



File 402 ABI

10 DOWNING STREET

From the Principal Private Secretary

16 April 1985

THE LATE KENNETH WHITTY

Thank you for your letters of 27 March and 2 April about the compensation payment to Mrs. Whitty.

She is content that the British Council should be informed that Mrs. Whitty's award has been finalised at this figure.

As regards the treatment of future inflation in calculating these compensation payments, the Prime Minister accepts that this is a question of broader application, and I have therefore recorded her views on it in my separate letter of today's date about the review of death benefits available for the families of civil servants assassinated in the course of their duty.

I am copying this letter to Len Appleyard (Foreign and Commonwealth Office.)

See CIVIL SERVICE - continuation service 3/85

FEB

Richard Broadbent, Esq.,
Chief Secretary's Office,
H.M. Treasury.

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cc BW



Treasury Chambers, Parliament Street, SW1P 3AG

Robin Butler Esq
10 Downing Street
London
SW1

2 April 1985

Dear Robin

THE LATE KENNETH WHITTY

Thank you for your letter of 28 March about the discount rate used in deflating future payments for the purpose of calculating compensation payments.

I am sorry my earlier letter was imprecise. We are attempting to replicate the practice of the courts which operate in accordance with broad principles rather than on the basis of quantified rules.

In calculating Mrs Whitty's compensation payment, the broad principle we are following is that the lump sum paid in compensation should reflect the difference in the value between the income Mr Whitty would have earned had he survived and the benefits Mrs Whitty will receive from his occupational pension and from social security following his death. Such a calculation is subject to major uncertainties, including for example the future lifespan of both Mr and Mrs Whitty in other circumstances. These uncertainties are allowed for on one side of the equation by a "multiplier" drawn from standard tables which is applied to the emoluments which Mr Whitty might have received. This multiplier incorporates a nominal interest rate assumption of 3½ per cent net of tax. To balance this on the other side of the equation Mrs Whitty's expected benefits are discounted at the same nominal post-tax rate of 3½ per cent.

This discount rate of 3½ per cent does not reflect any specific view about future inflation. The courts assume that the lump sum awarded will be prudently invested so as to protect it from future inflation. As I explained in my

letter of 27 March, the Chief Secretary thinks it would be unwise for the Government to set a new precedent by adopting a fundamentally different approach.

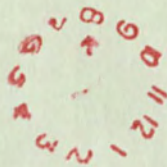
I am copying this letter to Len Appleyard (Foreign and Commonwealth Office).

Yours ever

Richard Broadbent

R J BROADBENT
Private Secretary

Greece: Int Sit. 5/80.



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CONTRACTOR



10 DOWNING STREET

From the Principal Private Secretary

28 March 1985

THE LATE KENNETH WHITTY

Thank you for your letter of 27 March about provision made for inflation in compensation payments.

I am sorry to trouble you with a supplementary question before I put this to the Prime Minister, but your letter does not deal with the point in my letter of 24 December about the discount rate used in deflating future payments. If no provision is made for future inflation in calculating the income of which a widow has been deprived following an assassination, can I assure the Prime Minister tht the discount rate similarly assumes no future inflation, i.e. that it is based on real rather than nominal interest rates?

I am copying this letter to Len Appleyard (Foreign and Commonwealth Office).

R Broadbent, Esq.,
HM Treasury

CP



ccw

Treasury Chambers, Parliament Street, SW1P 3AG

Robin Butler Esq
Private Secretary
10 Downing Street
London
SW1

27 March 1985

Dear Robi-

THE LATE KENNETH WHITTY

In my letter of 7 January I promised to write again when we had consulted further with our legal advisers about the way in which the award made to Mrs Whitty should provide for future inflation.

Our legal advisers have advised us strongly that it is not the practice in common law to make any assumptions about future levels of inflation in determining awards. The Courts assume that the lump sum awarded for damages will be prudently invested so as to allow for future inflation. The Chief Secretary thinks he must accept this advice. To add to Mrs Whitty's award on the basis that additional compensation was being paid in respect of future inflation would set a possibly far reaching precedent.

The Chief Secretary is however pleased to report that in the course of the further work on revaluation that has been done, the Treasury Counsel has revalued Mrs Whitty's analogous award on the grounds that some of the deductions made in the earlier calculation were incorrectly based.

Subject to the Prime Minister's views, he proposes to inform the British Council that Mrs Whitty's award has been finalised at

I am copying this letter to Len Appleyard (Foreign and Commonwealth Office).

Yours ever

Richard Broadbent

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R J BROADBENT
Private Secretary

Mrs K Whitty

Summary of Compensation Award

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