum Funding Requirement

Amendments to the existing interpretation. The effective date is for accounting periods beginning on, or after 1 January 2011.

IFRIC19 Extinguishing Financial Liabilities with Equity Instruments

A new interpretation. The effective date is for accounting periods beginning on, or after 1 July 2010.

None of these new or amended standards and interpretations are likely to be applicable or are anticipated to have a future material impact on the financial statements of the Met Office.

In addition, the following are changes to the FReM, which will be applicable for accounting periods beginning on 1 April 2011:

Chapter 3 Parliamentary Accountability

Implementation of changes for alignment of budgets, Estimates and accounts

Chapter 6 Tangible assets

Adaptation of IAS 20 Accounting for Capital Government Grants.

Chapter 11 Income and Expenditure

Amendments in respect of accounting for Tax Credits

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

2. Return on Capital Employed

Return on Capital Employed (ROCE) is a measure of how effectively an organisation is using its capital. It is calculated as operating profit, expressed as a percentage of average capital employed. Capital employed equates to capital, reserves and the long-term element of loans. The Met Office has a Treasury Minute to achieve an average ROCE of 3.5% over the five-year period commencing 1 April 2009.

The table below shows the in-year and averaged ROCE over the period from the beginning of the current target period (1 April 2009) to 31 March 2014.

	2010/11	2009/10
Actual	4.7%	3.2%
Target — in-year	3.8%	3.2%
Average — current target period	3.9%	3.2%
Target — five-year average	3.5%	3.5%

3. Operating segments

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

Each segment has a senior manager who is responsible to the Chief Operating Decision Maker (CODM) for the operating activities, financial results, forecasts and plans of their respective segments. The Chief Operating Decision Maker is the Met Office Executive.

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

Operating profit is further evaluated between that generated from activities falling within or outside the business profitability Business Performance Measure (BPM).

Year ended 31 March 2011

Operating Segment:	Revenue £'000	Depreciation/ amortisation £'000	BPM £'000	Operating Profit Non BPM £'000	Total £'000	Interest Receivable £'000	Interest Payable £'000
Government business	163,470	25,248	3,252	11,278	14,530		
Commercial business	32,239	1,558	3,083	(1,277)	1,806		
	195,709	26,806	6,335	10,001	16,336		
Corporate and other central income/expenses	409				(6,914)	93	(130)
Total per financial statements	196,118	26,806			9,422	93	(130)

Year ended 31 March 2010

Operating Segment:	Revenue £'000	Depreciation £'000	BPM £'000	Operating Profit Non BPM £'000	Total £'000	Interest Receivable £'000	Interest Payable £'000
Government business	162,165	25,336	2,878	9,829	12,707		
Commercial business	29,365	1,054	2,504	(1,161)	1,343		
	191,530	26,390	5,382	8,668	14,050		
Corporate and other central income/expenses	435				(7,392)	102	(272)
Total per financial statements	191,965	26,390			6,658	102	(272)

Revenue includes £2,239,000 of income derived from EU contracts (2009/10 £1,989,000).

Government business

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

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

The operating profit derived from Government business is evaluated between activities that are considered to be competed or competable and those that are non-competed. Those services gained on a competed basis are included within the Business Performance Measure for business profitability. The operating profit on non-competed services do not form part of the business profitability Business Performance Measure.

Government business is further analysed by revenue stream as follows:

	2010/11 £'000	2009/10 £'000
Defence	34,275	35,232
Government Services	35,723	36,997
Public Weather Service	93,472	89,936
	163,470	162,165

Commercial business

The Met Office also provides a range of weather and climate related services to a wide range of customers. All Commercial business is secured on a competed basis, with revenue streams being derived from a number of different sectors including media, transport and consulting services to a number of other industries such as finance, engineering, construction, health, and utility companies.

The operating profit derived from Commercial business is included within the business profit Business Performance Measure.

Investment in commercial initiatives are excluded from the operating profit measure used in the Business Performance Measure for business profitability.

Corporate and other central income/expenses

This line comprises items that are not part of the Met Office's operating segments but are required to reconcile to the income statement. It includes corporate items which are not allocated to operating segments, such as the cost of Met Office-wide initiatives or capabilities that underpin all activities, interest receivable and payable. These items are managed at a corporate level.

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

All revenue reported above is derived from external customers. There is no inter-segment revenue.

More than 80% of Met Office revenue is derived from UK sources. The Met Office Executive does not review the business on a geographical basis. A geographical analysis would not be necessary to aid users' understanding of these financial statements.

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

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.

Cost of sales, selling and distribution and administrative charges are further analysed by expenditure type as follows:

	Note	2010/11 £'000	2009/10 £'000
Staff costs	7	87,396	87,337
Early retirement and exit costs		2,033	546
Travel and subsistence		4,138	4,593
Equipment and services	(ii)	34,261	36,466
Accommodation		10,237	9,979
Operating leases—plant and machinery		1,618	1,181
Operating leases—other		1,813	1,670
Depreciation—on owned assets		26,369	26,364
Amortisation		437	26
Release of capital grants		(795)	(376)
International services and subscriptions	(i)	15,784	14,504
Other expenses	(iii)	3,241	3,000
Total		186,532	185,290

- (i) International services and subscriptions include £4.2m (2009/10 £3.4m) to the European Organisation for the Exploitation of Meteorological Satellites (EUMETSAT) (excluding amounts capitalised as satellite assets), £6.5m (2009/10 £6.1m) to the European Centre for Medium-Range Weather Forecasts (ECMWF), £2.1m (2009/10 £2.0m) to the World Meteorological Organization (WMO) and £0.7m (2009/10 £0.8m) to the Network of European Meteorological Services (EUMETNET).

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 cooperations between members in the exchange of observational data and forecasts, together with a widening range of environmental programmes.

- (ii) Equipment and services expenses include an audit fee of £58,000 (2009/10 £60,000) for the audit of the financial statements. In 2009/10 a fee of £6,000 was paid in respect of audit work in connection with the transition to International Financial Reporting Standards and a fee of £9,000 for the review of Key Performance Indicators.
- (iii) Other expenses include a charge of £91,000 in respect of the downward revaluation of the Exeter headquarters land asset and £753,000 in respect of the impairment of plant and equipment assets. Further information is contained in note 8.
- (iv) The total cost of research was £44.8m (2009/10 £44.4m).

5. Other gains/(losses) — net

	2010/11 £ '000	2009/10 £ '000
Foreign exchange rate differences	126	12
Net loss on disposal of fixed assets	(290)	(29)
Total other gains/losses	(164)	(17)

6. Interest payable and similar charges

	2010/11 £ '000	2009/10 £ '000
On MOD loans repayable within five years	89	229
Discounting of Provisions	41	43
Total interest payable and similar charges	130	272

7. Staff

(a) Staff costs

	Note	2010/11 £ '000	2009/10 £ '000
Salaries, performance related pay and allowances		69,725	69,684
Early retirement costs	4	2,033	546
Social security		5,445	5,440
Pension contributions		12,226	12,213
Total staff costs		89,429	87,883
Temporary/agency labour costs		3,209	4,608
		92,638	92,491

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 Associates Limited) conducted a full actuarial valuation as at 31 March 2007. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice.gov.uk).

For 2010/11, pursuant to the Superannuation Act 1972, employer's contributions of £12.2m were payable to the PCSPS (2009/10 £12.2m) at one of four rates in the range 16.7% to 24.3% of pensionable pay, based on salary bands. The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. For 2011/12, the salary bands will be revised but the rates will remain unchanged. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

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.

(b) Average staff numbers

	2010/11 number	2009/10 number
Senior management	9	10
Scientific, managerial, technical	1,486	1,529
Support	352	312
Locally engaged civilians overseas	15	18
Monthly average staff numbers (all UK Government Civil Servants except locally engaged civilians)	1,862	1,869
Monthly average temporary/agency staff	17	40

There were 1,859 staff employed at 31 March 2011 compared with 1,871 at 31 March 2010, both figures expressed as full-time equivalents. There were also 20 temporary/agency staff, expressed as full-time equivalents, engaged by the Met Office at 31 March 2011 (31 March 2010, 28).

(c) Reporting of Civil Service and other compensation schemes — exit packages

Comparative data for 2009/10 is shown (in brackets).

Exit package cost band	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band
£0—£10,000	1 (—)	2 (2)	3 (2)
£10,000—£25,000	— (—)	— (4)	— (4)
£25,000—£50,000	1 (—)	5 (1)	6 (1)
£50,000—£100,000	2 (—)	1 (2)	3 (2)
£100,000—£150,000	1 (—)	— (1)	1 (1)
£150,000—£200,000	1 (—)	— (—)	1 (—)
Total number of exit packages by type	6 (—)	8 (10)	14 (10)
Total cost 2010/11 £'000	503	281	784
Total cost 2009/10 £'000	—	382	382

Redundancy and other departure costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme — a statutory scheme made under the Superannuation Act 1972. Exit costs are accounted for in full in the year of departure. Where the Met Office has agreed early retirements, the additional costs are met by the organisation and not by the Civil Service pension scheme. Ill-health retirement costs are met by the pension scheme and are not included in the table.

(d) Directors' remuneration

Details of emoluments paid to members of the Met Office Board are contained within the Remuneration Report on page 18

8. Property, plant and equipment

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 2010	247,268	63,075	8,319	57,380	56,857	—	432,899
Additions	7,825	34	284	4,142	2,262	2,126	16,673
Disposals	—	—	—	(1,520)	(12,346)	—	(13,866)
Transfers	—	—	—	—	—	—	—
Revaluation	12,806	(1,612)	252	1,633	—	—	13,079
At 31 March 2011	267,899	61,497	8,855	61,635	46,773	2,126	448,785
Depreciation:							
At 1 April 2010	193,511	4,130	3,532	17,442	37,510	—	256,125
Charged during year	11,939	1,270	844	3,241	9,075	—	26,369
Impairment	—	—	—	753	—	—	753
Disposals	—	—	—	(1,164)	(12,346)	—	(13,510)
Revaluation	10,005	(86)	106	627	—	—	10,652
At 31 March 2011	215,455	5,314	4,482	20,899	34,239	—	280,389
Net book value:							
At 1 April 2010	53,757	58,945	4,787	39,938	19,347	—	176,774
At 31 March 2011	52,444	56,183	4,373	40,736	12,534	2,126	168,396

	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 2009	237,876	73,765	7,394	55,718	71,689	—	446,442
Additions	8,967	215	796	4,369	11,641	—	25,988
Disposals	—	—	—	(3,659)	(26,473)	—	(30,132)
Transfers	—	—	—	—	—	—	—
Revaluation	425	(10,905)	129	952	—	—	(9,399)
At 31 March 2010	247,268	63,075	8,319	57,380	56,857	—	432,899
Depreciation:							
At 1 April 2009	180,781	3,204	2,749	18,170	54,617	—	259,521
Charged during year	12,407	1,289	735	2,567	9,366	—	26,364
Disposals	—	—	—	(3,617)	(26,473)	—	(30,090)
Revaluation	323	(363)	48	322	—	—	330
At 31 March 2010	193,511	4,130	3,532	17,442	37,510	—	256,125
Net book value:							
At 1 April 2009	57,095	70,561	4,645	37,548	17,072	—	186,921
At 31 March 2010	53,757	58,945	4,787	39,938	19,347	—	176,774

- (i) All land and buildings are held as freehold. The net book value of freehold land and buildings includes £8.0 million of freehold land (31 March 2010, £8.4m) 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.

The Exeter headquarters land, buildings and mechanical and electrical services (within plant and equipment) were revalued by Atisreal, Chartered Surveyors on 1 December 2006 in accordance with the Appraisal and Valuation Standards (the "Red Book"), published by the Royal Institution of Chartered Surveyors.

The assets concerned were considered to be specialised and have been valued on the basis of Depreciated Replacement Cost.

- (iv) The application of indexation to the Exeter headquarters land asset has resulted in the revalued amount being below the original historic cost. The downward movement has been accounted for through the revaluation reserve to the extent that the previous revaluation surplus has been utilised with the remaining £91,000 being charged to the income statement. The impairment adjustment of £753,000 to plant and equipment relates to changes in the way elements of the supercomputer infrastructure are expected to be used in the near future and the speed of technological advancement.

9. Intangible assets

	Computer Software £ '000	Software Licences £ '000	Total intangible £ '000
Cost or valuation:			
At 1 April 2010	228	—	228
Additions	1,014	159	1,173
At 31 March 2011	1,242	159	1,401
Amortisation:			
At 1 April 2010	26	—	26
Charged during year	429	8	437
At 31 March 2011	455	8	463
Net book value:			
At 1 April 2010	202	—	202
At 31 March 2011	787	151	938

	Computer Software £ '000	Software Licences £ '000	Total intangible £ '000
Cost or valuation:			
At 1 April 2009	—	—	—
Additions	228	—	228
At 31 March 2010	228	—	228
Amortisation:			
At 1 April 2009	—	—	—
Charged during year	26	—	26
At 31 March 2010	26	—	26
Net book value:			
At 1 April 2009	—	—	—
At 31 March 2010	202	—	202

10. Inventories

Note	31 March 2011 £ '000	31 March 2010 £ '000
Meteorological equipment	696	763
Reserve equipment	203	157
Consumable stores	31	27
Total inventories	930	947

11. Trade receivables and other current assets

Note	31 March 2011 £ '000	31 March 2010 £ '000
Amounts falling due within one year:		
Trade receivables	23,614	13,625
Less: Provision for impairment of receivables	(60)	(102)
	23,554	13,523
Other receivables	437	525
Accrued income	5,921	3,794
Prepayments	12,862	13,515
Total trade receivables and other current assets	42,774	31,357

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

Other receivables include staff loans totalling £398,000 to 47 officers predominantly in respect of housing advances on relocation.

Intra-government balances

Balances with central government bodies	13,434	4,729
Balances with local authorities	524	515
Balances with NHS Trusts	12	8
Balances with public corporations and trading funds	1,784	5
Subtotal: intra-government balances	15,754	5,257
Balances with bodies external to government	27,020	26,100
Total trade receivables and other current assets at 31 March	42,774	31,357

All intra-government balances are due within one year.

12. Cash and cash equivalents

	Note	31 March 2011 £ '000	31 March 2010 £ '000
Balance at 1 April		36,548	33,548
Net change in cash and cash equivalent balances	18	2,906	3,000
Balance at 31 March		39,454	36,548

The following balances at 31 March were held at:

UK Debt Management Office, HM Treasury	39,000	35,200
EUMETSAT working capital fund	9	4
Total cash held on short-term deposit	39,009	35,204
Cash held at commercial banks and in hand	445	1,344
Balance at 31 March	39,454	36,548

The Met Office holds three Euro bank accounts, in which there were amounts totalling £422,000 at 31 March 2011 belonging to third parties (31 March 2010 £465,000).

Cash in transit at 31 March 2011 amounted to £1,025,000.

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

13. Trade payables and other payables

Note	31 March 2011 £ '000	31 March 2010 £ '000
Amounts falling due within one year:		
Trade payables	1,938	788
VAT	5,370	4,631
Other taxation and social security	2,917	3,062
Accruals	16,173	15,820
Dividend payable	8,200	4,500
Deferred Income	12,262	12,159
Capital grants	310	1,154
Total current trade and other payables	47,170	42,114
Amounts falling due after more than one year:		
Capital grants	3,275	652
Total non-current trade and other payables	3,275	652
Total trade payables and other current liabilities	50,445	42,766

Intra-government balances

	Amounts falling due within one year		Amounts falling due after more than one year	
	31 March 2011 £ '000	31 March 2010 £ '000	31 March 2011 £ '000	31 March 2010 £ '000
Balances with central government bodies	12,971	15,240	3,275	1,756
Balances with local authorities	342	16	—	—
Balances with NHS Trusts	—	78	—	—
Balances with public corporations and trading funds	—	—	—	—
Subtotal: intra-government balances	13,313	15,334	3,275	1,756
Balances with bodies external to government	34,962	32,478	—	—
Total trade payables and borrowings at 31 March	48,275	47,812	3,275	1,756
Total trade payables and other current liabilities (note 13)	47,170	42,114	3,275	652
Borrowings (note 14)	1,105	5,698	—	1,104
Total trade payables and borrowings at 31 March	48,275	47,812	3,275	1,756

14. Borrowings

Ministry of Defence loans, repayable by instalments and bearing interest at 1.06%, 4.45% and 5.65% per annum:

Note	31 March 2011 £ '000	31 March 2010 £ '000
Amounts repayable:		
In not more than one year	1,105	5,698
In more than one year but not more than two years	—	1,104
In more than two years but not more than five years	—	—
Amount falling due after more than one year	—	1,104
Total	1,105	6,802

15. Derivative financial instruments

	31 March 2011		31 March 2010	
	Assets £ '000	Liabilities £ '000	Assets £ '000	Liabilities £ '000
Forward foreign currency contracts—cash flow hedge	316	193	1,635	120
Analysed between:				
Current	316	82	1,402	—
Non-current	—	111	233	120
	316	193	1,635	120

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

	Foreign Currency Euro/ CHF '000	Contract Value £ '000	Fair Value £ '000	Assets £ '000	Liabilities £ '000
Delivery 2011/12					
Euro	18,316	16,085	16,145	141	82
Swiss Francs (CHF)	4,000	2,532	2,707	175	—
		18,617	18,852	316	82
Delivery 2012/13					
Euro	7,400	6,637	6,525	—	111
Swiss Francs (CHF)	—	—	—	—	—
		6,637	6,525	—	111
Total		25,254	25,377	316	193

All cash flow hedges are in respect of forecast transactions. In line with IAS 39, gains or losses on effective cash flow hedges are held in equity; gains or losses relating to the ineffective portion of the hedge will be recognised in the Income Statement when the forecast transaction occurs. During the year two of the cash flow hedging contracts became ineffective under the hedge accounting rules in IAS 39. As a result hedge accounting was ceased for these transactions and the derivative contracts accounted for at fair value.

The net gain on these contracts included in the income statement for the year was £140,000.

16. Provisions for liabilities and charges

	Early retirement and exits £ '000	Dilapidations £ '000	Leaseholds £ '000	Total £ '000
Balance at 1 April 2009	2,138	418	230	2,786
Provided (written back) in the year	486	(106)	401	781
Unwinding of discount	37	5	2	44
Change in discount rate	18	—	—	18
Utilised in year	(1,035)	—	(103)	(1,138)
Balance at 31 March 2010	1,644	317	530	2,491
Provided (written back) in the year	1,516	147	452	2,115
Unwinding of discount	29	3	9	41
Change in discount rate	(15)	—	—	(15)
Utilised in year	(788)	(75)	(101)	(964)
Balance at 31 March 2011	2,386	392	890	3,668

- (i) The Early Retirement and Exit Provision represents the outstanding liability for pension and severance costs as at 31 March 2011. It includes the cost associated with 58 staff who had been offered early retirement during 2010/11 and previous years. For staff offered early retirement, the provision represents the full cost of meeting each individual's pension payments to normal retirement age. The gross amount provided for, before discounting, is £2,426,000 (2009/10 £1,701,000). After discounting at 2.9% (2009/10 1.8%) a net amount of £2,386,000 (2009/10 £1,644,000) 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 £401,000 (2009/10 £327,000). After discounting at 2.2% a net amount of £392,000 (2009/10 £317,000) is provided.
- (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 £965,000 (2009/10 £552,000). After discounting at 2.2% a net amount of £890,000 (2009/10 £530,000) is provided.

The commitments provided for fall due in the following periods:

	Early retirement £ '000	Dilapidations £ '000	Leaseholds £ '000	Total £ '000
Amounts payable within:				
Under one year	1,884	187	157	2,228
One to five years	448	205	431	1,084
Over five years	54	—	302	356
Total	2,386	392	890	3,668

17. Related parties

The Ministry of Defence (MOD) as the Met Office's parent department 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 Department of Energy and Climate Change, the Department for Environment, Food and Rural Affairs, the Cabinet Office, the Civil Aviation Authority, the Maritime and Coastguard Agency, the Environment Agency, the British Broadcasting Corporation and the Natural Environment Research Council. None of the Met Office Board members, key managerial staff or other related parties undertook any material transactions with the Met Office during the year.

J Hirst through his capacity as Met Office Chief Executive is a Council/Executive Committee member of the following organisations: EUMETSAT, ECMWF, WMO and EUMETNET. The Met Office has had material transactions with these entities and these are disclosed in Note 4(i) to the financial statements

The services of senior manager A Griffiths are supplied through Hazelford Consulting Limited, a company in which he is a director. The services supplied in relation to his senior manager role during the year amounted to £30,525.

Senior manager D Young is on secondment from IBM. IBM is not considered to be a related party to the Met Office.

T Jagger, Met Office Non-Executive Director during the year was also a member of the Met Office Owner's Council.

18. Notes to the Cash Flow Statement

Reconciliation of cash and cash equivalents to movement in net funds

	At 1 April 2010 £ '000	Cash flows £ '000	Other changes £ '000	At 31 March 2011 £ '000
Cash at bank and in hand	1,344	(899)	—	445
Cash on deposit	35,204	3,805	—	39,009
Cash and cash equivalents	36,548	2,906	—	39,454
Borrowings due within one year	(5,698)	5,697	(1,104)	(1,105)
Borrowings due after one year	(1,104)	—	1,104	—
Total net funds	29,746	8,603	—	38,349

19. Commitments under operating leases

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

	Land and Buildings		Other	
	2010/11 £ '000	2009/10 £ '000	2010/11 £ '000	2009/10 £ '000
Leases expiring within:				
Under one year	1,180	1,029	1,497	1,413
One to five years	2,549	2,605	4,413	5,247
Over five years	2,414	2,659	—	1,082
Total	6,143	6,293	5,910	7,742

20. Capital commitments

	2010/11 £ '000	2009/10 £ '000
Contracted for but not provided for :		
Supercomputer	14,089	14,087
Other	940	857
Contribution for Satellite Programme	8,397	5,863
Total	23,426	20,807

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.

21. Losses and special payments

During the year, the Met Office made 3 special payments totalling £73,431.

22. Financial instruments and financial risk management

IFRS 7 Financial Instruments — Disclosures, requires the Met Office to provide disclosures in respect of the role of financial instruments on performance during the period, the nature and extent of the risks to which the Met Office is exposed and how these risks are managed. For each type of risk arising from financial instruments, the Met Office is also required to provide summary quantitative data about its exposure to the risk at the reporting date.

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, receivables, payables, loans and foreign currency forward exchange contracts. The main purpose of these financial instruments is to finance the Met Office's operations. The Met Office has limited powers to borrow or invest surplus funds. The main risks arising from the Met Office's financial instruments are foreign currency, liquidity and interest rate risks. The Met Office's policies for managing these risks are set to achieve compliance with the regulatory framework including the rules contained within Managing Public Money.

Credit risk

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

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

Trade receivables beyond the due date	0—3 Months £ '000	3—6 Months £ '000	Over 6 months £ '000
Receivables beyond the due date — not impaired	2,007	—	12
Receivables beyond the due date — impaired	60	—	—
Total receivables beyond the due date	2,067	—	12

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 in 2005/6, the Met Office borrowed £6.0 million from our sponsor department, the Ministry of Defence. This loan was repayable over five years and has now been fully repaid.

During 2008/9 the Met Office borrowed £4.4 million from the Ministry of Defence to partly finance the replacement supercomputer.

During 2009/10 the Met Office borrowed a further £4.4 million from the Ministry of Defence to finance the new supercomputer. Both the loans to finance the supercomputer are repayable within two years. The loan advanced during 2008/9 has now been fully repaid.

Foreign currency risk

The Met Office makes significant foreign currency payments for subscriptions and contributions to international meteorological organisations including payments for satellite programmes. These costs are funded by the Public Weather Service. In order to manage foreign exchange risk the Met Office policy is to buy forward foreign currency for payments to international bodies as soon as amounts can be reliably estimated. The forward currency contracts are in hedging relationships under IAS 39 and the Met Office has elected to adopt IAS 39 hedge accounting rules.

As at 31 March 2011, the Met Office held 7 forward contracts to buy a total of €25.7million equating to £22.7 million at the contracted exchange rates, with value dates in 2011/12 and 2012/13. The Met Office also held one forward contract to buy forward a 4.0 million Swiss Francs, equating to £2.5 million at the contract rates with a value date in 2011/12. Additional information can be found in note 15 to the accounts.

£5.5 million of expenditure is undertaken in foreign currencies which are not funded through the forward purchase contracts.

Interest rate risk

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

Cash on deposit at 31 March 2011 consists of 22 short-term deposits totalling £39.0 million (31 March 2010—£35.2 million) with the UK Debt Management Office at HM Treasury for a weighted average period of 33.63 days (31 March 2010—26.77 days) at a weighted average interest rate of 0.25% (31 March 2010—0.25%). At 31 March 2011 £9,000 (31 March 2010—£4,000) was also held on deposit in the working capital fund at EUMETSAT. The fair values of cash and cash equivalents approximate to book value due to their short maturities.

Sensitivity analysis

Given the Met Office's significant exchange rate exposure for Euro and Swiss Francs are managed through utilising forward currency contracts any residual exposure does not have a significant impact on the Met Office's results. Therefore a sensitivity analysis is not considered necessary. The Met Office's foreign exchange exposure is kept under review.

Significant accounting policies

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

Categories of Financial Instruments

Financial Assets at 31 March 2011

	Loans and receivables £ '000	Derivatives used for hedging £ '000	Total £ '000
Trade and other receivables — current	29,912	—	29,912
Derivative financial assets	—	316	316
Cash on deposit	39,009	—	39,009
Cash at bank and in hand	445	—	445
	69,366	316	69,682

Financial Liabilities at 31 March 2011

	Other financial liabilities £ '000	Derivatives used for hedging £ '000	Total £ '000
Trade and other payables	26,311	—	26,311
Ministry of Defence loans	1,105	—	1,105
Derivative financial liabilities	—	193	193
	27,416	193	27,609

The Met Office does not hold any held-to-maturity investments or available-for-sales financial assets.

Embedded derivatives

In accordance with IAS 39, 'Financial instruments: Recognition and measurement', the Met Office has reviewed all material contracts for embedded derivatives that are required to be separately accounted for if they do not meet certain requirements set out in the standard. No instances were found that required 'embedded derivatives' to be recognised at their fair value, separately from the non-derivative host contract. For the contracts reviewed, the economic characteristics and risks were closely related to those of the host contract.

23. Authorisation of accounts

The Accounts were authorised for issue (defined as the date of the Certificate and Report of the Comptroller and Auditor General) on June 2011.

FIVE-YEAR FINANCIAL SUMMARY (Unaudited)

	IFRS 2010/11 £ '000	IFRS 2009/10 £ '000	IFRS 2008/9 £ '000	UK GAAP 2008/9 £ '000	UK GAAP 2007/8 £ '000	UK GAAP 2006/7 £ '000
Income Statement						
Revenue	196,118	191,965	184,781	184,781	176,580	170,956
Gross profit/(loss)	32,189	29,764	31,385	31,469	33,792	28,886
Operating profit/(loss)	9,422	6,658	7,462	7,574	12,662	7,860
Profit for the financial year	9,385	6,488	8,589	8,673	14,013	8,826
Dividend	8,200	4,500	17,177	17,177	11,077	6,667
Capital expenditure						
Property, plant and equipment asset additions	16,673	25,988	23,028	23,028	14,699	15,225
Statement of Financial Position						
Property, plant and equipment	168,396	176,774	186,921	182,699	181,248	187,147
Net current assets	35,117	22,442	23,896	26,396	32,940	24,458
Non-current liabilities	7,054	4,367	6,295	6,295	8,400	12,905
Number of employees						
Average for year	1,862	1,869	1,832	1,832	1,770	1,708

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Met Office
FitzRoy Road, Exeter
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United Kingdom

Tel: +44 (0)1392 885680
Fax: +44 (0)1392 885681

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