Hampshire Water Transfer and Water Recycling Project

Funding Statement

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Executive Summary

This Funding Statement demonstrates that, should the Secretary of State grant Southern Water Services Limited (the Applicant) the compulsory acquisition powers sought, the Hampshire Water Transfer and Water Recycling Project can be delivered and would not be prevented or delayed by difficulties in sourcing or securing the necessary funding, including funding for the acquisition of land, interests in land and rights over land, and the payment of any associated compensation.

1 Introduction

1.1 Purpose

1.1.1 This Funding Statement has been prepared by Southern Water Services Limited (hereafter referred to as 'the Applicant'). It forms part of the application for a Development Consent Order (DCO) for the Hampshire Water Transfer and Water Recycling Project (hereafter referred to as 'the Project').

1.1.2 This Funding Statement addresses the following:

- Planned financial arrangements, as required by paragraph 2.5.20 of the National Policy Statement for Water Resources (NPSWRI);
- The requirement under Regulation 5(2)(h) of the Infrastructure Planning (Applications, Prescribed Forms and Procedures) Regulations 2009 (the APFP Regulations) for the Applicant to provide a statement indicating how any compulsory acquisition pursuant to the DCO is proposed to be funded.

1.1.3 This document has been updated at Deadline 1 to reflect the latest Project's estimated capital expenditure figure provided in the Applicant's Gate 4 submission to the Regulators' Alliance for Progressing Infrastructure Development (RAPID) in July 2026. The figure has increased by circa £200m, which primarily reflects an uplift in the Project's risk contingency value. Please refer to the latest version of the Guide to the Application (Document reference: 1.3, Volume 1) for the list of current versions of other Application documents referred to in this Funding Statement.

1.1.4 The *Planning Act 2008: Guidance related to procedures for the compulsory acquisition of land* provides guidance on making an application for development consent which seeks authorisation for the compulsory acquisition of land or rights over land. Of particular relevance for this Funding Statement, it advises that:

- "*The applicant must have a clear idea of how they intend to use the land which it is proposed to acquire. They should also be able to demonstrate that there is a reasonable prospect of the requisite funds for acquisition becoming available.*" (paragraph 9);
- *"Any application for a consent order authorising compulsory acquisition must be accompanied by a statement explaining how it will be funded. This statement should provide as much information as possible about the resource implications of both acquiring the land and implementing the Project for which the land is required. It may be that the Project is not intended to be independently financially viable, or that the details cannot be finalised until there is certainty about the assembly of the necessary land. In such instances, the applicant should provide an indication of how any potential shortfalls are intended to be met. This should include the degree to which other bodies (public or private sector) have agreed to make financial contributions or to underwrite the scheme, and on what basis such contributions or underwriting is to be made.*" (paragraph 17);

- "*The timing of the availability of the funding is also likely to be a relevant factor. Regulation 3(2) of the Infrastructure Planning (Miscellaneous Prescribed Provisions) Regulations 2010 allows for five years within which any notice to treat must be served, beginning on the date on which the order granting development consent is made, though the Secretary of State does have the discretion to make a different provision in an order granting development consent. Applicants should be able to demonstrate that adequate funding is likely to be available to enable the compulsory acquisition within the statutory period following the order being made, and that the resource implications of a possible acquisition resulting from a blight notice have been taken account of.*" (paragraph 18).

1.1.5 This Funding Statement is one of a number of documents accompanying the DCO application submitted to the Secretary of State and should be read in conjunction with those documents. In particular, this document should be read alongside:

- The Statement of Reasons (document reference 4.1, Volume 4) – which explains that there is a compelling case in the public interest which would justify the Applicant's exercise of powers of compulsory acquisition in order to acquire land and rights in land germanely and to use land temporarily to enable the Applicant to construct, operate and maintain the Project.
- The Case for the Project (document reference 5.6, Volume 5) – which addresses the further requirement of paragraph 2.5.20 of the NPSWRI (in addition to the details of planned financial arrangements covered in this Funding Statement) to explain how the proposed infrastructure represents value for money.
- The Pre-application Land and Rights Negotiations Tracker (document reference 4.4, Volume 4) – outlining the status of negotiations with landowners and statutory undertakers before submitting a formal application for the Project. It provides a detailed record of land rights and acquisition processes to ensure smooth Project execution.

1.2 Project description

1.2.1 The Project comprises a combination of both water transfer and water recycling technology, that could supply up to 90 million litres of water a day and would play a major role in addressing a forecast shortfall across the Applicant's Hampshire supply area, especially during a drought.

1.2.2 A full description of the Project can be found in ES Chapter 3 Description of the Proposed Development, Volume I (document reference 6.1, DCO Volume 6).

2 Group Entity

2.1 The Applicant

2.1.1 The Applicant is responsible for the overall delivery of the Project. The Applicant will procure the necessary funding, construction, and operational capabilities under the Direct Procurement for Customers framework, as further detailed in section 3.4.

2.1.2 Whilst the Applicant will procure a third party to deliver the Project, it retains ultimate responsibility for its successful delivery. This is due to its general duty, as a water undertaker under its licence and Section 37 of the Water Industry Act 1991, to maintain an efficient and economical system of water supply within its area and to provide supplies of water to premises.

2.2 Ownership structure

2.2.1 By way of background, the Greensands group of companies was established in September 2007 to acquire 100% of the share capital of Southern Water Capital Limited, which was then the ultimate parent company of the Applicant, from the Royal Bank of Scotland. Between 2018 and 2019, additional Greensands financing companies were integrated into the group structure as part of a financing plan designed to improve the Applicant's financial resilience.

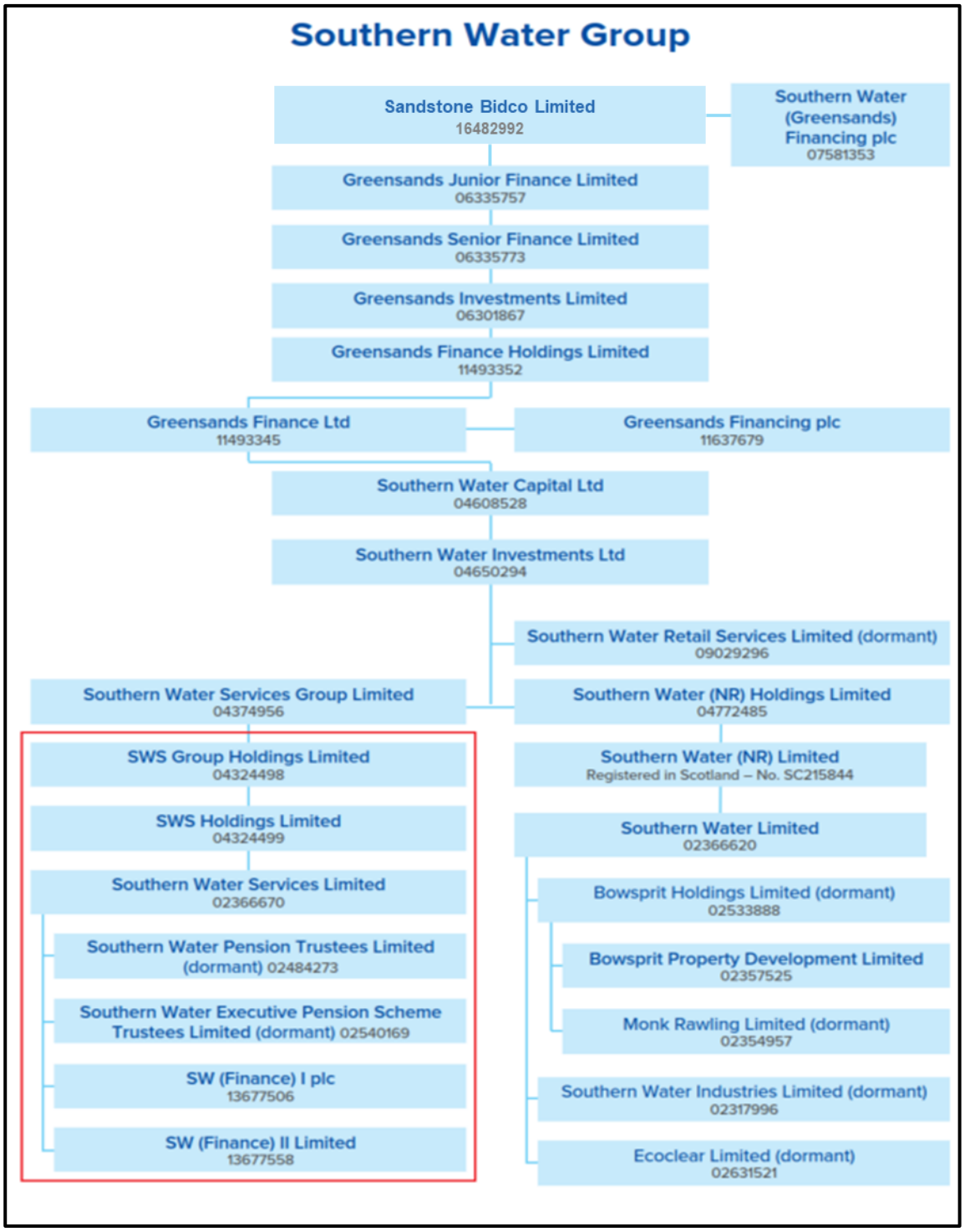
2.2.2 In September 2021 funds managed by Macquarie Asset Management (MAM) acquired a majority stake in the Greensands group.

2.2.3 Through its managed funds, MAM indirectly holds majority shareholding of Sandstone BidCo Limited, which is the ultimate parent of the Applicant as outlined in section 2.2.6.

2.2.4 On 4 July 2025, a significant change in the group structure occurred. Sandstone Bidco Limited acquired the issued share capital of Greensands Junior Finance Limited and Southern Water (Greensands) Financing plc from Greensands (UK) Limited. This acquisition positioned Sandstone Bidco Limited as the new ultimate indirect UK holding company of the Applicant, thereby succeeding Greensands Holdings Limited.

2.2.5 Greensands Junior Finance Limited (wholly owned subsidiary of Sandstone Bidco Limited) acts as the parent undertaking and controlling party for financial consolidation purposes. Its explicit purpose is to function as a single-purpose entity, serving as the ultimate holding company for the Applicant and its affiliated companies within the group.

2.2.6 The Applicant’s holding company structure is presented in the following diagram. The parent undertaking SWS Holdings Limited, and the Applicant, are shown in the red box.



Graphic 1: The Applicant's holding company structure

3 Funding

3.1 Introduction

3.1.1 The Applicant's core source of revenue is derived from customer bills, through the water regulatory framework for English water undertakers.

3.1.2 The Applicant is a shareholder-owned private sector water and wastewater services company that operates under relevant Water Supply and Sewerage Licences (WSSLs) from Ofwat. The WSSLs and Ofwat's powers and duties are governed by the Water Industry Act 1991 (as amended) and other relevant legislation.

3.1.3 The WSSLs set out the responsibilities and obligations of the Applicant, and the regulatory frameworks it is subject to. These licences to operate are legally enforceable by Ofwat and the Secretary of State under the Water Industry Act 1991 (as amended).

3.1.4 The WSSLs and the Water Industry Act 1991 (as amended) provide Ofwat with the authority to set limits on the amounts the Applicant can charge customers. It does this through a price review process that takes place in five-year cycles. The process starts by Ofwat licensees setting out their expected delivery outputs for the forthcoming five-year regulatory period, including forecasts of costs to carry out day to day activities and to develop and deliver infrastructure like the Project. Ofwat has duties that it must comply with that are directly relevant in a price review, including:

a. Taking an independent view on whether the forecast costs represent those that would be incurred by an efficient operator.

b. Setting what the efficient cost of equity and debt should be.

3.1.5 The most recent five yearly regulatory funding process is price review 2024 (PR24). Ofwat issued the Applicant a PR24 final determination on 19 December 2024 that sets out the allowed revenue, base operational costs and enhancement expenditure for financial years 2025/2026 to 2029/2030. The Applicant appealed this determination with the Competition and Markets Authority (CMA) and the PR24 final determination was issued in March 2026 (the Business Plan).

3.1.6 The price limits contained in the Business Plan set out the maximum amount of revenue the Applicant can raise each year. The resulting prices generate the annual revenue of the company. In addition to the set annual revenue, the Applicant can raise debt finance, to provide additional resource to finance ongoing capital investment, if required. Ofwat's allowed rate of return contains an allowance that reflects the efficient costs of raising and paying for the debt needed for investment. This is a common position for all UK licensed water companies and is not unique to the Applicant.

3.1.7 Capital expenditure is recorded each year, and the resulting asset base will rise as investments are carried out, creating the Regulatory Capital Value ("RCV"). The RCV gives finance providers confidence that there will be sufficient funds to pay debt costs each year, as Ofwat reconcile the estimated RCV value with the actual verified costs, as part of the price review.

3.1.8 The revenue charged is fixed in absolute terms for each year of each five-year cycle, but is adjusted for outturn Consumer Prices Index, including Owner Occupiers Housing Costs (CPIH) inflation from the year before. The Applicant's revenue rises by CPIH each year, with adjustments that allow for Ofwat's view of efficient costs, and the expected profile of expenditure.

3.2 Strategic Resource Options and RAPID

3.2.1 The Project is referred to as a Strategic Resource Option ("SRO") within the Business Plan. The Project is one of a series of large-scale new water resource investments needed to address increasing water scarcity principally in response to sustainability reductions to ground and surface water abstractions and respond to more frequent extreme weather events as a result of climate change.

3.2.2 The development stages of the Project are overseen by the Regulators' Alliance for Progressing Infrastructure Development (RAPID), following a gated process. RAPID was set up in 2019 and is an alliance of the three water regulators – Ofwat, the Environment Agency (EA) and the Drinking Water Inspectorate (DWI).[1]

3.2.3 There are currently four RAPID 'gates' in the investigations and development stage of SRO projects, where companies submit technical information for consideration by RAPID on the feasibility and progression of the solutions.

3.2.4 The purpose of the gated process is to ensure at each gate that:

- Companies are progressing strategic water resource solutions that have been allocated funding at the price review.
- Costs incurred in doing so are efficient.
- The solutions are technically feasible and should be funded for further investigation and development.

3.2.5 Gate One is the first opportunity to report to RAPID on progress made in investigating and developing solutions.

3.2.6 Gate Two is for more detailed feasibility, concept design and multi-solution decision making where several options are being considered.

3.2.7 Gate Three represents a checkpoint on the way to solutions being prepared for DCO or Town and Country Planning Act (TCPA) applications. It focuses on the technical feasibility of solutions and reporting on the activities being undertaken in preparation for submitting an application for consent.

3.2.8 The Project has already passed through Gate Three, with RAPID issuing a final decision on 21 February 2025[2].

3.2.9 Gate Four is the final stage of the RAPID process falling approximately 56 calendar days after the date when the DCO application has been submitted to the Secretary of State.

[1] RAPID - Ofwat

[2] Strategic regional water resource solutions: gate three draft decision for Hampshire Water Transfer and Water Recycling Project - Ofwat

3.2.10 RAPID is in the process of updating its gated process, however it has confirmed that the Project will remain within the current gated process to Gate Four given its advancement to date.

3.3 Project funding

3.3.1 The Project's estimated capital expenditure is £1.764bn (2022/2023 Prices), which includes land acquisition and all identified compensation costs.

3.3.2 RAPID has provided a funding allowance to the Applicant for the Project's development from inception up to the point where a third party Competitively Appointed Provider (hereafter referred to as 'the Contractor') is appointed to deliver the Project. Further information is set out in the Direct Procurement for Customers (DPC) section below. RAPID oversees the efficiency of expenditure of this allowance via the gated process described above.

3.3.3 A specific allowance for the Project's land costs, for financial years 2025/2026 to 2029/2030, is included within the Applicants PR24 final determination.

3.3.4 Project land costs expended prior to April 2025, are funded via the Applicant's PR24 allowed revenue, specifically from money collected from customers' bills.

3.4 Direct procurement for customers

3.4.1 The Project will be delivered under the DPC delivery model. This procurement route has been created by Ofwat to introduce more competition, third party financing and delivery opportunities into the delivery of major water resources projects involving large and/or significant infrastructure. It was introduced by Ofwat to help secure private-sector financing, drive operational efficiencies and deliver value for money for customers on the largest water-sector investments.

3.4.2 The successful bidder for the Project, selected through a transparent, fair and competitive tender, will become the Contractor, who will design, finance, build, maintain and operate, the pipeline between Budds Farm Water Treatment Works and the Water Recycling Plant, the Water Recycling Plant, part of the pipe needed to connect the Water Recycling Plant with Havant Thicket Reservoir (namely between the Water Recycling Plant and a connection point at Bedhampton Springs pumping station owned by Portsmouth Water), the main transfer pipeline between the Water Recycling Plant and Otterbourne Water Supply Works, and other associated above ground assets.

3.4.3 Ofwat has stage milestones to oversee the progression of the Project through the DPC process, with stage one and two having already been completed. The Applicant plans to submit stage three in Quarter 4 of 2026. Once Ofwat approves stage three, the Applicant can begin the process of tendering the DPC contract.

3.4.4 Once the tender process is complete and a successful bidder has been selected, the Applicant will issue its stage 4 submission. Approval from Ofwat at stage 4 allows financial and legal close of the contract, thereby reaching contract execution

and appointment of the Contractor. The Applicant plans to submit stage 4 in Quarter 3 2028.

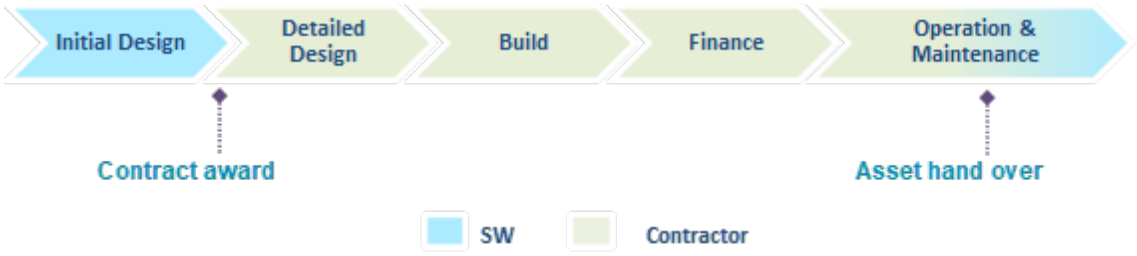
3.4.5 The process of appointing the Contractor will result in an agreed contract and an agreed cost of delivery, based on the results of the tender process and negotiation. The payment to the Contractor will be in the form of an agreed annual charge paid over the life of the contract, currently expected to be five years of design and construction and twenty-five years of operation and maintenance. At this point, Ofwat will issue the Applicant an Allowed Revenue Direction (ARD) that will permit the Applicant to increase its prices and revenues by the amount needed to meet the contractual requirements to pay the Contractor. Ofwat modified the Applicant's Licence in February 2021 by adding Condition U. Condition U contains the provisions necessary for Ofwat to change revenues in this way outside the normal five-yearly price review cycle (para 3.1.4 refers). This ARD will provide sufficient funding for the Contractor to discharge any obligations required of it under the DCO that have been transferred to the Contractor as part of the contractual agreement. Under this approach, the Applicant will secure a DCO that will consent the Project - carrying out all preparatory activities including project development initial design work, consenting, landowner negotiations and acquisition, and stakeholder and community engagement.

3.4.6 After the DCO is granted, the CAP Agreement (CAPA) allows the Contractor to exercise the powers of the DCO on behalf of the Applicant where they are transferred to it by the Applicant

3.4.7 In accordance with Ofwat's *Guidance for Appointees delivering DPC projects* (March 2023), land and rights required for the delivery of the Project will be secured in the name of the Applicant, either by agreement, or if agreement cannot be reached through compulsory acquisition.

3.4.8 The land ownership will not be transferred to the Contractor. The CAPA will give the necessary rights to the Contractor to access the land to build and then maintain and operate the assets.

3.4.9 The delivery-phase funding will reflect the Contractor's project-finance structure and the regulatory mechanisms securing the Applicant's long-term revenue stream to cover the payments to the Contractor.



Graphic 2: The delivery-phase

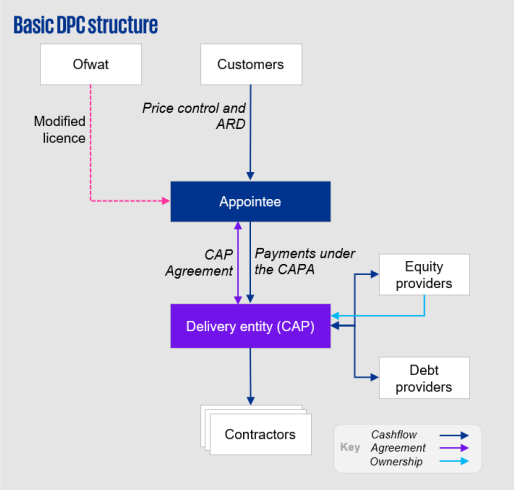
3.5 Delivery-phase funding via DPC

3.5.1 It is expected that the Contractor will be established as a consortium and financiers will likely raise its funding on a non-recourse project-finance basis. Under this structure, all lenders and equity investors are recompensed via the Contractor's contractual cashflows; they have no direct recourse to the Applicant's broader balance sheet or credit.

3.5.2 The Contractor's sole source of revenue will be from the Applicant. This revenue will be made up of payments during the construction period, a unitary charge which commences once the assets have been fully commissioned and brought into beneficial use, and an 'End of Concession Payment' made by the Applicant at the end of the contract. The unitary charge is calibrated to cover the Contractor's debt service, operating and maintenance costs, return on equity and planned mid-lifecycle asset renewals. The CAPA will set out detailed terms and conditions governing these payments, including performance requirements, payment triggers, step-in rights and default remedies.

3.5.3 Since the Contractor's income from the Applicant only commences at a reduced rate prior to commissioning, most upfront expenses, including detailed design, procurement, construction, testing and commissioning, must be self-financed by the Contractor through a combination of debt and equity. The viability of this financing structure rests on three primary assurances:

- **Lender Due Diligence** – Before committing funds, debt providers conduct exhaustive due diligence on the Project's technical, commercial and legal framework. Their risk-averse approach ensures that the Contractor's contractual documentation, performance guarantees and revenue model satisfy stringent lending criteria.
- **Tender-Stage Financial Testing** – The DPC procurement process subjects each bidder's financing proposals to rigorous stress testing. The tender evaluation will verify each bidder's debt/equity mix, covenant package and contingency reserves, confirming only financially robust submissions progress to appointment.
- **Regulatory Revenue Security** – At Financial Close, Ofwat will issue an ARD alongside the CAPA.



Graphic 3: Key features of the DPC model

3.5.4 By securing the Contractor's payments through a regulator-mandated direction rather than relying on future price review outcomes, it removes funding risk for the Project. Moreover, because the direction specifies that these payments will be exclusively ring-fenced for the Contractor's services, it provides full transparency over cost recovery.

3.5.5 By combining the Contractor's non-recourse Project finance with the regulatory certainty of the ARD, the DPC model delivers a reliable, creditworthy funding solution for the design, construction and long-term operation and maintenance of the Project.

3.6 Compulsory land acquisition and blight

3.6.1 The Applicant has already entered into several voluntary agreements for land acquisitions, such as the purchase of land for the proposed Water Recycling Plant site in 2024.

3.6.2 Negotiations with the other relevant land interests are underway and are expected to continue throughout the DCO process and if necessary, after consent has been granted. Details of the negotiations are set out in the pre-application Land and Rights Negotiation Tracker (Document reference 4.4, DCO Volume 4). However, to ensure that there is no impediment to delivery of the Project, compulsory acquisition powers over land rights needed for delivery of the Project are required.

3.6.3 The land affected by the Project is shown on the Land Plans (Document reference 2.2, DCO Volume 2) covering land subject to freehold acquisition, land subject to acquisition of new rights and imposition of restrictions, and land subject to temporary possession. Full details of the plots and the powers being sought are set out in the Book of Reference (Document reference 4.3, DCO Volume 4).

3.6.4 In respect of any potential claims of blight, the Applicant has sufficient funds to meet the cost of acquiring these interests through its PR24 funding allowance. However, the Applicant has not identified any interests which it considers eligible at this stage.

3.6.5 The cost of any further land acquisition that might be required beyond the PR24 funding allowance, i.e. costs incurred after 2029/30, would be funded as part of the Applicant's next regulatory funding process (PR29).

3.6.6 The Applicant is satisfied that the required funding is already available to secure the land and rights required for the delivery of the Project, and any resource implications of a possible acquisition resulting from a blight notice, through the funding structure as set out above.

4 Conclusion

4.1.1 The Project is required to provide a resilient future water supply for customers in the Applicant's Hampshire supply area, and once operational, would be capable of providing approximately 90 million litres of water a day into supply.

4.1.2 This Funding Statement sets out the planned financial arrangements for the Project (as required by paragraph 2.5.20 of the NPSWRI) and demonstrates that sufficient funding will be available for the costs of implementing the Project. It specifically outlines the financial mechanisms available for this Project, following the recent regulatory Ofwat cycle PR24 award, to meet any potential liabilities arising from the compulsory acquisition powers pursuant to the DCO, including any claims for blight, in accordance with the requirement under Regulation 5(2)(h) of the APFP Regulations.

4.1.3 Accordingly, were the Secretary of State to grant the compulsory acquisition powers sought in the DCO, the Secretary of State can be satisfied that the Project will be fully funded within the relevant time period and will not be prevented due to difficulties in securing the necessary funding.


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