



Intellectual
Property
Office

The Patent Office Annual Report and Accounts

2017/18



The Patent Office

Annual Report and Accounts

2017/18

The Patent Office

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The Patent Office is an Executive Agency of the Department for Business, Energy and Industrial Strategy.

2017/18 Annual Report & Accounts

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Statement by the Audit & Risk Committee Chair

Following the end of term of the Chair of the Intellectual Property Office (IPO)¹, Bob Gilbert, on 31 March 2018, I was very pleased to be invited to write this statement for the Annual Report and Accounts, as Chair of the Audit & Risk Committee (ARC).

Having served as a Non-Executive Director for the IPO for nine years, including undertaking the role of Chair of the ARC for a significant part of that, I have seen the organisation change, grow and develop through many external and internal challenges. I've also seen the organisation identify and seize opportunities to improve the Intellectual Property (IP) framework and environment for business wherever they can.

This year was no different. With a new Chief Executive leading the organisation, we undertook a comprehensive review of our strategy and purpose, ensuring it remains relevant. We are supporting the aims of the Government's Industrial Strategy, working to ensure the best possible outcomes on intellectual property while preparing for the UK's departure from the EU. This activity is being undertaken against the additional challenge of meeting significantly increased demand. We also achieved the Civil Service High Performers Benchmark in the Civil Service People Survey, demonstrating we are continuing to ensure delivery of excellent IP services, while also creating a world-leading IP environment and making the IPO a brilliant place to work.

Whilst working domestically and internationally, we have once again met all our Ministerial Targets and made considerable progress against the priorities outlined in our Corporate Plan 2017 – 2020. All this makes a positive contribution to the UK economy and growth.

The professionalism, dedication and talent of our people is the reason for our continued success. Sadly, my term as Non-Executive Director and Chair of the ARC will shortly come to an end. I have thoroughly enjoyed my time with the IPO, and would like to thank everyone at the organisation for their support. I would also like to recognise their ongoing dedication, not just to the IPO, but to IP and the work of the Government as a whole.



Gary Austin

Non-Executive Director, Chair of Audit & Risk Committee

1. The Intellectual Property Office is an operating name of the Patent Office

Chief Executive's Introduction

I'm delighted to introduce the IPO Annual Report and Accounts 2017/18.

This year has been busy, challenging, yet extremely successful. This is demonstrated by the detail included in this report, showing our achievements against the targets set by our Minister and outlined in our Corporate Plan 2017 – 2020.

After becoming CEO of the Intellectual Property Office in May 2017, the board have taken time to refresh our strategy, setting new goals, reflecting the environment we are working in and our ambition for the future. Our new goals are:

- Delivering excellent IP services;
- Creating a world-leading IP environment, and
- Making the IPO a brilliant place to work.

Against these goals our achievements this year include:

Delivering Excellent IP Services

Our customers are central to the organisation, and ensuring the services we provide meet their needs and what they value is crucial. Demand for our services continues to grow, with record levels for Trade Marks and Designs and we have continued to meet this demand across the rights granting areas, as demonstrated by our customer satisfaction score of 88.1%, and maintaining our delivery targets in Trade Marks and Designs.

Creating a World-Leading Environment

The UK's IP system is something we are proud of, and is recognised as world-class – being rated a very close second to the US in a recent US Chamber of Commerce Global Intellectual Property Index. However, this is only the beginning. We want the whole IP environment to be world-leading, whether it is the legal and policy framework, the awareness and education campaigns, or the reduction of IP crime and infringement. This includes our work to deliver a great IP environment when the UK leaves the EU, the UK elements of the Unified Patent Court, our support of UK innovation by providing access to tools and resources that improve the ability of business and research communities to derive value from their IP and stimulate collaboration, and working towards delivering positive outcomes for the UK in the Digital Single Market negotiations.

Making the IPO a Brilliant Place to Work

The IPO is a great place to work, as shown by a number of measures such as: an engagement score of 66% in the Civil Service People Survey; putting the organisation in the Civil Service High Performers Benchmark; being placed in the top 10 in the annual Top Employers for Working Families Benchmark; awarded large employer of the year at the 2017 Apprentice Cymru Awards, and ranked 93rd in the Stonewall Workplace Equality Index. However we are not satisfied with great and are working to make IPO a brilliant place to work; a place where everyone can bring their whole selves to work and is dedicated to providing the best services for our customers. We are doing this through developing our people, improving the technology and tools they use to do their jobs, improving the physical environment and increasing flexibility and mobility in how we work.

We will continue to work towards our ambition to be the best IP office. During the year ahead we will continue to prepare for the UK's departure from the EU, ensuring all the IPO's Statutory Instruments relating to EU Exit are drafted and ready for laying as required by the legislative authorities. We will also ensure we have prepared our systems supporting our Trade Marks service for EU Exit and the implementation of the EU Trade Marks Directive by re-platforming the digital Trade Mark service onto the Digital Delivery Platform.



During the year ahead we will continue to prepare for the UK's departure from the EU, ensuring all the IPO's Statutory Instruments relating to EU Exit are drafted and ready for laying as required by the legislative authorities.

We will continue to support the Government's Industrial Strategy, which sets out five key foundations of productivity, the essential attributes of every successful economy: ideas; people; infrastructure; business environment, and places, with the publication of the Government's response to the call for views on intellectual property.

The achievements and successes throughout the year demonstrate our ability to address challenges and demonstrate our commitment to our role of making life better through IP. None of this would be possible without the dedication and hard work of the fantastic team at IPO, thank you.



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

Tim Moss

Chief Executive and Accounting Officer

5 July 2018

Performance Report

Overview

We launched our Corporate Strategy, 'Making Life Better by Supporting UK Creativity and Innovation' in January 2016. This strategy was supported by our Corporate Plan 2017 – 2020, which was launched in April 2017. This plan set out the detailed Ministerial Targets and Corporate Priorities that will move us towards the achievement of the objectives outlined in our Corporate Strategy.

Our Chief Executive, Tim Moss, joined the IPO in May 2017 and has conducted a refresh of our strategy, purpose and goals to ensure they meet the ever changing business, technical, economic and political environments.

Following this review, we have retained the Ministerial Targets and Corporate Priorities set out in our Corporate Plan 2017 – 2020, but have realigned these to our revised Strategic Pillars of: delivering excellent IP services; creating a world-leading IP environment, and making the IPO a brilliant place to work.

This section of the Annual Report and Accounts reflects the performance of the organisation against these Ministerial Targets and Corporate Priorities, providing a balanced view of progress and outlining future plans to support achievement of our strategic objectives.

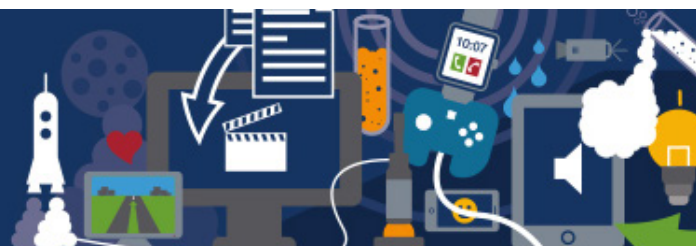
Refreshed Corporate Strategy:

Our role:

Making life better through IP

Our Ambition:

To be the best IP office



IP touches everything that makes modern life more enjoyable, easier, safer, and prosperous. Our work gives researchers, inventors and creators, whether as individuals or businesses the confidence to invest their time, energy and money in doing something new – making life better.

We are helping the UK to become the most innovative and creative country in the world. In doing this we will :

- **Deliver Excellent IP Services**
Providing timely, reliable and quality services; developing end to end digital services, and improving our data services and sharing our knowledge.
- **Create a World-Leading IP Environment**
Developing the legislative and policy framework; increasing IP's impact through awareness and education, and reducing IP crime and infringement.
- **Make the IPO a Brilliant Place to Work**
Having solid foundations to retain and attract the right people; having a great culture, with shared values and behaviours, a respect of difference and a common purpose; and; having healthy people working in a healthy environment.

We have continued to deliver a strong performance, as demonstrated by the achievement of our Ministerial Targets and making significant progress against our Corporate Priorities.

Looking forward, we have agreed new Ministerial Targets and corporate priorities for the financial year 2018/19. The key risks that could affect our achievement of these objectives include: maintaining high quality rights delivery during a consistent increase in demand for our services; increasing Civil Service recruitment demand, which may result in the loss of key IPO personnel and a diminished recruitment and capability pool, and maintaining relationships with our stakeholders during our work to deliver the best possible outcomes on intellectual property through the UK's exit from the European Union.

We will continue to manage these risks and uncertainties but expect to be able to deliver the key performance indicators.

Performance Analysis: Review of IPO Business 2017/18

Ministerial Targets

Our Ministerial Targets are set annually; aligned with wider government objectives and our ambition and strategy. These are laid in Parliament in a Written Ministerial Statement. We prioritise our work around these targets.

We measure our performance against these targets and report to our Steering and Executive Boards and Operations Committee. This is done through reports outlining: current delivery status; delivery confidence; route to green for any targets reporting amber or red, and an analysis of progress. These are all reviewed and discussed monthly.

Our targets for 2017/18 and performance against these is set out below:



Delivering Excellent IP Services

- 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).

Target Met: The UK deposited our ratification document in March and the IT systems were ready for 06 April 2018.

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

Target Met: 96%

- 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: 93%

- We will ensure that overall customer satisfaction is 80% or more.

Target Met: 88.1%



Creating a World Leading IP Environment

- 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.

Target Met: We worked with industry and enforcement partners to review the growth of illicit streaming and conducted a robust analysis of the current legal sanctions. Alongside these partners we developed proposals for change based on the review findings, and issued a Call for Views on these proposals. We have also started initial work with the US directly on this issue as part of the Trade Working Group discussions.

- 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.

Target Met: We reached 130,529 businesses, 86% of which reported making an informed decision about managing 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.

Target Met: Market specific advice was delivered to 5,189 UK exporters, with one-to-one advice given to an additional 411 companies.



Making the IPO a Brilliant Place to Work

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

Target Met: We sought external validation for our approach to diversity and inclusion across the following key areas: Age, Gender, Flexible working, Black and Minority Ethnicity (BAME), Disability, and Lesbian, Gay, Bisexual, Transgender and other (LGBT+).

As part of the validation we:

- Saw an increase in engagement scores on fairness and inclusion in the People Survey
 - Recorded the largest rise across the Stonewall Workplace Equality Index over the last three years and are now in the top 100 employers and within the top 10 in government
 - Secured a place as a 2017-18 Top 10 Employer for Working Families within the Working Families Top Employers Benchmark Index
 - Took part in the Fair Play benchmark from Chwarae Teg (a Welsh gender equality charity) where we scored higher than the public sector average
 - Achieved a silver ranking in the Business in the Community (BITC) Race Benchmark
 - Achieved Level 3 in the Disability Confident scheme so were validated as a Disability Confident Leader
- We will achieve a Return on Capital Employed (ROCE) of at least 4%.

Target Met: We achieved a return on capital employed of 11.4%.

We achieved this return by higher than expected income and outputs which together mean the operating surplus before dividends and interest payable was higher than anticipated. The increased earnings were the only major change to the average capital base in the year, with no additional dividends paid compared to previous years. As such the return was significantly above the target but in line with the surplus achieved.

In addition to achieving this in-year target, 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 period 1 April 2014 to 31 March 2018 was 7.5% with the capital averaged using the mean of each year.

- We will deliver an efficiency gain of 3.5%.

Target Met: We achieved efficiencies equivalent to 3.8% of our costs. This comes from three main types of efficiency: commercial benefits, cost savings and increased productivity.

Procurement and costs savings totalled £1.4m this year, and included improved commercial outcomes around software licences and an innovative arrangement put in place to source IT devices as a service rather than purchasing these.

Increased productivity included significant growth in the number of Trade Marks registered, which provided an additional £4m income for a relatively small increases in costs.

We received 22,118 patent application requests, which was a small increase from the 21,874 requests received in 2016/17.

Requests for examinations were 12,949, against 12,596 received for 2016/17, and searches were 17,468, against 16,950 requested in 2016/17.

We offer faster handling of patent applications by providing an examination report with a search report when both are requested at the application date, and met 93% of requests for an accelerated two month turnaround for search, publication and examination against a target of 90%.



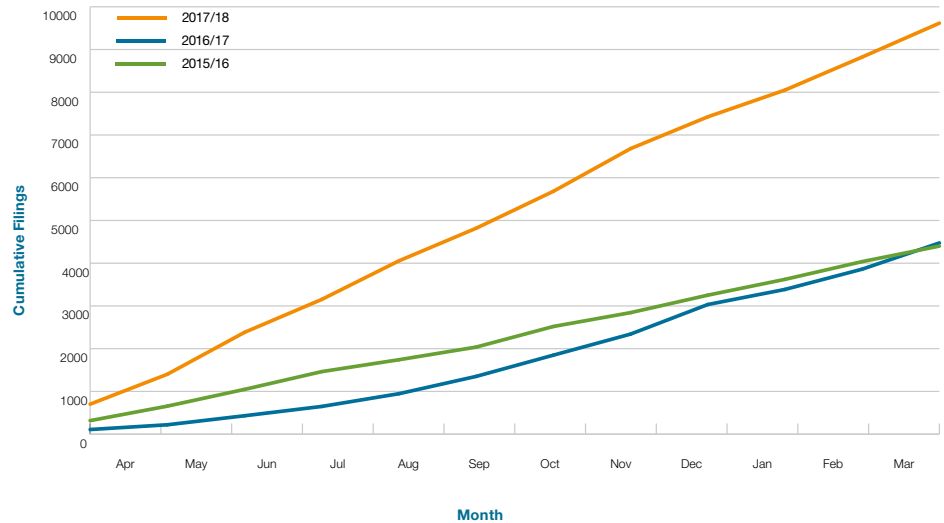
National Trade Mark applications were 20.6% higher during 2017/18, with 78,035 applications received. We believe some of this increase is due to businesses wanting to ensure certainty of their application in the run up to the UK's exit from the EU.

Despite this significant increase in demand, we maintained our time from receipt of application to first examination at around 10 days. This was helped by efficiencies made by the Trade Marks teams as part of their ongoing commitment to continuous improvement. There has been a nominal increase in headcount by 12 new examiners, who will become fully productive for the next financial year.

We published 96% of acceptable applications for national Trade Marks for opposition within 90 days of filing, against a target of 90%

Trade Marks

Cumulative Monthly International Registrations Designating UK

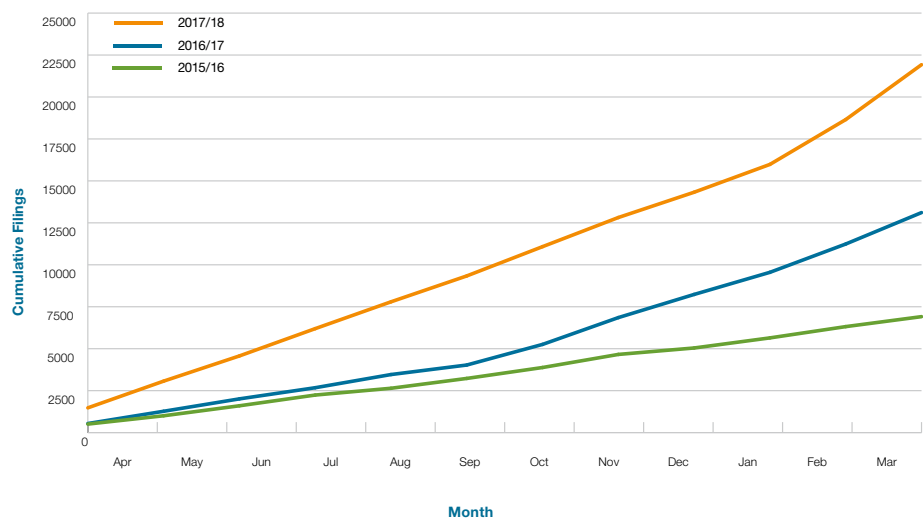


We received 9,617 international Trade Mark applications designating UK, which was 115% higher than the 4,474 applications received in 2016/17. It is believed this significant increase is due to the demand during 2016/17 being much lower than usual following the introduction of a new IT system at WIPO (World Intellectual Property Organisation).

Our Trade Mark Tribunal service issued 96% of final decisions within 15-months, and 85% of final decisions within 12-months.

Designs

Cumulative Monthly Demand



Demand for designs continues to increase significantly, with 21,863 applications being received, against 13,111 received for 2016/17, an increase of 66.4%. Digital applications were at 98.4%. We continue to deliver a time to examination of five working days.

Overall, our income has grown from £87.9m to £95.8m, an increase of 8.9% in the year, showing the ongoing demand for our services. A full breakdown is in note three of our accounts.

We have completed the Alpha Phase of our project to **improve the IP Renewals services for individuals and Renewals Agents**. This project was established for the benefit of customers and to facilitate internal efficiencies. Our customer insight is being tailored to the specific customer segments for renewals, including bulk agents/ customers, to gather feedback on a generic customer journey as well as providing a continuous improvement path. This work and the proposed service design has received extremely positive feedback from customers.

Work to provide a new digital **Supplementary Protection Certificate (SPC)** filing service for our customers and new supporting electronic processes for our people was stopped during the financial year. This project started in May 2017 where, working with an external provider, we tested an initial basic version of a new SPC service. This received positive feedback from a number of SPC customers. However, further testing found there were major aspects of the processes required that could not be delivered by the technical solution identified. In October 2017 we stopped this work while we re-evaluated the delivery position and potential solutions. Since then, the project team have conducted an evaluation of our internal Digital Delivery Platform, successfully identifying it as a viable alternative digital platform that enables us to leverage modern technologies, including artificial intelligence, whilst also improving our delivery agility.

As a result of this evaluation, and driven by the significant increase in Trade Mark application demand, we have mobilised a programme of work to upgrade our existing legacy TM10 system on to the Digital Delivery Platform. Starting in December 2017, and continuing through 2018/19, this work will deliver a solution that enables us to meet the extra demand on our services, whilst also providing the basis from which to develop new, high-quality digital services for our customers much more quickly.



Creating a World Leading IP Environment

We are building a strong IP environment, both domestically and internationally with the main areas of focus being the legal and policy framework, the level of IP knowledge and awareness, and the ability to protect rights and reduce IP crime and infringement.

We are **preparing for the UK's departure from the EU, striving for the best possible outcomes on intellectual property**. This included preparing the economic and legal analysis to identify key issues relating to IP, and making good progress in the withdrawal negotiations with the EU. A draft of the Withdrawal Agreement, which included agreed legal text on the majority of IP issues, was jointly published by the UK and EU in March. Our work on the **Trade** side has focussed on two main elements: the Department for International Trade (DITs) trade continuity work aimed at ensuring a good trade environment after Exit and future trade agreements with new countries

The work to develop our IP policy and legal framework is supported by our **Economic, Research and Evidence (ERE)** team, who have published six research reports informing the development of our policies across the IP Rights. This year we worked closely with industry and with international organisations such as the OECD in developing joint research, helping break down barriers between industry, academia and NGO's to build an independent and robust evidence base. These research reports were:

- Hidden Value: a study of the IP valuation market
- Building the evidence base on the performance of the UK patent system
- The impact of stream-ripping on the music industry (commissioned in partnership with the Performing Rights Society (PRS) for Music)
- On-line Copyright Infringement Tracker (Performing Rights Society) (Seventh Wave)
- Share and Share Alike – the challenges from social media for intellectual property rights
- Trade in Counterfeit Goods and its Direct Economic Effects – the UK case study (commissioned in partnership with OECD (Organisation for Economic Co-operation and Development)).

Some of our domestic achievements include:

- The **UK's performance on IP** was rated a very close second to the US in a recent US Chamber of Commerce Global Intellectual Property Centre (GIPC) Index which looks at IP regimes across the globe. The index included specific recognition of our continued innovation and focus on IP enforcement which,

along with the praise received from industry stakeholders, acknowledges the **leadership, co-ordination and strategic direction we provide in IP enforcement.**

- Delivering the UK elements of the **Unified Patent Court**. This included laying the final piece of UK domestic legislation (the Privileges and Immunities Order). This legislation was ratified in April 2018, and this concludes a significant piece of work for the IPO. The offices where the UK element of the Court will be based, Aldgate Tower, is now operational and is the fourth office under the IPO estate.
- In supporting the Government's Industrial Strategy we have continued to focus our **IP place** offering, with IPO people based in the West Midlands and North West to build and develop IP capability. Their work has included mapping the IP landscape within these regions to understand current capabilities, framing and agreeing regional plans with evaluation metrics, and working with long term partners to integrate IP into their policy thinking now and in future. This work has significantly increased capability in the Growth Hub to offer IP support and refer businesses effectively, whilst also strengthening the stakeholder network for the IPO in the regions. The placements will continue throughout the next financial year and we expect the capability development to be sustained after the placements have ended.
- These regional placements, along with our work to embed IP into regional Strategic Economic and Business Plans, the development of bespoke policy interventions to integrate IP into business support offerings and training to build IP capability amongst advisors, all support our aim to **integrate IP into regional and business support, catalyse growth and build local capability to commercialise IP.**
- We have worked to **support UK innovation by providing access to tools and resources that improve the ability of the business and research communities to derive value from their IP and stimulate collaboration.** This includes developing new online IP education resources for universities – IP Tutor Plus and IP for Research. We delivered IP for Research workshops to 100 PhD and early career researchers. We also provided access to the Lambert Toolkit, which supports university-business collaboration by making IP negotiations quicker and more cost-effective, and the Intellectual Asset Management Guide, which helps university management maximise the impact of their IP.
- We have **strengthened our work with industry and academic partners to support the development of more effective tools and interventions to improve understanding of, and respect for, IP.** As part of this we established a stakeholder group which included government, industry and academia to inform our work, share best practice and increase IP awareness. In collaboration with this group we developed new educational resources and reviewed existing resources. The Chartered Society of Designers has accredited IP Tutor Plus, and going forward we will work with The Chartered Institute of Patent Attorney (CIPA) and Chartered Institute of Trade Mark Attorneys (CITMA) to deliver IP Tutor Plus sessions across UK universities.

- During 2017/18 we made crackingideas.com the home for education resources with all IP education offerings from the IPO and partners in one place. We produced and added new resources for this package and completed a complete audit of our data sources and we have developed a plan of collaborative work going forward to the new reporting year. We also developed the Future Innovators Toolkit for further education STEM teachers and IP Tutor Plus for university lecturers. An IP-related Enterprise and Employability Challenge was approved for inclusion in the Welsh Baccalaureate qualification. This supported our approach to **develop high quality IP based learning resources that support the national curriculum and higher educational courses in subject areas identified by teachers.**

Internationally, some of our achievements include:

- We have continued to build on the strength of UK/ China relations **to help UK businesses in China, focussing on bad faith Trade Mark applications and IP protection on e-commerce platforms.** During the financial year we have engaged with key China stakeholders to deliver a number of events in both China and the UK, including:
 - The 2017 Symposium attended by over 250 delegates, with high profile delegations from State Intellectual Property Office (SIPO), the Beijing Division of Commerce, Shaanxi IPO and academia. The discussions focussed on topical issues around how the IP system can address future challenges including AI and e-commerce
 - Holding a China IP roadshow with events in Glasgow, Edinburgh, Leeds, Barnsley, Liverpool and Manchester
 - Our Chief Executive attended the annual Head of Office visit, where he delivered a keynote speech at the China International Industry Fair (CIIF) Innovation and Emerging Industries Development Forum in Shanghai and launched newly developed tools to support collaboration between UK and Chinese researchers
 - An IPO Trade Mark examiner visit to China to support efforts to improve the quality of Trade Mark examination in China.
- We are continuing to **work through our IP attachés and with our partners to help UK businesses trade more internationally,** some examples of our success in this area include:
 - Signing a UK-**Brazil** Patent Prosecution Highway (PPH) agreement to speed up the patent processing within both markets and successfully launching a new Brazilian version of the Lambert Toolkit supported by the Brazilian IP attaché. The first UK-Brazil Cyber dialogue was led by the FCO and our IP attaché, helping to promote online IP awareness and respect for IP.

- Signing a Memorandum of Understanding (MoU) with the **Mexican IP Office**, to help improve collaboration and promote UK best practice.
- Producing and launching a toolkit on how **US** SMEs can protect their IP in the UK. This toolkit was developed as part of the UK/US Trade and Investment Working Group short term outcome work, with the US producing one for UK SMEs. We also partnered with the US Patent and Trade Marks Office (USPTO) to take part in the US Attaché Week, helping to coordinate UK/US activities with third country markets around the world.
- Delivering a high number of projects in **South East Asia**, including a regional designs event with high-level experts; a Vietnamese Trade Mark examiner visit; delivering MoU commitments with key offices, and jointly delivering an event with USPTO at the Singapore IP week.
- Agreeing a **UK-India** IP Work Plan, which our India attaché has continued to deliver, as part of the MoU with the Government of India to support UK businesses.
- We have worked towards **delivering positive outcomes for the UK in the Digital Single Market negotiations**, agreeing an EU Regulation and Directive to implement the Marrakesh Treaty, which provides an exception to copyright for the benefit of visually impaired people, and secured a number of important changes to the text of the draft Directive on Copyright in the Digital Single Market.



Making the IPO a Brilliant Place to Work

We are working to ensure the IPO is a top employer, with skilled people dedicated to providing the best service to our customers. We are doing this by benchmarking the IPO against leading organisations, providing the right tools for our people to do their job and ensuring we continuously improve and are efficient. As part of this we are working to ensure our people are clear what we expect from them, and we know what they expect from us as an employer. This includes us providing a healthy working environment that supports their physical and mental wellbeing.

In order to deliver this, we are facing a period of substantial transformation and change. **To support our people through this transformation, we have worked to develop individual resilience and communication skills.** We have implemented a development programme for our Executive Directors, focused on having transformational conversations and leading through change. We have developed and rolled-out a Transformational Leadership programme for our senior leaders, supporting them in delivering organisational challenges and difficult conversations. We have also rolled-out a programme across the organisation to develop our people's ability to have 'Transformational Conversations'.

We have **implemented the first phase of the accommodation strategy to create modern flexible and sustainable workspaces which enables smarter working.**

This strategy aims to provide an appropriate working environment for all our people, achieve a reduced footprint with increased desk occupancy rates through desk sharing and occupying surplus space with paying tenants. The first phase of this included a re-stack of the building to ensure people are based alongside those they need to work closely with.

We are working to **change the technology used to access office tools to increase the mobility of our people,** through a desktop transformation project. This has included successfully piloting the use of Microsoft Surface devices, and making the decision to provide these to all of our people across the organisation. This will allow people to work where they want when they want in a more dynamic way. All of our homeworkers have been set up with Surface devices, and as we rollout the devices across the organisation we will also update our telephony system to use Skype through the Surface device.

Our work to **develop and implement a 3 year People Strategy that supports the values and goals of the IPO** was superseded by the refreshed Corporate Strategy which provides clear direction on how we will make the IPO a brilliant place to work and so the work was absorbed into this as opposed to being a standalone strategy.

Throughout the year our commitment to diversity and inclusion has been recognised through the achievement of a number of awards, including: recording the largest rise across the Stonewall Workplace Equality Index to be a top 100 employer and within the top 10 in Government; top 10 in the Working Families Top Employers Benchmark Index, and Large Employer of the Year at the 2017 Apprentice Cymru Awards.

Environmental matters

This year, the focus of our environmental work has been to transition to ISO 14001:2015. We transitioned early in the financial year and received praise from the External Environmental Auditor for the high quality of our environmental management system and the way we approached the transition.

The new standard requires us to demonstrate not only cross directorate involvement but also senior management buy-in to ensure on-going effectiveness of the new standard. We continue to liaise with internal and external interested parties and have recruited a team of like-minded people from across the organisation who share our commitment to sustainability. This team has become a permanent fixture and will continue to work with us on all aspects of environmental matters. We also recruited a senior management champion who can help raise awareness and be an advocate for our work.

Carbon emissions from offices

The project to improve the heating system in Concept House is around 95% complete with the remainder to be completed early in the next financial year. As well as creating a more comfortable working environment for our people, the solution offers a more efficient way of heating the office.

Unfortunately the benefits afforded by the heating up-grade are yet to be seen in our gas consumption. We are still working with our neighbours, the Office for National Statistics, to overcome issues identified with the biomass heating system which heats both our offices. During the year, we unfortunately had to revert to heating Concept House solely by gas.

Electricity consumption has shown a reduction of around 2%. This is not due to any one specific measure but rather a wide range of improvements including further sensor lighting and more efficient use of the air conditioning that cools our network equipment rooms.

		2013/14	2014/15	2015/16	2016/17	2017/18
Tonnes CO²	Gas	370	286	182	131	206
	Electricity	1334	1542	1445	1297	1279
Related energy consumption (kwh)	Gas	2,014,356	1,548,489	989,052	715,249	1,120,473
	Electricity	2,995,965	2,868,412	2,891,936	2,886,723	2,846,408
Financial implications (£)	Gas	104,890	50,310	128,058	66,800	117,319
	Electricity	365,455	374,095	379,934	420,783	421,863
	CRC Energy Efficiency Scheme	30,890	27,438	29,864	29,614	28,603

Carbon emissions from travel

Business travel has continued to show a general downward trend with most areas showing a reduction on last year.

In terms of commuting, during the year we refreshed our car sharing scheme. We up-graded to a new on-line portal; introduced new car park signage and increased the number of dedicated car share spaces available. The location of the site means that commuting by single occupancy car is still the most popular form of transport, however, we are seeing a gradual increase in take up of car sharing.

Our community of cyclists remains strong and we have continued to encourage more to cycle to work. During Ride to Work Week we offered a free breakfast to anyone who cycled to work during the week. We will also take part in Bike Week during June and have arranged for a cycle supplier and maintenance company to come into the office. The office also took part in the National Cycle Challenge and again finished first in our category.

We are also working on a solution to install electric car charging points in Concept House and will have these in place by the end of the year.

		2013/14	2014/15	2015/16	2016/17	2017/18
Non-financial indicators (kg CO²)	IPO owned vehicles	3,886	3,738	3,410	3,320	3,220
	Air travel	10,896	20,817	4,580	10,000	5,130
	Rail travel	62,330	54,406	44,100	39,830	32,890
	Road travel	79,609	97,329	65,220	41,550	50,480
	Taxis	3,287	3,614	3,290	2,430	1,760
Financial implications (£)	Expenditure on accredited offsets (GCOFII)	n/a	n/a	n/a	n/a	n/a
	Travel expenditure (UK)	711,968	728,163	723,354	650,930	675,526
	Travel expenditure (overseas)	450,913	461,118	439,902	361,453	358,850

Use of finite resources (water and paper)

Water usage has this year returned to normal levels, following the water leak last year which saw our usage almost double. Over the year we used water at a rate of 4m³ per FTE which is within acceptable limits.

This year we set a corporate target to reduce paper usage by 6%. We worked with the Design & Print team on a campaign which included visual displays, stickers on printers and a blog from our Environmental Champion. This work enabled us to exceed our target.

		2013/14	2014/15	2015/16	2016/17	2017/18
Non-financial indicators	Water consumptions (M ³)	6,040	4,115	5,208	8,574	5,055
Financial Implications (£)	Water consumptions costs	21,752	23,109	24,522	25,730	19,426
Non-financial indicators	Paper consumptions (A4 reams equivalent)	9,300	9,820	8,270	8,005	7,500
Financial Implications (£)	Paper costs	25,156	26,790	21,365	20,804	22,445

Waste

Total waste has shown a significant increase on last year. This can almost all be attributed to the project to up-grade our heating system which generated a large amount of building waste. However, on a positive note, a high proportion of this was recyclable. This, combined with the fact that we are now starting to send our non-recyclable waste to a waste energy plant, means that landfill has remained on a par with the previous year.

During the year we refreshed our composting scheme. The scheme has been in operation for 9 years and is run by a team of volunteers. Since its launch a considerable amount of waste has been diverted from landfill. Our old equipment was well used and needed replacing so we invested in a new composter and caddies and re-launched the scheme to recruit more volunteers.

	2013/14	2014/15	2015/16	2016/17	2017/18	
Non-financial indicators (tonnes)	Total waste	159	204	149	185	398
	Waste to energy*	n/a	n/a	n/a	n/a	65
	Re-used / recycled	96	129	79	120	263
	ICT recycled & reused	1	1	1	2	2
	Waste Composted	4	4	4	4	4
	Landfill	62	75	70	65	64
	% recycled	61%	63%	53%	65%	67%
Financial implications (disposal costs (£))	Total waste	28,375	17,561	23,037.82	23,152	40,880
	Re-used / recycled	12,991	9,349	12,639.71	10,709	26,566
	Landfill	15,384	8,212	10,398.11	12,443	14,314

* New category added for 2017/18

Looking forward to 2018/19

The Corporate Plan 2018/19 details what we want to deliver for the year to progress our strategic aims of: delivering excellent IP services; creating a world leading IP environment; and making the IPO a brilliant place to work. Our focus is on:

- Maintaining and improving the quality of our rights, ensuring timely delivery of our core services and achievement of key targets across our rights delivery and tribunal functions.
- Our digital delivery by stabilising our digital Trade Mark system through a re-platform and developing and agreeing the end to end service design so we have a clear picture of what our end state services should be.
- Defining and beginning to implement a new approach to our data through a data strategy.
- Ensuring we develop the legislative and policy IP framework, delivering the best possible outcomes on intellectual property for the UK's exit from the European Union, while increasing our understanding of the future challenges for IP.
- Internationally, continuing our work to improve European IP frameworks, and evaluate and recommend actions to advance our international reach, including the IP attaché network, to ensure we are maximising trade and investment opportunities for UK business.

- Building on our work to develop IP awareness by developing a clear policy on IP education and a clear segmentation and channel strategy for IP messaging.
- Ensuring appropriate resources are available to deliver the remaining elements of the Government's IP enforcement strategy and working with the Department for Digital, Culture, Media and Sport (DCMS) and industry to support the proposed programme of round table discussions outlined in the Creative Industries Sector Deal.
- Eradicating bullying and harassment within the organisation through a zero tolerance approach.
- Ensuring we have healthy people working in a healthy environment by refreshing our Accommodation Strategy to identify how Newport will become a campus site and agreeing a London Accommodation solution.
- Delivering a universally shared and understood smart working approach.

2018/19 Ministerial Targets

We have agreed with our Minister the following performance targets for 2018/19:



Delivering Excellent IP Services

At least 85% of our customers will rate us 8/10 or higher for overall satisfaction.

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 have prepared the systems supporting our Trade Marks service for the UK's exit from the EU and the implementation of the EU Trade Marks Directive by re-platforming the digital Trade Mark service onto the Digital Delivery Platform.



Creating a World-Leading IP Environment

We will ensure that all of the IPO's Statutory Instruments relating to EU Exit are drafted and ready for laying as required by the legislative authorities.

60% of the businesses we reach and survey will confirm that they have made an informed decision on their IP.

We will deliver our part of the Creative Industries Sector Deal and alongside industry develop appropriate voluntary measures targeting online market places, social media and digital advertising.



Making the IPO a Brilliant Place to Work

We will demonstrate an efficiency gain of at least 3.5%.

We will develop and launch 'The Deal', clarifying the mutual expectations between IPO and our employees.

We will externally validate and benchmark our provision for the mental health of our people.

These priorities and targets are challenging and appropriate. Whilst they are developed to be as much within our control as possible, there are always risks and uncertainties in the external and internal environments that may affect delivery.

Tim Moss

Chief Executive and Accounting Officer
5 July 2018

Accountability report

Corporate Governance Report

This report and its subheadings are presented as required by the 2017/18 Government Financial Reporting Manual (FRoM) issued by HM Treasury.

Directors' Report

Customers

We continually strive to deliver high quality and timely services for our customers. This is reflected in our **overall customer satisfaction** of 88.1%, against a target of 80%. We captured 3,735 pieces of customer feedback during 2017/18, of which 164 were complaints and 1,245 were compliments. This is compared to 2,348 pieces of feedback, 138 complaints and 621 compliments captured during 2016/17.

We retained our 100% score for the **Customer Service Excellence (CSE)** award, which is an annual independent review of our customer service operations and processes. We also received 'compliance plus' status in four areas of excellence, compared to three last year, being praised for our customer focus and recognised for empowering our people to promote customer focus in their working practices.

We ran six **consultations** during the financial year, and are grateful to all our customers and stakeholders who took the time to provide views and evidence to support our work on each of the relevant topics.

During the year, with the support of CIPA and CITMA, we **surveyed IP Professionals on their digital behaviours and preferences**, with 423 professionals taking part. Responses came from attorneys and paralegals as well as records, formalities and finance managers in organisations of all sizes, representing third parties as well as in-house IP teams. The results of this survey has helped us update and build on our understanding in this key area. Findings confirmed a compelling appetite for digital services across all our professional customers. To illustrate how far we've come on this, when we asked how customers would like to transact and communicate with us, only one respondent indicated they would still prefer to file everything on paper.

Our **Customer Information Centre** handled 63,244 calls, compared to 67,722 during 2016/17, with 83.17% of calls answered within 20 seconds. This reduction of calls stems from our work to ensure avoidable contact is minimised and our website is relevant and user friendly. Our website homepage received over an average of 81,500 unique visitors each month. We also dealt with 10,476 email enquiries from customers.

Our **social media** continues to be active. We have 52,806 Twitter followers, an increase of 2,495 during the financial year and 1,197 YouTube subscribers, an increase of 435 during the financial year. We have 9,156 Facebook followers and our Facebook likes are currently at 9,154. We have 4,148 LinkedIn followers.

We have made a number of **service improvements** for our customers during 2017/18, including:

- Development of an Identity and Access Management service that will allow customers to register and sign-in securely to our next generation of secure online services. The first service we have put behind this secure sign-in mechanism allows customers with IPO deposit accounts to access a live balance of the funds they have available in their account. This is currently being trialled in BETA by a number of customers.
- Improvements to our online 'apply to register a design' service in response to customer feedback which have helped lift digital take-up of design applications to over 99%. For instance, lifting the maximum number of illustrations applicants can provide with a design from seven to eleven.
- Modernisation of our full suite of online Trade Mark tools that allow customers to: search the Trade Mark register; track a Trade Mark; file a notice of Trade Mark opposition, and apply to register a Trade Mark. Like the 'apply to register a design' service, our 'apply to register a Trade Mark' service, with its in-built checks that help customers avoid making errors, is now also used for over 99% of the applications we manage.
- In March 2018 we joined the Hague Agreement under the powers given by the IP Act 2014. This is an international designs registration system that reduces the cost and effort associated with international design registrations. To build on this, from June 2018, UK designers will be able to register their designs in the UK and up to 68 other countries by filing a single application with the International Bureau (IB) of the World Intellectual Property Organisation (WIPO).

People

In order to continue to meet the needs of our customers, we are working to ensure our people are led, developed and supported appropriately.

Headcount: our overall headcount was 1,210 as at 31 March 2018. During the financial year we had 90 joiners and 76 leavers. We recruited in key areas to meet specific skill and capacity requirements, including Patent Examiners, Trade Mark Examiners and IT.

Attendance management: our focus on developing a consistent approach to absence management is bearing fruit, we lost an average of 6.0 working days per person against our internal target of 6.5 average working days lost. This is an improvement on last year's figure of 6.2 average working days lost per person. We also completed 93% of return to work interviews with those who were absent, against an internal target of 90%. During the financial year we had a strong focus on supporting people with mental health conditions, introducing Mental Health Advocates, which are employees specially trained to support those in mental health crisis, and developing a strong peer-to-peer support network. Additionally, we

launched a Day One Support pilot for people absent due to mental health or musculoskeletal issues, where the person absent receives constructive support from the first day of absence with a view to aid and support the person's recovery and return to work. This pilot will run for twelve months from January 2018, and will be fully reviewed after this time.

People Survey: we continue to ensure we have an engaged and talented workforce, demonstrated by our engagement score of 66% in the Civil Service People Survey 2017. This was an increase of 3% from the score in 2016 and placed us in the Civil Service High Performers Benchmark. This is testament to the work we do to support our people and provide the right tools and environment for work. Further to this, we have introduced use of a real time engagement tool 'Hive', which will allow us to gather and act on feedback throughout the financial year and help us retain our High Performers Benchmark placing.

Learning and Development: we have strengthened our learning and development offering, running a 'Stepping into Leadership' programme designed to accelerate the development of leadership potential in our middle management tier. We developed and ran a 'Transformational Leadership' programme, aimed at senior leaders across the organisation and designed to support them in managing the challenges they face and finding ways they can support the organisation in moving forward. We have also used this group to support and provide input into the refresh of the Corporate Strategy, which ensured engagement and buy-in at an early stage. We introduced Future-Engage-Deliver (FED) training, a practical approach to leadership aimed across the organisation.

Diversity & Inclusion: we continue to deliver our Equality, Diversity and Respect Strategy, supported by a Diversity and Inclusion Group and a series of networks and allies covering: LGBT+ (Lesbian, Gay, Bi and Trans); Disabilities; Black, Asian and Minority Ethnic, and Neurodiversity. Our work as an LGBT+ friendly employer was recognised by Stonewall in our achievement of top 100 status in the Stonewall Workplace Equality Index, being ranked 93rd – an increase of 71 places since last year, and 278 spaces within two years. This is the definitive benchmarking tool for employers to measure their progress on lesbian, gay, bi and trans inclusion in the workplace. In addition to this, our Director of People, Places and Services was awarded Stonewall Senior Champion of the Year. Our support for working families was recognised by us being placed in the top 10 of the annual Top Employers for Working Family's Benchmark.

Apprentices: we reviewed our apprenticeship scheme and removed the 16-24 age range we have applied on previous schemes, which has allowed us to access a wider recruitment field. We recruited 17 apprentices during the financial year on 18-month fixed term contracts who are working to achieve NVQ Business Administration Level 3. Our work with Apprentices, this cohort and previous cohorts, was recognised in our achievement of Large Employer of the Year at the 2017 Apprentice Cymru Awards.

Corporate and social responsibility

Our work on Corporate Social Responsibility (CSR) continues to be part of the culture for the organisation. Through this we create opportunities for our people to contribute to the community and be part of events and projects which is outside of their usual field of expertise.

As an organisation, we allow up to six days a year where our people can partake in community activities such as School Governors or volunteering. In addition to this we run CSR events our people can join, including mock interviews with students, the Right to Read number programme, which provides support to pupils to help improve their literacy and numeracy skills, providing business advice to pupils and running mentoring programmes.

We run team events such as Give & Gain days, where teams complete projects and tasks for the community for which other resource is unavailable. This has included decorating and gardening for local schools. We also support the Princes Trust Team Programme, helping give participant's real life experience of applying for a job.

As part of our Business Class programme we support a local comprehensive school, St Julian's, in their Welsh Baccalaureate programme for 14-16 year olds. For this, a team of volunteers visit the school or the students visit the IPO offices, and the students present their innovative business ideas. These are graded against the Welsh Baccalaureate curriculum, with an overall winner selected to go forward to the regional championships. This has proved a successful programme, with our people always being significantly impressed with the quality and confidence of the presentations and students involved.

We are aware of our responsibility to combat modern slavery and have made a risk based assessment of our supplier chain. As such no areas of high risk were identified in 2017/18.

Information security

Our Information Security policy, which is approved and owned by our Executive Directors, sets out our approach to the management of information across the organisation. 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 ISO22013. Personal data is processed, stored and used in accordance with the Data Protection Act and will be under General Data Protection Regulations (GDPR) moving forward.

We manage any security incidents and ensure continuous improvement following these. There have been no significant security breaches during this reporting period. Where minor breaches occur a root cause analysis is performed and further safeguards are implemented to prevent reoccurrence.

Across the organisation we have a number of Executive Board members filling the role of Business Information Risk Owners. These people support our Accounting Officer, through the IPO Boards Security Advocate in his responsibility 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.

Ministers responsible as Minister of State for University, Science, Research and Innovation during the financial year were Jo Johnson MP until June 2017 and Sam Gyimah MP from June 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 2017/18:

Bob Gilbert	Non-Executive Director (Chair) Chair of the High Value Manufacturing Catapult (left the Board March 2018)
Gary Austin	Non-Executive Director Chief Executive of a2om International
Iain Maclean	Non-Executive Director Co-founder and partner of The Maclean Partnership
Tim Suter	Non-Executive Director Managing Director of Perspective Associates
Nora Nanayakkara	Non-Executive Director Chair of Audit and Risk Committee, Office for National Statistics
Andrew Mackintosh	Non-Executive Director Chair of Sphere Fluidics Ltd
Mandy Haberman	Non-Executive Director Founder and Creative Director of Haberman Products
Sheila Chapman*	Non-Executive Director (Future Boards Scheme) Senior Legal Consultant for Peerpoint (from November 2017)
Gareth Davies	BEIS Director General, Business & Science (The DG sends a designated deputy, Paul Hadley)
Tim Moss	Chief Executive and Accounting Officer (from May 2017)
Sean Dennehey	Acting Chief Executive Officer and Accounting Officer (until May 2017)

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

* We are part of the Future Boards Scheme, which gives women from a range of backgrounds the opportunity to spend 12 months with boards in a development capacity. Sheila Chapman joined our Steering Board in November 2017 as part of this scheme.

Intellectual Property Office Executive Board

The Executive Board collectively represents 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 2017/18 is set out below:

Tim Moss	Chief Executive and Accounting Officer (joined the Board May 2017)
Sean Dennehey	Acting Chief Executive and Accounting Officer (until May 2017) Deputy Chief Executive from May 2017 (left the Board March 2018)
Louise Smyth	Chief Operating Officer (left the Board September 2017)
Adam Williams	Director of International Policy
Pippa Hall	Chief Economist and Director of Innovation
Ros Lynch	Director of Copyright and Enforcement
Neil Hartley	Director of Finance
Mike Fishwick	Chief Technology Officer
Julyan Elbro	Divisional Director of Patents
Steve Rowan	Divisional Director of Tribunals, Trade Marks and Designs
Dominic Houlihan	Director of People, Places and Services (joined the Board September 2017)

During the financial year Tim Moss took up the role as Chief Executive Officer in May 2017 and Sean Dennehey reverted from his role as Acting Chief Executive to his substantive post of Deputy Chief Executive.

Louise Smyth left in September 2017 and Dominic Houlihan took up the role of Director of People, Places and Services from September 2017.

Neil Hartley had worked as Director of Finance in a shared role between IPO and Companies House, however this arrangement ended in January 2018, when Neil began working full time at IPO.

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 IPO, Internal Audit and the National Audit Office.

The Committee meets four times a year, and attendees are:

Gary Austin	Non-Executive Director (Chair)
Nora Nanayakkara	Non-Executive Director
Paul Layland	Independent Member Director of Finance, Office for National Statistics (Left the Committee in July 2017)
Paul Coombs	Independent Member Director of Finance, Planning and Performance at Crown Commercial Service (Joined the Committee in October 2017)

Paul Layland was an Independent Member of the Audit & Risk Committee until he left his role as Director of Finance for the Office for National Statistics in July 2017.

Paul Coombs, Director of Finance, Planning and Performance at Crown Commercial Service was recruited as Independent Member from October 2017.

Obligatory attendees

Tim Moss	Chief Executive and Accounting Officer (joined the Board May 2017)
Sean Dennehey	Acting Chief Executive and Accounting Officer (until May 2017)
Neil Hartley	Director of Finance

Those who attend by invitation

Sean Dennehey	Deputy Chief Executive (from May 2017 – March 2018)
Louise Smyth	Chief Operating Officer (until September 2017)
Karen Powell	Head of Governance and Risk Management
Incumbent	Head of Internal Audit
Incumbent	National Audit Office
Incumbent	BEIS Representative

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 2017/18

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)¹.

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 and supported by the Operations, Policy, Change and Data Committees. 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 Acting Chief Executive Officer, Sean Dennehey until 30 April 2017 when 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 2017/18 it comprised of: the Chief Executive Officer; Deputy Chief Executive Officer; Chief Operating Officer; Chief Technology Officer; Director of International Policy; Director of Copyright and Enforcement; Director of Finance; Chief Economist and Director of Innovation; Divisional Director of Patents; and, Divisional 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. During 2017/18 the Executive Board have worked collaboratively with other leaders across the Office to develop a refreshed IPO Strategy. We will use this as a framework to help guide decision making over the next three years.

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, International Science and Innovation, BEIS. Directors of the Office attend, but are not Steering Board members. The role of the Steering Board is to advise

1. Intellectual Property Office is an operating name of the Patent Office

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 Strategy, 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 Director of Finance and I are obligatory attendees. There are additional attendees by invitation from the Office, Government Internal Audit Agency, the National Audit Office, The Department for Business Energy and Industrial Strategy. In addition to providing me with assurance over the preparation and signing of the Office's accounts for 2016/17, the committee considered the findings of thirteen audit reports. These reports covered a range of governance and risk management areas, including an assessment of the risk exposure to making erroneous or fraudulent payments to third party suppliers and an audit of our preparations for compliance with the General Data Protection Regulation (GDPR) coming into force from May 2018. The Audit and Risk Committee meets four times a year.

The Operations Committee is a sub-committee of the Executive Board. It was chaired by the Chief Operating Officer until September 2017 and then by the Deputy Chief Executive until March 2018. It has representatives from Finance; Patents, Trade Marks and Designs; Policy; IT; Human Resources, and Strategic Communications. It fulfils the Executive Team's responsibility to lead the development, delivery and implementation of cross-organisational initiatives including operational processes and policies. In October 2017 it also took on responsibility for reviewing the Office's corporate finance and performance reports. Matters with external, reputational, strategic or departmental impact or where the Chief Executive should explicitly consent should be referred to the Executive Board. The Operations Committee meets monthly.

The Policy Committee is a sub-committee of the Executive Board. It is chaired by the Director of Copyright and Enforcement, 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 and to provide a challenge function for the policy making process. It takes decisions on issues of policy not meriting full Executive Board discussion. Formal meetings are held monthly.

The Change Committee is also a sub-committee of the Executive Board. It was chaired by the Deputy Chief Executive until September 2017 and then by myself from October 2017. Members include the Chief Technology Officer; Divisional Director of Patents; Divisional Director of Tribunals, Trade Marks and Designs; Chief Economist and Director of Innovation; and, Director of People, Place and Services. It has responsibility for overseeing the Office's change agenda which includes approving and allocating resources for the startup of new change work ensuring it fits with our strategy and corporate plans. It also ensures that dependencies and interrelationship of projects are effectively managed and holds Sector Responsible Owners (SRO's) to account for delivery of projects and programmes. The Change Committee meets monthly.

To further strengthen our governance framework we have recently introduced a **Data Committee**. It will have oversight of how we store, access and make the best use of our data (internally and externally). I currently chair the Data Committee and members include the Chief Data Officer and Chief Security Officer. The Data Committee meets monthly.

Member attendance at Steering Board meetings held during April 2017 – March 2018

Members	Meetings Attended (5 in year)
Tim Moss (Accounting Officer/Chief Executive Officer)	5
Bob Gilbert CBE (Non-Executive Director & Chair of Steering Board)	5
Gary Austin (Non-Executive Director & Chair of Audit and Risk Committee)	5
Iain Maclean (Non-Executive Director)	5
Tim Suter (Non-Executive Director)	3
Nora Nanayakkara (Non-Executive Director)	3
Mandy Haberman (Non-Executive Director)	4
Andrew Mackintosh (Non-Executive Director)	5
Paul Hadley (Deputy Director, International Science and Innovation, BEIS)	5

Member attendance at Audit and Risk Committee meetings held during April 2017 – March 2018

Members	Meetings Attended (4 in year)
Gary Austin (Non-Executive Director & Chair of Audit and Risk Committee)	4
Nora Nanayakkara (Non-Executive Director)	1
Paul Layland ² (Independent member from other government department)	2
Paul Coombs ³ (Independent member from other government department)	2

²Left July 2017

³From October 2017

Member attendance at Executive Board meetings held during April 2017 – March 2018

Members	Meetings Attended (11 in year)
Tim Moss ⁴ (Accounting Officer/Chief Executive Officer)	11
Sean Dennehey (Deputy Chief Executive Officer)	9
Louise Smyth ⁵ (Chief Operating Officer)	4
Dominic Houlihan ⁶ (Director of People, Places & Services)	6
Neil Hartley (Director of Finance)	8
Ros Lynch (Director of Copyright and IP Enforcement)	10
Mike Fishwick (Chief Technology Officer)	10
Adam Williams (Director of International Policy)	10
Pippa Hall (Chief Economist & Director of Innovation)	10
Julyan Elbro (Divisional Director of Patents)	11
Steve Rowan (Divisional Director of Tribunal, Trade Marks and Designs)	8

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

- 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.
- The Audit and Risk Committee undertakes an annual self-assessment which makes recommendations for change.

⁴From May 2017

⁵Left September 2017

⁶From September 2017

- 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.
- An external effectiveness review is conducted every three years. The latest one was concluded in November 2017. The feedback was positive with only a few minor actions to complete.

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 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 2017/18.

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 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 ministerial targets and corporate priorities for 2017/18. The workshop identified a number of strategic, operational and change risks. The Executive Board also completed a review of our Risk Appetite Statement in December 2017.

The facilitation of risk management for the Executive Board, Operations Committee and Change Committee is undertaken by the Head of Governance and Risk Management. This year effort has continued to improve the quality of risk management within projects. The Central Risk Team have continued to deliver risk identification workshops for projects and the Head of Governance and Risk has joined the Project Managers Forum in order to further encourage good practice and promote the support the Central Risk Team can provide.

Each Directorate maintains its own prioritised risk register and has their own named individual (Risk Representative) who is responsible for ensuring that a sound risk management culture is promoted within their area.

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.

During 17/18 we have made substantial progress in improving our **counter fraud response**. The Risk and Counter Fraud Manager has been working with all business areas to ensure that there is accurate and timely reporting of all instances of potential fraud and **official error**. An organisational wide fraud risk assessment has been completed and the IPO now has a Counter Fraud Strategy that was signed off by the Executive Board in February 2018. A Counter Fraud Action Plan has also been created to show how and when we intend to deliver what is set out in the Strategy. Counter Fraud and Official Error Loss Prevention training sessions, suitable for all of our people, have been running since the latter part of the financial year and feedback has been very positive. We continue to 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.

During the year there have been seven instances where a bank has claimed money back from the Office (credit card chargebacks) for Trade Mark applications that were not recognised by their customer. We have provided evidence for each case to confirm what the payment was for and if the customer still claims to not recognise the payment then the Trade Mark is withdrawn and we refund the payment back to the bank. There was also a further incident where a Trade Mark applicant breached a financial restraint order and as a result two Trade Mark applications had to be withdrawn. These incidents have resulted in a small financial loss to the Office.

There have been no serious cases of fraudulent behaviour identified.

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 updated every 6 months. As a result of national terrorist attacks we arranged for South Wales Joint Firearms Unit and the South Wales Police Counter Terrorism Security Advisor (CTSA) to visit our sites and provide advice. Due to a number of senior management changes within the Office, the CTSA is currently planning a scenario based simulation exercise to undertake with us. Work has also been undertaken to assess our **disaster recovery** capability within the Office which highlighted some areas for improvement. Key findings were reported to the Operations Committee and requirements were agreed. As a result improvements have already been implemented and further measures planned for 2018/19 to improve our capability.

This year the **IPO Secure Team** went through a complete technical transformation in conjunction with IT. They now have advanced technical capabilities that puts the Office at the cutting edge of **Cyber Security** in Government. We have Artificial Intelligence and Machine Learning Technologies employed to force multiply our ability to monitor and proactively respond to threats. We have introduced the ability to detect Zero Day threats (threats that have not been seen in the world before) and perform full digital forensics in real time with automated report production. This has already changed our position from delivering standard security best practice to a place where we are sharing and acting on intelligence that we have produced.

Outside of technical security the IPO Secure Team maintains responsibility for information security on behalf of the Office and has continued to embed good practice across the organisation. A Chief Security Officer and Chief Data Officer have been appointed and our Finance Director has taken on the role of Security Advocate. The team have also adopted responsibility for the GDPR.

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

Whilst **no serious breaches of security have occurred** due to malicious activity during the year, the IPO Secure Team have identified two instances where a minor breach has occurred due to quality management and human processes such as misaddressed mail.

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 at our top risk noted in last year's Governance Statement, we have made clear progress in addressing our ability to overcome the challenges of recruiting skilled professionals into critical IT vacancies. We have made use of third party providers and the use of agencies as well as exploring flexibility within our pay arrangements to assist in the recruitment process. We continue to monitor this closely.

Going forward we are facing a period of substantial transformation and change. Our customers expect quality digital channels but we are somewhat behind the best. We also need to ensure that UK IP rights continue to function smoothly during our exit from the EU. It will be challenging to achieve this whilst maintaining high quality and timely rights granting during a consistent period of growth in demand for our services. The refreshed Corporate Strategy will help mitigate the associated risks by providing our people with clear direction and a shared understanding of the contribution we all make. We will use it as a framework to help guide decisions over the next three years.

The political context within which we sit, including the challenges surrounding preparation for exiting the EU, has seen a growing demand for resourcing across related roles. Whilst mitigation plans have been introduced, including more robust workforce planning and discussions around developing a career pipeline across our policy professions, this area is now our highest risk placing us in a similar position to other government departments.

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.

My review has been informed by the assurance of individual governance returns from each Executive Director, who have responsibility for the development and maintenance of the governance structures and internal control framework across the Office. Further assurance has been gained from internal audit reports and 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 2017/18.



Tim Moss

Chief Executive and Accounting Officer
5 July 2018

Remuneration and Staff Report

Remuneration Policy

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

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

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

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

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

Directors comprise of members of the senior civil service (SCS) or those whose pay and conditions, although delegated to the Office are determined by analogy with the SCS in the 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 2017/18 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 moderated the final performance distribution. The committee met on 13 June 2017 to moderate the 2017/18 award. The Acting Chief Executive's performance was moderated by the Director General of Business & Science.

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

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	
	17/18	16/17	17/18	16/17	17/18	16/17	17/18	16/17
	£000	£000	£000	£000	£000	£000	£000	£000
Tim Moss ¹ – Chief Executive From 1 May 2017	90-95 (FYE 100-105)	-	-	-	69	-	160-165 (FYE 165-170)	-
Sean Dennehey ² Director and Acting Chief Executive from 10 August 2016 to 30 April 2017	120-125	110-115	0-5	0-5	n/a ³	n/a ³	120-125	115-120
Louise Smyth ¹ Director until 15 September 2017	40-45 (FYE 85-90)	85-90	0-5	0-5	2	19	40-45 (FYE 90-95)	105-110
Dominic Houilhan ¹ Director from 18 September 2017	35-40 (FYE 65-70)	-	0-5	-	14	-	50-55 (FYE 80-85)	-
Ros Lynch ¹ Director	65-70	65-70	5-10	5-10	15	16	90-95	90-95
Neil Hartley ¹ Director	50-55	35-40	0-5	0-5	6	23	55-60	50-55
Mike Fishwick ¹ Director	115-120	115-120	0-5	0-5	46	46	165-170	160-165
Adam Williams ¹ Director from 19 September 2016	70-75	35-40 (FYE 65-70)	0-5	0-5	27	14	100-105	50-55 (FYE 85-90)
Pippa Hall ¹ Director from 31 August 2016	70-75	40-45 (FYE 65-70)	0-5	0-5	27	16	90-95	55-60 (FYE 85-90)
Julyan Elbro ² Director from 10 August 2016	70-75	45-50 (FYE 70-75)	5-10	0-5	27	23	105-110	70-75 (FYE 95-100)
Steve Rowan ¹ Director from 10 August 2016	70-75	45-50 (FYE 70-75)	5-10	0-5	24	30	105-110	75-80 (FYE 100-105)

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

¹ is a member of the Senior Civil Service.

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

³ Sean Dennehey was not covered by the Civil Service pension arrangement in the year.

Neil Hartley had a dual role where 50% of time was with the Office and 50% of the time was with Companies House. He was employed by Companies House and the Office charged for work undertaken on its behalf. This dual role ceased from 1st January 2018 when Neil joined the Office full time and was therefore paid directly. The total remuneration package reflects the payments by the Office for his role throughout the year. It is not possible to determine what portion of the pension entitlement or CETV relates to the Office or Companies House.

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 2017/18 or 2016/17.

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 2017/18 relate to performance in 2016/17 and the comparative bonuses reported for 2016/17 relate to the performance in 2015/16. 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 31/3/18 and related lump sum	Real increase / (decrease) in pension and related lump sum at pension age	CETV at 31/3/18 or leaving office	CETV at 31/3/17 or taking office	Real increase/ (decrease) in CETV
	£000	£000	£000	£000	£000
Tim Moss CEO from 1 May 2017	20-25 plus a lump sum of 45-50	2.5-5 plus a lump sum of 2.5-5	366	299	44
Louise Smyth Director until 15 September 2017	30-35 plus a lump sum of 90-95	0-2.5 plus a lump sum of 0-2.5	634	605	2
Dominic Houlihan Director from 18 September 2017	5-10	0-2.5	64	58	3
Ros Lynch Director	15-20 plus a lump sum of 50-55	0-2.5 plus a lump sum of 2.5-5	387	348	14
Neil Hartley Director	35-40	0-2.5	523	494	-5
Mike Fishwick Director	5-10	2.5-5	96	56	28
Adam Williams Acting Director from 19 September 2016	10-15	0-2.5	135	114	12
Pippa Hall Director from 31 August 2016	10-15	0-2.5	87	74	6
Julyan Elbro Director from 10 August 2016	20-25 plus lump sum of 55-60	0-2.5 plus a lump sum of 0-2.5	376	388	10
Steve Rowan Director from 10 August 2016	30-35 plus a lump sum of 75-80	0-2.5	537	495	10

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 4.6% and 8.05% of pensionable earnings for members of **classic**, **premium**, **classic plus**, **nuvos** and **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.

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 2017/18 was £120,000-£125,000 (2016/17, £135,000-£140,000). This was 4.2 times (2016/17, 4.8) the median remuneration of the workforce, which was £29,248 (£2016/17, £28,705). The ratio has fallen because the previous highest paid director received detached duty payments and this has reduced the new remuneration. Median remuneration of the workforce has risen slightly but is influenced by progression among patent examiners as they move through their career structure.

In 2017/18, 0 (2016/17, 0) employees received remuneration in excess of the highest paid director. Remuneration ranged from £16,901 to £118,000 (2016/17, £16,000 to £118,000).

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:

	2017/18 Remuneration	2016/17 Remuneration
	£000	£000
Bob Gilbert Reappointed from 6 February 2017 to 31 March 2018	10–15	10–15
Gary Austin Reappointed from 15 July 2015 to 15 July 2018	5–10	5–10
Iain MacLean Reappointed from 16 July 2015 to 16 July 2018	5–10	5–10
Tim Suter Reappointed from 18 September 2016 to 17 September 2019	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	5–10
Andrew Mackintosh Appointed from 2 November 2015 to 1 November 2018	5–10	5–10

Gareth Davies, Paul Layland, Paul Coombs and Paul Hadley are civil servants and are not remunerated by the Office for serving on the steering board. Shelia Chapman joined in November 2017 under the future boards scheme but is not remunerated by the Office.

Paul Layland was an independent member of the audit & risk committee until he left his role as Director for the Office for National Statistics in July 2017. Paul Coombs, Director of Finance, Planning and Performance at Crown Commercial Service was recruited as Independent Member from October 2017. Both are or were Civil Servants and were not remunerated by the Office.

Staff Report

(This section is subject to audit)

Staff costs

	Permanently employed staff	Others	2017/18 £000 Total	2016/17 £000 Total
Wages and salaries	40,695	2,482	43,177	42,472
Social security costs	4,541	-	4,541	4,235
Other pension costs	8,372	-	8,372	7,998
Sub total	53,608	2,482	56,090	54,704
Capitalised staff costs included above	(64)	(36)	(100)	(792)
Total net costs	53,544	2,446	55,990	53,913

Off-payroll engagements

Off-payroll appointments as of 31 March, for more than £245 per day and that last longer than six months are shown below:

	2017/18	2016/17
No. of existing engagements as of 31 March 2018	10	6
Of which...		
No. that have existed for less than one year at time of reporting.	7	1
No. that have existed for between one and two years at time of reporting.	-	3
No. that have existed for between two and three years at time of reporting.	1	-
No. that have existed for between three and four years at time of reporting.	-	-
No. that have existed for between four or more years at time of reporting.	2	2

For all new off-payroll appointments, or all those that reach six months in duration, between 1 April and 31 March for more than £245 per day and will last for longer than six months:

	2017/18	2016/17
No. of new engagements, or those that reached six months in duration, between 1 April 2017 and 31 March 2018	18	15
Of which...		
No. assessed as caught by IR35	18	15
No. assessed as not caught by IR35	-	-
No. engaged directly (via PSC contracted to department) and are on the departmental payroll		
No. of engagements reassessed for consistency / assurance purposes during the year.	-	-
No. of engagements that saw a change to IR35 status following the consistency review.	-	-

All these contractors were deemed inside IR35 and arrangements made with the suppliers to deduct tax.

Consultancy and the use of contingent labour

	2017/18	2016/17
	£000	£000
Consultancy expenditure	-	-
Contingent labour expenditure	2,446	2,778

Off-payroll engagements of board members, and/or senior officials with significant financial responsibility, between 1 April 2017 and 31 March 2018

	2017/18	2016/17
No. of off-payroll engagements of board members, and/or, senior officials with significant financial responsibility, during the financial year.	-	-
Total no. of individuals on payroll and off-payroll that have been deemed "board members, and/or, senior officials with significant financial responsibility", during the financial year.	11	11

Post employment benefits

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme but the Office is unable to identify its share of underlying assets and liabilities. The scheme actuary valued the scheme as at 31 March 2012. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2017/18 employer contributions of £8,348,027 were payable to the PCSPS (2016/17 £7,977,014). 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 2017/18 to be paid when the member retires and not the benefits paid during this period to existing pensioners. The rates are unchanged for 2017/18.

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

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:

	2017/18 (FTE)	2016/17 (FTE)
Directors	10	8
Staff	1,074	1,088
Seconded in staff	7	9
Agency/contract staff	49	41
Seconded out staff	21	23
Total	1,161	1,169

In 2017/18 there were 2 full time equivalent staff or contract staff working on capital projects (2016/17, 14).

Of the people employed by the Office in 2017/18 1,154 (H/C) were civil servants (2016/17 1,129).

The in year provision for early retirement and severance schemes was nil (2016/17 £33,933).

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	
	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17
<£10,000	-	-	-	-	-	-
£10,000 - £25,000	-	-	-	-	-	-
£25,000 - £50,000	-	-	-	1	-	1
£50,000 - £100,000	-	-	-	-	-	-
£100,000 - £150,000	-	-	-	-	-	-
£150,000 - £200,000	-	-	-	-	-	-
£200,000 - £250,000	-	-	-	-	-	-
Total number of exit packages by type	-	-	-	1	-	1
Total cost £000	-	-	-	35	-	35

These figures differ from those disclosed in the 2016/17 accounts as they include top-up payments that have been made following the quashing at Judicial Review of the 2016 amendments to the Civil Service Compensation Scheme.

Redundancy and other departure costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972. Exit costs are 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.

Staff Composition

(This section is not subject to audit)

The staff composition as at 31 March was as follows:

	2018	2018	2017	2017
	Male	Female	Male	Female
Total Staff	56.4%	43.6%	57.0%	43.0%
Clerical Staff	38.5%	61.5%	38.0%	62.0%
Management Staff	59.3%	40.7%	60.4%	39.6%
Senior Civil Servants	75.0%	25.0%	75.0%	25.0%
Board	80.0%	20.0%	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. This will give us a better basis for understanding where we need to target efforts to increase numbers of under-represented groups. We will be producing a full diversity, inclusion and wellbeing report which will be published annually on our website. This report will give an account of all our efforts to ensure we are an inclusive organisation and our priority actions for the forthcoming year.

Sickness Absence Data

(This section is not subject to audit)

During 2017/18 we averaged 6.0 working days lost per person against our internal target of an average of 6.5 working days lost per person. Last year we had achieved an overall 6.2 average working days lost per person.

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.

Parliamentary Accountability and Audit Report

(This section is subject to audit)

Regularity of expenditure

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

Losses and special payments

There were no losses or special payments to report.

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.

The Office provides statutory services registering or granting rights for patents, Trade Marks and designs. In common with all major rights granting organisations throughout the world, costs are recovered across the life of the rights. To encourage economic growth and innovation, access to the IP system includes low initial fees that are not a significant barrier to entry, with renewal fees covering the majority of our costs. This also acts as an incentive to maintain only valuable rights.

Fees for each right are set to avoid any cross subsidy between rights. On average the fees paid across each class of rights are equal to the average costs of the service provided.

In addition to the income we receive from those seeking UK rights, we also receive renewal income for European patents which have been granted by the European Patent Office and which give the patent owners protection in the UK. This income is for a UK patent and is treated in the same way as other renewal income.

Some patent fees were increased from April 2018 and a significant amount of additional income was received in the last months of 2017/18 relating to early renewals to avoid these changes. This accounts for the patent surplus while Trade Mark demand is rising significantly partially due to uncertainty around EU exit.

2017/18	Patents	Trade Marks	Designs	Publications	Commercial	Total
	£000	£000	£000	£000	£000	£000
Income	65,818	28,736	757	66	379	95,769
Expenditure	(61,202)	(23,255)	(1,008)	(69)	(359)	(85,893)
Subtotal	4,616	5,481	(251)	10	20	9,876
Financial Income	147	64	2	-	1	214
Financial Expenditure	(6)	(2)	-	-	-	(8)
Dividend	(2,422)	(1,057)	(28)	(3)	(14)	(3,524)
Surplus/(deficit) before additional dividend	2,335	4,486	(277)	7	7	6,558

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

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.

Long Term Expenditure Trends

The Office continues to face high demand and as such has recruited significant numbers of staff, particularly patent and Trade Mark examiners over the last few years. This has driven the trend to significantly higher staff costs in the last few years together with increases in national insurance contributions and the introduction of the apprenticeship levy, which cannot be offset against training in Wales where the majority of staff are based.

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. The Office has also taken on additional leased space in London to provide a location for the UPC which has significantly increased accommodation costs.



Tim Moss

Chief Executive and Accounting Officer
5 July 2018

THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSES OF PARLIAMENT

Opinion on financial statements

I certify that I have audited the financial statements of the Patent Office for the year ended 31 March 2018 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, including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Accountability Report that is described in that report as having been audited.

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 2018 and of its retained surplus for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Trading Funds Act 1973 and HM Treasury directions issued thereunder.

Opinion on regularity

In my opinion, in all material respects the income and expenditure 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.

Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my certificate. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of the Patent Office in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of the Chief Executive for the financial statements

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.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit, certify and report on the financial statements in accordance with the Government Trading Funds Act 1973.

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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Patent Office's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Patent Office's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I am required to obtain evidence sufficient to give reasonable assurance that the income and expenditure 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.

Other Information

The Chief Executive as Accounting Officer is responsible for the other information. The other information comprises information included in the annual report, other than the parts of the Accountability Report described in that report as having been audited, the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Opinion on other matters

In my opinion:

- the parts of the Accountability Report to be audited have been properly prepared in accordance with HM Treasury directions made under the Government Trading Funds Act 1973;
- in the light of the knowledge and understanding of the entity and its environment obtained in the course of the audit, I have not identified any material misstatements in the Performance Report or the Accountability Report; 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 Accountability 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 16 July 2018

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

Financial Statements 2017/18

Statement of Comprehensive Income

For the year ended 31 March 2018

		2018	2017
	Notes	£000	£000
Income from sale of goods and services	3	95,769	87,937
Staff costs	4	(55,990)	(53,913)
Depreciation and amortisation	5	(3,006)	(2,145)
Other operating charges	5	(26,897)	(24,759)
Operating surplus before financing and dividend		9,876	7,120
Financial Income	6	214	192
Operating surplus on ordinary activities		10,090	7,312
Financial Expenditure	7	(8)	(28)
Net operating surplus		10,082	7,284
Dividend	8	(3,524)	(3,400)
Surplus before additional dividend		6,558	3,884
Additional Dividend Paid During Year	8	-	(4,758)
Retained surplus/(deficit) for the year		6,558	(874)
All of the operations are classed as continuing.			
Other comprehensive income			
Net gain/(loss) on revaluation of plant, property and equipment	9	37	(335)
Net gain on revaluation of intangible assets	10	167	154
Total comprehensive Income/(Expenditure)		6,762	(1,055)

Statement of Financial Position

As at 31 March 2018

		2018	2017
	Notes	£000	£000
Non-current assets			
Property, plant and equipment	9	21,213	21,066
Intangible assets	10	5,690	6,570
		26,903	27,636
Current assets			
Trade and other receivables	11	6,014	5,395
Cash and cash equivalents	12	101,501	90,533
		107,515	95,928
Total assets		134,418	123,564
Current liabilities			
Trade and other payables	13	(24,479)	(18,922)
Other liabilities	13	(18,240)	(19,674)
Total current liabilities		(42,719)	(38,596)
Non-current assets plus net current assets		91,699	84,968
Non-current liabilities			
Provision for liabilities and charges	14	-	(31)
Total non-current liabilities		-	(31)
Net Assets		91,699	84,937
Financed by:			
Capital and reserves			
Public dividend capital		6,325	6,325
Revaluation reserve		3,219	3,285
General reserve		82,155	75,327
Total financing		91,699	84,937



Tim Moss

Chief Executive and Accounting Officer
5 July 2018

The notes on pages 71 to 84 form part of these accounts.

Statement of Cash Flows

For the year ended 31 March 2018

		2018	2017
	Notes	£000	£000
Net cash inflow from operating activities			
Net operating surplus		10,082	7,284
Adjustment for non-cash items		3,156	2,228
Increase in trade and other receivables	11	(618)	(51)
Increase in trade payables	13	4,123	2,036
Movements in payables relating to items not passing through the operating statement (capital and dividend accruals and short term provision movement)		0	577
Use of provisions	14	(112)	(444)
Dividends paid		(3,400)	(8,225)
		13,231	3,405
Cash flows from investing activities			
Purchase of property plant and equipment		(1,263)	(1,302)
Purchase of intangible assets		(834)	(1,195)
		(2,097)	(2,497)
Cash flows from financing activities			
Repayment of loans	15	(166)	(166)
		10,968	742
Net Increase in cash and cash equivalents in year		10,968	742
Cash and cash equivalents at the beginning of the year	12	90,533	89,791
Cash and cash equivalents at the end of the year	12	101,501	90,533

The notes on pages 71 to 84 form part of these accounts.

Statement of Changes in Taxpayers' Equity

		PDC	Revaluation Reserve	General Reserve	Total Capital & Reserves
		£000	£000	£000	£000
	Notes				
Balance at 31 March 2016		6,325	3,650	76,017	85,992
Changes in capital and reserves for 2016/17					
Net loss on revaluation of property, plant and equipment	9	-	(335)	-	(335)
Net gain on revaluation of intangible assets	10	-	154	-	154
Transfer of (excess) / realised depreciation between reserves		-	(184)	184	-
Retained deficit		-	-	(874)	(874)
At 31 March 2017		6,325	3,285	75,327	84,937
Changes in capital and reserves for 2017/18					
Net gain on revaluation of property, plant and equipment	9	-	37	-	37
Net gain on revaluation of intangible assets	10	-	167	-	167
Transfer of (excess) / realised depreciation between reserves		-	(270)	270	-
Retained surplus		-	-	6,558	6,558
At 31 March 2018		6,325	3,219	82,155	91,699

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 Office for the purpose of giving a true and fair view has been selected. The particular policies adopted by the 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 exceed £100,000, are capitalised. All threshold limits quoted are VAT exclusive. Depreciation is calculated to reduce the net book amount of each asset to its estimated residual value by the end of its estimated useful life in the 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. Software is revalued using an appropriate index.

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) Income

Income, which is exclusive of VAT, comprises fees earned from the grant of patents, Trade Marks and designs, sales of the Office publications and fees earned from other commercial services. Income is recognised when the work is performed or the register updated. For new applications this may mean income is deferred.

1(i) 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 13) and is only recognised in the statement of comprehensive income when the services are performed.

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 balance sheet 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 14).

1(o) Dividends

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. This cost of capital is then paid as a dividend.

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 17) 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 2017/18 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 and will be interpreted by the FReM, neither are expected to have any impact on the accounts (£0). IFRS 16 leases has been issued but is not effective until periods commencing 1 January 2019. Any impact will depend on implemented guidance from HMT.

2 Segmental reporting

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

3 Income

Analysis of operating income by classification and activity

For the year ended 31 March	2018	2017
	£000	£000
Patents		
Application, search and examination fees	3,601	3,479
Renewals for UK Patents	12,635	12,269
Renewals for European patents designating the UK	49,131	44,667
Other	451	1,171
	65,818	61,586
Trade Marks		
Application fees	20,194	16,317
Renewal fees	8,310	7,643
Other	232	859
	28,736	24,819
Designs		
Application fees	298	340
Renewal Fees	406	692
Other	53	24
	757	1,056
Publications	79	98
Commercial services	379	378
Total Turnover	95,769	87,937

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.

	2018	2017
	£000	£000
Salaries and wages	40,695	39,301
Social security costs	4,541	4,235
Pension costs	8,372	7,998
Agency/Contract staff	2,482	3,171
Capitalised staff costs included above	(100)	(792)
	55,990	53,913

5 Other non staff costs

	2018	2017
	£000	£000
IT and Telecoms	8,240	7,779
Accommodation (ex leases)	5,513	4,125
Access to online IP databases	2,724	2,570
Property lease costs	1,891	1,842
Innovation support	1,453	1,399
Training	1,059	784
Travel	996	970
Subscriptions to international bodies	910	740
Office supplies and equipment inc postage	753	764
Recruitment and other staffing costs	699	659
Other admin costs	665	689
Research co-operation and seminars	685	541
Legal and hearings	288	991
Outreach and marketing	201	183
Enforcement support	189	12
Hire of office machinery	186	209
Banking and Card Commissions	170	187
Departmental overheads	69	80
Audit fee ¹	40	40
Exchange rate losses / (gains)	16	(29)
Building refurbishment	-	144
Total	26,747	24,679
Non cash items	£000	£000
Amortisation	1,836	834
Depreciation	1,170	1,311
Loss on disposal of assets	150	46
Provision for early departure in year	-	34
Total non cash	3,156	2,225
Total cash and non cash	29,903	26,904

1. No non audit services were provided in the year

6 Financial Income

	2018	2017
	£000	£000
Short term deposits - operating activities	214	192

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

7 Financial expenditure

	2018	2017
	£000	£000
Interest on loans (see note 15)	8	25
Unwinding of discount on early retirement provision (see note 14)	-	3
	8	28

8 Dividends

The dividend of £3,400,012 proposed in the 2016/17 statements was paid in July 2017. In 2016/17 an additional dividend of £4,758,000 was paid to BEIS from accumulated reserves to fund other Intellectual Property projects. The dividend of £3,523,819 proposed in the 2017/18 statements will be paid in July 2018.

9 Property, plant and equipment

2017/18	Land	Buildings	Plant and machinery	Information Technology	Total
	£000	£000	£000	£000	£000
Cost or valuation					
At 31 March 2017	3,570	15,833	2,171	6,266	27,840
Additions	-	817	17	446	1,280
Revaluation	-	(267)	-	-	(267)
Disposals	-	-	-	-	-
At 31 March 2018	3,570	16,383	2,188	6,712	28,853
Depreciation					
At 31 March 2017	-	-	1,753	5,021	6,774
Provided during the year	-	304	195	671	1,170
Surplus on revaluation	-	(304)	-	-	(304)
Disposals	-	-	-	-	-
At 31 March 2018	-	-	1,948	5,692	7,640
Net book value at 31 March 2018	3,570	16,383	240	1,020	21,213
Net book value at 31 March 2017	3,570	15,833	418	1,245	21,066
2016/17					
	Land	Buildings	Plant and machinery	Information Technology	Total
	£000	£000	£000	£000	£000
Cost or valuation					
At 31 March 2016	3,570	15,833	2,082	6,357	27,842
Additions	-	633	89	396	1,118
Revaluation	-	(633)	-	-	(633)
Disposals	-	-	-	(487)	(487)
At 31 March 2017	3,570	15,833	2,171	6,266	27,840
Depreciation					
At 31 March 2016	-	-	1,450	4,798	6,248
Provided during the year	-	298	303	710	1,311
Surplus on revaluation	-	(298)	-	-	(298)
Disposals	-	-	-	(487)	(487)
At 31 March 2017	-	-	1,753	5,021	6,774
Net book value at 31 March 2017	3,570	15,833	418	1,245	21,066
Net book value at 31 March 2016	3,570	15,833	632	1,559	21,594

The land and buildings referred to above are freehold and were revalued at £19.953 million by the District Valuer, Newport, South Wales on 31 March 2018 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.

10 Intangible Assets

2017/18	Software in use	Software under construction	Software total
	£000	£000	£000
Cost or valuation			
At 1 April 2017	11,631	149	11,780
Additions	-	939	939
Reclassifications	330	(330)	-
Revaluation	167	-	167
Disposals	-	(150)	(150)
At 31 March 2018	12,128	608	12,736
Amortisation			
At 1 April 2017	5,210	-	5,210
Provided during the year	1,836	-	1,836
Surplus on revaluation	-	-	-
Disposals	-	-	-
At 31 March 2018	7,046	-	7,046
Net Book value at 31 March 2018	5,082	608	5,690
2016/17	Software in use	Software under construction	Software total
	£000	£000	£000
Cost or valuation			
At 1 April 2016	9,122	1,356	10,478
Additions	-	1,194	1,194
Reclassifications	2,355	(2,355)	-
Revaluation	154	-	154
Disposals	-	(46)	(46)
At 31 March 2017	11,631	149	11,780
Amortisation			
At 1 April 2017	4,376	-	4,376
Provided during the year	834	-	834
Surplus on revaluation	-	-	-
Disposals	-	-	-
At 31 March 2017	5,210	-	5,210
Net Book value at 31 March 2017	6,421	149	6,570

All software is internally generated.

Additions represent developments in producing software under the TRIPOD major change programme. Intangible assets are revalued annually by reference to the most appropriate price indices.

The Office has brought forward a major project to replace the current Trade Mark systems given the significant increased demand for Trade Mark services. As this project is due to be implemented by 1 April 2019 the life of the existing asset, delivered in 2013, has been reduced by four years to align with this.

11 Trade receivables

	2018	2017
	£000	£000
Trade receivables	2,083	1,104
Other receivables	50	138
Prepayments and accrued income	3,881	4,153
	6,014	5,395
Sums included above which fall due after more than one year are:		
Other receivables	-	-
Prepayments and accrued income	341	959
	341	959

12 Cash and cash equivalents

	2018	2017
	£000	£000
Balance at 1 April	90,533	89,791
Net change in cash and cash equivalent balances	10,968	742
Balance at 31 March ¹	101,501	90,533
Government Banking Service	40,262	17,904
Commercial Banks and cash in hand	1,239	629
Short term investments with National Loans Fund	60,000	72,000
	101,501	90,533

13 Current liabilities

	2018	2017
	£000	£000
User deposit accounts	8,995	6,077
Trade payables	15,484	12,845
	24,479	18,922
Deferred income- prepayment	6,175	4,786
Early retirement provision (see note 14)	38	119
Taxation and social security	1,116	1,086
Superannuation	926	884
Other liabilities	36	141
Enforcement	-	1,807
Dividend payable	3,524	3,400
Untaken annual leave owed	2,146	2,143
Accruals	4,279	5,142
Loans (see note 15)	-	166
	18,240	19,674

1. This includes the user deposit account funds of £8,995,000 shown in note 12.

14 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 2018 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 using a real rate of 0.01% (0.24% at 31 March 2017), with the unwinding of the discount treated as an interest charge on the Statement of Comprehensive Income (see note 7).

	2018	2017
	£000	£000
At 1 April	150	557
Provision made in year	-	34
Unwinding of discount on provision	-	3
Payments offset against the provision	(112)	(444)
At 31 March	38	150
Less amount payable within one year (included in current liabilities - see note 13)	(38)	(119)
Amount payable after one year	-	31

Other provisions

The Office has made provisions for legal disputes

	Legal	Legal
	2018	2017
	£000	£000
At 1 April	-	354
Write back of provision not required	-	(354)
At 31 March	-	-

15 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 2018	Fair Value 2018	Book Value 2017	Fair Value 2017
£000					£000	£000	£000	£000
2,161	01.10.91	26 years	9.625%	} 9.813%	-	-	83	89
2,164	31.03.92	26 years	10.000%		-	-	83	88
					-	-	166	177
Amounts due within one year (see note 13)					-	-	166	
Amounts falling due over one year					-	-	-	

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

The interest payable on each loan was:

	2018	2017
Loan 1	2	10
Loan 2	6	15
	8	25

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

16 Commitments under leases

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

	2018 Buildings	2018 Other	2017 Buildings	2017 Other
	£000	£000	£000	£000
Leases falling due:				
within 1 year	2,226	125	2,092	189
between 1 and 5 years	3,222	106	4,920	114
after 5 years	-	-	-	-
	5,448	231	7,012	303

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

17 Contingent liabilities

The Directors are not aware of any contingent liabilities at 31 March 2018.

Previously we had reported that in June 2009 the Government stated that the Office would make a payment of £25m to the Department for Business, Energy and Industrial Strategy to help finance a new innovation fund led by the Department. This was dependent on the requirements of the innovation fund.

On 16 April 2018 the Department confirmed that it no longer anticipates any future financial requirement for the investment fund and was therefore releasing the potential claim on the Office reserves. As such this is no longer considered a contingent liability.

18 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 Statistics Authority, HM Treasury, the Cabinet Office, Crown Commercial Service and UK SBS for services such as accommodation and legal services.

None of the Steering Board members, Office Directors or other related parties have undertaken any material transactions with the Office during the year. Neil Hartley is the Director of Finance for Intellectual Property Office and until 1 January 2018 Companies House, as well. This makes Companies House a related party. Details of Neil Hartley's remuneration is available in the Accountability Report.

19 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 six months. Sufficient cash and cash equivalents are maintained to meet any demands in that time frame.

Credit risk

There is no material credit risk to the Office.

20 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

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