

Prime Minister

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We now have comments from the Foreign Secretary (Flag B), the Scottish Secretary (Flag C) and the Lord Chancellor (Flag D). The Foreign Secretary wants to discuss further with the Chief Secretary, but the Scottish Secretary and Lord Chancellor support the Chief Secretary's restrictive view

COMPENSATION FOR CIVIL SERVANTS KILLED BY TERRORISTS

This is a formidable bundle of paper about the review of compensation arrangements which you asked for following Kenneth Whitty's death. At the cost of adding one further piece, I summarise the position like this.

Subject to any views you want to express now, one course might be for the Foreign Secretary to discuss with the Chief Secretary and for you then to hold a meeting. Agree?

FEBB
14.4.

At present the widow of a civil servant killed on duty by terrorists gets:-

- (1) a death in-service benefit. This is based on the lump sum he would have received on retirement - a maximum of one-and-a-half times salary but usually less (average is one year's salary);
- (2) three months of the husband's full salary: this, like (1), is paid to the widow of any civil servant who dies in service;
- (3) a further three months of the husband's full salary if he is killed by terrorists;
- (4) a pension of 45 per cent of salary plus a further 10 per cent for each dependant child (compared with a maximum pension of 25 per cent for widows of other civil servants killed in service);
- (5) any social security payments due, e.g. widow's benefit;
- (6) a criminal injuries compensation scheme payment based on loss of prospective future earnings after deducting pension and social security payments.

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For the future, the Chief Secretary and Lady Young agree on doubling both (2) and (3), so that a widow would get six months' full salary ^{and a further six months salary when} ~~whenever~~ the husband died through terrorist action, a year's full salary in all.

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Lady Young would like to go further in two respects:-

- (i) she would like to increase the period for which the full salary is paid for victims of terrorism by a further year, calling this "a public outrage payment". The Chief Secretary has reservations because it would treat the widow of terrorist action so much better than a civil servant who died in, say, a 'plane crash. The widow of a civil servant who died in a 'plane crash would get only six months' salary whereas the widow of a terrorist incident would get two years'.
- (ii) she would like to increase the pension for a widow of terrorism - item (4) in the list above - to 50 per cent of salary. The Chief Secretary does not like this because again it increases the gap compared with the widow of a civil servant killed in, say, an air crash (who receives a maximum pension of 25 per cent of salary, and usually less).

The normal arrangements for civil servants who die in service, e.g. in a 'plane crash, are not in fact generous compared with the private sector or compared with the police and firemen whose widows receive five years' salary if killed on duty. So another option is to increase the death in-service benefit for all civil servants, i.e. (1) or (2) in the list above. Victims of terrorism would benefit from that with all the rest. But it would be expensive - £16 million a year for the civil servants alone if a further year's salary was given; and there

/would be

would be repercussions for other public sector groups.

So the matters for decision are:-

Yes
A. Do you agree with the Chief Secretary's and Lady Young's agreed recommendation that salary should continue for six months, with a further six months for victims of terrorism, instead of the present arrangement of three months in each case?

B. Do you want to go further for victims of terrorism as Lady Young suggests, even though this would widen the gap between victims of terrorism and people who died from other causes? If so, would you

(i) give a further year's full salary for victims of terrorism;

✓ (ii) increase the ~~maximum~~ widow's pension from 45 per cent to 50 per cent of salary;

or

(iii) both the above?

OR C. Would you prefer to increase the compensation payments for all civil servants, ~~whether civil servants~~ who ^{or not} died in service ~~or whether~~ as a result of terrorism, by say, six months ^{salary} (at a direct cost of £8 million a year or twelve months at a direct cost of £16 million)?

Two further points:-

(i)

(ii) That particular calculation did not allow for her husband's future earnings to have gone up

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/through inflation.

through inflation. That seems reasonable provided that the interest rate for discounting those future payments also does not include inflation, i.e. if it is a real interest rate rather than a full interest rate. The Treasury tell me that the interest rate which is used - and has been used by the courts since about 1925! - is 3½ per cent. This is rather a high figure for real interest rates, but the Treasury say that the Lord Chancellor's Department are getting round to reviewing this for court payments generally. So I suggest that we accept the basis of calculation for Mrs. Whitty, but ask the Lord Chancellor's Department to take account ~~in their review~~ of the fact that a discount rate of 3½ per cent is rather high if the sums being discounted contain no element for future inflation. Agree?

~~My name~~

Yes mb

E.R.B.

13 April 1985