

Archbishop's Palace – Next Steps

Timetable	
Meeting	Date
Corporate Services PAC	12 July 2023
Cabinet	26 July 2023

Will this be a Key Decision?	No
Urgency	Not Applicable
Final Decision-Maker	Cabinet
Lead Head of Service	Mark Green, Director of Finance, Resources and Business Improvement
Lead Officer and Report Author	Deborah Turner, Corporate Property
Classification	Public report with private appendix The information contained within Appendices 1 and 2 is considered exempt under the following paragraph of part I of schedule 12A to the Local Government Act 1972:- 3 = Information relating to the financial or business affairs of any particular person (including the authority holding that information)
Wards affected	High Street

Executive Summary

An extensive process of member and public consultation has been carried out about future use of the Archbishop's Palace. Following expiry of our former preferred development partner's exclusivity period, and vacation of the building by Kent County Council, it is appropriate to consider the next steps.

The report recommends that plans are developed for use of the Palace as a wedding and events venue. This is likely to be a viable option in financial terms and would

meet the Council's objectives for future use of the Palace. It would also be consistent with the emerging Town Centre Strategy.

Purpose of Report

Decision.

This report makes the following recommendation to the Cabinet:

1. To agree option 2 as set out in this report, namely to develop plans for use of the Palace as a wedding and events venue.
 2. To delegate authority to the Director of Finance, Resources and Business Improvement to select and appoint professional advisers to develop the plans, enter into contracts for applicable services as necessary, and to invite offers from potential operators for a conditional agreement for lease.
 3. To delegate authority to the Head of Legal Services to negotiate and complete all necessary legal formalities arising from the purchase of services and invitation for offers as set out above.
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ARCHBISHOP'S PALACE – NEXT STEPS

1. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	<p><i>The four Strategic Plan objectives are:</i></p> <ul style="list-style-type: none"> • <i>Embracing Growth and Enabling Infrastructure</i> • <i>Safe, Clean and Green</i> • <i>Homes and Communities</i> • <i>A Thriving Place</i> <p>The project described in this report supports the Council's Strategic Plan objectives, most notably A Thriving Place.</p>	Director of Finance, Resources & Business Improvement
Cross Cutting Objectives	<p><i>The four cross-cutting objectives are:</i></p> <ul style="list-style-type: none"> • <i>Heritage is Respected</i> • <i>Health Inequalities are Addressed and Reduced</i> • <i>Deprivation is reduced and Social Mobility is Improved</i> • <i>Biodiversity and Environmental Sustainability is respected</i> <p>The report recommendations support the achievements of the cross-cutting objectives by respecting the heritage of the existing building with sensitive design and addressing environmental sustainability by upgrade works to improve the use and condition of the building.</p>	Director of Finance, Resources & Business Improvement
Risk Management	Already covered in the risk section.	Director of Finance, Resources & Business Improvement
Financial	Running costs of the building are currently approximately £250k per annum. These have until recently been met by the tenant, who additionally paid the Council £100k per annum. Accordingly, there is a net shortfall of £350k per annum against ongoing budgets whilst the building remains in its present state.	Director of Finance, Resources & Business Improvement

Staffing	We may need access to extra external expertise to deliver the recommendations.	Director of Finance, Resources & Business Improvement
Legal	Acting on the recommendations is within the Council's powers as set out in local authority legislation (including the general power of competence under the Localism Act 2011) and the Council's Constitution.	Interim Team Leader (Contentious and Corporate Governance)
Information Governance	No implications.	Director of Finance, Resources & Business Improvement
Equalities	There is no impact on Equalities as a result of the recommendations in this report. An EqIA would be carried out as part of a policy or service change, should one be identified.	Equalities and Communities Officer
Public Health	No implications.	Director of Finance, Resources & Business Improvement
Crime and Disorder	No implications.	Director of Finance, Resources & Business Improvement
Procurement	The Council will follow its usual procurement processes in selecting professional advisers and a contractor for works at the site.	Director of Finance, Resources & Business Improvement
Biodiversity and Climate Change	Any new use/lease of the Archbishop's Palace would need to be consistent with the Biodiversity and Climate Change Action Plan.	Biodiversity and Climate Change Manager

2. INTRODUCTION AND BACKGROUND

Background

- 2.1 The Archbishop's Palace is a landmark building of unique significance for the borough and the town of Maidstone. Until recently, it was let to Kent County Council (KCC) for use as a Registry Office and Coroners Court.

Knowing that KCC were due to vacate, an extensive process of member and public consultation has been carried out about its future use, starting in early 2020. The following objectives were set for any future use:

- Respect the historical fabric of the buildings
- Bring the building promptly back into active use
- Any proposed use should be economically viable
- Develop linkages to the property with the surrounding area, particularly the River Medway, Lockmeadow and the Town Centre.

2.2 The steps in this process may be summarised as follows.

February 2020	Options for future use of Palace were considered at an open meeting for councillors on 20 th February.
July 2021	A feasibility study was presented to Policy and Resources Committee. This considered a wide range of different potential uses, with the following short list drawn up as meriting detailed review: <ol style="list-style-type: none"> 1. Co-Working and/or Serviced Offices 2. Training and Seminar Centre 3. Wedding and Seminar Venue 4. Boutique Hotel 5. Commercial Mixed Use (ie combination of 1 and 2) 6. Mixed Use Culture and Weddings <p>Agreement was reached to seek a preferred partner, through an open procurement process, for development of further proposals.</p>
October 2021	Council undertook public consultation. This attracted considerable interest, with over 2,000 individual responses. The top three options for respondents were a wedding and seminar venue, mixed use culture and weddings, and a boutique hotel.
March 2022	Policy and Resources Committee selected a preferred partner. This was Balfour Hospitality, who proposed to develop the Palace as a boutique hotel.
March 2023	KCC vacated the premises and the building was taken over on a temporary basis by Parking Services.
April 2023	The preferred partner exclusivity period expired. Balfour Hospitality, as promoter of the boutique hotel concept, concluded that it would not be commercially viable, given the scale of investment required.

2.3 The Council remains committed to seeking an appropriate use for the Archbishop's Palace. Although its chosen partner was not in the end able to produce suitable proposals, an extensive body of information about the Palace and its potential has now been accumulated, and the feasibility of

different potential options for the future have been thoroughly researched, allowing an informed decision to be made about the next steps.

- 2.4 The Palace's current use as a service location ensures that the building is occupied, but it does not generate any income, and the council must now incur the costs of occupancy, previously borne by KCC. These comprise principally business rates and repairs and maintenance costs. The total marginal cost now incurred amounts to approximately £350,000 – being £100,000 of annual rent foregone and approximately £250,000 of running costs.
- 2.5 A further factor in consideration of the next steps is that, as a new Town Centre Strategy emerges, the heritage quarter of which the Archbishop's Palace forms a key component will become a vital part of the Council's plans for the future. Any future use of the Palace will need to form an integral part of the whole offer presented by the Town Centre to residents and visitors.

Market Testing

- 2.6 The Council has now undertaken further market testing, going back to the options originally considered by members in July 2021. Based on discussions with leading local participants in the market, this indicates strong interest in commercial use of the Palace as a wedding and events venue. This would be less capital intensive than the 'boutique hotel' concept and it will be seen that it is supported by a strong business case.
- 2.7 The Archbishop's Palace is already well-known as a wedding venue through its use as a Registry Office. Heritage venues are very popular for weddings and special events, as they provide a suitably attractive setting for big occasions. This is reflected in the strong interest that we have found amongst established businesses in the market.
- 2.8 It is proposed to seek a specialist operator who already has experience of this market. Although an in-house operation was considered by Members when selecting our preferred partner in March 2022, the Council does not have the requisite business knowledge in-house to run the Palace as a wedding and event venue.
- 2.9 The Palace would not require major alterations to accommodate use as a wedding venue. This is a key benefit, given its Grade 1 listing and the accompanying constraints on any changes.
- 2.10 An operator's main requirement would be a commercial kitchen, to allow large scale catering. As part of our previous partner's planning, an outline concept for providing a commercial kitchen on the ground floor of the Palace has already been developed and broad cost indications obtained. Detailed plans now need to be drawn up.
- 2.11 Wedding and event organisers are specialists, and (unlike our previous partner) could not be expected to have the project management skills to fit out the Palace. This work therefore more appropriately falls to the Council, as the property owner, to carry out. The fit-out would be

provided by the Council as landlord, using our financial resources, and commissioning architects and contractors as appropriate. The specification would be generic, such that we would not be committed to any one operator, and to ensure an enhancement in the value of the Palace from carrying out these works.

- 2.12 Having carried out initial fit-out works as landlord, the Palace would be let on a commercial lease, with the tenant taking on full responsibility for business rates and repairs and maintenance. These costs, currently borne by the Council, would therefore be passed on to the tenant.
- 2.13 Market testing has indicated that the rental cost of suitable venues is broadly aligned with office rental values. This allows an estimate of return on investment to be drawn up. Details are set out in the Part 2 Appendix. These show a strong investment return and a positive net present value. Modelling has also been carried out on an alternative, more pessimistic scenario. This still generates a positive net present value and a return in excess of the Council's capital strategy hurdle rate.
- 2.14 Public consultation highlighted the value that residents place on access to the Palace and its grounds. This has been reiterated as part of our market testing with potential operators. The organisations with whom we have engaged recognise that use of a heritage asset like the Palace is bound to be accompanied by a requirement for public access. It is customary for the arrangements to be reflected in a formal agreement with the operator and there are many established models on which we would draw, in order to ensure that local aspirations for public access are met.

Next Steps

- 2.15 This report proposes that the Council instruct architects to produce a design concept and to liaise with Historic England and MBC planners to obtain the necessary consents. Alongside this work, we would engage with the market and invite potential operators to submit offers for an agreement to lease the Palace as a wedding and event venue. A further report will be brought to the Policy Advisory Committee and to Cabinet in Autumn 2023 with a recommendation as to the preferred operator, the lease terms, and the capital investment to be incurred.
 - 2.16 Work is under way on a new Town Centre Strategy, which would set out a vision for the Council for the period to 2050. This is likely to take advantage of the rich heritage of the quarter in which the Palace is located. The proposed use of the Palace as a wedding and events venue would reflect this, by showcasing the building and ensuring that it remains in active use. As the Strategy develops, it will be important to ensure that plans for the Palace, and in particular any agreement to lease the Palace to a third party, are consistent with its objectives.
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3. AVAILABLE OPTIONS

3.1 Option 1: Do nothing

The Council would continue to incur significant annual costs in maintaining the Palace. There would be an opportunity cost, both in financial terms and in failing to allow potential users to benefit from this prime Council asset.

3.2 Option 2: Develop plans for use of the Palace as a wedding and events venue

This option has been described above. Market testing has established that it would be a viable option in financial terms, and it would meet the objectives set by members for future use of the Palace.

3.3 Option 3: Develop alternative plans for use of the Palace

a. Co-working and Serviced Office Space

This option was considered as part of the feasibility study presented to Members in 2021. It would require some internal work to the building, to enable good quality communications links and to provide secure and safe partitioning between offices. If used for this purpose, the Palace would be competing in what is already an active market in Maidstone Town Centre, with potential disadvantages compared with the competition in not being able to provide modern accommodation or extensive parking facilities.

b. Training and Seminar Centre

This option was considered as part of the feasibility study presented to Members in 2021. Like option 3a above, it would require internal work to the building. However, it is not clear that there would be sufficient demand in the market to make this use viable.

c. Mixed Use Culture and Weddings

Members requested that this option be considered in 2021. Whilst they acknowledged the potential of the Palace as a venue for weddings, some members wanted to see a café, an arts space, and exhibition and gallery spaces, which would enable interpretation of the building, to give the widest public access. Such uses would have limited revenue generating potential and would limit the potential of the Palace as a wedding and event venue, by taking up dates in the calendar and/or space at the Palace that would otherwise have commercial potential. Accordingly, this option is unlikely to be economically viable.

d. Boutique Hotel

This option was considered extensively by our preferred partner in 2022/23. It relies on a minimum number of bedrooms to be offered to establish a viable hotel business. The existing building could not accommodate the required number of rooms, whilst at the same time providing space for dining and events. It became clear during the course of our partner's

research that the financial and conservation challenges of new building in the grounds of the Palace were very significant. This position is unlikely to change in the foreseeable future.

e. Residential conversion

This option was not considered as part of the original feasibility study, but has been included here for the sake of completeness. The option would face a number of very significant practical obstacles. Residential property values in central Maidstone make the financial return much less attractive than option 2 above. There would be potentially insuperable challenges from a conservation viewpoint, given the Palace's Grade 1 listing, in installing the necessary partitioning, ventilation and other services needed to create units of residential accommodation. Finally, it would be very difficult to reconcile members' and residents' aspirations for public access with private residential accommodation.

4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

- 4.1 The preferred option is option 2, Develop plans for use of the Palace as a wedding and events venue. It is likely to be a viable option in financial terms, and it would meet the Council's objectives for future use of the Palace.

5. RISK

- 5.1 There are a number of risks associated with this proposal.

Project risk – Delivering the required improvements to the Palace to accommodate a new tenant will bring all the usual risks associated with construction projects. These will be mitigated as much as possible by use of experienced and qualified contractors and application of strong project management disciplines.

Commercial risk – The proposed future use of the Palace depends on the commercial success of the operator, which in turn depends on the overall health of the local economy.

Site specific risks – The palace is a historic and sensitive site. Carrying out any work at the site therefore brings a heightened degree of risk. These will be mitigated so far as possible by working with contractors and partners who have relevant experience and can be expected to anticipate and respect the specific issues involved. The Council's conservation specialists have been consulted during the course of the project to date and will continue to be involved.

- 5.2 The above risks, including the risks if the Council does not act as recommended, have been considered in line with the Council's Risk Management Framework. We are satisfied that the risks associated are within the Council's risk appetite and will be managed as per the Policy.

6. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

- 6.1 As described above, a comprehensive public consultation exercise was held in 2021 about the future of the Palace. It is considered that the findings from this remain relevant and they have helped to determine the recommended way forward.
- 6.2 The matter was considered by the Corporate Services Policy Advisory Committee on the 12 July 2023 and the Committee recommended that the Cabinet approve the recommendations.

7. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

- 7.1 The proposed next steps are set out below.

2023	Action to be undertaken
By end July	Council appoint Architect to produce illustrative design concepts and scope of essential works and suggested operator specified works
August	Appointed Architect to commence discussions with Historic England (Listed Building Consent) and Planners (Change of Use and Planning Consent) for necessary consents
September	Formal Supplier Engagement to consult as to commercial Lease Terms and determine specific operator building requirements. Options to be offered : Palace only; Palace and Gatehouse; Palace, Gatehouse and Dungeon.
October	Council to seek Planning Pre App advice and prepare Heads of Terms (HoTs) for the lease and costed scope of works. HoTs to include payment of commercial rent and public access arrangements
Oct/Nov	Invite Best Offers from Operators for a Conditional Agreement for Lease based on the approved HoTs and agreed scope of works
By end November	Cabinet select Operator and agree terms
By end December	Council enter into the Conditional Agreement for Lease with the preferred operator and submit Planning and Listed Building Consent
2024	Action to be undertaken

March	Council obtain Planning and all other necessary consents and commence the agreed improvement works to the building.
By end July	Building work completed, Lease signed and completed
August	Venue opens to host Weddings and Events

8. REPORT APPENDICES

Exempt Appendix – Financial Modelling

9. BACKGROUND PAPERS

None.