AM: Theresa May has said that austerity is ending, is over. Is it?
PH: Well, the budget tomorrow will set out my picture of Britain’s future, how we are going to approach the spending review next year which the Prime Minister has already said, once we get a good deal with the European Union and a smooth exit from the EU, we will be able to show the British people that the fruits of their hard work are now at last in sight.

AM: You say ‘in sight’. It’s the beginning of the process. Is it going to be a long process? Because Theresa May said at the conference: ‘a decade after the financial crash people need to know that the austerity it led to is over.’ And people will have heard that and will expect a real change in day-to-day life as a result. Are we going to see that as a result of the budget?
PH: Well, first of all, we’ve already made a huge commitment to the National Health Service earlier this year, rising to over £20 billion in real terms extra every year by the end of this forecast period. That’s a huge commitment going into the budget. But we’ve got a spending review next year where we will set out our plans for public spending over the years to come, in all departments, in all areas. And that is about government setting priorities, deciding the direction of the future shape of our economy and our public spending. And that’s the right way to do it.

AM: So this is not going to be the budget that turns on the taps. If you kind of see headlines on Tuesday about the Chancellor’s splurge, happy days are here again, you’re going to wince rather than be pleased, aren’t you?
PH: Well, what I’ll be doing is setting out the path of public spending that will take us from the spending review onwards. But the detailed allocation to different departments is something that is for next year, and I think that’s the right way to do it, to have a proper discussion about what our priorities are. Because there are always choices to be made, however well the economy’s performing, however strong the public finances, we still have to make choices, and I’ve chosen a balanced approach which places equal weight on getting the debt down, keeping taxes low, supporting our public services and investing in the skills and the infrastructure and the technology that will drive Britain’s future prosperity.

AM: But in a sense you’re saying, ‘I want to do everything,’ and as you say, there are choices. People who’ve heard the Prime Minister will be expecting a change, and particularly in areas where austerity has been particularly tough, such as local government. A 29 per cent fall in local government spending since the Conservatives came into power. Your own councillors are not convinced that things are going to change. Councillor Mike Bird of Walsall said this just this week – he said: ‘never ever believe what you hear from central government, austerity is not over, it’s alive and kicking in Walsall and will continue for some time to come. I would urge central government to start funding local government in a meaningful way now.’ Will you?
PH: Well, you’ll hear tomorrow what I’m going to say about the future trajectory of public spending into and beyond that spending review next year. But the public finances are performing well. You will have seen the data.

AM: £13 billion extra that you’ve got now.
PH: Well, I can’t comment on the OBR’s report until they publish it tomorrow. But clearly the monthly figures show that borrowing has come in lower than we expected. The economy is performing strongly, public finances are performing strongly, not least
because we’ve taken, over the last eight years, a huge number of steps to close the tax gap, to make sure that we’re collecting all the tax that we’re entitled to.

AM: So you can afford to be a generous Chancellor tomorrow.
PH: Well, you’ll see what I have to say tomorrow.
AM: Very, very interesting. As I say, it is the detail of all of this that people are interested in. Universal Credit has been a problem for your party, quite clearly. John Major, who’s not given to overstatement about these things, is comparing it to the poll tax. Is there going to be more substantive money to actually ensure the Universal Credit rollout isn’t the kind of political disaster that many of your colleagues fear?
PH: Well, first of all, I believe in Universal Credit. It is a very important structural reform that avoids people being trapped in unemployment by a benefit system that makes them worse off if they do the right thing and work. And it’s absolutely right that we pursue this structural reform. Not just because it’s a better welfare system, but because it’s also a key element of creating an economy that works for the future and gets people into work. But of course there have been teething issues along the way, as we’re moving the system from the legacy benefit system of Labour onto Universal Credit. Judge me by my record. In my first fiscal event, autumn statement 2016, I reduced the taper rate in Universal Credit because I thought that was the right thing to do. In last year’s budget I put a billion and a half pounds into trying to smooth some of the issues around transition from the legacy system to Universal Credit. And where we see issues that need addressing we will address them.

AM: Because Esther McVey, who’s the woman in charge of it, says that some people are going to be worse off and we should accept that. And you see the figures which are passing round Tory MPs, some of them pretty eye-watering, particularly in London and the
north and other parts of England, people are going to be really, really hit.

PH: Well, this is a new benefit system that changes the incentives that people have and supports people into work, and that's the key thing. But where there are issues that need addressing we will address them.

AM: Are millions of people going to be £200 a month worse off?

PH: I would hope not. I mean, my aspiration would be to try and smooth this process so that people are able to take advantage of the incentives that universal credit gives them to work a few more hours to earn a bit more money. And that’s the key point here. You’re not comparing like with like. This is about people having the opportunity to be able to earn more.

AM: Sure. But to achieve that ambition you are going to have to spend some more money aren’t you?

PH: Well, I've shown, I think, by my actions in the last three fiscal events that I’m prepared to look at this from a very pragmatic point of view. I want Universal Credit to work. I think it is the right way for us to go as a country and we've got to make sure that it does work.

AM: Let’s move to a revolt happening in the heart of Tory England, an extraordinary event in Downing Street recently, when head teachers from Surrey and Hampshire and the heart of Tory England were marching against the government because of the cuts to English schools. Are you going to give them something to cheer about in the Budget?

PH: Well, look, the question of departmental spending, including spending for things like schools and police, is one for the spending review. Departments have budgets for 19-20 but not beyond, so we’ll have to talk about our priorities going forward. But we have protected our schools funding. Per pupil funding in real terms is
protected. And our schools funding is generous by comparison with many of our international competitors.

AM: Okay, well, I gave John McDonnell a screen to look at and I’m going to do the same with you, because here is school funding under the Conservatives. Minus 0.1 per cent, minus 2.7 per cent, minus 1.2 per cent, and then zero and zero, frozen. That is per pupil funding going down isn’t it? PH: We’ve protected per pupil – we made an intervention after the election last year that saw per pupil funding protected in real terms. Now, we will have a new spending review next year and we will set out our plans going forward.

AM: But you’ve cut and now you’re freezing. That is not most people’s idea of protecting. That feels like pupil funding going down. And that’s what the head teachers were marching about. PH: Well, the money we put in last year was explicitly in order to protect per pupil real terms funding.

AM: Can I ask you about one other issue which is really getting people upset at the moment, which is the retrospective grabbing of people for tax who thought that they were engaging in entirely legal tax avoidance schemes, mostly self-employed people with small businesses, and the Treasury is now retrospectively going after them, in some cases for sums that will bankrupt their businesses or bankrupt their households, and people are even talking about committing suicide as a result. Are you looking again at this? PH: Look, people have to pay the tax that is due. And I don’t know what specific schemes you’re referring to, but the loan scheme, disguised – remuneration disguised as loans, was always illegal tax avoidance. We’ve always been very clear about that. There’s never been any doubt about it, and people should have known that what they were doing was unlawful. Taking money out of the business, pretending it is a loan, paying no tax on it
and having no intention of ever repaying it, that is unfair. And when somebody does something like that it means that all the rest of us have to pay more tax to keep our public services going.

AM: I don’t dissent from that at all, but they say that at the time they were told that this was a completely lawful scheme and that they’re law-abiding people.

PH: In some cases advisers will have given people wrong advice. I completely accept that, and HMRC is always willing to sit down with taxpayers who want to correct their tax position and work out a plan to do it in a way that is manageable over time. So HMRC will deal with individual taxpayers and will always try to find a compromise.

AM: Let’s turn to people who don’t have tax problems. Rough sleepers. What’s happened to rough sleepers under the Conservatives?

PH: Well, obviously the numbers of rough sleepers have gone up, and that’s something that we are determined to tackle. We’ve got a programme in place, and again you’ll be hearing more about that from myself and my colleagues over the coming weeks.

AM: All of your plans, everything that you’re looking at, is of course waiting to see what happens about Brexit. It’s very hard, I would have thought, as a Chancellor, to make firm plans at the moment before you know the kind of deal that you’re going to get. Can I ask you directly, if we get a no deal Brexit is it possible to end austerity in this country?

PH: Well, I have build my budget on the OBR’s forecasts. That’s the way the system is mandated to work by parliament. And the OBR have set out the assumptions that they make; they assume that we will get a negotiated exit, a free trade – an average type free trade deal, and that’s what the budget is based on. If we get a better deal than that there’ll be an upside. If we leave with no
deal we’ll be in a different set of circumstances and it would
require a different approach, a different response.

AM: Would it need an emergency budget next year?
PH: Well, one of the things that I have done and I said a few
weeks ago in Birmingham that I will continue to do, is maintain a
fiscal buffer as a reserve of borrowing power against my fiscal
rules, so that if the economy, as a result of a no deal Brexit, or
indeed because of something else that we haven’t anticipated,
needs support over the coming months and years I have the
capacity to provide that support. So if there was an unexpected
turn of events, the right thing to do would be to revisit where we
are, decide how best to respond – that depends on what markets
are doing, depends on the circumstances of the moment, but the
important point is I have got fiscal reserves that would enable me
to intervene.

AM: You’ve set money aside in the past. Are you setting more
money aside now?
PH: Well you’ll see tomorrow what I’m setting out and what the
fiscal reserve looks like going forward.

AM: The Treasury very helpfully model the overall economic effect
of different deals, and some kind of Norway-style, quite close to
the EU deal meant a 2.7 per cent, I think – 1.6 per cent fall in our
national wealth over time. And then a free trade deal, which many
Conservatives want to see, meant a 4.8 per cent, nearly five per
cent fall. But the final one, the no deal one, meant 7.7 – 8 per
cent. WTO rules, an eight per cent fall in our national wealth. A
really substantial fall. When you did that, you did not model the
Prime Minister’s Chequers compromise, that deal. Have you
modelled it now?
PH: Well, first of all let me just say these are not Treasury
models, this is a cross-Whitehall group that comes from all the
relevant departments.
AM: Better than the Treasury.
PH: Including DEXU and Department for International Trade, the Foreign Office, Home Office and so on. And these were preliminary figures that came out earlier this year. That modelling work is ongoing and we’ve made a commitment that when we come to parliament with a deal for a meaningful vote we will publish the relevant information that parliament will need to see to understand the deal. And that will include modelling the deal itself. Of course we didn’t know back in February what the deal was going to look like, but we will certainly model the deal that is presented to parliament.

AM: Those are presumably roughly speaking right. No one can know for certain, this is crystal ball gazing, but roughly right. And at that point we will know what the Chequers, or some version of the Chequers deal would do.
PH: You’ll have a comparable number for any deal that is negotiated with the EU.

AM: Why haven’t you done it now? I mean, you’ve done the others, why haven’t you done Chequers?
PH: We’re doing all sorts of internal work, but as the Prime Minister’s said many times, when you’re engaged in a negotiation it’s generally a good rule not to publish all your own analysis of the different outcomes. That gives rather a lot of information away to the other side.

AM: Alright. Can you tell us, very, very generally if getting a deal on the Chequers model would make this country worse off?
PH: Getting a deal that allows us to continue trading with our European neighbours with low friction at the borders and low friction behind the borders will minimise any negative effect on the UK.

AM: There will be a negative effect. We’ll be worse off.
PH: It will minimise any negative effect. Now, whether there is overall a negative effect or a positive effect I can’t say. That will be for the modelling in due course to show.

AM: Can I ask you about something you said to Bild am Sonntag, the German newspaper, a year ago. You said if we get no deal we’re going to have to go for an alternative economic model. And there are many in your party who would like to see you say now, ‘right, if there is no deal we will slash corporation tax and we will go in what’s called the Singaporean direction, and it’s time to start planning and talking about that.’

PH: Well, first of all we are planning for a no deal scenario. We’re doing lots of contingency planning, which John McDonnell was just complaining about, but that does involve pushing a lot of contingent legislation through parliament so we are ready for any outcome from these negotiations, including – although I don’t hope or expect it will occur – a no deal situation. But what I was saying to Bild am Sonntag a year ago was nothing other than a statement of the blindingly obvious. If our businesses are no longer able to trade with European Union neighbours, if their supply chains are cut off, they will have to find different markets and different ways of doing business. And of course the government – any government – would want to support them in doing that and ensure that we do everything we can to facilitate what will be a very big transition in the way the UK economy works. Because at the moment a very significant proportion of our exports go to the European Union, not as finished products but as components in complex supply chains, and there isn’t another ready market for those. A chap who’s making widgets to go in a BMW gearbox in the West Midlands can’t necessarily just start selling those same widgets to Brazil. It’s part of a long-established supply chain business, and the economy will change, it would have to restructure itself over a period of time and that will be a fairly major transition.
AM: And big changes for the Treasury, big change in direction for the Chancellor, and you are thinking about that and preparing for that if necessary?

PH: Of course we are. One of the things that we’ve said consistently is that although we are working incredibly hard right now to get the best possible deal done with the European Union, of course we have to plan also for the possibility of no deal.

AM: And in those circumstances it would be a big shock to the system. John McDonnell has said if you were being responsible you would say and promise people right now there will be a deal, under all circumstances, I Philip Hammond, sitting alongside Theresa May will get you a deal, I promise you. Because the alternative is too bleak.

PH: No one is more committed to getting a deal that me and the Prime Minister. We’re absolutely clear that this is in the best interests of Britain and the British people. But we can’t give an absolute guarantee because there have to two parties, it takes two to tango.

AM: So you still don’t know if you’re going to get a deal.

PH: Of course we can never know until we’ve actually done the deal. But everything tells me that it is very much in the interest not only of the UK but also of the EU – everything I hear tells me that the 27 member states want a deal done with the UK. But of course we’re in a negotiation, of course there’s some brinkmanship going on.

AM: It’s very confusing for people, because we’re in, as it were, still inside the EU at the moment, then there’s a transition period or an implementation period, and a suggestion that might go on for another three months or so, that was what the Brexit Secretary told me last week. And then presumably we’re in the new world. At the end of that transition period are we finally
completely in the new world outside the EU or is it more complicated even than that?

PH: Well, the plan is to negotiate a withdrawal agreement which takes us through a transition so we have a smooth path from where we are now to a future agreed relationship which will be our stable state, as it were, for our future relationship with the European Union. And that will be a process to get from where we are now to that new future partnership arrangement.

AM: So there won’t be a backstop and a further period of limbo after that transition period?

PH: We hear a lot about the concept of a backstop. What the European Union and the Irish government, in particular, are very exercised about is that there should be a guarantee, if you like, an insurance policy that whatever happens we won’t need to revert to having a hard border inside the island of Ireland, and that’s one of the lead issues.

AM: This could go on until we’ve both got long grey beards, many, many, many years in the future, couldn’t it?

PH: Well, I don’t believe that. There’s a lot of stuff talked about the possibility of being trapped in a backstop and so on, as if that was something that the European Union wanted. I can assure your viewers that the European Union itself is adamant that the backstop cannot be a long-running thing. It’s got to be a temporary period.

(ends)