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CSI Europe
City Sustainable Investment in Europe
Making financial instruments work for cities

Local Action Plan

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¹ Local Action Group Coordinator since 9 June 2014.

² Local Action Group Coordinator from 1 February 2013 to 9 June 2014.



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Local Action Plan of Porto

Executive Summary



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a) Context

Porto Vivo, SRU participates in the project "CSI Europe: City Sustainable Investment in Europe - Making financial instruments work for cities", which aims at analysing the role of financial instruments in the planning of sustainable urban development.

The Implementation Phase of the project CSI Europe started on 1 February 2013 and will run until the end of the first half of 2015. In this context, the Local Action Group (LAG) met seven times with the main objective of deepening the key areas that will form the focus of the Local Action Plan (LAP), drawing up right from the beginning the definition of the working methodology.

b) Local Action Plan of Porto

In the constitution of the LAG, a set of criteria was considered, namely the need to represent the different sectors of activity and the main entities associated with the management of the Urban Development Funds (UDFs), including those related to the Europe 2020 strategy. The entities belonging to priority sectors in terms of JESSICA Fund Portugal were also considered. In total, the LAG of Porto includes 21 entities and about 50 active members.

c) Context of the City of Porto

i. The City and Region

Porto is the second largest city of Portugal; the centre of a metropolitan area made up of seventeen municipalities. 2011 Census data indicate that the metropolitan area has more than 1.7 million inhabitants, housing 237,591 inhabitants in Porto. The city of Porto has been losing population since 1981, and has a historic centre classified as a World Heritage Site by UNESCO, since 1996. In addition to the cultural assets of the city, Porto is not only a major centre for research and innovation with a rapid developing sector of creative industries, but also the centre of the main national export region.



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ii. City Governance

The governing bodies of the Municipality of Porto are the City Council (the executive office) and the Municipal Assembly (deliberative body). The Executive Office comprises the President, Rui Moreira, the Vice-President and 12 councillors.

Urban regeneration plans in the city centre are managed by Porto Vivo, SRU - Sociedade de Reabilitação Urbana da Baixa Portuense, S.A. (Society of Urban Rehabilitation of the Centre of Porto)

iii. The Urban Development Funds in Porto

The JESSICA Holding Fund Portugal (JHFP) was created in July 2009 with a total amount of 130 million Euros. Its Investment Committee comprises the Managing Authorities of the five Operational Programmes as well as the Operational Programme for Territorial Enhancement (OPTE) and the Directorate General of Treasury and Finance. The tender process that took place between 2010 and 2011 resulted in the creation of three UDFs run by three separate entities (Caixa Geral de Depósitos, Banco Português de Investimento and Turismo de Portugal) in five regions of continental Portugal.

In Porto, there are two operational UDFs, one managed by Banco Português de Investimento and the other by Caixa Geral de Depósitos. 54% of the 20 projects identified until today in the city are related to tourism. In the city, the multiplier effect of JESSICA is of 5, i.e. 1 Euro of JESSICA investment yielded 5 Euros of private investment.

iv. Obstacles to the Development and Implementation of the JESSICA Initiative in Porto

Amongst the aforementioned challenges, we also highlight the degree of alignment between the priorities of JHFP and the city, the need for greater clarity of some regulations, the possibility of better combining JESSICA funds and grants, the wariness of public debt increasing when the promoter is a public entity (such as the Municipality), and the need to clarify issues related to state aid so as not to jeopardise the projects.



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v. Problem Analysis and Solutions

The Local Action Group identified as the main problem the alignment of the city's development strategy with the investment strategy of the UDFs in order to ensure the efficient and effective use of JESSICA funds.

Amongst the solutions, we highlight the opening of new funding lines supporting other sectors of activity, including housing, and the strengthening of the city's governance model by means of a technical support office, providing assistance in the application of financial instruments.

d) Local Action Plan Focus

i. Objectives

Amongst the objectives of the Local Action Plan, we emphasise the creation of a UDF specialised in sustainable and affordable projects, and the strengthening of technical training and information improvement.

ii. Actions

The Local Action Plan comprises three actions:

- Action 1: Support Fund for the Renovation of Buildings of the Historic Centre of Porto;
- Action 2: Technical Assistance;
- Action 3: Pilot Project.

iii. Schedule

The set of actions integrating the Local Action Plan will be implemented during the 2014-2020 programming period.

e) Local Action Plan Funding



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The specific tables for each Action indicate the volume of funding required, although funding is not guaranteed for any of the proposed actions.

All Actions can apply for European funds.

Under the financial instruments available in Portugal 2020, we emphasise the thematic Operational Programme "Sustainability and Efficiency in the Use of Resources" and the Regional Operational Programme of the North 2020.

f) Implementation of the Local Action Plan

The leading partners and strategic partners of each Action are responsible for their implementation.

With regard to Action 1, the available technical support instruments should be considered, in particular the FI-Compass Platform and the open tender of Horizon 2020 with the EE-20-2015 code. As a reference model for Action 1, we present Annex 4 of the Commission Implementing Regulation (EU) No. 964/2014 of 11 September 2014.

g) Process Description

Each Action should be developed by the identified leading partners in coordination with the respective strategic partners, bringing together the necessary resources in order to implement them within the proposed schedule.

h) Risk Assessment

The main risks associated with the Local Action Plan are of political and regulatory nature:

- Managing Authorities of the Operational Programmes: unforeseen regulations and interpretations;
- Additional Constraints in the Specific Regulation of Sustainability and Efficiency in the Use of Resources: the need for an Action Plan for Urban Regeneration framed by a Strategic Plan for Urban Development, developed by Urban Authorities and approved by the Managing Authorities;



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- Consolidation of access mechanisms of private owners to the Fund proposed in Action 1;
- Unresolved legal issues (condominiums);
- Local Scope - lack of critical mass;
- Policy cycle;
- Coordination between different levels of government.

i) Final Recommendations

We conclude with the recommendations identified by the Local Action Group, aimed at an external audience and thus not following local interests.

Local Action Plan of Porto



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1. Context

Porto Vivo, SRU participates in the project "CSI Europe: City Sustainable Investment in Europe - Making financial instruments work for cities"³ led by the city of Manchester (UK), one of 19 projects approved on 23 April 2012 by the Monitoring Committee of URBACT II, under the third call for proposals for the creation of thematic networks. Besides Porto, this project also includes the cities of Ancona (Italy), Poznan (Poland), The Hague (Netherlands), Leipzig (Germany), Lille (France), Riga (Latvia), Malmö (Sweden) and Seville (Spain).

The objective of this project is to analyse the role of financial instruments in the planning of sustainable urban development, in particular the involvement of cities in the structures of Urban Development Funds set up under the JESSICA initiative. This project was developed at a time when the European Structural & Investment Funds 2014-2020 were being discussed. Therefore, reimbursable funding mechanisms gained greater importance at the expense of non-repayable subsidies.

Within this framework, a Local Action Group (LAG) in Porto was created, taking into consideration the following objectives:

- Identify the obstacles to the development and implementation of the JESSICA initiative in Porto;
- Identify the best practices of development and implementation of the JESSICA initiative;
- Identify opportunities to expand the role of Urban Development Funds to other initiatives/fields;
- Explore ways to accommodate more efficient urban development instruments in the architecture of structural funds for the period 2014/2020;
- Contribute to the design of a new generation of Urban Development Funds;
- Explore the availability of potential resources to foster Urban Development Funds.

The Implementation Phase of the project CSI Europe started on 1 February 2013 and will run until the end of the first half of 2015. In this context, the Local Action Group met seven times with the main objective of deepening the key areas that will form the focus of the Local Action Plan, drawing up right from the beginning the definition of the working methodology.

³ See: <http://urbact.eu/csieurope>



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The Local Action Group of Porto developed the Local Action Plan in the course of their working meetings, where they had the opportunity to discuss the issues and solutions related to the subject at hand, listing a set of actions to achieve the specific goals.

The organisation of this Local Action Plan starts with the presentation of the Local Action Group of Porto, followed by a context analysis of the city of Porto. We then identify the initial problem and the challenges that may arise, followed by the definition of the objectives and the work focus of the Local Action Plan. The main Actions and corresponding schedules are listed afterwards, followed by the volume of funding that sustains them. This Local Action Plan includes the identification of the responsibilities of different stakeholders and the description of the work process of the Local Action Group. The Local Action Plan concludes with a risk assessment.

2. Local Action Plan of Porto

In the constitution of the LAG, a set of criteria was considered, including the need to:

- Include different levels of government: national, local and metropolitan;
- Include different sectors of activity that were chosen from the diagnosis of the city - the best activities to sustain a process of growth in the future (2014-2020);
- Include representatives of the private sector, public sector and of other forms of organisation;
- Include entities directly associated with the management of Urban Development Funds (UDFs) and the Holding Fund;
- Include Educational, R&D and training institutions;
- Include institutions in the Entrepreneurship and SME area;
- Include active institutions in the social area;
- Include institutions in the area of mobility.

The essential goal that presided over the constitution of the LAG concerns the need to represent the main active institutions of the city and that most directly relate to the Europe 2020 strategy, with regard to the following areas:

- Employment (employment rate of 75%, within the age range of 20-64 years);



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- Investment in R&D (3% of GDP);
- Energy efficiency (- 20% of greenhouse effect, 20% of energy needs from renewable energies, 20% energy efficiency);
- Education (school drop below 10%, and 40% (within the age range of 30-34 years) with higher education degree);
- Decrease of number of people at risk of poverty or social exclusion.

In addition, we also considered the entities belonging to priority sectors in terms of JESSICA Fund Portugal, namely:

- Urban rehabilitation and regeneration;
- Energy efficiency and renewable energies;
- Revitalisation of the economy (SMEs and innovative companies);
- Dissemination of Information and Communication Technologies (broadband and wireless networks).

The representation of each of these sectors and areas of interest is based on the relative weight that results from the analysis of the invited entities, as shown in Table 2. Therefore, the entities that stand out are related to cultural and creative industries, entrepreneurship and employment, urban rehabilitation, followed by the business sector, educational and R&D institutions, and financial institutions, directly related to the JESSICA Portugal Initiative. The LAG also includes entities related to energy efficiency, mobility and transport, tourism, and the social sector, as well as entities from the local and central government sphere, including the Managing Authority of the North Region.

The LAG includes 21 entities and about 50 active members. The following list presents all participating institutions.

CSI Europe: Local Action Plan of Porto

1. ADDICT – Creative Industries Agency
2. AdE Porto - Porto Energy Agency
3. AICCOPN - Association of Civil Construction and Public Works Industrialists
4. European Investment Bank (EIB) – JESSICA Holding Fund in Portugal
5. Banco Português de Investimento (BPI) – JESSICA Office
6. Caixa Geral de Depósitos (CGD) – JESSICA Office
7. City Council of Porto – Finance and Heritage Department, and Urban Development Department
8. CCDR-N – North Regional Coordination and Development Commission
9. CIP – Confederation of Portuguese Industry



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CSI Europe: Local Action Plan of Porto

10. CMPH - DomusSocial - Municipal Social Housing Company of Porto
 11. School of Arts of Porto (ESAP)
 12. Youth Foundation
 13. Serralves Foundation
 14. FundBox – Property Investment Fund Management Company
 15. IAPMEI – Public Agency for Competitiveness and Innovation
 16. Greater Porto Authority
 17. Porto Vivo, SRU
 18. Santa Casa da Misericórdia of Porto (SCMP)
 19. TPNP - Porto and Northern Portugal Tourism
 20. University of Porto
 21. UPTEC – Science and Technology Park of the University of Porto
-

Table 1: List of Entities Incorporated in the Local Action Group of Porto

ENTITIES	CALLS	INSTRUMENTS	AREAS OF ACTIVITY													
			Energy efficiency	Social Institutions	Cultural and Creative Industries	Entrepreneurship/Employment	Local Government	Business Sector	Managing Authority	Education and R&D	Financial Institutions	Urban Rehabilitation	Central Government	Tourism	JESSICA Portugal	
ADDICT	X	X			X	X		X								
AdE Porto	X	X	X													
AICOPN	X	X						X				X				
Greater Porto Authority	X	X					X									
EIB - JESSICA Portugal	X	X									X					X
BPI	X	X									X					X
CCDR-N	X	X							X				X			X
CGD	X	X									X					X
CIP	X	X				X		X								
Town Council of Porto - FHD & UDD	X	X					X					X				
DomusSocial	X	X	X				X					X				
ESAP	X	X			X					X						
Youth Foundation	X	X	X	X	X											
Serralves Foundation	X	X			X	X										
FundBox	X	X									X	X				
IAPMEI	X	X				X		X					X			
Porto Vivo, SRU	X	X	X									X				
Santa Casa da Misericórdia of Porto	X	X		X												
Porto and Northern Portugal Tourism	X	X												X		
University of Porto	X	X			X					X						
UPTEC	X	X			X	X		X		X						
Relative weight (%)	100%	100%	4,4%	6,7%	13,3%	13,3%	6,7%	11,1%	2,2%	6,7%	8,9%	11,1%	4,4%	2,2%	8,9%	

Table 2: List of Entities, by Area of Activity, Incorporated in the Local Action Group of Porto



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3. Context of the City of Porto

a) The City and Region

The city of Porto dates back to the late Bronze Age. After five centuries of Romanisation, the city was occupied from 410 AD onwards by successive waves of Suevi, Visigoths and Moors. During the Middle Ages, the city was home to Christians, and thus Porto became a city of clergymen, merchants and craftsmen. Later, during the 18th century, the city witnessed a growth in its economic dominance, based on foreign trade. In the transition from the 18th to the 19th centuries, the city became the centre of a strongly export-oriented manufacturing and agricultural region.

Porto is the second largest city of Portugal. Its Metropolitan Area (MAP - Metropolitan Area of Porto) consists of seventeen municipalities and it is the largest urban agglomeration in the Northwest of the Iberian Peninsula.

2011 Census data indicate that the metropolitan area has more than 1.7 million inhabitants, housing 237,591 inhabitants in Porto. Since the 1981 Census, the city of Porto lost 27% of its population, with the sharpest decline in the historic centre of the city. The population reduction is a result of the suburbanisation process and degradation of the physical environment of the city, caused by the constraints of the legal regime of urban rental dating back to the 1940s, amongst others, which is also responsible for the stagnation of the rental market, especially since the 1970s.

UNESCO classified the historic centre of Porto as World Heritage in 1996, and the city is also the gateway to locations classified as World Heritage Sites, both in Portugal (Douro Valley, Foz Côa, Guimarães) and in the regions of Castile and León, and Galicia. The city has important cultural and modern infrastructures, such as the Serralves Foundation and Casa da Música. Tourism continues to develop, the airport has recently been modernised and extended, and a new cruise terminal is being developed in the port of Leixões. The hotel offer has also been expanding rapidly, improving its quality. The city today is the third most visited tourist destination in



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Portugal, and won the award for Best European Destination in 2012 and 2014. The city is also an important venue for international events, fairs and exhibitions, seminars and conferences.

The Northern region of Portugal is heavily dependent on manufacturing activities and business services, and the region was responsible in 2014 for 38% of Portuguese exports. It is worth mentioning that in the same year the MAP guaranteed 51% of regional exports⁴. The city is an important centre for research and innovation, mainly influenced by the presence of 17 institutions of higher education with about 60,000 students: a public university (with a total of about 32,000 students in the academic year 2013-2014⁵), 4 private universities, the Catholic University of Portugal, several laboratories and research centres, namely in the areas of biotechnology and health with internationally recognised research centres (such as the Institute of Molecular and Cell Biology (IBMC) and the Institute of Molecular Pathology and Immunology of the University of Porto (IPATIMUP)), in the engineering area (the Institute for Mechanical Engineering and Industrial Management (INEGI) and the Institute for Systems and Computer Engineering of Porto (INESC)), or even in the maritime science area (the Interdisciplinary Centre of Marine and Environmental Research (CIIMAR)). The city also has a sector of rapid developing creative industries, strongly promoted by ADDICT. In neighbouring municipalities there are other important institutions of higher education and R&D centres (such as Porto Business School and CEIIA - Centre for Excellence and Innovation in the Automotive Industry, amongst others) that support the technological positioning of the metropolitan area of which Porto is the centre.

b) City Governance

The management bodies of the Municipality of Porto are formed by the City Council of Porto (the executive office, elected by the citizens of the city) and the Municipal Assembly (deliberative body with 46 members - 39 of which are directly elected and 7 are the Presidents of the Parishes). The Municipal Executive Office comprises the President, Rui Moreira, who was newly elected (September 2013) to his first term in office and who is in charge of urban rehabilitation, and the Vice-President, Guilhermina Rego, who is responsible for a department

⁴ INE (National Institute of Statistics), 2015, Statistics of International Trade in Goods, according to table exported on 11 March 2015.

⁵ Ministry of Education, 2015.



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amongst a total of seven that are distributed by 12 councillors (five of which have no department). There are 12 municipal councillors and 8 Municipal Departments, including the Urban Development Department, responsible for urban planning.

In the city centre, regeneration programmes are managed by Porto Vivo, SRU - Sociedade de Reabilitação Urbana da Baixa Portuense, S.A. (Society of Urban Rehabilitation of the Centre of Porto), a publicly owned company, in which Álvaro Santos is the Chairman.

c) The Urban Development Funds in Porto

After the Evaluation Study of JESSICA⁶, the European Investment Bank (EIB) was chosen by the Portuguese government to become the manager of the JESSICA Holding Fund Portugal (JHFP), which was created in July 2009 with a total amount of 130 million Euros. The Investment Committee of JHFP was set immediately afterwards with the task of overseeing the work of the EIB. This Investment Committee comprises the Managing Authorities of the Operational Programmes of the North, Centre, Lisbon, Alentejo and Algarve, as well as the Operational Programme for Territorial Enhancement (in Portuguese, *Programa Operacional Temático Valorização do Território*) and the Directorate General of Treasury and Finance. After creating the JHFP in July 2009, the tender process, developed by the EIB to choose the managers of the UDFs, took place between 2010 and 2011, which resulted in the creation of three UDFs run by three separate entities (*Caixa Geral de Depósitos*, *Banco Português de Investimento* and *Turismo de Portugal*) in five regions of continental Portugal.

The JHFP operates in four priority areas in order to promote sustainable projects in urban areas, such as:

- i. Rehabilitation and urban regeneration, including regeneration of urban equipment and infrastructures;
- ii. Energy efficiency and renewable energies;
- iii. Revitalisation of the urban economy, especially small and medium enterprises (SMEs) and innovative companies;

⁶ Deloitte and Parque Expo (2009), *JESSICA Evaluation Study*, available on-line on 26 November 2013 at: <http://www.eib.org/attachments/portugal-evaluation-study.pdf>

- iv. Dissemination of Information and Communication Technologies in urban areas, which include broadband and wireless networks.

Type	Promoter	Description	Total Investment	Total JESSICA	% JESSICA
Commerce	Tradições Ancestrais, Lda.	Creation of restaurant area	1.800.000,00	650.000,00	36%
Tourism	CP71 - Oporto Tourist Apartments	Tourist Apartments/Hostel	1.350.000,00	575.000,00	43%
Tourism	Porto Carlton	Hotel	5.985.000,00	2.250.000,00	38%
Tourism	Loftpuzzle, Lda.	Rehabilitation of two buildings...	1.940.000,00	580.000,00	30%
Education	Associação EGP - Uporto	Porto Business School	15.300.000,00	1.300.000,00	8%
Commerce	BBGourmet - Restauração, Turism	Restoration of building for restaurant p	300.000,00	150.000,00	50%
Tourism	Partenon - Imobiliária, S.A.	Rehabilitation of building on Rua de Ce	1.801.000,00	675.000,00	37%
Tourism	Falopin Hotéis - Hotelaria e Servi	Building of Bolsa do Pescado - Hotel	12.123.000,00	2.700.000,00	22%
Culture	Clérigos Brotherhood	Clérigos Church and Tower	2.926.000,00	563.000,00	19%
Tourism	Alphaville Participações - Urbani	Condes de Azevedo Palace	4.110.000,00	1.380.000,00	34%
Tourism	Alfaway Hotéis - Sociedade Hotel	Building in Ribeira	3.490.000,00	1.745.000,00	50%
Services	OTOC - Order of Chartered Accoun	Rua Saraiva de Carvalho	6.500.000,00	2.000.000,00	31%
Tourism	CP71 - Oporto Tourist Apartments	Property Rehabilitation	260.000,00	100.000,00	38%
Tourism	Pestana Hotel	Hotel expansion in the historic centre	875.000,00	350.000,00	40%
Tourism	HOTI Hotéis	Hotel	7.400.000,00	578.948,00	8%
Tourism	Palácio Batalha Hotel, Lda.	Palácio Batalha Hotel	12.019.666,00	1.684.211,00	14%
Tourism	Inspire Expire, Lda.	Hostel Inspire & Expire - Local Accommodation	170.000,00	63.154,00	37%
Energy Efficiency	Four Fund	Block of Cardosas	11.200.000,00	526.316,00	5%
Tourism	PVInvestimentos, Lda.	Porto Vintage Guest House	243.997,00	83.684,00	34%
Commerce	Desfruta	Commerce of agricultural products	5.659.808,00	2.315.790,00	41%
Total			95.453.471,00	20.270.103,00	21%

Source: JHFP (2014)

Table 3: List of Contracted Projects in Porto on 31 December 2014

In Porto, two operating UDFs are active throughout the Northern region. One is managed by BPI - Banco Português de Investimento with an initial capital of 60 million Euros, 50% from JHFP and 50% from BPI. The second UDF is managed by CGD - Caixa Geral de Depósitos with an initial capital of 176 million Euros, of which 51 million Euros are from JHFP.

In Porto, most projects identified to date (a total of 20 projects) are related to tourism (54% of total), but there are also projects related to energy efficiency in housing, as well as to commerce and education, as shown in Table 3 and Table 4.

Goal	Total Investment	% of Total Investment	Total JESSICA	% of Total JESSICA
Tourism	51.767.663,00	54%	12.764.997,00	63%
Commerce	7.759.808,00	8%	3.115.790,00	15%
Education	15.300.000,00	16%	1.300.000,00	6%
Culture	2.926.000,00	3%	563.000,00	3%
Energy Efficiency in Housing and Commerce	11.200.000,00	12%	526.316,00	3%
Services	6.500.000,00	7%	2.000.000,00	10%
Total Porto	95.453.471,00	100%	20.270.103,00	100%

Source: JHFP (2014); edited by Porto Vivo, SRU

Table 4: Investment volume (Total and JESSICA Funding) by Type of Contracted Projects in Porto on 31 December 2014

When we analyse the investment in Porto that receives JESSICA funding, as shown in Table 4, it is important to highlight the multiplier effect of 5, i.e. 1 Euro of JESSICA investment yielded 5 Euros of private investment. However, this success in the attraction of investment through the JESSICA Initiative in key areas for the development of the city of Porto requires a more careful analysis in order to evaluate this instrument's best implementation.

d) **Obstacles to the Development and Implementation of the JESSICA Initiative in Porto**

In the Baseline Study of the CSI Europe Project, the degree of alignment between the priorities of JHFP and the city is pointed out as a major challenge to the development and implementation of the JESSICA initiative in Porto, because funding opportunities are translated into field investment projects and programmes that are relevant to the city's development strategy. Other challenges identified in this Baseline Study relate to the need to comply with the European Regional Development Fund (ERDF) rules, especially when some regulations are not clear enough. In some priority areas, such as the Historic Centre, which is a site classified by UNESCO, the regeneration projects are especially sensitive to the need for community support, as they are faced with specific challenges, particularly regarding the duty to comply with the rules on Classified Heritage. Furthermore, the costs related to legal restrictions and heritage protection issues (archaeological surveys, for example) delay or even prevent a large number of investments, with a negative impact on the feasibility of the projects, especially when it comes

to small investors with greater restrictions on access to credit, which can only be overcome by financial support. The ability to better combine JESSICA grants and funds takes on a strategic nature, because it can solve some of the raised feasibility problems.

Another relevant issue identified in the Baseline Study refers to the fact that the public sector, while project promoter, such as the municipality, has to take into account the impacts of financial instruments as JESSICA on the worsening of public debt.

Finally, issues related to State aid may also act as an obstacle as these rules are unclear, and decisions on State aid at national and community level take too long to reach, consequently compromising the projects.

Critical Areas	Obstacles to the Development of UDFs
Regulation	<ul style="list-style-type: none"> - Adjust European law with the legislation applicable to Funds - Complexity of European and national regulation; contradictions between the various rules, regulations, (eligibility) criteria - Combine cohesion policy with competition policy
Procedural matters	<ul style="list-style-type: none"> - Bureaucracy in accessing support - Inflexible criteria and too dependent on European funding instruments
Communication	<ul style="list-style-type: none"> - Communication difficulties - Local micro corporate fabric, and consequently some obstacles to the introduction of communication technologies
Urban development	<ul style="list-style-type: none"> - Definition of eligible area - Create specific and clearer rules - There will be a market for a high urban supply - feasibility of projects
Corporate fabric	<ul style="list-style-type: none"> - Local micro corporate fabric - Companies with little financial capacity - Feasibility of projects - Low profitability of many companies in early stages of development - The current economic situation hinders investment, which is difficult to implement even with attractive incentives

Table 5: Obstacles to the Development of UDFs in Porto

e) Problem Analysis and Solutions

The Local Action Group identified as the main problem the alignment of the city's development strategy with the investment strategy of the UDFs in order to ensure the efficient and effective use of JESSICA funds. The analysis considered the set of causes and effects related to this problem, and the selection of solutions and means (Table 6 and Table 7, respectively).

Problem	
How to align UDFs with the city's development strategy, and ensure their efficient and effective use?	
Causes	Effects
Leverage mainly based on market profitability criteria, undervaluing other dimensions, such as the social dimension of the projects	Projects with longer maturity are not executed regardless of their value
Difficulties in implementing the instruments due to the complexity of EU/national regulatory frameworks and conflicts	Sectoral Projects and marginalisation of more comprehensive and cross-cutting projects
Temporal dimension - long-term horizon 15-20 years vs. short-term horizons	Approved projects are not necessarily those that enable us to achieve the goals of the defined urban development strategy. Set of approved projects may not meet the city's interests
Conflict between sectoral policies (e.g. regional development vs. competition policy)	Risk associated with the project is very high
Investment in urban rehabilitation is not exempt of accountability for limits on indebtedness	Public projects do not advance due to lack of funding - the municipality is not an agent due to limits on indebtedness
Charging rules and complex state aid	Insufficient implementation of projects (abandoned for reasons of compliance with the law and regulations)
Lack of continuity of strategy in the light of policy cycles, undermining the sustainability of projects	Suboptimal use of available means/Waste of funds
Lack of territorial integration - "city" without articulation at supra-municipal scale	Large investments to the detriment of small investments - size of projects
Lack of developed anchor projects (Bolhão)	
Definition of centralised development objectives and investment strategy of external financial instruments	Promoters have difficulties in framing their projects (lack of clear definition of IPSUD - Integrated Plan for Sustainable Urban Development)
Promoters still have a preference for new constructions rather than refurbishment, and agents do not have training compatible with conservation and heritage preservation strategies	Decapitalisation of urban heritage
Lack of integration of technical support sustained in political decision	Rules limiting the sectors where UDFs are applied, creating distortion in the market

Problem	
How to align UDFs with the city's development strategy, and ensure their efficient and effective use?	
Failure to disclose the conditions of the Financial Instruments with promoters	Inability to practice attractive interest rates to overcome market failures
Lack of other types of financial instruments to support other areas of intervention or sectors of activity	The market is wary of public policies in view of the non-existence of a development model
Unclear and inflexible energy regulation, creating obstacles to energy efficiency projects	Ineligibility of support to housing: - Depopulation of the historic centre - Impediment to the recovery of the rental market
Lack of macro and meso-economic studies of sectoral and local nature	

Table 6: Problem Tree of the Local Action Group of Porto

Group	Solution	Means
1	UDFs specialised in self-sustaining projects and fully funded projects (non-repayable grant)	- Opening of new funding lines - Strategic Coordination between profitable and non-profitable projects, performing an integrated analysis between both
2	Creation of some additional FI to support other sectors of activity (e.g. housing)	Enable the application of UDFs in other sectors of activity
3	Strengthening of city's governance model (e.g. Urban Centre)	Technical/financial support office for the implementation of UDFs City's strategic plan that ensures: - Information - Participation - Knowledge
4	Hold reporting formats pre-approved by EU	
5	Disclose the rules	- Disseminate - Develop project-types that illustrate the application of the rules (e.g. ineligible housing - the project must not include housing, which is false)

Table 7: Selection of Solutions and Means

4. Local Action Plan Focus

a) Objectives

Based on the above analysis, we define the following objectives of the Local Action Plan:

- Creation of a UDF specialised in sustainable and affordable projects, possibly eligible for non-repayable grants;
- Creation of a financial instrument that supports other sectors of activity, namely housing;
- Construction of a model of urban governance within the UDF;
- Creation of reporting formats on state aid, pre-approved by the European Union;
- Technical assistance and information improvement.

b) Actions

The Local Action Group of Porto proposes a set of three actions:

- Action 1: Fund for Efficient Renovation of Buildings in the Historic Centre of Porto (REENERGI.CHP);
- Action 2: Technical Assistance;
- Action 3: Pilot Project.

i. Action 1: Fund for Efficient Renovation of Buildings in the Historic Centre of Porto (REENERGI.CHP)

Action 1 - Fund for Efficient Renovation of Buildings in the Historic Centre of Porto (REENERGI.CHP)	
Brief description of activity	It consists on the creation of a Support Fund for the Renovation of Buildings of the Historic Centre of Porto World Heritage, integrating solutions to improve the Energy Efficiency of private buildings, following the Urban Development Fund Model, and which shall form part of the European Structural and Investment Funds 2014-2020, with reference to the Europe 2020 Strategy.
Objectives	- Increase energy efficiency and comfort in the private housing stock of the Area of Urban Rehabilitation (AUR), and beyond the historic district, keeping the architectural quality;

Action 1 - Fund for Efficient Renovation of Buildings in the Historic Centre of Porto (REENERGI.CHP)	
	<ul style="list-style-type: none"> - Improve the rehabilitation processes of the buildings through energy sustainability and support to those involved; - Reach the goals of Europe 2020 Strategy; - Increase the number of buildings with energy efficiency component.
Leading Partner	<ul style="list-style-type: none"> - Consortium between Porto Vivo, SRU and Financial Entity - City Council of Porto/Housing Department
Strategic Partners	<ul style="list-style-type: none"> - AdEPorto - Universities - Financial Institutions - City Council of Porto - IHRU - Institute for Housing and Urban Rehabilitation - Government - AICCOPN - DRC-N - Regional Directorate for Culture of the North - Associations in the property industry - CCDR-N - DomusSocial - SCMP
Expected Results	<ul style="list-style-type: none"> - Significantly reduce the built heritage's degradation state - Rehabilitation of buildings in need of deep rehabilitation works - Create a platform for best practices to disseminate, promote and replicate - Increase the number of buildings with high energy rating - CO₂ reduction for each dwelling in the Historic Centre of Porto - Reduction of energy consumption
Schedule	<ul style="list-style-type: none"> - Start: 1st Q 2015 / Formalisation and establishment: 3rd Q 2015 / First loans: 4th Q 2015 - into force until 2022 - Possible time horizon of 15 years (Urban Rehabilitation Area)
Resources by year	<ul style="list-style-type: none"> - Initial minimum allocation: €40M / Funders: Portugal 2020, City Council of Porto, IHRU - On average €20M/year (for total investment in energy-efficient intervention)
Funding per year	<ul style="list-style-type: none"> - No - Preferably an envelope to be managed over time - Funding allocated according to the project pipeline
Funding is guaranteed? Yes/No	<ul style="list-style-type: none"> - No. A political commitment is necessary - Property Mortgage (owners)
Connection with other activities	<ul style="list-style-type: none"> - Action 2 - Technical Assistance Office - Plus the connection with other areas, such as: <ul style="list-style-type: none"> - Rehabilitation of the environment and public space - Tourism - Heritage - Public investment in infrastructures - R&D (traditional architecture, equipment, building materials, heritage), training (traditional techniques, rational use of energy), monitoring - Universities, Polytechnics, Higher Institutions - Technical Training and Research regarding the suitability of materials for the built heritage in question - Implementation and monitoring of the Sustainable Energy Action Plan of Porto (SEAP-P)

Table 8: Table of Action 1



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a. Context

The proposed creation of a Fund falls within the conception of Urban Development Funds (UDFs), directed by the JESSICA initiative. Under the Cohesion Policy 2014-2020, this will gain great importance as the application of EU Structural Funds as reimbursable funding will be reinforced via these new forms of financial engineering, rather than the traditional way of assisting stand-alone projects through non-repayable grants; although not diminishing the relevance of the latter form of funding for various public-driven processes.

Taking into account the needs and pressing problems of the rehabilitation of buildings in the Historic Centre of Porto, and the delimitation of the Area of Urban Rehabilitation (AUR) by Porto Vivo, SRU in appropriate instrument (as approved in the Municipal Assembly of 4 June 2012, and subsequent publication in the Official Gazette of the Notice No. 9562/2012 of 12 July), the strategy based on the Masterplan (2005) of this Society and on the "Management Plan of the Historic Centre of Porto World Heritage" (2008), published in partnership with the City Council of Porto, proposes the creation of a Fund that should be applied to deep or medium-size rehabilitation interventions. However, it should be conditioned to the use of techniques and materials that contribute to energy efficiency, reducing not only the energy bills of domestic consumption but also CO₂ emissions, while contributing to improved health and well-being of the population and their comfort⁷.

The national priority objectives on housing and urban rehabilitation can only be achieved by ensuring the access of private owners, whether property owners or not, to structural funds. In historic centres, as it is proposed for Porto, this is crucial so that the urban rehabilitation strategy is pursued by the local community, because intervention cannot confine itself to be executed by public entities, such as Porto Vivo, SRU, or by medium or large, external and institutional investors as has been the recent trend. To be effective, the urban rehabilitation strategy should also involve small private owners, who hold a limited number of buildings and that have suffered over the past decades a sharp decapitalisation as a result of the rent freeze. It is important to

⁷ For further reading on the benefits of urban rehabilitation when combined with energy efficiency, see the study of Copenhagen Economics (2012), entitled "Multiple benefits of energy efficient renovations in buildings", available on 18 June 2013 at: <http://www.renovate-europe.eu/uploads/Multiple%20benefits%20of%20EE%20renovations%20in%20buildings%20-%20Full%20report%20and%20appendix.pdf>.



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keep this logic to support the small property owner and the resident owner; otherwise, we would be encouraging a process of gentrification, which is altogether undesirable. These are owners who suffered directly the pressure on the city centre of an uncontrolled expansion of the urban periphery (which exerted direct competition for public investment directed to infrastructure projects), expanding into traditionally rural or forest areas due to the redirection of property investment and demand for home ownership by the Portuguese, and facilitated by credits granted by banks at low interest rates.

The rehabilitation of the built heritage, classified by UNESCO in 1996, the revitalisation of the image and the urban experience, and the improvement of quality of life in the Historic Centre of Porto are the main goals that drive the creation of this Fund. The combination of the physical rehabilitation with the incorporation of contemporary energy efficient solutions, which meet the current requirements and objectives of the Europe 2020 Strategy, can be thus achieved if supported, as is our goal, by EU funds. In this context, the thematic Operational Programme "Sustainability and Efficiency in the Use of Resources" (PO SEUR) and the Regional Operational Programme of the North 2020 are particularly important.

b. Sustainable Energy Action Plan of Porto

Following the creation of Porto Energy Agency (AdEPorto), the Municipality of Porto signed the Covenant of Mayors in February 2009 in Brussels, where it committed to converge with the objectives of the European Commission for 2020: increase energy efficiency, reduce CO₂ emissions and increase penetration of renewable energies.

Furthering this commitment, the Municipality approved the Sustainable Energy Action Plan of Porto (SEAP-P) in October 2010, which was approved by the European Commission in 2011. Amongst the goals of SEAP-P of reducing 45% of CO₂ emissions by 2020, about half result from the city's own effort in terms of energy efficiency and the rational use of energy across a wide range of activities that have an impact on energy use, particularly in buildings, mobility and transports.

The results of the Energy Matrix of Porto revealed that, for base year 2004, buildings accounted for about 55% of total CO₂ emissions from energy use in the city of Porto.



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Hence, SEAP-P has to necessarily include buildings and the different associated uses of energy, dictated by the environment (heating/cooling), the use of domestic hot water (DHW) and electrical equipment.

In line with the objectives of SEAP-P, AdEPorto has taken action in this particular area, together with different actors, such as:

- Guide of Terms of Reference for Energy and Environmental Performance - Buildings Rehabilitation of the Historic Centre of Porto:

- This document is a political response that suggests best practices in the most sensitive areas, such as the Historic Centre of Porto, by converging the commitment of institutions with particular responsibilities, namely the Regional Directorate for Culture, the City Council of Porto, Porto Vivo, SRU and AdEPorto. This Guide was originally published in 2010, and revised and reissued in 2013.

- Assistance within the Action Programme for the Urban Rehabilitation of Morro da Sé:

- This collaboration of AdEPorto with Porto Vivo, SRU aims at identifying constructive solutions and energy systems to improve energy efficiency and comfort in the rehabilitation of buildings, including close monitoring of interventions promoted by Porto Vivo, SRU.

- Incentive System for Energy Recovery in Urban Rehabilitation:

- This incentive system came into force on 19 August 2012. The proposal from the Urban and Mobility Department was adopted unanimously in the Municipal Assembly on 23 July 2012, following the work developed by CESEA - Commission for the Promotion of Sustainable Buildings regarding Energy and Environment. This Incentive System aims at promoting energy recovery of buildings in need of rehabilitation in the city, specifically in the Critical Area of Urban Recovery and Reconversion, providing tax advantages associated with energy goals that go far beyond the present national legislation (now revised). The goal is to create “champions” in the design and construction in rehabilitation to improve comfort while reducing the energy demand for space heating and DHW.



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c. Objectives

The purpose of the Fund is to encourage and foster rehabilitation and recovery interventions of buildings, supporting actions aimed at increasing the comfort in their use and ensuring the improvement of energy efficiency.

Moreover, it aims at providing contemporary usage conditions of old dwellings and buildings, whose locations and neighbourhood contexts generate re-housing dynamics and boosting dynamics of local economies. Therefore, it encourages, in particular, the private housing sector as well as the rehabilitation of buildings for equipment and economic activities.

This Fund will not award any non-repayable grant. The Fund aims at funding stand-alone projects, where the funding rate may reach 100%, according to criteria yet to be determined.

The funds for the submitted project should be reimbursable in order to provide the financial instrument with sustainability with a view to continuously support new projects that are constantly being submitted for a period of 20 years.

d. Scope

The targets of the Fund are privately owned buildings, on horizontal property or full ownership regime, and primarily of residential use and function (exceeding 66%) located in the Area of Urban Rehabilitation of the Historic Centre of Porto (ARU.CHP), published in the Official Gazette, 2nd series, No. 134, Notice No. 9562/2012 of 12 July.

The Fund focuses on works in progress or carried out after its publication and until its expiry. All or part of the work included in the rehabilitation contract is funded, depending on the assessment of each application, provided that they integrate the work and materials dedicated to the energy efficiency of the building in question.

The Fund will positively discriminate rented buildings and, within these, the rented buildings with social rents (understood as rents below the market rent) in at least 66% of its independent



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housing units, as well as buildings fully occupied by owners whose per capita income is below the national minimum annual wage⁸.

e. Energy Valorisation Criteria

The establishment of this Fund is based on the integration of "solutions for improving the Energy Efficiency of private buildings" - an ambition of the Municipality of Porto and inscribed in SEAP-P - and, hence, it should be aligned with the ambition of the Municipality in reducing CO₂ emissions.

The achievement of these criteria should be based on existing tools in order to limit the need for information provided by promoters that wish to access this fund.

The Decree-Law No. 118/2013 of 20 August approves the System of Energy Certification of Buildings, the Regulation on the Energy Performance of Residential Buildings and the Regulation on the Energy Performance of Trade and Service Buildings, transposing Directive No. 2010/31/EU of the European Parliament and of the Council of 19 May 2010 on energy performance of buildings. The new buildings/housing units or buildings subject to major interventions are covered by this regulation, and its application is widespread as it is a common element in licensing processes, and therefore becoming a possible instrument to support the collection of energy valorisation requirements needed for this fund. Another advantage of connecting the criteria evaluation with the System of Energy Certification may be the assessment, in an Observatory, of behaviour and trends in the rehabilitation market in terms of energy valorisation. This identification of behaviours and trends can help define requirement levels, maximising the implementation of the Fund by stimulating at the same time the demand for increasing levels of energy valorisation.

The possible positioning change of the rehabilitation market in terms of energy recovery, as well as the gradual increase in demand, as provided for in Decree-Law No. 118/2013 of 20 August, suggest that the definition of the fund should already predict a mechanism for periodic updating of bonus and eligibility criteria.

⁸ The national minimum annual wage is the value equivalent to 14 minimum monthly wages.



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Once the weight of the building sector in the Energy Matrix of Porto is identified, it is also important to identify the energy uses, particularly in the housing sector, that represent the largest shares and have close relationship with the decisions regarding the project and implementation of the rehabilitation action. Thus, we highlight space-heating uses directly associated with the performance of the building envelope, and the preparation of DHW, together accounting for about half of the total energy used.

With regard to the energy framework, it is worth mentioning that the use of energy does not happen "spontaneously", ongoing before the need to ensure conditions of comfort and health, which are expected to be the building's functions.

f. Eligibility

The building stock of the implementation area of this fund may be exempted, with justification, from the application of Decree-Law No. 118/2013 of 20 August, according to paragraphs h) and i) of Article 4 of this Regulation.

The eligible projects under this UDF, and because of their objectives in terms of energy valorisation, should present an energy performance according to applicable minimum regulatory standards.

The works that are eligible within this Fund include those performed under the contract, directly or indirectly related to the improvement of energy efficiency, performed in the insulation of façades and roofs, in the implementation of bays with double glazing or framing, and integrated with shading systems and solar systems for hot water and space heating in accordance with the exemplary list of works (*cf.* Table 9).

The eligibility of the types of intervention will be based on the financial instruments available in Portugal 2020, namely in the thematic Operational Programme "Sustainability and Efficiency in the Use of Resources" (PO SEUR) and the Regional Operational Programme of the North 2020.

Rehabilitation operations of buildings for private housing, economic activities and equipment are also eligible.

Rehabilitation works of buildings may be 100% eligible.

The costs with the designs are also eligible.

No.	DESCRIPTION	No.	DESCRIPTION
Work on Facades and Gables - outer face		Frames	
1	Removal of remaining finishes, washing and primary repair and levelling of the facing	1	Removal of existing frames and shading elements
2	Application of water resistant or thermal mortar or polyurethane injection on the outer facing	2	Supply and installation of balcony doors and windows and respective frames, including the application of double glazing, rubber insulation and respective iron fittings and knobs
3	Supply and placement of Wallmate boards	3	Supply and installation of interior or exterior shading elements
4	Application of water resistant mortar on plastic net on the Wallmate	4	Supply and installation of skylights, including the application of double glazing, rubber insulation and associated iron fittings
5	Application of a coating/finishing as a ventilated facade solution on the Wallmate, including the respective support structure	5	Paintwork on frames, shutters and skylights
6	Paintwork	6	Supply and application, including all the necessary work and construction materials for insulation and waterproofing, of VELUX modular skylights or other similar
Work on interior faces of exterior walls		Work on the roof	
1	Removal of remaining finishes, washing and primary repair and levelling of the facing	1	Removal of the coating of existing roof
2	Supply and placement of Wallmate boards	2	Supply and installation of Roofmate boards
3	Polyurethane injection	3	Supply of PVC slats for setting tiles
4	Supply and application of plasterboards properly plumbed and plastered on the joints and laid on aluminium frame	4	Supply and installation of ceramic tile, including large edge tiles, ridges and fillets properly mortared
		5	Supply and application of waterproofing flashings and hips
		6	Paintwork on all exterior elements of carpentry or metal work
		Equipment	
		1	Supply and installation of solar systems for domestic water heating, including equipment - certified collectors, reservoirs, boilers and radiators - and piping

Source: Porto Vivo, SRU (2013)

Table 9: List of Example of Works to be Executed under the Energy Efficiency programme



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g. Funding Model of Projects

Funding focuses on a long-term loan with a grace period with respect to the allocation of the capital loaned, and with rates indexed to EURIBOR with a Spread scaled according to the incentive criteria stipulated and at three levels - maximum, medium and minimum bonus.

The bonuses will have the following structure:

- Maximum bonus:
 - fully occupied buildings by owners whose household incomes are below the national minimum annual wage;
 - mainly or fully rented buildings with social rents by at least 66% of its independent units;
- Minimum bonus:
 - mainly or fully occupied buildings by owners whose household incomes are two times above the national minimum annual wage;
- Medium bonus:
 - in the conditions not included in the previous two classes.

An additional bonus is expected that will include energy performance in its criteria. As a differentiating factor, the defined levels should be above the eligibility threshold, reflecting the commitment to search for solutions of excellence, encouraging trends already reflected in the rehabilitation market.

It will also be important to adjust the different bonus levels to a possible extra cost, necessary for its gaining. However, based on previous analyses, it may not be possible to identify a direct link between the cost of rehabilitation and the benefit of energy valorisation.

We intend to safeguard the performance of the building as an energy system by reducing its useful energy needs, which consequently reduce the required demand for final energy, streamlining the design of any equipment support during the process.

For residential buildings, based on Decree-Law No. 118/2013 of 20 August, the proposed parameters for defining bonus levels are:

- a) Air change rate;
- b) Thermal inertia;
- c) Solar factor of glazing with protection devices 100% active;
- d) Installation of solar heat collectors for DHW from solar water heating systems in accordance with the Guide of Terms of Reference (GTR).
- e) Installation of gas network.
- f) Value of N_{ic}/N_{i}^9 .

These parameters may be used collectively or individually in the definition of bonus levels in order to cover a wide range of bonus operations and energy recovery objectives.

By way of example, and as initial proposal for joint approach, we define the following three bonus levels associated with energy efficiency:

i) Maximum bonus:

- Air change rate equal to 0.4;
- Thermal inertia greater than or equal to 150kg/m^2 ;
- Solar factor of glazing with protection devices 100% active less than or equal to 0.45;
- Installation of solar heat collectors for DHW from solar water heating systems in accordance with the Guide of Terms of Reference (GTR).
- Installation of gas network.
- Value of N_{ic}/N_{i} less than or equal to 0.60.

ii) Minimum bonus:

- Air change rate equal to 0.4;
- Thermal inertia greater than or equal to 150kg/m^2 ;
- Solar factor of glazing with protection devices 100% active less than or equal to 0.45;
- Installation of solar heat collectors for DHW from solar water heating systems in accordance with the Terms of Reference Guide (GTR).
- Installation of gas network.
- Value of N_{ic}/N_{i} less than or equal to 0.80.

⁹ N_{ic}/N_{i} - Ratio of nominal heating needs to the maximum allowable amount of energy needed to meet the heating requirements.



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iii) Medium bonus:

- Performance conditions between i) and ii).

Contracts that will be performed in the Urban Rehabilitation Area of the Historic Centre of Porto in individually classified buildings will have a specific additional bonus to be determined soon.

h. “As built” performance verification

A performance verification of the eligible building and its possible bonus should follow the completion of the rehabilitation action supported by the fund. This verification can be done via documentation produced under Decree-Law No. 118/2013 of 20 August at the issuing phase of the final certificate. However, verification must be undertaken when possible based on a visit to the building supported by evidence (e.g. photographic records) of the work stages.

i. Operation

The Fund shall preferably be established by EU Funds of the Framework Programme 2014-2020, and other public entities may participate, such as the City Council of Porto or the Institute for Housing and Urban Rehabilitation (in Portuguese, *Instituto da Habitação e da Reabilitação Urbana*).

The management of the Fund shall be of the responsibility of an entity selected through a public tender by the Managing Authority of the Regional Operational Programme of the North and the Agency for Development and Cohesion, IP. Within its list of competences, it will validate the applications, validate and propose the transfer of funds, monitor the execution of works, and receive the reimbursement of loans, and respective interest rates, with an administration fee for the total amount of funding needed for each submitted project.



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j. Allocation Proposal of the Fund

As the basis for calculating the allocation of the Fund, we used the gross construction areas (GCA), the weight of the housing sector (60% of total) and the estimated cost of intervention/m² within the rehabilitation of buildings, which arises from the study in the Delimitation Project of the Urban Rehabilitation Area of the Historic Centre of Porto of December 2011, approved by the Municipal Assembly of 4 June 2012¹⁰ (valid for a time horizon of 15 years), and in which the estimate of total private investment in rehabilitation for the Area of Urban Rehabilitation of the Historic Centre of Porto is shown (*cf.* Table 10). Thus, the total expected area of intervention and overall cost of intervention are:

- 60% * 296.842 m² (GCA of the buildings of the Historic Centre of Porto in good conservation conditions) * €100/m², which represents a total investment of €18 million;
- 60% * 287.394 m² (GCA of the buildings of the Historic Centre of Porto in reasonable conservation conditions) * €300/m², which represents a total investment of €52 million;
- 60% * 311.610 m² (GCA of the buildings of the Historic Centre of Porto in bad conservation conditions) * €700/m², which represents a total investment of €131 million;

We also add to this estimate the experience of Porto Vivo, SRU with the execution of the Operation for the Image Enhancement and Energy Efficiency of Buildings¹¹, co-financed by the European Regional Development Fund (ERDF) via the Operational Programme New North - ON.2, which seeks comfort in dwellings, reduced energy consumption and improved urban image, acting on the façades and roofs of buildings, in particular, supporting the Permanent Resettlement Programme and the Operations for the Creation of a Student Residence and a Tourist Accommodation Unit, under the implementation of the Action Programme for the Urban Rehabilitation of Morro da Sé_CH.1.¹² It should be noted that these operations are conditioned by the rules of the NSRF 2007-2013, i.e. limited to public housing and equipment of collective use, and thus do not include private residential buildings.

¹⁰ Available on 19 March 2015 at: <http://www.portovivosru.pt/pt/area-de-atuacao/areas-de-reabilitacao-urbana/aru-centro-historico-do-porto>

¹¹ See website concerning this Operation, available on 19 August 2013 at: http://www.portovivosru.pt/morro_se/index.php?m=15.

¹² For more information, see: http://www.portovivosru.pt/morro_se/index.php.



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This experience shows that the average figure for investment in energy efficiency is about 20% of total investment in rehabilitation (*cf.* Table 10). Thus, depending on whether it is a light, medium or deep rehabilitation:

- within the buildings in good conservation conditions, a total value of €4 million is reached;
- within the buildings in reasonable conservation conditions, a total value of €10 million is reached;
- within the buildings in reasonable conservation conditions, a total value of €10 million is reached.

Therefore, articulating the rehabilitation estimate of private buildings in the Area of Urban Rehabilitation of the Historic Centre of Porto with the investment in energy efficiency, based on reference values that the execution of the Image Enhancement and Energy Efficiency of Buildings Operation offers us, the Fund to be created should make available about 40 million Euros.

	Total GCA	GCA in Good Conservation Condition	GCA in Reasonable Conservation Condition	GCA in Bad Conservation Condition	Total Private Investment	Private Investment on Light Rehabilitation (100€/m ²)	Private Investment on Medium Rehabilitation (300€/m ²)	Private Investment on Deep Rehabilitation (700€/m ²)
	m ²	m ²	m ²	m ²	Million of Euros	Million of Euros	Million of Euros	Million of Euros
1. Mouzinho/Flores Axis	262.492	76.788	75.939	109.765	107.296	7.679	22.782	76.835
2. Sé	82.862	26.309	29.601	26.952	30.378	2.631	8.880	18.866
3. Belomonte/Taipas	168.435	50.611	62.926	54.899	62.368	5.061	18.878	38.429
4. São João Novo/Comércio do Porto	110.673	55.653	39.712	15.309	28.195	5.565	11.913	10.716
5. Caldeireiros/Rua de Trás	46.676	7.917	14.292	24.468	22.206	792	4.288	17.127
6. Cimo de Vila/Batalha	170.889	58.740	52.399	59.750	63.419	5.874	15.720	41.825
7. Santa Clara	53.819	20.824	12.526	20.469	20.169	2.082	3.758	14.328
Total	895.846	296.842	287.394	311.610	334.029	29.684	86.218	218.127

Source: Porto Vivo, SRU (2013)

Table 10: Global Investment Estimate in Building Rehabilitation in the Area of Urban Rehabilitation of the Historic Centre of Porto, taking into account the State of Conservation based on the Delimitation Project of December 2011, approved by the Municipal Assembly of 4 June 2012



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k. Coordination between REENERGI.CHP and Regional Operational Programme of the North 2020

The application of Funding Instruments under the Cohesion Policy 2014-2020 is characterised by a focus on two intervention areas: "energy efficiency" and "urban rehabilitation".

Despite the strong commitment of REENERGI.CHP in energy efficiency, an extra effort should be made in extending its focus, because, based on the Regional Operational Programme of the North 2020, two Priorities (P) are particularly relevant, which are likely to constitute an important support for its implementation, namely P3, low-carbon Economy, and P5, Urban System.

Regarding P3, low-carbon Economy, there are two areas of intervention that could be explored, namely: (i) promoting energy efficiency and renewable energy use in businesses and Private Institutions of Social Solidarity through the use of financial instruments; and (ii) supporting energy efficiency, intelligent energy management and renewable energy use in public infrastructures, in particular in public buildings and in the housing sector, whose beneficiaries are the local public administration, public managing entities of social housing and the bodies that mobilise FI.

In turn, P5, Urban System, takes up various relevant investment priorities, namely: (i) the adoption of measures to improve the urban environment, revitalise cities, recover and decontaminate brownfield sites, including reconversion areas, reduce air pollution and promote noise reduction measures; and (ii) support physical, economic and social regeneration of deprived communities in urban areas. Both mobilise FI.

l. Strategic Plans for Urban Development

According to what was defined in P5 of the Regional Operational Programme of the North 2020, all operations to be implemented under this Priority necessarily have to be framed in the Strategic Plans for Urban Development (SPUD). Therefore, an effective coordination between



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the REENERGI.CHP Fund and the respective strategic plan for urban development of the City must be ensured.

Similarly, the Specific Regulation of Sustainability and Efficiency in the Use of Resources¹³, in section 18 concerning "Rehabilitation and Quality of Urban Environment", also requires the development of an Action Plan for Urban Regeneration that, for superior urban centres of the Northern region, should be framed in a strategic plan for urban development.

m. *Ex-ante* evaluation of Financial Instruments

The final configuration of Financial Instruments, including the respective allocations, is dependent on the results of the *ex-ante* evaluation, which is currently under way.

REENERGI.CHP should take into account the conclusions and recommendations of this exercise sponsored by the Agency for Development and Cohesion, IP.

This evaluation exercise is not yet complete. However, we delineate the goals that guide it:

- Rehabilitation of buildings and the public space associated with the regeneration of urban areas;
- Maximisation of the opportunities provided by Decree-Law No. 53/2014 of 8 April;
- Boost of the rental market and the supply of homes for rent, affordable for most families, ensuring age and social diversity of the population living in urban centres;
- Wealth and employment creation in the industry of rehabilitation of buildings.

ii. Action 2: Technical Assistance

Action 2 - Technical Assistance	
Brief description of activity	Establishment of a technical support office to provide information to promoters seeking to develop projects within UDFs
Objectives	- Create a multidisciplinary technical office which aims at informing and empowering local stakeholders to prepare projects to be submitted to future UDFs,

¹³ See Ordinance No. 57-B/2015 of 25 February.

Action 2 - Technical Assistance	
	<p>in particular the Fund for Efficient Renovation of Buildings in the Historic Centre of Porto</p> <p>- Objectives of the Office:</p> <ul style="list-style-type: none"> - Clarify the implementation methodology of UDFs - Disclose the FI portfolio - Transmit to the "clients" the strategic vision of the city - Provide technical information (Guides) - Support during the preparation of the processes (Funding/Licensing)
Leading Partner	<ul style="list-style-type: none"> - Porto Vivo, SRU - City Council of Porto
Strategic Partners	<ul style="list-style-type: none"> - City Council of Porto - CCDR-N - JESSICA - AdE Porto - DRC-N - Regional Directorate for Culture of the North - MAP - Metropolitan Area of Porto - ESAP - Universities - TPNP - Porto and Northern Portugal Tourism - AICCOPN - Universities - Business associations - Businesses related to local infrastructures
Expected Results	<ul style="list-style-type: none"> - Foster private investment - Diversification of areas of the approved projects (social/cultural/...) - Increase the number of those interested in the funds - Improve project implementation - Increase of success rate of submitted projects - Exemplary and methodologically replicable pilot projects - Decrease the time of analysis and approval of projects <p>At long-term:</p> <ul style="list-style-type: none"> - Building improvement - Reduction of energy costs - City development - Dissemination of interventions
Schedule	<ul style="list-style-type: none"> - 2014-2020 - Creation of Office - 1st Quarter 2015
Resources by year	<ul style="list-style-type: none"> - Minimum permanent Human Resources: 1 Eng. /Arc. + 1 economist - Material resources - Facilities
Funding per year	€100,000.00 (minimum)
Funding is guaranteed? Yes/No	<p>Yes:</p> <ul style="list-style-type: none"> - If integrated into an existing structure - Maximum eligibility in the current programming cycle
Connection with other activities	Action 1

Table 11: Table of Action 2

iii. Action 3: Pilot Project

Action 3 - Pilot Project	
Brief description of activity	Test in real situations an exemplary form of restoration and rehabilitation, based on energy efficiency, on architectural heritage
Objectives	Demonstrate, in practice, the application of a methodology
Leading Partner	Porto Higher Arts Education Cooperative - Research Lab in Architecture (CESAP - LIA)
Strategic Partners	<ul style="list-style-type: none"> - Porto Vivo, SRU - City Council of Porto - Universities - Construction companies
Expected Results	Exemplary project to replicate methodology
Schedule	6 years
Resources by year	Human Resources: 1 Engineer + 1 Architect
Funding per year	€30,000.00
Funding is guaranteed? Yes/No	No, dependent on partnerships
Connection with other activities	Actions 1 and 2

Table 12: Table of Action 3

c) Schedule

Regardless each action has its own schedule, the LAG understands that the set of actions that integrates the Local Action Plan should be implemented in the current programming period, 2014-2020, and thus covered by the new regulations under the Portugal 2020.

5. Local Action Plan Funding

The specific tables for each Action indicate the volume of funding required, but funding is not guaranteed for any of the proposed actions.



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With regard to Action 1, we presented in the specific section the funding model and the allocation fund proposal of the REENERGI.CHP Fund. However, in the case of a financial instrument to be set up under the Operational Programmes of *Portugal 2020*, it is necessary to take into account the results of the *Ex-Ante* Evaluation of such instruments, promoted by the Agency for Development and Cohesion, IP, and which are not yet known.

All actions can apply to European funds, whether as part of Portugal 2020 or within programmes managed directly by the European institutions.

Under the financial instruments available in Portugal 2020, we should highlight the thematic Operational Programme "Sustainability and Efficiency in the Use of Resources" and the Regional Operational Programme of the North 2020.

6. Implementation of the Local Action Plan

The leading and strategic partners of each Action are responsible for their implementation and are identified in the respective tables.

With regard to Action 1, it is necessary to take into account the available technical support instruments that facilitate also the development and implementation of the Action, namely:

- FI-Compass Platform (see: www.fi-compass.eu), provided by the European Commission in partnership with the European Investment Bank;
- The call of Horizon 2020 with the EE-20-2015 code¹⁴, which is intended to support the development of innovative financial schemes and projects within the investment in sustainable energy.

As a reference to the development and implementation of Action 1, we present Annex 4 of the Commission Implementing Regulation (EU) No. 964/2014 of 11 September 2014, which presents a model of a "Loan in the area of energy efficiency and renewable energies for the residential construction sector (loan for renovation)".

¹⁴ See: <http://ec.europa.eu/research/participants/portal/desktop/en/opportunities/h2020/topics/2381-ee-20-2015.html>



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7. Process Description

Each Action should be developed by the identified leading partners in coordination with the respective strategic partners, bringing together the necessary resources in order to be implemented within the proposed schedule.

8. Risk Assessment

Given the nature of the Actions, and particularly Action 1, which frames all the others, the main risks associated with the LAP of Porto are of political and regulatory nature.

It is worth mentioning that the Managing Authorities can reject the projects submitted for European programmes in the areas of energy efficiency and sustainable urban development, even when previously approved by them, based on unforeseen interpretations and regulations.

In particular, under this multi-year funding cycle, the Specific Regulation of Sustainability and Efficiency in the Use of Resources¹⁵, especially section 18, "Rehabilitation and Quality of Urban Environment", imposes additional constraints, forcing the development of an Action Plan for Urban Regeneration that, for higher rank urban centres of the Northern region, must be framed in a strategic plan for urban development. Thus, this strategic plan must articulate: a) the sustainable urban mobility plan, set according to NUTS III; b) the action plan for urban regeneration; and c) the integrated action plans for deprived communities. The strategic plan for urban development, to be designed by the Urban Authorities, shall in turn be approved by the Managing Authority as determined in this Regulation.

Regarding Action 1, the proposed Fund aims at the rehabilitation of private buildings, especially dwellings of small owners, and particularly those with economic needs or which have tenants with economic needs and rents below market prices. In order for REENERGI.CHP to safeguard this social orientation, the accession mechanisms of these specific owners to this funding instrument should be consolidated.

¹⁵ See Order No. 57-B/2015 of 25 February.



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In the legal sphere, the practical application of funds for the common parts of the buildings, on horizontal property, collides with the lack of legal personality for the condominiums, only financially hired for each condominium individually. Therefore, it would be helpful to study some international examples and, if possible, include in the debate personalities with appropriate legal training.

Moreover, Action 1 may not attract financial institutions due to lack of critical mass, as it only has one local scope (although replication to other cities is expected). The involvement of organisations such as the National Association of Municipalities or IHRU in a nationwide or regional programme, as opposed to a local programme, can enhance this critical mass. However, we should evaluate the interest of small funds, taking, for example, the case of The Hague.

Finally, another concern is the implementation of the Actions that may be further conditioned by policy cycles and/or conflicts between different levels of government.

9. Final Recommendations

Upon selection of solutions to the problem identified within the LAP, using in this case the criterion of local interest, recommendations beyond the local scope were also identified and included here due to the nature of the issues. These final recommendations are therefore intended to the LAG's external public.

Recommendations	Means
Administrative Reorganisation	
Adaptation and clarification of the strategy, providing promoters with a long-term vision	<ul style="list-style-type: none"> - Strategic definition - Training of agents involved - Provision of information to agents involved
Clarification and simplification of the process	<ul style="list-style-type: none"> - Relieve the bureaucratic process - Clarify the goals to be achieved - Increase confidence in promoters
Adjust energy regulation to the purpose of urban rehabilitation/regeneration	Amend existing legislation
Establishment of (long-term) national, regional and local strategies, coordinated with the various existing powers	Creation of an integrated plan for urban regeneration along the lines of the National Strategic Plan for Tourism (PENT)
Development strategy to identify priority areas and anchor projects	



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Recommendations	Means
<p>Increase the weight of urban rehabilitation vs. new construction</p>	<ul style="list-style-type: none"> - Eligibility of housing in UDFs - Specific training in the construction sector - Educational system (engineering, architecture) oriented towards the conservation and preservation of the built heritage and rehabilitation techniques - The same for vocational education - Incentives to Urban Rehabilitation - Fiscal increase and rehabilitation impositions - Integration of supra-municipal urban policies
<p>Framework for interests below the market, negotiated with EU in order to "get around" the issue of State aid Lower requirements for bank co-financing</p>	<p>EU policies</p>

Table 13: Table of Final Recommendations

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