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Independent Limited Assurance Report to the Management of Auckland Council

Assurance conclusion

Based on our limited assurance procedures, as described in this statement as of 9 September 2022, nothing has come to our attention which causes us to believe that Auckland Council's Sustainable Finance Framework (September 2022) and Green Bond Report have not been presented, in all material respects, fairly and in accordance with the Green Bond Principles (2021), Green Loan Principles (2021), Sustainability-Linked Bond Principles (2020), Sustainability-Linked Loan Principles (2022) and Auckland Council's Sustainable Finance Framework (September 2022) and the Climate Bonds Standard v3.0, respectively.

Scope

Ernst & Young ('EY', 'we') was engaged by Auckland Council to undertake a limited assurance engagement, as of 9 September 2022, in relation to the Subject Matter and Criteria set out below.

Subject Matter and Criteria

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

| Subject Matter | Criteria |
|--|--|
| Auckland Council's Sustainable Finance Framework (September 2022). | <ul style="list-style-type: none">▶ The Green Bond Principles (June 2021) and Green Loan Principles (February 2021) requirements on:<ul style="list-style-type: none">▶ Use of Proceeds▶ Process for Project Evaluation and Selection▶ Management of Proceeds▶ Reporting▶ Review (Green Loan Principles)▶ The Sustainability-Linked Loan Principles (March 2022) and the Sustainability-Linked Bond Principles (June 2020) requirements on:<ul style="list-style-type: none">▶ Selection of Key Performance Indicators▶ Calibration of Sustainability Performance Targets▶ Loan/Bond characteristics▶ Reporting▶ Verification |
| Auckland Council's Annual Green Bond Report as at 30 June 2022, in particular; | <ul style="list-style-type: none">▶ Auckland Council's Sustainable Finance Framework (September 2022)▶ Climate Bonds Standard (v 3.0) ('CBS') |



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- | | |
|--|---|
| <ul style="list-style-type: none">▶ Valuation of Eligible Assets▶ Green and/or sustainability credentials listed for Eligible Assets. | <ul style="list-style-type: none">▶ Asset-specific Criteria issued by the Climate Bonds Initiative and relevant to some of the Eligible Assets. |
|--|---|

Management Responsibility

The management of Auckland Council is responsible for the collection, preparation, and presentation of the Subject Matter. This responsibility includes establishing and maintaining internal controls relevant to the preparation and presentation of the Subject Matter that is free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies; and making estimates that are reasonable in the circumstances.

Assurance Practitioner's Responsibility

Our responsibility is to express a conclusion on whether anything has come to our attention that causes us to believe that the subject matter has not been presented, in all material respects, fairly and in accordance with the criteria detailed above. 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

Procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed. While we considered the effectiveness of management's internal controls when determining the nature and extent of our procedures, our assurance engagement was not designed to provide assurance on internal controls. Our procedures did not include testing controls or performing procedures relating to checking aggregation or calculation of data within IT systems.

Our Approach

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

- ▶ Assessing Auckland Council's Sustainable Finance Framework (September 2022) against the Green Bond Principles (June 2021), the Green Loan Principles (February 2021), the Sustainability- Linked Loan Principles (March 2022) and the Sustainability- Linked Bond Principles (June 2020).
- ▶ Assessing the eligibility of assets included in Auckland Council's Green Bond Report against Auckland Council's Sustainable Finance Framework (September 2022).
- ▶ Checking reported use of proceeds back to evidence on asset values and refinancing arrangements.
- ▶ Assessing the eligibility of CBS-eligible assets included in Auckland Council's Green Bond Report against the Climate Bond Taxonomy and sector eligibility criteria.
- ▶ Assessing the value of Eligible Assets against those reported in Auckland Council's Green Bond Report.
- ▶ Assessing the total value of all Eligible Assets to ensure a value equal to or greater than the value of proceeds of the bonds.
- ▶ Assessing Auckland Council's Green Bond Report against the CBS v3 reporting requirements.
- ▶ Interviewing selected personnel to understand relevant Auckland Council policies, systems and procedures.
- ▶ Obtaining and reviewing documents supporting assertions made in the Subject Matter.
- ▶ Seeking management representation on key assertions.

A summary of our assurance procedures and our key observations from each procedure can be found in Annex A of this statement.



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 and Green/Sustainability Loan/Bond Principles is subjective and will be interpreted differently by different stakeholder groups.

Our assurance was limited to the Auckland Council's Sustainable Finance Framework (September 2022) and Green Bond Report and did not include statutory financial statements. Our assurance is limited to policies and procedures in place as of 9th of September 2022. 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, with the exception of the Climate Bonds Initiative. Any reliance any such third party may place on the Auckland Council's Green Bond Programme is entirely at its own risk. No statement is made as to whether the criteria are appropriate for any third-party purpose.

Independence

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.

A handwritten signature in black ink, appearing to read 'Pip Best', is located below the text.

Pip Best
EY Climate Change and Sustainability Services Partner
09 September 2022



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Annex A

We provide selected observations aligning to the Green Bond Principles (June 2021), the Green Loan Principles (February 2021), the Sustainability- Linked Loan Principles (March 2022) and the Sustainability- Linked Bond Principles (June 2020) core components, to provide the reader with further understanding on how Auckland Council’s Sustainable Finance Framework (September 2022) meets the Criteria. These observations are not intended to detract from our conclusion provided above.

Green Bond Principles (June 2021) and Green Loan Principles (February 2021)

| GLP / GBP section | Significant process | Findings |
|-------------------|---|--|
| 1 | Use of Proceeds | <ul style="list-style-type: none"> ▶ The Subject Matter states that proceeds raised from sustainable financing will be used for financing and refinancing of eligible green projects and assets that have positive social, governance or environmental outcomes and contribute to a low carbon and climate resilient future. ▶ As the Subject Matter consists of the Sustainable Finance Framework alone, we did not review specific legal documentation for sustainable lending facilities or bonds to consider whether use of proceeds were appropriately described. ▶ The relevant green and social eligible project categories described in the Subject Matter consist of: <ul style="list-style-type: none"> ▶ Renewable Energy ▶ Energy Efficiency ▶ Climate Change Adaptation ▶ Sustainable Water Management ▶ Efficient Buildings ▶ Waste Management ▶ Sustainable land-use ▶ Low Carbon Transport. |
| 2 | Process for Evaluation and Selection of Projects & Assets | <ul style="list-style-type: none"> ▶ The Subject Matter provides a description of the alignment between Auckland Council’s Te Tāruke-ā-Tāwhiri: Auckland’s Climate Plan and the finance raised through their sustainable finance mechanisms (e.g., bonds) that the Subject Matter facilitates. ▶ The Subject Matter explains how responsibility and accountability for evaluation and selection of Projects falls to the Treasury Management Steering Group (‘TMSG’) including ensuring the continued compliance of the framework and associated green bonds and loans to the relevant standards. ▶ Alongside ensuring alignment of assets to the eligible project categories above, the TMSG is responsible for considering, for the eligible projects and assets: <ul style="list-style-type: none"> ▶ The current source of finance (budgeted and/or allocated) to determine ease and cost implications of possible re-financing ▶ The alignment with the Auckland Plan 2050 and Te Tāruke-ā-Tāwhiri: Auckland’s Climate Plan objectives ▶ The environmental and/or social risks associated with the assets ▶ Where the council chooses, conformance with any other principles, standards or tools (such as the Climate Bonds Standard (CBS) and the EU Taxonomy) that are or become commonplace and highly regarded in the market. |
| 3 | Management of Proceeds | <ul style="list-style-type: none"> ▶ The Subject Matter details how Auckland Council will track the receipt and use of proceeds using internal reporting systems. This includes ensuring that proceeds derived from each tranche of CBI-certified , and each green bond and loan are allocated, tracked and reported separately to proceeds generated from other loans and bonds. |



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| GLP / GBP section | Significant process | Findings |
|-------------------|---------------------|---|
| | | <ul style="list-style-type: none"> ▶ The Subject Matter communicates to investors how proceeds from green bonds can be temporarily invested to the extent these have not yet been used in green assets (i.e., unallocated proceeds). |
| 4 | Reporting | <ul style="list-style-type: none"> ▶ The Subject Matter states that the following will be included in reporting: <ul style="list-style-type: none"> ▶ a brief description of the eligible assets and a current list of eligible assets, along with their values ▶ a summary of the environmental outcomes that have been delivered by the eligible assets ▶ 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. ▶ The Subject Matter states that this reporting will be carried out on an annual basis and includes specific timings for disclosure items and the location that this reporting can be found online. |
| 5 | Review | <ul style="list-style-type: none"> ▶ The Subject Matter states that post-issuance allocation reporting assurance against the Green Bond and Green Loan Principles will occur at least once during the tenor of each green bond and loan. ▶ The Subject Matter also states that Auckland Council may seek other forms of independent review, such as second party opinions and evaluations from organisations such as rating and carbon reporting agencies and, or any other form of independent review that become accepted by the market. |



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Sustainability- Linked Loan Principles (March 2022) and Sustainability- Linked Bond Principles (June 2020)

| SLLP / SLBP section | Significant process | Findings |
|---------------------|---|--|
| 1 | Selection of Key Performance Indicators | <ul style="list-style-type: none"> ▶ The Subject Matter states that the following will be considered in determining KPIs for SLLs: <ul style="list-style-type: none"> ▶ Materiality (to Auckland Council's operations) ▶ Measurability ▶ Ability to be verified by an external reviewer ▶ Availability of historic data ▶ The Subject Matter provides examples of KPIs that are designed to drive cohesiveness between Auckland Council's Green Bonds/Loans and Sustainability Linked Bonds/Loans. Some of these KPIs include but are not limited to: <ul style="list-style-type: none"> ▶ Greenhouse gas emissions reduction ▶ Energy efficiency ▶ Waste management and minimisation ▶ Biodiversity ▶ The Subject Matter requires any Sustainability-Linked Loan or Bond to include a clear definition of the KPI along with the scope, calculation methodology, baseline definition and relevant industry benchmark (where feasible). ▶ The Subject Matter requires any KPI selected to align to Te Tāruke-ā-Tāwhiri: Auckland's Climate Plan and relevant strategy. |
| 2 | Calibration of Sustainability Performance Targets | <ul style="list-style-type: none"> ▶ The Subject Matter describes aims for calibrating Sustainability Performance Targets (SPTs) which includes the requirement for the targets to be ambitious as determined by historical or peer benchmarking or reference to external frameworks, be in line with the Council's sustainability strategy and leadership and be based on a predefined timeline. ▶ The Subject Matter states that disclosures for Sustainability-Linked Loans or Bonds must include: timelines for measuring and reporting, baselines for KPIs upon which the SPTs are based, how the SPT aligns with goals/objectives under Te Tāruke-ā-Tāwhiri: Auckland's Climate Plan and how the Council aims to achieve the SPTs, |
| 3 | Loan/Bond Characteristics | <ul style="list-style-type: none"> ▶ The Subject Matter explains that each Sustainability Linked Bond/Loan will include financial and/or structural characteristics that will encourage the achievement of the SPTs. These characteristics include: <ul style="list-style-type: none"> ▶ 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. |
| 4 | Reporting | <ul style="list-style-type: none"> ▶ The Subject Matter outlines that the Council will provide annual reporting to lenders/investors on sustainability performance against SPTs. ▶ The Subject Matter states that for Sustainability-Linked Bonds the annual report will be available on the Council's website along with the verification report. |
| 5 | Verification | <ul style="list-style-type: none"> ▶ The Subject Matter states Auckland Council's intention to conduct external reviews for each Sustainability Linked Bond/Loan at least annually. ▶ The Subject Matter explains that these reviews will be carried out by an external reviewer with expertise prior to issuance and on an ongoing basis which will be at least annually. This external review may, among other options, be assurance. |



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Annex B

We provide selected observations aligning to Auckland Council’s Sustainable Finance Framework and the Climate Bonds Standard V3.0 to provide the reader with further understanding on how Auckland Council’s Green Bond Report meets the criteria. These observations are not intended to detract from our conclusion provided above.

| Criteria | Section | Findings |
|--|---|---|
| Auckland Council Sustainable Finance Framework | Eligible Asset Categories | <ul style="list-style-type: none"> ▶ The use of proceeds of the bonds toward electrified public transport trains equipment and infrastructure, the CityRail Link, cycleway projects, and the Manukau Bus interchange align with the Sustainable Finance Framework eligibility category “Low carbon transport.” ▶ The use of proceeds of the bonds towards the LED upgrade of streetlighting aligns with the Sustainable Finance Framework eligibility category “Energy Efficiency.” ▶ The use of proceeds of the bonds towards the certified green buildings owned by Auckland Council aligns with the Sustainable Finance Framework eligibility category “Efficient Buildings”. This includes Te Manawa, a multi-purpose facility in Westgate that has been added as an eligible asset this year. ▶ The use of proceeds of the bonds towards the Fred Thomas Drive wastewater pump station and storage and the Hunua 4 watermain project align with the Sustainable Finance Framework eligibility category “Sustainable water management”. ▶ The use of proceeds of the bonds towards the Puketutu restoration project aligns with the Sustainable Finance Framework eligibility category “Sustainable land use”. ▶ The use of proceeds of the bonds towards the Rosedale floating solar array aligns with the Sustainable Finance Framework eligibility category “Renewable energy.” |
| Climate Bonds Standard V3.0 | Reporting | <ul style="list-style-type: none"> ▶ Auckland Council commit, in their Sustainable Finance Framework, to reporting at least annually on their bonds and to making this information publicly available. ▶ Auckland Council's 2022 Annual Green Bond Report includes a clear breakdown of funds allocation including the total value of green bonds on issue, the total value of CBI certified green bond assets, the proportion of the proceeds used for financing versus refinancing and how this funding is allocated to the individual assets. ▶ The allocation reporting also includes eligibility reporting where each project is assigned to an eligible category. Each of the eligible assets are explained in detail in the Annual Green Bond Report and the Report includes a specific section on their broad benefits and any relevant metrics to show the impact the asset is having/their environmental performance . The Report also provides a geographic reference for assets. ▶ The Report specifies that the objective of these bonds is to enable funding streams to align with Auckland Council’s climate response and support the broader shift to a more sustainable financial system . ▶ Auckland Council confirms in the Annual Green Bond Report that the CBI certified bonds issued are aligned with the Climate Bonds Standard and that the nominated projects and assets continue to meet the relevant eligibility requirements specified in Part C of the CBS. The Report provides the expected benefits from the CBS certified assets including qualitative and quantitative performance measures/outcomes. This is followed by a methodology and assumptions section for each asset which details how these performance measures/outcomes have been measured. |
| | Part C: Eligibility of Project and Assets | <ul style="list-style-type: none"> ▶ The use of proceeds of the bonds toward electrified public transport trains, equipment and infrastructure aligns with the Climate Bonds Initiative Taxonomy’s “Public Passenger Transport” section through the “Trains” asset type under the asset |



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| Criteria | Section | Findings |
|----------|---------|---|
| | | <p>specifics category of “rolling stock and vehicles for electrified public transport, such as electrified rail, trams, trolleybuses and cable cars.”</p> <ul style="list-style-type: none"><li data-bbox="824 467 2063 539">▶ The use of proceeds of the bonds toward the City Rail Link aligns with the Climate Bonds Initiative Taxonomy’s “Public Passenger Transport” section through the “Infrastructure” asset type under the asset specifics category of “dedicated infrastructure for electrified public transport”.<li data-bbox="824 547 2063 619">▶ The use of proceeds of the bonds toward public cycleway assets aligns with the Climate Bonds Initiative Taxonomy’s “Public Passenger Transport” section through the “Infrastructure” asset type under the asset specifics category of “public walking and cycling infrastructure and cycling schemes”. |



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Annex C

Auckland Council's list of CBS-eligible assets

| Eligible Projects | Class | Country |
|---------------------------------|----------------------------|-------------|
| Original EMU Rolling Stock | Public Passenger Transport | New Zealand |
| Second lot of EMU Rolling Stock | Public Passenger Transport | New Zealand |
| New EMU Rolling Stock | Public Passenger Transport | New Zealand |
| Public cycleway projects | Public Passenger Transport | New Zealand |
| City Rail Link | Public Passenger Transport | New Zealand |
| EMU Depot | Public Passenger Transport | New Zealand |

Annex D

Auckland Council's exposure to CBS-eligible assets as at 30 June 2022.

| Class | Asset Values (NZDm) -book value | Asset Values (NZDm) - project cost | Total |
|----------------------------|---------------------------------|------------------------------------|---------|
| Public Passenger Transport | 593 | 1,551 | \$2,144 |