



House of Commons

Business, Energy and Industrial  
Strategy Committee

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**The Digital Economy:  
Government Response  
to the Business,  
Innovation and Skills  
Committee's Second  
Report of Session  
2016–17**

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**Third Special Report of Session  
2016–17**

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## Business, Energy and Industrial Strategy Committee

The Business, Energy and Industrial Strategy Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Department for Business, Energy and Industrial Strategy. The Committee's name was changed, from the Business, Innovation and Skills Committee, on 17 October 2016.

### Current membership

[Mr Iain Wright MP](#) (*Labour, Hartlepool*) (*Chair*)

[Richard Fuller MP](#) (*Conservative, Bedford*)

[Peter Kyle MP](#) (*Labour, Hove*)

[Amanda Milling MP](#) (*Conservative, Cannock Chase*)

[Albert Owen MP](#) (*Labour, Ynys Môn*)

[Amanda Solloway MP](#) (*Conservative, Derby North*)

[Michelle Thomson MP](#) (*Independent, Edinburgh West*)

[Kelly Tolhurst MP](#) (*Conservative, Rochester and Strood*)

[Craig Tracey MP](#) (*Conservative, North Warwickshire*)

[Anna Turley MP](#) (*Labour (Co-op), Redcar*)

[Chris White MP](#) (*Conservative, Warwick and Leamington*)

The following were also members of the Committee during the inquiry:

[Paul Blomfield MP](#) (*Labour, Sheffield Central*)

[Jonathan Reynolds MP](#) (*Labour (Co-op), Stalybridge and Hyde*)

### Powers

The Committee is one of the departmental select committees, the powers of which are set out in House of Commons Standing Orders, principally in SO No 152. These are available on the internet via [www.parliament.uk](http://www.parliament.uk).

### Publication

Committee reports are published on the Committee's website at [www.parliament.uk/beis](http://www.parliament.uk/beis) and in print by Order of the House.

Evidence relating to this report is published on the [inquiry publications page](#) of the Committee's website.

### Committee staff

The current staff of the Committee are Chris Shaw (Clerk), Martin Adams (Second Clerk), Josephine Willows (Senior Committee Specialist), Becky Mawhood (Committee Specialist), Ian Cruse (Committee Specialist), James McQuade (Senior Committee Assistant), Jonathan Olivier Wright, (Committee Assistant) and Gary Calder (Media Officer).

### Contacts

All correspondence should be addressed to the Clerk of the Business, Energy and Industrial Strategy Committee, House of Commons, London SW1A 0AA. The telephone number for general enquiries is 020 7219 5777; the Committee's email address is [beiscom@parliament.uk](mailto:beiscom@parliament.uk).

## Third Special Report

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The Business, Innovation and Skills Committee published its Second Report of Session 2016–17, *The Digital Economy* (HC 87), on 18 July 2016. The Government’s response was received by the Business, Energy and Industrial Strategy Committee on 6 January 2017 and is appended to this report.

In the Government response, the Committee’s recommendations appear in ***bold italicised text*** and the Government’s responses are in plain text.

## Appendix: Government Response

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### Introduction

The UK’s digital economy is a huge success story. We are among the most digitally connected countries in the world, and the UK’s tech sector makes a significant contribution to our economy. We are committed to making sure we remain global digital leaders, and that the UK retains its reputation as one of the best places in the world to start, scale up and invest in a digital business.

Recent DCMS Sector Economic Estimates show that the digital sector contributed £118.4bn Gross Valued Added (GVA) to the UK economy in 2015, an increase of 6.1% from £111.6bn GVA in 2014.<sup>1</sup> The digital sector represented 7.1% of UK GVA in 2015. In 2015, employment in the digital sector was 1,421,000, an increase of 2.0% since 2014 and accounting for 4.4% of jobs in the UK economy. In 2014, the number of enterprises in the Digital Sector was almost 200,000 (199,200), an increase of 5.7% since 2013. This represents 9.5% of all UK enterprises.

It is vital that we continue to do all we can to support the UK’s digital economy, including as we leave the European Union. This includes supporting world-class digital infrastructure, investing in digital skills, and creating a safe and secure online environment.

### Measuring the Digital Economy

1. ***Good policy making, tax policy and the allocation of resources require high-quality data. This does not exist at present in the digital economy, and policy making cannot therefore be reliably expected to support as much as possible the digital economy, one of the UK’s key drivers of improved productivity. The Government’s Digital Strategy should be informed by, and policy measures should be driven by, reliable data. We recognise the difficulty of measuring the digital economy, but the Government should look to the work of the Office of National Statistics, and explore ways of collecting real-time data in the digital economy, and ensure that established Standard Industrial Classification (SIC) codes are agreed and used, in different parts of the digital economy.*** (Paragraph 13)

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1 DCMS Sectors Economic Estimates (August 2016)  
[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/544103/DCMS\\_Sectors\\_Economic\\_Estimates\\_-\\_August\\_2016.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/544103/DCMS_Sectors_Economic_Estimates_-_August_2016.pdf)

The Government is conscious of the importance of high-quality data to inform good policy making. This is why we are supporting the Office of National Statistics (ONS) to ensure that the UK's economic statistics properly reflect the changing structure and characteristics of the economy.

The government-commissioned Independent Review of Economic Statistics (IRES), led by Professor Sir Charles Bean, identified this challenge as one of the hardest that international statistics face:

“The digital revolution has not only led to rapid quality change and product innovation as a result of advances in computing power, but also to new ways of exchanging and providing services as a result of increased connectivity. Measuring this new economy poses particular challenges to established measurement approaches... Moreover, this is not a one-off challenge. As the economy evolves, so does the appropriate frame of reference for statistics: it is a constantly moving target.” – *IRES, page 5*

The Government is supporting the work of the UK Statistics Authority, ONS and others to implement all of the strategic recommendations arising from the Review in full, and at Budget 2016 provided £10 million to fund a new data science campus and Economic Statistics Centre of Excellence.

The Government is also working with international colleagues to define the digital economy and to influence the standard industrial classifications (SICs) at an international level so that they reflect the changing nature of the economy in a way that works for the UK.

## The Government's Digital Strategy

***2. We look forward to the publication of the Government's Digital Strategy, in the summer of 2016 (six months later than expected), which should explain how the Government will build on its success. We regret this delay, and call on the Government to explain the reasons for it, and why they initiated a three-week consultation over the Christmas break on what the Government should include in the strategy. (Paragraph 16)***

We are already among the most digitally connected countries in the world with a globally successful digital economy. Following the decision of the British people to leave the European Union, we have been engaging closely with the digital industries to understand their priorities, and will continue to do so. At the Autumn Statement, the Chancellor underlined the Government's continued support for innovation and technology with the announcement of an additional £2 billion of public spending on R&D a year by 2020–21 and a £1bn investment in digital infrastructure. We will continue to work with industry to ensure that our digital and industrial strategies help boost growth and productivity across the country and across the economy.

***3. While the Government is supporting the digital economy, including support of Innovate UK, Tech City and Tech North, there is no overall strategy for this support. We hope that the digital strategy will provide an overview of present and future Government***

***policy on the digital economy, which will be published as soon as possible, and in its reply the Government must provide us with an update of any changes made to the strategy since it was originally written.*** (Paragraph 17)

We have made significant progress over the last six years in supporting the digital economy. In 2010, we launched Tech City in East London: today it is the biggest and fastest growing tech cluster in Europe, and there is now a vibrant digital economy across the UK. The Government is also committed to supporting innovation, with an annual government support of £800 million including through Innovate UK's programmes and competitions, and an average of £1.3 billion through fiscal support measures such as R&D tax breaks.

Following the decision of the British people to leave the European Union in June, we engaged with the tech sector over the summer to identify challenges and opportunities for our approach to supporting the digital economy. We are considering all options to ensure that digital companies can make the most of our trading relationships with the rest of the world.

***4. The Government must also explain how the Digital Strategy will be affected by the referendum result. It should also set out in its reply and in the Digital Strategy a list of specific, current EU negotiations relating to the digital economy.*** (Paragraph 18)

The decision taken by the British people to leave the European Union will clearly change our relationship with the EU, but it will not stop our progress toward a more digital economy. The decisions around priorities for the renegotiation will be taken by the Prime Minister in due course. But in the meantime the UK remains a member of the EU, subject to its legislation, and the Government will continue to play a role in EU institutions, representing the interests of the British people and economy. This position will continue throughout the renegotiation period and until the UK formally leaves the EU.

The Government will look to safeguard UK prosperity and competitiveness, including by securing opportunities for exports and overseas expansion, attracting talent and promoting investment in UK firms with our EU partners and the world. This is, of course, as true of the digital economy as it is for the British economy as a whole.

We are engaging with the digital sector to understand their perspectives in following the referendum result, and are committed to ensuring that the UK retains its reputation as one of the best places in the world to start, scale up and invest in a digital business.

We are currently involved in the following EU negotiations related to the digital economy:

- Reforming the European Copyright Law package
- Electronic Communications Framework Review
- Services Package, as part of the Single Market Strategy, including the Services notification procedure
- General approach on geoblocking
- General approach on Consumer protection Co-operation

- Digital Single Market VAT (e)-package (VAT on e-commerce, e-publications, e-books)
- Free flow of data initiative
- Legislative Proposal on Services Passport

5. *At the forefront of the issues explained, the Digital Strategy must address head on the status of digitally-skilled workers from the European Union who currently work in the UK. The digital sector relies on a skilled workforce from the European Union, and those individuals' rights to remain in the country must be addressed, and at the earliest opportunity.* (Paragraph 19)

6. *While we recognise that the provision of digital skills may never keep pace with the speed of innovation, there must be a bedrock of core skills that people need to acquire, so that they can build on, extend and then adapt to meet the needs of changing technology. We have not replicated the work of other Committees on the dearth of digitally-skilled workers, such as the Science and Technology Select Committee and the House of Lords Select Committee on Digital Skills, both of whom highlighted the shortage of workers with IT skills. However, both Reports were published before the result of the referendum, and the Government needs to state in its reply how tech firms that employ EU nationals will be affected in the short, medium and long term. The Government needs to provide clarity surrounding skills, post referendum, otherwise skills and talent will be lost to other countries.* (Paragraph 26)

The Government's position is clear: we want to protect the status of EU nationals already living here, and the only circumstances in which that would not be possible is if British citizens' rights in other EU member states were not protected in return.

We have also set out our response to the House of Commons Science and Technology Committee's report on Digital Skills. The Government recognises the vital importance of digital skills – from the basic digital skills people need to make the most of being online, to the general digital skills increasingly needed in every job, through to the high level digital skills for the growing number of specialist digital roles across the economy. Ensuring digital skills keep up to date with the pace of technological change is a challenge for all developed countries and we are taking action across the education and training pipeline to address this. The Government is working closely with industry to address shortages in areas of strategic importance, including cyber security and big data.

We have introduced a range of measures to ensure the UK is preparing itself for the future demands of digital skills and has an effective pipeline in place across a broad range of digital skills. We have committed, through the Digital Economy Bill, to introduce legislation which will mean publicly-funded basic digital skills training being offered by providers will be free of charge to adults who need it. In the Autumn Statement 2015, the Chancellor announced a new Institute for Coding that will support the development of the high level digital skills that the economy needs. We have also introduced a new computing curriculum – drafted by teachers and sector experts from the British Computer Society, the Royal Academy of Engineering, Google, Microsoft Research, and several universities – which has been in schools since September 2014. This now provides students with the computational thinking skills that will enable our young people to adapt to emerging



technologies. We have also established the Ada National College for Digital Skills, which opened on 5th September 2016, with the aim of reaching a further 5,000 students within five years.

## Showcasing the success of digital businesses

**7. *The UK is one of the prime destinations in Europe to set up a tech business. The gaming industry does not have the recognition it deserves as an innovator and, in some cases, a world leader. It is making a larger contribution to the economy that is not picked up because of the way in which the gaming industry is measured.***  
(Paragraph 31)

The Government recognises the significant contribution the gaming industry makes to the UK economy and is supporting its continued growth, for example through measures such as our £4 million UK Games Fund and the Video Games Tax Relief which has provided £45 million in support to the sector since its introduction in 2014.

We also recognise the limitations of the current measurement of the games sector's economic contribution.

Government is working with industry to understand how measures could be improved using existing data as well as working with data collectors to improve the classifications. Due to the diversity of firms, it can be hard to separately identify the gaming elements of large computer programming companies which often contribute to computer games outputs as part of a range of activities undertaken by these companies. While these aspects are picked up in estimates of the digital sector, they are not identified specifically as relating to the gaming industry.

**8. *The United Kingdom is a world leader in Fintech, with the sector estimated to be worth £20 billion in annual revenues. This position could now be at risk as firms will want to be part of the single market of financial regulation. The Government needs to set out with urgency how it will address this, to avoid our strengths in fintech being eroded.***  
(Paragraph 32)

The UK has recently been reconfirmed as the best place in the World for FinTech with a workforce of over 60,000. In 2015 high-growth and traditional UK FinTechs generated in excess of £20 billion revenue and raised over £500 million in investment. FinTech is disrupting established processes and changing how consumers interact with financial services.

Our FinTech sector is fundamentally strong as we negotiate our departure from the European Union. The UK has world-leading FinTech talent, a progressive regulator and a government focused on competition in financial services. The Government recognises the need for a smooth transition which minimises disruption to our domestic firms in sectors such as FinTech. There will be no immediate changes to our relationship with the EU. Until our departure from the EU, the UK will remain a member with all of the rights and obligations that this entails.

The Government announced a package of measures at the Autumn Statement to support the growth of FinTech regionally by building regional and national networks to encourage collaboration and raise awareness of regional FinTech opportunities. These,

combined with the extra venture capital funding for the British Business Bank, are evidence of Government's continued commitment to this innovative sector. The government will continue to examine measures to further strengthen UK FinTech.

## Apprenticeship levy

**9. *We are currently running a joint inquiry on apprenticeships with the Education Committee, and therefore will not comment on substantive aspects of the apprenticeship levy in this Report. However, small businesses (including digital businesses) employing highly-skilled workers may not have the capacity to employ apprentices, and therefore the current apprenticeship levy requirements could hinder those businesses financially. The Government needs to address how differing business workforce models, such as tech firms, with a small number of highly skilled workers, are not compromised through the operation of the apprenticeship levy.*** (Paragraph 37)

From April 2017, the apprenticeship levy will come into force which will see employers with a pay bill of more than £3m, paying a levy rate of 0.5% of their pay bill. This means that fewer than 2% of employers will have to pay the levy, so it is unlikely that the small employers that the Committee are concerned about will have to pay the levy. The levy will put apprenticeship funding on a sustainable footing and improve the technical and professional skills of the workforce, an important component of productivity.

We want to encourage small employers who will not pay the levy to continue to take on apprentices and our funding proposals expect them to have to co-invest with government only 10% of the costs of apprenticeship training and assessment, within a maximum determined by a specified funding band for that apprenticeship. For example an employer with an apprentice undertaking the new software developer standard at Level 4 will benefit from £16,200 in Government funding and be asked to contribute only £1,800 in cash over two years. We have gone a step further for employers with fewer than 50 employees; if the apprentice is a young person aged between 16 and 18 when they start, then we will waive the co-investment, and the employer will have to pay nothing. All employers will also receive an incentive payment of £1,000 if they take on a 16–18 year old. This proposed funding formula recognises the importance of small employers engaging with apprenticeships and is designed to take account of the barriers many face in recruiting and training apprentices.

The Government recognises the importance of digital skills and is engaging with employers to understand the possible impacts any new policies may have. Apprenticeship reforms are enabling employers to design apprenticeship standards that meet their needs. 17 business-led digital apprenticeship standards are being developed – ten of which are ready for delivery.

## The challenge from 'disruptive' technologies

**10. *The fact that disruptive technologies are inevitably evolving, and the pace of change is accelerating, means that it is crucial that public policy is 'future-proofed' as far as possible, to ensure that the need for constant regulatory reform is minimised.*** (Paragraph 42)



## Compliance

**11. *We recommend that the Government sets out clearly its key objectives for the regulation of disruptive change. Our view is that they should promote productivity, innovation, and customer choice and protection. The Department for Business, Innovation and Skills must be at the forefront of the regulation debate, with BIS Ministers initiating cross-Whitehall co-ordination with colleagues from relevant Departments to explore the regulatory opportunities that exist within the digital framework, and to ensure that regulations are in place to take account of new technology.*** (Paragraph 50)

The Government will continue to help ensure that the UK is a leader in the development and adoption of new technologies that can benefit our economy and citizens. The potential for these technologies, and the organisations that supply and use them, to contribute to the growth of UK GDP are enormous. They can offer new or better products and services and respond quickly to people's needs – even creating new markets. Whether it is in banking, transport or health, technologies are changing how markets function and the goods and services available. They can also help improve public sector efficiency and effectiveness.

We will ensure that the UK economy is open to innovation and that we are positioning ourselves well for the future. This means being responsive to the changes that new science and technologies bring and developing a regulatory environment that is appropriate, proportionate and supportive.

Through the IoT UK Programme, for example, we are supporting projects to develop, test and deploy IoT applications in the public sector, further UK excellence in relevant academic research, and boost enterprise and innovation in the internet of things. Government's Challenger Business Programme has been identifying and helping to address some of the barriers faced by disruptive businesses: helping the business and regulatory environment keep pace with developments.

The Government has deliberately not taken a prescriptive approach to the way it regulates new science and technology and their applications in the UK. Government should provide a regulatory environment that encourages innovation. For example, the Financial Conduct Authority's "regulatory sandbox" has created a 'safe space' in which businesses can test innovative products, services, and delivery mechanisms without immediately incurring all the normal regulatory consequences of engaging in the activity in question. There are also, however, threats and risks for organisations, consumers and citizens. A flexible approach is required, so that Government and regulators can consider the issues on a case by case basis.

**12. *A major characteristic of the digital economy's model is the reliance on customer feedback. We recommend that the Government explore ways in which compliance solutions can be developed, to ensure a more collaborative approach to regulation that involves users and providers.*** (Paragraph 51)

It is increasingly common for digital platforms to incorporate user feedback on products and services such as online reviews, endorsements and ratings. This feedback helps users make faster and more confident decisions, and builds trust in the platform. The Government believes that the existing Consumer Protection from Unfair Trading Regulations 2008 (CPRs), which implement the Unfair Commercial Practices Directive, and the UK Advertising Codes, provide sufficient protection for consumers using

platforms. The Competition and Markets Authority (CMA) published a [report](#) last year on online reviews and endorsements. This report set out the CMA's views on what businesses in this sector should do to ensure compliance with consumer protection law.

In May 2016, BIS launched a call for evidence on improving the consumer landscape and quicker switching. This included examining whether the reputation and feedback data earned by a user on a particular platform can be ported to other platforms to help them win business or prove their trustworthiness. The consultation closed on 23rd June and the Government will respond in due course.

**13. *We recommend that the Government should study ways in which platforms providers could themselves become key players in the regulatory framework, ensuring that users are complying with current regulations, in order to reduce the risks posed to the public. This issue should be addressed specifically in the Digital Strategy.*** (Paragraph 52)

Platforms offer a huge range of benefits to both consumers and businesses alike. The UK has a framework that allows platforms to innovate and grow whilst continuing to offer the services consumers and businesses demand. The UK rejects any form of regulation that would undermine those benefits. The Government supports a non-regulatory approach through better enforcement and clarification of existing legislation where possible. We have developed non-regulatory methods of encouraging transparency, including a voluntary scheme for traders to provide point of sale information to customers to inform them of their rights under the 2015 Consumer Rights Act.

The Government is pleased that the European Commission's recent strategy was in line with the UK's views by announcing plans to review existing frameworks rather than introduce new legislation. Businesses should take the lead to work with the Government and the Commission to create the right regulatory framework that is flexible and suitable for the digital age.

**14. *Workers using the platforms should be entitled to reasonable employment conditions, and should not be vulnerable to exploitation, and we will be returning to this topic in greater detail, when we carry out our inquiry into the future world of work in the autumn of 2016.*** (Paragraph 53)

The Government is determined to build an economy that works for all, including ensuring everyone gets a decent wage, so we welcome the committee's inquiry into the future of work. The Prime Minister has asked the Chief Executive of the RSA, Matthew Taylor, to lead an independent review into how employment practices need to change in order to keep pace with modern business models. In the UK, it is the individual's employment status that determines the employment rights they are entitled to and not the type of contract they are employed on. Essentially, an individual's employment status is determined by the reality of their working relationship. Individuals cannot opt out of the rights they are owed, nor can an employer decide not to afford individuals those rights. Employers cannot simply opt out of the National Living Wage by defining their staff as self-employed.

## Intellectual Property

**15. *Intellectual Property is increasingly important to the economic success of the UK, but it is hard to manage in a digital context. The Intellectual Property regime in the UK***

*is flexible enough to withstand technological and digital challenges. While we have not carried out a detailed study into the work of businesses working within IP issues, we were impressed with the evidence from the Copyright Hub, which incentivises creators and creativity, ensures that mechanisms are keeping up with technological disruption, and uses identifiers to connect the work with the creator.* (Paragraph 58)

**16. *The Government has shown foresight in leading on this work, in supporting the Copyright Hub, through the Digital Catapult (set up by Innovate UK, to drive future economic growth in the digital economy). It needs to continue to pledge financial support for this world-leading asset, particularly during the next few years of the Copyright Hub's existence, when its work will be focussed on driving adoption.*** (Paragraph 59)

The Government agrees with the Committee on the importance of intellectual property to the economic success of the UK economy and welcomes the Committee's endorsement of the intellectual property regime, and the appropriate balance that has been struck between the rights of the creator and the consumer. The creative industries make a significant contribution to the UK economy (£84 billion last year). The UK's balanced and flexible IP regime has been an important element in this success.

The Government too recognises the potential of the Copyright Hub to deliver real benefits for the UK creative industries and the wider digital economy, and that is why it has supported the Copyright Hub from its inception. To date Government has invested around £1.5m in the Copyright Hub through the IPO and the Digital Catapult. While the Government remains supportive of the Copyright Hub, it is also important that the creative industries continue to pledge their support for this innovative licensing solution.

**17. *The Coalition Government introduced some wide-ranging changes to the intellectual property regime through primary and secondary legislation on important issues such as copyright exceptions. The current regime strikes the appropriate balance between the rights of the creator and the consumer, and further change in this area would not be helpful at the moment.*** (Paragraph 60)

Following the recommendations made by Professor Hargreaves in his review of IP and growth, the Government implemented a number of changes to the copyright framework, to support new uses of copyright materials and promote innovation, creativity and economic growth. The changes, introduced via the Enterprise and Regulatory Reform Act 2013, were designed to bring UK copyright law up to date for the digital age. The Government has committed to evaluating the impact of these changes in 2019.

At present, there are no domestic plans for further reform of the copyright framework, although we are expecting EU proposals this year. The Government will keep the copyright regime under review to ensure it continues to support creators and deliver benefits for consumers.

## **Enforcement**

**18. *The IP Crime Unit was set up by the City of London in 2013, with £5.6 million funding by the Government until 2017. We support the work it does in stopping people breaking the law, and preventing creative industries from having their rights infringed.***

***We recommend that funding should be available beyond 2017. Furthermore, we recommend that the Government replicates the work of the IP Crime Unit in other parts of the country, and provides the necessary resources to support this.*** (Paragraph 64)

On 10th May 2016 this Government published its IP Enforcement Strategy – *Protecting creativity, supporting innovation*. The strategy sets out key actions that the Government will take to reduce the level of illegal content online, tackle the trade in counterfeit goods and build respect for IP. A key part of this work will be carried out by the Police Intellectual Property Crime Unit (PIPCU) and we are considering how we could ensure a more sustainable funding model for the Unit and hope to confirm this before March 2017.

The City of London Police, in which PIPCU sits, has a national remit for economic crime. PIPCU itself also has national responsibilities. As part of the agreement signed with the IPO, PIPCU is required to inform and influence other law enforcement agencies in the country to ensure a coordinated response to IP crime.

This year alone, PIPCU has undertaken major operations with enforcement bodies in the North East and West, and in the South West, which have disrupted various organised crime groups involved in IP crime. We expect these operations to continue and for lessons learned to be distributed widely. The Government therefore believes that there is no need at present to establish IP Crime Units in other parts of the country.

In addition to the work of PIPCU, the IPO has worked closely with law enforcement bodies across the country to reduce IP crime. Since 2012, the IPO has been an integral part of the Scottish Anti Illicit Trade Group. The group coordinates activity aimed at disrupting and dismantling serious organised crime. A key success of this group has been the three year long enforcement operation against illegal counterfeit traders operating in the Barras Market area of Glasgow. Since this targeted action, over £30 million pounds worth of fake goods have been seized and 100 counterfeit traders and IP criminals arrested.

***19. The Government should be proactive in stopping metadata stripping, which removes identifiers from digital works. This is already an offence under the Copyright, Designs and Patents Act 1988. The current Digital Economy Bill includes the provision that perpetrators of online crime are subject to similar punishment to perpetrators of non-digital crime, which we support. Just as regulation must keep pace with digital economy development, so must enforcement.*** (Paragraph 65)

The Government welcomes the Committee's support of the provision in the Digital Economy Bill to bring the penalty for online crime in line with the penalty for non-digital crime. This proposal seeks to address the disparity created following the increase in the maximum sentence for physical copyright infringement in 2002, and will send a strong message to criminals that infringing creators' rights is not tolerated in today's society.

As the Committee notes, metadata stripping is already an offence under the Copyright, Designs and Patents Act (CDPA) 1988. However, the Government recognises that metadata stripping remains a significant problem, particularly for the images industry. It is also clear that for the digital economy to function effectively and for rights holders to be adequately remunerated creative content must retain its identifiers.

The Government agrees to consider what further action is needed to address metadata stripping, as part of our work to deliver the Enforcement Strategy.

## Digital Single Market

20. *The decision to leave the European Union risks undermining the United Kingdom's dominance in this policy area. We could have led on the Digital Single Market, but instead we will be having to follow. The Government must address this situation, to stop investor confidence further draining away, with firms relocating into other countries in Europe to take advantage of the Digital Single Market.* (Paragraph 68)

21. *The implications of the European Single Digital Market were beyond the remit of this inquiry, but the Government needs to address the issue of whether businesses will be able to access the European Single Digital Market, if they want to do so. In broader terms, we recommend that the Government sets out in its digital strategy the implications of withdrawal from the European Union, in reference to specific, current EU negotiations relating to the digital economy. The Government must address this situation as soon as possible, to stop investor confidence further draining away, with firms relocating into other countries in Europe, to take advantage of the Digital Single Market.* (Paragraph 71)

While we remain a member of the EU we will continue to play a role and represent the interests of the British people. This includes taking an active part in and influencing negotiations regarding the Digital Single Market and ensuring that British views are heard in the debates. Government will need to consider all factors carefully in implementing the decision of the British people, but access to the single market will be one of the most important issues to address.

At the same time, the Government's focus will also be on positioning the UK digital economy so that it can take advantage of the opportunities that our exit from the EU will provide as a global trading nation and open economy. We already have a world-class digital economy, with strong foundations including connectivity, skills and security. In addition, we have first class universities, a stable legal system; appropriate fiscal incentives; and an advisory ecosystem that is best placed to support the needs of growing tech companies.

We will be considering all options to ensure that digital companies can make the most of our trading relationships with the rest of the world. We are committed to ensuring that the UK retains its reputation as one of the best places in the world to start, scale up and invest in a digital business.

## Digital co-ordination in the public sector

22. *There needs to be better co-ordination between Government Departments on digital innovations, in order to improve public sector efficiency, which in turn will benefit the economy. For the Government to have a holistic view of the different digital initiatives that each Department is undertaking, the Minister responsible for the Digital Economy should take the lead in overseeing digital projects. We recommend that this issue is addressed in the Government's Digital Strategy.* (Paragraph 74)

DCMS and Cabinet Office work closely together to support the digital economy and digital transformation of government respectively.

The Secretary of State for Culture, Media and Sport leads the Government's work on the digital economy, supported by Matt Hancock as the Minister of State for Digital and Culture. This is increasingly a policy area that impacts on the whole of the Government's

agenda, and DCMS works closely with other departments to drive this forward. This has been further strengthened by the recent appointment of Matthew Gould as the Director General for Digital and Media.

Ben Gummer, Minister for the Cabinet Office and Paymaster General, is responsible for the Government Digital Service (GDS) which leads the digital transformation of Government. GDS exists to help departments digitally transform government and its services to meet user needs and maintains oversight of digital transformation programmes across Government. The recent appointment of Kevin Cunnington, the first Director General of GDS, underlines the important role played by GDS in leading Government's digital transformation to both improve services and realise public sector efficiencies.