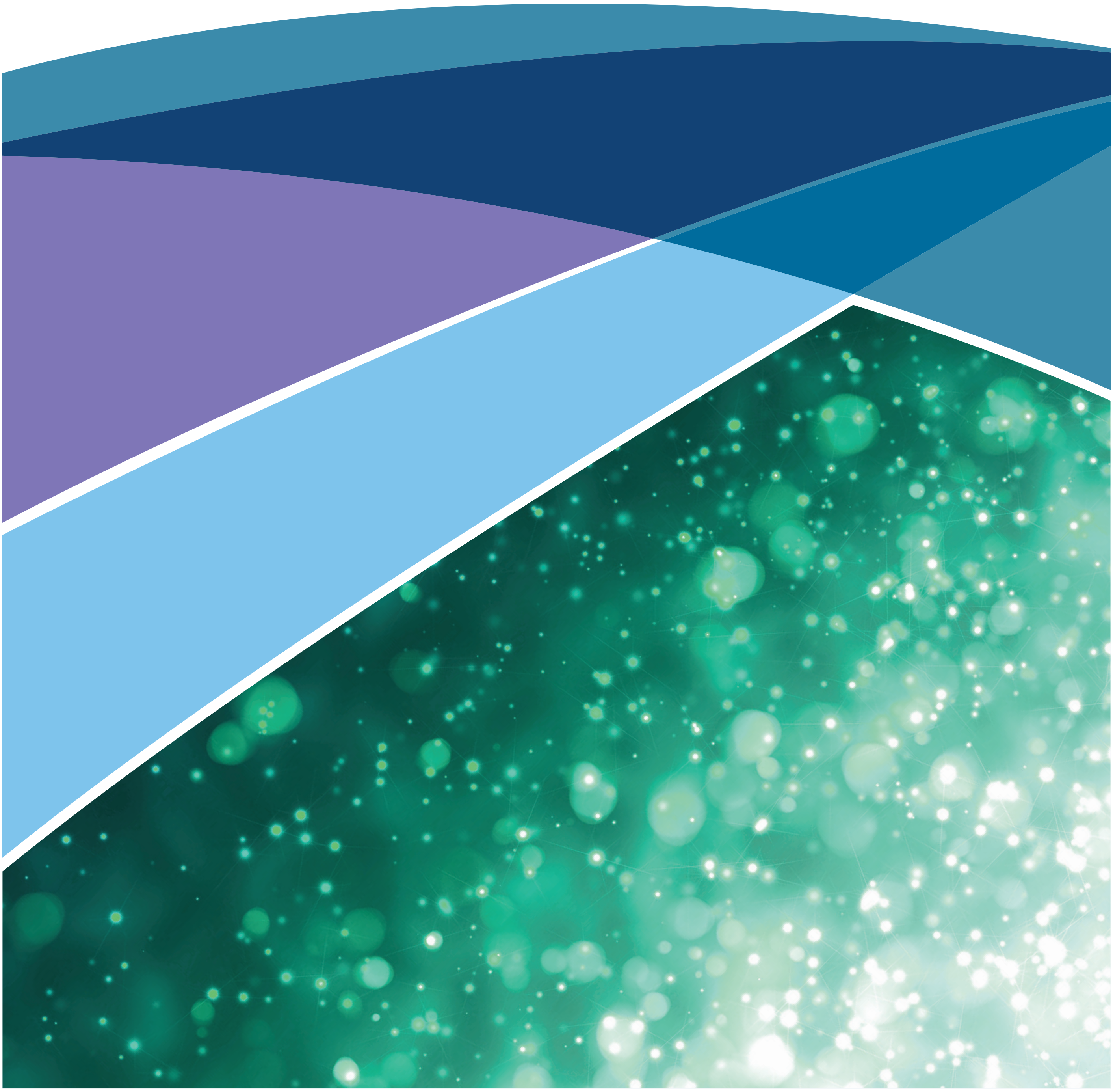
Intellectual Property Office

The Patent Office Annual Report and Accounts 2012/13



HC214

Intellectual Property Office is an operating name of the Patent Office

£16.00

The Patent Office
Annual Report and Accounts
2012/13

The Patent Office

Report Presented to Parliament pursuant to section 121 of the Patents Act 1977, section 42 of the Registered Designs Act 1949 and section 71 of the Trade Marks Act 1994, and Accounts presented to Parliament pursuant to section 4(6) of the Government Trading Funds Act 1973 as amended by the Government Trading Act 1990.

The Patent Office is an Executive Agency of the Department for Business, Innovation, and Skills.

2012/13 Annual Report & Accounts

Ordered by The House of Commons to be printed 25 June 2013

HC214 London: The Stationery Office £16.00

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This document is also available from our website at www.ipo.gov.uk

ISBN: 9780102982657

Printed in the UK for The Stationery Office Limited on behalf of the Controller of Her Majesty's Stationery Office

ID 2554620 07/13

Printed on paper containing 75% recycled fibre content minimum

Contents

Chapter 1: Chief Executive Officer's Introduction

I am very pleased to introduce the Annual Report & Accounts for the Intellectual Property Office (IPO[1]) covering the year 2012/13.

It has been a rather special year for the IPO. As well as the year of the Olympics and the Queen's Jubilee, we also celebrated our 160th birthday.

The year was also marked by many successes in delivering for our customers.

Much of our work has been driven by the Government's response to the Hargreaves Review of IP and growth. We are near to completing the first phase of our post Hargreaves legislative programme. Ministers announced changes to create greater freedom to use copyright works such as computer games, paintings, photographs, films, books, and music, while protecting the interests of authors and right owners. The new measures include provisions to allow copying of works for individuals' own personal use, parody and for the purposes of quotation. They allow people to use copyright works for a variety of desirable purposes without permission from the copyright owners. They will also bring up to date existing exceptions for education, research and the preservation of materials.

We have also obtained agreement on the Unitary Patent for Europe and a unified patent court on terms satisfactory to the UK. Vince Cable, the Business Secretary, signed an agreement in February which envisages a one-stop-shop system for companies wanting to protect new business ideas in the EU. This also means that cross-border litigation on any patent granted by the European Patent Office (EPO) will be able to take place in a single court covering 25 (or more) states. London will host the pharmaceuticals and life sciences section of the court to hear disputes about healthcare patents, particularly questions of validity. The unitary patent will be available once the Court is up and running, probably in 2015.

We published a paper, 'From Ideas to Growth', setting out our plans for improving the support available to small and medium-sized enterprises (SMEs). The paper was warmly received by SMEs, and various SME and business advisor representative bodies and is now being implemented.

We launched a modernised mediation service to help businesses to resolve their IP disputes more quickly and cheaply. The service offers a greater variety of mediation options, a wider range of specialist accredited mediators and a more flexible fee scale.

We have continued to cope with the increasing workload and the continual high levels of demand, especially in the rights granting areas, which show no signs of slowing.

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1 An operating name of the Patent Office

For the second year running we have been awarded the prestigious Cracking Ideas 'High Impact Badge of Honour' for our achievements in encouraging innovation, creativity and intellectual property awareness amongst young innovators.

We have continued to make our influence felt in key international institutions such as the World Intellectual Property Organisation, World Trade Organisation, European Patent Office and Office of Harmonisation in the Internal Market (European Community Trade Mark Office), promoting the effective protection of IP internationally, particularly in emerging markets. This year we added two new IP attachés in Brazil and Singapore.

We are also continuing to improve our internal capability and operations. Our new single IT system, introduced 2nd April 2013, is now being used for the processing of all trade mark applications and for new tribunal cases; and our change programme, Improve, has now been completed giving us new capabilities in relation to areas such as customer insight, efficiency, IT skills and policy.

Our parent department, the Department for Business, Innovation & Skills (BIS), is continuing to develop shared services across HR/Payroll, Finance, Procurement and Estates services, in order to deliver savings.

This coming year we will start receiving Payroll and some HR services from the BIS Shared Service Centre. We have also introduced Lean capability across the Office and have delivered an initial programme of Lean reviews.

We are now focusing on the outcomes of Improve which will include the delivery of our replacement electronic document management system and work on our Patents Roadmap which will look to create new systems and modernise our patents right granting business.

I would like to thank all my IPO colleagues for their continued commitment and dedication. As our values underline, we will continue to deliver what our customers need and expect, to be seen as leading edge in what we do and how we do it, with people who feel valued and enthusiastic about our work. Working with our customers and stakeholders, we will strive to develop a business environment which encourages innovation and creativity and makes a significant contribution to a return to growth.

John Alty
Chief Executive Officer and Accounting Officer

Chapter 2: Review of the Year

Introduction

This year has seen the IPO continue to develop through our programme of change, Improve, meet an increasing demand across all our rights granting services and tackle increasingly complex intellectual property policy issues. This has been achieved while undertaking both a major office refurbishment and IT replacement programme. Even with the amount of upheaval and change, 8 out of 10 Ministerial Targets were met and a significant financial surplus returned. While there remain areas for improvement, the year can be seen as one of success for the IPO.

Summary of 2012/13 Performance

These accounts reflect the performance of the organisation against those priorities and objectives set out in the 2012/13 Corporate Plan published in April 2012. This plan contained 7 strategic goals. However it was recognised mid-way through the year the need for clarifying and simplifying these. They were therefore reduced to 5 for 2013/14, and for consistency of reporting this commentary has been compiled using the same 5 goals against which our performance has been assessed.

Ministerial Targets are set annually; they detail our key deliverables, and are aligned with wider government objectives. The IPO prioritises its work around these targets. 2012/13 performance against these targets is set out below:

Target	Achievement
Policy	
Publish the Government's decisions on changes to copyright legislation proposed by the Hargreaves Review, following consultation	MET
Make progress in 2012/13 on key European policy dossiers so as to reflect UK priorities	MET
Pursue UK business interests in IP in key emerging markets in 2012/13 by promoting the development of strong national IP regimes and delivering a refreshed portfolio of products and services for UK businesses overseas	MET
Rights Granting	
Efficiently deliver high quality patents, so that 90% of patent search reports are issued within 4 months	NOT MET 88.8%
Efficiently deliver high quality trade marks so that:- a) Between April 2012 and December 2012 applications for trade marks, for which we have not raised any issue and no opposition has been filed, are registered: within 4 months in 85% of cases	MET 90.6%
within 5 months of 90% of cases	MET 97.6%
within 6 months in 95%	MET 98.7%
Between January 2013 and March 2013 applications for trade marks, for which we have not raised any issue and no opposition has been filed, are registered within 7 months in 70% of cases	MET 99.2%
b) The correct decision is made in at least 99% of applications	MET 99.6%
Customer engagement	
IPO business outreach activities will reach at least 25,000 businesses, 85% of whom (based on a sample) will say that what they learned has helped improve their (or their clients') business performance	MET 92.9%
IPO customers will give an average score of 8 out of 10 for the service they receive	MET 8.22 out of 10
Financial efficiency	
Achieve a return on capital employed of 4%	MET 9.6%
Deliver an efficiency gain of 3.5%	MET 3.5%
People	
Improve the IPO's engagement index so that our score is at least equal to that of the Civil Service 2012 benchmark	NOT MET 56% (-2% below CS benchmark)

Intellectual Property Policy

In 2012 agreement was reached on the introduction of a single Europe-wide patent and formation of a dedicated patent court, part of which will be located in London. This should place EU businesses on a more equal footing with innovative businesses from our global competitors such as the US and China, who already enjoy a single patent environment, as well as securing important legal services business for London by hosting the pharmaceutical element of the court. The IPO have and will, continue to play a significant role in the high profile initiative.

Following the Hargreaves Review, and an extensive consultation process, it was felt that the copyright framework could be improved to make the UK a better place for creators and consumers, and for firms to innovate in new markets which are vital for future growth. In support of this we published ‘Modernising Copyright’, a document which sets out Government decisions on changes to the framework for ‘copyright exceptions’. We will begin to take action to implement these changes in 2013/14.

In response to another area of the Review, Richard Hooper was commissioned to carry out a feasibility study into the creation of a Digital Copyright Exchange (DCE); an automated e-commerce website or network of websites which allows licensors to set out the rights they wish to license and allows licensees to acquire those rights from the licensors. The IPO facilitated the report, which sets out the ground work to support industry in delivery of the report’s recommendations.

Hargreaves also reviewed the adequacy of the IP framework for the protection of design. The review concluded that the IPO should undertake further investigation to see whether the framework was meeting the needs of business and designers. We consulted on changes to the design registration service and to the underpinning legal framework for the protection of designs. This work will be taken forward in 2013 with the aim of introducing a bill to parliament, to:

- update copyright protection for industrial designs;
- introduce powers to create orphan works and extended collective licensing schemes in the UK;
- allow changes to copyright term for certain unpublished works; and
- introduce a power intended to be used to implement the recently agreed Directive covering copyright term for sound recordings.

Our programme of research included a number of important projects including patent incentives and thickets[2], the legal framework for design, patent litigation, work on the unitary patent and a comparison of backlogs with the US Patent & Trade Mark Office. The findings of this research will be used by us, public and private sector IP bodies to develop evidence based future IP policy.

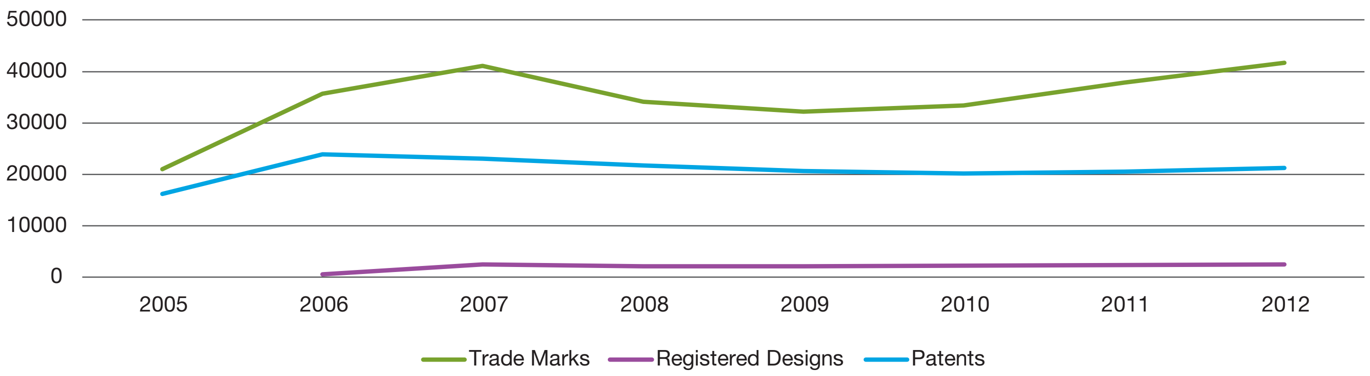
2 Patent thickets are a dense web of overlapping intellectual property rights that a company must get through in order to actually commercialise new technology

Rights Granting Services

2012/13 saw the continuation of the trend which has seen a year on year increase in demand for all our rights granting services. Although this trend has been mirrored around the world, the UK has seen a larger increase than most other offices and this has challenged previous assumptions that severe economic conditions would have a negative impact on innovation. Despite an extremely high level of demand for our services we were able to maintain our patent and trade mark processing, service quality targets and continue to exceed against our customer satisfaction target.

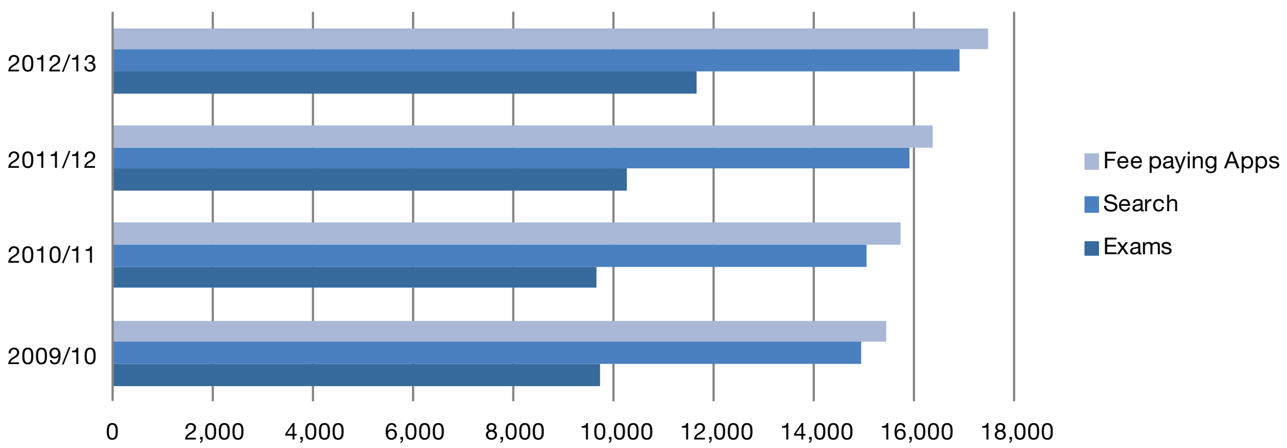
2012/13 saw a record number of trade mark applications received, since the 1994 Trade Mark Act, standing at 41,150. Applications for registered designs and patents were also on the increase being at the highest level for the last five years.

Total Applications Received



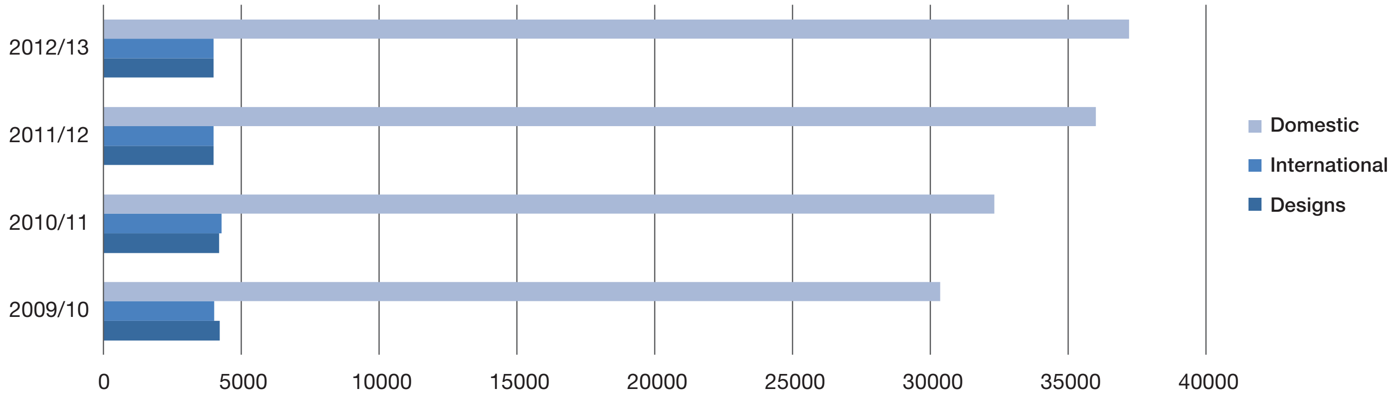
The graph below shows the demand for patent searches and examinations in each of the last four years.

Patent Demand



The graph below shows the demand for trade mark and registered designs for each of the last four years.

Trade Marks and Registered Design Demand



As part of a drive to offer customers more choice within the rights-granting operation we increased the flexibility of our fast-track patent examination for international applications to enable more applicants to use it. Since implementing this change the average number of requests per month under the PCT (UK) Fast Track service has more than doubled.

We made further progress in our multi-year initiative to reduce the time taken to decide upon Trade Mark Tribunal cases, reducing it to 75% of decisions issued within 18 months, over the last 12 months.

The introduction of a new single IT system for processing trade mark applications from 2nd April 2013 is a significant achievement and allows us to move further away from manual processing thus delivering further productivity and efficiency improvements. Looking ahead to later in 2013/14 we will start to consider how we can introduce electronic applications and processing for customers wanting to register their designs with us.

We contributed significantly to the programme being run by OHIM (the Office of Harmonization for the Internal Market) to deliver new products for trade mark and design registrants and to harmonize rights granting practice across the EU.

Enabling business to understand, use and protect their IP rights and educating consumers to respect others' IP rights

In 2012 we published a paper, 'From Ideas to Growth', setting out our plans for improving the support available to SMEs. The paper was warmly received by SMEs, and various SME and business advisor representative bodies, and we have now refined our plans based on the feedback we received.

IP crime damages consumers, businesses and, ultimately, the economy, both domestically and internationally. Recent years have seen an increase in serious criminal infringement, in particular areas such as illegal downloading and the making available of counterfeit goods online. In support of efforts to tackle this we have increased the effectiveness of IP enforcement; by supporting a number of IP investigations, through our Intelligence Hub; published the 7th IP Crime Report, which has been recognised by the World Intellectual Property Organisation as an excellent aid to IP Enforcement and added two new IP attachés in Brazil and Singapore to support UK companies and strengthen national IP regimes.

The Small Claims Track (SCT) was introduced to the Patents County Court (PCC) in October 2012, as part of a series of reforms introduced by the Government to improve IP protection in the civil courts and reduce costs at the PCC. Use of the SCT includes informal hearings, without the need for legal representation, and the value of claims is limited to £10,000. The SCT will help ensure the cost of litigation in the PCC remains proportionate, and further improve access to justice, particularly for SMEs, by streamlining and simplifying procedures.

Improving the skills and capability of our people

To help us to ensure we maximise the opportunities from our change programme, Improve, we have grown and developed the Business Change function across the business to support benefits realisation.

We delivered a comprehensive transformation programme to modernise and improve our IT infrastructure, skills, methods and business engagement. This included the introduction of a revised organisational structure with recruitment to key posts, including a new Chief Operating Officer and the introduction of a learning and development framework.

We also introduced a core skills toolkit, management development programme, and delivered management and leadership conferences throughout the year to improve communication and leadership skills.

Increasing efficiency and delivering value for money

We have developed a small but effective team within the organisation that leads and facilitates on simplifying our business processes. The approach is based on 'Lean Thinking' and the team works with business areas on identifying and delivering simpler processes through eliminating waste.

Trading Fund status provides us with greater financial flexibility and autonomy. In exchange, we are required to achieve, on average and in real terms, at least a 4% Return on Capital Employed (ROCE) over a fixed five year period. In this financial year we exceeded our target, achieving a 9.6% return. This keeps us on track to deliver the overall 5 year target as at 31st March 2014.

We continue to work towards rationalising our estate: moving our London office to Abbey Orchard Street from Bloomsbury; completing two phases of our project to refurbish Concept House, creating an open plan working environment; and releasing part of the third floor of Concept House to rental tenants. Further refurbishment at Concept House will continue during 2013/14, along with rationalisation of our storage facilities at Nine Mile Point.

Our organisational change programme, Improve, reached the end of its capability development phase at the end of the year. In 2012/13 we saw the completion of work to develop a new performance reporting system; a new IT system for processing trade mark applications (TM10); and a new, more collaborative, approach to our policy work and rationalisation of our office space. Over the coming years we expect to embed these capabilities and fully realise many of the benefits identified in original project plans.

Running the business

Customers

We are committed to delivering excellent service to our customers. Our aim is that customers rate our service as being at least 8 out of 10. To measure this we carry out a telephone survey of our customers twice a year. A total of 200 customers were surveyed in September and February and asked to rate their satisfaction on a 10 point scale, where a score of 6 represents satisfaction.

The first reported an average satisfaction rate as being 8.24 out of 10; the second reported a rate of 8.19 out of 10, giving an overall satisfaction rating in excess of our target of 8.22 out of 10.

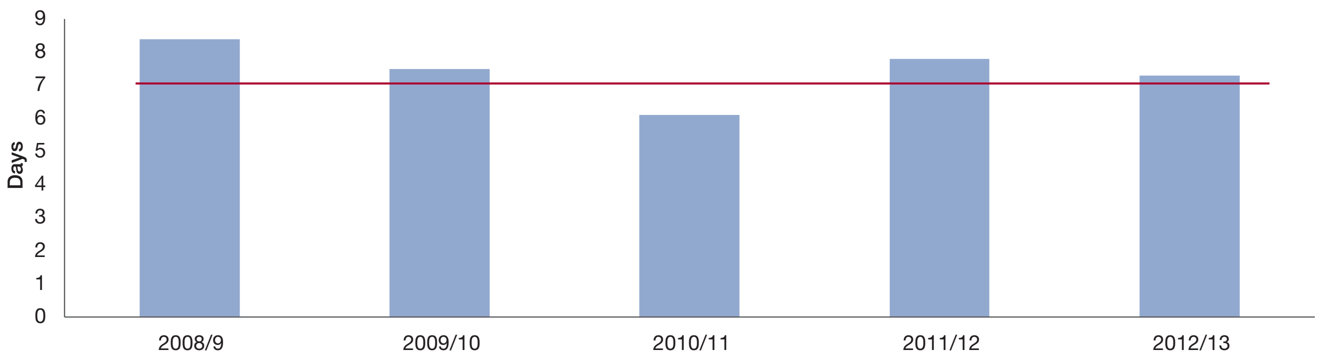
Customer Service Excellence (CSE) is an independently accredited standard which the IPO has held since 2008. It aims to deliver continuous organisational improvement across 5 customer orientated criteria. During 2012 we passed the latest annual assessment, demonstrating continuing improvement with an outstanding compliance score of 96.5% (up from 95% in 2011).

People

Due to the continued increase in demand for our services we have continued to recruit in key areas of the office. The headcount on 31st March 2013 was 982 (925.0 Full Time Equivalents (FTEs)). This compares to 899 (843.56 FTEs) at the end of 2011/12 an overall increase of 8.4%. Staff turnover for the year is recorded at 6.9%, up sharply on previous years, which were consistently below 4%.

An average of 7.3 working days per person[3] was lost over the year due to sickness, which compare to 7.8 in 2011/12; and 6.9 in 2010/11. The chart below plots our performance on this measure over time against our target of 7.3 days.

Average Working Days Lost Per Person



We continue to embed our values: delivering for our customers, valuing our people and innovating for success throughout the business. We developed these in 2011 in consultation with our people and are continually working to embed them into the way we behave on a daily basis. They form the basis for our excellence awards and are a key component of our 360° performance feedback process. Our most recent staff survey[4] showed that some staff felt, at times, colleagues demonstrated behaviours which were not always consistent with our values. In response, we appointed a Diversity & Respect Champion at Board level who established a Diversity & Respect group and is developing a programme of work in this area. By the end of April we will have held workshops to understand where this inconsistency lies and put in place plans to tackle what is found.

3 As from January 2013 monthly average working days lost figures are to be based on the previous rolling year i.e. January to December, February to January rather than the previous method using a financial year. The new method will show greater consistency of figures for comparison purposes rather than lower figures appearing during the summer months.

4 We are part of approximately 100 Government departments who take part in a coordinated survey across the Civil Service. This allows us to have results which, whilst are specific to our organisation, can also be compared to other Government organisations.

Corporate Social Responsibility

The IPO supports 'Give & Gain Day' a Business in the Community's (BiTC) national annual employee volunteering event. This year our volunteers built raised vegetable bed gardens in Duffryn Junior and Infant schools, Newport, South Wales, and in 2013 we will add one to the nursery area. The children and staff have been thrilled with our efforts. We invite volunteers to help raise funds and build the garden. A team of 20 staff took part in this year's event. The office also raised over £1,000 to help three local South Wales charities (Newport Family Answers; Caerphilly Disability Inclusion Support Group and Caerphilly Family Intervention) buy Christmas gifts for the children that they support.

We supported Newport Sea Cadets to clear an overgrown area of land. A team of 15 IPO staff went along and used the event as a team building day. They reported that they had not only lots of fun but were able to work together to develop relationships in an environment totally separate from the work place.

In support of local schools, we facilitated:

- 14 work experience students visiting the office;
- 243 staff attending 105 key skill events at local secondary schools; and
- 25 staff signed up to the reading and number programme at local primary schools. They each attend 2 sessions a month.

Finance

We are required to achieve, on average and in real terms, a 4% Return on Capital Employed (ROCE) over a fixed 5-year period. In 2012/13, we achieved a 9.6% return. The return and the retained earnings after dividend at £4.8m were higher than expected. This was due to significant increased income from patent renewals and lower than expected costs some of which reflects timing of projects but also improved control on expenditure.

In 2012/13 we committed to delivering efficiencies of 3.5%. We achieved the target of 3.5%. We also set out on a 3-year plan to improve forecasting within each business area. In year one (2012/13) our aim is that forecast out-turns agreed at the mid-year were within 10% of budget. The target is monitored at Directorate level and all Directorates exceeded the target. In year 2 (2013/14) we have set ourselves a target of within 7%, narrowing this further in year 3 (2014/15) to 3%.

We consistently achieve the Government standard to settle 80% of bills within 5 working days, this year we achieved 92%. We have also reduced the time taken to produce month-end accounts from 8 to 5 working days.

Information Security

Our Information Security Policy sets out the Office approach to the management of information within the IPO. The IPO Executive Board approved and are committed to the policy and embedding it across the Office. Her Majesty's Government (HMG) Security Policy Framework dictates how we manage information to minimise the impact of incidents and ensure focus on business continuity. The IT Services area is certified to ISO 27001:BS7799-2:2005. Personal data is processed, stored and used in accordance with the Data Protection Act.

We ensure the Accounting Officer, through the Senior Information Risk Owner and the Information Asset Owners in each Directorate, is accountable for the adequate protection of information which is considered a key asset within government. Information security training & awareness is compulsory for all staff. We have not had any loss/insecure disposal of inadequately protected electronic data and no unauthorised disclosure.

Chapter 3: Corporate Governance

The corporate governance structure of the IPO is described in our framework document.

The Intellectual Property Office Steering Board

The Intellectual Property Office (IPO) Steering Board uses its collective external experience to advise and challenge the Intellectual Property Office Executive Board on issues relating to corporate governance; strategic and operational leadership and management, including strategic and annual planning and target setting; risk management; financial management; and financial and performance monitoring and reporting. It serves to keep the Secretary of State and Ministers informed of issues, through BIS representation on the Board.

Steering Board meetings are held six times per year. They are chaired by a Non Executive Director and have seven standing members of which the following have served within the year.

Intellectual Property Office Steering Board Membership

Bob Gilbert	Chair (Non-Executive Director) Non-Executive Chairman of Paintbox Group
Mary Champion	(Non-Executive Director) Freelance IT Management Consultant (previously Vice President at Capgemini)
Gary Austin	(Non-Executive Director) Deputy Chair of East Midlands NHS Ambulance Trust
Ralph Ecclestone	(Non-Executive Director) Director of The Commercialisation Company Ltd
Iain Maclean	(Non-Executive Director) Co-founder and partner of The Maclean Partnership
Sir Anthony Pigott	(Non-Executive Director) Chairman of a Defence/Security Strategic consultancy firm (FutureWins)
David Roberts	(Non-Executive Director) Ex-Senior Vice President of IP at Glaxo Smith-Kline Chairman Stratagem IPM Ltd
Professor Sir John O’Reilly	Director General, Knowledge and Innovation, BIS (The Director General sends a designated deputy, Director of Innovation, John Dodds)
John Alty	Chief Executive Officer and Accounting Officer of the IPO

Intellectual Property Office Executive Board

The IPO Executive Board collectively represents the organisation and is responsible for the strategic and operational leadership and management of the Office, ensuring that resource is aligned with Ministerial and Departmental priorities and that each Directorate contributes to corporate success. In practice, it is responsible for developing the Office's Corporate Strategy and annual Corporate Plans. The Executive Board also monitors performance against these plans and aligns financial resource and capability accordingly.

The Executive Board is chaired by the Chief Executive Officer and attended by IPO's Directors, membership is set out below. Meetings are held monthly.

The Intellectual Property Office Executive Board Membership

John Alty	Chair, Chief Executive and Accounting Officer of the IPO
Sean Dennehey	Deputy Chief Executive and Patents Director
Tim Knighton	Chief Operating Officer
Neil Feinson	International Policy Director
Andrew Layton	Trade Marks and Design Director
John Cappock	Finance Director
Louise Smyth	IT Director
Rosa Wilkinson	Innovation Director
Edmund Quilty	Copyright and IP Enforcement Director

The Audit Committee

The Audit Committee is a sub-committee of the Steering Board, advising on risk, control, governance and associated issues, focusing on process and providing guidance. It comprises a Non Executive Chair, two Non-Executive members of the Steering Board, the Chief Operating Officer, the Finance Director and the Chief Executive Officer. There are additional attendees by invitation only from the IPO, BIS Internal Audit, and the National Audit Office. The Committee meets four times a year.

Audit Committee Membership

Gary Austin	Chair (Non-Executive Director)
Mary Champion	(Non-Executive Director)
Bob Gilbert	(Non-Executive Director)
John Alty	(Chief Executive Officer; Accounting Officer)
Sean Dennehey	(Deputy Chief Executive and Patents Director)
Tim Knighton	(Chief Operating Officer)
John Cappock	(Finance Director)

Those who normally attend by invitation:

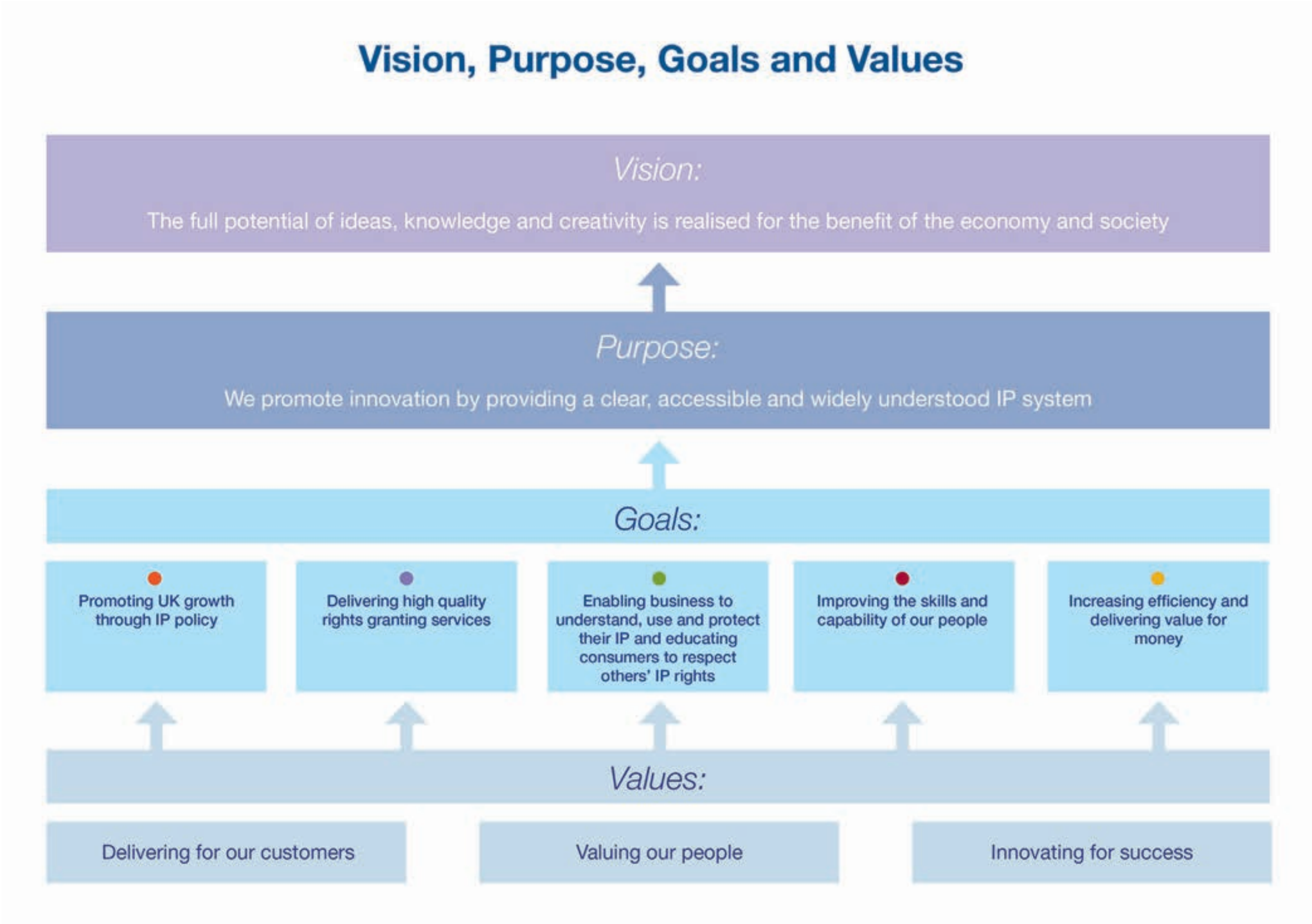
Jon Whitfield	(BIS Internal Audit)
Phil Drye	(BIS Internal Audit)
Richard Copeman	(National Audit Office)
Dean Parker	(National Audit Office)
Ian Webber	(Assistant Finance Director, IPO)

Intellectual Property Office Executive Directors

Chapter 4: Looking Forward

To begin the corporate planning cycle each year the IPO Steering Board holds an away day to determine the priorities and planning framework for the forthcoming year. Following the away day in 2012 the unanimous view was that we needed to simplify the language within our strategic goals to help promote understanding of them for all staff and how their individual objectives contribute to their achievement. We also took the opportunity to reduce these down from the original 7 to 5. Our Strategic Goals for 2013/14 are:

1. Promoting UK growth through IP policy
2. Delivering high quality rights granting services
3. Enabling business to understand, use and protect their IP and educating consumers to respect others' IP rights
4. Improving the skills and capability of our people
5. Increasing efficiency and delivering value for money



Full details of our priorities for 2013/14 can be found in our Corporate Plan, which was published on 15th April 2013 http://www.ipo.gov.uk/about/whatwedo/ourpublications/ourpublications-plan.htm

Our forecasts suggest that the high level of demand we have seen for rights granting services in 2012/13 will continue. In the coming year we are committed to sustaining and strengthening our global reputation for quality delivery of those services and the pace of our delivery. In 2013/14 that will include ensuring that where our customers need faster rights granting services they can access them, and that they can interact with those services in ways that minimise the cost, for example, on line. We will also continue our work to develop a business environment which encourages innovation, creativity and makes a significant contribution to a return to growth. Our Corporate Plan outlines the next steps we will take towards full implementation of our Hargreaves Review recommendations, including modernising our copyright law to achieve a proper balance between creators, rights holders and users, measures to bring the designs framework up to date, and improved information and support to ensure that smaller businesses – the life blood of the UK economy – maximise the value of their intellectual property assets.

These are challenging objectives. Meeting them will mean that we must achieve and sustain the changes which are outcomes of Improve, launched in 2010/11, to build capability in key areas, to enhance parts of our organisational infrastructure; and to promote value-for-money across the Office. We have completed many of the projects which will help to deliver this, although some will continue into the coming year including: work to embed a revised and improved performance management system; implementation of phase two of the electronic case file system for Trade Marks; continually improving the use of our estate via reduced warehouse requirements; improved business continuity arrangements; more 'fit for purpose' accommodation and income generated from tenants; and building our capability around electronic services.

2013/14 Ministerial Targets

As a means of measuring our success, Ministers have approved the following targets for 2013/14:

- Finalise secondary legislation to implement Hargreaves' recommendations regarding copyright exceptions
- Achieve at least 90% delivery of the provision of an accelerated two-month turnaround for patent search, publication, and examination when needed by the applicant
- Introduce a secure identification system to facilitate the electronic management of rights by our customers
- Ensure customer satisfaction is at least 80%
- Working with police and industry, establish a specialist police IP Crime Unit capable of tackling infringement and counterfeits on the internet
- With partners, develop and deliver a campaign to build understanding of and respect for IP amongst consumers and young people. In its first year, the campaign will secure media messaging which reaches at least four million people and drive a 5% increase in hits on campaign-related web pages
- Provide access to online training in IP issues for business advisors, at both a basic level free of charge, and an advanced level at a commercial rate, with the aim of reaching 500 advisors by 31 March 2014
- Support our people in developing their capability, such that 95% complete an agreed development objective by 31st March 2014
- Achieve a return on capital employed of at least 4%
- Deliver an efficiency gain of at least 3.5%

Chapter 5: Accounts 2012/13

Statement of Patent Office's and Chief Executive's Responsibilities

Under section 4(6)(a) of the Government Trading Funds Act 1973 the Treasury has directed the Patent Office Agency to prepare for each financial year a statement of accounts in the form and on the basis set out in the accounts direction issued by the Treasury on 17 December 2012. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Patent Office and of its income and expenditure, changes in capital and reserves and cash flows for the financial year.

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

- observe the accounts direction issued by the Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards as set out in the Government Financial Reporting Manual have been followed, and to disclose and explain any material departures in the financial statements; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Agency will continue in operation.

The Treasury has appointed the Chief Executive of the Patent Office as the Accounting Officer for the Agency. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the assets of the public body for which the Accounting Officer is responsible, are set out in Managing Public Money published by HM Treasury.

Statement of Compliance

I have taken all necessary steps to make myself aware of information relevant to the audit of the accounts that accompany this Annual Report, and to ensure that my auditors are informed. So far as I am aware there is no relevant information of which my auditors are unaware.

John Alty

John Alty
Chief Executive Officer and Accounting Officer

12 June 2013

Governance Statement 2012/13

Scope of Responsibility

HM Treasury has appointed me the Accounting Officer for the Intellectual Property Office (IPO), in accordance with section 4(6) of the Government Trading Funds Act 1973.

As Accounting Officer, I am responsible for maintaining sound governance, risk management and systems of internal control that support the achievement of the aims and objectives of the IPO, whilst safeguarding the funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me in 'Managing Public Money'.

I was seconded to BIS as interim Director General of Knowledge and Innovation between September 2012 and February 2013. During this period the Deputy Chief Executive Officer was appointed interim Chief Executive and Accounting Officer.

Purpose of this Statement

This statement explains how the IPO has complied with the principles of good governance and reviews the effectiveness of the system of internal controls.

The Governance Framework of the IPO

The IPO corporate governance structure comprises the IPO Executive Board, the Steering Board and the Audit Committee, each with complementary functions (these are set out below). The Governance Framework is set out in the Framework Document which details the Terms of Reference for the IPO's Boards and Committees.

The IPO Executive Board, which I chair, meets informally on a weekly basis and formally every month. It is comprised of the Deputy Chief Executive, Chief Operating Officer and all five Directors, and has collective responsibility for the leadership and strategic management of the IPO, in line with Ministerial priorities. The IPO Board approved a five year Corporate Strategy in 2010/11, which aligns with our parent departments, the Department for Business Innovation and Skills (BIS), Structural Reform Priorities (SRPs). There has been a change to the board structure this year with the appointment of the Chief Operating Officer in July 2012. As a result the Executive Team were able to focus on the most strategic issues, enabling us to reduce formal board meetings from fortnightly to monthly.

I am also a member of the **IPO Steering Board** which has an independent Non Executive Chair and several Non Executive Directors as members, together with John Dodds, the Director of Innovation, BIS. IPO Directors attend, but are not official Steering Board members. The role of our Steering Board is to advise Ministers, through our Director General, Professor Sir John O'Reilly, on our strategies and performance (including targets) as set out in our Corporate Plan. It also provides guidance from a commercial standpoint on our operation and development across a range of issues. During the last 12 months, the Steering Board has provided advice and guidance on a wide range of topics, such as our change programme 'Improve', Corporate Plan, Accounts and Risk Management. The Steering Board meets six times a year.

The Audit Committee is a sub-committee of the Steering Board, advising on risk, control, governance and associated issues, focusing on process, and also providing guidance. The Committee comprises a Non-Executive Chair and two Non-Executive members of the Steering Board, the Deputy Chief Executive Officer, the Chief Operating Officer, the Finance Director, and me. There are additional attendees by invitation from the IPO, BIS Internal Audit, and the National Audit Office. In addition to providing me with assurance over the preparation and signing of the IPO accounts for 2011/12, the committee considered the findings of nine audit reports. These reports covered a wide range of potential governance and risk management areas, including the IPO's dependence on other organisations for key business systems, data security and the IPO's change programme 'Improve'. I am pleased to report that Audit Committee did not identify any major control failures. The Audit Committee meets four times a year.

The Operating Committee is a sub-committee of the IPO Executive Board. It is chaired by the Chief Operating Officer and has representatives from Finance, Patents, Trade Marks, Policy, IT and Human Resources. It fulfils the Executive Team's responsibility to lead the development, delivery and implementation of cross-organisational initiatives including: management of change; corporate prioritisation and operational processes and policies. The Operating Committee has discretion to take executive decisions in matters of operation, implementation and delivery. Matters of cross-organisational policy may be referred to the Executive Board for approval as will matters with external, reputational, strategic or Departmental impact or where the Chief Executive should explicitly consent. The Operating Committee meets monthly.

The Policy Committee, which was set up in October 2012, is also a sub-committee of the IPO Executive Board. It is chaired by a Policy Director and includes representatives from Patents, Trade Marks, International Policy, Copyright and Enforcement and Innovation Directorates. The purpose of the Policy Committee is to ensure a strategic and co-ordinated approach to public policy making across the Office. It is responsible for establishing the IPO's approach to significant, cross-cutting and/or strategic issues of public policy; ensuring a coherent and co-ordinated approach to such policy issues by the Office; and conducting periodic horizon scans to identify future policy issues and risks for the Office. Its role is to take decisions on issues of public policy not meriting full IPO Executive Board discussion. Matters of particular significance to the Office and its reputation will be referred to the Executive Board for approval. Formal meetings are held monthly or bi-monthly at the Chair's discretion in light of potential agenda items.

The effectiveness of the IPO's Boards and members is measured on a number of levels:

- IPO Executive Board meetings are reviewed on completion and changes implemented as appropriate. The Secretariat and I regularly review the Board's work programme ensuring that it addresses IPO and BIS requirements, and IPO Directors attend two away-days each year to review and improve collective effectiveness;

- the Steering Board is regularly reviewed and was last reviewed externally in 2010; Non-Executive Board members are reviewed individually on an annual basis and appointed for up to three years at a time;

- the Audit Committee undertakes an annual self-assessment which makes recommendations for change;

- mid-year and end-year Directorate performance reviews are held with each Director and their senior team to assess performance against targets and the Corporate Plan; and

- the Finance Director and I hold annual planning meetings to review Directorate business plans, budgets, and the Corporate Plan, for the coming financial year. In addition, Finance hold dedicated budget build meetings with each Directorate. The planning and budget meetings are supplemented by mid and end year review meetings with each Directorate.

Guidance from HM Treasury, Cabinet Office and BIS is regularly reviewed and used to drive change so that governance practice is consistent with central Government and departmental policy. A comprehensive review of governance, risk and internal control has provided the Executive Board with assurance that the IPO has complied with the Corporate Governance Code of good practice throughout the year.

The table below shows attendance at Board and Committee meetings held during 2012/13:

Members	IPO Executive Board (15 in year)	Steering Board (6 in year)	Audit Committee (4 in year)
John Alty** (Accounting Officer/Chief Executive Officer)	9	4	3
Gary Austin (Non-Executive Director & Chair of Audit Committee)	*	5	4
Bob Gilbert (Non-Executive Director & Chair of Steering Board)	*	6	3
Mary Champion (Non-Executive Director)	*	6	4
David Roberts (Non-Executive Director)	*	5	*
Ralph Ecclestone (Non-Executive Director)	*	5	*
Iain Maclean (Non-Executive Director)	*	5	*
Sean Dennehey (Deputy Chief Executive Officer & Patents Director)	13	*	4
Tim Knighton (Chief Operating Officer)***	8	*	1
John Cappock (Finance Director)	13	*	4
Neil Feinson (International Policy Director)	15	*	*
Andrew Layton (Trade Marks and Designs Director)	13	*	*
Edmund Quilty (Copyright and Enforcement Director)	14	*	*
Louise Smyth (IT Director)	14	*	*
Rosa Wilkinson (Innovation Director)	15	*	*

* Not a formal member of Board/Committee.

** John Alty was on secondment to BIS from 4 September 2012 to 17 February 2013. During this period the Deputy Chief Executive Officer attended Steering Board and Audit Committee as Accounting Officer.

*** Tim Knighton joined the IPO as Chief Operating Officer on 2 July 2012.

The Risk and Internal Control Framework

The system of internal control is designed to manage risk to a reasonable level, rather than to eliminate all risk; it can therefore only provide reasonable and not absolute assurance, of effectiveness. The system of internal control is based on a continuous process designed to identify and prioritise the risks to the achievement of our policies, aims and objectives, to evaluate the likelihood of those risks being realised, the impact should they be realised, and to manage them effectively and economically. The system has been in place throughout 2012/13 and up to 31 March 2013. It is kept under review.

During 2012/13 we undertook a Risk Maturity Assessment, engaging external expertise to benchmark the current risk management capability and maturity, and to provide guidance on how and where improvements could be made. I am pleased to say there were no major areas of concern. The assessment reported that:

- there is a risk management process in place which is owned and managed at a suitable level;
- responsibilities are recognised at Steering Board, Executive Board and Senior Management;
- risks are identified and are discussed at these forums on a regular basis;
- the activities supporting the annual governance statement (which includes an assessment of the risk management process and acknowledgement of accountability for risk) appear to be working effectively;
- there is a desire, and a commitment to improve risk management for the benefit of the organisation, from the top of the organisation;
- there is a good, constructive platform for developing risk management within the IPO.

The assessment reported on areas for improvement, including the following recommendations:

- to appoint an executive sponsor of risk to improve the level of corporate debate;
- to rethink the strategic risk register so that it includes fewer risks for Executive Board attention and less data (supported, as needed, by a fuller operational risk register); and
- to focus the Executive Board debate on whether mitigations are effective and being delivered within expected timescales;

As a result of the risk maturity assessment various improvements have been implemented including:

- the appointment of a risk executive sponsor, John Cappock (Finance Director);
- the introduction of an operational risk register to support the strategic risk register;
- monthly Risk Representative Meetings have been established; and
- the launch of a standard risk register template to be used by all directorates.

The Board Risk Register records all significant risks to the achievement of the IPO's policies, aims and objectives. It is reviewed by the IPO Executive Board, the Steering Board and Audit Committee on a regular basis. The Steering Board and Audit Committee provide strategic direction for risk management. The Steering Board is responsible for looking at the substance of the risks we are managing and whether we are managing the right ones. Audit Committee looks at the effectiveness of the process that we have for identifying and mitigating risks in the organisation, supported by BIS Internal Audit reviews and assurance reporting.

Each Directorate maintains its own prioritised risk register which is used to inform the Board Risk Register and Operating Committee Risk Register. A named individual is responsible for ensuring that Directorate Risk Registers are current and promoting a sound risk management culture within their area.

The IPO's change Programme, Improve, which came to a successful closure in March 2013, had a Programme Board in place to closely monitor the risks and risk management strategies of the change programme and projects. These were escalated from project to programme level, to the Board Risk Register, where appropriate. The effective governance of the Improve Programme was ensured through having tailored assurance strategies for each initiative, including external Office of Government Commerce (OGC) reviews where appropriate.

This is complemented by a system of continuous high level reporting for priority IPO work streams on a monthly basis but where necessary, more frequently.

The Performance and Planning Team, sitting within Finance Directorate, co-ordinates the Board Risk Register and Operating Risk Register and is a central point for advice and guidance on effective risk management for the whole organisation.

Maintaining and improving effective governance within the IPO remains a key priority. A comprehensive Internal Audit programme is agreed each year with the resulting reports and recommendations acted upon accordingly. Going forward in 2013/14 Internal Audit will be reviewing the risk and control environment of some challenging areas of work such as the Unitary Patent Court and IP enforcement and crime co-ordination. Steering Board and Audit Committee provide challenge and scrutiny of the IPO's system of internal control and processes we use to manage risk.

Financial accounting remains sound - a history of unqualified audit opinion of our accounts attests to this. External assurance on financial processes has been provided by Internal Audit reviews of our banking arrangements and budget forecasting and monitoring. Financial capability continues to improve and all those undertaking financial training have been successful in recent examinations. Steps have been taken to improve budgeting and forecasting during the year which has been an area of relative weakness. Significant improvements in forecasting have been evidenced in this year's financial outturn. During the year Payment Card Industry Data Security Standard compliance has been achieved, addressing a long standing area of relative weakness.

The IPO **Business Continuity Plan** (BCP) is regularly reviewed and tested. A scenario test involving all BCP team leaders and deputies last took place in October 2012. The objective of the test was to ensure that the BCP is fit for purpose and that individuals understood their roles and how they fit in with other BCP Support teams. There were no significant areas for concern. The outcomes from the test were incorporated into the current version of the plan which has been subject to a major review and re-write to improve its usability.

The Corporate **Information Assurance** (IA) Team is responsible for Information Assurance & Security on behalf of the IPO. They have made good progress this year and have adopted a pragmatic approach commensurate with the risks we face. They have reviewed policies to identify and subsequently close gaps, built a training framework for new starters, improved our management of security incidents and built engagement with project teams working to improve business systems and processes. They have also taken forward different approaches to awareness and training e.g. Directorate talks, theme of the month stalls and counter terrorism talks.

IT Services area has been successful in all health checks against the ISO 27001 standard since certification gained in January 2011 and the ISO assessor continues to give particular praise to the good practices applied to the standard.

Information Asset Experts manage and monitor information security across their Directorates. I receive a separate Information Security Assurance Report from the IA Team. There have been no failures this year.

Significant Risk and Control Issues

The IPO is a relatively complex organisation covering policy work, rights granting and business support. We work in an international framework, particularly within Europe and our customers expect us to be joined up with other offices. We continually assess and refine management data to ensure that the Executive Board are provided with the most appropriate information to allow them to identify and respond to emerging risks.

One of the key challenges this year has been the implementation of the recommendations from the Hargreaves Review. To mitigate the risk of failure a clear strategy was translated into the Programme Plan covering all the work streams involved. The Programme Team has successfully coordinated the various work streams, Programme Board and Stakeholders through effective formal and informal engagement and the Programme Board has maintained oversight and provided robust challenge to work stream leads. There is also additional independent challenge from the IPO Steering Board. A review of the Programme by Internal Audit concluded that there is an effective risk management mechanism in place.

There was a risk that we may have lost key people as a result of regulations regarding tax arrangements for non payroll staff. Business requirements vital to the success of two major projects were reliant on IT Contractors. Termination of all the non-compliant Contractors would have exposed the core business to unacceptable levels of risk. To mitigate these risks a decision was made to delay full compliance or termination of all non compliant Contractors until 31 May 2013. The IPO has been fully compliant from that date. This course of action was undertaken with the support of the BIS Finance Director.

The IPO Executive Board and Audit Committee were concerned with one significant control challenge this financial year. The IPO web form payments service was not compliant with Payment Card Industry Data Security Standards. An action plan was put in place to address this and I am pleased to report that the issue has now been resolved and compliance was achieved on 18th March 2013.

Review of effectiveness

As Accounting Officer I have responsibility for reviewing the effectiveness of the IPO's governance, risk management and system of internal control.

My review is informed by the work of the Directors and Internal Auditors within the organisation who have responsibility for the development and maintenance of the governance structures, internal control framework, and comments made by the external auditors in their management letter and other reports. I also receive independent assurance from the Audit Committee.

I have considered the evidence provided to support this Governance Statement and sought relevant Audit Committee assurance. I conclude that the IPO has maintained a sound system of governance, risk management and internal control during the financial year 2012-13.

John Alty

John Alty
Chief Executive Officer and Accounting Officer

12 June 2013

The Certificate And Report Of The Comptroller And Auditor General To The Houses Of Parliament

I certify that I have audited the financial statements of the Patent Office for the year ended 31 March 2013 under the Government Trading Funds Act 1973. The financial statements comprise: the Statement of Comprehensive Income, Statement of Financial Position, Statement of Cash Flows, Statement of Changes in Capital and Reserves; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Patent Office, Accounting Officer and Auditor

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

Scope of the audit of the financial statements

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

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

Opinion on regularity

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

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Patent Office’s affairs as at 31 March 2013 and of its surplus for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Trading Funds Act 1973 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with HM Treasury directions made under the Government Trading Funds Act 1973; and
- the information given in the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

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

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General

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

Date: 17 June 2013

Statement of Comprehensive Income

For the year ended 31 March	Notes	2013 £000	2012 £000
Turnover	4	73,855	71,880
Staff costs	5	(40,899)	(37,439)
Depreciation and amortisation		(707)	(1,555)
Other operating charges		(24,219)	(19,087)
Operating surplus before financing and dividend		**8,030**	**13,799**
Financial Income	8	341	351
Operating surplus on ordinary activities		**8,371**	**14,150**
Financial Expenditure	9	(147)	(171)
Surplus for the year		8,224	13,979
Dividend	10	(3,401)	(3,108)
Retained surplus for the year		**4,823**	**10,871**

All of the operations are classed as continuing.

Other comprehensive income	Notes	2013 £000	2012 £000
Net gain on revaluation of plant, property and equipment	11	(632)	(968)
Net gain on revaluation of intangible assets	12	49	48
Total comprehensive income		**4,240**	**9,951**

Statement of Financial Position

As at 31 March	Notes	2013 £000	2012 £000
Non-current assets			
Property, plant & equipment	11	20,727	20,409
Intangible assets	12	5,396	2,402
		26,123	**22,811**
Current assets			
Trade and other receivables	13	4,089	2,544
Financial assets	14	-	50,000
Cash and cash equivalents	15	92,665	40,302
		96,754	**92,846**
Total assets		**122,877**	**115,657**
Current liabilities due in less than 1 year			
Trade and other payables	16	(17,182)	(16,054)
Other liabilities	16	(15,812)	(13,399)
Total current liabilities		(32,994)	(29,453)
Non-current assets plus net current assets		**89,883**	**86,204**
Non-current liabilities greater than 1 year			
Provision for liabilities and charges	17	(735)	(1,129)
Financial liabilities	18	(665)	(832)
Total non-current liabilities		**(1,400)**	**(1,961)**
Net Assets		**88,483**	**84,243**
Financed by:			
Capital and reserves			
Public dividend capital		6,325	6,325
Revaluation reserve		2,073	2,714
General reserve		80,085	75,204
Total financing		**88,483**	**84,243**

John Alty

John Alty
Chief Executive Officer and Accounting Officer

12 June 2013

Statement of Changes in Capital and Reserves

	PDC	Revaluation Reserve	General Reserve	Total Capital & Reserves
	£000	£000	£000	£000
Balance at 31 March 2011	**6,325**	**3,772**	**64,195**	**74,292**
Changes in capital and reserves for 2011/12				
Net gain on revaluation of property, plant and equipment	-	(968)		(968)
Net gain on revaluation of intangible assets	-	48		48
Transfer of (excess) / realised depreciation between reserves	-	(138)	138	0
Retained surplus	-		10,871	10,871
At 31 March 2012	**6,325**	**2,714**	**75,204**	**84,243**
Changes in capital and reserves for 2012/13				
Net gain on revaluation of property, plant and equipment	-	(632)		(632)
Net gain on revaluation of intangible assets	-	49		49
Transfer of (excess) / realised depreciation between reserves	-	(58)	58	0
Retained surplus	-		4,823	4,823
At 31 March 2013	**6,325**	**2,073**	**80,085**	**88,483**

Statement of Cash Flows

For the year ended 31 March	2013	2012
	£000	£000
Net cash inflow from operating activities		
Retained surplus	4,823	10,871
Adjustment for non-cash items	848	2,145
Decrease in trade and other receivables	(1,545)	(258)
Increase in trade payables	3,541	1,897
Movements in payables relating to items not passing through the operating statement (capital accruals and short term provision movement)	(649)	(446)
Use of provisions	(986)	(788)
Net cash inflow from operating activities	**6,032**	**13,421**
Cash flows from investing activities		
Purchase of property plant and equipment	(1,142)	(559)
Purchase of intangible assets	(2,361)	(1,232)
Deposits with National Loans Fund	50,000	(50,000)
Net cash outflow from investing activities	**46,497**	**(51,791)**
Cash flows from financing activities		
Repayment of loans	**(166)**	**(166)**
Net Increase in cash and cash equivalents in year	**52,363**	**(38,536)**
Cash and cash equivalents at the beginning of the year	**40,302**	**78,838**
Cash and cash equivalents at the end of the year	**92,665**	**40,302**

Notes to the Accounts

1 Accounting policies

1(a) Statement of accounting policies

These financial statements have been prepared in accordance with the Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged the most appropriate to the particular circumstances of the Patent Office for the purpose of giving a true and fair view has been selected. The particular policies adopted by the Patent Office are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

1(b) Accounting convention and estimates

The accounts have been prepared in accordance with the historical cost convention modified to include revaluation of property, plant and equipment and intangible assets, in a form determined by the Treasury in accordance with section 4(6)(a) of the Government Trading Funds Act 1973.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and judgements that affect the reported assets, liabilities, revenue and expenditure. Actual results can differ from those estimates. The accounting policy descriptions set out those areas where judgement needs exercising. The most significant in managements view are asset valuation, provision for early retirement benefits and income recognition (deferred income).

1(c) Property, Plant and Equipment valuation

Land and buildings are valued on the basis of existing use.

The Patent Office has adopted depreciated historical cost as a proxy for fair value for plant and equipment from April 2011. The difference between these is not considered to be material to the accounts.

1(d) Depreciation

Depreciation is provided on property, plant and equipment, except freehold land, at rates calculated to write off the cost or valuation of each asset on a straight line basis over its expected useful life as follows:

Freehold buildings inc car park	56 years
Information technology	5 years
Plant and machinery	5 years

Depreciation is charged from the date of acquisition.

1(e) Intangible Assets

Intangible assets consists of specialist software developed for the Patent Office.

Software development expenditure (covering the costs of third party work and the direct costs of in house IT staff effort) is capitalised when it is both material and incurred on projects which will deliver economic benefits over a number of years.

1(f) Amortisation

Amortisation is provided on intangible assets, at rates calculated to write off the cost or valuation of each asset on a straight line basis over its expected useful life as follows:

Major software developments	10 years
Other software	5 years

Amortisation is charged from the date the asset is brought into use.

1(g) Deferred income (prepayment)

In many instances the Patent Office collects fees and charges for services before those services are performed. Therefore, at any point in time a prepayment situation exists in respect of unperformed services. Income relating to those services is recorded as deferred income (see note 16) and is only recognised in the operating account when the services are performed.

1(h) Turnover

Turnover, which is exclusive of VAT, comprises: fees earned from the grant of patents, trade marks and designs; sales of Patent Office publications; and fees earned from other commercial services.

1(i) Value Added Tax (VAT)

The Patent Office is not registered separately for VAT, but falls within the Department for Business Innovation and Skills (BIS) registration.

Irrecoverable VAT on revenue expenditure is charged to the operating account and on capital expenditure to the balance sheet.

1(j) Foreign exchange

Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the time of the transaction. All exchange differences (see note 6) are taken to the statement of comprehensive income.

1(k) Operating Lease Rentals

Operating lease rentals are charged to the Statement of Comprehensive Income on a straight line basis over the period of the lease.

1(l) Financial Instruments

The Patent Office has very limited powers to borrow or to invest surplus funds, and financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risks facing the Office in undertaking its activities. Any possible embedded derivatives are investigated and disclosed if necessary.

1(m) Provisions

All provisions where the time value of money is significant are discounted at the Treasury approved rate (see note 17).

1(n) Dividends

Under Section 4(1) of the Government Trading Funds Act the Patent Office may be set further financial objectives which impact on plans and charges, the current financial objective and performance is shown in note 7. This objective is in part to reflect the cost of capital utilised by the Patent Office and fees and charges are set to recover costs to meet this further financial objective.

1(o) Pension costs

Past and future employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS). The defined benefit schemes are unfunded and are non contributory except in respect of dependants' benefits. The Patent Office recognises the expected cost of providing pensions on a systematic basis over the period in which it benefits from employees' services by payment to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS. In respect of defined contribution schemes, the Patent Office recognises the contributions payable for the year. Further information is given in note 5(b).

1(p) Contingent liabilities

In addition to contingent liabilities disclosed in accordance with IAS 37 (see note 21) the Patent Office is obliged to disclose, for parliamentary reporting and accountability purposes certain statutory and non statutory contingent liabilities where the likelihood of a transfer of economic benefit is remote but which must be reported to Parliament in accordance with the requirements of Managing Public Money.

Where the time value of money is material, contingent liabilities which are required to be disclosed under IAS 37 are stated at discounted amounts and the amount reported to Parliament separately noted. Contingent liabilities that are not required to be disclosed by IAS 37 are stated at amounts reported to Parliament.

1(q) Standards issued but not yet effective

The following standards have been issued but have not been adopted by the Office in these financial statements as they are not yet effective:

IAS 1 - Presentation of Financial Statements (Other Comprehensive Income)
This change covers the grouping of other comprehensive income and does not impact on the financial statements themselves. Effective for the public sector in 2013/14.

IAS 12 - Income Taxes (amendment)
This amendment relates to deferred tax on assets and will not impact on the Office. The standard is not yet EU adopted.

IAS 19 - Employee Benefits Effective
The basic Principle of IAS 19 is that the cost of providing employee benefits should be recognised in the period in which the benefit is earned by the employee, rather than when it is paid or payable. The standard is effective for 2013/14, but this standard is not expected to have any significant impact on the Office.

IFRS 9 - Financial Instruments
Under IFRS 9 financial assets should be classified on the basis of the entity's business model for their management, and their contractual cash flows characteristics. They should be measured initially at fair value and subsequently at either fair value or amortised cost. The IFRS is effective for periods commencing on or after 1 January 2015 and the Office does not believe this will have any significant impact.

IFRS 10 Consolidated Financial Statements
The objective of IFRS 10 is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. The effective date is 1 Jan 2014 (EU adoption) but as the Office does not have wholly owned subsidiaries this standard shall have no impact. Any impact on Departmental boundaries would be assessed by HM Treasury.

IFRS 11 Joint Arrangements
The core principle of IFRS 11 is that a party to a joint arrangement determines the type of joint arrangement in which it is involved by assessing its rights and obligations and accounts for those rights and obligations in accordance with that type of joint arrangement. The effective date is 1 Jan 2014, (EU adoption) but as the Office does not have joint arrangements, this standard shall have no impact.

IFRS 12 Disclosure of Interests in Other Entities
The objective of IFRS 12 is to require the disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows. The effective date is 1 Jan 2014 (EU adoption), but as the Office does not have interest in other entities, the standard shall have no impact.

IFRS 13 Fair Value Measurement
IFRS 13 defines fair value; sets out in a single IFRS a framework for measuring fair value; and requires disclosures about fair value measurements. The effective dates is 1 Jan 2013, but this standard has not been EU adopted and is not expected to have any significant impact.

In addition to the above revisions and amendments the Annual Improvement Projects have updated a number of standards for incidental terminology or editorial changes as well as some minor technical changes with minimal accounting effect.

There are no interpretations which are predicted to have an effect on the Office.

There are also likely to be changes to the 2013/14 FReM which are not expected to impact on the Office.

2 Segmental reporting

Decisions are taken based on the overall position described in the Statement of Comprehensive Income and the Statement of Financial Position and as such the management consider there is only one segment. The Office is managed as an integrated whole and decisions made on that basis.

3 Fees and charges information

The following information on the main activities of the Office is produced for fees and charges purposes.

2012/13	Patents	Trade marks	Designs	Publications	Commercial	Total
	£000	£000	£000	£000	£000	£000
Income	56,855	15,153	1,524	136	187	73,855
Expenditure	(46,459)	(17,533)	(1,409)	(110)	(314)	(65,825)
Subtotal	**10,396**	**(2,380)**	**115**	**26**	**(127)**	**8,030**
Financial Income						**341**
Financial Expenditure						**(147)**
Dividend						**(3,401)**
Retained surplus / (deficit)						**4,823**

2011/12	Patents	Trade marks	Designs	Publications	Commercial	Total
	£000	£000	£000	£000	£000	£000
Income	54,328	15,685	1,447	137	283	**71,880**
Expenditure	(41,479)	(15,294)	(859)	(114)	(335)	**(58,081)**
Subtotal	**12,849**	**391**	**588**	**23**	**(52)**	**13,799**
Financial Income						**351**
Financial Expenditure						**(171)**
Dividend						**(3,108)**
Retained surplus / (deficit)						**10,871**

Common costs (excluding interest) are apportioned largely on either staff employed or space occupied ratios to arrive at the total.

Management review the income streams above and total expenditure across the Office as a whole.

The financial objective for Office services is given in the Treasury Minute of 23 June 2009 (Appendix A to these accounts), and the performance against this is referred to in note 7.

4 Income

Analysis of operating income by classification and activity

For the year ended 31 March	2013	2012
	£000	£000
Patents		
Application, search and examination fees	3,528	3,300
Renewals for UK Patents	12,777	12,531
Renewals for European patents designating the UK	39,812	37,550
Other	738	947
	56,855	**54,328**
Trade marks		
Application fees	10,354	10,014
Renewal fees	4,149	4,845
Other	650	826
	15,153	**15,685**
Designs		
Application fees	245	235
Renewal Fees	1,264	1,182
Other	15	30
	1,524	**1,447**
Publications	136	137
Commercial services	187	283
Total Turnover	73,855	71,880

All income is from the payment of statutory or non-statutory fees for services and all is attributable to turnover arising in the UK.

5 Staff costs and employee information

5(a) Staff costs

	2013	2012
	£000	£000
Salaries and wages	30,201	28,078
Social security costs	2,438	2,228
Pension costs	5,601	5,275
Agency/Contract staff	3,712	2,534
Capitalised staff costs included above	(1,053)	(676)
	40,899	**37,439**

5(b) The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme but the Office is unable to identify its share of the underlying assets and liabilities. The scheme actuary valued the scheme as at 31 March 2007. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2012/13 employer contributions of £5,653,135 were payable to the PCSPS (2011/12 £5,233,005) at one of four rates in the range 16.7% to 24.3% of pensionable pay, based on salary bands. The difference between this contribution and pension cost in 5(a) is the movement in holiday pay adjustments. The PCSPS scheme's Actuary reviews employer contributions usually every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2012/13 to be paid when the member retires and not the benefits paid during this period to existing pensioners. The rates are unchanged for 2012/13.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £23,583 were paid to one or more of a panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3% to 12.5% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of £1,439, 0.8% of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

Contributions due to the partnership pension providers at the balance sheet date were £2,452. Contributions prepaid at that date were zero.

5(c) The average number of persons employed (including agency and contract staff and excluding staff on secondment to other organisations) during the period is analysed below:

	Directors	Staff	Seconded in staff	Agency / Contract	Seconded out staff	2013	2012
Patents	1	340	0	2	2	345	331
Trade marks	1	138	0	9	8	156	142
Designs	0	0	0	0	0	0	0
Other	7	379	20	31	11	448	393
						949	866

In 2012/13 there were 16.7 full time equivalent staff or contract staff working on capital projects (2011/12 9.7).

Of the people employed by the Office in 2012/13, 907 were civil servants (845 2011/12).

5(d) The in year provision for early retirement and severance schemes (see note 17) was £84,000 (£525,000 2011/12) is shown under other operating charges.

5(e) Reporting of Civil Service and other compensation schemes - exit packages

Exit Package cost	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band	
	2012/13	2011/12	2012/13	2011/12	2012/13	2011/12
<£10,000	-	-	-	1	-	1
£10,000 - £25,000	-	-	2	9	2	9
£25,000 - £50,000	-	-	-	5	-	5
£50,000 - £100,000	-	-	-	1	-	1
£100,000 - £150,000	-	-	-	-	-	-
£150,000 - £200,000	-	-	-	-	-	-
£200,000 - £250,000	-	-	-	-	-	-
Total number of exit packages by type	**0**	**0**	**2**	**16**	**2**	**16**
Total cost £'000	0	0	37	379	37	379

The prior year figures have been adjusted in the light of changes after the departures had been agreed.

This includes one person who was permitted to withdraw from the scheme.

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

6 Other non staff costs

This includes	2013	2012
	£000	£000
IT, Telecoms and bureau charges	7,492	6,910
Accommodation (ex leases)	6,656	2,950
Innovation support inc via Technology Strategy Board	1,786	1,199
Other admin costs	1,270	717
Training, recruitment and other staffing costs	1,047	1,106
Legal and hearings	1,033	868
Travel	973	830
Research co-operation and seminars	902	774
Office supplies and equipment inc postage	764	827
Subscriptions to international bodies	759	795
Property lease payments	633	679
Hire of office machinery	498	444
Outreach and marketing	209	267
Departmental overheads	43	185
Audit fee	36	36
Exchange rate losses / (gains)	34	(25)
Total	24,135	18,562
Non cash items	£000	£000
Amortisation	172	537
Depreciation	535	1,018
Loss on disposal of assets	0	0
Provision for early departure in year	84	525
Total non cash	791	2,080
Total cash and non cash	24,926	20,642

7 Performance against financial objective

The Treasury Minute at Appendix A requires the Office to achieve for the period from 1 April 2009 to 31 March 2014 a return, averaged over the period as a whole, of 4% in the form of a surplus on ordinary activities before interest payable and dividends payable expressed as a percentage of average capital employed.

The return achieved for the year ended 31 March 2013 was 9.6% (17.7%.at 31 March 2012).

The return achieved for the period 1 April 2009 to 31 March 2013 was 12.7% with the capital averaged using the mean of each year.

8 Financial Income

	2013	2012
	£000	£000
Short term deposits - operating activities	341	351

The interest derives from deposits with the Government Banking Service and from short term investments with the National Loans Fund.

9 Financial expenditure

	2013	2012
	£000	£000
Interest on loans (see note 18)	90	106
Unwinding of discount on early retirement provision (see note 17)	57	65
	147	171

10 Dividends

A dividend of £3,401,264 will be paid in July 2013 to the Consolidated Fund. The 2011/12 dividend paid in July 2012 was £3,107,776.

11 Property, plant and equipment

2012/13	Land	Buildings	Plant and machinery	Information Technology	Total
	£000	£000	£000	£000	£000
Cost or valuation					
At 31 March 2012	3,750	15,000	1,414	4,599	24,763
Additions	-	-	453	1,032	1,485
Revaluation	(250)	(650)	-	-	(900)
Disposals	-	-	(276)	(9)	(285)
At 31 March 2013	3,500	14,350	1,591	5,622	25,063
Depreciation					
At 31 March 2012	0	0	1,222	3,132	4,354
Provided during the year	-	268	66	201	535
Surplus on revaluation	-	(268)	-	-	(268)
Disposals	-	-	(276)	(9)	(285)
At 31 March 2013	0	0	1,012	3,324	4,336
Net book value at 31 March 2013	3,500	14,350	579	2,298	20,727
Net book value at 31 March 2012	3,750	15,000	192	1,467	20,409

2011/12	Land	Buildings	Plant and machinery	Information Technology	Total
Cost or valuation					
At 31 March 2011	4,000	16,000	1,324	4,519	25,843
Additions	-	-	94	401	495
Revaluation	(250)	(1,000)	-	-	(1,250)
Disposals	-	-	(4)	(321)	(325)
At 31 March 2012	3,750	15,000	1,414	4,599	24,763
Depreciation					
At 31 March 2011	0	0	1,106	2,836	3,942
Provided during the year	-	281	120	617	1,018
Surpluss on Revaluation	-	(281)	-	-	(281)
Disposals			(4)	(321)	(325)
At 31 March 2012	0	0	1,222	3,132	4,354
Net book value at 31 March 2012	3,750	15,000	192	1,467	20,409
Net book value at 31 March 2011	4,000	16,000	218	1,683	21,901

The land and buildings referred to above are freehold and were revalued at £17.85 million by the District Valuer, Newport, South Wales on 31 March 2013 on the basis of existing use.

The valuations were prepared in accordance with the Royal Institute of Chartered Surveyors Appraisal and Valuation Standards, eighth edition.

Depreciation in note 6 is made up of in year (£535,000) provision, there were no revaluation adjustments.

12 Intangible Assets

2012/13	Software in use	Software under construction	Software total
	£000	£000	£000
Cost or valuation			
At 1 April 2012	9,933	1,499	11,432
Additions	-	3,117	3,117
Revaluation	29	20	49
Disposals	-	-	0
At 31 March 2013	9,962	4,636	14,598
Amortisation			
At 1 April 2012	9,030	0	9,030
Provided during the year	172	-	172
Surplus on revaluation	-	-	0
Disposals	-	-	0
At 31 March 2013	9,202	0	9,202
Net Book value at 31 March 2013	760	4,636	5,396

Intangible Assets

2011/12	Software In Use	Software under Construction	Software Total
	£000	£000	£000
Cost or valuation			
At 1 April 2011	9,885	0	9,885
Additions	-	1,499	1,499
Revaluation	48	-	48
Disposals	-	-	-
At 31 March 2012	9,933	1,499	11,432
Amortisation			
At 1 April 2011	8,493	0	8,493
Provided during the year	537	-	537
Surplus on revaluation	-	-	-
Disposals	-	-	-
At 31 March 2012	9,030	0	9,030
Net book value at 31 March 2012	903	1,499	2,402

Additions represent significant developments in replacing Trade Mark systems (TM10 project) and modifying the patents case file management system.

Intangible assets are revalued annually by reference to the most appropriate price indices.

The historic cost net book value at 31 March 2013 is £5,226,157 (£2,136,669 at 31 March 2012).

13 Trade and other receivables

	2013	2012
	£000	£000
Trade receivables	362	113
Other receivables	271	246
Prepayments and accrued income	3,456	2,185
	4,089	2,544

Sums included above which fall due after more than one year are:

Other receivables	-	14
Prepayments and accrued income	449	211
	449	225

14 Financial assets

	2013	2012
	£000	£000
Deposits with National Loan Fund	-	50,000

This represented a deposit with the National Loans Fund from 15 March 2012 to 17 September 2012. The deposit and interest was not available until the end of the deposit term. Interest earned to 31 March 2012 is included as part of note 8.

15 Cash and cash equivalents

	2013	2012
	£000	£000
Short term investments with National Loans Fund	88,000	37,000
Cash at bank - at Government Banking Service	4,499	3,154
Cash at bank - in Commercial Banks	166	147
Cash in hand	-	1
	92,665	40,302

16 Current liabilities

	2013	2012
	£000	£000
User deposit accounts	4,759	4,745
Trade payables	12,423	11,309
	17,182	16,054
Deferred income - prepayment	3,948	3,420
Early retirement provision (see note 17)	514	965
Other provisions (see note 17)	444	0
Taxation and social security	805	766
Superannuation	579	508
Other liabilities	20	27
Dividend payable	3,401	3,108
Untaken annual leave owed	1,407	1,639
Accruals	4,527	2,800
Loans (see note 18)	167	166
	15,812	13,399

17 Provision for liabilities and charges

Early Retirement and Severance

Treasury guidance requires that the full cost of early retirement and severance schemes should be recognised in the accounts when early departure decisions are made. The Statement of Comprehensive Income is charged with the full liability of new decisions taken and a provision made in the Statement of Financial Position, against which is offset the amount paid to retirees in respect of pension and related payments as they fall due between 2013 and 2019. The provision has been assessed at current prices at the Statement of Financial Position date and, in accordance with International Accounting Standard 37, has been discounted at a real rate of 2.35% (2.8% at 31 March 2012), with the unwinding of the discount treated as an interest charge on the Statement of Comprehensive Income (see note 9). The change in discount factor has increased the value required in the provision.

	2013	2012
	£000	£000
At 1 April	2,094	2,292
Provision made in year	84	525
Unwinding of discount on provision	57	65
Payments offset against the provision	(986)	(788)
At 31 March	1,249	2,094
Less amount payable within one year (included in current liabilities - see note 16)	(514)	(965)
Amount payable after one year	735	1,129

Other Provisions

The office has made provision for legal cases currently in progress where it has made the best estimate of the probable cost to the office.
Provision has also been made for dilapidations across the estate where appropriate.

	Legal	Building	Total
	£000	£000	£000
At 1 April 2012	0	0	0
Provision made in year	359	85	444
Unwinding of discount on provision	0	0	0
Payments offset against the provision	0	0	0
At 31 March 2013	359	85	444
Less amount payable within one year (included in current liabilities - see note 16)	(359)	(85)	(444)
Amount payable after one year	0	0	0

18 Loans

The Secretary of State for the then Department of Trade and Industry made available loans at the fixed rates and terms shown below:

Amount	Date Issued	Period	Interest	Weighted Average interest	Book Value 2013	Fair Value 2013	Book Value 2012	Fair Value 2012
£000					£000	£000	£000	£000
2,161	1.10.91	26 years	9.625% }	9.813%	416	500	499	611
2,164	31.03.92	26 years	10.000% }		416	500	499	609
					832	1,000	998	1,220
Amounts due within one year (see note 16)					167		166	
Amounts falling due over one year					665		832	

In accordance with Treasury guidance, the fair value has been calculated by discounting future cash flows at the 31 March 2013 interest rate of 2.39% (this is the rate applicable to loans of 26 years).

Equal instalments of principal are repayable on the 6 month anniversary of issue.

Under machinery of government changes these loans are now deemed to have been made by the Department for Business Innovation and Skills (BIS).

19 Capital commitments

	2013	2012
	£000	£000
Contracted	213	-

20 Commitments under leases

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

	2013 Buildings	2013 Other	2012 Buildings	2012 Other
	£000	£000	£000	£000
Leases expiring:				
within 1 year	624	324	817	329
between 1 and 5 years	1,721	64	2,323	389
after 5 years	645	0	3,077	0
	2,990	**388**	**6,217**	**718**

There are no commitments under non cancellable contracts apart from leases.

21 Contingent liabilities

In June 2009 the Government stated that the Patent Office would make a payment of £25m to the Department for Business, Innovation and Skills to help finance a new innovation fund led by the Department. This payment has not been made and the timing remains uncertain and is dependent on the requirements of the innovation fund.

The Directors are not aware of any other contingent liabilities at 31 March 2013.

22 Related party transactions

The Office is an executive agency of the Department for Business, Innovation and Skills. The Department is regarded as a related party. During the year, the Office had various material transactions with the Department. These were the dividend, loans payments and some payments for central services provided by the Department. In addition, the Office had a small number of material transactions with other Government Departments and other central government bodies. Most of these transactions were with the Statistics Authority, HM Treasury, the Insolvency Service, the Cabinet Office and RCUK SSC for services such as accommodation and legal services.

None of the Steering Board members, Office Directors or other related parties has undertaken any material transactions with the Office during the year.

23 Financial instruments

We are required to disclose the role which financial instruments have had during the period in creating or changing the risks the Office faces in undertaking its activities. The key risk for the Office arising from financial instruments is interest rates. Financial instruments play a more limited role in creating or changing risk than would be typical of the listed companies to which this mainly applies. The Office has very limited powers to borrow or to invest surplus funds, and financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risks facing the Office in undertaking its activities.

Liquidity risk

The Office is not exposed to liquidity risk given the present net liquid asset position.

Market risk

All of the Office's financial liabilities carry nil or fixed rates of interest.

Interest bearing financial assets (see note 14) comprise cash balances which are held at floating rates of interest. Given that cash is available on demand or is placed on short term deposit at fixed rates and given that interest is budgeted conservatively, interest rate risk is limited but remains a factor because of the level of cash balances held. Longer term cash deposits do not exceed six months sufficient cash and cash equivalents are maintained to meet any demands in that time frame.

Credit risk

There is no material credit risk to the Office.

24 Intra-government balances

	2013	2013	2012	2012
	£000	£000	£000	£000
	Receivables	Payables	Receivables	Payables
Balances with:				
Central government bodies	362	5,766	381	4,892
Local authorities	33	81	3	49
Public corporations and other trading funds	2	4	0	188
Total at 31 March	397	5,851	384	5,129

All balances fall due within one year.

25 Subsequent Events

The financial statements were authorised for issue on 17 June 2013.

Appendix A

Treasury Minute Dated 23 June 2009

The Patent Office Trading Fund:

Section 4(1) of the Government Trading Funds Act 1973 provides that a trading fund established under that Act shall be under the control and management of the responsible Minister and in discharge of his function in relation to the fund it shall be his duty:

(a) to manage the funded operations so that the revenue of the fund:

(i) consists principally of receipts in respect of goods or services provided in the course of the funded operations, and

(ii) is not less than sufficient, taking one year with another, to meet outgoings which are properly chargeable to revenue account; and

(b) to achieve such further financial objectives as the Treasury may from time to time, by Minute laid before the House of Commons, indicate as having been determined by the responsible Minister (with Treasury concurrence) to be desirable of achievement.

2. A trading fund known as The Patent Office was established on 1 October 1991 in pursuance of The Patent Office Trading Fund Order 1991 (S.1 1991 No. 1796).

3. The First Secretary of State, Secretary of State for Business, Innovation and Skills, Lord President of the Council, being the responsible minister, has determined (with Treasury concurrence) that a further financial objective desirable of achievement by The Patent Office Trading Fund for the 5-year period from 1 April 2009 to 31 March 2014 shall be to achieve a return, averaged over the period as a whole, of 4.0 per cent in the form of a surplus on ordinary activities before interest payable on long term Treasury loans and dividends payable expressed as a percentage of average capital employed. Capital employed shall equate to the capital and reserves, ie the Public Dividend Capital, long-term element of Exchequer loans and reserves.

4. This minute supersedes that dated 26 February 2004.

5. Let a copy of this minute be laid before the House of Commons pursuant to section 4(1)(b) of the Government Trading Funds Act 1973.

HM TREASURY

23 June 2009

Chapter 6: Remuneration

Remuneration Report for Senior Staff at the Patent Office

Remuneration Policy

The remuneration of senior civil servants is set by the Prime Minister following independent advice from the Review Body on Senior Salaries.

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

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

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

Further information about the work of the Review Body can be found at http://www.ome.uk.com/index.cfm.

Directors comprise mainly members of the senior civil service (SCS) or those whose pay and conditions, although delegated to the Office are determined by analogy with the SCS in the Department for Business, Innovation and Skills (BIS).

Performance is assessed by line management into tranches. Individuals are allocated according to the guidelines that are in place for the relevant performance year. For the 2012/13 year individuals should be allocated in the following way:

25% of individuals to be in performance group 1, 65% in group 2 and 10% in group 3.

The percentage of staff that can be accepted in each category is established centrally by Cabinet Office. Performance pay of up to 5% of the pay bill is available to reward the top 25% performers. For SCS members the line management assessment is combined with those for all other BIS SCS and the outcome moderated by the BIS pay committee.

For SCS analogues the Chief Executive, and Mary Champion, an independent member of the Steering Board, form a remuneration committee and moderate the final performance distribution. The committee met on 8 June 2012 to moderate the 2012/13 award.

Service Contracts

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

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

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

Remuneration (including salary) and pension entitlements

The following tables provide details of the remuneration and pension interests of the Chief Executive and Directors of the Office and are audited.

Remuneration

	2012/13		2011/12	
	Salary	Bonus	Salary	Bonus
	£000	**£000**	**£000**	**£000**
John Alty[1 4] Chief Executive until 03.09.2012	65-70 (150-155 full year equivalent)	0-5	145-150	0-5
John Alty[1 4] Chief Executive from 18.02.2013	15-20 (135-140 full year equivalent)	0-5	Not applicable	Not applicable
Sean Dennehey [2]	110-115	0-5	110-115	10-15
Tim Knighton[1] Director from 02.07.12	65-70 (85-90 full year equivalent)	0-5	Not applicable	Not applicable
John Cappock[1] Director from 01.06.12	75-80 (90-95 full year equivalent)	0-5	Not applicable	Not applicable
Louise Smyth [1]	60-65	10-15	60-65	0-5
Andrew Layton[1]	65-70	5-10	65-70	5-10
Edmund Quilty[1]	70-75	0-5	70-75	0-5
Neil Feinson[1] Director from 12.09.11	70-75	0-5	35-40 (70-75 full year equivalent)	Not applicable
Rosa Wilkinson[1] Director from 26.09.11	75-80	0-5	25-30 (75-80 full year equivalent)	Not applicable
Louise Kirby[3] Director from 21.11.11	10-15 (50-60 full year equivalent)	0-5	20-25 (55-60 full year equivalent)	Not applicable
Julyan Elbro[2] Director from 04.09.12 to 17.02.13	35-40	0-5	Not applicable	Not applicable

[1] is a member of the Senior Civil Service.

[2] is a member of the Senior Civil Service by analogy.

[3] is not a member of the Senior Civil Service.

[4] John Alty's salary includes £13,000 in reimbursement for gross taxable expenses up to September 2012 and £1,000 from February 2013 relating to his detached duty in South Wales.

In addition John Cappock was appointed interim Finance Director from 26 November 2011 until he was successful in a recruitment exercise and was appointed on a permanent basis. The Office was billed £36,000 (£60,000 in 2011/12) by a recruitment agency for his services to the end of the financial year. This included VAT, agency fees and other costs.

John Alty was seconded to BIS as interim Director General of Innovation between September 2012 and February 2013. Sean Dennehey was interim Chief Executive for this period.

Salary

'Salary' includes: gross salary; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; and any other allowance to the extent that it is subject to UK taxation.

Benefits in kind

There were no benefits in kind in 2012/13 or 2011/12.

Bonuses

Performance bonuses are based on performance levels attained and are made as part of the appraisal process. Bonuses relate to the performance in the previous year to which they become payable to the individual. The bonuses reported in 2012/13 relate to performance in 2011/12 and the comparative bonuses reported for 2011/12 relate to the performance in 2010/11. Directors and all other staff, apart from the Chief Executive, are eligible for an equal share of the overall office bonus.

	Accrued pension at age 60 as at 31/3/13 and related lump sum	Real increase / (decrease) in pension and related lump sum at age 60	CETV at 31/3/13 or leaving office	CETV at 31/3/12 or taking office	Real increase/ (decrease) in CETV
	£000	£000	£000	£000	£000
John Alty Chief Executive From 01.04.12 to 03.09.12	50-55 plus 160-165 lump sum	0-2.5 plus 0-2.5 lump sum	1,082	1,067	1
John Alty Chief Executive from 18.02.13 to 31.03.13	55-60 plus 165-170 lump sum	0-2.5 plus 0-2.5 lump sum	1,134	1,130	0
Sean Dennehey Interim Chief Executive from 04.09.12 to 17.02.13	45-50 plus 140-145 lump sum	0-2.5 plus 0-2.5 lump sum	959	904	3
Tim Knighton Director from 02.07.12	10-15 plus 0 lump sum	0-5 plus 0 lump sum	218	191	13
John Cappock Director from 01.06.12	0-5 plus 0 lump sum	0-5 plus 0 lump sum	18	0	14
Louise Smyth	15-20 plus 55-60 lump sum	0-2.5 plus 0-2.5 lump sum	312	291	4
Andrew Layton	15-20 plus 50-55 lump sum	0-2.5 plus 0-2.5 lump sum	237	219	4
Edmund Quilty	25-30 plus 75-80 lump sum	0-2.5 plus 0-2.5 lump sum	499	468	3
Neil Feinson	20-25 plus 70-75 lump sum	0-2.5 plus 0-2.5 lump sum	420	391	3
Rosa Wilkinson	0-5 plus 0 lump sum	0-2.5 plus 0 lump sum	27	9	13
Louise Kirby Director until 01.07.12	15-20 plus 45-50 lump sum	0-2.5 plus 0-2.5 lump sum	231	216	6
Julyan Elbro Director from 04.09.12 to 17.02.13	15-20 plus 45-50 lump sum	0-2.5 plus 5.0-7.5 lump sum	224	187	27

The actuarial factors used in calculating CETVs were changed in 2012/13. The CETVs at 31/03/12 and 31/03/13 have both been calculated using the new factors, for consistency. The CETV at 31/03/12 therefore differs from the corresponding figure in last year's report which was calculated using the previous factors.

Civil Service Pensions

Pension benefits are provided through the Civil Service pension arrangements. From 30 July 2007, civil servants may be in one of four defined benefit schemes; either a 'final salary' scheme (**classic**, **premium** or **classic plus)**; or a 'whole career' scheme (**nuvos**). These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under **classic**, **premium**, **classic plus** and **nuvos** are increased annually in line with Pensions Increase legislation. Members who joined from October 2002 could opt for either the appropriate defined benefit arrangement or a good quality 'money purchase' stakeholder pension with a significant employer contribution (**partnership** pension account).

Employee contributions are set at the rate of 1.5% of pensionable earnings for **classic** and 3.5% for **premium**, **classic plus** and **nuvos**. Increases to employee contributions will apply from 1 April 2013. Benefits in **classic** accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For **premium**, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike **classic**, there is no automatic lump sum. **Classic plus** is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per **classic** and benefits for service from October 2002 worked out as in **premium**. In **nuvos** a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and, immediately after the scheme year end, the accrued pension is up rated in line with Pensions Increase legislation. In all cases members may opt to give up (commute) pension for lump sum up to the limits set by the Finance Act 2004.

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

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

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

Cash Equivalent Transfer Values

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

The figures include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are calculated in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

Real increase in CETV

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

Median earnings

The Hutton review recommended the reporting of the median earnings of the organisation's workforce and the ratio between this and the earnings of the highest paid Director. This includes both agency staff and contractors.

The highest paid director of the Patent Office received annualised remuneration of £150,000 - £155,000 in 2012/13 (£145,000 - £150,000 in 2011/12) which includes salary, bonus and benefits in kind but not employer pension contributions or the cash equivalent transfer value of pensions. The median earnings at the Office were £30,023 (£29,888 in 2011/12) and the ratio was 5.1 (5.0 in 2011/12). This movement year on year reflects staff changes with higher overtime. In addition the annualised pay of the highest paid Director increased as a result of higher detached duty expenses at the start of the year.

Steering Board Members

Professor Sir John O'Reilly succeeded Adrian Smith as Director General with responsibility for the Office from 4 February 2013. John Alty was interim Director General until Sir John was appointed. The Director General is a member of the Steering Board and appoints independent board members for a fixed term, which may be renewed. John Dodds is the BIS representative.

The Independent Board members and their remuneration are:

	2012/13 Remuneration	2011/12 Remuneration
	£000	£000
Bob Gilbert Appointed from 6 February 2011 to 5 February 2014	5 – 10	5 – 10
Gary Austin Reappointed 15 July 2012 to 14 July 2015	5 – 10	5 – 10
Mary Champion Reappointed 1 September 2010 to 31 August 2013	5 – 10	5 – 10
Sir Anthony Pigott Appointed 15 July 2009 to 14 July 2012	0 – 5 (5 - 10 full year equivalent)	5 – 10
David Roberts Reappointed 16 April 2010 to 15 April 2013	5 – 10	5 – 10
Ralph Ecclestone Appointed from 17 July 2012 to 16 July 2015	0 – 5 (5 - 10 full year equivalent)	Not applicable
Iain Maclean Appointed from 17 July 2012 to 16 July 2015	0 – 5 (5 - 10 full year equivalent)	Not applicable

Professor Sir John O'Reilly, Professor Adrian Smith, John Dodd and John Alty are civil servants and are not remunerated by the Office for serving on the Steering Board.

John Alty
Chief Executive Officer and Accounting Officer

12 June 2013

Chapter 7: Sustainability Report

Central government bodies that produce annual report and accounts in accordance with HM Treasury's Government Financial Manual (FReM) are required to include a section covering performance on sustainability during the year.

The IPO places high importance on its environmental performance. 2012/13 proved to be extremely challenging due to the level of refurbishment work taking place coupled with an increase in staff resulting in an increase in waste and energy consumption.

Summary of Performance

Carbon Emissions (from offices)

		2009/10	2010/11	2011/12	2012/13
CO2 emissions from offices (tonnes CO2)	Gas	545	554	408	513
	Electricity	1,623	1,484	1,578	1672
Related energy consumption (kwh)	Gas	2,960,562	3,018,125	3,374,212	2,335,043*
	Electricity	2,981,555	2,828,137	3,008,383	3,186,776
Financial implications (£)	Gas	96,211	81,786	93,458	90,143*
	Electricity	279,917	251,150	326,958	351,047

*In 2012/13 we identified a problem with our gas meter, which remains under investigation by our supplier.

In November, we were successful in being recertified with the Carbon Trust Standard. We were first granted the Standard in 2009 and this was our first recertification, covering the period 2009 - 2012. The Carbon Trust Standard recognises organisations for real carbon reduction and provides independent confirmation and assurance that we have genuinely measured and managed our carbon emissions.

The future

An independent feasibility study carried out within the year recommended we seek to link our heating system to a bio-mass boiler run by The Office for National Statistics (ONS) our neighbour on the Newport site. This is seen as the most cost effective and efficient way of bringing our heating system into the 21st century and helping us to achieve both the financial and carbon savings. The business case will be complete in the Spring of 2013 and implementation planned for the Autumn.

Carbon Emissions (from travel)

		2009/10	2010/11	2011/12	2012/13
Non-financial indicators (kilograms CO2)	Travel in owned vehicles	3,797	2,767	3,286	3,578
	Air travel	17,168	6,047	7,355	9,693
	Rail travel	31,405	35,863	38,360	58,157
	Road travel	36,853	35,741	39,208	53,426
	Taxis	2,378	1,581	2,838	3,049
Financial implications (£)	Expenditure on accredited offsets (GCOF II)	-	6,822	-	-
	Travel expenditure (UK)	442,636	418,276	491,908	615,511
	Travel expenditure (overseas)	310,555	301,136	394,803	412,852

The Office was also successful in our application for a sustainable travel grant from the South East Wales Transport Alliance (SEWTA). We were allocated just over £6,000 which we used to buy bicycles to add to our "Pool Bike" scheme; cycle accessories and equipment, which can be borrowed by those staff wanting to cycle to work, and cycle awareness/maintenance courses.

The future

This year we ran an office wide travel survey which was completed by just over 600 people. The results will provide information which Newport Transport can use to improve public transport routes into the office.

Waste

		2009/10	2010/11	2011/12	2012/13
Non-financial indicators (tonnes)	Total waste	148	161	119	127
	Reused / recycled	88	109	83	79
	Landfill	60	53	36	48
	% recycled	59%	67%	70%	62%
Financial implications (£)	Total waste	26,616	31,861	12,574	20,272
	Reused / recycled	13,812	18,990	4,728	6,824
	Landfill	12,804	12,871	7,846	13,448

The Office wide "Green Team" has continued to champion the case for recycling, pushing up the amount of waste composted from 2.3 tonnes (2011/12) to 4.6 tonnes this year. In March we took first place in the Workplace category in the 2013 Climate Week Challenge. The Climate Week Challenge helps develop creativity, innovation, enterprise and team-working skills.

2012/13 saw the start of the major refurbishment of our Newport office, which has lead to a sharp increase in the amount of waste produced, up 4.2%. However, we have made strenuous efforts to ensure this did not appear in landfill by inviting local charities and schools the opportunity to pick up surplus furniture free of charge.

The future

We will continue the approach to recycle as much of the surplus furniture, which arises from the refurbishment of our Newport office, as is practically possible, together with ensuring our contractors continue to separate and recycle as much as is practicable.

Use of Finite Resources (water)

		2009/10	2010/11	2011/12	2012/13
Non-financial indicators	Water consumption (m^3)	8,446	5,996	6,535	7,549
Financial indicators (£)	Water supply costs	24,986	15,125	19,936	19,318

Our performance on reduction of water consumption continues to be hampered by the ongoing increase in the number of staff we employ. At the end of 2012/13 overall staff numbers stood at 982, 6% up on 2011/12 and 8% up on 2009/10 figure. This, coupled with the large number of contractors working at night and weekends on our refurbishment, accounts for the increase.

The future

To halt our disappointing performance on reducing our water consumption we will install rain water harvesting in 2013/14 and continue to look for innovative ways in which to reduce our footprint.

The Patent Office
Annual Report and Accounts
2012/2013

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DPS/F100-05/13

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ISBN 978-0-10-298265-7

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