



Met Office



Annual Report and Accounts
2012/13

Met Office

An Executive Agency of the Department for Business, Innovation and Skills

Annual Report and Accounts 2012/13

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For any enquiries regarding this publication contact us on +44 (0)1392 885680

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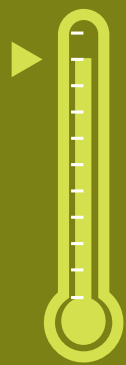
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Directors' report

Introduction

Each year,
lives are saved
because of
our accurate
warnings



Tomorrow's
maximum
temperatures:
over 87% accurate
to within 2 °C

The Met Office is a Trading Fund of the Department for Business, Innovation and Skills (BIS). It has been providing world-leading weather forecasting services for more than 150 years and has a long history in ground-breaking climate science. We deliver an extensive range of services to the UK public and Government as well to businesses at home and abroad and governments overseas. Operating as a business, we generate income to invest in our cutting-edge science and research which minimises the demands on public funds.

Our internationally-renowned organisation began as a small Meteorological Department under the Board of Trade. In 1920 we moved to the Air Ministry, which became part of the Ministry of Defence in 1964. Our status was then changed to that of an Executive Agency in 1990 and a Government Trading Fund in 1996 under Statutory Instrument SI 1996/774. Our transfer to BIS took place in 2011 and we retain our Trading Fund status.

Accuracy

YouGov figures show that around 80% of respondents trust the Met Office on a scale that ranges from a little to a lot. This trust is founded on our forecast accuracy which continues to increase through investments in research and development, satellite remote sensing and, critically, supercomputing power. At peak performance, our supercomputer can now make over 1,200 trillion calculations per second, equivalent to around 30,000 home computers.

This increase in computing capacity allows our scientists to develop models

that can incorporate higher levels of complexity and speed of analysis. High resolution models mean more detailed weather forecasts and more accurate timing of specific weather events. This has been particularly important in 2012/13: a year of unsettled and often dramatic weather that gave way to temporary clearer skies during the London 2012 Olympic and Paralympic Games. The Met Office was recognised as providing timely and accurate forecasting services to what was the biggest sporting event in British history.

Other customers have also benefited from higher resolution models and increased accuracy, for example:

- Over 90% of our next-day hourly temperature forecasts are correct to within 2 °C, which means that our energy customers can confidently forecast demand, helping to reduce costs and ensure that their customers receive an uninterrupted supply.
- Our Inshore Waters and Shipping Forecasts, produced for the Maritime and Coastguard Agency (MCA), are correct to within one number (or 'force') on the Beaufort Wind Scale on over 95% and 92% of occasions respectively. This level of accuracy is critical to the MCA's remit to provide maritime safety information to ships at sea.
- Our OpenRoad service for the 2012/13 winter season achieved over 90% frost detection rate. This helped our road customers to make informed decisions that kept their networks safe and open throughout winter. For instance, our route-based forecasting service meant



that Lancashire County Council didn't have to treat around 200 individual routes, meaning that its initial investment in the service paid for itself almost twice over.

Contribution

We live in a challenging climate. Not just in terms of the weather, but the changing economic circumstances too. In this difficult environment, our customers have asked us to do even more to meet their needs, which generated a growth in revenue of £1.1 million this year from new or extended services. We have also started to see an increase in demand for our advice in areas such as renewables, marine and international.

Recent international capacity building projects include:

- Developing Rwanda's Meteorological Service (RMS) that had struggled to restore its operations since it was severely damaged during the genocide in 1994. Acknowledging the importance of meteorological information for socio-economic development, the Government of Rwanda sought consultancy from the Met Office to build capacity at RMS. This included refreshing the service's website, producing forecasts for radio and newspapers and modernising the weather bulletins on national television by training presenters and using 3D graphics. Together with regular press releases and creating a brand, the people of Rwanda have become more aware of the service.

- Passing on our London 2012 experiences, including operational planning, successes and lessons learnt, to the Brazilian Met Service ahead of its preparation for Rio 2016. As the UK's national weather service, the Met Office supported the Olympic and Paralympic Games in the planning and construction of event venues as well as the logistics of transporting and ensuring the safety of huge numbers of athletes, coaches and spectators attending the Games. Changeable British weather led to some forecasting challenges with weather experts on hand in London for media interviews. We hope that the Brazilian Met Service finds details of the key planning, milestones and deliverables of our Olympics and Paralympics experiences helpful.

Partnerships

The Met Office works in close collaboration with a wide variety of people and organisations. We value our partnerships for the energy, focus and commitment they bring.

...for economic and social benefit

A Public Data Group (PDG) and Data Strategy Board (DSB) were formed in 2011 around the time of the Met Office's move to BIS. The PDG exists to make access to public data easier for everybody, which is achieved by sharing best practice among its four data-rich member organisations including the Met Office, creating efficiencies and developing new activities. The PDG works with the DSB which advises the Government on how to maximise the value of data and services in the UK for long-term economic and social benefit.

As the UK's official weather service, we play a vital role in helping the country cope with extreme weather



4 million website hits on 17 January 2013



Improved science and supercomputing power means that today's four-day forecasts are as accurate as one-day forecasts were 30 years ago

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1,200 trillion calculations per second, equal to around 30,000 home computers

Sole traders, private sector companies and public sector organisations access and apply Met Office data to create innovative products and services. When these ideas prove successful, they make a direct and important contribution to UK economic growth. Working through the PDG we plan to make even more of our data available in future.

...for other UK growth

The Met Office Hadley Centre Climate Programme — funded by the Department of Energy and Climate Change (DECC) and the Department for Environment, Food and Rural Affairs (Defra) — helps us to look at climate issues from a global, long-term perspective. Its output helps policymakers and businesses to make informed decisions about the future and also make the most of opportunities for UK economic growth, in the context of a globally changing climate.

The weather's behaviour also impacts shorter term business decisions. For example, farmers and landowners who are seeking financial support from NatWest's Renewable Energy Fund are now encouraged to commission a Met Office report, called Virtual Met Mast™, which defines how much wind can be relied upon at specific locations, in order to secure funding.

The Met Office and Thames Water have also launched a suite of weather intelligence models to help the water industry better account for weather

impacts through the year — from predicting demand due to hot weather in summer to leakage and burst pipes in winter.

...for delivery and communication

To join up policymaking and the delivery of services at home and abroad, we work closely with other government departments such as the Cabinet Office, Department for Transport, Environment Agency, Highways Agency, Department for International Development (DFID) and the Foreign and Commonwealth Office. We also work alongside agencies of the Devolved Administrations such as the Scottish Environment Protection Agency and Transport Scotland.

To get our forecasts and warnings out to people, we also value communications partners such as the BBC, ITV and the national and regional press. We've also just launched a specially designed app for Windows Phone 8, which follows our award-winning apps for iPhone and Android platforms.

...for research and development

Our science is enhanced by numerous research and development partnerships, including the Climate Science Research Partnership with DFID that works with organisations in Africa to improve their understanding and prediction of the African climate to help alleviate poverty.

The Joint Weather and Climate Research Programme with the Natural Environment Research Council uses shared supercomputing resources to analyse climate data and develop models.

Our Unified Model collaborations also see scientists at meteorological and academic centres around the world share breakthroughs in weather forecasting and climate prediction using our seamless modelling system. The Met Office Academic Partnership with the universities of Exeter, Reading, Leeds and soon Oxford goes from strength to strength.

...for delivery and duty

Our services are supported by the Flood Forecasting Centre in which Met Office meteorologists work alongside Environment Agency hydrologists to forecast the risks of floods from rivers, the coast and extreme rainfall. The Natural Hazard Partnership is made up of ten organisations that work together to produce early warnings for heat, cold, snow, blizzards, floods, droughts, space hazards, earthquakes, volcanic ash, landslides, wildfires, fog, pollen, thunderstorms, windstorms and other natural hazards.

Our Mobile Met Unit — a sponsored reserve unit of the RAF — stands shoulder to shoulder with UK and allied forces around the world to ensure their safety and swing the balance in favour of a good outcome too.

...for the international community

In parts of the developing world, communities are already experiencing the profound consequences of a rapidly changing climate. Working through the Voluntary Cooperation Programme of the World Meteorological Organization, we help local people to use meteorology to improve agriculture, transport and to better understand climate change.

As well as providing charts and information to airports, airlines and pilots around the world through our World Area Forecast Centre, the Met Office saves the aviation industry a substantial amount of money every year. Using Met Office data, commercial flight planning systems are able to identify more cost effective routes, making enormous cost savings and drastically reducing emissions at the same time.

The future

Our work during the past year forms a strong basis from which we can go forward in the year ahead, continuing with our aim to be recognised as ‘the best weather and climate service in the world.’

More in-depth features on our work and highlights of 2012/13 will be made available in a year-end edition of our magazine, Barometer, in July 2013. Barometer is also available online at: www.metoffice.gov.uk/barometer.



When asked why they trust the Met Office, accuracy was top of an unprompted list for those who trust us most



80% of respondents trust the Met Office.
Source: YouGov



Introduction from

Greg Clarke reviews his first months as Chairman

Through social media, our weather warnings reach more people than ever before



300,000 followers on Facebook and Twitter, 1,000,000 views on YouTube

1. As the new Met Office Chairman, what were your first impressions of the organisation?

Firstly, I would like to thank the previous Chair, Robert Napier, who has retired after serving two full terms. I would also like to thank the outgoing Non-Executive Directors, Mike Goodfellow and Professor Sir Brian Hoskins for their support, guidance and intelligent advice they have given the Met Office Board. I wish them every success for the future.

I am deeply impressed by the breadth of science at the Met Office, coupled with its commitment to delivering first-class products and services to people the world over. This public sector organisation has a culture of excellence running through it, in terms of its science; research and delivery partnerships; products; services; and, importantly, business acumen. Despite the current economic climate, our total revenue growth was around £8.7 million this year, while growth in revenue from our new or extended services was £1.1 million, which is an outstanding achievement.

I'm proud to be Chairman of this exceptional organisation, full of highly educated, dedicated people. I'm enthused by its energy — it never stands still. And inspired by its innovation — it is perpetually as cutting edge as investment in its technology allows. While other organisations aspire to excellence, the Met Office is already there, yet is constantly looking for ways to improve.

2. How well did the Met Office perform in its forecasting?

The UK has seen some very unsettled weather over the past 12 months: from heavy rainfall and localised flooding in summer to plummeting temperatures and persistent ice and snow over winter and into spring 2013. In an extraordinary year, these unusual weather patterns

led to the usual forecasting challenges: working around-the-clock to get the latest forecasts and warnings out to the people affected. The Met Office responded with real zest and energy, speed and accuracy, and a never-faltering sense of responsibility.

Then came the more out of the ordinary forecasting challenges: for the London 2012 Olympic and Paralympic Games. Again, our forecasters rose to the occasion with the utmost care and commitment, earning high praise for the accuracy of the weather forecasts and information they issued.

Accurate weather forecasts are valuable commodities to all our customers and only possible with enhanced supercomputing power, which supports better forecast models. At the other end of the scale, we've pioneered the use of our daily weather forecast models in predicting the climate to the end of the 21st century. Our weather forecasts are verified by comparing them to the actual values observed at 118 sites across the UK, while our climate predictions are checked for their ability to simulate the current and past climate to assure us of their ability to predict the climate of the future.

3. Is the Met Office succeeding in getting across its world-leading science?

The integrity of our forecasts, the efficiency with which they are communicated and their usefulness to the people who need them are all measures by which we judge our performance. It's our job to carry out prudent, sensible and rigorous science and translate it into products and services that the public, Government and businesses need and can understand. It's not our job to decide how our customers should respond to incoming weather or changes in climate.

the Chairman

of the Met Office Board



Instead, our work informs the decisions they make and helps them to feel more confident that they're making the right ones.

In getting to grips with my new role as Chairman, I've seen for myself how weather forecasts and climate predictions are put together and the high-quality data, thorough methodology, sophisticated models, careful verification and skilful communication behind them. My colleagues have explained each of these processes to me in a way I can understand and they use the same clear language in all their communications with customers around the world.

4. How is the Met Office embracing new technologies to communicate weather information?

Technology changes the way people think, behave and communicate and the way businesses plan, prioritise and innovate.

The Met Office isn't a private sector company with an unlimited development budget, yet our role as a scientific organisation is analogous to many others that have these advantages — we too rely on constant research and development and scientific breakthroughs. Nonetheless, we do a remarkable job of keeping up to date with technology, especially in the way our weather forecasts and warnings are communicated.

Today, our customers receive weather information online through our website and social media updates, or on the move through apps, iPhone and Android platforms, as well as through traditional media such as our television and radio broadcasts. There's no getting away from the weather, just as there's no getting away from advances in technology. Our priority is to become the authoritative voice on weather and climate through the new digital age.

“Our priority is to become the authoritative voice on weather and climate through the new digital age”

5. Is innovation affordable in this difficult economic climate?

I don't see austerity and innovation as being in conflict. Ever since the Industrial Revolution in the late 18th and early 19th centuries, people have been achieving more with less. Inventions such as the steam engine, power loom and the telegraph were, in their day, highly efficient, cutting-edge technologies which began an era of per-capita economic growth.

It's the same today. As more and more powerful supercomputers are built and communication technologies enhanced, the Met Office is able to produce more and more accurate and efficient forecasts. What's more, these products and services are of huge economic value, so the Met Office can increasingly generate a proportion of funds for its own growth, despite the severe cuts in public sector spending.

Standing still is not an option. However, the Met Office also stays one step ahead by anticipating what can be achieved with increased investment and advances in technology. In this way, it is a truly innovative organisation. Seasonal and decadal forecasts are areas of evolving science with the potential to become operational and profitable; and there's plenty more as yet untapped science waiting to be developed.

6. How do you see the role of the Met Office Board?

I've never joined an organisation before that has so little to fix or a clearer vision of where it's going. The most exciting part of my role as Chairman is challenging and encouraging management to make the Met Office all it can be. This will be achieved by augmenting the Met Office's core functions of excellent science, progressive research, innovative partnerships and first-rate products and services that respond to customers' needs, while supporting new initiatives like international business development.

The Board's role is not to run the Met Office; that responsibility lies with Chief Executive John Hirst and his Executive team. Instead, with its strategic input, the Board ensures that the Met Office is headed in the right direction in the long-term; while, with its overview on governance, our role is also to make sure that proper care is taken of public money.

To me, the essence of the Board is to make sure that the Met Office understands how it creates value for the UK. The organisation exists to make sure people are kept safe, the environment is safeguarded and the economic downside of changes in the weather and climate are managed effectively in cooperation with other government departments and agencies. All this is of significant value: socially, environmentally and economically. Our challenge is to continue to find ways to do more of the same and maximise our potential to add value.

Chief Executive's overview



John Hirst, Met Office Chief Executive, explores this year's highlights, achievements and challenges

1. It's been an eventful year in terms of the weather — how has the Met Office fared over the past 12 months?

For me, there was a clear theme throughout the Met Office's work this year: the great British weather, which certainly made its presence felt. 2012 began with an unusually dry period from January to March across England and Wales that followed a drier than average winter. By the end of March, river and groundwater levels were low for the time of year, causing concern about drought. An exceptionally wet period from April to July transformed the situation. Although the rain was initially welcome, the continual wet weather caused a series of floods throughout the summer. For the UK, it was the wettest summer on record.

Movement in the track of the jet stream — a narrow band of fast flowing westerly winds high in the atmosphere — was fortunate timing for the organisers, athletes and spectators who took part in the London 2012 Olympic and Paralympic Games. These great British sporting events were largely dry. Our operations during the Games couldn't have gone any better and the accuracy of our forecasts received widespread praise.

However, unsettled weather was never far from the UK and several periods of heavy and prolonged rainfall led to more localised flooding in autumn. Then, the cold weather expected over winter continued well into 2013. March

was exceptionally cold — in fact, it was the coldest March since 1962. Persistent easterly winds brought bitterly cold air from Russia leading to widespread and unseasonably late snowfalls.

As a great British institution, we responded to the challenges posed by such complex and active weather systems with duty, dedication and attention to detail. We're proud that our world-class weather services keep people safe and the country moving. We've also seen growth in revenue this year, despite the fact that the UK is still in the grip of a severe recession. And while we never take what we have for granted, we recognise that continued investment in our infrastructure would put the Met Office on an even stronger footing for the future.

2. When it comes to forecasting floods and other natural hazards, what benefits does working in partnership bring?

Over the last few years, the Met Office has established a number of operational, research and academic partnerships that bring huge benefits to our science and services — and, ultimately, to the people they support. These partnerships typically take time to set up, but once the final decisions have been made on their remit, operations and even locations, they quickly gather momentum. Staffed by experts in their field, our partnerships attract some of the brightest minds and most committed people.

As far as our operations and underpinning research are concerned, we've seen exceptional performances from the Flood Forecasting Centre and Natural Hazard Partnership this year, both of which have settled in so well they're already 'business as usual'. The Environmental Science to Service Partnership is also about to become operational after a period of thoughtful planning. And our Academic Partnership with the universities of Exeter, Reading, Leeds and soon Oxford goes from strength to strength.

From an emerging science point of view, space weather is a relatively immature, but incredibly exciting, area in which our understanding is growing rapidly. We're working closely with the US Space Weather Prediction Center of the National Oceanic and Atmospheric Administration. Together, we plan to develop improved space weather models and prediction systems, which in the UK will support a real-time space weather warning service.

Space weather can impact the performance of the electricity grid, satellites, GPS systems and aviation; even perhaps mobile communication. Working with partners such as the UK Space Agency and the British Geological Survey, we'll soon be able to provide warnings of space weather so that Government, businesses and the public can take steps to protect themselves from its impacts.

“Our ever-increasing accuracy means that people from all walks of life can rely on Met Office forecasts to inform their big decisions”⁵⁹

3. YouGov figures show that around 80% of respondents trust the Met Office — how was this trust earned? And is there room for improvement?

The Met Office receives a lot of unsolicited praise from the responder community for our around-the-clock support to the police, fire and ambulance services, public health organisations, local councils and other public bodies. While it’s important to remember that a forecast isn’t a promise but a prediction of what the weather or climate might have in store, our ever-increasing accuracy means that people from all walks of life can rely on Met Office forecasts to inform their big decisions.

By understanding our customers’ needs, we can help them calibrate risks and make better decisions that keep people safe, protect assets and increase prosperity. We’ve just completed an exercise in which we correlated our forecasts against what actually happened weather-wise and the results, which will be published soon, show a further increment in our forecast accuracy. This has been achieved through intricate research and investing in technology such as a new weather satellite and supercomputer upgrade.

While our impartiality, scientific excellence, relevance and skill in contextualising science for our customers have gained us recognition worldwide, there is always room for improvement. We continue to tackle the big issues around weather and climate with impeccable science and actionable predictions on timescales from one day to one hundred years ahead that bring tangible benefits to people everywhere.

4. What will be the Met Office’s biggest challenges as you look ahead to 2013/14?

A growing number of businesses are beginning to understand the benefits of using weather intelligence and forecasts in a much more sophisticated way to improve their profitability. Current areas of interest lie in how the weather affects people’s behaviour and even their health; but, as the weather touches nearly every aspect of our lives, there’s huge potential to tap into other specialist areas too. This requires forecasts over different timescales from days to decades ahead and, in turn, greater supercomputing power.

This work needs the continual back-up of research carried out through our programmes and partnerships. It also needs outstanding people. This year, our Employee Attitude Survey delivered the highest scores ever in terms of staff commitment and pride in the Met Office. The only area where they were less satisfied was in our pay and benefits — an area largely outside our control as a Government Trading Fund but an issue we will, nonetheless, strive to resolve so that we’re able to attract and retain the expertise we need.

5. Exceptional people are at the heart of every successful organisation — are there any staff-related achievements or awards you’d like to highlight?

The weather is something we all love to talk about and we want to be at the centre of those conversations about our ever-changing weather and climate. This year, the Met Office made it into the top ten social brands of the Headstream Social Brands 100 list. The ranking took into account our engagement with the public through Facebook as well as the speed of our response and mentions of other brands via Twitter.

We also won the ‘Galactic Impact’ prize at the international finals of the NASA Space Apps Challenge. This was for a project called Growers’ Nation — a new science-based app, supported by the Met Office, that aims to make growing your own fruit and vegetables much easier. It consists of a global map showing climate, soil and weather data so that people know the best time to sow, plant and harvest in their location. The app has huge potential to help everyone from farmers in developing countries to a UK primary school class planning a vegetable patch.

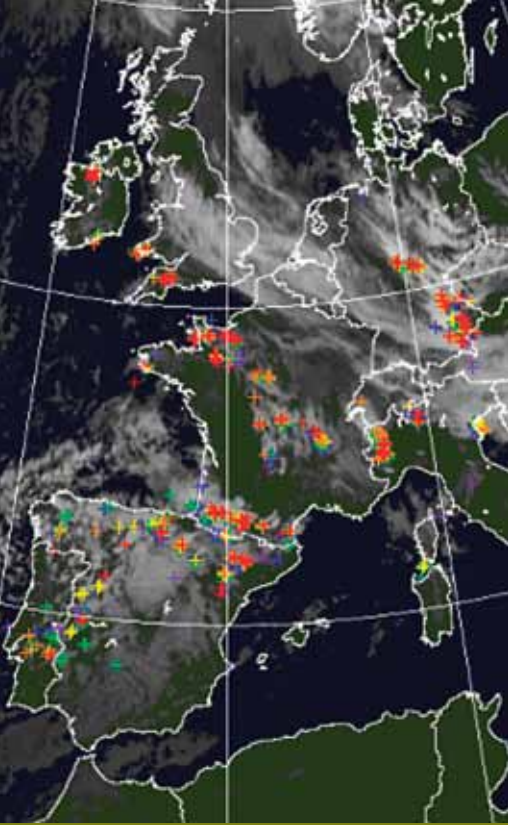
These are just a couple of highlights from what was a multi-award winning year at the Met Office, which also included being shortlisted for several marketing excellence awards alongside well-known brands such as O₂, Dulux and the Olympic Delivery Authority as well as major advertising agencies such as M&C Saatchi. These achievements clearly demonstrate that innovation and ideas are critical to the future success of our organisation.



Our people are passionate about, and committed to, their work



2012/13:
a multi-award winning year



Science underpins everything we do

World-class science

Met Office Chief Scientist, Professor Julia Slingo OBE, describes this year's science highlights, achievements and challenges



2012/13: over 260 peer-reviewed scientific papers published

The Met Office Science programme covers a vast range of research, but it is ultimately all about improving the accuracy and relevance of our forecasts on all timescales, from hours to decades.

This science-to-service ethos was epitomised in the groundbreaking forecasts we made for the London 2012 Olympic and Paralympic Games. Aside from our operational forecasts throughout each event, we provided additional air quality forecasts and high-resolution wind and wave forecasts for the Olympic sailing events. At just over 300 m resolution, these forecasts provided close to 20 times as much detail as our regular daily UK weather forecast at 1.5 km. Such detail was incredibly important to keep the sailors safe as they pushed their boats to the limit.

The development of capabilities like these owes a huge amount to the work of Professor Brian Golding OBE who retired this year from his role of Deputy Director of Weather Science. His vision,

nearly twenty years ago, to develop local-level forecasting using very fine-scale models has led to the world-leading weather services that the UK benefits from today. The extreme weather we saw in 2012, with parts of the country experiencing substantial and dangerous flooding, is a reminder of the value of these services. We are relied on to provide timely weather and hazard advice to the general public, central Government and emergency responders 24/7, 365 days a year.

2012 has also seen us bid farewell to Dr Chris Gordon, our Head of Science Partnerships and former Head of the Met Office Hadley Centre and Deputy Director of Climate Science. Chris made a massive contribution to climate science and modelling over the years and played an integral part in making our climate model one of the very best in the world.

In 2009 we established a formal Science Partnership programme, recognising the importance of our research collaborations

with the Natural Environment Research Council (NERC), UK academia and our international partners. Chris immediately offered his services and it is largely due to his leadership that we have successfully established the Met Office Academic Partnership, the Joint Weather and Climate Research Programme (JWCRP) with NERC, and a growing set of international partners who use the Unified Model for their operational forecasting. The success of our partnerships, both at home and abroad, owe a substantial debt to Chris's tireless work.

As with every research organisation, we measure our performance in terms of academic excellence. 2012 saw us beat our record for peer-reviewed publications, with 267 articles published by Met Office authors: a 2% increase on 2011; and our h-index (the measure of how productive and influential our research is) now stands at 155. This far exceeds that of any equivalent public environmental research organisation in the UK, and is only beaten by National Center for Atmospheric Research in the USA on an international standing.

Our international reach continues to grow. We co-published science papers with authors from 41 countries this year, and our global collaborations continue to go from strength to strength. Our scientists now serve on 211 scientific committees and advisory boards. Work has also started under the Memorandum of Understanding that we signed with the Singapore National Environment Agency in 2011. Together, we are improving Singapore's climate science capability to enable the production of reliable projections of Singapore's rainfall, temperature, wind and sea-level across different timescales.

Every year, the Met Office Science Advisory Committee (MOSAC), an independent expert panel, reviews the quality and relevance of our work. MOSAC's report stated that 2012 has been 'an extremely good year for Met Office research and development' and that the seamless approach to weather and climate prediction that I've championed since becoming Chief Scientist in 2009 is 'already bearing fruit'.

MOSAC acknowledged the significant advances in forecasting that we have achieved, noting in particular the development of the first UK ensemble forecast at 2 km resolution. The ensemble of forecasts with very slight

differences in the initial conditions has demonstrated remarkable skill in giving much longer lead-time warnings of areas at greatest risk from extreme rainfall. We know that longer lead-time forecasts enable mitigating actions to be put in place, substantially reducing the cost to individuals, business and local government.

We are all too aware that of the challenges that the weather of 2012 posed to all of us. The term 'weird weather' has slipped into public discourse following a rapid transition from drought to flood in March, the wettest April since records began, followed by an exceptionally dull and wet summer. The damage to UK agriculture has been immense. At the same time, the US experienced drought and Australia was damaged by wildfires, while Arctic summer sea-ice extent reached an all-time minimum.

Placing these extremes in the context of natural variability – the natural fluctuations of the global climate – and the backdrop of anthropogenic climate change is critical to the decisions we make about adapting to and mitigating climate change. In 2013, we plan to bring together some of the world's experts on climate variability for a workshop that will assess what we know about the drivers of recent climate extremes, especially the influence of rapid changes in the Arctic. The workshop will identify the new research that needs to be done to deepen our understanding and improve our predictions of these extremes.

We will continue to drive forward our research on decadal timescales, particularly aiming to improve our understanding and modelling of how the global oceans drive longer timescale variability and how they take up heat as the planet warms. There is increasing evidence that the oceans may have played a central role in the recent levelling off of the global mean surface temperatures. Nevertheless, the latest decadal forecast, issued in December 2012, showed that the Earth is expected to maintain the record warmth that has been observed over the last decade, and furthermore that a substantial proportion of the forecasts show that new record global temperatures may be reached in the next five years.

As environmental pressures continue to grow we look forward to an ever-more challenging research agenda and some important developments in the coming year.



Our 24-hour
Weather Desk can
be reached by
phone, fax, email,
and social media



2012/13:
230,000 enquiries
and 8,251 pieces
of feedback

Sustainability overview

Met Office Operations and Services
Director Rob Varley assesses the
year from a sustainability perspective.



1. Do Met Office services have a direct benefit on sustainability?

Through the services we provide on a national and international scale, the Met Office contributes to making the world a more sustainable place. Our work has a direct benefit on people's safety, prosperity and well-being, whether we're helping them to avoid being stuck in the snow; warning them about a potential tree-toppling gale; alerting them to the possibility of flooding; or providing them with climate information to plan for the immediate, medium and long-term future.

We help all of our customers to make the right decisions day in, day out: from helping airlines to save fuel by flying the most cost-effective routes possible to improving the efficient use of natural resources in sectors such as farming, retail and transport; and from building the capacity of developing nations to produce weather forecasts and warnings, to helping Governments, organisations and communities across the world plan for and reduce the impacts of climate change.

2. Where does sustainability sit within Met Office priorities — and why?

Everything the Met Office does promotes sustainability. It is integral to our purpose and our promise, and is underwritten in all that we do and stand for.

Over the last few years the Met Office has built a strong reputation on what we used to term 'corporate responsibility', structured around four key strands: environment, customers and suppliers, people, and community. We were proud to achieve a 'gold' ranking in the Corporate Responsibility Index of Business in the Community in 2011 — a clear demonstration that we've been 'doing the right thing'.

But now our 'sustainability' agenda looks beyond just the 'how' of our business to the 'what': helping Government, businesses, the UK public and the world make more sustainable decisions day by day. This new agenda has already gathered momentum in our organisation and out towards the businesses our services support. It chimes with a new way of thinking that it's all very well recycling your rubbish or having solar panels on your roof but what are you truly contributing to the well-being of society? It's a question responsible businesses everywhere are now asking themselves, including the Met Office, and the answers are critical to ensuring a sustainable future.

3. Is sustainability affordable in the current climate of austerity?

It makes sense, whatever the economic climate. Our sustainability agenda clearly helps us to save money and manage our reputation. Showing that you're sensitive about the wider impact your operations have on the local environment and community also counts, as businesses ultimately thrive or fail not on the state of the economy but on what people think of them. By 'people' I mean customers, of course, but also potential employees and, in the case of the Met Office, our owner, funders and stakeholders too.

However, real sustainability is about more than money or good publicity; it's a state of mind. Combining economic growth with environmental stewardship is challenging. At its heart are legacy and integrity, with 'doing the right thing' a reward in itself. Sustainability should be implicit in everything an organisation stands for and make people feel good to be associated with it — whether as owner, customer, supplier or employee.

4. What were the sustainability highlights of 2012/13?

With the environment central to everything we do, we're committed to acting in an environmentally responsible manner and ensuring that our impacts are identified and managed effectively.

For instance, our supercomputer is integral to the work of the Met Office and we make sure that we get the best out of it by keeping downtime to an absolute minimum — almost every minute of every day it's engaged in vital number-crunching. But there's no getting away from the fact that it needs energy to do so. To address this, we have significantly improved the ratio between performance and power consumption this year, so that our supercomputer's Power Usage Effectiveness (PUE) — an industry standard measure of data centre energy efficiency — averaged well ahead of the values in most other data centres of our type.

To reduce our carbon dioxide (CO₂) emissions, we installed a photovoltaic array — the largest in South West England at the time — to generate electricity specifically for the supercomputer. Despite a poor summer, the total net output of the array (June 2012–March 2013) was 140,000 kilowatt hours (kWh) which means a saving in CO₂ of 73 tonnes. We're well on track to achieve the 212,000 kWh projected for the array and further CO₂ reductions.

5. In what ways does the Met Office measure sustainability success?

In its wider sense, our sustainability success is demonstrated when our customers make sustainable decisions based on our advice. But thinking more specifically about the sustainability of our own operations, our success is tracked

against statutory Government targets that show we're one of the leaders in sustainability in the UK public sector. We're also a leader within our industry. For example, we currently recycle over 80% of our waste — a very high figure made up of all sorts of items: from drink cans and plastic bottles to food waste and cooking oil. Collection bins can be found at our sites and we weigh our waste so we know exactly how much is going to landfill. We also have volunteer Recycling Champions among our staff, and to keep others engaged and motivated introduced a recycling league table at our Exeter site this year.

Biodiversity is also important to us. We're proud to have retained the Wildlife Trusts' prestigious Biodiversity Benchmark Award this year. Only a handful of companies have met this standard, which is very demanding to achieve and maintain; and we're the first public sector body to do so. We have also continued our biodiversity enhancement work at some of our other sites around the country.

6. How does the Met Office engage with the wider community?

Our community engagement is focused primarily through our growing Science, Technology, Engineering and Maths (STEM) outreach work. We now have over 80 STEM Ambassadors at the Met Office, working with schools to promote STEM subjects and careers and advocate the Met Office as a future employer.

These activities are both fulfilling for the Ambassadors and rewarding for the young people they engage with at schools and careers events in Devon and around the country. This year, the Met Office also had a presence at a national Big Bang event where students were able to take part in scientific experiments and meet scientists from organisations keen to inspire the next generation of STEM experts.

Locally, we've maintained our relationship with the REACH Academy (Raising Excellence and Achievement) at Exeter College — a programme for academically gifted students. As part of the programme, this year the Met Office has given a group of high-flying science students the opportunity to work on a real-life science project.

7. What's it like to work at the Met Office?

You'd expect prospective employees to ask this question, but it's also one we ask ourselves through our annual staff survey. Qualities like motivation, inspiration, pride and advocacy in the Met Office have all risen significantly this year. The most positive responses were around 'organisational objectives and purpose' and 'inclusion and fair treatment'.

Our workplace policies provide an environment in which staff can thrive, develop and feel valued. Policies cover the whole spectrum of employment, from joining to leaving. We report on the demographics of our workforce via our website. Employment opportunities are advertised fairly and openly, using a range of media that varies according to the level and specialism of the post. We offer work placements to sandwich-course students as well as holiday employment to A-level students and undergraduates. Our recruitment approach is audited regularly and meets the requirements of the Civil Service Commission.

We also offer our staff opportunities to learn and continually develop through interactive training that can be online or face to face, in-house or via external training providers. Being an Investor in People (IiP) demonstrates to customers, suppliers, prospective employees and our owner that we take our development seriously.

Diversity helps to provide a workforce that is representative of society, so that our work is relevant to the community and customers we serve. The Met Office values ability, difference, openness, fairness and transparency. We do not discriminate on the grounds of race, disability, gender, age, religion or belief, sexual orientation, family status, trades union membership or any other irrelevant factor.

This is demonstrated through our successful participation in the Two Ticks scheme, which recognises our commitment to good practice in employing disabled people with activities such as: providing staff with mandatory short training courses in diversity as part of their induction; convening a Diversity Council with representatives from across the organisation; providing visible leadership and commitment by reviewing, developing and monitoring Diversity Action Plans; and, introducing a Met Office Lesbian, Gay, Bisexual and Transgender (MOLGBT) Network Support Service. Our approach to work/life balance has also been recognised through our 'bronze' IiP award.

At the Met Office, we invest in our people's future, support their growth and inspire them with our innovation, expert scientific knowledge and cutting-edge technology. We're an organisation with a strong sense of purpose and a collective sense of belonging. But you don't have to take our word for it. We're recognised and respected across the globe for our world-leading weather and climate services, our outstanding people and our collaborative approach — internally, externally and internationally.



We're committed to diversity and value the individual contributions that people bring



In 2012 we launched a Diversity Declaration to enable us to collect and benchmark our diversity data year on year

Sustainability summary

Energy

The energy consumed by our headquarters-based supercomputer accounts for most of our energy consumption and associated emissions. We use energy suppliers that have a generation source of 10% renewable and 15% from Good Quality Combined Heat and Power. In 2012/13, we installed Phase 2 of our IBM Power 7 supercomputer. After a period of parallel running and testing, Phase 1 was decommissioned. The increase in electricity consumption and associated carbon emissions this year were primarily due to this period of parallel

running. Emissions have now stabilised and Phase 1, which was chilled by both air and water, has been removed. Phase 2 is running with improved efficiency and is cooled entirely by chilled water passing through the core, thereby enabling a higher operating temperature. We also have the option of switching from mains electricity to our own combined heat and power system. However, this has not been used over the last year due to the high price of gas, leading to a significant reduction in gas consumption.

Greenhouse Gas Emissions (GHG)		FY 08/09	FY 09/10	FY 10/11	FY11/12	FY12/13
Non-financial indicators (tCO ₂ e)	Total gross emissions for scopes 1 & 2 (including white fleet)	14,176	18,907	18,852	19,219	24,307
	Gross emissions scope 3 - business travel (less white fleet)	n/k	1,380	1,180	1,296	1,502
Related energy consumption (MWh)	Electricity: non-renewable	17,692	28,834	24,561	25,074	33,200
	Electricity: renewable	1,966	3,204	2,577	2,668	4,427
	Natural gas:	17,618	5,331	18,799	20,329	4,355
	Gas oil: (diesel)	709	762	1,327	447	309
Financial indicators (£)	Expenditure on energy	2,322,326	2,410,411	2,756,604	2,859,040	3,370,772
	Expenditure on business (administrative), travel	1,876,262	1,939,944	1,839,856	1,960,954	2,157,084
	Expenditure on CRCEES* allowances	–	–	–	–	280,000

* CRCEES – Carbon Reduction Commitment Energy Efficiency Scheme

Waste

We work closely with our suppliers and contractors to ensure they remove all of their waste and packaging from our sites. Contractors are briefed on the waste and recycling policies at our headquarters. Total waste increased this year as we implemented a programme of rationalising old equipment

and stock to improve the use of space in our headquarters building. Refurbishment of the stores area also resulted in more waste. However, as much of this waste as possible was recycled, reducing our waste-to-landfill figures.

Recycling

In 2010/11 we set ourselves a target to recycle 80% of the waste at our headquarters by 2014/15. We achieved this target, recycling 80.99% of waste at our headquarters in 2012/13. We have Recycling Champions who encourage their colleagues to

be more proactive and use the wide range of recycling facilities. Internally communicated recycling league tables for various areas of our headquarters have been significant in boosting our recycling figures.

Waste		FY 08/09	FY 09/10	FY 10/11	FY11/12	FY12/13	
Non-financial indicators (t)	Total waste generated	176.35	212.99	192.90	186.25	204.05	
	Hazardous waste	Total	0.055	0.716	0.343	0.346	1.42
		Landfill	48.82	58.12	49.27	39.30	37.38
	Non-hazardous waste	Recycled	127.53	154.87	143.64	146.95	165.25
		Incinerated / energy recovery	–	–	–	–	–
Financial indicators (£)	Total disposal cost	66,944	68,529	71,700	75,366	78,371	

Finite resources (water)

Water consumption at our headquarters is dominated by the requirement of our supercomputer. This increased during the past year with the installation of Phase 2.

We are concerned to reduce mains water usage wherever possible, and will be working over the coming year to maximise use of both rainwater run-off and our on-site borehole.

Water			FY 08/09	FY 09/10	FY 10/11	FY11/12	FY12/13
Non-financial indicators (m ³)	Water consumption	Imported (potable)	31,598	28,485	24,682	42,549	48,530
		Abstracted (borehole)	2,012	23,431	23,068	13,626	9,179
		Grey water (harvested rainwater)	6,638	6,880	11,729	3,625	7,140
Financial indicators (£)	Water supply costs		117,479	104,921	115,972	77,210	95,985

Travel

Our travel policy encourages staff to question whether their planned travel is essential. If the trip is necessary then staff are encouraged to use the most

sustainable form of transport. We calculate the emissions from all of our business journeys and are continually looking at ways to minimise these.

Sustainable procurement

Our sustainability targets for the last year focused on our catering, cleaning and grounds maintenance suppliers so we comply with Government Buying Standards which include sustainable procurement specifications. The output

was positive as 81% of the suppliers checked comply with both mandatory and best practice standards where applicable. We continue to work with suppliers who fall short of these requirements.

Biodiversity action planning

We are proud to have retained the Wildlife Trusts' Biodiversity Benchmark Award for our headquarters site. New developments include cutting an area of meadow once every two years to benefit overwintering butterfly species, thinning woodland areas to give understorey plants a chance to flourish, and developing log piles to provide homes for invertebrates. Our staff-led

Biodiversity Working Group continues to work closely with colleagues in our Property Management team to protect and enhance biodiversity on our headquarters site. Work is also progressing at our observations site in Camborne, Cornwall, at our engineering services site in Watnall, Nottinghamshire and at our radar site in Cobacombe in mid-Devon.

Looking ahead

For the coming year, we will focus on three key areas of sustainability: maintaining the Power Usage Effectiveness (PUE) of our supercomputer

— we achieved a PUE of 1.37 this year; maintaining our excellent recycling rates; and reducing the mains water consumption at our headquarters site.



We work hard to reduce, reuse and recycle



We recycle over 80% of our waste

Management commentary on business performance

To encourage employee engagement in driving the performance of the Met Office, our Business Performance Measures (BPMs) are linked to corporate performance-related pay from which all employees can benefit. Progress against these measures is communicated to all staff through monthly briefings and appropriate action plans are formed where additional action is required to improve performance.

Collective efforts of individuals and teams have ensured that the Met Office has had a very successful year in terms of business performance, achieving 43 of the 47 sub-measures and targets that make up our overall targets. We measure our performance in a variety of ways and each Business Performance Measure is detailed in the table opposite.

By achieving all our forecast accuracy measures we have demonstrated that our world-class science continually improves our scientific models and that this scientific excellence is pulled through directly into services. In turn, by providing reliable and accurate forecasts, we enable the public and our commercial customers to act on our advice and achieve their goals.

Exceeding our customer expectations in terms of service delivery is critical to our success. As such, we have a range of measures around delivering our services and outputs to the standard required, all of which were met in 2012/13. Furthermore, we measure how our customers perceive our services and value our forecasts and warnings. In our annual survey, 91% of the public described our forecasts as 'very' or 'fairly useful', reflecting the value and benefit of our forecasts to individuals and organisations.

We need to ensure that our core forecasts and warnings are reaching a wide audience and that we raise awareness and build trust. We measure our success in this area against targets on growing our digital reach. We have had a particularly impressive year with our social media presence; growing the number of subscribers across a whole range of channels by 114%.

Stretching financial targets were set by the Met Office Board to drive us towards growth in a very difficult economic environment. We achieved both our total revenue and profit targets of £206 million and £12 million respectively, but missed the more demanding profit stretch target of £13.2 million. Our Increasing Profitable Revenue (IPR) targets relate to our competed business. Although we missed the IPR Revenue target, the Profit target was achieved. Both results were an improvement on 2011/12. Further details are included in the Financial Review on page 20.

The Met Office is recognised for sustainability excellence and we are committed to delivering our objectives in a sustainable way, by continuing to set challenging targets. While we narrowly missed our overall sustainability target, we celebrate achieving an extremely high recycling rate of over 80%. In addition, we are proud of our commitment to inspiring employees of the future, offering 41 work experience placements while our Science, Technology, Engineering and Maths (STEM) Ambassadors accumulated a total of 78 reportable attendances at STEM events around the country.

BPM	Measures	Met	Improvement on 11/12		
Forecast accuracy	Model output — achieve an increase in the Global Numerical Weather Prediction (NWP) Index of +0.45 to 100.45	✓	✓		
	Model output — achieve an increase in the UK Numerical Weather Prediction (NWP) Index of +0.25 to 120.45	✓	✓		
	Public forecast targets — achieve nine out of thirteen of the Public Weather forecast accuracy targets focusing on accuracy in the one- to three-day period.	✓	✓		
	Customer targets — achieve two out of three customer specific forecast accuracy targets, including Root Mean Square error, mean absolute error and Service Quality Index scores.	✓	N/A		
Customers	To deliver a positive customer experience and achieve a high-level of perceived value and accuracy of our forecasts as measured through seven sub-measures, five of which are based on customer surveys. All sub-measures were achieved. <ul style="list-style-type: none"> Continue to improve both our Recommendation, Net Promoter Score, and Value for Money Scores in our Customer Attitude Survey, compared to the 2011 survey Value of warnings: Maintain a combined score for “Fairly Useful” and “Very Useful” ≥84% Value of forecasts: Maintain a combined score of “Fairly Useful” and “Very Useful” ≥80% Perception of accuracy: Maintain a combined score of “Fairly Accurate” and “Very Accurate” ≥75% Annual average of complaints answered within 28 days ≥95% Annual average of all calls to be answered within 20 seconds ≥85% 	✓	✓		
Service delivery	Deliver the outputs and performance indicators as defined by our customers in-service agreements for four customers: <ul style="list-style-type: none"> Public Weather Service (PWS), Civil Aviation Authority (CAA) Defence HCCP Further deliver a range of products for our commercial and government customers by the target time (on time) and as described (in full). Targets are 96% and 98% respectively and both were achieved.	✓	N/A		
Reach	Achieve all three of the following targets around increasing our reach and maintaining market share compared to other weather websites: <ul style="list-style-type: none"> 1% increase in website traffic Maintain a rolling 12-month average market share of 18% Increase our social media subscribers by 75% 	✓	✓		
Additional growth targets	Revenue of £206m	✓	✓		
	Achieve total Met Office revenue and profit targets	Profit of £12m		✓	
	Profit of £13.2m	X			
Increasing profitable revenue	Achieve a business revenue target of £29.5m	X	✓		
	Achieve a business profitability target of £5.0m	✓	✓		
Return on Capital Employed	Meet HM Treasury requirements by achieving a Return on Capital Employed (ROCE) of 4.9%. (In-year target to support five-year target)	✓	N/A		
Sustainability	Achieve three out of four environment sub-measures and all three people and community targets:	Achieve a value of 1.37 for Power Usage Effectiveness of our supercomputer.	✓	X	✓
		Limit our office and travel CO ₂ emissions to 1% increase	X		
		Increase recycling to 80%	✓		
		Reduce total waste by 5%	X		
		Fulfil a minimum of 30 requests for school visits and talks	✓		
		STEM Ambassadors to attend 40 STEM events.	✓		
		Offer 30 work experience placements	✓		

Accuracy

Forecast accuracy

Everything we do is underpinned by our world-class science and infrastructure; and, as such, the accuracy of forecasts is a key measure of success for any national weather service and forms an essential part of the services we provide. We are delighted that in a challenging year with a significant number of extreme weather events – reflected by the 910 warnings issued – we delivered all our forecast accuracy measures, including stretch targets.

We use a range of established verification measures to consider the accuracy of our forecasts, in terms of our scientific models as well as customer-led targets. These targets are set by the Met Office Board and our customers and are regularly reviewed to ensure they remain stretching and demonstrate continual improvement. The table opposite shows each of the measures that make the Forecast Accuracy BPM.

Scientific models

We assess the performance of our Global and UK forecasting models using the internationally recognised method of Root Mean Error, as recommended by the World Meteorological Organization. This enables us to demonstrate continual improvement in the performance of our scientific models and means that we can compare ourselves against other national weather services, where we are consistently ranked in the top two operational meteorological services in the world. More detail on our targets and how they are calculated can be found at:

www.metoffice.gov.uk/research/weather/numerical-modelling/verification/how-accurate.

Customers

We demonstrate how our scientific excellence is pulled through directly into services by working with a range of customers to set targets for forecast accuracy, which are then documented in customer service level agreements. A notable achievement is in the improvement targets set by the Public Weather Service Group, where we have not only delivered in-year but also delivered our longer five-year targets for all 13 parameters a year early. To view the performance of our Public Weather Forecasts over time please see

www.metoffice.gov.uk/about-us/who/accuracy/forecasts.

BPM	Measure	Met	Improvement 2011/12
Model output	Achieve an increase in the Global Numerical Weather Prediction (NWP) Index of +0.45 to 100.45, with a stretch target of +0.9 to 100.9.	✓	✓
	Achieve an increase in the UK Numerical Weather Prediction (NWP) Index of +0.25 to 100.45, with a stretch target of +0.5 to 120.7.	✓	✓
Public Weather Service	Day 1: Maximum temperature is accurate within ± 2 °C	✓	✓
	Day 2: Maximum temperature is accurate within ± 2 °C	✓	
	Day 1: Minimum temperature is accurate within ± 2 °C	✓	
	Day 2: Minimum temperature is accurate within ± 2 °C	✓	
	Day 3: Maximum temperature is accurate within ± 2 °C	✓	
	Day 3: Minimum temperature is accurate within ± 2 °C	✓	
	Day 1: Wind speed is accurate within ± 5 knots	✓	
	Day 2: Wind speed is accurate within ± 5 knots	✓	
	Day 1: Wind direction is accurate within $\pm 45^\circ$	✓	
	Day 2: Wind direction is accurate within $\pm 45^\circ$	✓	
	Day 1: Three hourly temperature is accurate within ± 2 °C	✓	
	Day 1: Three hourly weather type for rain hit rate	✓	
Day 1: Three hourly weather type for sun hit rate	✓		
Civil Aviation Authority	The accuracy of our upper air wind forecasts is assessed using the Root Mean Square verification score for 250 hPa winds.		✓
Defence	Terminal Airfield Forecasts (TAFS) verification is produced for 29 defence sites in both the UK and overseas. The score used is the Service Quality Index which measures the reliability of the visibility and cloud-base elements of a TAF crossing a critical threshold.		✓
Utilities	The accuracy of our utilities forecasts is assessed by verifying the performance of 1–5 day temperature forecasts across 21 sites using the mean absolute error method to compile a simple index value for temperature.		✓

Financial review



Met Office Chief Financial Officer, Nick Jobling reviews this year's financial performance and policies

Despite ongoing challenging economic conditions, the Met Office continues to deliver growth in terms of both revenue and profit. Revenue has risen by 4.4% to a record £204.9 million (2011/12, £196.2 million), and operating profit has grown by 35% to £12.3 million (2011/12, £9.1 million).

	2012/13	2011/12	Variance to 2011/12
	£m	£m	£m
Revenue	204.9	196.2	8.7
Operating costs	192.6	187.1	5.5
Operating profit	12.3	9.1	3.2
Dividends	7.6	7.7	(0.1)
Total non-current assets	198.6	201.1	(2.5)
Net assets at 31 March	223.0	211.8	11.2

Operating costs increased from £187.0 million in 2011/12 to £192.6 million in 2012/13. Contributing to this variance are an increase of £5.8 million in relation to charges for access to Radio Spectrum in 2012/13 and £2.4 million in increased supercomputer running costs, offset by the one-off Voluntary Redundancy Scheme cost of £4.1 million in 2011/12.

The financial Business Performance Measures (BPMs) were set at demanding levels by the Met Office Board, and in a very difficult economic environment. However, the majority of targets have been met, showing significant improvement on prior years across all measures.

A Return on Capital Employed (ROCE) of 5.6% 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 2013, the Met Office has achieved an average ROCE of 4.4% over the first four years of this period.

	2012/13	2011/12	Variance to 2011/12
	£m	£m	£m
BPM 2 – Increasing profitable revenue			
• Revenue target £29.5m	27.6	26.5	1.1
• Profit target £5.0m	5.1	3.9	1.2
BPM 6 – ROCE			
Target 4.9% in-year	5.6%	4.4%	1.2%
Additional growth targets			
• Revenue target £206m	207.1	196.2	10.9
Less: grants credited to cost of sales	(2.2)	0.0	(2.2)
Revenue per Statement of Comprehensive Income*	204.9	196.2	8.7
• Operating profit target £12.0m	12.3	9.1	3.2

* Grant funding for development can be included in the revenue target. This funding cannot be treated as revenue in the Statement of Comprehensive Income and is credited to cost of sales.

See BPM section (pages 16–19) for further details.

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 sectors. These services allow our customers to make informed decisions that benefit their businesses, 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 that 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 customers.

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 the 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 the 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 benefits.

Revenue

Revenue (see note 3 to the Accounts) has increased by 4.4% to £204.9 million (2011/12, £196.2 million).

Government revenue comprises three main revenue streams: Defence, Government Services, and the Public Weather Service (PWS). Total government revenue has increased by £8.5 million to £171.7 million. Increases in revenue reflecting agreed additional programmes of work in the PWS, the Met Office Hadley Centre Climate Programme (HCCP) and RIMNET (Radiation Monitoring Network and Emergency Response System) have offset other challenges, including a drop in Defence operational revenue following continued agreed efficiencies in service delivery to the customer.

Commercial revenue has seen continued strong growth in 2012/13 in key growth sectors, partly offset by reductions in regulated aviation. Revenue in growth sectors increased by 6% (£1.4 million) compared to 2011/12, with particularly strong growth in Commercial Aviation, Utilities, Road and Rail and Secondary Markets. The decrease in Regulated Aviation of £1.1 million compared to 2011/12 is primarily due to the completion in 2011/12 of one-off volcanic ash work.

Operating profit

The growth in operating profit – from £9.1 million in 2011/12 to £12.3 million in 2012/13 – is evidence of our commitment and drive to deliver and develop our services on an efficient basis in the current challenging economic environment. Key efficiencies delivered in year include:

- continued changes to Defence forecaster support to match Ministry of Defence (MoD) spending reductions driven by the Strategic Defence and Security Review (SDSR);
- implementation of the Voluntary Redundancy Scheme, approved in March 2012, which resulted in 86 staff leaving the organisation and allowed investment in new skills to meet current and future business requirements and drive future growth;
- headcount reductions to meet reductions in the HCCP revenue.

Revenue from trading activities



Total salary costs are £1.0 million higher than 2011/12, driven by an increase in headcount — underlying salary levels have remained static as a result of Civil Service pay constraints. There were £3.3 million of exit costs recognised in 2012/13, associated with an organisation-wide Voluntary Redundancy Scheme. The majority of individuals accepted onto the scheme have now left.

Dividends

Total dividends payable to our Owner, the Department for Business, Innovation and Skills, were £7.6 million in respect of 2012/13 (2011/12, £7.7 million).

Capital expenditure

	2012/13	2011/12
	£m	£m
Satellites	13.1	13.9
Technology and Information Services *	5.4	24.9
Observing	1.2	1.2
Property	2.7	1.1
Other	0.5	0.6
Total capital expenditure	22.9	41.7

* including supercomputing expenditure

Key capital investments include:

- **Supercomputer:** The implementation and acceptance of the final phase occurred in-year, giving us world-leading technology. A new version of the operational suite has been developed and tested, demonstrating very high resolution model output and UK ensemble forecasts during the Olympic Games. 4 km modelling covering all of Europe is now in use. Significant increases in resolution of both Global Ensemble Models and Global Deterministic Models are forthcoming. The next generation of the Seasonal Forecasting System (GloSea5) has also been introduced.
- **Satellites:** This represents contributions to the EUMETSAT Meteosat Second Generation programme (£5.9 million), which provides the current operational service, and the EUMETSAT Meteosat Third Generation Programme (£7.2 million), which will provide continuity of geostationary observations until around 2040.

Cash flows and liquidity

Cash balances totalled £38.9 million as at 31 March 2013, an increase of £0.6 million compared to 31 March 2012 (£38.3 million). Of this balance, £3.5 million comprised cash in transit at the year-end (2011/12, £0.6 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 just under two months of cash outlay.

Net cash inflows from operating activities decreased to £29.2 million (2011/12, £36.0 million). This has largely been driven by the movement in trade and other receivables caused by a change in the timing of the receipt of the monthly PWS invoice (£7.0 million outstanding at 31 March 2013, compared to zero at 31 March 2012).

Net cash outflows from non-operational activities have decreased by £6.9 million, primarily as a result of a significant supercomputer outflow in 2011/12 that was not repeated in this year.

Supplier payment performance

During 2012/13, the Met Office continued to work to the Government's prompt payment target of paying at least 80% of valid invoices from UK suppliers within five working days. Averaged over the 2012/13 financial year, 79.1% of invoices were processed through to payment within five working days, compared with 81.7% over the whole of 2011/12. Non-UK suppliers are paid within contracted payment terms or, where there are no specifically agreed terms, within 30 days of the later 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 contributions to satellite programmes are paid in foreign currency. To manage the foreign exchange risk, the Met Office has a policy of buying 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 Met Office's sponsor department, the Department for Business, Innovation and Skills. Therefore, exposure to liquidity risk is limited to these arrangements. There were no loans outstanding at 31 March 2013. Loan funding requirements are anticipated to

increase over forthcoming years to finance the UK's contribution to the EUMETSAT satellite programme and additional supercomputing investment, in line with our current corporate plan.

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

Staff absence data

In 2012/13, the Average Working Days lost per person was 5.8 days (2011/12, 5.5 days). The minor increase compared to 2011/12 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 7.6 days lost per person per annum.

Cost allocation

The Met Office has complied with the cost allocation and charging requirements set out in HM Treasury and Office of Public Sector Information guidance.

Disclosure of information to auditors

In accordance with section 418 of the Companies Act 2006, in so far as the directors are aware:

- there is no relevant audit information of which the entity's auditors are unaware;
- the Directors have taken all the steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the entity's auditors are aware of that information.



Mr J Hirst,
Chief Executive
17 June 2013

Governance

Remuneration report

Remuneration policy

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. Slings 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 opposite, 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 Department for Business, Innovation and Skills (BIS), the Cabinet Office and HM Treasury and to gain ministerial approval from BIS 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/reward-principles

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; consideration of distributions to employees under the Met Office Corporate Performance 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 either be included in the Met Office personal performance related pay scheme, the wider BIS SCS performance related pay scheme or subject to a performance award under their service contract. The Committee then reviews and approves the recommendations for employees in these three circumstances, consulting with the BIS remuneration panel as appropriate.

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:

Remuneration

(This information is subject to audit)

	Note	2012/13				2011/12			
		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	1	145–150	10–15	20–25	185–190	150–155	15–20	40–45	210–215
N Jobling Chief Financial Officer		95–100		0–5	95–100	95–100		0–5	95–100
J Slings Chief Scientist	2	140–145	0–5	25–30	165–170	135–140	5–10	25–30	165–170
R Varley Operations & Services Director	3	80–85	0–5	0–5	85–90	75–80		0–5	75–80

No Director received any benefits in kind in either 2012/13 or 2011/12.

	2012/13	2011/12
Band of highest-paid Director's total remuneration (£'000)	185–190	210–215
Median total remuneration (£)	31,656	34,697
Ratio	5.9	6.1

Notes:

1. Salary reduction in April 2012
2. Working full-time from July 2011
3. Role review in April 2012

Salary

'Salary' includes gross salary; overtime; non-consolidated pay; 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. Variances in the amounts paid are due to the timing of claims processed through payroll, the amount of travel between home and Exeter and not a change in the rate of allowances payable.

Performance related pay

Performance related payments are based on performance levels attained and are made as part of the appraisal process. Payments are non-consolidated and non-pensionable and represent part of Executive remuneration, which is at risk and needs to be re-earned each year. They relate to the performance attained in the current year, therefore the amounts shown overleaf for performance related pay in 2012/13 are based on 2012/13 performance and accrued within the 2012/13 accounts. The performance related pay for 2011/12 is based on performance for 2011/12, which were accrued into the 2011/12 accounts and paid during 2012/13.

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.

Pay multiples

Reporting bodies are required to disclose the relationship between the remuneration of the highest-paid Director in their organisation and the median remuneration of the organisation's workforce.

The banded remuneration of the highest-paid Director in the Met Office in the financial year 2012/13 was £185,000 to £190,000 (2011/12, £210,000 to £215,000). This was 5.9 times (2011/12, 6.1 times) the median remuneration of the workforce, which was £31,656 (2011/12, £34,697).

In 2012/13, no employees (2011/12, nil) received remuneration in excess of the highest-paid Director.

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

Consultancy and contingent labour

The expenditure incurred on consultancy in 2012/13 was £20,389 (2011/12, £73,802). The expenditure incurred on contingent labour in 2012/13 was £4,392,578 (2011/12, £4,880,578).

Pension benefits

(This information is subject to audit)

	Accrued pension at pension age as at 31/03/13 and related lump sum	Real increase in pension and related lump sum at pension age	CETV at 31/03/13	CETV at 31/03/12	Real increase in CETV
	£'000	£'000	£'000	£'000	£'000
J Hirst	30–35	2.5–5	463	373	53
N Jobling	10–15	0–2.5	202	165	23
J Slingo	45–50	2.5–5	805	676	64
R Varley	30–35 plus lump sum of 95–100	2.5–5 plus 10–12.5 lump sum	560	474	56

The actuarial factors used to calculate Cash Equivalent Transfer Values (CETVs) for Nuvos members were changed in 2012/13. The CETVs as at 31/03/12 and 31/03/13 have both been calculated using new factors, for consistency. The CETV at 31/03/12 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 are increased annually in line with Pensions Increase legislation. 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 between 1.5% and 3.9% of pensionable earnings for Classic and between 3.5% and 5.9% for Premium, Classic Plus and Nuvos. Increases to employee contributions will apply from 1 April 2013. Benefits in Classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years initial pension is payable on retirement. For Premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike Classic, there is no automatic lump sum. Classic Plus is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per Classic and benefits for service from October 2002 worked out as in Premium. In Nuvos, a member builds up a pension based on 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 Pensions Increase legislation. 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 from a panel of three providers. The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary 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 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 in accordance with the Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax, which may be due when pension benefits are taken.

Real increase in CETV

This 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:

	2012/13	2011/12
	£'000	£'000
G Clarke (from 1 September 2012)	20–25 (35–40 full year equivalent)	–
R Napier (until 30 September 2012)	20–25 (35–40 full year equivalent)	35–40
B Hoskins	15–20	15–20
P Rew	15–20	15–20
M Goodfellow	15–20	15–20
P Shortt (until 31 May 2012)	–	–
D Curley (from 1 June 2012)	–	–

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



Mr J Hirst,
Chief Executive
17 June 2013

Statement of the Met Office and Chief Executive's responsibilities

Under section 4(6)a of the Government Trading Funds Act 1973, HM Treasury has directed the Met Office to prepare a statement of Accounts for the 2012/13 financial year in the form and on the basis set out in the Accounts Direction issued on 17 December 2012. 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 2013 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 keeping of proper records and for safeguarding the Met Office's assets, are set out in Managing Public Money published by HM Treasury.

Governance statement

Scope of responsibility

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

The purpose of the governance statement

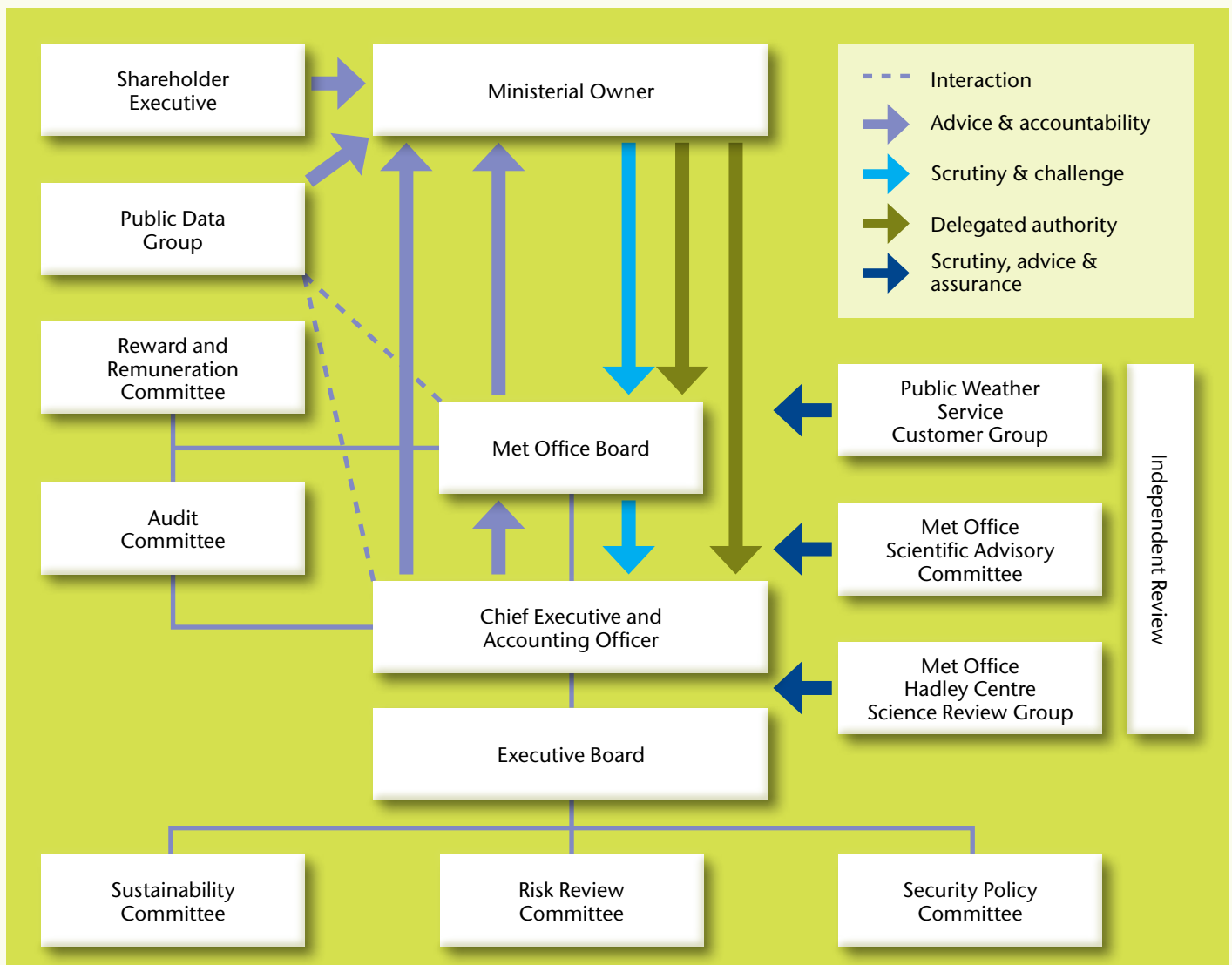
The governance statement, for which I, as Accounting Officer take personal responsibility, gives a clear understanding of the dynamics of the Met Office and its control structures. These

control structures provide an adequate insight into the business of the Met Office and its use of resources to allow me to make informed decisions about progress against business plans and if necessary steer performance back on track. In doing this I am supported by a Governance framework which includes the Board, its Committees and senior management.

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

The organisation's governance framework/structure

Met Office governance structure



Review of governance structure

In September 2012, the Minister of State for Business and Enterprise became the Ministerial Owner of the Met Office within the Department for Business, Innovation and Skills (BIS), taking over responsibility for this role from the Minister for Employment Relations, Consumer and Postal Affairs.

Greg Clarke was appointed as Chairman of the Met Office Board in September 2012, taking over from Robert Napier who retired from the role after serving two full terms. In February 2013, the process began to recruit four new Non-Executives to the Board to replace Mike Goodfellow and Professor Sir Brian Hoskins, who have both reached their maximum tenure, and to fill existing vacancies.

Professor Huw Davies was appointed as Chairman of the Met Office Scientific Advisory Committee in March 2013, replacing Professor Sir Brian Hoskins who retired from this role.

The Met Office Framework Document was refreshed and is available online at www.metoffice.gov.uk.

Role of the Met Office Board

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

Met Office Board composition

The Chairman is responsible for leading the Board and ensuring that it is effective in discharging its role. He is supported by additional Non-Executives, chosen to ensure an appropriate mix of skills and experience. The Met Office Board has two committees — the Audit Committee and the Reward and Remuneration Committee — each chaired by a Non-Executive Board Member.

Chief Executive and Accounting Officer

As Chief Executive, I am responsible for the day to day leadership and management of the Met Office. I am accountable to Ministerial Owner and the Met Office Board (acting, where appropriate, on the Ministerial Owner's behalf) for the performance of the Met Office in accordance with the Met Office Framework Document and Corporate Plan. The Executive Board, which I chair, is responsible for supporting me in implementing the strategy set out by the Met Office Board. The Executive Board has three sub-committees: the Risk Review Committee, the Sustainability Committee, and the Security Policy Committee. I am also accounting officer (AO) for the Met Office, personally responsible and accountable to Parliament for the organisation and quality of management in the Met Office, including its use of public money and the stewardship of its assets.

Shareholder Executive

The Shareholder Executive (ShEx) advises BIS ministers on the management of the Government's interest in the Met Office, and shareholding of the Met Office Trading Fund, and a ShEx representative attends meetings of the Met Office Board.

Public Data Group

The Met Office is a member of the Public Data Group (PDG). The purpose of the PDG is to build on capabilities and existing best practice. The PDG will seek to support growth in the UK economy by delivering efficiencies and improvements in public services through its members. These objectives are additional and incremental to those with which the PDG members are already individually charged. The PDG provides collective advice to the responsible BIS minister through its Board. Both the Met Office Chairman and I are members of the PDG Board.

Additional review bodies

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

Public Weather Service Customer Group (PWSCG) — oversees the Public Weather Service from a customer point of view, ensuring the quality, suitability and value for money of the service provided. The PWSCG is chaired by Nick Baldwin and comprises independent members and representatives from government departments, agencies, emergency responders, local authorities, the Scottish Government and Welsh Assembly Government. The PWSCG Annual Report is publicly available through the Met Office website.

Met Office Scientific Advisory Committee — 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 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 and Department for Environment, Food and Rural Affairs, of the climate research carried out by the Met Office Hadley Centre. The SRG is chaired by Professor John Pyle and membership of the group includes leading UK and international scientists.

Membership and attendance at Met Office Board and Committee meetings

Board and committee composition and attendance	Committee memberships	Board Meetings	Audit Committee	Reward and Remuneration Committee
Total number of meetings		10	4	2
Executive Directors				
John Hirst, Chief Executive		10/10	1/1 ¹	2/2 ¹
Nick Jobling, Chief Financial Officer		9/10	4/4 ¹	–
Julia Slingo, Chief Scientist		7/10	–	–
Rob Varley, Operations and Services Director		9/10	–	–
Non-executive Directors				
Greg Clarke ² , Met Office Chairman, Chair Reward and Recognition Committee	Reward	6/6	–	–
Robert Napier ³ , Met Office Chairman, Chair Reward and Recognition Committee	Reward	5/5	–	2/2
Paul Rew, Chair Audit Committee	Reward, Audit	10/10	4/4	2/2
Dr Mike Goodfellow, Non-Executive Director	Reward, Audit	8/10	3/4	2/2
Prof Sir Brian Hoskins, Non-Executive Director	Reward	9/10	–	2/2
David Curley ⁴ , Non-Executive Director Shareholder Executive representative	Reward, Audit	7/8	1/3	1/1
Peter Shortt ⁵ , Non-Executive Director, Shareholder Executive representative	Reward, Audit	2/2	1/1	1/1
Phillipa Childs, Prospect national negotiator	Reward, Audit	3/10 ¹	–	–

1 Invited attendees

2 Joined the Board in September 2012

3 Left the Board in September 2012

4 Joined the Board in June 2012

5 Left the Board in May 2012

Met Office Board activities in 2012/13

During 2012/13 the Met Office Board met ten times. A summary of each Met Office Board meeting is published on the Met Office website. Some of the themes discussed at Board meetings during 2012/13 were: the Met Office Corporate Plan, development of commercial activities, partnerships, the PDG, Climate Services, next generation high performance computing, and new satellite observation programmes.

Evaluation of Board performance

Following proposals by the Chairman, some changes were made to the way the Board operates to put greater focus on major strategic, science and commercial issues facing the Met Office. These priorities are being reflected in the recruitment of new Non-Executives to the Board.

In addition, the performance of the Met Office Board's committees was evaluated, together with the performance of the Executive Board and its committees, by means of detailed questionnaires. The 2012/13 review highlighted no serious issues and the Board endorsed the implementation of recommendations for improvements over the next year.

Conflicts of interest

The Met Office maintains a public Register of Interests that details company directorships and other significant interests held by Board members which may conflict with their responsibilities. The Register is reviewed at least on an annual basis. The Board has not identified any actual conflicts of interest during 2012/13. The Register is available to view by applying in writing to my Private Secretary at the Met Office, FitzRoy Road, Exeter, EX1 3PB.

Protecting personal data

During 2012/13, no protecting personal data related incidents were reported to the Information Commissioner's Office, nor were any such incidents centrally recorded but not formally reported. In addition, all Met Office staff were required to refresh their protecting information training during the year.

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.

Statement of compliance

Where applicable, the Met Office has complied during 2012/13 with the provisions of *Corporate Governance in Central Government Departments: Code of Good Practice 2011*.

The risk and internal control framework

Risk management strategy and how the risk profile is managed

The Met Office Corporate Plan describes the direction of the organisation and highlights key corporate objectives. Each business unit derives its objectives from the Plan, these are cascaded to form individual objectives. Performance is represented on the Corporate Dashboard and covers all programmes, corporate objectives and Business Performance Measures (BPMs). Executive Heads and Heads play a vital role in the identification, mitigation and, if necessary, escalation of risks as appropriate across all programmes.

The Met Office Board provides an external perspective to all risks. The Board reviews the most serious risks threatening strategic objectives on a six monthly basis.

The Executive Board acts as the risk champion driving risk from the top down and ensures all major decisions are subject to risk assessment. The Executive team identifies and manages risk in accordance with the risk appetite. Individual Executive members review programme risk within their Directorate at least quarterly.

The Audit Committee provides assurance that the risk management practices are effective and ensures that management's reports to the Board are balanced and objective. The Audit Committee reviews Corporate Risks quarterly.

The Risk Review Committee (RRC) reviews actions on all corporate and significant business risks and is ideally placed to provide top-level corporate-wide risk horizon-scanning. The RRC meets quarterly. As the main champions of risk management within the Met Office, the RRC plays a key role in risk identification. Risk Identification is built into the corporate planning process.

The Risk Manager works with Executive team and business units to ensure controls are adequate, realistic and offer good value for money.

Risk appetite is defined as the level of risk the organisation is willing to face to achieve its objectives, whilst continuing to provide the required level of assurance to stakeholders that their assets are safeguarded. In essence, risks that are within the risk appetite are currently under control, and need only be monitored regularly, whilst those that are outside the risk appetite are in need of further attention.

The organisation's risk appetite is directly aligned to the corporate objectives outlined in the Corporate Plan, and is framed against the categories of Legal/Regulatory, Financial, Operational Delivery and Compliance/Reputation. It is reviewed regularly as part of the planning process.

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 to members of the Executive Board, Heads, Executive Heads 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 acts as the focal point for procurement expertise within the Met Office. Good procurement is a pre-requisite for the organisation, making sure we get the services we need; from suppliers we can trust at a price we can demonstrate to be competitive.
- A robust system of budgetary control is in place with budget managers fully involved in the budget setting and rolling forecast processes. Budgets are set in a controlled manner, based on realistic and informed assumptions. Budgetary variations are analysed, investigated, explained and acted upon. Budgetary control is supported by a planning, budgeting and forecasting system which is used to collect and process data for financial forecasts, budgets and plans.

- The Met Office’s accounting system 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.
- Independent assurance that management controls are working as intended is also provided through an annual internal audit programme of assurance work.

Fraud — A dedicated Fraud Focal Point coordinates action on fraud-related matters. We treat the risk of fraud extremely seriously and operate a policy of ‘zero tolerance’. We expect and require all our employees to observe the highest standards of personal honesty and integrity and to ensure that all our business is carried out in a manner that conforms to those same standards. In addition to a Counter Fraud Policy we also have an Anti-Bribery Policy, guided by the Bribery Act 2010. This policy, published on our website, declares our public position on bribery and we expect all staff, contracted parties and partner organisations to conform to it. Internal guidance has been published to help staff implement the policy, supplemented with periodic training opportunities. All employees are required to register their commitment to our key policies on an annual basis. These employee commitments include upholding the Counter Fraud, Anti-Bribery and Whistleblowing policies.

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 are in place and up to date.

Risk management is embedded into the Met Office

Risk management information is used:

- to help inform the annual planning process, especially at programme and corporate objective level;
- consistently at all levels in the organisation i.e. corporate, programme and project with escalation procedures clearly established;
- help inform key business decision-making processes such as Corporate Investment Appraisal’s (CIA).

Summary of risks and uncertainties currently being managed

Overall 2012/13 has been a year which can be summarised as a refresh and review of the risk landscape and ongoing risk reduction.

The current risk portfolio can be summarised as follows:

- recognise and mitigate the possible threat posed by cyber attacks and denial of service threats;
- need to protect the long-term global availability of Earth observation infrastructure;
- the management of staff morale, retention and recruitment risks and their impact on operational service delivery; and
- need to improve international climate and weather opportunities to be recognised as the best weather and climate service in the world.

Looking out to 2018, a refresh of our Corporate Plan and an alignment of our corporate objectives has identified new risks primarily concerned with funding and public data changes.

The overall number of risks being escalated for management on the Corporate Risk Register remained fairly constant through the year; with, on average, 16 risks at any one time.

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

The Audit Committee sat four times during 2012/13 and was the primary reporting point for the Internal Audit team. Results of the team's work, including assurance ratings for individual audits and summaries on the progress of the implementation of agreed actions were reported to the Committee on a monthly basis, as well as at each Committee meeting. The Committee reported to the Met Office Board after each meeting.

The nature and status of key corporate risks is reported routinely to the Audit Committee, along with details of mitigating actions being taken. The Committee challenges management where necessary to gain the assurance it needs over the robustness of these actions. The Committee arranges for a management representative to attend its meetings to explain how corporate risks of particular concern are being reduced to an acceptable level. For 2012/13 this was the case for business

continuity and disaster recovery where, as a follow-on from the 2011/12 internal audit in this area, Audit Committee had regular feedback from the Operations and Services Director on the progress of mitigating activities.

The Audit Committee annually gives an opinion on the effectiveness of the internal and external audit functions, and has expressed the view that these functions continue to operate effectively for 2012/13 in the provision of assurance on Met Office standards of governance, risk management and control.

The Risk Review Committee also sat quarterly during 2012/13. It supported and challenged the Met Office Executive in identifying risks and opportunities, highlighting where risks are being ineffectively managed and addressing these areas with management. It also facilitated a top-level corporate-wide risk horizon-scanning exercise.

Internal Audit's opinion on the quality of the systems of governance, management and risk assessment and control

The Head of Internal Audit has concluded that Moderate Assurance can be provided over the adequacy and effectiveness of the Met Office's system of internal control. This is the same overall level given for 2011/12 but represents an increase within that level. This reflects an increase in the stability and relative robustness of the governance, risk and control frameworks across the Met Office. Internal Audit work did not identify any systemic control weaknesses impacting the underlying system of internal control.

Review of effectiveness

As Accounting Officer/Executive Officer, I have responsibility for conducting an annual review of the effectiveness of the system of the organisation's governance, risk management and internal control. This review is informed by the work of Executive Managers and Internal Auditors within the organisation who have responsibility for the development and maintenance of the governance structures, internal control framework, and comments made by the external auditors in their management letter and other reports. The Governance Statement represents the end product of the review of the effectiveness of the governance framework, risk management and internal control.

The mechanisms and processes maintained in reviewing the effectiveness of the system of governance, risk management and internal control and to collect the relevant data for the Governance Statement

Internal Audit assessed the systems of governance, risk and control via a planned programme of assurance-generating work over the course of the year. A structured process identified the activities to be audited, with corporate risk a key consideration in determining the actual audits to be undertaken. This work also included a review of how risk management operates, with this year's work yielding a rating of moderate assurance on its effectiveness.

The effectiveness of the Internal Audit function has also been internally assessed during the year and reported to Audit Committee. An independent view in compliance with HM Treasury's Internal Audit Quality Assessment Framework, is only required every five years and occurred last year when it concluded that the function is effective and compliant with Government Internal Auditing Standards. From April 2013 Government Internal Audit Standards will be replaced by the new Public Sector Internal Audit Standards (PSIAS) and, during the year, Internal Audit has worked to ensure it will be compliant to PSIAS once it comes into force.

Annual Assurance Statements have been received from Heads, Executive Heads and Executive Directors describing the extent to which, and how, they have complied with internal rules and regulations that form a key part of the organisation's governance framework. These statements were individually reviewed by Internal Audit and a sample of Heads, Executive Heads and Directors were audited to further confirm the accuracy of the statements.

Assurance over the effective operation of the organisation's business and environmental management systems has also been obtained via the retention of its certifications for ISO 9001:2008 and ISO14001:2004.

The Met Office Board and its Committees also undertook an annual self-assessment exercise, seeking the views of members on the effectiveness of the boards and sub-committees on which they sit. Feedback was collated and reported back to the Met Office Board, with any improvements required identified and addressed.

Governance and internal control

Relevant governance and internal control issues that have arisen during the financial year and how they have been managed including:

- an outline of actions taken or planned to deal with significant governance issues;
- external audits and value for money reports.

No governance or internal control issues have been identified during the year that are considered to be significant in relation to the Met Office's overall governance framework. Specific opportunities for improvement identified as part of the assurance processes detailed above have been addressed or are included in action plans for the relevant managers.

I have been advised on the implications of the results of the review of the effectiveness of the system of governance, including internal control and risk management by the Board's Audit Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

I have considered the evidence provided with regards to the production of the Annual Governance Statement. The conclusion of the review is that the organisation's overall governance and internal control structures are effective.



Mr J Hirst
Chief Executive
17 June 2013

Accounts

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 2013 under the Government Trading Funds Act 1973. The financial statements comprise: the Statement of Comprehensive Income, Statement of Financial Position, Statement of Cash Flows, Statement of Changes in Taxpayer's Equity; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration 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 and Chief Executive's Responsibilities, the Chief Executive as Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Government Trading Funds Act 1973. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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.

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

Opinion on regularity

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

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Met Office's affairs as at 31 March 2013 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, Chief Executive's Overview, Sustainability Overview, Management Commentary and the part of the Remuneration Report that is not audited 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 returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General National Audit Office
157–197 Buckingham Palace Road
Victoria
London
SW1W 9SP
21 June 2013

Statement of comprehensive income for the year ended 31 March 2013

	Notes	2012/13 £ '000	2011/12 £ '000
Revenue	3	204,929	196,212
Cost of sales	4, 7	(169,497)	(163,219)
Gross profit		35,432	32,993
Selling and distribution costs	4, 7	(13,317)	(12,924)
Administrative expenses	4, 7	(9,957)	(10,812)
Other gains/(losses) - net	5	183	(131)
Operating profit		12,341	9,126
Interest receivable		87	109
Interest payable	6	(32)	(38)
Profit for the financial year		12,396	9,197
Dividend		(7,630)	(7,666)
Retained profit for the year		4,766	1,531
Other comprehensive income:			
Net gain/(loss) on revaluation of property, plant and equipment		3,200	14,279
Revaluation reserve realised on disposal of property, plant and equipment		–	(12)
Net gain/(loss) on cash flow hedges		3,175	(1,354)
Other comprehensive income for the year		6,375	12,913
Total comprehensive income for the year		11,141	14,444
Return on Capital Employed (ROCE)	2	5.6%	4.4%

The notes on pages 43 to 73 form part of these Accounts.

Statement of financial position as at 31 March 2013

	Notes	31 March 2013		31 March 2012 (restated)		1 April 2011 (restated)	
		£ '000	£ '000	£ '000	£ '000	£ '000	£ '000
Non-current assets							
Property, plant and equipment	8		136,154		142,049		114,213
Intangible assets	9		61,495		59,016		55,121
Derivative financial assets	15		962		–		–
Total non-current assets			198,611		201,065		169,334
Current assets							
Inventories	10		715		718		930
Trade and other receivables	11		46,838		37,858		42,774
Derivative financial assets	15		846		–		316
Cash and cash equivalents	12		38,851		38,277		39,454
Non-current assets held for sale	8		177		–		–
Total current assets			87,427		76,853		83,474
Total assets			286,038		277,918		252,808
Current liabilities							
Trade and other payables	13		(50,211)		(46,366)		(47,170)
Borrowings	14		–		–		(1,105)
Derivative financial liabilities	15		(4)		(1,195)		(82)
Provisions for liabilities and charges	16		(2,442)		(4,748)		(2,228)
Total current liabilities			(52,657)		(52,309)		(50,585)
Non-current assets plus net current assets			233,381		225,609		202,223
Non-current liabilities							
Trade and other payables	13		(9,442)		(12,417)		(3,275)
Derivative financial liabilities	15		–		(176)		(111)
Provisions for liabilities and charges	16		(957)		(1,175)		(1,440)
Total non-current liabilities			(10,399)		(13,768)		(4,826)
Assets less liabilities			222,982		211,841		197,397
Capital and reserves							
Public dividend capital			58,867		58,867		58,867
Revaluation reserve			34,250		34,196		22,447
Hedging reserve			1,804		(1,371)		(17)
General reserve			128,061		120,149		116,100
Total Government funds			222,982		211,841		197,397



Mr J Hirst,
Chief Executive
17 June 2013

The notes on pages 43 to 73 form part of these Accounts.

Statement of cash flows for the year ended 31 March 2013

	Notes	2012/13 £ '000	2011/12 £ '000
Cash flows from operating activities			
Operating profit		12,341	9,126
Adjustments for non-cash transactions:			
Depreciation charges (restated)	4, 8	16,644	11,415
Release of capital grants	4, 14	(6,219)	(510)
(Profit) / loss on disposal of property, plant and equipment	5	(186)	225
Impairment and diminution in value of property, plant and equipment		–	(21)
Amortisation (restated)	4, 9	12,404	12,514
Fair value (gains) / losses on derivative financial instruments		–	140
(Increase) / Decrease in inventories		3	212
(Increase) / Decrease in trade and other receivables		(9,208)	5,118
Increase / (Decrease) in trade and other payables		6,012	(4,431)
Increase / (Decrease) in provisions for liabilities and charges		(2,556)	2,220
Net cash inflow from operating activities		29,235	36,008
Cash flows from investing activities			
Payments to acquire satellite assets		(12,851)	(6,686)
Payments to acquire property, plant and equipment (excluding satellites)		(10,881)	(34,155)
Capital grants received		2,234	13,230
Proceeds from sale of property, plant and equipment		526	14
Payments to acquire intangible assets		(110)	(385)
Interest received		87	108
Net cash outflow from investing activities		(20,995)	(27,874)
Cash flows from financing activities			
Dividends paid		(7,666)	(8,200)
Interest paid		–	(6)
Loan repayments		–	(1,105)
Net cash outflow from financing activities		(7,666)	(9,311)
Net increase / (decrease) in cash and cash equivalents	12	574	(1,177)
Cash and cash equivalents at 1 April		38,277	39,454
Cash and cash equivalents at 31 March		38,851	38,277

The notes on pages 43 to 73 form part of these Accounts.

Statement of changes in taxpayers' equity for the year ended 31 March 2013

	Public Dividend Capital £ '000	Revaluation Reserve £ '000	General Reserve £ '000	Hedging Reserve £ '000	Total £ '000
Balance at 1 April 2011	58,867	22,447	116,100	(17)	197,397
Comprehensive income					
Profit for the financial year	–	–	9,197	–	9,197
Dividend	–	–	(7,666)	–	(7,666)
Comprehensive income	–	–	1,531	–	1,531
Other comprehensive income					
Movement on foreign currency cash flow hedge	–	–	–	(1,354)	(1,354)
Net gain/(loss) on revaluation of satellite assets	–	2,118	–	–	2,118
Net gain/(loss) on revaluation of property, plant and equipment	–	12,161	–	–	12,161
Revaluation reserve realised on disposal of property, plant and equipment	–	(12)	–	–	(12)
Transfers between reserves	–	(2,518)	2,518	–	–
Total other comprehensive income	–	11,749	2,518	(1,354)	12,913
Total comprehensive income for 2011/12	–	11,749	4,049	(1,354)	14,444
Balance at 31 March 2012	58,867	34,196	120,149	(1,371)	211,841
Comprehensive income					
Profit for the financial year	–	–	12,396	–	12,396
Dividend	–	–	(7,630)	–	(7,630)
Retained profit for the year	–	–	4,766	–	4,766
Other comprehensive income					
Movement on foreign currency cash flow hedge	–	–	–	3,175	3,175
Net gain/(loss) on revaluation of satellite assets	–	1,555	–	–	1,555
Net gain/(loss) on revaluation of property, plant and equipment	–	1,758	–	–	1,758
Revaluation reserve realised as impairment of property, plant and equipment	–	(113)	–	–	(113)
Revaluation reserve realised on disposal of property, plant and equipment	–	–	–	–	–
Transfers between reserves	–	(3,146)	3,146	–	–
Total other comprehensive income	–	54	3,146	3,175	6,375
Total comprehensive income for 2012/13	–	54	7,912	3,175	11,141
Balance at 31 March 2013	58,867	34,250	128,061	1,804	222,982

A description of the nature and purpose of each reserve is provided in Note 1(n)

The notes on pages 43 to 73 form part of these Accounts.

1. Notes to the accounts

Accounting policies

(a) Basis of accounting

These financial statements have been prepared in compliance with an Accounts Direction dated 17 December 2012 in accordance with Section 4(6)(a) of the Government Trading Funds Act 1973 and the 2012/13 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

Recognition and valuation

Unless noted below all tangible assets are carried at fair value.

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

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

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 and available for use.

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

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

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.

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

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.

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. In line with IFRS 5, assets held for sale 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.

EUMETSAT satellite data

The UK is a member of EUMETSAT and the Met Office, as the UK National Meteorological Service, has the right to receive all EUMETSAT data, products and services to fulfil its official duty. The Met Office uses the data to generate its weather forecasts and climate predictions used to deliver services to its customers. Contributions other than research and development on programmes to date is capitalised and, once operational data is received, revalued annually at the lower of Depreciated Replacement Cost (DRC) and Value in Use.

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

Increases in the carrying amount of EUMETSAT satellite data assets arising on revaluation are credited to the revaluation reserve in equity. Decreases that offset previous increases of the asset are charged against the revaluation reserve directly in equity; all other decreases are charged to the income statement. Each year, the difference between amortisation based on the revalued carrying amount of the asset charged to the income statement and amortisation based on the asset's original cost is transferred from the revaluation reserve to the general reserve.

EUMETSAT satellite data assets are amortised using the straight-line method to allocate the current net book value over their estimated remaining useful life. The remaining life of the current satellite programmes at 31 March 2013 is currently assessed as 4.25 years providing the full operational service and a further 3.0 years as the operational hot spare for the follow-on programmes. This method reflects the principle that the economic benefit of satellite data remains constant between individual satellites.

(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 between 1.5 and 6.25 per cent of pensionable earnings (see table below). 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 between 3.5 and 8.25 per cent of pensionable earnings (see table below). On death, pensions are payable to the surviving spouse or eligible partner at a rate of 1/160th 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 per cent of pensionable earnings for each year of service. The maximum pension that Nuvos will provide is 75 per cent 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 between 3.5 and 8.25 per cent of pensionable earnings (see table below). 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.

Pensions payable under Classic, Premium, Classic Plus and Nuvos are increased annually in line with Pensions Increase legislation.

- **Partnership Pension Account**

This is a stakeholder-type arrangement where the employer pays a basic contribution of between 3 per cent and 12.5 per cent (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 per cent (in addition to the employer's basic contribution). Employers also contribute a further 0.8 per cent 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 per cent of the fund as a lump sum.

Members of the **Classic Scheme** pay contributions at these rates:

Annual pensionable earning (full-time equivalent basis)	Current contribution rate, as a percentage of pensionable earnings	Contribution rate from 1 April 2013, as a percentage of pensionable earnings
Up to £15,000 pa	1.5%	1.50%
£15,001 – £21,000	2.1%	2.70%
£21,001 – £30,000	2.7%	3.88%
£30,001 – £50,000	3.1%	4.67%
£50,001 – £60,000	3.5%	5.46%
Over £60,000 pa	3.9%	6.25%

Members of the Premium, Classic Plus and Nuvos schemes pay contributions at these rates:

Annual pensionable earning (full-time equivalent basis)	Current contribution rate, as a percentage of pensionable earnings	Contribution rate from 1 April 2013, as a percentage of pensionable earnings
Up to £15,000 pa	3.5%	3.50%
£15,001 – £21,000	4.1%	4.70%
£21,001 – £30,000	4.7%	5.88%
£30,001 – £50,000	5.1%	6.67%
£50,001 – £60,000	5.5%	7.46%
Over £60,000 pa	5.9%	8.25%

New contribution rates from April 2013

(k) Capital grants

Grant funded property plant and equipment assets are capitalised at their fair value on receipt. The grant is credited to the Statement of Comprehensive Income at the same time, unless the donor has imposed a condition that the future economic benefits embodied in the grant are to be consumed in a manner specified by the donor, in which case the grant is deferred within liabilities and is carried forward to future financial years to the extent that the condition has not yet been met.

The grant-funded assets are subsequently accounted for in the same manner as other items of property, plant and equipment.

(l) Cash and cash equivalents

Cash and cash equivalents include 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.

(m) Financial instruments

Recognition

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 their 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 recognised at the original invoice amount.

Classification and measurement

Short-term receivables and payables are measured at the original invoice amount where the effect of discounting is immaterial. 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.

Derecognition

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 liabilities are derecognised when the obligation is discharged, cancelled or expired.

Borrowings

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

Derivative financial instruments and hedge accounting

The Met Office uses derivative financial instruments such as foreign currency contracts to hedge the risks associated with changes in foreign exchange rates in relation to amounts payable to certain international bodies. The payments are in respect of annual subscriptions and contributions, including payments for satellite programmes. The Met

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

All the Met Office 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 statement of financial position 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.

(n) Capital and reserves

Public Dividend Capital

Public Dividend Capital represents the capital invested by the Ministry of Defence in the Met Office on becoming a Trading Fund on 1 April 1996. Following a Machinery of Government change during 2011/12, the Public Dividend Capital held by the Ministry of Defence was transferred to the Department for Business, Innovation and Skills.

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

General Reserve

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

Revaluation Reserve

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

Hedging Reserve

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

(o) Consolidated accounts

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

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

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

IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors), requires 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:

IFRS 9 Financial Instruments

A new standard intended to replace IFRS 9 (2009). The effective date is for accounting periods beginning on, or after, 1 January 2015. Reissue to include requirements for the classification and measurement of financial liabilities and incorporate re-recognition requirements.

IFRS 7 Financial Instruments: Disclosures

Amendment to the existing standard in relation to the offsetting of assets and liabilities, with an effective date for accounting periods beginning on, or after 1 January 2013. Also note disclosure impacts relating to IFRS 9 changes (see above) will come into effect for accounting periods beginning on, or after, 1 January 2015.

IAS 32 Financial Instruments: Presentation

Amendments resulting from Annual Improvements 2009–2011 Cycle (tax effect of equity distributions), with an effective date for accounting periods beginning on, or after, 1 January 2013. Also note amendments relating to the offsetting of assets and liabilities with an effective date for accounting periods beginning on, or after, 1 January 2014.

IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosure of Interests in Other Entities

New standards that affect the consolidation and reporting of subsidiaries, associates and joint control. The effective date is for accounting periods beginning on, or after, 1 January 2013.

IAS 27 Separate Financial Statements, IAS 28 Investments in Associates and Joint Ventures

Standards superseded and required to be applied in conjunction with new standards IFRS 10, IFRS 11 and IFRS 12. The effective date is for accounting periods beginning on, or after, 1 January 2013.

IFRS 13 Fair Value Measurement

New standard that provides consistent guidance on fair value measurement. The effective date is for accounting periods beginning on, or after, 1 January 2013.

IAS 1 Presentation of Financial Statements

Amendments resulting from Annual Improvement 2009–2011 Cycle (comparative information). The effective date is for accounting periods beginning on, or after, 1 January 2013.

IAS 16 Property, Plant and Equipment

Amendments resulting from Annual Improvement 2009–2011 Cycle (servicing equipment). The effective date is for accounting periods beginning on, or after, 1 January 2013.

IAS 19 Employee Benefits

Standard supersedes IAS 19 Employee Benefits (1998) and introduces changes to post-employment benefits (pensions). The effective date is for accounting periods beginning on, or after, 1 January 2013.

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 2013:

- Chapter 5 – further alignment of the FReM with the requirements of IAS 1
- Chapter 6 – amendments to reflect accounting for PPP arrangements in line with IFRIC 12
- Chapter 12 and Chapter 14 – further alignment of FReM with the requirements of IAS 19

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

(r) Change in accounting policy

Satellite assets

In 2012/13 the Met Office has changed its satellite assets accounting policy from treating its contributions to EUMETSAT geostationary Meteosat satellite programmes as a Property, Plant and Equipment (PPE) asset to an intangible asset treatment. Using the PPE treatment, contributions were capitalised as satellite programme assets at cost and revalued annually using the Aerospace Combined Input Cost Index published by the Office for National Statistics. Under the intangible asset treatment contributions to EUMETSAT programmes are capitalised as a EUMETSAT satellite data intangible asset at cost and revalued annually using the lower of Depreciated Replacement Cost and Value in Use methods.

The Met Office believes an intangible asset treatment provides reliable and more relevant information on its contributions to EUMETSAT satellite programmes. The UK is a member of EUMETSAT and the Met Office, as the UK National Meteorological Service, has the right to receive all EUMETSAT data, products and services to fulfil its Official Duty. The Met Office uses the data to generate its weather forecasts and climate predictions used to deliver services to its customers. The Intangible asset treatment recognises the value of all EUMETSAT satellite data used in Met Office forecasts including that from the polar orbiting satellite which is funded through the Department for Business, Innovation and Skills.

In accordance with IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors) the change has been made retrospectively and the comparatives have been restated accordingly.

The tables below show the impact of the change in accounting policy:

	31 March 2013	31 March 2012	01 April 2011
	£ '000	£ '000	£ '000
Non-current assets			
Property, plant and equipment before changes in accounting policy	196,675	200,029	168,396
Adjustment due to change in accounting policy	(60,521)	(57,980)	(54,183)
Property, plant and equipment after changes in accounting policy	136,154	142,049	114,213
Intangible assets before changes in accounting policy	974	1,036	938
Adjustment due to change in accounting policy	60,521	57,980	54,183
Intangible assets after changes in accounting policy	61,495	59,016	55,121
Derivative financial assets	962	–	–
Total non-current assets	198,611	201,065	169,334

The intangible satellite data asset has been valued using the lower of Depreciated Replacement Cost and Value in Use. This gave a value at 31 March 2013 of £44,147,000 (31 March 2012, £48,819,000; 1 April 2011, £52,444,000).

There is no restatement of the satellite asset value or the amortisation of the asset and therefore no impact on the Statement of Comprehensive Income or the Statement of Changes in Taxpayers' Equity.

There is a reclassification of cost within cost of sales from depreciation to amortisation of £12,092,000 in 2012/13 (2011/12, £12,227,000) and this is reflected in the Statement of Cashflows and Note 4. Cost of Sales, Selling and Distribution and Administrative Charges.

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 per cent 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).

	2012/13	2011/12
Actual	5.6%	4.4%
Target — in-year	4.9%	4.4%
Average — current target period	4.4%	4.1%
Target — 5-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 per cent of its revenue from public sector bodies. No operating segments have been aggregated to form the above reportable segments.

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

The Met Office's management evaluates performance of the segments based on segment revenue and operating profit. Operating profit is further evaluated between that generated from activities falling within or outside the business profitability Business Performance Measure (BPM). The business profitability BPM represents the operating profit derived from services supplied to Government customers on a competed (or comparable) basis, together with operating profits from commercial business.

Note that the classification of items that fall within the Business Performance Measure was changed in 2012/13. The comparative information for 2011/12 has been presented using both classifications, see tables opposite. This change was made to improve alignment with our Increasing Profitable Revenue corporate objective.

Year ended 31 March 2013

Operating segment:	Revenue £'000	Depreciation/ amortisation £'000	Operating profit		Total £'000	Interest receivable £'000	Interest payable £'000
			BPM £'000	Non-BPM £'000			
Government business	171,760	27,359	2,460	12,121	14,581		
Commercial business	32,725	1,688	2,679	742	3,421		
	204,485	29,047	5,139	12,863	18,002		
Corporate and other central income / expenses	444				(5,661)	87	(32)
Total per financial statements	204,929	29,047			12,341	87	(32)

Year ended 31 March 2012

Operating segment:	Revenue £'000	Depreciation/ amortisation £'000	Operating profit		Total £'000	Interest receivable £'000	Interest payable £'000
			BPM £'000	Non-BPM £'000			
Government business	163,286	22,415	2,767	9,696	12,463		
Commercial business	32,470	1,514	1,212	830	2,042		
	195,756	23,929	3,979	10,526	14,505		
Corporate and other central income / expenses	456				(5,379)	109	(38)
Total per financial statements	196,212	23,929			9,126	109	(38)

Year ended 31 March 2012 — as published in 2011/12 Annual Report and Accounts

Operating segment:	Revenue £'000	Depreciation/ amortisation £'000	Operating profit		Total £'000	Interest receivable £'000	Interest payable £'000
			BPM £'000	Non-BPM £'000			
Government business	163,286	22,415	3,925	8,538	12,463		
Commercial business	32,470	1,514	4,111	(2,069)	2,042		
	195,756	23,929	8,036	6,469	14,505		
Corporate and other central income / expenses	456				(5,379)	109	(38)
Total per financial statements	196,212	23,929			9,126	109	(38)

Revenue includes £1,959,399 of income derived from EU contracts (2011/12, £2,413,000).

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 the 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 does not form part of the business profitability Business Performance Measure.

Government business is further analysed by revenue stream as follows:

	2012/13 £'000	2011/12 £'000
Defence	31,601	33,069
Government Services	36,207	34,104
Public Weather Service	103,952	96,113
	171,760	163,286

Commercial business

The Met Office also provides a range of commercial 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 is 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 Executive. Assets and liabilities are reported at a total corporate level and managed on that basis.

Geographical analysis

All revenue reported above is derived from external customers. There is no inter-segment revenue. More than 80 per cent 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	2012/13 £ '000	2011/12 £ '000
Staff costs (excluding exceptional items)	7	87,096	86,102
Early retirement and exit costs — non-exceptional	7	1,768	1,319
Early retirement and exit costs — exceptional		–	4,055
Travel and subsistence		4,441	4,090
Equipment and services	(i)	46,146	36,722
Accommodation		10,264	10,855
Operating leases — plant and machinery		578	812
Operating leases — other		1,002	1,191
Depreciation — on owned assets		16,644	11,415
Amortisation		12,404	12,514
Release of capital grant income	(ii)	(6,219)	(510)
International services and subscriptions	(iii)	16,945	15,636
Other expenses		1,702	2,754
Total		192,771	186,955

- (i) Equipment and services expenses include an audit fee of £58,000 (2011/12, £58,000) for the audit of the financial statements. Also includes expenditure on temporary / agency staff.
- (ii) Capital grants are analysed as follows: BIS Space Weather & Surface Obs £2.2m; DECC Supercomputer £2.2m; Defra Supercomputer £1.1m; NERC Supercomputer £0.4m; DECC energy efficiency infrastructure £0.3m.
- (iii) International services and subscriptions include £4.3m (2011/12, £3.7m) to the European Organisation for the Exploitation of Meteorological Satellites (EUMETSAT) (excluding amounts capitalised as intangible satellite data assets), £6.8m (2011/12, £6.7m) to the European Centre for Medium-Range Weather Forecasts (ECMWF), £3.1m (2011/12, £2.4m) to the World Meteorological Organization (WMO) and £0.7m (2011/12, £0.7m) 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 co-operations between members in the exchange of observational data and forecasts, together with a widening range of environmental programmes.
- (iv) The total cost of research was £45.2m (2011/12, £43.3m).

5. Other gains / (losses) – net

	2012/13	2011/12
	£ '000	£ '000
Foreign exchange rate differences	(3)	94
Net profit/(loss) on disposal of fixed assets	186	(225)
Total other gains / (losses)	183	(131)

6. Interest payable and similar charges

	2012/13	2011/12
	£ '000	£ '000
On Ministry of Defence loans repayable within five years	–	3
Discounting of provisions	32	35
Total interest payable and similar charges	32	38

7. Staff

(a) Staff costs

	Note	2012/13 £ '000	2011/12 £ '000
Salaries, performance related pay and allowances		69,360	68,473
Early retirement and exit costs (excluding exceptional items)	4	1,768	1,319
Social security		5,653	5,598
Pension contributions		12,083	12,031
Total staff costs	(i)	88,864	87,421
Temporary / agency labour costs	(ii)	4,393	4,881
Total		93,257	92,302

(i) Total staff costs relate to those staff employed under a permanent UK employment contract.

(ii) Included in 'Equipment & Services' line, Note 4.

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 (Aon Hewitt 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 2012/13, pursuant to the Superannuation Act 1972, employer's contributions of £12.1m were payable to the PCSPS (2011/12, £12.0m) at one of four rates in the range 16.7 per cent to 24.3 per cent of pensionable pay, based on salary bands. The Scheme Actuary reviews employer contributions every four years following a full scheme valuation. For 2013/14, the salary bands will be revised but the rates will remain unchanged. The contribution rates are set to meet the cost of the benefits accruing during 2012/13 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Employees joining after 1 October 2002 can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employer's contributions, paid to appointed stakeholder pension providers, and also to the PCSPS 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

	2012/13	2011/12
	number	number
Senior management	9	7
Scientific, managerial, technical	1,542	1,477
Support	327	351
Locally engaged civilians overseas	–	15
Monthly average staff numbers (all UK Government Civil Servants except locally engaged civilians)	1,878	1,850
Monthly average temporary / agency staff	45	40

There were 1,874.5 staff employed at 31 March 2013 compared with 1,846 at 31 March 2012, both figures expressed as full-time equivalents. These staff are all employed under a permanent UK employment contract. There were also 43 temporary/agency staff, expressed as full-time equivalents, engaged by the Met Office at 31 March 2013 (31 March 2012, 46).

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

Exit costs are accounted for in full in the year of departure, as follows:

Exit package cost band	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band	
	2012/13	2011/12	2012/13	2011/12	2012/13	2011/12
£0 – £10,000	–	–	1	4	1	4
£10,000 – £25,000	–	2	26	7	26	9
£25,000 – £50,000	1	–	36	13	37	13
£50,000 – £100,000	–	–	22	16	22	16
£100,000 – £150,000	–	2	3	6	3	8
£150,000 – £200,000	–	–	–	–	–	–
Total number of exit packages by type	1	4	88	46	89	50
Total cost £'000	43	282	3,670	2,562	3,713	2,844

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

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 pages 24 to 28.

8. Property, plant and equipment

The movements in each class of assets were:

	Land and buildings	Fixtures and fittings	Plant and equipment	Information technology	Assets under construction	Total	Assets held for sale
	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000
Cost or valuation:							
At 1 April 2012	63,962	11,903	64,666	67,490	642	208,663	–
Additions	447	342	3,454	5,378	–	9,621	–
Transfers	(379)	–	352	–	(405)	(432)	432
Disposals	–	(171)	(965)	(18,562)	–	(19,698)	(266)
Revaluation	28	34	857	–	–	919	11
At 31 March 2013	64,058	12,107	68,364	54,306	237	199,073	177
Depreciation:							
At 1 April 2012	17	5,803	24,612	36,182	–	66,614	–
Charged during year	1,427	882	3,725	10,610	–	16,644	–
Impairment	113	–	–	–	–	113	–
Disposals	–	(171)	(894)	(18,554)	–	(19,619)	(6)
Transfers	(6)	–	–	–	–	(6)	6
Revaluation	(1,243)	59	357	–	–	(828)	–
At 31 March 2013	308	6,573	27,800	28,238	–	62,919	–
Net book value:							
At 1 April 2012	63,945	6,100	40,054	31,308	642	142,049	–
At 31 March 2013	63,751	5,535	40,564	26,068	237	136,154	177

	Land and buildings	Fixtures and fittings	Plant and equipment	Information technology	Assets under construction	Total
	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000
Cost or valuation (restated):						
At 1 April 2011	61,497	8,855	61,635	46,773	387	179,147
Additions	–	235	1,834	24,942	349	27,360
Disposals	–	–	(237)	(4,225)	–	(4,462)
Transfers	(2,619)	2,619	94	–	(94)	–
Revaluation	5,084	194	1,340	–	–	6,618
At 31 March 2012	63,962	11,903	64,666	67,490	642	208,663
Depreciation (restated):						
At 1 April 2011	5,314	4,482	20,899	34,239	–	64,934
Charged during year	1,272	816	3,417	5,910	–	11,415
Transfers	(406)	406	–	–	–	–
Disposals	–	–	(204)	(3,967)	–	(4,171)
Revaluation	(6,163)	99	500	–	–	(5,564)
At 31 March 2012	17	5,803	24,612	36,182	–	66,614
Net book value (restated):						
At 1 April 2011	56,183	4,373	40,736	12,534	387	114,213
At 31 March 2012	63,945	6,100	40,054	31,308	642	142,049

- (i) 2011/12 figures have been restated to reflect the change in accounting policy for satellite assets. Satellite assets are now treated as intangible assets, not Property, Plant and Equipment. More details on this change are included in note 1(r).
- (ii) All land and buildings are held as freehold. The net book value of freehold land and buildings includes £8.1 million of freehold land (31 March 2012, £8.0m) which has not been depreciated. Freehold buildings are depreciated in full over their estimated life (not exceeding 50 years).
- (iii) Fixtures and fittings include improvements to leasehold buildings and are depreciated over five to 25 years.
- (iv) The freehold assets which comprise the Met Office's property portfolio were subject to a quinquennial valuation for financial reporting purposes in 2011/12 (values at at 31 March 2012), in accordance with the RICS Valuation Standards (6th Edition) by external valuers Jones Lang LaSalle, a firm of property consultants who are regulated by the RICS.

The bases of valuation adopted are Market Value and Existing Use Value as defined in the Standards. In carrying out the valuation, the majority of the assets are specialised and as a result of their location and/or specification, are considered to be assets which would rarely, if ever, sell on the open market. As a result Jones Lang LaSalle has utilised Depreciated Replacement Cost methodology where appropriate.

The sources of information and assumptions made in producing the various valuations are set out in the valuation report. The overall valuation figure incorporated in the accounts is the aggregate of the individual asset valuations of the assets within the portfolio, produced for financial reporting purposes and not a valuation or apportioned valuation of the portfolio valued as a whole.

In 2012/13 assets have been revalued using various indices (see Note 1(e) 'Property, plant and equipment') with the exception of the Exeter HQ building for which Jones Lang LaSalle carried out a 'desk-based' exercise to re-assess the valuation.

- (v) Assets under construction represents capital expenditure associated with the renewal of the radar network.
- (vi) Assets held for sale at 31 March 2013 comprise residential properties and garages located in Lerwick. These assets have been actively marketed during 2012/13. In line with IFRS 5, assets held for sale are not depreciated.

9. Intangible assets

	EUMETSAT satellite data	Computer software	Software licences	EUMETSAT payments on account	Total
	£ '000	£ '000	£ '000	£ '000	£ '000
Cost or valuation:					
At 1 April 2012	282,620	1,598	188	9,161	293,567
Additions	5,866	249	–	7,213	13,328
Revaluation	6,434	–	–	–	6,434
At 31 March 2013	294,920	1,847	188	16,374	313,329
Amortisation:					
At 1 April 2012	233,801	707	43	–	234,551
Charged during year	12,093	274	37	–	12,404
Disposals	–	–	–	–	–
Revaluation	4,879	–	–	–	4,879
At 31 March 2013	250,773	981	80	–	251,834
Net book value:					
At 1 April 2012	48,819	891	145	9,161	59,016
At 31 March 2013	44,147	866	108	16,374	61,495

	EUMETSAT satellite data	Computer software	Software licences	EUMETSAT payments on account	Total
	£ '000	£ '000	£ '000	£ '000	£ '000
Cost or valuation (restated):					
At 1 April 2011	267,899	1,242	159	1,739	271,039
Additions	6,484	356	29	7,422	14,291
Revaluation	8,237	–	–	–	8,237
At 31 March 2012	282,620	1,598	188	9,161	293,567
Amortisation (restated):					
At 1 April 2011	215,455	455	8	–	215,918
Charged during year	12,227	252	35	–	12,514
Revaluation	6,119	–	–	–	6,119
At 31 March 2012	233,801	707	43	–	234,551
Net book value (restated):					
At 1 April 2011	52,444	787	151	1,739	55,121
At 31 March 2012	48,819	891	145	9,161	59,016

- (i) 2011/12 figures have been restated to reflect the change in accounting policy for satellite assets. Satellite assets are now treated as intangible assets, not Property, Plant and Equipment. More details on this change are included in note 1(r).
- (ii) The EUMETSAT satellite data intangible asset represents the value of all EUMETSAT observational data used in generating Met Office forecasts. This principally includes data from both the Meteosat geostationary satellite and polar orbiting satellite and the Met Office, as the UK's national meteorological service, has the right to access and use this data to generate its weather forecasts and climate predictions in fulfilling its Official Duty. The Met Office makes contributions on behalf of the UK to EUMETSAT's geostationary Meteosat satellite programmes. The UK's contribution to EUMETSAT's polar orbiting satellite, the data from which is integral to Met Office forecasts, is funded through the Department for Business, Innovation and Skills.
- (iii) EUMETSAT payments on account represent the contributions made by the Met Office, on behalf of the UK, to the Meteosat Third Generation satellite programme. This programme is currently in the build phase and is not expected to provide operational data until 2019 at the earliest.

10. Inventories

	31 March 2013	31 March 2012
	£ '000	£ '000
Meteorological equipment	495	512
Reserve equipment	195	185
Consumable stores	25	21
Total inventories	715	718

11. Trade and other receivables

	Note	31 March 2013	31 March 2012
		£ '000	£ '000
Amounts falling due within one year:			
Trade receivables		18,187	11,766
Less: Provision for impairment of receivables		(96)	(88)
		<u>18,091</u>	<u>11,678</u>
Other receivables	(i)	325	323
Accrued income	(ii)	12,001	11,897
Prepayments		16,421	13,960
Total trade and other receivables		46,838	37,858

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

- (i) Other receivables include staff loans totalling £376,668 to 123 employees predominantly in respect of housing advances on relocation and a cycle to work scheme (£312,000 and 75 employees at 31 March 2012).
- (ii) Accrued income includes £709,812 relating to EU funding (£1,280,000 at 31 March 2012).

Intra-government balances

	31 March 2013	31 March 2012
	£ '000	£ '000
Balances with central government bodies	16,116	7,783
Balances with local authorities	485	478
Balances with NHS Trusts	20	37
Balances with public corporations and trading funds	1,125	837
Subtotal: intra-government balances	17,746	9,135
Balances with bodies external to government	29,092	28,723
Total trade receivables and other current assets at 31 March	46,838	37,858

All intra-government balances are due within one year.

12. Cash and cash equivalents

	Note	31 March 2013	31 March 2012
		£ '000	£ '000
Balance at 1 April		38,277	39,454
Net change in cash and cash equivalent balances	18	574	(1,177)
Balance at 31 March		38,851	38,277

The following balances at 31 March were held at:

UK Debt Management Office, HM Treasury	34,700	37,300
EUMETSAT working capital fund	395	1
Total cash held on short-term deposit	35,095	37,301
Cash held at commercial banks and in hand	3,756	976
Balance at 31 March	38,851	38,277

The Met Office holds five Euro bank accounts, in which there were amounts totalling £2,684,000 at 31 March 2013 belonging to third parties (31 March 2012, three accounts totalling £318,000). They are held or controlled for the benefit of third parties on projects where the Met Office is the lead co-ordinator and are not included in Met Office cash balances or accounts.

Cash in transit at 31 March 2013 amounted to £3,452,000.

The Met Office Board has ringfenced £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 2013 £ '000	31 March 2012 £ '000
Amounts falling due within one year:			
Trade payables		995	354
VAT		5,787	904
Other taxation and social security		2,965	2,991
Accruals		18,157	16,866
Dividend payable		7,630	7,666
Deferred Income		11,799	13,697
Capital grants	14	2,878	3,888
Total current trade and other payables		50,211	46,366
Amounts falling due after more than one year:			
Capital grants	14	9,442	12,417
Total non-current trade and other payables		9,442	12,417
Total trade payables and other current liabilities		59,653	58,783

Intra-government balances

	Amounts falling due within one year		Amounts falling due after more than one year	
	31 March 2013	31 March 2012	31 March 2013	31 March 2012
	£ '000	£ '000	£ '000	£ '000
Balances with central government bodies	17,368	20,100	9,442	12,417
Balances with local authorities	124	298	–	–
Balances with NHS Trusts	–	–	–	–
Balances with public corporations and trading funds	384	–	–	–
Subtotal: intra-government balances	17,876	20,398	9,442	12,417
Balances with bodies external to government	32,335	25,968	–	–
Total trade payables and borrowings at 31 March	50,211	46,366	9,442	12,417

14. Capital Grants

	Note	31 March 2013 £ '000	31 March 2012 £ '000
Capital Grants at 1 April		16,305	3,585
Grants received in year		2,234	13,230
Grants recognised through the Statement of Comprehensive Income	4	(6,219)	(510)
Capital Grants at 31 March		12,320	16,305
Amounts falling due within one year		2,878	3,888
Amounts falling due in more than one year		9,442	12,417

Included in Capital Grants at 31 March 2013 is £3,413,740 (31 March 2012, £3,413,740) received from the Environment Agency for the Weather Radar Network Renewal (WRNR) Programme. These grants are repayable in full to the Environment Agency should the Met Office not deliver the agreed WRNR programme.

15. Derivative financial instruments

	31 March 2013		31 March 2012	
	Assets	Liabilities	Assets	Liabilities
	£ '000	£ '000	£ '000	£ '000
Forward foreign currency contracts – cash flow hedge	1,808	4	–	1,371
Analysed between:				
Current	846	4	–	1,195
Non-current	962	–	–	176
	1,808	4	–	1,371

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 2013/14					
Euro	25,800	21,182	21,903	725	4
Swiss Francs (CHF)	4,000	2,661	2,782	121	–
		23,843	24,685	846	4
Delivery 2014/15					
Euro	17,000	13,498	14,460	962	–
		13,498	14,460	962	–
Total		37,341	39,145	1,808	4

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.

16. Provisions for liabilities and charges

	CRCEES*	Early retirement and exits	Dilapidations	Leaseholds	Total
	£ '000	£ '000	£ '000	£ '000	£ '000
Balance at 1 April 2011	–	2,386	392	890	3,668
Provided (written back) in the year	–	3,528	74	–	3,602
Unwinding of discount	–	14	5	16	35
Change in discount rate	–	1	–	–	1
Utilised in year	–	(1,211)	(15)	(157)	(1,383)
Balance at 31 March 2012	0	4,718	456	749	5,923
Provided (written back) in the year	280	715	(41)	24	978
Unwinding of discount	–	–	5	13	18
Change in discount rate	–	6	–	–	6
Utilised in year	–	(3,342)	(50)	(134)	(3,526)
Balance at 31 March 2013	280	2,097	370	652	3,399

*CRCEES — Carbon Reduction Commitment Energy Efficiency Scheme

- (i) The Early Retirement and Exit Provision represents the outstanding liability for pension and severance costs as at 31 March 2013. It includes the costs associated with 129 staff who had been offered an early exit package during 2012/13 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 £2,114,000 (2011/12, £4,748,000).

After discounting at 2.35% (2011/12, 2.8%), a net amount of £2,097,000 (2011/12, £4,718,000) is provided.

There is some uncertainty on timing and amounts of payments relating to amounts provided in-year where final exit terms have not yet been agreed with affected staff.

- (ii) The Dilapidations Provision relates to contractual future costs of making good leasehold properties when they are vacated. Discounting has been applied where payments are due in more than one year. The gross amount provided for, before discounting, is £381,000 (2011/12, £468,000). After discounting at 2.2%, a net amount of £370,000 (2011/12, £456,000) is provided. There is no uncertainty as to the timing of amounts but the final amounts may change during final negotiations with the relevant landlord at the end of the lease.
- (iii) The Leaseholds Provision is principally in respect of future cost of leasehold properties, which became surplus to requirements on relocation to Exeter. The gross amount provided, before discounting, is £699,000 (2011/12, £808,000). After discounting at 2.2%, a net amount of £652,000 (2011/12, £749,000) is provided.
- (iv) In 2011/12, the first year of the Government's Carbon Reduction Commitment Energy Efficiency Scheme (CRCEES), the Met Office was an Agency Trading Fund of the Ministry of Defence (MoD) and participated as part of the MoD body. The Met Office moved to the Department for Business, Innovation and Skills (BIS) in July 2011, so falls under BIS from 2012/13. BIS disaggregate its Trading Fund/Agencies for the purposes of the CRCEES and therefore for 2012/13; the Met Office is participating in its own right. The figure has been calculated based on estimated emissions and may be subject to some minor revisions.

The commitments provided for fall due in the following periods:

	CRCEES £ '000	Early retirement £ '000	Dilapidations £ '000	Leaseholds £ '000	Total £ '000
Amounts payable within:					
One year	280	1,925	80	157	2,442
One to five years	–	148	290	281	719
Over five years	–	24	–	214	238
Total	280	2,097	370	652	3,399

17. Related parties

In September 2012, the Minister of State for Business and Enterprise became the owner Minister for the Met Office within the Department for Business, Innovation and Skills (BIS), taking over responsibility for this role from the Minister for Employment Relations, Consumer and Postal Affairs. Further details of the Met Office's revised governance structure are contained within the Governance Statement on pages 24 to 28.

The Met Office's parent department is the Department for Business, Innovation and Skills. BIS is considered to be a related party and, during the year, the Met Office had material transactions with BIS and with other entities for which BIS is regarded as parent department. In addition, the Met Office had material transactions with a number of other public bodies, government departments and their agencies, principally the Department 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(ii) to the financial statements. There are no outstanding balances with these organisations as at 31 March 2013 (2011/12 — nil).

J Slingo, Met Office Chief Scientist, is a member on several scientific groups, as follows: Natural Environment Research Council (NERC) Council Member; ECMWF Scientific Advisory Committee Member; National Oceanography Advisory Council Member.

Senior manager D Young was on secondment from IBM until September 2012. IBM is not considered to be a related party to the Met Office.

P Rew, Met Office Non-Executive Director, is also a Non-Executive Director at the Department for Environment, Food and Rural Affairs.

P Shortt and D Curley have acted as Met Office Non-Executive Directors during the year and are also employees of our owning department (BIS), within the Shareholder Executive (ShEx).

18. Notes to the cash flow statement

Reconciliation of cash and cash equivalents to movement in net funds

	At 1 April 2012	Cash flows	At 31 March 2013
	£ '000	£ '000	£ '000
Cash at bank and in hand	976	2,780	3,756
Cash on deposit	37,301	(2,206)	35,095
Cash and cash equivalents	38,277	574	38,851
Total net funds	38,277	574	38,851

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	
	2012/13	2011/12	2012/13	2011/12
	£ '000	£ '000	£ '000	£ '000
Leases expiring within:				
Under one-year	904	917	1,995	1,942
One to five years	1,568	1,692	1,865	2,985
Over five years	1,459	1,605	–	–
Total	3,931	4,214	3,860	4,927

20. Capital commitments

	2012/13	2011/12
	£ '000	£ '000
Contracted for but not provided for:		
Supercomputer	–	5,603
Other	2,393	1,204
Contribution for Satellite Programme	8,201	9,109
Total	10,594	15,916

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 there were no significant losses or special payments.

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 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:

	At 31 March 2013			At 31 March 2012		
	0–3 months	3–6 months	Over 6 months	0–3 months	3–6 months	Over 6 months
Trade receivables beyond the due date	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000
Receivables beyond the due date — not impaired	1,776	32	308	1,165	114	163
Receivables beyond the due date — impaired	13	7	16	86	2	–
Total receivables beyond the due date	1,789	39	324	1,251	116	163

Liquidity risk

The Met Office maintains short-term liquidity throughout the year by management of its cash deposits. The Met Office aims to maintain cash levels to allow it to meet its short-term obligations. The Met Office follows Treasury rules by investing all surplus funds on deposit with the UK Debt Management Office at HM Treasury. Under the Met Office Trading Fund Order and Framework Document, the sole provider of loan funding is the Met Office's sponsor department, the Department for Business, Innovation and Skills. Therefore, exposure to liquidity risk is limited to these arrangements. There were no loans outstanding at 31 March 2013. Loan funding requirements are anticipated to increase over forthcoming years to finance the UK's contribution to the EUMETSAT satellite programme and additional supercomputing investment, in line with our current corporate plan.

Foreign currency risk

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

As at 31 March 2013 the Met Office held seven forward contracts to buy a total of €42.8 million and equating to £34.7 million at the contracted exchange rates, with value dates in 2013/14. The Met Office also held one forward contract to buy forward 4.0 million Swiss Francs (CHF), equating to £2.7 million at the contract exchange rate with a value date in 2013/14. Additional information can be found in note 15 to the accounts.

£7.4 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 its sponsor department to fund specific strategic requirements.

Cash on deposit at 31 March 2013 consists of 25 short-term deposits totalling £34.7 million (31 March 2012 – £37.3 million) with the UK Debt Management Office at HM Treasury for a weighted average period of 34.2 days (31 March 2012 – 38.8 days) at a weighted average interest rate of 0.25 per cent (31 March 2012 – 0.25 per cent). At 31 March 2013 £395,261 (31 March 2012 – £1,000) 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 2013			At 31 March 2012		
	Loans and receivables	Derivatives used for hedging	Total	Loans and receivables	Derivatives used for hedging	Total
	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000
Trade and other receivables – current	30,417	–	30,417	23,898	–	23,898
Derivative financial assets	–	1,808	1,808	–	–	–
Cash on deposit	35,095	–	35,095	37,301	–	37,301
Cash at bank and in hand	3,756	–	3,756	976	–	976
Total	69,268	1,808	71,076	62,175	–	62,175

Financial liabilities:

	At 31 March 2013			At 31 March 2012		
	Other financial liabilities	Derivatives used for hedging	Total	Other financial liabilities	Derivatives used for hedging	Total
	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000
Trade and other payables	26,782	–	26,782	24,886	–	24,886
Derivative financial liabilities	–	4	4	–	1,371	1,371
Total	26,782	4	26,786	24,886	1,371	26,257

The Met Office does not hold any held-to-maturity investments or available-for-sale financial assets. With the exception of Derivatives used for hedging, the carrying value for financial assets and liabilities is considered to be fair value.

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 21 June 2013.

FIVE-YEAR FINANCIAL SUMMARY (Unaudited)

	2012/13	2011/12 (restated)	2010/11 (restated)	2009/10 (restated)	2008/9 (restated)
	£'000	£'000	£'000	£'000	£'000
Income statement					
Revenue	204,929	196,212	196,118	191,965	184,781
Gross profit	35,432	32,993	32,189	29,764	31,385
Operating profit	12,341	9,126	9,422	6,658	7,462
Profit for the financial year	12,396	9,197	9,385	6,488	8,589
Dividend	7,630	7,666	8,200	4,500	17,177
Capital expenditure					
Property, plant and equipment asset additions (restated)	9,621	27,360	7,109	17,021	17,745
Intangible asset additions	13,328	14,291	10,737	9,195	5,283
Statement of financial position					
Total non-current assets	198,611	201,065	169,334	177,209	188,524
Net current assets	34,770	24,544	32,889	22,442	23,896
Non-current liabilities	10,399	13,768	4,826	4,367	6,295
Number of employees					
Average for year	1,878	1,850	1,862	1,869	1,832

(i) Restated figures reflect the change in accounting policy for satellite assets. Satellite assets are now treated as intangible assets, not Property, Plant and Equipment. More details on this change are included in note 1(r).

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Met Office

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Devon, EX1 3PB
United Kingdom

Tel: +44 (0)1392 885680

Fax: +44 (0)1392 885681

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