

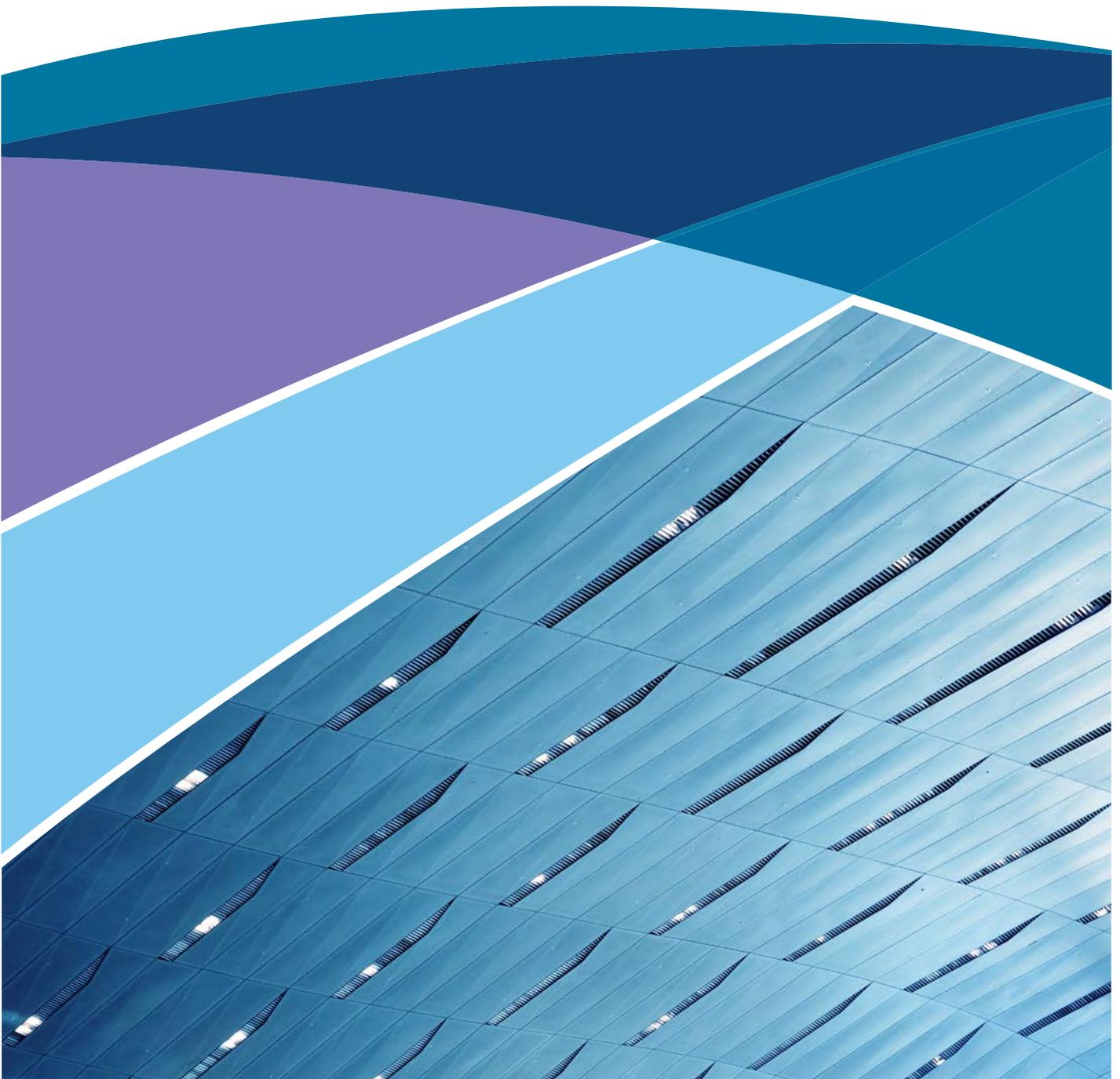


Intellectual
Property
Office

The Patent Office

Annual Report and Accounts

2013/14



The Patent Office

Annual Report and Accounts

2013/14

The Patent Office

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

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2013/14 Annual Report & Accounts

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

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

Tel: 0300 300 2000
Fax: 01633 817 777

e-mail: information@ipo.gov.uk

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Contents

| | |
|--|----|
| Chapter 1 | 1 |
| Chairman's Statement | 1 |
| Chapter 2 | 2 |
| CEO's Introduction | 3 |
| Chapter 3: | 5 |
| Strategic Report | 5 |
| Chapter 4 | 17 |
| Directors Report | 17 |
| Chapter 5 | 22 |
| Accounts 2013-2014 | 22 |
| Governance Statement 2013/14 | 23 |
| Audit Certificate and Report | 29 |
| Statement of Comprehensive Income | 31 |
| Statement of Financial Position | 32 |
| Statement of Changes in Capital Reserves | 33 |
| Statement of Cash Flow | 34 |
| Notes to the Accounts | 35 |
| Appendix A | 51 |
| Chapter 6 | 52 |
| Remuneration | 52 |





15% Increase

In Patent search and examination over the last three years



87% of Patent filings are made online

Introduced an 'online' Patent Renewal service, one of 25 exemplar digital projects across government

Patents

Our Events team spoke to **18,157** potential businesses, businesses and business advisors.

Over **85%** of delegates found our seminars and workshops very useful, and almost **70%** of delegates who we spoke to acted upon the information they received



Social Media

Our Twitter followers rose from **21,000** in April 2013 to **35,000**

by March 2014. More than half of our tweets are re-tweeted



Outreach

19%

UK is the best place to obtain, exploit and enforce IP

Taylor Wessing Global IP Index 2013

8 out of 10

Customers are satisfied with our transactional services

Rise in demand for domestic trade marks in 2013/14

Our new Trade Mark IT system (TM10) includes an electronic case file enabling our examiners to process applications without paper files

Examiner Productivity increased by around **30%**

Customers

4

Trade Marks

Specialist IP attachés

based in the worlds most challenging and fastest growing markets; China, India, Brazil and South East Asia. They have provided practical help and support to UK businesses experiencing IP issues

293



Attachés

Chapter 1

Chairman's Statement

The changing nature of global technology and markets has presented the UK Intellectual Property Office with its own unique set of challenges over the last year. Our customers' needs are never static. However the IPO has provided real and effective solutions to help businesses protect and exploit their ideas, knowledge and creativity that makes the UK economy strong.

I have been immensely proud of how our staff have risen to the challenge, whilst being innovative and improving the professional quality of our services. The UK is recognised as having the best IP system in the world; we can all look back at our work over the past year and be proud of what we have achieved, our contribution to making the UK the global leader and to the UK economy and society.

Over the last year we have modernised our copyright framework and improved our patent examination service. We have introduced a new and improved trade marks opposition procedure and we have delivered a complete refresh of our guides and on-line tools to business. We have funded a new IP crime unit, the first of its kind, and extended our global influence through IP attachés based in China, India and Brazil.

However there is still more work to do. We will build on our achievements by continuing to increase efficiency, deliver value for money and improve, and value, the skills and capability of our people.

I would like to take this opportunity to thank everyone for the hard work that you have done and look forward to the challenges to come. We will continue to ensure that our organisation remains the best of its kind in the world and one that IP professionals and business will continue to trust.

Bob Gilbert
Chairman



I have been immensely proud of how our staff have risen to the challenge, whilst being innovative and improving the professional quality of our services.



2 Chapter 2

CEO's Introduction



I am very pleased to introduce the Annual Report & Accounts for the Intellectual Property Office (IPO)¹ for the year 2013/14.

It has been another extremely busy year for us. We have been active on a broad front to improve the IP environment to support growth. Highlights have included legislative changes to modernise the IP framework; coping with continuing increases in demand for patents and trade marks; work at EU and international level to make it easier for business to obtain protection internationally and initiatives to enhance enforcement.

We have achieved a significant amount in support of our work promoting UK growth through IP policy domestically, in Europe and internationally. Domestically, we have almost concluded the delivery of our large programme of activity to bring the UK's IP environment into line with the 21st century business needs. This includes our work on delivering the majority of the recommendations made in Hargreaves report on IP and Growth, commissioned by the Prime Minister. Priorities have been new legislation to provide a basis for use of orphan works, modernising our copyright framework for the digital era and creating an improved framework for protecting designs. This work lays a strong foundation for the next steps for us – streamlining licensing, and ensuring the creative industries can monetise their IP and work within the digital age, while also bringing the legislative changes into operation and setting out to make design law simpler, clearer and more robust.

In Europe we have continued to make progress with the preparations for ratification and implementation of the Unitary Patent and Unified Patent Court Agreement (UPC), which will provide a simplified European Patent system and a single jurisdiction for litigation. Internationally we have made steps in working to improve the global patent system for the benefit of all.

Our Rights Granting areas continue to see increasing demand for their services – the demand for patent searches and examinations is up by about 15% over the last three years, and trade marks applications have seen annual increases of about 17%. Yet we continue to deliver for our customers – we received an 8/10 rating in our annual customer satisfaction survey, and feedback suggests customers like our quality, price and speed. We are also extremely proud that the Taylor Wessing Global IP Index 2013 found the UK the best place to obtain, exploit and enforce IP.

Some of this success is due to our work to address our digital offering. Last year we introduced our e-renewals service for patents, which was a Government Digital Service exemplar project. Our new electronic trade mark system (TM10) has given us efficiency improvements of around 17 – 20% and enables us to examine applications within only 15 days. We will now continue to build on this work to develop a “Digital by Default” environment for our rights granting customers, including a secure online service where customers can access and maintain their rights, and streamlined patents and designs processes.

More and more businesses are becoming aware of the importance of the IP they have, but we are conscious that too many, particularly smaller businesses and start-ups, miss opportunities that IP could make to their long-term success. To work to remedy this we recently refreshed and re-launched our “IP for Business” support tools, which are designed to ensure that creators and businesses can translate their good ideas into success by managing their IP more effectively. In the year ahead we will be working with accountants and bankers to understand the issues that face SMEs in accessing finance for investment using the value of their IP as collateral, with a view to helping IP-rich SMEs access vital funding to help them grow. And, as with our IP policy work, we continue to work through our IP Attachés to ensure our UK business support has an international focus as well as maintaining the domestic view.

We are continuing to build our campaign to increase respect of IP rights – last year we worked with UK Music to launch a brand new game “Music Inc”, designed to give young music fans insight into the challenges encountered by artists in the digital age. We are also seeing our enforcement work go from strength to strength. Last year we launched our joint venture with City of London Police to pursue online IP crime (PIPCU), which is already seeing a number of successes. We will be continuing this work with the intention of reaching a wider audience with the respect campaign, and preparing PIPCU for full industry funding from 2015/16.

We are working to ensure we are appropriately skilled and resourced to continue meet the demands on us. Our focus on learning and development and improvements to our performance management system have helped in this area and we will be continuing this in the future, focussing on improving the skills of our managers, recruiting some 50 Patent Examiners per year over the next three years and improving our reward package and implementing a new pay scheme as part of a three year pilot for managing pay being delivered with HM Treasury.



We also continue to meet our 3.5% efficiency target through a number of measures, including through continued use and development of our Lean capability, near finalisation of our project to deliver a modern working environment, moving our HR transactional service to UKSBS in line with the Government's commitment to sharing back office functions in order to realise financial benefits, and achieving our annual savings target of 8% of influenceable supplier expenditure through our better buying programme.

As we look towards the year ahead, there are further challenges on the horizon but we are confident that we can rise to them. Continually delivering for our customers, stakeholders and Minister is very much a team effort. Everyone here has a part to play and I would like to thank colleagues for their continued commitment.



John Alty
Chief Executive and Accounting Officer

Chapter 3:

Strategic Report

Review of IPO Business 2013/14

These accounts reflect the performance of the organisation against goals and priorities set out in our 2013/14 [Corporate Plan](#) published in April 2013. This was the first full year of operation for our streamlined 5 Strategic Goals and all the evidence points to this change having helped us to deliver and make it easier for us to discuss progress and achievement with our people.

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

2013/14 performance against these targets is set out in the table below:

| Target | Performance |
|---|------------------------------|
| Finalise secondary legislation to implement Hargreaves' recommendations regarding copyright exceptions | MET |
| Achieve at least 90% delivery of the provision of an accelerated 2-month turnaround for patent search, publication, and examination when needed by the applicant | MET (95.4%) |
| Introduce a secure identification system to facilitate the electronic management of rights by our customers | MET |
| Ensure customer satisfaction is at least 80% | MET (81%) |
| Working with police and industry, establish a specialist police IP Crime Unit capable of tackling infringement and counterfeits on the internet | MET |
| With partners, develop and deliver a campaign to build understanding of and respect for IP amongst consumers and young people. In its first year, the campaign will secure media messaging which reaches at least 4 million people and drive a 5% increase in hits on campaign-related web pages. | MET (14.7m) |
| Provide access to online training in IP issues for business advisors, at both a basic level free of charge, and an advanced level at a commercial rate, with the aim of reaching 500 advisors by 31st March 2014. | MET |
| Support our people in developing their capability, such that 95% complete an agreed development objective by 31st March 2014 | MET (98%) |
| Achieve return on capital employed of 4% | MET 10.0% |
| Deliver an efficiency gain on 3.5% | MET 4.2% |
| To register 85% of correctly filed trade mark applications within four months (where no opposition has been filed)* | MET 87% |

*Added to list of 2013/14 Ministerial Targets from July 2013

Corporate Priorities

Promoting UK growth through IP policy

In support of our 5 Year Corporate Strategy, published in 2011, we continued to target our efforts to ensure the benefits of the IP system are maximised and shared as widely as possible to support economic growth and enrich the whole of society.

In support of this and our wider policy responsibilities our Economic, Research and Evidence team (ERE) published 12 independent research reports whose findings underpinned and informed the delivery of impact assessments for implementation of our legislative programme.

The Enterprise and Regulatory Reform Act made it possible to introduce schemes for dealing with 'orphan works' (unlocking value of copyright works which cannot currently be used because the owner is unknown), and for extended collective licensing (allowing the clearance of multiple rights quickly and cheaply). Following secondary legislation, these schemes should be operational by the end of 2014.

We introduced minimum standards for collecting societies (organisations which collectively manage copyrights on behalf of rights holders to the tune of £1bn per annum) and worked with them on codes of conduct, reducing substantially the number of complaints the Government receives about them.

After a long period of consultation, the Government published plans to modernise copyright exceptions last December and is now preparing regulations with the aim of the changes coming into force in April 2014. These measures should benefit innovation, competition, research, education and respect for the law.

Working with colleagues in our parent department we engaged with branding companies on the issue of lookalike products exploring whether business should be afforded a private right of actions under the Consumer Protection Regulations, which is a key ask from brands.

In support of the creative industries and their work to create a Digital Copyright Hub, we provided pump priming financial support of £150,000. Fully realised, this project will mean small companies who wish to license the works of others should find it easier to find the right people to approach, and in time to obtain simple licences through an automated transaction. This will mean a reduction in admin costs and legal fees for business.

Since the conclusion of Professor Hargreaves' review we have been working to deliver legislative changes through the Intellectual Property Bill; introduced into Parliament in May 2013. This has three broad aims: to simplify and improve design and patent protection to help businesses (particularly SMEs); to clarify the IP legal framework; to ensure the international IP system supports UK businesses effectively. Subject to Royal Assent we will be working to commence the provisions included in the Bill as soon as possible.

After 40 years of negotiation to simplify the European Patent process the Unified Patent Court Agreement was signed in February 2013. This will provide, alongside a Unitary Patent, a single European patent court providing a single jurisdiction for litigation. This should afford simpler access to European markets, reduced bureaucracy and costs and greater legal certainty. The UK will host part of the central division of the court which will

further enhance London's reputation as a global centre of excellence for dispute resolution. Domestic preparations are well underway. The Intellectual Property Act 2014 includes the provision for a power to align the Patents Act 1977 with the UPC Agreement and we are preparing the laying of secondary legislation under that power by the end of 2014. Preparations for the London central (and any local or regional) division are progressing well.

We concluded international negotiations on a treaty to harmonise the process and requirements involved in getting a design registration so that it is ready to go to Diplomatic Conference; and made further progress in delivering global patent reform by extending our fast-track patent examination process to enable innovators to secure international patent protection more quickly.

Delivering high quality rights granting services

Intellectual property rights support economic growth by encouraging investment in new technologies, the development of brands and creativity. We know that the use of patents, trade marks and registered designs is associated with better creation, transfer and use of knowledge and higher firm production.

During 2013/14, increases in UK demand for our services continued and this trend has been mirrored around the world. Our customers place a high priority in receiving an early idea of how innovative their inventions are. We know that this will inform their future business plans and, for some, help secure funds for further development and manufacture. Equally, we know that early grant of a patent is important to some customers especially those wishing to enforce their IP rights. This is why we introduced an accelerated two-month turnaround for patent search, publication and examination to ensure those customers who want it, can get a patent in a year or less. Meeting customer needs is important to us, which is why we were pleased to have met all customer focused performance targets in 2013/14.

The level of demand for domestic trade mark continues to rise – up 19% in 2013/14. The increase in trade mark applications has resulted in more cases being referred to hearing at the ex parte (pre registration) stage and we have experienced a similar increase of around 20% in oppositions. In an effort to further drive down the cost of litigation, particularly for SMEs, and to reduce the time taken to resolve opposition cases, we introduced a fast track procedure for trade mark oppositions. The new procedure means that the cost of filing an opposition based purely on the similarity of the trade mark has been halved to £100. Since its introduction around 10% of cases have chosen this route. We will continue to monitor its take up and effectiveness at achieving the policy objectives behind its introduction.

Our new Trade Mark IT system (TM10) includes an electronic case file enabling our examiners to process applications (98% of which are now electronically filed) without paper files. It also includes workflow tools to speed up case processing and facilitated an increase in examiner productivity of around 33%. There are also benefits for external users, including an extended range of trade mark data available on-line, a new state-of-the-art trade mark search system (which is hosted on our website), an improved electronic application form with features that make it even easier for SMEs to apply without professional assistance, and a new e-form which made trade mark renewals quicker, easier and more cost effective.

In addition we set out the early work to modernise our internal processes for handling patent applications by developing new IT capabilities to replace our current

infrastructure, much of which is based on technology that is over twenty years old. Many of the applications, although amended with improved functionality over time, were designed and written in a similar timeframe.

Finally, we were able to introduce an 'on line' Patents Renewal service, one of the 25 exemplar digital projects across government. We will continue to develop our digital service by creating a secure on-line service for our patents rights customers to be able to view and access the rights they maintain, and transitioning the content and transactional service access from our existing website to the new Gov.uk platform.

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

We play a central role in creating an environment which helps business translate investment in intangible goods, ideas and creativity, into IP growth. However, unless business creators and other users understand how best to navigate that environment and unless they can enforce their rights where others infringe them, we will fail to reap the full benefits for our economy.

In support of this overall aim we continued to build the UK's international reputation as a partner of choice through signing a format Memorandum of Understanding with Taiwan, working with India and South Korea on Lambert style toolkits, signing of a Patent Prosecution Highway (PPH) Agreement with China, working with Brazil on the handover for the next Olympics' to improve brand protection and securing agreement for a further China/UK Symposium.

In order to help UK businesses have the confidence to enter and trade in overseas markets we deployed four specialist IP attachés based in the world most challenging and fastest growing markets; China, India, Brazil and South East Asia. So far they have provided practical help and support to 293 UK businesses experiencing IP issues, these have an estimated value at risk of well over £270m. They have also helped a further 3,444 UK businesses through their outreach and education work.

Our Enforcement Hub continued to build on its reputation, and worked closely with partners from Trading Standards, HM Revenue and Customs, the National Crime Agency. In 2013/14 working with the City of London Police we provided financial support to help create the Intellectual Property Crime Unit as well as launching a new campaign to build greater respect for IP.

In October, we introduced a new range of 'IP for Business' tools, including: refreshed business guides, a smartphone app and a new online business advisor training tool – IP Equip, and refreshed content for our IP Health Check diagnostic tool.

These tools, developed with a group of industry experts, respond to the challenge of making sure businesses can generate value from ideas against a backdrop of poor understanding of intellectual property rights and how to exploit them. Feedback from users has been very positive and the tools were used 7,120 times by the end of March. Use of our dedicated business web pages was also strong with over 5,500 unique visitors per month and over 28,000 visitors in 2013/14.

Working with national partners, such as Scottish Enterprise, Invest Northern Ireland and the Welsh Government, other Government departments such as Companies House, UKTI and HMRC and at a regional level with Chambers of Commerce, local authorities and

business and enterprise organisations, our business outreach team attended over 350 events aimed at raising awareness of IP throughout the business community. Across these events we spoke to 18,157 potential businesses, businesses and business advisors. Over 85% of delegates found our seminars and workshops very useful, and almost 70% of delegates who we spoke to acted upon the information they received.

Our flagship training course - the IP Master Class was set up to help business professionals to develop a detailed understanding of intellectual property and its relationship with business, culture and the economy, as well as sound practical skills to apply to a business environment. We continued to use it to build IP capability amongst business advisors. This ensures that IP advice is integrated within public sector business support programmes. In 2013/14 we trained 85 advisors from Growth Accelerator, UKTI, MAS, TSB/Catapult Centres, BIPC and PatLib network and the private sector.

In April 2013 we introduced IP Audits Plus. These build on the success of the original IP Audits programme to ensure that SMEs with high growth potential receive the right advice through dedicated channels to develop effective strategies to maximise the value of their IP. This advice includes IP management, commercialisation and marketing and allows SMEs to deploy their IP assets into their wider business strategy. Working with our three dedicated partners Growth Accelerator, Scottish Enterprise and Welsh Government we funded 296 audits during the course of the year. Additionally we have 291 IP Professionals committed to providing the follow up advice on a pro bono basis.

Feedback shows most businesses (82%) have acted or are acting on recommendations outlined in their reports. Three out of ten businesses reported that their recommendations identified new business opportunities.

Our social media presence has grown steadily. Our Twitter followers rose from 21,000 in April 2013 to 35,000 by March 2014. More than half of our tweets are re-tweeted and we have some very influential followers from Government departments to famous writers with large followers.

In response to pressure to do more to raise awareness of IP, particularly in relation to copyright and the music industry, we were tasked to deliver a major national campaign to encourage greater respect for intellectual property. In its first year the target was to secure media messaging which would reach at least 4 million. The combined effect of all the campaign related activity translated into a reach of 14.7 million. The campaign we devised consisted of a series of highly targeted projects, focusing on key age groups and run in partnership with industry groups.

The regional activity took the form of a small booth "Karaoke Shower" where people were invited to sing and post to social media. It included messages around the value of music, our emotional connection to songs and the sharing of music, all with soft messages around the value of copyright in ensuring the continued success of British music.

The "Karaoke shower" was launched in November 2013 at the Music Show in Manchester where over 420 participants took the opportunity to sing, culminating on 5th February with the launch of Music Inc - a major project with UK Music. The downloadable game allows players to select and manage artists, and try to fight piracy to make money. Overall the game has attracted 95,000 unique players is also demonstrating behavioural changes with positive decisions relating to piracy being made by 76.2% of players. The national campaign will continue in 2014/15 with new partners and targeted projects.

Improving the skills and capability of our people

With demand for our services increasing and interest in intellectual property issues intensifying, it remains important to ensure our people have the right skills and tools needed to sustain and improve businesses competitiveness.

In 2013/14 we implemented a simpler performance process to help us manage performance better. Additionally, we improved internal communications through the launch of our new intranet site, the use of communications screens in high traffic areas and the introduction of a “meeting in a minute” which provides people with real time feedback on discussions and decisions from the Executive Board.

We provided a real focus on Learning and Development so that our people could easily identify, undertake and evaluate training. Over 97% of our people successfully completed their agreed development objective in the year.

We also continued our work to embed our values across the organisation by sharing real life examples of where people have made a difference through our Excellence Awards and our Rewarding our Values schemes.

Finally, our application of Lean thinking has helped by encouraging teams to analyse and simplify the business processes they deliver. This has also brought us efficiency gains and improvements to customer service, such as a reduction in the turnaround of patents forms from 56 to 14 days. We shall be continuing to expand our use of Lean to streamline how we work, particularly in the rights-granting areas.

Increasing efficiency and delivering value for money

We are required to achieve, on average and in real terms, a 4% Return on Capital Employed (ROCE) over a fixed 5-year period. 2013/14 was the last year of the 5 year target and over that period we achieved an average return of 10.1%. The return and the retained earnings after dividend for 2013/14 itself were significantly below this figure reflecting new and additional work taken on by the us, and major projects around buildings and IT, all of which went live in the year. This was anticipated and planned for.

During 2013/14 we exceeded our efficiency target of 3.5% achieving 4.2% through a number of projects, including our work to rationalise the space occupied in our main offices at Concept House, Newport, and reduction of space used at our storage facility at Nine Mile Point. Savings also came through continued development of our Lean capability and smart procurement decisions. We also closely engaged our people in our efficiency work, running an “innovation fund” which encouraged teams or individuals to bring forward ideas to provide efficiencies and take forward work to establish the feasibility of their proposals. This supports our corporate strategy outcome of our people being supported and encouraged to develop innovative ways to deliver.

Our parent department, BIS, is continuing to develop its shared service offering across HR/ Payroll, Finance, Procurement and Estates. This programme, aligned to the government shared services strategy, is rationalising the number of IT platforms in order to deliver savings and facilitate BIS and its partner organisations adopting standard operating methods and thereby create an integrated platform for continuous improvement. In 2013/14 we moved our payroll operation onto the BIS UK Shared Business Services platform. We also paved the way to move our financial systems from an ageing Oracle platform in line with our IT strategy.

Our procurement team are responsible for managing our purchasing requirements. The team works with stakeholders across the organisation and offers professional advice and guidance on evaluating the most appropriate procurement strategy when sourcing goods & services, in line with Cabinet Office guidelines. In 2013/14 they secured savings of £1.9m, well in excess of our £800k target.

Environmental Matters

We're committed to improving our environmental performance year on year and 2013/14 offered mixed success. We made good progress reducing our greenhouse gases but the continued work to refurbish our office and increases in staff numbers has impacted in other areas. Despite this, we've maintained our accreditation to ISO 14001 and we continue to focus on raising awareness and improving our environmental impact.

We raise awareness through our World Environment Day each year. This is always a well attended event where we find new, interesting ways of promoting environmental issues and help our people see how they contribute to our reduction targets. Our Climate Week Challenge is also popular and last year, our winning entry was entered into the national competition and came second in the workplace category!

Carbon Emissions from offices

In March 2013 we successfully connected our heating system to the bio-mass boiler run by The Office for National Statistics (ONS) our neighbour on the Newport site. This was a challenging task but one that should see us achieve both financial and carbon savings in the future.

| | | 2010/11 | 2011/12 | 2012/13 | 2013/14 |
|---|------------------------------|-----------|-----------|-------------|-----------|
| Tonnes co² | Gas | 554 | 408 | 513 | 370 |
| | Electricity* | 1,373 | 1,360 | 1,446 | 1,334 |
| Related energy consumption (kwh) | Gas | 3,018,125 | 3,374,212 | 2,335,043** | 2,014,356 |
| | Electricity | 2,828,137 | 3,008,383 | 3,186,776 | 2,995,965 |
| Financial implications (£) | Gas | 81,786 | 93,458 | 90,143 | 104,890 |
| | Electricity | 251,150 | 326,958 | 351,047 | 365,455 |
| | CRC Energy Efficiency Scheme | 2,240 | 1,290 | 26,376 | 30,890 |

We continue to look to ways in which we improve our energy performance and have commissioned an independent study to look at alternative energy efficiency measures, such as solar panels, as well as more short-term initiatives.

* co2 emissions from electricity have been re-baselined using the one year average factor provided by DEFRA

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

Carbon Emissions from travel

| | | 2010/11 | 2011/12 | 2012/13 | 2013/14 |
|--|--|---------|---------|---------|----------|
| Non- financial indicators (Kg co²) | IPO owned vehicles | 2,767 | 3,286 | 3,578 | 3,886 |
| | Air travel | 6,047 | 7,355 | 9,693 | 10,896 |
| | Rail travel | 35,863 | 38,360 | 58,157 | 62,330 |
| | Road travel | 35,741 | 39,208 | 53,426 | 79,609 |
| | Taxis | 1,581 | 2,838 | 3,049 | 3,287 |
| Financial Implications (£) | Expenditure on accredited offsets (GCOFII) | 6,822 | | | |
| | Travel expenditure (UK) | 418,276 | 491,908 | 615,511 | 711,968* |
| | Travel expenditure (overseas) | 301,136 | 394,803 | 412,852 | 450,913* |

* This excludes reimbursement of travel costs by international organisations

This year has seen an increase in all forms of travel. In most cases this is due to an increase in staff numbers and the work needed to meet corporate priorities. Road travel has shown by far the biggest increase (nearly 50%) and this is due to an increase in business outreach activities where we are being asked to attend more events to raise awareness of IP throughout the business community.

We continue to raise awareness of how staff can travel more sustainably. We participated in the Newport Cycle Challenge this year which aimed to get as many people cycling over a three week period as possible. We loaned bikes for people to ride on-site and the event was an enormous success with over 200 people taking part. This has resulted in an increased number cycling to work on a permanent basis.

We are considering providing electric vehicle points at our Main Office, Concept House. If feasible, these will be made available to staff and visitors in the hope that it encourages more sustainable transport.

Use of Finite Resources (water and paper)

| | | 2010/11 | 2011/12 | 2012/13 | 2013/14 |
|-----------------------------------|--------------------------------------|---------|---------|---------|---------|
| Non- financial indicators | Water consumptions (m ³) | 5,996 | 6,535 | 7,549 | 6,040 |
| Financial implications (£) | Water consumptions costs | 15,125 | 19,936 | 19,318 | 21,752 |

At the beginning of the year we implemented a rain water harvesting system for our Concept House office. We were confident that this would give us the savings we needed to meet the Greening Government water target and set a 20% internal reduction target, which was met. We are currently consuming water at the rate of 6.5m³ per FTE which is slightly above the Greening Government 2015 of 6m³ per FTE.

In future we will connect all external taps to the rain water harvesting system, which allow us to ensure all ground maintenance work takes advantage of this system.

| | | 2010/11 | 2011/12 | 2012/13 | 2013/14 |
|-----------------------------------|--|---------|---------|---------|---------|
| Non- financial indicators | Paper consumptions (A4 reams equivalent) | 15,160 | 12,620 | 11,920 | 9,300 |
| Financial implications (£) | Paper costs | | | | 25,156 |

An added advantage of the work to rationalise our office space is that it gives us the opportunity to replace personal printers with multi function devices. These incorporate double sided print as a default and secure printing which reduces the number of unwanted prints. The overall advantage is that our paper consumption has reduced considerably.

Waste

| | 2010/11 | 2011/12 | 2012/13 | 2013/14 |
|---|---------|---------|---------|---------|
| Total waste | 161 | 119 | 127 | 159 |
| Non- financial indicators (tonnes) | | | | |
| Re-used/ recycled | 109 | 83 | 79 | 96 |
| ICT recycled & reused | | | | 1 |
| Waste composted | | | | 4 |
| Landfill | 53 | 36 | 48 | 62 |
| % recycled | 67% | 70% | 62% | 61% |
| Financial implications (£) | | | | |
| Total waste | 31,861 | 12,574 | 20,272 | 28,375 |
| Re-used/ recycled | 18,990 | 4,728 | 6,824 | 12,991 |
| Landfill | 12,871 | 7,846 | 13,448 | 15,384 |

2013/14 saw an increase in total waste produced. This is almost certainly as a result of the continuation of our estate rationalisation, which has impacted our ability to reduce waste. Staff moving offices inevitably generates waste; however, as the project nears completion the amount produced is now slowing down. We are committed to ensuring that as much waste as possible is recycled or reused by local organisations. We estimate that in the past year approx £20,000 has been saved in recycling costs while the organisations, such as local schools and charities have save almost £200,000 on the costs of buying in furniture.

As we continue refurbishing our office, we will recycle as much of the surplus furniture as possible, and ensuring our contractors continue to separate and recycle as much as they can.

Looking Forward to 2014/15

Our Corporate plan makes a bold, but accurate, claim to be a 'plan for growth'. When people and businesses with great new innovative ideas are given the tools to turn them into economic and social value, growth thrives. There is a growing realisation that the intellectual property (IP) system is a critical part of the economic toolbox, and the numbers bear this out.

Although we have achieved much in recent years there is still plenty to do on the UK's IP framework to ensure that it is up to date for the 21st century, especially the digital revolution which is changing the way we produce and consume music, film and the written word. Copyright needs to give our creative industries the ability to monetise their IP whilst also encouraging new online business models and services. Streamlined licensing is essential, and we'll be helping by launching orphan works and extended collective licensing schemes by the end of 2014. We will also give renewed support to the creative industries in their work to make the UK the centre of online digital exchanges for the simple licensing of copyright material.

We will continue to work with our partners in other offices on improving the framework of patent law. We will take forward the results of the recent evidence gathering exercise carried out on four key aspects, including grace period, and will also be considering how to improve consistency in national provisions regarding client-attorney privilege.

The demand for patent searches and examinations are up by about 15% over the last three years. The result is that, while we are giving fast turnarounds within 2 months for applicants who need it, our standard service is slowing up. That's why we are embarking on a major recruitment to increase our compliment of patent specialists by 60% over the next three years. In addition, we will be taking other steps to target our patent examining capacity better, for example by focusing on economic growth potential when handling applications from individuals without professional advisors.

The pattern is echoed in our trade mark operations. While most other trade mark registries around Europe have been experiencing relatively static demand levels, we have seen rapid annual increases – 19% in the last year alone. The new electronic trade mark system (known as TM10) which we implemented last year has given us efficiency improvements of 17-20%, enabling us to examine applications within only 15 days. But we will still need to recruit more examiners and hearing officers to keep pace with increasing applications and oppositions.

Perhaps our greatest operational challenge though, in our customers' eyes as well as our own, lies in seizing the opportunities of the digital revolution. 82% of people in the UK are online, and 98% of our trade mark filings and 87% of our patent filings are made online – yet our wider electronic communication and service delivery is underdeveloped. We have begun to address that, for example through our recently launched e-patents renewal service, a Government Digital Service project.

Internationally, the review of the Community Trade Mark system is scheduled for completion in 2014/15; we will continue negotiations to ensure the recasting of the Directive and Regulation delivers technical changes which benefits UK businesses. Negotiations will also continue on a Design Law Treaty that aims to simplify and harmonise some of the main requirements applicants for design registration encounter, and put in place safeguards when things go wrong and time periods for response are missed.

We can only deliver our ambitious plans if we have the best people. That means keeping and valuing the great people we have, and, as we have said, recruiting new people where we need them. In the Civil Service People Survey 2013, which covers 98 organisations, our engagement score was 2 percentage points above the Civil Service median, and in the majority of the organisation was above the High Performance benchmark. In some areas, such as our commitment to developing our people, we scored significantly higher than the High Performance mark, but our people were less positive about our ability to lead and manage change. We'll be working hard on improving that, giving all our managers new opportunities to build their skills and confidence in leading and implementing changes positively.

2014/15 Ministerial Targets

In 2014/15 we have agreed with our Minister the following set of performance targets.

- | Deliver the infrastructure and supporting regulations required for the UK's Orphan Works and Extended Collective Licensing Schemes by the end of the year
- | 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
- | Publish 80% of acceptable applications for National Trade Marks for opposition within 90 days of filing
- | Ensure customer satisfaction is at least 80%
- | With our partners, OHIM and the European Commission, deliver an International Enforcement Summit that provides an effective forum for the discussion and debate of IP enforcement globally, and attracts an international audience, by summer 2014
- | Reach an audience of 5 million people with messages to build respect for IP by the end of March 2015
- | Reach an audience of 10,000 businesses through our online tool "IP for Business" by the end of March 2015
- | Ensure 95% of our managers have completed a management development activity by the end of March 2015
- | Achieve a 4% Return on Capital Employed (ROCE)
- | Deliver an efficiency gain of 3.5%



John Alty
Chief Executive and Accounting Officer
18th June 2014

Chapter 4

Directors Report

Customers

We are committed to delivering an excellent service to our customers. Our target is to achieve an overall customer satisfaction rating of at least 80%, meaning that on average our customers rate our service as being 8 out of 10 or above. To measure this, last year we carried out a telephone survey of 100 customers in September and a further 100 in March, asking them to rate their satisfaction on a 10 point scale. Across the overall random sample of 200 customers the average rating was 8.1 out of 10, giving us an overall customer satisfaction score of 81% for 2013-14.

Customer Service Excellence (CSE) is an independently accredited standard which we have held since 2008. It aims to support organisations in delivering continuous improvement across five customer orientated criteria. During 2013 we passed our latest annual assessment, demonstrating continuing improvement with an outstanding compliance score of 98%, our best ever, including 2 separate 'compliance plus' ratings for exceptional performance.

People

It's been a busy year for our people as demand for our services and interest in Intellectual Property has grown.

Headcount: In 2013/14 we focussed our recruitment on key areas where we needed specific skills such IT and Patent examination. This meant that our overall headcount increased by just 3.4% (from 982 at the end of 2012/13 to 1016 at 31st March 2014). Additionally, we made a significant pay award to our C2 pay band as part of a negotiated settlement with the Trade Union side to avoid litigation.

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

Sick absence: We calculate our sick absence by the average number of working days lost per person and set ourselves a limit of 7 working days. This year, we averaged 6.8 working days lost per person, an improvement on previous years and the first time we've met our internal target since 2010/11.

Attendance management: We've adopted a new Civil Service wide policy for managing absence. The policy is more robust and means our approach to managing absence should be more consistent. Its early days but we may be able to see the impact of this new policy on next year's absence performance.

Corporate and Social Responsibility

Throughout the year we hold various fundraising events, work with local education bodies and support volunteering activities. Here's a few of our highlights from 2013/14:

- We work closely with Business in the Community (BiTC) and each year we take part in their annual "Give & Gain Day." We get a group of volunteers together to manage a project within the local area. This year, our volunteers transformed an area of a local primary school into a vegetable garden for the children where they can plant crops and learn about food production and healthy eating;
- At Christmas we fundraised to help Llamau (a charity that supports homeless young people and vulnerable women in Wales). We raised money that enabled us to buy Christmas gifts for young people facing Christmas without their families;
- We took 23 work experience students during the year; showing them what we do here and helping them gain an insight into the world of work;
- 55 people attended over 30 key skill events at local secondary schools providing the benefits of their experience to a captive audience;
- Each month, 17 of our people visit local schools to support the teachers and pupils by taking part in a reading and number programme.

Information Security

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

We ensure the Accounting Officer, through Senior Information Risk Owner and the Information Asset Owners in each Directorate, is accountable for the adequate protection of information which is considered a key asset within government. Information security training and awareness is compulsory for all staff. We are pleased to report no instances of loss/insecure disposal of inadequately protected electronic data and no unauthorised disclosures during the year.

Corporate Governance

The corporate governance structure of the Intellectual Property Office (IPO) is described in our framework document.

The 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 Secretary of State and Ministers informed of issues, through BIS representation on the Board.

Steering Board meetings are chaired by a Non Executive Director and are held six times per year. The following members have served within the year:

Intellectual Property Office Steering Board Membership

| | |
|-----------------------------|--|
| Bob Gilbert | Chair (Non-Executive Director) Non-Executive Chairman of Paintbox Group Chairman High Value Manufacturing Catapult |
| Mary Champion | (Non-Executive Director) (left the Board on 31.8.2014) Freelance IT Management Consultant (previously Vice President at Capgemini) |
| Gary Austin | (Non-Executive Director) Chief executive of a2om International |
| Ralph Ecclestone | (Non-Executive Director) Director of The Commercialisation Company Ltd |
| Iain Maclean | (Non-Executive Director) Co-founder and partner of The Maclean Partnership |
| Tim Suter | (Non-Executive Director)(joined the Board on 17.9.2014) Managing Director of Perspective Associates |
| Nora Nanayakkara | (Non-Executive Director) (joined the Board on 5.11.2014) Director of Business Development Demy |
| Professor Sir John O'Reilly | Director General, Knowledge and Innovation, BIS (The Director General sends a designated deputy, Director of Innovation, Amanda Brooks) |
| John Alty | Chief Executive Officer and Accounting Officer |

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

The Executive Board is chaired by the Chief Executive Officer and attended by our Directors. Meetings are held monthly. Current membership is set out below:

The Intellectual Property Office Executive Board Membership

| | |
|----------------|---|
| John Alty | Chair, Chief Executive and Accounting Officer |
| Sean Dennehey | Deputy Chief Executive and Director of Patents, Trade Marks and Designs |
| Tim Knighton | Chief Operating Officer |
| Neil Feinson | International Policy Director |
| Louise Smyth | People, Places and Services Director |
| Rosa Wilkinson | Innovation Director |
| Ros Lynch | Copyright and IP Enforcement Director |

During the year Andrew Layton (Trade mark Director) left the Board and his responsibilities were taken over by Sean Dennerhey. John Cappock (Finance Director) left and his responsibilities were taken over by Tim Knighton; and Edmund Quilty was replaced by Ros Lynch.

The Audit and Risk Committee

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

Audit and Risk Committee Membership

The following have served within the year:

| | |
|------------------|--------------------------------|
| Gary Austin | Chair (Non-Executive Director) |
| Mary Champion | (Non-Executive Director) |
| Bob Gilbert | (Non-Executive Director) |
| Ralph Ecclestone | (Non-Executive Director) |
| Nora Nanayakkara | (Non-Executive Director) |

Obligatory Attendees:

| | |
|--------------|---|
| John Alty | (Chief Executive Officer; Accounting Officer) |
| Tim Knighton | (Chief Operating Officer) |

Those who normally attend by invitation:

| | |
|-----------------|---|
| Sean Dennehey | (Deputy Chief Executive and Director of Patents, Trade Marks and Designs) |
| Phil Drye | (Head of Internal Audit) |
| Richard Copeman | (National Audit Office) |
| Karen Powell | (Corporate Risk Manager) |



John Alty

Chief Executive and Accounting Officer
18th June 2014

Chapter 5

Accounts 2013/14

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

Under section 4(6)(a) of the Government Trading Funds Act 1973 the Treasury has directed the Patent Office Agency to prepare for each financial year a statement of accounts in the form and on the basis set out in the accounts direction issued by the Treasury on 20 December 2013. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Patent Office and of its income and expenditure, changes in capital and reserves and cash flows for the financial year.

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

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

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

Statement of Compliance

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



John Alty
Chief Executive and Accounting Officer
18th June 2014

Governance Statement 2013/14

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 (IPO²).

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

Purpose of this Statement

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

The Governance Framework of the IPO

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

The IPO Executive Board, which I chair, meets informally on a weekly basis and formally every month. It is comprised of: the Chief Executive Officer; Deputy Chief Executive and Director of Patents Designs and Trade Marks; Chief Operating Officer; International Policy Director; Copyright and Enforcement Director; People, Places and Services Director; and, Innovation Director. It has collective responsibility for the leadership and strategic management of the IPO, in line with Ministerial priorities. The IPO Board approved a five year Corporate Strategy in 2010/11, which aligns with the Structural Reform Priorities (SRPs) of our parent department, the Department for Business, Innovation and Skills (BIS). This year we have restructured the Executive Board and no longer have Directors of Finance and IT. Our Chief Operating Officer has maintained responsibility for these areas and we are in the process of recruiting a Chief Technology Officer.

I am also a member of the IPO Steering Board which has an independent Non Executive Chair and not less than 4 Non Executive Directors as members, together with Amanda Brooks, the Director of Innovation, BIS. IPO Directors attend, but are not official Steering Board members. The role of our Steering Board is to advise Ministers, through our Director General, Professor Sir John O'Reilly, on our strategies and performance (including targets) as set out in our Corporate Plan. It also provides guidance from a commercial standpoint on our operation and development across a range of issues. During the last 12 months, the Steering Board has provided advice and guidance on a wide range of topics, such as our Corporate Plan, Accounts and Risk Management. The Steering Board meets six times a year.

The Audit and Risk Committee is a sub-committee of the Steering Board, advising on risk, control, governance and associated issues, focusing on process, and also providing guidance. The Committee comprises a Non-Executive Chair and three Non-Executive members of the Steering Board. The Chief Operating Officer and I are obligatory attendees. There are additional attendees by invitation from the IPO, Internal Audit, and the National Audit Office. In addition to providing me with assurance over the

² An operating name of the Patent Office

preparation and signing of the IPO accounts for 2012/13, the committee considered the findings of seven audit reports. These reports covered a wide range of potential governance and risk management areas, including a review of payment card industry controls for credit/debit card payments and a review of the effectiveness of our Programme and Project Management Office. I am pleased to report that Audit and Risk Committee did not identify any major control failures. The Audit and Risk Committee meets four times a year.

The Operating Committee is a sub-committee of the IPO Executive Board. It is chaired by the Director of People, Places and Services and has representatives from Finance, Patents, Trade Marks, Policy, IT and Human Resources. It fulfils the Executive Team's responsibility to lead the development, delivery and implementation of cross-organisational initiatives including: management of change; operational processes and policies; and, corporate initiatives. The Operating Committee meets monthly.

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

This year saw the introduction of the Transformational Change Committee. The Transformational Change Committee, which was set up in November 2013, is also a sub-committee of the IPO Executive Board. It is chaired by the Chief Operating Officer and members include the Deputy Chief Executive, Director of People, Places and Services and one Non Executive Director. It has responsibility for: prioritising the use of IT resources in support of IPO corporate goals and priorities; reviewing all business cases for change; ensuring that dependencies and interrelationship of projects are effectively managed; governance of the IPO transformation agenda comprising, E services, Patents Roadmap, Designs modernisation and modernised technology infrastructure to support these; and, oversight of the change framework for the IPO. The Transformational Change Committee meets monthly.

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

- IPO Board meetings are reviewed on completion and changes implemented as appropriate. The Secretariat and I regularly review the Board's work programme ensuring that it addresses the requirements of the IPO and BIS, and IPO Directors attend two away-days each year to review and improve collective effectiveness;
- the Steering Board is due to be externally reviewed during 2014/15. Non-Executive Board members are reviewed individually on an annual basis and appointed for up to three years at a time;
- the Audit and Risk Committee undertakes an annual self-assessment which makes recommendations for change; and,
- mid-year and end-year Directorate performance reviews are held with each Director and their senior team to assess performance against targets and the Corporate Plan.

The table below shows attendance at Board and Committee meetings held during 2013-14:

| Members | IPO Executive Board (15 in year) | Steering Board (6 in year) | Audit Committee (4 in year) |
|--|---|---------------------------------------|--|
| John Alty (Accounting Officer/Chief Executive Officer) | 13 | 6 | 4 |
| Gary Austin (Non Executive Director & Chair of Audit and Risk Committee) | * | 6 | 4 |
| Bob Gilbert (Non Executive Director & Chair of Steering Board) | * | 6 | 3 |
| Mary Champion ¹ (Non Executive Director) | * | 2 | 2 |
| Ralph Ecclestone ² (Non Executive Director) | * | 6 | 2 |
| Iain Maclean (Non Executive Director) | * | 6 | * |
| Tim Suter ³ (Non Executive Director) | * | 4 | * |
| Nora Nanayakkara ⁴ (Non Executive Director) | * | 3 | 1* |
| Sean Dennehey (Deputy Chief Executive Officer & Patents Designs and Trade Marks Director) | 12 | 6 | 4 |
| Tim Knighton (Chief Operating Officer) | 12 | 6 | 3 |
| John Cappock ⁵ (Finance Director) | 6 | 2 | 3 |
| Neil Feinson (International Policy Director) | 12 | 3* | 1* |
| Edmund Quilty ⁶ (Copyright and Enforcement Director) | 7 | 2* | 1* |
| Louise Smyth (People, Places and Services Director) | 13 | 4* | 2* |
| Rosa Wilkinson (Innovation Director) | 12 | 6* | 1* |
| Ros Lynch ⁷ (Copyright and Enforcement Director) | 1 | * | * |

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

- 1 Left August 2013
- 2 Joined Audit and Risk Committee October 2013
- 3 Joined Steering Board September 2013
- 4 Joined Steering Board November 2013
- 5 Left October 2013
- 6 Left January 2014
- 7 Joined February 2014

The Risk and Internal Control Framework

The system of internal control is designed to manage risk to a reasonable level, rather than to eliminate all risk; it can therefore only provide reasonable and not absolute assurance, of effectiveness. The system of internal control is based on a continuous process designed to identify and prioritise the risks to the achievement of our policies, aims and objectives, to evaluate the likelihood of those risks being realised, the impact should they be realised, and to manage them effectively and economically. The system has been in place throughout 2013/14 and is kept under review.

In 2012, KPMG undertook a risk maturity assessment for the IPO to benchmark our risk management capability and maturity and to provide guidance on how and where improvement could be made. In September 2013 they conducted a review of the progress made since their initial assessment. They reported a clear improvement in the risk management process with increases in maturity across all eight areas of the Office of Government Commerce (OGC) Management of Risk Framework.

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

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

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

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

Maintaining and improving effective governance within the IPO remains a key priority. A comprehensive Internal Audit programme is agreed each year with the resulting reports and recommendations acted upon accordingly. Going forward in 2014/15 Internal Audit will be reviewing the risk and control environment of some challenging areas of work such as transformational change and Patent application backlogs. Steering Board and Audit and Risk Committee provide challenge and scrutiny of the IPO's system of internal control and processes we use to manage risk.

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

We have completed a Fraud and Error Capacity Assessment and Action Plan and attend all BIS Family Counter Fraud Network meetings.

The IPO Business Continuity Plan (BCP) is reviewed every 6 months and is tested annually. The latest series of scenario tests, involving all BCP team leaders and deputies, took place in March 2014. The objective of the tests were to ensure that the BCP is fit for purpose; that individuals understood their roles and were clear on when the BCP should be invoked. Representatives from Newport Council and ONS attended the sessions and a senior auditor from the Cross Departmental Internal Audit Service observed to provide extra assurance. An action plan of outcomes has been produced and the BCP team are currently working through these. There were no significant areas for concern.

The Corporate Information Assurance (CIA) Team maintains responsibility for Information Assurance & Security on behalf of the IPO. They have continued to make good progress this year, improving our management of security incidents and business systems and processes.

IT Services area has been successful in maintaining their certification against the ISO 27001 standard following recertification in November 2013 and the ISO assessor continues to give particular praise to the good practices applied to the standard.

Information Asset Experts manage and monitor information security across their Directorates. I receive a separate Information Security Assurance Report from the CIA Team. There have been no significant lapses of protective security (e.g. data losses) this year.

Guidance from HM Treasury, Cabinet Office and BIS is regularly reviewed and used to drive change so that governance practice is consistent with central Government and departmental policy. A comprehensive review of governance, risk and internal control has provided myself, the Executive Board and the Audit and Risk Committee with assurance that the IPO has complied with the corporate governance in central government departments: code of good practice' throughout the year.

Significant Risks and Control Issues

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

At the start of 2013/14 there was a significant risk that the operation of the organisation could be affected as a result of the European Patent Office (EPO) withdrawing support for EPO IT systems implemented in the IPO before we were able to support them fully. Major failure of those systems would prevent the patents business from operating. Mitigating actions and controls were implemented with the aim of making us self supporting, and, as a result, we successfully implemented our own replacement system, PDAX in June 2013.

We have also faced risks in our preparations for the Unitary Patent and Unified Patent Court. Delays in the tasks (primarily setting up the IT system) that we are responsible for could delay the start date of the court and adversely affect our reputation across Europe. The recruitment of a cross government task force with distinct project workstreams has ensured maintained focus on the mitigations of these risks.

One of the key challenges this year has been the transfer of existing in-house HR transactional functions to UK Shared Business Services (SBS) in line with the Government's commitment to sharing back office functions. The project team has worked hard to mitigate the associated risks and we successfully transferred our payroll operations onto the BIS UK SBS platform in February. There have been some teething issues; errors around overtime payments have been made, but we are working with UK SBS to resolve these and moving forward in 2014/15 we will be looking at how best to gain assurance from UK SBS on levels of service.

In 2011 we introduced a new “Rewarding our Values” scheme. The scheme gives people the opportunity to reward colleagues with a voucher or nominate them for a cash payment for demonstrating a commitment to our values. The scheme has proved extremely popular, so much so that we exceeded the allocated budget for 2013/14. The impact of the overspend is estimated at less than 0.3% of pay bill. We have put in place additional controls for 2014/15.

Going forward into 2014/15, one of the key challenges will be meeting the significant increases in demand for our core rights granting services. The demand for patent searches and examinations has increased by 15% over the last three years and the number of trade mark applications has increased by 17% in the last year alone. To cope with the rising demand, we have devised a plan of recruitment to increase our compliment of patent specialists by 60% over the next three years and to increase the number of trade mark examiners and hearing officers.

There has been no significant control issues identified this financial year.

Review of effectiveness

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

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

I have considered the evidence provided to support this Governance Statement and sought relevant Audit and Risk Committee assurance. I conclude that the IPO has maintained a sound system of governance, risk management and internal control during the financial year 2013-14.



John Alty

Accounting Officer/Chief Executive Officer
18th June 2014

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

I certify that I have audited the financial statements of the Patent Office for the year ended 31 March 2014 under the Government Trading Funds Act 1973. The financial statements comprise: Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Capital and Reserves, Statement of Cash Flows; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Patent Office, Accounting Officer and Auditor

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

Scope of the audit of the financial statements

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

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

Opinion on regularity

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

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Patent Office's affairs as at 31 March 2014 and of its deficit for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Trading Funds Act 1973 and HM Treasury directions issued there under.

Opinion on other matters

In my opinion:

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

Matters on which I report by exception

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

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

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

Date

Statement of Comprehensive Income

For the year ended 31 March

| | Notes | 2014 £000 | 2013 £000 |
|--|-------|----------------|--------------|
| Turnover | 4 | 76,317 | 73,855 |
| Staff costs | 5 | (45,565) | (40,899) |
| Depreciation and amortisation | | (1,851) | (707) |
| Other operating charges | | (28,534) | (24,219) |
| Operating surplus before financing and dividend | | 367 | 8,030 |
| Financial Income | 8 | 333 | 341 |
| Operating surplus on ordinary activities | | 700 | 8,371 |
| Financial Expenditure | 9 | (101) | (147) |
| Surplus for the year | | 599 | 8,224 |
| Dividend | 10 | (3,442) | (3,401) |
| Retained (deficit) / surplus for the year | | (2,843) | 4,823 |
| All of the operations are classed as continuing. | | | |
| Other comprehensive income | | | |
| Net gain on revaluation of plant, property and equipment | 11 | 261 | (632) |
| Net gain on revaluation of intangible assets | 12 | 83 | 49 |
| Total comprehensive (expenditure) / income | | (2,499) | 4,240 |

Statement of Financial Position

As at 31 March

| | | 2014 | 2013 |
|--|-------|----------------|----------------|
| | Notes | £000 | £000 |
| Non-current assets | | | |
| Property, plant & equipment | 11 | 21,412 | 20,727 |
| Intangible assets | 12 | 4,882 | 5,396 |
| | | 26,294 | 26,123 |
| Current assets | | | |
| Trade and other receivables | 13 | 3,264 | 4,089 |
| Cash and cash equivalents | 14 | 92,088 | 92,665 |
| | | 95,352 | 96,754 |
| Total assets | | 121,646 | 122,877 |
| Current liabilities due in less than 1 year | | | |
| Trade and other payables | 15 | (17,797) | (17,182) |
| Other liabilities | 15 | (16,877) | (15,812) |
| Total current liabilities | | (34,674) | (32,994) |
| Non-current assets plus net current assets | | 86,972 | 89,883 |
| Non-current liabilities greater than 1 year | | | |
| Provision for liabilities and charges | 16 | (489) | (735) |
| Financial liabilities | 17 | (499) | (665) |
| Total non-current liabilities | | (988) | (1,400) |
| Net Assets | | 85,984 | 88,483 |
| Financed by: | | | |
| Capital and reserves | | | |
| Public dividend capital | | 6,325 | 6,325 |
| Revaluation reserve | | 2,219 | 2,073 |
| General reserve | | 77,440 | 80,085 |
| Total financing | | 85,984 | 88,483 |

John Alty

John Alty

Chief Executive Officer and Accounting Officer

18th June 2014

Statement of Changes in Capital and Reserves

| | PDC | Revaluation Reserve | General Reserve | Total Capital & Reserves |
|---|--------------|------------------------|--------------------|-----------------------------|
| | £000 | £000 | £000 | £000 |
| Balance at 31 March 2012 | 6,325 | 2,714 | 75,204 | 84,243 |
| Changes in capital and reserves for 2012/13 | | | | |
| Net gain on revaluation of property, plant and equipment | - | (632) | | (632) |
| Net gain on revaluation of intangible assets | - | 49 | | 49 |
| Transfer of (excess) / realised depreciation between reserves | - | (58) | 58 | 0 |
| Retained surplus | - | | 4,823 | 4,823 |
| At 31 March 2013 | 6,325 | 2,073 | 80,085 | 88,483 |
| Changes in capital and reserves for 2013/14 | | | | |
| Net gain on revaluation of property, plant and equipment | - | 261 | | 261 |
| Net gain on revaluation of intangible assets | - | 83 | | 83 |
| Transfer of (excess) / realised depreciation between reserves | - | (198) | 198 | 0 |
| Retained surplus | - | | (2,843) | (2,843) |
| At 31 March 2014 | 6,325 | 2,219 | 77,440 | 85,984 |

Statement of Cash Flows

For the year ended 31 March

| | 2014 | 2013 |
|--|----------------|---------------|
| | £000 | £000 |
| Net cash inflow from operating activities | | |
| Retained (deficit) / surplus | (2,843) | 4,823 |
| Adjustment for non-cash items | 2,755 | 848 |
| Decrease in trade and other receivables | 825 | (1,545) |
| Increase in trade payables | 1,680 | 3,541 |
| Movements in payables relating to items not passing through the operating statement (capital accruals and short term provision movement) | 1,164 | (649) |
| Use of provisions | (840) | (986) |
| Net cash inflow from operating activities | 2,741 | 6,032 |
| Cash flows from investing activities | | |
| Purchase of property plant and equipment | (1,712) | (1,142) |
| Purchase of intangible assets | (1,440) | (2,361) |
| Deposits with National Loans Fund | | 50,000 |
| Net cash (outflow) / inflow from investing activities | (3,152) | 46,497 |
| Cash flows from financing activities | | |
| Repayment of loans | (166) | (166) |
| Net (Decrease) / Increase in cash and cash equivalents in year | (577) | 52,363 |
| Cash and cash equivalents at the beginning of the year | 92,665 | 40,302 |
| Cash and cash equivalents at the end of the year | 92,088 | 92,665 |

Notes to the Accounts

1 Accounting policies

1(a) Statement of accounting policies

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

1(b) Accounting convention and estimates

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

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

1(c) Property, Plant and Equipment valuation

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

The Patent Office has adopted depreciated historical cost as a proxy for fair value of plant and equipment. Any difference between these figures is not considered material for the accounts.

1(d) Depreciation

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

| | |
|---------------------------------|----------|
| Freehold buildings inc car park | 55 years |
| Information technology | 5 years |
| Plant and machinery | 5 years |

Depreciation is charged from the date of acquisition.

1(e) Intangible Assets

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

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

1(f) Amortisation

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

| | |
|-----------------------------|----------|
| Major software developments | 10 years |
| Other software | 5 years |

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

1(g) Deferred income (prepayment)

In many instances the Patent Office collects fees and charges for services before those services are performed. Therefore, at any point in time a prepayment situation exists in respect of unperformed services. Income relating to those services is recorded as deferred income (see note 15) and is only recognised in the Statement of Comprehensive Income when the services are performed.

1(h) Turnover

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

1(i) Value Added Tax (VAT)

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

Irrecoverable VAT on revenue expenditure is charged to the statement of comprehensive income and on capital expenditure to the statement of financial position.

1(j) Foreign exchange

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

1(k) Operating Lease Rentals

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

1(l) Financial Instruments

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

1(m) Provisions

All provisions where the time value of money is significant are discounted at the Treasury approved rate (see note 16).

1(n) Dividends

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

1(o) Pension costs

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

Further information is given in note 5(b).

1(p) **Contingent liabilities**

In addition to contingent liabilities disclosed in accordance with IAS 37 (see note 20) the Patent Office is obliged to disclose, for parliamentary reporting and accountability purposes certain statutory and non statutory contingent liabilities where the likelihood of a transfer of economic benefit is remote but which must be reported to Parliament in accordance with the requirements of Managing Public Money.

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

1(q) **Standards issued but not yet effective**

Standards issued but not yet effective:-

IAS 19 - Employee Benefits

The basic Principle of IAS 19 is that the cost of providing employee benefits should be recognised in the period in which the benefit is earned by the employee, rather than when it is paid or payable. The amendments to the standard are not yet EU endorsed, but this standard is not expected to have any significant impact on the Office.

IFRS 9 - Financial Instruments

Under IFRS 9 financial assets should be classified on the basis of the entity's business model for their management and their contractual cash flows characteristics. They should be measured initially at fair value and subsequently at either fair value or amortised cost. This is not expected to take effect in the public sector until 2015/16 and the Office does not believe this will have any significant impact.

IFRS 13 - Fair Value Measurement

IFRS 13 defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. The effective date is 1 Jan 2013, but IFRS 13 applies prospectively to entities covered by the Treasury Financial Reporting Manual from 1 April 2015. Early adoption is not permitted and it is not expected to have any significant impact.

IFRS14 - Regulatory Deferral Accounts

IFRS 14 permits an entity which is a first time adopter of IFRS to opt to continue to use its previous GAAP accounting policies for its rate regulated activities. The impact of this choice is shown via a regulatory deferral account. This was issued in January 2014 and will not come into force until 1 January 2016. However, the Office is not a first time adopter and is not eligible to use IFRS 14.

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

There are no interpretations which are predicted to have an effect on the Office. IFRIC 21 - Levies reflects the Office current practice when subject to levies.

There are also likely to be changes to the 2014/15 FReM which are not expected to impact on the Office.

2 **Segmental reporting**

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

3 Fees and charges information

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

| 2013/14 | Patents | Trade marks | Designs | Publications | Commercial | Total |
|------------------------------|---------------|----------------|--------------|--------------|--------------|--------------|
| | £000 | £000 | £000 | £000 | £000 | £000 |
| Income | 57,812 | 16,930 | 1,159 | 116 | 300 | 76,317 |
| Expenditure | (54,744) | (18,995) | (1,550) | (173) | (488) | (75,950) |
| Subtotal | 3,068 | (2,065) | (391) | (57) | (188) | 367 |
| Financial Income | | | | | | 333 |
| Financial Expenditure | | | | | | (101) |
| Dividend | | | | | | (3,442) |
| Retained surplus / (deficit) | | | | | | (2,843) |
| | | | | | | |
| 2012/13 | Patents | Trade marks | Designs | Publications | Commercial | Total |
| | £000 | £000 | £000 | £000 | £000 | £000 |
| Income | 56,855 | 15,153 | 1,524 | 136 | 187 | 73,855 |
| Expenditure | (46,459) | (17,533) | (1,409) | (110) | (314) | (65,825) |
| Subtotal | 10,396 | (2,380) | 115 | 26 | (127) | 8,030 |
| Financial Income | | | | | | 341 |
| Financial Expenditure | | | | | | (147) |
| Dividend | | | | | | (3,401) |
| Retained surplus / (deficit) | | | | | | 4,823 |

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

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

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

4 Income

Analysis of operating income by classification and activity

| For the year ended 31 March | 2014 | 2013 |
|--|---------------|---------------|
| | £000 | £000 |
| Patents | | |
| Application, search and examination fees | 3,514 | 3,528 |
| Renewals for UK Patents | 12,723 | 12,777 |
| Renewals for European patents designating the UK | 40,970 | 39,812 |
| Other | 605 | 738 |
| | 57,812 | 56,855 |
| Trade marks | | |
| Application fees | 12,078 | 10,354 |
| Renewal fees | 3,928 | 4,149 |
| Other | 924 | 650 |
| | 16,930 | 15,153 |
| Designs | | |
| Application fees | 276 | 245 |
| Renewal Fees | 850 | 1,264 |
| Other | 33 | 15 |
| | 1,159 | 1,524 |
| Publications | 116 | 136 |
| Commercial services | 300 | 187 |
| Total Turnover | 76,317 | 73,855 |

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

5 Staff costs and employee information

5(a) Staff costs

| | 2014 | 2013 |
|--|--------|---------|
| | £000 | £000 |
| Salaries and wages | 33,286 | 30,201 |
| Social security costs | 2,779 | 2,438 |
| Pension costs | 6,321 | 5,601 |
| Agency/Contract staff | 3,330 | 3,712 |
| Capitalised staff costs included above | (151) | (1,053) |
| | 45,565 | 40,899 |

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

For 2013/14 employer contributions of £6,243,446 were payable to the PCSPS (2012/13 £5,653,135) at one of four rates in the range 16.7% to 24.3% of pensionable pay, based on salary bands. The difference between this contribution and pension cost in 5(a) is the movement in holiday pay adjustments. The PCSPS scheme's actuary reviews employer contributions usually every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2013/14 to be paid when the member retires and not the benefits paid during this period to existing pensioners. The rates are unchanged for 2013/14.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £26,782 were paid to one or more of a panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3% to 12.5% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of £1,942, 0.8% of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

Contributions due to the partnership pension providers at the balance sheet date were £2,171. Contributions prepaid at that date were zero.

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

| | Directors | Staff | Seconded in staff | Agency / Contract | Seconded out staff | 2014 | 2013 |
|-------------|-----------|-------|-------------------|-------------------|--------------------|------------|------------|
| Patents | 1 | 355 | 0 | 3 | 2 | 361 | 345 |
| Trade marks | 0 | 142 | 0 | 7 | 7 | 156 | 156 |
| Designs | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other | 6 | 409 | 8 | 38 | 13 | 474 | 448 |
| | | | | | | 991 | 949 |

In 2013/14 there were 5.7 full time equivalent staff or contract staff working on capital projects (2012/13 16.7).

Of the people employed by the Office in 2013/14, 943 were civil servants (907 2012/13).

- 5(d) The in year provision for early retirement and severance schemes (see note 16) was £103,000 (£84,000 2012/13) and is shown under other operating charges.

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

| Exit Package cost | Number of compulsory redundancies | | Number of other departures agreed | | Total number of exit packages by cost band | |
|---------------------------------------|-----------------------------------|----------|-----------------------------------|-----------|--|-----------|
| | 2013/14 | 2012/13 | 2013/14 | 2012/13 | 2013/14 | 2012/13 |
| <£10,000 | - | - | 1 | - | 1 | - |
| £10,000 - £25,000 | - | - | 1 | 2 | 1 | 2 |
| £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 | 0 | 0 | 3 | 2 | 3 | 2 |
| Total cost £'000 | 0 | 0 | 54 | 37 | 54 | 37 |

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

6 Other non staff costs

| This includes | 2014 | 2013 |
|--|---------------|---------------|
| | £000 | £000 |
| IT, Telecoms and bureau charges | 7,614 | 7,492 |
| Accommodation (ex leases) | 4,569 | 4,276 |
| Building refurbishment | 3,890 | 2,380 |
| Innovation support inc via Technology Strategy Board | 3,349 | 1,786 |
| Training, recruitment and other staffing costs | 1,305 | 1,047 |
| Travel | 1,110 | 973 |
| Other admin costs | 1,101 | 1,270 |
| Legal and hearings | 1,033 | 1,033 |
| Subscriptions to international bodies | 784 | 759 |
| Office supplies and equipment inc postage | 730 | 764 |
| Research co-operation and seminars | 696 | 902 |
| Property lease payments | 616 | 633 |
| Hire of office machinery | 477 | 498 |
| Outreach and marketing | 306 | 209 |
| Audit fee | 36 | 36 |
| Departmental overheads | 32 | 43 |
| Exchange rate losses / (gains) | 14 | 34 |
| Proceeds from sale of fixed assets | (5) | 0 |
| Total | 27,657 | 24,135 |
| Non cash items | £000 | £000 |
| Amortisation | 520 | 172 |
| Depreciation | 1,331 | 535 |
| Loss on disposal of assets | 774 | 0 |
| Provision for early departure in year | 103 | 84 |
| Total non cash | 2,728 | 791 |
| Total cash and non cash | 30,385 | 24,926 |

7 Performance against financial objective

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

The return achieved for the year ended 31 March 2014 was 0.8% (9.6% at 31 March 2013).

The return achieved for the period 1 April 2009 to 31 March 2014 was 10.0% with the capital averaged using the mean of each year.

8 Financial Income

| | 2014 | 2013 |
|--|------|------|
| | £000 | £000 |
| Short term deposits - operating activities | 333 | 341 |

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

9 Financial expenditure

| | 2014 | 2013 |
|---|------|------|
| | £000 | £000 |
| Interest on loans (see note 17) | 74 | 90 |
| Unwinding of discount on early retirement provision (see note 16) | 27 | 57 |
| | 101 | 147 |

10 Dividends

A dividend of £3,441,756 will be paid in July 2014 to the Consolidated Fund. The 2012/13 dividend paid in July 2013 was £3,401,264.

11 Property, plant and equipment

| 2013/14 | Land | Buildings | Plant and machinery | Information Technology | Total |
|---------------------------------|-------|-----------|---------------------|------------------------|--------|
| | £000 | £000 | £000 | £000 | £000 |
| Cost or valuation | | | | | |
| At 31 March 2013 | 3,500 | 14,350 | 1,591 | 5,622 | 25,063 |
| Additions | - | - | 211 | 1,558 | 1,769 |
| Revaluation | - | - | - | - | 0 |
| Disposals | - | - | (109) | (353) | (462) |
| At 31 March 2014 | 3,500 | 14,350 | 1,693 | 6,827 | 26,370 |
| Depreciation | | | | | |
| At 31 March 2013 | 0 | 0 | 1,012 | 3,324 | 4,336 |
| Provided during the year | - | 261 | 180 | 890 | 1,331 |
| Surplus on revaluation | - | (261) | - | - | (261) |
| Disposals | - | - | (109) | (339) | (448) |
| At 31 March 2014 | 0 | 0 | 1,083 | 3,875 | 4,958 |
| Net book value at 31 March 2014 | 3,500 | 14,350 | 610 | 2,952 | 21,412 |
| Net book value at 31 March 2013 | 3,500 | 14,350 | 579 | 2,298 | 20,727 |
| 2012/13 | | | | | |
| Cost or valuation | | | | | |
| At 31 March 2012 | 3,750 | 15,000 | 1,414 | 4,599 | 24,763 |
| Additions | - | - | 453 | 1,032 | 1,485 |
| Revaluation | (250) | (650) | - | - | (900) |
| Disposals | - | - | (276) | (9) | (285) |
| At 31 March 2013 | 3,500 | 14,350 | 1,591 | 5,622 | 25,063 |
| Depreciation | | | | | |
| At 31 March 2012 | 0 | 0 | 1,222 | 3,132 | 4,354 |
| Provided during the year | - | 268 | 66 | 201 | 535 |
| Surplus on revaluation | - | (268) | - | - | (268) |
| Disposals | - | - | (276) | (9) | (285) |
| At 31 March 2013 | 0 | 0 | 1,012 | 3,324 | 4,336 |
| Net book value at 31 March 2013 | 3,500 | 14,350 | 579 | 2,298 | 20,727 |
| Net book value at 31 March 2012 | 3,750 | 15,000 | 192 | 1,467 | 20,409 |

The land and buildings referred to above are freehold and were revalued at £17.85 million by the District Valuer, Newport, South Wales on 31 March 2014 on the basis of existing use.

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

Depreciation in note 6 is made up of in year (£1,331,000) provision. There were no revaluation adjustments.

12 Intangible Assets

| 2013/14 | Software in use | Software under construction | Software total |
|--|--------------------|--------------------------------|-------------------|
| | £000 | £000 | £000 |
| Cost or valuation | | | |
| At 1 April 2013 | 9,962 | 4,636 | 14,598 |
| Additions | - | 683 | 683 |
| Reclassifications | 5,319 | (5,319) | 0 |
| Revaluation | 83 | - | 83 |
| Disposals | (7,307) | - | (7,307) |
| At 31 March 2014 | 8,057 | 0 | 8,057 |
| Amortisation | | | |
| At 1 April 2013 | 9,202 | 0 | 9,202 |
| Provided during the year | 520 | - | 520 |
| Surplus on revaluation | - | - | 0 |
| Disposals | (6,547) | - | (6,547) |
| At 31 March 2014 | 3,175 | 0 | 3,175 |
| Net Book value at 31 March 2014 | 4,882 | 0 | 4,882 |

Intangible Assets

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

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

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

The historic cost net book value at 31 March 2014 is £4,807,065 (£5,226,157 at 31 March 2013).

13 Trade receivables

| | 2014 | 2013 |
|--------------------------------|--------------|--------------|
| | £000 | £000 |
| Trade receivables | 382 | 362 |
| Other receivables | 406 | 271 |
| Prepayments and accrued income | 2,476 | 3,456 |
| | 3,264 | 4,089 |

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

| | | |
|--------------------------------|------------|------------|
| Other receivables | - | - |
| Prepayments and accrued income | 194 | 449 |
| | 194 | 449 |

14 Cash and cash equivalents

| | 2014 | 2013 |
|---|---------------|---------------|
| | £000 | £000 |
| Short term investments with National Loans Fund | 59,000 | 88,000 |
| Cash at bank - with Government Banking Service | 32,687 | 4,499 |
| Cash at bank - in Commercial Banks | 401 | 166 |
| Cash in hand | - | - |
| | 92,088 | 92,665 |

15 Current liabilities

| | 2014 | 2013 |
|--|---------------|---------------|
| | £000 | £000 |
| User deposit accounts | 4,935 | 4,759 |
| Trade payables | 12,862 | 12,423 |
| | 17,797 | 17,182 |
| Deferred income - prepayment | 4,368 | 3,948 |
| Early retirement provision (see note 16) | 409 | 514 |
| Other provisions (see note 16) | 249 | 444 |
| Taxation and social security | 815 | 805 |
| Superannuation | 680 | 579 |
| Other liabilities | 54 | 20 |
| Dividend payable | 3,442 | 3,401 |
| Untaken annual leave owed | 1,817 | 1,407 |
| Accruals | 4,877 | 4,527 |
| Loans (see note 17) | 166 | 167 |
| | 16,877 | 15,812 |

16 Provision for liabilities and charges

Early Retirement and Severance

Treasury guidance requires that the full cost of early retirement and severance schemes should be recognised in the accounts when early departure decisions are made. The Statement of Comprehensive Income is charged with the full liability of new decisions taken and a provision made in the Statement of Financial Position, against which is offset the amount paid to retirees in respect of pension and related payments as they fall due between 2013 and 2019.

The provision has been assessed at current prices at the Statement of Financial Position date, and, in accordance with International Accounting Standard 37, has been discounted at a real rate of 1.8% (2.35% at 31 March 2013), with the unwinding of the discount treated as an interest charge on the Statement of Comprehensive Income (see note 9).

The change in discount factor has increased the value required in the provision.

| | 2014 | 2013 |
|---|-------|-------|
| | £000 | £000 |
| At 1 April | 1,249 | 2,094 |
| Provision made in year | 103 | 84 |
| Unwinding of discount on provision | 27 | 57 |
| Payments offset against the provision | (481) | (986) |
| At 31 March | 898 | 1,249 |
| Less amount payable within one year (included in current liabilities - see note 15) | (409) | (514) |
| Amount payable after one year | 489 | 735 |

Other Provisions

The office has made provision for dilapidations across the estate where appropriate.

| | Legal | Building | Total |
|---|-------|----------|-------|
| | £000 | £000 | £000 |
| At 1 April 2013 | 359 | 85 | 444 |
| Provision made in year | 151 | 13 | 164 |
| Unwinding of discount on provision | 0 | 0 | 0 |
| Payments offset against the provision | (359) | 0 | (359) |
| At 31 March 2014 | 151 | 98 | 249 |
| Less amount payable within one year (included in current liabilities - see note 15) | (151) | (98) | (249) |
| Amount payable after one year | 0 | 0 | 0 |

17 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 2014 | Fair Value 2014 | Book Value 2013 | Fair Value 2013 |
|---|-------------|----------|----------|---------------------------|-----------------|-----------------|-----------------|-----------------|
| £000 | | | | | £000 | £000 | £000 | £000 |
| 2,161 | 01.10.91 | 26 years | 9.625% | } 9.813% | 332 | 384 | 416 | 500 |
| 2,164 | 31.03.92 | 26 years | 10.000% | | 333 | 381 | 416 | 500 |
| | | | | | 665 | 765 | 832 | 1,000 |
| Amounts due within one year (see note 15) | | | | | 166 | | 167 | |
| Amounts falling due over one year | | | | | 499 | | 665 | |

In accordance with Treasury guidance, the fair value has been calculated by discounting future cash flows at the 31 March 2014 interest rate of 3.21%. This is the rate applicable to loans of 26 years.

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

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

18 Capital commitments

| | 2014 | 2013 |
|------------|------|------|
| | £000 | £000 |
| Contracted | 22 | 213 |

19 Commitments under leases

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

| | 2014 | 2014 | 2013 | 2013 |
|-----------------------|-----------|-------|-----------|-------|
| | Buildings | Other | Buildings | Other |
| | £000 | £000 | £000 | £000 |
| Leases falling due: | | | | |
| within 1 year | 506 | 65 | 624 | 324 |
| between 1 and 5 years | 1,741 | 2 | 1,721 | 64 |
| after 5 years | 218 | 0 | 645 | 0 |
| | 2,465 | 67 | 2,990 | 388 |

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

20 Contingent liabilities

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

The Directors are not aware of any other contingent liabilities at 31 March 2014.

21 Related party transactions

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

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

22 Financial instruments

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

Liquidity risk

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

Market risk

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

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

Credit risk

There is no material credit risk to the Office.

23 Intra-government balances

| | 2014 | 2014 | 2013 | 2013 |
|---|-------------|----------|-------------|----------|
| | £000 | £000 | £000 | £000 |
| | Receivables | Payables | Receivables | Payables |
| Balances with: | | | | |
| Central government bodies | 540 | 6,273 | 362 | 5,766 |
| Local authorities | 28 | 28 | 33 | 81 |
| Public corporations and other trading funds | 19 | 4 | 2 | 4 |
| Total at 31 March | 587 | 6,305 | 397 | 5,851 |

All balances fall due within one year.

24 Subsequent Events

The financial statements were authorised for issue

Appendix A

Treasury Minute Dated 23 June 2009

The Patent Office Trading Fund:

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

- (a) to manage the funded operations so that the revenue of the fund:
 - (i) consists principally of receipts in respect of goods or services provided in the course of the funded operations, and
 - (ii) is not less than sufficient, taking one year with another, to meet outgoings which are properly chargeable to revenue account; and
 - (b) to achieve such further financial objectives as the Treasury may from time to time, by Minute laid before the House of Commons, indicate as having been determined by the responsible Minister (with Treasury concurrence) to be desirable of achievement.
2. A trading fund known as The Patent Office was established on 1 October 1991 in pursuance of The Patent Office Trading Fund Order 1991 (S.1 1991 No. 1796).
 3. The First Secretary of State, Secretary of State for Business, Innovation and Skills, Lord President of the Council, being the responsible minister, has determined (with Treasury concurrence) that a further financial objective desirable of achievement by The Patent Office Trading Fund for the 5-year period from 1 April 2009 to 31 March 2014 shall be to achieve a return, averaged over the period as a whole, of 4.0 per cent in the form of a surplus on ordinary activities before interest payable on long term Treasury loans and dividends payable expressed as a percentage of average capital employed. Capital employed shall equate to the capital and reserves, ie the Public Dividend Capital, long-term element of Exchequer loans and reserves.
 4. This minute supersedes that dated 26 February 2004.
 5. Let a copy of this minute be laid before the House of Commons pursuant to section 4(1)(b) of the Government Trading Funds Act 1973.

HM TREASURY

23 June 2009

Chapter 6

Remuneration

Remuneration Report for Senior Staff at the Patent Office

Remuneration Policy

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

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

- the need to recruit, retain and motivate suitably able and qualified people to exercise their different responsibilities;
- regional/local variations in labour markets and their effects on the recruitment and retention of staff;
- Government policies for improving the public services including the requirement on departments to meet output targets for the delivery of departmental services;
- the funds available to departments as set out in the Government's departmental expenditure limits;
- 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 mainly members of the senior civil service (SCS) or those whose pay and conditions, although delegated to the Office are determined by analogy with the SCS in the Department for Business, Innovation Universities and Skills (BIS).

Performance is assessed by line management into tranches. Individuals are allocated according to the guidelines that are in place for the relevant performance year. For the 2013/14 year individuals should be allocated in the following way:

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

The percentage of staff that can be accepted in each category is established centrally by Cabinet Office. Performance pay of up to 3.3% of the pay bill is available to reward the top 25% performers. For SCS members the line management assessment is combined with those for all other BIS SCS and the outcome moderated by the BIS pay committee.

For SCS analogues the Chief Executive, and Mary Champion, an independent member of the Steering Board, form a remuneration committee and moderate the final performance distribution. The committee met on 19 June 2013 to moderate the 2013/14 award.

Service Contracts

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

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

Further information about the work of the Civil Service Commissioners can be found at <http://civilservicecommission.independent.gov.uk/>

Remuneration (including salary) and pension entitlements

The following tables provide details of the remuneration and pension interests of the Chief Executive and Directors of the Office and are audited. 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 | |
|--|------------------------|------------------------|-------|-------|------------------|-------|--------------------|---------|
| | 13/14 | 12/13 | 13/14 | 12/13 | 13/14 | 12/13 | 13/14 | 12/13 |
| John Alty ¹ Chief Executive until 03.09.2012 | N/A | 65-70 (150-155 FYE) | N/A | 0-5 | N/A | N/A | N/A | N/A |
| John Alty ¹ Chief Executive from 18.02.2013 | 145-150 | 15-20 (135-140 FYE) | 0-5 | 0-5 | (6) | 0 | 140-145 | 15-20 |
| Sean Dennehey ² | 110-115 | 110-115 | 10-15 | 0-5 | (5) | 4 | 115-120 | 115-120 |
| Tim Knighton ¹ Director from 02.07.12 | 95 - 100 | 65-70 (85-90 FYE) | 0-5 | 0-5 | 36 | 15 | 130-135 | 80-85 |
| John Cappock ¹ Director from 01.06.12 until 31 October 2013 | 50 - 55 (90-95 FYE) | 75-80 (90-95 FYE) | 0-5 | 0-5 | 20 | 31 | 70-75 | 105-110 |
| Louise Smyth ¹ | 60-65 | 60-65 | 0-5 | 10-15 | 16 | 6 | 80-85 | 75-80 |
| Andrew Layton ¹ Director until 21 April 2013 | 0 - 5 (65-70 FYE) | 65-70 | 0-5 | 5-10 | (9) | 8 | (5)-(10) | 80-85 |
| Edmund Quilty ¹ Director until 31 January 2014 | 60-65 (75-80 FYE) | 70-75 | 0-5 | 0-5 | 0 | 5 | 65-70 | 75-80 |
| Neil Feinson ¹ | 70-75 | 70-75 | 0-5 | 0-5 | 0 | 5 | 70-75 | 75-80 |
| Rosa Wilkinson ¹ | 75-80 | 75-80 | 10-15 | 0-5 | 18 | 6 | 100-105 | 80-85 |
| Ros Lynch ¹ Director from 27.02.14 | 5-10 (60-65 FYE) | N/A | 0-5 | N/A | 1 | N/A | 5-10 | N/A |

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

¹ is a member of the Senior Civil Service.

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

³ is not a member of the Senior Civil Service.

John Alty was seconded to BIS as interim Director General of Innovation between September 2012 and February 2013. Sean Dennehey was interim Chief Executive for this period. John Alty's salary includes £23,000 for gross taxable expenses in 2013/14 (in 2012/13 the grossed up payments were £13,000 up to September 2012 and £1,000 from February 2013).

Salary

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

Benefits in kind

There were no benefits in kind in 2013/14 or 2012/13.

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 2013/14 relate to performance in 2012/13 and the comparative bonuses reported for 2012/13 relate to the performance in 2011/12. Directors and all other staff, apart from the Chief Executive, are eligible for an equal share of the overall office bonus.

Pension Benefits

| | Accrued pension at age 60 as at 31/3/14 and related lump sum | Real increase / (decrease) in pension and related lump sum at age 60 | CETV at 31/3/14 or leaving office | CETV at 31/3/13 or taking office | Real increase/ (decrease) in CETV |
|--|--|--|-----------------------------------|----------------------------------|-----------------------------------|
| | £000 | £000 | £000 | £000 | £000 |
| John Alty Chief Executive | 55-60 plus 170-175 lump sum | 0-2.5 plus 0-2.5 lump sum | 1,205 | 1,134 | (6) |
| Sean Dennehey | 45-50 plus 145-150 lump sum | 0-2.5 plus 0-2.5 lump sum | 1,008 | 951 | (5) |
| Tim Knighton | 15-20 | 2.5-5.0 | 282 | 218 | 32 |
| Andrew Layton Director until 21.04.2013 | 15-20 plus 50-55 lump sum | 0-2.5 plus 0-2.5 lump sum | 238 | 237 | 0 |
| Louise Smyth | 15-20 plus 55-60 lump sum | 0-2.5 plus 2.5-5.0 lump sum | 343 | 310 | 11 |
| Edmund Quilty Director until 31.01.2014 | 25-30 plus 80-85 lump sum | 0-2.5 plus 0-2.5 lump sum | 526 | 495 | 2 |
| John Cappock Director until 31.10.2013 | 0-5 | 0-2.5 | 32 | 18 | 9 |
| Neil Feinson | 20-25 plus 70-75 lump sum | 0-2.5 plus 0-2.5 lump sum | 450 | 420 | (1) |
| Rosa Wilkinson | 30-35 plus 70-75 lump sum | 0-2.5 plus -2.5-0 lump sum | 501 | 458 | 11 |
| Ros Lynch Director from 27.02.14 | 10-15 plus 35-40 | 0-2.5 plus 0-2.5 | 250 | 248 | 1 |

Civil Service Pensions

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

Employee contributions are set at the rate of 1.5% and 6.25% of pensionable earnings for **classic** and 3.5% and 8.25% for **premium**, **classic plus** and **nuvos**. Increases to employee contributions will apply from 1 April 2014. Benefits in **classic** accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For **premium**, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike **classic**, there is no automatic lump sum. **Classic plus** is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per **classic** and benefits for service from October 2002 worked out as in **premium**. In **nuvos** a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and, immediately after the scheme year end, the accrued pension is up rated in line with Pensions Increase legislation. In all cases members may opt to give up (commute) pension for lump sum up to the limits set by the Finance Act 2004.

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

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

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

Cash Equivalent Transfer Values

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

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

Real increase in CETV

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

Median earnings

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

The highest paid director of the Patent Office received annualised remuneration of £145,000 - £150,000 in 2013/14 (£150,000 - £155,000 in 2012/13) which includes salary, bonus and benefits in kind but not employer pension contributions or the cash equivalent transfer value of pensions. The median earnings at the Office were £30,072 (£30,023 in 2012/13) and the ratio was 4.9 (5.1 in 2012/13). This movement year on year reflects staff changes with higher overtime. In addition the annualised pay of the highest paid Director decreased as a result of lower detached duty expenses.

Steering Board Members

Professor Sir John O'Reilly is Director General with responsibility for the Office. The Director General is a member of the Steering Board and appoints independent Board members for a fixed term, which may be renewed. John Dodd and Amanda Brooks are the BIS representatives.

The Independent Board members and their remuneration are:

| | 2013/14 | 2012/13 |
|---|--|--|
| | Remuneration | Remuneration |
| | £000 | £000 |
| Bob Gilbert Reappointed from 6 February 2014 to 5 February 2017 | 5 – 10 | 5 – 10 |
| Gary Austin Reappointed 15 July 2012 to 14 July 2015 | 5 – 10 | 5 – 10 |
| Mary Champion Reappointed 1 September 2010 to 31 August 2013 | 0 – 5 (5 - 10 full year equivalent) | 5 – 10 |
| Ralph Ecclestone Appointed from 17 July 2012 to 16 July 2015 | 5 – 10 | 0 – 5 (5 - 10 full year equivalent) |
| Iain Maclean Appointed from 17 July 2012 to 16 July 2015 | 5 – 10 | 0 – 5 (5 - 10 full year equivalent) |
| Tim Suter Appointed from 17 September 2013 to 17 September 2016 | 0 – 5 (5 - 10 full year equivalent) | Not applicable |
| Nora Nanayakkara Appointed from 6 November 2013 to 5 November 2016 | 0 – 5 (5 - 10 full year equivalent) | Not applicable |
| David Roberts Reappointed 16 April 2010 to 15 April 2013 | 0 – 5 (5 - 10 full year equivalent) | 5 – 10 |

Professor Sir John O'Reilly, John Dodd, Amanda Brooks and John Alty, are civil servants and are not remunerated by the Office for serving on the steering board.



John Alty

Chief Executive and Accounting Officer
18th June 2014

The Patent Office
Annual Report and Accounts
2013/2014

Concept House
Cardiff Road
Newport
NP10 8QQ

Tel: 0300 300 2000
Fax: 01633 817 777

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