CAMBRIDGE CITY COUNCIL

REPORT TITLE: Establishment of new loan facilities for Cambridge Investment Partnership

To:
Cabinet

25 September 2025

Lead Cabinet Member: Cllr Simon Smith Cabinet Member for Finance and Resources

Report by:
Jaques van der Vyver, Senior Development Manager
Tel: 01223 457218 Email: jaques.vandervyver@cambridge.gov.uk

Wards affected:
All

Director Approval: Chief Finance Officer Jody Etherington confirms that the report author has sought the advice of all appropriate colleagues and given due regard to that advice; that the equalities impacts and other implications of the recommended decisions have been assessed and accurately presented in the report; and that they are content for the report to be put to the Cabinet for decision.

1. Recommendations

1.1 It is recommended that Cabinet recommend to Full Council:

1. The approval of a capital budget totalling £18.5 million for the provision of three new development loan facilities to Cambridge Investment Partnership LLP in respect of regeneration activities and new build development at Newbury Farm, ATS/Murketts Histon Road, and Fanshawe Road.
2. The setting of fixed interest rates applicable to the above loans at 3.5% per annum above the prevailing 5 year UK gilt rate (to be set no later than the date of each drawdown).
3. The approval of a capital budget totalling £4.677 million for the provision of equity loan facilities to Cambridge Investment Partnership LLP in respect of the same three schemes, noting that such equity will be matched by an equal investment by Hill Investment Partnerships LLP.
4. The delegation of authority to the council's Chief Finance Officer to agree the full

and detailed terms of the loan with Cambridge Investment Partnership LLP, after taking appropriate professional advice and with due regard to relevant statutory requirements.

2. Purpose and reason for the report

2.1 Cambridge Investment Partnerships LLP (CIP) requires financing in order to progress the approved development sites at Newbury Farm, ATS/Murketts Histon Road, and Fanshawe Road. HRA capital budgets in respect of the council's purchase of affordable housing on these sites has already been allocated.

2.2 In line with past schemes, including Cromwell Road and Mill Road, it is proposed that the council contributes towards this financing requirement through the provision of both development and equity loans. These are explained in more detail at section 4.

2.3 Under the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, loans given by the council for capital purposes are to be treated as capital expenditure. The council's constitution provides that budget for new capital expenditure can only be allocated by full council.

3. Alternative options considered

3.1 The council could choose not to provide loan financing to CIP. In this case, CIP would need to secure alternative financing from a third party, which would likely add time and administration costs to the project. The council would also lose the modest return to the General Fund that the loans will generate. This option is therefore not recommended.

4. Background and key issues

4.1 Loans to CIP have to date been enacted for developments at Cromwell Road, Mill Road at Orchard Park L2, and for land acquisitions at ATS/Murketts and Newbury Farm.

4.2 Separate Approvals by the Executive Councillor for Housing have already been received for:

- the council acquisition of affordable homes at ATS/Murketts, Newbury Farm, and Fanshawe Road from CIP.
- Disposal of the land at Fanshawe Road to the CIP for the purposes of housing redevelopment.

4.3 Having received favourable planning resolution, CIP have now commenced development works on site, and approval is herewith sought to establish loan facilities, to be utilised solely for the purposes of housing delivery, and covering regeneration activities and new build development at Newbury Farm, ATS/Murketts Histon Road, and Fanshawe Road.

4.4 The development loan facilities sought to be established will amount to a maximum allowable drawdown of £5.5 million at Fanshawe Road, £6 million at Newbury Farm, and £7 million at ATS/Murketts. Loans will be secured by way of a charge against the assets of CIP.

4.5 There has been considerable change in public sector lending rules since prior funding arrangements were agreed between the council and CIP, including changes set out in the Subsidy Control Act 2022. Given the above, the Council in late 2024 appointed its treasury management advisers, MUFG Corporate Markets, to complete a review of proposed development funding, to evaluate the subsidy control implications, and to highlight other factors which need to be considered in the provision of financial assistance to CIP, to ensure compliance. The resulting advice has been reviewed by the council's Chief Finance Officer, and Freeths acting for the council.

4.6 In line with this advice, it is proposed that interest rates on the development loan facilities are set at a margin of 3.5% above the prevailing 5 year UK gilt rate, to be set no later than the date of each drawdown.

4.7 Development loan facilities will be subject to a covenant, to the effect that any funds drawn down are to be utilised solely for the purposes of housing delivery on the three sites, including regeneration activities, new build development and delivery of affordable housing.

4.8 Linked to the development loan facility is a requirement for 50:50 equity funding of the project by each CIP joint venture partner, being the council and Hill Investment Partnerships LLP. Such equity funding reduces the interest burden on the development, thus lessening overall cost of delivery and facilitating overall financial viability. Current modelling assumes a combined equity funding requirement of £9,352,405 which will precede any development loan facility drawdown and be equally sourced from each JV partner.

4.9 Budget approval is therefore requested for £4.677 million for the council share of the equity investment, which will be subject to priority repayment as sales of market housing progress. Since this is an equity investment and each partner contributes equally, interest is charged at a notional rate of 5%. This ensures that a reasonable cost of capital is assumed when developing CIP scheme appraisals; although clearly any interest paid on equity loans will reduce the level of profits available for distribution to partners at scheme close, so the interest rate charged on equity loans does not affect the total return to the council.

4.10 Following approval by full council, the council's Chief Finance Officer will work with CIP to agree the exact terms of the loan, for example drawdown and repayment arrangements, interest charging periods and payment dates, and the source and timing of the UK gilt rate to be used for the purposes of setting interest rates. The loan agreements themselves will be in a form as advised by Freeths.

5. Corporate plan

5.1 [Corporate plan 2022-27: our priorities for Cambridge - Cambridge City Council]

Priority 3:

- increasing the delivery of homes, and in particular affordable housing, including Council homes, to meet housing need
- diversifying the housing market and accelerating housing delivery

- working with key partners to innovate and maximise available resources

Priority 4:

- run our services in an efficient way, generating income where appropriate to reinvest into other council services

5.2 The Council as a 50/50 Partner in the Cambridge Investment Partnership benefits directly from:

- joint equity funding of the joint venture operations, ensuring risk sharing while facilitating large scale housing delivery within the city;
- the ability to offer loan facilities which provide a modest return; and
- the ability as a joint venture to make use of preferential financial terms for borrowing repayment.

6. Consultation, engagement and communication

6.1 Specialist external treasury and legal advice has been sought which confirms the council approach to setting of borrowing rates.

6.2 This report has been reviewed by the council's Chief Finance Officer in line with his statutory capacity as Section 151 Officer.

7. Anticipated outcomes, benefits or impact

7.1 Provision of financing to CIP will support the timely delivery of three mixed tenure housing schemes in the city, including 133 affordable units for purchase by the HRA. This is the primary purpose of the loan.

7.2 As a secondary and incidental benefit, the General Fund will make a modest gain from investment income on the loan balances at a rate higher than that achieved by other council investments, whilst still representing a fair commercial rate for CIP.

8. Implications

Relevant risks

8.1 Any investment of this nature carries an inherent risk of default on future loan repayments, as reflected in the interest rate charged. However, this is significantly mitigated by the following factors:-

- The development loans will be secured by way of a charge against the assets of CIP.
- Loan facilities will fund development works which are capital in nature, so as the loan is drawn down and spent, the value of assets against which it is secured can be expected to increase.
- The council is a 50:50 partner in CIP, with representation on the Board and equal decision-making powers.

Financial Implications

8.2 The loan facilities will have a modest net positive impact upon the council's General Fund. Both the development and equity loans will generate interest income at rates higher than the council's current average investment return rate. In accordance with agreed past practice, any additional interest income generated over and above the average investment return rate will be transferred to an earmarked reserve for use to fund other development activity within the city. However, the principal purpose for making the loans is to support the delivery of mixed-tenure housing in the city, not to generate a financial return for the council.

Legal Implications

8.3 External legal advice has been sought and supports the council's approach to making of the loan and setting the applicable interest rates.

Equalities and socio-economic Implications

8.4 Each of the three schemes to be supported through the loan financing had their own Equalities Impact Assessment (EqIA) which accompanies the relevant reports approved by the Executive Councillor for Housing. The EqIAs mainly highlight the benefits of the council retaining direct control of new housing development itself, ensuring a focus on the delivery of housing which meets a diverse range of housing needs. The assessments underline the need for affordable housing to help those most likely to suffer poverty as well as ways in which new affordable housing will directly save money for tenants, such as energy saving measures and reducing the impact of fuel poverty.

Net Zero Carbon, Climate Change and Environmental implications

8.5 Climate Rating Tool assessments were completed for each scheme at approval stage. Schemes were assessed as net low positive (Fanshawe, Newbury Farm) and net medium positive (ATS/Murketts).

All schemes meet or exceed Local Plan requirements for sustainability, with water usage designed to be below 100l per person per day, and with Fanshawe Road affordable housing designed to CamStandard as adopted through the council's Sustainable Housing Design Guide.

Procurement Implications

8.6 None identified.

Community Safety Implications

8.7 None identified.

9. Background documents

Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985

9.1 None

To inspect the background papers or if you have a query on the report please contact Jaques van der Vyver, Senior Development Manager, tel: 01233 457218, email: jaques.vandervyver@cambridge.gov.uk