

Auckland Council

1 September 2020

Sustainable Finance Framework

1. Introduction

Auckland Council is the territorial authority for the Auckland region, responsible for enabling democratic local decision-making and action by, and on behalf of communities. The Auckland Council Group (the group) is made up of Auckland Council (the council) and the five substantive Council-controlled organisations (CCOs) that include Auckland Transport Limited, Watercare Services Limited, Regional Facilities Auckland, Panuku Development Auckland, and Auckland Tourism, Events and Economic Development (ATEED). The council is responsible for funding the CCOs.

The group's role is to deliver services and infrastructure required for Auckland to grow into a more prosperous region. One that gives a voice to our communities and is a great place to live, visit and invest. Auckland represents approximately 1.6 million people stretching from Wellsford in the north to Franklin in the south. In addition to providing essential infrastructure, the council is responsible for collecting rubbish, maintaining and developing parks and reserves, running public libraries, swimming pools and recreation centres, and providing services such as building and resource consents, dog registrations and liquor licensing.

The group's activities are framed by the Auckland Plan (www.aucklandplan.govt.nz) which is our long-term spatial plan to ensure Auckland grows in a way that will meet the opportunities and challenges of the future. The Auckland Plan sets the strategic direction for Auckland and its communities that integrates social, economic, environmental, and cultural objectives. The Auckland Plan looks ahead to 2050 and considers how we will address our key challenges associated with high population growth, shared prosperity and environmental degradation.

The objective of raising capital under this framework is to reflect and align the group's funding with specific assets or projects that support the achievement of the Auckland Plan.

2. Sustainable Finance Framework

The council has prepared this Sustainable Finance Framework (the framework) with the intention of raising capital via the issuance of:

- green bonds and loans (use of proceeds products)
- sustainability linked bonds or loans (KPI-linked products).

The framework provides overarching criteria and guidelines as to how the council will issue the above products and manage them on an ongoing basis. The council has developed the framework in line with various applicable market standards as below:

- International Capital Market Association ([ICMA](#)) Green Bond Principles ([GBP](#)) and Sustainability Linked Bond Principles ([SLBP](#))
- Loan Market Association ([LMA](#)) Sustainability Linked Loan Principles ([SLLP](#)) and Green Loan Principles ([GLP](#))

The principles referenced within the framework are voluntary process guidelines and, at the date of this publication, are globally accepted as the standard guidelines.

The council has engaged a third-party assurance provider to complete an external review of the framework and confirm it is prepared in accordance with market standards.

The Green Bond Working Group (GBWG) established in April 2018, will hold responsibility and accountability for the framework, including all compliance, throughout the life of all green bonds and loans. The GBWG will consist of senior representatives from the council’s Treasury, Chief Sustainability Office and Financial Control units.

The council is committed to following best practice and appreciates any feedback from market participants on the approaches set out in this framework.

3. Green bonds and green loans

This section of the framework sets out how the council proposes to issue and manage its green bonds and loans on an ongoing basis. Green bonds and loans are defined in this framework as bonds and loans established to finance projects or assets that deliver positive environmental outcomes or refinance corporate debt that supports these projects or assets. This includes assets categorised under the GBP and GLP and as well as certain criteria for these assets, as set out by the Climate Bonds Initiative (CBI¹), where available.

The council developed the framework in line with the GBP and GLP and, as such, adopts the four core pillars as follows:

- use of proceeds
- process for evaluation and selection
- management of proceeds
- reporting.

The GBP and GLP are voluntary process guidelines that are accepted as one of the main guidelines for issuance of green bonds and loans in capital markets globally.

3.1. Use of proceeds

The proceeds of green bonds and loans issued under the framework will be allocated to financing of planned projects and assets with positive environmental outcomes, such as a transition to a low carbon and climate resilient future, and which conform to the eligibility criteria set out below (eligible assets), or refinance of corporate debt that supports eligible assets.

Eligible assets may include those delivered, or those in the process of being delivered with budget allocated to them. Where eligible assets are jointly funded between the council and another party (e.g. Central Government), funding will be applied only to the council’s share of the eligible asset.

Eligible assets are aligned with the relevant United Nations Sustainable Development Goals (UN SDG), as indicated below.

Eligible sectors	UN SDG alignment	Eligibility criteria
Renewable energy		<p>Generation of energy from renewable sources such as wind, solar, geothermal and hydropower.</p> <p>Technology/componentry manufacturing that contributes to renewable energy generation that meets the above criteria (e.g. wind turbines and solar panels).</p>

¹ CBI is a not-for-profit organisation that aims to promote largescale investments that help deliver a low carbon economy

Eligible sectors	UN SDG alignment	Eligibility criteria
Energy efficiency	 	<p>Business, assets or projects that develop processes and products/technology that reduce energy consumption of the underlying asset, for example technologies in new and refurbished buildings, energy storage, district heating, smart grids, appliances and products.</p>
Efficient buildings		<p>Low carbon and efficient buildings (new-build and renovations), that at least meet recognised environmental standards such as NABERSNZ excellent or equivalent (applicable for either As-Built or Design ratings). For precincts, the rateable Net Lettable Area (NLA) meets these same recognised standards for at least 90% of the total NLA.</p>
Waste management		<p>Waste management projects/technologies that promote minimisation, collection, recycling or processing/capture of emissions</p>
Sustainable land use		<p>Environmentally sustainable management of living natural resources and land use that has achieved a relevant recognised sustainability certification, for example Forest Stewardship Council, (including environmentally sustainable animal husbandry; climate smart farm inputs such as biological crop protection or drip-irrigation; environmentally-sustainable forestry, including afforestation or reforestation, and preservation or restoration of natural landscapes).</p>
Low carbon transportation	 	<p>Low carbon transport assets, systems and infrastructure (including retrofits) such as tramways, electric trains, metro, public walking and cycling infrastructure, cycling schemes, electric vehicles and hydrogen cars and associated infrastructure, information and communications technologies that improve asset utilisation of low carbon transport. For bus, bus rapid transport, commuter rail and hybrid cars, a greenhouse gas emissions threshold of 75 gCO₂ per passenger per km will apply.</p>
Climate change adaptation		<p>Climate change resilience and adaptation infrastructure and technologies including natural ecosystem preservation</p>

Eligible sectors	UN SDG alignment	Eligibility criteria
Sustainable water management	 	Both engineered and nature based water and wastewater management including collection, storage, treatment, distribution and re-cycling infrastructure and technologies as well as water management systems to buffer against floods or drought.

3.2. Process for evaluation and selection

For new and existing bonds and loans, the council, through its GBWG, will manage the eligible assets selection process by applying professional judgement, discretion, sustainability knowledge and by considering the following objectives, features and benefits:

- conformance with the relevant principles
- conformance with the eligible criteria set out above
- current source of finance (budgeted and/or allocated) to determine ease and cost implications of possible re-financing
- alignment with the Auckland Plan objectives
- where the council chooses, conformance with any other principles, standards or tools (such as the Climate Bonds Standard (CBS)) that are or become commonplace and highly regarded in the market.

The resultant list of eligible assets and their budgets will be provided in the use of proceeds report associated with any green bonds and loans.

3.3. Management of proceeds

In order to manage the risk of holding unallocated proceeds from green bonds and loans, the combined value of the instrument(s) will be less than the total value of the eligible assets and any balance of funding will be met through existing funding sources.

3.3.1. Tracking of proceeds

The council tracks the receipt and use of proceeds via its internal reporting systems, ensuring eligible assets (re)financed are appropriately identified. In addition, to ensure appropriate earmarking for the purpose of internal monitoring and external reporting of proceeds, the council has established a register that contains details (including value) of all eligible assets (re)financed by or able to be (re)financed by green bonds and loans².

Proceeds derived from CBI-certified and GBP green bonds and loans and the proceeds generated from non-certified green bonds and loans will be allocated, tracked and reported separately.

² The general valuation principle followed is book value for refinanced assets and project cost for new assets.

3.3.2. Unallocated proceeds

To the extent that green bond and loans proceeds have not been allocated to eligible assets at issuance, or if during the life of the green bond and loans proceeds become unallocated (“Unallocated Proceeds”) (for example, because an eligible asset has been sold), the amount of unallocated proceeds shall be:

- held in temporary investment instruments that are cash, or cash equivalent instruments, within a treasury function; or
- held in temporary investment instruments that do not include greenhouse gas intensive projects which are inconsistent with the delivery of a low carbon and climate resilient economy; or
- applied to temporarily reduce indebtedness of a revolving nature before being redrawn for investments or disbursements to eligible assets.

The council will ensure funds are disbursed to eligible assets within 24 months of the issuance of the green bonds and loans.

3.4. Reporting

The council will publish information annually on the eligible assets as follows:

- a current list of eligible assets, along with their value (the use of proceeds report) and
- a summary of the environmental outcomes that have been delivered by the eligible assets (the impact report).

The information will be made publicly available as follows.

Disclosure Item	Timing	Location
Framework	At the time of first issuance under this framework and when updated	https://www.aucklandcouncil.govt.nz/about-auckland-council/business-in-auckland/Pages/investor-centre.aspx
Assurance statements	At completion of each assurance process to extent allowed by assurer	https://www.aucklandcouncil.govt.nz/about-auckland-council/business-in-auckland/Pages/investor-centre.aspx
CBI certification	At programme certification and upon completion of any subsequent certification process	https://www.aucklandcouncil.govt.nz/about-auckland-council/business-in-auckland/Pages/investor-centre.aspx
Use of proceeds report	Annually, in line with the council's reporting timeline	https://www.aucklandcouncil.govt.nz/about-auckland-council/business-in-auckland/Pages/investor-centre.aspx
Impact report	At least once post-issuance, depending on the nature of the asset and predicted impacts.	https://www.aucklandcouncil.govt.nz/about-auckland-council/business-in-auckland/Pages/investor-centre.aspx

The council has moved to programmatic certification under CBI. Details of CBI programmatic certification are available at: <https://www.climatebonds.net/programmatic-certification>.

3.5. Assurance

The council may seek to employ one or more external review (assurance) options for green bonds and loans. This would be to ensure robust assessment of the framework and the underlying eligible assets in any green bond and loan issuance.

The council will also seek post-issuance assurance at least once during the tenor of each green bond and loan. Pre and post assurance may coincide with the annual use of proceeds reporting. These assurance statements will be published as per the reporting schedule in section 3.4.

CBI provides a sound framework and scientific criteria to ensure that green bond and loan proceeds are used in ways that are consistent with delivering low carbon outcomes. Where sector criteria are available, the council may choose to seek CBI certification for an individual issuance. As new CBI Sector Criteria are developed, the council will seek to adopt these criteria to support certified green bonds and loans. For green bonds and loans with CBI certification, where there is discrepancy between the framework and the CBI, the CBI website supersedes any criteria set out in this framework. Please refer to the CBI Disclaimer at Appendix 1 which applies to any green bond or loan that has CBI certification.

In addition, the council may seek other forms of independent review, such as second party opinions and evaluations from organisations such as rating agencies and sustainability advisors, or any other form of independent review that becomes accepted by the market.

4. Sustainability-linked bonds and loans

This section of the framework sets out how the council proposes to issue and manage its Sustainability-Linked Bonds (**SLB**) and Sustainability-Linked Loans (**SLL**) on an ongoing basis. SLB and SLL are defined as debt issued for general corporate purposes that does not require proceeds to be utilised for eligible assets. A SLB or SLL enables the council to link funding to the achievement of sustainability performance targets.

The council has developed the framework for SLB and SLL in line with the SLBP and SLLP respectively. The framework covers the following four core components:

- relationship to the council's overall Corporate Social Responsibility (CSR) Strategy
- target setting
- reporting
- review.

4.1. Relationship to the council's overall corporate social responsibility (CSR) strategy

The council is committed to reducing emissions and ensuring the Auckland region is resilient to the impacts of climate change. The council's first emissions reduction target for the Auckland region was set in the Auckland Plan 2012, at 40 per cent reduction in emissions by 2040.

Since then, the council has developed several plans and strategies that support the delivery of specific aspects of the Auckland Plan 2050. Te Tāruke-ā-Tāwhiri: Auckland's Climate Plan was adopted on 21 July 2020 and sets targets for the Auckland region of halving emissions by 2030, reaching net zero by 2050 and taking a precautionary approach to planning for change. Te Tāruke-ā-Tāwhiri also identifies key priorities and action areas for the region to achieve these targets.

The group has committed to reduce our regional greenhouse gas emissions by 50% by 2030 and achieve net zero emissions by 2050. Raising capital through SLB and SLL allows the council to align its source of funding with the sustainability objectives outlined in the Auckland Plan 2050 and finance projects that support environmental progress.

When undertaking issuance of SLB and SLL, the council will demonstrate the relationship to existing council policies or sustainability strategies and plans. These include but are not limited to:

- Auckland Plan 2050
- Te Tāruke-ā-Tāwhiri: Auckland's Climate Plan

- Auckland Unitary Plan
- Low Carbon Strategic Action Plan
- Waste Management and Minimisation Plan.

4.2. Target setting

In selecting the relevant metrics, consideration will be given to measurability, ability to be verified by an external reviewer, and the availability of historic data. Potential sustainability metrics (sustainability performance targets) which may be used for margin or coupon redetermination over the life of the instruments include, but are not limited to:

- emissions reduction
- energy efficiency
- waste management and minimisation
- biodiversity
- or any other environmental or social metrics that the council deems material.

When entering into a new transaction, the council and arranging banks will agree on the appropriate information to be incorporated into the documentation for the SLB or SLL, including the items below:

- a set of sustainability metrics
- the respective base lines for those metrics
- sustainability performance targets to be measured annually
- timeline for measuring and reporting
- commercial terms and potential incentives once the targets are achieved.

The council aims to ensure the selected metrics and targets are set to be meaningful and ambitious, in line with its sustainability leadership.

Annual measurement of performance against selected sustainability metrics will be undertaken as a minimum, unless more frequent measurement is deemed appropriate.

4.3. Annual reporting

Regarding SLB, information related to the council's sustainability performance against the set targets will be available in the progress report published on the council's website. This will be undertaken at least annually on dates which are defined in the term sheets for each SLB.

Regarding SLL, at the inception of each transaction, the council and arranging banks will agree on time, frequency, and format for reporting on its sustainability progress against the targets. The council will provide relevant information to its SLL lender(s) as stipulated in loan documentation.

4.4. Review

The council aims to ensure accurate representation of performance towards selected targets and intends to conduct external reviews as necessary for each SLB or SLL. This includes external review by an approved third party prior to issuance and on an ongoing basis as required. This may include assurance, second party opinions, evaluations from organisations such as rating agencies and sustainability advisors, or any other form of independent review that becomes accepted by the market.

Appendix 1: Climate Bonds Initiative (CBI) Disclaimer:

This appendix applies to any green bond and loan issuance that has sought and received CBI certification. Any reference to Green Bonds would also apply to Green Loans.

The certification of the Green Bonds as Climate Bonds by the Climate Bonds Initiative is based solely on the Climate Bond Standard and does not, and is not intended to, make any representation or give any assurance with respect to any other matter relating to the Green Bonds or any Eligible Asset, including but not limited to the Offering Documents, the transaction documents, the Issuer or the management of the Issuer.

The certification of the Green Bonds as Climate Bonds by the Climate Bonds Initiative was addressed solely to the board of directors of the Issuer and is not a recommendation to any person to purchase, hold or sell the Green Bonds and such certification does not address the market price or suitability of the Green Bonds for a particular investor. The certification also does not address the merits of the decision by the Issuer or any third party to participate in any Eligible Asset and does not express and should not be deemed to be an expression of an opinion as to the Issuer or any aspect of any Eligible Asset (including but not limited to the financial viability of any Eligible Asset) other than with respect to conformance with the Climate Bond Standard.

In issuing or monitoring, as applicable, the certification, the Climate Bonds Initiative has assumed and relied upon and will assume and rely upon the accuracy and completeness in all material respects of the information supplied or otherwise made available to the Climate Bonds Initiative. The Climate Bonds Initiative does not assume or accept any responsibility to any person for independently verifying (and it has not verified) such information or to undertake (and it has not undertaken) any independent evaluation of any Eligible Asset or the Issuer. In addition, the Climate Bonds Initiative does not assume any obligation to conduct (and it has not conducted) any physical inspection of any Eligible Asset. The certification may only be used with the Green Bonds and may not be used for any other purpose without the Climate Bonds Initiative's prior written consent.

The certification does not and is not in any way intended to address the likelihood of timely payment of interest when due on the Green Bonds and/or the payment of principal at maturity or any other date.

The certification may be withdrawn at any time in the Climate Bonds Initiative's sole and absolute discretion and there can be no assurance that such certification will not be withdrawn.