

Policy options for geographic information from  
Ordnance Survey – *Consultation*  
Impact Assessment





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## Summary: Intervention & Options

<b>Department /Agency:</b> <b>Communities and Local Government</b>	<b>Title:</b> <b>Impact Assessment of A Review of HMG Policy Options for Geographical Information in Great Britain</b>	
<b>Stage:</b> Consultation	<b>Version:</b> Final	<b>Date:</b> 16 December 2009
<b>Related Publications:</b>		

### Available to view or download at:

<http://www.communities.gov.uk/publications/corporate/ordnancesurveyconsultation>

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### What is the problem under consideration? Why is government intervention necessary?

Technological advances in digital high-speed communications and information, in particular in mobile and internet applications, and rising customer expectations are revolutionising how we all use data. There are demands for better access to, and use of, the data produced by government. Geographic information is particularly important since it is a key reference tool by which other data is understood. Making location data produced by Ordnance Survey more readily available so that it can be freely re-used is therefore an important element to a more open government.

### What are the policy objectives and the intended effects?

The Prime Minister, on 17 November 2009, set out proposals to open up Ordnance Survey data relating to administrative boundaries, postcode areas and mid-scale mapping information. An open data policy aims to make key geographic data freely available for re-use to improve transparency and accountability, to improve public services delivery and, by allowing data to be used for digital innovation, create new economic and social value.

### What policy options have been considered? Please justify any preferred option.

Government has proposed to release some Ordnance Survey data for free. This is being considered within three long-term strategic options for Ordnance Survey. Option 3 is preferred at this stage.

Option 1: Maintain current business strategy – continued delivery of the strategy outlined in April 2009, plus consideration of release of OS Free.

Option 2: Release of licensing constraints on large-scale data and release of Ordnance Survey Free.

Option 3: Staged transition from the current strategy – to a model based on more open geographic information, including release of Ordnance Survey Free.

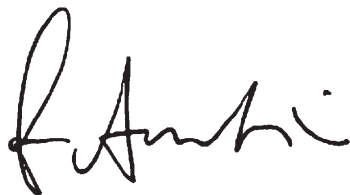
**When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects?**

A more detailed analysis of the costs and benefits will be carried out at a later stage of the consultation process. A final impact assessment will be included in the response to the consultation.

**Ministerial Sign-off** For consultation stage Impact Assessment

*I have read the Impact Assessment and I am satisfied that given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.*

Signed by the responsible minister:

A handwritten signature in black ink, appearing to read 'F. Amhi', is written over a large, faint, light-colored watermark of the same signature.

**Date:** 16 December 2009

Summary: Analysis & Evidence			
Policy Option: 2		Description: Release of licensing constraints on large-scale data	
<b>COSTS</b>	<b>ANNUAL COSTS</b>		<p>Loss of revenue to OS: £19-24m from OS Free product (govt would fund this on a cost plus basis, amounting to £6-9m); £70-80m lost revenue from high spec products.</p> <p>Part of this cost would be borne by government, which would fund data collection under DataCo. On the basis of unavoidable costs this would amount to £59-73m.</p>
	<b>One-off</b> (Transition)	<b>Yrs</b>	
	£ tbc		
	<b>Average Annual Cost</b> (excluding one-off)		
	£89-104m		
		<b>Total Cost (PV)</b>	<b>£740-865m</b>
<p>Other <b>key non-monetised costs</b> by 'main affected groups': There would be significant transition costs and duplication of splitting Ordnance Survey, and the cost of OS Free to the extent it was provided outside DataCo. In the short term, government would be liable for the cost of ProductCo if it were not commercially viable. There would be impacts on some third party providers (see Competition Assessment, Annex 1).</p>			
<b>BENEFITS</b>	<b>ANNUAL BENEFITS</b>		<p>Description and scale of <b>key monetised benefits</b> by 'main affected groups': Savings to current purchasers of OS Free data and to those who substitute from large-scale to OSFree (£19-24m).</p> <p>Large-scale data would become available for free. Based on current value-added pricing structures, this would result in a saving of £70-£80m on high spec products.</p>
	<b>One-off</b>	<b>Yrs</b>	
	£		
	<b>Average Annual Benefit</b> (excluding one-off)		
	£89-104m		
		<b>Total Benefit (PV)</b>	<b>£740-865m</b>
<p>Other <b>key non-monetised benefits</b> by 'main affected groups': The benefits are an underestimate as demand for geographical data (and hence consumer welfare) is expected to increase at lower prices. Moreover it is expected that releasing the data will stimulate innovation and entry into the market for geographical data. Pollock et al (2008) estimate net annual benefits of £156m.</p>			
<p><b>Key Assumptions/Sensitivities/Risk:</b> Large-scale data would be provided without restriction to ProductCo and its competitors. As there is very little distinction between data and product for large-scale products, it is likely that downstream products will fall in price significantly. Figures above are based on the current value-added pricing structure.</p>			
<b>Price Base Year</b> 2009	<b>Time Period Years</b> 10	<b>Net Benefit Range (NPV)</b> £	<b>NET BENEFIT (NPV Best estimate)</b> £0

What is the geographic coverage of the policy/option?		Great Britain		
On what date will the policy be implemented?		from April 2010		
Which organisation(s) will enforce the policy?				
What is the total annual cost of enforcement for these organisations?		£		
Does enforcement comply with Hampton principles?		Yes/No		
Will implementation go beyond minimum EU requirements?		Yes		
What is the value of the proposed offsetting measure per year?		£		
What is the value of changes in greenhouse gas emissions?		£		
Will the proposal have a significant impact on competition?		Yes		
Annual cost (£-£) per organisation (excluding one-off)	Micro	Small	Medium	Large
Are any of these organisations exempt?	Yes/No	Yes/No	N/A	N/A
<b>Impact on Admin Burdens Baseline</b> (2005 Prices)		(Increase – Decrease)		
Increase of £	Decrease of £	<b>Net Impact £</b>		
Key:	<b>Annual costs and benefits: Constant Prices</b>		<b>(Net) Present Value</b>	



<b>Summary: Analysis &amp; Evidence</b>			
<b>Policy Option: 3</b>		<b>Description: Staged transition from the current strategy</b>	
<b>COSTS</b>	<b>ANNUAL COSTS</b>	Lost OS revenue from OS Free data being made free: £19-24m (govt would fund this on a cost plus basis, amounting to £6-9m). Increased government charges for large-scale data: £28-34m (price rebalancing based on number of datasets used by public and private sector).	
	<b>One-off</b> (Transition) <b>Yrs</b>		
	£ tbc		
	<b>Average Annual Cost</b> (excluding one-off)		
	<b>£47-58m</b>	<b>Total Cost (PV)</b>	<b>£391-482m</b>
Other <b>key non-monetised costs</b> by 'main affected groups' Transition costs to Ordnance Survey, government departments and businesses of moving to new model. There would be impacts on third party providers (see Competition Assessment, Annex 1).			
<b>BENEFITS</b>	<b>ANNUAL BENEFITS</b>	Description and scale of <b>key monetised benefits</b> by 'main affected groups': gain to business and consumers from OS large-scale data being made cheaper: £28-34m if assume price rebalancing is revenue neutral.  Gain from OS Free data being made available: £19-24m.	
	<b>One-off</b> <b>Yrs</b>		
	£		
	<b>Average Annual Benefit</b> (excluding one-off)		
	<b>£47-58m</b>	<b>Total Benefit (PV)</b>	<b>£391-482m</b>
Other <b>key non-monetised benefits</b> by 'main affected groups': The lower charges to businesses and consumers for large-scale data, and the free data should increase demand and hence welfare. Entry and innovation should occur in the market for geographical information. These welfare benefits have not been quantified (Pollock report focuses on releasing large-scale data).			
<b>Key Assumptions/Sensitivities/Risk:</b> Modelling assumptions: some substitution from paid-for to free data; lost revenue by OS due to competition from new derived products. Not yet determined how the revenue shortfall will be covered from government (i.e. who will pay and how). So for now assume no change in demand, but will estimate this for the final IA.			
<b>Price Base Year</b> 2009	<b>Time Period Years</b> 10	<b>Net Benefit Range (NPV)</b> £	<b>NET BENEFIT (NPV Best estimate)</b> £0

What is the geographic coverage of the policy/option?		Great Britain		
On what date will the policy be implemented?		from April 2010		
Which organisation(s) will enforce the policy?				
What is the total annual cost of enforcement for these organisations?		£		
Does enforcement comply with Hampton principles?		Yes/No		
Will implementation go beyond minimum EU requirements?		Yes		
What is the value of the proposed offsetting measure per year?		£		
What is the value of changes in greenhouse gas emissions?		£		
Will the proposal have a significant impact on competition?		Yes		
Annual cost (£-£) per organisation (excluding one-off)	Micro	Small	Medium	Large
Are any of these organisations exempt?	Yes/No	Yes/No	N/A	N/A
<b>Impact on Admin Burdens Baseline</b> (2005 Prices)		(Increase – Decrease)		
Increase of £	Decrease of £	<b>Net Impact £</b>		
Key:	<b>Annual costs and benefits: Constant Prices</b>		<b>(Net) Present Value</b>	

## Evidence Base (for summary sheets)

### Introduction

1. On 17 November 2009, the Prime Minister set out proposals to make available for free re-use certain Ordnance Survey datasets as part of a government drive to open up more public data to improve transparency and accountability. Under the proposals, which were part of the Making Public Data Public initiative, Ordnance Survey would release, at no charge and with no restrictions on re-use some of its data relating to electoral and local authority boundaries, postcode areas and mid-scale mapping information.
2. At the time of the announcement the Government undertook to consult on this proposal and it is for this purpose that this Impact Assessment (“IA”), and consultation document is directed.

### Background

3. The Geographic Information (“GI”) market plays an important part in the UK economy with many services, both from the private sector and government, dependent to some extent on such information. The size of the UK’s end-to-end GI market alone, from data collection to customer, is estimated to be worth approximately £900m per year.
4. Ordnance Survey is Great Britain’s national mapping agency. It collects, maintains and distributes the most accurate and up-to-date geographic information about England, Scotland and Wales. It is a government department with Executive Agency status. In 1999 the organisation’s legal status was changed to become a government trading fund; it currently finances itself through its own revenue and does not rely on any direct funding from the taxpayer. The business remains accountable to Parliament through the Secretary of State for Communities and Local Government.
5. Around 90 per cent of Ordnance Survey’s revenues are generated by digital data. This includes the OS MasterMap® product set, which is a digital mapping database of Great Britain and generates over two-thirds of the business’ revenue. It is produced at the most detailed, large-scale level and is typically used for professional purposes. Ordnance Survey also produces a complete range of other products, including mid- and small-scale topography, gazetteers and paper maps.
6. Ordnance Survey generates revenues from its products through licensing arrangements either directly with customers, or indirectly through licensed partners and through retail distributors. The direct customer channel accounts for two-thirds of Ordnance Survey’s trading revenue and includes various collective

purchase agreements and major private sector users such as the utility companies. Approximately 25 per cent of Ordnance Survey's trading revenue is generated through the indirect partner channel.

7. Ordnance Survey generates most of its revenue from business and the public sector; in 2008/9 they each accounted for 46 per cent of the organisation's total revenue. Consumers, through the sale of paper maps in retailing channels, accounted for the remaining 8 per cent of sales.

## Rationale for intervention

8. Comprehensive, accurate and up-to-date information about location is a vital component of a modern economy and society. Digital and hard copy maps are used to inform individuals about localities and to improve their decision-making. However, increasingly, information about location is used much more widely and innovatively than this. It has become a key tool and underlying reference system for the management and delivery of both public and commercial services.
9. Technological advances and rising customer expectations are revolutionising the way that data is collected and disseminated. Greater penetration of the internet, and mobile telephony, is allowing the public to access information in greater numbers and to use such information in a more sophisticated and connected manner. As the digital environment has developed there has been an increasing demand for access to, and better use of, data held by government.
10. Improving access to government data is an important part of broader efforts to strengthen democracy, and the relationship between the citizen and government. It can do this by creating a culture in which government information is accessible and useful to as many people as possible in order to increase transparency and accountability. Allowing geographic data to be used in new and innovative ways, as highlighted in recent studies, will also create new economic and social value for us all.
11. Within this context, there have been calls for Ordnance Survey to simplify its licensing and separately, for its data to be priced at the marginal cost of production, which in some instances is close to zero. The welfare benefit that would arise from this has been estimated in the Cambridge study *Models of Public Sector Information Provision via Trading Funds* to be up to £168m per annum.
12. However, the fixed costs of collecting and maintaining the underlying databases from which Ordnance Survey products are derived are material and need to be covered in order that the quality and consistency of the database is maintained.
13. Separately, there are imbalances in Ordnance Survey's current pricing model which may be causing inefficient allocation of resources. Firstly, Ordnance Survey currently charges private sector customers of its large-scale products significantly more than

comparable government customers. The higher prices being paid by the private sector may potentially have restricted consumption to the less price sensitive users, impacting the economic benefit to the economy. Secondly, the payment allocation mechanism employed by government generates a weak price signal to Ordnance Survey from individual government users within the collective agreements.

## Objectives

14. For the reasons outlined above, a key objective for geographic information strategy in Great Britain is to facilitate the wider use, and re-use, of geographic information data and services, both directly from Ordnance Survey but also indirectly through others.
15. It is also important that the quality and sustainability of Ordnance Survey data is maintained. Business users need high-quality data for professional purposes, such as planning or environmental assessments, and government also relies on accurate data when planning and interacting with citizens.
16. Any geographic information supplied by Ordnance Survey should be delivered through efficient supply and purchase behaviours. The organisation should deliver what people want and in a form in which they want it.
17. Ordnance Survey must operate efficiently and provide value for money. For users of the service and, for the taxpayer, as ultimate owner, it is essential that Ordnance Survey is run in a manner that keeps its cost base at a level that reflects what it is being asked to produce. The organisation already has a cost reduction programme underway as part of its existing business strategy, but any long-term strategic option would seek to introduce a framework that enhances cost transparency and provides incentives to pursue further efficiency gains.
18. Improved competition can benefit the consumer by aiding innovation and efficiency, leading to better products and services for customers. At the same time, where the market does not deliver certain products or services, it may be necessary for government to intervene appropriately.
19. Any strategic solution for Ordnance Survey should be deliverable. It is important to maintain market stability through the transition period, minimising the disruption to other market participants, while providing the long-term certainty for Ordnance Survey and others to maintain investment and resource allocations.

## Options

### **Option 1: Current business strategy**

20. Ordnance Survey would continue to operate as an integrated business across the two main areas of activity: data collection and maintenance, and product creation and distribution, with no transfer pricing arrangements between them. All Ordnance Survey products would be subject to a charging mechanism. Maintaining the value of intellectual property rights (Crown copyright) would remain central to the licensing model, and these rights would be structured through a period licence with terms governing use.
21. Under the Business Plan announced in April 2009, Ordnance Survey committed to three main revisions to this model: a simplification to the terms and conditions of the period licences and the specific use contracts; enhancement to the OS OpenSpace service by adding new datasets to promote innovation and experimentation and the launch of the GeoVation network; and a reduction in the cost base of the business over the three year period. In addition, Ordnance Survey announced its intention to create an innovative trading entity (Ordnance Survey Ltd) that would explore new commercial opportunities under the same terms as Ordnance Survey's partners.
22. The underlying rationale for the current strategy has been to secure Ordnance Survey's ability to cover its own costs and fund its investment programme as a Trading Fund on a long-term sustainable basis without reliance on any subsidy from government. By providing a secure, profitable commercial platform, to date Ordnance Survey has maintained detailed GI data at a high standard. The reforms contained in the new strategy proposed flexibility to address to some extent the major desired outcomes around information sharing, re-use and innovation.
23. The current strategy did not contemplate the delivery of the free suite of products proposed under Ordnance Survey Free. Ordnance Survey Free could be pursued as an addition to the current business strategy. Ordnance Survey is in the process of identifying the operational and licensing requirements for the provision of the products under consideration and assessing the associated risks and transition costs.

### **ISSUES ASSOCIATED WITH THE CURRENT MODEL**

24. This review has identified five principal issues with the current business
1. imbalances in the tariff structure between the public and private sector.
  2. limited flexibility to change licence terms and conditions.
  3. lack of transparency to government customers of the business economics.
  4. weak commercial interface between Ordnance Survey and major public sector customers, due to intermediary procurement.
  5. financially constrained pace of change.
25. **Imbalances in the tariff structure between the public and private sector.** Private sector customers are currently paying more than government, in both high and low specification products. This differential appears to have arisen as Ordnance Survey has sought to address the shortfall between contractual revenues from government and total costs. The resulting higher price to the private sector may have restricted consumption to the less price sensitive users. The Cambridge study hypothesises a significant potential economic welfare gain by removing the deadweight loss associated with 'pricing out' of more price sensitive customers. In addition, the allocation of government contract payments to member agencies on the basis of consumption does not seem well-aligned with their likely price elasticity of demand, leading to a cost of 'excess specification quality' arising from lack of a clear price signal. By paying at a much lower level, there is no incentive for these organisations to adjust their demand for quality from Ordnance Survey.
26. **Limited flexibility to change licence terms and conditions.** There is a clear tension between the requirement as a Trading Fund for Ordnance Survey to cover its costs, and stakeholder objectives which can cause revenues to decline or costs to increase without recompense to the business. Whilst some further relaxation on rights may be possible under the current model, significant change seems unlikely without additional funding.
27. **Lack of transparency to government customers of the business economics.** Government customers have expressed concern about the current lack of transparency in the setting of the wholesale margin for mid- and low-scale products. Regulators have also commented that Ordnance Survey has not yet addressed historical recommendations for accounting transparency between different areas of the business.

28. **Weak commercial interface between Ordnance Survey and public sector customers.** The formation of the major collective purchase agreements for government procurement has had two adverse consequences on the strength of the commercial discipline applied between Ordnance Survey and its customers. Firstly, there could be more input between major users and Ordnance Survey as to the specification of those products and emerging requirements so that they might better meet customers' needs. Secondly, as the payment allocation mechanism employed by government is based on collective procurement, it results in a weaker price signal between major users and Ordnance Survey which is likely to be leading to inefficient allocation of resources.
29. **Financially constrained pace of change.** Ordnance Survey has initiated a self-funded efficiency programme as part of its new business strategy. Under its existing public sector employment contracts there is a high cost of early staff termination which can lead to constraints.
30. Based on its statutory accounts, Ordnance Survey has reported average revenues of £117m p.a. over the past five years with average operating profit (prior to exceptional costs) of £15m. Re-stating on a cash basis, total operating cash costs including capital expenditures have averaged £111m with cash operating profit of £6.5m p.a. over this period. Ordnance Survey pays a dividend back to government; in the 2008-09 financial year this was £4.8m.
31. The market for geographic information in Great Britain is expanding. Innovative new products (e.g. GPS-based services) and new entrants are leading to an increasingly competitive and dynamic market. It is not necessarily a situation where the above revenues would remain constant. Ordnance Survey will face increasing competition in mid- and small-scale data provision and there will be increasingly availability of alternative data sources. Over time the business will face increasing competition in urban areas for large-scale data and, as technology advances, this may occur in all its high specification data, and across the country, too. In considering the impact of Ordnance Survey Free, Ordnance Survey was forecasting further growth in the products that are being considered to be released for free.

**Option 2:  
Release of licensing constraints on large-scale data**

32. Under Option 2, anyone would be able to use and re-use all of Ordnance Survey's large-scale data for free and without restriction. This would radically change the revenue model and most likely create a fully subsidised data collection and maintenance business ("DataCo"), which would supply the data. Product development and distribution ("ProductCo") would be separated from this entity and would operate in a fully competitive environment.



33. Additionally, under Option 2 government would probably make available for free and without restriction on use and re-use, a package of mid- and small-scale products know as Ordnance Survey Free. This selection of products, the final composition of which is one of the subjects of this consultation, would be released to meet the policy objective of improving public sector transparency and accountability and citizen empowerment by the greater use of location data, to meet the current Making Public Data Public objectives.

### ***BENEFITS***

34. This option, by making all of Ordnance Survey's large-scale data available without any licensing constraints, should yield greater benefits through more usage of data. This has been estimated in the Cambridge study to be up to £168m p.a.
35. Option 2 may be positive for downstream competition. The number of competitors and the level of innovation should increase, particularly in the B2B and B2G customer segments, where the cost of data is a high proportion of the overall GI value chain.
36. For partners, the current input costs will either be reduced significantly or removed fully. In the short-term this will be positive for their margins with the greatest effect being seen in the B2B and B2G market segments. Over time, however, unless the value-add is significant and differentiated, new entrants may compete this benefit away.

## COSTS AND IMPLICATIONS

**Table 1. Annual costs of Option 2 (£m)**

Costs (£m)	Low	High
Revenue loss on OS Free	19	24
Revenue loss on high spec products	70	80
Total	89	104

Source: L.E.K. modelling. The figures for revenue loss on high spec products assume that revenue is retained on Land Registry surveys and low spec products that are not included in OS Free, and that other products will retain a margin based on prevailing wholesale margins.

37. This option would require radical change for Ordnance Survey and would be irreversible once its large-scale data had been released without licensing constraints.
38. Stakeholders have expressed concern over the timing, actual size and certainty of these benefits and revenues in relation to the magnitude of the irreversible funding commitment required. The cost to government of this could amount to £59-73m<sup>1</sup> p.a. with a net present value over 10 years of £490-610m. This is based on L.E.K's calculations of what DataCo's unavoidable costs would be. If OS Free were funded outside of DataCo on a cost plus basis, this might amount to an annual cost to government of £6-9m.
39. The separation of the business might limit the quality of direct feedback received by DataCo from its main customers. This could weaken an important input into the definition of Ordnance Survey's activities and reduce the pressure to implement efficiency and technology improvements.
40. The process of transition into two separate entities might take one to two years to complete. ProductCo would initially have a cost base in the range of £38-47m p.a., taking into account incremental costs of £11m p.a. if government were to require ProductCo to operate as a stand-alone business.
41. This option would trigger a transformational reduction in the prices that end-customers pay for GI products as they would in principle reflect only the value added in product creation and distribution incurred beyond the cost of data capture. ProductCo would therefore not retain Ordnance Survey's current level of revenues. The introduction of Ordnance Survey Free would reinforce this effect.
42. It is hard to predict where market prices may settle given such a fundamental change and the resultant impact on ProductCo revenues is therefore subject to considerable uncertainty. Using prevailing wholesale margins as a guide, the decline in revenue

<sup>1</sup> These are based on OS cost forecasts for 2009-10 and exclude HQ relocation costs, restructuring costs, discretionary capex, dividend payments and any one-offs associated with the different models (i.e., they include Business As Usual operating expenditure plus an average level of investment (development and capital expenditure) required to support OS long term).

might result in operating losses at ProductCo of £6-28m p.a. in the near-term. These losses would represent further costs to government as long as ProductCo remained under government ownership.

43. There are further risks to the longer term sustainability of the business. First, ProductCo would not necessarily continue to be the preferred supplier of any Ordnance Survey Free products which are allocated to it under the separation from DataCo. Secondly, ProductCo's initial competitive advantage could be eroded by the unrestricted availability of large-scale data for competitors.
44. Faced with further revenue erosion from these new competitive pressures, ProductCo could ultimately become unsustainable. In this case, government would want to put in place arrangements to ensure the continued supply of products and services it required in the national interest or for its own uses that were not provided by the market.
45. For ProductCo to become a viable business in the medium- to longer-term, it would need to grow rapidly to establish sufficient scale. Higher rates of return would be required to provide a basis for the higher risk investments that ProductCo would need to make in the evolving technology-driven services and data-hosting elements of the value chain.
46. ProductCo would have an initial commercial advantage through its current expertise. In order to become a viable entity over the longer term, it would need to exploit this advantage rapidly to build revenues or substantially reconfigure costs. Its business model would require a high level of entrepreneurial risk-taking in the new market environment.
47. In order to succeed, ProductCo would need to be free to operate without any of the operational and financial constraints connected with government ownership. Privatisation of ProductCo is a possible outcome of this option.
48. For the emerging direct competitors in the collection of high specification data, Option 2 would be very disruptive. The high cost of creating and maintaining their offering would be difficult to sustain in competition with free data from Ordnance Survey.

**Option 3:  
Staged transition from the current strategy, to more open geographic information**

49. Option 3 would preserve the scale and infrastructure efficiencies of an integrated structure of the current business model at Ordnance Survey but introduce the following five changes to the current model, subject to an appropriate, sustainable basis for funding:

1. Ordnance Survey Free – the low-specification product selection described above would be funded by government and released for free, creating all of the associated welfare benefits and other advantages.
2. Tariff re-balancing – Ordnance Survey would align the pricing of high-specification products to be consistent between the public and private sectors.
3. Greater customer centricity – over time, moving towards tighter contracting arrangements to create more alignment between customer needs and the response of the organisation in terms of services, activities, product development and long term investments.
4. Accelerated transition plan – the financial capacity would be put in place to bring forward investments designed to realise long-term efficiency savings for government and other customers more rapidly than is possible under the current strategic plan.
5. Enhanced ownership function – further changes would be made to secure closer oversight and challenge from government’s ownership function together with a move to segmental accounting in order to enhance transparency. This would ensure that government’s requirements are effectively specified, costed and delivered, (including consistent delivery of Ordnance Survey Free, if necessary).

## **Benefits**

50. The release of an Ordnance Survey Free product selection provides an immediate benefit to the Smarter Government and MPDP initiatives. Over time, further enhancements to the product set and delivery mechanisms will aim to satisfy all objectives of these initiatives. The proposed selection of products allows the beneficial welfare impact to be monitored and the potential downstream disruption to be lessened.
51. A key objective for this option is to correct the current imbalance in contribution towards the costs of providing high specification data between government and the private sector. Such a rebalancing would prevent the ‘pricing out’ of price sensitive private sector consumers, and would deliver a clear price signal between major government customers and Ordnance Survey to minimise the costs on the business of over specification.
52. The intention is to drive efficient supply and purchase behaviours through a transition over time to consistent pricing for all public and private sector customers, through greater customer centricity and greater cost transparency. The organisation would benefit from a closer interface with its customers, driving the specific requirements that contribute to the overall value of the high specification products. The closer alignment of the drivers of cost with pricing and revenue generation should ultimately improve efficiency in the delivery and organisational behaviour of Ordnance Survey to the benefit of all. Over time this structure and the transparency

of the accounting will create the ability to re-balance the existing high specification product pricing discrepancies between government and the private sector and will allow this to happen in a controllable manner.

53. Under the current Business Strategy (Option 1), Ordnance Survey is committed to reducing the underlying cost base of the organisation by 5 per cent per annum over five years. Clarity on the proposed way forward and a stronger link between cost and price, together with increased funding from government in the short-term, should enable Ordnance Survey to reconfigure its pricing, investments and operations to drive greater and faster realisation of efficiency.

### **COSTS AND IMPLICATIONS**

<b>Table 2. Annual costs of Option 3 (£m)</b>		
<b>Costs (£m)</b>	<b>Low</b>	<b>High</b>
Increased costs to government due to price rebalancing	28	34
Revenue loss on OS Free	19	24
<b>Total</b>	<b>47</b>	<b>58</b>

Source: L.E.K. modelling

54. It is estimated that the government will need to pay an additional £28-34m per annum as a result of price rebalancing. This has been estimated by L.E.K and assumes a division of charges between government and business that is based on the number of datasets purchased by each.
55. The revenue loss as a result of OS Free/low spec products being made free is estimated to be in the range £19-24m. This is based on L.E.K modelling and includes direct loss of revenue; substitution from high spec to the free low spec data, and competition from derived products. If this were funded by government on a cost plus basis, it might amount to £6-9m annually.
56. In order to cover the costs of providing the Ordnance Survey Free products free of charge and to move towards consistent pricing for high specification products, an additional contribution from government of around £40m for 2010/11 has been proposed.
57. During 2010/11, the contracts in place between Ordnance Survey and central and local government will need to be re-negotiated to reflect the impact of Ordnance Survey Free. Tariff re-balancing could be addressed at the same time or over time once the current contracts expire.

58. Any tariff re-balancing mechanism would also need to address the preferential rights that have been granted to some customers under existing collective agreements. Licence improvements under development over the past year, but not yet implemented, might provide a framework to migrate all users towards a common basis of treatment.
59. As Ordnance Survey moves towards more consistent pricing for high specification product provision across government, there will be a mix of price increases and decreases for individual agencies dependent on which products and services they require. It is hard to predict the outcome of these changes on demand for those agencies which are currently paying less than the new price.
60. A substantial proportion of the current high-specification product revenues to Ordnance Survey could potentially be at risk of being lost to competition over the next three-five years.
61. This option could potentially discourage competition in the provision of those datasets made available under Ordnance Survey Free but it may encourage downstream competition based on these inputs. It might encourage competition in the provision of large-scale data to government and possibly the private sector, if elastic demand is unlocked at lower prices.

## Risks

62. Risks specific to each policy option have been discussed in the options section above.
63. Both Option 2 and 3 carry an element of execution risk, given the scale of the transformation proposed. The point of equilibrium in the market is dependent on the interaction between many business and government customers, consumers, partners, distributors, competitors and Ordnance Survey itself. This risk is especially true of Option 2 which is not reversible once commenced.
64. The pace of transformation is also a risk. Ordnance Survey operates in a commercial marketplace and any change must be implemented carefully to manage the impact on Ordnance Survey customers and partners. Going too fast may damage the business itself or unduly disrupt the market. Going too slow will hamper the delivery of the benefits of change. There are significant practical, technical and legal challenges to delivery by April 2010.
65. In implementing Option 2 and Option 3, government would need to consider any potential state aid implications. Future implications will also need to be considered, in particular for Option 2 if ProductCo is not profitable and requires government support going forward.

- 66. In Options 2 and 3 the estimations of revenue impact on Ordnance Survey may be under- or over-stated since it is difficult to assess the extent of product substitution and increased competition that may result from releasing restrictions on re-use of data
- 67. Estimates of additional government funding are in addition to current payments by government customers to Ordnance Survey under the Pan-Government Agreement (PGA) and Mapping Services Agreements. The continuation of these payments has therefore been assumed; however the PGA might need to be renegotiated once some products within it become included in OS Free and hence are available free of charge to other purchasers.

### **Recommendation**

- 68. The Government is minded to accept Option 3 as the preferred option. By releasing, free of charge and without restriction on use and re-use, a package of mid- and small-scale products known as Ordnance Survey Free, this Option would meet the policy objectives of improving public sector transparency and accountability and citizen empowerment by the greater use of geographic data, as proposed in the recent Smarter Government policy statement.
- 69. By addressing imbalances in the pricing of the remaining high-specification products, which are typically used for professional and commercial purposes, Option 3 will drive efficient supply and purchase behaviour and will improve customer focus. It will enable greater competition and innovation in the market, drive value for money in the Ordnance Survey and help maintain mapping quality.
- 70. The pace of organisational change will be accelerated and the option to move to Option 2 at a later date is preserved if this should ultimately prove to be the preferred outcome. Since the move to Option 2 would almost certainly be irreversible, the ability to transition towards this outcome in managed stages may be preferable.

### **Implementation**

- 71. If, following the consultation, a specific proposal is accepted the Secretary of State for Communities and Local Government will be responsible to the Cabinet for the implementation and enforcement of any new policy. The Minister for Digital Britain would also be closely involved in any decision-making process.
- 72. It is expected that any policy change will be implemented from 1 April 2010, or as soon as possible thereafter. There are significant practical, legal and technical challenges to implementation to this date.
- 73. Following implementation of any proposal, government will take on greater responsibilities to challenge the business cases inherent in this transformation agenda to provide greater analysis and rigour.

## Monitoring and evaluation

74. We will establish a clear baseline (in terms of data usage and quality) against which to measure the impact of the policy. This will also include estimates over time of the overall size of the market for geographic information (including revenue, number of firms etc). In doing this, we will consult stakeholders, including government agencies that use geographic data and fund Ordnance Survey. We will include a more comprehensive and detailed monitoring and evaluation strategy in the final IA.

## References

[www.hmg.gov.uk/frontlinefirst.apsx](http://www.hmg.gov.uk/frontlinefirst.apsx)

[www.communities.gso.uk/news/corporate/1385429](http://www.communities.gso.uk/news/corporate/1385429)

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[www.ofc.gov.uk/shared\\_ofc/reports/consumer-protection/ofc861.pdf](http://www.ofc.gov.uk/shared_ofc/reports/consumer-protection/ofc861.pdf)



## Specific Impact Tests: Checklist

Use the table below to demonstrate how broadly you have considered the potential impacts of your policy options.

**Ensure that the results of any tests that impact on the cost-benefit analysis are contained within the main evidence base; other results may be annexed.**

Type of testing undertaken	Results in Evidence Base?	Results annexed?
Competition Assessment	Yes	Yes
Small Firms Impact Test	Yes	Yes
Legal Aid	No	No
Sustainable Development	No	No
Carbon Assessment	No	No
Other Environment	No	No
Health Impact Assessment	No	No
Race Equality	No	No
Disability Equality	No	No
Gender Equality	Yes	No
Human Rights	No	No
Rural Proofing	No	No

## Annexes

### Annex 1: Specific impact tests

#### Competition Assessment

Based on the OFT's competition filter, the following four questions need to be asked to assess the impact of a proposal on competition:

Would the regulatory proposal:

- Directly limit the number or range of suppliers?
- Indirectly limit the number or range of suppliers?
- Limit the ability of suppliers to compete?
- Reduce suppliers' incentives to compete vigorously?

The Options considered in this Impact Assessment would not directly or indirectly limit the number or range of suppliers. In considering whether it limits the ability of suppliers to compete or reduces suppliers' incentives to compete vigorously, we need to consider various parts of the value chain separately under the different Options.

Option 1 would retain the current ability and incentives of suppliers to compete in the provision of data products. The current business strategy, once implemented, may improve the ability and incentives of value-added suppliers to compete by granting wider licensing rights to re-use Ordnance Survey products.

In general, the free release of some data under Options 2 and 3 should benefit consumers.

Option 2, in making Ordnance Survey large-scale data available for free, would potentially reduce the commercial attractiveness of this type of data provision for other suppliers. Existing participants may find it harder to compete and it may reduce the incentive for new suppliers to enter the market.

Under this Option, a decrease in the costs of inputs to value-added suppliers may encourage competitive entry at this level in the supply chain. However, it may be that the cost of downstream products falls to such an extent that there are fewer incentives for competition from new entrants and smaller businesses. Existing participants with the greatest reach to consumers – for example via global internet platforms – may prove best-placed to make use of this data as part of a broader business model.

Option 3, through the provision of Ordnance Survey Free, would reduce the incentives to other suppliers to compete in the provision of this data. As with Option 2, costs of inputs into downstream products would fall and this may encourage suppliers to compete in

this area, but prices may fall to such an extent that there are fewer incentives for suppliers to compete. However, the impact (both positive and negative) would be felt primarily in relation to products that are included in OS Free, unlike Option 2 which would affect the full Ordnance Survey product range.

Under Option 3, in addressing the price imbalance in Ordnance Survey data products to government and the private sector, suppliers may be incentivised to compete for government contracts. The lower price to the private sector may reduce incentives to supply or, if more elastic demand is released, the market may grow and incentives will be increased.

In general, it is difficult to predict the overall effect on competition of the proposed Options as they will affect different parts of the value chain differently and their impact will depend on future entry and innovation, which is difficult to forecast. We are consulting on this, and welcome views on the competition impact of the proposals.

### **Small Firm Impact Test**

The considerations made above about competition effects would apply to small businesses as well. Some businesses may be adversely affected by the proposals in their ability to compete, while others should benefit through lower costs or by being able to enter the market.

Small businesses might of course be disproportionately affected (both positively and negatively) as the cost of Ordnance Survey data might represent a higher percentage of their costs, or their products that compete with Ordnance Survey products might represent a greater percentage of their offering.

The simplification of the licensing regime should come as a benefit to small businesses as obtaining licenses will represent a proportionately higher share of costs for small businesses.

We will carry out a more comprehensive and detailed Small Firms Impact Test for the final Impact Assessment.

### **Race, Disability and Gender Equality**

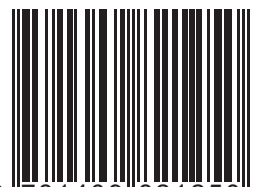
After an initial screening it has been deemed that no significant impact is anticipated on race, disability and gender equality.

### **Other Tests**

Other specific impact tests have been considered including Legal Aid, Sustainable Development, Carbon Assessment, Other Environment, Health Impact Assessment, Human Rights and Rural Proofing. Again, after initial screening, it has been deemed that no significant impact is anticipated.

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