



Intellectual
Property
Office

The Patent Office Annual Report and Accounts

2015/16



The Patent Office

Annual Report and Accounts

2015/16

The Patent Office

Annual 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.

2015/16 Annual Report & Accounts

Ordered by The House of Commons to be printed 18 July 2016.



© Crown copyright 2016

This publication is licensed under the terms of the Open Government Licence v3.0 except where otherwise stated. To view this licence, visit nationalarchives.gov.uk/doc/open-government-licence/version/3 or write to the Information Policy Team, The National Archives, Kew, London TW9 4DU, or email: psi@nationalarchives.gsi.gov.uk.

Where we have identified any third party copyright information you will need to obtain permission from the copyright holders concerned.

This publication is available at www.gov.uk/government/publications.

Any enquiries regarding this publication should be sent to us at:

The Intellectual Property Office
Concept House
Cardiff Road
Newport
NP10 8QQ

Tel: 0300 300 2000
Fax: 01633 817 777

e-mail: information@ipo.gov.uk

Print ISBN 9781474131193
Web ISBN 9781474131209

ID 12041601 07/16

Printed on paper containing 75% recycled fibre content minimum.

Printed in the UK on behalf of the Controller of Her Majesty's Stationery Office.

Contents

Chair's Statement	1
Chief Executive's Introduction	3
Performance Report	6
Accountability Report	27
Financial Statements 2015/16	60
Appendix A	78

Patents



Received over **22,700** applications and **12,600** exam requests.



We completed over **17,000** searches.

Trade Marks

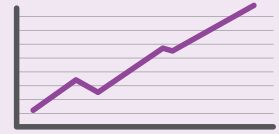


Over **54,800** applications received.



We were **awarded ISO9001 Quality Certification** for our UK TM application process.

Designs



Applications increased by **31%**.



We launched our new digital **Apply for a Design Service** in September.

Outreach



114,700 businesses reached.



Supported the export activity of over **7,000** businesses.



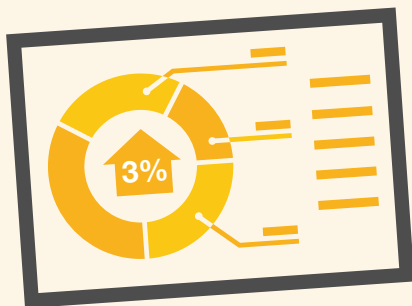
Allocated funding for over **300** IP audits.

People

People Survey engagement score **65%** – an increase of **3%** on last year and placing us in the **Civil Service High Performers Benchmark**.

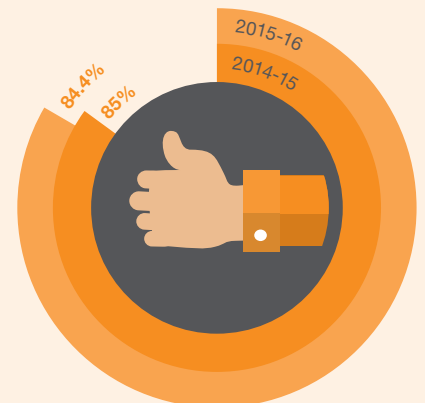


Awarded the Civil Service **“The Way We Work” (TW3) Award** in the People and Culture Category for our work on developing a more adaptive organisation.



Customers

Overall customer satisfaction.



Chair's Statement

This year has seen the Intellectual Property Office (IPO – a trading name of the Patent Office) achieve efficient and effective delivery, again meeting all our Ministerial Targets and making a strong contribution to the UK economy and growth.

We know Intellectual Property (IP) is a key investment for businesses, and a strong IP system both home and abroad ensures individuals and businesses can use and protect their IP to best effect. We have an important role in this, and made some key achievements domestically that demonstrate this – for example our work finalising preparations to improve the framework for resolving IP disputes by reforming the law on groundless threats.

We also finalised the reform of the EU Trade Mark law, and took work forward on the Digital Single Market and the Unitary Patent and Unified Patent Court. When coupled with the work we developed globally through working with stakeholders and our IP Attachés, particularly with the emphasis on China, this has helped us maintain our excellent reputation domestically and internationally. We will be reflecting the result of the recent referendum on the UK's membership of the EU in our future international work.

In times when the focus is on making greater use of digital technologies to modernise public services, we have continued to deliver new digital services for customers, particularly around the modernisation of our designs system, which has led to a rapid switch to digital applications, and progress to modernise our patents offering. These are making it easier and cheaper for our customers to access and use our services.

We are working to develop awareness and respect for IP, whether it is with primary school children through the Cracking Ideas Hub or university students with our educational offering to encourage better understanding of IP topics across UK universities, and this work is a vital part of our education agenda. We also continue to educate businesses with our business outreach work, talking to businesses and supporting them with IP Audits, knowledge sharing, networking and training.

“ In times when the focus is on making greater use of digital technologies to modernise public services, we have continued to deliver new digital services for customers. ”

We continued to work with partners to reduce online IP infringement, through our work with the Police IP Crime Unit and consulting on proposals to increase the maximum penalty of imprisonment for online infringement to bring it in line with penalties for physical infringement. We also worked with others to reduce physical infringement, through our work on counterfeit food and other goods. All this is key to disrupting those who try and profit from IP infringement and make it less appealing to try and do so.

The year brought challenges, and these were tackled positively and professionally. Next year will bring new challenges, with the launch this year of our new five year Corporate Strategy and continuing demands to be effective and efficient, delivering at pace in a digital and agile environment.

None of this would be possible without skilled people and fit for purpose IT systems. We achieved our highest engagement score yet in our People Survey, demonstrating that the IPO is a great place to work. Our people are working hard to deliver the Government's Manifesto commitment to make the UK the best place in Europe to innovate and patent new ideas, I thank them for their excellent achievements in the year just gone, and for their continued commitment going forward.



A handwritten signature in black ink that reads "Bob Gilbert". The signature is written in a cursive style and is contained within a thin black rectangular border.

Bob Gilbert
Chairman

Chief Executive's Introduction

I am pleased to introduce our Annual Report and Accounts for 2015/16.

As expressed in our Corporate Plan 2015/18, we challenged ourselves to deliver a series of stretching targets and priorities across our six strategic goals. We have met all the targets set by our Minister, Baroness Neville-Rolfe, achieved our in-year Corporate Priorities, and made good progress against our multi-year priorities.

Promoting UK growth through IP policy

At home we have continued our drive to define and make improvements to the IP system. Work undertaken in 2015/16 has led to our involvement in two recently announced pieces of legislation, our own Unjustified Threats Bill and the copyright sanctions in BIS's Digital Economy Bill. In Europe, we have made progress towards implementing the Unitary Patent (UP) and Unified Patent Court (UPC), securing a suitable site for the London division of the UPC and agreements necessary for the operation of the UP for UK businesses. Internationally our bilateral engagement with China took a further step forward, including a very successful symposium which helped improve common understanding of our IP system, which can only help British businesses. As our Chair's introduction says, our future work will reflect the outcome of the EU referendum.

Delivering high quality rights for customers

We have continued to deliver against increasing demand for our services, whilst also ensuring we adapt and improve the way we deliver for our customers. Time to first examination for trade mark applications remained consistently around 10 days from filing throughout the period of this report – against a 5.3% rise in applications. A key achievement for us was the delivery of a number of steps to modernise our designs services, including our digital 'apply for a design' service beta going live in September, 6 months earlier than planned.

The commitment to the quality of our rights granting services continues. Our patents services have held the ISO9001 Quality Certification for a number of years, and were recertified in January 2015. This year we have also achieved the Certification for our UK trade mark application process, from fee payment, examination and opposition through to registration.

“ We have met all the targets set by our Minister, achieved our in-year Corporate Priorities, and made good progress against our multi-year priorities. ”

Ensuring Respect for IP

Being able to ascertain economic control over a right is fundamental to its value. If people are to make the best use of IP we must build knowledge of and respect for IP and bear down on IP crime. Developing awareness and respect for IP through education remains an area of focus, with this year seeing the launch of our new education portal, ensuring the resources we offer to schools and universities are world-leading.

In tackling IP crime our role is to ensure a co-ordinated approach. Working closely with partners, we have provided strategic direction and funding to the Police IP Crime Unit (PIPCU), supported an Interpol-Europol operation targeting fake and substandard food and drink, and worked with enforcement partners to deliver a report looking at counterfeiting in the Strangeways and Cheetham Hill areas of Manchester. The UK was once again recognised as having the best enforcement regime in the world by the US Chamber of Commerce in January 2016.

Helping businesses make the most of their IP

We must play a central role in providing IP knowledge and experience to businesses to help them transform their IP into growth. Our business outreach work continues to extend its reach to achieve this. We have reached over 114,700 businesses and business advisors across the UK, supported the export activity of over 7,500 businesses, and allocated funding for over 300 IP audits. We are taking our business support to the regions, engaging with Growth Hubs to embed IP into their business support offering.

Building a world class organisation

Like many other organisations, we are facing a period of significant change, which can carry risks. However, we have taken steps to build an adaptive culture in the IPO; our people are working with us to embrace and deliver change in innovative ways, as demonstrated when we won the Civil Service TW3 (The Way We Work) Award 2016 in the Culture and People Category.

Our People Survey score reflects the increasing engagement of our people, increasing by 3% on last year and putting us firmly in the Civil Service High Performers benchmark. We also achieved Silver in our Investors in People Award and Bronze in the Corporate Health Standard Award.

We continue to have an eye on the future, and this year we defined the future Operating Model for our rights granting functions, which we will start to implement this year. This will ensure the structure, behaviours and roles we have in place reflect the needs of our customers in a digital environment.

Our Pay Pilot has continued into its second year (of three) and is progressing in line with the controls agreed with Treasury. The pilot has helped us ensure that we can recruit and retain the skills we need.

Working with Companies House, we have also delivered a shared solution approach to our finance operations. This and other projects have helped us achieve our 3.5% efficiency target. We also began to explore closer working with CH more widely, as part of the BIS 2020 programme to set up a South Wales centre for the provision of services to business.

In January we launched our new 5 year Corporate Strategy, “Making life better by supporting UK creativity and innovation”, which lays down our vision for the future of IP: quality rights, policy that promotes growth, strong enforcement, IP savvy businesses and an efficient and well led IPO. Everyone in the organisation has a role to play in helping us achieve this ambition. I would like to thank everyone in the IPO for their contribution to our many successes during the last year, and our many stakeholders for their continued feedback and support. I look forward to the next set of challenges ahead.



A handwritten signature in black ink that reads "John Alty". The signature is written in a cursive style.

John Alty

Chief Executive and Accounting Officer

Performance Report

Review of IPO Business 2015/16

These accounts reflect the performance of the organisation against our 2015/16 Corporate Plan, published in April 2015. The Corporate Plan set out our aims and priorities to support delivery of the goals outlined in our Corporate Strategy in 2011. This was the last year of that Corporate Strategy, before the launch of our new five year Strategy in 2016.

Our Ministerial Targets are set annually; aligned with wider government objectives and our key deliverables. We prioritise our work around these targets.

Our targets for 2015/16 and performance against these is set out below:

Promoting UK growth through IP Policy

We will complete all necessary steps for the domestic implementation of the UPC agreement, ready for ratification at the appropriate time.	Target met
--	------------

Delivering high quality rights granting services

We will deliver an operational online application service for our Designs customers as part of the TRIPOD portfolio by the end of March 2016.	Target met
We will ensure that overall average customer satisfaction is at least 80%.	Target met: 84.4%
We will offer faster handling of patent applications, by providing an examination report with a search report when both are requested at the application date, and meeting at least 90% of requests for an accelerated two-month turnaround for search, publication and examination.	Target met: 96%
We will publish 85% of acceptable applications for national trade marks for opposition within 90 days of filing.	Target met: 94%



Ensuring IP Rights are respected and appropriately enforced

We will launch a new online hub, bringing together educational material for all forms of IP, and achieve a 7.5% increase in traffic to this website over that achieved on the previous website.

Target met: 184%¹



Educating and enabling businesses to understand, manage and protect their Intellectual Property

We will reach an audience of at least 100,000 businesses in the UK with IP messages by the end of March 2016.

Target met: 114,709 businesses

We will support the export activity of UK companies by providing education, advice and specific case support to 4,500 businesses by March 2016.

Target met: 7,156 businesses



Improving the skills and capability of our people

We will define the future operating model for the IPO, identifying the structure, behaviours and roles we will need to deliver for our customers in a digital environment.

Target met



Increasing efficiency and delivering value for money

We will deliver an efficiency gain of 3.5%.

Target met: 5.8%

We will achieve a 4% Return on Capital Employed (ROCE).

Target met: 4.4%

¹ Support from key stakeholders and heavy promotion of the portal helped drive higher than anticipated footfall

Corporate Priorities 2015/2018

In our Corporate Plan 2015/2018, we outlined our focus of helping everyone make the best use of IP. We have six strategic goals, which encompass our policy development, the quality of our rights granting services, supporting and educating businesses and consumers, leadership in enforcement, developing our people and delivering value for money. We have made strong progress in relation to all the priorities we identified in this plan.



Promoting UK growth through IP Policy

In relation to our goal of **promoting UK growth through IP policy** we have worked at all levels towards this: domestically to strengthen the UK IP system, and internationally to support UK businesses when exporting and protecting their IP abroad. We engaged effectively with stakeholders to inform and shape our policy making and support delivery of the Government's manifesto commitment to make the UK the best place in Europe to innovate and patent new ideas. To support this our Economic, Research and Evidence team have published seven research reports, including reports on Copyright and the Value of the Public Domain, Cluttering and Non-Use of Trade Marks in Europe and 3D Printing.

Domestically, we have recently completed a fairly significant overhaul of the system in implementing the recommendations of the Hargreave's review. However, we know there is always more that can be done, this year our achievements include:

- Finalising preparations to bring forward a **Bill to improve our groundless threats provisions** in patent, trade mark and design law. This will reduce legal costs and complexity and help businesses resolve infringement disputes. We worked closely with the Law Commission in developing and taking forward these changes;
- Ensuring delivery of key UK objectives for the functioning of the **Unitary Patent and Unified Patent Court**. This included securing a suitable site for the London division of the Court, developing a case management system for the Court, passing the necessary legislative changes to amend our domestic legislation in Parliament and agreeing the wording of the protocol on privileges and immunities.

In our Corporate Strategy 2011/2016 we set ourselves the aim of ensuring the European IP system will support innovation and creativity and allow the single market to work better as a home market for UK business. We continue to have good relationships with European partners and offices, which allows us to be in a position to influence negotiations towards outcomes that support growth. Our notable activities in the EU were:

- Delivering elements of the European aspects of the **Unitary Patent and Unified Patent Court**, by negotiating within the Preparatory Committee of member states to secure agreements on court fees, recoverable costs, SME support, and a zero fee to opt out existing patents from the new system, as well as securing agreement within the European Patent Office Select Committee on the renewal fee scale and other financial aspects of the unitary patent;
- Influenced the copyright reform debate in Europe, helping shape the direction of travel. This included prompting the European Commission to bring forward positive proposals on portability (the use of paid for content when travelling temporarily abroad) as part of the **Digital Single Market**;
- Finalised the **EU Trade Mark Reform Package**. This package of a new Regulation and recast Directive delivers a more streamlined and closely aligned system of domestic and EU trade marks that is better for UK businesses. The Directive further harmonises the national trade mark laws and Member States have up to three years for implementation.

“ In relation to our goal of promoting UK growth through IP policy we have worked at all levels towards this: domestically to strengthen the UK IP system, and internationally to support UK businesses when exporting and protecting their IP abroad. ”

Ensuring a strong international IP regime is vital for UK businesses to be able to export and trade confidently abroad. One of the desired outcomes in our Corporate Strategy 2011 – 2016 was to allow IP systems around the world to be accessible to and supportive of UK businesses that create and use IP, and developing countries to be able to use IP more effectively. In order to support this over the last year, amongst other things we have:

- **Strengthened our relations with China**, through bilateral visits and an IP roadshow, which connected over 200 companies and was organised with a number of high-profile partners, including the China Britain Business Council and the Confederation of British Industry. We also hosted the second UK-China IP Symposium, which the Chinese media ranked as seventh in the top ten list of IP events of China, and was the only one to involve a foreign government and not to be hosted in China. We also developed a week of activities for UK-China Copyright Week which included delivery of a collective licensing workshop in Beijing;
- Hosted an extensive programme of stakeholder engagement between our **overseas attaché team** and key UK stakeholders alongside policy engagement events and opportunities in order to ensure our overseas presence and influence on business environments continues to go from strength to strength; and
- Further developed our work to support **global patent reform**, with an agreement amongst developed countries to push forward work to harmonise patent systems, involving four work-streams looking at non-prejudicial disclosures / grace period (including relationship with third party rights), conflicting applications, prior user rights (outside of the grace period) and options for implementation.
- On the trade mark and designs side we hosted two inward visits from Association of South East Asian Nations and various Caribbean countries covering **trade mark and design law and practice**.

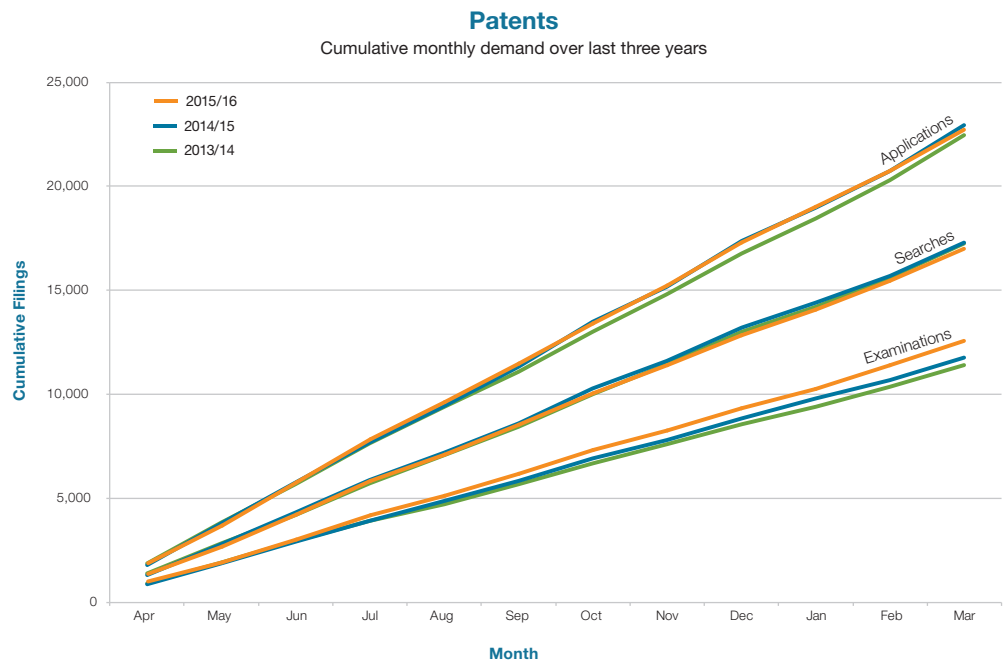


Delivering high quality rights granting services

We are committed to excellent rights granting and related services, and ensuring the UK is the best place to protect and use IP. IP Rights support economic growth.

In **delivering high quality rights granting services**, we have managed our resources to ensure they are focused in the areas which provide most value for customers in meeting their needs. Our customer survey showed overall customer satisfaction was 84.4%. This work supports our desired outcome in our Corporate Strategy 2011 – 2016 that businesses will be able to innovate with greater certainty due to the high quality of our patents, trade marks and registered designs, which will rank among the best in our class.

The following graphs show the historical, cumulative monthly filings of patent, trade mark and designs requests.

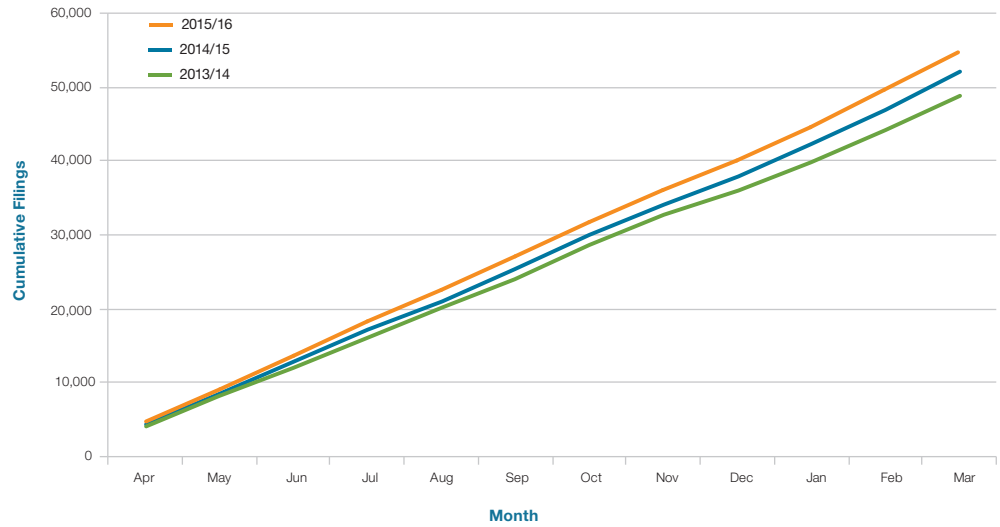


We received 22,792 patent application requests, which was a slight increase from the 22,774 requests received in 2014/15. Requests for examinations increased by 6% from 2014/15, with 12,603 requests being received. Searches decreased by 2% to 17,048 during 2015/16.

We offered faster handling of patent applications by providing an examination report with a search report when both were requested at the application date, and met 96% of requests for an accelerated two-month turnaround for search, publication and examination, against a target of 90%.

Trade Marks

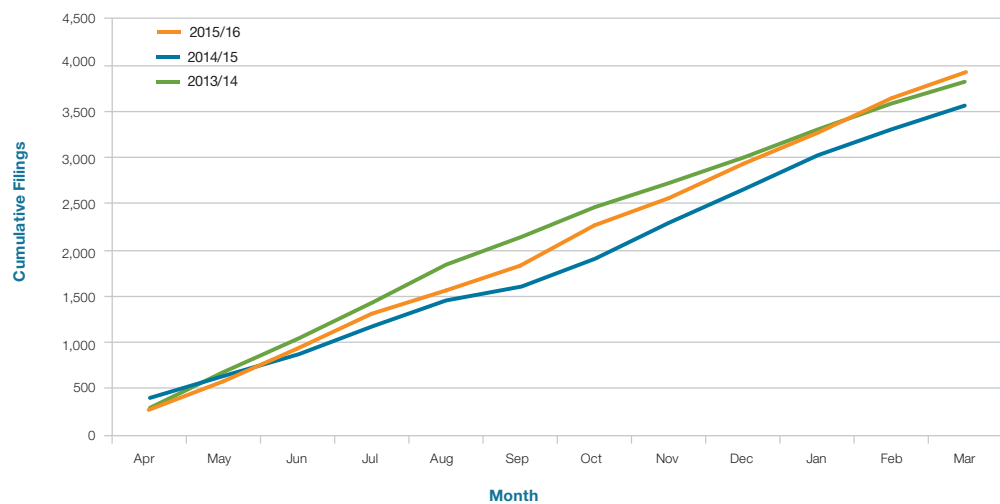
Cumulative Monthly Applications



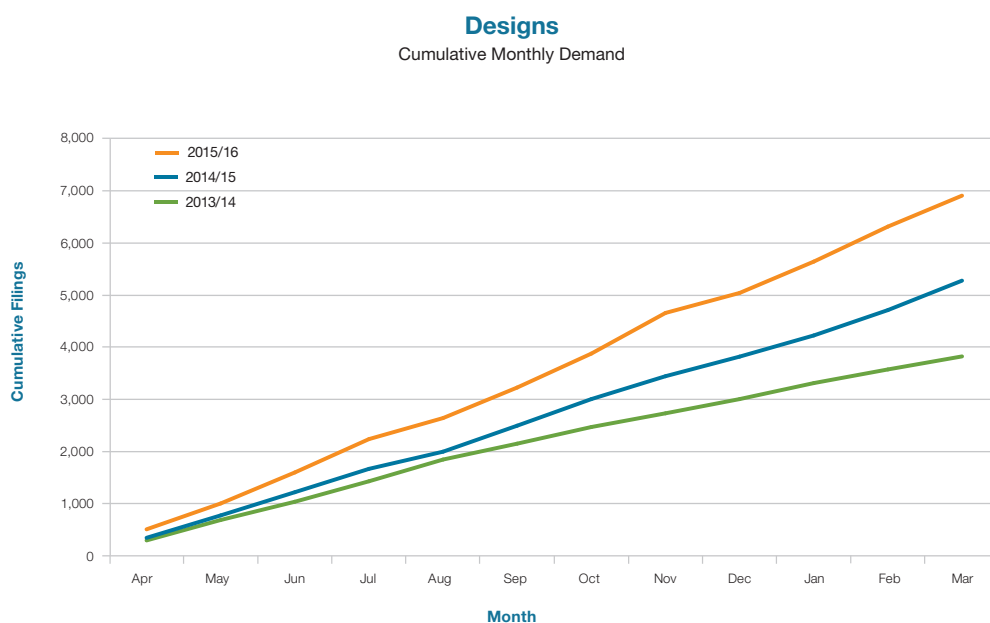
National trade mark applications were 5.3% higher than during 2015/16, with over 54,800 applications being received. We have consistently maintained our time from receipt of application to first examination at 10 working days. We also published 94% of acceptable applications for national trade marks for opposition within 90 days of filing, against a target of 85%.

Trade Marks

Cumulative Monthly International Registrations Designating UK



International trade mark applications were 20% higher than during 2015/16, with 4,348 applications being received.



Demand for designs increased by almost 31%, with time from receipt of application to first examination consistently being 10 working days. We believe this increase is mostly due to the steps we have taken to **modernise our designs service**, including:

- Expanding our digital offering with the digital 'apply for a design' service beta going live in September – six months earlier than expected. Digital uptake is around 70% and the service is continually evolving in response to customer input. This has enabled us to take steps to achieving our strategic aim of digital by default services;
- Completing the first ever external user accessibility tests on the digital design service, with the test centre being very complimentary about it;
- Continuing with our work for the UK to ratify the Hague Agreement following the consultation showing strong support from stakeholders for this; and
- Running a strongly supported consultation on proposals to reduce the fees for registering and renewing designs.

Our commitment to the quality of rights granting services was further demonstrated in our achievement of the **ISO9001 Quality Certification** for our UK trade mark application process, from fee payment, examination and opposition through to registration. This is a recognition of the standards delivered by our trade marks teams, who join patents colleagues in holding this certification.

As further support for our customers we have also successfully collaborated with City of London Police to take action against firms and educating customers receiving **misleading mail**, which could lead to customers paying a company to renew their IP Right when they do not need to. Our efforts have led to a significant reduction in the numbers of complaints received and the numbers of renewals processed through these companies.



Ensuring IP Rights are respected and appropriately enforced

An important element for ensuring owners realise the value of their IP rights is the ability to assert economic control over them. Helping everyone understand and respect IP rights can reduce demand for infringing goods and material, and ensure future creators understand how to use and protect their IP for best effect. This is why we are **ensuring IP rights are respected and appropriately enforced**.

Developing awareness and respect for IP should start from an early age, and flow throughout the education lifecycle. To support this education and awareness raising, we have:

- Launched www.crackingideas.com an exciting and interactive hub that brings together educational material for all forms of IP, along with resources developed by our key stakeholders. The IP resources are aimed at all levels of education from primary school to higher education. This hub achieved a huge 184% increase in traffic over that of the previous website, indicating a high level of interest and demand for the materials provided; and
- Launched '**Think Kit**' – a schools based resource, linked to the curriculum, targeting Key Stage 3 and 4. '**Think Kit**' puts IP issues in a relevant context for students, by getting them thinking about how they would feel if their ideas were copied and the use of social media and technology in the sharing of those ideas. '**Think Kit**' gives teachers of particular subjects access to brand new online resources, video case studies and toolkits designed to improve the next generation's understanding of IP;

We also work to ensure IP Rights are protected and enforceable. Our work covers both physical and online/ digital enforcement, and good progress is being made on building sustainable structures to deliver consistent intervention across the support chain of counterfeits and pirated material in both the physical and digital worlds.

We have:

- Worked with partners to **reduce online IP infringement** and the supply of counterfeit goods, and completed a consultation on increasing the maximum penalty of imprisonment for online infringement from 2 to 10 years, which will bring it in line with penalties for physical infringement, and will now form part of the new Digital Economy Bill;
- Continued to provide strategic direction and funding to the **Police IP Crime Unit (PIPCU)**, which has ensured a series of successful investigations and charges in relation to counterfeit goods, to ensure they do not reach consumers. PIPCU have also removed approximately 8000 domains from sites selling counterfeit goods, providing a good basis to disrupting these sites' ability to operate in the UK;

- Supported the “**Get it Right from a Genuine Site**” advertising campaign. This is a campaign encouraging consumers to support creativity by using genuine websites to stream and download content. It formed part of the work by Creative Content UK, where representatives from UK’s creative industries and major internet service providers have come together with support from Government, to encourage the use of genuine content and inform people of how illegal streaming and downloads harm the UK’s creative industries. Over 11m TV viewers saw the initial launch and a dedicated YouTube channel, with ads targeted at 16-24 year olds having over 175,000 views at launch;
- Completed the transposition of the **Collect Rights Management (CRM) Directive** on time. The CRM Directive aims at ensuring rights-holders have a say in the management of their rights and envisages a better functioning of collective management organisations. The new rules also see the multi-territorial licensing by collective management organisations of authors’ rights in musical works for online use;
- Supported **Operation Opson**, an Interpol-Europol operation targeting fake and substandard food and drink, and the organised crime networks behind this illicit trade. This is an important initiative for protecting the UK food and drink supply chain and protecting public health whilst enjoying being part of a global food market. We worked closely with the Food Standards Agency to co-ordinate the UK’s contribution to this operation, which has proved to be extremely successful; and
- Supported **Project Magpie Manchester**, by working with other enforcement partners to prepare and deliver a report focusing on the Strangeways and Cheetham Hill areas in Manchester. These areas have been identified as the most significant areas for IP crime in the UK. The report focused on how the crime groups operate, and made a number of recommendations to disrupt this for future.

All these steps helped enable progress towards the outcome identified in our Corporate Strategy 2011/2016 that it will be easier to tackle counterfeiting and piracy in the UK due to a better informed and coordinated response by law enforcement agencies and businesses.



Educating and enabling business to understand, manage and protect their Intellectual Property

Alongside providing education for consumers to respect and use IP appropriately, it is also important to support and educate businesses and entrepreneurs in order to ensure we support growth at both the company and economic level. Our work is aimed at helping businesses and entrepreneurs to better manage and derive value from the IP they own, and ensure IP forms part of their business strategy.

By **educating and enabling business to understand, manage and protect their IP** we support businesses in developing their knowledge and understanding of the value of their IP, both to their business and the UK economy.

We do this by talking to, and working with businesses and their advisors.
For example:

- Through our **business outreach** work we reached over 114,700 businesses and business advisors during the financial year, and have a wide online reach across social media channels, business web pages and content placed in partner's channels;
- Alongside our domestic facing activities we have also supported the **export activity of UK companies** by providing education, advice and specific case support to over 7,500 businesses;
- Over 300 **IP audits** have been allocated funding by us, giving those businesses a clearer view on what IP they have and how they can better realise the economic value of this IP;

“By educating and enabling business to understand, manage and protect their IP we support businesses in developing their knowledge and understanding of the value of their IP, both to their business and the UK economy.”

- Continuing our engagement with **Growth Hubs**, to embed IP into their business support offering. As part of this we have, with others, developed and managed the 'Midlands Business Support Network', bringing together key business support organisations in the region, including nine Growth Hubs. This network aims to look at how to help the SME community within the region and create a forum to share best practice. Due to the success of this network we are developing our engagement with Hubs in other regions; and
- Supporting partners to help businesses understand how to **protect their IP**, through sharing of knowledge and best practice. We delivered training sessions for enforcement agencies in both the UK and overseas, including bespoke training for Trading Standards in the UK and a range of programmes for overseas enforcement agencies.

We are also working to bring IP education into the mainstream, by:

- Helping broaden the **educational offering of IP topics** across UK universities and explored opportunities to enhance the skills and knowledge of Higher Education providers in order to improve the quality of IP teaching in the sector. We did this by engaging closely with the Quality Assurance Agency for Higher Education on their review of subject benchmark statements, resulting in IP featuring in their revised Biosciences, Biomedical Sciences, Business and Management, Creative Writing and Engineering subject benchmarks.
- Continuing to see strong use made of our **IP Tutor toolkit** for universities across the UK, and have translated it into German to make it available to Austrian university students and lecturers through a joint project between us, the Austrian Patent Office and the Vienna University of Technology.

This takes us towards delivery of the outcome identified in our Corporate Strategy 2011/2016, that those businesses who could be more successful through better use of IP will be able to access informed advice and support that enables them to use, manage and enforce their IP to its fullest potential.



Improving the skills and capability of our people

Of course, none of this is possible without our highly capable and engaged workforce. We are in an environment that is changing quickly – from the wider Government agenda and shape through to changing customer expectations, needs and digital requirements. Given the impact these changes have on us, we continue to focus on **improving the skills and capability of our people**. This year we achieved an engagement score of 65% in our **People Survey**, which was an increase of 3% on the previous years, our highest score yet and taking us into the top bracket of Civil Service High Performers. We also achieved the Silver standard in our Investors in People reaccreditation and the Bronze Corporate Health Standard.

Alongside this, we have also worked hard to engage our people to develop an **adaptive organisation**, through four work-streams – Ways of Working, Skills, Governance and Change. These have been led by our people, who decided what would provide the most impact and improvement for the organisation. This work was recognised for its innovative approach to engaging our people when we won the **Civil Service TW3 (The Way We Work) Award 2016 in the Culture and People Category**.

We have defined the future **Operating Model** for our rights granting functions, identifying the structure, behaviours and roles we need to deliver for our customers in a digital environment. This will be implemented over the next twenty-four months alongside work to define the model for the rest of the organisation.

We are supporting our people in this fast changing environment in a number of ways, including:

- Refocusing our approach to **managing change** through development of change principles, Communicate, Involve, Support, which outline our commitment to how we will manage and deliver change. We also launched an online ‘Change Hub’, providing a one-stop-shop for all things change related, whether it is information on how our people can develop the leadership skills to deliver change, details on our Change Principles and other supporting information or material on the change projects that are going on and how they could impact on our people; and
- Making progress in embedding a culture of **Lean and Continuous Improvement** across the organisation, having seven Lean Embedded teams across the office and a dedicated Lean Team supported by 60 Lean Ambassadors across the business. We are also the lead and co-ordinators for the BIS Continuous Improvement Network and are developing strong networks in this area, both within BIS and across wider Government.

In order to ensure our organisation is tolerant and open, we commissioned an external cultural deep dive, to get a deeper understanding of our people's experiences and identify any issues that may not be immediately apparent. The outcome from this work will help inform the refresh of our **Diversity Strategy** and support our work in this area.

We are also fully engaged in the Government Apprenticeship Programme, offering **apprenticeship opportunities** since September 2014, predominately aimed at the 16 – 24 age range. We accepted 8 in the first year and a further 14 from September 2015.

In the first year we offered apprenticeships in Business Administration and IT, before adding finance to the list for the year two intake.

All the apprentices from the first year have successfully developed their skills and experience, resulting in them all gaining permanent employment either with us or in the wider Civil Service. As part of the programme they took on a Money for Life charity project challenge supported by our delivery partners Acorns, which resulted in them winning the apprentice award for Wales and the same award for the UK.

In year two we continued our partnership with Acorns for the delivery of the educational qualifications, which is working well for us and the apprentices.

“ This year we achieved an engagement score of 65% in our People Survey, which was an increase of 3% on the previous years, our highest score yet and taking us into the top bracket of Civil Service High Performers. ”



Increasing efficiency and delivering value for money

We are committed to **increasing efficiency and delivering value for money** through all of our services and activities.

As a Trading Fund, our costs are covered by customer fees rather than general taxation, however we are working hard to contribute to the wider Government deficit reduction aims.

We have achieved **procurement savings** worth £1.04m this year, through effective purchasing and promoting the use of collaborative government frameworks as a standard sourcing approach. We also work closely with our parent department, BIS, on collaborative commercial arrangements and sharing knowledge and expertise in order to further drive efficiency and value for money.

This was the second year of a three year **Pay Pilot** introduced following agreement with HM Treasury. The purpose of the pilot is to test a new form of financial control to assess whether it could act as an appropriate replacement for headline pay restraint and offer Civil Service employers greater flexibility in their workforce decisions. The pilot is progressing well and in line with the controls agreed with Treasury, who are monitoring its progress and will complete a full evaluation at the end of the third year.

In line with the Government's shared service strategy, we are continuing to develop the **'shared solution' approach to our finance operations**, in partnership with Companies House. This solution provides both us and Companies House with savings against our finance system costs such as licences, maintenance and support by significantly reducing the need for specialist technical support and providing more appropriate licensing arrangements, as well as an innovative shared Finance Director arrangement.

We also gained approval to go to market for **a new HR and Payroll solution** for the organisation, therefore moving away from our current solution with UKSBS. Following a tender process the contract was awarded to MidlandHR, and we are now working together to ensure the service offering is fit for purpose and offers value for money. We expect this to be live around September 2016.

All of the work detailed supports our commitment to deliver efficiencies worth at least 3.5% – and saw us achieve 5.8%. This also supports delivery of our Corporate Strategy 2011/2016 outcome that we will deliver our services with demonstrably increasing efficiency and effectiveness.

We are required to achieve, on average and in real terms, a 4% Return on Capital Employed (ROCE) over a five year period. For 2015/16, the second year of the current five year period, we achieved a 4.4% return.

Sustainability Report

Our commitment to environmental matters remained strong and although we had fewer environmental initiatives, we did see a number of performance successes.

We agreed our Corporate Social Responsibility Strategy, which draws together aspects of Community, People, Environment and Procurement. This will ensure that our future activities will be in line with our objectives and allow us to better manage and report our performance.

We were awarded a Building Research Establishment Environmental Assessment (BREEAM) Method sustainability status of “Very Good” for our “Working beyond Walls” project, which looked at reshaping our office environment, and is now drawing to a close. We will take stock of the impact of this programme before embarking on further projects that affect our environment.

Our certification to ISO14001 continued, covering the formulation and maintenance of our Environmental Management System. We will begin work to transition to the new version of the standard ISO 14001:2015. The Greening Government targets completed their final extended year and we look forward to the challenge of their replacement.

Carbon Emissions from Offices

The biomass system provided a good service, as well as a significant reduction to our carbon usage, after earlier problems were resolved.

Our IT infrastructure was made even more sustainable by the implementation of a cold aisle containment system for our main IT frame room.

The project to replace the window seals in our Concept House office ended in 2015. This will be followed by improvements to our heating system. A project that will be completed over the next two years.

		2011/12	2012/13	2013/14	2014/15	2015/16
Tonnes CO₂	Gas	408	513	370	286	182
	Electricity	1,360	1,446	1,334	1,542	1,445
Related energy consumption (kWh)	Gas	3,374,212	2,335,043	2,014,356	1,548,489	989,052
	Electricity	3,008,383	3,186,776	2,995,965	2,868,412	2,891,936
Financial implications (£)	Gas	93,458	90,143	104,890	50,310	128,058
	Electricity ²	326,958	351,047	365,455	374,095	379,934
	CRC Energy Efficiency Scheme	1,290	26,376	30,890	27,438	29,864

² Although electricity usage has reduced, the cost of standing charges has increased, meaning an overall increase in cost year on year

Carbon Emissions from Travel

All forms of business travel showed a reduction in miles travelled in comparison to the previous year. An undertaking to reduce domestic flights being particularly successful.

In order to reduce business travel in general, we rolled out Skype for Business across the organisation. We also set up a taxi sharing process to reduce the amount of taxi journeys taken from our Newport and London offices, and continued our efforts to reduce the number of cars entering our Newport site.

To encourage more of our people to cycle to work we took part in the National Cycle Challenge. We finished an impressive 9th place out of 1,732 organisations. Our thriving community of walkers and cyclists also made a huge contribution to an Active Travel consultation organised by the local authority.

	2011/12	2012/13	2013/14	2014/15	2015/16	
Non-financial indicators (kg CO₂)	IPO owned vehicles	3,286	3,578	3,886	3,738	3,410
	Air travel	7,355	9,693	10,896	20,817	4,580
	Rail travel	38,360	58,157	62,330	54,406	44,100
	Road travel	39,208	53,426	79,609	97,329	65,220
	Taxis	2,838	3,049	3,287	3,614	3,290
Financial implications (£)	Expenditure on accredited offsets (GCOFII)	n/a	n/a	n/a	n/a	n/a
	Travel expenditure (UK)	491,908	615,511	711,968	728,163	723,354
	Travel expenditure (overseas)	394,803	412,852	450,913	461,118	439,902

Use of Finite Resources (water and paper)

Although our water usage is still within the good practice benchmarks of 5m³ per FTE, we have seen an increase in water consumption compared to the previous year. A contributing factor was the installation of new toilets and hand basins at our Concept House site, although other issues have been addressed.

Our mission to define our Operating Model and introduce modern digital services had an impact on our paper consumption and usage dropped by over 15% compared to the previous year.

		2011/12	2012/13	2013/14	2014/15	2015/16
Non-financial indicators	Water consumptions (M3)	6,535	7,549	6,040	4,115	5,208
Financial Implications (£)	Water consumptions costs	19,936	19,318	21,752	23,109	24,522
		2011/12	2012/13	2013/14	2014/15	2015/16
Non-financial indicators	Paper consumptions (A4 reams equivalent)	12,620	11,920	9,300	9,820	8,270
Financial Implications (£)	Paper costs	-	-	25,156	26,790	21,365

Waste

As part of our corporate social responsibility for the local community, we set up a process for people to bring small unwanted electrical items into the office. These are then collected by a local charity to be reused or recycled through their re-use centre.

We reviewed and improved our recycling facilities which saw us introduce a new process with our cleaning staff, where problems could easily be escalated and resolved.

Working with our Design & Print team we identified and reduced the amount of printed literature produced for in house meetings and training courses.

As our recycling figures have reduced this year, we will be running an education and awareness campaign to improve this going forward.

		2011/12	2012/13	2013/14	2014/15	2015/16
Non-financial indicators	Total waste	119	127	159	204	149
	Re-used / recycled	83	79	96	129	79
	ICT recycled & reused			1	1	1
	Waste Composted			4	4	4
	Landfill	36	48	62	75	70
	% recycled	70%	62%	61%	63%	53%
Financial implications (£)	Total waste	12,574	20,272	28,375	17,561	23,038
	Re-used / recycled	4,728	6,824	12,991	9,349	12,640
	Landfill	7,846	13,448	15,384	8,212	10,398

Looking Forward to 2016/17

This period is the first year of our new five year Corporate Strategy 'Making Life Better by Supporting UK Creativity and Innovation', which sets out a strong and clear vision for the future of IP and our role in creating it.

Our Corporate Plan shows the key deliverables for the period 2016 – 2019, and reflects that our primary focus remains to serve our customers, shape IP systems, provide leadership on enforcement and educate young people, consumers, entrepreneurs and businesses on how to use and protect IP.

We also remain clear on our need to support our people to lead and make change happen, and to modernise our technology and the way we operate to ensure we are as effective and efficient as we can be.

During this Corporate Planning period we will continue our work on IP Policy to ensure the UK IP system promotes growth and are fair and accessible to all.

We will continue to develop plans to ensure the UK is the best place in Europe to innovate and patent new ideas, and to deliver high quality rights granting services – ensuring quality and speed in all that we do. This will be supported by our work on our digital transformation programme (TRIPOD), focusing on delivering an identity assurance (IDA) offering and prototyping a customer driven digital, more automated, filing service to transform applying for a patent, whilst internally implementing a new Operating Model for the rights granting functions.

We will continue our education programme, ensuring appropriate resources are available and used by educators. We will also continue to support businesses, developing our regional presence and support network.

The enforcement agenda continues to be high profile for us. We published our Enforcement Strategy in May 2016. This provides clear priorities for our work with the PIPCU and other partners.

We will also further develop our work to improve the skills and capability of our people, whilst ensuring we are increasing efficiency and delivering value for money. This will include continuing our focus on developing our people to lead and manage change well, but also develop the plans of our Parent Department, BIS, under the BIS2020 programme, which will see us work closely with Companies House to deliver better and simpler services to our customers and businesses, as part of a South Wales based centre for business services.

2016/17 Ministerial Targets

We have agreed with our Minister the following performance targets for 2016/17:



Promoting UK growth through IP Policy

We will complete all remaining UK steps for the UPC to come into being.³



Delivering high quality right granting services

We will ensure that overall average customer satisfaction is at least 80%.

We will offer faster handling of patent applications, by providing an examination report with a search report when both are requested at the application date, and meeting at least 90% of requests for an accelerated two-month turnaround for search, publication and examination.

We will publish 90% of acceptable applications for national trade marks for opposition within 90 days of filing.



Ensuring IP Rights are respected and appropriately enforced

We will develop a robust methodology to measure and report on harm caused by IP infringement and counterfeiting to individuals, communities and the economy.



Educating and enabling business to understand, manage and protect their intellectual property

We will increase the number of businesses that better understand how to manage IP, reaching 100,000 businesses. 85% of the businesses we talk to will be better able to understand IP and its use within their business.

We will support the export activity of UK companies by providing education, advice and specific case support to 5,000 businesses by March 2017.

³ This Ministerial Target was published in April 2016 and in light of the EU Referendum result, the target is subject to review.



Improving the skills and capability of our people

We will enhance the capability of our people in leadership and change by designing and running a programme which will move at least 85% of participants up one level on a leadership measure.

We will implement a new HR & Payroll system.



Increasing efficiency and delivering value for money

We will achieve a 4% Return on Capital Employed (ROCE).

We will deliver an efficiency gain of 3.5%.

John Alty

Chief Executive and Accounting Officer
30 June 2016

Accountability Report

Corporate Governance Report

Directors' Report

Customers

Our customers are a key focus for us, and for 2015/16 overall average customer satisfaction was 84.4% against a target of 80%.

Our Customer Information Centre handled over 69,300 calls and approximately 10,000 email enquiries from customers, answering 84% of calls within 20 seconds.

As part of our Designs Modernisation programme we completed the first ever accessibility tests with customers using a variety of assistive technologies for our digital design service. Following launch, our online application service saw immediate adoption by customers and a rapid increase in use (an average of 60% take up over the first six-months). We are tracking satisfaction levels, feedback, completion rates and drop out pages during beta to ensure continual service improvements since launch.

We have expanded our base of triallists for the View Patents Cases service from nine at the start of the financial year to over 70 by year end, and used triallist feedback and a formal user survey to inform significant service expansion.

Our website is well utilised, receiving around 100,000 unique visitors each month. We have successfully launched a new e-mail service for customers through an independent company called GovDelivery. This is an email subscription service that increases customer engagement, brand awareness and ensures our messaging reaches a wider audience. We currently have almost 9,000 subscribers, which continues to increase.

We consistently achieve the Government standard to settle 80% of bills within five working days, this year achieving 90%.

People

As the demand for our services continues to grow, and we transform the services we offer, it is important we have people with right skills and capabilities to meet our customer needs. Therefore, we have continued to recruit additional resources to meet demand and use the resources we have to deliver our goals.

Headcount: in 2015/16 we continued our recruitment plans in key areas to meet specific skill requirements. This focused predominately on areas such as Patent Examination and IT. Overall our headcount was 1,173 on 31 March 2016, from 1,108 on 1 April 2015 and turnover for 2015/16 was 6.9%.

Pension liability: Full details of our pension arrangements for our people are covered in our Remuneration and Staff Report.

Attendance management: we have worked continually to develop a consistent approach to managing absence and ensure our health and wellbeing policies are appropriate and effective. We offer a number of wellbeing services, including fruit drops, the opportunity for people to purchase fruit and veg boxes and on-site fitness classes our people can do in their own time. This has all been recognised in our achievement of the Bronze Corporate Health Standard. We are also working with managers to ensure consistent and appropriate management and return to work interviews when absences occur.

During 2014/15 we averaged 7.2 working days lost per person against our internal target of an average of 7 working days lost per person. This year we tightened our internal target to 6.8 average working days lost per person, and the clear focus we placed on this area saw us achieve an overall 6.4 average working days lost per person.

Corporate and Social Responsibility

Corporate Social Responsibility (CSR) continues to be an important area for us. During the year we agreed a CSR strategy and also implemented a volunteering policy which allows our people up to six days a year in which to volunteer for the local community. Our longstanding commitments to activities such as reading help at primary schools and key skills events at secondary school have continued but we have also taken part in one off activities. In particular we:

- Took part in national Give & Gain Day, organised by Business in the Community. This year we created a vegetable garden for a young person's hostel and have been invited back for a further project in the coming year.
- Supported the Noah's Ark Hospital Charity at Christmas. Our people generously gave donations for us to buy presents for children spending Christmas in hospital.
- Helped Cancer Research Wales by providing a Christmas Wrapping service at a local shopping centre.
- Provided a team of volunteers to run a craft afternoon at a sheltered housing complex.
- Helped at the Newport food bank, spending a day organising and packing donations. Future sessions have also been planned.

Information Security

Our Information Security policy, which is approved and owned by our Executive Directors, sets out our approach to the management of information across the organisation. The Her Majesty's Government (HMG) Security Policy Framework dictates how we manage information to minimise the impact of incidents and

ensures the focus on business continuity. Our IT Services area is certified to ISO27011:2013, having transitioned from the 2005 standard in June 2015. Personal data is processed, stored and used in accordance with the Data Protection Act.

Across the organisation we have a number of Information Asset Owners, who ensure our Accounting Officer, through the Senior Information Risk Owner, is accountable for the adequate protection of information, which is considered a key asset within Government. We have made information security training mandatory for all our people, including our Executive and Non-Executive Directors. We manage any security incidents and ensure continuous improvement following these. There have been no significant security breaches during this reporting period. There were no personal data related incidents which required formal reporting to the Information Commissioner's Office.

Corporate Governance

Our corporate governance structure is described in our Framework Document.

IPO Steering Board

The Steering Board uses its collective external experience to advise and challenge our 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 chaired by a Non-Executive Director and held six times per year. The following members have served during 2015/16:

Bob Gilbert	Non-Executive Director (Chair)
Gary Austin	Non-Executive Director Chief Executive of a2om International
Iain Maclean	Non-Executive Director Co-founder and partner of The Maclean Partnership
Tim Suter	Non-Executive Director Managing Director of Perspective Associates
Andrew Mackintosh	Non-Executive Director Joined the Board November 2015
Mandy Haberman	Non-Executive Director Joined the Board November 2015
Ralph Ecclestone	Non-Executive Director (left the Board July 2015)
Nora Nanayakkara	Non-Executive Director
Gareth Davies	Director General, (The DG sends a designated deputy, Paul Hadley)
John Alty	Chief Executive and Accounting Officer

IPO Executive Board

The Executive Board collectively represent the organisation and is responsible for the strategic and operational leadership and management of the Office, ensuring that resources are 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 Corporate Plan. The Executive Board also monitors performance against these plans and aligns financial resource and capability accordingly.

The Executive Board is chaired by an Executive Director (by rotation) and attended by all Executive Directors. Meetings are held monthly and current membership is set out below:

John Alty	Chief Executive and Accounting Officer
Sean Dennehey	Deputy Chief Executive Officer
Louise Smyth	Chief Operating Officer
Neil Feinson	International Policy Director
Rosa Wilkinson	Innovation and Strategic Communications Director
Ros Lynch	Copyright and Enforcement Directors
Neil Hartley	Finance Director
Mike Fishwick	Chief Technology Officer (joined the Board September 2015)
Paul Feldman	Interim Chief Technology Officer (January 2015 – June 2015)

During the financial year Paul Feldman left his role as Chief Technology Officer and was replaced by Mike Fishwick. We also implemented an agreement with Companies House to share a Finance Director, Neil Hartley, who splits his time between the two organisations.

No members of the management board held directorships or other significant interests which conflicted with their management responsibilities.

The Audit and Risk Committee

The Audit and Risk 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 and a Non-Executive Member from the Steering Board and an Independent Member. The Chief Executive Officer and Director of Finance are obligatory attendees. There are additional attendees, by invitation only, from Internal Audit and the National Audit Office. The Committee meets four times a year, and attendees are:

Gary Austin	Non-Executive Director (Chair)
Nora Nanayakkara	Non-Executive Director
Ralph Ecclestone	Non-Executive Director (left the Committee July 2015)
Paul Layland	Independent Member Director of Finance, Office for National Statistics (joined the Committee Sept 2015)

Obligatory Attendees

John Alty	Chief Executive and Accounting Officer
Neil Hartley	Director of Finance

Those who attend by invitation

Sean Dennehey	Deputy Chief Executive Officer
Louise Smyth	Chief Operating Officer
Head of Internal Audit	Government Internal Audit Agency
Audit Manager	Government Internal Audit Agency
Engagement Director	National Audit Office
Engagement Manager	National Audit Office
Karen Powell	Head of Governance and Risk Management

Statement of Accounting Officer'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 18 December 2015. 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.

Accounting Officer's confirmation

As Accounting Officer, as far as I am aware there is no relevant audit information of which the auditors are unaware. I have taken all of the steps that I ought to have taken to make myself aware of any relevant audit information and to establish that the auditors are aware of that information.

The annual report and accounts as a whole are fair, balanced and understandable and I take personal responsibility for the annual report and accounts and the judgments required for determining that they are fair, balanced and understandable.



John Alty

Chief Executive and Accounting Officer
30 June 2016

Governance Statement 2015/16

Scope of Responsibility

In accordance with section 4(6) of the Government Trading Funds Act 1973, HM Treasury has appointed me the Accounting Officer for the Intellectual Property Office (IPO⁴).

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'.

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 of the executive IPO Board, the Steering Board and the Audit and Risk Committee, each with complementary functions (these are set out below). The governance framework is explained in our Framework Document which sets out the policy, planning, accountability and delegations within which the IPO operates.

The IPO Executive Board, which I chair, meets informally on a weekly basis and formally every month. It is comprised of: the Chief Executive Officer; Deputy Chief Executive and Director of Patents Designs and Trade Marks; Chief Operating Officer; Chief Technology Officer; International Policy Director; Copyright and Enforcement Director; Finance Director; and, Innovation Director. It has collective responsibility for the leadership and strategic management of the IPO, in line with Ministerial priorities. We have a five year strategy in place which, alongside our Corporate Plan sets out our vision for the future of intellectual property and our role in creating it.

⁴ An operating name of the Patent Office

I am also a member of the **IPO Steering Board** which has an independent Non-Executive Chair and not less than 4 Non-Executive Directors as members, together with Paul Hadley, 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 on our strategies and performance (including targets) as set out in our Corporate Plan. It also provides guidance, drawing on the experience of the Non-Executive Directors, 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 Strategy and Corporate Plan. The Steering Board meets six times a year.

The Audit and Risk Committee is a sub-committee of the Steering Board, advising on risk, control, governance and associated issues. The Committee comprises a Non-Executive Chair, one Non-Executive member of the Steering Board and one independent member from another government department. The Finance Director and I are obligatory attendees. There are additional attendees by invitation from the IPO, Government Internal Audit Agency, and the National Audit Office. In addition to providing me with assurance over the preparation and signing of the IPO accounts for 2014/15, the committee considered the findings of four audit reports. These reports covered a range of governance and risk management areas, including a review of our key financial controls, our payroll budgeting processes, IT change management and the governance of our digital transformation portfolio (TRIPOD). The Audit and Risk 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 and Designs, Policy, IT and Human Resources. It fulfils the Executive Team's responsibility to lead the development, delivery and implementation of cross-organisational initiatives including: operational processes and policies; and, corporate initiatives. The Operating Committee meets monthly.

The Policy Committee is a sub-committee of the IPO Executive Board. It is chaired by a Policy Director and includes representatives from relevant directorates across the office. The purpose of the Policy Committee is to ensure a strategic and co-ordinated approach to public policy making across the Office. It takes decisions on issues of public policy not meriting full IPO Board discussion. Formal meetings are held monthly or bi-monthly at the Chair's discretion in light of potential agenda items.

The Transformational Change Committee is also a sub-committee of the IPO Executive Board. It is chaired by the Chief Operating Officer and members include the Deputy Chief Executive, and one Non-Executive Director. It has responsibility for: prioritising the use of IT resources in support of IPO corporate goals and priorities; reviewing all business cases for change; ensuring that dependencies and interrelationship of projects are effectively managed; governance of the IPO transformation agenda; and, oversight of the change framework for the IPO. The Transformational Change Committee meets monthly.

The table below shows attendance at main Board and Committee meetings held during April 2015 – March 2016:

Members	IPO Executive Board	Steering Board	Audit Committee (4 in year)
John Alty (Accounting Officer/Chief Executive Officer)	11	5	4
Bob Gilbert (Non-Executive Director & Chair of Steering Board)	*	5	*
Gary Austin (Non-Executive Director & Chair of Audit and Risk Committee)	*	4	3
Iain Maclean (Non-Executive Director)	*	5	*
Tim Suter (Non-Executive Director)	*	5	*
Nora Nanayakkara (Non-Executive Director)	*	5	4
Mandy Haberman ⁵ (Non-Executive Director)	*	2	*
Andrew Mackintosh ⁶ (Non-Executive Director)	*	2	*
Paul Layland ⁷ (Independent member – from other government department)	*	*	2
Ralph Ecclestone ⁸ (Non-Executive Director)	*	2	2
Sean Dennehey (Deputy Chief Executive Officer)	10	5*	3*
Louise Smyth (Chief Operating Officer)	11	4*	4*
Neil Hartley (Director of Finance)	6	5*	3
Neil Feinson (Director of International Policy)	8	5*	1*
Rosa Wilkinson (Director of Innovation & Strategic Communications)	11	5*	1*
Ros Lynch (Director of Copyright and Enforcement)	9	3*	*
Mike Fishwick ⁹ (Chief Technology Officer)	7	2*	*
Paul Feldman ¹⁰ (Chief Technology Officer)	3	0*	1*

* Not a formal member or obligatory attendee of Board/Committee

⁵ Started November 2015

⁶ Started November 2015

⁷ Started September 2015

⁸ Left July 2015

⁹ Started September 2015

¹⁰ Left June 2015

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

- The IPO Board has identified key success factors for its collective role and self assesses on a rolling basis against these. Over the last year the Board has worked with a coach to encourage effective board behaviours;
- The Secretariat and I regularly review the Board's work programme ensuring that it addresses the requirements of the IPO and BIS;
- The Steering Board carries out an annual effectiveness review;
- Non-Executive Board members are reviewed individually on an annual basis and appointed for up to three years at a time;
- The Audit and Risk Committee undertakes an annual self-assessment which makes recommendations for change; and,
- 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.

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 2015/16 and up to 31 March 2016. It is kept under review.

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 Board, the Steering Board and the Audit and Risk Committee on a regular basis. Historically Audit and Risk Committee was responsible for overseeing the strategic processes and direction relating to the management of risk and Steering Board was responsible for the scrutiny of the content of the Strategic Risk Register. It was agreed in January 2016 that the responsibility for looking at the substance of the risks we are managing, and whether we are managing the right ones, would also be delegated to the Audit and Risk Committee. If any risks are causing particular concern, then Audit and Risk Committee should escalate these to Steering Board for full discussion and consideration. This is further supported by 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.

All projects within IPO maintain a risk register, as does the Transformational Change Committee. The Programme and Project Office ensures that any relevant transformational project risks are escalated to the Transformational Change Committee when necessary.

The Corporate Risk Team, sitting within People, Places and Services Directorate, co-ordinates the Board Risk Register and Operating Committee 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. This year Internal Audit gave us an overall audit opinion of 'moderate' based on the Government Internal Audit Agency scoring methodology, confirming that the systems of control, governance and risk management that operated during the year were generally effective. In 2016/17 Internal Audit will be reviewing the risk and control environment of some challenging areas of work such as change management and digital transformation.

Financial accounting remains sound; a history of unqualified audit opinions 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.

We attend quarterly BIS Family Counter Fraud Network meetings where best practice is shared and a fraud report is sent to every Audit and Risk Committee meeting. **We have not had any instances of fraud** which has resulted in a loss of money to the office. Our **whistle-blowing policy** was reviewed in February 2016 with some minor amendments made. No whistle-blowing cases have arisen this year.

The **IPO Business Continuity Plan (BCP)** is reviewed and updated every 6 months and tested annually. This year we have concentrated on testing our response to a terrorist incident, working in partnership with the Counter Terrorism Security Advisors. In November we ran a scenario workshop for Directors and individuals with key roles within the BCP. This was followed up by a number of sessions, to which all staff were invited, advising how people can stay safe. We have also run individual refresher sessions for BCP teams which looked at their specific actions in more detail.

The **IPO Secure Team** maintains responsibility for Security on behalf of the IPO and has continued to embed good practice across the organisation.

IT has maintained their certification against the ISO 27001 standard and the ISO assessor continues to give particular praise to the good practices applied. The team have transitioned to the new ISO 27001:2013 standard ahead of schedule and we successfully passed our first external audit against the standard.

Information Asset Experts manage and monitor information security across their directorates and we have employed an additional resource this year to further embed our **Cyber Security** agenda into our digital transformation projects. The Chief Operating Officer receives monthly updates from the IPO Secure team as well as updates in real time when deemed necessary.

We encountered issues with Payment Card Industry Data Security Standards (PCI DSS) in June 2015 when, during an internal audit by the IPO Secure team, it was discovered that we were on the wrong level of audit requirements and were non-compliant with the standard. Steps were put in place to rectify the situation and we were subsequently assessed as compliant in September 2015. We have reviewed the controls surrounding this and as a result have moved ownership of this area to the IPO Secure Team and established clear escalation routes to ensure we do not encounter this problem again in future.

There have been no known breaches of security (e.g. data losses) this year. All security incidents have been followed up and lessons learned.

The review of **quality assurance of Government analytical models undertaken by Sir Nicholas Macpherson** and published by HM Treasury in March 2013 made a number of recommendations for government departments and their arm's length bodies. IPO reviewed its use of analytical modelling and concluded that there are only two business models used within the IPO that could be classed as business critical. These models are owned by a single Senior Responsible Owner and have undergone an internal peer review by appropriate specialist staff ensuring an application of quality assurance.

The **Alexander Review of the tax arrangements of public sector appointees** published in May 2012 made a number of recommendations to ensure that the highest standards of integrity could be demonstrated in the tax arrangements of public sector appointees. IPO have procedures in place to ensure we comply with the recommendations of the report. We did have one senior member of staff who was not on the payroll during the year however I can confirm that this was for exceptional temporary circumstances and lasted less than six months in duration.

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 myself, the Executive Board and the Audit and Risk Committee with assurance that the IPO has complied with the corporate governance in central government departments: code of good practice throughout the year.

Significant Risks and Control Issues

The IPO is a relatively complex organisation covering policy work, rights granting, business support and enforcement. We work in an international framework, particularly within Europe and our customers expect us to provide services which are joined up with other offices. We continually assess and refine management data to ensure that the Board are provided with the most appropriate information to allow them to identify and respond to emerging risks. The Board are involved in shaping the information they receive to ensure its quality and that it meets their needs in overseeing the business.

We have been making a number of reforms to the IP framework and this inevitably carries some risk. Over the year we have seen a number of actual and potential legal challenges to current legislation.

We continue to closely monitor service levels from our HR and payroll provider, UK UKSBS and any material issues are highlighted to myself and the Chief Operating Officer. Four members of IPO staff remain at UKSBS to assist in the processing of IPO cases. We are sent quarterly assurance updates from UKSBS which provide assurance on the process, system, data and infrastructure controls at UKSBS. The latest report covering the last quarter of 2015/16 rated the level of control as Amber (partially implemented/effective).

The IPO performed its regular IT Health Checks in 2015 as part of its ongoing assurance program. This revealed a number of outstanding issues and we have subsequently set up a dedicated project to improve these findings for 2016. The aim of this work is to keep the network health in line with IPO's security standards and the Public Service Network's (PSN) expectations.

Delivering our commitment to transform our organisation to digital by default continues to be one of our main challenges. Our portfolio of work, Transforming the IPO Digitally (TRIPOD) was subject to an internal audit by KPMG on behalf of the Government Internal Audit Agency (GIAA). The audit identified a number of fundamental weaknesses in the framework of governance, risk management and control for the portfolio. The TRIPOD SRO, after consultation with me, approved a robust plan of improvement action which is being closely monitored. The IPO Board has also considered the broader lessons coming from the review to ensure that they are widely applied.

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 who have responsibility for the development and maintenance of the governance structures and internal control framework across the organisation, Internal Audit reports, comments made by the external auditors in their management letter and other reports. I also receive independent assurance from the Audit and Risk Committee.

I have considered the evidence provided to support this Governance Statement and sought relevant Audit and Risk Committee assurance. Although there have been some weaknesses identified, management has taken steps to understand the underlying issues and act on the findings. Overall I conclude that the IPO has maintained a sound system of governance, risk management and internal control during the financial year 2015/16.

Handwritten signature of John Alty in blue ink.

John Alty

Chief Executive Officer and Accounting Officer

30 June 2016

1. Remuneration and Staff Report

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;
- The Government's inflation target.

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

Further information about the work of the Review Body can be found at www.gov.uk/government/organisations/review-body-on-senior-salaries

Directors comprise of 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 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 2015/16 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 3.3% 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 analogies the Chief Executive and Chief Operating Officer formed a remuneration committee and moderate the final performance distribution. The committee met on 4 June 2015 to moderate the 2015/16 award. The Deputy Chief Executive's performance was moderated by a different panel made up of the Chief Executive and Director General of Knowledge and Innovation.

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 civilservicecommission.independent.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. These tables together with the median earnings data are subject to audit. For comparison the full year equivalent (FYE) is provided for those holding office for part of the year.

Remuneration

	Salary		Bonus		Pension Benefits		Total Remuneration	
	15/16	14/15	15/16	14/15	15/16	14/15	15/16	14/15
	£000	£000	£000	£000	£000	£000	£000	£000
John Alty ¹ Chief Executive	145-150	145-150	0-5	0-5	28	23	170-175	170-175
Sean Dennehey ²	110-115	110-115	10-15	10-15	33	11	155-160	130-135
Louise Smyth ¹	85-90	85-90	0-5	0-5	57	153	140-145	130-135
Neil Feinson ¹	70-75	70-75	0-5	0-5	20	11	90-95	80-85
Rosa Wilkinson ¹	75-80	75-80	10-15	10-15	24	17	110-115	100-105
Ros Lynch ¹	65-70	65-70	0-5	0-5	17	16	80-85	80-85
Neil Hartley ¹ Director from 01.04.15	35-40	N/A	N/A	N/A	18	N/A	55-60	N/A
Mike Fishwick ¹ Director from 07.09.15	65-70 (FYE 115-120)	N/A	N/A	N/A	26	N/A	90-95 (FYE 140-145)	N/A

The value of pension benefits accrued during the year is calculated as (the real increase in pension multiplied by 20) plus (the real increase in any lump sum) less (the contributions made by the individual). The real increases exclude increases due to inflation or any increase or decreases due to a transfer of pension rights.

¹ is a member of the Senior Civil Service.

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

Paul Feldman was employed as a Director until 19 June 2015 via a contract with an approved agency at a daily rate. The IPO paid £53,500 for this period from April 2015 including VAT and expenses.

On 1 April 2015 Neil Hartley started a dual role where 50% of time is with IPO and 50% of time with Companies House. Although he is employed by Companies House the IPO is charged for the work undertaken on its behalf. The total remuneration package reflects the amount charged for this role. It is not possible to determine what portion of the pension entitlement and CETV relate to IPO or Companies House.

John Alty's salary includes £22,000 for gross taxable expenses in 2015/16 (£26,000 in 2014/15).

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 2015/16 or 2014/15.

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 2015/16 relate to performance in 2014/15 and the comparative bonuses reported for 2014/15 relate to the performance in 2013/14. Directors and all other staff, apart from the Chief Executive, are eligible for an equal share of the overall office bonus.

Pension Benefits

	Accrued pension at age 60 as at 31/3/16 and related lump sum	Real increase / (decrease) in pension and related lump sum at age 60	CETV at 31/3/16 or leaving office	CETV at 31/3/15 or taking office	Real increase/ (decrease) in CETV
	£000	£000	£000	£000	£000
John Alty Chief Executive	60-65 plus 180-185 lump sum	0-2.5 plus 5-7.5 lump sum	1,409	1,290	28
Sean Dennehey	50-55 plus 150-160 lump sum	0-2.5 plus 5-7.5 lump sum	1,178	1,068	33
Louise Smyth	25-30 plus 85-90 lump sum	2.5-5 plus 7.5-10 lump sum	561	472	46
Neil Feinson	25-30 plus 80-85 lump sum	0-2.5 plus 2.5-5 lump sum	547	486	16
Rosa Wilkinson	5-10	0-2.5	151	117	18
Ros Lynch	15-20 plus 45-50 lump sum	0-2.5 plus 2.5-5 lump sum	317	278	15
Neil Hartley Director from 01.04.15	30-35	0-2.5	464	403	18
Mike Fishwick Director from 07.09.15	0-2.5	0-2.5	21	0	16

Civil Service Pensions

Pension benefits are provided through the Civil Service pension arrangements. From 1 April 2015 a new pension scheme for civil servants was introduced – the Civil Servants and Others Pension Scheme or **alpha**, which provides benefits on a career average basis with a normal pension age equal to the member's State Pension Age (or 65 if higher). From that date all newly appointed civil servants and the majority of those already in service joined **alpha**. Prior to that date, civil servants participated in the Principal Civil Service Pension Scheme (PCSPS). The PCSPS has four sections: 3 providing benefits on a final salary basis (**classic**, **premium** or **classic plus**) with a normal pension age of 60; and one providing benefits on a whole career basis (**nuvos**) with a normal pension age of 65.

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**, **nuvos** and **alpha** are increased annually in line with Pensions Increase legislation. Existing members of the PCSPS who were within 10 years of their normal pension age on 1 April 2012 remained in the PCSPS after 1 April 2015. Those who were between 10 years and 13 years and 5 months from their normal pension age on 1 April 2012 will switch into alpha sometime between 1 June 2015 and 1 February 2022. All members who switch to **alpha** have their PCSPS benefits 'banked', with those with earlier benefits in one of the final salary sections of the PCSPS having those benefits based on their final salary when they leave **alpha**. (The pension figures quoted for officials show pension earned in PCSPS or **alpha** – as appropriate. Where the official has benefits in both the PCSPS and **alpha** the figure quoted is the combined value of their benefits in the two schemes.) Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (**partnership** pension account).

Employee contributions are salary-related and range between 3% and 8.05% of pensionable earnings for members of **classic** (and members of **alpha** who were members of **classic** immediately before joining alpha) and between 4.6% and 8.05% for members of **premium**, **classic plus**, **nuvos** and all other members of **alpha**. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years initial pension is payable on retirement. For **premium**, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike **classic**, there is no automatic lump sum. **Classic plus** is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per **classic** and benefits for service from October 2002 worked out as in **premium**. In **nuvos** a member builds up a pension based on 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 the accrued pension is uprated in line with Pensions Increase legislation. Benefits in **alpha** build up in a similar way to **nuvos**, except that the accrual rate is 2.32%. In all cases members may opt to give up (commute) pension for a 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% up to 30

September 2015 and 8% and 14.75% from 1 October 2015 (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of 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 up to 30 September 2015 and 0.5% of pensionable salary from 1 October 2015 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**, 65 for members of **nuvos**, and the higher of 65 or State Pension Age for members of **alpha**. (The pension figures quoted for officials show pension earned in PCSPS or **alpha** – as appropriate. Where the official has benefits in both the PCSPS and **alpha** the figure quoted is the combined value of their benefits in the two schemes, but note that part of that pension may be payable from different ages.)

Further details about the Civil Service pension arrangements can be found at the website www.civilservicepensionscheme.org.uk

Cash Equivalent Transfer Values

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

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

The real increase is the increase due to additional benefit accrual (i.e. as a result of salary changes and service) that is funded by the employer. It will be less than the difference between the start and end CETVs because it does not include any increase in the value of the pension due to inflation or due to the contributions paid by the employee or the value of any benefits transferred from another pension scheme. Nor does it include any increases (or decreases) because of any changes during the year in the actuarial factors used to calculate CETVs.

There will be a greater disparity than in previous years in the 2015/16 accounts between the start/end CETV differences and the corresponding real increases. This is because the actuarial factors used to calculate CETVs changed during the year and, consequently, CETV figures increased regardless of any further pension accrual. The real increase calculation uses common actuarial factors at the start and end of the period so that it disregards the effect of any changes in factors and focuses only on the increase that is funded by the employer.

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 £145,000-£150,000 in 2015/16 (£145,000-£150,000 in 2014/15) 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 £28,546 (£29,190 in 2014/15) and the ratio was 5.1 (5.1 in 2014/15).

In 2015/16, 0 (2014/15, 0) employees received remuneration in excess of the highest paid director. Remuneration ranged from £15,000 to £120,000 (2014/15, £15,000 to £115,000). The range shows salary from the apprentice rate upwards. The lowest paid established civil servant banding ranged from £16,178 upwards.

Steering Board Members

Gareth Davies is Director General with responsibility for the Office. The Director General is a member of the Steering Board and appoints independent Board members for a fixed term, which may be renewed. Paul Hadley is the BIS representative.

The Independent Board members and their remuneration are:

	2015/16 Remuneration	2014/15 Remuneration
	£000	£000
Bob Gilbert Reappointed from 6 February 2014 to 5 February 2017	10–15	10–15
Gary Austin Reappointed 15 July 2015 to 15 July 2018	5–10	5–10
Ralph Ecclestone Appointed from 17 July 2012 to 16 July 2015	0–5 (5–10 full year equivalent)	5–10
Iain Maclean Reappointed from 16 July 2015 to 16 July 2018	5–10	5–10
Tim Suter Appointed from 17 September 2013 to 17 September 2016	5–10	5–10
Nora Nanayakkara Appointed from 6 November 2013 to 5 November 2016	5–10	5–10
Mandy Haberman Appointed from 2 November 2015 to 1 November 2018	0–5 (5–10 full year equivalent)	N/A
Andrew Mackintosh Appointed from 2 November 2015 to 1 November 2018	0–5 (5–10 full year equivalent)	N/A

Gareth Davies, Paul Hadley and John Alty are civil servants and are not remunerated by the Office for serving on the steering board.

2. Staff Report

(This section is subject to audit)

2.1 Staff costs

	Permanently employed staff	Others	2015/16 £000 Total	2014/15 £000 Total
Wages and salaries	38,463	4,090	42,553	38,811
Social security costs	3,261	-	3,261	3,052
Other pension costs	7,823	-	7,823	6,656
Sub total	49,547	4,090	53,637	48,519
Capitalised staff costs included above	(575)	(993)	(1,568)	(638)
Total net costs	48,972	3,097	52,069	47,881

Off-payroll engagements

Off-payroll appointments as of 31 March, for more than £220 per day and that last longer than six months are shown below:

	2015/16	2014/15
The total number of such engagements	27	18
The number that have existed for less than one year	23	12
Declaration that all of the above appointments have been subject to a risk based assessment regarding the payment of correct tax	Yes	Yes

For all new off-payroll appointments, all those that reach six months in duration, between 1 April and 31 March for more than £220 per day and will last for longer than six months:

	2015/16	2014/15
The number of new engagements or those that reached six months during the period	23	13
The number of these engagements which include contractual clauses giving the department the right to request assurance in relation to tax obligations	23	13
The number for whom assurance has been requested	13	9
The number for whom assurance has been requested and received	13	9
The number for whom assurance has been requested but not received	-	-
The number that have been terminated from non-receipt of assurance	-	-

Consultancy and the use of contingent labour

	2015/16	2014/15
	£000	£000
Consultancy expenditure	2	5
Contingent labour expenditure	3,097	3,067

The movement is due to an increased requirement for specialist technical resource.

Post employment benefits

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 underlying assets and liabilities. The scheme actuary valued the scheme as at 31 March 2012. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2015/16 employer contributions of £7,779,651 were payable to the PCSPS (2014/15 £6,587,208) 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 (see above) 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 2015/16 to be paid when the member retires and not the benefits paid during this period to existing pensioners. The rates are unchanged for 2015/16.

New Career Average pension arrangements were introduced from 1 April 2015 and the majority of classic, classic plus and nuvos members have joined the new scheme.

Further details of this new scheme are available at:

www.civilservicepensionscheme.org.uk/members/the-new-pension-scheme-alpha

Employees can opt to open a partnership pension account; a stakeholder pension with an employer contribution. Employers' contributions of £59,408 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 £3,762 (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 £4,822. Contributions prepaid at that date were zero.

2.2 Average number of persons employed

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

	Directors	Staff	Seconded in staff	Agency/ contract staff	Seconded out staff	2016	2015
Patents	1	453	0	1	1	456	401
Trade marks	0	160	0	1	11	172	161
Other	6	469	13	35	16	539	483
Total	7	1082	13	37	28	1167	1045

In 2015/16 there were 20 full time equivalent staff or contract staff working on capital projects (2014/15, 19).

Of the people employed by the Office in 2015/16 1,130 were civil servants (1,014 2014/15).

The in year provision for early retirement and severance schemes was £408,471 (£91,000 2014/15) and is shown under operating charges within the financial statements.

2.3 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	
	2015/16	2014/15	2015/16	2014/15	2015/16	2014/15
<£10,000	-	-	-	-	-	-
£10,000 - £25,000	-	-	-	1	-	1
£25,000 - £50,000	-	-	3	2	3	2
£50,000 - £100,000	-	-	3	-	3	-
£100,000 - £150,000	-	-	-	-	-	-
£150,000 - £200,000	-	-	-	-	-	-
£200,000 - £250,000	-	-	-	-	-	-
Total number of exit packages by type	0	0	6	3	6	3
Total cost £000	0	0	361	83	361	83

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.

2.4 Staff Composition

The staff composition as at 31 March 2016 was as follows:

	Male	Female
Total Staff	56.5%	43.5%
Clerical Staff	38.0%	62.0%
Management Staff	60.7%	39.3%
Senior Civil Servants	70.4%	29.6%
Board	62.5%	37.5%

2.5 Sickness Absence Data

During 2014/15 we averaged 7.2 working days lost per person against our internal target of an average of 7 working days lost per person. This year we tightened our internal target to 6.8 average working days lost per person, and the clear focus we placed on this area saw us achieve an overall 6.4 average working days lost per person.

2.6 Staff Policies

Staff policies applied during the year:

- For giving full and fair consideration to applications for employment by the Office made by disabled persons, having regard to their particular aptitudes and abilities;
- For continuing the employment of, and for arranging appropriate training for, employees of the Office who have become disabled persons during the period when they were employed by the Office;
- Otherwise for the training, career development and promotion of disabled persons employed by the Office.

3. Parliamentary Accountability and Audit Report

(This section is subject to audit)

3.1 Losses and special payments

There were no losses or special payments to report.

3.2 Fees and Charges

(This section is subject to audit)

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

2015/16	Patents	Trade marks	Designs	Publications	Commercial	Total
	£000	£000	£000	£000	£000	£000
Income	60,125	21,505	1,307	98	298	83,333
Expenditure	(58,339)	(19,258)	(1,622)	(94)	(429)	(79,742)
Subtotal	1,786	2,247	(315)	4	(131)	3,591
Financial Income						293
Financial Expenditure						(69)
Dividend						(6,867)
Retained surplus/ (deficit)						(3,052)

2014/15	Patents	Trade marks	Designs	Publications	Commercial	Total
	£000	£000	£000	£000	£000	£000
Income	58,854	19,928	1,195	115	246	80,338
Expenditure	(53,929)	(19,641)	(1,612)	(149)	(363)	(75,694)
Subtotal	4,925	287	(417)	34	(117)	4,644
Financial Income						308
Financial Expenditure						(72)
Dividend						(3,457)
Retained surplus/ (deficit)						1,423

3.3 Remote Contingent Liabilities

In addition to contingent liabilities reported within the meaning of IAS 37, the Office also reports liabilities for which the likelihood of a transfer of economic benefit in settlement is too remote to meet the definition of contingent liability. There are no such liabilities that the IPO are aware of. Liabilities of the European Patent Office and other multi-national organisations lie with the Secretary of State.

3.4 Long Term Expenditure Trends

The Office continues to face high demand and as such has recruited significant numbers of staff, particularly patent examiners over the last few years. This has driven the trend to significantly higher staff costs together with increases in employer's pension contributions.

The Office also continues to invest heavily in infrastructure, both in refurbishing buildings and the move to fully digitise all IT services. This has meant increased IT costs and depreciation as well as substantial in house software developments. The Office has also taken on additional leased space in London to provide a location for the UPC.

Handwritten signature of John Alty in black ink.

John Alty

Chief Executive and Accounting Officer
30 June 2016

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 2016 under the Government Trading Funds Act 1973. The financial statements comprise: Statement of Comprehensive Income, Statement of Financial Position, Statement of Cash Flows, Statement of Changes in Taxpayers' Equity; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration and Staff Report and Parliamentary Accountability Disclosures that is described in those reports as having been audited.

Respective responsibilities of the Accounting Officer and Auditor

As explained more fully in the Statement of Accounting Officer'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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. 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 2016 and of its deficit 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 parts of the Remuneration and Staff Report and the Parliamentary Accountability disclosures 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 Performance Report and Accountability 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 parts of the Remuneration and Staff Report and the Parliamentary Accountability disclosures 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.

Sir Amyas C E Morse

Comptroller and Auditor General

Date 8 July 2016

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

Financial Statements 2015/16

Statement of Comprehensive Income

For the year ended 31 March 2016

		2016	2015
	Notes	£000	£000
Income from sale of goods and services	3	83,333	80,338
Staff costs	4	(52,069)	(47,881)
Depreciation and amortisation		(2,074)	(2,026)
Other operating charges		(25,599)	(25,787)
Operating surplus before financing and dividend		3,591	4,644
Financial Income	7	293	308
Operating surplus on ordinary activities		3,884	4,952
Financial Expenditure	8	(69)	(72)
Net operating surplus		3,815	4,880
Dividend	9	(3,467)	(3,457)
		348	1,423
Additional Dividend Paid During Year	9	(3,400)	-
Retained (deficit) / surplus for the year		(3,052)	1,423
All of the operations are classed as continuing.			
Other comprehensive income			
Net gain on revaluation of plant, property and equipment	10	166	1,257
Net gain on revaluation of intangible assets	11	122	92
Total comprehensive (expenditure) / income		(2,764)	2,772

The notes on pages 64 to 77 form part of these accounts.

Statement of Financial Position

As at 31 March 2016

		2016	2015
	Notes	£000	£000
Non-current assets			
Property, plant and equipment	10	21,594	21,621
Intangible assets	11	6,102	5,043
		27,696	26,664
Current assets			
Trade and other receivables	12	5,344	3,894
Cash and cash equivalents	13	89,791	94,357
		95,135	98,251
Total assets		122,831	124,915
Current liabilities			
Trade and other payables	14	(17,105)	(17,584)
Other liabilities	14	(19,455)	(17,984)
Total current liabilities		(36,560)	(35,568)
Non-current assets plus net current assets		86,271	89,347
Non-current liabilities			
Provision for liabilities and charges	15	(113)	(258)
Financial liabilities	16	(166)	(333)
Total non-current liabilities		(279)	(591)
Net Assets		85,992	88,756
Financed by:			
Capital and reserves			
Public dividend capital		6,325	6,325
Revaluation reserve		3,650	3,516
General reserve		76,017	78,915
Total financing		85,992	88,756



John Alty

Chief Executive Officer and Accounting Officer

30 June 2016

The notes on pages 64 to 77 form part of these accounts.

Statement of Cash Flows

For the year ended 31 March 2016

	2016	2015
	£000	£000
Net cash inflow from operating activities		
Net operating surplus	3,815	4,880
Adjustment for non-cash items	2,514	2,136
Increase in trade and other receivables	(1,450)	(630)
Increase in trade payables	992	894
Movements in payables relating to items not passing through the operating statement (capital and dividend accruals and short term provision movement)	(130)	519
Use of provisions	(626)	(507)
Net cash inflow from operating activities	5,115	7,292
Cash flows from investing activities		
Purchase of property plant and equipment	(1,090)	(777)
Purchase of intangible assets	(1,568)	(638)
Dividends paid	(6,857)	(3,442)
Net cash outflow from investing activities	(9,515)	(4,857)
Cash flows from financing activities		
Repayment of loans	(166)	(166)
Net (Decrease) / Increase in cash and cash equivalents in year	(4,566)	2,269
Cash and cash equivalents at the beginning of the year	94,357	92,088
Cash and cash equivalents at the end of the year	89,791	94,357

The notes on pages 64 to 77 form part of these accounts.

Statement of Changes in Taxpayers' Equity

	PDC	Revaluation Reserve	General Reserve	Total Capital & Reserves
	£000	£000	£000	£000
Balance at 31 March 2014	6,325	2,219	77,440	85,984
Changes in capital and reserves for 2014/15				
Net gain on revaluation of property, plant and equipment	-	1,257	-	1,257
Net gain on revaluation of intangible assets	-	92	-	92
Transfer of (excess) / realised depreciation between reserves	-	(52)	52	-
Retained surplus	-	-	1,423	1,423
At 31 March 2015	6,325	3,516	78,915	88,756
Changes in capital and reserves for 2015/16				
Net gain on revaluation of property, plant and equipment	-	166	-	166
Net gain on revaluation of intangible assets	-	122	-	122
Transfer of (excess) / realised depreciation between reserves	-	(154)	154	-
Retained (deficit)	-	-	(3,052)	(3,052)
At 31 March 2016	6,325	3,650	76,017	85,992

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 (FRoM) issued by HM Treasury. The accounting policies contained in the FRoM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FRoM 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 management's 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 of plant and equipment. Any difference between these figures is not considered material for 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	53 years
Information technology	5 years
Plant and machinery	5 years

Depreciation is charged from the date of acquisition.

1(e) Capitalisation thresholds

All land and buildings owned by the Patent Office and all other assets costing more than £3,000 are capitalised. Software development where major new developments exceed £250,000 or changes to existing software exceed £100,000, are capitalised. All threshold limits quoted are VAT exclusive. Depreciation is calculated to reduce the net book amount of each asset to its estimated residual value by the end of its estimated useful life in the Patent Office operations.

1(f) 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(g) 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(h) 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 14) and is only recognised in the Statement of Comprehensive Income when the services are performed.

1(i) Income

Income, 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(j) 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 operating expenditure is charged to the Statement of Comprehensive Income and on capital expenditure to the Statement of Financial Position.

1(k) 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(l) 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(m) 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(n) Provisions

All provisions where the time value of money is significant are discounted at the Treasury approved rate (see note 15).

1(o) 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 6. 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 and meet this further financial objective.

1(p) 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. 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.

1(q) Contingent liabilities

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(r) Standards issued but not yet effective

The office provides disclosure where it has not yet applied a new accounting standard, and known or reasonably estimable information relevant to assessing the possible impact that the initial application of a new standard would have on financial statements. There were no new standards issued for 2015/16 and not applied, which would materially affect the Financial Statements. In addition, no new standards have been adopted early.

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 Income

Analysis of operating income by classification and activity

For the year ended 31 March	2016	2015
	£000	£000
Patents		
Application, search and examination fees	3,537	3,546
Renewals for UK Patents	12,506	12,605
Renewals for European patents designating the UK	43,277	42,079
Other	805	624
	60,125	58,854
Trade marks		
Application fees	13,479	12,742
Renewal fees	7,167	6,076
Other	859	1,110
	21,505	19,928
Designs		
Application fees	339	258
Renewal Fees	963	911
Other	5	26
	1,307	1,195
Publications	98	115
Commercial services	298	246
Total Turnover	83,333	80,338

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

4 Staff costs

Staff costs comprise of salaries and wages, social security cost, pension contributions and contractor costs less capitalised staff costs to create software assets. Further details are shown in the Accountability Report.

	2016	2015
	£000	£000
Salaries and wages	38,463	35,338
Social security costs	3,261	3,052
Pension costs	7,823	6,656
Agency/Contract staff	4,090	3,473
Capitalised staff costs included above	(1,568)	(638)
	52,069	47,881

5 Other non staff costs

	2016	2015
	£000	£000
IT, Telecoms and bureau charges	7,934	7,806
Accommodation (ex leases)	3,436	3,331
Training, recruitment and other staffing costs	2,123	1,463
Enforcement support	1,648	1,426
Building refurbishment	1,543	2,574
Innovation support	1,531	2,141
Other admin costs	1,292	1,124
Travel	1,105	1,149
Research co-operation and seminars	907	1,123
Legal and hearings	889	882
Property lease payments	786	547
Office supplies and equipment inc postage	772	694
Subscriptions to international bodies	745	780
Outreach and marketing	220	223
Hire of office machinery	189	343
Departmental overheads	66	39
Audit fee	40	36
Exchange rate losses / (gains)	(38)	11
Total	25,188	25,692
Non cash items	£000	£000
Amortisation	632	569
Depreciation	1,442	1,457
Loss on disposal of assets	3	4
Provision for early departure in year	408	91
Total non cash	2,485	2,121
Total cash and non cash	27,673	27,813

6 Performance against financial objective

The Treasury Minute at Appendix A requires the Office to achieve for the period from 1 April 2014 to 31 March 2019 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 2016 was 4.4% (5.6%: at 31 March 2015).

The return achieved for the period 1 April 2014 to 31 March 2016 was 5.0% with the capital averaged using the mean of each year.

7 Financial Income

	2016	2015
	£000	£000
Short term deposits - operating activities	293	308

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

8 Financial expenditure

	2016	2015
	£000	£000
Interest on loans (see note 16)	41	57
Unwinding of discount on early retirement provision (see note 15)	28	15
	69	72

9 Dividends

The dividend of £3,456,872 proposed in the 2014/15 statements was paid in July 2015. A further additional dividend of £3,400,000 was paid during the year from accumulated reserves to fund other Intellectual Property projects. The dividend of £3,466,706 proposed in the 2015/16 statements will be paid in July 2016 to the Consolidated Fund.

10 Property, plant and equipment

2015/16	Land	Buildings	Plant and machinery	Information Technology	Total
	£000	£000	£000	£000	£000
Cost or valuation					
At 31 March 2015	3,500	15,341	1,763	6,205	26,809
Additions	-	684	338	231	1,253
Revaluation	70	(192)	-	-	(122)
Disposals	-	-	(19)	(79)	(98)
At 31 March 2016	3,570	15,833	2,082	6,357	27,842
Depreciation					
At 31 March 2015	-	-	1,276	3,912	5,188
Provided during the year	-	288	190	964	1,442
Surplus on revaluation	-	(288)	-	-	(288)
Disposals	-	-	(16)	(78)	(94)
At 31 March 2016	-	-	1,450	4,798	6,248
Net book value at 31 March 2016	3,570	15,833	632	1,559	21,594
Net book value at 31 March 2015	3,500	15,341	487	2,293	21,621
2014/15	Land	Buildings	Plant and machinery	Information Technology	Total
	£000	£000	£000	£000	£000
Cost or valuation					
At 31 March 2014	3,500	14,350	1,693	6,827	26,370
Additions	-	-	70	343	413
Revaluation	-	991	-	-	991
Disposals	-	-	-	(965)	(965)
At 31 March 2015	3,500	15,341	1,763	6,205	26,809
Depreciation					
At 31 March 2014	-	-	1,083	3,875	4,958
Provided during the year	-	266	193	998	1,457
Surplus on revaluation	-	(266)	-	-	(266)
Disposals	-	-	-	(961)	(961)
At 31 March 2015	-	-	1,276	3,912	5,188
Net book value at 31 March 2015	3,500	15,341	487	2,293	21,621
Net book value at 31 March 2014	3,500	14,350	610	2,952	21,412

The land and buildings referred to above are freehold and were revalued at £19.403 million by the District Valuer, Newport, South Wales on 31 March 2016 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.

11 Intangible Assets

2015/16	Software in use	Software under construction	Software total
	£000	£000	£000
Cost or valuation			
At 1 April 2015	8,405	382	8,787
Additions	454	1,115	1,569
Reclassifications	141	(141)	-
Revaluation	122	-	122
Disposals	-	-	-
At 31 March 2016	9,122	1,356	10,478
Amortisation			
At 1 April 2015	3,744	-	3,744
Provided during the year	632	-	632
Surplus on revaluation	-	-	-
Disposals	-	-	-
At 31 March 2016	4,376	-	4,376
Net Book value at 31 March 2016	4,746	1,356	6,102
2014/15	Software in use	Software under construction	Software total
	£000	£000	£000
Cost or valuation			
At 1 April 2014	8,057	-	8,057
Additions	256	382	638
Reclassifications	-	-	-
Revaluation	92	-	92
Disposals	-	-	-
At 31 March 2015	8,405	382	8,787
Amortisation			
At 1 April 2014	3,175	-	3,175
Provided during the year	569	-	569
Surplus on revaluation	-	-	-
Disposals	-	-	-
At 31 March 2015	3,744	-	3,744
Net Book value at 31 March 2015	4,661	382	5,043

Additions represent developments in producing software under the TRIPOD major change programme.

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

The historic cost net book value at 31 March 2016 is £5,889,249 (£4,772,505 at 31 March 2015).

12 Trade receivables

	2016	2015
	£000	£000
Trade receivables	1,302	763
Other receivables	407	288
Prepayments and accrued income	3,635	2,843
	5,344	3,894

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

Other receivables	-	-
Prepayments and accrued income	825	249
	825	249

13 Cash and cash equivalents

	2016	2015
	£000	£000
Balance at 1 April	94,357	92,088
Net change in cash and cash equivalent balances	(4,566)	2,269
Balance at 31 March	89,791	94,357
Government Banking Service	88,542	9,131
Commercial Banks and cash in hand	1,249	226
Short term investments with National Loans Fund	-	85,000
	89,791	94,357

14 Current liabilities

	2016	2015
	£000	£000
User deposit accounts	5,430	5,087
Trade payables	11,675	12,497
	17,105	17,584
Deferred income	4,777	4,554
Early retirement provision (see note 15)	444	488
Legal provision (see note 15)	354	-
Taxation and social security	946	878
Superannuation	863	758
Other liabilities	464	41
Dividend payable	3,467	3,457
Untaken annual leave owed	2,038	2,021
Accruals	5,936	5,621
Loans (see note 16)	166	166
	19,455	17,984

15 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 2014 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 1.37% (1.3% at 31 March 2015), with the unwinding of the discount treated as an interest charge on the Statement of Comprehensive Income (see note 8).

	2016	2015
	£000	£000
At 1 April	746	898
Provision made in year	409	91
Unwinding of discount on provision	28	15
Payments offset against the provision	(626)	(258)
At 31 March	557	746
Less amount payable within one year (included in current liabilities - see note 14)	(444)	(488)
Amount payable after one year	113	258

It should be noted that £131,229 of payments due in 2014/15 were not billed until April 2015.

Other provisions

The office has made provision for a contractual dispute around termination of a supplier agreement.

	Legal	Legal
	2016	2015
	£000	£000
At 1 April	-	-
Provision made in year	354	-
Unwinding of discount on provision	-	-
Payments offset against the provision	-	-
At 31 March	354	-
Less amount payable within one year (included in current liabilities - see note 14)	(354)	-
Amount payable after one year	-	-

16 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 2016	Fair Value 2016	Book Value 2015	Fair Value 2015
£000					£000	£000	£000	£000
2,161	01.10.91	26 years	9.625%	} 9.813%	166	184	249	285
2,164	31.03.92	26 years	10.000%		166	183	250	284
					332	367	499	569
Amounts due within one year (see note 14)					166		166	
Amounts falling due over one year					166		333	

In accordance with Treasury guidance, the fair value has been calculated by discounting future cash flows at the 31 March 2016 interest rate of 1.89%. This is the rate applicable to loans of 26 years.

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

The interest payable on each loan was:

	2016	2015
Loan 1	18	26
Loan 2	23	31
	41	57

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

17 Commitments under leases

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

	2016 Buildings	2016 Other	2015 Buildings	2015 Other
	£000	£000	£000	£000
Leases falling due:				
within 1 year	1,120	147	576	142
between 1 and 5 years	6,825	167	1,760	292
after 5 years	0	0	0	0
	7,945	314	2,336	434

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

The increase in building commitments reflects the office contracting a lease to provide a court facility for the Unified Patent Court.

18 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 2016.

19 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 Cabinet Office, UK SBS and Companies House for services such as accommodation, legal services and the sharing of an IT accounting system.

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

As Neil Hartley is the Director of Finance for Intellectual Property Office and Companies House, Companies House is a related party. Details of Neil Hartley's remuneration and that of all the Intellectual Property directors are available in the Accountability Report.

20 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 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.

21 Events after the reporting period

In accordance with the requirements of IAS 10, Events after the Reporting Period, post reporting period events are considered up to the date on which the financial statements are authorised for issue. This is interpreted as the date of the Certificate and Report of the Comptroller and Auditor General. The IPO financial statements do not reflect events after this date.

The result of the referendum held on 23 June was in favour of the UK leaving the European Union. This is a non-adjusting event. The income of the office is not dependent on the UK membership of the European Union. European patent renewals are instead dependent on a separate non-European Union treaty, the European Patent Convention. A reasonable estimate of any other effects cannot be made.

Appendix A

Treasury Minute for the Patent Office Trading Fund

The Patent Office Trading Fund:

1. 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, 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 2014 to 31 March 2019 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 23 June 2009.
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

19 May 2014

The Patent Office
Annual Report and Accounts
2015/16

Concept House
Cardiff Road
Newport
NP10 8QQ

Tel: 0300 300 2000
Fax: 01633 817 777

This publication is available for download at
www.gov.uk/ipo

For copies in alternative formats please contact
our Information Centre.

DPS-003689

ISBN 978-1-4741-3119-3



9 781474 131193