



Serco Australia Pty Ltd

6 March 2020

Secretary
Finance and Public Administration Legislation Committee
PO Box 6100
Parliament House
Canberra ACT 2600

By email: fpa.sen@aph.gov.au

Dear ,

Re: Senate Finance and Public Administration Legislation Committee's Inquiry into the Public Governance, Performance and Accountability Amendment (Tax Transparency in Procurement and Grants) Bill 2019

Thank you for the opportunity to respond to the submission to the committee by the Centre for International Corporate Tax Accountability & Research (CICTAR), I appreciate the opportunity to correct a number of erroneous statements made.

As set out below, Serco Australia employs some 10,000 Australians, and in 2017-18 paid \$11m of tax on \$42m of taxable profit. At this rate we are a relatively high-ranking taxpaying entity for our size as compared to companies listed in the Australian Tax Office's (ATO) entity tax information report. We do not take any measures to evade, avoid, or artificially reduce the tax we pay in Australia, or anywhere else.

I would like to note that at no stage has Serco Australia received any correspondence from CICTAR and at no stage have we provided any data or information. I am therefore pleased that you have referred to the submission's 'reflections' which accurately characterises the content, as opposed to evidence based in fact.

Background

At our foundation, Serco is a proud provider of services on behalf of Government customers. We are committed to working transparently, in accordance with the law and financial reporting requirements in all the countries we operate in.

Serco Group plc is listed on the London Stock Exchange and in accordance with its Rules, publishes Annual Reports and Accounts and Stock Exchange Announcements. We publish the Group Annual Report and Accounts on our Serco Asia Pacific website: <http://www.serco-ap.com.au/news-media/annual-reports/> - the most recent on 26 February 2020.

All Serco Australia revenues are received in Australia and we pay all tax that is due in Australia. Serco does not enter into any arrangements for the purpose of minimising tax.

Our Asia Pacific business is headquartered in Sydney and we have smaller offices in all the capital cities in Australia and operate on some 80 different sites. We employ over 10,000 Australians to deliver a range of services across five industry areas – Health, Defence, Citizen Services, Immigration and Justice.

As a company we have four key values; trust, care, innovation and pride and we strive to live these everyday. We are proud that the work we do, which is sometimes difficult and undervalued, is inextricably linked to social impact we create.



We engage regularly with all our government customers and maintain an open and transparent dialogue including around tax. It is important to Serco that our clients are confident in our partnership as we work to provide Australians with valued and critical services. Serco also meets the many contract audits undertaken to complete due diligence and to bid as a government supplier. We meet these in every state that we provide services to and at the federal level as well.

Serco is a service company and our predominant costs are wages. In simple terms, we are contracted to provide a service efficiently and at value to our customer. We do so through the innovation and fresh thinking of our staff. As you will see from Serco Group plc 31 December 2019 financial statements the Serco Group’s underlying trading profit is 3.7 per cent. This is consistent for global companies on our sector.

As you would be aware, taxpayers pay Australian income tax on profits (being assessable revenue less tax-deductible expenses, including salary and wages). For completeness we have included the accounting profit and taxable profit in Australia to the ATO’s entity tax information. The taxable profit is different to the accounting profit due to permanent and timing differences between accounting and tax. Further details can be obtained from Serco Group Pty Ltd statutory accounts.

In the past four years our revenues, accounting profit, taxable profit and net tax payments (tax at 30% less eligible tax offsets such as foreign tax paid and franking credits) have been:

Tax FYE	Aust income/revenue	Aust accounting profit/(loss)	Taxable profit	Tax paid
2017-18	968,173,628	64,443,864	42,141,358	11,165,079
2016-17	1,119,030,904	79,208,128	39,804,379	8,997,615
2015-16	1,061,246,279	138,122,054	19,150,831	3,797,165
2014-15	1,250,188,393	(559,089,494)	30,999,999	5,210,397

We note that we paid tax in 2014-15 even when we had accounting losses, predominantly due to the tax deductions for the expenses not being realised until the subsequent years.

Response to the 2018 report

CICTAR’s submission references a report from December 2018. We have previously responded through the media to that report and clarified the three main points raised:

Reporting

In Australia we submit a Special Purpose Financial Report to meet the directors' reporting requirements as required by the *Corporations Act 2001*. This is in compliance with the Act and with accounting standards. The change to Special Purpose reporting in 2012 was made in accordance with the Act and was approved by our auditors.

Loans to the Australian Business

The 2017 accounts show Serco Australia had funds on deposit with the UK parent company which are at call and interest earning. Serco Australia had a loan from the UK which funded an acquisition in Australia in 2012 and was repaid on maturity in late 2017. Interest rates reflect the different nature of the funds and reflect commercial arrangements with the parent entity which are comparable to external banking rates and not designed to reduce Australian tax. The treatment of these loans was audited by our auditors.



Central Recharges

The Serco Group Pty Limited in Australia receives charges from Serco Group for services provided or co-ordinated (and paid for) by Serco Group plc and used by the Australian businesses. These include charges associated with a global Systems, IT licences, Insurance, as well as costs associated with back office transactional services such as accounts payable processing which are provided to Serco Australia by unrelated subcontractors. These administrative services are required for the Australian business to operate and are not a means to reduce Australian revenue and reduce tax liability.

Specifically, to further claims in this submission.

Hong Kong

Serco Group Pty Ltd prepares statutory audited accounts in accordance with the accounting standards. Its Australian statutory accounts include Serco Group (HK) Limited. Serco Group (HK) Limited (Serco HK) is a Hong Kong registered company providing operations and maintenance services in transport infrastructure management and hospital facilities management section in Hong Kong. Serco HK prepares audited accounts in Hong Kong in accordance with the accounting standards and Hong Kong law. As a Hong Kong private company, Serco HK is not required to lodge its audited accounts. However, their results are contained in the Australia's accounts.

Serco Australia provides support and management services to Serco HK and a management fee is charged accordingly. Serco HK does not provide services to Australia and as such there is no such opportunity for any profit shifting to Hong Kong.

Serco HK has a 40% shareholding in Hong Kong Parking Limited (HKP), with the other 60% held by Wilson Parking. Serco HK includes its 40% share of the profit and balance sheet of HKP as is transparently set out as a separate note in its statutory accounts.

Serco Insurance Company Limited - Guernsey

This "captive" insurance company has been part of the Serco Group since 1995. Some of our contracts we are required to provide a "low level" of insurance, that is a level of insurance that is below the deductible that 3rd party insurers demand. We therefore use our own insurance company to provide this additional cover which is not appropriate to be bought in the open market.

The company has been set up in Guernsey which is Europe's largest captive domicile. Guernsey has a well-respected regulatory code in connection with insurance and a significant amount of local expertise and experience in this area. In addition, Guernsey is geographically close to the UK and has a code of law parallel to the UK.

Serco Australia does not have transactions with this entity.

Serco Ferries (Guernsey) Crewing Ltd

This company is used to employ offshore mariners who man the boats on a Serco contract in Northern Scotland. This type of manning arrangement, specifically for at-sea mariners is well recognised by the UK tax authorities and HM Revenue and Customs (UK's tax, payments and customs authority) signed off specifically on our arrangement at the time of its initial implementation back in 2013.

Serco Australia does not have transactions with this entity.

Serco (Jersey) Ltd – Jersey

Serco Group is contracted to operate the sports centre "Aquasplash" in Jersey. Serco (Jersey) Ltd is the company established in Jersey through which that contract can be run.

Serco Australia does not have transactions with this entity.



Luxembourg

Serco does not currently have any transactions with Luxembourg. This is a dormant company and has been such since 2016. The company is still being retained in the Group as it was a party to the sale of our Indian business back in 2015, and as such is still a party to the post-sale indemnities.

I would like to thank the committee for the opportunity to provide this information to the inquiry and to clarify a number of inaccuracies in the CICTAR submission.

If I can provide any further information on Serco Australia and our operations in the region I am happy to do so.

Yours sincerely,

Mark Irwin
Chief Executive Officer
Serco Asia Pacific