

GREEN BOND FRAMEWORK

MUNICIPALITY OF ÖREBRO

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Örebro in short and its updated green bond framework

Örebro Municipality is a Swedish municipality located 200 km from the capital Stockholm. Örebro have approximately 160.000 inhabitants, making it the seventh largest municipality in Sweden.

In 2014, we launched our first Green Bond Framework along with the issuance of our inaugural green bond and was thereby the second municipality in Sweden to issue green bonds. Since its establishment, Örebro Municipality's green bond proceeds have been granted to projects that promote the transition to a low-carbon and climate resilient society. Örebro Municipality also recognizes the importance of impact reporting and we are one of the initiators of the Nordic Public Sector Issuers: Joint Position Paper on Green Bonds Impact Reporting and have contributed actively to this initiative, aiming to advance and progress impact reporting.

With its updated green bond framework Örebro aims to better manage the environmental challenges that Örebro municipality is facing and to increase the transparency of Örebro's sustainability work for both investors and other stakeholders. Furthermore, the sustainable finance market continues to evolve with new and updated guidelines, standards and regulations, including updated versions of the Green Bond Principles, published by the International Capital Market Association (ICMA), the EU Taxonomy Regulation and the EU Green Bond Standard.

Örebro acknowledges the importance of uniform requirements for activities to qualify as sustainable and strives to align the Use of Proceeds of the framework with the EU Taxonomy to the extent possible. However, it is important for the municipality as a whole that the framework facilitates the financing of a wide range of investments that are needed for Örebro Municipality to be able to meet its ambitious environmental goals. Thus, Örebro municipality finds that deviations from the criteria and activities of the EU taxonomy in some cases are necessary.

The update of the framework has meant that the previous category "Environmental management" is replaced by "Terrestrial and aquatic biodiversity". For usability, the two former project categories "Energy efficiency in energy systems" and "energy efficiency in activities and operations", are merged into one project category "energy efficiency". For the remaining project categories, the update has meant that project categories have been modified based on estimated future allocation and the eligibility criteria have been tightened and clarified to increase transparency around intended financing with Örebro's green bonds.

Whereas in the past Örebro has relied on eligible projects from the Örebro municipality corporate group, the framework will from now on also include projects from the municipality administrations. This allow Örebro to also identify and select eligible projects in the wider municipality and thereby increase the diversification of eligible projects.

The framework aligns with the four core components of the Green Bond Principles¹ published by ICMA and seeks to comply with best market practice. The four core components of the principles, along with its recommendation of External Review, form the basis of the Green Financing Framework:

1. Use of Proceeds
2. Process for Project Evaluation and Selection
3. Management of Proceeds
4. Reporting
5. External Review

1. <https://www.icmagroup.org/assets/documents/Sustainable-finance/2022-updates/Green-Bond-Principles-June-2022-060623.pdf>

Örebro's Sustainable Development Programme

The municipality of Örebro sustainable development programme “Our Sustainable Örebro” is the outcome of a political decision-making process and sets out the political direction, values, and targets for sustainable development in the municipality of Örebro to 2050 and with goals for 2030.

There are three pillars of sustainability – social, environmental, and economic.

- Social sustainability entails building a long-term stable and dynamic society where basic human needs and rights are met based on human rights and the equal value of all individuals. Everyone should be treated with respect, regardless of gender, age, ethnic background, religious beliefs, sexual orientation, ability, gender identity, or expression.
- Ecological sustainability involves managing the Earth's resources in a way that ensures they are sufficient for everyone, both today and in the future. The utilization of natural resources and climate impact should be at a level that does not jeopardize the planet's lifesupporting systems.
- Economics is a means for sustainable societal development. Economic sustainability involves using economic resources efficiently in a manner that promotes both people and the environment.

The sustainable development programme is based on Agenda 2030 and the 17 UN global sustainable development goals and a target structure with six target areas, three long term targets for 2050 and 51 goals for 2030. Equivalent to Agenda 2030, the goals and sub-goals in the program for sustainable development are integrated and indivisible, which means that no goal can be achieved at the expense of another goal – success is required in every area.

The goals in the programme further incorporates other relevant governing documents for a sustainable societal development with commitments for Örebro municipality, including EU directives, national legislation, the national environmental quality goals, regional development goals and local political decisions. The programme for sustainable development, the general plan and the annual municipal budget forms the basis for the governance of Örebro municipality.

An important starting point in the establishment of the program has been the scientific model around planetary boundaries, and the so-called ”Doughnut Economic model”. By 2050, people in the municipality of Örebro will be able to live a good sustainable life within the framework of their allotted share of the Earth's resources. Human rights and the basic needs of the population of Örebro will be met, ecosystems will not be overexploited, and a circular economy will be fully operational. The three overall targets that have been adopted are:

Public health

By 2050, equality and equity with regard to health and wellbeing will have been achieved for everyone, regardless of age.

Climate

By 2050, the municipality of Örebro as a geographical area will be climate-positive.

Ecological footprint

By 2050, the ecological footprint of both the municipal group and the municipality of Örebro as a geographical area will be a maximum of one (1) planet Earth.

A climate-positive Örebro with healthy ecosystems and a high level of biodiversity

By 2050, the municipality of Örebro will be a climate-positive municipality with healthy ecosystems and a high degree of biodiversity. Use of resources will be sustainable and climate emission per person will be at a level which, if applied globally, would not jeopardise the Earth's climate.

The climate goals must include the effects that consumption gives rise to, regardless of whether they occur locally or globally. Our consumption and production patterns not only affect the climate, but also nature's ecosystems and people's living conditions.

To become completely sustainable, the consumption of the earth's resources needs to be subject to the number of people on earth. On the way to an ecological footprint corresponding to a maximum of 1 planet by 2050, the envisaged rate is a halving for each decade, in relation to the projected population of the world. The UN's population forecast points to an increased population to nearly ten billion people globally by 2050.

To meet the climate goals, large emission reductions are required. We must change to a fossil-free society and start living within the framework of our allotted share of the Earth's resources. This also involves safeguarding the sustainability of water and food supplies, and utilising and managing land, water, and natural resources in an ecologically sustainable way, ensuring that biodiversity in the landscape is reinforced and environmental goals are achieved.

Climate strategy

The municipality's climate strategy provides guidance in what needs to be done to reach the municipality's long term climate goals for both the geographical area as well as for the municipal group.

An updated climate strategy is currently proposed and under approval. The proposed strategy has six focus areas that are the most prioritized to reduce the municipality's emissions and increase the absorption of greenhouse gases.



The proposed climate strategy outlines the work related to several of the project categories in this framework, and a notable addition in the proposed climate strategy is the enhanced focus on emissions from buildings and the construction phase.

The largest source of greenhouse gas emissions in a building's life cycle is the product stage and the operating energy when the building is in use. Emissions from energy use are limited by the energy management requirements in the Swedish National Board of Housing building regulations (BBR). To reduce the emission from the construction phase, the municipal group conducts early climate calculations to be able to assess and initiate actions to reduce the climate footprint early in the construction process. When climate calculations are assessed, it is instrumental to consider

the entire life cycle perspective, so that there are no sub-optimizations within the different phases of the life cycle. Certain material choices can, for example, have a major impact on operation and maintenance, including the increased reuse of building materials leading to less construction waste. Örebro byggretur is one example of how the municipality is promoting recycled building materials, where Örebro byggretur as a circular hardware store, selling reusable and salvaged materials.



Rational for issuing Green Bonds

Current climate measures are not sufficient to reach the climate goals that exist globally, nationally and locally. A major restructuring of society is required, not just a change. This means that we have to do things differently to what we do today. The transition we need to make is complex based on the fact that there are many different perspectives, interdependencies and actors. This means that we do not have all the answers or the complete picture, but we need to act more forcefully based on the knowledge and solutions that already exist. Now it's time to scale up the good examples and change the speed. The decisions and actions we take in this decade will have consequences for generations and centuries to come.

Örebro's highest decision-making body, the municipal council, has decided that Örebro will become climate neutral by 2045 and climate positive by 2050. In addition, the municipality has, together with 23 other cities, signed a national contract on climate neutrality. The contract is an annually revised agreement between the municipality of Örebro, six national authorities and Viable Cities, where all parties undertake commitments and concrete action points to increase the pace of the climate transition in order to reach climate-neutral cities by 2030.

In order to meet the political goals, emissions must be reduced drastically and also in the near future. Örebro municipality has already come far, but can and will do more to achieve its own climate goals, and to set an example for other cities and municipalities to follow.

To achieve this, collaboration, innovation and result-oriented initiatives are required, and Örebro view Green Bonds as an important tool to steer capital towards projects that have a positive environmental impact and that contribute to the municipality's highly ambitious goals.

EU Taxonomy

The EU Taxonomy is a classification system, establishing a list of environmentally sustainable economic activities, with the aim of scaling up sustainable investments. The Taxonomy Regulation states that an activity must make a substantial contribution to at least one of the six environmental objectives set out by the EU, while it does not cause significant harm towards the other five objectives and meets minimum social safeguards.

The six environmental objectives of the Taxonomy are: (1) climate change mitigation, (2) climate change adaptation, (3) sustainable use and protection of water and marine resources, (4) transition to a circular economy, (5) pollution prevention and control, and (6) protection and restoration of biodiversity and ecosystems.


The municipality of Örebro closely follows the development of this regulation and works actively to ensure that the investments made within the framework of the green bonds comply with the criteria in the EU taxonomy. The eligibility criteria set out in this framework takes into account the EU Taxonomy Regulation with the intention to apply it on a best effort basis, where there are feasible practical applications and support by local regulation. However, this framework also includes project categories that are either not yet covered by or deviate from the EU taxonomy. It is important for the municipality as a whole that the framework facilitates the financing of a wide range of investments that are needed for Örebro Municipality to be able to meet its ambitious environmental goals. Thus, deviations from the criteria and activities of the EU taxonomy are necessary.



Use of Proceeds

An amount equal to the net proceeds of the Green Bonds issued by Örebro Municipality will finance or refinance a selected pool of projects determined as eligible in accordance with the project categories and eligibility criteria defined in this Framework (“Eligible Projects”). New financing is defined as allocated amount to Eligible Projects financed within the reporting year, and refinancing is defined as allocated amount to Eligible Projects financed prior to the reporting year. Örebro Municipality’s green bonds can be issued either for general green purposes or for category-specific purposes. Green bonds for general green purposes finance Örebro municipality’s project portfolio, which consists of project categories specified in this framework. Category-specific green bonds can be allocated to specific projects within any of the project categories and aim to highlight and promote specific environmental challenges and solutions in a specific area. In all cases, this green bond framework will apply in its entirety. Örebro Municipality will not finance nuclear or fossil energy generation projects through its Green Bonds.



PROJECT CATEGORIES	ELIGIBILITY CRITERIA
<p>ICMA Category Green and energy efficient buildings</p> <p>EU environmental Objective Climate change mitigation</p> <p>Activities 7.1. Construction of new buildings 7.2. Renovation of existing buildings 7.3. Installation, maintenance and repair of energy efficiency equipment 7.5. Installation, maintenance and repair of instruments and devices for measuring, regulation and controlling energy performance of building 7.6. Installation, maintenance and repair of renewable energy technologies 7.7. Acquisition and ownership of buildings</p> <p>UN SD 7,11,12</p> 	<p>New Buildings².</p> <ul style="list-style-type: none"> New premises that have or will have a primary energy demand at least 30 percent lower than the than the level required by the national building regulation (BBR³), and at a minimum have, or will, receive a Miljöbyggnad Silver certificate⁴. New residential buildings that have or will have a primary energy demand at least 20 percent lower than the level required by the national building regulation (BBR) and at a minimum have, or will, receive a Miljöbyggnad Silver certificate⁴. <p>New buildings, larger than 5000 m², are subject to testing for airtightness and thermal integrity as well as for calculating the life-cycle Global Warming Potential for the product and construction phase in the life cycle of the building⁵.</p> <p>Existing Buildings</p> <ul style="list-style-type: none"> Buildings with at least an Energy Performance certificate class A (EPC A), or Buildings qualifying within the top 15 percent most energy efficient buildings of the national building stock in terms of Primary Energy Demand, determined through a specialist study. <p>Major renovations</p> <ul style="list-style-type: none"> Major renovations of buildings that have or will lead to a reduction of energy consumption of at least 30 percent⁶. <p>Energy efficient equipment</p> <ul style="list-style-type: none"> Installation, maintenance, and repair of energy efficiency equipment (energy efficient windows, elevators, doors and light sources, HVAC), leading to an improved energy efficiency in the respective area by at least 30 percent. Installation, maintenance, and repair of instruments and devices for measuring, regulating, and controlling the energy performance of buildings, including energy management systems, electric energy storage units and zoned thermostats.






2. New buildings are defined as buildings where the building application was filed after 31 December 2020

3. The Swedish Building Regulation is equivalent to the Nearly Zero-Energy Building (NZEB) requirements




4. Applicable to at least one building within the construction project.

5. Effective 2022, Swedish law requires a climate declaration covering climate impact of the construction

6. Measured within the same building heating system

PROJECT CATEGORIES	ELIGIBILITY CRITERIA
<p>ICMA Category Energy efficiency</p> <p>EU environmental Objective Climate change mitigation</p> <p>UN SDG 7</p> 	<p>Energy efficiency measures Energy efficiency measures in various municipal activities, such as exchanging traffic lights to LED. Investments should improve energy efficiency in the respective area by at least 30 percent.</p> <p>Infrastructure for fiber-optic networks Infrastructure for connecting residents and companies to the fiber-optic network to increase connectivity of Örebro municipality and reduce energy consumption.</p>
<p>ICMA Category Renewable energy</p> <p>EU environmental Objective: Climate change mitigation</p> <p>Activities 4.1. Electricity generation using solar photovoltaic technology 4.3. Electricity generation from wind power 4.13. Manufacture of biogas and biofuels for use in transport and of bioliquids</p> <p>UN SDG 7,13</p>  	<p>Wind power Wind power projects including the construction and production of electricity generation facilities that produce electricity using wind power.</p> <p>Solar energy Solar energy projects including the construction and production of electricity generation facilities that produce electricity using solar photovoltaic (PV) technology.</p> <p>Bioenergy Facilities and related infrastructure for the purpose of distribution and producing biogas⁷ or biochar.</p> <p>Energy storage Energy storage (including batteries and hydrogen storage), for the purpose of managing the intermittency of renewable energy.</p>
<p>ICMA Category Clean transportation</p> <p>EU environmental Objective Climate change mitigation</p> <p>Activities 6.5. Transport by motorbikes, passenger cars and light commercial vehicles 6.13. Infrastructure for personal mobility, cycle logistics 6.15. Infrastructure enabling low carbon road transport and public transport</p> <p>UN SDG 9, 11</p>  	<p>Fossil free vehicles Light and heavy vehicles powered by electricity.</p> <p>Infrastructure supporting clean transportation Infrastructure dedicated for pedestrians and bicycles. Infrastructure required for fossil free public and non-public transportation systems, such as electric charging points.</p>

7. From food waste, sludge, residual products from the food industry and bio-waste from the agricultural industry. Inputs are sustainably sourced bio-materials that are in compliance with the EU Renewable Energy Directive (RED) and its requirements on GHG emission reductions

PROJECT CATEGORIES	ELIGIBILITY CRITERIA
<p>ICMA Category Water and wastewater management</p> <p>EU environmental Objective Sustainable use and protection of water and marine resources</p> <p>UN SDG 6,14</p>  	<p>Water and wastewater management Processing of wastewater and supply of fresh water, such as upgrades, efficiency improvements, capacity expansions, enabling infrastructure, new network infrastructure or new-builds.</p>
<p>ICMA Category Pollution prevention and control</p> <p>UN SDG 11,12</p>  	<p>Waste management Recycling facilities and related infrastructure, including sorting and processing of all types of waste, for the purpose of minimizing the amount of waste to landfill and convert waste into secondary raw materials that are suitable for the substitution of virgin materials in production processes.</p>
<p>ICMA Category Climate change adaptation</p> <p>UN SDG 11,13</p>  	<p>Adaptation solutions (physical and non-physical) in buildings and infrastructure that substantially reduce the most important physical climate risks that the infrastructure is exposed to.</p>
<p>ICMA Category Terrestrial and aquatic biodiversity</p> <p>UN SDG 14,15</p>  	<p>Conservation projects, including restoration projects, aimed at maintaining or improving the status and trends of terrestrial, freshwater, and marine habitats, ecosystems and populations of related fauna and flora species.</p>

Process for project evaluation and selection

The evaluation and selection of Eligible Projects is a key process in ensuring that all proceeds from Örebro Municipality green bonds are allocated to Eligible Projects. Eligible Projects will be selected through a rigid, established and transparent process to secure the quality.

The following functions are involved in the evaluation and selection process: a) from Örebro Municipality: The Department of Treasury and the Department of Sustainable Development, and b) from Örebro municipality corporate group: a board of climate and environmental experts, and finally, c) the climate steering group. The climate steering group consist of executive directors from the Örebro municipality corporate group and the municipal administrations. The group is chaired by the municipality's sustainability director.

The process for evaluating and selecting Eligible Projects is carried out through the following steps:

- 1) Projects are identified by climate and environmental experts close to the potential projects in Örebro Municipality.
- 2) Proposed for green funding by the climate and environmental experts along with the accountable economists.
- 3) The potential projects are reviewed by the Department for Sustainable Development.
- 4) Processed jointly and recommended for approval in consensus by the Department for Sustainable Development and the Department of Treasury.
- 5) The Eligible Projects will finally be approved by the climate steering group.

For the project to be included in the Eligible Project pool, it shall comply with:

- 1) The Eligible Criteria as set out in this Framework.
- 2) Örebro Municipality's Sustainable Development Programme and climate strategy.
- 3) Swedish and EU laws regarding climate and environment.

In addition to selecting Eligible Projects, the above functions will follow the Green Bond market development and evaluate needs for and possibilities to refine the Green Bond Framework and the processes for monitoring and reporting.

Management of proceeds

All Green Bonds issued by Örebro will be managed on a portfolio level, meaning that a portfolio of green bonds finances a portfolio of Eligible Projects. Örebro Municipality will use a Green Register to track that an amount equivalent to the net proceeds from Green Bonds is allocated to Eligible Projects. The purpose of the Green Register is to ensure that an amount equivalent to the net proceeds only support the financing of Eligible Projects or is used to repay any Green Bonds outstanding. The Green Register will form the basis for the impact and allocation reporting. The balance of proceeds should be adjusted on an annual basis, in order to match allocations to Eligible Projects (re)financed during this period. In the event a project has been sold or is no longer eligible, Örebro Municipality commits to substitute the project as soon as practical, on a best effort basis.

Temporary holdings

The balance of unallocated Green Bond net proceeds will be held in the liquidity reserve and be managed in line with Örebro Municipality's financial policy, until reallocated to other Eligible Projects. The maximum period that net proceeds may be unallocated is 12 months.

Exclusions

Temporary investments will not be placed in entities with a business plan focused on fossil energy generation, nuclear energy generation, research and/or development within weapons and defence, environmentally negative resource extraction, pornography, alcohol, gambling or tobacco.

Reporting

To enable investors to follow the development and provide insight into prioritised areas, Örebro Municipality will provide an annual investor letter on the allocation and impact of green bonds issued. The impact assessment may include both quantitative and qualitative impacts. The methodology, baselines and assumptions for deriving the impact indicators will be outlined in the annual investor letter. Örebro Municipality will report environmental impact in accordance with the Nordic harmonised approach, as outlined in "Nordic Public Sector Issuers: Position Paper on Green Bonds Impact Reporting".

Allocation reporting

The investor letter on allocation will include:

- Nominal amount of outstanding green bonds.
- Relative share of new financing versus refinancing.
- Descriptions of selected Eligible Projects financed.
- The balance of unallocated proceeds, if any.

In addition, Örebro Municipality intend to report on the EU Taxonomy alignment of the projects financed, to the extent possible.

Impact reporting

The impact report can, if applicable, be based on the following environmental indicators:

- Project description.
- Annual energy savings (MWh).
- Annual energy production (MWh).

- Estimation of avoided greenhouse gas emissions (tons of CO₂) annually.

In addition to reporting on environmental impact, Örebro municipality has the intention to describe the social impact associated with the Eligible Projects, as applicable and to the extent possible.

External review

Örebro Municipality has engaged Sustainalytics as an external reviewer to issue an independent Second Party Opinion of this Green Bond Framework, verifying its credibility, impact and alignment with the ICMA Green Bond Principles.

An independent external party appointed by Örebro Municipality may upon request, provide a review confirming that an amount equal to the net proceeds has been allocated to Eligible Projects.

The Green Bond Framework and the second party opinion will be publicly available on Örebro Municipality's website, together with the post-issuance review and the annual Green Impact Report once published.



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