

AUCKLAND COUNCIL

An aerial photograph of Auckland, New Zealand, showing a lush green hill in the foreground with a wooden staircase and three people walking. The city skyline is visible in the background, including the Sky Tower and various buildings.

Sustainable Finance Framework

September 2023

1. Overview

Auckland Council (the council) is the territorial authority for Tāmaki Makaurau (Auckland), responsible for enabling democratic local decision-making and action by, and on behalf of communities. The Auckland Council Group (the group) is comprised of the council, Ports of Auckland Limited and the five substantive council-controlled organisations (CCOs) that include Auckland Transport, Watercare Services Limited, Eke Panuku Development Auckland Limited, Tātaki Auckland Unlimited Limited (formerly Auckland Unlimited Limited) and Tātaki Auckland Unlimited Trust (formerly Regional Facilities Auckland). 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 its communities and is a great place to live, invest and visit. Auckland represents approximately 1.7 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.



2. Sustainability at Auckland Council

The group's activities are framed by the **Auckland Plan 2050** which is the council's 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.

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

(the plan) is Auckland's regional response to climate change. The plan has two core goals:

- reduce Tāmaki Makaurau's greenhouse gas (GHG) emissions by 50 per cent by 2030 and achieve net zero emissions by 2050 (against a 2016 baseline); and
- adapt to the impacts of climate change by ensuring we plan for the changes we face under our current emissions pathway.

The group has also committed to reduce its operational greenhouse gas emissions by 50 per cent by 2030 (against a 2019 baseline).

In response to the plan and to sustainability challenges, mana whenua have developed a Te Ao Māori well-being framework in parallel to the plan called **Te Ora ō Tāmaki Makaurau Wellbeing Framework**.

In August 2021, the council became a signatory to the C40 Cities Divest/Invest Declaration committing the council to invest in climate solutions and the green economy and divest from fossil fuels. This declaration reaffirms the council's commitment not to invest in companies engaged in the extraction of fossil fuels. As part of this declaration, the council has also committed to raising most of its debt through sustainable finance mechanisms such as green bonds and diversifying its use of these mechanisms with tools such as sustainability linked loans and bonds..

Raising capital under this framework will enable the group to reflect and align its funding with specific assets or projects that support the achievement of the Auckland Plan and Te Tāruke-ā-Tāwhiri: Auckland's Climate Plan and deliver on its commitments as a C40 Divest/Invest signatory.



3. Sustainable Finance Framework

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

- Green Financing Transactions (GFT) in the form of bonds or loans (use of proceeds products); and
- Sustainability Linked Financing Transactions (SLFT) in the form of bonds or loans (Climate change, Environmental, Social and Governance 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:

- GFT will align to the International Capital Market Association (ICMA) 2021 Green Bond Principles (GBP¹) or Loan Market Association (LMA) 2023 Green Loan Principles (GLP²) (as applicable), each as subsequently amended or updated; and
- SLFT will align to the 2023 ICMA Sustainability Linked Bond Principles (SLBP³), 2023 LMA Sustainability Linked-Loan Principles (SLLP⁴) or 2021 International Swaps and Derivatives Association (ISDA) Sustainability-Linked Derivatives: KPI Guidelines (SLDG⁵), each as subsequently amended or updated.

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

At the time of initial publication, the council engaged (and will engage for any subsequent material changes) a third-party assurance provider to complete an external review of the framework and confirm it is prepared in accordance with market's best practices.

The Treasury Management Steering Group⁶ (TMSG), with assistance from the Manager Group Sustainable Finance and the Chief Sustainability Office, will hold responsibility and accountability for the framework, including all compliance, throughout the life of all green bonds and loans and sustainability linked bonds and loans.

The council is committed to following best practice and appreciates any feedback from market participants on the approaches set out in this framework. This framework may be updated from time to time to ensure continued alignment with voluntary market best practices and emerging standards. Any updated version of this framework will either maintain or improve the current levels of transparency and reporting disclosures, including the corresponding external review.

¹ icmagroup.org/assets/documents/Sustainable-finance/2022-updates/Green-Bond-Principles_June-2022-280622.pdf

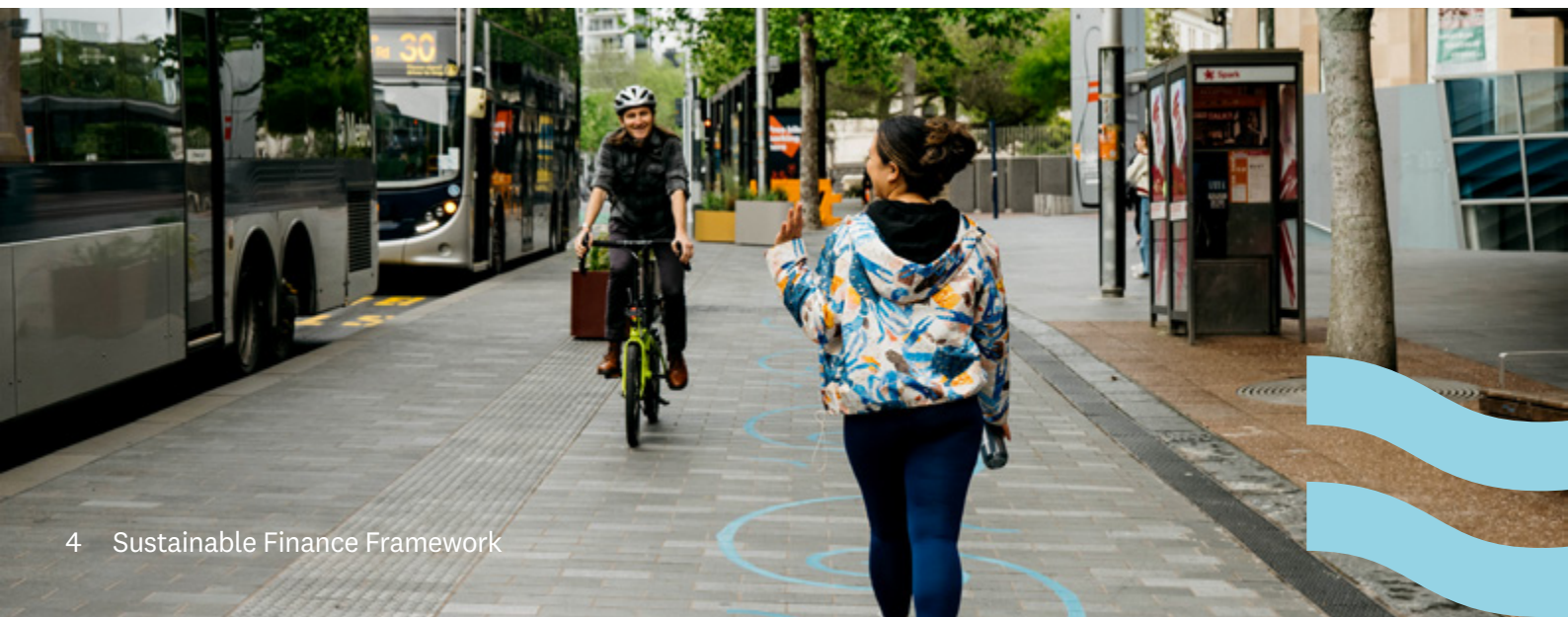
² lsta.org/content/green-loan-principles/

³ icmagroup.org/assets/documents/Sustainable-finance/2023-updates/Sustainability-Linked-Bond-Principles-June-2023-220623.pdf

⁴ lsta.org/content/sustainability-linked-loan-principles-sllp/

⁵ isda.org/a/xvTgE/Sustainability-linked-Derivatives-KPI-Guidelines-Sept-2021.pdf

⁶ TMSG consisting of senior council officers and external independent expert who monitor and review council treasury risks and operations.



4. Green bonds and green loans

This section of the framework sets out how the council proposes to issue and manage its GFT 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 described in the eligibility criteria (see table below), and in some instances may be Climate Bonds Initiative (CBI⁷) certified.

The council developed the framework in line with the GBP and GLP and, as such, will address the four core components as follows:

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

4.1. Use of proceeds

An amount equivalent to the net proceeds of green bonds and loans issued under the framework will be allocated to financing of planned projects and assets with positive social, governance or environmental outcomes, which contribute 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.

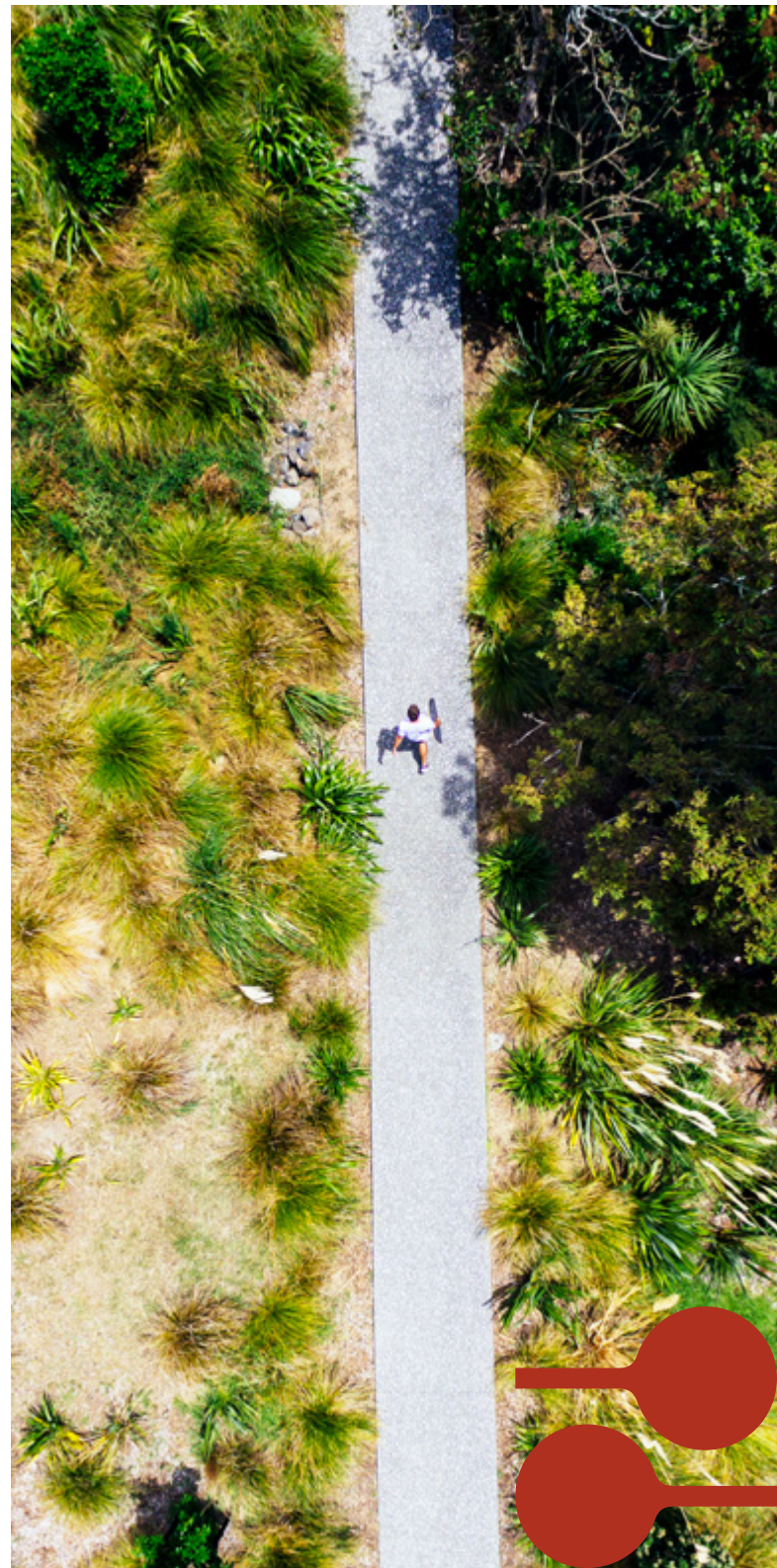
Eligible assets may include assets that Auckland Council Group:

- owns outright (including assets that are owned but not managed by Auckland Council); and owns or funds in part (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.)
- has been retrofitted to meet the eligibility criteria.

Eligible assets will include those delivered, or those in the process of being delivered with budget allocated to them.









The eligibility criteria has been updated and will apply to all new assets added to Auckland Council's eligible asset list as of 30 June 2023. Assets that have been added under the 2023 criteria will be identified in the eligible asset schedule.

The council's eligible asset schedule will be reviewed on an annual basis to determine whether any assets materially deviate from the latest eligible asset criteria.






⁷ climatebonds.net/ CBI is a not-for-profit organisation that aims to promote largescale investments that help deliver a low carbon economy.

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

Eligibility sectors	UN SDG alignment	Eligibility criteria
Renewable energy		Generation of energy from renewable sources such as wind, solar, geothermal, hydropower (provided environmental and social impact assessments are undertaken and no significant controversies are identified) and bioenergy with lifecycle emissions of less than 100g CO ₂ e/kWh, declining to 0g CO ₂ e/kWh by 2050 and only second-generation biofuels are used. Technology/componentry manufacturing that contributes to renewable energy generation that meets the above criteria (e.g. wind turbines and solar panels).
Energy efficiency	 	Business, assets, or projects that develop processes and products/technology that reduce energy consumption of the underlying asset and achieve a minimum 30% reduction in greenhouse gas emissions, for example technologies in new and refurbished buildings, energy storage, district heating, smart grids, appliances, and products.
Green buildings		Construction of low carbon and efficient buildings that have or will receive a minimum 5-Green Star rating or have an equivalent third party certification (eg. NABERSNZ), specifically for new asset developments and major renovations on assets over \$10 million. Existing buildings that have a minimum 5-Green Star rating or equivalent third party certification (eg. NABERSNZ). Renovations of current buildings to minimum 4-Green Star rating or equivalent third party certification (eg. NABERSNZ). For precincts, the rateable Net Lettable Area (NLA) meets these same recognised standards for at least 90% of the total NLA.
Pollution prevention and control		Facilities that contribute to reduction of air emissions, greenhouse gas control and soil remediation. Waste management projects, technologies, assets and supporting infrastructure that promote or enable waste prevention, minimisation, collection, recycling (including pre-sorting), composting, or processing/capture of GHG emissions. This includes assets used for preparation and storage of materials for recycling or re-use.
Environmentally sustainable management of living natural resources and land use		Environmentally sustainable management of living natural resources and land use (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, rehabilitation, or restoration of natural landscapes).
Clean transportation	 	Low carbon transport assets, systems, and infrastructure (including retrofits) such as tramways, electric trains, metro, public walking and cycling infrastructure, cycling schemes, electric and hydrogen vehicles 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 50 gCO ₂ per passenger per km will apply.



Eligibility sectors	UN SDG alignment	Eligibility criteria
Climate change adaptation		Climate change resilience and adaptation interventions that may include projects costs to mitigate flooding, or costs associated with the buyout of properties/assets impacted by severe weather events as a result of climate change (providing that repurposing of the land does not result in any adverse impacts, and is in alignment with the TMSG considerations detailed in section 4.2). Infrastructure and technologies that increase resilience to and protect against the impacts of climate change including natural ecosystem preservation.
Sustainable water and wastewater 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.

4.2. Process for evaluation and selection

An asset eligibility questionnaire has been developed to assess whether a potential asset or project complies with the eligible criteria above and to ensure the environmental, social and climate-related risks associated with the project have been considered.

The questionnaire includes three phases of questions:

- initial eligibility assessment – to determine whether an asset could be eligible based on alignment to the eligible sectors and value
- general asset information – to determine eligibility based on strategic alignment, ownership, asset phase e.g. under construction or operational, source of finance, associated risks and impact tracking; and
- eligible asset criteria – if an asset has passed through the first two phases, detailed questions relating to the eligible sector selected in phase one will need to be completed.

Users are notified after each phase of questions whether their asset could be eligible or not. Throughout the questionnaire, users may be asked to provide additional information or supporting documentation.

If an asset has not been deemed ineligible once all three phases of the questionnaire have been completed, the questionnaire will be sent to the Manager Group Sustainable Finance who will carry out further assessment based on the supporting documentation provided. The Chief Sustainability Office and Treasury are responsible for carrying out the final assessment with the support of the asset owner.

The related risk management processes, including risk mitigants, will be assessed for each asset or project and communicated to investors as relevant.

The assets that meet the eligibility criteria as set out above will then be presented to the TMSG for approval to be added to the eligible asset schedule. The TMSG 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 re-financing
- alignment with the Auckland Plan 2050 and Te Tāruke-ā-Tāwhiri: Auckland's Climate Plan objectives
- environmental and/or social risks associated with the assets; and
- where the council chooses, conformance with any other principles, standards, or tools (such as the Climate Bonds Standard (CBS), the EU Taxonomy) that are or become commonplace and highly regarded in the market.

The complete list of eligible assets and their values/ budgets will be provided in the 'use of proceeds' report.

Where relevant, in transaction documentation, the council will provide information on the alignment of projects with official or market-based taxonomies, related eligibility criteria, including (if applicable), exclusion criteria, and disclose any green standards or certifications referenced in project selection to investors.

4.3. Management of proceeds

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

4.3.1. 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 loans⁸.

The council will service its debt obligations under green bonds and loans out of general cashflows and not specifically from revenues generated by eligible projects alone.

Proceeds derived from CBI-certified, and GBP green bonds and loans and the proceeds generated from non-certified green bonds and loans will be tracked via the council's internal reporting systems to ensure each tranche of debt will be allocated, tracked, and reported separately. The council will also attest to the above process.

4.3.2. 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.

Should unallocated proceeds arise for any outstanding green bond or loan:

- the council will disclose this information within the annual use of proceeds reporting; and
- no contractual right of review or repayment will arise, and no loss of green classification will occur.

The council expects there to be adequate headroom of eligible assets and will endeavour to ensure that funds are disbursed to eligible assets within 24 months of the issuance of the green bonds and loans.

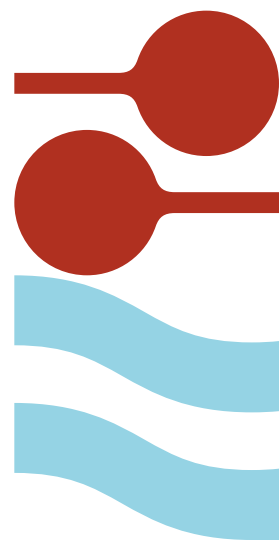
4.4 Reporting

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

- a brief description of the eligible assets and a current list of eligible assets, along with their values (the use of proceeds report)
- a summary of the environmental outcomes that have been delivered by the eligible assets (the impact report)
- qualitative and, where feasible, quantitative performance measures as part of reporting on the impact of the eligible asset
- key underlying methodology and/or assumptions used in the quantitative determination for any performance indicators or measures; and
- information will be presented in generic terms or on an aggregated portfolio basis in situations where confidentiality agreements, competitive considerations, or a large number of underlying projects limit the amount of detail that can be made available.

The council will refer to and adopt, where appropriate, the guidance and impact reporting templates provided in the **Harmonised Framework for Impact Reporting**.

⁸ The general valuation principle followed is the book value for refinanced assets and project cost for new assets.



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	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	
CBI certification	At programme certification and upon completion of any subsequent certification process	
Use of proceeds report	Annually, in line with the council's reporting timeline	
Impact report	At least once post-issuance, depending on the nature of the asset and predicted impacts.	

The council has moved to programmatic certification under CBI. Details of CBI programmatic certification are available at:

climatebonds.net/programmatic-certification

4.5 Assurance

The council may seek to employ one or more recognised experts/qualified parties to undertake external review (assurance) options for green bonds and loans.

This would be to ensure robust assessment of the framework, the underlying eligible assets in any green bond and loan issuance and over the internal tracking method and allocation of funds.

The council will also seek post-issuance assurance against the GBP and GLP 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 4.4.

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.

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



5. Sustainability-linked bonds and loans

This section of the framework sets out how the council proposes to issue and manage its SLFT on an ongoing basis. Sustainability-linked bonds (SLB), sustainability-linked loans (SLL) and sustainability-linked derivatives (SLD) are defined as debt issued for general corporate purposes that does not require proceeds to be utilised for eligible assets. A SLB, SLL or SLD enables the council to link funding to the achievement of sustainability performance targets against selected key performance indicators.

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

- selection of key performance indicators (KPIs)
- calibration of sustainability performance targets (SPTs)
- instrument characteristics
- reporting; and
- verification.

When undertaking issuance of SLB, SLL and SLD, the council will demonstrate the relationship of KPIs to SPTs and existing council policies or sustainability strategies and plans, please refer to section 2 for more details.

5.1. Selection of key performance indicators (KPIs)

In selecting the relevant KPIs, consideration will be given to materiality, measurability, ability to be verified by an external reviewer, ability to be benchmarked, and the availability of historic data (specifically, if the KPI has not already been included in previous reports where historical externally verified data is reported). Potential KPIs which may be used to adjust loan margins or bond coupons over the life of the instruments include, but are not limited to:

- greenhouse gas emissions reduction
- energy efficiency
- waste management and minimisation
- biodiversity
- carbon sequestration
- climate governance

- water management
- sustainable sourcing
- climate change adaptation
- employee engagement diversity and inclusion; and
- or any other environmental, social or governance metrics that the council deems material.

Any KPI selected needs to align to **Te Tāruke-ā-Tāwhiri: Auckland's Climate Plan** and relevant sustainability strategies, as appropriate, and be approved by the TMSG.

Additionally, the KPIs selected for these transactions will be material to the council's operations and aligned with this framework.

Clear definition of the KPIs is to be provided within any transaction documentation along with the:

- applicable scope or parameter
- the calculation methodology
- the definition of/and rationale for the baseline, and situations where recalculations or pro-forma adjustments to the baseline will take place; and
- benchmarking against an industry standard, historical data and/or industry peers, where feasible.

5.2. Calibration of sustainability performance targets (SPTs)

The council aims to ensure the SPTs are set in such a way that they are:

- meaningful in respect of the council's operations and impact
- ambitious (and remain ambitious throughout the life of the loan or bond), as determined through historical benchmarking and where possible benchmarked to peer performance and/or other external frameworks as relevant
- represent a material improvement beyond a "Business as Usual" trajectory and regulatory required targets (where they exist and where feasible)
- in line with the council's sustainability strategy and direction
- measurable and have at least three years, where feasible, of historical data

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- providing benchmarking approaches, where applicable; and
- based on a predefined timeline.

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

Where relevant, the council will specify in transaction documentation:

- how the SPT is aligned with goals/objectives under Te Tāruke-ā-Tāwhiri: Auckland's Climate Plan
- how, including associated timelines, the council intends to reach the SPT
- the verified baseline or science-based reference point selected for the SPT; and
- any key factors beyond the council's control that may affect achievement of the SPTs.

The council may elect to structure its SLL, SLB or SLD with the assistance of one or more external party to confirm alignment with the SLBP, SLLP and SLDG.

5.3. Instrument characteristics

The proceeds of the council's sustainability-linked instruments will be used for general corporate purposes. These transactions will feature financial and/or structural characteristics that encourage the achievement of the SPTs. The impacts of meeting or not meeting any pre-determined sustainability performance targets will be outlined at the inception of each transaction. These characteristics include:

- the amount of any coupon or margin adjustment
- the SPT testing dates and effective date(s) for any adjustment
- any fall-back mechanisms in case the SPTs cannot be calculated; and
- the variation of the bond financial and/or structural characteristics should be appropriate and meaningful relative to the council's original bond financial characteristics.

The council and arranging banks will agree on the appropriate additional information to be incorporated into the documentation for the SLB, SLL or SLD, including:

- the pre-determined KPIs and SPTs, as agreed on with the arranging banks, to be measured annually
- the respective baselines for the KPIs on which the SPTs are based
- calculation methodologies and commercial terms for exceptional events
- timelines for measuring and reporting
- consideration of potential exceptional events or extreme events that could substantially impact the calculation of the KPI, the restatement of the SPT, and/or pro-forma adjustments of baselines or KPI scope; and
- commercial terms.

5.4. Reporting

Regarding SLB's, 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.

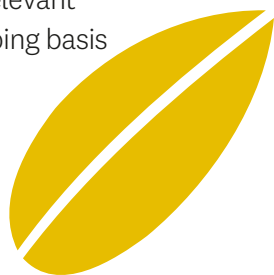
Regarding SLL and SLD, at the inception of each transaction, the council and arranging banks will agree on time, frequency (at least annually), and format for reporting on its sustainability progress against the targets. The council will provide relevant information to its SLL and SLD lender(s) as stipulated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

Reporting for SLB, SLL & SLDs may include:

- Information that enables lenders to monitor performance, level of ambition and relevancy of the SPTs;
- A sustainability confirmation statement with verification report attached, outlining the performance against the SPTs for the relevant year.

5.5 Verification

The council aims to ensure accurate representation of performance towards selected targets and intends to conduct external reviews as necessary for each SLB, SLL or SLD. This includes external review by a qualified external and independent reviewer with relevant expertise prior to issuance and on an ongoing basis as required (at least annually).



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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.

For SLLs and SLDs, the council will obtain independent and external verification of performance levels against each SPT annually.

The verification of the performance against the SPTs will be shared with lenders in a timely manner and, where appropriate, be made publicly available.

In the case of a SLB, this verification will be published on the council's website and for a SLL and SLD, will be as stipulated in the loan documentation.





Version control

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