

## 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 26 April 2018, in our opinion Auckland Council's bond issuance process in relation to its Green Bond meets the Climate Bonds Standard (Version 2.1) and Green Bond Principles' (June 2017) requirements, and relevant pre-issuance Criteria, in all material respects.

### Scope

We have performed a reasonable assurance engagement, as of 26 April 2018, in relation to Auckland Council's Green Bond pre-issuance 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.

### 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>Auckland Council's Green Bond issuance process, as described in Auckland Council's Green Bond Documentation, including the Green Bond Framework that sets out:</p> <ul style="list-style-type: none"> <li>▶ Use of Proceeds</li> <li>▶ Project selection criteria and management of proceeds details of the Green Bond</li> <li>▶ Internal systems and processes used to manage the proceeds and report on the Green Bond</li> </ul>	<p>The Climate Bonds Standard Version 2.1, including the Low Carbon Land Transport Eligibility Criteria</p> <p>Criteria found at these links:  <a href="https://www.climatebonds.net/files/files/Climate%20Bonds%20Standard%20v2_1%20-%20January_2017%281%29.pdf">https://www.climatebonds.net/files/files/Climate%20Bonds%20Standard%20v2_1%20-%20January_2017%281%29.pdf</a>  <a href="https://www.climatebonds.net/files/files/Low%20Carbon%20Transport%20Background%20Paper%20Redraft%20Final%20Feb%202017%20%282%29.pdf">https://www.climatebonds.net/files/files/Low%20Carbon%20Transport%20Background%20Paper%20Redraft%20Final%20Feb%202017%20%282%29.pdf</a></p> <p>The Green Bond Principle's (June 2017) requirements on:</p> <ul style="list-style-type: none"> <li>▶ Use of Proceeds</li> <li>▶ Process for Project Evaluation and Selection</li> <li>▶ Management of Proceeds</li> <li>▶ Reporting</li> </ul> <p>Criteria found at this link:  <a href="https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/GreenBondsBrochure-JUNE2017.pdf">https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/GreenBondsBrochure-JUNE2017.pdf</a></p>
<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').

### **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 whether the policies and procedures established by Auckland Council related to the pre-issuance of the Green 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 units and group level personnel to understand key issues related to Auckland Council's relevant policies and procedures
- ▶ Checking the accuracy of asset valuations
- ▶ Requesting documentation supporting assertions made in the Subject Matter
- ▶ 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 issuance, and did not include statutory financial statements. Our assurance is limited to policies and procedures in place as of 26 April 2018, ahead of the issuance of Auckland Council's Green Bond. 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 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 electrified public transport trains and equipment, 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 Eligible Assets is based on the net book value. If during the tenor of the Green Bond, the value of Eligible Assets falls below the Green Bond face value, Auckland Council may obtain market valuation of assets if net book values are significantly different from the fair value.
- ▶ The value of new Eligible Assets is based on a contract for the purchase of new trains and the associated Foreign Exchange Deals.
- ▶ 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 have 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 are implementing 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 will obtain pre-issuance assurance over each Green Bond issuance and have committed to seeking independent assurance over annual reporting on Green Bonds.

#### **Reporting**

- ▶ Auckland Council will report on the Use of Proceeds of Green Bonds annually that will include as a minimum: a list of Eligible Assets, the value of the nominated Eligible Assets, and the environmental performance of each Eligible Asset.

Ernst & Young Limited



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