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## Serco warns 2014 profits will be hit by UK government contract investigation

Serco says ongoing investigation into the alleged overcharging of UK government contracts would likely impact next year's profits

By Ashley Armstrong

14 November 2013 • 9:34am

Serco employees are alleged to have falsified documents to make it look like prisoners had been delivered to court on time | CREDIT: Photo: GETTY

Shares in embattled security group Serco slumped by over 10pc this morning after the group warned next year's profits would be lower.

The outsourcing group said that its troubles with the UK government and the ending of other large contracts would mean that its guiding for "profits for 2014 being moderately lower than those for 2013".

The UK government has put its contracts to Serco on hold while the group is probed over a series of debacles which has led to the Serious Fraud Office investigating the alleged overcharging on electronic tagging of customers.

Ed Casey, who has stepped in as acting chief executive after Chris Hyman quit last month, said Serco's UK government business was "an area that is on ice." Serco has initiated a "corporate renewal" program to install transparency needed to win back its government customers.

Mr Casey said on a conference call that the group was in a unique situation and the ongoing problems with the UK government was having a knock-on effect on its UK private contracts business. The group shied away from putting a number on the cost of lost or deferred government business as a result of the investigation but said that it would be a "few percent of revenues."

The group said that it expected this year's adjusted operating profit to be approximately £325m while its operating margin would be slightly down on the 6.4pc achieved the year before.

Serco added that it has agreed with the government to repay any amount agreed to be due on its electronic tagging contracts. The business said calculated the difference on billing would be in the low tens of millions since the contract was awarded in 2005.

The group said that since July there have been external advisory costs that are estimated to amount to approximately £12m and one-off costs and accounting charges of up to £15m identified to date that have arisen within the contracts subject to the audits and reviews.

The group also added that recent immigration policy changes on volume-related work for the Australian Department of Immigration and Border Protection, which accounted for £400m in revenues last year, "may significantly decline in 2014."

Serco said it would cut around 400 jobs in its UK and business process outsourcing operations, from a total headcount of 47,000, which will incur additional costs of £14m this year.

At 30 June 2013, Serco had an £18.5bn order book and its pipeline of identified opportunities around the world had a total estimated value of £30bn. Since the summer Serco has only been awarded a further £0.9bn of contracts, bringing the total for the year to date to £3bn, comprising signed contracts valued at £2.9bn and preferred bidder appointments valued at £0.1bn.



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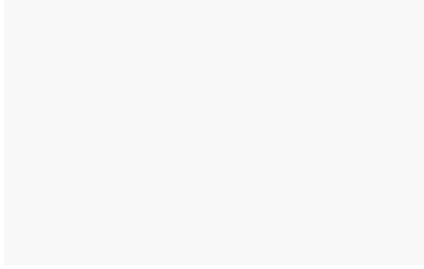
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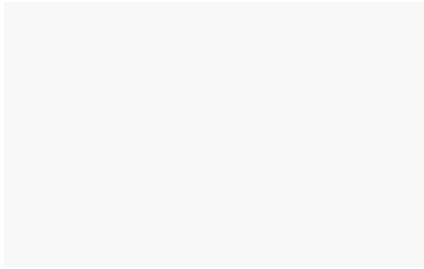
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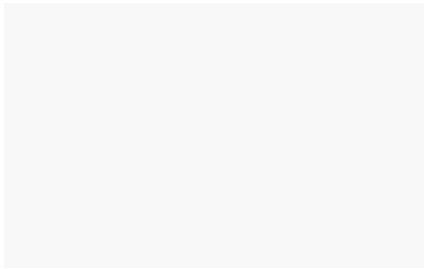
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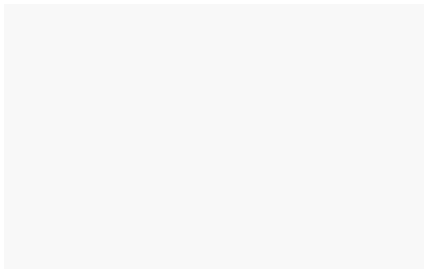
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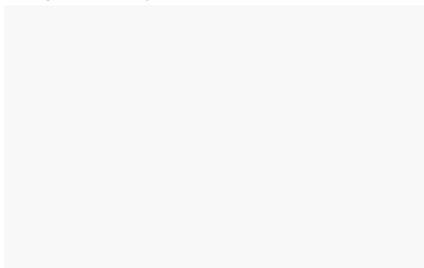
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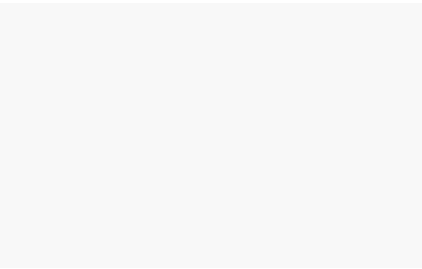
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