



Intellectual  
Property  
Office

# The Patent Office Annual Report and Accounts

2016/17





# The Patent Office

# Annual Report and Accounts

## 2016/17

### 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, Energy and Industrial Strategy.

#### **2016/17 Annual Report & Accounts**

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## Chair's Statement

This has been another eventful year for the Intellectual Property Office (IPO)\*.

Like all of Government, we are preparing for the UK's departure from the EU, ensuring we secure the best possible outcomes on intellectual property (IP). We have also seen a number of changes amongst the senior leadership team. However, we have a depth of leadership at the Office that ensures we continue to perform effectively, and I have been asked to extend my final term as Chair for a few months to help maintain continuity.

Against a back drop of these challenges, we have once again met all our Ministerial Targets, delivered great services to all our customers, developed our outreach offering and supported key IP policy developments. All of these things will make a positive contribution to the UK economy and growth.

We continue to ensure the IP framework supports innovation, and works for business and consumers. This includes our work to make the UK the best place to innovate, patent new ideas and set up and grow a business. Although at Green paper stage, we have already identified specific activities that will see us make a contribution to supporting the delivery of the Industrial Strategy.

We have also taken the Intellectual Property (Unjustified Threats) Act through Parliament, which is a welcome piece of legislation for businesses. We helped broker a landmark agreement which will see search engines and the creative industries work together to reduce the likelihood of consumers being led to copyright infringing websites through search engines. Our network of attachés are continuing to build our reputation internationally and help to establish new opportunities for international trade, which will be so important post Exit.

We are seeing significant increase in demand across our trade marks and registered designs services, and continue to provide world class service in these areas. We are further developing our use of digital technologies to modernise our services; for example we are making excellent progress with our Patents Transformation Project, which will revolutionise how customers apply for a patent and how we manage applications. We continue to develop our digital designs offering, receiving 88% design applications digitally during 2016/17. The drive to harness the accessibility, speed and clarity of digital technology will ensure we are making it easier for our customers to do business with us.

We are continuing to work to ensure IP Rights are respected and appropriately enforced, a key aspect of which was the launch of the Government's Enforcement Strategy which set out a number of actions we will take with our partners to reduce IP crime and infringement.

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\* IPO - a trading name of the Patent Office and also referred to as the Office.

Pursuing our goal to increase IP awareness amongst business has seen us leverage the power of networks such as Growth Hubs and independent business advisors to get our message out. We have also launched the updated Lambert Toolkit providing revised and additional model agreements to encourage collaboration between research institutions and business, and continued to fund IP audits for SMEs.

The dedication and skill of our people are the fundamental reason for our continued success. Our commitment to valuing our people means that the organisation continues to be a great place to work. This is demonstrated by our People Survey engagement score which is within 1% of Civil Service High Performers Benchmark and the Silver Investors in People Standard.

The year has been busy and full of challenge for us, which our people have tackled in their usual professional manner. Looking forward, the Office will have a big contribution to make in preparing for the UK's exit from the EU and ensuring that IP makes the fullest contribution to the Industrial Strategy.

It is with some sadness that this is the last Chair's Statement I will be making for the organisation. I would like to recognise and thank everyone at the Office for their support and ongoing commitment. I have thoroughly enjoyed my six years as Chair, and am sure the organisation will continue to meet the challenges of the future.



A handwritten signature in black ink that reads "Bob Gilbert". The signature is written in a cursive style with a horizontal line underneath.

**Bob Gilbert**

Chair



## Chief Executive's Introduction

I am pleased to introduce the Annual Report and Accounts for 2016/17.

As I am new to the Office, reviewing this Annual Report and seeing the achievements throughout the year has been incredibly welcome. Ministers set a challenge for the organisation, through the Corporate Plan 2016 – 2019, of achieving a series of stretching targets and priorities across their six strategic goals. It is testament to the organisation and its people that all of the targets set by the Minister were met, along with the in-year corporate priorities and good progress against its multi-year priorities.

### **Promoting UK growth through IP policy**

The importance of having an IP framework that supports innovation and economic growth cannot be underestimated. Our work in ensuring this framework is fit for purpose has been recognised in the Taylor Wessing benchmarking study on global regimes which ranked the organisation as 3rd overall and Number 1 for patents.

Our legislative work is ensuring this framework remains relevant, with the Intellectual Property (Unjustified Threats) Act and elements of the Digital Economy Bill progressing through Parliament during the year.

We have kept focus on our reputation within Europe, working to ensure we secure the best possible outcomes on intellectual property following the UK's departure from the EU and continuing to work to ratify the Unified Patent Court Agreement. We have also further developed our reputation abroad, developing UK-China relations and supporting UK businesses to trade more internationally.

### **Delivering high quality rights for customers**

We continue to provide strong customer satisfaction, achieving 87.3% against a target of 80% for the year. This was the highest score achieved since 2010/11, when we began tracking customer satisfaction in this way. It was achieved whilst also seeing a continued increase in demand for our services.

This standard of service delivery was achieved alongside our work to make it easier to do business with us by modernising services and subsequently reducing the fees for our designs services.

## **Ensuring respect for IP**

The launch of the UK's Enforcement Strategy "Protecting Creativity, Supporting Innovation" was a key milestone in our work to provide leadership, co-ordination and strategic direction in IP enforcement. Alongside this we published our most comprehensive IP Crime Report yet. We supported the creation of a voluntary Code of Practice aimed at stopping consumers being led to copyright infringing websites. This shows the breadth of our work, the value it provides to the economy and demonstrates why the UK has been independently assessed as the best in the world for IP enforcement activity.

This has been supported by our work to engage with schools and universities to give teachers and lecturers access to the resources they need to prepare the future generation for IP challenges in the workplace.

## **Helping business make the most of their IP**

To support our work to develop respect for IP, we continue to play a central role in providing IP knowledge and experience to businesses to help them transform their IP into economic growth. Our outreach work continues to increase the number of businesses who better understand how to manage IP, reaching 205,034 businesses, with 93% of the businesses reporting they are better able to understand IP and its use within their business. This was further supported by our attaché network and our work to support the export activity of UK companies by providing education, advice and specific case support to 5,528 businesses during the financial year.

## **Building a world class organisation**

We recognise our people are key to our success, and strive to have a skilled, talented and engaged workforce. The work to deliver an adaptive organisation, in line with the Cabinet Office smart working approach and work to deliver a modern and fit for purpose Operating Model are key elements of this.

We have made huge strides in our campaign to develop further our diversity and inclusion agenda, which has been recognised by achieving a significant rise of 206 places in the Stonewall Workplace Index, ranking us 164th this year. This Index is a measure of our positive progress on Lesbian, Gay, Bisexual and Transgender inclusion in the workplace.

We also continue to work in collaboration with Companies House, joining up where it provides a benefit for both organisations and the customer. This, along with our Continuous Improvement agenda and work to ensure effective procurement techniques have ensured achievement significantly above our 3.5% efficiency target.

The achievements and successes throughout the year demonstrate our ability to address challenges and achieve our purpose of making life better by supporting UK creativity and innovation. I look forward to being part of us continuing to achieve this.



A stylized, handwritten signature in black ink, consisting of a large, sweeping 'T' followed by a cursive 'M'.

**Tim Moss**

Chief Executive and Accounting Officer  
6 July 2017

“ We recognise our people are key to our success, and strive to have a skilled, talented and engaged workforce. ”

# Performance Analysis:



## Review of IPO Business 2016/17

This document reflects the performance of the organisation against our Corporate Plan, published in April 2016. The Corporate Plan sets out our aims and priorities to support delivery of the goals outlined in our five year Corporate Strategy published in January 2016.

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

We measure and report our performance against these targets to our Steering and Executive Boards. This is done through reports outlining current delivery status, delivery confidence and an analysis of progress, which are discussed monthly.

Our targets for 2016/17 and performance against these is set out below:

 <h3>Promoting UK growth through IP Policy</h3>	
We will complete all remaining UK steps necessary for the UPC to come into being.	Target met
 <h3>Delivering high quality rights granting services</h3>	
We will ensure that overall average customer satisfaction is at least 80%.	Target met: 87.3%
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 90% of acceptable applications for national trade marks for opposition within 90 days of filing.	Target met: 95%



## 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.

Target met



## Educating and enabling businesses 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.

Target Met:  
205,034 businesses

93%

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

Target Met:  
5,528 businesses



## 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.

Target Met:

94% of senior leaders  
and 88% managers

We will implement a new HR & Payroll system.

Target met



## Increasing efficiency and delivering value for money

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

Target met: 8.5%

We will deliver an efficiency gain of 3.5%.

Target met: 10%

## Corporate Priorities 2016-2019

We have now completed the first year of our revised five year Corporate Strategy, 'Making Life Better by Supporting UK Creativity', which was launched in January 2016. This strategy lays out our purpose of making life better by supporting UK creativity and innovation, and our mission of being dedicated to giving everyone the confidence to make the best use of IP.

We believe that a good IP regime incentivises innovation and investment in creativity and knowledge, boosting national productivity and economic growth. Our aim is to ensure the system works for everyone, whether a small, medium, or global business.

Our Corporate Strategy outlines our plans to champion IP against six strategic goals, covering our policy development, the quality of our rights granting services, leadership in enforcement, supporting and educating businesses and consumers, developing our people and delivering value for money.

Our Corporate Plan 2016-2019 sets out our Corporate Priorities and Ministerial Targets to support delivery of our strategic goals. This report outlines our progress against these priorities and targets.

The outcome of the EU Referendum altered the direction of some of our work, however, the main priorities we identified under the Corporate Plan remained the same.

We have a strong and respected IP regime, as demonstrated in the **Taylor Wessing benchmarking study** on global IP regimes published in June 2016, where the UK was placed 3rd overall and was Number 1 for patents. However we are not complacent in this, and continually work to improve the IP regime domestically, across Europe and internationally.



### Promoting UK growth through IP Policy

Our IP policy development is supported by our **Economic, Research and Evidence (ERE)** team who will shortly be publishing research reports into consumer attitudes towards stream ripping and stream ripping services; the impact of social media on counterfeit goods; a methodology for measuring the level of design infringement, and how the IP Valuation market in the UK is functioning. The ERE team have also hosted workshops in partnership with Queensland University of Technology to discuss **3D printing**. These workshops included experts from the field and provided valuable insight into the IP Framework in the UK.

As part of this, some of our key achievements domestically have been:

- Taking steps to build an evidence base to better understand how the UK can maintain its reputation and support our drive to be '**the best place to innovate and patent new ideas**'. This included looking at the link between patenting and innovation; analysing the propensity to patent in the UK; evaluating the efficiency of the patent system; enforcement; legal protection and culture, and gathering stakeholder views.
- The passing of the **Intellectual Property (Unjustified Threats) Act**, which introduced changes to reform the law relating to unjustified threats of intellectual property infringement, helping innovative businesses negotiate over disputes and avoid litigation.
- Helping broker a landmark agreement which will see search engines and the creative industries work together to stop consumers being led to copyright infringing websites. A **Voluntary Code of Practice** sets out agreed targets for reducing the prominence of infringing links in search results, as well as specifying other areas such as autocomplete and domain hopping.

In our Corporate Strategy we outline our aim of ensuring the European IP system supports innovation and creativity and allow the single market to work better as a home market for UK businesses. We have established relationships with European partners that support us in delivering this aim. Our activities in the EU during 2016/17 included:

- We continue to seek positive outcomes for the UK through the **Digital Single Market**, including influencing the EU proposals aimed at modernising copyright rules to promote greater cross-border access to content online, wider opportunities to use copyrighted material in education, research and cultural heritage and a better functioning copyright marketplace.
- We are working with Government partners to **secure the best possible deal for British consumers and business** following the UK's departure from the EU, maximising key IP opportunities and IP trade policy.
- Our work to ratify the **Unified Patent Court (UPC) Agreement** has progressed well following the signing of the Protocol on Privileges and Immunities.

On the international front, we continue to maintain key relationships and use these to influence the development of fit for purpose IP frameworks to support UK businesses abroad and those trading internationally.

- We continue to **develop UK-China relations** to achieve a better IP framework for UK businesses working in China, through hosting the third UK-China Symposium. These included a Copyright Expo in Guangzhou which showcased UK creative and copyright industries, where the UK was country of honour. We have also had a number of outreach visits across China whilst also hosting reciprocal visits.

- We also continue to support UK businesses to trade more internationally, ensuring our strong **network of attachés** support UK businesses abroad. We also signed an MOU for further cooperation with India and worked with Brazil to support the Joint Economic and Trade talks in London. Additionally, we made some enforcement focused visits to Vietnam and the Philippines.

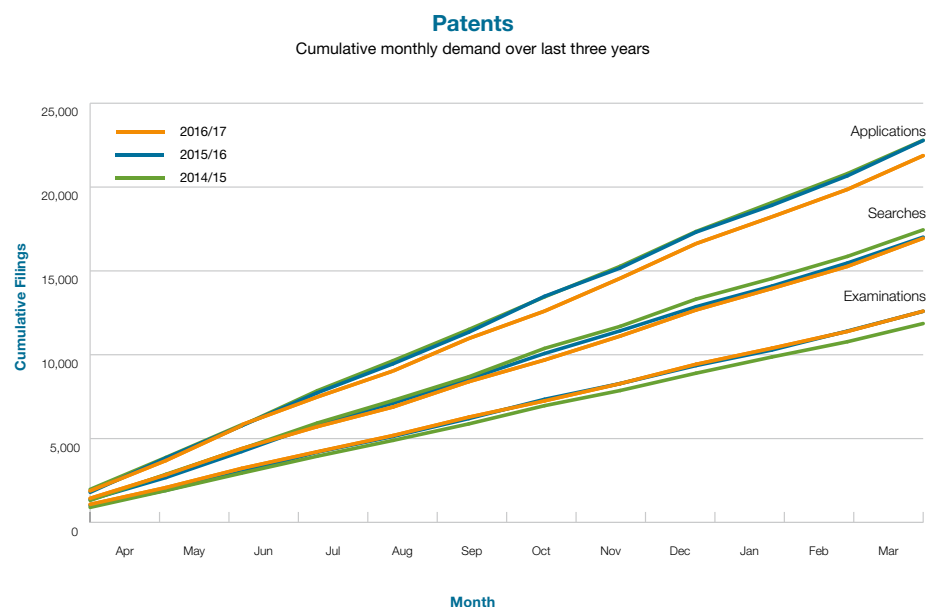


## Delivering high quality rights granting services

Delivering high quality rights granting services for our customers is vital for us in supporting economic growth. Providing these through a comprehensive digital environment is a key element of this. We outlined in our Corporate Strategy our desirable outcomes that customers are able to access all the services and information in a way they want, when they want and new processes and technology make it easier for our people to give great customer service.

Our customer survey showed overall customer satisfaction during the financial year was 87.3%, against a target of 80%.

We have seen consistent growth in demand over recent years across trade marks and designs. Demand was static in patents. The following graphs show the cumulative monthly filings of patent, trade mark and design requests:



We received 21,874 patent application requests, which was a decrease of 4% from the 22,792 requests received in 2015/16. This decrease was attributable primarily to a reduction in requests during July and August. Requests for examinations remained consistent, with 12,596 requests received against 12,591 the previous year. Searches decreased slightly, with 16,950 searches being requested against 17,015 during 2015/16.



We offer faster handling of patent applications by providing an examination report with search report when both are 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%.



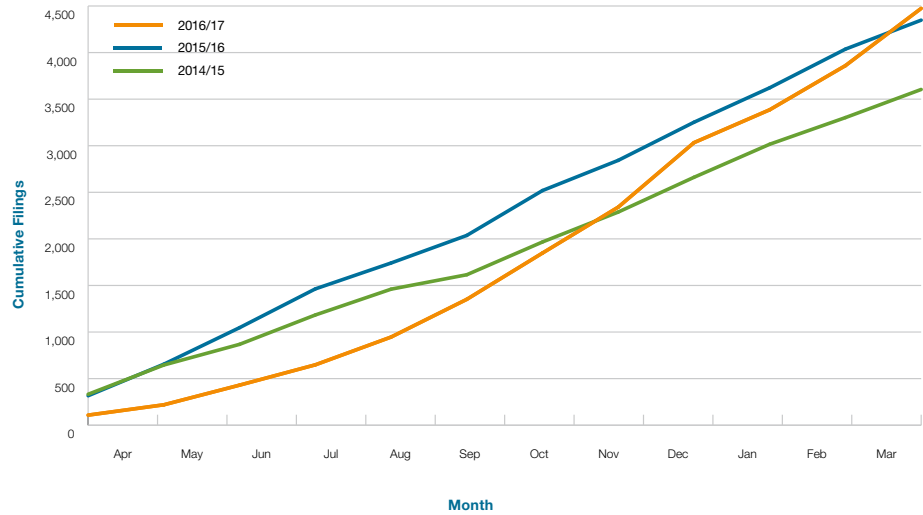
National trade mark applications were 18% higher during 2016/17, with a record 64,818 applications received. Despite significant increases in applications being received we consistently maintained our time from receipt of application to first examination at around 5 working days. This is testament to the work of our trade mark examining team’s commitment to **continuous improvement** and efficiencies in their work.

We also published 95% of acceptable applications for national trade marks for opposition within 90 days of filing, against a target of 90%.

We are revising developing our **electronic trade mark forms** to make them easier to complete and use, with five of the nine forms having been reviewed, tested and released to live so far.

### Trade Marks

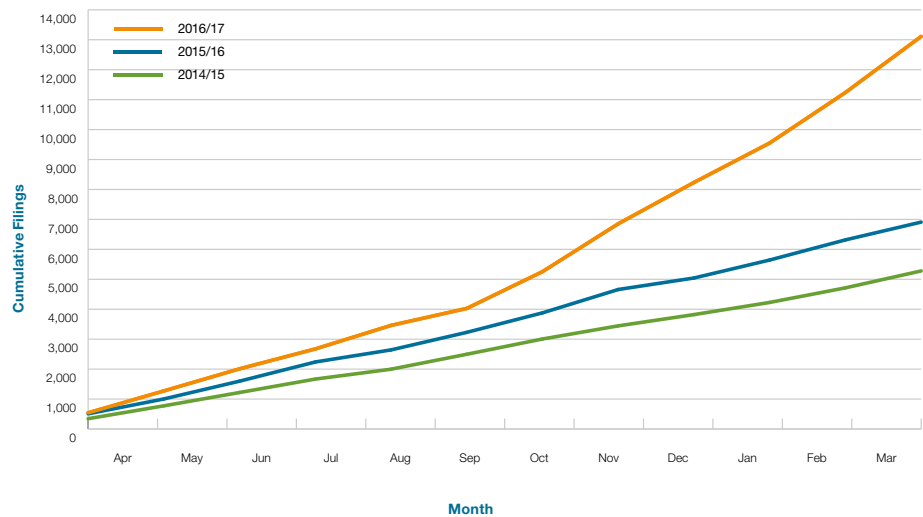
Cumulative Monthly International Registrations Designating UK



We received 4,474 international trade mark registrations designating UK, which was 2.9% higher than the 4,348 applications received in 2015/16.

### Designs

Cumulative Monthly Demand



Demand for designs increased by almost 90%, with 13,111 applications being received against 6,910 received for 2015/16. Digital applications were 88%. Despite this increase in demand we have reduced our time to examination to 3 working days.

Our new **digital designs application service** was introduced on 30 September 2015, followed by a digital and integrated back-office system on 30 September 2016. These developments reduced the number of errors made in applications and improved the efficiencies in the system, allowing us to reduce the fees by 1/3 for a single digital application for a design and maintaining and renewing it.

We are also progressing our development of an **Identify and Access Management** service to allow users appropriate access to relevant rights information, and are running a project to cleanse the data we hold and ensure it is of sufficient quality. This work was supported by a survey of patent attorney's online service preferences and attitudes in May 2016, with support from CIPA. The findings of this survey demonstrated a demand for additional online services and support for our Identity Assurance and patents transformation work.



## Ensuring IP Rights are respected and appropriately enforced

IP rights are of no benefit or have no value unless the owner can assert economic control over them. It is important there is awareness and respect for IP rights. Although not an enforcement authority, we play a key role in ensuring an effective framework and infrastructure to support this awareness and respect.

In our Corporate Strategy we outline our commitments to ensuring rights owners and rights users have access to proportionate and effective mechanisms to resolve disputes and tackle IP infringement.

To support our role of ensuring IP Rights are appropriately enforced, and providing leadership, co-ordination and strategic direction in IP enforcement, we have:

- Launched our **Enforcement Strategy “Protecting Creativity, Supporting Innovation”**. This will further develop the good things the UK has achieved in the enforcement environment and our work with industry and enforcement agencies. This was a key objective for us, outlining the deliverables we will focus on over the next four years.
- Proactively worked to maintain and develop the **enforcement framework**, ensuring tribunals deal with cases quickly and efficiently and IP & Enterprise Court (IPEC) to help owners enforce their rights and exploring the expansion of IPEC small claims for registered designs.
- Worked with Government Partners such as Border Agency and HMRC through our **Intelligence Hub** to provide robust intelligence to support enforcement action, including action during the year at Manchester and East Midlands airports, as well as local initiatives.

- Published our most comprehensive **IP Crime Report** yet, providing a snapshot of the breadth of work undertaken to tackle the problem of IP crime in the UK and internationally and the contribution this work makes to the economy. This report was developed in conjunction with the IP Crime Group, and organisations such as TRAP (Trade mark & Rights Holders against Piracy), TM-Eye, Europol and Audio-lock.
- Worked with universities and others to ensure IP Rights are respected, in line with our priority to ensure **teachers and university lecturers** can access the high quality resources needed to prepare the future generation for IP challenges in the workplace. This includes collaboration with the Welsh Government and the WJEC (the Welsh Exam Board) to launch a pilot IP course for further education.
- Continued to engage with the **University Enterprise Zones** (UEZ) to support them in their work and are working with all four zones – Bradford, Bristol, Nottingham and Liverpool – to raise awareness of IP. The UEZ's are a link for us with key principle lecturers who support us in developing our tools in higher education institutions.
- **IP Tutor** – our short online course for students and lecturers – has been reviewed and remains popular, being accessed over 5,000 times during the financial year.
- Run our **Cracking Ideas Competition**, which is a highly successful competition using a range of Aardman characters to engage a younger audience with the messages of respecting IP in a fun and informative way.



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

Another key element to our work is educating and enabling business to understand, manage and protect their IP. By focusing in this area, we are helping businesses recognise the value of their IP and how to maximise this. This supports us in achieving the objective in our Corporate Strategy that businesses understand how to manage their IP effectively to support growth, and take action to do so.

In order to support this, we have a number of notable achievements:

- In October 2016 we launched the updated **Lambert Toolkit**. This toolkit and model agreements can help users from research and industry to negotiate IP-creating collaborative projects, and has been updated to include six new agreements and changes in terminology.
- Our Business Outreach teams began a series of **Facebook Live** broadcasts. Running during the summer months, the first live broadcast looked at IP's deadly sins and reached over 8,000 people in seven days.

- We worked closely with the Cities & Local Growth Unit and Growth Hubs to build local relationships and support the work to deliver the **Devolution Agreements**. Our aim in this is to ensure IP advice and knowledge is integrated into the community business support programmes, and the help and support we provided was well received.
- As further support to the devolution agenda, we hosted a series of roundtables with key business support advisors to explore the feasibility of having **regional IPO representatives**. From this we decided to have a placement within the Greater Manchester Business Growth Hubs covering Greater Manchester and Liverpool, and to jointly fund a post with the GBSLEP to cover Birmingham and Solihull. We will review the success of these roles at the end of the financial year.
- We continue to **engage strongly with business** to increase the number who better understand how to manage IP, reaching 205,034 businesses and 93% of the businesses we talk to report they are better able to understand IP and its use within their business.
- We completed a review of **online trading platforms** in March 2016, and undertook further research into trading of IP during this financial year to understand some of the barriers faced in this area and identify the potential value of brokerage in respect of trading and licensing IP. We will explore this further during 2017/18.
- We provided **education, advice and specific case support** to 5,528 UK businesses during the financial year, helping them in their export activity. This support was predominately focused on China (1,818 businesses) and South East Asia (1,008 businesses).



## Improving the skills and capability of our people

Our success is due to the skills, capability and hard work of our people. We are working in a fast changing environment, with higher customer expectations of the services we provide, changing digital requirements and an evolving political landscape. Despite the pace of change we are experiencing, our people remain engaged and focused on delivery of their role. In 2016 we achieved an engagement score of 63% in our **People Survey**, 4% above the Civil Service average and demonstrating our people feel involved and enthusiastic about their work.

- In November 2016 we were awarded the Corporate Health Standard Silver Award, quickly building on our achievement of the Bronze Award achieved in 2015 and demonstrating our commitment to the health and wellbeing of our people.

- In March 2017 we were assessed against the new Investors in People Standard and awarded Silver status. We were recognised as gold for some elements of the assessment and platinum for others. These included areas such as: living the organisation's values and behaviours; empowering and involving people, and structuring work. We will be developing on our successes in this by striving for Gold status in future.
- We continue to improve the skills and capability of our people, particularly focusing on developing our people in leadership and change. This was demonstrated through achievement of our Ministerial Target for which we designed and delivered a programme following which 94% of senior leaders and 88% of managers moved up one level on a leadership measure, compared to their positioning at the start of the financial year.
- We are working towards achievement of our Corporate Strategy outcome that our structures, processes and people policies are enablers of flexibility and business change. This is being supported by our work to modernise our operating model to ensure it fits the requirements of the digital age. During the last financial year we defined the future operating model for the rights granting areas, and continue to implement this. Building on this, we have now defined the future operating model for the rest of the organisation, identifying the structure, behaviours and roles we need to deliver for our customers in this ever changing environment. We will work to implement this future model over the next year or so.
- We continue to develop ourselves as an adaptive organisation, working in line with the Cabinet Office smarter working approach and the vision for a Brilliant Civil Service, particularly in respect to improved outcomes and effective leaders. This work also supports delivery of our Corporate Priority to support our people adapt to the changing needs of customers and stakeholders. Activity in this area included:
  - Holding workshops demonstrating 'Doing it differently: building a great place to work' at the Civil Service Live (the largest annual conference for Civil Servants) events in both London and Cardiff, presenting to over 200 people.
  - Running smarter working trials with different teams across the office to assess the opportunities and difficulties of remote working for sustained periods of time and the impact of distributed teams on team dynamics, innovation and productivity.
  - Researching the concept of operating a 'results only working environment', where success is measured by outputs and delivery as opposed to time at the desk or hours worked, with the view of running some trials of this approach during the next financial year.
  - Successfully trialling a 'Quiet Zone' area in the office where an area of desks are available for people to work in a quiet and focussed way, away from the open plan environment, for a short period of time.

- Our campaign to further develop our diversity and inclusion agenda has been extremely successful to date, where we have increased people declaring their personal characteristics to us so we hold more accurate diversity data and are able to ensure we make fair and open business decisions. We significantly increased our ranking in the Stonewall Workplace Index, rising 206 places from 370 last year to 164 this year. This increase stemmed from the recognition of our work to improve awareness of the issues affecting the different diversity groups across the office, including hosting diversity conferences, developing networks such as our LGBT (Lesbian, Gay, Bisexual and Transgender) network group in collaboration with the Office for National Statistics and hosting mental health awareness speakers and awareness sessions.
- We continue to strengthen our approach to policy development, through developing our operating model; improved communications and a regular Policy Profession newsletter; testing agile ways of working; developing best practice, and reviewing ways we can reduce gaps in career progression.



## Increasing efficiency and delivering value for money

We are proud of our record in ensuring our activities are efficient and deliver value for money. As a Trading Fund our costs are covered by customer fees rather than general taxation, so our customers expect us to operate in an effective and efficient manner.

- This year we have achieved **efficiencies equivalent to 10%** of our costs against our target of 3.5%. This comes from three main types of efficiency – contract savings, additional income generated and increased outputs.
- We have **achieved contract savings of £1.5m this year**, through effective commercial negotiations and procurement processes and controls. We work closely with our sponsor department (BEIS), Cabinet Office and other Government departments on collaborative commercial arrangements, and are taking steps to improve the commercial capability across the organisation.
- We have also developed good working relationships and a **collaborative approach with Companies House**, ensuring we join up in areas where we can get benefits for both organisations and our customers. We have developed the principle of ‘think joint first’ across both organisations and ensure when looking at new opportunities or changes to our work we consider whether collaboration is the best approach. This includes collaboration across finance, procurement, HR, learning and development, facilities management and our design and print services.
- We moved to a **new HR, Payroll and Expenses system** on 30 August 2016, meeting the Ministerial Target outlined in our Corporate Plan. The system we have now is more efficient and cost effective, and offers opportunities for further improvements and more online functionality in future.

- Our **IT Strategy** is providing significant savings to us in terms of a reduction in licencing costs and operational efficiencies as well as ensuring a more stable IT system.
- For a relatively small increase in resources, our **trade mark service** has brought in an extra £2.5m income; system and internal process improvements, together with the team's focus on maintaining high levels of performance have driven this increased efficiency.
- **Demand for our patents service**, together with the underlying growth in the register and therefore the additional work involved year on year assessing applications, means that our outputs have increased by an equivalent of £4m this year.
- Our efficiency performance is underpinned by a clear focus on **continuous improvement (CI)**. We have developed an enhanced continuous improvement maturity model with a culture in which “doing things better every day” is part of the job. We now have 15 teams which are LEAN embedded and continue to develop CI thinking and practice into our everyday working.
- Externally, we play a lead role in the BEIS Continuous Improvement Network and support other Partner Organisations in the BEIS family on their CI journey.
- We are also investing in **digital services**, including in January 2017 a significant change to our legacy patents system, moving off a mainframe platform, which enabled us to be more efficient and further support transformation of our services. Our new digital designs service has resulted in a 400% increase in output with no additional staff needed.
- In addition to our efficiency target, we are also required to achieve, on average and in real terms, a 4% **Return on Capital Employed (ROCE)** over a five year period. For 2016/17, the third year of the current five year period, we achieved an 8.5% return.

“ We have also developed good working relationships and a collaborative approach with Companies House, ensuring we join up in areas where we can get benefits for both organisations and our customers. ”



## Sustainability Report

Although this year saw less activity than previously, our commitment to improving our environmental performance continues. Much of the emphasis this year has been on the transition to ISO 14001:2015 and we expect to move to the new standard early in the next financial year. This exercise has proved invaluable in reviewing our procedures and identifying where improvements can be made.

This year saw the launch of new Greening Government targets and we have made a good start towards these.

### Carbon Emissions from Offices

Our focus this year has been to reduce carbon emissions from electricity and we set ourselves a target to reduce our usage and cost by 3% over the year. To help this we have worked with the on-site Maintenance Team to reduce the operation of the Concept House heating pumps which are a huge user of electricity. We also held a useful session with tenants and were able to take forward some of their suggested initiatives to reduce energy expenditure. We were able to show a cost reduction of 5% although we only managed a 1% reduction in consumption.

We started a project to improve the heating system in Concept House. Around 40% has been completed with the remaining work due to be finished in the next financial year. Gas usage has fallen as a result of this project and also because of the use made of the Biomass system over the year.

		2012/13	2013/14	2014/15	2015/16	2016/17
<b>Tonnes CO<sub>2</sub></b>	Gas	513	370	286	182	131
	Electricity	1446	1334	1542	1445	1297
<b>Related energy consumption (kWh)</b>	Gas	2,335,043	2,014,356	1,548,489	989,052	715,249
	Electricity	3,186,776	2,995,965	2,868,412	2,891,936	2,886,723
<b>Financial implications (£)</b>	Gas	90,143	104,890	50,310	128,058	66,800
	Electricity	351,047	365,455	374,095	379,934	420,783
	CRC Energy Efficiency Scheme	26,376	30,890	27,438	29,864	29,614

## Carbon Emissions from Travel

With the exception of domestic flights which have shown an increase on the previous year, emissions from all other forms of transport have again fallen.

Our efforts have continued to reduce the number of single occupancy cars travelling to our Concept House site. Unfortunately the location of the site means that car is still the most popular form of transport. We have encouraged people to travel by sustainable means as part of our drive to reduce the number of cars requiring parking spaces.

We have worked closely with local bus companies to try and improve the public transport service to site and to encourage people to take the bus.

Our community of cyclists remains strong and we have worked with them to set up a focus group to co-ordinate responses to the authorities on local cycling matters. The coming year will see major road works in the vicinity of the Concept House site and it is crucial that people have alternative means to travel to work.

		2012/13	2013/14	2014/15	2015/16	2016/17
<b>Non-financial indicators (kg CO<sub>2</sub>)</b>	IPO owned vehicles	3,578	3,886	3,738	3,410	3,320
	Air travel	9,693	10,896	20,817	4,580	10,000
	Rail travel	58,157	62,330	54,406	44,100	39,830
	Road travel	53,426	79,609	97,329	65,220	41,550
	Taxis	3,049	3,287	3,614	3,290	2,430
<b>Financial implications (£)</b>	Expenditure on accredited offsets (GCOFII)	n/a	n/a	n/a	n/a	n/a
	Travel expenditure (UK)	615,511	711,968	728,163	723,354	650,930
	Travel expenditure (overseas)	412,852	450,913	461,118	439,902	361,453

## Use of Finite Resources (water and paper)

Our water usage for the majority of the year has remained within good practice benchmarks. However, our usage was affected by a significant water leak towards the end of the year. Whilst this was rectified quickly it has unfortunately had an effect on our overall usage.

In line with recent years, paper usage has fallen further as part of our drive to define our Operating Model and introduce modern digital services.

		2012/13	2013/14	2014/15	2015/16	2016/17
<b>Non-financial indicators</b>	Water consumptions (M <sup>3</sup> )	7,549	6,040	4,115	5,208	8,574
<b>Financial Implications (£)</b>	Water consumptions costs	19,318	21,752	23,109	24,522	25,730
<b>Non-financial indicators</b>	Paper consumptions (A4 reams equivalent)	11,920	9,300	9,820	8,270	8,005
<b>Financial Implications (£)</b>	Paper costs	-	25,156	26,790	21,365	20,804

## Waste

At a local level we have worked with our on-site cleaning team to improve our recycling performance. Any issues found throughout the office are now immediately escalated and resolved. We have also reorganised our Loading Bay area so that waste is better segregated with less chance of contamination.

Changes in waste contractors during the year provided us with challenges. However, our control mechanisms within the ISO14001 environmental management system helped ensure that we remain legally compliant.

		2012/13	2013/14	2014/15	2015/16	2016/17
<b>Non-financial indicators</b>	Total waste	127	159	204	149	185
	Re-used / recycled	79	96	129	79	120
	ICT recycled & reused	-	1	1	1	2
	Waste Composted	-	4	4	4	4
	Landfill	48	62	75	70	65
	% recycled	62%	61%	63%	53%	65%
<b>Financial implications (£)</b>	Total waste	20,272	28,375	17,561	23,038	23,152
	Re-used / recycled	6,824	12,991	9,349	12,640	10,709
	Landfill	13,448	15,384	8,212	10,398	12,443

## Looking Forward to 2017/18

The Corporate Plan 2017 – 2020 outlines our key deliverables, which support our primary focus to serve our customers, shape IP systems, provide leadership on enforcement, and to raise awareness and educate young people, consumers, entrepreneurs and business on how to use and protect their IP.

We will continue to work to ensure the UK IP system promotes growth and the economy, and is fair and accessible to all.

A key element of this is ensuring we strive for the best possible outcomes on intellectual property whilst preparing for the UK's departure from the EU. Until the UK exits the EU, we will continue to work in Brussels to influence new laws that are being negotiated.

We will continue with our digital transformation programme, improving our IP Renewals services for individuals and Renewals Agents, and providing a new digital Supplementary Protection Certificate filing service for our customers, with new electronic processes for our people. This will ensure we continue to deliver high quality and timely rights granting services.

We will ensure we provide leadership, co-ordination and strategic direction in IP enforcement, working to deliver the outcomes outlined in our IP Enforcement Strategy.

The Green Paper on the UK's Industrial Strategy has set a clear direction for Government policy in pursuit of economic growth across the country. We will ensure our work supports this commitment and businesses and research institutions understand and maximise the impact of their IP.

There will also be a focus on developing our IP place offering through integration of IP into regional and business support to help catalyse growth and build local capability to commercialise IP.

To ensure we have the capacity and capability to deliver this, we will develop and implement a 3-year People Strategy that supports our values and goals.

We will continue our drive for greater efficiency, whilst also developing a model and the culture to properly capture and realise the benefits of the changes that we make.

We consistently achieve above the Government standard to settle 80% of bills within 5 working days, this year achieving 86.21%.

## 2017/18 Ministerial Targets

We have agreed with our Minister the following performance targets for 2017/18:



### Promoting UK growth through IP Policy

We will have ratified the Geneva Act of the Hague Agreement for international registration of designs by 31 March 2018 and be in a position to launch the service on 06 April 2018 (the common commencement date).



### Delivering high quality right granting services

We will publish 90% of acceptable applications for national Trade Marks for opposition within 90 days of filing.

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 ensure that overall customer satisfaction is 80% or more.



### Ensuring IP Rights are respected and appropriately enforced

We will work with industry and enforcement partners to build a coordinated response to the growth of illicit streaming, including robust analysis of current legal sanctions and developing proposals for change as appropriate.



### 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 their IP: at least 35% of an expected 100,000 businesses we reach will make an informed decision regarding management of their IP.

We will provide market specific IP advice to 5,000 current and prospective British exporters. As part of this work, we will deliver bespoke one-to-one business support activity to at least 200 companies annually.



Improving the skills and capability of our people

We will demonstrate our commitment to diversity by securing external validation for our approach to inclusion for under-represented groups.



Increasing efficiency and delivering value for money

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

We will deliver an efficiency gain of 3.5%.

A handwritten signature in black ink, appearing to read 'Tim Moss'.

**Tim Moss**

Chief Executive and Accounting Officer

6 July 2017

# Accountability Report

## Directors' Report

### Customers

Providing high quality rights granting services and customer satisfaction is important to us. For 2016/17 overall average customer satisfaction was 87.3% against a target of 80%.

We achieved 100% for our Customer Service Excellence, demonstrating our drive to put the customer at the core of what we do. We also had a successful external audit against the ISO9001 certification without any non-conformities raised.

We have extended our Customer Panel resources of profiled and willing testers to over 500, and we have expanded our base of trialists for the View Patent Cases service to over 90. We have also overhauled our internal reporting of customer feedback capturing 2,348 new pieces of customer feedback during the financial year, which was made up of 621 compliments, 138 complaints and 1,589 general pieces of feedback.

We continue to improve our digital designs service, having implemented 13 iterations of service improvement since the service launched in September 2015.

We have seen a reduction in feedback relating to misleading invoices over the last four years, and continue to take action against companies issuing these invoices where possible.

Our Customer Information Centre handled 67,722 calls compared to 69,300 during 2015/16. They answered 87% of calls within 20 seconds. The Centre also dealt with 11,154 email enquiries from customers, compared to just under 10,000 emails during 2015/16.

Our website is well utilised, with an average of 88,600 unique visitors to our home page each month. Our social media engagement remains high, with us achieving a significant reach across Twitter (50,311 followers), Facebook (a reach of 411,800), LinkedIn (a reach of 399,600) and YouTube (762 subscribers).

In a Cabinet Office audit of all blogs on the GOV.UK platform, the IPO and Dragons Den blogs ranked joint first. The audit reviewed blogs against the Cabinet Office standard, and we were commended for our frequency of posting, use of images, the inclusion of calls to action and our moderation of comments.

## People

Demand for our services continues to grow, and we are transforming the services we offer, working to ensure we have the people with right skills and capabilities to meet the changing needs of our customers and the organisation. We are recruiting additional resources to meet demand and appropriately use the resources we have to deliver our goals.

**Headcount:** in 2016/17 we continued our recruitment plans in key areas to meet specific skill requirements. This focused predominately on areas such as Patent Examination, Trade Mark Examiners and IT. Overall our headcount was 1,172 at 31 March 2017 (1,104.94 FTE). During the financial year we had 91 joiners and 104 leavers.

**Attendance management:** we continue to work to develop a consistent approach to managing absence and ensure our health and wellbeing policies are appropriate and effective. We averaged 6.2 working days lost per person against our internal target of an average of 6.5 working days lost per person, and completed 97% of return to work interviews for those who did have absences.

We work to ensure an engaged and talented workforce, achieving 63% in our People Survey, developing our smart working approach and developing a clear and focused Accommodation Strategy.

We offer a number of wellbeing services which are developed and run by colleagues across the organisation. This includes a focus on mental health, with the launch of our Mental Health Strategy and signing the Time to Change pledge, awareness training and a peer-to-peer support group. We also continue to promote physical health and healthy eating, providing the opportunity for people to purchase fruit and veg boxes, on-site fitness classes our people can do in their own time and the provision of pool bicycles for people to borrow. We also support and promote national wellbeing campaigns to raise awareness of these events.

This has all been recognised in our achievement of the Silver Corporate Health Standard. We are also working with managers to ensure consistent and appropriate management and return to work interviews when absences occur.

We continue to support the learning and development of our people, aiming to ensure we average five days per person training each year and achieving the Silver Investors in People Standard.

## Corporate and Social Responsibility

Corporate Social Responsibility continues to become part of the culture for the organisation. We are creating opportunities for our people to contribute to the community and be involved in events and projects outside of their usual field of expertise. We allow up to 6 days a year in which to volunteer for the local community and have longstanding commitments to activities such as reading help at primary schools, key skills events at Secondary schools and annual Give & Gain Days.



We offer mock interviews and career fairs to secondary schools, and this year as part of our Business Class programme we are supporting a local secondary school with their Welsh Baccalaureate for 14 – 16 year olds. This has involved students visiting our Newport site and making presentations to our people, which proved to be a good opportunity for the students to get a taste of the world of work. We then visited the school where we saw presentations from students who demonstrated their innovative business ideas with confidence. This has been a highly successful partnership and we will continue to develop our support for the community in this way.

## **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 Office. Her Majesty's Government (HMG) Security Policy Framework outlines how we manage information to minimise the impact of incidents and ensures the focus on business continuity. Our IT Services area is certified to ISO27001. Personal data is processed, stored and used in accordance with the Data Protection Act.

We manage any security incidents and ensure continuous improvement following these. There have been no significant security breaches during this reporting period.

Across the Office we have a number of Information Asset Owners. These people support our Accounting Officer, through the Senior Information Risk Owner, in his accountability for the adequate protection of our information. Annual information security training is mandatory for all our people, including our Executive and Non-Executive Directors.

## **Corporate Governance**

Our corporate governance structure is described in our Framework Document.

Our responsible Ministers during the financial year were Baroness Neville Rolfe (until December 2016) and Jo Johnson MP, Minister of State for University, Science, Research and Innovation (from January 2017).

## Intellectual Property Office 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 BEIS 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 2016/17:

<b>Bob Gilbert</b>	Non-Executive Director (Chair) Chair of the High Value Manufacturing Catapult
<b>Gary Austin</b>	Non-Executive Director Chief Executive of a2om International
<b>Iain Maclean</b>	Non-Executive Director Co-founder and partner of The Maclean Partnership
<b>Tim Suter</b>	Non-Executive Director Managing Director of Perspective Associates
<b>Nora Nanayakkara</b>	Non-Executive Director Director of Business Development Demys
<b>Andrew Mackintosh</b>	Non-Executive Director Chair of Sphere Fluidics Ltd
<b>Mandy Haberman</b>	Non-Executive Director Founder and Creative Director of Haberman Products
<b>Gareth Davies</b>	BEIS Director General, Business & Science (The DG sends a designated deputy, Paul Hadley)
<b>John Alty</b>	Chief Executive and Accounting Officer (left the Board August 2016)
<b>Sean Dennehey</b>	Acting Chief Executive Officer and Accounting Officer (from August 2016)

No related party transactions arise from these Members' other interests.

## Intellectual Property Office 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 the Chief Executive and attended by all Executive Directors. Meetings are held monthly and membership during 2016/17 is set out below:

<b>John Alty</b>	Chief Executive and Accounting Officer (left the Board August 2016)
<b>Sean Dennehey</b>	Deputy Chief Executive until August 2016 Acting Chief Executive and Accounting Officer from August 2016
<b>Louise Smyth</b>	Chief Operating Officer
<b>Neil Feinson</b>	International Policy Director (left the Board September 2016)
<b>Rosa Wilkinson</b>	Innovation and Strategic Communications Director (left the Board August 2016)
<b>Ros Lynch</b>	Copyright and Enforcement Director
<b>Neil Hartley</b>	Finance Director
<b>Mike Fishwick</b>	Chief Technology Officer
<b>Pippa Hall</b>	Chief Economist and Acting Director of Innovation (joined the Board August 2016)
<b>Adam Williams</b>	Acting Director of International Policy (joined the Board September 2016)
<b>Julyan Elbro</b>	Acting Director of Patents (joined the Board in August 2016)
<b>Steve Rowan</b>	Acting Director of Tribunals, Trade Marks and Designs (joined the Board in August 2016)

During the financial year John Alty left his role as Chief Executive Officer and Sean Dennehey took the role of Acting Chief Executive. Tim Moss took up the role as Chief Executive from May 2017. Julyan Elbro joined the Board in August 2016 as Acting Director of Patents and Steve Rowan joined in August 2016 as Acting Director of Tribunals, Trade Marks and Designs.

Rosa Wilkinson left in September 2016 and Pippa Hall took the role of Chief Economist and Acting Director of Innovation, and Neil Feinson left in September 2016 and Adam Williams took the role of Acting Director of International Policy.

### 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 and Finance Director are obligatory attendees. There are additional attendees, by invitation only, from the Office, Internal Audit and the National Audit Office. The Committee meets four times a year, and attendees are:

<b>Gary Austin</b>	Non-Executive Director (Chair)
<b>Nora Nanayakkara</b>	Non-Executive Director
<b>Paul Layland</b>	Independent Member Director of Finance, Office for National Statistics

Andrew Mackintosh attended the Audit and Risk Committee for two meetings: January 2017 & September 2016. Andrew's role at these meetings was as an observer to gain closer insight of the working of this Committee, and was not as a member of the Committee.

### Obligatory Attendees

<b>John Alty</b>	Chief Executive and Accounting Officer (left the Board August 2016)
<b>Sean Dennehey</b>	Acting Chief Executive and Accounting Officer (from August 2016)
<b>Neil Hartley</b>	Director of Finance

**Those who attend by invitation**

**Sean Dennehey** Deputy Chief Executive (until August 2016)

**Louise Smyth** Chief Operating Officer

**Karen Powell** Head of Governance  
and Risk Management

**Head of Internal Audit**

**National Audit Office**

## 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. 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 net resource outturn, application of resources, changes in taxpayers' equity and cash flows for the financial year.

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

- Observe the Accounts Direction issued by 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.

The Treasury has appointed the Chief Executive as the Accounting Officer for the Patent Office 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 Patent Office's assets, 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.

# Governance Statement 2016/17

## 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 (IPO)<sup>1</sup>.

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 Office, 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 Office has complied with the principles of good governance and reviews the effectiveness of the system of internal controls.

## The Governance Framework of the Office

The Office corporate governance structure comprises of the Executive 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 Office operates.

**The Executive Board** was chaired by Chief Executive Officer, John Alty, until his departure in August 2016. Sean Dennehey became Acting Chief Executive Officer immediately on John's departure, and took over as Accounting Officer from 10 August 2016 until 30 April 2017. I took up the permanent position of Chief Executive and Accounting Officer on 01 May 2017. The Executive Board meets informally on a weekly basis and formally every month. During the majority of 2016/17 it comprised of: the Chief Executive Officer; Deputy Chief Executive Officer; Chief Operating Officer; Chief Technology Officer; Acting International Policy Director; Copyright and Enforcement Director; Finance Director; Acting Director of Innovation and Strategic Communications; Acting Director of Patents; and, Acting Director of Tribunals, Trade Marks and Designs. It has collective responsibility for the leadership and strategic management of the Office, in line with Ministerial priorities and our Corporate Plan.

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<sup>1</sup> An operating name of the Patent Office

I am also a member of the **Steering Board** which has an independent Non-Executive Chair and six Non-Executive Directors as members, together with Paul Hadley, the Deputy Director of Business Innovation, BEIS. Directors of the Office attend, but are not Steering Board members. The role of the Steering Board is to advise Ministers on the Office's strategies and performance (including targets) as set out in the Office's 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 Corporate Plan and performance. The Steering Board meets six times a year which includes one away-day.

**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 Office, Government Internal Audit Agency, and the National Audit Office. In addition to providing the former Chief Executive Officer with assurance over the preparation and signing of the Office's accounts for 2015/16, the committee considered the findings of seven audit reports. These reports covered a range of governance and risk management areas, including a review of our key IT business requirements and pipeline management, assessment of our new digital designs application process and a review 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 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. The Operating Committee meets monthly.

**The Policy Committee** is a sub-committee of the Executive Board. It is chaired by the Director of Copyright and Enforcement, 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 IP policy making across the Office. It takes decisions on issues of policy not meriting full Executive Board discussion. Formal meetings are held monthly.

**The Transformational Change Committee** is also a sub-committee of the Executive Board. It is chaired by the Deputy Chief Executive Officer and members include the Chief Technology Officer and one Non-Executive Director, although this is under review. It has responsibility for: governance of change in the Office; prioritising the use of IT resources in support of the Office's corporate goals and priorities; and ensuring that dependencies and interrelationship of projects are effectively managed. The Transformational Change Committee meets monthly.

To further strengthen our governance framework we introduced the **IPO EU EXIT Project Board** in November 2016. It will monitor progress across the Office in response to the referendum on UK membership of the EU, providing a strategic steer. The Project is accountable to the Senior Responsible Owner (SRO), who sits on the Executive Board.



Member attendance at Steering Board meetings held during April 2016 – March 2017

Members	Meetings Attended (5 in year)
John Alty <sup>2</sup> (Accounting Officer/Chief Executive Officer)	3
Sean Dennehey <sup>3</sup> (Deputy then Acting Chief Executive Officer)	4
Bob Gilbert CBE (Non-Executive Director & Chair of Steering Board)	5
Gary Austin (Non-Executive Director & Chair of Audit and Risk Committee)	4
Iain Maclean (Non-Executive Director)	5
Tim Suter (Non-Executive Director)	5
Nora Nanayakkara (Non-Executive Director)	5
Mandy Haberman (Non-Executive Director)	5
Andrew Mackintosh (Non-Executive Director)	5
Paul Hadley (Deputy Director of Business Innovation, BEIS)	5

Member attendance at Audit and Risk Committee meetings held during April 2016 – March 2017

Members	Meetings Attended (4 in year)
Gary Austin (Non-Executive Director & Chair of Audit and Risk Committee)	4
Nora Nanayakkara (Non-Executive Director)	3
Paul Layland (Independent member from other government department)	4

<sup>2</sup>Left August 2016

<sup>3</sup>Acting CEO from August 2016 until May 2017

Member attendance at Executive Board meetings held during April 2016 – March 2017

Members	Meetings Attended (11 in year)
John Alty (Accounting Officer/Chief Executive Officer)	3
Sean Dennehey (Deputy then Acting Chief Executive Officer)	11
Louise Smyth (Chief Operating Officer)	11
Neil Hartley (Director of Finance)	11
Neil Feinson <sup>4</sup> (Director of International Policy)	4
Rosa Wilkinson <sup>5</sup> (Director of Innovation & Strategic Communications)	4
Ros Lynch (Director of Copyright and IP Enforcement)	9
Mike Fishwick (Chief Technology Officer)	9
Adam Williams <sup>6</sup> (Acting Director of International Policy)	6
Pippa Hall <sup>7</sup> (Acting Director of Innovation)	5
Julyan Elbro <sup>8</sup> (Acting Director of Patents)	9
Steve Rowan <sup>9</sup> (Acting Director of Tribunal, Trade Marks and Designs)	8

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

- The Executive Board use agreed key success factors for its collective role.
- The Secretariat and I regularly review the Executive Board's work programme ensuring that it addresses the requirements of the Office and BEIS.
- The Steering Board carries out an annual effectiveness review.
- The Chair of Steering Board and I are in regular contact.
- Non-Executive Board members are reviewed individually on an annual basis and appointed for up to three years at a time.

<sup>4</sup>Left September 2016

<sup>5</sup>Left August 2016

<sup>6</sup>From September 2016

<sup>7</sup>From August 2016

<sup>8</sup>From August 2016

<sup>9</sup>From August 2016

- The Audit and Risk Committee undertakes an annual self-assessment which makes recommendations for change.
- Mid-year and end-year Directorate performance reviews are held with each Director and their senior team to assess performance against targets and the Corporate Plan.

## 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 2016/17 and up to (and beyond) 31 March 2017.

We continually assess and refine management data to ensure that the Executive Board are provided with the most appropriate information to allow them to identify and respond to emerging risks. The Executive Board are involved in shaping the information they receive to ensure its quality and that it meets their needs in overseeing the business.

The Board Risk Register records all significant risks to the achievement of the Office's policies, aims and objectives. It is reviewed by the Executive Board and the Audit and Risk Committee on a regular basis. This is further supported by internal audit reviews and assurance reporting. The Executive Board participated in a risk horizon scanning workshop in January 2017 which focused on potential risks to achieving our objectives as set out in our 2017 – 2020 corporate plan.

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 that a sound risk management culture is promoted within their area.

All projects within the Office maintain a risk register, as does the Transformational Change Committee and the TRIPOD portfolio. The Head of Governance and Risk Management took over facilitation of risk management for the Transformational Change Committee in February 2017 and managed a risk identification exercise to ensure no significant risks have been overlooked. This year has seen more engagement between projects and the Central Risk Team, with the number of project risk workshops completed increasing substantially.

The Central Risk Team which is part of the Governance, Planning and Strategy team within People, Places and Services Directorate, co-ordinate the Board Risk Register, Operating Committee Risk Register and Transformational Change 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 Office remains a key priority. A comprehensive internal audit programme is agreed each year with the resulting reports and recommendations acted upon. 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.

**Financial accounting** remains sound; a history of unqualified audit opinion of our accounts attests to this. Assurance on financial processes has been provided by Internal Audit reviews of our banking arrangements and budget forecasting and monitoring.

We attend quarterly BEIS 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 had one case of fraud which has resulted in a small loss of money to the Office; an investigation is currently underway, as is a review of internal controls to ensure this does not happen again. Our **whistle-blowing policy** is available to all staff on our intranet site; no whistle-blowing cases have arisen this year.

The **Business Continuity Plan (BCP)** is reviewed and updated every 6 months and tested annually. This year the plan was put to test when a suspicious package was received in Concept House. The situation touched on many aspects of the plan including incident response; office wide communications; accessing our IT systems and liaison with the emergency services. During the incident we identified a number of improvements that could be made to the plan and we also sought feedback from the Police as part of our review. This information was collated into a set of actions which have now been implemented.

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

The Office has maintained its certification against the ISO 27001:2013 standard and the ISO assessor continues to give praise to the good practices applied. This year particular credit was given for the adoption of a new risk assessment methodology and its efficiency. In January the IPO Secure Team successfully passed a full recertification exercise where they were audited over three days by a BSI assessor in all one-hundred and fourteen controls.

Information Asset Experts continue to manage and monitor information security across their directorates and work is currently underway to automate statistical evidence and reporting in order to further assist them in their role.

The Chief Operating Officer receives monthly updates from the IPO Secure Team, quarterly updates from the Information Security Working Group and updates in real time when deemed necessary.

The IPO Secure team report continued compliance with the Payment Card Industry Data Security Standards, including changes to the new standard.

**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 **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. The Office has procedures in place to ensure we comply with the recommendations of the report. All senior members of staff have been on the payroll during the year.

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. The Office has reviewed its use of analytical modelling and concluded that there are only two business models used within the Office that could be classed as business critical. These models are owned by a single SRO and have undergone an internal peer review by appropriate specialist staff ensuring an application of quality assurance.

Guidance from HM Treasury, Cabinet Office and BEIS 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 me, the Executive Board and the Audit and Risk Committee with assurance that the Office has complied with the 'Corporate Governance in Central Government Departments: Code of Good Practice', throughout the year, where applicable.

## Significant Risks and Control Issues

The Office is a moderately complex organisation covering policy work, rights granting, business support and enforcement. We are responsible for ensuring that the IP system supports innovation and economic growth. We work in an international framework, and retaining a global outlook is important.

Looking back over issues noted in last year's Governance Statement, we have made clear progress in addressing weaknesses that were identified in the March 2016 audit of our digital transformation portfolio of work, Transforming the IPO Digitally (TRIPOD). A recent independent review recognised that considerable effort and improvement has been made to address the process and procedural issues. At the same time, it did identify that more activity is required to address remaining challenges such as effectively documenting and maintaining a prioritised change roadmap and tackling cultural issues. This is underway.

We successfully reduced the level of payroll errors by bringing our HR and payroll services back in house in September 2016. The new system we are using to deliver payroll has greatly improved the user experience and is significantly better value for money.

Our highest risk at this time is our ability to overcome the challenges of recruiting skilled professionals into critical IT vacancies. Buoyancy of the IT market and IR35 tax legislation are making government organisations a less attractive place to work. We have a range of mitigating actions which we are working through, which includes the use of third party providers and the use of agencies to assist in the recruitment process. If we do not reduce this risk, it will stifle our ability to progress with our digital transformation at the pace required.

### **Review of effectiveness**

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

As I did not take up this position until 01 May 2017, my review has been informed by the assurance of the immediately previous Accounting Officer and the independent assurance of the Audit and Risk Committee. I have been provided with individual governance returns from each Director, who have responsibility for the development and maintenance of the governance structures and internal control framework across the organisation and have also reviewed the annual audit report from the Government Internal Audit Agency.

I have considered the evidence provided to support this Governance Statement and sought relevant Audit and Risk Committee assurance. Overall I conclude that the Office has maintained a sound system of governance, risk management and internal control during the financial year 2016/17.



**Tim Moss**

Chief Executive and Accounting Officer

6 July 2017

# 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](http://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 BEIS.

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 2016/17 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 BEIS SCS and the outcome moderated by the BEIS pay committee.

The Office's performance awards for the year were compliant with this arrangement.

For SCS analogues the Chief Executive and Chief Operating Officer formed a remuneration committee and moderate the final performance distribution. The committee met on 23 June 2016 to moderate the 2016/17 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 [www.civilservicecommission.org.uk](http://www.civilservicecommission.org.uk)



## Remuneration (including salary) and pension entitlements

The following sections 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	
	16/17	15/16	16/17	15/16	16/17	15/16	16/17	15/16
	£000	£000	£000	£000	£000	£000	£000	£000
John Alty <sup>2</sup> Chief Executive up until 9 August 2016	55-60 (FYE 135-140)	145-150	0-5	0-5	7	28	60-65 (FYE 140-145)	170-175
Sean Dennehey <sup>3</sup> Director until 9 August 2016 Acting Chief Executive from 10 August 2016 to 30 April 2017	110-115	110-115	0-5	10-15	N/A <sup>1</sup>	33	115-120	155-160
Louise Smyth <sup>2</sup> Director	85-90	85-90	0-5	0-5	19	57	105-110	140-145
Neil Feinson <sup>2</sup> Director until 18 September 2016	30-35 (FYE 70-75)	70-75	5-10	0-5	7	20	50-55 (FYE 85-90)	90-95
Rosa Wilkinson <sup>2</sup> Director until 31 August 2016	30-35 (FYE 75-80)	75-80	0-5	10-15	29	24	60-65 (FYE 105-110)	110-115
Ros Lynch <sup>2</sup> Director	65-70	65-70	5-10	0-5	16	17	90-95	80-85
Neil Hartley <sup>2</sup> Director	35-40	35-40	0-5	0-5	23	18	50-55	55-60
Mike Fishwick <sup>2</sup> Director	115-120	65-70 (FYE 115-120)	0-5	N/A	46	26	160-165	90-95 (FYE 140-145)
Adam Williams <sup>2</sup> Acting Director from 19 September 2016	35-40 (FYE 65-70)	N/A	0-5	N/A	14	N/A	50-55 (FYE 85-90)	N/A
Pippa Hall <sup>2</sup> Acting Director from 31 August 2016	40-45 (FYE 65-70)	N/A	0-5	N/A	16	N/A	55-60 (FYE 85-90)	N/A
Julyan Elbro <sup>3</sup> Acting Director from 10 August 2016	45-50 (FYE 70-75)	N/A	0-5	N/A	23	N/A	70-75 (FYE 95-100)	N/A
Steve Rowan <sup>2</sup> Acting Director from 10 August 2016	45-50 (FYE 70-75)	N/A	0-5	N/A	30	N/A	75-80 (FYE 100-105)	N/A

<sup>1</sup> Sean Dennehey was not to be covered by the Civil Service pension arrangements during the reporting year

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.

<sup>2</sup> is a member of the Senior Civil Service.

<sup>3</sup> is a member of the Senior Civil Service by analogy.

Tim Moss has been appointed as Chief Executive from 1 May 2017.

Neil Hartley has a dual role where 50% of time is with the Office and 50% of time with Companies House. Although he is employed by Companies House the Office 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 the Office or Companies House.

John Alty's salary includes £12,000 for gross taxable expenses in 2016/17 (£22,000 in 2015/16).

## Salary

'Salary' includes gross salary; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; private office allowances and any other allowance to the extent that it is subject to UK taxation. This report is based on accrued payments made by the Office and thus recorded in these accounts.

## Benefits in kind

The monetary value of benefits in kind cover any benefits provided by the Office and treated by HM Revenue and Customs as a taxable emolument. There were no benefits in kind in 2016/17 or 2015/16.

## 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 2016/17 relate to performance in 2015/16 and the comparative bonuses reported for 2015/16 relate to the performance in 2014/15. 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 pension age as at 31/3/17 and related lump sum	Real increase/ (decrease) in pension and related lump sum at pension age	CETV at 31/3/17 or leaving office	CETV at 31/3/16 or taking office	Real increase/ (decrease) in CETV
	£000	£000	£000	£000	£000
John Alty Chief Executive up until 9 August 2016	60-65 plus a lump sum of 180-185	0-2.5 plus a lump sum of 0-2.5	1,426	1,409	7
Louise Smyth Director	30-35 plus a lump sum of 90-95	0-2.5 plus a lump sum of 2.5-5	605	562	15
Neil Feinson Director until 18 September 2016	25-30 plus a lump sum of 80-85	0-2.5 plus a lump sum of 2.5-5	560	547	6
Rosa Wilkinson Director until 31 August 2016	10-15	0-2.5	177	151	23
Ros Lynch Director	15-20 plus a lump sum of 45-50	0-2.5 plus a lump sum of 0-2.5	348	317	15
Neil Hartley Director	30-35	0-2.5	495	464	8
Mike Fishwick Director	0-5	2.5-5	56	20	27
Adam Williams Acting Director from 19 September 2016	10-15	0-2.5	114	106	6
Pippa Hall Acting Director from 31 August 2016	5-10	0-2.5	57	51	3
Julyan Elbro Acting Director from 10 August 2016	20-25 plus a lump sum of 55-60	0-2.5 plus a lump sum of 0-2.5	338	311	11
Steve Rowan Acting Director from 10 August 2016	25-30 plus a lump sum of 75-80	0-2.5 plus a lump sum of 0-2.5	495	471	18

## 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 his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and 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 8% and 14.75% (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 0.5% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

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

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

## Pay multiples

Reporting bodies are required to disclose the relationship between the remuneration of the highest paid director in their organisation and the median remuneration of the organisation's workforce.

The banded annualised remuneration of the highest-paid director in the Office in the financial year 2016/17 was £135,000-£140,000 (2015/16, £145,000-£150,000). This was 4.8 times (2015/16, 5.1) the median remuneration of the workforce, which was £28,705 (2015/16, £28,546). The ratio has fallen because the highest paid director had lower detached duty claims resulting in a lower annualised remuneration. Median remuneration of the workforce has risen slightly but is influenced by significant recruitment of new patent examiners and agency staff below the median.

In 2016/17, 0 (2015/16, 0) employees received remuneration in excess of the highest paid director. Remuneration ranged from £16,000 to £118,000 (2015/16, £15,000 to £120,000). The range shows salary from the apprentice rate upwards. The lowest paid established civil servant banding ranged from £16,389 upwards.

Total remuneration includes salary, non-consolidated performance-related pay and benefits in kind. It does not include severance payments, employer pension contributions and the cash equivalent transfer value of pensions.

## Steering Board Members

Gareth Davies is Director General within BEIS 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 BEIS representative.

The Independent Board members and their remuneration are:

	<b>2016/17 Remuneration</b>	<b>2015/16 Remuneration</b>
	<b>£000</b>	<b>£000</b>
Bob Gilbert Reappointed from 6 February 2017 to 30 September 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	N/A	0–5 (5–10 full year equivalent)
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 2016 to 5 November 2019	5–10	5–10
Mandy Haberman Appointed from 2 November 2015 to 1 November 2018	5–10	0–5 (5–10 full year equivalent)
Andrew Mackintosh Appointed from 2 November 2015 to 1 November 2018	5–10	0–5 (5–10 full year equivalent)

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

Paul Layland serving civil servant is an independent member of the audit and risk committee and is not remunerated.

## 2. Staff Report

(This section is subject to audit)

### 2.1 Staff costs

	Permanently employed staff	Others	2016/17 £000 Total	2015/16 £000 Total
Wages and salaries	39,301	3,171	42,472	42,553
Social security costs	4,235	-	4,235	3,261
Other pension costs	7,998	-	7,998	7,823
<b>Sub total</b>	51,534	3,171	54,704	53,637
Capitalised staff costs included above	(399)	(393)	(792)	(1,568)
<b>Total net costs</b>	51,135	2,778	53,913	52,069

### 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:

	2016/17	2015/16
The total number of such engagements	6	27
The number that have existed for less than one year	1	23
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:

	2016/17	2015/16
The number of new engagements or those that reached six months during the period	15	23
The number of these engagements which include contractual clauses giving the department the right to request assurance in relation to tax obligations	15	23
The number for whom assurance has been requested	7	13
The number for whom assurance has been requested and received	7	13
The number for whom assurance has been requested but not received	-	-
The number that have been terminated from non-receipt of assurance	-	-

Assurance is sought for all engagements that reach six months. Those that have not exceeded six months have not had assurances requested.

### Consultancy and the use of contingent labour

	2016/17	2015/16
	£000	£000
Consultancy expenditure	-	2
Contingent labour expenditure	2,778	3,097

The movement is due to a decreased 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](http://www.civilservice-pensions.gov.uk)).

For 2016/17 employer contributions of £7,977,014 were payable to the PCSPS (2015/16 £7,779,651) 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 2016/17 to be paid when the member retires and not the benefits paid during this period to existing pensioners. The rates are unchanged for 2016/17.

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](http://www.civilservicepensionscheme.org.uk/members/the-new-pension-scheme-alpha)

## 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:

	2017	2016
Directors	8	7
Staff	1,088	1,082
Seconded in staff	9	13
Agency/contract staff	41	37
Seconded out staff	23	28
Total	1,169	1,167

In 2016/17 there were 14 full time equivalent staff or contract staff working on capital projects (2015/16, 20).

Of the people employed by the Office in 2016/17 1,129 were civil servants (2015/16 1,130).

The in year provision for early retirement and severance schemes was £33,933 (2015/16 £408,471) 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	
	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16
<£10,000	-	-	-	-	-	-
£10,000 - £25,000	-	-	1	-	1	-
£25,000 - £50,000	-	-	-	3	-	3
£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	1	6	1	6
Total cost £000	0	0	24	361	24	361

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 recognised in full when normal accounting criteria, a realistically irrevocable offer, are met not on departure of an individual. 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 was as follows:

	2017	2017	2016	2016
	Male	Female	Male	Female
Total Staff	57.0%	43.0%	56.5%	43.5%
Clerical Staff	38.0%	62.0%	38.0%	62.0%
Management Staff	60.4%	39.6%	60.7%	39.3%
Senior Civil Servants	75.0%	25.0%	70.4%	29.6%
Board	62.5%	37.5%	62.5%	37.5%

We are committed to ensuring that our workforce is representative of the customers we serve across the UK. As part of this we monitor the diversity of our people. Disclosure of personal characteristics is not mandatory but we have made significant progress in improving levels of staff declarations over the last year and will continue to encourage our people to disclose this information over the next year. This will give us a better basis for understanding where we need to target efforts to increase numbers of under-represented groups.

## 2.5 Sickness Absence Data

During 2015/16 we averaged 6.4 working days lost per person against our internal target of an average of 6.8 working days lost per person. This year we tightened our internal target to 6.5 average working days lost per person, and we have achieved an overall 6.2 average working days lost per person.

## 2.6 Staff Policies

The Office is committed to making it a great place to work, where staff are offered flexibility and development, where everyone's contribution is recognised and diversity is genuinely valued.

Staff policies were 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.

- For promoting a working environment free from discrimination, harassment and victimisation.
- For ensuring that all decisions relating to the Office employment practices are objective, free from bias, and based solely on work criteria and individual merit, with due account taken of an individual's personal circumstances and the needs of the Office.

## 3. Parliamentary Accountability and Audit Report

(This section is subject to audit)

### 3.1 Regularity of expenditure

All expenditure is spent in line with the Trading Fund order.

### 3.2 Losses and special payments

There were no losses or special payments to report.

### 3.3 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.

Design rights fees were changed during the year to reflect the lower costs associated with our new digital system. The table below includes transitional costs, hence the resulting under-recovery. Next year income is expected to match costs.

<b>2016/17</b>	<b>Patents</b>	<b>Trade marks</b>	<b>Designs</b>	<b>Publications</b>	<b>Commercial</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Income	61,586	24,819	1,056	98	378	87,937
Expenditure	(58,148)	(20,818)	(1,413)	(85)	(353)	(80,817)
<b>Subtotal</b>	<b>3,438</b>	<b>4,001</b>	<b>(357)</b>	<b>13</b>	<b>25</b>	<b>7,120</b>
Financial Income	135	54	2	0	1	192
Financial Expenditure	(20)	(8)	-	-	-	(28)
Dividend	(2,380)	(960)	(41)	(4)	(15)	(3,400)
<b>Surplus/(deficit) before additional dividend</b>	<b>1,173</b>	<b>3,087</b>	<b>(396)</b>	<b>9</b>	<b>11</b>	<b>3,884</b>

<b>2015/16</b>	<b>Patents</b>	<b>Trade marks</b>	<b>Designs</b>	<b>Publications</b>	<b>Commercial</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Income	60,125	21,505	1,307	98	298	83,333
Expenditure	(58,339)	(19,258)	(1,622)	(94)	(429)	(79,742)
<b>Subtotal</b>	<b>1,786</b>	<b>2,247</b>	<b>(315)</b>	<b>4</b>	<b>(131)</b>	<b>3,591</b>
Financial Income	211	76	5	0	1	293
Financial Expenditure	(50)	(18)	(1)	0	0	(69)
Dividend	(2,501)	(896)	(54)	(4)	(12)	(3,467)
<b>Surplus/(deficit) before additional dividend</b>	<b>(554)</b>	<b>1,409</b>	<b>(365)</b>	<b>0</b>	<b>(142)</b>	<b>348</b>

### 3.4 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 Office are aware of. Liabilities of the European Patent Office and other multi-national organisations lie with the Secretary of State.

### 3.5 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 national insurance 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.



**Tim Moss**

Chief Executive and Accounting Officer

6 July 2017



# 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 2017 under the Government Trading Funds Act 1973. The financial statements comprise: the Statement of Comprehensive Income, Statement of Financial Position, Statement of Cash Flows, Statement of Changes in 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 the Parliamentary Accountability and Audit Report that is described in that report as having been audited.

## **Respective responsibilities of the Chief Executive 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 and Accounts 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 2017 and of its surplus/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 Parliamentary Accountability and Audit Report to be audited have been properly prepared in accordance with HM Treasury directions made under the Government Trading Funds Act 1973; and
- the information given in 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 Parliamentary Accountability and Audit Report to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

## Report

I have no observations to make on these financial statements.

**Sir Amyas C E Morse**  
Comptroller and Auditor General

**Date** 11th July 2017

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

# Financial Statements 2016/17

## Statement of Comprehensive Income

For the year ended 31 March 2017

		2017	2016
	Notes	£000	£000
Income from sale of goods and services	3	87,937	83,333
Staff costs	4	(53,913)	(52,069)
Depreciation and amortisation		(2,145)	(2,074)
Other operating charges		(24,759)	(25,599)
<b>Operating surplus before financing and dividend</b>		<b>7,120</b>	<b>3,591</b>
Financial Income	7	192	293
<b>Operating surplus on ordinary activities</b>		<b>7,312</b>	<b>3,884</b>
Financial Expenditure	8	(28)	(69)
Net operating surplus		7,284	3,815
Dividend	9	(3,400)	(3,467)
Surplus before additional dividend		3,884	348
Additional Dividend Paid During Year	9	(4,758)	(3,400)
<b>Retained (deficit) for the year</b>		<b>(874)</b>	<b>(3,052)</b>
All of the operations are classed as continuing.			
<b>Other comprehensive income</b>			
Net gain on revaluation of plant, property and equipment	10	(335)	166
Net gain on revaluation of intangible assets	11	154	122
<b>Total comprehensive expenditure</b>		<b>(1,055)</b>	<b>(2,764)</b>

The notes on pages 66 to 79 form part of these accounts.

## Statement of Financial Position

As at 31 March 2017

		2017	2016
	Notes	£000	£000
<b>Non-current assets</b>			
Property, plant and equipment	10	21,066	21,594
Intangible assets	11	6,570	6,102
		<b>27,636</b>	<b>27,696</b>
<b>Current assets</b>			
Trade and other receivables	12	5,395	5,344
Cash and cash equivalents	13	90,533	89,791
		<b>95,928</b>	<b>95,135</b>
		<b>123,564</b>	<b>122,831</b>
<b>Current liabilities</b>			
Trade and other payables	14	(18,922)	(17,105)
Other liabilities	14	(19,674)	(19,455)
Total current liabilities		(38,596)	(36,560)
<b>Non-current assets plus net current assets</b>		<b>84,968</b>	<b>86,271</b>
<b>Non-current liabilities</b>			
Provision for liabilities and charges	15	(31)	(113)
Financial liabilities	16	0	(166)
<b>Total non-current liabilities</b>		<b>(31)</b>	<b>(279)</b>
<b>Net Assets</b>		<b>84,937</b>	<b>85,992</b>
<b>Financed by:</b>			
Capital and reserves			
Public dividend capital		6,325	6,325
Revaluation reserve		3,285	3,650
General reserve		75,327	76,017
<b>Total financing</b>		<b>84,937</b>	<b>85,992</b>



**Tim Moss**

Chief Executive and Accounting Officer  
6 July 2017

The notes on pages 66 to 79 form part of these accounts.

## Statement of Cash Flows

For the year ended 31 March 2017

	2017	2016
	£000	£000
<b>Net cash inflow from operating activities</b>		
Net operating surplus	7,284	3,815
Adjustment for non-cash items	2,228	2,514
Increase in trade and other receivables	(51)	(1,450)
Increase in trade payables	2,036	992
Movements in payables relating to items not passing through the operating statement (capital and dividend accruals and short term provision movement)	577	(130)
Use of provisions	(444)	(626)
Dividends paid	(8,225)	(6,857)
<b>Net cash inflow from operating activities</b>	<b>3,405</b>	<b>(1,742)</b>
<b>Cash flows from investing activities</b>		
Purchase of property plant and equipment	(1,302)	(1,090)
Purchase of intangible assets	(1,195)	(1,568)
<b>Net cash outflow from investing activities</b>	<b>(2,497)</b>	<b>(2,658)</b>
<b>Cash flows from financing activities</b>		
Repayment of loans	(166)	(166)
<b>Net Increase / (Decrease) in cash and cash equivalents in year</b>	<b>742</b>	<b>(4,566)</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>89,791</b>	<b>94,357</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>90,533</b>	<b>89,791</b>

The notes on pages 66 to 79 form part of these accounts.

## Statement of Changes in Taxpayers' Equity

	PDC	Revaluation Reserve	General Reserve	Total Capital & Reserves
	£000	£000	£000	£000
<b>Balance at 31 March 2015</b>	<b>6,325</b>	<b>3,516</b>	<b>78,915</b>	<b>88,756</b>
<b>Changes in capital and reserves for 2015/16</b>				
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)
<b>At 31 March 2016</b>	<b>6,325</b>	<b>3,650</b>	<b>76,017</b>	<b>85,992</b>
<b>Changes in capital and reserves for 2016/17</b>				
Net gain on revaluation of property, plant and equipment	-	(335)	-	(335)
Net gain on revaluation of intangible assets	-	154	-	154
Transfer of (excess) / realised depreciation between reserves	-	(184)	184	0
Retained deficit	-	-	(874)	(874)
<b>At 31 March 2017</b>	<b>6,325</b>	<b>3,285</b>	<b>75,327</b>	<b>84,937</b>

## Notes to the Accounts

### 1 Accounting policies

#### 1(a) Statement of accounting policies

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

#### 1(b) Accounting convention and estimates

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

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and judgements that affect the reported assets, liabilities, revenue and expenditure. Actual results can differ from those estimates. The accounting policy descriptions set out those areas where judgement needs exercising. The most significant in 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 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	54 years
Information technology	5 years
Plant and machinery	5 years

Depreciation is charged from the date of acquisition.

#### 1(e) Capitalisation threshold

All land and buildings owned by the 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 exceeds £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 Office operations.



**1(f) Intangible assets**

Intangible assets consists of specialist software developed for the 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 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 Office publications and fees earned from other commercial services.

**1(j) Value Added Tax (VAT)**

The Office is not registered separately for VAT, but falls within the Department for Business, Energy and Industrial Strategy (BEIS) registration.

Irrecoverable VAT on revenue 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 reporting date. Transactions in foreign currencies are recorded at the rate ruling at the time of the transaction. All exchange differences (see note 5) 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 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**

The dividend is calculated in accordance with the Treasury and is not discretionary. Under Section 4(1) of the Government Trading Funds Act the 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 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 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 Office recognises the contributions payable for the year.

**1(q) Contingent liabilities**

In addition to contingent liabilities disclosed in accordance with IAS 37 (see note 18) the Office is obliged to disclose for parliamentary reporting and accountability purposes certain statutory and non statutory contingent liabilities where the likelihood of a transfer of economic benefit is remote but which must be reported to Parliament in accordance with the requirements of Managing Public Money.

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

**1(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 2016/17 and not applied, which would materially affect the Financial Statements. In addition, no new standards have been adopted early. IFRS 9 Financial Instruments and IFRS 15 Revenue from contracts with customers are effective from 2018/19; their application in the public sector context has yet to be interpreted by the FReM. IFRS 16 leases has been issued but is not effective until periods commencing 1 January 2019. These accounting standards are not expected to have a material impact.

**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

<b>For the year ended 31 March</b>	<b>2017</b>	<b>2016</b>
	<b>£000</b>	<b>£000</b>
Patents		
Application, search and examination fees	3,479	3,537
Renewals for UK Patents	12,269	12,506
Renewals for European patents designating the UK	44,667	43,277
Other	1,171	805
	<b>61,586</b>	<b>60,125</b>
Trade marks		
Application fees	16,317	13,479
Renewal fees	7,643	7,167
Other	859	859
	<b>24,819</b>	<b>21,505</b>
Designs		
Application fees	340	339
Renewal Fees	692	963
Other	24	5
	<b>1,056</b>	<b>1,307</b>
Publications	98	98
Commercial services	378	298
Total Turnover	<b>87,937</b>	<b>83,333</b>

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.

	<b>2017</b>	<b>2016</b>
	<b>£000</b>	<b>£000</b>
Salaries and wages	39,301	38,463
Social security costs	4,235	3,261
Pension costs	7,998	7,823
Agency/Contract staff	3,171	4,090
Capitalised staff costs included above	(792)	(1,568)
	<b>53,913</b>	<b>52,069</b>

## 5 Other non staff costs

	<b>2017</b>	<b>2016</b>
	<b>£000</b>	<b>£000</b>
IT and Telecoms	7,779	5,843
Accommodation (ex leases)	4,125	3,436
Access to online IP databases	2,570	2,091
Property lease costs	1,842	786
Innovation support	1,399	1,531
Legal and hearings	991	889
Travel	970	1,105
Other admin costs	876	1,292
Training	784	846
Office supplies and equipment inc postage	764	772
Subscriptions to international bodies	740	745
Recruitment and other staffing costs	659	1,277
Research co-operation and seminars	541	907
Hire of office machinery	209	189
Outreach and marketing	183	220
Building refurbishment	144	1,543
Departmental overheads	80	66
Audit fee	40	40
Enforcement support	12	1,648
Exchange rate gains	(29)	(38)
<b>Total</b>	<b>24,679</b>	<b>25,188</b>
<b>Non cash items</b>	<b>£000</b>	<b>£000</b>
Amortisation	834	632
Depreciation	1,311	1,442
Loss on disposal of assets	46	3
Provision for early departure in year	34	408
<b>Total non cash</b>	<b>2,225</b>	<b>2,485</b>
<b>Total cash and non cash</b>	<b>26,904</b>	<b>27,673</b>

## 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 2017 was 8.5% (4.4% at 31 March 2016).

The return achieved for the period 1 April 2014 to 31 March 2017 was 6.2% with the capital averaged using the mean of each year.

## 7 Financial Income

	<b>2017</b>	<b>2016</b>
	<b>£000</b>	<b>£000</b>
Short term deposits - operating activities	192	293

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

## 8 Financial expenditure

	<b>2017</b>	<b>2016</b>
	<b>£000</b>	<b>£000</b>
Interest on loans (see note 16)	25	41
Unwinding of discount on early retirement provision (see note 15)	3	28
	<b>28</b>	<b>69</b>

## 9 Dividends

The dividend of £3,466,706 proposed in the 2015/16 statements was paid in July 2016. A further additional dividend of £4,758,000 was paid to BEIS during the year from accumulated reserves to fund other Intellectual Property projects. The dividend of £3,400,012 proposed in the 2016/17 statements will be paid in July 2017.

## 10 Property, plant and equipment

2016/17	Land	Buildings	Plant and machinery	Information Technology	Total
	£000	£000	£000	£000	£000
<b>Cost or valuation</b>					
<b>At 31 March 2016</b>	<b>3,570</b>	<b>15,833</b>	<b>2,082</b>	<b>6,357</b>	<b>27,842</b>
Additions	-	633	89	396	1,118
Revaluation	-	(633)	-	-	(633)
Disposals	-	-	-	(487)	(487)
<b>At 31 March 2017</b>	<b>3,570</b>	<b>15,833</b>	<b>2,171</b>	<b>6,266</b>	<b>27,840</b>
<b>Depreciation</b>					
<b>At 31 March 2016</b>	-	-	<b>1,450</b>	<b>4,798</b>	<b>6,248</b>
Provided during the year	-	298	303	710	1,311
Surplus on revaluation	-	(298)	-	-	(298)
Disposals	-	-	-	(487)	(487)
<b>At 31 March 2017</b>	-	-	<b>1,753</b>	<b>5,021</b>	<b>6,774</b>
<b>Net book value at 31 March 2017</b>	<b>3,570</b>	<b>15,833</b>	<b>418</b>	<b>1,245</b>	<b>21,066</b>
Net book value at 31 March 2016	3,570	15,833	632	1,559	21,594
<b>2015/16</b>					
	Land	Buildings	Plant and machinery	Information Technology	Total
	£000	£000	£000	£000	£000
<b>Cost or valuation</b>					
<b>At 31 March 2015</b>	<b>3,500</b>	<b>15,341</b>	<b>1,763</b>	<b>6,205</b>	<b>26,809</b>
Additions	-	684	338	231	1,253
Revaluation	70	(192)	-	-	(122)
Disposals	-	-	(19)	(79)	(98)
<b>At 31 March 2016</b>	<b>3,570</b>	<b>15,833</b>	<b>2,082</b>	<b>6,357</b>	<b>27,842</b>
<b>Depreciation</b>					
<b>At 31 March 2015</b>	-	-	<b>1,276</b>	<b>3,912</b>	<b>5,188</b>
Provided during the year	-	288	190	964	1,442
Surplus on revaluation	-	(288)	-	-	(288)
Disposals	-	-	(16)	(78)	(94)
<b>At 31 March 2016</b>	-	-	<b>1,450</b>	<b>4,798</b>	<b>6,248</b>
<b>Net book value at 31 March 2016</b>	<b>3,570</b>	<b>15,833</b>	<b>632</b>	<b>1,559</b>	<b>21,594</b>
Net book value at 31 March 2015	3,500	15,341	487	2,293	21,621

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 2017 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.

All assets are owned by the Office.

## 11 Intangible Assets

2016/17	Software in use	Software under construction	Software total
	£000	£000	£000
<b>Cost or valuation</b>			
<b>At 1 April 2016</b>	<b>9,122</b>	<b>1,356</b>	<b>10,478</b>
Additions		1,194	1,194
Reclassifications	2,355	(2,355)	-
Revaluation	154	-	154
Disposals		(46)	(46)
<b>At 31 March 2017</b>	<b>11,631</b>	<b>149</b>	<b>11,780</b>
<b>Amortisation</b>			
<b>At 1 April 2016</b>	<b>4,376</b>	-	<b>4,376</b>
Provided during the year	834	-	834
Surplus on revaluation	-	-	-
Disposals	-	-	-
<b>At 31 March 2017</b>	<b>5,210</b>	-	<b>5,210</b>
<b>Net Book value at 31 March 2017</b>	<b>6,421</b>	<b>149</b>	<b>6,570</b>
<b>2015/16</b>	<b>Software in use</b>	<b>Software under construction</b>	<b>Software total</b>
	£000	£000	£000
<b>Cost or valuation</b>			
<b>At 1 April 2015</b>	<b>8,405</b>	<b>382</b>	<b>8,787</b>
Additions	454	1,115	1,569
Reclassifications	141	(141)	-
Revaluation	122	-	122
Disposals	-	-	-
<b>At 31 March 2016</b>	<b>9,122</b>	<b>1,356</b>	<b>10,478</b>
<b>Amortisation</b>			
<b>At 1 April 2015</b>	<b>3,744</b>	-	<b>3,744</b>
Provided during the year	632	-	632
Surplus on revaluation	-	-	-
Disposals	-	-	-
<b>At 31 March 2016</b>	<b>4,376</b>	-	<b>4,376</b>
<b>Net Book value at 31 March 2016</b>	<b>4,746</b>	<b>1,356</b>	<b>6,102</b>

Additions represent developments in producing software under the TRIPOD major change programme. Intangible assets are revalued based on replacement costs using GDP as proxy. The historic cost net book value at 31 March 2017 is £6,131,210 (£5,889,249 at 31 March 2016).

All assets are owned by the Office.



## 12 Trade receivables

	<b>2017</b>	<b>2016</b>
	<b>£000</b>	<b>£000</b>
Trade receivables	1,104	1,302
Other receivables	138	407
Prepayments and accrued income	4,153	3,635
	<b>5,395</b>	<b>5,344</b>
Sums included above which fall due after more than one year are:		
Other receivables	-	-
Prepayments and accrued income	959	825
	<b>959</b>	<b>825</b>

## 13 Cash and cash equivalents

	<b>2017</b>	<b>2016</b>
	<b>£000</b>	<b>£000</b>
Balance at 1 April	89,791	94,357
Net change in cash and cash equivalent balances	742	(4,566)
Balance at 31 March	90,533	89,791
Government Banking Service	17,904	88,542
Commercial Banks and cash in hand	629	1,249
Short term investments with National Loans Fund	72,000	-
	<b>90,533</b>	<b>89,791</b>

## 14 Current liabilities

	<b>2017</b>	<b>2016</b>
	<b>£000</b>	<b>£000</b>
User deposit accounts	6,077	5,430
Trade payables	12,845	11,675
	<b>18,922</b>	<b>17,105</b>
Deferred income - prepayment	4,786	4,777
Early retirement provision (see note 15)	119	444
Legal Provision (see note 15)	0	354
Taxation and social security	1,086	946
Superannuation	884	863
Other liabilities	141	56
Enforcement	1,807	408
Dividend payable	3,400	3,467
Untaken annual leave owed	2,143	2,038
Accruals	5,142	5,936
Loans (see note 16)	166	166
	<b>19,674</b>	<b>19,455</b>

## 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 0.24% (1.37% at 31 March 2016), with the unwinding of the discount treated as an interest charge on the Statement of Comprehensive Income (see note 8).

	<b>2017</b>	<b>2016</b>
	<b>£000</b>	<b>£000</b>
<b>At 1 April</b>	<b>557</b>	<b>746</b>
Provision made in year	34	409
Unwinding of discount on provision	3	28
Payments offset against the provision	(444)	(626)
<b>At 31 March</b>	<b>150</b>	<b>557</b>
Less amount payable within one year (included in current liabilities - see note 14)	(119)	(444)
<b>Amount payable after one year</b>	<b>31</b>	<b>113</b>

### Other provisions

The Office has made provisions for legal disputes

	<b>Legal</b>	<b>Legal</b>
	<b>2017</b>	<b>2016</b>
	<b>£000</b>	<b>£000</b>
<b>At 1 April</b>	<b>354</b>	-
Provision made in year	-	354
Write back of provision not required	(354)	-
Payments offset against the provision	-	-
<b>At 31 March</b>	<b>-</b>	<b>354</b>
Less amount payable within one year (included in current liabilities - see note 14)	-	(354)
<b>Amount payable after one year</b>	<b>-</b>	<b>-</b>

## 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 2017	Fair Value 2017	Book Value 2016	Fair Value 2016
£000					£000	£000	£000	£000
2,161	01.10.91	26 years	9.625%	9.813%	83	89	166	184
2,164	31.03.92	26 years	10.000%		83	88	166	183
					166	177	332	367
Amounts due within one year (see note 14)					166		166	
Amounts falling due over one year					-		166	

In accordance with Treasury guidance, the fair value has been calculated by discounting future cash flows at the 31 March 2017 interest rate of 2.4%. 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:

	2017	2016
Loan 1	10	18
Loan 2	15	23
	<b>25</b>	<b>41</b>

Under machinery of government changes these loans are now deemed to have been made by the Department for Business, Energy and Industrial Strategy (BEIS).

## 17 Commitments under leases

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

	2017 Buildings	2017 Other	2016 Buildings	2016 Other
	£000	£000	£000	£000
Leases falling due:				
within 1 year	2,092	189	1,120	147
between 1 and 5 years	4,920	114	6,825	167
after 5 years	0	0	0	0
	<b>7,012</b>	<b>303</b>	<b>7,945</b>	<b>314</b>

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

## 18 Contingent liabilities

In June 2009 the Government stated that the 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 2017.

## 19 Related party transactions

The Office is an executive agency of the Department for Business, Energy and Industrial Strategy. 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 UK Statistics Authority, HM Treasury, the Cabinet Office and UK SBS for services such as accommodation and legal services.

None of the Steering Board members, Office Directors or other related parties has undertaken any 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 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 one month. 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.

# 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**  
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