

Auckland Council Annual Green Bond Report

June 2019





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1. Auckland Council and Sustainability

This report provides investors with an update on Auckland Council's Green Bond activities, use of proceeds, impact reporting and sustainability projects.

Auckland Council is the territorial local authority for the Auckland region and as such is charged with:

- enabling democratic local decision-making and action by, and on behalf of, communities; and
- meeting the current and future needs of communities for good-quality local infrastructure, local public services, and performance of regulatory functions in a way that is most cost-effective for households and businesses. [Local Government Act 2002, section 10(1)]

In performing its role, a local authority must act in accordance with several key principles, including a sustainable development approach that considers:

- the social, economic, and cultural interests of people and communities; and
- the need to maintain and enhance the quality of the environment; and
- the reasonably foreseeable needs of future generations. [Local Government Act 2002, section 14(1) (h)].

The council's activities to this end are guided by the Auckland Plan 2050 which sets the direction for how Auckland will grow and develop over the next 30 years. It responds to the key challenges we face today – high population growth, sharing prosperity among all Aucklanders, and reducing environmental damage ([see The Auckland Plan](#)).

To address these challenges, the plan identifies six outcomes that will deliver a better Auckland:

- Belonging and Participation
- Māori Identity and Wellbeing
- Homes and Places
- Transport and Access
- Environment and Cultural Heritage
- Opportunity and Prosperity.

Sustainability, environmental protection and climate action are embedded within these outcomes as well as the development strategy contained within the Auckland Plan which describes how and where growth can occur over the next 30 years to achieve those outcomes, guiding critical investment in planning and infrastructure.

Auckland Council also has several plans and strategies that support the delivery of specific aspects of the Auckland Plan. One such strategy being developed is the Auckland Climate Action Plan. This plan will set a path to rapidly reduce greenhouse gas emissions to keep within 1.5°C of warming while ensuring Auckland is prepared for the impacts of climate change ([see Auckland's Climate Action Plan](#)).

2. Overview of Green Bond Issue

In June 2018, Auckland Council issued its inaugural Green Bond, raising \$200 million with a 5-year maturity. It was the first Green Bond issued by a New Zealand borrower in the domestic market.

Benefits and impacts resulting from the assets financed and refinanced through the Green Bond are provided later in this report. This bond has also helped to stimulate New Zealand's green and sustainable finance sector, with several green and sustainability bonds subsequently issued over the past year.

Key highlights of the bond issue include:

- First Green Bond issue by a New Zealand borrower, setting a benchmark for others to follow.
- Obtaining certification from the Climate Bonds Initiative (CBI) and independent assurance from EY.
- The Green Bonds specifically funded Auckland rail infrastructure electrification, providing visibility of funding purpose and alignment with Auckland Council's decarbonisation objectives.
- Significant engagement undertaken with the FMA and NZX for the first retail Green Bond.
- Strong bookbuild, with 25 investors. Half (50 percent) were institutional investors and of these, 73 percent were green investors.
- Several key investors participated only because of the green nature of the issue. This resulted in very competitive pricing, with the issue pricing inside the council's secondary market curve at 5-year mid-swap + 50 bp.
- The transaction allowed the council to align its source of funding with the strong sustainability objectives outlined in the Auckland Plan.
- In preparation for the bond issue, the council established its Green Bond Framework, identified green assets and ensured that the bond aligned with both the International Capital Markets Association (ICMA) Green Bond Principles and Climate Bonds Standard.

Key terms of the 27 June 2018 Green Bond Issue are show in the table below.

Issue Rating	AA Stable (S&P Global Ratings) / Aa2 Stable (Moody's)
Instrument	Unsubordinated, fixed rate bonds
Tenor	5 years
Issue Date	27 June 2018
Maturity Date	27 June 2023
Issue Amount	NZD 200,000,000
Margin	5-year mid-swap + 0.50% per annum
Interest Rate	3.17% per annum (paid semi-annually)
Arranger, Sole Lead Manager and Green Bond Co-ordinator	ANZ Bank New Zealand Limited
Co-managers	Bank of New Zealand, Westpac Banking Corporation

3. Annual use of proceeds – May 2019

Proceeds of the Green Bonds have been allocated to financing of planned projects and assets with positive environmental outcomes, and which conform to the eligibility criteria set out below (Eligible Assets) or refinance of corporate debt that supports Eligible Assets.

3.1 Value of Existing Eligible Assets

Eligible asset *	Eligible sector*	Eligibility criteria*	CBI criteria (if applicable)	Asset value (NZD m)
Existing Electric Multiple Unit rolling stock	Low Carbon Transport	Electric trains	Low Carbon Land Transport Criterion 3 – Electrified Public Transport	\$420
New Electric Multiple units rolling stock	Low Carbon Transport	Electric trains	Low Carbon Land Transport Criterion 3 – Electrified Public Transport	\$35
Total				\$455

* denotes terms defined in the Green Bond Framework

3.2 Value of Green Bonds on Issuance

Date of issuance	Maturity date	Bond details	Bond face value (NZD m)
27 June 2018	27 June 2023 (5 Years)	3.17% unsubordinated, fixed rate retail bonds	\$200
Total			\$200

3.3 Confirmation of allocation of proceeds

Total Green Bonds outstanding	\$200 million
Total asset value	\$455 million

Auckland Council confirms that the value of the Green Assets internally allocated to the Green Bonds is greater than the face value of the Green Bonds outstanding and there are no unallocated proceeds.

4. Impact assessment

Funds raised through this inaugural Green Bond have been used to finance and refinance the region's electric trains and associated infrastructure.

4.1 Auckland's electric train transition

In 2011, Auckland Transport began switching trains from diesel to electric, with reducing greenhouse gas emissions, air pollution and noise from the rail network as significant objectives. The project was also a key element in the City's Integrated Transport Programme to boost capacity and use of the rail network. It was funded by the Government and Auckland Council. The project included electrification of rail lines from Papakura in the south to Swanson in the west, and the purchase and operation of 57 new electric trains for these lines. The first trains went into operation in October 2014, and by 2015 all 57 were operational.



4.2 Green Bond Relative Contribution

In the latest register of Green Bond eligible assets, the total asset value for Auckland Transport's 57 electric trains was \$420.26 million. The \$200 million raised through the Green Bond issuance therefore constitutes 47.5 percent of the asset value, or approximately 27 trains. This percentage should frame the relative contribution of Green Bond proceeds to the impacts and benefits of electric trains described below.

4.3 Broad Benefits

Since 2014, patronage across Auckland's commuter rail network has increased from 12.5 million per annum to 20.7 million in the year ending June 2018. From June 2018 to March 2019, there were 15.8 million trips on Auckland's rail network ([see Auckland Transport's Metro patronage report](#))¹.

These trips have helped Aucklanders to easily, safely and sustainably reach the things that matter most to them, such as work, school, friends, recreation and healthcare, in line with the Transport and Access outcome of the Auckland Plan ([see The Auckland Plan, Transport and Access Explained](#)).

The electrification of Auckland's commuter rail fleet has delivered significant carbon emission reductions in addition to the following broad benefits ([see Auckland Transport, Electric Trains](#)):

- A faster, more frequent service, including the ability to carry more people per train, and doubling the length of trains to six cars.
- Improved air quality due to the absence of exhaust fumes from the trains' operation.
- Reduced noise impacts, both inside and outside trains, benefitting both passengers and those living and working near the rail network.
- Greater levels of customer comfort, information and safety with international best practice passenger information systems that ensure both audio and visual information is easy to understand.
- Improved access including wider doors, automatic ramps for mobility impaired passengers and lower floors for push chairs or people with luggage. The sliding plug-type doors also provide a good weather and soundproof seal, while open gangways between cars allow movement from one end of the train to the other.
- A range of safety improvements, such as cameras that allow the driver to see all of the train, an on-board CCTV camera system that operates continuously in all cars and emergency call points throughout the train, allow passengers to communicate directly with the train crew in the event of an incident. All doors have obstacle detection so that if something obstructs the door it will still open and close.

¹ This includes journeys on several diesel trains that still operate between Papakura and Pukekohe, where electrification of the track has not yet been completed.

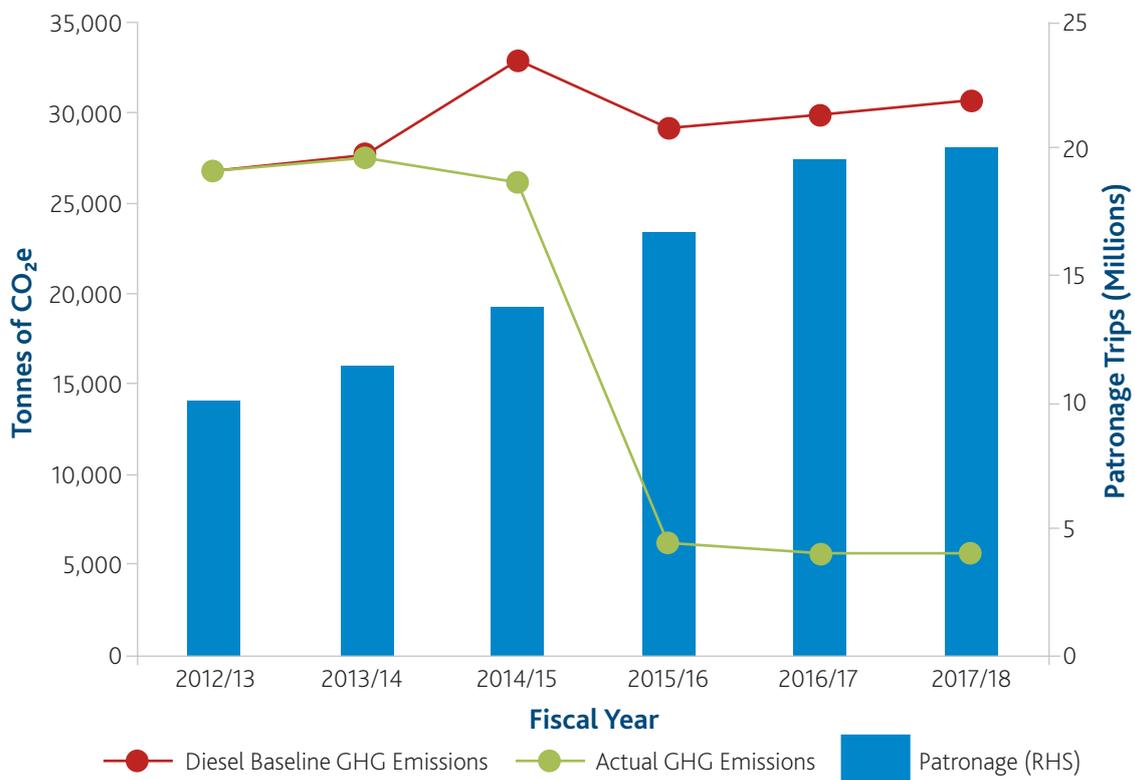
4.4 Greenhouse Gas Emissions reduction

Auckland Transport has recently assessed greenhouse gas (GHG) reductions resulting from electrification. Figure 1 below shows the significant reduction in GHG emissions from the train network since the onboarding of electric trains in 2014.

The net reduction of emissions was estimated by comparing a baseline scenario (continued service by a diesel-only fleet) with respect to the electrification scenario. The net emissions reduction in 2017/2018 was estimated to be about 25,000 tCO₂e compared to the baseline scenario. An additional 15 electric trains will be introduced to the fleet near the end of 2019 which will help to further reduce emissions. Note: Data for the 2018/2019 operating year, covering the Green Bond issuance, is not currently available, but is expected to be in line with these estimates based on reported train patronage data.

Auckland Transport's GHG footprint has recently been reviewed independently and a report is expected e.g. later in 2019 (see [Auckland Transport, Sustainability](#)).

Figure 1: Increased Patronage and Estimated Greenhouse Gas Emission Reduction from Electrification of the Train Fleet.



5. Summary

The proceeds from Auckland Council's inaugural Green Bond were applied to the refinancing of the region's electric train fleet. This electrification has contributed to a broad range of positive impacts to the environmental, social and economic wellbeing of Aucklanders. The significant increase in patronage across the region's rail network is in part attributable to the modern electric train fleet that operates on most commuter routes. These trains provide a fast, safe, efficient and enjoyable experience. Investing in reliable and accessible public transport is an important part of delivering shared prosperity for all Aucklanders.

The electric trains have reduced adverse environmental impacts, such as noise, air quality, of the region's train operations, benefiting passengers as well as those living or working along the train network. The significant reduction in greenhouse gas emissions associated with electrification also supports the region's overall emission ambitions and the commitment to keep with 1.5°C of warming.





Appendix 1



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Independent Reasonable Assurance Report to the Management of Auckland Council

Assurance conclusion

Based on our reasonable assurance procedures, as described in this statement as of 4 June 2019, in our opinion the assets included in Auckland Council's Green Bond eligible asset pool, meets the Climate Bonds Standard (Version 2.1) including all relevant pre-issuance requirements and the Green Bond Principles' (June 2018) requirements, in all material respects.

Scope

We have performed a reasonable assurance engagement in relation to Auckland Council's Green Bond ('the Bond or "Green Bond"') in order to provide an opinion as to whether the subject matter detailed below ('Subject Matter') meets, in all material respects, the criteria as presented below as at 4 June 2019.¹

Subject Matter and Criteria

The subject matter and associated criteria for this reasonable assurance engagement are set out in the table below:

Subject Matter	Criteria
<p>The subject matter for our assurance includes:</p> <ul style="list-style-type: none"> ▶ Auckland Council's Green Bond Eligible Asset Register (dated 30 April 2019) ▶ Policies and procedures relating to the use of proceeds and management of proceeds raised from the Bond ▶ Environmental performance and information relating to nominated projects and assets to be funded by the Bond ▶ Procedures for reporting on the use of proceeds and eligible investment associated with the Bond. <p>Auckland Council's Green Bond documentation including the Green Bond Framework found at this link:</p> <ul style="list-style-type: none"> ▶ Auckland Council Green Bond documentation 	<p>The Climate Bonds Standard Version 2.1, including the Low Carbon Land Transport Eligibility Criteria</p> <p>Criteria found at these links:</p> <ul style="list-style-type: none"> ▶ Climate Bonds Standard Version 2.1 ▶ Low Carbon Land Transport Eligibility Criteria <p>The Green Bond Principle's (June 2018) requirements on:</p> <ul style="list-style-type: none"> ▶ Use of Proceeds ▶ Process for Project Evaluation and Selection ▶ Management of Proceeds ▶ Reporting. <p>Criteria found at this link:</p> <ul style="list-style-type: none"> ▶ The Green Bond Principles 2018
<p>Technical details of the assets identified as 'green' ('eligible assets')</p>	<p>Auckland Council's Green Bond Framework</p>

Management Responsibility

The management of Auckland Council is responsible for the collection, preparation, and presentation of the Subject Matter in accordance with the criteria and for maintaining adequate records and internal controls that are designed to support the Green Bond issuance process.

Assurance Practitioner's Responsibility

Our responsibility is to express a reasonable assurance conclusion as to whether the Subject Matter is presented in accordance with the Criteria, in all material respects. Our assurance engagement has been planned and performed in accordance with the International Standard on Assurance Engagements (New Zealand) 3000: *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* ('ISAE (NZ) 3000').

¹ A separate reasonable assurance statement was provided as of 13 May 2019, over Auckland Council's first Green Bond, which concluded that it met the Climate Bonds Standard post-issuance requirements, in all material respects.

Level of Assurance

A reasonable assurance engagement consists of making enquiries and applying analytical, controls testing, and other evidence-gathering procedures that are sufficient for us to obtain a sufficient level of assurance as the basis for a positive form of conclusion. The procedures performed depend on the assurance practitioner's judgement, including the risk of material misstatement of the specific activity data, whether due to fraud or error. While we considered the effectiveness of Management's internal controls when determining the nature and extent of our procedures, our procedures were not designed to provide assurance on internal controls. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our Approach

Our assurance procedures performed included, but were not limited to:

- ▶ Reviewing any changes to policies and procedures established by Auckland Council related to the issuance of the Bond to assess whether they were aligned to the requirements of the Climate Bonds Standard Version 2.1 and the Green Bond Principles (June 2017)
- ▶ Confirming the eligibility of assets for inclusion in Auckland Council's Green Bond against Auckland Council's Green Bond Framework
- ▶ Interviewing selected business unit and group level personnel to understand key issues related to Auckland Council's relevant policies and procedures
- ▶ Reviewing selected performance information for green bond projects, and documentation supporting assertions made in the Subject Matter
- ▶ Checking the accuracy of asset valuations
- ▶ Obtaining and reviewing evidence to support key assumptions
- ▶ Seeking management representation on key assertions.

Limitations

There are inherent limitations in performing assurance – for example, assurance engagements are based on selective testing of the information being examined – and it is possible that fraud, error, or non-compliance may occur and not be detected. There are additional inherent risks associated with assurance over non-financial information including reporting against standards which require information to be assured against source data compiled using definitions and estimation methods that are developed by the reporting entity. Finally, adherence to ISAE (NZ) 3000, the Climate Bonds Standard v2.1, and the Green Bond Principles (June 2017) is subjective and will be interpreted differently by different stakeholder groups.

Our assurance was limited to the Auckland Council's Green Bond, twelve months post-issuance, and did not include statutory financial statements. Our assurance is limited to policies and procedures in place as of 4 June 2019. The firm performs other Advisory engagements for Auckland Council. Other than these Advisory engagements the firm has no other relationships with, or interests in, Auckland Council.

Use of Report

Our responsibility in performing our assurance activities is to the Management of Auckland Council only and in accordance with the terms of reference for this engagement as agreed with them. We do not therefore accept or assume any responsibility for any other purpose or to any other person or organisation. Any reliance any such third party may place on the Auckland Council's Green Bond issuance is entirely at its own risk. No statement is made as to whether the criteria are appropriate for any third party purpose.

Our Independence and Assurance Team

In accordance with APES 110 *Code of Ethics for Assurance Practitioners*, the firm and all professional personnel involved in this engagement have met the independence requirements of New Zealand or International professional ethical requirements. Our team has the required competencies and experience for this assurance engagement.

Observations on particular aspects of our engagement:

We provide selected observations aligning to the Climate Bonds Standard and the Green Bond Principles core components, to provide the reader with further understanding on how this Green Bond meets the criteria. These observations are not intended to detract from our conclusion provided above.

Use of Proceeds:

- ▶ Proceeds from this Green Bond will be used for financing and refinancing purposes
- ▶ Proceeds support the value of eligible assets, owned or expected to be owned by Auckland Council, that meet the Climate Bonds Standard ('CBS') Low Carbon Land Transport Criteria, and the Green Bond Principles
- ▶ The value of the refinanced Electric Multiple Unit (EMU) train eligible assets is based on the net book value and subject to accumulated depreciation which was calculated, by Auckland Council, as at 30 April 2019. This is a conservative measure of project costs.
- ▶ The value of new EMU eligible assets is based on current project spend (as at 30 April 2019), based on the contract for the purchase of new trains and the associated Foreign Exchange Deals.
- ▶ The value of the public cycleway eligible assets is based on net project costs for refinancing and future approved budget expenditure (as at 30 April 2019).
- ▶ The CBS Low Carbon Land Transport Criteria was developed by the Climate Bonds Initiative, an international, investor-focused not-for-profit organisation aiming to develop tools to mobilise the bond market for climate change solutions. The primary objective is to ensure that any land transport projects or assets certified by the CBS would contribute to meeting an emissions trajectory consistent with limiting global temperature rises to 2° Celsius
- ▶ The use of proceeds of this bond aligns with the Green Bond Principles' project category "clean transportation (such as electric, hybrid, public, rail, non-motorised, multi-modal transportation, infrastructure for clean energy vehicles and reduction of harmful emissions)".

Process for Project Evaluation and Selection

- ▶ Auckland Council has developed a Green Bond Framework that outlines the environmental objective of the bond, eligibility criteria for determining green projects and the process for project selection and evaluation.

Management of Proceeds

- ▶ Auckland Council has implemented processes to manage initial funds received from the Green Bond and to monitor the on-going use of proceeds. These processes include:
 - ▶ An ear-marking process through existing systems to designate the proceeds received
 - ▶ A process for deploying any unallocated proceeds to temporary cash equivalent investments
 - ▶ A monthly process for monitoring the on-going use of proceeds and value of eligible assets
 - ▶ Annual Use of Proceeds reporting and reporting on the environmental performance of the bond.
- ▶ Auckland Council has a programmatic green bond Framework and can issue bonds against the pool of eligible assets up to the value of these assets, which have been independently assured against the pre-issuance requirements. Auckland Council has committed to seeking independent assurance over annual reporting on Green Bonds.

Reporting

- ▶ Auckland Council has publicly reported on the Use of Proceeds of Green Bond and will continue to do so annually, which will include as a minimum: a list of eligible assets, the value of the eligible assets, and the environmental performance of eligible assets.

Ernst & Young Limited



Graeme Bennett
EY Assurance Partner

4 June 2019

