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Annual Report and Accounts 2000/1

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An Executive Agency of the Ministry
of Defence

Annual Report and Accounts 2000/1

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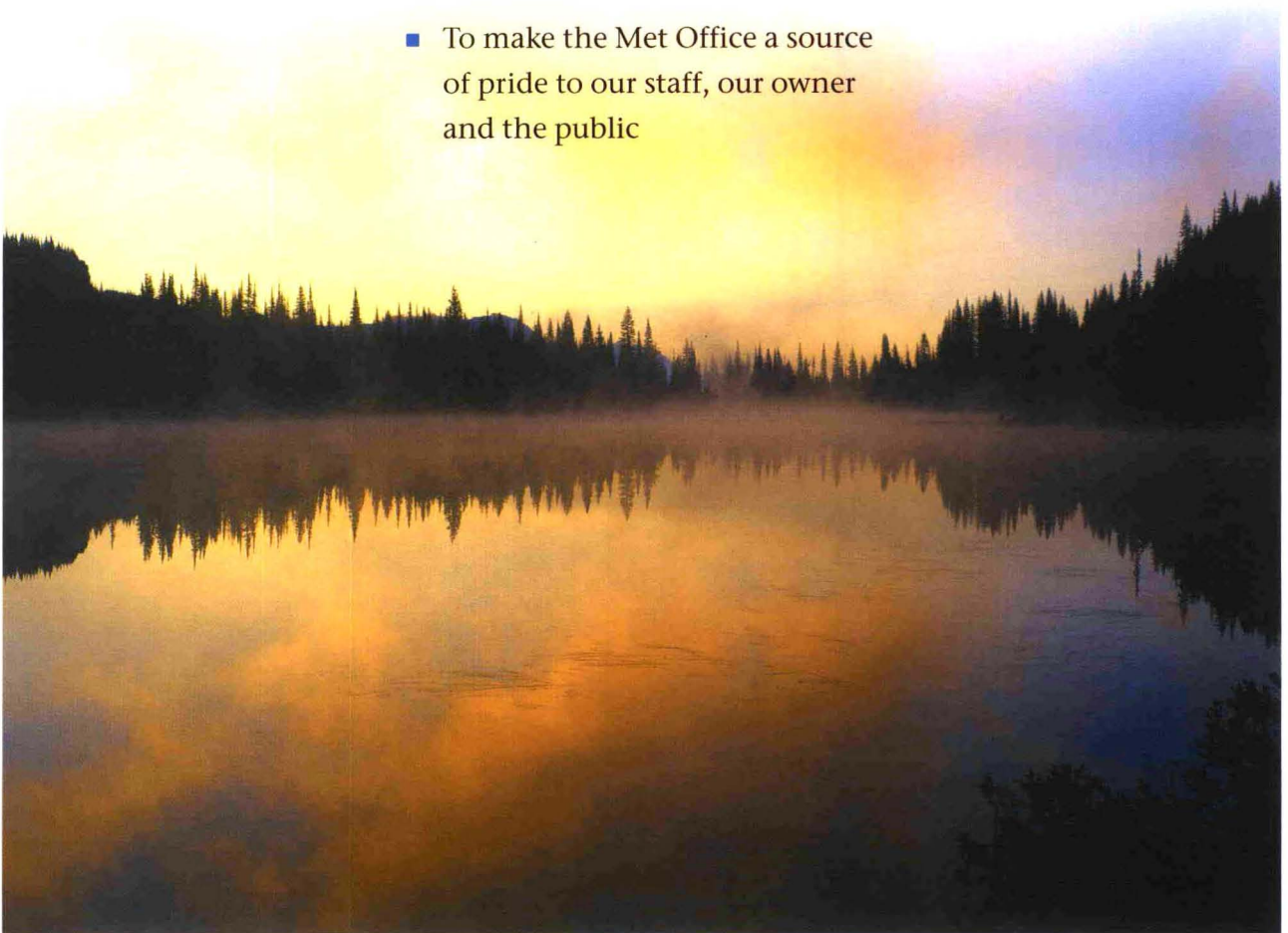
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Vision

Through unrivalled know-how, to enable individuals, society and enterprises everywhere to make the most of the weather and the natural environment.

Goals

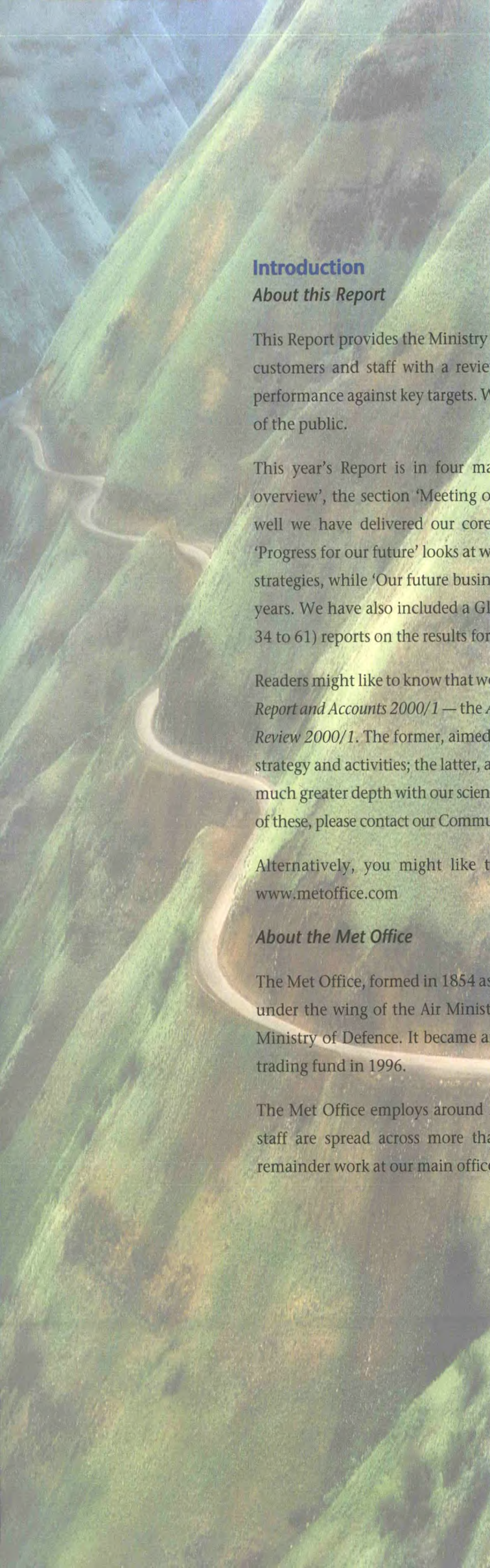
- To lead the world in advice on the weather and the natural environment
- To make the Met Office a source of pride to our staff, our owner and the public



Annual Report and Accounts 2000/1

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An aerial photograph of a winding road through rolling green hills, with a blue sky visible in the upper left corner.

Introduction

About this Report

This Report provides the Ministry of Defence (MoD), as our owner, Parliament, our customers and staff with a review of our main activities in 2000/1 and of our performance against key targets. We hope that it will also be of interest to members of the public.

This year's Report is in four main sections. Following the 'Chief Executive's overview', the section 'Meeting our customers' needs' provides a review of how well we have delivered our core customer services and developed new ones. 'Progress for our future' looks at what we have achieved in implementing our key strategies, while 'Our future business strategy' outlines our plans for the next few years. We have also included a Glossary on page 32. The Accounts section (pages 34 to 61) reports on the results for the year ended 31 March 2001.

Readers might like to know that we also produce two sister publications to the *Annual Report and Accounts 2000/1* — the *Annual Review 2000/1* and the *Scientific and Technical Review 2000/1*. The former, aimed at a general audience, focuses on our main business strategy and activities; the latter, aimed at the worldwide scientific community, deals in much greater depth with our scientific and technical programmes. To obtain a copy of either of these, please contact our Communications Branch — see inside back cover for details.

Alternatively, you might like to view both documents by visiting our web site at www.metoffice.com

About the Met Office

The Met Office, formed in 1854 as a small department within the Board of Trade, was taken under the wing of the Air Ministry just after the First World War, later moving into the Ministry of Defence. It became an Executive Agency in 1990, and started operating as a trading fund in 1996.

The Met Office employs around 2,100 people, over 70% of them scientists. Some 950 staff are spread across more than 80 locations around the UK and overseas. The remainder work at our main offices in Bracknell, Berkshire.

Highlights of 2000/1

- Successfully achieved five out of six key targets
- Achieved £13.6 million of strategic investment
- Good forecasting of autumn extreme rainfall events
- Excellent outcome to the review of our Hadley Centre for Climate Prediction and Research climate modelling performance
- Successful launch of new vision and brand
- Redesigned web site leads the field for weather information and wins education award
- Exeter chosen as our preferred future location
- Achieved *Investors in People (IiP)* re-accreditation
- *Time and Place* wins prestigious Mobile News award



Chief Executive's overview

The past year will probably be best remembered for two notable events — floods throughout the UK and the outbreak of foot-and-mouth disease. In both these events the Met Office has played a crucial role, illustrating the breadth of our activities and the positive impact we can have on individuals, society at large and business. The heavy rainfall leading to flooding was well forecast by the Met Office, giving timely warning to the general public and the emergency services, while our work on the airborne dispersion of the foot-and-mouth virus has helped keep the spread under control as well as informing critical policy decisions.

More generally, our success over the past year is confirmed by the fact that we met five out of six key performance targets, with forecast accuracy, service quality and overall efficiency significantly above target. At the same time, we exceeded our profit target while investing over £13.6 million to ensure our future success. The one disappointing area was the financial contribution from our commercial services, but even here we made real progress, with revenue and profit both up on last year.

I am also delighted to report that our internationally renowned work on climate change won further recognition through a formal review which concluded that our Hadley Centre was '...the number one climate modelling centre worldwide'. At the same time, our new mobile internet service, *Time and Place*, won the 'Most Innovative Service (Mobile Internet)' award in the Mobile News Awards 2001. These illustrate our determination and success in maintaining our pre-eminent position in the science of meteorology and in the services we offer our customers. But we must do even better if we are to succeed in the future.

Relocation to new custom-built accommodation is vital to our future business success. In November we chose Exeter as the location for our new 'home'. We expect to have selected and agreed terms with a final development partner by September 2001. Alongside our work on relocation, we have been reviewing, refining and documenting our main processes prior to moving, so that we can achieve the ISO 9001 standard as well as ensuring we are lean and fit before we move.



Peter Ewins, Chief Executive

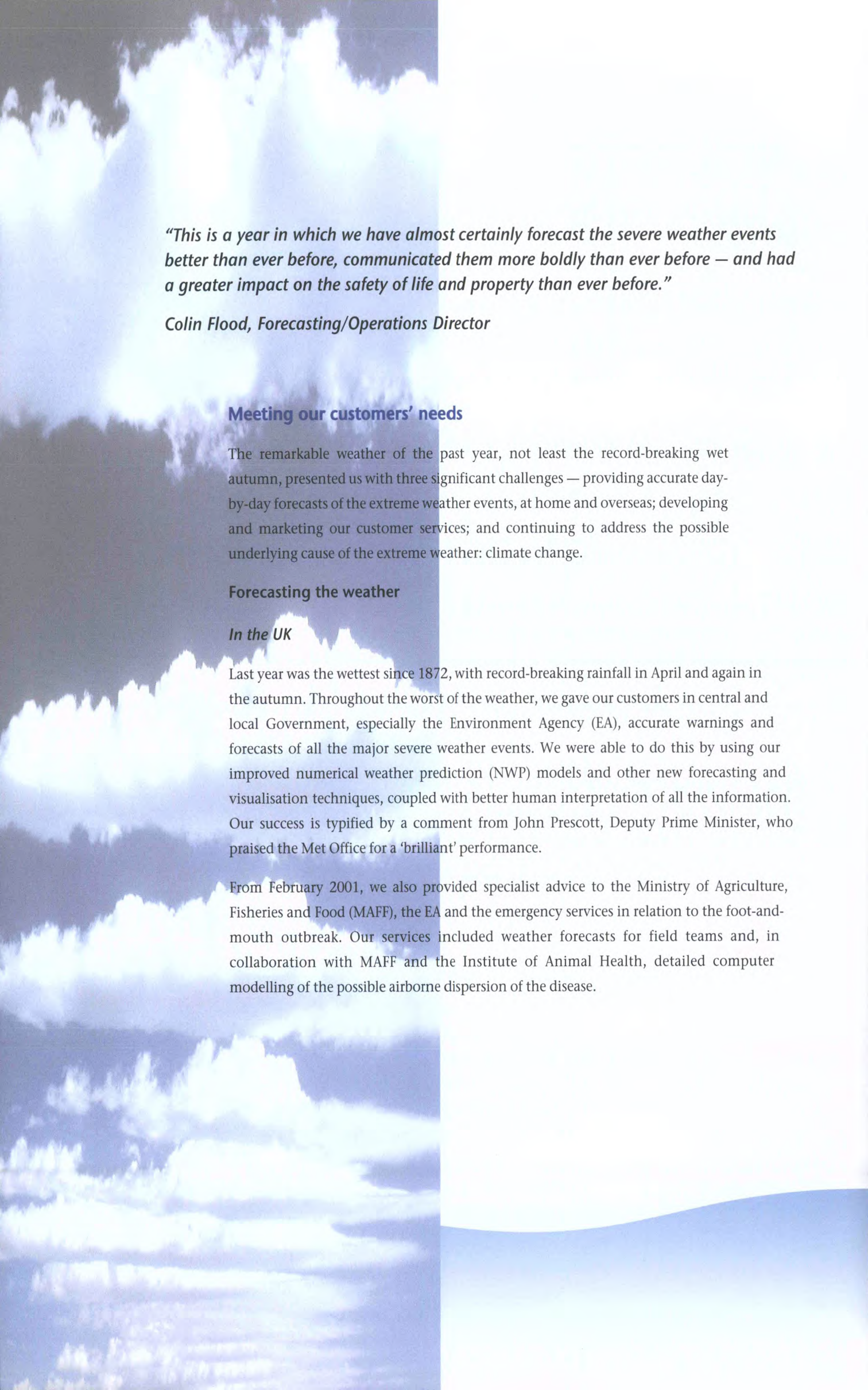
We are already responding to new opportunities within the natural environment — collaboration with the Centre for Ecology and Hydrology to open the Joint Centre for Hydro-Meteorological Research (JCHMR) in Wallingford is just one example. Indeed collaboration is high on our agenda, as reflected in our new agreements with Météo-France and Met Éireann, our French and Irish counterparts.

We will also continue to develop our underpinning science, investing in new infrastructure — especially greatly increased supercomputing capability — research and development and innovation. Our continuing success in numerical weather prediction (NWP), our automation programme and our new ‘Weather and Health’ service all serve to illustrate our commitment to science and technology and to our success in exploiting them.

Successful business development is heavily dependent on well-qualified and highly motivated staff. This year we have invested strongly in ‘people training’ and have been successfully re-accredited as an *Investor in People*. Our commitment to training, both performance and management, remains as strong as ever, and our training programme will continue while we make the move to Exeter.

The weather business is changing. We must anticipate that change and keep at least one step ahead. We now have a clear vision to help provide a focus, and new accommodation will be vital to our success. I know that the next two years will be very challenging — keeping to our plans for growth while moving nearly 200 miles will not be easy. But, at the same time, those two years will be exciting, and a major step in the development of the Met Office.

My directors and I are committed to delivering a wider range of quality services to our customers. We are also committed to making our move to Exeter as painless as possible for our staff, with no more than minimal impact on our customers. We are well on the way to creating the Met Office of the future and to adding another chapter to our proud history.



"This is a year in which we have almost certainly forecast the severe weather events better than ever before, communicated them more boldly than ever before — and had a greater impact on the safety of life and property than ever before."

Colin Flood, Forecasting/Operations Director

Meeting our customers' needs

The remarkable weather of the past year, not least the record-breaking wet autumn, presented us with three significant challenges — providing accurate day-by-day forecasts of the extreme weather events, at home and overseas; developing and marketing our customer services; and continuing to address the possible underlying cause of the extreme weather: climate change.

Forecasting the weather

In the UK

Last year was the wettest since 1872, with record-breaking rainfall in April and again in the autumn. Throughout the worst of the weather, we gave our customers in central and local Government, especially the Environment Agency (EA), accurate warnings and forecasts of all the major severe weather events. We were able to do this by using our improved numerical weather prediction (NWP) models and other new forecasting and visualisation techniques, coupled with better human interpretation of all the information. Our success is typified by a comment from John Prescott, Deputy Prime Minister, who praised the Met Office for a 'brilliant' performance.

From February 2001, we also provided specialist advice to the Ministry of Agriculture, Fisheries and Food (MAFF), the EA and the emergency services in relation to the foot-and-mouth outbreak. Our services included weather forecasts for field teams and, in collaboration with MAFF and the Institute of Animal Health, detailed computer modelling of the possible airborne dispersion of the disease.

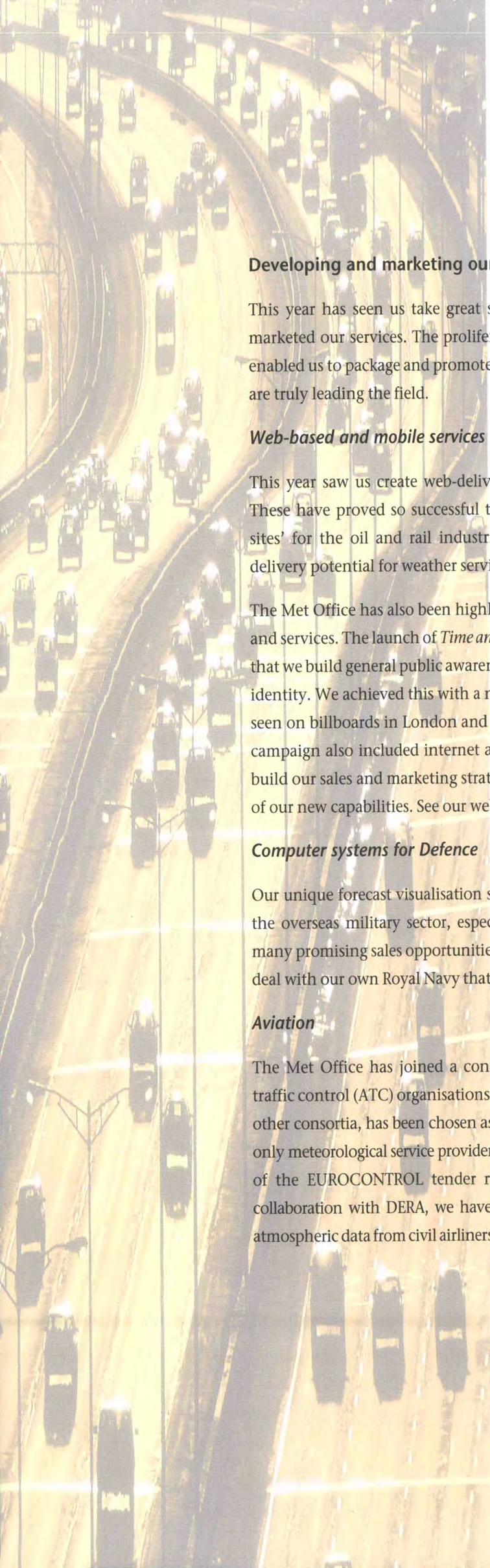
The following examples give a 'taste' of our UK weather forecasting performance.

- 3/4 June — successful advanced warning of the very heavy overnight rainfall which brought flooding to northern England, in particular the Calder Valley in West Yorkshire. This event demonstrates well the effect of heavy rain falling over an already saturated catchment.
- 28–30 October 2000 — after a period of very wet weather in early October, this was another exceptionally wet period, many places in the Midlands and southern England seeing almost 50 mm (2 inches) in 12 hours overnight on 29/30 October. Our forecasts of the track and intensity of the three depressions involved were accurate and consistent, allowing us to give four days' advanced warning of damaging severe winds and heavy rainfall.
- 5–8 November — our medium-range forecasts were extremely good, the three-to six-day predictions showing near-perfect forecasts of a significant depression in the English Channel. Again, this allowed us to issue confident warnings of further disruption due to heavy rain, greatly helping the EA to manage the consequent flooding.
- 'White Christmas?' — forecasts in the lead-up to Christmas provided helpful guidance on the change from the very wet autumn to a cold, drier picture. The 'big freeze' that followed more general snow on the 27 December was correctly forecast, as was the return to milder weather in the new year.

Overseas

As in previous years, we have provided significant support to our armed forces around the world. For example:

- after almost eight years, the Mobile Meteorological Unit (MMU) at Divulje Barracks at Split in Croatia closed in December 2000 (The forecasting commitment has been handed over to the Royal Netherlands Air Force. The MMU remains in the Bosnia theatre of operations at Gioia del Colle in Italy and in the NATO Combined Met. Unit at Sarajevo and Pristina.);
- short-notice forecast services were provided to the Department for International Developments in support of their response to the earthquake disasters in Gujarat, India, and in El Salvador, and to the floods in Mozambique.



Developing and marketing our services

This year has seen us take great strides in the way that we have developed and marketed our services. The proliferation of new electronic systems and media has enabled us to package and promote our offerings in new ways, and in some areas we are truly leading the field.

Web-based and mobile services

This year saw us create web-delivered service solutions for Shell and Railtrack. These have proved so successful that they have become the de facto 'reference sites' for the oil and rail industries in the UK, clearly signposting the future delivery potential for weather services.

The Met Office has also been highly innovative in the promotion of our products and services. The launch of *Time and Place* in November 2000 (see page 20) required that we build general public awareness of both the product and the Met Office's new identity. We achieved this with a national advertising campaign — the advert being seen on billboards in London and in all the national and specialist leisure press. The campaign also included internet advertising; a first for the Met Office. We intend to build our sales and marketing strategy for the coming year on this improved awareness of our new capabilities. See our web site for details — www.metoffice.com

Computer systems for Defence

Our unique forecast visualisation systems, Horace and Nimbus, have continued to impress the overseas military sector, especially within different areas of NATO. We have pursued many promising sales opportunities during the year. Most significantly, we have completed a deal with our own Royal Navy that will eventually see our systems installed in over 80 ships.

Aviation

The Met Office has joined a consortium called FARANDOLE, comprising European air traffic control (ATC) organisations and software consultants. FARANDOLE, amongst eight other consortia, has been chosen as one of EUROCONTROL's preferred contractors. As the only meteorological service provider in all of the consortia, we have the potential to win any of the EUROCONTROL tender requests that have a weather element. Already, in collaboration with DERA, we have been awarded a contract to review the retrieval of atmospheric data from civil airliners, using global positioning system satellite technology.

Good opportunities exist for the provision of automated, low-level aviation weather products overseas. We expect to collaborate with other NMSs to deliver these services, possibly using some locally-based staff. We are presently putting together a business plan to exploit these opportunities.

Finally, we have already responded to the general aviation community by making far more information — for example, airport forecasts and observations — freely available on our web site.

Customer Centre

Since becoming a 24-hour, seven-day operation in April 2000, the role of the Customer Centre has grown considerably. Its main tasks are to deliver the Public Meteorological Service (PMS) and deal with aviation enquiries. Through careful investigation of customer needs, Customer Centre staff also sell an increasing range of commercial products, generating revenue in excess of £1 million.

In the future, the Customer Centre will manage most smaller commercial accounts and provide registration, helpdesk and support functions for an increasing number of internet-based products, including our new mobile service *Time and Place*.

Impacts of severe weather

We have carried out important work in assessing the assets at risk during severe weather and the actions that can be taken by emergency authorities to mitigate their impact. It is becoming clear that considerable savings can be made in many areas of the economy if these issues are better understood. We expect to take the work forward with the relevant Government departments and agencies during the year ahead.

Education

In June 2000, we launched a new range of teaching materials, including a new interactive web site designed to integrate weather into the National Curriculum. The new aids, approved by the National Grid for Learning, aim to broaden the teaching of weather into a range of cross-curricular subjects — not just science and geography but also English, IT, history and maths. You can visit the web site at www.metoffice.com/education



"We found the scientific performance to be outstanding and of the highest international standard...the Hadley Centre is the world's number one climate modelling centre."

Climate prediction and research

The Met Office's Hadley Centre for Climate Prediction and Research celebrated its tenth anniversary in May 2000. Its two main customers, the Department of the Environment, Transport and the Regions (DETR) and the MoD, chose this year to carry out a major review of the Centre's capability and performance. Coupled with input in November to the Sixth Conference of the Parties to the UN Framework Convention on Climate Change, this has been a particularly busy year.

Performance review

An external review of the Hadley Centre's performance, completed in October 2000, aimed to consider the excellence of the science carried out, whether it had met the needs of policy-makers and other users, and whether this dedicated research programme is the best and most cost-effective way to deliver what is needed.

In response, we outlined the Hadley Centre's achievements over its ten-year history and our research strategy for the next five years. The consultancy firm contracted to carry out the review, ESYS, appointed a seven-strong international Science Expert Panel, four of whom visited the Hadley Centre in May 2000. Another group of seven international scientists was asked to comment on the publications of the Hadley Centre.

The review was extremely positive and found '...the scientific performance to be outstanding and of the highest international standard' and that '...the Hadley Centre is the number one climate modelling centre worldwide'. Just as important, the science of climate change is judged as being directly relevant to policy, and the dedicated programme at the Hadley Centre is seen as the best way to deliver the required advice.

Advice to ministers

The international negotiation of the Kyoto Protocol reached a critical stage in November this year at the Sixth Conference of the Parties to the UN Framework Convention on Climate Change, in The Hague. The Hadley Centre had a strong presence at the conference. Our staff gave a well-received presentation, attended by the Rt Hon Michael Meacher, Minister for the Environment, and the press. Our presence proved especially important for the negotiations on carbon sinks.

Science highlights

- Our climate model, including all the natural agents that can change climate and those produced by human activities, has shown that the observed global temperature rise over the past 40 years can be largely attributed to the human production of greenhouse gases.
- The unique use of a fully interactive land and ocean biosphere component in the climate model has shown that the positive feedback between land ecosystems and climate change may add several further degrees of global warming over the next 100 years.
- We have calculated that the effect of high-latitude planting of so-called Kyoto forests — to absorb carbon dioxide — can actually further warm the atmosphere.
- 2000 was the 22nd consecutive year with the global mean temperature above the 1961–90 average. We expect 2001 to be warmer than 2000 but unlikely to be warmer than 1998, the warmest year on record.



Progress for our future

Over the past 12 months, we have built on a number of strategies introduced during 1999/2000. These directly support our new vision and goals — see page 2. We believe that successful progress with these strategies is vital to the Met Office's continued development. The following sections give a summary of the progress made in these important areas.

Relocating our head office and centre of operations

This major programme, initiated in January 2000, will provide us with new accommodation that will, through good visual and technical design, demonstrate our commitment to protecting and enhancing the natural environment. We expect the ambience of the new building to encourage more-open communication, in turn leading to greater sharing of knowledge and innovation in the way we work. We also expect to make a substantial reduction in our operating costs — see page 26.

While running to a very challenging timetable, the programme remains on track. We have made significant progress as follows.

January 2000	Approved the outline business case and initiated our Relocation Programme
March/April 2000	Initiated a site search across the UK and also a competitive procurement for the new accommodation and a range of support services
July 2000	Invited nine consortia to submit outline proposals Directors chose four potential sites (Norwich, Bracknell, Reading and Exeter)
August 2000	Outline proposals received from eight consortia
September 2000	A shortlist of three consortia were invited to negotiate with the Met Office with a view to submitting full tenders in late February 2001
November 2000	Exeter chosen as preferred site One consortium withdrew from the bidding
February 2001	Plans for two different building designs submitted to Exeter City Council for planning permission Tenders received from both bidders

During March and April 2001 we evaluated the tender bids. We chose a preferred bidder in early May 2001 and expect to award the contract by September, allowing work to begin on site in the autumn. Our intention is to have moved all our operations and support activities to Exeter by Spring 2003.

Staff and their families have been kept fully informed of progress through a variety of channels. The most notable of these has been the series of face-to-face seminar presentations given by directors, members of the central relocation team and guest speakers from Exeter City and Devon County Councils. We expect these to continue throughout the coming year. We plan to carry out reconnaissance visits for staff and families in May, June and July.

We are absolutely committed to ensuring that this programme, so vital to our future success, progresses to target and that our staff can make the move with as little upheaval to their working and personal lives as possible. We are equally committed to ensuring that customer services remain as unaffected as possible during the period of transition. We will keep all our customers informed of our plans and progress during the coming two years and look forward to welcoming them to our new home in 2003.



Strengthening our brand

In Spring 2000, we completed our work on the new long-term vision and goals for the Met Office — see page 2. This included creating values and behaviours for the organisation that will help us to achieve our goals. Together with our promise to customers and the features that differentiate us from competitors, these define the Met Office brand.

On 13/14 November 2000, we launched our new vision, direction and strategies to staff and customers, together with the new logo and identity that represents this changing emphasis.

The staff launch was designed to give the maximum number of employees access to the same information at the same time in a cost-effective manner. This communication approach, which included a brochure for all staff, a video by the Chief Executive, and direct access to him, either face to face or on the phone, was especially commended by the external *liP* assessor in the interim accreditation review — see page 24.

The customer launch was very well received and included presentations by four existing customers, aimed at illustrating how we are putting our new strategies into action.

The introduction of the new identity was a big project that initially involved a significant but relatively small team from across the organisation and ultimately involved everyone. We are now carrying out a training programme to help staff to manage change, especially in terms of corporate culture, and to understand the benefits of the new direction and the brand that represents it.



Diversifying into the environment

In line with our new vision, we intend to diversify our services into the wider natural environment. Our focus so far has been on four areas — hydrology and water resource management; environmental stresses; weather and health; and the environmental impact assessment market.

Hydrology

We have started building a small team of hydrologists to meet the need for services, mainly in the UK and Europe but also further afield. Linked to this, we have also worked with the Centre for Ecology and Hydrology to open the Joint Centre for Hydro-Meteorological Research (JCHMR) in Wallingford.

During Autumn 2000, the Bracknell-based team worked closely with staff at JCHMR to secure a Ministry of Agriculture, Fisheries and Food contract to examine the floods of 2000 in the light of climate change. The final report was completed in March 2001. There are many more contract bids in the pipeline.

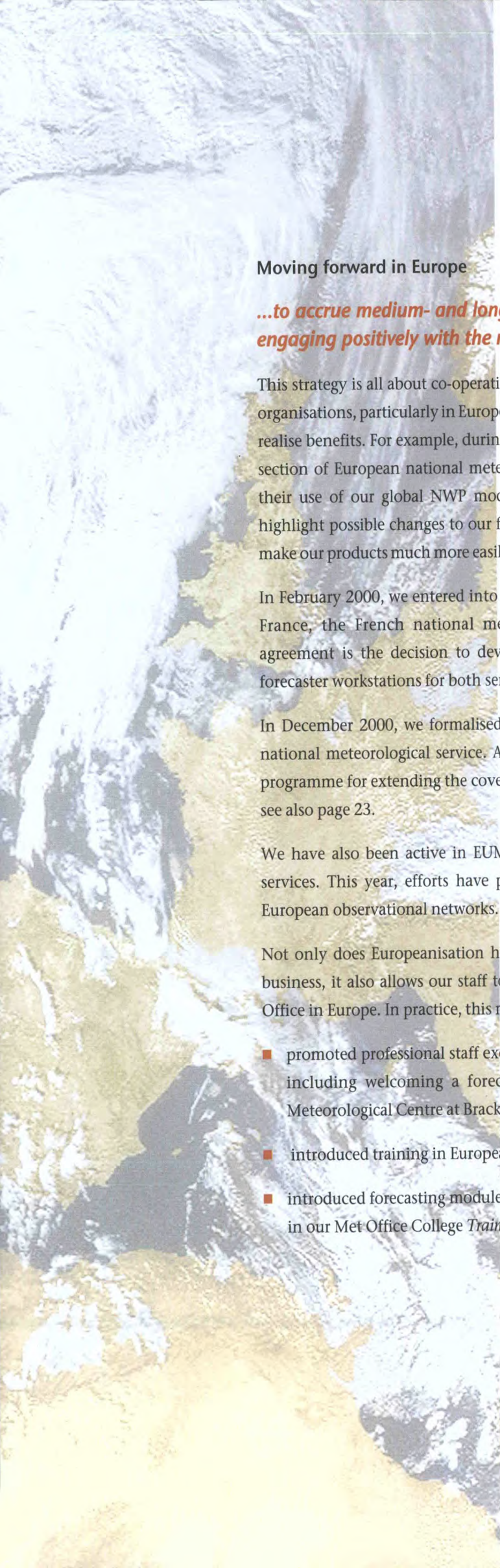
Weather and health

During Spring and Summer 2000, Dr William Bird, a GP employed by us since April 2000, and other specialist staff, worked with the Department of Health and the NHS to develop a forecast for emergency workload. As a result, from December 2000 we ran a successful pilot service — forecasting emergency admissions to acute hospital NHS trusts — in five areas of England. Following the success of this pilot, an excellent example of joined-up government at work, we were subsequently delighted to win £1 million of new funding from the Government's Invest to Save programme to further develop this important work.

Environmental stresses and impact assessment

Through funding from the MoD, in June 2000 we began studies into indicators of the environment that could provide input into analyses of regional security. We are developing the necessary techniques through a pilot study of water resources in China.

In Spring 2001, we recruited an expert in the field of environmental impact assessment. Good progress has been made in creating a business plan for development in this area.



Moving forward in Europe

...to accrue medium- and long-term benefits to the Met Office...by engaging positively with the relevant European and global bodies.


This strategy is all about co-operation and collaboration with other meteorological organisations, particularly in Europe, and we have thought widely about how best to realise benefits. For example, during October 2000, we undertook a tour of a cross-section of European national meteorological services (NMS) to gain feedback on their use of our global NWP model and forecast products. This allowed us to highlight possible changes to our forecast production and delivery, helping us to make our products much more easily available and valuable to a wider community.

In February 2000, we entered into an important bilateral agreement with Météo-France, the French national meteorological service. One follow-up to the agreement is the decision to develop jointly the next generation of computer forecaster workstations for both services.

In December 2000, we formalised ongoing discussions with Met Éireann, the Irish national meteorological service. As part of this co-operation, we have agreed a joint programme for extending the coverage of weather buoys off the west coast of Ireland — see also page 23.

We have also been active in EUMETNET, the organisation of European meteorological services. This year, efforts have particularly focused on the planning and operation of European observational networks.

Not only does Europeanisation help to provide an additional focus for our research and business, it also allows our staff to develop a better understanding of the role of the Met Office in Europe. In practice, this means we have:

- promoted professional staff exchanges with other European NMSs and organisations, including welcoming a forecaster from Météo-France to work at our National Meteorological Centre at Bracknell;
 - introduced training in European languages at the Met Office College;
 - introduced forecasting modules supplied by the École National de la Météorologie in our Met Office College *Training prospectus*.
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Innovation

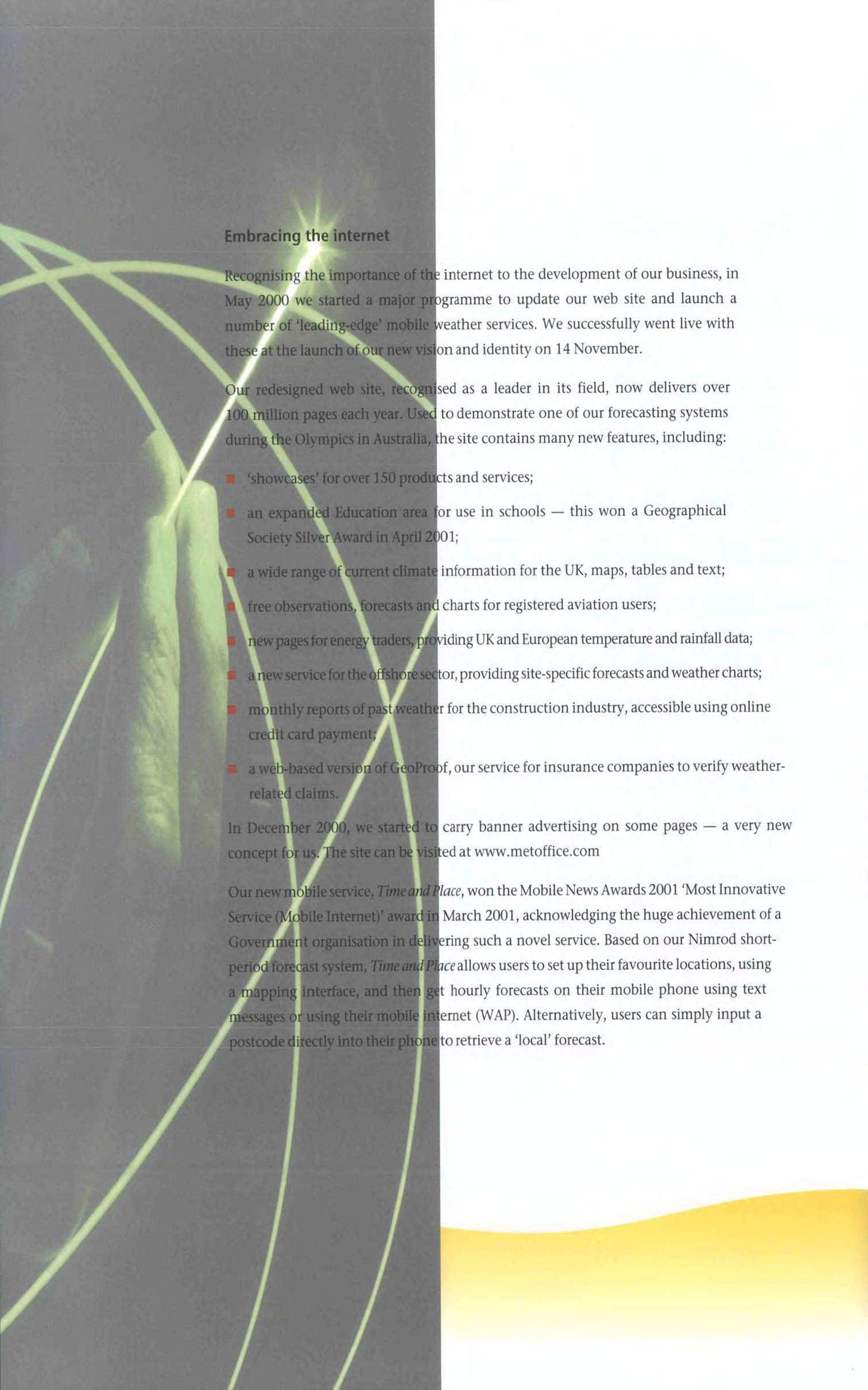
The Met Office has always been at the forefront of innovation in the provision of weather information. To ensure we continue to meet our customers' evolving needs, and, importantly, in line with our strategy of creating new products for developing markets, we embarked on a corporate innovation programme in July 2000.

During the summer, our Innovation Unit carried out a web-based perception audit amongst all our staff, and an external best practice study. The latter included discussions with Hewlett Packard and 3M, and advice from the Department of Trade and Industry Innovation Unit. Having taken these inputs to staff workshops, we created an Innovation Blueprint — a process that provides a series of actions to encourage and support continuous innovation.

Aspects of the Innovation Blueprint that we have already delivered include:

- setting up a web-based Innovation Postbox for staff to submit ideas, supported by a reward and recognition scheme. The scheme went live in December 2000 and generated 280 ideas by the end of March 2001;
- designing and running two-day management training courses to foster a positive approach to change and innovation;
- running a series of 'Creativity' training workshops — 72 staff were trained by the end of March, with an aim to train 400 staff by March 2002.

We have also created an Innovation Centre at our Bracknell site to encourage innovation partnering with our customers by 'showcasing' our latest innovative products and services.



Embracing the internet

Recognising the importance of the internet to the development of our business, in May 2000 we started a major programme to update our web site and launch a number of 'leading-edge' mobile weather services. We successfully went live with these at the launch of our new vision and identity on 14 November.

Our redesigned web site, recognised as a leader in its field, now delivers over 100 million pages each year. Used to demonstrate one of our forecasting systems during the Olympics in Australia, the site contains many new features, including:

- 'showcases' for over 150 products and services;
- an expanded Education area for use in schools — this won a Geographical Society Silver Award in April 2001;
- a wide range of current climate information for the UK, maps, tables and text;
- free observations, forecasts and charts for registered aviation users;
- new pages for energy traders, providing UK and European temperature and rainfall data;
- a new service for the offshore sector, providing site-specific forecasts and weather charts;
- monthly reports of past weather for the construction industry, accessible using online credit card payment;
- a web-based version of GeoProof, our service for insurance companies to verify weather-related claims.

In December 2000, we started to carry banner advertising on some pages — a very new concept for us. The site can be visited at www.metoffice.com

Our new mobile service, *Time and Place*, won the Mobile News Awards 2001 'Most Innovative Service (Mobile Internet)' award in March 2001, acknowledging the huge achievement of a Government organisation in delivering such a novel service. Based on our Nimrod short-period forecast system, *Time and Place* allows users to set up their favourite locations, using a mapping interface, and then get hourly forecasts on their mobile phone using text messages or using their mobile internet (WAP). Alternatively, users can simply input a postcode directly into their phone to retrieve a 'local' forecast.

Keeping the IT edge

■ Massive data storage system improves service

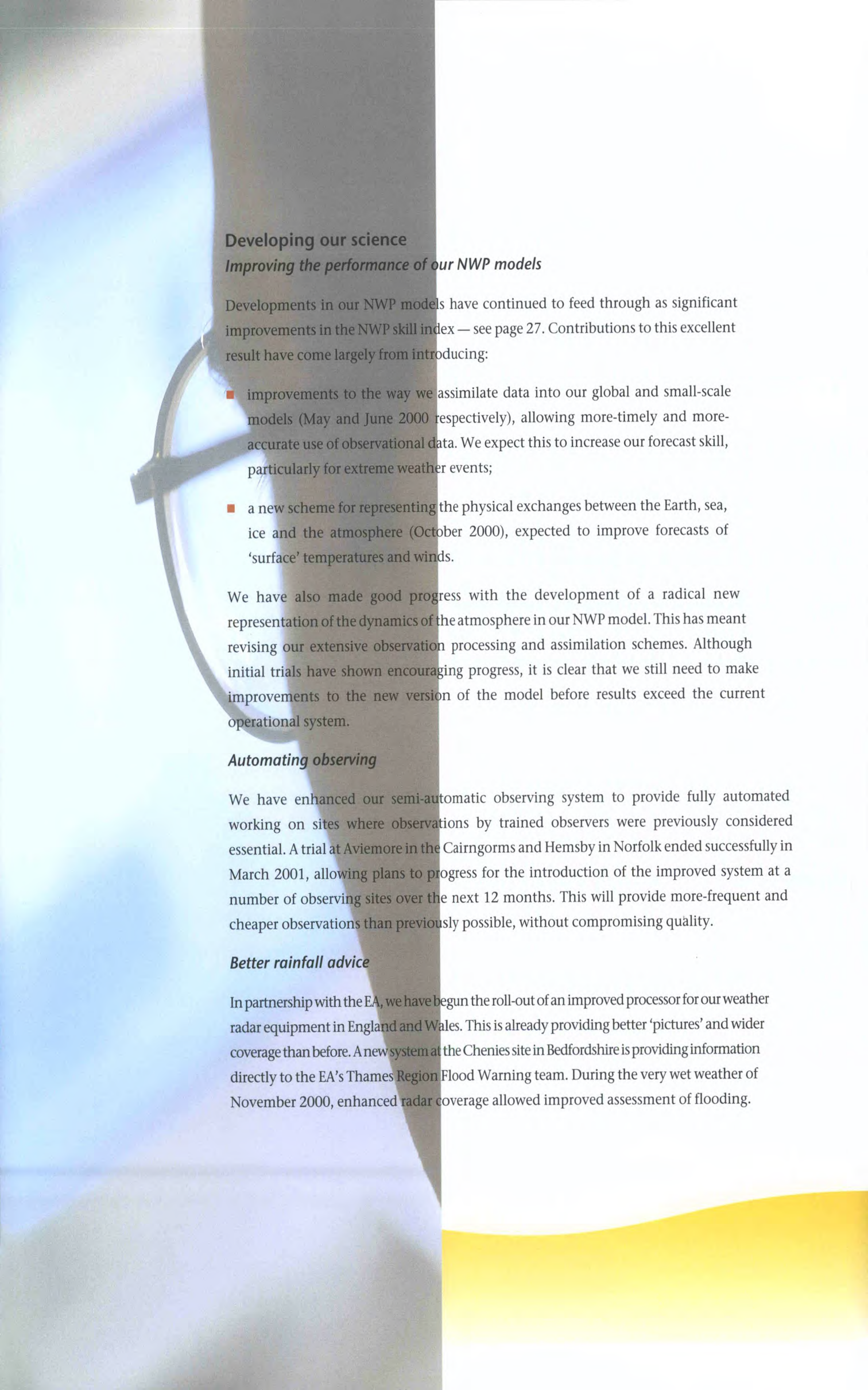
During the year, we introduced a mass data storage (tape) system, completing full acceptance tests around the end of the year. The system, known as MASS, has eight processors at its heart with 4 Gb memory, a 5000 Gb disk cache and 16 tape drives. MASS provides a system that can grow — up to 953 Tb (terabytes) in a single repository — to meet our increasing office-wide data-archiving requirements for the next five years. It uses standard access methods and gives all users improved responsiveness and productivity while allowing the phasing out of slower, less-reliable equipment.

■ Shared telecommunications network reduces costs

Implemented in Summer 2000, our Regional Meteorological Data Communication Network provides us with a new telecommunications network to link national meteorological centres in Europe. This different approach to providing Global Telecommunication System links between centres emphasises our European co-operation, those involved being able to reduce the variety of telecommunications links and enjoy the benefits of shared, managed services.

■ Improving access to information

At the same time as developing better European links, we have also significantly improved the telecommunications network between the Met Office at Bracknell and our front-line stations around the UK. As stations come online, increasing numbers of our staff have started to enjoy access to corporate information, in some cases for the first time. This flexible network uses open systems technology and is more cost-efficient than the previous network.



Developing our science

Improving the performance of our NWP models

Developments in our NWP models have continued to feed through as significant improvements in the NWP skill index — see page 27. Contributions to this excellent result have come largely from introducing:

- improvements to the way we assimilate data into our global and small-scale models (May and June 2000 respectively), allowing more-timely and more-accurate use of observational data. We expect this to increase our forecast skill, particularly for extreme weather events;
- a new scheme for representing the physical exchanges between the Earth, sea, ice and the atmosphere (October 2000), expected to improve forecasts of 'surface' temperatures and winds.

We have also made good progress with the development of a radical new representation of the dynamics of the atmosphere in our NWP model. This has meant revising our extensive observation processing and assimilation schemes. Although initial trials have shown encouraging progress, it is clear that we still need to make improvements to the new version of the model before results exceed the current operational system.

Automating observing

We have enhanced our semi-automatic observing system to provide fully automated working on sites where observations by trained observers were previously considered essential. A trial at Aviemore in the Cairngorms and Hemsby in Norfolk ended successfully in March 2001, allowing plans to progress for the introduction of the improved system at a number of observing sites over the next 12 months. This will provide more-frequent and cheaper observations than previously possible, without compromising quality.

Better rainfall advice

In partnership with the EA, we have begun the roll-out of an improved processor for our weather radar equipment in England and Wales. This is already providing better 'pictures' and wider coverage than before. A new system at the Chenies site in Bedfordshire is providing information directly to the EA's Thames Region Flood Warning team. During the very wet weather of November 2000, enhanced radar coverage allowed improved assessment of flooding.

Co-operation brings enhanced buoy network

The Met Office, the Marine Institute of the Republic of Ireland and Met Éireann agreed to collaborate in setting up the Irish open-ocean buoy network of five weather buoys and to jointly develop the next generation of such buoys. One of our existing weather buoys, on loan to the Marine Institute, was deployed in November 2000. We plan to provide a second buoy on repayment, and to help specify the new systems. Both organisations will benefit from the resulting new designs and data to upgrade their respective operational networks.

Modelling and observing the oceans

Operational oceanography is a key area of diversification for the Met Office. Over the year, in response to customer needs, we have:

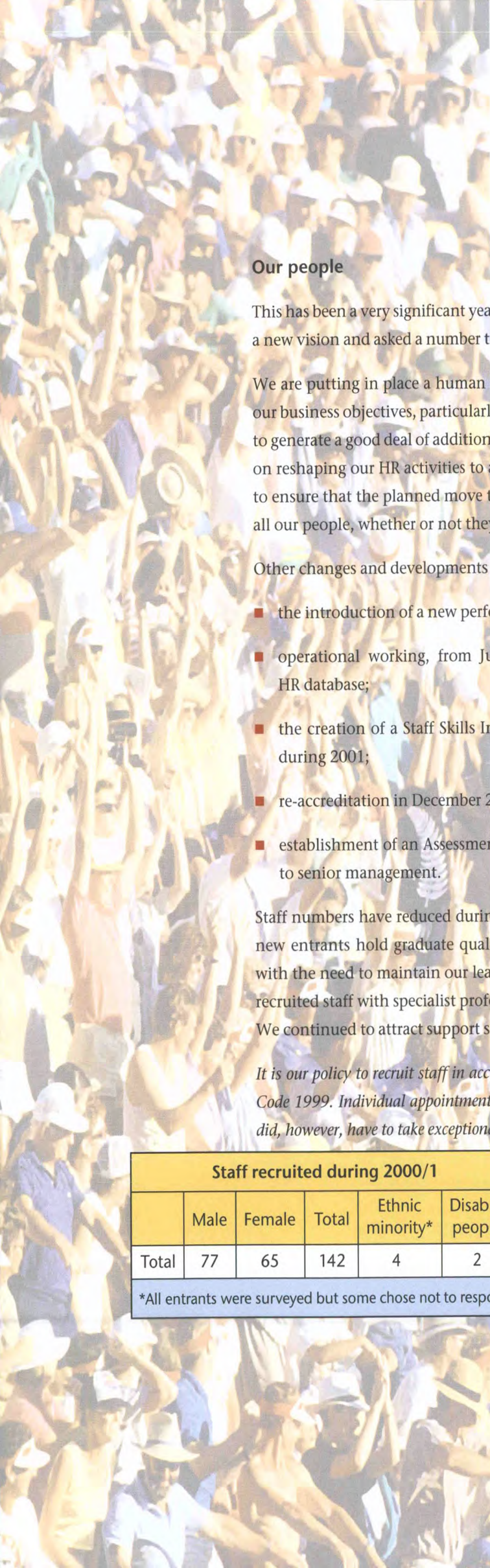
- introduced an Atlantic version of our deep-ocean forecasting model to our operational NWP suite;
- implemented a shelf-seas model and a wave model for UK waters, giving wave-current interactions;
- deployed our first 'ocean floats', part of the UK's contribution to the international 'Argo' programme to observe the global oceans.

Predicting and understanding atmospheric pollution

Increasingly, the Met Office is providing the Government with informed, authoritative and timely advice on the important, complex scientific issues surrounding atmospheric pollution. Predicting and understanding how pollutants are transported in the atmosphere is a particular issue of concern.

We applied our NAME computer-based dispersion model to a range of 'pollution' problems. These included a study of the impact of Saharan dust on UK air quality, estimating European source strengths of greenhouse and ozone-depleting gases, forecasting air quality over the UK and investigating the origins and transport of nitrate aerosols.

This year also saw the start of a three-year project to develop a new, integrated dispersion model capable of predicting the spread of a wide variety of pollutants over the whole range of distances from as little as 300 metres up to thousands of kilometres.



Our people

This has been a very significant year for our staff. We have asked everyone to embrace a new vision and asked a number to take on the challenge of working in new fields.

We are putting in place a human resources (HR) strategy, better placed to support our business objectives, particularly relocation — see page 14. We expect relocation to generate a good deal of additional personnel-related work and have started work on reshaping our HR activities to address this and other related issues. We intend to ensure that the planned move to Exeter is achieved as smoothly as possible for all our people, whether or not they are relocating.

Other changes and developments have included:

- the introduction of a new performance appraisal system in April 2000;
- operational working, from June 2000, of the personnel element of a new HR database;
- the creation of a Staff Skills Index, to be baselined (as a key performance target) during 2001;
- re-accreditation in December 2000 as an *Investor in People*;
- establishment of an Assessment and Development Centre for staff seeking promotion to senior management.

Staff numbers have reduced during the year. As in previous years, a high proportion of our new entrants hold graduate qualifications in mathematics, physics or computing, in line with the need to maintain our lead in the field of meteorology. However, this year, we also recruited staff with specialist professional qualifications to fill roles in marketing and sales. We continued to attract support staff through the local employment service.

It is our policy to recruit staff in accordance with the Civil Service Commissioners' Recruitment Code 1999. Individual appointments are made on the basis of fair and open competition. We did, however, have to take exceptional action to extend one casual contract beyond 12 months.

This action was required to assist with a key part of our strategic diversification theme of 'Weather and health'.

Staff recruited during 2000/1

	Male	Female	Total	Ethnic minority*	Disabled people*
Total	77	65	142	4	2

*All entrants were surveyed but some chose not to respond

Improving our business processes

Back in 1999, we analysed our business and identified 24 distinct business processes that cover the full spectrum of our activities. Our objective was to provide a framework to establish more-efficient business processes, to make more-effective use of staff time and to provide the framework for our planned relocation to Exeter.

Early in 2000, we reviewed each of the 24 processes in a rolling programme. During the year, we started implementing many of the recommended improvements, documenting the new processes and checking that they comply with the ISO 9000 standards. We propose integrating the final documented processes into an overall framework during 2001, followed by a nine-month 'bedding-in' period. We expect this to provide the evidence to demonstrate that we have attained the necessary standard for ISO 9000 registration by July 2002.

The benefits of this work are twofold — to provide greater efficiency throughout the Met Office, and to meet the increasing requirement from our major customers that their contractors have achieved ISO 9000 registration. We estimate that we have already accrued savings in excess of £250k.

Better management information

A prerequisite to the efficient management of business processes is the information needed to both manage their day-to-day operations and to allow process managers to make their processes ever more efficient. Generally, in the past, the former has been available but the latter — management information — has not.

Linked to the ISO 9000 work described above, we have started a review of existing and 'required' management information to address the problem; we plan to complete this by mid-2001. Thereafter, we will build a 'system' — our aim is to give process managers a single point of access to all the information they need, within the limits of cost-effectiveness.



Our future business strategy

Background

In the first few years as a trading fund, the Met Office made substantial profits. These were achieved largely by neglecting investment in almost all aspects of the business and prejudicing the future. During these years, income remained at about £150 million a year. Allowing for inflation, this represents a significant decrease in real terms, brought about by the increasing efficiency in operation which was passed on to customers through price reduction. Thus, the early days can be summed up as increasing efficiency, reducing revenue and under-investment.

Over the past two years, investment has been largely restored, while cost reductions have continued. However, revenue has not increased. We now plan a period of high investment (out of profits), increased revenue and further cost cutting. The first signs of progress can be seen in our results for 2000/1. There has been a small increase in income, costs have been reduced and staff numbers have begun to fall. There has also been substantial investment in the polar-orbiting satellites programmes, preparatory work for the move to Exeter and our new internet services. As we are funding these investment programmes ourselves, we have agreed with our owners that no dividend will be paid in respect of 2000/1.

Looking ahead

While overall income will increase, our traditional public sector income will continue to decline. We expect revenue to increase as we develop new sources of income within the public sector. We plan to become even more efficient — staff numbers continuing to reduce — in order to deliver these services at a price our customers can afford.

Investment will continue. The satellite programme will continue to receive significant funding, but our principal investment will be in the construction of new buildings in Exeter and in moving there. Moving our people will be a major upheaval for all concerned. However, once complete, the move will enable us to make further efficiencies through lower running costs and the adoption of improved working practices.

The Met Office is a robust business, with excellent staff, first-class products and services, and a solid, if reducing, customer base. We now face the challenge of increasing revenue and investment, reducing costs and staff numbers, while managing our move to Exeter. Progress during 2000/1 has been encouraging.

Performance against key targets 2000/1

Our six key performance indicators (KPIs) provide the crucial overview of how well the business is performing. The Chief Executive and the Secretary of State for Defence agree annual targets for these KPIs and these are announced in Parliament. These targets, which are intended to be both challenging and achievable, provide a benchmark against which we and our stakeholders can judge our actual performance.

Accuracy

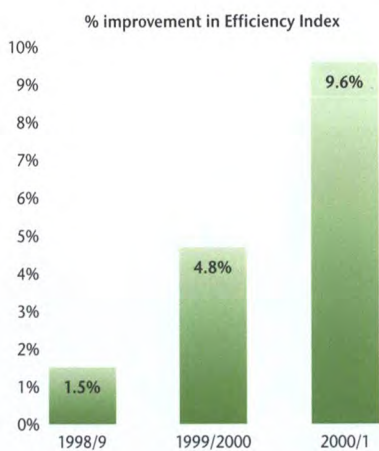
We run NWP models several times a day, every day, on both a global and a local (UK) scale. Since the accuracy of our published forecasts depends increasingly on the accuracy of these models, our NWP Index provides a good measure of our forecasting accuracy.

A new method of analysing data in our model, introduced in late March 1999, continues to produce significant improvement in NWP performance, measured over a rolling three-year period. We have exceeded this target.

Service Quality Index (SQI)

This index covers a representative range of services and products across defence, civil aviation, public and business users; the target level is agreed each year, based on specific customer requirements.

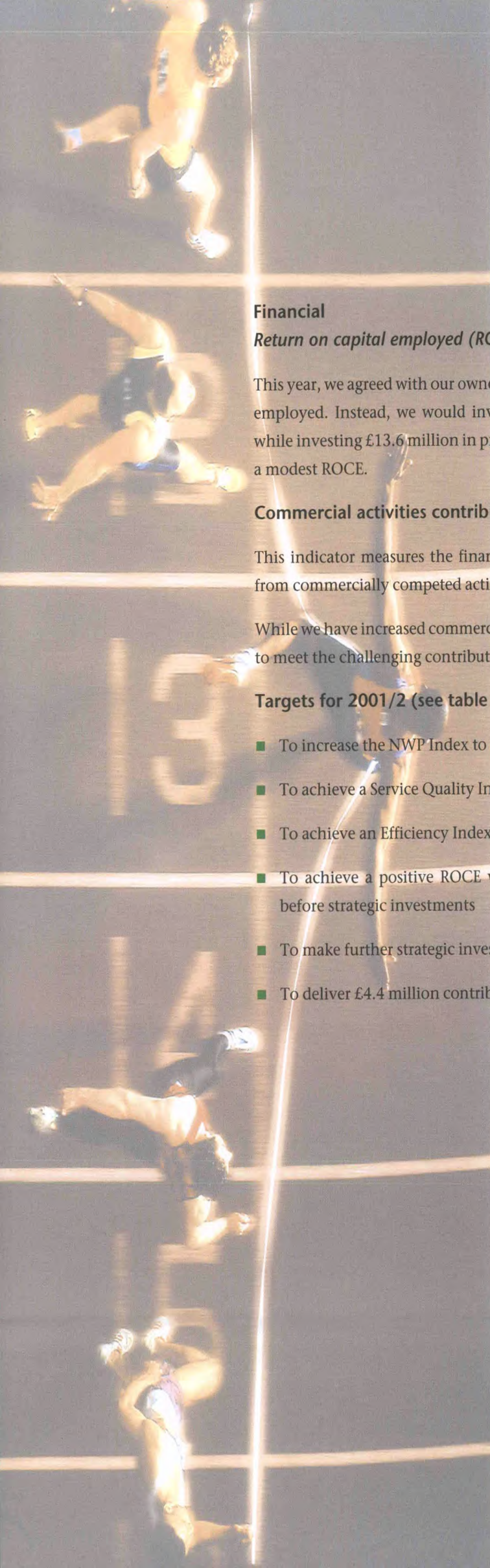
Particularly good performances from our Storm Tide Forecasting Service and OpenRoad have contributed to an excellent end-of-year result, well above the target.



Efficiency Index

Our Efficiency Index measures the change in outputs in relation to the costs for three major areas of our activities — core services, defence services and civil aviation services.

We have again been able to deliver improvements in efficiency, reflecting the increasing quality of our outputs and tight control over our costs.



Financial

Return on capital employed (ROCE) and strategic investments

This year, we agreed with our owner that we would not deliver any return on capital employed. Instead, we would invest significantly in the business. In the event, while investing £13.6 million in projects vital to our future, we have also produced a modest ROCE.

Commercial activities contribution

This indicator measures the financial contribution to Core and central services from commercially competed activities.

While we have increased commercial revenue since last year, we have not been able to meet the challenging contribution target we set ourselves.

Targets for 2001/2 (see table right)

- To increase the NWP Index to 105.2
- To achieve a Service Quality Index of 107.8
- To achieve an Efficiency Index of 111.0
- To achieve a positive ROCE while making operating profit of at least £14.4 million before strategic investments
- To make further strategic investments of £15.9 million \pm £1.5 million
- To deliver £4.4 million contribution from our commercial activities

Performance against key ministerial targets

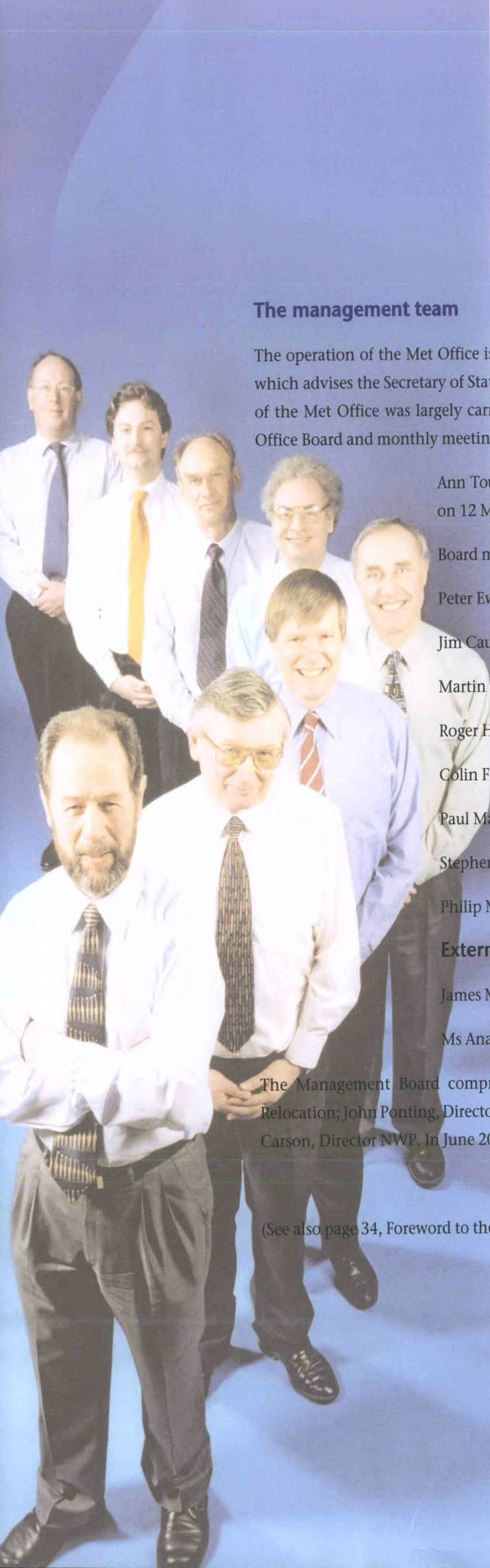
Key ministerial targets		Targets, outturns and achievements			Targets for
		1998/9	1999/2000	2000/1	2001/2
Efficiency					
Efficiency Index ⁽¹⁾	Target	n/a	n/a	103.7	111.0
	<i>Outturn</i>	<i>n/a</i>	<i>100.0</i>	<i>109.6</i>	
Quality					
Service Quality Index ⁽²⁾	Target	104.8	105.0	107.1	107.8
	<i>Outturn</i>	<i>114.5</i>	<i>119.1</i>	<i>120.5</i>	
Financial performance					
Return on capital employed ⁽³⁾	Target	n/a	2.9%	0.0%	>0.0%
	<i>Outturn</i>	<i>6.3%</i>	<i>3.5%</i>	<i>2.8%</i>	
Profit before strategic investments	Target	n/a	n/a	£13.7m	£14.4m
	<i>Outturn</i>	<i>n/a</i>	<i>n/a</i>	<i>£17.6m</i>	
Strategic investments ⁽³⁾	Target	n/a	n/a	£13.5m	£15.9m ± £1.5m
	<i>Outturn</i>	<i>n/a</i>	<i>n/a</i>	<i>£13.6m</i>	
Commercial activities contribution ⁽³⁾	Target	£1.1m ⁽⁴⁾	£2.2m ⁽⁴⁾	£3.575m ⁽⁴⁾	£4.4m
	<i>Outturn</i>	<i>£1.8m</i>	<i>£0.3 m</i>	<i>£2.676m</i>	
Forecast accuracy					
NWP Index	Target	n/a	n/a	101.6	105.2
	<i>Outturn</i>	<i>n/a</i>	<i>100.0</i>	<i>103.2</i>	

Additional key targets 2001/2

Other performance

Staff Skills Index A new key performance measure, based on staff competencies, as demonstrated in the annual staff appraisal form, has been developed. The baseline for this index has been set as 100.0 as at 31 March 2001. A target of 107.5 has been agreed for the period to 31 March 2004. Due to the nature of this measure, it has been agreed that interim targets are not appropriate, however, progress towards the 2004 target will be reported in future Annual Reports.

The Comptroller and Auditor General has examined the statement of performance against key targets reported above and he is satisfied that the performance achieved is fairly stated.



The management team

The operation of the Met Office is overseen by the Defence Meteorological Board, which advises the Secretary of State for Defence, the agency's owner. Management of the Met Office was largely carried out through quarterly meetings of the Met Office Board and monthly meetings of the Management Board.

Ann Tourle, then Company Secretary, left the Met Office on 12 May 2000 and was replaced by Martin Sands.

Board members at 31 March 2001 were (front to back):

Peter Ewins, Chief Executive

Jim Caughey, Technical Director

Martin Sands, Company Secretary

Roger Hunt, Public Sector Business Director

Colin Flood, Forecasting Operations Director

Paul Mason, Chief Scientist

Stephen Lawrenson, Managing Director Commercial

Philip Mabe, Finance Director

External members

James May, Director-General, UK Offshore Operators Association

Ms Anabel Gammidge, AMEC Border Wind.

The Management Board comprised Board members plus Steve Noyes, Director of Relocation; John Ponting, Director IT; Alan Thorpe, Director Climate Research; and Dave Carson, Director NWP. In June 2000, Alan Dickinson replaced Dave Carson.

(See also page 34, Foreword to the Accounts)

The Defence Meteorological Board

The Defence Meteorological Board advises the Secretary of State for Defence, owner of the Met Office. The Board comprises members with relevant scientific and commercial experience, and normally meets four times a year. Members of the Defence Meteorological Board at 31 March 2001 were:

Sir Roger Jackling KCB CBE, Second Permanent Under Secretary, MoD

Prof Sir Keith O’Nions, Chief Scientific Adviser, MoD

Mr JM Legge CB CMG, Deputy Under Secretary (Civilian Management), MoD

Air Vice Marshal P Walker CBE, Assistant Chief of the Defence Staff (Operations), MoD (replaced Air Vice Marshall G Torpy CBE DSO in March 2001, who replaced Rear Admiral S Moore in August 2000)

Mr PD Ewins, Chief Executive, Met Office

External members

Sir Brian Fender CMG, Chief Executive, Higher Education Funding Council for England

Mr CM Brendish CBE, Deputy Chairman, CMG Admiral plc

Mr David Filkin, TV producer/author — retired



Glossary

Atmosphere–ocean model

Using actual measurements of ocean temperature, our atmosphere–ocean model produces real-time analyses and forecasts of the temperature, salinity and currents of the deep ocean.

Carbon sinks

An area on the Earth's surface that absorbs carbon dioxide from the air.

Investor in People (IiP)

A national quality standard that improves investment in staff development and training, which we hope to achieve as part of the *Improving our Performance* process.

ISO 9000

A family of international standards that describe how quality management systems should be set up and managed, corresponding to the working practices expected from an 'excellent' company.

Mobile Meteorological Unit (MMU)

Our team of Met Office weather forecasters, who are 'ready' to deploy anywhere in the world to provide local forecasts and advice to our defence customers.

Numerical weather prediction (NWP)

Our primary method of weather forecasting — by solving a set of equations, a computer model of the atmosphere shows how weather conditions will change over time.

OpenRoad

Our system for predicting road surface conditions by analysing data from a network of road sensors; primarily used for road gritting purposes during the autumn and winter.

Polar satellite programme

A programme of launches of polar-orbiting satellites — those that orbit the earth passing over the poles — controlled by EUMETSAT, the European organisation responsible for the exploitation of meteorological satellites.

Upper-air observations

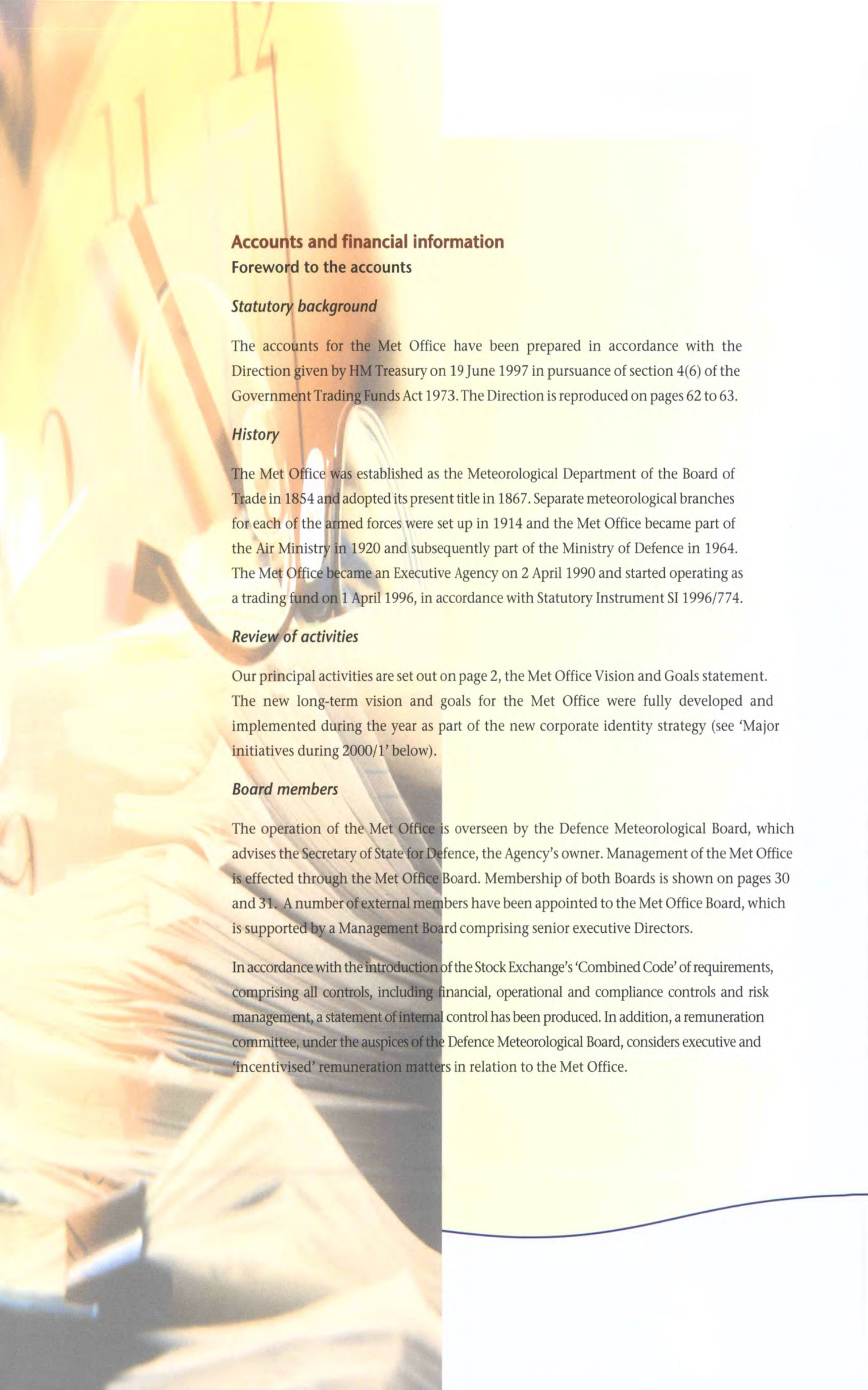
Weather observations, taken at various heights above ground by weather balloons and aircraft, for use in our forecast models.

Wireless application protocol (WAP)

A system that enables users to access the internet via their mobile phone.

World Meteorological Organization (WMO)

Comprising over 160 states and territories, WMO is a specialised agency of the United Nations, encompassing the field of meteorology.



Accounts and financial information

Foreword to the accounts

Statutory background

The accounts for the Met Office have been prepared in accordance with the Direction given by HM Treasury on 19 June 1997 in pursuance of section 4(6) of the Government Trading Funds Act 1973. The Direction is reproduced on pages 62 to 63.

History

The Met Office was established as the Meteorological Department of the Board of Trade in 1854 and adopted its present title in 1867. Separate meteorological branches for each of the armed forces were set up in 1914 and the Met Office became part of the Air Ministry in 1920 and subsequently part of the Ministry of Defence in 1964. The Met Office became an Executive Agency on 2 April 1990 and started operating as a trading fund on 1 April 1996, in accordance with Statutory Instrument SI 1996/774.

Review of activities

Our principal activities are set out on page 2, the Met Office Vision and Goals statement. The new long-term vision and goals for the Met Office were fully developed and implemented during the year as part of the new corporate identity strategy (see 'Major initiatives during 2000/1' below).

Board members

The operation of the Met Office is overseen by the Defence Meteorological Board, which advises the Secretary of State for Defence, the Agency's owner. Management of the Met Office is effected through the Met Office Board. Membership of both Boards is shown on pages 30 and 31. A number of external members have been appointed to the Met Office Board, which is supported by a Management Board comprising senior executive Directors.

In accordance with the introduction of the Stock Exchange's 'Combined Code' of requirements, comprising all controls, including financial, operational and compliance controls and risk management, a statement of internal control has been produced. In addition, a remuneration committee, under the auspices of the Defence Meteorological Board, considers executive and 'incentivised' remuneration matters in relation to the Met Office.

Major initiatives during 2000/1

During the year, a more clearly defined corporate identity was introduced. This definition put into context the values and behaviours of the organisation required to deliver the future growth and success of the business (see page 2).

The Met Office relocation project has been continuing apace, with the invitation to tender completed and the contractors reduced to two bidders. The preferred bidder was decided in May 2001, with a planned date for contract signing by the end of September 2001 (see page 14).

The financial statements have been prepared on the basis that accounting events that result from relocation, such as the shortened economic life of assets and reorganisation/relocation provisions, are not to be reflected until the Met Office is demonstrably committed, within the planned timescale, to a relocation of offices and staff. This will not be until a contract is signed in 2001/2.

The staff have been consistently consulted and informed of the progress of the relocation project. This has been through regular update seminars, working groups looking at specific aspects of the project, internal communications media, team briefing meetings and participation in surveys.

Payment policy

Payments to suppliers are predominately made direct from the Met Office. The policy is to pay suppliers within contracted payment terms or, in the absence of specifically agreed terms, within 30 days of receipt of a valid invoice (as specified by the Better Payment Practice Code), or of the delivery date if later. In the year ended 31 March 2001, 96.8% of undisputed invoices were paid within 30 days of receipt (31 March 2000, 95.2%).

The Met Office is required to report its bill paying performance to MoD. Measuring its performance on a basis as close as possible to that used by MoD, the Met Office paid 100% of its bills on time during the year.

Results and appropriations

The Met Office's turnover for the year was £154 million (1999/2000, £151 million). Total expenditure, before exceptional items and interest, was £150.1 million (1999/2000, £145.8 million) and operating profit was £4.0 million (1999/2000, £8.5 million). Net current assets as at 31 March 2001 were £161.9 million (31 March 2000, £154.5 million). The return on capital employed (ROCE) key target of 0% was met with a performance of 2.8%. Profit after interest was £6.2 million (1999/2000, £10 million).

In excess of 48% of the selling, distribution and administration costs (see note 4), £13.6 million was spent on key projects fundamental to the delivery of the Met Office's strategy. These projects are categorised as 'strategic investments' and as such are not charged to customers.

As explained on page 26, no dividend is to be paid in respect of 2000/1.

Market value of land

It is considered that there is no significant difference between the open market value and the book value of land on an existing use basis and that there has not been any material change in value since the last valuation (see note 7).

Research and development

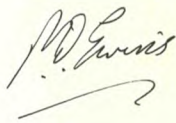
A programme of applied research and development is conducted in support of the operational services provided by the Met Office. Additional research and development concerning man-made climate change is conducted under contract to the Department of the Environment, Transport and the Regions.

Disabled persons

The Met Office is committed to a policy of Equal Opportunity, a policy recognised in 1999 by attainment of 'Positive about Disabled People' accreditation. The only test applied for recruitment, retention or advancement is the ability to do the job.

Employee involvement

Formal consultation with staff is undertaken through the Met Office Functional Whitley Committee, its sub-committees and local committees. The Met Office regards the health, safety and welfare of its employees (and others) as of paramount importance. A full-time Health and Safety Officer is employed to ensure that all staff are fully aware of new and existing requirements and of their responsibilities. Employee involvement is through the Health and Safety sub-committee of the Functional Whitley Committee. In addition, the Trades Unions have been consulted on a range of special issues, including the introduction of *Investors in People* as part of the Improving our Performance initiative. Staff are informed of new developments within the Met Office through team briefings and *Mercury*, the staff magazine.



P D Ewins
Chief Executive

10 May 2001

Statement on the system of internal control

As Accounting Officer, I acknowledge my responsibility for maintaining a sound system of internal control that supports the achievement of the Met Office's policies, aims and objectives, whilst safeguarding its assets and public capital.

The system of internal control is designed to manage rather than eliminate the risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an ongoing process designed to identify the principal risks to the achievement of the Met Office's policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. As at 31 March 2001, I have in place the procedures necessary to implement Treasury guidance on Corporate governance. The Met Office will use the first half of the financial year ending March 2002 to test thoroughly those procedures and embed them in the organisational processes so as to ensure full compliance in 2002/3.

We have held workshops, attended by all members of the Management Board, during which we identified the Met Office's key risks. As a result of these workshops, a designated owner has been assigned for each of the identified risks.

The Management Board has changed its agenda so that risk management and internal control will be considered on a regular basis during the year, and there will be a full risk and control assessment before reporting on the year ending 31 March 2002. Risk management is being incorporated more fully into the corporate planning and decision-making processes of the Met Office.

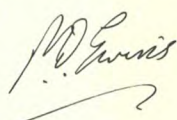
As part of the ISO 9000 process, a risk management project has been undertaken and the resulting process approved by the Board. The implementation of this process will enable the roll-out of an organisation-wide risk-management strategy.

The roll-out of this process will involve the use of a number of tools and techniques, which will be employed as and when appropriate.

- Facilitated workshops to identify and update the record of risks facing the organisation
- Risk awareness training to enable employees to perform the risk management function within their job area
- Development of appropriate risk indicators
- Development and maintenance of risk registers

The Met Office's internal audit function was transferred part way through the year from the MoD Directorate of Internal Audit (DIA) to PKF, an external firm of auditors. Both sets of auditors performed specific internal audit work to the standards defined in the Government Internal Audit Manual. The work of both internal audit teams is informed by an analysis of the risk to which the Met Office is exposed, and the annual internal audit plans are based on this analysis. The analysis of risk and the internal audit plans are endorsed by the Met Office's Audit Committee and approved by me. The reports include the internal auditors' independent opinion on the adequacy and effectiveness of the Met Office's system of internal financial control.

My review of the effectiveness of the system of internal control is informed by the work of the internal auditors, the Audit Committee which oversees the work of internal auditors, the executive managers within the Met Office who have responsibility for the development and maintenance of the internal control framework, and comments made by the National Audit Office (NAO) in their management letter and other reports.



P D Ewins
Chief Executive
10 May 2001

Statement of the responsibilities of the Agency and the Chief Executive

Under section 4 (6) of the Government Trading Funds Act 1973, HM Treasury has directed the Met Office to prepare a statement of accounts for each financial year in the form and on the basis set out in the Accounts Direction on pages 62 and 63. The accounts are prepared on an accruals basis and must give a true and fair view of the Met Office's state of affairs at the year-end, and of its income and expenditure, total recognised gains and losses and cash flows for the financial year.

In preparing the accounts, the Agency is required 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 have been followed, and disclose and explain any material departures in the financial statements;
- prepare the financial statements on the 'going concern' basis, unless it is inappropriate to presume that the Agency will continue in operation.

HM Treasury has appointed the Chief Executive of the Met Office as the Accounting Officer for the Trading Fund. His relevant responsibilities as Accounting Officer, including responsibility for the propriety and regularity of the public finances and for the keeping of proper records, are set out in the Accounting Officer's Memorandum, issued by HM Treasury and published in *Government Accounting*.

Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements on pages 44 to 61 under the Government Trading Funds Act 1973. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 48 and 49.

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

As described on page 40, the Met Office and the Chief Executive are responsible for the preparation of the financial statements and for ensuring the regularity of financial transactions. The Met Office and Chief Executive are also responsible for the preparation of the other contents of the *Annual Report*. My responsibilities, as independent auditor, are established by statute and guided by the Auditing Practices Board and the auditing profession’s ethical guidance.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Government Trading Fund Act 1973 and Treasury directions made thereunder, and whether, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Agency has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I read the other information contained in the *Annual Report* and consider whether it is consistent with the audited financial statements. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements.

I review whether the statement on pages 38 and 39 reflects the Met Office’s compliance with Treasury’s guidance *Corporate governance: statement on internal control*. I report if it does not meet the requirements specified by the Treasury or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements.

Basis of opinion

I conducted my audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Met Office and Chief Executive in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Met Office's circumstances, consistently applied and adequately disclosed. I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by error, or by fraud or other irregularity, and that, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion, I have also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the Met Office at 31 March 2001 and of the profit, total recognised gains and losses and cash flows for the year then ended, and have been properly prepared in accordance with the Government Trading Funds Act 1973 and directions made thereunder by the Treasury;
- in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General

11 May 2001

National Audit Office
157–197 Buckingham Palace Road
Victoria
London SW1W 9SP

**Profit and Loss Account
for the year ended 31 March 2001**

	Notes	2000/1 £ '000	1999/2000 £ '000
Turnover	3	154,413	151,013
Cost of sales	4, 6	122,651	118,732
Gross profit		31,762	32,281
Selling and distribution costs	4, 6	7,630	5,295
Administrative expenses	4, 6	20,111	18,533
Operating profit		4,021	8,453
Loss on disposal of fixed assets		(252)	(199)
Profit on ordinary activities		3,769	8,254
Interest receivable		3,095	3,124
Interest payable	5	(709)	(1,359)
Retained profit		6,155	10,019

There were no discontinued operations in the period

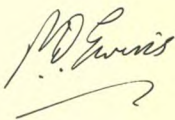
Return on capital employed (ROCE)	2	2.8%	3.5%
Target		0.0%	2.9%
Average return on capital since 1 April 1996		11.0%	13.1%
Target		7%	7%

The notes on pages 48 to 61 form part of these accounts
The movement on the General Reserve is set out at note 15 on page 59.

Balance Sheet
as at 31 March 2001

	Notes	31 March 2001		31 March 2000	
		£ '000	£ '000	£ '000	£ '000
Fixed assets	7		104,151		104,369
Current assets					
Stocks	8	1,481		1,169	
Debtors and prepayments	9	28,199		22,688	
Cash on deposit	10	53,400		55,000	
Cash at bank and in hand	10	749		605	
		<u>83,829</u>		<u>79,462</u>	
Creditors: amounts falling due within one year	11	(26,093)		(29,335)	
Net current assets			57,736		50,127
Total assets less current liabilities			161,887		154,496
Financed by:					
Provisions for liabilities and charges	12		2,710		1,376
Capital and reserves					
Public dividend capital		58,867		58,867	
Long-term loans	13	—		2,568	
Revaluation Reserve	14	11,677		9,207	
General Reserve	15	<u>88,633</u>		<u>82,478</u>	
Government funds			159,177		153,120
			161,887		154,496

The notes on pages 48 to 61 form part of these accounts.



PD Ewins, Chief Executive, 10 May 2001

Cash Flow Statement for the year ended 31 March 2001

	Note	2000/1 £ '000	1999/2000 £ '000
Reconciliation of operating profit to net cash inflow from operating activities			
Operating profit		4,021	8,453
Depreciation charges		16,702	17,820
Revaluation on buildings charged to the profit and loss account		–	119
Provisions for liabilities and charges		1,334	(109)
(Increase) in stocks		(312)	(113)
(Increase) in debtors		(5,481)	(2,205)
Increase/(decrease) in creditors		5,325	(2,966)
Net cash inflow from operating activities		21,589	20,999

Cash Flow Statement

Net cash inflow from operating activities		21,589	20,999
Returns on investments and servicing of finance	17	2,356	1,859
Capital expenditure	17	(14,465)	(24,500)
Management of liquid resources		1,600	9,900
Financing	17	(10,936)	(8,032)
Increase/(decrease) in cash		144	226

Reconciliation of net cash flow to movement in net debt

Increase in cash		144	226
Decrease in cash on deposit	17	(1,600)	(9,900)
Other movements	17	10,936	8,032
Change in net funds		9,480	(1,642)
Net funds at 1 April	17	44,669	46,311
Net funds at 31 March		54,149	44,669

The notes on pages 48 to 61 form part of these accounts.

**Statement of Total Recognised Gains and Losses
for the year ended 31 March 2001**

	Note	2000/1 £ '000	1999/2000 £ '000
Profit for the financial year		6,155	10,019
Surplus on revaluation of fixed assets credited to the Revaluation Reserve	14	2,470	4,609
Total Recognised Gains and Losses relating to the year		8,625	14,628

Reconciliation of movements in Government funds

		2000/1 £ '000	1999/2000 £ '000
Government funds at 1 April		153,120	146,860
Total Recognised Gains and Losses relating to the year	8,625		14,628
Movements in long-term loans	13	<u>(2,568)</u>	<u>(8,368)</u>
Net movement in Government funds		6,057	6,260
Balance at 31 March		159,177	153,120

The notes on pages 48 to 61 form part of these accounts.

Notes to the accounts

1 Accounting policies

(a) Basis of accounting

The accounts have been prepared in accordance with the accruals concept and the historical cost convention, modified to include revaluations of fixed assets and stocks. They comply with the accounting and disclosure requirements of the Companies Act 1985 and the Accounting Standards Board, and all applicable accounting standards where appropriate.

An exception is the treatment of the cash balance, held in Euros, relating to the EUMETSAT working capital fund (WCF). This balance is included within the satellite assets in Note 7. Under SSAP 20, monetary assets and liabilities should be translated into the reporting currency using the rates of exchange ruling at the Balance Sheet date. The Euro transactions making up the WCF have been translated during the year using the exchange rates set by forward contracts exercised by the Met Office.

Translating the WCF using the Eur/£ exchange rate on 31 March 2001 would produce a notional profit of £11k (1999/2000 a notional loss of £540k).

(b) Turnover

Turnover comprises the invoiced value of services (net of VAT) supplied to the private sector, the wider public sector and other Government departments. Income received under collaborative arrangements for the capital installation of rainfall radar systems is credited as deferred income within creditors until tangible fixed assets are acquired.

(c) Research and development

All research and development expenditure is charged to the Profit and Loss Account.

(d) Tangible fixed assets

Valuation

Freehold land and buildings are revalued by qualified valuers every five years, or at shorter periods if it is considered that values have changed materially.

Plant and equipment, including computers, are capitalised where the useful life exceeds three years and the cost of acquisition and installation exceeds £5,000 (excluding VAT). From 31 March 1996, the Met Office has also capitalised networked minor computers, and related equipment, which individually do not meet the criteria. Major items are revalued annually using the Gross Domestic Product Deflator Index.

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

The Met Office is a member of EUMETSAT and, as such, contributes to the cost of its satellite programmes. The Met Office benefits 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.

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).

Computers, plant and equipment 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.

The supercomputer facility was enhanced during 1999/2000 by the purchase of an additional supercomputer. The combined asset is being written off on a straight-line basis to 30 September 2003.

Satellite assets are depreciated using the straight-line method, based on the expected operational life, currently to 2014.

(e) Leasing commitments

All leasehold property is held under operating leases which are charged to current expenditure.

(f) Stocks

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

(g) Insurance

Prior to 1 July 2000, the Met Office followed the normal practice for a Government body of self-insuring. Following a review of the risk exposures, with effect from 1 July 2000, the Met Office has held a number of insurance policies covering standard risks to its assets. Where considered appropriate, specialist insurance policies have also been purchased during the year to cover some of the non-standard risks the organisation faces.

(h) Pensions

All staff are covered by the provisions of the Civil Service and Armed Forces Pension schemes except for locally employed civilians, staff on short-term contracts and staff who have opted out of the schemes. Payments are made into the Consolidated Fund at contribution rates determined by HM Treasury.

(i) Foreign exchange

The Met Office policy is to buy forward foreign currency for payments to international bodies as soon as amounts can be reliably estimated. The payments are in respect of annual subscriptions and contributions including payments for satellite programmes. In this case, payments are accounted for in sterling at the forward purchase rate. All other foreign currency payments are accounted for at the sterling equivalent at the exchange rate ruling on the day the payment is made.

(j) Cash

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

2 Key financial targets

The Met Office's key financial targets for 2000/1 were:

- a) To achieve an overall return on capital employed in 2000/1 of not less than 0%, while returning an operating profit of at least £13.7 million before strategic investments.
- b) To achieve strategic investments in 2000/1 of at least £13.5 million.
- c) To achieve a total contribution from commercial activities in 2000/1 of not less than £3.575 million.

a) Return on capital employed (ROCE)

ROCE is calculated as operating profit, after profit/loss on disposal of fixed assets and after allowing for exceptional items, as a percentage of the average Government funds (excluding unrealised capital reserves) employed in the business at the beginning and end of the year.

In addition to the in-year ROCE target, there is a further target of achieving a ROCE of 7% averaged over the five-year period to 31 March 2001. The table below shows the in-year and averaged ROCE over the five-year period to 31 March 2001. The table has been prepared in accordance with FRS12 requiring a restatement of the 1996/7 and 1997/8 reported ROCE (1996/7 reported as 20.7% and 1997/8 as 17.6%).

	1996/7	1997/8	1998/9	1999/2000	2000/1
ROCE	21.8%	20.6%	6.3%	3.5%	2.8%
ROCE target (post-FRS12 only)	—	—	—	2.9%	0.0%
Average ROCE to date	21.8%	21.2%	16.3%	13.1%	11.0%

b) Strategic investments

Strategic investment is defined as the total of expenditure on Corporate Investment Fund Projects and Corporate Projects. These projects include HQ relocation, rebranding, polar satellite development, Civil Centre reorganisation, development of the Met Office web site, innovation and IT infrastructure. There was no comparable target in 1999/2000.

31 March 2001
£ '000

Strategic investments	13,622
Strategic investments target	13,500

c) Commercial activities contribution

Commercial activities contribution represents the contribution made towards the Met Office's non-commercial operations as a result of its participation in competitive markets. The cost basis used in 2000/1 attributes to commercial activities only those costs which would no longer be borne by the Met Office should commercial activities cease. In 1999/2000, a different cost basis was used which took the full cost of commercial activities plus an allocation of IT and central services costs made on an avoidable cost basis.

	31 March 2001 £ '000	31 March 2000 £ '000
Commercial activities revenue	21,407	20,907
Commercial activities costs	(18,731)	(20,602)
Commercial activities contribution	2,676	305
Commercial activities contribution target	3,575	2,200

3 Turnover and segmental analysis

		2000/1			1999/2000		
Main customer		£ '000	£ '000	£ '000	£ '000	£ '000	£ '000
		Core	Direct Services	Total	Core	Direct Services	Total
Defence	MoD	26,331	29,363	55,694	26,619	28,312	54,931
Civil Aviation	CAA	16,276	9,390	25,666	16,346	9,438	25,784
Civil Departments		26,650	9,700	36,350	26,606	9,213	35,819
Climate Research	DETR	—	7,493	7,493	—	7,315	7,315
Commercial		—	21,407	21,407	—	20,907	20,907
Other		2,900	4,903	7,803	1,735	4,522	6,257
Total turnover		72,157	82,256	154,413	71,306	79,707	151,013

- (i) All turnover relates to the same class of business, the provision of meteorological and related services. There were no acquisitions or discontinued operations.
- (ii) 'Core' is the programme of work necessary to generate, and make available centrally, the underpinning weather forecasts and climatological services which are the basis for specified 'Direct Services' to Core customers.
- (iii) 'Commercial' contracts are subject to open competition.
- (iv) This note meets the requirements of the Treasury's *Fees and Charges Guide*.

4 Cost of sales, selling and distribution and administrative charges

The format of the Profit and Loss Account has been changed to comply with the prescribed formats set out in the Companies Act. The headings now show cost of sales, selling and distribution costs, and administrative expenses separately.

Cost of sales has been defined as that expenditure which is directly related to a service or product being supplied to a specific third-party customer or market. This will include direct materials and labour, development costs, and fixed and variable overheads to the extent that they relate specifically to production.

Selling and distribution includes costs relating to marketing and market research, the Customer Centre, and the costs associated with establishing and 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 that has not been included under cost of sales. It also includes the cost of some of the strategic investment projects such as relocation, innovation and ISO 9000, where the costs cannot be directly attributed to a particular customer or market.

	2000/1 £ '000	1999/2000 £ '000
Cost of sales	122,651	118,732
Selling and distribution costs	7,630	5,295
Administrative expenses	20,111	18,533
	150,392	142,560

The costs are further analysed by expenditure type as follows:

	Note	2000/1 £ '000	1999/2000 £ '000
Staff costs	6	74,415	74,392
Early retirement costs		1,943	—
Travel and subsistence		4,186	4,261
Equipment and services		27,874	28,746
Accommodation		10,373	9,516
Rates rebate		—	(3,263)
Depreciation	7	16,702	17,820
International services and subscriptions		12,527	9,152
Other administrative expenses		2,372	1,936
Total		150,392	142,560

- (i) The early retirement cost is the full cost of providing for all staff who have been granted early retirement as at 31 March 2001.
- (ii) Accommodation includes £1.8 million (1999/2000, £2.0 million) operating lease rentals of property.
- (iii) The rebate of £3.3 million in 1999/2000 was in respect of business rates which had been calculated using excessive valuations on properties over an eight-year period. No rebate was received in the current year.
- (iv) The method of calculating depreciation on plant and equipment was changed from reducing balance to straight-line with effect from 1 April 2000.
The change did not apply to the supercomputer which was already depreciated on a straight-line basis. Using the reducing balance method would have produced a depreciation charge of £18.3 million.
- (v) International services and subscriptions include £7.2 million (1999/2000 £3.9 million) to the European organisation for the exploitation of meteorological satellites (EUMETSAT) (excluding amounts capitalised as satellite assets), £2.9 million (1999/2000 £2.7 million) to the European Centre for Medium-Range Weather Forecasts (ECMWF) and £1.4 million (1999/2000 £1.4 million) to the World Meteorological Organization (WMO).

Membership of these organisations enable the Met Office to engage in, and benefit from, the European meteorological satellite programme; to receive support in its provision of medium-range weather forecasts and associated research; and to both promote and benefit from co-operations between members in the exchange of observational data, forecasts and a widening range of environmental programmes.

The UK is a signatory of the related international conventions which afford membership of the above bodies. The Met Office fulfils the UK's financial obligations to the various organisations. In participating in the affairs of the organisations, the Met Office engages the wider meteorological community of the UK as appropriate.
- (vi) Other administrative expenses include an audit fee of £50,000 (1999/2000, £50,000) and £10,000 (1999/2000, £10,000) for the review of Performance Indicators.
- (vii) Total cost of research and development, which was funded by customers including the Department of the Environment, Transport and the Regions was £22.5 million (1999/2000, £21.2 million).

5 Interest payable and similar charges

	Note	2000/1 £ '000	1999/2000 £ '000
On loans wholly repayable within five years		709	1,359
Total interest payable and similar charges		709	1,359

6 Staff

	Note	2000/1 £ '000	1999/2000 £ '000
(a) Staff costs			
Salaries, bonuses and allowances		61,398	61,640
Early retirement costs		1,943	83
Social security		5,182	4,974
Pension contributions		7,835	7,695
Total staff costs		76,358	74,392

The employees of the Met Office are Civil Servants to whom the conditions of the Superannuation Acts 1965 and 1972, and subsequent amendments, apply. For 2000/1, contributions of £7.8 million (1999/2000, £7.7 million) were paid to the Paymaster General at rates determined from time to time by the Treasury. These rates ranged from 12% to 18.5%, unchanged from 1998/9 – see note 1(h).

(b) Average staff numbers

	Note	2000/1 number	1999/2000 number
Senior management		11	11
Scientific, managerial, technical		1,616	1,651
Support		531	550
Locally engaged civilians overseas		19	19
Monthly average staff numbers		2,177	2,231

There were 2,114 staff employed at 31 March 2001 compared with 2,219 at 31 March 2000, both figures expressed as full-time equivalents.

(c) Directors' remuneration

(i) Salaries and benefits

Salaries and benefits are reviewed annually. Basic salaries for members of the Senior Civil Service were increased with effect from 1 April 2000. The pay award was dependent on performance and ranged from 3% to 10.48%.

(ii) Performance-related bonuses

These are calculated in accordance with a fixed formula which measures performance against the Met Office's key performance targets. It is paid to Board members on the recommendation of the Remuneration Committee.

(iii) Pensions

Pension benefits are provided through the Principal Civil Service Pension Scheme. This is a statutory scheme which provides benefits on a 'final salary' basis at a normal retirement age of 60. Benefits accrue at the rate of 1/80th of pensionable salary for each year of service. In addition a lump sum equivalent to three years' pension is payable on retirement. Members pay contributions of 1.5% of pensionable earnings. Pensions increase in payment in line with the Retail Price Index. 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 10 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.

It was agreed that the Met Office would continue Professor Thorpe's contributions to the University Superannuation Scheme (USS) during the period of his employment; the Met Office pay both the employer's and employee's contributions on his behalf.

(iv) Directors' emoluments

Name	Age	2000/1			1999/2000		
		Emoluments	Real increase	Total accrued	Emoluments	Real increase	Total accrued
		2000/1	in pension at 60	pension at 60	1999/2000	in pension at 60	pension at 60 at
		£ '000	£ '000	at 31 March 2001	£ '000	£ '000	31 March 2000
PD Ewins	58	95-100	2.5-5	40-45	85-90	0-2.5	35-40
PJ Mason	55	80-85	0-2.5	30-35	75-80	0-2.5	30-35
CR Flood	57	60-65	0-2.5	25-30	60-65	0-2.5	25-30
SJ Caughey	55	60-65	0-2.5	20-25	60-65	0-2.5	20-25
RD Hunt	52	55-60	0-2.5	20-25	55-60	0-2.5	20-25
S Lawrenson		consent to disclosure withheld					
P Mabe	42	80-85	0-2.5	5-10	70-75	0-2.5	5-10
JF Ponting	51	50-55	0-2.5	15-20	50-55	0-2.5	15-20
AJ Thorpe	48	65-70	0-2.5	15-20	55-60	n/a	15-20
M Sands	52	65-70	n/a	20-25	n/a	n/a	n/a
S Noyes	41	55-60	0-2.5	10-15	50-55	n/a	10-15
A Tourle	47	5-10	0-2.5	15-20	50-55	0-2.5	15-20
D Carson	57	10-15	0-2.5	20-25	60-65	0-2.5	20-25
A Dickinson	51	50-55	n/a	15-20	n/a	n/a	n/a

Members of the pension scheme have the option to pay Additional Voluntary Contributions (AVCs); any AVCs made are not included in the above table.

Notes

- (a) The Chief Executive, Peter Ewins, received emoluments comprising a basic salary and a performance bonus.
- (b) Stephen Lawrenson and Alan Thorpe are currently employed on three-year fixed-term contracts.
- (c) Ann Tourle left the Met Office on 12 May 2000 and was replaced by Martin Sands who joined on 15 May 2000.
- (d) David Carson left the Met Office on 1 June 2000.
- (e) Alan Dickinson was appointed as acting Director NWP for the period from 1 June 2000 to 31 March 2001, although his emoluments for the whole year are included.

(d) Early retirement

	2000/1	1999/2000
	£ '000	£ '000
Expenditure incurred in current year	307	83

This represents payments made in-year to all employees who have been granted early retirement.

7 Fixed assets

The movements in each class of assets were:

	Satellite programme £ '000	Land and buildings £ '000	Assets in course of construction £ '000	Plant and equipment £ '000	Total tangible £ '000
Cost or valuation:					
At 1 April 2000	116,668	15,363	—	54,045	186,076
Additions	8,074	233	1,462	4,497	14,266
Disposals	—	—	(4)	(1,211)	(1,215)
Revaluation	4,375			214	4,589
At 31 March 2001	129,117	15,596	1,458	57,545	203,716

Depreciation:

At 1 April 2000	52,692	1,881		27,134	81,707
Charged during year	9,682	546		6,474	16,702
Disposals	—	—		(943)	(943)
Revaluation	1,976	—		123	2,099
At 31 March 2001	64,350	2,427	—	32,788	99,565

Net book value:

At 1 April 2000	63,976	13,482	—	26,911	104,369
At 31 March 2001	64,767	13,169	1,458	24,757	104,151

- (i) The net book value of freehold land and buildings includes £5.8 million of freehold land (1 April 2000, £5.7 million) which has not been depreciated.
- (ii) The net book value of plant and equipment is based on a valuation at 14 December 1995 by Grimley, updated by appropriate indices.
- (iii) The method of calculating depreciation on plant and equipment was changed from reducing balance to straight line with effect from 1 April 2000. The method of calculating depreciation was changed so that the economic use of the assets would be more closely aligned to their economic life. The effect of the change was to reduce the in-year depreciation charge by £1.6 million.
- (iv) The supercomputer was re-lifed by a further six months to reflect its expected operating capacity after relocation. The effect on the accounts is a reduction in the depreciation charge of £0.5 million.
- (v) Land and buildings were valued by Chesterton Chartered Surveyors on 2 November 1999, in accordance with the Practice Statements and Guidance Notes set out in the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors, on the basis of open market values for existing use, except that a specialised building has been valued on the basis of depreciated replacement cost.
- (vi) Costs of £1.0 million directly attributable to the construction of the new Met Office building have been capitalised and are included within assets in the course of construction.

8 Stocks

		31 March 2001	31 March 2000
	Note	£ '000	£ '000
Meteorological equipment		1,134	722
Reserve equipment		258	320
Consumable stores		89	127
Total stock		1,481	1,169

9 Debtors

		31 March 2001	31 March 2000
	Note	£ '000	£ '000
Trade debtors		18,866	12,812
Other debtors		882	850
Prepayments and accrued income		8,451	9,026
Total debtors		28,199	22,688

10 Analysis of changes in cash at bank and in hand

		31 March 2001	31 March 2000
	Note	£ '000	£ '000
Balance at 1 April		605	379
Net cash inflow / (outflow)	17	144	226
Balance at 31 March		749	605

Cash which is surplus to immediate requirements is held in short-term interest-bearing accounts – £53.4 million (31 March 2000, £55 million) with the National Loans fund.

11 Creditors

		31 March 2001	31 March 2000
	Note	£ '000	£ '000
Operating expenditure amounts falling due within one year:			
Current instalment on long-term loans	13, 17	—	8,368
Trade creditors		1,292	639
Taxation and social security		7,192	6,081
Accruals		7,865	7,434
Deferred Income		9,744	6,813
Total amounts falling due within one year		26,093	29,335

12 Provisions for liabilities and charges

Early retirement	Dilapidations £ '000	Reorganisation £ '000	Total £ '000	£ '000
Balance at 1 April 2000	2	690	684	1,376
Transferred from Profit and Loss Account	1,866	(12)	(227)	1,627
Utilised in year	(230)	(24)	(39)	(293)
Balance at 31 March 2001	1,638	654	418	2,710

- (i) The early retirement provision represents the pension costs associated with 50 staff who had been granted early retirement as at 31 March 2001 and comprises capital lump sums at the point of departure together with the full cost of meeting each individual's pension payments up until normal retirement age. The total amount provided for, before discounting and in-year payments, is £2.1 million. The provision has been discounted at 6% to give a net provision of £1.7 million.
- (ii) The dilapidation provision has not been discounted as the adjustment is not material.
- (iii) The reorganisation provision has been made for the future cost of leasehold properties which are surplus to requirements following reorganisation. The total amount provided for, before discounting, is £0.6 million. The provision has been discounted at 6% to give a net provision of £0.4 million.

The commitments provided for fall due in the following periods:

	Early retirement £ '000	Dilapidations £ '000	Reorganisation £ '000	Total £ '000
Amounts payable within:				
Under one year	704	109	41	854
One to five years	761	77	141	979
Over five years	173	468	236	877
	1,638	654	418	2,710

13 Long-term loan repayments

Government loans, repayable by instalments, and bearing interest at 8% and 8.25% per annum:

	31 March 200 £ '000	31 March 2000 £ '000
Loans at 31 March comprise amounts repayable		
In two to five years	—	2,568
Total loan repayments	—	2,568

Amounts repayable in one year are included in creditors — see note 11.

14 Revaluation Reserve

	31 March 2001 £ '000	31 March 2000 £ '000
Revaluation Reserve at 1 April	9,207	4,598
Revaluation of satellite assets	2,399	2,563
Revaluation of land and buildings, and plant and equipment	91	2,046
In-year disposals	(20)	—
	<hr/>	<hr/>
	2,470	4,609
Revaluation Reserve at 31 March	11,677	9,207

£1,910,101 (31 March 1999, £1,313,000) of the Revaluation Reserve was realised.

15 General Reserve

	31 March 2001 £ '000	31 March 2000 £ '000
General Reserve at 1 April	82,478	72,459
Retained profit	6,155	10,019
General Reserve at 31 March	88,633	82,478

16 Related parties

The Ministry of Defence (MoD) is regarded as a related party. During the year, the Met Office has had material transactions with the Department and with other entities for which MoD is regarded as the parent department, primarily the Defence Evaluation and Research Agency. In addition, the Met Office has had material transactions with a number of other public bodies, Government departments and their agencies, principally the Civil Aviation Authority, Department of the Environment, Transport and the Regions, Home Office and Ministry of Agriculture, Fisheries and Food. None of the Met Office Board members, key managerial staff or other related parties has undertaken any material transactions with the Met Office during the year.

17 Cash Flow Statement

a) Gross cash flows

	31 March 2001		31 March 2000	
	£ '000	£ '000	£ '000	£ '000
Returns on investments and servicing of finance				
Interest received	3,065		3,218	
Interest paid	(709)		(1,359)	
		2,356		1,859

Capital expenditure

Payments to acquire satellite assets	(8,074)		(9,773)	
Payments to acquire plant and machinery, land and buildings	(6,391)		(14,709)	
Receipts from / (costs of) sales of tangible fixed assets	—		(18)	
		(14,465)		(24,500)

Management of liquid resources

Net receipts from / (payments to) National Loans Fund deposit account	1,600		9,900	
		1,600		9,900

Financing

Loan repayment	(10,936)		(8,032)	
		(10,936)		(8,032)

b) Analysis of changes in net funds

	At 1 April 2000 £ '000	Cash flows £ '000	Other changes £ '000	At 31 March 2001 £ '000
Cash at bank and in hand	605	144		749
Cash on deposit	55,000	(1,600)		53,400
Debt due within one year	(8,368)	10,936	(2,568)	—
Debt due after one year	(2,568)		2,568	—
Total	44,669	9,480	—	54,149

18 Operating leases

	2000/1 £ '000	1999/2000 £ '000	2000/1 £ '000	1999/2000 £ '000
Annual commitments are as follows:	Land and Buildings		Vehicles	
Leases expiring within:				
Under one year	19	200	141	164
One to five years	122	55	—	—
Over five years	1,680	1,784	—	—
	1,821	2,039	141	164

19 Capital commitments

	2000/01 £ '000	1999/2000 £ '000
Contracted	1,986	2,330
Contribution for satellite programme	3,509	4,013

20 Derivatives

The Met Office makes significant foreign currency payments for subscriptions and contributions to international meteorological organisations. These costs are recovered from customers of Core services on fixed-price contracts.

To manage the risk of currency movements, the Met Office has a policy of buying forward foreign currency.

Treasury Accounts Direction and Schedules

Accounts Direction given by HM Treasury in accordance with section 4(6) of the Government Trading Funds Act 1973

1. The Met Office shall prepare accounts for the financial year ended 31 March 1997 and subsequent financial years comprising:
 - (a) a foreword;
 - (b) a profit and loss account;
 - (c) a balance sheet;
 - (d) a cash flow statement; and
 - (e) a statement of total recognised gains and losses,including such notes as may be necessary for the purposes referred to in the following paragraphs.
2. The accounts shall give a true and fair view of the profit or loss, and cash flows for the financial year, and the state of affairs as at the end of the financial year.
3. Subject to this requirement, the accounts shall be prepared in accordance with:
 - (a) generally accepted accounting practice in the United Kingdom (UK GAAP);
 - (b) the disclosure and accounting requirements contained in the *Fees and Charges Guide* (in particular those relating to the need for segmental information for services or forms of service provided) and in any other guidance which HM Treasury may issue from time to time in respect of accounts which are required to give a true and fair view;
 - (c) the accounting and disclosure requirements of *Government Accounting* (in particular Chapter 17) and HM Treasury's guidance paper *Next Steps Agencies—Annual Reports and Accounts* (February 1993), as amended or augmented from time to time, insofar as these are appropriate to the Met Office and are in force for the financial period for which the accounts are to be prepared.

4. Clarification of the application of the accounting and disclosure requirements of the Companies Act and accounting standards is given in Schedule 1 of this Direction. Additional disclosure requirements are set out in Schedule 2 of this Direction.
5. The Profit and Loss Account and Balance Sheet shall be prepared under the historical cost convention modified by the inclusion of:
 - (a) fixed assets at their value to the business by reference to current costs; and
 - (b) stocks at the lower of net current replacement cost (or historical cost if this is not materially different) and net realisable value.
6. This direction and, where appropriate, the Treasury Minute (see paragraph 2 of Schedule 2) shall be reproduced as appendices to the accounts.

Signed: Jamie Mortimer
Treasury Officer of Accounts

19 June 1997

Schedule 1

Application of the Accounting and Disclosure Requirements of Companies Act and Accounting Standards

Companies Act

1. The disclosure exemptions permitted by the Companies Act shall not apply to the Met Office unless specifically approved by HM Treasury.
2. The Companies Act requires certain information to be disclosed in the Directors' Report. To the extent that it is appropriate, the information relating to the Met Office shall be contained in the foreword.
3. When preparing its Profit and Loss Account, the Met Office shall have regard to the Profit and Loss Account format 1 prescribed in Schedule 4 to the Companies Act.
4. When preparing its Balance Sheet, the Met Office shall have regard to the Balance Sheet format 1 prescribed in Schedule 4 to the Companies Act. The Balance Sheet totals shall be struck at 'net assets'.
5. The Met Office is not required to provide the historical cost information described in paragraph 33(3) of Schedule 4 of the Companies Act.
6. The foreword and Balance Sheet shall be signed by the Accounting Officer and dated.

Accounting standards

7. The Met Office is not required to include a note showing historical cost profits and losses as described in FRS 3.

Schedule 2

Additional Disclosure Requirements

1. The foreword shall, inter alia:
 - (a) state that the accounts have been prepared in accordance with a direction given by HM Treasury in accordance with section 4(6) of the Government Trading Funds Act 1973;
 - (b) include a brief history of the Met Office and its statutory background.
2. The notes to the accounts shall include details of the further financial objectives set by the responsible Minister as described in a Treasury Minute in accordance with section 4(1) (b) of the Government Trading Funds Act 1973, together with an indication of the performance achieved.



Copies of the *Scientific and Technical Review 2000/1* can be obtained from the Met Office on 01344 854643.

The *Annual Report and Accounts 2000/1* and *Scientific and Technical Review 2000/1* can also be accessed from our web site at **www.metoffice.com**

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