



HM TREASURY

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Introduction

1.1 The United Kingdom has responsibility for 14 Overseas Territories¹ (“the Territories”), 11 of which are permanently inhabited. The Territories have their own constitutions and most have democratically elected governments. Most powers are devolved to the Territories, but the UK remains responsible for their good governance, defence and external relations. In the Turks and Caicos Islands, Anguilla and Montserrat, the Governor is ultimately responsible for the regulation of financial services.

1.2 HM Treasury plays and will continue to play an active role in supporting the UK's Overseas Territories in several areas relating to the Department's responsibilities as the UK's economics and finance ministry. The overarching objective for HM Treasury's engagement with the Territories is to help fulfil the Government's responsibilities to the Territories while ensuring that sound governance and public financial management minimise risks to the UK Exchequer.

1.3 HM Treasury recognises that the financial services industry is one of the main contributors to the economies of Bermuda, the Cayman Islands, the British Virgin Islands and Gibraltar and, to a lesser extent Anguilla, the Turks and Caicos Islands and Montserrat.

1.4 Michael Foot was asked by the previous Government to conduct an independent review of British offshore financial centres, working co-operatively with six Overseas Territories (Anguilla, Bermuda, the British Virgin Islands, the Cayman Islands, Gibraltar and the Turks and Caicos Islands) and the three Crown Dependencies² to identify the opportunities and challenges generated by the financial crisis and the subsequent impact on the world economy. Michael Foot's October 2009 report set out a series of steps that jurisdictions must take to ensure that they are inside the scope of international regulation and that they secure their long-term sustainability.

1.5 Having a viable and sustainable financial services industry is important to the long term development of these Territories. The Government will strongly support those Territories that meet international standards. HM Treasury will work in the international arena to ensure that there is no discrimination against well regulated offshore financial centres and that the same international standards are applicable to all jurisdictions.

1.6 All Territories, whether they have a financial services industry or not, have an obligation to ensure that they are not an avenue for corrupt practices and have systems in place to implement European Union and United Nations sanctions against individuals and businesses where these sanctions have been extended to the Territories by Orders in Council or, where appropriate, local legislation.

1.7 Gibraltar is the only UK Overseas Territory located within the EU. Most EU law applies to Gibraltar and the UK is ultimately responsible for ensuring that Gibraltar meets its EU

¹ Anguilla; British Antarctic Territory; Bermuda; British Indian Ocean Territory; British Virgin Islands; Cayman Islands; Falkland Islands; Gibraltar; Montserrat; Pitcairn Island; St Helena, Ascension Island and Tristan da Cunha; South Georgia and South Sandwich Islands; Sovereign Base Areas on Cyprus; Turks and Caicos Islands.

² Guernsey, Isle of Man, Jersey.

obligations. As an Overseas Territory, Gibraltar is not constitutionally part of the UK. The UK Government therefore works with the Government of Gibraltar to ensure that it complies with its obligations under EU law, including legislating in Gibraltar as appropriate to transpose EU Directives and Regulations. The UK Government is responsible for representing Gibraltar's interests in EU meetings and negotiations, in consultation with the Government of Gibraltar.

1.8 The Government's strategy calls on Departments to take responsibility for supporting the Territories in their area of competence and expertise. This paper sets out examples of HM Treasury's engagement with, and support for, the Territories in the following key areas:

- Support for economic and financial risk management;
- Tax and customs;
- Financial regulation; and
- Anti-money laundering and counter terrorist financing regimes.

1.9 HM Treasury works with representatives of the Territories attending Commonwealth Finance Ministers meetings as part of the UK delegation. It also works with the Foreign and Commonwealth Office to endeavour to inform Territories in advance of key international meetings and take into account any concerns that are brought to their attention.

1.10 Different HM Treasury Ministers have lead responsibility for the policy areas highlighted above. Queries relating to HM Treasury's engagement with the Territories should be directed to public.enquiries@hm-treasury.gov.uk.

Support for economic and financial risk management

1.11 Most of the Overseas Territories are financially independent of the UK and the fiscal policy pursued by Territory Governments is constitutionally a matter for them. However, the UK Government takes a close interest in the position of the public finances in each Territory because of the link to the delivery of good governance and because the Department for International Development (DFID) has budgetary responsibility for meeting the reasonable assistance needs of the Territories.

1.12 DFID currently provides annual budgetary support to St Helena, Montserrat and Pitcairn Island; has guaranteed commercial bank lending in the Turks and Caicos Islands for five years; and carries the risk of contingent liabilities in other Territories which are currently unaided (which could be realised, for example, as a result of natural disasters or global events).

1.13 HM Treasury is responsible for setting DFID's budget and works with DFID to ensure that they fulfil their spending settlement commitments and maximise value for money in relation to all aspects of their budget, including their obligations to the Territories. HM Treasury must also be consulted on any proposals which could have implications for the UK's fiscal position (for example, the UK's agreement to guarantee a bond issue by the Turks and Caicos Islands).

1.14 HM Treasury has supported bids by Territory authorities in Montserrat and Anguilla for an International Monetary Fund (IMF) assessment of economic policy and made the formal request for IMF surveillance on their behalf (as Territories are not members of the IMF in their own right). Such assessments help to improve the depth and transparency of technical analysis of economic positions and can support engagement with international capital markets and investors. The IMF has sent missions to both Territories and statements at the conclusion of both missions were published in July 2011. HM Treasury will continue to consider any further requests for engagement by the IMF in the Territories.

Tax and customs

1.15 The Overseas Territories have their own tax systems, which tend to be characterised by low or zero rates of income tax and an absence of corporation tax. The larger Territories are offshore financial centres and their low tax environment puts them in a very favourable position internationally. In some cases, their tax regimes compete strongly with those of much larger economies, including the UK.

1.16 In view of this fiscal autonomy, relations between the Territories and the UK in tax matters are in many ways similar to those between any other competitive tax systems. The UK negotiates tax information exchange agreements with the Territories as it does with other jurisdictions. The UK also has Double Taxation Agreements with some Territories and good links on customs matters.

1.17 Notwithstanding the tax competition between the UK and some Territories, there are common interests in complying with international standards of tax cooperation. This is an important part of the good governance of the Territories and their international reputation rests considerably on their compliance with such standards.

1.18 HM Treasury and HM Revenue and Customs (HMRC) encourage the Territories to comply with international standards of transparency and exchange of information and welcome the progress that has been made in recent years with all Territories with a financial services industry having met the internationally agreed minimum standard of 12 Tax Information Exchange Agreements. HM Treasury is pleased to see that some Territories have gone considerably further than this and are continuing to negotiate and conclude additional Agreements. The seven largest Territories are members of the Global Forum on Transparency and Exchange of Information for Tax Purposes and represent themselves in its deliberations. The Peer Reviews undertaken by the Global Forum show the considerable progress made by the Territories with all those reviewed having successfully moved to Phase 2 of the process. HM Treasury notes that recommendations for further improvements were made and encourages the Territories to demonstrate that they are acting on these recommendations.

1.19 HMRC stands willing, as it has already, to help facilitate tax agreements between Territories and other countries in appropriate cases, where direct negotiations have been hampered by capacity constraints or other factors. HMRC has also provided technical expertise, funded by the Department for International Development, to help Territories develop their tax administrations or provide key functions such as customs officers.

1.20 Recent examples of HMRC support include conducting a review of the taxation system of Ascension Island; delivering leadership and management training for tax officials in the Cayman Islands; secondment of officers to the Turks and Caicos Islands, the Falkland Islands and the Ministry of Defence Sovereign Base Area in Cyprus. HMRC continue to provide targeted support and are currently in discussion with one Territory about providing short term legislative drafting expertise and with two others to deliver a joint training event covering information exchange. HMRC will continue to consider requests for technical assistance by the Territories on a similar basis.

1.21 Where Territories are affected by EU initiatives in tax matters, such as the EU Savings Tax Directive, HM Treasury will keep them informed of developments and ensure that they have opportunities to express their views.

Financial regulation

1.22 HM Treasury and the Territories have a shared agenda on the application of high international standards for financial regulation. Several of the Territories have financial services industries that are large relative to their economies. HM Treasury insists on the highest levels of adherence to international regulatory standards across the board, which we see as essential to

the development of a sustainable financial services sector. We acknowledge the progress that several of the Territories have made in this area.

1.23 Where those Territories with a significant financial services industry demonstrate their commitment to and meet these high standards, HM Treasury has been able to support them in international fora such as the Financial Stability Board or European Union and will continue to do so. HM Treasury has also encouraged and supported the Territories to seek greater representation for themselves in relevant fora and notes the positive role that Bermuda, the Cayman Islands and the British Virgin Islands are playing as members of the Financial Stability Board's regional consultative group for the Americas. HM Treasury will continue to consider ways in which Territories' voices can be heard at these fora.

1.24 As Whitehall policy lead for the Territories, the Foreign and Commonwealth Office often mediate HM Treasury's engagement with the Territories on these issues. HM Treasury ensures that the Foreign and Commonwealth Office is kept apprised of relevant developments, for instance in the recent work of the Financial Stability Board looking at international cooperation and information exchange around financial sector standards. In addition to meetings at official level, in some instances HM Treasury Ministers meet stakeholders from the Overseas Territories directly on these issues.

1.25 Within the UK's financial regulatory architecture, detailed expertise relating to financial supervision and regulation sits primarily in the Financial Services Authority and decisions about the provision of assistance to the Overseas Territories in these areas would therefore fall to that authority. HM Treasury welcomes the constructive role the Financial Services Authority plays at the Caribbean Financial Action Task Force Meetings.

Anti-money laundering and counter terrorist financing

1.26 HM Treasury engages with the Territories on issues relating to money laundering and terrorist financing through bilateral support; working with and supporting regional groups (in particular the Caribbean Financial Action Task Force); and representing Territories' interests in the EU on issues such as third country equivalence.

1.27 Bilateral support from HM Treasury in this area has included advising the Territories on how to draft and implement legislation equivalent to the UK's Counter Terrorism Act. We have worked with the Foreign and Commonwealth Office to ensure asset freezing legislation is implemented in the Territories, particularly in response to recent events in the Middle East and North Africa. HM Treasury, together with the Foreign and Commonwealth Office's Sanctions team, will continue to advise the Territories on the implementation of these regimes.

1.28 HM Treasury has also advised Territories on standards that they need to meet in order to be recognised by EU Member States as having equivalent anti-money laundering regimes.

1.29 The UK works as a Co-operating and Supporting Nation to the Caribbean Financial Action Task Force, to raise overall anti-money laundering standards and the quality of mutual evaluations in the region. HM Treasury has worked within the Financial Action Task Force to support regional bodies such as the Caribbean Financial Action Task Force and welcomes the continued efforts of the Territories to achieve an effective Caribbean regional group.

Debt Relief (Developing Countries) Act 2010

1.30 The Debt Relief (Developing Countries) Act 2010 ("the Act") has recently been made permanent in the UK. This significantly reduces the amount that creditors are able to recover in respect of the historic debts of Heavily Indebted Poor Countries through the UK courts. This supports Heavily Indebted Poor Countries in getting the amount of debt relief they need and means money intended to support development and poverty reduction is not diverted for the

benefit of these creditors. However, the Act does not apply to other jurisdictions, including Overseas Territories. HM Treasury stands ready to assist should the Governments of these Territories decide to take similar legislation forward.

Technical assistance

1.31 HM Treasury recognises that technical assistance is a valuable tool for the Territories and will consider on a case by case basis requests for technical assistance discussions and visits by Territory officials to HM Treasury.

HM Treasury contacts

This document can be found in full on our website: <http://www.hm-treasury.gov.uk>

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