



How does 20% of Southern Water's income get passed to their funders?

The backdoor route through which Southern Water are paying their funders has been exposed by Councillor Roger Bird, an accountant and Fareham Borough Councillor, at an event in Waterlooville hosted by Suella Braverman. The Fareham MP made her objection to the effluent recycling plan clear. **Southern Water own a subsidiary company called "SW Finance I PLC" which they pay 20% of their income too, paying off 'interest' on a bond. Income that was primarily raised through us paying our water bills. For every £5 of income, £1 is paid to Bondholders. That's the best part of £300 million pounds a year in interest.**

To find out more about the councillor's analysis read on.

Southern Water have repeatedly asserted that they have not paid a dividend to its shareholders since 2017. **They may not have paid it, but they do still owe them £15.8 million.**

The company is spending a lot of money on infrastructure upgrades and the planned Hampshire effluent recycling scheme. This money has to come from somewhere: cash, customers, shareholders or some form of debt. Debt is a way of taking the money from us and future customers, as the repayment cost will be paid well into the future.

Southern Water since 2021 has been owned by a large Australian financial services company called Macquarie. They have put some money into Southern Water. Macquarie are the same company that drove Thames Water into massive debt before selling their interest.

Now, Southern Water (SW) has more than one type of shareholder – a fairly common situation for larger companies. There are ordinary shares and preferred shares. The preferred shares carry a higher priority to dividend payments; in fact, SW is supposed to pay them a fixed amount each year. But it's some years since they have done so. **In the small print to a note to their annual accounts, SW disclose that this amount owed has accumulated for a while, but it still has to be paid one day. The amount outstanding to preference shareholders but accrued at 30 September 2025 was £15.8 million!**

So, SW may not have paid cash to shareholders, but they do owe substantial sums of cash to shareholders which they haven't yet paid.

The main cost of funding infrastructure projects is paid for with a form of debt called a Bond. This is a bit like a company taking out a mortgage. It offers security for the debt and pays the interest over a long period of time. At the end of a fixed period (the Bond's "maturity date") Southern Water has to repay the Bondholders, or more likely they will refinance the Bond (replace it with a new one on updated terms).

The issue is that these Bonds are very large and **the debt is not free** – debt never is. The **largest Bond is for six billion pounds**. That's about four times SW's annual revenue.

In SW's accounts there is a helpful breakdown of the company's income and costs. From this one can see that **for every £5 of income, £1 is paid to Bondholders**. That's the best part of **£300 million pounds a year in interest, using up 20% of Southern Water's income!**

SW owns a subsidiary company called "SW Finance I PLC" which issued the Bond. SW pays an interest cost to this company, which in turn pays interest to the Bondholders. All this information is shown in SW's published accounts.

The interest rate payable on SW's bonds varies between 3.3% and 7.75% depending on when the bond was issued. For corporate bonds, this rate is known as the "coupon".

These Bonds are traded on bond markets, just as shares are on the Stock Exchange. SW have pointed out that anyone can buy these Bonds, entitling them to receive the interest which the company pays. (I am not licensed to give financial advice and neither encourage nor discourage you to do so; I myself do not own such Bonds). A lot of pension funds hold such Bonds, so they in turn receive the income (the "yield" from the Bond).

Although complex, all this is totally legal. **But it does illustrate where a large part of our money goes to!**

Additional detail

The Southern Water financial statements for the six months to September 2025 (the most recent published results) are available here:

[interim_report_2025.pdf](#)

*Look at page 24, the income statement, and page 32, the finance costs note (note 6). You will see from the figures that the company had £729m of revenue and within the finance costs over the 6 month period £146m was paid to "SW Finance I PLC", a subsidiary of Southern Water which issued a bond. **The £146m interest cost represents around 20% of the company's total income in that six-month period.***

*In terms of whether we as customers pay for all this, the answer is in note 5 to the financial statements: a breakdown of the company's revenue. **About 95% of the income is from household and non-household regular activity**, the remainder being water-related but more specialist. So broadly, **YES the money does come from customers**.*

*It's to be expected that major capital expenditure will come at a cost and that if it's not financed through existing cash or new shareholder funding then it must come from some sort of debt. A long-dated bond is a reasonable way to do this for a water company, but it's **notable that interest as a proportion of total income is so high**. This was the point which I was highlighting at the event in Waterlooville on 30/1/26.*

*My other point (that they owe dividends to preference shareholders but haven't paid them for several years so this liability accumulates) relates to the footnote to note 6, which is printed in a smaller font size! So, **while it's true that they haven't paid a dividend since 2017, they are liable to pay some dividends but have not got round to it yet**. This is not a unique situation but **it is uncommon and it is not an encouraging sign**. The cumulative balance sheet liability for unpaid preference share dividends at 30 September 2025 was £15.8 million (30 September 2024: £11.3 million), the amount owed to these shareholders had gone up by 4.5 million in one year!*

The fact that this information is in a small footnote was what surprised me when we were told by Southern Water everything is transparent!

It is not clear to me whether Macquarie is a bond holder.

In terms of the £2.85 billion 'equity support package' mentioned by Southern Water at the Waterlooville event, there is reference on their website to this being at least partly and perhaps mainly funded by equity [shareholders] not by debt. More details at <https://www.southernwater.co.uk/latest-news/southern-water-receives-additional-new-equity-to-fund-record-infrastructure-investment-over-the-next-5-years/>

Source: Councillor Bird (an accountant & Fareham Borough Councillor)