



Met Office



Annual Report and Accounts

2011/12

Met Office

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

Annual Report and Accounts 2011/12

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Directors' report

Introduction

As the UK's internationally-renowned weather and climate organisation, the Met Office has been providing world-leading weather forecasting for more than 150 years, and cutting-edge climate change services for over two decades. Every day we deliver over 4 million individual products for the UK public, Government, our Armed Forces, and businesses as well as countless other customers around the globe. Operating on a commercial basis to minimise demands on public funds, we work to agreed Government targets.

The Met Office began as a small Meteorological Department under the Board of Trade in 1854. In 1920 we moved to the Air Ministry, which in 1964 became part of the Ministry of Defence (MOD). We became an Executive Agency in 1990 and then a Government Trading Fund in 1996 under Statutory Instrument SI 1996/774. Following our move in July 2011 to the Department for Business, Innovation and Skills (BIS), we still operate as a Trading Fund today.

Services for everyone

Our customers are as diverse as the weather we forecast and our services are of benefit to people and organisations the world over. We help families plan days out, as well as advise gas and electricity companies on conditions that change demand. Our specialists in the Mobile Met Unit (MMU) — a sponsored Reserve Unit of the Royal Air Force — provide forecasts for military operations across the world, standing shoulder to shoulder with the Armed Forces. Our advice helps the military make strategic decisions, plan operations and safeguard service personnel in often highly challenging conditions.

In the UK we're perhaps best known for our public services. These include the Met Office Public Weather Service (Met Office PWS), which provides everyday forecasts for the general public, and the Met Office National Severe Weather Warning Service, which alerts everyone about unusual or hazardous weather conditions. Our services also provide advice for decision-makers in businesses and the wider Government.

For example, we now work with the National Health Service to advise how the weather can affect hospital admissions — and therefore workloads. We work with transport providers to help them anticipate how the weather will affect travel. We monitor the predicted spread of insect-borne diseases such as bluetongue, toxic or hazardous fumes — even volcanic ash. We also supply accurate data about the real-time and forecast weather conditions at individual wind-farm sites to help operators plan visits, deliveries and maintenance schedules while ensuring the safety of staff and contractors and that downtime is kept to a minimum. This is particularly relevant because nearly half of all the UK's renewable electricity comes from the wind these days.

Climate change affects us all. The globally respected Met Office Hadley Centre continues to conduct groundbreaking research into climate variability and change to further our understanding of the evidence for humankind's impact on the climate. This is creating an ever-clearer picture of how climate change will continue to affect lives and livelihoods around the globe. We also provide tailored advice to help customers begin to adapt to the consequences of our changing climate.

2011/12: a year of success and change

As a science organisation first and foremost, we know it is vital to maintain our worldwide reputation for accuracy, reliability and innovation, providing the UK with the best advice to enable protection of life and property, improve well-being and increase prosperity. We have continued to build on our reputation for scientific excellence at a time of organisational change and ongoing pressure on budgets. We were particularly pleased to receive excellent feedback from the House of Commons Science and Technology Select Committee inquiry into Met Office science.

One of the biggest developments for us this year has been our move from the MOD to BIS. This has brought us alongside many other leading scientific bodies within the same department, enabling us to develop even stronger links with key partners such as the Government Office for Science, Research Councils UK, UK Space Agency and the Technology Strategy Board so as to further drive the exploitation and pull-through of the UK's world-leading environmental science.

The formation of the Public Data Group (PDG) and Data Strategy Board (DSB) took place alongside this departmental move. The DSB aims to maximise the value of data from the Met Office, Ordnance Survey, the Land Registry and Companies House and the PDG provides the Met Office with opportunities to demonstrate and build on best practice as well as pursuing efficient collaborations, both across the PDG and wider public sector.

Our move to BIS is also reinforcing the links between science and services. By understanding the direct impact of weather and climate on the economy, we can help support the long-term BIS objective: to drive UK growth. There is already a significant amount of environmental science available that we can harness to further support UK growth. The new structure now makes it easier to work collaboratively with our BIS and other partners to take this forward, while making current information more widely accessible for the benefit of everyone in the UK.

Services for growth

Every day, the implications of taking the weather into account are huge for businesses. The weather's behaviour can influence the manufacture of products and services,

marketing, demand and, ultimately, profitability. We offer world-leading expertise to help companies make better informed decisions about the impacts that weather and climate change may have on their business.

We understand the underlying network of risks faced by businesses. To help, we supply everything from underpinning science to sophisticated bespoke products and services. This calls into play Met Office science, modelling, and unique applications that businesses use to anticipate supply and demand, improve safety and efficiency, mitigate threats to their reputation and credibility, and settle contractual disputes and legal claims.

Today, skilful climate predictions are increasingly being used in longer term investment decisions, and there's growing interest from other countries in our consultancy services in this area. From assessing the impacts of climate change along the River Nile to helping Singapore advance its climate science capabilities, a range of countries are seeking our help to understand their sensitivity to climate variability and change, so as to put in place adaptation strategies and further develop home-grown talent to predict what may happen next.

An increasing number of countries are also now using Met Office modelling systems in their own operations. In terms of being better prepared and more resilient, the positive global impacts of this are huge; particularly when estimating the lives saved and costs avoided by knowing in advance that hazardous weather is on the way.

Business performance measures

A key highlight of the year was our performance with extreme weather warnings. For example, the red warning issued in advance of the severe gales in Scotland on 8 December 2011 enabled preventative action to be taken, including the closure of schools and bridges — helping to keep people safe and prevent major damage to infrastructure. Our success in Scotland is a clear reminder of the importance of what we do.

This year we improved on last year's performance across all but a subset of one of our Business Performance Measures (BPMs). We're proud to have met our customers' requirements for the delivery of key outputs, vastly increasing public access to our forecasts and meeting demanding financial measures, all while reducing our impact on the environment. Increasingly, we have worked in collaboration with others and are very grateful for the support and expertise of our partners.

A key measure of success for any National Meteorological Service (NMS) is the accuracy of its forecasts. That's why we work with a range of customers to measure the accuracy of the services we provide them and use internationally

recognised methods of assessing the output of our scientific models. This year we met 14 out of 16 individual forecasting targets which, in the main, relate to the BPMs for delivering to customers on time and in full. The target for our scientific model output was partially met, while comfortably exceeding the UK element — the one that really matters for most of our customers. We're proud of our forecast accuracy and are consistently ranked in the top two operational meteorological services in the world.

More in-depth features on these successes and highlights of 2011/12 will be made available in the year-end edition of our magazine, Barometer, in July 2012. Barometer is also available online at www.metoffice.gov.uk/barometer.

Looking to the future

Our successes during the past year form a strong base 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'.

We will continue to carry out world-class research, pioneering the science that makes forecasting today's weather and the future climate possible; while exploring the exciting opportunities for growth and a greater contribution fostered by new relationships within BIS and elsewhere.



Introduction from the Chairman

Robert Napier reviews his sixth and final year as Chairman of the Met Office Board:

Looking at Met Office successes in 2011/12, which would you highlight first as the most significant?

The Met Office performed exceptionally well with extreme weather warnings this year — a fact that underscores our commitment to delivering against our core responsibility to protect life and property. Our early winter snow and storm warnings for Scotland, for example, led directly to the timely closure of schools and the Forth, Tay and other vital bridges to prevent injury or damage. The emergency services have confidence in our forecasts so were able to take prompt and appropriate preventative action. We're seen as a trusted source of key advice that 'gets it right'. These types of responses send out a headline message about the importance of what we do.

The formation of the Natural Hazards Partnership (NHP), of which the Met Office is a leading member, has greatly improved the way serious natural events are anticipated and people and organisations are alerted. The NHP now encompasses 13 organisations that work in partnership to cover a broader range of natural hazards and build on the collaborative approach we've already taken with the Environment Agency through the Flood Forecasting Centre. It's a move that has been extremely well received by the Cabinet Office. So it's not only been a year when we've got our forecasting right, but one in which we have extended our capabilities by developing relationships with other key partners. The result is a more joined-up service that strengthens UK civil contingency planning.

What's more, our excellent Business Performance Measures demonstrate increased efficiency. These show that, for the UK public and a wide range of other customers, we've yet again increased the quality and accuracy of our forecasts.

How is the Met Office continuing to drive climate-change science?

We have a vital role to play in developing and communicating information about climate change. We were the trusted partner of the Department of Energy and Climate Change (DECC), chosen to brief ministers and other participants at last November's 17th Conference of the Parties (COP17) in Durban, South Africa. And we're doing the same in the lead up to Rio+20 — the United Nations Conference on Sustainable Development that takes place in Brazil in June 2012.

Although global economic challenges have led some to engage less with climate change and its effects, one simply can't escape the fact there are more extreme weather events occurring globally. We are grateful that more people appreciate that what we're doing at the Met Office is critical. The recent £60 million investment in a three-year programme of Met Office climate science

by DECC and the Department for Environment, Food and Rural Affairs (Defra) highlights how important they consider it that we understand the challenges of climate change.

So, another year on, and our standing as a global leader in climate change research has been further enhanced — strengthened by our reputation for not overstating the facts and for being a reliable witness.

How is the Met Office embracing social media and other new technologies to communicate weather information to the public?

I think we're on our toes when it comes to delivering what people want from online and social media channels such as Twitter and Facebook — namely fast, free access to information that's useful to millions of people in their daily lives. In the five to six years I've been with the Met Office there's been a major and powerful transformation in this area. In fact, late last year we won the 'Best Use of Social Media in the Public Sector Award' in the Computer Weekly Social Media Awards. The excellent Met Office weather app has also been a top download for most of the two years since its launch. An extraordinary 7.8 million people used both our iPhone and Android mobile apps at the beginning of February when the country was hit by snow and cold temperatures. Our recently re-launched website makes it even easier for people to find the weather and climate information they need. When the freezing conditions struck earlier this year, 5.6 million people visited www.metoffice.gov.uk to keep up to date with the changing conditions.

Our Weather Observations Website (WOW) — launched with the Royal Meteorological Society and supported by the Department of Education — has won us recognition even further afield. WOW enables amateurs, such as schoolchildren, to post weather observations online. The system enables them to readily compare their own data with that of others and with those of the Met Office. The project has been incredibly popular. We've attracted more than 28 million observations from as far afield as China, New Zealand, Mauritius and Brazil between the site's launch in June 2011 and the end of the financial year in March 2012. It's no exaggeration to say that WOW has become a worldwide phenomenon, with interest in adopting the idea being discussed with National Meteorological Services (NMSs) around the world, as well as others involved in large-scale data gathering projects.

Powerful new media channels such as these exploit the increasingly personal relationships that people enjoy with Met Office services via computers, smartphones and other digital devices. They also work hand-in-hand with 'traditional' broadcast media to extend our reach still further, such as through our recently agreed contract with ITV.

What impact will the Met Office's move to the Department for Business, Innovation and Skills (BIS) have on promoting sustainable economic growth in the UK?

Our move to BIS follows a long and very good relationship with the MOD — one which we very much value and work to maintain. The MOD remains an important partner and customer for a range of weather services. A great example of this is the Mobile Met Unit's deployment to southern Italy at very short notice to support last year's military action in Libya.

Our owner is now the Shareholder Executive of BIS, which looks after a series of Government investments. Being in BIS allows us to better focus on how we can contribute to growth, expanding our support to commercial activities, and making more and better data available; which, in turn, helps others to expand their businesses. BIS is encouraging us all the time in this area, as we set ourselves targets to grow our business contribution.

Has the move to BIS changed the way the Met Office shares its expertise with other government departments — at home and abroad?

We have enjoyed numerous high profile visits to the Met Office in the last year. This is a compelling illustration of the extent to which we're respected by the Government.

Shortly after our move to BIS we met the Rt Hon Dr Vince Cable MP, Secretary of State for Business, Innovation and Skills and President of the Board of Trade. This was followed by a visit from the Rt Hon David Willetts MP, Minister for Universities and Science and, as a result of our move to BIS, the minister responsible for the Public Weather Service. It was a good opportunity to introduce our new owner to the Met Office and the important work we do.

Sir John Beddington is the Government's Chief Scientific Adviser and heads up the Government Office for Science and the network of departmental Chief Scientific Advisers. Sir John depends on the Met Office for regular advice on a wide range of scientific issues. In particular, he takes the lead in providing scientific advice to the Government during major incidents, including the spread of volcanic ash in 2010 following the eruption of the Eyjafjallajökull volcano in Iceland, and the Fukushima nuclear crisis in Japan in 2011.

In October 2011, Henry Bellingham MP visited us to find out more about our leading climate change research. As Under-Secretary of State for the Foreign and Commonwealth Office (FCO), Mr Bellingham's responsibilities include Climate Change and Africa. Nineteen London-based African Ambassadors and other senior diplomats accompanied him on his visit. For the accompanying African diplomats, the visit raised

awareness of climate issues ahead of last November's 17th Conference of the Parties (COP17) in Durban, South Africa. Our guests enjoyed briefings on our wide range of science and operational services, with a particular focus on climate research and our capacity building activities in Africa. It was an excellent opportunity to strengthen our relationship with the FCO and create greater awareness of what we do with a view to closer partnership working, particularly in an international context.

Managing internal change has never been higher on the Met Office agenda. How is the organisation mitigating its effects on staff?

We operate in a demanding environment and, in order to be successful, must attract, retain and motivate a highly educated and skilled workforce. While our reward strategy follows Civil Service Reward Principles by linking pay increases to our individual and shared performance outcomes, the current pay freeze is an additional challenge for us. The pay freeze has encouraged us to look at how else we can recognise, engage and motivate our staff. For example, we encourage individuals to pursue learning and development opportunities, which can be formal class-based training through to organisation-wide initiatives leading to new ways of working. Opportunities also exist to work at Met Office sites in other parts of the UK and overseas, and for staff to share their knowledge in capacity building projects with other NMSs in different parts of the world.

We never underestimate the importance of a motivated workforce. Through regular Employee Attitude Surveys we listen carefully to staff concerns and take action where we can to address them. Overwhelmingly, staff are proud to be part of the Met Office and our intention is to enable them to make an increasingly strong contribution to the safety, well-being and prosperity of the UK.

You are shortly stepping down after two consecutive three-year stints as Chairman. What have been your main contributions to the Met Office in this time?

It's been an enormous privilege to have been part of such an extraordinary organisation — and so interesting to work alongside such amazing people. As Chairman, my role has been to act as a guide and friend of the Chief Executive and offer a fresh perspective. I hope I've been able to do that effectively and contribute to what I consider to be a very successful period for the Met Office. Yes, we've inevitably had some challenges, but I hope I've been able to offer a steady hand in helping deliver the output that's expected of us. It's been a special privilege to have worked alongside Chief Executive, John Hirst, who benefits the Met Office hugely with his outstanding leadership.



Chief Executive's overview

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

How important is the House of Commons Science and Technology Committee's recent report 'Science in the Met Office' for putting the organisation's activities during 2011/12 into context?

The Select Committee's report was both affirming and significant for us. We were especially pleased to give evidence to the Committee during autumn about the diverse and groundbreaking scientific work we do, and the trust the public has in our ability to warn of dangerous weather. It was heartening to hear and read the supportive evidence provided by witnesses about the quality of our forecasts and the value of our scientific research. This ultimately led to a report that is hugely supportive of our mission and the science we carry out. It's been a great encouragement for us to push ahead, to seek further investment in supercomputing and ensure our science is used ever-more widely.

The Met Office became part of the Department for Business, Innovation and Skills in July 2011. What opportunities does this development bring?

One of the biggest developments for the Met Office in this last year is also one of our most important opportunities. After a long and successful partnership with the MOD, we became part of BIS. We're now developing even stronger links with key partners such as the Government Office for Science, Research Councils UK, UK Space Agency and the Technology Strategy Board to drive the exploitation and pull-through of the UK's world-leading environmental science.

The benefits of moving to BIS are already showing through. For example, work had already started on a Natural Hazard Partnership (NHP). Being part of BIS contributes further to this. We've learnt through events such as the Eyjafjallajökull volcanic eruption and the impact of its ash cloud back in 2010 that it is vital to work closely to combine our advice with that of other leading organisations. We're now collaborating more closely with our BIS counterparts, as well as with other partners such as the Environment Agency and the Health Protection Agency to combine advice and alerts for a range of natural hazards from landslides to heat-stress. The result will be that the public and response services receive one authoritative voice from a single, integrated source.

The benefits of our new organisational 'home' also go beyond civil contingency planning. As well as supporting us to improve the way we approach developmental science and monitoring, BIS is encouraging us to contribute to the UK's economic growth. There's a wealth of environmental science held by us and our partners that we are working to combine into intelligent advice and services so as to create benefits for the UK as a whole.

How well did the organisation perform in its forecasting?

Some of the most critical forecasting challenges of the year were during the winter. The combination of world-class computer models and expert human judgement ensured that our advice was consistently reliable and spot-on when it mattered most. At Heathrow airport, for example, our on-site weather advisor helped BAA consider the implications of our snow warning, made 24 hours in advance with pinpoint accuracy. Airport authorities implemented a contingency plan of targeted cancellations that, although inevitably not welcome, prevented much more serious disruption. In Scotland our first red warning of the season enabled pre-emptive action to be taken, including the closure of schools and bridges ahead of severe winter storms. This kind of activity really drives home how Met Office advice is trusted to improve operations, prevent damage and, critically, protect lives.

We are also working with a range of agencies to ensure the very best support for the London 2012 Olympics. The Met Office will be providing weather information to the Olympic and Paralympic Games from July to September 2012, for the competing athletes and their coaches and, importantly, for visitors and those responsible for the massive logistical exercise of transporting and ensuring the safety of huge numbers of people. Met Office teams based with Olympic organisers in London, Eton Dorney and Weymouth will provide detailed guidance across a whole series of forecasts, using weather-measuring devices around all venues — technology we've already put through its paces at test events throughout the year.

Our reputation for accuracy and efficiency goes well beyond the UK and we continue to be rated in the top two NMSs around the world, alongside our Japanese colleagues. We are right up there, not only for short-range forecasts, but for longer term outlooks too.

Are there areas of the Met Office portfolio that may be less widely known?

Yes, certainly. For example, we forged a new space weather forecasting partnership with the National Oceanic and Atmospheric Administration (NOAA) in the United States (US) who are the experts in solar flares and emissions. The goal is to develop a UK-based space weather forecasting service that will monitor the way the Sun's matter and energy changes and predict how this is likely to affect the Earth. Being able to forecast the potential disruption of solar flares and impulses to satellites, the Global Positioning System (GPS), power grids and radio communications is increasingly important. While the Met Office is benefiting from the many decades of experience the US has in space weather, we're contributing our terrestrial weather forecasting skills, such as ensemble modelling — a technique used to understand uncertainty — and data assimilation. It's a two-way relationship.

We naturally maintain strong support for the Ministry of Defence and its activities. So throughout the year we continued to make available our forecasting experts to the Armed Forces in support of ongoing military operations — often at very short notice. Recent activity during the Libyan campaign once again demonstrated our rapid response capability, with specialists from the Mobile Met Unit (MMU) deploying to southern Italy. Some 80 Met Office staff make up the MMU — a sponsored reserve unit of the Royal Air Force. When deployed, the MMU can establish a 'mini Met Office' in a matter of hours so as to provide critical tactical and strategic weather advice as soon as it's needed.

How will the appointment of a new Head of the Met Office Hadley Centre further the organisation's ambitions in climate change?

Understanding climate change and sharing our knowledge of it continue to be pivotal to the Met Office mission. It's vital work that is increasingly widely recognised as we disseminate our findings via multiple channels, from publications and videos, to exhibitions and conference speeches. We're therefore privileged to welcome our new Head of the Met Office Hadley Centre, Professor Stephen Belcher, formerly of Reading University, whose work will make a major contribution to developing our climate services still further. Stephen is a climate scientist and academic of international standing. His appointment not only reaffirms the Met Office Hadley Centre as the world's leading climate modelling and research organisation, but the Met Office as a body whose work extends beyond weather forecasting.

Recently extended contracts for established partners such as DECC and Defra further endorse the value of the unique climate change expertise we can provide.

What other opportunities lie round the corner?

The biggest opportunities to add value often happen because of our excellent science and operational capability. For instance, we're currently working with partners to set up the Environmental Science to Service Partnership (ESSP) that will link Met Office-led research and excellence in delivery with Defra, the Environment Agency, Ordnance Survey and others in the Natural Environment Research Council including the British Geological Survey and the Centre for Ecology and Hydrology. The aim is to capitalise on the excellent environmental research that is carried out in outstanding institutions — many part of the BIS family — by sharing data, information and expertise to the benefit of the UK. Integrating our knowledge and coordinating our advice in this way should mean that new products and services are created that contribute to UK growth.

Around the world, businesses and governments are beginning to factor climate change into their longer term plans too. We are increasingly being asked to advise other countries on their sensitivity to climate variability and change, or improve their capability to predict it, or help draw up adaptation strategies, or, in some cases, all of these. Some of the projects we've been involved in recently include assessing the impacts of climate change along the River Nile; helping Singapore advance its climate science capabilities; accurately forecasting tropical storms in the Atlantic for the insurance and reinsurance industries; and, closer to home, looking at whether the Thames Barrier will hold fast and continue to protect London and the estuary communities from flooding.

As we pursue growth, input to Government policies, think about developing our social media reach, and follow up on the other exciting opportunities that lie ahead, we will never lose sight of our core science offering.

Why do you want the Met Office to be recognised as 'the best weather and climate service in the world'?

Three key reasons mainly. Firstly, the more accurate and reliable our forecasts and advice are, the more people rely on them to make decisions that keep them safe or manage their affairs better. Secondly, the earlier we are able to warn people — particularly of extreme conditions — the more damage and costs can be avoided. Insurance companies have good evidence of this. And thirdly, the better our reputation is, the more we attract great staff and the expertise of partners and collaborators from around the world to improve the services we deliver.



Sustainability overview

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

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

Sustainability is a top priority for us — not only because it's central to our business as a weather and climate services provider, but also because it makes sound business sense. We progressed to 'sustainability' from 'corporate responsibility' in 2011/12 so as to better reflect our work, and also focuses our thinking more on our operational impacts. Four sustainability strands cover our environment, people, suppliers and community.

Alongside obvious benefits, such as the financial savings from using less energy, we also see sustainability as good for business relationships, reflecting its ever-increasing importance for our customers, partners and other stakeholders. As we work to meet increasingly stringent standards, we're supported by a diverse staff that reflects the society around us. Our staff are passionate about sustainability and see it as pivotal for their place of work.

What were the sustainability highlights of 2011/12?

A key highlight of 2011/12 was our continuing success at managing our carbon emissions. One of our Business Performance Measures for 2011/12 was to reduce the carbon dioxide (CO₂) emissions from our supercomputer (per teraflop) by 25%, a target we comfortably achieved with the aid of some impressive innovations. Between November and March our supercomputer was upgraded so that it can now run at a higher operating temperature in the range of 6–13 °C so reducing the cooling power load. Further to this, our newly introduced 'free cooling system' reduced our reliance on electric chillers, resulting in lower CO₂ emissions. The water used in this process is drawn from our on-site borehole and subsequently recycled as 'grey water' for flushing toilets.

Looking wider across the Met Office, another one of our Business Performance Measures was to reduce non-supercomputer CO₂ emissions by 1.5%. This includes energy consumption across the whole estate, and all forms of business travel. We're especially proud that this too was achieved.

But much more significant than our own emissions reduction is the contribution we make globally through our weather and climate services, helping others to cut their emissions. For example, each year it's estimated that the forecasts produced using our supercomputer will help to reduce CO₂ emissions by 352 thousand tCO₂e ('tonnes of CO₂ equivalent') across the aviation community worldwide.

Another notable achievement was our growing work with young people in schools and colleges. The Reach Academy at Exeter College, for example, is an initiative for high-potential local Sixth Formers offering students unique experiences and access to the world of work. Our STEM projects (focusing on Science, Technology, Engineering and Maths) nationwide involved young people visiting us for work experience and summer placements, as well as 45 STEM Ambassadors giving school talks on weather forecasting and climate science.

One of our summer placement students ran a campaign headed 'Question, Avoid, Reduce' to encourage us to think responsibly about our air travel needs. Staff were asked to question whether their proposed journey was strictly necessary; to avoid any travel — but especially air travel — by using videoconferencing as an alternative to face-to-face meetings; and, if heading out was unavoidable, to use a greener form of transport where possible to reduce total emissions.

Is sustainability affordable in the current climate of austerity?

We see sustainability as a necessity, not an optional extra. That's because our business is about creating a sustainable planet — whether we're talking about climate science and global policymaking, or giving adequate warning so that people, local authorities and emergency responders can deal with weather emergencies as they happen. Doing what's best for our business, and making staff feel positive about our contribution, is essential stewardship.

For instance, encouraging biodiversity at the Met Office's headquarters in Exeter and at some of our other sites around the country is a great way of creating an environment that staff and visitors can feel positive about, without costing the earth. At Exeter, we've increased the area used for wildflowers and also introduced beehives to address the general decline in the bee population which has serious consequences for crop pollination. Swift boxes followed soon afterwards, and we're hoping to have a species log soon.

Elsewhere, we've developed a partnership agreement with Devon Wildlife Trust on the management of our radar site at Cobbacombe in mid-Devon; a habitat study has been carried out at our observation site at Camborne in Cornwall; and plans are in place to look into the possibilities of enhancing biodiversity at Met Office Cardington, Bedfordshire.

In what ways does the Met Office measure sustainability success?

As measured by statutory Government targets, we're one of the leaders in sustainability in the public sector. We're also a leader within our industry and, for example, recycle nearly 80% of our waste — a very high figure. We're always trying to reduce waste and increase the range of items that we recycle and, this year, introduced recycling bins for plastic food containers at our Exeter headquarters. Met Office Belfast also began using a new waste management company in 2011/12 and now sends less than 10% of its waste to landfill.

One specific area we've highlighted this year is widening recognition through awards and accreditation, telling the public and Government about the things we do, and inspiring others. In 2010/11, we were awarded the Business in the Community (BITC) 'silver' accreditation for Corporate Responsibility and we were delighted in 2011/12 to achieve their 'gold' standard. Other awards include the Public Sector Sustainability Award 2011 for Most Sustainable Organisation (Government); we're one of only 20 or so companies to have achieved the prestigious Wildlife Trusts Biodiversity Benchmark Award and are the first public sector organisation ever to have done so; and we received the Building Research Establishment Environmental Assessment Method (BREEAM) 'In Use' Award.

What's next for the Met Office's sustainability strategy?

Our three-year association with chosen charity ShelterBox, which provides shelter packs to victims of natural disasters around the world, will end in June 2012 on a high. Joint fundraising and promotions have been very successful and ShelterBox has benefited hugely from free advertising on one of the worldwide web's busiest public sector websites. We're currently selecting a new charity that offers similar crossover with our global activities.

And our wider commitment to sustainability remains as strong as ever: further reducing carbon emissions and reaching out to young people will continue to be key themes in 2012/13. Two specific innovations will be smart metering of electricity, gas, oil and water to help us target the inefficient use of resources; and the installation of solar panels by a local firm is predicted to pay for itself while reducing our carbon emissions by 100 tCO₂e per annum.

For more detailed information, visit the new sustainability pages of our website:
www.metoffice.gov.uk/about-us/who/sustainability

Sustainability summary

The following tables and commentary provide an at-a-glance summary of our achievements in sustainability in 2011/12 in relation to our Business Performance Measures.

Greenhouse Gas Emissions (GHG)		FY 08/09	FY 09/10	FY 10/11	FY11/12
Non-financial indicators (tCO ₂ e)	Total gross emissions for scopes 1 & 2 (including white fleet)	14,176	18,907	18,852	19,219
	Gross emissions scope 3 – business travel (less white fleet)	n/k	1,380	1,180	1,296
Related energy consumption (MWh)	Electricity: non-renewable	17,692	28,834	24,561	25,074
	Electricity: renewable	1,966	3,204	2,577	2,668
	Natural gas:	17,618	5,331	18,799	20,329
	Gas oil: (diesel)	709	762	1,327	446,734

Waste			FY 08/09	FY 09/10	FY 10/11	FY11/12
Non-financial indicators (t)	Total waste generated		176.35	212.99	192.90	186.25
	Hazardous waste	Total	0.055	0.716	0.343	0.346
		Non-hazardous waste	Landfill	48.82	58.12	49.27
	Recycled		127.53	154.87	143.64	146.95
	Incinerated/energy recovery		0	0	0	0

Water

The majority of energy and water consumption is related to supercomputer operations. During 2011/12, the Met Office installed a second evaporative cooling system and made engineering changes to the water systems at Exeter, which resulted in a failure to meet the 5% reduction in water consumption. The alterations also highlighted a number of issues with water meters which made it impossible to measure the relative amounts of potable water being consumed against other borehole, harvesting and recycled water sources. The Met Office remains committed to reducing water consumption and intends to re-baseline its consumption and determine targets in 2012/13.

Management commentary on business performance

Overview

Due to fantastic individual and team efforts, it has been a very successful year in terms of our Business Performance Measures (BPMs). Given the breadth of work the Met Office does, we measure our performance in a number of ways. Although we missed the target for our model output BPM, we comfortably exceeded the UK element of the BPM – the one that really matters for most of our customers. While we missed the target for the Probability of Precipitation (PoP) element of the model output BPM, we made significant improvement to the global element.

We're proud to have met our customers' requirements for the delivery of key outputs, vastly increasing public access to our forecasts and meeting demanding financial measures, all while reducing our impact on the environment. Increasingly, we have worked in collaboration with others and are very grateful for the support and expertise of our partners.

BPM	Measures	Improvement on 2010/11	Partially met	Met	Exceeded
Achieving a set return on capital employed	Meet HM Treasury requirements by achieving a Return on Capital Employed (ROCE) of 4.4%	N/A		✓	
Delivering to customers	Deliver outputs defined in Customer-Supplier Agreements (CSAs) for the Public Weather Service (PWS), Defence and DECC/Defra	N/A		✓	
Delivering on time, and in full	Deliver a range of products for our commercial and government customers by the target time (on time) and as described (in full)	N/A		✓	
Reducing our impact on the environment	Meet both targets relating to the efficiency of our supercomputer and the reduction in our CO ₂ emissions (including energy consumption and business travel)	✓			✓
Building profitable revenue	Achieve both our business profitability target of £7.1m and our stretch target of £7.6m	✓			✓
Maintaining our reach online	Maintain the number of visitors to our website, based on last year's figures (132 million)	✓			✓
Model outputs	Meet two out of three measures relating to the performance of the scientific models: UK Numerical Weather Prediction (NWP) Index, Global NWP Index and Probability of Precipitation (PoP) Index	UK – ✓			✓
		Global – ✓	✓		
		PoP – ✗			
Working more collaboratively	Achieve all three measures relating to the benefits gained from our Academic Partnership, Unified Model (UM) and the use of our supercomputer	N/A		✓	

Forecast accuracy by customer sector

A key measure of success for any NMS is the accuracy of its forecasts. That's why we work with a range of customers to measure the accuracy of the services we provide them and use internationally recognised methods of assessing the output of our scientific models. One of these, the Brier Skill Score, is probably the most used verification measure for assessing the accuracy of probability based forecasts. Another method, using a Root Mean Square error score is recognised and recommended by the World Meteorological Organization. For more information on the methodologies used please see www.metoffice.gov.uk/research/weather/numerical-modelling/verification

Individual forecasting targets are set externally by customers, included in formal service delivery agreements, and relate, in the main, to the BPMs for delivery to customers on time and in full. This year we met 14 out of 16 of these targets. We're proud of our forecast accuracy and are consistently ranked in the top two operational meteorological services in the world.

	Measure of success	Not met	Partially met	Met
Public Weather Service	Day 1: Maximum temperature is accurate within $\pm 2^{\circ}\text{C}$			→
	Day 1: Minimum temperature is accurate within $\pm 2^{\circ}\text{C}$			→
	Day 1: Wind speed is accurate within ± 5 knots			→
	Day 1: Wind direction is accurate within $\pm 45^{\circ}$			→
	Day 1: Temperatures @ 3 hourly intervals are accurate to within $\pm 2^{\circ}\text{C}$			→
	Day 1: Rain forecasts @ 3 hourly intervals are accurate			→
	Day 1: Sun forecasts @ 3 hourly intervals are accurate			→
	Day 2: Maximum temperature is accurate within $\pm 2^{\circ}\text{C}$			→
	Day 2: Minimum temperature is accurate within $\pm 2^{\circ}\text{C}$			→
	Day 2: Wind speed is accurate within ± 5 knots			→
	Day 2: Wind direction is accurate within $\pm 45^{\circ}$			→
Model output	UK			→
	Global		→	
	Probability of precipitation	→		
Defence	Terminal Airfield Forecasts' (TAFs) verification is produced for 29 defence sites in both the UK and overseas. The score used is known as the Service Quality Index (SQI). The score measures the reliability of the visibility and cloud-base elements of a TAF crossing a critical threshold ($\text{vis}<3700$ m and $\text{clb}<700$ ft).			→
Civil Aviation Authority	The accuracy of our upper air wind forecasts is assessed using the verification of 250 hPa winds.			→

Financial review

Financial performance and policies

Despite a challenging economic environment, the Met Office delivered its highest ever revenues in 2011/12, £196.2 million, up from £196.1 million in 2010/11.

While operating costs increased slightly from £186.5 million in 2010/11 to £187.0 million in 2011/12, the operating costs for 2011/12 included an exceptional charge of £4.1 million in respect of a business-wide Voluntary Redundancy Scheme that operated during the year.

The Met Office has successfully achieved its financial Business Performance Measures (BPMs) in 2011/12. We met our target for the Return on Capital Employed for the year of 4.4% in support of our Treasury Minute target of 3.5% over the five-year period to 31 March 2014.

The Met Office has continued to grow profitable revenue during the year, successfully achieving the Business Profitability BPM. The Building Profitable Revenue BPM measures the profitability of Commercial business together with Government business gained on a competed basis. The Met Office exceeded both the Business Profitability measure of £7.1 million and the stretch measure of £7.6 million in achieving a Business Profitability of £8.0 million.

	2011/12	2010/11
	£m	£m
Revenue	196.2	196.1
Operating costs	187.0	186.5
Operating profit	9.1	9.4
Dividends	7.7	8.2
Total non-current assets	201.1	169.3
Net assets at 31 March	211.8	197.4

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 to benefit their business now and in the future; and, in the case of Government, keep lives safe from threats posed by the weather.

The Met Office's business model distinguishes clearly between two types of customer: central government bodies requiring services which cannot sensibly be competed; and services provided on a commercial (usually competed) basis to customers both inside and outside Government. The Met Office's pricing policy is aligned to these types of 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 pricing of services conforms to the terms agreed. The prices for such services are set at a level consistent with HM Treasury guidance.

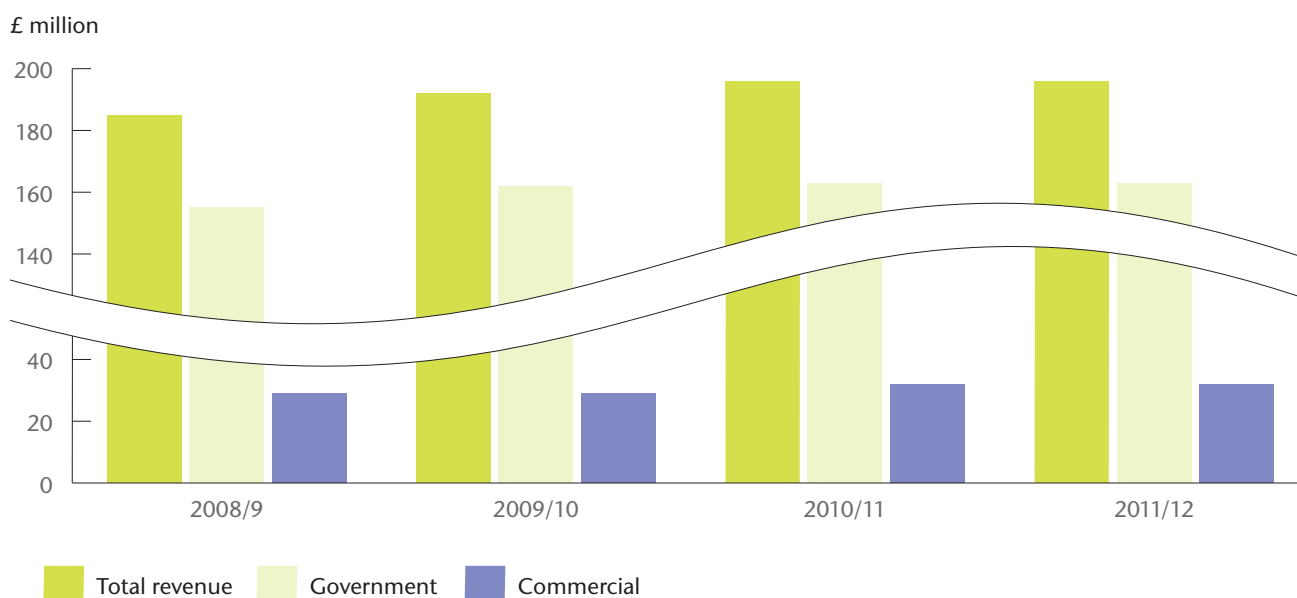
Competed commercial services are priced on an individual basis, depending on the nature of the service and the requirements of the customer. This applies equally to public sector and private sector customers in cases where the contract is awarded through competitive tender.

Commercial Services are priced at a fair market value to deliver profit, ranging from standard services positioned for entry level / basic requirements to high quality, premium-price services exhibiting demonstrable financial or non-financial benefit.

Income statement

Turnover (see note 3 to the Accounts) has been maintained at a similar level to 2010/11 at £196.2 million (2010/11, £196.1 million). Both Government and commercial revenue streams have held steady, with a slight increase in commercial revenue and a slight decrease in Government business revenues in 2011/12.

Revenue from trading activities



Within Government business there are three main revenue streams — Defence, Government Services and the Public Weather Service (PWS). Both Defence and Government Service revenues have decreased compared to 2010/11, although this has been offset by an increase in PWS revenue. PWS revenue increased in line with the contracted price for the programme of work undertaken, together with additional revenue earned in respect of data wholesaling.

Government Service revenues decreased by £1.6 million compared to 2010/11. This is largely due to a reduction in revenues (and associated costs) in respect of the Met Office Hadley Centre Climate Programme and the Flood Forecasting Centre. The Met Office Hadley Centre Climate Programme costs and revenues are lower due to the delay in the implementation of phase two of the supercomputer. Revenue in respect of the Flood Forecasting Centre was higher in 2010/11 due to the transition and relocation of the Centre to Exeter. International Government business revenues have increased due to additional capacity building projects in countries such as Sierra Leone and Singapore.

Defence revenue (and costs) fell, primarily as a result of efficiencies in service delivery to the customer. This follows a degree of centralisation and flexibility in the delivery of service driven by MOD-base closures, which has led to cost savings and, in turn, reduced the level of associated revenue. In addition, a key project was completed during the year.

Total operating expenditure (see note 4 to the Accounts) increased by £0.5 million from £186.5 million in 2010/11 to £187.0 million in 2011/12. The total operating expenditure

for 2011/12 includes a charge of £4.1 million associated with an organisation-wide Voluntary Redundancy Scheme undertaken during the year. Staff costs (excluding early retirement and exit costs) have decreased compared to 2010/11. Whilst salary costs have remained static as a result of the Civil Service pay constraints, the performance related element of staff pay has reduced due to the Met Office narrowly missing the Business Performance Measure in respect of model output for the Probability of Precipitation. Equipment and services costs were £2.5 million higher, predominantly due to costs associated with the redesign of the Met Office website and product development work.

Depreciation charges have fallen compared to 2010/11, primarily due to the phase one supercomputer becoming fully depreciated during 2011/12, with the phase 2 replacement not becoming fully operational. Following the installation of phase two of the supercomputer and the acquisition of additional supercomputing hardware towards the end of the financial year, it is anticipated that depreciation charges will increase in 2012/13.

Operating profit decreased slightly from £9.4 million in 2010/11 to £9.1 million in 2011/12.

A Return on Capital Employed (ROCE) of 4.4% 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 2012, the Met Office has achieved an average ROCE of 4.1% over the first three years of this five-year period.

Total dividends payable to our Owner, the Department for Business, Innovation and Skills were £7.7 million in respect of 2011/12 (2010/11, £8.2 million).

Cash flows and liquidity

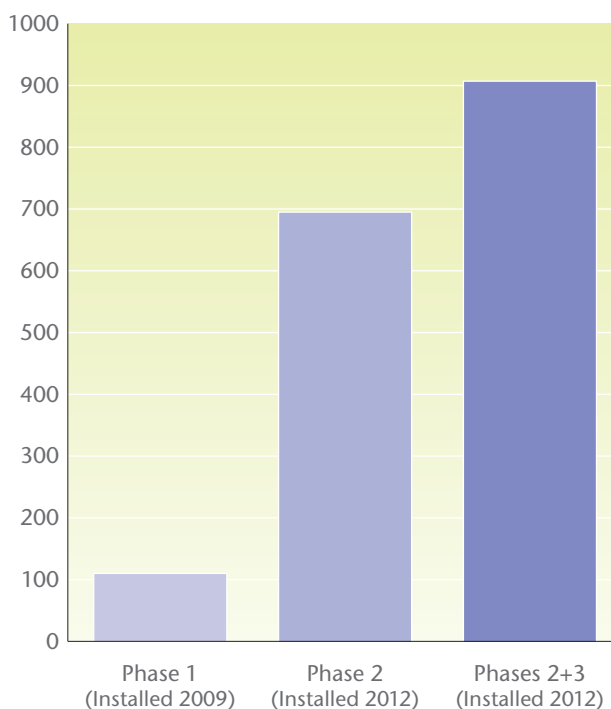
Cash balances totalled £38.3 million as at 31 March 2012, a decrease of £1.2 million compared to 31 March 2011. Of this balance, £0.6 million comprised cash in transit at the year-end (2010/11, £1 million). The Met Office holds cash deposits to meet its short-term operating commitments including international obligations, capital expenditure and dividends. The amount on deposit represents approximately two months of cash outlay.

Net cash inflows from operating activities increased to £36 million (2010/11, £28.6 million). This has largely been driven by the movement in trade and other receivables and payables. Total trade and other receivables decreased by £5.1 million. This has largely been driven by a change in the timing of the receipt of the monthly PWS invoice. Total trade and other payable balances decreased by £4.4 million compared to 2010/11; the main contributor to this was a £4.5 million reduction in the year-end VAT creditor as a result of the high level of capital investment in the final quarter.

Net cash outflows from investing activities have also increased due to a higher level of capital expenditure. This has largely been due to the cyclical nature of capital investment in satellite programmes and supercomputing assets. In particular, phase two of the supercomputer together with additional supercomputing hardware (phase three) and storage was purchased during 2011/12 at a cost of £20.7 million.

The additional supercomputing hardware and storage, above the phase two baseline, was funded by capital grants received during the year from DECC, Defra and NERC. This additional investment partly implements recommendations in Sir John Beddington's Review of Climate Science Advice to Government and the conclusions of the House of Commons Science and Technology committee review on science in the Met Office. The Phase two and three capacity will enable the Met Office to deliver more accurate forecasts and robust advice to our customers, on timescales from hours to a century ahead. For example, it will enable us to run a high-resolution probabilistic (ensemble) forecast system across the UK for the first time to provide improved predictions on the risk of high-impact weather. It will also enable increased resolution and complexity of climate models, to improve adaptation, mitigation and resilience planning and policies. The additional capacity will also enable the Met Office to further develop, and make operational, monthly, seasonal and decadal forecasts, from which climate services will be innovated. The graph below demonstrates the increase in supercomputing capacity as a result of this investment.

Maximum supercomputing capacity (teraflops)



Net cash outflows from financing activities have decreased slightly, primarily as a result of lower loan repayments after settlement of the loan outstanding at 31 March 2011. This has, in part, been offset by a higher level of cash outflow relating to a dividend paid of £8.2 million during 2011/12 compared to £4.5 million paid during 2010/11.

Supplier payment performance

During 2011/12, 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 2011/12 financial year, 81.7% of invoices were processed through to payment within five working days, compared with 75.2% over the whole of 2010/11. 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 contribution to satellite programmes are paid in foreign currency. To manage the foreign exchange risk, the Met Office has a policy to buy 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, now 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 2012. Loan funding requirements are anticipated to increase over forthcoming years to finance the UK contribution to the EUMETSAT Third Generation satellite programme.

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

Staff absence data

In 2011/12 the Average Working Days lost per person was 5.5 days (2010/11, 5.6 days). The minor decrease compared to 2010/11 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.

Disclosure of information to auditors

In accordance with the section 418 of the Companies Act 2006:

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



Mr J Hirst,
Chief Executive
1 June 2012

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. Slingo Chief Scientist

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

N. Jobling Chief Financial Officer
R. Varley Operations and Services Director

Senior civil servants

The remuneration of Senior Civil Servants is set by the Prime Minister following independent advice from the Review Body on Senior Salaries.

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

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

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

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

Service contracts

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

Unless otherwise stated above, 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/wp-content/uploads/2011/09/CivilServiceReward_tcm6-35260.doc

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	2011/12				2010/11			
		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	150–155	15–20	40–45	210–215	155–160	10–15	45–50	220–225
N Jobling Chief Financial Officer		95–100		0–5	95–100	95–100		0–5	95–100
J Slingo Chief Scientist	2	135–140	5–10	25–30	165–170	125–130	15–20	20–25	165–170
R Varley Operations and Services Director		75–80		0–5	75–80	75–80		0–5	75–80

	2011/12	2010/11
Band of highest-paid Director's total remuneration (£'000)	210–215	220–225
Median total remuneration (£)	34,697	34,571
Ratio	6.1	6.4

- The increase in the other taxable allowances relates to the timing of claims for accommodation and travel paid through payroll during the year and the amount of travel between home and Exeter undertaken. It does not reflect a change in the rate of allowances payable.
- J Slingo's contractual hours increased to full-time with effect from 1 July 2011. At this time, the full-time equivalent rate decreased. J Slingo relocated to Exeter during the year and therefore the allowances paid for temporary accommodation and travel have ceased.
- No Director received any benefits in kind in either 2011/12 or 2010/11.

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 2011/12 are based on 2011/12 performance and accrued within the 2011/12 accounts. The performance related pay for 2010/11 is based on performance for 2010/11, which were accrued into the 2010/11 accounts and paid during 2011/12.

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 2011/12 was £210,000 to £215,000 (2010/11, £220,000 to £225,000). This was 6.1 times (2010/11, 6.4 times) the median remuneration of the workforce, which was £34,697 (2010/11, £34,571). The decrease in the ratio of the highest-paid Director to the median remuneration of the workforce between 2011/12 and 2010/11 is primarily due to a reduction in the total remuneration paid to the highest-paid Director, the Chief Executive, as noted in the table on the preceding page.

There has not been a significant movement in the median remuneration of the Met Office workforce between 2011/12 and 2010/11. The composition and number of the Met Office staff has remained comparable between the two years. In accordance with the Government's announcement in the June 2010 Budget, Met Office staff have been subject to the Public Sector Pay Freeze during 2011/12. However, in line with this announcement, those earning the full-time equivalent of £21,000 or less have been able to receive a consolidated increase of £250 in each of the years 2011/12 and 2012/13. The increase in the median remuneration figure between 2011/12 and 2010/11 is attributable to the effect of severance payments made to a small number of staff during the year.

In 2011/12, no employees (2010/11, nil) received remuneration in excess of the highest-paid Director.

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

Pension benefits

(This information is subject to audit)

	Accrued pension at pension age as at 31/03/12 and related lump sum	Real increase in pension and related lump sum at pension age	CETV at 31/03/12	CETV at 31/03/11*	Real increase in CETV
	£'000	£'000	£'000	£'000	£'000
J Hirst	20–25	2.5–5	295	236	38
N Jobling	10–15	0–2.5	165	139	11
J Slingo	30–35	2.5–5	509	425	46
R Varley	25–30 plus lump sum of 80–85	0–2.5 plus 0–2.5 lump sum	469	433	—

* The actuarial factors used to calculate Cash Equivalent Transfer Values (CETVs) were changed in 2011/12. The CETVs as at 31/03/11 and 31/03/12 have both been calculated using new factors, for consistency. The CETV at 31/03/11 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 1.5% of pensionable earnings for Classic and 3.5% for Premium, Classic Plus and Nuvos. Increases to employee contributions will apply from 1 April 2012. 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 the website www.civilservice-pensions.gov.uk

Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme, or arrangement to secure pension benefits in another pension scheme, or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

The figures include the value of any pension benefit in another scheme, or arrangement which the member has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their purchasing additional pension benefits at their own cost. CETVs are 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:

	2011/12	2010/11
	£'000	£'000
R Napier	35–40	35–40
B Hoskins	15–20	15–20
P Rew	15–20	15–20
M Goodfellow	15–20	15–20
J Currie (until August 2011)	5–10 (15–20 full year equivalent)	15–20
J Neilson	–	–
P Shortt	–	–

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



Mr J Hirst,
Chief Executive
1 June 2012

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

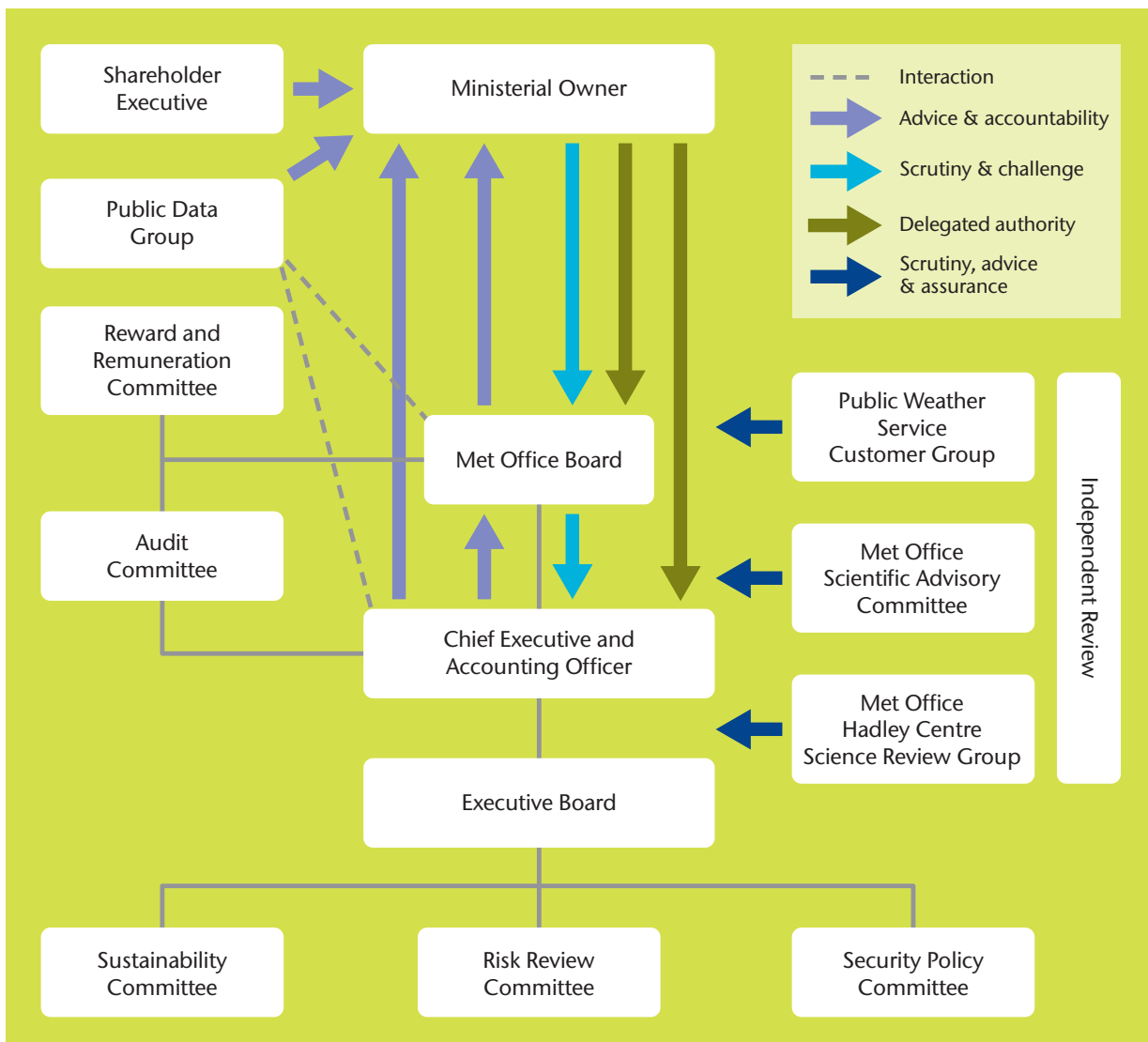
The Governance statement, for which I, as Accounting Officer take personal responsibility, gives a clear understanding of the dynamics of the Met Office and

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

The Prime Minister announced on 18 July 2011 that ministerial responsibility for the Met Office had passed, via a Machinery of Government change, from the Ministry of Defence to the Department for Business, Innovation and Skills (BIS). In this context, the Minister for Employment Relations, Consumer and Postal Affairs is the ministerial owner of the Met Office, with the Minister of State for Universities and Science being the minister responsible for the Government as a customer of the Met Office.

The Government also announced the establishment of a Data Strategy Board (DSB) and a Public Data Group (PDG) to maximise the value of data from the Met Office, Ordnance Survey, the Land Registry and Companies House. Terms of reference for both Groups were announced on 19 March 2012, together with details of how the Groups relate to each other.

The Met Office Framework Document is being reviewed following the move of the Met Office to BIS and the establishment of the PDG.

Role of the Met Office Board

The Met Office Board challenges and supports the Executive team and carefully scrutinises its proposals and / or performance in relation to:

- developing a long-term business strategy, a four-year Corporate Plan, annual Business Performance Measures and other major business strategies in support of the Corporate Plan; and
- delivering the approved Corporate Plan, including performance against the 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 Met Office Board is chaired by Robert Napier. The Chairman is responsible for leading the Board and ensuring that it is effective in discharging its role. The Chairman is supported by up to four additional Non-Executive Directors, chosen to ensure an appropriate mix of skills and experience. The Met Office is committed to maintaining a strong representation of independent Non-Executive Directors and this is demonstrated by the make up of the Met Office Board. The Met Office Board has two committees — the Audit Committee and the Reward and Remuneration Committee — each chaired by a Non-Executive Board member.

The Audit Committee, chaired by Paul Rew, advises me, as Accounting Officer, and the Met Office Board

on the adequacy, comprehensiveness and effectiveness of the audit arrangements (both internal and external) and of the assurances provided in respect of risk, control and governance in the organisation.

The Reward and Remuneration Committee, chaired by Robert Napier, advises on reward and remuneration issues, as directed by the Met Office Board or requested by the Executive. In addition, it reviews and endorses the proposed remuneration to be paid to the Chief Executive under the terms of his engagement by, and employment with, the owner.

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 the ministerial owner and the Met Office Board (acting, where appropriate, on the ministerial owner's behalf) for the performance of the Met Office in accordance with the Met Office Framework Document and Corporate Plan. The Executive Board, which I chair, is responsible for supporting me in implementing the strategy set out by the Met Office Board, ensuring that all operational matters within the Met Office at corporate level are managed efficiently and effectively. 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. As AO, I have established and documented a clear allocation of responsibilities amongst officials in the Met Office, but retain overall personal responsibility and accountability to Parliament for propriety and regularity, prudent and economical administration, avoidance of waste and extravagance, ensuring value for money, efficient and effective use of available resources, and the organisation, staffing and management of the Met Office.

Additional review bodies

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

Public Weather Service Customer Group — oversees the Public Weather Service from a customer point of view, setting performance measures and reviewing and reporting on outcomes; ensuring the quality, suitability and value for money of the service provided. It comprises independent members and representatives from government departments, agencies, emergency responders, local authorities, the Scottish Executive and Welsh Assembly 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 is chaired by Professor Sir Brian Hoskins CBE, FRS and its membership consists of leading scientists from UK academia and other National Meteorological Services from around the world.

Met Office Hadley Centre Science Review Group (SRG) — provides an independent review, on behalf of the 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		2/2 ¹
Nick Jobling, Chief Financial Officer		10/10	4/4 ¹	
Julia Slingo, Chief Scientist		8/10		
Rob Varley, Operations and Services Director		10/10		
Non-Executive Directors				
Robert Napier, Met Office Chairman, Chair Reward and Recognition Committee	Reward	9/10	—	2/2
Paul Rew, Chair Audit Committee	Reward, Audit	9/10	4/4	2/2
Dr Mike Goodfellow, Non-Executive Director	Reward, Audit	10/10	3/4	2/2
Prof. Sir Brian Hoskins, Non-Executive Director	Reward	9/10	—	2/2
James Currie, Non-Executive Director ²	Reward	3/4	—	1/2
Peter Shortt, Non-Executive Director, Shareholder Executive representative	Reward, Audit	10/10	4/4	2/2
John Neilson, Non-Executive Director, MOD representative ³	Reward, Audit	5/9	1/4	2/2
Phillipa Childs, Prospect national negotiator		3/10 ¹	—	—

1 Invited attendees

2 Left the Board in August 2011. Position currently vacant.

3 Left the Board in March 2012, following finalisation of transfer of Met Office from MOD to BIS

Met Office Board activities in 2011/12

During 2011/12 the Met Office Board met 10 times. A detailed forward agenda has been in operation for a number of years, which includes regular items of business and any topical matters that have arisen. A summary of each Met Office Board meeting is published on the Met Office website at www.metoffice.gov.uk/about-us/who/managements/minutes

Some of the themes discussed at these meetings throughout 2011/12 were: progress against Business Performance Measures, the move from the Ministry of Defence to the Department for Business, Innovation and Skills and developments with the Public Data Group and Data Strategy Board.

Evaluation of Board performance

A formal evaluation of the performance of the Met Office Board, the Executive Board and their committees is carried out annually by means of detailed questionnaires. This includes a question to assess whether the information coming to each Board/Committee is of a sufficient standard to allow effective decision-making. The 2011/12 evaluation highlighted no serious issues. 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 management responsibilities. The Register is reviewed at least on an annual basis. The Board has not identified any actual conflicts of interest during 2011/12. Person's wishing to view the Register should apply in writing to my Private Secretary at the Met Office, FitzRoy Road, Exeter, EX1 3PB.

Protecting personal data

No protecting personal data related incidents were reported to the Information Commissioner's Office during 2011/12. There were no such incidents centrally recorded but not formally reported to the Information Commissioner's Office 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 2011/12 with the provisions of the 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 identifies the direction of the organisation and 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, critical activities 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 reviews corporate risks quarterly. Individual Executive members review programme risk within their Directorate at least quarterly.

The Audit Committee provides assurance that the risk management practices are effective as well as reviewing 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 workshops, using horizon-scanning tools are held at least annually.

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. During this year, risk appetite has been incorporated into the Corporate Investment Appraisal (CIA) process and has also been added to the risk register template. Risk appetite is reviewed by the Executive Board at least annually.

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, business and operational 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 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 Fraud Policy, we also introduced during the year an Anti-Bribery Policy in response to the implementation of 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 and a number of training workshops have been held. Towards the end of the year, the requirement for all employees to sign up their commitment to our key policies on an annual basis was introduced. These employee commitments include upholding the 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, contracts and treaties.

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

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

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

Risk management is embedded into the Met Office

Risk management information is used:

- to help inform the annual planning process, especially at programme 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 Appraisals (CIA).

Risk management and public stakeholder engagement

In a year which has seen a change in ownership of the Met Office from MOD to BIS, there has been increased engagement with key stakeholders, particularly at ministerial level. In addition to ministerial stakeholders, other notable stakeholders providing assurance on behalf of the general public have included PWSCG, MOSAC, and the House of Commons Science and Technology Committee through its report *Science in the Met Office* published in February 2012. Ongoing management of relationships with a broad range of stakeholders is managed by the Met Office's Stakeholder Affairs team, working closely with the Communications team.

In terms of our remit as the provider of National Severe Weather Warning Services, we have worked with our key stakeholder (PWSCG) to launch our new severe weather warning service: www.metoffice.gov.uk/news/releases/archive/2011/nswws-changes

Summary of risks currently being managed

Overall 2011/12 has been a year which can be summarised as a year of risk reduction. A number of risks relating to reputation and volcanic ash have been successfully mitigated and reduced (accepted) accordingly. Even those risks where there is a higher risk exposure have plans in place which are already starting to prove successful.

The current risk portfolio can be summarised as follows:

- need to ensure we capitalise on the opportunities which our world-leading science can present;
- need to protect the long-term global availability of earth observation infrastructures;
- need to overcome the possible reduction in staff morale related to pay freezes, increased pension contributions set against ever increasing cost of living expenses; and
- recognise and mitigate the possible threat posed by cyber attacks.

Looking forward beyond 2011/12 a number of new risk areas have already been identified which are currently under consideration. These new risks look out to 2014/15, our Corporate Plan period, and are primarily concerned with the impact of continuing pressure on government spending.

The overall number of risks being escalated for management on the Corporate Risk Register remained fairly constant through the year; with, on average, 18 risks at any one time.

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

The Audit Committee sits four times per year and represents 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 are reported to the Committee on a monthly basis, as well as at each Committee meeting. The Committee reports 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. When necessary during the year, the Committee has arranged for a management representative to attend its meetings to explain how corporate risks of particular concern are being reduced to an acceptable level.

Each year, the Audit Committee also 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 in the provision of assurance on Met Office standards of governance, risk management and control.

A Risk Review Committee also sits quarterly. It supports and challenges the Met Office Executive in identifying risks and opportunities, highlighting where risks are being ineffectively managed and addressing these areas with management. It is also ideally placed to provide top-level corporate-wide risk horizon-scanning.

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 substantial assurance can be provided over the adequacy and effectiveness of the Met Office's system of internal control. This is the same level given for 2010/11 and reflects the stability and relative robustness of the governance, risk and control frameworks across the Met Office.

At an individual level, a lower percentage of audits were given limited assurance and a higher number full or substantial assurance with no audits receiving a 'no assurance' rating. 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.

Mechanisms and processes

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

In line with Government internal auditing standards, the effectiveness of the Internal Audit function has also been assessed during the year. This review, carried out by an independent team in compliance with HM Treasury's Internal Audit Quality Assessment Framework, concluded that the function is effective and compliant with Government internal auditing standards.

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.

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 undertake an annual self-assessment exercise, seeking the views of members on the effectiveness of the boards and sub-committees on which they sit. Feedback is 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

The annual reviews referred to on pages 24 and 25 have raised no significant issues and generated positive assurance on the direction and quality of the Met Office's work. In addition, the House of Commons Science and Technology Committee has also undertaken a review, Science in the Met Office, and has given a positive endorsement of many aspects of our work, reinforcing the Met Office's position as a world-leading institution underpinned by robust science.

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 result 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 regard 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
1 June 2012

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 2011/12 financial year in the form and on the basis set out in the Accounts Direction issued on 20 December 2011. 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 2012 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.

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 2012 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 2012 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

7 June 2012

Statement of comprehensive income for the year ended 31 March 2012

	Notes	2011/12 £'000	2010/11 £'000
Revenue	3	196,212	196,118
Cost of sales	4, 7	(163,219)	(163,929)
Gross profit		32,993	32,189
Selling and distribution costs	4, 7	(12,924)	(12,047)
Administrative expenses	4, 7	(10,812)	(10,556)
Other gains/(losses) – net	5	(131)	(164)
Operating profit		9,126	9,422
Interest receivable		109	93
Interest payable	6	(38)	(130)
Profit for the financial year		9,197	9,385
Dividend		(7,666)	(8,200)
Retained profit for the year		1,531	1,185
Other comprehensive income:			
Net gain/(loss) on revaluation of property, plant and equipment		14,279	2,519
Revaluation reserve realised on disposal of property, plant and equipment		(12)	(59)
Net gain/(loss) on cash flow hedges		(1,354)	(1,532)
Other comprehensive income for the year		12,913	928
Total comprehensive income for the year		14,444	2,113
Return on Capital Employed (ROCE)	2	4.4%	4.7%

Statement of financial position as at 31 March 2012

	Notes	31 March 2012		31 March 2011	
		£'000	£'000	£'000	£'000
Non-current assets					
Property, plant and equipment	8		200,029		168,396
Intangible assets	9		1,036		938
Total non-current assets			201,065		169,334
Current assets					
Inventories	10		718		930
Trade and other receivables	11		37,858		42,774
Derivative financial assets	15		—		316
Cash and cash equivalents	12		38,277		39,454
Total current assets			76,853		83,474
Total assets			277,918		252,808
Current liabilities					
Trade and other payables	13		(46,366)		(47,170)
Borrowings	14		—		(1,105)
Derivative financial liabilities	15		(1,195)		(82)
Total current liabilities			(47,561)		(48,357)
Non-current assets plus net current assets			230,357		204,451
Non-current liabilities					
Trade and other payables	13		(12,417)		(3,275)
Derivative financial liabilities	15		(176)		(111)
Provisions for liabilities and charges	16		(5,923)		(3,668)
Total non-current liabilities			(18,516)		(7,054)
Assets less liabilities			211,841		197,397
Capital and reserves					
Public dividend capital			58,867		58,867
Revaluation reserve			34,196		22,447
Hedging reserve			(1,371)		(17)
General reserve			120,149		116,100
Total Government funds			211,841		197,397



Mr J Hirst,
Chief Executive
1 June 2012

The notes on pages 38 to 67 form part of these Accounts.

Statement of cash flows for the year ended 31 March 2012

	Notes	2011/12 £'000	2010/11 £'000
Cash flows from operating activities			
Operating profit		9,126	9,422
Adjustments for non-cash transactions:			
Depreciation charges	4, 8	23,642	26,369
Release of capital grants		(510)	(795)
(Profit)/loss on disposal of property, plant and equipment		225	290
Impairment and diminution in value of property, plant and equipment		(21)	844
Amortisation		287	437
Fair value (gains)/losses on derivative financial instruments		140	(140)
(Increase)/Decrease in inventories		212	17
(Increase)/Decrease in trade and other receivables		5,118	(10,846)
Increase/(Decrease) in trade and other payables		(4,431)	1,884
Provisions for liabilities and charges		2,220	1,136
Net cash inflow from operating activities		36,008	28,618
Cash flows from investing activities			
Payments to acquire satellite assets		(6,686)	(8,395)
Payments to acquire property, plant and equipment (excluding satellites)		(34,155)	(8,538)
Capital grants received		13,230	2,588
Proceeds from sale of property, plant and equipment		14	7
Payments to acquire intangible assets		(385)	(1,173)
Interest received		108	91
Net cash outflow from investing activities		(27,874)	(15,420)
Cash flows from financing activities			
Dividends paid		(8,200)	(4,500)
Interest paid		(6)	(95)
Loan repayments		(1,105)	(5,697)
Net cash outflow from financing activities		(9,311)	(10,292)
Net increase/(decrease) in cash and cash equivalents	12	(1,177)	2,906
Cash and cash equivalents at 1 April		39,454	36,548
Cash and cash equivalents at 31 March		38,277	39,454

The notes on pages 38 to 67 form part of these Accounts.

Statement of changes in taxpayers' equity for the year ended 31 March 2012

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

The notes on pages 38 to 67 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 20 December 2011 in accordance with Section 4(6)(a) of the Government Trading Funds Act 1973 and the 2011/12 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 IAS38 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 IAS38 Intangible Assets, development costs are capitalised and amortised over their useful economic lives. Intangible assets are assessed for impairment annually.

(e) Property, plant and equipment

Valuation

Freehold land and buildings in continuing use are revalued by qualified valuers every five years, in accordance with the Practice Statements and Guidance Notes set out in the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors. Valuations are based on fair values for existing use from market-based evidence, except where the asset is considered specialised and valued on the basis of depreciated replacement cost. The quinquennial valuations are supplemented by annual indexation using the following indices:

- Specialised property assets — Building Tender Price Index and Residential Land Value Index.
- Non specialised property assets — Gross Domestic Product Deflator Index.

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

Plant, equipment and information technology equipment is capitalised where the useful life exceeds three years and the cost of acquisition and installation exceeds £5,000 (excluding VAT). Networked minor computers and related equipment, which individually do not meet the criteria, have also been capitalised. Major items of plant and equipment are revalued annually using the Gross Domestic Product Deflator Index.

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

Funding received under collaborative arrangements for the capital installation of rainfall radar systems is credited as deferred income within trade and other payables until equipment assets are acquired.

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

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

Depreciation

Freehold land is not depreciated. Depreciation on buildings is calculated to write-off the cost, or value, by equal instalments over the asset's estimated useful life (not exceeding 50 years). Plant, equipment and information technology assets are depreciated by the straight-line method at a rate calculated to write-off the cost, or value, over the asset's estimated useful life. Current policy is to write-off plant and equipment over three to 30 years and information technology equipment over three to 12 years. Satellite assets are depreciated using the straight-line method over their estimated useful life. The remaining life of the current satellite programme (Meteosat Second Generation — MSG) at 31 March 2012 is currently assessed as 5.25 years providing the full operational service and a further 3.0 years as the operational hot spare for the follow on programme. This method reflects the principle that the economic benefit of satellite data remains constant between individual satellites.

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

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

(f) Intangible assets

Computer software and licences

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

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

(g) Leases

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

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

(h) Inventories

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

(i) Insurance

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

(j) Employee benefits

Pensions

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

Met Office staff may be in one of four statutory based defined benefit schemes (Classic, Premium, Classic Plus and Nuvos). Classic, Premium and Classic Plus are now closed to new members. New entrants after 30 July 2007 may choose between membership of Nuvos or joining a good quality "money purchase" stakeholder based arrangement with a significant employer contribution (partnership pension account).

- **Classic Scheme**

Benefits accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. Members leaving after 1 October 2007 also have an option to commute some of their pension for a further lump sum up to a maximum of 33/14 times pension (the commutation rate is £12 of lump sum for each £1 of pension given up). Members pay contributions of 1.5 per cent of pensionable earnings. On death, pensions are payable to the surviving spouse at a rate of half the member's pension. On death in service, the scheme pays a lump sum benefit of twice pensionable pay and also provides a service enhancement on computing the spouse's pension. The enhancement depends on length of service and cannot exceed ten years. Medical retirement is possible in the event of serious ill health. In this case, pensions are brought into payment immediately without actuarial reduction and with service enhanced as for widow(er) pensions.

- **Premium Scheme**

Benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike Classic, there is no automatic lump sum, but members may commute some of their pension to provide a lump sum up to a maximum of 30/7 times pension (the commutation rate is £12 of lump sum for each £1 of pension given up). For the purposes of pension disclosure the tables assume maximum commutation. Members pay contributions of 3.5 per cent of pensionable earnings. 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 3.5 per cent of pensionable earnings. On death, pensions are payable to the surviving spouse or eligible partner at a rate of 3/8ths the member's pension (before any commutation). On death in service, the scheme pays a lump sum benefit of two times pensionable earnings and also provides a service enhancement on computing the spouse's pension. The enhancement depends on length of service and cannot exceed ten years. Medical retirement is possible in the event of serious ill-health. In this case, pensions are brought into payment immediately without actuarial reduction. Where the member's ill-health is such that it permanently prevents them undertaking any gainful employment, service is enhanced to what they would have accrued at age 65.

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

(k) Capital grants

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

(l) Financial instruments

Financial assets and financial liabilities are recognised on the Statement of Financial Position when the Met Office becomes a party to the contractual provisions of the instrument. Financial assets or financial liabilities are initially recognised at 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 measured at the original invoice amount where the effect of discounting is immaterial. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Met Office has transferred substantially all risks and rewards of ownership.

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

Public Dividend Capital is not an equity instrument as defined in IAS32 Financial Instruments: Presentation.

Cash and cash equivalents

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

Borrowings

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

Derivative financial instruments and hedge accounting

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

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

Derivative financial instruments are recognised as assets and liabilities measured at their fair values at the balance sheet date. Where derivative financial instruments do not fulfil the criteria for hedge accounting contained in IAS39, changes in their fair values are recognised in the income statement.

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

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

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

(m) Capital and reserves

Public Dividend Capital

Public Dividend Capital represents the capital invested 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.

General Reserve

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

Revaluation Reserve

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

Hedging Reserve

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

(n) Consolidated accounts

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

(o) Segmental reporting

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

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

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

IFRS9 Financial Instruments

A new standard intended to replace IFRS9 (2009). The effective date is for accounting periods beginning on, or after 1 January 2015 (per exposure draft ED/2011/3). Not yet EU adopted. Three phases to standard: classification and measurement; impairments and hedge accounting.

IFRS7 Financial Instruments: Disclosures

Amendment to the existing standard in relation to the increased disclosure for transfers of financial assets. The effective date is for accounting periods beginning on, or after 1 July 2011.

IFRS10 Consolidated Financial Statements, IFRS11 Joint Arrangements, IFRS12 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 (dependent upon EU adoption).

IAS27 Separate Financial Statements, IAS28 Investments in Associates and Joint Ventures

Standards superseded and required to be applied in conjunction with new standards IFRS10, IFRS11 and IFRS12. The effective date is for accounting periods beginning on, or after 1 January 2013 (dependent upon EU adoption).

IFRS13 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 (dependent upon EU adoption).

IAS1 Presentation of Financial Statements

Amendments to the existing standard in relation to the presentation of other comprehensive income. The effective date is for accounting periods beginning on, or after 1 June 2012 (dependent upon EU adoption).

IAS12 Income Taxes

Amendment to existing standard. The effective date is for accounting periods beginning on, or after 1 January 2012 (dependent upon EU adoption).

IAS19 Employee Benefits

Standard supersedes IAS19 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 (dependent upon EU adoption)

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 2012:

Chapter 4 Accounting Boundaries, Chapter 9 Financial Instruments

Further alignment of the FReM with the requirements of IAS39.

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

2. Return on Capital Employed

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

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

	2011/12	2010/11
Actual	4.4%	4.7%
Target — in year	4.4%	3.8%
Average — current target period	4.1%	3.9%
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% of its revenue from public sector bodies. No operating segments have been aggregated to form the above reportable segments.

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

The 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 competable) basis, together with operating profits from commercial business.

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	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)

Year ended 31 March 2011

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

Revenue includes £2,413,000 of income derived from EU contracts (2010/11 £2,239,000).

Government business

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

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

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

Government business is further analysed by revenue stream as follows:

	2011/12 £'000	2010/11 £'000
Defence	33,069	34,275
Government Services	34,104	35,723
Public Weather Service	96,113	93,472
	163,286	163,470

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 are excluded from the operating profit measure used in the business performance measure for business profitability.

Corporate and other central income/expenses

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

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

All revenue reported above is derived from external customers. There is no inter-segment revenue. More than 80% of Met Office revenue is derived from UK sources. The Met Office Executive do 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 web site.

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.

During the year the Met Office operated an organisation wide voluntary redundancy scheme. The provision associated with the early retirement and severance costs has been treated as an exceptional item and is analysed between cost of sales, selling and distribution and administrative expenses as follows:

	Cost of Sales £'000	Selling and distribution costs £'000	Administrative expenses £'000	2011/12 Total £'000	2010/11 Total £'000
Early retirement and severance costs	2,909	559	587	4,055	–

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

	Note	2011/12 £'000	2010/11 £'000
Staff costs (excluding exceptional items)	7	86,102	87,396
Early retirement and exit costs — non exceptional	7	1,319	2,033
Early retirement and exit costs — exceptional (see above)		4,055	–
Travel and subsistence		4,090	4,138
Equipment and services	(i)	36,722	34,261
Accommodation		10,855	10,237
Operating leases — plant and machinery		812	1,618
Operating leases — other		1,191	1,813
Depreciation — on owned assets		23,642	26,369
Amortisation		287	437
Release of capital grants		(510)	(795)
International services and subscriptions	(ii)	15,636	15,784
Other expenses		2,754	3,241
Total		186,955	186,532

- (i) Equipment and services expenses include an audit fee of £58,000 (2010/11, £58,000) for the audit of the financial statements.
- (ii) International services and subscriptions include £3.7m (2010/11, £4.2m) to the European Organisation for the Exploitation of Meteorological Satellites (EUMETSAT) (excluding amounts capitalised as satellite assets), £6.7m (2010/11, £6.5m) to the European Centre for Medium-Range Weather Forecasts (ECMWF), £2.4m (2010/11, £2.1m) to the World Meteorological Organization (WMO) and £0.7m (2010/11, £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.

- (iii) The total cost of research was £43.3m (2010/11, £44.8m).

5. Other gains/(losses) – net

	2011/12 £'000	2010/11 £'000
Foreign exchange rate differences	94	126
Net loss on disposal of fixed assets	(225)	(290)
Total other gains/losses	(131)	(164)

6. Interest payable and similar charges

	2011/12 £'000	2010/11 £'000
On Ministry of Defence loans repayable within five years	3	89
Discounting of provisions	35	41
Total interest payable and similar charges	38	130

7. Staff

(a) Staff costs

	Note	2011/12 £'000	2010/11 £'000
Salaries, performance related pay and allowances		68,473	69,725
Early retirement and exit costs (excluding exceptional items)	4	1,319	2,033
Social security		5,598	5,445
Pension contributions		12,031	12,226
Total staff costs		87,421	89,429
Temporary/agency labour costs		4,881	3,209
Total		92,302	92,638

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 2011/12, pursuant to the Superannuation Act 1972, employer's contributions of £12.0m were payable to the PCSPS (2010/11, £12.2m) at one of four rates in the range 16.7% to 24.3% of pensionable pay, based on salary bands. The Scheme Actuary reviews employer contributions every four years following a full scheme valuation. For 2012/13, 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 2011–12 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

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

(b) Average staff numbers

	2011/12 number	2010/11 number
Senior Management	7	9
Scientific, managerial, technical	1,477	1,486
Support	351	352
Locally engaged civilians overseas	15	15
Monthly average staff numbers (all UK Government Civil Servants except locally engaged civilians)	1,850	1,862
Monthly average temporary/agency staff	40	17

There were 1,846 staff employed at 31 March 2012 compared with 1,859 at 31 March 2011, both figures expressed as full-time equivalents. There were also 46 temporary/agency staff, expressed as full-time equivalents, engaged by the Met Office at 31 March 2012 (31 March 2011, 20).

(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	
	2011/12	2010/11	2011/12	2010/11	2011/12	2010/11
£0–£10,000	—	1	4	2	4	3
£10,000–£25,000	2	—	7	—	9	—
£25,000–£50,000	—	1	13	5	13	6
£50,000–£100,000	—	2	16	1	16	3
£100,000–£150,000	2	1	6	—	8	1
£150,000–£200,000	—	1	—	—	—	1
Total number of exit packages by type	4	6	46	8	50	14
Total cost £'000	282	503	2,562	281	2,844	784

The above figures represent exit packages agreed/paid during the year. They do not include those employees within the provision for the organisation wide voluntary redundancy scheme who will leave the Met Office after 31 March 2012.

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. Where the Met Office has agreed early retirements, the additional costs are met by the organisation and not by the Civil Service pension scheme. Ill-health retirement costs are met by the pension scheme and are not included in the table.

(d) Directors' remuneration

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

8. Property, plant and equipment

The movements in each class of assets were:

	Satellite programme £'000	Land and buildings £'000	Fixtures and fittings £'000	Plant and equipment £'000	Information technology £'000	Assets under construction £'000	Total £'000
Cost or valuation:							
At 1 April 2011	267,899	61,497	8,855	61,635	46,773	2,126	448,785
Additions	6,484	—	235	1,834	24,942	7,771	41,266
Disposals	—	—	—	(237)	(4,225)	—	(4,462)
Transfers	—	(2,619)	2,619	94	—	(94)	—
Revaluation	8,237	5,084	194	1,340	—	—	14,855
At 31 March 2012	282,620	63,962	11,903	64,666	67,490	9,803	500,444
Depreciation:							
At 1 April 2011	215,455	5,314	4,482	20,899	34,239	—	280,389
Charged during year	12,227	1,272	816	3,417	5,910	—	23,642
Disposals	—	—	—	(204)	(3,967)	—	(4,171)
Transfers	—	(406)	406	—	—	—	—
Revaluation	6,119	(6,163)	99	500	—	—	555
At 31 March 2012	233,801	17	5,803	24,612	36,182	—	300,415
Net book value:							
At 1 April 2011	52,444	56,183	4,373	40,736	12,534	2,126	168,396
At 31 March 2012	48,819	63,945	6,100	40,054	31,308	9,803	200,029

	Satellite programme £'000	Land and buildings £'000	Fixtures and fittings £'000	Plant and equipment £'000	Information technology £'000	Assets under construction £'000	Total £'000
Cost or valuation:							
At 1 April 2010	247,268	63,075	8,319	57,380	56,857	—	432,899
Additions	7,825	34	284	4,142	2,262	2,126	16,673
Disposals	—	—	—	(1,520)	(12,346)	—	(13,866)
Revaluation	12,806	(1,612)	252	1,633	—	—	13,079
At 31 March 2011	267,899	61,497	8,855	61,635	46,773	2,126	448,785
Depreciation:							
At 1 April 2010	193,511	4,130	3,532	17,442	37,510	—	256,125
Charged during year	11,939	1,270	844	3,241	9,075	—	26,369
Impairment	—	—	—	753	—	—	753
Disposals	—	—	—	(1,164)	(12,346)	—	(13,510)
Revaluation	10,005	(86)	106	627	—	—	10,652
At 31 March 2011	215,455	5,314	4,482	20,899	34,239	—	280,389
Net book value:							
At 1 April 2010	53,757	58,945	4,787	39,938	19,347	—	176,774
At 31 March 2011	52,444	56,183	4,373	40,736	12,534	2,126	168,396

- (i) Satellite programme assets represent the contribution made by the Met Office, 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 largely funded through the Department for Business, Innovation and Skills (previously funded by Ministry of Defence) and is not included in the assets above.
- (ii) All land and buildings are held as freehold. The net book value of freehold land and buildings includes £8.0 million of freehold land (31 March 2011, £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 have been valued for financial reporting purposes as 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 have 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.
- (v) Assets under construction represents capital expenditure associated with the Meteosat Third Generation satellite programme and the renewal of the weather radar network.

9. Intangible assets

	Computer Software £'000	Software Licences £'000	Total £'000
Cost or valuation:			
At 1 April 2011	1,242	159	1,401
Additions	356	29	385
At 31 March 2012	1,598	188	1,786
Amortisation:			
At 1 April 2011	455	8	463
Charged during year	252	35	287
At 31 March 2012	707	43	750
Net book value:			
At 1 April 2011	787	151	938
At 31 March 2012	891	145	1,036

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

10. Inventories

	Note	31 March 2012 £'000	31 March 2011 £'000
Meteorological equipment		512	696
Reserve equipment		185	203
Consumable stores		21	31
Total inventories		718	930

11. Trade and other receivables

	Note	31 March 2012 £'000	31 March 2011 £'000
Amounts falling due within one year:			
Trade receivables		11,766	23,614
Less: Provision for impairment of receivables		(88)	(60)
		11,678	23,554
Other receivables		323	437
Accrued income		11,897	5,921
Prepayments		13,960	12,862
Total trade and other receivables		37,858	42,774

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

Accrued income includes £1,280,000 relating to EU funding.

Other receivables include staff loans totalling £312,000 to 75 employees predominantly in respect of housing advances on relocation and a cycle to work scheme.

Intra-government balances

Balances with central government bodies	7,783	13,434
Balances with local authorities	478	524
Balances with NHS Trusts	37	12
Balances with public corporations and trading funds	837	1,784
Subtotal: intra-government balances	9,135	15,754
Balances with bodies external to government	28,723	27,020
Total trade receivables and other current assets at 31 March	37,858	42,774

All intra-government balances are due within one year.

12. Cash and cash equivalents

	Note	31 March 2012 £'000	31 March 2011 £'000
Balance at 1 April		39,454	36,548
Net change in cash and cash equivalent balances	18	(1,177)	2,906
Balance at 31 March		38,277	39,454

The following balances at 31 March were held at:

UK Debt Management Office, HM Treasury	37,300	39,000
EUMETSAT working capital fund	1	9
Total cash held on short-term deposit	37,301	39,009
Cash held at commercial banks and in hand	976	445
Balance at 31 March	38,277	39,454

The Met Office holds three Euro bank accounts, in which there were amounts totalling £318,000 at 31 March 2012 belonging to third parties (31 March 2011, £422,000).

Cash in transit at 31 March 2012 amounted to £627,000.

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

13. Trade payables and other payables

	Note	31 March 2012 £'000	31 March 2011 £'000
Amounts falling due within one year:			
Trade payables		354	1,938
VAT		904	5,370
Other taxation and social security		2,991	2,917
Accruals		16,866	16,173
Dividend payable		7,666	8,200
Deferred Income		13,697	12,262
Capital grants		3,888	310
Total current trade and other payables		46,366	47,170
Amounts falling due after more than one year:			
Capital grants		12,417	3,275
Total non-current trade and other payables		12,417	3,275
Total trade payables and other current liabilities		58,783	50,445

Intra-government balances

	Amounts falling due within one year		Amounts falling due after more than one year	
	31 March 2012 £'000	31 March 2011 £'000	31 March 2012 £'000	31 March 2011 £'000
Balances with central government bodies	20,100	12,971	12,417	3,275
Balances with local authorities	298	342	—	—
Balances with NHS Trusts	—	—	—	—
Balances with public corporations and trading funds	—	—	—	—
Subtotal: intra-government balances	20,398	13,313	12,417	3,275
Balances with bodies external to government	25,968	34,962	—	—
Total trade payables and borrowings at 31 March	46,366	48,275	12,417	3,275
Total trade payables and other current liabilities (above)	46,366	47,170	12,417	3,275
Borrowings (note 14)	—	1,105	—	—
Total trade payables and borrowings at 31 March	46,366	48,275	12,417	3,275

14. Borrowings

Ministry of Defence loan, repayable by instalments and bearing interest at 1.23% per annum:

	31 March 2012 £'000	31 March 2011 £'000
Amounts repayable:		
In not more than one year	—	1,105
Total	—	1,105

15. Derivative financial instruments

	31 March 2012		31 March 2011	
	Assets £'000	Liabilities £'000	Assets £'000	Liabilities £'000
Forward foreign currency contracts — cash flow hedge	—	1,371	316	193
Analysed between:				
Current	—	1,195	316	82
Non-current	—	176	—	111
	—	1,371	316	193

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 2012/13					
Euro	22,308	19,425	18,621	—	804
Swiss Francs (CHF)	4,241	3,336	2,945	—	391
		22,761	21,566	—	1,195
Delivery 2013/14					
Euro	12,900	10,945	10,769	—	176
Swiss Francs (CHF)	—	—	—	—	—
		10,945	10,769	—	176
Total		33,706	32,335	—	1,371

All cash flow hedges are in respect of forecast transactions. In line with IAS39, 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

	Early retirement and exits £'000	Dilapidations £'000	Leaseholds £'000	Total £'000
Balance at 1 April 2010	1,644	317	530	2,491
Provided (written back) in the year	1,516	147	452	2,115
Unwinding of discount	29	3	9	41
Change in discount rate	(15)	—	—	(15)
Utilised in year	(788)	(75)	(101)	(964)
Balance at 31 March 2011	2,386	392	890	3,668
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	4,718	456	749	5,923

- (i) The Early Retirement and Exit Provision represents the outstanding liability for pension and severance costs as at 31 March 2012. It includes the cost associated with 116 staff who had been offered early retirement during 2011/12 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 £4,748,000 (2010/11, £2,426,000). After discounting at 2.8% (2010/11, 2.9%) a net amount of £4,718,000 (2010/11, £2,386,000) is provided.
- (ii) The Dilapidations Provision relates to contractual future costs of making good leasehold properties when they are vacated. Discounting has been applied where payments are due in more than one year. The gross amount provided for, before discounting, is £468,000 (2010/11, £401,000). After discounting at 2.2% a net amount of £456,000 (2010/11, £392,000) is provided.
- (iii) The Leaseholds Provision is principally in respect of future cost of leasehold properties which became surplus to requirements on relocation to Exeter. The gross amount provided, before discounting, is £808,000 (2010/11, £965,000). After discounting at 2.2% a net amount of £749,000 (2010/11, £890,000) is provided.

The commitments provided for fall due in the following periods:

	Early retirement and exits £'000	Dilapidations £'000	Leaseholds £'000	Total £'000
Amounts payable within:				
Under one year	4,347	244	157	4,748
One to five years	325	212	334	871
Over five years	46	—	258	304
Total	4,718	456	749	5,923

17. Related parties

The Met Office was the subject of a Machinery of Government change during the year. The Prime Minister announced the change, via a Written Ministerial Statement on 18 July 2011 that departmental responsibility for the Met Office would transfer from the Ministry of Defence to the Department for Business, Innovation and Skills. The Transfer of Functions (Her Majesty's Land Registry, the Meteorological Office and Ordnance Survey) Order 2011 came into force on 9 November 2011 (Statutory Instrument No. 2436, 2011).

The Minister for Employment Relations, Consumer and Postal Affairs is the Minister responsible for the ownership of the Met Office, with the Minister of State for Universities and Science being the Minister responsible for the Government as a customer of the Met Office (via the Public Weather Service Customer Group). Further details of the Met Office's revised governance structure are contained within the Governance Statement on page 23. The underlying assets, liabilities and revenues of the Met Office were not affected by this change.

As a result of the Machinery of Government change noted above the Met Office's parent department changed from the Ministry of Defence (MOD) to Department for Business, Innovation and Skills (BIS) during the year. Both Departments are considered to be related parties. During the year, the Met Office had material transactions with both Departments and with other entities for which MOD and BIS are 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

The services of senior manager A Griffiths were supplied through Hazelford Consulting Limited until September 2011, a company in which he is a Director. The services supplied in relation to his senior manager role during the year amounted to £54,450. In October 2011 Mr Griffiths became a Met Office employee.

Senior manager D Young is on secondment from IBM. IBM are 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.

J Neilson, Met Office Non-Executive Director during the year was also a member of the Met Office Owner's Council.

18. Notes to the cash flow statement

Reconciliation of cash and cash equivalents to movement in net funds

	At 1 April 2011 £'000	Cash flows £'000	At 31 March 2012 £'000
Cash at bank and in hand	445	531	976
Cash on deposit	39,009	(1,708)	37,301
Cash and cash equivalents	39,454	(1,177)	38,277
Borrowings due within one year	(1,105)	1,105	—
Total net funds	38,349	(72)	38,277

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	
	2011/12 £'000	2010/11 £'000	2011/12 £'000	2010/11 £'000
Leases expiring within:				
Under one year	917	1,180	1,942	1,497
One to five years	1,692	2,549	2,985	4,413
Over five years	1,605	2,414	—	—
Total	4,214	6,143	4,927	5,910

20. Capital commitments

	2011/12 £'000	2010/11 £'000
Contracted for but not provided for :		
Supercomputer	5,603	14,089
Other	1,204	940
Contribution for Satellite Programme	9,109	8,397
Total	15,916	23,426

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

IFRS7 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:

Trade receivables beyond the due date	0–3 Months £'000	3–6 Months £'000	Over 6 months £'000
Receivables beyond the due date – not impaired	1,165	114	163
Receivables beyond the due date – impaired	86	2	—
Total receivables beyond the due date	1,251	116	163

Liquidity risk

The Met Office has maintained short-term liquidity throughout the year by management of its cash deposits.

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 IAS39 and the Met Office has elected to adopt IAS39 hedge accounting rules.

As at 31 March 2012 the Met Office held 9 forward contracts to buy a total of €35.2 million equating to £30.4 million at the contracted exchange rates, with value dates in 2012/13 and 2013/14. The Met Office also held one forward contract to buy forward 4.2 million Swiss Francs, equating to £3.3 million at the contract exchange rate with a value date in 2012/13. Additional information can be found in note 15 to the accounts.

£5.9 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 2012 consists of 17 short term deposits totalling £37.3 million (31 March 2011 — £39.0 million) with the UK Debt Management Office at HM Treasury for a weighted average period of 37.75 days (31 March 2011 — 33.63 days) at a weighted average interest rate of 0.25% (31 March 2011 — 0.25%). At 31 March 2012 £1,000 (31 March 2011 — £9,000) 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 2012

	Loans and receivables £'000	Derivatives used for hedging £'000	Total £'000
Trade and other receivables – current	23,898	–	23,898
Cash on deposit	37,301	–	37,301
Cash at bank and in hand	976	–	976
Total	62,175	–	62,175

Financial liabilities at 31 March 2012

	Other financial liabilities £'000	Derivatives used for hedging £'000	Total £'000
Trade and other payables	24,886	–	24,886
Derivative financial liabilities	–	1,371	1,371
Total	24,886	1,371	26,257

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

Embedded derivatives

In accordance with IAS39, '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 7 June 2012.

FIVE-YEAR FINANCIAL SUMMARY (Unaudited)

	IFRS 2011/12 £'000	IFRS 2010/11 £'000	IFRS 2009/10 £'000	IFRS 2008/9 £'000	UK GAAP 2008/9 £'000	UK GAAP 2007/8 £'000
Income Statement						
Revenue	196,212	196,118	191,965	184,781	184,781	176,580
Gross profit/(loss)	32,993	32,189	29,764	31,385	31,469	33,792
Operating profit/(loss)	9,126	9,422	6,658	7,462	7,574	12,662
Profit for the financial year	9,197	9,385	6,488	8,589	8,673	14,013
Dividend	7,666	8,200	4,500	17,177	17,177	11,077
Capital expenditure						
Property, plant and equipment asset additions	41,266	16,673	25,988	23,028	23,028	14,699
Statement of Financial Position						
Property, plant and equipment	200,029	168,396	176,774	186,921	182,699	181,248
Net current assets	29,292	35,117	22,442	23,896	26,396	32,940
Non-current liabilities	18,516	7,054	4,367	6,295	6,295	8,400
Number of employees						
Average for year	1,850	1,862	1,869	1,832	1,832	1,770

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