AM: Can I start by asking you about this poisoning in Salisbury, if it’s proved – I say if it is proved to be an action of the Russian state, how serious is that for our relationship with the Russian government?

PH: Well, first of all, as you say, this is a police investigation. It will be evidence-led and we must go where the evidence takes us. So we have to allow the police investigation to take its course. But if there were to be an involvement of a foreign state, evidenced by this investigation, then obviously that would be very serious indeed and the government would respond appropriately.

AM: You might have heard Marina Litvinenko suggesting that last time round the response wasn’t really strong enough. And in that context I wonder what you think now about the Magnitsky Act proposal, so-called, for much tougher visa restrictions and financial restrictions on named individuals.

PH: Well, the proposals that were put forward actually create a power that we already have. The Home Secretary already has a power to exclude individuals from the UK if she believes that their presence here is not conducive to our national security or the public good. So it’s not strictly necessary, but we’re seeking to reach an accommodation with those who’ve put this amendment forward. Let’s see if we can come to a proposal which works for everyone.

AM: Okay. You were there as Foreign Secretary at the end of that Litvinenko inquiry and you summoned in the Russian ambassador at the time. Marina Litvinenko suggests that what you did was not nearly tough enough. What’s your message to her?

PH: Well, we did, the inquiry, of course, took some time and it was some time after the events before we had the evidence from
the inquiry, but we took appropriate steps. We took measures which are still in place today. But of course –

AM: You kicked out a couple of diplomats, that was about all.

PH: But of course the Russians have not complied with their international obligations despite being members of the Security Council. They have continued to protect those who we seek to extradite in respect of the murder of Mr Litvinenko.

AM: And yet in a sense they are laughing at us in this country. They still think that this is a place where they can do what they like without any serious repercussions and London is still one of the prime places for Russian money to arrive. Do you need to look at the whole thing again?

PH: Well, I think the police inquiry and the depth and detail, the vast resources that have been deployed and the high level assets that we have to be able to make these analyses show that nobody is laughing at us. This is a very serious investigation that’s going on. Let’s see where it leads us.

AM: Your party has taken massive donations from Russian oligarchs and others. Do you think it’s time to hand them back?

PH: Well, look there are very strict rules about donations to political parties. Only British citizens who are on the electoral register here can make donations to political parties. All donations are carefully vetted. They’re reported to the Electoral Commission. They’re recorded publicly.

AM: But the facts have changed, isn’t it time to change your mind?

PH: Well I, look, I think, there are people in this country who are British citizens who are of Russian origin. I don’t think we should taint them, we should tar them with Putin’s brush. We should recognise that people come to this country from many places, they become British citizens, they live under UK law, and they
should have full participation rights in our society once they’re British citizens.

AM: Light at the end of the tunnel, a turning point for the economy, you’ve given lots of examples about wage growth, you’ve talked about the effect, finally ending the austerity years of paying back the budget day by day by day and all of that. It feels like a really, really important moment.
PH: Well, there is light at the end of the tunnel because what we’re about to see is debt starting to fall after it’s been growing for 17 continuous years. That’s a very important moment for us. But we are still in the tunnel at the moment. We have to get debt down. We’ve got all sorts of other things we want to do. We’ve taken a balanced approach over the last couple of fiscal events, using flexibility that we had to continue paying down debt but also to provide additional support to our public services, to invest in Britain’s future and to reduce taxes of families and small businesses who are feeling the pressure.

AM: Well, for the 11 million people about to be hit by the next round of welfare cuts is there any light at the end of the tunnel? Are you going to be able to help them in any way at all?
PH: Well, there’s been quite a lot of speculation in the media about what the OBR numbers will be when they’re published on Tuesday. I suggest we wait until we see the numbers. This is not a fiscal event in itself, I won’t be making tax or spending announcements on Tuesday. What I will be doing is signalling some areas where we want to consult ahead of the budget in the autumn. We should be very careful about looking at single sets of figures, one quarter or two quarters. We need to look at what’s happening sustainably in the economy, and if there is the flexibility, the space to do something, then we’ll decide in the autumn how we’re going to use that. But we will continue to take a balanced approach, addressing the debt problem, investing in
Britain’s future, reducing taxes for hardworking families, and putting money into our public services.

AM: Simple question: is austerity over?
PH: Well, we’ve – most people take that to be a reference to the public sector pay cap, and we’ve removed the one per cent pay cap on public sector pay. As you know, unions and management right now are in discussions on a settlement for nurses and other agenda for change staff in the NHS, which I hope will lead to a pay settlement which satisfies workers in the NHS but is also fair to taxpayers, because it tackles some of the challenge that we have in the NHS workforce and makes it more effective and efficient.

AM: For the working families affected by these welfare changes, for instance, £200 a year worse off on average, that feels like no light at all at the end of the tunnel for them. Can I ask you also about local authorities, because all across the country you know Tory local authorities as well as Labour ones are screaming with pain. They feel that austerity has been pushed absolutely to the possible limit and that they’re now, in the words of one of your colleagues, facing a financial precipice. Isn’t it something you absolutely have to do ahead of these local elections to give them a little bit of relief at last?
PH: Well, just to be clear, this is not a fiscal event on Tuesday.
AM: I know.
PH: So I won’t be making fiscal announcements. Local authorities have over, well over, £200 billion of core spending power over the five-year period from 2015 to 2020. They’ve got reserves of £23 billion, that’s higher than in 2010, eight billion pounds higher than in 2010. But look, local authorities have done an incredible job in delivering efficiencies over the last few years.
AM: And they’re now in crisis.
PH: And of course they’re under some pressures, we understand that. At the spring budget last year I put an extra two billion
pounds into social care because of the pressures there. Local government, we’ve also given-
AM: But you know it’s not all up.
PH: We’ve also given them greater flexibility through the precept in the recent local government settlement so that local authorities now have nine billion pounds worth of additional dedicated spending for social services over the next three years.

AM: That is an actuarial answer to people who are screaming with pain in terms of the system being absolutely at breaking point.
PH: And we understand that there are pressures in the system and we look at these all the time. We discuss them with colleagues across local government, and indeed in spending departments across Whitehall. And as I’ve said, when we get to the autumn budget we’ll look at the numbers then. I’ll be paving the way in this autumn budget, 2018, for a spending review in 2019 which will look at public spending from 2020 onwards: what the total envelope should be, how we allocate it between individual departments and indeed local government.

AM: You’re pushing off the good news until nearer the general election. Can I ask you about another really important issue on the Tory backbenches, which is defence spending. One of your own ministers has said two per cent is just not sustainable these days, we have to go up to around three per cent because of what’s happened to the pound and the dollar. You know, the entire military system is in real, real problems. They need more tanks, they need more planes. And a lot of your colleagues on the backbenches are determined that you have to do something for them.
PH: Well, I was Defence Secretary for nearly three years and I yield to no one in my admiration for the armed forces and what they do to keep Britain safe. And I also understand –
AM: They need a bit of cash as well as admiration.
PH: I understand the huge complexity of the defence budgets and very, very long term projects that are at the cutting edge of technology. But some of the media talk as if defence was being cut. Let’s just be clear about the facts here. Defence will receive more than a billion pounds extra in each year of this parliament. It’s the fastest-growing resource budget in Whitehall. So defence isn’t being cut by any means.

AM: You say that but -

PH: Now, I accept that there are pressures on defence, including foreign exchange pressures, because quite a lot of the military equipment we use is bought in US dollars. And the Prime Minister has announced a defence modernisation programme, where she and I and the Defence Secretary are working closely together on looking at these challenges. And of course we’re committed to making sure that Britain is always properly defended.

AM: But it sounds like yet more jam tomorrow. Can I read you something that Nick Timothy, your close friend said: ‘Mr Hammond must now declare an end to the age of austerity. The government has achieved its surplus, it’s going to invest in the economy for the long term, it can start to increase public spending.’

PH: Well, I’m afraid Nick Timothy’s ignoring the debt. We have a debt of 1.8 trillion pounds, 86.5% of our GDP. All the international organisations recognise that that is higher than a safe level and this isn’t some ideological issue, Andrew. It’s about making sure that we have the capacity to respond to any future shock to the economy. There will be economic cycles in the future. We need to be able to respond to them without taking our debt over a hundred percent of GDP.

AM: John Redwood, no kind of softie on these matters, wrote in a blog this week that basically the debt in terms of if you analyse it properly, is easily sustainable and really suggested that the
austerity programme was a political choice, not a central economic one.

PH: Well, with the greatest respect to John Redwood I think he’s wrong. We need to get our debt lower. I think most people in this country would be horrified to be reminded that we have £65,000 worth of public debt for every household in this country. But look, what I did when I became Chancellor was change the fiscal rules. I said we will tackle the debt, we have to tackle the debt, but we will spread out the time over which we do it a bit longer, creating a bit more flexibility so that at the same time as tackling the debt we will also invest in Britain’s future, we will also put money into Britain’s public services and will relieve Britain’s families and small businesses with some tax breaks. That’s what we’ve done. That’s what we intend to go on doing, being balanced in our approach. It’s wrong to say, as some fiscal reports say that -

AM: Is it wrong to say -
PH: It’s wrong to say that every penny of capacity we have has to go to paying down the debt, but it’s equally wrong, as John McDonnell says, that every penny should go into additional public spending. We need a balanced approach.

AM: I must ask you about Brexit. It’s clearly going to be an incredibly complex negotiation. The Prime Minister said when I was talking to her last week that you know we wouldn’t get the full amount of access to all markets we’ve got at the moment. You have a very, very complicated, grindingly complicated and difficult negotiation over the future of the City of London and financial services coming up and you spoke about that this week. Is it worth it?

PH: Yes. Financial services is a very important part of our economy, but it’s also –
AM: Not the financial services negotiation. Is Brexit worth it?
PH: Oh the whole thing?
AM: Yes, the whole thing?
PH: Well, yes - the British people have decided. The British people decided that we are leaving the European Union and that’s what we’re doing. Our job is to make sure that we get the best possible deal for Britain. That we make a smart Brexit, a Brexit that works for Britain, British jobs, British prosperity, British businesses and that’s what we’re all about.

AM: Do you accept that we’re going to take some kind of economic hit as Mr Tusk has said and a lot of his impact assessments suggest?

PH: Well look, Mr Tusk is a negotiator and I listened to him carefully on Wednesday and he didn’t say anything that I wouldn’t expect a skilled and experienced negotiator to say at the beginning of a negotiation. He basically said the deal will have to contain none of the things you want and all of the things that we want. Well that’s an opening negotiating position, I recognise it well.

AM: Okay. Looking at what you have said about the importance of financial services, banking and insurance in particular, you have said again and again and again, this has to be part of a fair deal. Can I ask you, is this at last a government red line?

PH: We’ve said, the Prime Minister said very clearly in her speech that the way to negotiate successfully with the Europeans is not to threaten, not to talk about walking away from tables or anything like that, but to engage, to talk, to discuss these things, to explore the options. The reason I think that financial services has to be part of a deal is firstly the shape of Britain’s economy, services are a very important part of our economy and a fair deal will need to be one that covers services as well as goods. And
secondly, because the financial services system in London is an asset of Europe as a whole. It serves the European economy as a whole; £1.1 trillion worth of loans that European companies facilitated through the City of London. A vast proportion of Europe’s financial services business transacted through the City of London.

AM: But do you know that they are thinking differently and the French in particular are saying you’re not going to get this kind of deal. So if we get a deal that does not include financial services that would be an unfair deal, that would be a bad deal?

PH: Well, I don’t accept your premise, Andrew, because I think we will get a deal that includes financial services. The question is how financial services are included. What the kind of access is that we’re able to negotiate. Reciprocally, because there are many European banks operating in London of course, as part of London’s financial services.

AM: Okay. Well at least we now know what the governments want out of this negotiation. The Prime Minister’s speech, your speech and many others have set out a much more detailed prospectus for the country. Have you modelled the economic effects of that?

PH: Not yet. We haven’t -

AM: Why not?

PH: We haven’t even embarked on the negotiation yet. The next step in this process at the European Council later this month is hopefully to agree the implementation period, so that businesses know that they can plan over the next three years with certainty. Then we will also get the guidelines from the European Union for the next phase of negotiation. Then we start talking with them about the shape of a future partnership which will cover not just
economics, trade and investment, but also security, domestic security and external security.

AM: So modelling tomorrow like jam tomorrow? But it will come, we see it.

PH: Well once we know what the deal looks like then we will certainly model it.

Ends