Sale of IChemE's Gayfere Street, London premises and the contribution of proceeds to the Defined Benefit Pension Scheme

In 1978 IChemE purchased the freehold interest in the mezzanine and ground floor of 12 Gayfere Street for a cost of £171,000. The property was used as the London offices and meeting facility for the Institution. The whole building comprised a basement, mezzanine, ground floor and three upper floors. The three upper floors comprised of three separate flats, which had been sold on long leases, for residential purposes.

In November 1999, Council established a working party to look into the question of upgrading the Gayfere Street facilities, and at the same time putting the whole question of London presence on the agenda.

In December 1999, the Chartered Surveyors, Fletcher King, carried out an 'existing use value' of the freehold interest in the property, subject to the tenancies, which amounted to £500,000 (apportioned as £300,000 for the building and £200,000 for the land).

In April 2000, Fletcher King submitted a report setting out the unsuitability of the premises, as reported to them by IChemE, and their advice for any for reconfiguration / refurbishment. The report makes it clear that there would have had to have been major structural alterations, which would have been expensive and disruptive, to provide a marginal improvement. The report also went on to report their advice in respect of disposal of the property.

In July and August 2001 correspondence between the executive and the President / Honorary Treasurer further discuss the London premises and the suitability of Gayfere Street in light of the Strategy Review that had recently taken place.

The conclusion of Council at this point was that a move to alternative premises should be sought whilst at the same time seeking to either rent or sell Gayfere Street.

In August 2001, Fletcher King sent a further report updating IChemE on the current conditions for the central London office market which had seen a decline in demand resulting in less desirable accommodation taking longer to let, although the residential market remained buoyant. The report set out the options available for; (i) leasing the offices; (ii) selling the freehold with existing office use; (iii) selling the freehold with a change to residential use. Their recommendation based on the most attractive and most likely option to succeed was to sell the property for residential conversion and therefore to put in a planning application for a change of use.

In December 2001, Fletcher King sent a report through confirming that the planning permission for conversion to residential use had finally been recommended for approval. Fletcher King had met with two local agents and recommended marketing the property on a joint agency basis. One of the agents had initially proposed a valuation of £850k - £900k although they recommended reviewing the price if insufficient interest was shown within eight weeks.

In January 2002 planning permission was approved.

In February 2002, Fletcher King sent a letter indicating that one of the agents had received two offers on the property, the first at £725k and the second at £675k. The accompanying letter from the agent states that the property was clearly overpriced due to the amount that a potential buyer would have to spend on building costs, which they estimated to be in the region of £180k, and that continuing to market the property at £900k was not a viable instruction.

In May 2002, Fletcher King sent a report informing IChemE that they had met with other agents, having been unhappy with the first two, and provided a range of valuations that the agents had proposed. One recommended a quoting price of £700k, one was not interested in marketing the property, and the other quoting a price of £500k. In summary Fletcher King stated how difficult the agents were finding it to put a value on the premises which in their opinion was due to agents being unable to foresee the premises in a residential configuration. Their recommendation was for some architect plans to be drawn up to ascertain a better quoting price to sell the property.

On 13 May 2002, an email to the Honorary Treasurer from the CEO suggested that based on the lack of interest in the property Council may wish to reconsider plans and look at costs for remodelling Gayfere Street before making a decision on whether to proceed with the recommended action from Fletcher King of having architect plans drawn up.

A subsequent email on 14 May 2002 to all of Council summarised the situation with the London premises and actions that had been taken to date. This email stated that the architect plans were being drawn up and also introduced the premises of One Portland Place as a viable option to Gayfere Street.

On 23 September 2002 an email from the executive to the President and Honorary Treasurer indicated that a first offer on Gayfere Street from the new agents had been received for £600k, which was £100k below what they wanted to realise and therefore recommended leaving the property on the market.

On 12 November 2002 an email from the executive to the Honorary Treasurer indicated that another offer of £700k had been received although the buyer wanted to exchange in 10-15 days which would not allow sufficient time for the freehold to be offered to the other leaseholders which was a requirement.

The Council minutes from their meeting of 24 February 2003 (65.4) indicates that two offers on the premises had been received within the £600k - £700k band and that Council was hopeful that one of these offers would proceed to contract at which point a decision on the investment of the realised funds would be made.

The Council minutes from their meeting on 17 April 2003 (85) reports that the sale of Gayfere Street had been completed on 4 April 2003. The sale sum achieved was in line with the agent's estimates, albeit having fallen back slightly as the London residential market appeared to have peaked, and that after fees a sum of just short of £600k had been realised from the sale. It was advised that the proceeds be put on deposit with CAFCash with the investment to be reviewed on light of the pension triennial review.

The actual sale price achieved for the property was for £617,500.

The Council minutes from their meeting on 8 May 2003 (109) report on the results of the triennial valuation of the defined benefit pension scheme (as at 31 January 2003). The minutes make reference to Council wishing to sustain the Scheme providing that the funding rate remained containable, that a £300k capital injection from the proceeds of Gayfere Street would be made available, and that an increase in the funding rate might reasonably be shared between the employer and employee with an additional 1% contribution being sought from employees.

In February 2003, the pension scheme actuary set out a proposed timetable for the 2003 triennial valuation. In the letter to the pension scheme trustees the actuary states that he did not expect much good news from the valuation and that the equity market was particularly low at 31 January 2003 and that the results were likely to herald a further requirement for increased contributions.

The preliminary results of the actuarial valuation were subsequently sent through to the pension scheme trustees on 2 May 2003. The results showed a significant deterioration in the funding position since 2000 and therefore that an increase in contributions would be required.

An example was provided that if the deficit in the scheme was to be funded over the expected future working lifetime of the active members, which was approximately 15 years, then the total contribution from the Institution would need to increase to 23.6% of pensionable salaries compared to the rate at the time of 14.5%.

The letter went on state that the Institution had indicated that it may consider using some of the proceeds from the sale of the London property to help improve the scheme's funding position.

An email was sent from the executive to the Honorary Treasurer on 7 May 2003 setting out the results of the valuation and suggesting two scenarios whereby (i) the Institution's contribution level would increase to 20% but with no single premium injection, or (ii) the Institution's contribution rate would increase for the next three years to 18% and a single premium injection of £300k would be provided.

In both cases the employees would be asked to increase their contribution level to share the increased costs of the scheme.

The minutes of the pension scheme trustee meeting of 16 May 2003 (7.3) set out the proposal for finalising the valuation, which was; to accept the £300k single premium injection; to propose an increase in employee contributions from 4% to 5%; and to increase the employer's contribution level to 18.6% for a ten year period, subject to review at the following valuation.

The proposal was accepted by way of written confirmation from the Honorary Treasurer to whom Council had delegated authority to on this matter. A letter of acceptance was received from the outgoing and incoming Honorary Treasurer.

The Institution's external auditors, at that time KPMG, reviewed the disposal of Gayfere Street and part payment of the proceeds to the pension scheme as part of the audit of the 2003 financial accounts and concluded that:

'The sale of 12 Gayfere Street was completed on 4 April 2003. The sale sum of £617,500 was in line with the estate agent's estimates. A net profit of £96,000 after deducting disposal costs of £30,000 has been included within other incoming resources.

A £300,000 one-off contribution to the pension scheme was made in July 2003 and the remaining proceeds of £317,500 were invested in the Cautious Investment Fund on 24 December 2003.'

Conclusion

There is no evidence to suggest that property was sold under the market value.

There is no evidence to suggest that the purpose of the sale of the property was so that the proceeds could be put into the pension scheme.

There is no evidence to suggest that the property was sold because the Institution was in any sort of financial difficulty.

It is clear from the archived records, including the minutes of Council's discussions, that the premises were no longer considered to be suitable for the Institution's requirements. It is also clear that Council took appropriate independent advice in relation to the disposal of the property and market value of the property.

Furthermore, the sale of the property coincided with the triennial valuation of the pension scheme, at which point in time there had been a significant deterioration in the funding position of the scheme. Subsequently negotiations took place between Council and the pension scheme trustees on how to address this shortfall whilst trying to maintain the contributions at a sustainable level. The result of this was to put in single premium injection of £300k from the proceeds of the sale of Gayfere Street.

July 2017