

MAIDSTONE BOROUGH COUNCIL

RECORD OF DECISION OF THE CABINET

Decision Made: 24 January 2024

Report Archbishops palace agreement for lease

Issue for Decision

To present the results of the marketing exercise for the future use of the Archbishop's Palace and seek approval to enter into an agreement for lease with the preferred tenant, appoint 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 agree to a capital spend of £1.5m to enable the project to proceed.

Decision Made

That:

1. Capital expenditure of up to £1.5 million be agreed;
2. The Director of Finance, Resources and Business Improvement be given delegated authority 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. The Head of Legal Partnership be given delegated authority to:
 - i. negotiate and complete all necessary legal formalities for the agreement for lease, the lease and purchase of services as set out above and
 - ii. negotiate, execute and complete all necessary agreements, deeds and documents arising from or ancillary to the decision.

Reasons for Decision

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.
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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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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 to the report.

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.

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.

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.

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.

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.

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.

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

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.

The proposal was considered by the Corporate Services Policy Advisory Committee and the Overview and Scrutiny Committee, with both Committees in support of the report recommendations. The Overview and Scrutiny Committee made two additional recommendations, which are outlined below:

That:

- a) The Head of Legal Services be given delegated authority, in consultation with the relevant Cabinet Member/s, to conduct further cost and benefit analysis of issuing separate leases for the dungeon and gatehouse; and
- b) Advice be sought from the Council's conservation officers at an early stage of the proposal, in relation to the proposed landscaping.

Alternatives considered and why rejected

Do nothing

This option was not selected as 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.

Background Papers

None.

I have read and approved the above decision for the reasons (including possible alternative options rejected) as set out above.



Signed: _____
Leader of the Council – Councillor David Burton

Full details of both the report for the decision taken above and any consideration by the relevant Policy Advisory Committee can be found at the following area of the [website](#)

Call-In: Should you be concerned about this decision and wish to call it in, please submit a call-in form signed by any three Members to the Proper Officer by: **5pm on 2 February 2024**