

OVERVIEW AND SCRUTINY COMMITTEE

23 JANUARY 2024

Archbishop's Palace – Agreement for Lease

Timetable	
Meeting	Date
CLT	19 December 2023
Corporate Services PAC	17 January 2024
Overview and Scrutiny Committee	23 January 2024
Cabinet	24 January 2024

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 the Appendix 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 concerning the 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 was agreed that the opportunity to lease the Palace Complex be advertised.

The report presents the results of the marketing exercise and recommends that the Council now enter into an agreement for lease with the preferred tenant, appoints a specialist team to obtain the necessary consents to make the required changes to the premises to enable its use as a wedding venue, and agrees to a capital spend of £1.5m to enable the project to proceed. This will meet the Council's objectives for future use of the Palace and is consistent with the emerging Town Centre Strategy.

Purpose of Report

Recommendation to Cabinet.

This report makes the following recommendation to the Overview and Scrutiny Committee.

That the Cabinet is recommended to:

1. Agree to capital expenditure of up to £1.5 million
2. Delegate authority to the Director of Finance, Resources and Business Improvement to select and appoint professional advisers to obtain all relevant consents, enter into contracts for applicable services as necessary, and to enter into a conditional agreement for lease with the preferred tenant.
3. Delegate authority to the Head of Legal Services to negotiate and complete all necessary legal formalities for the agreement for lease and purchase of services as set out above.

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 were previously in the region of £250k per annum. These were previously met by the former tenant, who additionally paid the Council £100k per annum rent. Accordingly, there is a net shortfall of £350k per annum against ongoing	Director of Finance, Resources & Business Improvement

	budgets whilst the building remains in its present state. The capital budget £1.52m has been included in the draft 2024/25 capital programme, which will form part of the budget due to be signed off by Council in February 24.	
Staffing	We need access to additional expertise externally, 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. Further, under section 111 of the Local Government Act 1972 the Council has power to do anything (whether or not involving the expenditure, borrowing or lending of money or the acquisition or disposal of any property or rights) which is calculated to facilitate, or is conducive or incidental to, the discharge of any of its functions. All necessary Legal documentation will be approved by Mid-Kent Legal Services before completion.	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	Director of Finance, Resources &

	and a contractor for works at the site.	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 March 2023, 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	<p>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:</p> <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.
July 2023	Cabinet approved a proposal to seek an operator for the Palace, focused of on more modest investment and change of use to a wedding/events venue.

- 2.3 As part of the expression of interest submissions in October 2021, the Council received an in-house proposal to operate and manage the Palace as a wedding and event venue itself. The proposal was assessed against the success criteria required for the future use of the Palace and was not considered a viable option. The Council do not have the experience or expertise to manage this type of facility or service.
- 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 is currently incurring 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 It was agreed at Cabinet in July 2023 that the property be put back on the market for lease by potential wedding/events venue operators and a professional team be appointed to develop plans for the change of use and consider essential landlord works. The council's previous experience with a potential tenant with ambitious plans for development of the Palace, which on detailed exploration turned out not to be viable, indicate that a pragmatic solution, involving minimal structural alteration to the Palace, would be preferable.
- 2.6 The Council invited potential operators to submit offers for an agreement to lease of the Palace Complex as a wedding and event venue. The opportunity was advertised in national publications and was given extensive publicity. This resulted in 7 viewings by potential tenants of the Palace and 4 firm offers.
- 2.7 Despite undertaking extensive marketing, with the assistance of specialist leisure sector consultants, the response in terms of firm offers was relatively modest. It is likely that this was for the following reasons.

- It is risky to commit to a long term lease in the current economic climate. Note that one party (existing venue and wedding venue operator) expressed interest in an operator licence as an alternative.
- The building has a Grade 1 listing and is architecturally significant, which means its layout is not ideal for many operators who are typically looking for fewer and larger open plan spaces, with greater flexibility. Several parties commented that the building and its layout were too 'awkward' for them.

The Palace has continued to receive some interest following the informal tender, with those more recent applicants being provided with a copy of the brochure and being advised that the Council is looking to progress the interest of a number of short-listed parties. However, none of those more recent applicants has sought to 'disrupt' the short list.

- 2.8 One of the four offers (to run the Palace as a wedding venue by a wedding planner) was discounted after Council further due diligence since they lacked the necessary business experience and a stable financial position. The three other bidders were invited to present their proposals at an interview panel. Immediately before the interview date, one of these bids was withdrawn.
- 2.9 Two parties have therefore presented proposals for use of the Palace as a wedding and hospitality venue. The first interviewee had experience of leasing and operating pubs and restaurants in Kent but did not have experience of venues of the size and scale of the Palace and had only three years of audited accounts.
- 2.10 The second bid was from an existing hotel and wedding venue owner/operator. The organisation has over 20 years' experience of owning and operating hotels and within their existing portfolio have a successful dedicated wedding venue in a Grade II listed castle. They currently host over 400 events a year. Their pitch included details of previous development projects, their ability to resource the Palace project with experienced staff and a business plan demonstrating their financial position and ability to cover both rent to the Council and the operational and running costs of the building.
- 2.11 Both bids were fully considered and based on the offered lease terms, previous experience of historical buildings, industry experience and expertise, financial acumen, company and staff resourcing. Only the second bid met the council's criteria and this is therefore the preferred bid.
- 2.12 The intention would be to enter into a conditional agreement for lease as soon as possible with the preferred bidder. A condition for subsequent completion of the lease itself would be for the council to obtain planning and listed building consent for specified works and change of use to a wedding venue. Details of the lease terms are set out in the confidential appendix.
- 2.13 The preferred bidder is aware of the pedestrian public access to the Palace complex and is confident this would not affect their proposals. At their

other venues, they host free 'showround' open day events throughout the year. Whilst these are primarily designed to encourage new clients, they are open to all and would serve as an opportunity for residents of the Borough to see the inside of the Palace.

- 2.14 The Council propose to seek the necessary planning and listed building consents for the proposed future use as a wedding venue. The marketing exercise confirmed that this is the most popular and financially viable use of the Palace buildings and therefore proceeding with obtaining these consents does not restrict the Council to proceeding just with the current preferred bidder.
- 2.15 Due to the sensitive nature of the Palace and its importance within the Council's portfolio it is deemed appropriate for the Council to, in the first instance, maintain a level of control over the application process and the specification and nature of the Landlord works. The limited interest in the property resulting from its historical significance and complex nature, is an indication that the property required specialist advice, attention, and management. By the Council managing the first stage of the process we can ensure that the appropriate team is appointed.
- 2.16 Upon obtaining the necessary consents the Council can seek to appoint its own team to carry out and manage the Landlord works or it may satisfy itself at this stage that the preferred bidder has a competent team to manage the next phase of works.
- 2.17 The realistic timescale to prepare the necessary details for submission to planning and Historic England is approximately 3 months and is dependent on appointment of the specialist team. Consent will then be subject to the statutory planning timeframe (13 weeks) and could be extended beyond that due to the additional sign off required by Historic England.
- 2.18 The planning application and listed building consent would include proposals for typical Landlord works for a project of this nature. These works would include:
- External landscaping
 - Installation of a commercial kitchen including food preparation and serving area
 - Creation of accessible entrance, communal and reception area
 - Redecoration and floor coverings
 - Upgrade of all services and compliance with all statutory obligations.

The specification of these works is not operator specific. There would be an enhancement in the value of the Palace as a wedding/events venue, from carrying out these works.

- 2.19 The tenant would in turn be investing in fixtures, fittings, furniture, equipment, and kit necessary to open and operate as a wedding venue, including but not limited to soft furnishings, crockery, cutlery, glassware, tableware, storage cupboards, white goods, office equipment, IT and technology kit. The preferred bidder has confirmed their intention their initial tenant investment in the first year to include fitout, marketing,

website , social media, working capital would be in the region of £400-£500,000.

Financial appraisal

- 2.20 The draft Heads of Terms envisage that the council would invest up to £1.5 million in landlord improvements prior to leasing the Palace. In return, the Council would cease to be liable for running costs, currently estimated as £350,000 per annum (£100,000 lost rental income + £250,000 previous running costs), and would generate annual rental income from the Palace of £120,000 (or more if the Gatehouse and Dungeon were also brought into use). It can be seen that this investment will achieve payback in less than four years and comfortably meets the council's investment appraisal criteria.

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: Lease the Palace as a wedding and events venue

Enter into an agreement for lease with the preferred bidder and appoint the professional team to finalise the detailed plans to obtain all necessary consents for change of use and landlord works. Upon obtaining consent, the Council to sign the lease and undertake the agreed landlord works.

Alternative options, including operation of the Palace as a hotel, have been thoroughly explored in the period of nearly four years since options were first canvassed with members in February 2020. No other options have been identified which are viable or financially sustainable.

4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

- 4.1 The preferred option is option 2. The property has been widely marketed and it has been established that the most popular and viable alternative use is as a wedding and events venue. This is consistent with residents' preferences as evidenced in public consultation. The preferred bidder has a successful track record of delivering and operating projects of this nature. It is a viable option in financial terms, and 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.

Delay risk – Whilst all parties are minded to progress with a detailed application and procure works as quickly as possible, Historic England have previously lacked resources to process applications and consents in a timely manner. Experience of the Council’s appointed professional team will help minimise the risk of slippage to the proposed timescale.

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 project to date and will continue to be involved.

There is a risk that existing services to the Palace would not support any form of development and in that case, the upgrade works to those services could far exceed our budget costs. The services survey to establish the condition and capacity of the services will commence December 2023.

- 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 describe 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.

7. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

- 7.1 The proposed next steps are set out below.

2024	Action to be undertaken
January	Appoint specialist team including architect and engineer to prepare the detailed plans required for submission to Historic England (Listed Building Consent) and Planners (Change of Use and Planning Consent) for necessary consents
Jan/Feb	Agree final heads of terms of the lease and complete the Agreement for Lease
March	Submit planning and listed building consent applications
April/May	Develop detailed costed scope of landlord works and agree project management strategy
June	Assuming necessary consents obtained, lease signed and landlord works commence.
October	Completion of works and opening of Palace as wedding venue.

8. REPORT APPENDICES

Exempt Appendix – Heads of Terms and Cost Estimates

9. BACKGROUND PAPERS

None.