

Ministers Reflect Philip Hammond



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Biographical details

Parliamentary history

1997–2019: Conservative MP for Runnymede and Weybridge

Government career

2016–19: Chancellor of the exchequer

2014–16: Secretary of state for foreign and commonwealth affairs

2011–14: Secretary of state for defence

2010–11: Secretary of state for transport

Philip Hammond was interviewed by Tim Durrant and Dr Gemma Tetlow on 4 November 2019 for the Institute for Government’s Ministers Reflect project.

Philip Hammond reflects on what he learnt during his nine years in government. He discusses the challenges facing the four departments he led, his relationship with Theresa May and how Brexit affected the work of government.

Tim Durrant (TD): Let’s begin by talking about when you first entered government after the 2010 election. What was your first day as secretary of state for transport like?

Philip Hammond (PH): Mostly focused on the media, I seem to remember. What we were going to say to the media and what I was going to set out as my vision. I hadn’t expected to get that job, and probably transport was not my specialist subject, so we had to do some pretty quick thinking about what I wanted to say to the media, and where or how I wanted to position myself. Which I remember very well. The story that came out was how I was a Jaguar-driving car lover, which wasn’t quite what I intended! But I certainly intended to signal that the era of bashing the motorist was over.

TD: Did David Cameron give you any guidance as to what he was hoping to do in transport?

PH: Yes, he said one thing to me, he said: “Get HS2 [High Speed Two] done. Get out there and promote it like mad, get it done, get it through, that’s your only task.”

TD: A big infrastructure project can be quite difficult and controversial, so how did you go about selling it?

PH: Well, I wasn’t, until that moment, a paid-up fan of HS2, I was fairly agnostic on it. So, I went away and looked at the project and talked to a lot of people – people in the Department [for Transport], but people beyond as well. And I did in fact convince myself fairly quickly that this would be a transformative project and, as I came to say, one that would change Britain’s economic geography as comprehensively as the original railways changed Britain’s economic geography. And it very much became an icon of trying to mend the gap between the north and south, and I believed – and I still do believe – that for all the other issues around the project it will have that effect. It just brings the north and south physically closer together in terms of travel time. But of course, on the other side, the challenge for me was that the stereotypical view is that the benefits accrue to cities in the Midlands and the north and the pain is taken by Conservative heartland constituencies in the Chilterns. And that was really the political challenge, how to manage that. And there isn’t a way of finessing that. Some of my colleagues, like Cheryl Gillan [MP for Chesham and Amersham], I fell out with badly over this, and we’ve never really patched it up. We get on fine, but she’s fundamentally spent the last decade seeing transport politics through the prism of the impact of HS2 on her constituency.

TD: When you started as transport secretary, what was the day to day like, and what support did you get from officials?

PH: Officials were very good, very supportive, but I quickly found that I needed to assert my way of wanting things done. It's well-rehearsed that you have to take immediate control of the diary, otherwise civil servants will fill it with rubbish. Which they absolutely will! There's an 'if in doubt hold a meeting' culture. So, I introduced a rule first of all that there could be no more than 10 people from the department in a meeting. Which you wouldn't think would be particularly controversial, but my God the ructions that caused!

I also introduced a rule that said that I would allocate blocks of time for the department to schedule meetings. The private office starts with the concept that the working day is entirely available for them to throw stuff at, and that the real work you just have to find time to do some other time. And they're also adept at putting in 45-minute meetings at 45-minute spacings, so you end up with a day which is pepper potted with meetings and you can't get anything done at all. So, I tried to consolidate into blocks of time. I think I allocated three afternoons a week for external meetings and two mornings a week for internal meetings, and then the other blocks of time were for things that I wanted to initiate rather than things that they wanted to initiate. I've evolved my system along the way, but that's how I started.

I also, in the Department for Transport, initiated oral advice sessions, where instead of giving me great printed stuff, they brought in the relevant civil servant or two who would tell me what they wanted to tell me about and I could ask them questions straightaway, and we could settle the thing there and then, or determine that I needed more information. So, the default system of 'here's a five-page submission, read it, annotate it and then they'll provide another two-page submission answering the questions', I found pretty inefficient, to be honest. And I've kept something like that system up. I switched the Treasury and my guess is that they still do this even though I've gone – to what they call 'paragraphs', where twice a day I get an update of relatively minor things. Things I need to know about, but which can be summarised in a paragraph. So, they give me two or three pages of single paragraph advice on things. Whereas when I started, the stuff was coming in as full papers on everything, and it was just impossible to manage. The other thing I did was have a three-sides rule for submissions. If you can't get it on three sides, then you have to come and present instead.

TD: How did officials react to these changes?

PH: Well, I think they were not keen at first. They were sceptical, but my understanding is that they actually came to appreciate the paragraph system, because it enabled them to force people in the department whose default was just to write a memo and send it up, to try to reduce everything down to the essentials. Because otherwise it was the private office that had to paraphrase this stuff. Sometimes I'd go back and say I wanted to see a full note, but as often as not it was just "okay fine, noted". So, it's all about

managing the flow of information both ways. Of course, the private office – I guess in all departments, but certainly in the Treasury – sees itself very much as a mechanism between the department and the chancellor, not as a part of the department. They see themselves as facing both ways.

TD: Before you came into government, you'd been in the shadow Cabinet for five years. Did that help you prepare for being a minister?

PH: No, not really, because the level and quality of briefing you get as a shadow minister is not comparable to what you get in government. So, the skill set of being able to pick up a brief and go straight into a meeting or deliver a speech – or maybe not give a speech but speak at a meeting – is something that you acquire along the way. The other skill that I acquired very quickly and against the odds when I became a minister was the ability to read in the back of a car, which I'd never been able to do as a child! If you'd asked me in 2009, I would have said: "I can't do that, I get car sick." But I forced myself to do it and found actually it was really quite easy. If I hadn't done it, I wouldn't have been able to function, it would have been impossible.

TD: You mentioned that you weren't expecting the transport job. Do you think that had you shadowed the Department for Transport, it would have made the transition easier?

PH: Well, it would have made it different because I obviously would have come in with a lot of preconceptions. I didn't have a lot of pre-established policy positions in relation to transport other than my personal prejudices. For example, that the speed limit on motorways should be 80[mph] not 70, which I see has now found fashion again! I got the Cabinet to approve that, but we never actually managed to get it implemented.

TD: You became secretary of state for defence after transport. What was that conversation like with David Cameron? How did that play out in the reshuffle?

PH: It wasn't a reshuffle, [Liam Fox](#) resigned. Both of my next two roles were not reshuffles, they were on the back of colleagues resigning. What happened was, I got a call from someone in David Cameron's team – actually, I think it was somebody in the Implementation Unit [of the Cabinet Office], God knows why – a few days before to say: "You probably sense that Liam Fox may well be getting to the point where he's going to step down and we're thinking about how we would fill that role. No promises, no commitments, this is just to get an idea that if you were offered it, would you be interested?" And I said: "Of course I would."

And then, I got the call. I've said this many times publicly, but it was bizarre because David Cameron called me from a train and the call cut out about 10 times, so I knew what he was trying to say to me, but he wasn't able to get it out. And I couldn't send him a text – actually, I couldn't send him a text because in those days we didn't have phones that did texts! I couldn't say to him "it's alright, don't worry, I know what you're going to say", because obviously I wasn't supposed to know what he was going to say. So, it was rather

painful. And I remember that it was a Friday evening and I was going to [Damian Green's](#) constituency to speak at a dinner and I was late because I had to stay in my house in Surrey until David Cameron finally managed to find the spot where he could string five words together to me and tell me, and then I got all sorts of contacts from various people. So, I drove myself to Damien Green's constituency and I was incredibly impressed that they had re-printed the menus to name me as secretary of state for defence on the menu cards! And that was my introduction to close protection as well, so I drove myself but when I got there, I found the police team waiting for me at Ashford. And they escorted me back, although I was driving my own car.

So, then I went into the MoD [Ministry of Defence]. The MoD was very efficient, as you would expect, and laid on a Saturday induction. So, I went in at 9:00am on the Saturday morning. Bear in mind at that time we were fighting two military campaigns – actually, three: Afghanistan, the tail end of Iraq and we were on active operations in Libya. So, the induction was quite urgent because there were secretary of state decisions to be made in relation to battlefield events. I had the induction on Saturday all day in the main building there, struggling to assimilate the names of places I'd never been to. I then went to Wootton Bassett the following day with the prime minister for the dedication of Wootton Bassett as Royal Wootton Bassett. We did that on the Sunday, and I had General Sir Richard Barrons with me in the car on the way, giving me a briefing on Afghanistan, the history of Afghanistan, the Sykes–Picot [Agreement]... or was it Sykes–Picot? No, it was somebody else's line in Afghanistan. And then, on Tuesday, I had to make the quarterly statement on Afghanistan, a country I'd never visited and knew nothing at all about, to Parliament. So, that was quite a challenge. I spent the first three days basically learning about Afghanistan and the campaign in Afghanistan.

TD: Presumably that's not knowledge you can acquire outside that role?

PH: Not easily, no. I mean, I might have known, but didn't, something of the geography and history of Afghanistan, but obviously we had 112 operating bases in Afghanistan at the time, FOBs, forward operating bases, and patrol bases, and they're bombarding you with the names of all these bases and the headquarters and so on. It was a fascinating experience. The MoD, in terms of operational efficiency – well, maybe efficiency is the wrong word given the sheer belt and braces approach... it's the opposite of efficiency, actually! But there's just nothing that compares to it anywhere in Whitehall. If you need a pair of boots, they will have three pairs just in case there's anything wrong with the first two. Everything is absolutely nailed down. And of course, there is a very distinctive culture because of the mix of civilian and military personnel working side by side.

TD: What was it like managing the relationship with the military, as the point person in government for them?

PH: It's a different relationship because the military personnel are superficially very respectful and disciplined. You won't find any other departments where people stand up when you walk in a room! But they do, military and civilians stand up when you walk in the room in the Ministry of Defence. And nobody ever challenges anything. That's unfortunately one of the downsides of the military culture, that if there are six military people in the room only the most senior will ever speak unless invited to speak by a more senior officer. So, you have a very hierarchical structure, and very often the more junior people in the room are the specialists who know about something, but they'll always defer to the brigadier or the general who probably knows absolutely nothing about it at all. So, you learn how to work with the military people, and then you call a more junior person back afterwards, to give you a supplementary briefing. And that's when you find out what's really going on. But when the chips are down, they stick together in service siloes. So, if you don't like what you're hearing from the army, you can always have a chat with the navy because there will be a different view! There are four views on everything in the MoD, there's the navy, the air force, and the army view, and then there's the civilian view.

TD: You moved to the Foreign Office after William Hague's [then Foreign Secretary] resignation in 2014. How did that compare to the MoD?

PH: It's also a very well-oiled machine, the Foreign Office, but in a different way. The most immediate thing that one notices is that all private office roles are one grade higher than everywhere else in Whitehall. I don't know why, but it's just a Foreign Office tradition, so the private secretary will be a grade higher. And that shows. You're dealing with people of a significantly higher seniority; the private secretary is ambassador-level, essentially. And the Foreign Office has its own way of doing things. I knew quite a lot about it because there was a lot of interaction between the MoD and the Foreign Office. I treated the foreign secretary, when I was defence secretary, as my policy owner, as it were. I saw the MoD's role as delivering the capability for the policy owner. Actually, it was probably the NSC [National Security Council] that was really the policy owner, but I interacted with William Hague. I didn't really see it as the MoD's responsibility to develop our strategic policy, that's part of foreign policy. The MoD's responsibility was to develop a doctrine for delivering the military component of strategic policy. And obviously, a lot of my time at MoD was dominated by ops because we were winding down Afghanistan throughout the period.

The Foreign Office, of course, was – and I think still is to be honest – suffering from something of an identity crisis, because it is one of the great and most capable departments, but it's been hollowed out. It's been hollowed out by the evolution of a very presidential operation in Number 10. Major foreign policy announcements invariably get made in Number 10, and the major foreign relationships are invariably held in

Number 10. At the same time, the Cabinet Office had sucked the European responsibility out of the Foreign Office, so our most important set of economic relationships were held in the Cabinet Office, essentially in the Number 10 orbit as well. I did spend quite a lot of my time trying to force the Foreign Office establishment to come to terms with the reality of the changed power structure and to think about how it was going to deal with that, how it was going to assert its influence. Because the irony was that the Foreign Office still held much of the most capable thinking in all these areas. Supplying advice to Number 10 was actually an important part of the way the Foreign Office continued to assert its role. I felt it was important to make sure that that advice flowed in the correct direction, which, in my view, was upwards to the foreign secretary's office and then across to Downing Street. Whereas Downing Street's habit was to intervene at operational points in the department, to try and suck out information and advice directly. So, we had some disagreements about that, but we did, I think, prevail and ensure that everything went up and across, and with anything coming back, requests came in at the top and went down.

But the Foreign Office is still – probably even more so now – facing a crisis of identity, because the creation of the Department for International Trade further undermines the Foreign Office's role. It remains to be seen whether the current government will rebuild that role by clearly clustering the Department for International Development and the Department for International Trade under the Foreign Office and having a dotted line relationship between the Foreign Office and the Ministry of Defence as well. Which is what I would do, I think.

TD: The DfT [Department for Transport], MoD and Foreign Office are all very different departments, but all have big ministerial teams. What was your approach to managing your junior ministers?

PH: The portfolios were, to quite a significant extent, dictated by Number 10, so where we had some flexibility there were some, shall we say, egocentric junior ministers who had cut deals with Number 10 at their appointment about what role they would have. It was the same in the Ministry of Defence. And sometimes people's assessment of their capabilities didn't align accurately with their demonstrated capabilities, and there were problems where we had to shuffle responsibilities around to make sure that the people who were capable of doing things – and most importantly, capable of making decisions – were in the roles that had lots of decisions to make. In terms of ministerial teams, I didn't find in any of my departments that the collective ministerial team meeting was very useful. We did do it in the Treasury once a week. In the Ministry of Defence, we had a weekly meeting, known by some acronym which I now can't remember, which had all the senior military as well as all the ministers in, and that sort of substituted for our weekly planning meeting. But I preferred to see individual junior ministers on their own, to get weekly reports from them, which I did in both the Ministry of Defence and the Foreign Office. I didn't do it in the Treasury.

TD: Because you had this joint meeting?

PH: Well, because it was a slightly different structure. In the Treasury, the different ministers had very different roles. It was, to be honest, quite siloed. So, the City minister would have his role and I would meet with him to talk about City issues; I'd meet with the chief secretary to talk about public spending issues. And all junior ministers did lobby me outside of their responsibilities on general issues that they were interested in, but I tended to do it bilaterally.

Gemma Tetlow (GT): Then, in 2016, Theresa May became prime minister and appointed you chancellor. How did that conversation go?

PH: She said "I'd like you to be my chancellor", and I said "Good, thank you!" It wasn't an entirely unexpected appointment. She had said nothing to me, because that's not her style, but all the logic pointed to it. Although it's difficult to remember this now, I had a good relationship with Fiona Hill [Theresa May's then chief of staff], who was very close to her, so we had talked about post-transition possibilities. So, it was not entirely a surprise to me. I remember asking her whether she planned to make any changes to responsibilities or roles or privileges, just to make sure that I wasn't being offered a job that might not have been quite what it seemed. She said no. She did of course then appoint a deputy prime minister, which was not quite living up to the spirit of what she'd said to me at that time, but of course some of my colleagues subsequently found that they'd taken on roles – most obviously the foreign secretary – without realising that their portfolio was going to be heavily clipped by the creation of DExEU [Department for Exiting the European Union] and DIT [Department for International Trade]. So, I think I asked essentially the right questions. We had a short discussion about our shared views on fiscal discipline and the need to get the deficit down still further, and our similarly shared view that the targets my predecessor [George Osborne] had set were probably not realistic or achievable. And we agreed that I would go away and look at re-setting how that was going to work.

GT: How did your relationship with Theresa May work during your time as chancellor?

PH: My relationship with Theresa was always fine. Theresa and I, contrary to various things that have been published, were not great friends beforehand. We were not old university pals, I never met her at Oxford, even though we were exact contemporaries. I think I met her husband, but I never met her. And we had a working relationship as people who've been running different departments in the government, and generally we'd been allies on a number of issues where we were pushing for the same things. But we also had a frank disagreement around immigration policy, where I was very much on the side of my predecessor as chancellor, in wanting to see the full economic potential, particularly of foreign students, being exploited, and she didn't want to loosen the system in that way. So, we had a balanced relationship, I would say.

To be honest, I think Theresa had quite a narrow circle of people from whom she selected, and I think I fitted the check box for chancellor, and I'd obviously been shadow chief secretary for quite a number of years. I think was shadow chief secretary for probably three and a half years in total, so I had some experience in the area. We had some difficult conversations over our time in office together, some of them over fiscal issues, but I don't think that's unusual. I think all prime ministers want to spend more money than most chancellors think is prudent. And of course, we started from different places on Brexit. Well, when I say that, we started from the same place but Theresa, very early on in government, decided to define Brexit in quite hard terms and that wasn't my vision of where we should go, so I made it my mission to try to persuade her over time of the folly of a hard Brexit and the wisdom and economic benefits of a relatively softer Brexit. A mission in which I think collectively we succeeded, in that I think by the end she was pretty convinced that a hard Brexit would be very bad for the economy, bad for the UK's security and defence, and bad for the Union. But that wasn't where she started in October 2016.

GT: Had you been involved in that early direction setting with Brexit?

PH: No. I mean, I think all of us only really discovered where she was going to go when we heard the [party] conference speech that she made in October 2016. I remember sitting in the conference hall saying to myself internally: "The cameras will be on your face, do not twitch a muscle." *[laughter]* So, when you look at colleagues looking like idiots, it'll be because they're thinking something like that: "I must not change this rictus grin on my face."

GT: When you started at the Treasury, how did the department adapt to a new chancellor with new direction?

PH: I wouldn't say it was a new direction, I would have said I was a continuity chancellor. Obviously, I was George Osborne's shadow chief secretary, at the time when he was developing the economic policy for what became the coalition government. I'd been involved at the centre of that policy formation, you know, the kind of stuff you do in opposition. We did lots of roundtables, lots of meetings of economic advisers from across the city and academia. So, I'd been there at the beginning. There was no bit of George's policy that I felt was alien to me. Okay, in government there were obviously things that went better and things that went less well, and I'd observed things that George had done that he couldn't really back away from, but which hadn't quite worked out as planned. The change of chancellor was an opportunity to move away from some of that, because clearly the balanced budget target didn't look incredibly realistic at the time. It would have meant a further round of squeeze, particularly on welfare, which would not really have been deliverable either politically or legally, because we were already being pushed back in the courts on various welfare decisions that had been made. So, I think we made a virtue of necessity in announcing a different timescale. I've never been obsessed with a balanced budget and, to be honest, I don't think George was obsessed with a balanced

budget, it's just that when you start with a 10% deficit, you need something fairly clear to focus peoples' minds. And so, we set the aspiration to get to a balanced budget in the middle of the next decade – I think signalling that this was a direction of travel rather than a firm, hard target – and then we set interim targets for 2020, which gave us something to anchor to.

GT: And did having been a minister in the big spending departments affect your approach as chancellor?

PH: Yeah, I knew where all the bodies were buried in the MoD, and I knew how the MoD managed its budget! Obviously, my relationship with the MoD as chancellor was somewhat different because I knew exactly how it worked. The nature of the MoD's budget, because so much of it is on a very long-term capital equipment programme, means there are various ways in which that budget can be cut and presented, depending on who you're making the case to at the time. And when the then chancellor asked me to find some quite chunky sums to enable him to meet targets that he'd set, we were able to do that by some re-profiling. And probably MoD more than any other department has got the ability to re-profile projects to manage budgets.

GT: One of the changes you made a chancellor was to move from two fiscal events a year to one fiscal event. Can you say a bit about that and your reflections on that change?

PH: Yes. I had felt for a long time from outside of government that it had become ludicrous that the budget had morphed into a pre-budget statement, which in itself had grown into being almost a second fiscal event. Well, it had grown into being a fiscal event, and that was inappropriate for business and tax payers. It meant continuous revolution, which was not helpful. Every respectable and responsible organisation in the world had recommended us to move to a single fiscal event. I'm sure some chancellors would love the opportunity to do two big 'rabbit out of the hat' moments, but it's incredibly difficult to do and there's a huge amount of work even to do it once a year. And it shows the rhythm of the Treasury's operation. Having to do two big fiscal events a year effectively made the Treasury pretty dysfunctional. It meant that business-as-usual business really didn't get done, because you had the summer period, then you were straight into the autumn statement, and then it was Christmas. You had a really very short period – January and February – and then you were heavily into budget preparation and the finance bill and then it's the summer again. It just made the department dysfunctional, so I think it was the right decision. I hope nobody will be tempted to move it back, although it looks as though we're going to have, by default, a spring budget or an early new year budget this year.

GT: Your last spring budget in 2017 infamously contained the proposal to increase Class 4 NICs [national insurance contributions], which was then reversed. How was that decision made?

PH: What, the decision to do it or the decision to reverse it?

GT: Both.

PH: Nobody is going to believe this, but it remains true. It was extensively discussed with the PM's [prime minister's] team, between me and the PM directly. We were aware of the risks that this would not go down well with the self-employed, but I think we felt that, in the interests of fairness, it was something that needed to be done. We deliberately didn't go for raising Class 4 NIC to the equivalent of Class 1, and we did it on a really rather modest basis. But in all of the discussions we all completely missed that there had been a manifesto commitment to not raising national insurance contributions. The reason we missed it was that George Osborne had subsequently trumped his own manifesto commitment with a NI [national insurance] change, which he legislated for. Because that had happened, and we'd had NI legislation, nobody but nobody – special advisers, civil servants – looked back through the legislation to see what we had actually promised. And it was genuinely a surprise when, during the budget, Laura Kuenssberg [BBC Political Editor] first tweeted that this appeared to breach a manifesto commitment. And we then had some very urgent discussions about the position that that had left us in and what we were going to do about it.

GT: Do you think that's why it was so badly received, because of the manifesto breach, rather than the policy itself?

PH: Yes. I think if it hadn't been for the manifesto breach, we would have accepted that *The Sun* [newspaper] was going to be hostile to it, you know, the white van man campaign would have happened, and I would have faced it down. We always knew it wouldn't go down well with *The Sun*, and Theresa also knew that we were going to get push back, and we accepted that we were going to deal with that. But when it became clear that there was a breach of the manifesto, we both felt that, actually, we could not sustain a breach of the manifesto. If that was the way it played out, that the media and the world saw it as a breach of the manifesto, then we would have to do something about it. We tried to argue that it wasn't a breach of the manifesto, but it was clear we were getting nowhere with that argument and therefore we had to reverse it, which was very painful.

GT: What's your reflection on how fiscal rules constrain government's behaviour, and is government right to keep changing the rules in light of new information?

PH: Well, changing the rules in the light of new information would be a sensible thing to do. If the world changes around you, you should consider changing the rules. But changing the rules because you want to behave differently is a different thing, and I am rather less enthusiastic about that. I didn't change the fiscal rules during my three years, I set new fiscal rules in the beginning, in the autumn statement of 2016, and I didn't ever

change them. They haven't been changed to date. It's clear my successor will have to change them because he will breach them, and it would be better that he changed them rather than just breached them. Breached them by policy, not by economic circumstances. Obviously, then, he will have to set out a guiding philosophy. My guiding philosophy was that our debt is too high, it's not safe, and it wouldn't allow us enough head room to deal with another fiscal crisis. So, he will have to describe a coherent philosophy that underpins the decision to allow debt, excluding Bank of England, to increase rather than decrease, and a logic that says that you can safely run public deficit at 3+% of GDP. That's not something that I felt particularly comfortable with.

Obviously, we always recognised that if there was a disorderly Brexit, there would have to be a fiscal response which would mean that rules would need to be re-set. But we'll have to see what the current chancellor does and where we end up at the end of the election campaign in terms of fiscal commitment. Some of the commitments are not quite as free spending as they sound. The announcement yesterday of an end to the benefit freeze is already priced into the forecast, it was always clear that the benefit freeze would end in April 2020 and I confirmed that in the spring statement speech this year. It would have been impossible to continue it; it was becoming politically and legally unsustainable. Having sustained it through to April 2020, to have actually got a four-year freeze to work, I think, is quite a remarkable achievement, given the political and legal pressure. And it has reset the dial, and it's reset the relationship between average earnings and benefits in a sensible way. Benefits are still much higher in relation to average earnings than they were at the beginning of Gordon Brown's tenure, but the gap has closed significantly compared to the end of Gordon Brown's tenure.

TD: How did Brexit affect your time in your role as chancellor, but also in government more generally? Brexit has dominated everything in politics in the last three years.

PH: It absolutely has, and in terms of the management of the economy, it's effectively placed much of the proactive management of the economy on hold. Investors have been on hold, businesses and business decisions have been on hold and therefore a lot of what I would like to have been doing to stimulate growth in the most exciting areas of the economy has also been, to some extent, on hold. You know, fintech [financial technology] has been growing nicely but the services sector, the mainstream services sector, has been hedging its bets. A lot of focus and a lot of capital has been used in preparing for the possibility of a no-deal Brexit, which has distracted from other opportunities. Mainstream manufacturing, to the extent that it's tied up in pan-European supply chains, which most of it is, has been very nervous about making further commitments to the UK. So, a huge amount of time and political capital has gone into seeking to reassure foreign investors in particular, but also domestic business opinion. Although we've made some important steps forward on addressing some of the structural issues around productivity and performance, we haven't seen any benefit from it. Because a combination of low investment, very high levels of employment skills shortages and labour hoarding, and uncertainty about future migration policy has actually seen productivity falling, in a way

which I don't think reflects the underlying performance of the economy. But it reflects the response of employers and firms to the uncertainty that they're facing.

TD: What was it like being the chancellor assessing department bids for extra money for no-deal planning? What were the big issues from the Treasury's point of view?

PH: Well, the Treasury's first port of call on this kind of thing is always to ensure that public money is not being inappropriately spent, in particular wasted. It was always clear that there were things that needed doing whether we left with a deal or left with no deal, and those investments needed to be made. IT systems for HMRC [Her Majesty's Revenue and Customs], for example. There was, however, also pressure for demonstration spending. Spending which would have been nugatory in the event that we did a deal but which a lot of my colleagues wanted to see spent either for domestic political purposes or in order to try to put pressure on the European Union, to convince them that we were preparing for a no-deal exit. I had to balance the need to do some of this spending with the need not to be crucified by the PAC [Public Accounts Committee] after the event, assuming we left with a deal – which I always assumed we would – for having spent billions of pounds of taxpayers' money on things that were not necessary and might be presented as purely politically motivated, which would have been a very bad place to be.

I think we got it about right. We didn't do a lot of pure demonstration spending, though one might take a view on the booking of ferry capacity in early December 2018. We did everything that needed to be done in terms of preparation, and departments in fact were quite slow to spend money that had been allocated to them. The problem wasn't money, the problem was real resource, and the bottleneck was suitably skilled, trained, integrated and security cleared people to do the work. We had a long period of time when the money, despite press comment that I was blocking it, was available but departments were unable to spend it because of the physical constraints. And then, a decision was made to start moving people around in Whitehall, and that was the critical breakthrough point. Actually, very few people ever moved, but the knowledge that people were going to be moved from non-Brexit engaged departments to Brexit-engaged departments started the Brexit departments doing spending and releasing their budgets. And I, to this day, have never seen evidence of a project that needed to be done but wasn't because of lack of financial resource.

Now, there will always be a judgement about recruiting and training personnel, and a balance has to be struck. Clearly, you can't recruit tens of thousands of people and have them just sitting there waiting in case they might be needed, but you've got to have enough people trained that you can scale up quickly in the event of need. And I think we broadly got it right. We spent £4.5 billion on no-deal preparation, most of which will have been spent on things which deliver value in the end, assuming we end up leaving in January with a deal, which I assume we will now. Most of that spending will have delivered value.

TD: What advice would you give to a new minister on how to be effective in office?

PH: It does depend on the department. My advice to my successor in the Treasury would be that your ability to influence things across government rests on the Treasury's need to have signed off on projects of every type. Now, that doesn't mean you get a veto, and nor should it, but it does mean you get an early opportunity to look at policy and to negotiate with spending ministers to get quick and clear passage through the Treasury. And it's often possible to get sensible tweaks to policy. You also become, by default, the owner of the cross-departmental interest, because Treasury ministers are seeing, let's say, Defra [Department for Environment, Food and Rural Affairs] proposals before BEIS [Department for Business, Energy and Industrial Strategy] ministers might see them, and will be in a position to spot what might be a problem for BEIS before BEIS ever flags it. So, there's quite an important responsibility there.

Generally, for ministers in spending departments, I would say cultivate the relationship with the centre. This is quite a big ask but understand and seek to manage rather than merely resent the power of the centre. The Cabinet Office, Number 10, and the Treasury are a fact of life and all ministers in all spending departments will have marks on their furniture where they've kicked something because they got a message saying the Treasury doesn't like this, and they will have said: "What the --- has it got to do with the Treasury?" And the answer is "everything". But when you're a minister in a spending department, that's not a welcome message. But I learnt in the Department for Transport that the Treasury transport team actually had some really very important skills, and in some respects understood some of the projects better than the transport department people did themselves because they were coming at it from a different perspective. By plugging into the Treasury team and meeting with my Treasury oppo [opposite number], who ironically later became one of my private secretaries, I was able to understand more about the projects that my own civil servants were presenting to me and to challenge them.

Obviously, the relationships in Cabinet are crucial, and helping other ministers to fight their corners is always an exercise in building capital for the future; it's quite transactional. But, above all, I suppose it's having a good, positive relationship with civil servants. I don't know if you're interviewing civil servants, and you'll be in a better position to judge than me, but I've always felt that probably by instinct I was a civil servant's politician in the sense that I didn't go into government with the mindset that civil servants are bound to be wrong, and anything the civil service wants to do is wrong by definition. Which I think is a mindset that some of my colleagues, particularly in my party, have had. I've always found civil servants admirably neutral, well informed and willing to do whatever work you direct them to. So, you should give them a clear steer, they will go away and re-work a proposal to reflect it. Taking it away from them and giving it to SpAds [special advisers] to work up is not a credible option, in my opinion, because SpAds just don't have enough resource.

And of course, setting the relationship between SpAds and civil servants so that it is a positive one is important. I would say, in the Treasury, I think that the SpAd team works pretty seamlessly with the civil servants. There wasn't a sense of a standoff, they used SpAds and the SpAds used them to get things done, and I encouraged that. I think it was the same in MoD and the Foreign Office. I'm not sure that in the transport department I'd yet really quite got the hang of how to use SpAds effectively. Spads market themselves a bit as your secret weapons against the department, and there's definitely a genre of SpAd who encourages the idea of the inner office as a bastion. I mean, Michael Gove [Chancellor of the Duchy of Lancaster and former secretary of state for education] in education would be the classic example, with Dominic Cummings [Michael Gove's former special adviser, now special adviser to Boris Johnson] manning the ramparts and constantly at war with the department. That wasn't really the kind of relationship that I tried to have, and I don't think I did have it anywhere. I don't think I was ever conscious of a department trying to do battle to change my views.

Generally, I would work with the department and they would work within an overall steer that I gave them. I mean, my experience of the civil service is that it works very, very well and I miss it very, very much! Trying to do what we've been doing over the last three months [in Parliament] without the benefit of the civil service is quite a salutary experience. I'm having to learn to distil usable information from raw material, which I haven't had to do for nine years - I've had had everything distilled for me, those famous paragraphs.

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