



National Audit Office

**FOREIGN AND COMMONWEALTH OFFICE**  
Managing risk in the Overseas Territories

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# SUMMARY

**1** The United Kingdom retains responsibility for 14 Overseas Territories, 11 of which are permanently populated and which opt to remain under British sovereignty rather than, where this is an option, seek independence (Appendix 2). The Territories are not constitutionally part of the UK. They have their own constitutions, legal systems and most have a democratically elected Government. The Territories are a diverse group, ranging from the uninhabited, environmentally sensitive British Antarctic Territory, to Bermuda which is home to over 65,000 people and is one of the world's leading financial centres. Though different in size, economic and social development and systems of governance, most of them share common features which include relative isolation, exposure to disasters and dependence on one or two key industries. Since 2002, the great majority of Territory citizens have been entitled to full British citizenship, carrying with it a right of abode in the UK.

**2** The Territories are a UK Government-wide responsibility. The Foreign and Commonwealth Office, (“the Department”), leads overall policy and maintains the main UK presence in Territory, with other Government departments helping to discharge specific aspects of the UK responsibilities. The Department seeks to achieve a balance between allowing populated Territories the maximum autonomy they aspire to and ensuring that the UK can meet its responsibilities and minimise its exposure to potential liabilities. Over the years the UK's exposure to risk has been varied, including; contributing to the costs of natural disasters and of meeting various international obligations; funding liabilities and deficits in Territories' public finances; and the need to bolster regulation in vital areas like transport safety and security. Other areas, such as the regulation of offshore financial services, clearly pose important and growing risks, though these have not yet resulted in direct costs to the UK.

3 The National Audit Office last reported on the Overseas Territories in 1997.<sup>1</sup> This report reviews subsequent progress, recognising that the Territories have experienced many changes, including in most a trend towards greater local autonomy. It considers whether UK government departments work effectively, in conjunction with Territory governments, to manage and mitigate risk; if appropriate cross-cutting arrangements are in place across the UK Government to identify, prioritise and respond to risks, and; whether suitable and sufficient resources are available to, and deployed by, UK Government to manage the risks to the UK from its relationship with the Overseas Territories. Our overall conclusion is that since 1997, whilst progress has been made in managing and mitigating some risks; the degree of success in both individual Territories and across key risk areas has been mixed.

4 Assessing and managing the diverse range of risks facing the Territories is inherently difficult, and can be complicated if Territories or Governors use Territory Constitutions to exclude each other from their respective spheres. Though Territory Constitutions define areas of responsibility, in reality most risks are to an extent shared between Territories and the UK. Some pockets of good practice are emerging and modern risk management practices, such as the systematic grading of risks for probability and impact, and shared risk registers to monitor progress, could be more widely used.

5 There have been some important achievements;

- Standards of **Safety and Security in Transport** have been greatly enhanced, and robust arrangements are in place to avoid standards slipping back. The priority going forward is to help Territories assume the fullest responsibilities themselves, with the UK providing only periodic quality assurance to ensure that international standards are met.

- Progress has been made in developing the **Regulation of Offshore Financial Services**, though the four larger offshore financial centres are leaving in their wake the weaker regulatory capability of the three smaller centres<sup>2</sup> where the UK retains most direct responsibility. The main challenge across all Territories is to respond adequately to growing pressures to reinforce defences against money laundering and terrorist financing.

6 In other areas progress has been much more mixed.

- In **Government Finances**, risk to the UK has reduced in some Territories, (such as the British Virgin Islands, Gibraltar, Bermuda and the Cayman Islands), due to vigorous economic growth and/or sound financial management. The Department and the Department

for International Development (DFID) therefore focus their monitoring and controls on economically weaker Territories. Controls on borrowing partially mitigate risks to the UK in these Territories. While Anguilla, the British Virgin Islands and the Turks and Caicos Islands have now graduated from DFID aid, St Helena and Montserrat continue to absorb over half of the UK's financial investment in the Territories, with £28 million bilateral aid received from DFID in 2005-06.

- There have been important achievements in **Disaster Management** since 1997, especially in the more heavily populated Territories of Bermuda, the Cayman Islands, Gibraltar and the British Virgin Islands. All Territories now have at least a draft National Disaster Plan to respond to their main risk events, supported by sector-specific plans. Many now have dedicated disaster management agencies staffed by full-time officials. However, there are still areas of weakness under scrutiny by a rolling Foreign and Commonwealth Office and DFID capability review programme. For example plans do not yet cover all elements of the disaster management cycle of preparedness, mitigation, response and recovery, and some local legislation and policies lag behind good practice.

- Though the UK retains responsibility through its Governors for **Law Enforcement and Internal Security**, the police and prison services depend on funding from Territorial governments. This split can work well where both parties share priorities, but there are instances where funding falls short of requirements.

7 The Department recognises that Overseas Territories work requires specialised administrative skills and knowledge beyond core diplomatic service competencies. It aims to develop this specialism as a career path; currently only 10–15 per cent of Governors, Deputy Governors and desk officers and managers in London had any prior experience with Overseas Territories before they took up post. The Department's funds to promote good governance and build capability in the Territories are small and thinly spread. When major liabilities do occur, the response has to be a UK Government one involving other government departments, most often DFID.

8 Local capacity to deliver timely public accounts, and sustain independent audit and parliamentary scrutiny of the executive, which can give the Department confidence that risks are being adequately managed, remains highly variable across the Territories.

## Recommendations

More detailed recommendations are contained in Appendix 1.

- 1 Only a minority of UK Departments have significant involvement in the Overseas Territories, despite these being a UK-wide responsibility. **Other UK government departments should be required to set out their arrangements for dealing with Overseas Territory issues and to nominate a clear contact point to ensure that these responsibilities are being addressed.**
- 2 The UK and Territory Governments have no common framework for identifying, evaluating and monitoring risk, although in practice share risk should serious adverse events occur. **Governors should encourage and participate in modern risk management practices, taking the lead from Territories such as Bermuda and the Cayman Islands.**
- 3 Capacity limitations in the offshore financial sector have limited Territories' ability to investigate suspicious activity reports, and, in the case of the Turks and Caicos Islands, Anguilla and Montserrat, resources are below the critical mass necessary to keep up with increasingly sophisticated international standards and products in offshore financial services. **The Department, with the support of relevant UK agencies, (Treasury, Financial Services Authority, Serious Organised Crime Agency) should develop a strategy to ensure stronger investigative and prosecution capacity, bolster regulatory standards and support increased legislative drafting capacity.**
- 4 The UK Department for Transport set up Air Safety Support International in 2002 to restore safety standards in the Territories, on the understanding that it would have a finite life. Some Territories have built up their own capability to regulate aviation safety, but others have not and rely instead on regulation free of charge by the UK. **The Department for Transport should move to full cost recovery where it is regulating aviation safety on behalf of Territories, within five years.**
- 5 Key UK responsibilities in the Territories, such as for internal security and the police and prisons, depend on funding from local governments, which is not always sufficient. **Governors need to consider strategies such as measures to strengthen local ownership and participation in policing matters, and objective and independent assessment of the effectiveness and efficiency of Territory police forces, according to local circumstances.**
- 6 The majority of the UK aid programme to the Territories goes on meeting the recurring budgetary deficits in Montserrat, St Helena and Pitcairn. Little is left available to invest in new infrastructure or other development projects, which has retarded the pace of growth in these Territories. **DFID should roll out their revised mechanisms to meet budgetary deficits in St Helena, Montserrat and Pitcairn, so as to enable Territories to have a greater stake in savings through prudent fiscal management. DFID should also provide greater flexibility for development project funding.**
- 7 The core diplomatic service skills and prior experience in developing countries can have considerable value in Overseas Territories. But the work also brings additional high-level administrative challenges and direct responsibilities for public services and for the Civil Service. **The Department needs to make real progress in developing Territory administration and governance as a distinct specialism and career path.**
- 8 Currently the Foreign and Commonwealth Office and DFID each maintain separate teams, totalling some 60 staff, with responsibility for the Overseas Territories. In practice, the DFID team has limited involvement outside St Helena, Pitcairn and Montserrat. **We recommend additional pooling of resources at working level, with a further extension of joint working and use of mixed teams, deployed flexibly to meet needs across the Territories.**
- 9 Accountability and audit in the Territories tends to lag behind UK standards due to capacity limitations and a lack of suitably experienced local participants. Public Accounts Committees in many Territories struggle to provide effective, apolitical, and timely scrutiny of the executive. **The Department and DFID should promote the appointment of Ex Officio members with relevant skills, as in UK local government and in Montserrat.**
- 10 While the nature of the challenges faced by Governors and Territory government officials can vary between the Territories, there are opportunities for greater sharing of information and good practice. **The UK should promote and facilitate greater linkages between the Territories through further cross-Territory training and conferences, sharing of good practice and support for short term secondments and personnel exchange.**
- 11 The Foreign and Commonwealth Office's initiatives have tended to focus on the Caribbean Territories. **The Department should identify its risk mitigation priorities for the non-Caribbean Territories and link them into the wider Overseas Territory network.**