Neutral Citation Number: [2026] EWCA Civ 1357

Case Nos: CA-2025-003029, CA-2026-000805

IN THE COURT OF APPEAL (CIVIL DIVISION)
ON APPEAL FROM THE HIGH COURT OF JUSTICE, BUSINESS AND PROPERTY COURTS OF ENGLAND AND WALES, INTELLECTUAL PROPERTY LIST (ChD), PATENTS COURT
Mellor J and Richards J
[2026] EWHC 98 (Pat) and [2026] EWHC 325 (Pat)

Royal Courts of Justice
Strand, London, WC2A 2LL

Date: 26 October 2026

Before :

LADY JUSTICE ASPLIN
LORD JUSTICE BAKER
and
LORD JUSTICE ARNOLD

- -

Between :

DAVID PARSONS	**Claimant/ Appellant**
- and -	
CONVATEC LIMITED	**Defendant/ Respondent**

- -
- -

Patrick Green KC and Ben Norton (instructed by **Kingsley Napley LLP**) for the **Appellant**
Brian Nicholson KC and Chris Aikens (instructed by **Freshfields LLP**) for the **Respondent** (section 40 appeal)
Robert Marven KC and Chris Aikens (instructed by **Freshfields LLP**) **for the Respondent** (section 106 appeal)

Hearing dates : 13-14 October 2026

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Approved Judgment

This judgment was handed down remotely at 10.30am on 26 October 2026 by circulation to the parties or their representatives by e-mail and by release to the National Archives.

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Lord Justice Arnold:

Introduction

1. These appeals raise important issues concerning claims for employee inventor compensation. On the first appeal the issue is whether the court can consider the benefit from more than one invention or patent together when determining whether the employer has obtained outstanding benefit. This depends on the proper interpretation of section 40(1) of the Patents Act 1977. On the second appeal the issue is whether, and if so how, the court should take the employee's financial position into consideration when determining costs budgets. This depends on the proper interpretation of section 106(1) of the 1977 Act. These issues are distinct, but we heard the appeals together in the interests of saving time and money.

Dr Parsons' claim

2. The Claimant, Dr Parsons, is an analytical chemist. The Defendant ("Convatec") is a medical products and technologies company focused on therapies for the management of chronic conditions, including advanced wound care. Dr Parsons was employed by Convatec from 1991 to 2023. Whilst employed by Convatec, Dr Parsons claims to have devised a number of inventions, some alone and some with others, which Convatec patented (I say claims because there are some issues as to inventorship). The inventions in issue ("the Inventions") are protected by seven patent families (a "patent family" is a set of patent applications and granted patents that relate to the same invention and are linked through a shared priority claim) ("the Patents"). The priority dates of the Patents range from November 2000 to May 2013. Dr Parsons claims that the Inventions and/or the Patents have been of outstanding benefit to Convatec, as demonstrated by estimated total global sales to 2021 of products embodying the Inventions amounting to around $3.2 billion, and accordingly it is just that he should be awarded compensation. At its highest, the claim is valued at some £366 million. Convatec disputes the claim in its entirety.

3. The claim was commenced in September 2022. It is listed for a 37-day trial in February 2028. It is very concerning that a claim of this nature should take 5½ years to get to trial, and even more concerning that a trial of that length should be envisaged. I shall return to these concerns at the end of this judgment.

Relevant provisions of the 1977 Act

4. The 1977 Act includes the following provisions:

> "**14. Making of application.**
>
> …
>
> (5) The claim or claims shall—
>
> …
>
> (d) relate to one invention or to a group of inventions which are so linked as to form a single inventive concept.

(6) Without prejudice to the generality of subsection (5)(d) above, rules may provide for treating two or more inventions as being so linked as to form a single inventive concept for the purposes of this Act.

…

26. Patent not to be impugned for lack of unity.

No person may in any proceeding object to a patent or to an amendment of a specification of a patent on the ground that the claims contained in the specification of the patent, as they stand or, as the case may be, as proposed to be amended, relate—

(a) to more than one invention, or

(b) to a group of inventions which are not so linked as to form a single inventive concept.

39. Right to employees' inventions.

(1) Notwithstanding anything in any rule of law, an invention made by an employee shall, as between him and his employer, be taken to belong to his employer for the purposes of this Act and all other purposes if—

(a) it was made in the course of the normal duties of the employee or in the course of duties falling outside his normal duties, but specifically assigned to him, and the circumstances in either case were such that an invention might reasonably be expected to result from the carrying out of his duties; or

(b) the invention was made in the course of the duties of the employee and, at the time of making the invention, because of the nature of his duties and the particular responsibilities arising from the nature of his duties he had a special obligation to further the interests of the employer's undertaking.

(2) Any other invention made by an employee shall, as between him and his employer, be taken for those purposes to belong to the employee.

…

40. Compensation of employees for certain inventions.

(1) Where it appears to the court or the comptroller on an application made by an employee within the prescribed period that–

(a) the employee has made an invention belonging to the employer for which a patent has been granted,

(b) having regard among other things to the size and nature of the employer's undertaking, the invention or the patent for it (or the combination of both) is of outstanding benefit to the employer, and

(c) by reason of those facts it is just that the employee should be awarded compensation to be paid by the employer,

the court or the comptroller may award him such compensation of an amount determined under section 41 below.

…

(3) Subsections (1) and (2) above shall not apply to the invention of an employee where a relevant collective agreement provides for the payment of compensation in respect of inventions of the same description as that invention to employees of the same description as that employee.

…

(6) In this section—

'*the prescribed period*', in relation to proceedings before the court, means the period prescribed by rules of court, and

…

(7) References in this section to an invention belonging to an employer or employee are references to it so belonging as between the employer and the employee.

41. Amount of compensation.

(1) An award of compensation to an employee under section 40(1) or (2) above shall be such as will secure for the employee a fair share (having regard to all the circumstances) of the benefit which the employer has derived, or may reasonably be expected to derive, from any of the following–

(a) the invention in question;

(b) the patent for the invention;

…

(4) In determining the fair share of the benefit to be secured for an employee in respect of an invention which has always

belonged to an employer, the court or the comptroller shall, among other things, take the following matters into account, that is to say—

(a) the nature of the employee's duties, his remuneration and the other advantages he derives or has derived from his employment or has derived in relation to the invention under this Act;

(b) the effort and skill which the employee has devoted to making the invention;

(c) the effort and skill which any other person has devoted to making the invention jointly with the employee concerned, and the advice and other assistance contributed by any other employee who is not a joint inventor of the invention; and

(d) the contribution made by the employer to the making, developing and working of the invention by the provision of advice, facilities and other assistance, by the provision of opportunities and by his managerial and commercial skill and activities.

…

42. Enforceability of contracts relating to employees' inventions.

(1) This section applies to any contract (whenever made) relating to inventions made by an employee, being a contract entered into by him—

(a) with the employer (alone or with another); or

(b) with some other person at the request of the employer or in pursuance of the employee's contract of employment.

(2) Any term in a contract to which this section applies which diminishes the employee's rights in inventions of any description made by him after the appointed day and the date of the contract, or in or under patents for those inventions or applications for such patents, shall be unenforceable against him to the extent that it diminishes his rights in an invention of that description so made, or in or under a patent for such an invention or an application for any such patent.

…

43. Supplementary.

(1) Sections 39 to 42 above shall not apply to an invention made before the appointed day.

(2) Sections 39 to 42 above shall not apply to an invention made by an employee unless at the time he made the invention one of the following conditions was satisfied in his case, that is to say —

(a) he was mainly employed in the United Kingdom; or

(b) he was not mainly employed anywhere or his place of employment could not be determined, but his employer had a place of business in the United Kingdom to which the employee was attached, whether or not he was also attached elsewhere.

(3) In sections 39 to 42 above and this section, except so far as the context otherwise requires, references to the making of an invention by an employee are references to his making it alone or jointly with any other person, but do not include references to his merely contributing advice or other assistance in the making of an invention by another employee.

(4) Any references in sections 39 to 42 above to a patent and to a patent being granted are respectively references to a patent or other protection and to its being granted whether under the law of the United Kingdom or the law in force in any other country or under any treaty or international convention.

(5) For the purposes of sections 40 and 41 above the benefit derived or expected to be derived by an employer from an invention or patent shall, where he dies before any award is made under section 40 above in respect of it , include any benefit derived or expected to be derived from it by his personal representatives or by any person in whom it was vested by their assent.

(5A) For the purposes of sections 40 and 41 above the benefit derived or expected to be derived by an employer from an invention shall not include any benefit derived or expected to be derived from the invention after the patent for it has expired or has been surrendered or revoked.

(6) Where an employee dies before an award is made under section 40 above in respect of a patented invention made by him, his personal representatives or their successors in title may exercise his right to make or proceed with an application for compensation under subsection (1) or (2) of that section.

…

106. Costs and expenses in proceedings before the Court under s. 40.

(1) In proceedings to which this section applies, the court, in determining whether to award costs or expenses to any party and what costs or expenses to award, shall have regard to all the relevant circumstances, including the financial position of the parties.

(1A) This section applies to proceedings before the court (including proceedings on an appeal to the court) which are–

(a) proceedings under section 40;

…

(2) If in any such proceedings the Patents Court directs that any costs of one party shall be paid by another party, the court may settle the amount of the costs by fixing a lump sum or may direct that the costs shall be taxed on a scale specified by the court, being a scale of costs prescribed by rules of court.

125. Extent of invention.

(1) For the purposes of this Act an invention for a patent for which an application has been made or for which a patent has been granted shall, unless the context otherwise requires, be taken to be that specified in a claim of the specification of the application or patent, as the case may be, as interpreted by the description and any drawings contained in that specification, and the extent of the protection conferred by a patent or application for a patent shall be determined accordingly.

(2) It is hereby declared for the avoidance of doubt that where more than one invention is specified in any such claim, each invention may have a different priority date under section 5 above.

…"

5. Section 40(1) was amended by section 10(1) of the Patents Act 2004 with effect from 1 January 2005. Prior to that amendment, it provided that the jurisdiction to make an award arose where "the patent", rather than "the invention or the patent for it (or the combination of both)", is of outstanding benefit to the employer. At the same time, section 43(5A) was inserted by section 10(7) of the 2004 Act. Some of the Inventions were made and Patents filed before 1 January 2005, and some after that date. Neither party contended that the different versions of section 40(1) should be interpreted in a different manner so far as the issue raised by the first appeal is concerned. I will refer to both versions, but for convenience I will mainly refer to the amended version.

6. Section 106(1) was amended, and section 106(1A) inserted, by section 14(2) and (3) of the 2004 Act with effect from 1 January 2005. The effect of those amendments was to broaden the range of proceedings to which section 106 applies beyond proceedings under section 40. Since these proceedings were commenced long after 1 January 2005, it is the amended version of section 106 which applies to them. Neither side suggested that the amendments affected the issue on the second appeal.

Principles of statutory interpretation

7. Both appeals raise issues of statutory interpretation. The applicable principles are well established and are not in dispute. They have been authoritatively stated in a number of recent judgments of the Supreme Court. A convenient statement of the principles which are relevant to the present appeals is that of Lord Sales in *R (PACCAR Inc) v Competition Appeal Tribunal* [2023] UKSC 28, [2023] 1 WLR 2594:

> "40. The basic task for the court in interpreting a statutory provision is clear. As Lord Nicholls put it in *Spath Holme* [2001] 2 AC 349, 396, 'Statutory interpretation is an exercise which requires the court to identify the meaning borne by the words in question in the particular context.'
>
> 41. As was pointed out by this court in *Rossendale Borough Council v Hurstwood Properties (A) Ltd* [2022] AC 690, para 10 (Lord Briggs and Lord Leggatt JJSC), there are numerous authoritative statements in modern case law which emphasise the central importance in interpreting any legislation of identifying its purpose. The examples given there are *R (Quintavalle) v Secretary of State for Health* [2003] 2 AC 687 and *Bloomsbury International Ltd v Department for Environment, Food and Rural Affairs* [2011] 1 WLR 1546. In the first, Lord Bingham of Cornhill said (para 8):
>
> > 'Every statute other than a pure consolidating statute is, after all, enacted to make some change, or address some problem, or remove some blemish, or effect some improvement in the national life. The court's task, within the permissible bounds of interpretation, is to give effect to Parliament's purpose. So the controversial provisions should be read in the context of the statute as a whole, and the statute as a whole should be read in the historical context of the situation which led to its enactment.'
>
> In the second, Lord Mance JSC said (para 10):
>
> > 'In matters of statutory construction, the statutory purpose and the general scheme by which it is to be put into effect are of central importance … In this area as in the area of contractual construction, 'the notion of words having a natural meaning' is not always very helpful (*Charter Reinsurance Co Ltd v Fagan* [1997]

> AC 313, 391c, per Lord Hoffmann), and certainly not as a starting point, before identifying the legislative purpose and scheme."

The purpose and scheme of an Act of Parliament provide the basic frame of orientation for the use of the language employed in it.

42. It is legitimate to refer to Explanatory Notes which accompanied a Bill in its passage through Parliament and which, under current practice, are reproduced for ease of reference when the Act is promulgated; but external aids to interpretation such as these play a secondary role, as it is the words of the provision itself read in the context of the section as a whole and in the wider context of a group of sections of which it forms part and of the statute as a whole which are the primary means by which Parliament's meaning is to be ascertained: *R (Project for the Registration of Children as British Citizens) v Secretary of State for the Home Department* [2023] AC 255, paras 29–30 (Lord Hodge DPSC). Reference to the Explanatory Notes may inform the assessment of the overall purpose of the legislation and may also provide assistance to resolve any specific ambiguity in the words used in a provision in that legislation. Whether and to what extent they do so very much depends on the circumstances and the nature of the issue of interpretation which has arisen.

43. The courts will not interpret a statute so as to produce an absurd result, unless clearly constrained to do so by the words Parliament has used: see *R v McCool* [2018] 1 WLR 2431, paras 23–25 (Lord Kerr of Tonaghmore JSC), citing a passage in *Bennion on Statutory Interpretation*, 6th ed (2013), p 1753. See now *Bennion, Bailey and Norbury on Statutory Interpretation*, 8th ed (2020), section 13.1(1): 'The court seeks to avoid a construction that produces an absurd result, since this is unlikely to have been intended by the legislature.' As the authors of *Bennion, Bailey and Norbury* say, the courts give a wide meaning to absurdity in this context, 'using it to include virtually any result which is impossible, unworkable or impracticable, inconvenient, anomalous or illogical, futile or pointless, artificial, or productive of a disproportionate counter-mischief'. The width of the concept is acceptable, since the presumption against absurdity does not apply mechanistically but rather, as they point out in section 13.1(2), 'The strength of the presumption … depends on the degree to which a particular construction produces an unreasonable result'. I would add that the courts have to be careful to ensure that they do not rely on the presumption against absurdity in order to substitute their view of what is reasonable for the policy chosen by the legislature, which may be reasonable in its own estimation. The

> constitutional position that legislative choice is for Parliament cannot be undermined under the guise of the presumption against absurdity. ..."

The first appeal

How the issue arises

8. Dr Parsons pleads in paragraph 69 of his Re-Re-Amended Particulars of Claim:

> "The Court is entitled and invited to consider the benefit of each Patent and/or Invention, and/or to consider the benefit of all (or some) of the Patents and/or Inventions together for the purposes of sections 40 and 41 of the Act."

9. Convatec pleads in its Re-Re-Amended Defence:

> "6. … As a matter of law, a claimant cannot rely on an outstanding benefit of patents and/or inventions collectively if they are not of outstanding benefit individually.
>
> 89. … As a matter of law, … it is impermissible to seek to establish 'outstanding benefit' based on an aggregate benefit allegedly derived from the cumulative effect of multiple patented inventions (and *a fortiori* from multiple patented inventions/patents as well as other kinds of contribution).
>
> 104. … none of the Patents, patent families and/or inventions relied on considered individually resulted in an outstanding benefit to the Defendant …"

10. Dr Parsons pleads in paragraph 58 of his Re-Amended Reply:

> "As to paragraph 89 and as noted above, it is denied that '*As a matter of law […] it is impermissible to seek to establish 'outstanding benefit' based on an aggregate benefit allegedly derived from the cumulative effect of multiple patented inventions*'. The Defendant's contention is wrong in law and discloses no reasonable grounds for defending the claim."

11. The parties have agreed (subject to some differences in wording) a list of issues which includes two issues arising from the pleas quoted above:

> "(7) If none of the Patents/Inventions are individually of outstanding benefit to the Defendant, under s.40(1)(b) of the Act, can the Court consider the benefit of more than one invention or patent (or the combination of both) together?
>
> (8) If the answer to issue (7) is yes, is it appropriate for the Court to do so in this case?"

12. By an application notice dated 29 September 2025, Dr Parsons applied for an order that:

> "The last sentence of paragraph 6 and of paragraph 89 (and paragraphs 90(g) and 103, which refer to paragraph 89) of the Defence … be struck out pursuant to CPR r.3.4(2)(a), as disclosing no reasonable ground for defending the claim."

13. The application notice went on to assert that the Defence "is, in this respect, wrong in law and bound to fail" and that it was "sensible to resolve [this issue] at an early stage for clarity and to save costs". It also stated:

> "As a matter of statutory interpretation, the above part of the Amended Defence is wrong in law and is bound to fail: under s. 40(1)(b), the Court may consider the benefit of more than invention or patent (or the combination of both) together."

14. This application came before Mellor J at a two-day case management conference on 13 and 14 November 2025 when a number of other matters arose for decision. As counsel for Dr Parsons explained to the judge, the application was designed to dispose of issue 7 in the agreed list of issues, but not issue 8. The judge rejected the application for reasons given initially in an extempore ruling on 13 November 2025 and incorporated in tidied-up form into a reserved judgment handed down on 21 January 2026 [2026] EWHC 98 (Pat).

15. The judge did not decide the issue of statutory interpretation raised by Dr Parsons' application one way or the other way. His reasons for dismissing the application were, in summary, that: (i) the application amounted to an invitation to construe section 40(1) by way of a preliminary issue, but there had been no order for the trial of a preliminary issue; (ii) he was not satisfied that there would be any material benefit to determining the issue in advance of trial; and (iii) he considered that it would be preferable to leave all issues of construction of section 40 to the trial to be determined on the basis of the facts found at the trial.

The grounds of appeal

16. Dr Parsons appeals with permission granted by myself on four grounds. Grounds 1-3 are, in essence, that the judge failed to appreciate that the application gave rise to a short point of statutory construction which could and should be determined one way or the other prior to trial in the interests of both parties. Ground 4 is that, on the proper interpretation of section 40(1), the court may consider the benefit of more than one invention or patent, or the combination, together, and is not confined to considering the benefit of each invention or patent individually.

Convatec's response

17. Convatec's principal contention is that the judge was correct, or at least entitled in the exercise of his case management discretion, not to determine the issue of statutory interpretation in advance of trial. In addition or in the alternative to the reasons given by the judge, Convatec relies upon an additional reason by way of a respondent's notice.

18. If necessary, Convatec contends by paragraph 2 of its respondent's notice that Dr Parsons' interpretation of section 40(1) is wrong: a claimant cannot rely on an outstanding benefit of patents and/or inventions collectively if they are not of outstanding benefit individually. In the alternative, Convatec contends that a claimant cannot rely on an outstanding benefit of more than one invention or patent family if they are not of outstanding benefit individually.

Grounds 1-3 and respondent's notice paragraph 1: the case management question

19. The threshold question on this appeal is whether this Court should determine the issue of statutory interpretation when the judge declined to do so. Convatec argues strenuously that this would be an unjustified interference with a decision taken on case management grounds. As Convatec points out, case management decisions are discretionary decisions which are entrusted to the first instance judge, and an appellate court can only interfere with that exercise of discretion on limited grounds: see *Broughton v Kop Football (Cayman) Limited* [2012] EWCA Civ 1743 at [51] (Lewison LJ) cited with approval by Lord Neuberger of Abbotsbury in *Global Torch Ltd v Apex Global Management Ltd (No 2)* [2014] UKSC 64, [2014] 1 WLR 4495 at [13]. Further reasons for the exercise of caution by appellate courts were given by Falk LJ in *Ward v Rai* [2026] EWCA Civ 816, [2026] 4 WLR 70 at [38]-[43].

20. Although this question was argued at some length by the parties, and a considerable number of authorities were cited, the answer to it seems to me to be straightforward.

21. As Dr Parsons points out, paragraphs 6 and 89 of the Re-Amended Defence expressly raise "a matter of law". It is common ground that the "matter of law" relied upon is the interpretation of section 40(1), and that this is a pure issue of law. Dr Parsons contends that Convatec's interpretation of section 40(1) is wrong. In those circumstances the correct approach is that described by Lord Burrows and Lady Rose giving the opinion of the Privy Council in *Frank v Attorney General of Antigua and Barbuda* [2022] UKPC 25 at [6]:

> " … there is no dispute between the parties as to the relevant test for striking out a claim. That test is whether the claim has a realistic prospect of success. … The Board and the courts below have been presented with a pure question of law. In *Easyair Ltd (trading as Openair) v Opal Telecom Ltd* [2009] EWHC 339 (Ch), Lewison J made clear at para 15(vii) that where a case raises a point of law and 'the court is satisfied that it has before it all the evidence necessary for the proper determination of the question and that the parties have had an adequate opportunity to address it in argument, it should grasp the nettle and decide it. The reason is quite simple: if the [claimant's] case is bad in law, he will in truth have no real prospect of succeeding on his claim …'. In order to determine whether the claim should be struck out the Board should therefore 'grasp the nettle' and decide the point of law one way or the other."

22. This is not a case where it is necessary to find the facts before the issue of statutory interpretation can safely be decided. The issue raised by Dr Parsons' application is a

stark question of principle which does not depend on the facts of the present case. It could arise in any case where there is more than one invention and/or patent. Counsel for Convatec submitted that it was on the facts of the present case that the interpretation of section 40(1) mattered for the parties, but as he accepted it is conventional when interpreting a statute for the court to test the rival interpretations by reference to a range of different factual circumstances.

23. Furthermore, there are obvious benefits to the parties in deciding this issue in advance of trial. If Convatec's interpretation of section 40(1) is right, but the point is not decided until after trial, then considerable time, effort and money could be wasted on evidence and arguments addressing Dr Parsons' case based on aggregating the benefit of the Inventions and/or Patents. This is precisely the kind of self-contained issue that the court is encouraged by the ethos of the Civil Procedure Rules to determine in advance of trial in order to narrow the issues at trial, and thus manage the litigation cost-effectively.

24. The error in the judge's approach can be seen from what he said in his judgment at [24] (emphasis in the original):

> "If I were to reject [Dr Parsons'] application, I <u>would not</u> be making a positive finding that aggregation is impermissible. At its highest, all I would be finding is that Dr Parsons has not satisfied the strike out standard. Further, counsel for Convatec rightly made the point that there is no application from Convatec before the Court for a ruling that aggregation is impermissible."

25. Thus the judge seems to have considered that the question raised by Dr Parsons' application was whether Convatec's case on the interpretation of section 40(1) had a real prospect of success. As the judge recorded at [21(ii)], however, counsel for Dr Parsons had rightly accepted that "[i]f Dr Parsons' application to strike out were to fail, then he would have clarity that aggregation is impermissible". Thus the question raised by the application is which interpretation is correct, and the parties will be bound by the court's decision either way. No cross-application by Convatec was required in order for Dr Parsons' application to have that effect.

26. As counsel for Dr Parsons pointed out, the approach adopted by the judge at Convatec's urging is inconsistent with the approach previously adopted by Zacaroli J (as he then was) when determining certain other issues of interpretation of section 40 on an application by Convatec to strike out certain aspects of Dr Parsons' claim in a judgment dated 26 June 2023 [2023] EWHC 1535 (Pat).

Ground 4 and respondent's notice paragraph 2: interpretation of section 40(1)

27. Although Convatec contends that this Court should not determine the issue of statutory interpretation for the reasons discussed above, counsel for Convatec accepted during the course of argument that, if the judge erred on the case management question as I have concluded, then this Court should determine the issue of statutory construction rather than remitting it to the Patents Court.

28. *Language*. Dr Parsons relies primarily upon section 6(c) of the Interpretation Act 1978: "In any Act, unless the contrary intention appears … words in the singular include the plural and words in the plural include the singular". Accordingly, Dr Parsons argues that "invention" and "patent" in section 40(1) include "inventions" and "patents".

29. Convatec contends that a contrary intention does appear from section 40(1) interpreted in context. In addition to other points which I will discuss below, counsel for Convatec pointed out that section 42(1) and (2) refer to "inventions" and "patents". He submitted that this demonstrated that the drafter was distinguishing between singular and plural in these provisions. As he was constrained to accept, however, in section 42(1) and (2) the plural must include the singular.

30. In my view it is obvious that in section 40(1) the singular includes the plural. A simple illustration of why this must be so is provided by the references to "an employee" and "the employee". I do not understand it to be in dispute that two employees may jointly make an invention which is of outstanding benefit to their employer so that it is just that they should be awarded compensation: see *Kelly v GE Healthcare Ltd* [2009] EWHC 181 (Pat), [2009] RPC 12.

31. That is not sufficient to resolve the issue of statutory interpretation in favour of Dr Parsons, however. Convatec does not dispute that Dr Parsons can make a claim in respect of multiple inventions and multiple patents. The real question is whether Dr Parsons can rely upon the aggregate benefit of two or more inventions and/or patents, as he contends, or whether the benefit of each invention and patent must be considered separately, as Convatec contends.

32. The language of section 40(1) does not yield a clear answer to this question. It is therefore necessary to interpret that language in accordance with its purpose and context and having regard to the consequences of the rival interpretations. Before doing so, I should note that, although there have been cases such as *Kelly v GE* in which it appears to have been agreed or assumed that reliance may be placed by the employee on the cumulative benefit obtained by the employer from more than one patent, and indeed more than one patent family, the issue does not appear to have been debated in any of them.

33. *Purpose*. Counsel for Dr Parsons relied upon the purpose of section 40(1) as being to enable employee inventors to obtain, in the language of section 41(1), "a fair share … of the benefit which the employer" has derived from the invention or patent where the benefit to the employer is outstanding. There is no dispute that this is the purpose of section 40(1), but I cannot see that this in itself sheds any light on the correct answer to the question as to whether it is permissible to aggregate the benefit from more than one invention or patent.

34. Counsel for Convatec placed considerable emphasis on the proposition that section 40(1) was only intended to apply to exceptional inventions/patents rather than routine ones. It is not necessary to consider the secondary materials he relied upon in support of this proposition, or their admissibility, since it is clear from the statutory language itself: it is only where inventions/patents are of "outstanding" benefit that the remedy is available. Again, I cannot see that this sheds any light on the present issue.

35. Counsel for Convatec also relied on the fact that, as can be seen from section 43(4), other employees who advise and assist the inventor(s) are not entitled to claim compensation, although their contribution must be taken into account when determining the inventor's fair share of any outstanding benefit pursuant to section 41(4)(c). Once again, however, this does not help resolve the issue.

36. *Context and consequences*. Counsel for Dr Parsons submitted that Convatec's interpretation would lead to absurd consequences in the sense described in *PACCAR*. It is convenient to consider the matters he relied upon in support of that submission while addressing Convatec's case.

37. Counsel for Convatec made the overarching submission that the scheme of sections 40-43 involves a one-to-one correspondence between an invention and a patent. If correct, this submission would provide a powerful reason for concluding that Convatec's interpretation of section 40(1) was correct. Upon analysis, however, it does not withstand scrutiny.

38. The submission is founded on three features of the statutory provisions. I have already rejected the first of these, which is the argument that section 40(1) is expressed in the singular and is not intended to include the plural. That does not exclude there being one-to-one correspondence between inventions and patents, but nor does it demonstrate the existence of such a correspondence.

39. The second feature is that section 43(5A) precludes the employee from relying upon any benefit derived from "the invention" after "the patent" for it has ceased to subsist. This is again a neutral point. Applying section 6(c) of the 1978 Act, the singular includes the plural. Furthermore, there is no difficulty in reading this provision, when transposed to the plural, as meaning "the inventions" and "the (respective) patents". This is consistent with a one-to-one correspondence, but does not require one for the reasons I shall explain below.

40. The third feature is section 40(1) requires applications to be made "within the prescribed period". This is defined by section 40(6)(a) to mean the period prescribed by rules of court. The relevant rule is CPR rule 63.12(2), which provides that "[t]he prescribed period begins on the date of the grant of the patent and ends 1 year after the patent has ceased to have effect". Once again, this is neutral. As Zacaroli J explained in his judgment, it means that this limitation period applies on a patent-by-patent basis, but that does not require a one-to-one correspondence between inventions and patents.

41. Once the broader context provided by the 1977 Act as a whole is taken into account, it becomes evident that the submission that there is a one-to-one correspondence between inventions and patents in sections 40-43 cannot be correct.

42. First, as counsel for Convatec accepted, it is clear from sections 14(5)(d),(6), 26 and section 125(1),(2) that one patent may cover more than one invention. Indeed, a single claim may cover more than one invention. It must follow that, even if a claim under section 40(1) is made in respect of a single patent, it is permissible to consider the benefit derived from all the inventions covered by that patent. Any other conclusion would be irrational and unworkable, particularly when it is borne in mind that different inventions are supposed to be (but may not in fact be) linked so as to form a

single inventive concept. This is true even of the unamended version of section 40(1), but it is even clearer in the case of the amended version.

43. Secondly, as counsel for Convatec also accepted, it is clear from section 43(4) that a claim may be made in respect of the benefit obtained by the employer from any of the patents within a single family. Convatec contends that this requires the court to adopt a strictly territorial approach: the benefit obtained from each patent is the benefit obtained by the employer in the territory covered by that patent. Thus each patent must be considered individually. While it is undoubtedly the case that patents are territorial rights, it is difficult to suppose that Parliament can have intended that there be a strictly territorial approach to the assessment of outstanding benefit even in the case of the unamended version of section 40(1). Why should the benefit obtained by the employer from all the patents that protect a single invention not be taken into account when deciding whether there has been outstanding benefit? Furthermore, Convatec's interpretation would pose considerable, if not insoluble, problems in cases where the employer manufactured a product in country A, transported it through country B and sold it in country C, all three countries being ones where patents had been obtained by the employer. Turning to the amended version of section 40(1), this expressly enables the claim to be based on the benefit obtained by the employer from the invention or the patent. Given that one invention can be protected by multiple patents in the same family, this must permit reliance to be placed on the aggregate benefit from those patents.

44. Thirdly, as counsel for Convatec again accepted, the claims of different patents may have scopes of protection that are not independent of each other. In one type of case, the claims of one patent may cover a subset of the scope of the claims of another patent. A common example is pharmaceutical patents. There may be a basic patent protecting a compound, a formulation patent protecting a particular formulation of that compound (e.g. one suitable for oral administration), a dosage patent protecting particular doses of the formulation and so on. The employer may market a single product which, for some of their respective durations, is protected by all of these patents. Why should it be necessary for the court to attempt to disentangle the benefits obtained from the individual inventions or patents if they all have the same inventor?

45. Another example of this type of case is a breakthrough patent and an improvement patent. Suppose the employee makes a breakthrough invention that fundamentally shifts a technological field, but meets commercial resistance, and then makes a small improvement invention which overcomes the commercial resistance and enables the breakthrough invention to dominate the market. Again, why should it be necessary for the court to attempt to disentangle the benefits obtained from the individual inventions or patents?

46. Counsel for Convatec submitted that these examples supported Convatec's interpretation because of the temporal factor: the patents will typically be filed on different dates and thus have different expiry dates. I accept that this is a factor that must be taken into account when assessing outstanding benefit, but it does not demonstrate there is a one-to-one correspondence between inventions and patents. Even where one is concerned with a single invention and one patent family, the patents in that family often expire on different dates due to differences in national laws.

47. In another type of case, the claims of the two patents can be conceived of as overlapping circles on a Venn diagram. Suppose that the employer markets a product falling within the overlap. One patent may block one competitor, or group of competitors, while the other patent may block another competitor, or group of competitors. How is the court supposed to differentiate between the benefits obtained from the individual inventions or patents?

48. Fourthly, even if the inventions and patents are independent of one another, Convatec's interpretation still causes problems. Suppose that the employee invents two independent solutions to a problem and the employer patents both of them. Suppose also that the employer exploits one of the solutions, but all of its competitors are blocked by the other patent (e.g. because the first solution requires a raw material to which only the employer has access). Is the benefit derived from the first invention or the second? Is the benefit derived from the first patent or from the second? In the real world, the benefit derives from the two inventions taken together and/or the two patents taken together. If taken together they are of outstanding benefit to the employer, why should the employee not be able to claim?

49. Convatec argues that interpreting section 40(1) in the manner contended for by Dr Parsons would have a number of negative consequences. First, it is said that it would unfairly favour employees who remain employed by the same employer for a long period. The criterion applied by section 40(1) is outstanding benefit to the employer, not length of service. There is no necessary correlation between the two. Dr Parsons' interpretation is capable of benefitting an employee who makes two inventions in quick succession, for which patents are promptly obtained, and then departs. The further apart in time the inventions and patents are, the less justifiable it may be for the employee to attempt to rely upon their aggregate benefit; but that is a question for the court's evaluation rather than being pre-empted by Convatec's bright-line rule.

50. Secondly, it is said that it would be a disincentive to the long-term retention of employees. The answer to this point is the same.

51. Thirdly, it is said that it would be a disincentive to companies to locate research-intensive industries in the UK, because section 43(2) limits the availability of relief effectively to UK-based employees. This is pure speculation. In the absence of empirical evidence, one could equally speculate that it would have the opposite effect, because it would incentivise invention by employees and disclosure of such inventions to their employers. The German employee inventors' compensation scheme, which rewards a much larger number of employees than the UK one, does not appear to have deterred research-intensive industries from locating in Germany, although I am again unaware of any empirical evidence on the point.

52. Conversely, Dr Parsons argues that Convatec's interpretation would create a risk of avoidance by employers atomising inventions and patents so as to prevent any one invention or patent being of outstanding benefit. I agree with this.

53. *Conclusion*. Accordingly, I conclude that Dr Parsons' interpretation of section 40(1) is the correct one.

Overall conclusion

54. For the reasons given above I would allow the appeal. I would resolve issue 7 in favour of Dr Parsons: the answer to the question is yes. Accordingly, the relevant parts of the Re-Amended Defence should be struck out.

55. When it comes to issue 8, the trial judge will be required to undertake an evaluative assessment of the extent to which, if at all, it is appropriate on the facts of this case to permit Dr Parsons to rely upon the aggregate benefit obtained by Convatec from more than one of the Inventions and/or the Patents. As a matter of case management, Dr Parsons should be required to specify which combinations he relies on, and why, well in advance of trial. It would benefit Dr Parsons, as well as Convatec and the court, if he were to take a sensible approach to that exercise rather than succumbing to the temptation to rely on every permutation. Equally, Convatec should be required to specify its responses to Dr Parsons' contentions.

The second appeal

Costs budgeting

56. Joanna Smith J set out a helpful summary of the principles applicable to costs budgeting in *Various Shared Appreciation Mortgage Borrowers v BOS (Shared Appreciation Mortgages) No 1 plc* [2022] EWHC 2594 (Ch), [2022] Costs LR 1715 at [15]:

> "i) Where budgeted costs are agreed between the parties, the court can do no more than record that agreement (CPR 3.15(2)(a)). However, where the court has reservations as to the agreed figures on grounds of reasonableness and proportionality, it may record its comments to that effect (see WB, Vol 1 at 3.15.4).
>
> ii) Where budget phases are not agreed, the court will review them and record its approval after making appropriate revisions (CPR 3.15(2)(b)).
>
> iii) The court will limit its approval in respect of the budgeted costs of each phase to those which are both reasonable and proportionate (PD 3E at paras 5 and 12).
>
> iv) In deciding the reasonable and proportionate costs of each phase of the budget, the court will have regard to the factors set out in CPR 44.3(5) and 44.4(3) (PD 3E at para 5). Pursuant to CPR 44.3(5), costs incurred are proportionate if they bear a reasonable relationship to (amongst other things, and focusing on the factors identified by the parties as relevant in this case): (i) the sums in issue in the proceedings; (ii) the complexity of the litigation; and (iii) any wider factors involved in the proceedings such as reputation or public importance. Pursuant to CPR 44.4(3), the court will have regard to various additional factors, many of which overlap with those in CPR 44.3(5).

Neither of the parties to this application focused on any additional factors in CPR 44.4(3), although I note that one factor that does require the court's attention is 'the receiving party's last approved or agreed budget'.

v) When reviewing budgeted costs, the court will not undertake a detailed assessment in advance, but rather will consider whether the budgeted costs fall within the range of reasonable and proportionate costs (PD 3E at para 12). See also *Various Claimants v Scott Fowler Solicitors* [2018] EWHC 1891 (Ch), per Chief Master Marsh at [16]: 'I emphasise that the court is not required to have regard to the constituent elements of each budget phase (it *may* do so) and the court's task is to decide whether the total for each phase falls within a *range* of reasonable and proportionate costs.' See also *Yeo v Times Newspapers Ltd* [2015] EWHC 209 (QB) per Warby J, as he then was, at [66]. What is reasonable and proportionate in this context must be viewed objectively.

vi) The court's task is not to carry out a calculation or strict arithmetical exercise. Reasonableness may involve having close regard to the calculations in the budget, but proportionality does not (*Various Claimants v Scott Fowler Solicitors* [2018] EWHC 1891 (Ch) at [16]).

vii) A comparison between budgets may be informative but it can never be determinative; 'the court is not a slave to comparison' (*Various Claimants v Scott Fowler Solicitors* [2018] EWHC 1891 (Ch), at [17]). Similar work in the hands of different legal teams may result in different costs. That is why, if they are to be approved by the court, a party's costs need only fall within a range. Thus the 'touchstone' need not be the lowest amount a party could reasonably be expected to spend: 'the court should allow some flexibility to the parties to ensure that their conduct of the action is not unnecessarily and potentially unfairly hampered by an unrealistically low assessment or by only the lowest assessment of what would constitute reasonable and proportionate expenditure' (see *Discovery Land Company v Axis Specialty Europe* [2021] EWHC 2146 (Comm) per Peter MacDonald Eggers KC sitting as a deputy High Court judge at [18]).

viii) Whilst it is helpful to have an eye on the overall budgeted figure, that is not the focus of the task set for the court – PD 3E para 5 is expressly concerned with the reasonable and proportionate costs of 'each phase'.

ix) The future (i.e. estimated costs) element of the costs budget is binding on a subsequent detailed assessment and the figure for those costs should not be departed from on assessment (whether upwards or downwards) unless a 'good reason' can

> be shown (CPR 3.18 and *Harrison v University Hospitals NHS Trust* [2017] 1 WLR 4456). Accordingly, decisions made by the court at the costs management stage are both significant and important."

57. It is only necessary for present purposes to add three points. First, it is common ground that the test of what is reasonable and proportionate applied by the court when approving a costs budget is the same as the test applied by the court when undertaking an assessment of costs on the standard basis.

58. Secondly, as Davis LJ explained in *Harrison v University Hospitals NHS Trust* [2017] EWCA Civ 792, [2017] 1 WLR 4456 at [44]:

> "… Where there is a proposed departure from budget—be it upwards or downwards—the court on a detailed assessment is empowered to sanction such a departure if it is satisfied that there is good reason for doing so. That of course is a significant fetter on the court having an unrestricted discretion: it is deliberately designed to be so. Costs judges should therefore be expected not to adopt a lax or over-indulgent approach to the need to find 'good reason': if only because to do so would tend to subvert one of the principal purposes of costs budgeting and thence the overriding objective."

It can be seen from what he said earlier in his judgment that "one of the principal purposes of costs budgeting" is to provide "the element of certainty to clients (in the form of knowing what costs they are likely to face, in terms of payment or recovery)" ([32]).

59. Thirdly, as counsel for Convatec emphasised, the certainty provided by costs budgets should not be overstated. It is possible to apply to vary an approved budget. It will not apply if assessment on the indemnity basis is ordered. And it can in any event be departed from if "good reason" is shown.

How the issue arises

60. Since Dr Parsons values his claim at in excess of £10 million, it would not normally be subject to costs management (CPR rule 3.12(a)). Nevertheless Dr Parsons proposed, and Convatec agreed, that there should be costs management. The principal reason given by Dr Parsons was that, in order to protect himself (and Convatec) in respect of any adverse costs order, Dr Parsons required ATE insurance cover.

61. Dr Parsons obtained ATE insurance at an early stage of the litigation which has a current limit on cover of £800,000. Although Dr Parsons has not disclosed the full terms of the policy, he has disclosed that it covers the payment of disbursements by way of loan at 10% interest and a fee for each payment as well as costs orders in favour of Convatec. As at the date of the hearing before this Court, approximately £198,000 had so far been drawn down for these purposes.

62. Dr Parsons' solicitors are acting pursuant to a conditional fee agreement. Again, the precise terms have not been disclosed, but in outline it provides that Dr Parsons will

not pay any fees if the claim is unsuccessful, but will pay fees plus an uplift if the claim is successful. The precise level of uplift has not been revealed, but it is safe to assume that it is at or near the maximum uplift of 100%.

63. The hearing before Mellor J on 13-14 November 2025 was originally intended to be a costs and case management conference, the parties having filed and exchanged costs budgets and budget discussion reports in advance of the hearing, but there was insufficient time to deal with costs. Accordingly, Mellor J adjourned costs management to a subsequent hearing. On 19 December 2025 the parties filed and exchanged revised costs budgets. By then Dr Parsons had incurred just under £2.7 million in costs, and sought approval of a further £5.3 million in future costs. Convatec had incurred £4.2 million, and sought approval for £10.2 million in future costs.

64. The costs management conference took place before Richards J on 30 January 2026. At the hearing Dr Parsons requested the judge to apply section 106 of the 1977 Act, and sought three alternative orders each of which would have had the effect of very significantly reducing Convatec's (and only Convatec's) budgeted costs. The judge first undertook a conventional costs budgeting exercise on the assumption that section 106 was inapplicable, and without prejudice to Dr Parsons' contention, and gave an extempore judgment at the conclusion of that exercise [2026] EWHC 300 (Pat). The total future costs approved were approximately £4.7 million for Dr Parsons and £6.5 million for Convatec. The judge then heard argument on two questions: (i) did section 106 apply to costs budgeting at all; and if so, (ii) how it should affect the sums otherwise approved?

The judge's decision

65. On 16 February 2026 the judge handed down a reserved judgment [2026] EWHC 325 (Pat). In that judgment he held that section 106 did not apply to costs budgeting. In case he was wrong about that, he went on to consider each of the three alternatives proposed by Dr Parsons and rejected them.

The grounds of appeal

66. Dr Parsons appeals with permission granted by myself on two grounds. Ground 1 is that the judge was wrong to hold that section 106 does not apply to costs budgeting. This again is an issue of statutory construction. Ground 2 is that, if section 106 does apply, the judge erred in the exercise of his discretion.

Convatec's response

67. Convatec contends that the judge was correct to hold that section 106 does not apply to costs budgeting. In addition or in the alternative to the reasons given by the judge, Convatec relies upon five other reasons by way of a respondent's notice. The fifth of these is that the judge was, and this Court is, bound so to hold by a reasoned order made by Floyd LJ in *Shanks v Unilever plc* on 20 July 2015. Convatec also contends that, even if section 106 does apply, the judge was correct, or at least entitled in the exercise of his case management discretion, to reject all the alternatives proposed by Dr Parsons. In addition to the reasons given by the judge, Convatec relies upon the

additional reason that Dr Parsons was in substance seeking a costs-capping order that operated in one direction only.

Respondent's notice paragraph 5: is Shanks v Unilever *binding?*

68. *Shanks v Unilever* concerned a claim by Professor Shanks that was unsuccessful before the Comptroller-General of Patents, the Patents Court and the Court of Appeal, but ultimately prevailed in the Supreme Court. Having been unsuccessful on his appeal to the Patents Court, Prof Shanks applied to the Court of Appeal for permission to appeal. In his appellant's notice Prof Shanks sought, in addition to permission to appeal, an order for costs protection pursuant to what was then CPR rule 52.9A (now rule 52.19) that the costs recoverable by Unilever in respect of the appeal be limited to (i) nil, alternatively (ii) the amount of the insurance cover that Prof Shanks had available to cover such costs, alternatively (iii) the extent directed by the Court. Although the application was made under rule 52.9A, the appellant's notice also referred to section 106 of the 1977 Act.

69. At a hearing on 17 June 2015 Floyd LJ granted Prof Shanks permission to appeal and gave directions for the determination of the application for costs protection on paper. We have not seen the written submissions filed by the parties in accordance with those directions. On 20 July 2015 Floyd LJ made an order on consideration of the papers, and without an oral hearing, that the recoverable costs of any party to the appeal should be limited to £50,000. He gave brief reasons for making this order, which included the following sentence:

> "I am not persuaded that section 106 of the Patents Act 1977 has any application at this stage, as opposed to when costs are awarded."

70. Before turning to the substance of the issue, I would comment that a party in the position of Convatec would not normally be in a position to rely upon an order such as that made by Floyd LJ. It was not reported, and such orders are not readily accessible. We have been informed that Convatec obtained a copy of the order from the Civil Appeals Office pursuant to CPR rule 5.4C(1). We have not been informed how it was that Convatec knew or suspected that there was such an order. It would be extraordinary if an important point of law were to depend on such a happenstance.

71. Convatec contends that this decision is binding on this Court and dispositive of ground 1. The judge heard very little argument on this point. He was prepared to assume that the decision was binding as to how section 106 interacted with rule 52.9A, but held it was not binding as to how it affected costs budgeting. Convatec contends that this is wrong, while Dr Parsons supports the judge.

72. In my judgment Convatec is right that the judge was in error on this point. The judge was, of course, perfectly correct that Floyd LJ was not concerned with costs budgeting. But that is immaterial. The issue raised by ground 1 concerns the interpretation of section 106. Floyd LJ held that section 106 had no application at a stage of the proceedings prior to "when costs are awarded". Furthermore, it is evident that he considered that "costs are awarded" at a later stage of the proceedings. That accords with Convatec's interpretation of section 106. If it is correct, it is a complete answer to Dr Parsons' case on section 106.

73. Accordingly, it is necessary to determine whether Floyd LJ's decision is binding on this Court. Convatec contends that it is, since it is not covered by any of the exceptions to the rule that decisions of this Court are binding on subsequent constitutions recognised in *Young v Bristol Aeroplane Co Ltd* [1944] KB 718. Dr Parsons contends that it is not binding because it is (i) a decision of a single judge of this Court, (ii) on paper and without oral argument, (iii) subject to reconsideration, (iv) on an application which it is common ground was incidental to an appeal, and Dr Parsons contends was incidental to an application for permission to appeal, and (v) unappealable to the Supreme Court.

74. Slightly surprisingly, the researches of counsel were unable to identify any authority which addresses this question, or indeed gives any guidance at all as to the circumstances, if any, in which a decision of a single judge of this Court is binding. Accordingly, I must address it as a matter of principle.

75. As Convatec points out, section 54(2) of the Senior Courts Act 1981 provides, subject to the following subsections (none of which is relevant for present purposes), that a court of the Civil Division of the Court of Appeal "shall be duly constituted for the purpose of exercising any of its jurisdiction if it consists of one or more judges". Convatec therefore argues that a decision of a single judge is a decision of the Court. That I accept, but it does not necessarily follow that it is binding on subsequent constitutions.

76. It is common ground that a decision of a two-judge Court, other than on an application for permission to appeal, has the same authority as a decision of a three-judge court: see *Cave v Robinson Jarvis & Rolf* [2001] EWCA Civ 245, [2002] 1 WLR 581 at [16]-[25] (Potter LJ), [31] (Sedley LJ) and [38]-[44] (Jonathan Parker LJ). Again, it does not necessarily follow that a decision of a single-judge Court has the same authority.

77. If one asks why a decision of a two-judge Court on an application for permission to appeal is not binding, the answers that appear from the judgment of Potter LJ in *Cave v Robinson* at [20] are "the summary nature of the procedure, the brevity of the argument and the unlikelihood of appeal (rather than the fact that two judges only were involved)" (see also [22] and [24]). This reasoning is equally applicable where three judges were involved. In other words, what is relevant is the nature of the judicial exercise that has been undertaken rather than the number of judges involved in it, at least where more than one judge is involved.

78. It is no doubt because of the non-authoritative character of decisions on applications for permission to appeal that paragraphs 6.1 and 6.2 of the Practice Direction (Citation of Authorities) [2001] 1 WLR 1001 provide that a judgment on such an application may not be cited before any court unless it expressly states that it purports to establish a new principle or to extend the present law.

79. I am disposed to accept that, as Convatec argues, the authority of a decision of this Court, at any rate where it is a decision of two or more judges other than on application for permission to appeal, is not diminished if it is made on paper without the benefit of oral argument; but it is not necessary for present purposes to reach a conclusion on this question.

80. In my judgment the decisive factor for present purposes is the nature of the judicial exercise in which Floyd LJ was engaged. I am inclined to view the application he was considering as being one that was incidental to an application for permission to appeal, since it was made by appellant's notice and could have been determined at the same time as the application for permission to appeal, and therefore as covered by the exception recognised in *Cave v Robinson*. It is not necessary to rest my decision on that point, however.

81. As Convatec accepts, Floyd LJ was dealing with an application incidental to an appeal. Section 58 of the Senior Courts Act 1981 (as amended) provides:

> "**Calling into question of incidental decisions in civil division.**
>
> (1) Rules of court may provide that decisions of the Court of Appeal which—
>
> (a) are taken by a single judge or any officer or member of staff of that court in proceedings incidental to any cause or matter pending before the civil division of that court; and
>
> (b) do not involve the determination of an appeal or of an application for permission to appeal,
>
> may be called into question in such manner as may be prescribed.
>
> (2) No appeal shall lie to the Supreme Court from a decision which may be called into question pursuant to rules under subsection (1)."

82. This needs to be read alongside section 54(4) of the Access to Justice Act 1999, which provides:

> "No appeal may be made against a decision of a court under this section to give or refuse permission (but this subsection does not affect any right under rules of court to make a further application for permission to the same or another court)."

83. CPR rule 52.24 provides, so far as relevant:

> "**Who may exercise the powers of the Court of Appeal**
>
> …
>
> (5) A party may request any decision of a court officer to be reviewed by a single judge, and—
>
> (a) the review will be determined on paper without an oral hearing; except that

(b) the judge determining the review on paper may direct that the review be determined at an oral hearing, and must so direct if the judge is of the opinion that the review cannot be fairly determined on paper without an oral hearing.

(6) A party may request a decision of a single judge made without a hearing (other than a decision made on a review under paragraph (5) and a decision determining an application for permission to appeal) to be reconsidered, and—

(a) the reconsideration will be determined by the same or another judge on paper without an oral hearing; except that

(b) the judge determining the reconsideration on paper may direct that the reconsideration be determined at an oral hearing, and must so direct if the judge is of the opinion that the reconsideration cannot be fairly determined on paper without an oral hearing.

(7) A request under paragraph (5) or (6) must be filed within 7 days after the party is served with notice of the decision.

(8) A single judge may refer any matter for a decision by a court consisting of two or more judges."

84. The provisions of rule 52.24 set out above have been in effect since the Civil Procedure (Amendment No. 3) Rules 2016 (SI 2016/788) came into force on 3 October 2016. As at 20 July 2015, the relevant provisions were those contained in rule 52.16:

"(5) A party may request any decision of a court officer to be reviewed by the Court of Appeal.

(6) At the request of a party, a hearing will be held to reconsider a decision of—

(a) a single judge; or

(b) a court officer,

made without a hearing.

(6A) A request under paragraph (5) or (6) must be filed within 7 days after the party is served with notice of the decision.

(7) A single judge may refer any matter for a decision by a court consisting of two or more judges."

85. The differences between rule 52.16 as it applied in 2015 and rule 52.24 as it applies now do not appear to be material to the present question. Four salient points emerge

from them. First, the rules implicitly proceed upon the premise that a decision of a single judge of this Court is of lesser authority than a decision of two or more judges. Secondly, the remedy for a party who is aggrieved by a decision of a single judge is to request reconsideration of that decision, which may lead to the reconsideration being undertaken by the same judge or by a different single judge or by two or more judges. Thirdly, by virtue of the combined effect of section 58 of the 1981 Act and what is now rule 52.24(6), there is no right of appeal to the Supreme Court. Fourthly, in that respect, decisions by single judges in "proceedings incidental to any cause or matter pending before" this Court are assimilated with decisions on applications for permission to appeal.

86. The conclusion I draw from this analysis is that Floyd LJ's order, as a decision of a single judge in proceedings which were incidental to an appeal, could have been challenged by way of an application for reconsideration, but not by an appeal to the Supreme Court. Such a decision cannot be more authoritative than a decision of two (or three) judges on an application for permission to appeal. This is all the more so when one takes into account that (i) it was a case management decision, (ii) due to the nature of the decision the reasons for it were briefly expressed and (iii) it is not known to what extent the arguments as to the correct interpretation of section 106 were developed in the parties' written submissions. Accordingly, the decision is not binding on this Court.

Ground 1 and respondent's notice paragraphs 1-4: interpretation of section 106(1)

87. There is no dispute that the rationale for section 106(1) in the case of employee inventor compensation claims is that such disputes will often involve an inequality of arms since an employer may be expected to have greater financial resources than an employee. As the judge said in a passage at [12] which neither party dissented from:

> "It seems to me clear, simply from the statutory words used and without any recourse to Hansard, that Parliament wished the court to have tools that would reduce the risk that a concern about an ultimate costs award would operate as a disincentive to employees bringing claims under s40."

88. It is common ground that section 106(1) applies both when determining "whether to award costs" and when determining "what costs … to award", and that it applies both to interim and final costs orders. (Whether it applies in the Court of Appeal is unnecessary to decide.)

89. Dr Parsons contends that "determining … what costs … to award" in section 106 embraces each step on the critical path to a decision as to what costs to award, meaning the amount of costs to award. Counsel for Dr Parsons relied upon the natural and ordinary meaning of the statutory language: "determining" can be a one-step process, but often involves a multi-step process. Furthermore, he submitted that interpreting section 106 in this way would give effect to the purpose identified by the judge. He also relied upon a number of authorities concerning other statutory provisions, but I do not consider any of these to be of assistance because the contexts are too far removed from the present one.

90. Convatec advances two principal arguments in support of the proposition that section 106 does not apply at all at this stage of the proceedings (to adopt the words of Floyd LJ in *Shanks v Unilever*). The first is that "determining … what costs … to award" is to be distinguished from assessment of the amount of such costs. The second is that, as a matter of logic, a court cannot decide "what costs … to award" before deciding "whether to award costs … to any party". I do not accept either of these arguments.

91. So far as the first argument is concerned, there is no dispute that it is conventional to deal with costs in two stages: first, to decide the incidence of costs and the basis of assessment; and secondly, to assess the quantum of costs. Where the court carries out a summary assessment of costs, these two stages may follow in quick succession, but nevertheless they are conceptually separate. It is also common ground that, in the common scenario where one judge (say the trial judge) makes an order as to the incidence of costs and the basis of assessment and another judge (the costs judge) carries out a detailed assessment of those costs, the costs judge is bound by the first judge's order: see *Lahey v Pirelli Tyres Ltd* [2007] EWCA Civ 91, [2007] 1 WLR 998 and *O'Beirne v Hudson* [2010] EWCA Civ 52, [2010] 1 WLR 1717.

92. In my judgment it does not follow that "determining … what costs … to award" does not include, and is to be distinguished from, assessment of costs. The natural and ordinary meaning of these words includes determining the amount of those costs. Thus CPR rule 44.2(6)(b) provides that, among the orders which the court may make under that rule, is "a party must pay … a stated amount in respect of another party's costs". Furthermore, this interpretation of section 106(1) is confirmed by section 106(2), which provides that "the court may settle the amount of the costs by fixing a lump sum or may direct that the costs may be taxed [i.e. assessed] on a scale specified by the court".

93. So far as the second argument is concerned, this is simply wrong. It is perfectly possible for a court to determine the amount of costs before determining the incidence of costs. A clear example of this is the fixed costs regime under CPR Part 45. These costs are specified in rules that the court will apply to a class of cases, rather than by a decision in an individual case, but that does not affect the logic. Furthermore, interpreting section 106(1) as extending to determining the amount of costs before determining the incidence of costs is again supported by section 106(2). Scales of costs are also a common way of specifying recoverable costs in advance. These may have some degree of flexibility, as with the scale costs applicable in the Intellectual Property Enterprise Court ("IPEC"), which provide maximum recoverable amounts for each stage of the proceedings and an overall cap, but that does not detract from the principle. It is true that, as counsel for Convatec emphasised, section 106(2) only applies "[i]f … the Patents Court directs that any costs of one party shall be paid by another party", but as can be seen from the concluding words of section 106(2), scale costs are again specified by rules of court.

94. Contrary to the submission of counsel for Convatec, this does not mean that the same costs are awarded twice, once when the order for costs is made and once when they are assessed. He relied upon provisions of the CPR which differentiate between an "order" for costs and "assessment" of costs, but the language of section 106(1) is "award", not "order". Furthermore, as counsel for Dr Parsons submitted, section 106(1) is primary legislation and takes precedence over secondary legislation such as the CPR.

95. As counsel for Dr Parsons pointed out, on Convatec's case, the financial position of the parties must be taken into account when deciding the incidence of costs and the basis of assessment, but not when determining the amount of the costs. That is illogical, contrary to the language of section 106(1) and would not accord with its purpose.

96. I therefore consider that Dr Parsons is correct that "determining … what costs … to award" in section 106 embraces each step on the critical path to a decision as to what costs to award.

97. Furthermore, subject to the arguments of Convatec considered below, I consider that the approval of costs budgets by the court is such a step. It sets out what costs each party will *prima facie* recover if wholly successful. As discussed above, it is not wholly determinative of that question, but it is nevertheless an important step on the way.

98. Convatec advances four main arguments in support of the proposition that, even if section 106 is capable of applying prior to a decision as to the incidence of costs, it does not apply to costs budgeting. The first is that costs budgeting is solely concerned with what costs it is reasonable and proportionate for the putative receiving party to incur. The costs that it is reasonable and proportionate for the putative receiving party (here assumed to be Convatec) to incur are the same whatever the financial position of the putative paying party (assumed to be Dr Parsons).

99. I do not accept this argument. It is true that what is now CPR rule 44.4 sets out a closed list of factors to be taken into account in assessing reasonable and proportionate costs, which does not include the financial circumstances of the parties: see *Coventry v Lawrence* [2015] UKSC 50, [2015] 1 WLR 3485 at [79]-[81] (Lord Neuberger of Abbotsbury and Lord Dyson). Moreover, although we heard no detailed argument on the point, it appears to follow that the court should not take the financial position of the potential paying party into account when approving costs budgets notwithstanding CPR rule 1.1(2), which provides:

> "Dealing with a case justly and at proportionate cost includes, so far as is practicable –
>
> (a) ensuring that the parties are on an equal footing and can participate fully in proceedings …;
>
> ….
>
> (c) dealing with the case in ways which are proportionate –
>
> …
>
> (iv) to the financial position of each party;
>
> …"

100. Even if the effect of the CPR is that the financial position of the potential paying party is not to be taken into account when approving costs budgets in cases to which section 106(1) does not apply, it does not follow that, where section 106(1) does apply, it

cannot be taken into account. As a matter of logic, reasonableness and proportionality do not have to be viewed solely from the perspective of the receiving party. Furthermore, section 106(2) suggests that the financial position of the potential paying party can, and should, be taken into account. The rationale for scale costs provisions such as those which apply in IPEC is to promote access to justice by ensuring that parties with small financial means are not deterred from litigating by the fear of an open-ended exposure to pay costs incurred by the other party if the other party turns out to be the successful one. This requires their likely costs exposure to be predictable with confidence in advance: see *Salts Healthcare Ltd v Pelican Healthcare Ltd* [2026] EWCA Civ 93, [2026] Bus LR 1033 at [148]-[149]. This rationale is plainly applicable to claims by employees against employers for compensation under section 40, and hence to the application of section 106(1) when approving costs budgets for such a claim.

101. Convatec's second argument is that the court can only "have regard to all the relevant circumstances, including the financial position of the parties" at the point when the court actually awards costs, because it is only at that point that all the relevant circumstances will be known. Again, I do not accept this argument. The court when carrying out costs budgeting takes into account the relevant circumstances so far as they are then known to the court. It is, of course, true that further relevant circumstances may arise in the future. If such circumstances provide a "good reason" for departing from a costs budget, they can, and will, be taken into account. This does not detract from the proposition that, as discussed above, approval of costs budgets is an important step in the determination of what costs to award.

102. Convatec's third argument is that Dr Parsons' interpretation of section 106(1) runs contrary to the well-established principle that (subject to certain irrelevant exceptions) courts do not decide costs orders pre-emptively in advance. Once again, I disagree. Dr Parsons' case does not infringe that principle: taking the financial position of the parties into account when approving costs budgets does not (at least necessarily) amount to making a pre-emptive costs order.

103. Convatec's fourth argument is that it cannot be right for section 106(1) to apply both when approving costs budgets and when making the final decision on costs. Once again, the answer to this argument is that there is no reason why section 106(1) should not apply to every step on the critical path to determining what costs to award. If it has been applied in a particular way when approving costs budgets, then the court will have to be careful at subsequent stages of the process not in effect to apply the same deduction twice over; but that is a different point. As Convatec itself points out, costs budgeting does not apply to costs which have already been incurred before the approval of the budgets. Thus, even ignoring other aspects of the decision on costs, there is plenty of room for section 106(1) to be applied to incurred costs after it has been applied to costs budgets.

104. For these reasons, I would uphold ground 1. Section 106(1) does apply when a court is approving costs budgets. That does not assist Dr Parsons, however, unless he also succeeds on ground 2.

Ground 2 and respondent's notice paragraph 6: the judge's exercise of discretion

105. I have summarised the principles applicable to appellate review of case management decisions above. Convatec is on much stronger ground here than in the case of the first appeal. The judge carefully reviewed each of the alternatives proposed by Dr Parsons and gave reasons for rejecting them. On the face of it, this is precisely the kind of decision which this Court should not interfere with. Dr Parsons nevertheless submits that, upon analysis, it can be seen that the judge's exercise of his discretion was flawed. In order to understand this submission, it is necessary first to examine the judge's reasoning in more detail.

106. As noted above, the judge first considered whether section 106(1) applied to costs budgeting, and held that it did not. In that context, he reasoned that, although section 106(1) did not apply to that exercise, Dr Parsons had the "reassurance" that "he will be free to argue that his financial position should have some effect on any costs order that the court makes" ([22]). The judge went on:

> "23. Dr Parsons also argues that the reassurance is worth little in practice. He says that his financial position means that he could not bring the claim without further ATE insurance. If Convatec is given a high approved costs budget, the premium for that ATE insurance would be so high that he would need litigation funding to pay the premium which would run the risk of substantially diminishing the value of any award that he obtains if his claim succeeds. That, he argues, operates as precisely the kind of disincentive to bring his claim under s40 of the Act that s106 was intended to mitigate.
>
> 24. However, in my judgment, that is simply an articulation of the practical difficulties that Dr Parsons is facing in this particular case having chosen to bring a claim that, on his pleaded case, could be worth up to £366m and which has drawn a detailed and robust response from Convatec. Those difficulties, in my judgment, have no bearing on the proper construction of s106(1). Section 106(1) was not intended to ensure that an inventor bringing a claim under s40 could do so without any financial consequence or risk at all. Its purpose is simply to ensure that both sides to a s40 dispute could have the reassurance that their financial position would be taken into account when the court is deciding whether to award costs and, if so, what costs to award. As I have explained, Dr Parsons has that reassurance."

107. In case he was wrong to hold that section 106(1) did not apply to costs budgeting, the judge considered what order he should make if it did apply. He began by finding as follows at [33]:

> "I have had evidence as to Dr Parsons' financial position. From that, I am quite satisfied that his means are modest and limited. He certainly has nowhere near the resources of Convatec. Dr Parsons has obtained an insurance policy that initially provided him with £800,000 of ATE cover in relation to the costs of these proceedings. However, some of that sum has already been accessed and most, if not all of the remainder would be needed to pay expert fees and other disbursements before trial. ..."

108. The judge then proceeded to consider the three alternatives proposed by Dr Parsons. The first was Convatec's budgeted costs should be limited to IPEC scale costs. That proposal was not in the end pursued by Dr Parsons on the appeal, and so it is unnecessary to say much about it.

109. The second proposal was that Convatec's budgeted costs should be restricted to the amount available from Dr Parsons' ATE cover, then £664,000. The judge rejected this for the reasons he gave at [37]:

> "That outcome would reflect Dr Parsons' lack of means. However, it would not, in my judgment properly take into account all relevant circumstances. In particular, it does not take into account the fact that Dr Parsons has made such a large claim against Convatec. Moreover, he bases his claim on each invention that he made, each patent that resulted and any combination of patent and invention such that Convatec will have to spend a great deal of time and money to defend it. That indeed is part of the reason why I approved Convatec's costs budget at many multiples of £664,000. Limiting Convatec's costs budget to £664,000 ignores the wider context."

110. Dr Parsons' third proposal was that Convatec's approved budget should be limited to one-third of his own budget. In support of this proposal, Dr Parsons relied in particular on the fact that, as a private individual, he has to pay VAT at 20% on his costs. By contrast, Convatec can obtain an input tax credit for the VAT it pays, and it can obtain a deduction against its corporation tax liability which is worth 25% of the base amount paid given the prevailing rate of corporation tax. Thus Dr Parsons has to pay £1,200 for every £1,000 of base costs, whereas Convatec only has to pay £750.

111. The judge rejected this proposal for the reasons he gave at [39]:

> "I can, therefore, accept that, on a post-tax basis, costs bear more heavily on Dr Parsons than on Convatec. However, that does not of itself explain why Convatec's costs budget should be 1/3 of that of Dr Parsons. Moreover, as I explained in the Costs Budgeting Judgment, one of the reasons why Convatec's budgeted costs are higher is because they have more work to do than Dr Parsons, particularly in areas such as disclosure. I therefore do not consider that Dr Parsons' proposal gives effect to all relevant circumstances."

112. The judge concluded at [40]:

> "Many of the reasons given for rejecting Dr Parsons' suggestions bolster the analysis to the effect that the effect of s106 is appropriately considered if, and when, the court is considering making a costs award against Dr Parsons. At that stage, all relevant circumstances can be considered and the court could, in addition to Dr Parsons' suggestions, consider making an order under s106(2) of the Act. In conclusion, even if I do have to consider s106 now, at the point of costs budgeting, I would not adopt any of the suggestions that Dr Parsons has put forward and would prefer to wait until later in the process when all relevant circumstances, including financial position, can be considered."

113. Dr Parsons contends that the judge erred in principle or failed to take a material consideration into account or was plainly wrong. Counsel for Dr Parsons made two

core submissions in support of this contention. The first was that it could be seen from the judge's reasoning, and in particular what he said at [40], that it was infected by his erroneous interpretation of section 106(1).

114. The second submission was that the judge had failed to take into account the effect on Dr Parsons' claim of failing to restrict Convatec's budgeted costs. Dr Parsons does not contend that he would be prevented from pursuing his claim at all. He does contend that, if Convatec's budgeted costs are not restricted, then his recovery will be substantially reduced even if he is successful. Indeed, depending on the level of success, his award could be wholly wiped out by payment of an additional ATE premium or, if obtaining additional ATE insurance is not possible or uneconomic, by the payment of the success fee that would be demanded by a litigation funder. Furthermore, he contends that it is no answer to this problem that he may be able to obtain an order restricting Convatec's costs recovery at the end of the day, since ATE insurers and litigation funders would be bound to regard that possibility as too speculative to have any material effect on the premiums or success fees they charged.

115. Counsel for Convatec's answer to the first submission was that the judge had expressly assumed at the second stage of his analysis that he was wrong as to the interpretation of section 106(1). His answer to the second submission was that the judge had addressed this at [23]-[24] and could not have left it out of account later in the same judgment.

116. In my judgment both of counsel for Dr Parsons' submissions are well founded. The judge was quite correct, having first decided the issue of statutory interpretation against Dr Parsons, nevertheless to consider how he would exercise his discretion if he were wrong about that. In some cases, however, it can be hard for a judge in such a position to put out of his mind the reasons why he has decided the issue of law the way he has when exercising his discretion. In my view it can be seen from the judge's reasoning that he did fall into that trap. In addition, it is notable that he considered the effect on Dr Parsons' claim of failing to restrict Convatec's budgeted costs when considering the interpretation of section 106(1), and not when exercising his discretion. Even then, he failed to take into account Dr Parsons' need for a reasonable degree of certainty at this stage that Convatec will not recover the full extent of its provisionally approved budget if it is successful.

117. I therefore conclude the judge's exercise of his discretion should be set aside. Neither side contended that the matter should be remitted to the Patents Court. Accordingly, this Court must reconsider it.

118. I agree with the judge's view that none of the three proposals advanced by Dr Parsons before him was acceptable. The first was obviously out of the question, the second involved limiting Convatec's future costs to about 10% of its provisionally approved budget and the third a restriction to one-third of Dr Parsons' budget. As counsel for Dr Parsons submitted, however, the fact that the judge was not attracted by any of those proposals did not relieve him of the obligation to try to devise an order which was fair to both parties (just as Floyd LJ had done in *Shanks v Unilever*). The same goes for this Court.

119. During the course of argument on the appeal, counsel for Dr Parsons floated a fourth and a fifth proposal. Both started from the fact that the highest award in a section 40

case to date is the £2 million awarded to Prof Shanks in *Shanks v Unilever* [2019] UKSC 45, [2019] 1 WLR 5997. If one assumes that Dr Parsons is able to, and does, obtain ATE cover for £4 million, then he would be likely to have to pay around 50% (although it could be less or more) of the sum insured by way of premium. Thus, assuming that Dr Parsons is successful at trial, Dr Parsons would have to recover the same sum as Prof Shanks received just to be able to pay the premium which covered his potential exposure to £4 million of Convatec's future costs in the event of losing, leaving him with nothing. Accordingly, the fourth proposal is that Convatec's budgeted costs should be restricted to £4 million. The fifth proposal is a variant of this, namely that Convatec's budgeted costs should be restricted to £4 million unless the court orders otherwise after trial.

120. The fourth proposal has the significant advantage of being considerably more reasonable from Convatec's perspective than any of Dr Parsons' first three proposals. Roughly speaking, it involves capping Convatec's budgeted costs to two-thirds of the total provisionally approved by the judge. As such, it is better aligned with the rationale of reflecting the different incidence of taxation on the parties. It is also a figure that is much closer to the figure approved by the judge for Dr Parsons' future costs. In my view Convatec ought to be able properly to defend Dr Parsons' claim on a budget of £4 million, particularly now that this Court's decision on section 40(1) has removed one significant source of uncertainty, and hence costs. As discussed above, this will require further case management, but that should also assist in saving costs in the long run.

121. Since I accept Dr Parsons' fourth proposal, it is unnecessary to consider the fifth proposal, but I would comment that it is difficult to see how it differs significantly from the fourth proposal. It would enable the court to take into account an unexpected development, such as Dr Parsons winning the lottery, when making its final decision as to costs, but on the interpretation of section 106(1) which I have accepted the court could do that anyway.

Conclusion

122. For the reasons given above I would allow the appeal and make an order approving Convatec's budgeted costs limited to £4 million.

Postscript

123. It is nearly 50 years since the 1977 Act was enacted. In all that time, there have been just two successful claims by employees under section 40: *Kelly v GE* and *Shanks v Unilever*. One of the defects in the drafting of the original version of section 40(1) was cured by the amendments in 2004, but this litigation demonstrates that, even as amended, the legislation is not fit for purpose. It is, as I have already said, very concerning that this case should be taking so long to reach trial and that such a protracted trial is envisaged. No doubt this is partly attributable to the size and complexity of Dr Parsons' claim, and to Convatec's root-and-branch opposition to it. We have been informed that the parties have attempted mediation three times without success, which indicates a considerable gap between them. It may also be the case that the Patents Court has failed adequately to case manage the proceedings. One is bound to wonder whether costs have already become a significant obstacle to settlement. The

fundamental problem, however, is that the legislation is too uncertain. It needs re-thinking. Other models of employee inventor compensation scheme are available.

Lord Justice Baker:

124. I agree.

Lady Justice Asplin:

125. I agree that the first appeal in relation to section 40(1) Patents Act 1977 should be allowed for the reasons set out by Arnold LJ and that accordingly, the relevant parts of the Re-Amended Defence should be struck out. I also agree that the second appeal in relation to section 106(1) of the Patents Act 1977 should also be allowed for the reasons explained by Arnold LJ and that Convatec's budgeted costs should be limited to £4 million.