

Report to: Cabinet Meeting: 20 January 2026

Portfolio Holder: Councillor Paul Peacock - Strategy, Performance & Finance

Director Lead: Sanjiv Kohli, Deputy Chief Executive, Director - Resources & S151 Officer

Lead Officer: Nick Wilson, Business Manager – Financial Services. Ext 5317

Report Summary	
Type of Report	<p>Open Report / Key Decision</p> <p><i>There is an exempt version of this report which contains exempt information as defined under Schedule 12A of the Local Government Act 1972, Paragraph 3 under which the Cabinet has the power to exclude the press and public if it so wishes.</i></p> <p><i>It is considered that the need to treat the information in this report as exempt outweighs the public interest in disclosure because it contains commercially sensitive information. This information has been redacted in this open report.</i></p>
Report Title	Arkwood Loan Facility Agreement
Purpose of Report	To provide an update on the current credit facility with Arkwood Developments Ltd. and to seek approval to extend the loan cap to accommodate the company's current development programme.
Recommendations	<p>That Cabinet approve:</p> <ul style="list-style-type: none"> a) the additional £13,591,929 to be added to the Capital programme, making a total capital budget of £25m; b) the variation to the Facility Agreement to accommodate the power to vary the agreement and the extension to the cap on the facility from £12m to £25m; and c) subject to the subsidy control advice, to delegate responsibility to the Portfolio Holder for Strategy, Performance & Finance to amend the Facility Agreement to ensure the agreement remains subsidy control compliant.
Alternative Options Considered	Should the recommendation not be approved, this would impact on Arkwood's ability to be able to progress the sites they are contractually obliged to complete and would force the company to seek external finance.

Reason for Recommendations	<p>To ensure that the Council's wholly owned company are able to meet their contractual commitments and complete the existing developments. This aligns with Ambition two within the Council's Community Plan ensuring which has a specific action relating to:</p> <p>"Develop new homes for open market sale or rent through Arkwood Developments Ltd."</p>
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1.0 Background

- 1.1 Arkwood Developments Ltd. currently have a capital budget of £11,408,071, which was approved by the Policy & Finance Committee on 23 January 2020. This was on the basis of 75% of the Gross Development Value of the Bowbridge Road scheme, which was Arkwood's first development. This loan facility is currently subject to a ■■■ rate of interest.
- 1.2 Arkwood have successfully developed and sold 87 market value homes: namely The Avenues on Bowbridge Road. In the past two years, Arkwood have also acquired the site on Lowfield Lane and 3 other sites outside of District which are at different stages of development. The current progress on these sites was recently reported to the Executive Shareholder Committee on 9 December 2025.
- 1.3 The loan facility works in the way that loan advances are made when Arkwood need to incur expenditure such as salaries, SLA costs or other overheads and contractor payments for the development of sites. When sales revenue is received by Arkwood, in the first instance any outstanding loaned amount is repaid to the Council. The facility is there to ensure that Arkwood have the cash available when necessary to ensure that it can meet its contractual obligations.
- 1.4 To date, the company have operated within the existing financial cap, despite the economic challenges faced by the business, in its infancy, by Covid, the war in Ukraine, and the insolvency of its main contractor on its first development site. , The company has not during this period come close to breaching its borrowing cap and as at 5 December the amount borrowed from the Council stood at £7,952,500 albeit this figure has fluctuated in the years since 2020.
- 1.5 The original report that was tabled at the Policy & Finance Committee on 6 April 2017 described four ways in which the Council would benefit financially through a wholly-owned company:

Receipts from land sold by the Council to the Company

To date the Council has sold two parcels of land to Arkwood totalling £4,791,911, being the land at Bowbridge Road in Newark and Lowfield Lane in Balderton.

Interest on loans to the Company

Since the facility agreement was put into place in 2021, Arkwood have paid the Council £0.098m in interest expense up until 31 March 2025. As the company has been able to reinvest the cash from the profits generated from the Bowbridge Road development, it has lowered its requirement for borrowing. This is anticipated to increase over the next few years, based on their business plan, as the number of sites being developed has increased and the cash from the profits from Bowbridge Road having been utilised on the purchase of new sites outside of the district and administrative expenses.

Purchase of services from the Council

Arkwood has entered into Service Level Agreements with a number of Business Units within the Council, to provide services to it e.g. Payroll, Finance, HR, Health & Safety. As such to 31 March 2025, Arkwood have paid the Council £0.301m in expenses for these services. Whilst the company has grown in establishment since inception, there are many services for which it will continue to seek from the Council, and as such will continue to purchase into the future.

Distributions of profit made by the Company through dividends

Based on Arkwood's accounts made up to 31 March 2025, they are currently reporting a cumulative loss of £39,293, with total equity in the company of £3.960m. Whilst the company has total assets worth £8.134m, short-term and longer-term creditors make up £4.174m (of which £3.214m related to the borrowed amount from the Council). Due to this, Arkwood are yet to be able to pay a dividend to the Council. Arkwood's original business plan, presented to the Shareholder Committee 11 June 2019 anticipated that, alongside the development at Bowbridge Road, sites at Elm Avenue, Newark; Lowfield Lane, Balderton; Crew Lane, Southwell and Ollerton & Boughton were all due to be completed prior to March 2024 and anticipated a forecast profit on development costs of [REDACTED]. Although the business plan referenced developments outside of the district, it was anticipated that this would be after all of the developments within the district had been delivered. Due to the delays and non-availability of these sites, Arkwood has now accelerated housing developments outside of the district. Overhead costs would then need to be accounted for. Since inception, these costs have amounted to £2.9m. Therefore, taking the forecast development profit of [REDACTED] and deducting the actual overhead costs of £2.9m would have meant that the company would potentially have made a profit before taxation of [REDACTED] which, after corporation tax at 20% would have given rise to profits of [REDACTED] available for dividend if the schemes had come forward, at the originally anticipated time, albeit there may have been an additional interest requirement but it would not have reduced available profits down to a level whereby a dividend would not have been payable.

- 1.6 The Council has therefore generated cumulative revenue of 9.96% (£0.399m) return on its £4m equity investment in Arkwood to the end of 31 March 2025 (prior to capital receipts), with a total receipt of £5,190,499 (inclusive of capital receipts).

It anticipates this figure rising to over 20% by 31 March 2026 due to the borrowing Arkwood anticipates to need over the remaining course of this financial year.

- 1.7 This return is further anticipated to increase over the medium term, as the developments mature, with anticipated annual returns in excess of 30%, meaning that the £4m equity would be fully recouped by 2028/29.

2.0 Proposal/Options Considered

- 2.1 In order to accommodate the current developments progressing, there is a need to increase the maximum permitted facility.
- 2.2 Currently the maximum amount that could be loaned to the company is £11,408,071. Based on Arkwood's forecast Medium Term Financial Plan, they are expecting a spike in borrowing requirement which is forecast to be in excess of the current facility cap over the next half year.
- 2.3 In order to ensure that Arkwood can deliver against its commitments there is a need to increase the current cap to a proposed £25m. The £25m includes head room of £3.787m against the current forecast maximum point, meaning should sales receipts not materialise, or earlier than expected spend occur, there is sufficient head room within the agreement to accommodate the additional borrowing requirement.
- 2.4 This also then future proofs the agreement against future spikes in cash flow requirement.
- 2.5 Within the facility agreement there is a clause in relation to the maximum loan to value calculation allowable. Currently the maximum loan to value is recognised as 75%, meaning that the loaned value must not account for more than 75% of the company's assets. Hence the company must have self-funded 25% of the value of the assets that are owned.

As Arkwood have utilised the equity funding and the profits generated from the Bowbridge Road facility in order to fund their administrative costs and current and future pipelines, this has meant that a larger proportion of the next stage of development costs are likely to be needed to be funded by borrowing. As a result it is expected to need to increase this loan to value ratio for a period of time in order to accommodate the current developments. It is expected to raise the cap to 90%.

- 2.6 The Council has a debenture in place, which safeguards the Council's interests in the loan. This debenture secures the Council as first mortgagee *of all estates or interests in any freehold, leasehold or commonhold property now owned by it.*
- 2.7 Therefore, the loan is secured against tangible assets purchased and built by Arkwood. These are bought and built at commercially competitive rates therefore there is unlikely to be a negative equity situation arise. As the land purchased will appreciate over time by obtaining planning and readying for development, or value of work completed over the build phase is amassed, there will be value in these assets that could be crystalised to repay the loan, should there be a situation where the Council had to step in and take ownership of the assets.

- 2.8 In order to ensure that the facility agreement continues to be subsidy control compliant post the proposed changes, the Council have engaged with a financial advisor. At the time of writing this report, the Council has yet to receive the advice.
- 2.9 It is not expected that the facility cap will be maximised indefinitely. The cap will give headroom for the maximum point for which borrowing can occur up to and can be reviewed at points going forward. It will just give the head room necessary, whilst a number of projects are being undertaken at one point in time and hence Arkwood doesn't currently have the reserves (and hence cash) available to fund this.
- 2.10 Future expectations, based on the Medium-Term Financial Plan that has been approved by Arkwood's board show a positive position post the current developments, whereby dividends will be payable, whilst simultaneously the company will grow in Balance Sheet net worth.
- 2.11 Where the company is able to grow their Balance Sheet net worth, this will allow them to be able to withstand spikes in cashflow, reducing their borrowing requirements from the Council.
- 2.12 The facility agreement will continue to be reviewed in line with Arkwood's Medium Term Financial Plan, to ensure that the Council isn't overexposed at any point in time.

3.0 **Implications**

In writing this report and in putting forward recommendations, officers have considered the following implications: Data Protection; Digital & Cyber Security; Equality & Diversity; Financial; Human Resources; Human Rights; Legal; Safeguarding & Sustainability and where appropriate they have made reference to these implications and added suitable expert comment where appropriate.

Implications Considered			
Yes – relevant and included / NA – not applicable			
Financial	Yes	Equality & Diversity	N/A
Human Resources	N/A	Human Rights	N/A
Legal	Yes	Data Protection	N/A
Digital & Cyber Security	N/A	Safeguarding	N/A
Sustainability	N/A	Crime & Disorder	N/A
LGR	N/A	Tenant Consultation	N/A

Financial Implications - Fin25-26/3298

- 3.1 The current capital limit as set in January 2020, was based upon the Gross Development Value of the Bowbridge Road scheme, as described at paragraph 1.1. As further sites were due to come forward, it was anticipated that at some point, this cap would need to be reviewed to ensure that it is still fit for purpose. With the cap being an arbitrary limit based on the initial site, there would always need to be a further review at a point in time to ensure that future cash flow requirements could be accommodated. The aforementioned report of 23 January 2020, set out the basis of the loan to equity split as 75% loan and 25% equity based on the

estimated development cost of £16m for Bowbridge Road. If the same principal of loan to equity ratio is applied then the total development cost of the sites at Lowfield Lane, Newark; Edwards Way, Cambridge; Harlem Mill, Wirksworth; and Main Road, Long Bennington is £64m. The amount of Loan at 75% would be £48m and the amount of equity at 25% would be £16m. The proposal is to not add further equity into the company but to increase the loan facility to £25m. The cash flow within the company will be able to accommodate the remaining expenditure necessary, through sales receipts being recycled to cross subsidise development works.

Legal Implications - LEG2526/6796

- 3.2 The Localism Act 2011 under section 1 gives the Council the "power to do anything that individuals generally may do", and may do it "for, or otherwise than for, the benefit of the authority, its area or persons resident or present in its area". These powers give the Council the power to arrange and extend the proposed loan on the basis outlined within this report.
- 3.3 As mentioned above in paragraph 2.8, the Council must ensure that the loan provision complies with the Subsidy Control Act 2022 which requires that the council ensure that the interest rate for the loan and the commercial basis upon which it is based is equivalent to any offered on the commercial market - thereby not conferring an unfair and anti-competitive advantage.

Background Papers and Published Documents

Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972.

None