

TROUBLED WATERS

The paradox of resilience
without governance

A Futuregrowth review of South Africa's
water boards, infrastructure institutions
and debt capital market implications.

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COMPILED BY TAARIQ MOHAMED
Investment Analyst, Debt Capital Markets

A sector caught between resilience and deterioration

EXECUTIVE OVERVIEW

Executive summary

South Africa's water sector stands at a critical juncture. While key institutions such as Rand Water, uMngeni-uThukela Water and the Trans-Caledon Tunnel Authority (TCTA) continue to demonstrate financial resilience, the broader sector is under increasing pressure from deteriorating infrastructure, mounting municipal debt and persistent governance challenges.

Futuregrowth's latest review finds that South Africa's water challenge is not simply one of infrastructure investment. Rather, it is increasingly a challenge of governance, accountability and institutional sustainability. The review highlights a growing disconnect between the financial strength of certain water infrastructure entities and the deteriorating ecosystem in which they operate.

Key findings

R25.53bn	Municipal debt Debt owed to water boards has more than tripled since 2018; approximately 70% is more than 120 days overdue.
47.3%	Non-revenue water Almost half of treated water fails to generate revenue because of leaks, illegal connections, metering failures and other losses.
41%	Irregular expenditure Irregular expenditure across water boards rose from R2.2bn to R3.1bn year on year.
1 of 7	Clean audit Only Overberg Water received a clean audit outcome for the 2024/25 financial year.
ACTIVISM	Investor stewardship M&G Investments and Futuregrowth wrote directly to the Minister of Water and Sanitation regarding governance at uMngeni-uThukela Water.

The review concludes that sustainable investment in the sector depends on more than capital alone. Long-term water security will require stronger institutions, improved accountability and the effective deployment of capital across the water value chain.

Why financial strength alone does not guarantee investability

INTRODUCTION

Water has become one of South Africa's most pressing infrastructure challenges. Across the country, communities continue to experience intermittent supply disruptions, increasing infrastructure failures and declining service reliability.

Municipalities face mounting financial pressure, wastewater systems are deteriorating and the cost of rehabilitating ageing infrastructure continues to grow. Against this backdrop, concerns about long-term water security have moved from a technical discussion among engineers and operators to a national economic and developmental issue.

Yet a closer examination of South Africa's major water infrastructure institutions reveals a more nuanced story than the headlines might suggest.

Futuregrowth's review of the country's largest water boards, including uMngeni-uThukela Water, Rand Water and Vaal Central Water, together with the Trans-Caledon Tunnel Authority, suggests a sector caught between resilience and deterioration.



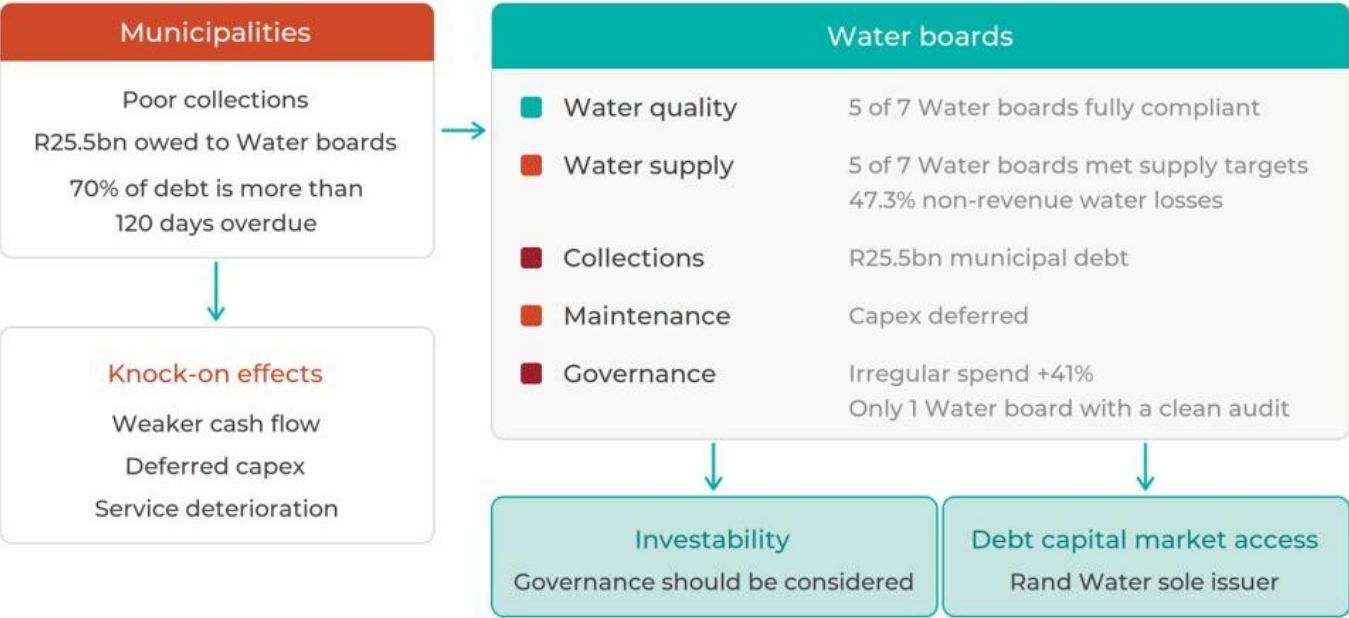
While operational, governance and funding challenges continue to intensify across the broader system, several institutions at the centre of South Africa's water infrastructure remain financially robust in their own right, with growing revenue and strong balance sheets, even as non-payment by municipalities constrains borrowing capacity and limits access to debt capital markets.

Importantly, financial strength alone does not guarantee investability. This review highlights a distinction that investors increasingly cannot afford to ignore: institutions with resilient balance sheets can still become unattractive investment propositions when governance failures persist. In South Africa's water sector, the ability to attract capital is becoming as dependent on accountability and oversight as it is on financial performance - with investors such as Futuregrowth and M&G Investments actively engaging with the ministry to raise governance concerns.

This creates an important paradox. The challenge facing South Africa's water sector is no longer simply about building more infrastructure. Increasingly, it is about maintaining and governing the infrastructure that already exists, strengthening the institutions that manage it and addressing the financial pressures that undermine long-term investment and sustainability.

An illustration of the water sector ecosystem is provided below, the details of which are discussed throughout this review.

SA water sector: how the pressures connect



Source: Integrated annual reports, Department of Water and Sanitation, Futuregrowth

A system under increasing strain

01

The latest assessment of water board performance released by the Department of Water and Sanitation in March 2026 paints a mixed picture.

On the positive side, both water quality indicators and water supply reliability have improved overall. Five of South Africa's seven water boards achieved full compliance with national drinking water quality standards and met their water supply reliability targets during the 2024/2025 financial year. This demonstrates that important parts of the bulk water system continue to perform adequately despite broader sector challenges.

Compliance with water quality



Reliability of supply



Municipal debt: the challenge beneath the surface

02

Perhaps the most significant risk identified in this review lies beneath the surface. While infrastructure failures are the most visible manifestation of the crisis, deteriorating municipal finances may pose a greater long-term threat to the sector's sustainability.

Municipal debt owed to water boards has more than tripled since 2018, reaching approximately R25.53 billion in 2025. Approximately 70% of this debt is more than 120 days overdue, significantly reducing the likelihood of recovery.

Municipal debt to water boards

Total outstanding balance, 2018 to 2025 (R billions)



Debt has grown at roughly 18% a year, more than tripling over the eight-year period.

Source: Department of Water and Sanitation, Futuregrowth

These figures are significant not only because of their scale, but because of what they reveal about the financial ecosystem underpinning South Africa's water sector.

Water boards rely on municipalities to collect and pay for bulk water supplied to communities. When municipalities fail to pay, the impact extends far beyond the water board's balance sheet. Revenue that would ordinarily be used for maintenance, rehabilitation and capital expenditure becomes unavailable. Cash flow weakens, borrowing capacity is constrained and infrastructure investment is deferred.

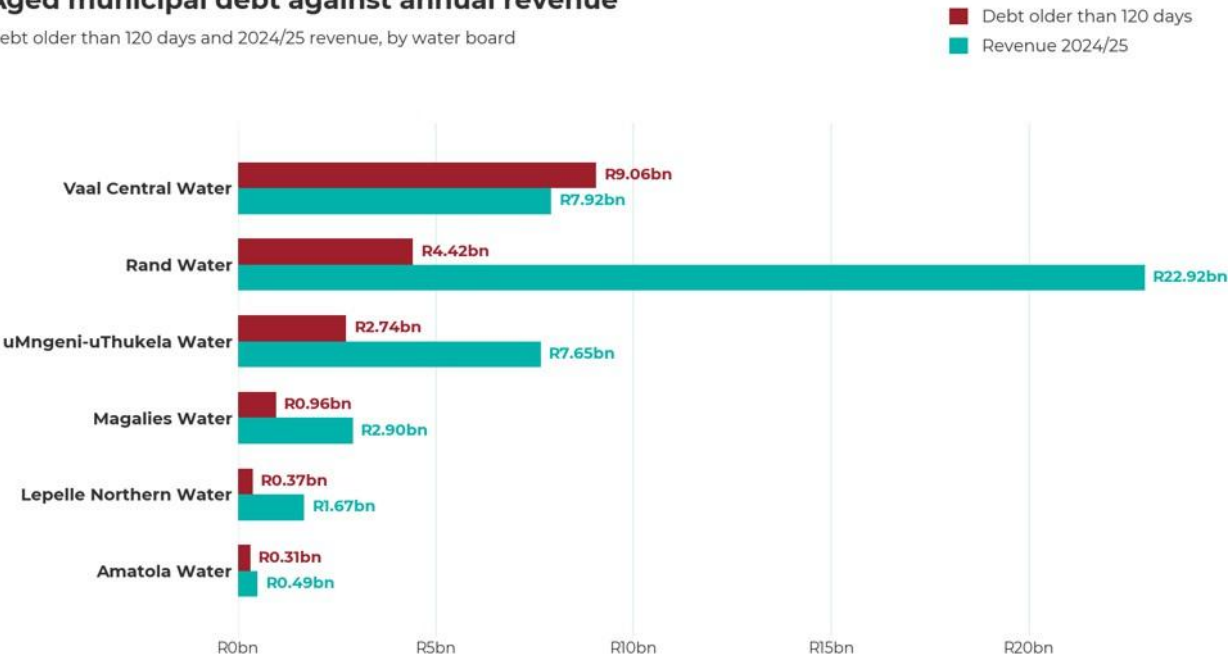
The Department of Water and Sanitation has identified municipal non-payment as one of the principal factors limiting borrowing capacity and suppressing capital expenditure across the sector. In effect, financial distress at municipal level creates a ripple effect that ultimately weakens the entire water value chain.

The extent of the problem becomes even clearer when viewed at municipal level.

Matjhabeng Local Municipality alone owes Vaal Central Water approximately R9 billion, an amount slightly greater than Vaal Central Water's total revenue for the year under review, while Rand Water and uMngeni-uThukela, the country's two largest water boards, are owed^[1] for longer than 120 days totaling R4.4 billion and R2.7 billion respectively, equivalent to 19% and 36% of annual revenue.

Aged municipal debt against annual revenue

Debt older than 120 days and 2024/25 revenue, by water board



Debt covers only the top 17 municipalities each owing more than R200m.
Overberg Water is excluded as it has no amounts owed by the 17 top defaulting municipalities.

Source: Department of Water and Sanitation, Futuregrowth

During the year under review, 47 municipalities were submitted for equitable share withholding^[2], intended to instill fiscal discipline and ensure that allocated public money is properly managed. Notably, in May 2026, Finance Minister Enoch Godongwana threatened to withhold the City of Johannesburg’s July 2026 equitable share instalment given the city’s non-compliance with financial regulations, deteriorating governance and ever-increasing creditor obligations.

Read: [The forces reshaping SA’s credit market](#)

According to findings presented at the 2025 Water and Sanitation Indaba, withholding mechanisms have begun improving collections and may have prevented the collapse of some of the most vulnerable water boards.

Nevertheless, these measures address symptoms rather than causes.

The longer-term challenge remains ensuring that municipalities possess both the financial capacity and the governance capability necessary to participate sustainably in the water system.

1 Amount owed by the top 17 defaulting municipalities owing water boards more than R200m.
2 Although the equitable share is an unconditional allocation of national revenue to the different spheres of government, National Treasury is empowered through the Section 216(2) of the Constitution, read with Section 38 of the Municipal Finance Management Act to stop the transfer of funds due to a municipality if it commits persistent or serious material breaches

Governance: the risk that capital alone cannot solve

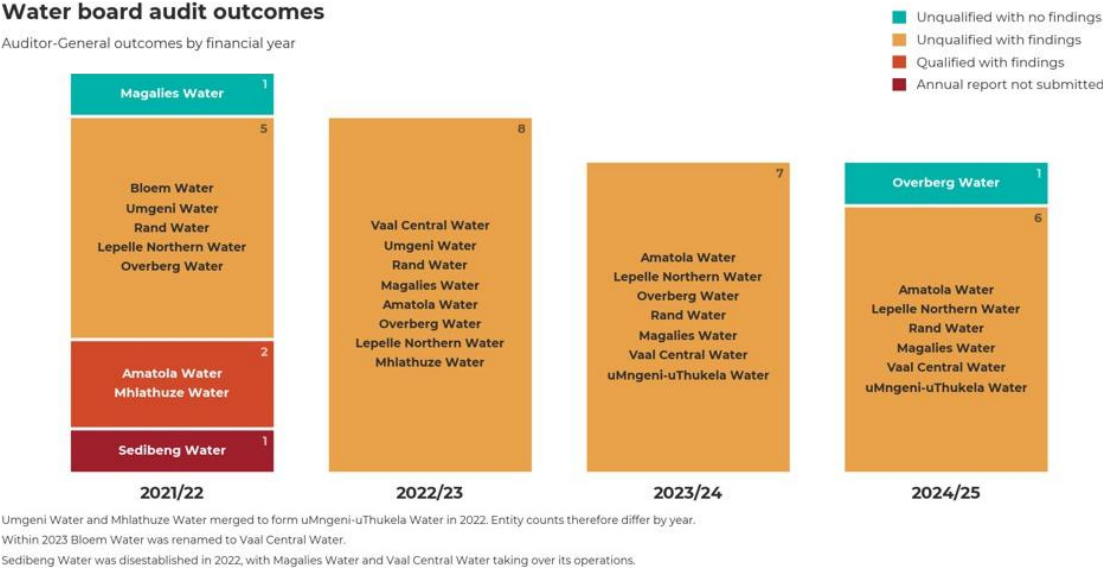
03

Infrastructure investment is often discussed in financial and engineering terms. Yet one of the strongest messages emerging from this review is that good governance is also an important factor for access to capital. During 2024/25, irregular expenditure across the water boards increased by 41% year-on-year, rising from R2.2 billion to R3.1 billion, representing a level of control failure that debt capital market investors may not overlook. The increase was led primarily by Rand Water due to ongoing governance weaknesses within its procurement process, expenditure management and management oversight.

Only one water board, Overberg Water, received a clean audit opinion for 2024/2025, with the Auditor-General flagging material governance concerns regarding the others. Audit findings showed that at Rand Water, South Africa’s largest water board, construction contracts were awarded to contractors who did not qualify under applicable legislation, while disciplinary action was not consistently taken against officials responsible for irregular expenditure. In addition, the Auditor-General flagged a material uncertainty regarding Amatola Water’s going-concern status, with the utility continuing to record losses and negative cash flows from operations.

Water board audit outcomes

Auditor-General outcomes by financial year



Source: Integrated annual reports, Department of Water and Sanitation, Futuregrowth

The most serious concerns, however, relate to uMngeni-uThukela Water. During the review period, the entity became the subject of multiple investigations into allegations of maladministration, conflicts of interest and possible corruption. Publicly reported concerns included board remuneration practices, procurement decisions, contract escalations and undisclosed conflicts involving service providers. Within the company’s annual report, it was noted that the internal audit function conducted six investigations relating to procurement irregularities and alleged misappropriation of assets, with four investigations still ongoing at the annual reporting date.

The governance concerns identified at uMngeni-uThukela Water prompted M&G Investments, together with Futuregrowth, to write directly to the Minister of Water and Sanitation in December 2025, seeking clarification regarding the actions being taken to strengthen governance at the entity. Nine months on, no response has been received.

Three giants, three different stories

04

One of the strengths of this review is that it demonstrates how different institutions can face very different challenges despite operating within the same sector.

uMngeni-uThukela Water: when governance outweighs financial strength

Purely from a financial perspective, uMngeni-uThukela Water remained in a relatively strong position for its financial year ending 30 June 2025.

Revenue increased by 10.9% to approximately R7.6 billion during the year, supported largely by bulk water tariff increases. Margins remained relatively stable, with some pressure from increased energy and maintenance costs. Leverage remained low, with gross debt-to-equity declining to 5.64%, while debt service capacity remained strong and cash balances improved materially. Furthermore, the entity redeemed its R935 million UG26 bond in March 2026.

The utility continued to invest significantly in infrastructure during the year and maintained comparatively low levels of leverage relative to its asset base, highlighting debt capacity.

Yet despite these financial strengths, governance concerns ultimately overshadow the investment case. Responsible investors should consider whether it is appropriate to commit capital to companies that mismanage public resources and persistently fail to take corrective action to address governance failures, regardless of how financially strong they may appear. Financial resilience and investability are not always synonymous, and sustained governance failures can outweigh even a strong balance sheet.

5.64%**Gross debt-to-equity**

uMngeni-uThukela maintained low leverage despite material governance concerns.

Rand Water: financially resilient but increasingly exposed to municipal risk

Rand Water presents a different set of challenges. The utility remains one of South Africa's most strategically important infrastructure institutions. For its financial year ending 30 June 2025, revenue increased to approximately R22.9 billion during the year, supported by tariff increases, while gearing remained low and debt service metrics remained strong. Gross debt-to-equity improved to 7%, while EBITDA interest cover exceeded 10 times. Cash balances increased significantly in FY25 from R6.3 billion to R12.2 billion, providing substantial liquidity.

Yet this review highlights growing pressure on the institution's receivables book. Trade receivables increased by 8% to more than R5 billion during the year, and non-performing debtors rose from 47.2% to 57.9% of the receivables book.

This reveals an increasingly important trend within the sector. Even financially strong institutions are becoming more exposed to municipal financial distress, with their investability contingent upon fiscally disciplined municipalities.

Rand Water's challenge is therefore less about its own financial position than about the health of the broader ecosystem in which it operates. Its future investability will increasingly depend on the financial discipline of the municipalities it serves.

R12.2bn

Cash balances in FY25
Liquidity improved materially, even as the receivables book came under pressure.

Vaal Central: Inherited financial strain and weak oversight

Vaal Central Water remains in a precarious financial position, a situation partly inherited. Historically, the entity maintained significant debt capacity, a manageable trade receivables book and sufficient liquidity.

Following the full integration of the now disestablished Sedibeng Water Board, including its infrastructure backlog and assumed liabilities, in 2023/2024, combined with the continued rise in municipal non-payment, its financial position deteriorated significantly.

Although the entity experienced consistent revenue growth and maintained attractive margins for its financial year ending 30 June 2025, its liquidity has deteriorated materially, with its current ratio declining to only slightly above 1x (FY22: 5.8x), a decline exacerbated by municipal non-payment.

This raises questions about its ability to withstand short-term liquidity shocks, forcing the entity to implement stringent austerity measures, including limiting capital expenditure to essential items only, to meet its short-term obligations.

Governance oversight at the entity remains weak, with the Auditor-General flagging material irregularities during the current review period. The confluence of these factors makes the entity unlikely to meet the required credit standards to participate within local debt capital markets in its current form.

The water boards and debt capital markets

05

Rand Water is the only water board with notes still listed in the local debt market, following uMngeni-uThukela's redemption of its UG26 bond in the first quarter of 2026.

The water boards have been in an issuance hiatus for several years; the most recent listed notes were issued by Rand Water in mid-2021. Given Rand Water's high level of liquidity relative to its capital expenditure plan, it is unlikely to turn to local debt capital markets for funding in the short term. uMngeni-uThukela Water may try to re-enter the local debt capital market in the future, given that it faces forecast funding shortfalls alongside substantial unutilised borrowing capacity and low leverage. Persistent governance issues would, however, likely temper investor appetite or increase funding costs.

Water board	Bond code	Type	Seniority	Issue size (Rbn)	Coupon (%)	Issue date	Maturity date	Benchmark	Spread at issue (bps)	Current spread (18 Sep-26) (bps)	ASW adjusted spread (to Jibar)
Rand Water Board	RW28	Fixed	Senior unsecured	1.44	10.25	10-Dec-13	10-Dec-28	R213	115	96	155
Rand Water Board	RW31	Fixed	Senior unsecured	0.54	10.69	30-Jun-21	30-Jun-31	R213	134	120	120
Rand Water Board	RWL28	Fixed	Senior unsecured	0.58	9.71	30-Jun-21	30-Jun-28	R2030	72	82	127

Source: JSE, Standard Bank Research, Futuregrowth

Beyond the water boards themselves, the Trans-Caledon Tunnel Authority (TCTA) plays a distinct but equally important role, acting as an implementation agent of the Department of Water and Sanitation on the country's largest bulk water infrastructure projects.



The Katse dam wall, Lesotho Highlands Water Project. Source: Adobe

The entity has been largely successful in fulfilling this mandate. For its financial year ending 31 March 2025, it generated an operating surplus of R1.5 billion and advanced major projects that had historically faced delays, namely Phase 2 of the Lesotho Highlands Water Project and the uMkhomazi Water Project.

It also secured R22.25 billion in funding for Phase 2A of the Mokolo Crocodile River (West) Augmentation Project, which will support industrial and mining development in the Waterberg area and give Eskom a second source of water supply for its Medupi and Matimba power stations.

The Department of Water and Sanitation has reported that the integration of the TCTA, the Water Trading Entity and the department's Water Infrastructure Branch into the National Water Resources Infrastructure Agency (NWRIA) is on track for 1 April 2027. Some progress has been made towards establishing the NWRIA, with its first board of directors appointed and the agency's registration and incorporation currently underway.

The board of directors comprises suitably qualified individuals with extensive sector experience. Key outstanding matters include the transfer of employees, assets, contracts, loans and statutory authorisations; consultations with the Government of Lesotho; lender due diligence; and the integration of financial and IT systems.

Once operational, the NWRIA is expected to improve coordination across infrastructure functions currently spread between the DWS, the Water Trading Entity and TCTA, while strengthening governance and transparency. Unlike TCTA's project-based funding model, the NWRIA will raise funding against its own balance sheet to support the ongoing development and maintenance of national water infrastructure. This represents a structural shift intended to strengthen long-term water security.

This move toward institutional consolidation reflects a theme running through this review: capital alone cannot resolve South Africa's water challenges without the governance and coordination needed to deploy it effectively.

Reasons for cautious optimism

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Despite the challenges described throughout this review, there are reasons for cautious optimism.

Government has begun introducing a series of interventions aimed at strengthening accountability and addressing some of the sector's structural weaknesses. These include the establishment of the National Water Crisis Committee, progression of the Water Services Amendment Bill, increased enforcement against municipalities and the introduction of performance-linked grants intended to improve service delivery outcomes.

Alongside these government-led initiatives, asset managers also have an important role to play in supporting reform. Futuregrowth, together with a broader collective of asset managers, has been engaging with National Treasury and the Department of Water and Sanitation to advocate for the policy reforms needed to address the sector's escalating challenges.

The challenge facing South Africa's water sector is therefore not one of institutional collapse. Rather, it is one of institutional strengthening to improve the sector's investment case.

Looking ahead

The findings emerging from the latest water board review reveal a sector at a crossroads. Water quality improvements, existing financially resilient institutions and growing policy attention provide grounds for optimism. Yet these positive developments coexist with mounting municipal debt, escalating governance concerns, ageing infrastructure and operational deterioration across significant parts of the system.



The lesson here is clear. South Africa's water future depends not only on funding new infrastructure but on strengthening the governance, accountability and financial sustainability of the institutions responsible for managing it.

— Taariq Mohamed, author

While this review highlights significant challenges, it also suggests that South Africa's water sector is not starting from a position of institutional weakness.

Major entities such as Rand Water and uMngeni-uThukela Water continue to demonstrate financial resilience and remain capable of supporting long-term infrastructure investment. The more difficult task lies in strengthening the broader ecosystem in which these institutions operate, particularly at municipal level.

Creating the conditions for sustained investment will require more than capital alone. Improving governance, strengthening revenue collection, reducing water losses and restoring confidence in project execution will be equally important.

Long-term infrastructure funding is most effective when supported by regulatory certainty, predictable cash flows and institutions capable of deploying capital efficiently.

In many respects, the country's largest water infrastructure entities have demonstrated remarkable resilience. The challenge now is ensuring that this resilience extends beyond individual institutions and strengthens the broader water system itself.

Ultimately, this review reinforces a central investment lesson: financial resilience alone does not make an institution investable. Sustainable investment depends on governance, accountability and the ability to deploy capital effectively. Only then will the sector be able to move beyond managing decline and towards securing South Africa's long-term water future.

Resilient systems require more than capital

Long-term water security depends on governance, accountability and institutions capable of deploying capital effectively.

About The Author



Taariq Mohamed, Investment Analyst, Debt Capital Markets

Taariq is an Investment Analyst within Futuregrowth's Debt Capital Markets team. His work applies rigorous financial and governance analysis to credit opportunities and the broader investment implications of South Africa's infrastructure institutions.



021 659 5475



tmohamed@futuregrowth.co.za

About Futuregrowth

Futuregrowth Asset Management is a leading fixed interest investment company that manages over R244 billion (nearly US\$15 billion)* of assets on behalf of our investors, which are predominantly South African retirement, insurance and retail funds. We have been part of the South African asset management landscape since the 1990s.

In 2022 the acquisition 21.2% of Futuregrowth shares by AWCA Investment Holdings (Pty) Ltd (AIH), a wholly black woman-owned investment company became effective. This was an important milestone in a multi-year drive by Futuregrowth to regain its status as a majority black-owned company.

Our large investment team manages the full scope of rand-denominated interest-bearing funds. Our range of more than 50 GIPS composites includes money market funds, nominal and inflation-linked funds, active and passive funds, yield-enhanced funds, as well as South Africa's largest group of developmental impact funds.

We are a fiduciary asset manager, focused on serving our clients with a non-conflicted business model. Our fee philosophy aligns us with our clients' aspirations and outcomes.



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