Met Office

Annual Report and Accounts

2009/10

Met Office

An Executive Agency of the Ministry of Defence

Annual Report and Accounts 2009/10

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Director's report

INTRODUCTION

The Met Office is a Trading Fund within the Ministry of Defence (MoD), providing world-leading weather and climate services across the globe.

We started as a small Meteorological Department under the Board of Trade in 1854 before becoming part of the Air Ministry in 1920, then part of the MoD in 1964. Following Statutory Instrument SI 1996/774, we became an Executive Agency in 1990 and a Government Trading Fund in 1996.

We operate as a business — generating income to invest in the development of our cutting-edge science and research. We provide a range of services to government departments and the private sector, and constantly strive for improvement and innovation.

Providing essential services

The weather and our climate affect virtually every part of life and that's reflected in our range of customers. From the general public, to the Government and local authorities, to businesses of every kind, we provide information and advice for informed decision-making on a huge variety of issues.

To the majority of people in the UK we're known for our Public Weather Service, which includes our National Severe Weather Warning Service, Environmental Monitoring and Response Centre, and Public Weather Service Advisors. This means our forecasts not only help people to make day to day decisions, but also help to keep lives safe from threats posed by the weather.

When looking further into the future, the Met Office Hadley Centre is one of the world's leading climate research centres and its work underpins our climate services. These provide expert advice to governments, businesses, organisations and the public to help them make informed decisions for the future — from a year to more than a century ahead.

Our support services for the military

We provide a comprehensive range of support to the Armed Forces, both in the UK and abroad. Our specialists in the Mobile Met Unit (MMU) — a sponsored Reserve Unit of the RAF — provide critical weather and environmental advice wherever military action is taking place. From advising on weather risks on the ground, such as heat stress, through to predictions of dust that impact aircraft on take-off and landing, our work helps to safeguard service personnel.

A year of change and challenge

It has been another challenging year in terms of the economic climate, which has been felt right across the scope of our business. We've worked hard to make sure we're giving our customers what they want and pushed forward new services and innovations to win new business. This has enabled us to mark some notable achievements, even against these difficult trading conditions — illustrated by the fact we've hit this year's targets on Business Profitability and Return on Capital Employed.

The weather has also posed its own challenges, with the theme being one of extremes in the UK. It was a warmer and wetter than average summer, with July getting twice the normal amount of rain across the UK. In November, Scotland, Durham and Cumbria experienced exceptionally heavy rainfall, with Seathwaite in Cumbria getting 314.4 mm of rain in a 24-hour period — setting a new UK record. This caused devastating floods, particularly around Cumbria. The winter that followed saw long spells of sub-zero temperatures, a series of snowfalls, and prolonged icy conditions. This added up to the coldest UK winter for more than 30 years.

Throughout these testing conditions, our short-range weather forecasting and Severe Weather Warnings have been of a consistently high quality – helping government, businesses, emergency responders and the public prepare for what's ahead. Our year-round performance has resulted in us hitting all our Key Performance Targets for forecasting accuracy.

Further afield, our forecast for the North Atlantic tropical storm season had another successful year. Our models accurately predicted the marked fall in hurricane activity for 2009 — all the more impressive because this followed on the back of a particularly active year in 2008, which we also accurately predicted.

While we've enjoyed success in some of our seasonal forecasts across the globe, our projections for the UK — particularly summer and winter seasons — have come in for criticism over the past year. As a result, we've learnt lessons about how best to communicate the science and probabilities behind these forecasts. We've also listened to our customers, who said they would prefer to have a regularly updated monthly forecast — and this is what we are now providing.

Looking at even longer timescales, the area of climate science has also been a challenging environment. The evidence for climate change has been under the microscope and our work has been

scrutinised as never before. We welcome this scrutiny, however, and it has shown the Met Office Hadley Centre and its scientists carry out their work with the utmost integrity, producing world-class, high-quality science. We'll continue to adhere to the highest standards, as befits an organisation of our scientific heritage, and we'll communicate our findings in a clear and balanced way.

Pushing our science forward

We're dedicated to continually improving our science and this year we've taken some big steps to maintain our position at the forefront of weather and climate research. Our Forecasting Research and Development and Climate Research departments have been unified under a single Science Directorate. This will allow us to take advantage of our position as a leader in both weather and climate services, synergising research to allow a more efficient and flexible approach.

Successes this year

Although a year of challenge, we have shown resilience and delivered to our customers to mark some notable successes. You can read more about our business achievements in a special edition of our corporate magazine, Barometer, which is available online and in print. It includes articles on successes such as:

- Icelandic volcano — on 20 March the Eyjafjallajökull volcano began to erupt, prompting our experts in the Environmental Monitoring and Response Centre to swing into action to provide vital Volcanic Ash Advisories as the situation developed.

- iPhone app. — our weather application for the iPhone has been a huge hit from its launch at the end of January, with more than 500,000 downloads by the end of March and excellent feedback from users.

- UKCP09 — in June, we published the most comprehensive regional climate projections ever produced — providing a valuable decision-making tool for those looking to prepare for the future.

- Flood Forecasting Centre — our work in partnership with the Environment Agency has improved the way we forecast and warn of flooding, as shown by our accurate advice in advance of Cumbrian flooding in November.

- Conference of the Parties — the 15th CoP event on climate change in Copenhagen saw the Met Office's science take a centre stage, demonstrating our world-class capability to provide mitigation and adaptation services.

- Weather widgets — this new development enables even greater access to our Public Weather Service so people can display our weather forecasts, tailored for specific locations, within their own web pages.

- UK Climate Service — by strengthening our partnerships with UK academia, we're helping to improve our understanding of the challenges of climate change to offer in-depth solutions to meet the growing needs of our customers.

- Supercomputer — introducing and utilising the potential of our new supercomputer has been a major achievement, allowing us to push our science forward and improve our services.

- The Big Conversation — our experts joined with customers and stakeholders from a wide range of backgrounds for a series of talks and lectures designed to start conversation on the central issues around weather and climate.

- Winter forecasting — the coldest UK winter in more than 30 years brought snow, icy conditions and prolonged sub-zero temperatures. Throughout this challenging period, our forecasts warned of the dangers ahead and helped to keep people safe.

- WCC-3 — we're at the heart of plans to establish a Global Framework for Climate Services (GFCS), as agreed by governments at the World Climate Conference-3 in Geneva.

Looking ahead

Continuing to focus on providing the best possible service to our customers, as well as pushing forward our science and research, will be the foundation of our business for the year ahead. Success will come from working hard to fulfil our potential and realising our vision of being recognised as the best weather and climate service in the world.

INTRODUCTION FROM THE CHAIR OF THE MET OFFICE BOARD

In conversation with Robert Napier, Met Office Chairman:

It's been an eventful year in the world of weather and climate – how has the Met Office fared over the past 12 months?

Things don't stand still in weather and climate science, and this year has been no exception. There's certainly been a lot of challenges – with the weather, controversy over climate science, the economy, and funding. But there have also been some fantastic achievements this year and some groundbreaking developments. More than anything else, this year we've shown our resilience in these challenging times and our ability to deliver world-class innovative services to our customers. Once again we've proved our expertise, the integrity of our science and our value to our customers, and we can certainly be proud of the way we've come through this year.

What have been the key achievements of the year?

Giving timely, accurate forecasts and warnings for the Cumbrian floods and the prolonged spells of snow and ice in the UK during the winter are major achievements. These both pose big forecasting challenges, but we got it right and our dedicated staff should take great credit for that. Our advice kept government, businesses, emergency responders, organisations and millions of people up to date to help them make informed choices.

Our Environmental Monitoring and Response Centre also swung into action as the volcanic eruption in Iceland began in March. We have received direct feedback that we've showed great professionalism and accuracy in tracking and predicting the spread of the volcanic ash plume, providing essential advice for the Civil Aviation Authority (CAA), as the regulator of UK airspace, to make informed decisions about air travel safety. We've adapted to changing requirements throughout this dynamic situation.

The climate science we've produced over the past year has also been of the highest quality. In a time when research around climate change has come under unprecedented scrutiny, our science has stood up to rigorous examination. More and more organisations and people are coming to us for our climate expertise, and we're rightly recognised as among the world leaders in the field. This has been borne out by a survey by Times Higher Education, who ranked us number one among the world's geosciences research centres.

We've also marked some great achievements in terms of technology, not least bringing our new supercomputer online and starting to utilise its great potential. This year has seen us bring in our most detailed weather models yet, allowing us to make ever more accurate forecasts — this is only possible because of the investment in cutting-edge technology. We're also finding new ways to deliver these forecasts, such as our hugely successful weather app. for the iPhone. This shows how we're continually improving our services and the way we deliver them.

What have been the main challenges and how have they been tackled?

There has obviously been a lot of media interest in our UK seasonal forecasts and the real challenge there has been how best to explain the probabilities and complex science behind those predictions. We've learned a lot from that experience and we've also gone back to our customers to see what they really want from us. They were clear that a regularly updated monthly outlook would be much more useful, so that's what we're now providing. We should also note that some of our seasonal forecasts on a global level, such as for the tropical storms in the North Atlantic or the monsoon season, have been brilliant.

Over the past 12 months there's also been a surge in scepticism about climate change and attacks on the science. We've stuck to the position the Met Office has always held — our science and our scientists operate with the utmost integrity, we present the information clearly and we let that evidence speak for itself. There are people out there who have tried to use minor blips in data to undermine all the evidence, but our science has stood up to scrutiny. As an organisation, our scientists have responded strongly. They have done a great job of withstanding the less than pleasant attempts to undermine their integrity, and they deserve great credit for this.

The economy continues to face challenges, which puts pressure on our customers. This in turn puts pressure on our commercial revenue and we've had to fight hard for business. We've done this by ensuring we continue to provide world-class services, focusing on innovation and providing what the customers want. There's also been pressure on government funding and there's going to be pressures going forward. In answer to that we're continually showing our value for money and working hard to improve profitability.

Is there anything we can learn from or build on from the previous year?

There's much that we can take away from this year, but the real theme would be that we must stick to the basics of what makes the Met Office such a superb organisation. That's about producing the very best science which is underpinned by the utmost integrity and using that cutting-edge expertise to look after our customers, providing them with the best service possible. That foundation has served us well throughout our history and it's the right focus for our future.

How has the Met Office improved and developed its services to customers?

We listen very closely to what our customers want and we're always looking at how we can best use our cutting-edge science to meet and exceed those expectations. That focus has been vital, and has driven much of our technological and scientific developments. Using our supercomputer to go to a 1.5 km resolution forecast model is one example — this will allow us to improve the detail of our forecasts as we go forward. Another example is the way we've invested in improving web-based presentation of information and services, as well as new delivery methods such as working with mobile technology and the iPhone app.

International and collaborative work is becoming increasingly important to the Met Office's work, so what's been done to develop these relationships?

We think it's vital to collaborate and share knowledge both within the UK and internationally. As a result we're always building new relationships to make sure we keep improving weather forecasting knowledge across the globe and pushing forward our understanding of climate science. This year, we've continued to work very positively with the European Centre for Medium-Range Weather Forecasting (ECMWF), as well as other met. services across the world – and this really demonstrates how well we're regarded on a global basis. In terms of international work, we've also offered our services in times of crisis – such as providing forecasts for relief workers in Haiti after the devastating earthquake.

What are the key challenges for the year ahead?

The ongoing scepticism of climate change will continue to be a communications challenge, but we'll continue to produce our research with integrity. We'll present that research clearly and with impartiality. We'll also robustly defend against any unwarranted accusations about our science.

There's going to be pressure for our commercial customers and on government budgets, so value for money and profitability will continue to be a priority. It's going to be a tough year but we're confident we're well placed to deal with the challenges ahead.

CHIEF EXECUTIVE'S OVERVIEW

In conversation with John Hirst, Met Office Chief Executive:

What is the Met Office doing to pursue its vision to be the best weather and climate service in the world?

The main thing we've focused on is delivering outstanding services to our customers throughout the year. Underpinning those services — and everything we do — is our science, which we are continually developing and pushing forward. It's important we compare ourselves with other organisations around the world because there are always lessons we can learn. We're not complacent — for example, this year we've reorganised our research to unify our weather and climate science into one Science Directorate to really exploit the potential we have as experts in both weather and climate.

The debate on climate change has moved quickly this year — what is the Met Office doing to get its message across?

We've delivered some outstanding climate science, such as the UKCP09 climate projections for the UK — which provide the world's most comprehensive regional climate predictions and are a vital tool for planning and adapting for the changes to come. Our science was also a focal point at the UN climate conference in Copenhagen, providing some of the key messages for policymakers to consider. There's been a lot of controversy over climate science this year, but our research has stood up to the scrutiny because everything we do is carried out with the utmost integrity. We continue to deliver our science in a straightforward manner and draw attention to any uncertainties. We've also responded strongly to misunderstandings, pointing people to the facts which are backed up by high-quality science. We've also worked hard on the way we communicate our research, making sure we're giving people the information they need in a format that's right for them. By making sure it is honest and accessible, we're getting world-leading science out there — and that's helping to break down some of the myths and uncertainties around this key area.

Are there any achievements you're particularly proud of this year?

There have been so many this year it's hard to choose. Obviously there have been some big ones, such as the successful forecasting of the Cumbrian floods and the snow, our iPhone application or the Decider® service for traders dealing in weather sensitive stocks. These are just some of the headlines, but there's also a host of successes right the way through the organisation. It's easy to overlook less obvious successes, but they're just as important. For example, our finance team were one of the first government organisations to have the restatement of the 2008/9 accounts successfully audited as part of the public sector transition to international financial reporting standards. We're also used as a role model by the National Archive, which looks after government data, on how public data should be separated from commercial activities. This shows how we're working hard to lead the way in every part of the organisation.

Flooding in Cumbria and prolonged heavy snowfall across the UK have posed some big forecasting challenges this year. How has the Met Office risen to the task?

We've done extraordinarily well in dealing with the forecasting challenges. When the Cumbrian floods came, the scale of the rainfall was outside the living memory of even our most experienced forecasters and senior scientists — yet we had the confidence to forecast it. That's a real demonstration of the confidence we have in the quality of our science and the accuracy of our forecasting. The harsh winter in the UK was also a big challenge. A series of snowfalls across the whole UK with a prolonged period of sub-zero temperatures and icy conditions made things very difficult, but we were very accurate in forecasting what was ahead. We've had high praise from many of our customers for our excellent and timely forecasts, ranging from businesses to government departments and emergency responders. Our forecasts helped to save lives and people were able to make informed choices based on the advice we gave.

This is the first full financial year the Flood Forecasting Centre has been operational. How important is this collaborative project between the Met Office and the Environment Agency?

It's very important and that's already been proved with several flooding events during the year, most notably the Cumbrian floods — the forecasts were spot-on because of the collaborative work at the Flood Forecasting Centre. The centre has also worked hard to improve the service to responder communities and its communication links are superb. It's built confidence between us and the Environment Agency, encouraging collaboration in a way that's really important for our mutual future. There's still a lot of development potential, but so far it's working very well and performing as we'd hoped.

How has the new supercomputer been put to use and what can we expect in the future?

It's operational and it's working well. We've been able to use some of the more advanced science that's been waiting for the capacity to run it and that's helped us improve the quality and accuracy of our forecasts in a number of areas. There's more science we can apply to it, and

we're working on that. The power of the supercomputer will be increased in stages over its programme life, and that will enable us to keep pushing forward our science and make further improvements. There's still so much more we can do.

What are the main targets for 2010/11?

It's a year of considerable challenge and change, but we've come through it with a host of successes. The year ahead is likely to be challenging — a new government, fiscal constraints to name only two — but whatever the political and market conditions we'll be working hard towards our aim to be recognised as the best weather and climate service in the world. Importantly, we've come through the Government's asset review with a recommendation that privatisation is not appropriate at least in the short-term — so, in principle, that should mean we've got a period of stability to really push forward with our work and fulfil our potential.

Management structures

Met Office Owner's Council

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

Met Office Board

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

Executive

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

Prospect

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

Register of Interests

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

John Hirst
Chief Executive

Prof. John Mitchell
Climate Science Director

Prof. Julia Slingo
Chief Scientist

Rob Varley
Operations and Services Director

Phil Evans
Interim Government Services Director

Dr. Alan Dickinson
Science & Technology Director

Diana Chaloner
Director of Human Resources

Dr. Phil Johnston
Commercial Business Director

Nick Jobling
Chief Financial Officer

Alan Shepherd
Strategic Marketing & Product Director

Non-Executive Directors

Robert Napier
Chairman

James Currie
Non-Executive Director

Prof. Sir Brian Hoskins
Non-Executive Director

Dr. Mike Goodfellow
Non-Executive Director

Denise Harker
Non-Executive Director

Peter Shortt
Non-Executive Director – Shareholder Executive Representative

Terence Jagger
Non-Executive Director – MoD Representative

Met Office Owner's Council	Met Office Board	Executive Board	Audit Committee	Membership as 31 March 2010
•	•	•	*	John Hirst Chief Executive
		•		Prof. John Mitchell OBE FRS Climate Science Director
	•	•		Phil Evans Interim Government Business Director[1]
	•	•		Rob Varley Operations and Services Director[2]
		•		Dr. Alan Dickinson Science & Technology Director
		•		Diana Chaloner Director of Human Resources
	•	•		Prof Julia Slingo OBE Chief Scientist
		•		Alan Shepherd Strategic Marketing & Product Director
		•		Dr. Phil Johnston Commercial Business Director
*	•	•	*	Nick Jobling Chief Financial Officer
•	•			Robert Napier Chairman
	•		•	Denise Harker Non-Executive Director & Chairman for Audit Committee
	•			Prof. Sir Brian Hoskins CBE FRS Non-Executive Director
	•		•	Dr. Mike Goodfellow Non-Executive Director
	•			James Currie Non-Executive Director
	*			Philippa Childs Prospect National Negotiator
*	•			Peter Shortt Non-Executive Director - Shareholder Executive representative
•	•		•	Terence Jagger Non-Executive Director – MoD representative
•				Kevan Jones MP, Under Secretary of State for Defence & Minister for Veterans – Chair
•				Jon Thompson Director General Finance, MoD
•				Prof Mark Welland Scientific Advisor, MoD

* Invited attendees.

[1] Phil Evans replaced Rob Varley in February 2010

[2] Rob Varley moved to Operations & Services Director when Keith Groves retired in February 2010

Management commentary

KEY PERFORMANCE TARGETS

Forecast Accuracy

We assess Forecast Accuracy against four different measures:

- Global Numerical Weather Prediction (NWP) Index
- UK Numerical Weather Prediction (NWP) Index
- Combined Maximum and Minimum Temperature Index
- Probability of Precipitation (PoP) Index

Globally, we look at the performance of our computer-based global forecasting system using an internationally recognised NWP index. This allows month-by-month comparisons of performance and we have demonstrated sustained improvements in our forecasts since 1998. By March 2010, our global NWP Index was 138.4 against a target of 138.1. Our performance means that in comparison with other national met. services, we are one of the best performing organisations.

Closer to home, we measure the accuracy of our regional models using an Index which assesses a basket of UK surface weather parameters, using data from about 110 locations. By March 2010, the UK NWP Index was 117.5 against a target of 117.0.

We also assess the accuracy of our post-processed model results, namely in our short-range Maximum and Minimum Temperature forecasts. These are taken from the same set of UK locations as for the UK NWP Index. By March 2010 we had achieved an Index value of 0.667 against a target of 0.666.

The Probability of Precipitation (PoP) reaching particular thresholds is obtained from our ensemble modelling system. The assessment measure is based on Brier Skill Scores and the March 2010 value of the PoP Index was 0.270 against a target of 0.267.

Return on Capital Employed

Return on Capital Employed (ROCE) is a measure of the return a company makes from the capital invested in a business. ROCE can be defined in several ways, but the resulting ratio represents the efficiency with which capital is being employed to generate profits.

The ROCE must support the longer term target set by HM Treasury, "...the five-year period from 1 April 2009 to 31 March 2014...to achieve a return, averaged over the period as a whole, of at least 3.5 per cent...". We have achieved our target of 3.2% for 2009/10 supporting the longer term delivery of 3.5% by 2014.

CSA Output Delivery

The Customer Service Agreement (CSA) output delivery KPT measures the delivery of our outputs to our key government customers, namely the Public Weather Service, Defence services and the Integrated Climate Programme.

In 2009/10 we met the necessary thresholds in order to achieve the KPT. A total of 32 outputs in terms of products, targets, services and milestones were all met within the tolerances agreed with our customers.

Business Profitability

Business Profitability is based on profit generated by key areas of our business selected for development, and comprises the operational commercial business as well as some competed Government business. The commercial element includes all Commercial Operating Profit and web revenue. 2009/10 has been a challenging year for many businesses, including the Met Office; however we have successfully achieved our target of £5.3 million.

CORPORATE REPONSIBILITY

We strive to work in the most sustainable way possible and to have a positive impact on our staff, customers, the wider community, and the environment. We have been working with Business in the Community to benchmark our progress and have achieved a silver ranking in the 2009 BITC Corporate Responsibility Index, the UK's leading voluntary benchmark for Corporate Responsibility.

Environment

We continue to reduce our impact on the environment as much as possible and do this by setting targets as well as continually looking for new ways to improve our sustainability, all underpinned by our ISO14001 certificated environmental management system.

Recycling

We adopted the demanding target for government departments to recycle 75% of waste by 2020, and we've almost exceeded that already — recycling 73% of our waste this year. We also recycle in other areas, such as using grey water to flush toilets in our Exeter building and collecting food waste for composting to make peat-free organic soil improver.

Carbon emissions

Our office accommodation in Exeter is consistently rated 'excellent' against the world-leading Building Research Establishment Environmental Assessment Methodology (BREEAM). This looks at all aspects linked to the building, such as energy efficiency, water and waste management, business travel and occupant satisfaction. In addition, we are striving to find further ways to improve the way we work and reduce our carbon emissions across all our sites. For 2009/10, we set ourselves some tough targets to reduce carbon emissions from our business activities. We've had some great success, cutting emissions by 10% compared to the previous year at our Exeter head office and bringing in a number of new projects, such as:

- Using smart metering to monitor our energy use more effectively and help find ways to cut down.
- New energy-efficient lighting in the 'street' area of our Exeter building.
- Installing new equipment to save money and energy in the way we cool our supercomputer.

The Met Office is committed to reducing its carbon emissions and has targets in place to achieve this. While we recognise that our supercomputer has a large carbon footprint, studies have identified that the services we deliver allow carbon emission reductions that far outweigh the emissions of the supercomputer. Towards the end of the financial year we actively put in place technical solutions to reduce the emissions from our supercomputer and will continue to implement carbon reduction solutions during 2010/11.

Community

We aim to have a positive impact on society, helping to improve people's lives and livelihoods in our local communities and across the world.

Charity

We have nominated the international aid charity ShelterBox as our corporate charity, to enable staff to raise funds to support their work. The charity provides emergency shelter and essential equipment for people who are displaced or homeless due to disasters such as earthquakes or floods. It has been in action in several locations around the world over the past 12 months, including Haiti and Peru. Since the summer of 2009 Met Office staff have helped to raise thousands of pounds for the charity and we've also provided weather forecasts as needed when they're operating overseas.

Sharing knowledge

As a world-leading science institution, we have a lot to offer in terms of sharing our knowledge and inspiring an interest in science across the community:

- Work experience students have been given placements across the scope of our operations over the past year, giving young people valuable experience and an insight into our work.
- We open our Exeter building to the public several times a year and we've hosted numerous visits from schools.
- Our scientists have visited schools to talk on a range of issues to promote an interest in science as well as an understanding of what we do.

Making a positive impact worldwide

We are committed to helping other countries improve their ability to forecast weather and climate, enabling them to deal with weather impacts and natural disasters more effectively. As part of this work, we are an active player in the World Meteorological Organization's Voluntary Cooperation Programme (VCP), which aims to enhance the capabilities of national met. services in developing countries. Our activities include:

- Providing expert training for forecasters, climate experts and managers within national met. services.
- Helping to develop and improve IT and communications — the Met Office has supplied specialist equipment, computer software and training to the Guyana Hydromet Department and Guyana TV to establish the country's first TV weather forecast service.

- Assisting with the effective collection, management and application of weather and climate observations — such as our support for the Global Climate Observing System (GCOS), with an emphasis on regions of the world where observations are scarce.
- Providing our PRECIS (Providing Regional Climates for Impacts Studies) model free to developing countries which can help them develop strategies to cope with climate change impacts. This year, training courses have been run in countries including Malaysia, Vietnam and Egypt, as well as a course in the UK for participants from around the world.

Marketplace

Building positive business relationships is at the heart of the way we operate in the marketplace. This means we aim to operate ethically and with integrity in business and everything we do.

Suppliers

We are now working with our suppliers to encourage and develop more sustainable practices throughout the life of a contract. Through the procurement evaluation process, suppliers who offer a sustainable solution will be given credit for their approach. We already assess all contracts for general sustainability risks and identify issues at an early stage. Where appropriate, we also agree targets with key suppliers to improve sustainability. We also help Small/Medium Enterprises through our participation in workshops run by Business Link, where we have given presentations on how to do business with government organisations and the Met Office in particular. We also work with local suppliers wherever possible and aim to pay all our suppliers within 10 working days.

Customers

We are proactive about improving our customer services, which includes how we handle and respond to feedback from all sources. Part of this is to regularly seek opinions through our Customer Attitude Surveys, our Public Weather Services Customer Group (PWSCG) and, most recently, the Met Promoter Score (MetPS), which monitors customer feedback. We also have targets for handling incoming communication via telephone, email and correspondence which are reviewed by senior management.

Workplace

We aim to provide a great place to work, so we invest in staff and support them in realising their potential. We ensure we listen to our staff to find out how we can improve, carrying out an annual Employee Attitude Survey to get an honest appraisal of how we're doing and where we need to progress. A wide range of training, as well as study leave and funding, is available. In recognition of our commitment, we continue to hold Investors in People status.

Diversity and equality

We aim to provide an open and fair place to work:

- Over the past year, two new groups have been set up — the Met Office Lesbian, Gay, Bisexual and Transgender Network and the Met Office Women's Network. Both increase awareness of issues and provide support.
- All our staff receive diversity training and our Diversity Council provides a consultative forum for diversity issues.

Health and safety

We continue to maintain a safe and healthy environment for all through the development of robust policies and procedures, promotion of a positive safety culture and the provision of professional guidance and advice. We also have a welfare system for staff, including occupational health and counselling services.

Protecting personal data

No protecting personal data related incidents were reported to the Information Commissioner's Office during 2009/10. There were no such incidents centrally recorded but not formally reported to the Information Commissioner's Office during the year.

Looking ahead

We're proud of our Corporate Responsibility record, but there is always more to be done and we will continue to look for ways we can improve.

Find out more

To find out more about the work we've done to have a positive impact for our staff, customers, the wider community and the environment, you can read our special Corporate Responsibility Report. This is available on our website.

FINANCIAL REVIEW

Financial performance and policies

Turnover increased in year by 3.9%, from £184.8 million in 2008/9 to £192.0 million. Growth has been in Government revenue streams. Despite a challenging economic environment the Met Office has managed to maintain commercial revenue streams at the same level to that achieved in 2008/9 at £29.4 million.

Revenue received in respect of the Public Weather Service (PWS) and Government Services have increased compared to 2008/9, whilst Defence revenue decreased over the same period. PWS revenue increased as a result of the inflationary contractual price rise together with additional revenue (and associated costs) from planned new international activity. Government Service revenues (and associated costs) increased due to a system upgrade for the Radioactive Incident Monitoring Network (RIMNET), the Flood Forecasting Centre (FFC) being operational for a full year and the commencement of a collaboration arrangement with the Natural Environment Research Council (NERC) to share the cost and services of the Met Office supercomputer. Defence revenues (and associated costs) fell largely due to the withdrawal of the Mobile Met Unit when UK Armed Forces left Iraq.

Total expenditure increased from £177.3 million in 2008/9 to £185.3 million in 2009/10. Staff costs increased by £3.3 million compared to 2008/9 as a result of the increase in staff numbers. Equipment and services costs were £1.5 million higher predominantly due to increased RIMNET costs required to deliver the revenue growth noted above. Depreciation charges were £1.9 million higher than 2008/9 largely due to the new supercomputer and associated IT infrastructure becoming operational during the year. International services and subscriptions payable to bodies including EUMETSAT, ECMWF and WMO have increased £1.8 million compared to 2008/9 primarily due to planned expenditure on new activities.

Operating profit decreased from £7.5 million in 2008-09 to £6.6 million in 2009-10. The primary reason for this decrease was as a result of investing in technology to deliver business improvement.

Business profitability, a measure of profitability on revenue from services provided on a competed basis, amounted to £5.3 million in 2009-10, meeting the target of £5.3 million. A Return on Capital Employed (ROCE) of 3.2% was achieved against an in year target of 3.2% for 2009/10. The Met Office agreed a new Treasury Minute during the year to achieve a ROCE of 3.5% over the 5 year period to 31 March 2014.

Cash flows and liquidity

Cash balances totalled £36.5 million as at 31 March 2010, an increase of £3.0 million compared to 31 March 2009. Of this balance £1.2m comprised cash in transit at the year end (2008/09, £0.8m). 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 £40.9 million (2008/09, £31.7 million).

Trade debtor balances reduced by £7.6 million compared to 2008/9, even though turnover increased by £7.2 million over the same period. The main element of this was a one-off benefit of £8.0 million due to the shift in timing of payments from central Government customers as they changed their processes to meet the Government's 10 working day target for paying suppliers. As a direct consequence, average debtor days reduced to 26 days at 31 March 2010 from 42 days at 31 March 2009; without the Government payment effect debtor days would have remained at 42 days. Total creditor balances reduced by £6.6 million compared to 2008/09; the main contributor to this was the reduction in dividends payable (£6.7m).

Dividends

For the first time in six years the level of dividends payable to our Owner, the Ministry of Defence, reduced. Total dividends payable were £4.5 million in respect of 2009/10 (2008/9 £17.2 million).

Payment policy

Our normal policy is to pay all suppliers 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. However, during 2009/10 the central Government objective to pay small and medium sized enterprise (SME) businesses within 10 working days was expanded to cover all UK based suppliers and a target set to pay at least 90% of valid invoices within this period. The Met Office achieved 93.7% against this new target.

Treasury policy

Certain payments to international bodies in respect of international subscriptions and contribution to satellite programmes are paid in foreign currency. To manage the foreign exchange risk the Met Office policy buys forward foreign currency to meet these payments in accordance with the anticipated payment profile. The Met Office operates hedge accounting for such transactions. The Met Office follows Treasury rules by investing all surplus funds

on deposit with the UK Debt Management Office at HM Treasury.

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

Further details of our derivatives and other financial instruments are contained in note 23 to the Accounts.

International Financial Reporting Standards

The Met Office completed the transition to full implementation of International Financial Reporting Standards (IFRS), as interpreted for the public sector during 2009/10. As part of the Trigger Point process set out by HM Treasury, the Met Office completed a restatement of the 31 March 2009 accounts on an IFRS basis during 2009/10. The restatement exercise was also subject to audit by the National Audit Office. The 2009/10 accounts have been fully prepared on an IFRS basis (as interpreted for the public sector).

Staff absence data

In 2009/10 the average working days lost per person was 4.9 days (2008/9, 5.7 days).

Disclosure of information to auditors

In accordance with the s418 of the Companies Act 2006:

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

Performance

PERFORMANCE AGAINST KEY MINISTERIAL TARGETS

Year	2006/7		2007/8		2008/9		2009/10	
	Target	Achievement	Target	Achievement	Target	Achievement	Target	Achievement
Targets met		4/4		4/4		3/4		4/4
ROCE	3.5% in year (3.5% average 04/04-03/09)	4.0% (5.6% average 04/04-03/09)	3.5% in year (3.5% average 04/04-03/09)	6.1% (5.7% average 04/04-03/09)	3.5% in year (3.5% average 04/04-03/09)	3.7% (5.3% average 04/04-03/09)	3.2% in year (3.5% average 04/09-03/14)	3.2% (3.2% average 04/09-03/14)
Business Profitability	£3.6m	£3.9m	£4.3m	£4.4m				
Business Profitability (revised calculation)				£5.8m	£7.0m	£7.5m		
Business Profitability (newly agreed basis)						£6.1m	£5.3m	£5.3m
Forecast Accuracy								
Global NWP Index							138.1	138.4
UK NWP Index							117.0	117.5
NWP Index	118.5	118.5						
NWP Index (revised calculation)			122.4	123.5	125.8	125.8		
Max Temp Accuracy	83.5%	84.6%	84.8%	85.5%	86.2%	86.8%		
Min Temp Accuracy	79.0%	81.8%	82.0%	83.5%	84.4%	84.9%		
Use Brier Skill Score (forecaster)	0.345	0.349						
Automated Prob of Precipitation			0.403	0.433	0.438	0.421		
UK Temperature Index							0.666	0.667
UK Precipitation Index							0.267	0.270
CSA Delivery								
Costed output-based CSAs to all Govt cust	Introduce where agreed	Agreed						
Incentivised pricing	Prep for intro 01/04/07	Agreed						
Baseline for 07/08 efficiency targets	Create	Agreed						
Deliver outputs of CSAs for PWS, Defence and Defra			Deliver	Achieved	Deliver	Achieved	Deliver	Achieved

Target achieved Target failed

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL ON THE MET OFFICE'S STATEMENT OF PERFORMANCE AGAINST 2009/10 KEY PERFORMANCE TARGETS

The Chief Executive has asked me to validate The Met Office's performance against the 2009/10 Key Performance Targets (KPTs).

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

The Met Office and the Chief Executive are responsible for the measurement and reporting of the Met Office's performance against its KPTs.

I examine and conclude on whether the Met Office has:
- provided full details of performance against all the Met Office's KPTs; and
- ensured that all performance information is reliable and fairly presented.

Basis of Conclusion

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

Conclusion

The Statement of Performance includes all of the Met Office's 2009-10 KPTs and it reliably and fairly presents the Trading Fund's performance against the KPTs.

I have no observations to make on this Statement.

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

Date: 30 June 2010

Remuneration Report

REMUNERATION POLICY

The following members of the Met Office Executive are members of the Senior Civil Service:

J Hirst	Chief Executive
J Slingo	Chief Scientist
JFB Mitchell	Climate Science Director
A Dickinson	Science and Technology Director
P Johnston	Commercial Business Director

The remaining Executive members are Met Office employees.
J Hirst, J Slingo and P Johnston have been appointed on fixed term contracts.

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

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

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

Met Office Reward and Remuneration Committee

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

The members of the Reward and Remuneration Committee are the non-executive directors of the Met Office Board, together with the Chief Executive. 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 Bonus scheme, based on an assessment of the performance of the Met Office against its key performance targets and the level of declared profit.

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

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

SALARY AND PENSION ENTITLEMENTS

The following sections provide details of the remuneration and pension interests of the Executive Directors of the Met Office:

Remuneration

(This information is subject to audit)

Name	Note	2009/10 Salary	Other Taxable allowances	Performance related pay	**Total**
		£ '000	£ '000	£ '000	**£ '000**
J Hirst Chief Executive		155-160	15-20	45-50	**220-225**
D Chaloner Director of Human Resources		70-75		0-5	**70-75**
A Dickinson Science and Technology Director		70-75		5-10	**80-85**
P Evans Government Services Director (from 5 February 2010)		10-15 (65-70 full year equivalent)		0-5	**10-15**
K Groves Operations Director (until 4 February 2010)		65-70 (75-80 full year equivalent)		0-5	**65-70**
N Jobling Chief Financial Officer		95-100		0-5	**95-100**
P Johnston Commercial Business Director		105-110		5-10	**110-115**
JFB Mitchell Climate Science Director		65-70	10-15	0-5	**80-85**
A Shepherd Strategic Marketing and Product Director		145-150		25-30	**170-175**
J Slingo Chief Scientist		125-130	15-20	15-20	**160-165**
R Varley Operations and Services Director	2	70-75		0-5	**75-80**
P Whittle Executive Director (until 6 September 2009)		65-70 (145-150 full year equivalent)		0-5	**70-75**

1. No Director received any benefits in kind in either 2009/10 or 2008/9.
2. With effect from 5 February 2010 R Varley transferred from his role as Government Services Director to Operations and Services Director.

To increase transparency in the reporting of salary and performance related payments, the Met Office has decided to separately report salary and performance related payments. The Met Office has also moved to report performance related pay relating to the year of performance as opposed to actual performance related pay paid in year which related to the previous years performance. This is in line with staff costs reported in the financial statements under the accruals principle.

* The 2008/9 (as reported) salary, other taxable allowances and performance related pay figures represents the figures disclosed in the 2008/9 Annual Report and Accounts.

2008/9 (Restated)				2008/9 (As reported)*			
Salary	Other Taxable allowances	Performance related pay	**Total**	Salary	Other Taxable allowances	Performance related pay	**Total**
£ '000	£ '000	£ '000	**£ '000**	£ '000	£ '000	£ '000	**£ '000**
150-155	15-20	55-60	**225-230**	150-155	15-20	25-30	**195-200**
50-55 (55-60 full year equivalent)		0-5	**50-55**	50-55 (55-60 full year equivalent)		0-5	**50-55**
70-75		5-10	**80-85**	70-75		5-10	**75-80**
N/A	N/A	N/A	**N/A**	N/A	N/A	N/A	**N/A**
70-75		0-5	**75-80**	70-75		0-5	**75-80**
85-90		0-5	**90-95**	85-90		5-10	**95-100**
105-110		20-25	**125-130**	105-110		20-25	**125-130**
75-80	15-20	0-5	**100-105**	75-80	15-20	0-5	**100-105**
25-30 (140-145 full year equivalent)		0-5	**25-30**	25-30 (140-145 full year equivalent)		-	**25-30**
20-25 (125-130 full year equivalent)	0-5	0-5	**20-25**	20-25 (125-130 full year equivalent)	0-5	-	**20-25**
70-75		0-5	**70-75**	70-75		5-10	**75-80**
145-150		-	**145-150**	145-150		0-5	**150-155**

Salary

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

Other taxable allowances

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

Performance related pay

Performance related payments are based on performance levels attained and are made as part of the appraisal process. Payments are non-consolidated and 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 above for performance related pay in 2009/10 are based on 2009/10 performance and accrued within the 2009/10 accounts. The performance related pay for 2008/9 is based on performance for 2008/9, which were accrued into the 2008/9 accounts and paid during 2009/10. For completeness the 2008/9 as reported columns contain the salary, taxable allowances and performance related pay paid during that year. The performance related pay relates to the 2007/8 performance year which was paid during 2008/9.

As noted above 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.

Pension benefits

(This information is subject to audit)

Name	Note	Accrued pension at pension age as at 31/03/10 plus pension taken at partial retirement	Accrued lump sum at pension age as at 31/03/10 plus lump sum taken on partial retirement	Real increase in pension and related lump sum at pension age	CETV at 31/03/10	CETV at 31/03/09*	Real increase in CETV
		£ '000	£ '000	£ '000	£ '000	£ '000	£ '000
J Hirst		5-10	–	2.5-5	130	74	47
D Chaloner		0-5		0-2.5	36	18	15
A Dickinson		30-35	100-105	0-2.5 plus 5-7.5 lump sum	818	737	54
P Evans		15-20	50-55	0-2.5 plus 0-2.5 lump sum	279	275	6
K Groves		30-35	100-105	0-2.5 plus 5-7.5 lump sum	810 CETV at 4/02/10	741	41
N Jobling		5-10		0-2.5	100	65	27
P Johnston		5-10		0-2.5	93	67	18
JFB Mitchell	1	Accrued pension 20-25. Pension in payment 10-15	Accrued lump sum 70-75 Lump sum already paid 40-45	0-2.5 plus 2.5-5 lump sum	892	867	24
A Shepherd		0-5		2.5-5	46	7	34
J Slingo	2	20-25		2.5-5	358	280	56
R Varley		20-25	70-75	0-2.5 plus 5-7.5 lump sum	405	349	35
P Whittle		5-10		0-2.5	77 CETV at 6/09/09	54	20

* The figure may be different from the closing figure in last year's remuneration report. This is due to the CETV factors being updated to comply with the Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008.

1. J Mitchell took partial retirement on 1 December 2008. Under the scheme rules, people who reshape their job so their pensionable earnings are reduced by at least 20% may take partial retirement. They may draw all or part of their pension and may chose to draw a pension commencement lump sum (PCLS) and their pension comes into payment in the normal way. The CETV figures listed above include the entire pension/lump sum benefits.

2. J Slingo has a preserved final salary pension from earlier Met Office service and has opted to link the earlier service to give a final salary pension based on the combined pensionable earnings and service. For this reason the CETV at 31/03/09 is different from the closing figure in last year's remuneration report.

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 changes in the Retail Prices Index (RPI). Members who joined from October 2002 could opt for either the appropriate defined benefit arrangement or a good quality 'money purchase' stakeholder pension with a significant employer contribution (partnership pension account).

Employee contributions are set at the rate of 1.5% of pensionable earnings for classic and 3.5% for premium, classic plus and nuvos. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum. Classic plus is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 worked out as in premium. In nuvos a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and, immediately after the scheme year end, the accrued pension is uprated in line with RPI.

In all cases members may opt to give up (commute) pension for lump sum up to the limits set by the Finance Act 2004.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee. The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

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

Further details about the Civil Service pension arrangements can be found at the website www.civilservice-pensions.gov.uk

Cash Equivalent Transfer Values

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

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

Real increase in CETV

This reflects the increase in CETV that is funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

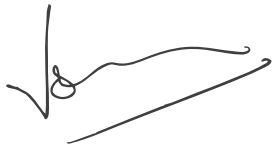
Fees paid to Non Executive Directors

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

Fees paid to non-executive directors were as follows:

	2009/10 £ '000	2008/9 £ '000
R Napier	35-40	35-40
B Hoskins	10-15	0-5
D Harker	15-20	15-20
M Goodfellow	15-20	15-20
J Currie	15-20	15-20
T Jagger	-	-
P Shortt	-	-

P Shortt and T Jagger 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
16 June 2010

Accounts

STATEMENT ON INTERNAL CONTROL

Scope of responsibility

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

The Met Office is a Trading Fund within the Ministry of Defence and, as such, is accountable to the Secretary of State for Defence. Day to day ministerial oversight and the formal business ownership role during the year was delegated to the then Minister for Veterans who takes advice in part through the Met Office Owner's Council (MOOC). The MOOC, amongst other things, approves the Corporate Plan for delivering the strategy and annual Key Performance Targets. A revised Framework Document, which sets out the purpose, vision, roles and governance arrangements for the Met Office, was signed by the Parliamentary Under Secretary of State for Defence and Minister for Veterans in early 2007 and remains valid until the next revision – expected during FY 2010/11. The Met Office has not always been able to exercise its full flexibility and relative independence implied by the Framework in pursuit of its objectives. We continue to explore ways to remedy this situation and make better use of this structure.

During the year the Met Office has been actively participating in a Government review known as the Operational Efficiency Programme (OEP), and particularly the Asset Portfolio strand of the OEP. The purpose of the review was to look at a number of Government assets and make recommendations about the way they should operate in the future. In relation to the Met Office, the review examined the Organisation's business model, ownership structure and financial framework in order to fully exploit the market opportunities open to us.

The OEP review identified a number of areas where greater freedoms and flexibilities will improve the Met Office's business model including additional operating freedoms which will allow a greater commercialisation focus.

The Met Office Audit Committee, which during the year comprised non-executive members of both the MOOC and the Met Office Board, and which reports to the Met Office Board, supports me in my Accounting Officer role. A new chairman of the Audit Committee was appointed with effect from 1 April 2010 following the retirement of Denise Harker.

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of departmental policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in the Met Office for the year ended 31 March 2010 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

Capacity to handle risk

Risk management is embedded in the mindset of the Met Office, led by a Risk Manager with the full support of the Met Office Executive. The Risk Manager acts as a focal point for risk management activities, assisting the Executive in understanding the Met Office's exposure to risk, helping them eliminate intolerable risks and capitalise on opportunities that require an element of controlled risk taking.

The Met Office's Risk Management Process and Policy outlines:

- the key stages (Identify-Assess-Plan-Implement) of Risk Management,
- risk appetite
- escalation procedure
- accountability across the Organisation

The management of risk is a responsibility across all roles within the Organisation. However, at a senior level accountability is as follows:

The Met Office Board provides an external perspective to all threats and opportunities. At monthly Board meetings they discuss the most serious risks threatening delivery of strategic objectives and on a six monthly basis conduct a cross Organisational review of the risk landscape.

The Met Office Executive act as risk champions, driving risk from the top down and ensure all major decisions are subject to risk assessment. The Executive are responsible for the management and coordination of the risk process as well as the identification and management of corporate level risks. Senior managers are accountable for understanding risk policy, process and reporting, ensuring risk registers are compiled and maintained for each major activity, escalating risks, supporting and sponsoring audits and carrying out the complete risk management process on all activities.

The Risk Review Committee, chaired by a member of the Executive, is comprised of selected senior managers. The Committee meets quarterly with the purpose to scrutinise and challenge activities relating to risks identified on the Corporate Risk Register plus review programme risk registers for consistency and appropriate escalation. It is best placed to provide more detailed analysis of potential risks and corporate wide risk horizon scanning.

The Audit Committee reviews risk management practices for effectiveness and the results of internal audit reports that relate to risk management processes or which identify significant new risks. The Audit Committee also review the Met Office risk landscape quarterly. The Risk Manager meets with the Head of Internal Audit to review and update the Internal Audit Plan as risks arise throughout the year.

The capacity in which the Met Office responds to financial risks is largely governed by the environment in which the Met Office operates. The Met Office has limited exposure to liquidity and interest rate risk due to the loan funding and cash management structures in place with the Ministry of Defence and the UK Debt Management Office, HM Treasury. Exposure to material foreign currency risk is mitigated through the use of forward currency contracts. Exposure to credit risk is limited due to a significant number of Government customers with any residual risk being mitigated through robust credit control procedures.

To demonstrate how the Met Office's risk management works in practice and how the Office responds and reacts to risk, three key corporate risks are described below:

A challenging economic environment has resulted in difficulty to sustain revenue growth in both commercial and government sectors of our business and as a result the Executive team have continued to engage with key stakeholders and existing customers to manage expectations. The Met Office remains vigilant in relation to the likelihood of cuts in government contract revenue streams in the near future. In anticipation of such events a scenario planning group has been established to identify possible mitigations and responses to selected income cut scenarios. Furthermore, we have undertaken a value for money benchmarking exercise against other national met services to assess the breadth, value and benefit of the services we offer.

As a business we recognise the importance of improving understanding of both customers and competitors, without which there is a risk we will not sustain our position in the marketplace. In addition to market research already undertaken, during the year we have introduced three key initiatives:

- The Customer Experience Group — a collection of customer facing managers meet to identify suitable measures/ benchmarks for customer perception
- Benchmarking/Competitor Analysis — benchmarking exercise against other national met services/competitors
- Product Management restructuring — an assessment of how we can improve the 'speed to market' of products/services

Failure to maintain a suitable level of influence with European organisations such as the European Centre for Medium-range Weather Forecasts (ECMWF) and the European Organisation for the Exploitation of Meteorological Satellites (EUMETSAT) could lead to investment in areas which do not benefit the Met Office leading to a weakening of our scientific credibility or uncontrolled levels of budget increases. To overcome this, the Met Office is working to ensure our vision is considered when decisions are being made by these organisations.

Continuous improvement

Through use of recognised techniques[3] which identify and mitigate risk, the Risk Manager offers workshops/ training to help the organisation meet best practice. Internal risk management web pages are refreshed regularly to ensure guidance is up to date and easy to follow.

An external best practice group has been established in liaison with risk managers of other organisations. The aim of the group is to share experiences and identify where improvements can be made in our respective organisations. Internal audits of the risk management process are undertaken periodically to assess its design and effectiveness.

The risk and control framework

Risk management is now an accepted element of the standard decision making process across the Met Office, whether at corporate, programme or project level. It is framed in the context of the organisation's environment and strategic goals. The Met Office recognises that the aim is to reduce a risk to an acceptable level, balancing the risk to the business, should the risk materialise, against the cost of further mitigation. Whilst the risks are held in separate Risk Registers, the criteria and thresholds used to assess risks follow a common approach across the Organisation. As part of detailed programme performance management reviews, each Programme Risk Register is reviewed quarterly by the appropriate Executive Director. Progress against all Risk Registers (corporate, programme and (key) projects) are summarised in quarterly analysis reports written by the Risk Manager.

[3] The Met Office Risk Manager is a Management of Risk Registered Practitioner.

The organisation's Corporate Plan and the objectives, aims and activities within it reflect the organisation's risk appetite. The Corporate Plan must meet approval by the Met Office Board, in consultation with our Owner. This decision requires a thorough understanding of the possible risk/reward trade-offs available (strategic options) and the risk aversion or otherwise of the key stakeholders. Recent work has been completed to illustrate the organisation's risk appetite using OGC guidelines. The work has highlighted, for example, that the organisation has a more risk adverse approach to regulated activities, but is more open with respect to its commercial business. This will be reviewed on a quarterly basis by the Executive as part of their regular risk discussions.

Programme and project level risk appetites flow from this decision, and are effectively set by the planning and delegation framework. In establishing this framework, different programmes and projects will have different risk and reward trade-offs.

Consideration of business continuity is a key component of the risk management approach adopted. The business continuity management system continues to mature and recovery plans are now in place at Programme level. A steering group (chaired by the Operations and Services Director) meets with members of the senior management team to provide strategic guidance and promote development of the business continuity arrangements. Reviews of business continuity arrangements have been conducted during the year, with further identification of interdependencies between activities within the Met Office to ensure key services can continue under any circumstances. Significant efforts were made across the organisation in preparation for the potential outbreak of the swine flu virus and, although the threat did not materialise, we now have plans in place for delivering critical activities and services with 50% staff levels. Progress has been made over the identification and preparation of an external site to be used in the event of the unavailability of the Exeter headquarters. Plans have also been implemented to increase the power resilience at the Exeter headquarters.

Information assurance

The Met Office has a Senior Information Risk Owner (SIRO) and a Senior Data Protection Officer, both of whom are Executive Directors. Information Asset Owners are in place for all personal data used within the Met Office. Policies have been established for the protection of our personal data and for the management of information used within the Met Office. The Security Policy Committee, chaired by the SIRO, oversees all aspects of security, including information assurance. All staff and contractors have undergone basic information assurance training, and those with key roles have undertaken additional training. The Met Office reached Level 1 in the Information Assurance Maturity Model during the year as required by MoD. Internal and external reviews of our information assurance activities have been conducted during the year and actions have been addressed as a matter of priority.

A recent Internal Audit of Information Assurance supported the MoD conclusions and identified several key areas for improvement relating to the governance framework, guidance for Information Asset Owners, monitoring of suppliers adherence to Information Assurance requirements, and the need for a clear action plan to help drive activities to achieve Maturity Levels 2 and 3 in future years. A full time Information Manager has been appointed who will help to drive the work required to address these points, which is expected to complete during 2010.

Risks to information are managed at corporate and at programme level within the Met Office, with all risks monitored on at least a monthly basis. Privacy Impact Assessments have been incorporated into our project management process.

Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors, the executive managers within the department who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board, the Audit Committee and Risk Review Committee. A plan to address weaknesses and ensure continuous improvement of the system is in place.

The effectiveness of the risk and control framework is reviewed and discussed at least quarterly at Executive meetings, and by the Board when considering strategic objectives and the associated risks. These risks are reflected within the Corporate Risk Register, which is one of the key inputs when developing the risk-based internal audit annual plan approved and monitored by the Audit Committee. Other assurance mechanisms used within the Met Office include monthly reviews of expenditure and budgets with senior management, individual approval of all

capital expenditure projects, and the use of rolling forecasts to monitor future expected spend. In addition, all Directors and Senior Managers are required to complete an annual Management Assurance Statement confirming the operation of key controls within their areas of responsibility and highlighting any weaknesses.

The internal audit function continues to strengthen its activities via the recruitment of additional experienced resource, embedding operational improvements and a greater focus within its annual audit plan on strategic and core operational activities. Coordination with key audit partners at Defence Internal Audit and the National Audit Office has continued, successfully improving the efficiency of audit activities impacting the Met Office.

The majority of audits concluded that the governance, risk and control frameworks under review provided moderate assurance that risks were being managed effectively and objectives would be achieved, with some opportunities for improvement being noted. High levels of assurance were noted in relation to Observations' Regional Network Management activity at Cardiff, the Defence stations of Waddington and Cranwell, contractor payments, management of hazardous substances within Head Office and budgetary controls. However, limited assurance was given over aspects of Security Management, Competitive Product Pricing, System Lifecycle Management, Project Management, Product Rationalisation, Information Assurance and Collaboration activities. Required improvements in controls related to tightening aspects of identity and access management, further improving our pricing methodology and audit trails, implementation of a system lifecycle governance framework, enhancing aspects of project and collaboration sponsorship, guidance and oversight, and improving elements of information governance and guidance. In all cases, local management is taking action to improve and embed controls to ensure these issues are addressed and do not recur, and these actions are all due to be completed in 2010. Actions from all audits are prioritised, tracked and followed up regularly with relevant contacts and management, with any overdue items being escalated to senior management and the Audit Committee as necessary. The results of audits and any trends regarding good practice or areas for improvement are reflected within the annual Internal Audit report. This gave moderate assurance on the adequacy and effectiveness of the Met Office's system of internal control, and noted a general improvement in audit results and the level of assurance given during 2009/10 over previous years' results.

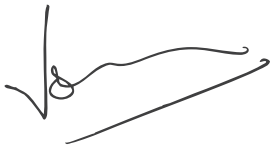
In addition to Internal Audits, external reviews have been conducted in relation to ISO9001 (Quality Management), ISO14001 (Environmental Management) and Investors in People. All three accreditations have been retained, with positive comments being made regarding the continuous improvement within the Met Office in all three areas. Naturally some minor opportunities for further improvement were identified and are being progressed across the organisation.

During the year, the National Audit Office conducted its annual external audit, looking at aspects of the Met Office's financial controls and validating the calculation of performance against Key Performance Targets. Within the total special payments of £44,000 made during the year, the NAO identified a weakness in our review process in relation to a type of special payment made. This was specifically in relation to a payment which could be interpreted as a special severance payment and therefore considered to be novel and contentious. Processes have been amended to ensure special payments that could be considered similar in nature to a special severance payment will be put forward for HM Treasury approval in advance.

Directors and Senior Managers have completed their annual Management Assurance Statements, giving positive assurance regarding management oversight of control across the organisation. No systemic or material issues were identified.

Conclusion

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



Mr J Hirst
Chief Executive
16 June 2010

STATEMENT OF THE RESPONSIBILITIES OF THE AGENCY AND THE CHIEF EXECUTIVE

Under section 4(6)a of the Government Trading Funds Act 1973, HM Treasury has directed the Met Office to prepare a statement of accounts for the 2009/10 financial year in the form and on the basis set out in the Accounts Direction issued on 21 December 2009. 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 2010 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.

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 2010 under the Government Trading Funds Act 1973. These comprise the Income Statement and Statement of Changes in Taxpayers' Equity, the Statement of Financial Position, the Statement of Cash Flows and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Met Office, Chief Executive as Accounting Officer and auditor

As explained more fully in the Statement of the Responsibilities of the Met Office and the Chief Executive, the Chief Executive as Accounting Officer is responsible for the preparation of the financial statements and for being satisfied they give a true and fair view. My responsibility is to audit the financial statements in accordance with applicable law and 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 am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Opinion on regularity

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

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Met Office's affairs as at 31 March 2010 and of its profit, changes in taxpayers' equity and cash flows 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 Management Commentary, the Directors' Report, the Financial Review and the unaudited part of the Remuneration Report, included within the annual report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

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

Report

I have no observations to make on these financial statements.

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

Date: 30 June 2010

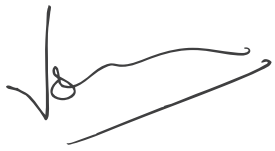
Income Statement for the year ended 31 March 2010

	Notes	2009/10 £ '000	2008/9 £ '000
Revenue	4	191,965	184,781
Cost of sales	5,8	(162,201)	(153,396)
Gross profit		29,764	31,385
Selling and distribution costs	5,8	(11,756)	(10,563)
Administrative expenses	5,8	(11,333)	(13,312)
Other gains/(losses) - net	6	(17)	(48)
Operating profit		6,658	7,462
Interest receivable		102	1,455
Interest payable	7	(272)	(328)
Profit for the financial year		6,488	8,589
Dividend		(4,500)	(17,177)
Retained profit / (loss)		1,988	(8,588)
Return on Capital Employed (ROCE)	3	3.2%	3.7%

The notes on pages 38 to 70 form part of these Accounts.

Statement of Financial Position as at 31 March 2010

	Notes	31 March 2010		31 March 2009		1 April 2008	
		£ '000	£ '000	£ '000	£ '000	£ '000	£ '000
Non-current assets							
Property, plant and equipment	9		176,774		186,921		181,331
Intangible assets	10		202		-		-
Derivative Financial Assets	16		233		1,603		-
Total non-current assets			177,209		188,524		181,331
Current assets							
Inventories	11	947		968		890	
Trade and other receivables	12	31,357		39,047		41,373	
Derivative Financial Assets	16	1,402		3,000		-	
Cash and cash equivalents	13	36,548		33,548		33,874	
Total current assets			70,254		76,563		76,137
Total assets			247,463		265,087		257,468
Current liabilities							
Trade and other payables	14	(42,114)		(47,693)		(43,034)	
Borrowings	15	(5,698)		(4,974)		(2,663)	
Total current liabilities			(47,812)		(52,667)		(45,697)
Non-current assets plus net current assets			199,651		212,420		211,771
Non-current liabilities							
Trade and other payables	14	(652)		-		-	
Borrowings	15	(1,104)		(3,509)		(4,106)	
Derivative Financial liabilities	16	(120)		-		-	
Provisions for liabilities and charges	17	(2,491)		(2,786)		(4,294)	
Total non-current liabilities			(4,367)		(6,295)		(8,400)
Assets less liabilities			195,284		206,125		203,371
Capital and reserves							
Public dividend capital			58,867		58,867		58,867
Revaluation reserve			22,323		33,844		29,009
Hedging reserve			1,515		4,603		-
General reserve			112,579		108,811		115,495
Total Government funds			195,284		206,125		203,371



Mr J Hirst
Chief Executive
16 June 2010

The notes on pages 38 to 70 form part of these Accounts.

Statement of Cash Flows for the year ended 31 March 2010

	Notes	2009/10 £ '000	2008/9 £ '000
Cash flows from operating activities			
Operating profit		6,658	7,462
Adjustments for non-cash transactions:			
Depreciation charges	5,9	26,364	24,136
Release of capital grants		(376)	-
Loss on disposal of property, plant and equipment		29	28
Amortisation		26	-
(Increase) / Decrease in inventories		21	(78)
(Increase) / Decrease in trade and other receivables		7,416	3,158
Increase / (Decrease) in trade and other payables		1,148	(1,445)
Provisions for liabilities and charges		(338)	(1,544)
Net cash inflow from operating activities		40,948	31,717
Cash flows from investing activities			
Payments to acquire satellite assets		(8,695)	(6,143)
Payments to acquire property, plant and equipment (excluding satellites)		(18,208)	(15,727)
Capital grants received		2,169	-
Proceeds from sale of property, plant and equipment		1	6
Payments to acquire intangible assets		(228)	-
Interest received		104	1,482
Net cash outflow from investing activities		(24,857)	(20,382)
Cash flows from financing activities			
Dividends paid		(11,177)	(13,077)
Interest paid		(233)	(298)
Loan advance received		4,379	4,379
Loan repayments		(6,060)	(2,665)
Net cash outflow from financing activities		(13,091)	(11,661)
Net increase/(decrease) in cash and cash equivalents		**3,000**	**(326)**
Cash and cash equivalents at 1 April		33,548	33,874
Cash and cash equivalents at the 31 March		36,548	33,548

The notes on pages 38 to 70 form part of these Accounts.

Statement of Changes in Taxpayers' Equity for the year ended 31 March 2010

	Public Dividend Capital £ '000	Revaluation Reserve £ '000	General Reserve £ '000	Hedging Reserve £ '000	Total £ '000
Balance at 1 April 2008	58,867	29,009	115,495	-	203,371
Movement on foreign currency cash flow hedge	-	-	-	4,603	4,603
Change in discount rate applied to early retirement provision	-	-	7	-	7
Net gain/(loss) on revaluation of satellite assets	-	1,726	-	-	1,726
Net gain/(loss) on revaluation of property, plant and equipment	-	5,006	-	-	5,006
Transfers between reserves	-	(1,897)	1,897	-	-
Profit for the financial year	-	-	8,589	-	8,589
Total recognised income and expense for 2008/9	-	4,835	10,493	4,603	19,931
Dividend	-	-	(17,177)	-	(17,177)
Balance at 31 March 2009	58,867	33,844	108,811	4,603	206,125
Movement on foreign currency cash flow hedge	-	-	-	(3,088)	(3,088)
Net gain/(loss) on revaluation of satellite assets	-	102	-	-	102
Net gain/(loss) on revaluation of property, plant and equipment	-	(9,843)	-	-	(9,843)
Transfers between reserves	-	(1,780)	1,780	-	-
Profit for the financial year	-	-	6,488	-	6,488
Total recognised income and expense for 2009/10	-	(11,521)	8,268	(3,088)	(6,341)
Dividend	-	-	(4,500)	-	(4,500)
Balance at 31 March 2010	**58,867**	**22,323**	**112,579**	**1,515**	**195,284**

The notes on pages 38 to 70 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 21 December 2009 in accordance with Section 4(6)(a) of the Government Trading Funds Act 1973 and the 2009/10 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which has been judged to be most appropriate to the particular circumstances of the Met Office for the purpose of giving a true and fair view has been selected. The particular policies adopted by the Met Office are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

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

(b) Exceptional items

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

(c) Revenue

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

(d) Research and development

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

The Met Office receives funding in respect of many research and development activities. Funding is derived from a variety of sources, including Government contracts, Research Councils, the European Union, overseas governments, and commercial customers.

The funding for such projects is treated for accounting purposes as revenue attributable to the relevant Business Programme.

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

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

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

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

(e) Property, plant and equipment

Valuation

Freehold land and buildings in continuing use are revalued by qualified valuers every five years, in accordance with the Practice Statements and Guidance Notes set out in the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors. Valuations are based on open market values for existing use, 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. In 2008/9 the preliminary GDP deflator of 3% was used as an estimate of the final GDP deflator. The final GDP deflator published post year end was 2.5%. Using the GDP Deflator of 3% as opposed to the final GDP Deflator of 2.5% resulted in the net book value of fixed assets and the revaluation reserve being £187,000 higher. This difference was eliminated during 2009/10 by using the published final GDP deflator.

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

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

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

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

Depreciation

Freehold land is not depreciated. Depreciation on buildings is calculated to write off the cost, or value, by equal instalments over the asset’s estimated useful life (not exceeding 50 years). Plant, equipment and information technology assets are depreciated by the straight-line method at a rate calculated to write off the cost, or value, over the asset’s estimated useful life. Current policy is to write off plant and equipment over three to 30 years and information technology equipment over three to 12 years (note: phase 1 of the Met Office supercomputer is being depreciated over 2.1 years). Satellite assets are depreciated using the straight-line method over their estimated useful life. The remaining life of the current satellite programme (Meteosat Second Generation - MSG) at 31 March 2010 is currently assessed as 7.25 years providing the full operational service and a further 1.75 years as the operational hot spare for the follow on programme. This method reflects the principle that the economic benefit of satellite data remains constant between individual satellites.

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

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

(f) Intangible assets

Computer Software and Licences

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

Computer software and licences are capitalised where the useful life exceeds three years and the cost of acquisition and installation exceeds £5,000 (excluding VAT). Amortisation is calculated using the straight-line method to allocate the cost of software and licences over their estimated useful lives of 3 to 5 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 in line with the Retail Prices Index.

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

The member may choose to take up to 25% of the fund as a lump sum.

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

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

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

Cash and cash equivalents
Cash and cash equivalents includes cash at bank and in hand and short-term deposits payable (original maturity of three months or less) on demand with any qualifying

institution, less overdrafts from any qualifying institution repayable on demand. Cash also includes any surplus funds held by EUMETSAT that are attributable to the Met Office.

Borrowings

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

Derivative financial instruments and hedge accounting

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

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

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

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

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

Additional information can be found in note 16 to the financial statements.

(m) Capital and reserves

Public Dividend Capital

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

General Reserve

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

Revaluation Reserve

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

Hedging Reserve

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

(n) Consolidated accounts

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

(o) Segmental reporting

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

(p) Early adoption of IFRSs, amendments and interpretations

The Met Office has adopted IFRS 8, operating segments, early. The effective date of the standard was for accounting periods beginning on, or after 1 January 2010. The adoption affects disclosure requirements only. See note 4.

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

IFRS9 Financial Instruments
A new standard intended to replace IAS39. The effective date is for accounting periods beginning on, or after 1 Janaury 2013.

IFRS1 First-time adoption of international financial reporting standards.
Three sets of amendments to the existing standard. The effective date of one set of amendments is for accounting periods beginning on, or after 1 July 2009. The effective date of the second set of amendments is for accounting periods beginning on, or after 1 January 2010. The effective date of the third set of amendments is for accounting periods beginning on, or after 1 July 2010.

IFRS2 Share-based Payment
Two sets of amendments to the existing standard. The effective date of one set of amendments is for accounting periods beginning on, or after 1 July 2009. The effective date of the second set of amendments is for accounting periods beginning on, or after 1 January 2010.

IFRS3 Business Combinations
Amendments to the existing standard. The effective date is for accounting periods beginning on, or after 1 July 2009.

IFRS5 Non-current Assets Held for Sale and Discontinued Operations
Two sets of amendments to the existing standard. The effective date of one set of amendments is for accounting periods beginning on, or after 1 July 2009. The effective date of the second set of amendments is for accounting periods beginning on, or after 1 January 2010.

IAS1 Presentation of Financial Statements
Amendments to the existing standard. The effective date is for accounting periods beginning on, or after 1 January 2010.

IAS7 Statements of Cash Flows
Amendments to the existing standard. The effective date is for accounting periods beginning on, or after 1 January 2010.

IAS17 Leases
Amendments to the existing standard. The effective date is for accounting periods beginning on, or after 1 January 2010.

IAS24 Related Party Disclosures
Amendments to the existing standard. The effective date is for accounting periods beginning on, or after 1 January 2011.

IAS27 Consolidated and Separate Financial Statements
Amendments to the existing standard. The effective date is for accounting periods beginning on, or after 1 July 2009.

IAS32 Financial Instruments: presentation
Amendments to the existing standard. The effective date is for accounting periods beginning on, or after 1 February 2010.

IAS36 Impairment of Assets
Amendments to the existing standard. The effective date is for accounting periods beginning on, or after 1 January 2010.

IAS38 Intangible Assets
Amendments to the existing standard. The effective date is for accounting periods beginning on, or after 1 July 2009.

IAS39 Financial Instruments: recognition and measurement
Two sets of amendments to the existing standard. The effective date of one set of amendments is for accounting periods beginning on, or after 1 July 2009. The effective date of the second set of amendments is for accounting periods beginning on, or after 1 January 2010.

IFRIC9 Reassessment of Embedded Derivatives
Amendments to the existing interpretation. The effective date is for accounting periods beginning on, or after 1 July 2009.

IFRIC14 Prepayments of a Minimum Funding Requirement
Amendments to the existing interpretation. The effective date is for accounting periods beginning on, or after 1 January 2011.

IFRIC16 Hedges of a Net Investment in a Foreign Operation
A new interpretation. The effective date is for accounting periods beginning on, or after 1 July 2009.

IFRIC17 Distributions of Non-cash Assets to Owners
A new interpretation. The effective date is for accounting periods beginning on, or after 1 July 2009.

IFRIC19 Extinguishing Financial Liabilities with Equity Instruments
A new interpretation. The effective date is for accounting periods beginning on, or after 1 January 2011.

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 2010:

Chapter 6 Tangible non-current assets
New standard FRS30 Accounting for Heritage Assets

Chapter 8 Impairments
Adaptation of IAS36 Impairment of Assets

Chapter 11 Income and Expenditure
Removal of cost of capital charging

Chapter 13 Accounting for consolidated fund revenue
Introduction of trust statements for revenue, and some associated expenditure

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

2. First-time adoption of IFRS

a. Reconciliation of UK GAAP reported Government Funds to IFRS at the date of transition 1 April 2008

	Note	Public Dividend Capital £ '000	Revaluation Reserve £ '000	General Reserve £ '000	Hedging Reserve £ '000	Total £ '000
Total Government Funds at 31 March 2008 under UK GAAP		58,867	28,926	117,995	-	205,788
Adjustments for:						
IAS 19 Employee Benefits	i	-	-	(2,500)	-	(2,500)
IAS 16 Property, Plant and Equipment	ii	-	83	-	-	83
Total Government Funds at 1 April 2008 under IFRS		**58,867**	**29,009**	**115,495**	**-**	**203,371**

b. Reconciliation of UK GAAP balance sheet to IFRS balance sheet as at 1 April 2008 (date of transition)

	Note	UKGAAP £ '000	Adjustments £ '000	IFRS £ '000
Non-current assets				
Property, plant and equipment	ii	181,248	83	181,331
Intangible assets		-	-	-
Derivative Financial Assets		-	-	-
Total non-current assets		181,248	83	181,331
Current assets				
Inventories		890	-	890
Trade and other receivables		41,373	-	41,373
Derivative Financial Assets		-	-	-
Cash and cash equivalents	iii	33,874	-	33,874
Total current assets		76,137	-	76,137
Total assets		257,385	83	257,468
Current liabilities				
Trade and other payables	i	(40,534)	(2,500)	(43,034)
Borrowings		(2,663)		(2,663)
Total current liabilities		(43,197)	(2,500)	(45,697)
Non-current assets plus current net assets		214,188	(2,417)	211,771
Non-current liabilities				
Borrowings		(4,106)	-	(4,106)
Provisions for liabilities and charges		(4,294)	-	(4,294)
Total non-current liabilities		(8,400)	-	(8,400)
Assets less liabilities		**205,788**	**(2,417)**	**203,371**
Capital and reserves				
Public dividend capital		58,867	-	58,867
Revaluation reserve	ii	28,926	83	29,009
General reserve	i	117,995	(2,500)	115,495
Total Government funds		**205,788**	**(2,417)**	**203,371**

c. Reconciliation of UK GAAP reported Government Funds to IFRS at the end of final UK GAAP reporting period 31 March 2009

	Note	Public Dividend Capital £ '000	Revaluation Reserve £ '000	General Reserve £ '000	Hedging Reserve £ '000	Total £ '000
Total Government Funds at 31 March 2009 under UK GAAP		58,867	29,622	111,311	4,603	204,403
Adjustments for:						
IAS 19 Employee Benefits	i	-	-	(2,500)	-	(2,500)
IAS 16 Property, Plant and Equipment	ii	-	4,222	-	-	4,222
Total Government Funds at 1 April 2009 under IFRS		**58,867**	**33,844**	**108,811**	**4,603**	**206,125**

d. Reconciliation of UK GAAP reported profit to IFRS for the year ended 31 March 2009

	Note	£ '000
Profit for the financial year 2008/9 under UK GAAP		8,673
Adjustments for:		
IAS 16 Property, Plant and Equipment	ii	(84)
Profit for the financial year 2008/9 under IFRS		**8,589**

Notes

i) IAS 19 - Employee Benefits. Under UK GAAP short-term accumulated compensated balances relating to holiday pay were expensed as incurred. Under IAS 19 - Employee benefits, a liability has been recognised for untaken holiday entitlements for Met Office employees at the balance sheet date, with an adjustment being made to the general reserve.

ii) IAS 16 - Property, Plant and Equipment. Under UK GAAP land and building assets were revalued by qualified valuers every five years. Under IFRS these quinquennial valuations have been supplemented by indexation. The adjustment at 2a. above, represents the indexation from the last valuation to the date of transition to IFRS The resultant increase in depreciation charge of £84k is shown under 2 d. above.

iii) In addition to the cash balances of £1.192 million reported under UK GAAP at 31 March 2009 (1 April 2008 £0.967 million), the Met Office held cash equivalents of £32.356 million (1 April 2008 £32.907million). These were reported under UK GAAP as cash on deposit.

3. Key Financial Targets

The Met Office's key financial targets for 2009/10, as announced in Parliament (2 June 2009, Column 5WS), were:

a) To achieve a return on capital employed of at least 3.2 per cent in support of a longer term target to average 3.5 per cent over the five year period commencing 1 April 2009;

b)To achieve a business profitability target of £5.3 million on a newly agreed basis.

Results

a) Return on Capital Employed (ROCE)

ROCE is a measure of how effectively an organisation is using its capital. It is calculated as operating profit, expressed as a percentage of average capital employed. Capital employed equates to capital, reserves and the long-term element of loans.

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.

	2009/10	2008/9
Actual	3.2%	3.7%
Target – in year	3.2%	3.5%
Average – current target period	3.2%	5.3%
Target – 5 year average	3.5%	3.5%

b) Business profitability

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

	2009/10 £' 000	2008/9 Restated £' 000	2008/9 Reported £' 000
Actual	5,382	6,100	7,592
Target - in year	5,300		7,020

The 2008/9 business profitability figure has been restated to provide a comparible basis to that is used in 2009/10. (Further details can be found on page 9 of the 2008/9 Annual Report and Accounts)

4. 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 director who is responsible to the Chief Operating Decision Maker (CODM) for the operating activities, financial results, forecasts and plans of their respective segments. The Chief Operating Decision Maker is the Met Office Executive.

The Met Office's management evaluates performance of the segments based on segment revenue and operating profit. Operating profit is further evaluated between that generated from activities falling within or outside the business profitability key performance target.

Year ended 31 March 2010

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

Year ended 31 March 2009

	Revenue	Depreciation/ amortisation	Operating Profit			Interest Receivable	Interest Payable
			KPT	Non KPT	Total		
Operating Segment	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Government business	154,977	23,195	2,130	7,624	9,754		
Commercial business	29,421	941	5,462	(2,632)	2,830		
	184,398	24,136	7,592	4,992	12,584		
Corporate and other central income/expenses	383				(5,122)	1,455	(328)
Total per financial statements	**184,781**	**24,136**			**7,462**	**1,455**	**(328)**

Revenue includes £1,989,000 of income derived from EU contracts (2008/9 £2,019,000).

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 profit key performance target. The operating profit on non-competed services do not form part of the business profitability key performance target.

Government business is further analysed by revenue stream as follows:

	2009/10 £'000	2008/9 £'000
Defence	35,232	36,256
Government Services	36,997	31,845
Public weather service	89,936	86,876
	162,165	**154,977**

Commercial business

The Met Office also provides a range of weather and climate related services to a wide range of private sector 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 key performance target. Investment in commercial initiatives are excluded from the operating profit measure used in the business profitability key performance target.

Further information on the business profitability key performance target is provided in Note 3.

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.

5. 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.

	Notes	2009/10 Total	2008/9 Total
		£'000	£'000
Early retirement and severance costs	i	-	475
Reimbursement from MOD	ii	-	(200)
		-	275

Exceptional items are analysed between cost of sales, selling and distribution and administrative expenses as follows:

(i) The early retirement and severance costs represent the provision associated with the Defence Services Review together with the costs of a voluntary early retirement and severance scheme that operated during the year.

(ii) The reimbursement from MoD represents funding received in support of the early retirement and severance costs associated with the Defence Services Review, a "spend to save initiative" agreed between the Met Office and MOD.

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

	Note	2009/10 £' 000	2008/9 £' 000
Staff costs (excluding exceptional items)	8	87,337	83,999
Early retirement costs	i	546	370
Travel and subsistence		4,593	5,352
Equipment and services	iii	36,466	34,939
Accommodation		9,979	10,403
Operating leases – plant and machinery		1,181	1,206
Operating leases – other		1,670	1,280
Depreciation – on owned assets		26,364	21,392
– on assets held under finance leases		-	2,744
Amortisation		26	-
Release of capital grants	ii	(376)	-
International services and subscriptions		14,504	12,677
Exceptional items – see above		-	275
Other expenses		3,000	2,634
Total		185,290	177,271

(i) The early retirement cost excludes the early retirement costs scheme undertaken during 2008/9 which are shown as an exceptional item above.

(ii) International services and subscriptions include £3.4m (2008/9 £2.6m) to the European Organisation for the Exploitation of Meteorological Satellites (EUMETSAT) (excluding amounts capitalised as satellite assets), £6.1m (2008/9 £5.4m) to the European Centre for Medium-Range Weather Forecasts (ECMWF), £2.0m (2008/9 £1.7m) to the World Meteorological Organization (WMO) and £0.8m (2008/9 £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) Equipment and services expenses include an audit fee of £60,000 (2008/9 £63,500) for the audit of the financial statements, a fee of £6,000 (2008/9 £4,000) in respect of audit work in connection with the transition to International Financial Reporting Standards and a fee of £9,000 (2008/9, £12,000) for the review of key performance indicators.

(iv) The total cost of research was £44.4m (2008/9 £43.5m).

6. Other gains / (losses) – net

	2009/10 £'000	2008/9 £'000
Foreign exchange rate differences	12	(20)
Net loss on disposal of fixed assets	(29)	(28)
Total other gains / losses	**(17)**	**(48)**

7. Interest payable and similar charges

	2009/10 £'000	2008/9 £'000
On MOD loans repayable within five years	229	284
Discounting of Provisions	43	44
Total interest payable and similar charges	**272**	**328**

8. Staff

(a) Staff costs

	Note	2009/10 £'000	2008/9 £'000
Salaries, performance related pay and allowances		69,684	66,578
Early retirement costs	5	546	845
Social security		5,440	5,288
Pension contributions		12,213	12,133
Total staff costs		87,883	84,844
Temporary / agency labour costs		4,608	5,206
		92,491	90,050

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme which prepares its own scheme statements. The Met Office is unable to identify its share of the underlying assets and liabilities. The Scheme Actuary (Hewitt Associates Limited) conducted a full actuarial valuation as at 31 March 2007. Details can be found in the resource accounts of the Cabinet Office : Civil Superannuation (www.civilservice.gov.uk).

For 2009/10, pursuant to the Superannuation Act 1972, employer's contributions of £12.2m were payable to the PCSPS (2008/9 £12.1m) at one of four rates in the range 16.7% to 24.3% of pensionable pay, based on salary bands. The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. For 2010/11, the salary bands will be revised but the rates will remain unchanged. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

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

(b) Average staff numbers

	2009/10 number	2008/9 number
Senior Management	10	9
Scientific, managerial, technical	1,529	1,454
Support	312	351
Locally engaged civilians overseas	18	18
Monthly average staff numbers (all UK Government Civil Servants except locally engaged civilians)	1,869	1,832
Monthly average temporary/ agency staff	40	49

There were 1,871 staff employed at 31 March 2010 compared with 1,861 at 31 March 2009, both figures expressed as full-time equivalents. There were also 28 temporary/agency staff, expressed as full-time equivalents, engaged by the Met Office at 31 March 2010 (31 March 2009, 52). The 2008/9 senior management figure (reported 2008/9 – 7) has been restated to reflect the reclassification of two wider executive roles from scientific, managerial, technical (reported 2008/9 – 1456) to senior management.

(c) Directors' remuneration

Details of directors' emoluments are contained within the Remuneration Report on page 20 Details of fees paid to non-executive directors are also contained in the Remuneration Report.

9. Property, plant and equipment

The movements in each class of assets were:

	Satellite programme £ '000	Land and buildings £ '000	Fixtures and fittings £ '000	Plant and equipment £ '000	Information technology £ '000	ACOC £ '000	Total tangible £ '000
Cost or valuation:							
At 1 April 2009	237,876	73,765	7,394	55,718	71,689	-	446,442
Additions	8,967	215	796	4,369	11,641	-	25,988
Disposals	-	-	-	(3,659)	(26,473)	-	(30,132)
Transfers	-	-	-	-	-	-	-
Revaluation	425	(10,905)	129	952	-	-	(9,399)
At 31 March 2010	**247,268**	**63,075**	**8,319**	**57,380**	**56,857**	**-**	**432,899**
Depreciation:							
At 1 April 2009	180,781	3,204	2,749	18,170	54,617	-	259,521
Charged during year	12,407	1,289	735	2,567	9,366	-	26,364
Disposals	-	-	-	(3,617)	(26,473)	-	(30,090)
Revaluation	323	(363)	48	322	-	-	330
At 31 March 2010	**193,511**	**4,130**	**3,532**	**17,442**	**37,510**	**-**	**256,125**
Net book value:							
At 1 April 2009	57,095	70,561	4,645	37,548	17,072	-	186,921
At 31 March 2010	**53,757**	**58,945**	**4,787**	**39,938**	**19,347**	**-**	**176,774**

	Satellite programme £ '000	Land and buildings £ '000	Fixtures and fittings £ '000	Plant and equipment £ '000	Information technology £ '000	ACOC £ '000	Total tangible £ '000
Cost or valuation:							
At 1 April 2008	226,359	66,974	6,465	50,182	63,824	652	414,456
Additions	5,283	2,534	688	4,279	10,064	180	23,028
Disposals	-	-	-	(764)	(2,199)	-	(2,963)
Transfers	-	-	-	832	-	(832)	-
Revaluation	6,234	4,257	241	1,189	-	-	11,921
At 31 March 2009	**237,876**	**73,765**	**7,394**	**55,718**	**71,689**	**-**	**446,442**
Depreciation:							
At 1 April 2008	163,604	1,672	2,049	16,295	49,505	-	233,125
Charged during year	12,669	1,431	623	2,121	7,292	-	24,136
Disposals	-	-	-	(749)	(2,180)	-	(2,929)
Revaluation	4,508	101	77	503	-	-	5,189
At 31 March 2009	**180,781**	**3,204**	**2,749**	**18,170**	**54,617**	**-**	**259,521**
Net book value:							
At 1 April 2008	62,755	65,302	4,416	33,887	14,319	652	181,331
At 31 March 2009	**57,095**	**70,561**	**4,645**	**37,548**	**17,072**	**-**	**186,921**

Assets held under finance leases included above:

	Satellite programme £ '000	Land and buildings £ '000	Fixtures and fittings £ '000	Plant and equipment £ '000	Information technology £ '000	ACOC £ '000	Total tangible £ '000
Cost: At 31 March 2009	-	-	-		20,616	-	20,616
Depreciation : Charge for year	-	-	-	-	2,744	-	2,744
Depreciation : At 31 March 2009	-	-	-	-	19,931	-	19,931

(i) All land and buildings are held as freehold. The net book value of freehold land and buildings includes £8.4 million of freehold land (31 March 2009, £11.3m) which has not been depreciated. Freehold Buildings are depreciated in full over their estimated life (not exceeding 50 years).

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

(iii) Land and buildings, excluding the Exeter headquarters, were valued by GVA Grimley, International Property Advisers on 30 June 2005 in accordance with the Appraisal and Valuation Standard (5th Edition), published by the Royal Institution of Chartered Surveyors. The properties are all held for operational purposes and have been valued on the basis of Existing Use Value (minor elements of one site were valued on a Depreciated Replacement Cost basis) as defined in the Appraisal and Valuation Standard.

The Exeter headquarters land, buildings and mechanical and electrical services (within plant and equipment) were revalued by Atisreal, Chartered Surveyors on 1 December 2006 in accordance with the Appraisal and Valuation Standards (the "Red Book"), published by the Royal Institution of Chartered Surveyors. The assets concerned were considered to be specialised and have been valued on the basis of Depreciated Replacement Cost.

(iv) In 2008/9 the asset held under finance leases comprised a supercomputer. The Met Office had exercised their option under the lease to extend the lease term into the secondary rental period.

10. Intangible Assets

	Computer software £'000	Total intangible £'000
Cost or valuation:		
At 1 April 2009	-	-
Additions	228	228
Disposals	-	-
Transfers	-	-
Revaluation	-	-
At 31 March 2010	**228**	**228**
Amortisation:		
At 1 April 2009	-	-
Charged during year	26	26
Disposals	-	-
Revaluation	-	-
At 31 March 2010	**26**	**26**
Net book value: At 1 April 2009	-	-
At 31 March 2010	202	202

11. Inventories

	Note	31 March 2010 £'000	31 March 2009 £'000	01 April 2008 £'000
Meteorological equipment		763	712	661
Reserve equipment		157	224	198
Consumable stores		27	32	31
Total inventories		**947**	**968**	**890**

12. Trade receivables and other current assets

	Note	31 March 2010 £'000	31 March 2009 £'000	01 April 2008 £'000
Amounts falling due within one year:				
Trade receivables		13,625	21,151	20,396
Less: Provision for impairment of receivables		(102)	(69)	(226)
		13,523	21,082	20,170
Other receivables		525	555	1,474
Accrued income		3,794	3,903	6,735
Prepayments		13,515	13,507	12,994
Total trade receivables and other current assets		**31,357**	**39,047**	**41,373**

The carrying amount of debtors is a reasonable approximation to fair value.
Other receivables include staff loans totalling £475,000 to 59 officers predominently in respect of housing advances on relocation.

Intra-Government Balances

Balances with central government bodies	4,729	13,371	16,892
Balances with local authorities	515	293	212
Balances with NHS Trusts	8	-	173
Balances with public corporations and trading funds	5	364	524
Subtotal: intra-government balances	5,257	14,028	17,801
Balances with bodies external to government	26,100	25,019	23,572
Total trade receivables and other current assets at 31 March.	**31,357**	**39,047**	**41,373**

All intra-government balances are due within one year.

13. Cash and cash equivalents

	Note	31 March 2010 £'000	31 March 2009 £'000	01 April 2008 £'000
Balance at 1 April		33,548	33,874	31,348
Net change in cash and cash equivalent balances	19	3,000	(326)	2,526
Balance at 31 March		**36,548**	**33,548**	**33,874**
The following balances at 31 March were held at:				
UK Debt Management Office, HM Treasury		35,200	32,300	32,900
EUMETSAT working capital fund		4	56	7
Total cash held on short-term deposit		35,204	32,356	32,907
Cash held at commercial banks and in hand		1,344	1,192	967
Balance at 31 March		**36,548**	**33,548**	**33,874**

The Met Office holds three Euro bank accounts, in which there were amounts totalling £465,000 at 31 March 2010 belonging to third parties (31 March 2009 £239,000).

Cash in transit at 31 March 2010 amounted to £1,178,000.

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.

14. Trade payables and other payables

	Note	31 March 2010 £'000	31 March 2009 £'000	01 April 2008 £'000
Amounts falling due within one year:				
Trade payables		788	1,833	4,078
VAT		4,631	3,327	4,928
Other taxation and social security		3,062	3,353	2,216
Accruals		15,820	18,016	15,162
Dividend payable		4,500	11,177	7,077
Deferred Income		12,159	9,987	9,573
Capital grants		1,154	-	-
Total current trade and other payables		**42,114**	**47,693**	**43,034**
Amounts falling due after more than one year:				
Capital grants		652	-	-
Total non-current trade and other payables		652	-	-
Total trade payables and other current liabilities		**42,766**	**47,693**	**43,034**

Intra-Government Balances

	Amounts falling due within one year			Amounts falling due after more than one year		
	31 March 2010 £'000	31 March 2009 £'000	01 April 2008 £'000	31 March 2010 £'000	31 March 2009 £'000	01 April 2008 £'000
Balances with central government bodies	15,240	19,962	11,992	1,756	3,509	4,106
Balances with local authorities	16	23	1,191	-	-	-
Balances with NHS Trusts	78	-	-	-	-	-
Balances with public corporations and trading funds	-	-	86	-	-	-
Subtotal: intra-government balances	15,334	19,985	13,269	1,756	3,509	4,106
Balances with bodies external to government	32,478	32,682	32,428	-	-	-
Total trade payables and borrowings at 31 March	47,812	52,667	45,697	1,756	3,509	4,106
Total trade payables and other current liabilities (note 14)	42,114	47,693	43,034	652	-	-
Borrowings (note 15)	5,698	4,974	2,663	1,104	3,509	4,106
Total trade payables and borrowings at 31 March	47,812	52,667	45,697	1,756	3,509	4,106

15. Borrowings

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

	Note	31 March 2010 £'000	31 March 2009 £'000	01 April 2008 £'000
Amounts repayable:				
In not more than one year		5,698	4,974	2,663
In more than 1 year but not more than 2 years		1,104	3,509	2,799
In more than 2 years but not more than 5 years		-	-	1,307
Amount falling due after more than one year		1,104	3,509	4,106
Total		**6,802**	**8,483**	**6,769**

16. Derivative Financial Instruments

	31 March 2010		31 March 2009		01 April 2008	
	Assets £'000	Liabilities £'000	Assets £'000	Liabilities £'000	Assets £'000	Liabilities £'000
Forward foreign currency contracts – cash flow hedge	1,635	120	4,603	-	-	-
Analysed between:						
Current	1,402	-	3,000	-	-	-
Non-current	233	120	1,603	-	-	-
	1,635	**120**	**4,603**	**-**	**-**	**-**

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 2010/11					
Euro	17,979	14,768	15,997	1,229	-
Swiss Francs (CHF)	4,000	2,312	2,485	173	-
		17,080	18,482	1,402	-
Delivery 2011/12					
Euro	17,074	14,991	15,193	233	31
Swiss Francs (CHF)	4,000	2,531	2,490	-	41
		17,522	17,683	233	72
Delivery 2012/13					
Euro	7,400	6,637	6,589	-	48
Swiss Francs (CHF)		-	-	-	-
		6,637	6,589	-	48
Total		**41,239**	**42,754**	**1,635**	**120**

All cash flow hedges are in respect of forecast transactions. In line with IAS 39, gains or losses on the 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.

17. Provisions for liabilities and charges

	Early retirement £'000	Dilapidations £'000	Leaseholds £'000	Defence Services Review £'000	Total £'000
Balance at 1 April 2008	1,933	412	449	1,500	4,294
Provided in the year	305	-	-	475	780
Unwinding of discount	33	6	5	-	44
Change in discount rate	(7)	-	-	-	(7)
Utilised in year	(975)	-	(224)	(1,126)	(2,325)
Reclassification	849	-	-	(849)	-
Balance at 31 March 2009	2,138	418	230	-	2,786
Provided (written back) in the year	486	(106)	401	-	781
Unwinding of discount	37	5	2	-	44
Change in discount rate	18	-	-	-	18
Utilised in year	(1,035)	-	(103)	-	(1,138)
Balance at 31 March 2010	**1,644**	**317**	**530**	**-**	**2,491**

i) The Early Retirement Provision represents the outstanding liability for pension costs as at 31 March 2010 associated with 58 staff who had been offered early retirement during 2009/10 and previous years. The provision comprises the full cost of meeting each individual's pension payments to normal retirement age. The gross amount provided for, before discounting, is £1,701,000 (2008/9 £2,228,000). After discounting at 1.8% (2008/9 3.2%) a net amount of £1,644,000 (2008/9 £2,138,000) 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 £327,000 (2008/9 £454,000). After discounting at 2.2% a net amount of £317,000 (2008/9 £418,000) 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 £552,000 (2008/9 £232,000). After discounting at 2.2% a net amount of £530,000 (2008/9 £230,000) is provided.

(iv) The Defence Services Review Provision represents early retirement and severance costs associated with the decision to restructure the Met Office's delivery of operational defence meteorological services. During 2008/9 the provision was reclassified to the Early Retirement Provision.

The commitments provided for fall due in the following periods:

	Early retirement £'000	Dilapidations £'000	Leaseholds £'000	Defence Services Review £'000	Total £'000
Amounts payable within:					
Under one year	649	187	116	-	952
One to five years	896	130	414	-	1,440
Over five years	99	-	-	-	99
Total	**1,644**	**317**	**530**	**-**	**2,491**

18. Related parties

The Ministry of Defence (MOD) as the Met Office's parent Department is regarded as a related party. During the year, the Met Office had material transactions with this Department and with other entities for which MOD is regarded as the parent department. In addition, the Met Office had material transactions with a number of other public bodies, Government departments and their agencies, principally the Department of Energy and Climate Change, the Department for Environment, Food and Rural Affairs, the Cabinet Office, the Civil Aviation Authority, the Maritime and Coastguard Agency, the Environment Agency, the British Broadcasting Corporation and the Natural Environment Research Council. None of the Met Office Board members, key managerial staff or other related parties undertook any material transactions with the Met Office during the year.

J Hirst through his capacity as Met Office Chief Executive is a Council/Executive Committee member of the following organisations: EUMETSAT, ECMWF, WMO and EUMETNET. The Met Office has had material transactions with these entities and these are disclosed in Note 5(ii) to the financial statements.

T Jagger, Met Office Non-Executive Director was also a member of the Met Office Owners Council during the year.

19. Notes to the Cash Flow Statement

Reconciliation of cash and cash equivalents to movement in net funds

	At 01 April 2009 £'000	Cash flows £'000	Other changes £'000	At 31 March 2010 £'000
Cash at bank and in hand	1,192	152	-	1,344
Cash on deposit	32,356	2,848	-	35,204
Cash and cash equivalents	33,548	3,000	-	36,548
Borrowings due within one year	(4,974)	2,785	(3,509)	(5,698)
Borrowings due after one year	(3,509)	(1,104)	3,509	(1,104)
Total	**25,065**	**4,681**	**-**	**29,746**

20. Commitments under operating leases

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

	2009/10 £'000	2008/9 £'000	2009/10 £'000	2008/9 £'000
	Land and Buildings		Other	
Leases expiring within:				
Under one year	1,029	1,042	1,413	1,492
One to five years	2,605	2,839	5,247	5,424
Over five years	2,659	3,068	1,082	1,096
Total	**6,293**	**6,949**	**7,742**	**8,012**

21. Capital commitments

	2009/10 £'000	2008/9 £'000
Contracted for but not provided for:		
Supercomputer	14,087	23,839
Other	857	4,880
Contribution for Satellite Programme	5,863	6,913
Total	**20,807**	**35,632**

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.

22. Losses and special payments

During the year the Met Office made 3 special payments totalling £44,056.

23. Financial instruments and financial risk management

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

The Met Office's treasury operations are governed by the Met Office Trading Fund Order 1996, under the Government Trading Funds Act 1973 (a) as supplemented by the Met Office's Framework Document. The Met Office's financial instruments comprise cash deposits, debtors, creditors, 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 debtors 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	1,693	276	75
Receivables beyond the due date – impaired	74	2	26
Total receivables beyond the due date	**1,767**	**278**	**101**

Liquidity risk

The Met Office has maintained short-term liquidity throughout the year by management of its cash deposits. To finance the disposal of the leasehold properties in Bracknell in 2005/6, the Met Office borrowed £6.0 million from our sponsor department, the Ministry of Defence. In 2006/7 loan funding was received from the Ministry of Defence to finance the centralisation of the Met Office's civil forecast production network and commercial strategy (both loans now fully repaid). All the aforementioned loans are repayable over five years. During 2008/9 the Met Office borrowed £4.4 million from the Ministry of Defence to partly finance the replacement supercomputer. During 2009/10 the Met Office borrowed a further £4.4 million from the Ministry of Defence to finance the new supercomputer. Both the loans to finance the supercomputer are repayable within two years.

Foreign Currency Risk

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

As at 31 March 2010 the Met Office held 9 forward contracts to buy a total of €45.5million equating to £39.0 million at the contracted exchange rates, with value dates in 2010/11 to 2012/13. Three adjusting forward sale contracts are also held totalling €3.0 million equating to £2.6 million at the contracted exchange rates with value dates in 2010/11.

The Met Office also held two forward contracts to buy forward a total of 8.0 million Swiss Francs, equating to £4.8 million at the contract rates with value dates in 2010/11 and 2011/12. Additional information can be found in note 16 to the accounts.

£6.3 million of expenditure is undertaken in foreign currencies which are not funded through the forward purchase contracts.

Interest rate risk

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

Cash on deposit at 31 March 2010 consists of 15 short term deposits totalling £35.2 million (31 March 2009 – £32.3 million) with the UK Debt Management Office at HM Treasury for a weighted average period of 26.77 days (31 March 2009 – 30.08 days) at a weighted average interest rate of 0.25% (31 March 2009 – 0.37%) . At 31 March 2010 £4,000 (31 March 2009 – £56,000) 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 2010

	Loans and receivables £'000	Derivatives used for hedging £'000	Total £'000
Trade and other receivables – current	17,842	-	17,842
Derivative financial assets	-	1,635	1,635
Cash on deposit	35,204	-	35,204
Cash at bank and in hand	1,344	-	1,344
	54,390	**1,635**	**56,025**

Financial Liabilities at 31 March 2010

	Other financial liabilities £'000	Derivatives used for hedging £'000	Total £'000
Trade and other payables	21,108	-	21,108
Ministry of Defence loans	6,802	-	6,802
Derivative financial assets	-	120	120
	27,910	**120**	**28,030**

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

Embedded Derivatives

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

24. 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 30 June 2010.

FIVE YEAR FINANCIAL SUMMARY (Unaudited)

	IFRS 2009/10 £'000	IFRS 2008/9 £'000	UKGAAP 2008/9 £'000	UKGAAP 2007/8 £'000	UKGAAP 2006/7 £'000	UKGAAP 2005/6 £'000
Income Statement						
Revenue	191,965	184,781	184,781	176,580	170,956	170,361
Gross profit / (loss)	29,764	31,385	31,469	33,792	28,886	36,620
Operating profit / (loss)	6,658	7,462	7,574	12,662	7,860	13,419
Profit for the financial year	6,488	8,589	8,673	14,013	8,826	9,495
Dividend	4,500	17,177	17,177	11,077	6,667	6,272
Capital expenditure						
Property, plant and equipment asset additions	25,988	23,028	23,028	14,699	15,225	15,518
Statement of Financial Position						
Property, plant and equipment	176,774	186,921	182,699	181,248	187,147	187,354
Net current assets	22,442	23,896	26,396	32,940	24,458	8,909
Non-current liabilities	4,367	6,295	6,295	8,400	12,905	13,970
Number of employees						
Average for year	1,869	1,832	1,832	1,770	1,708	1,763

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