

Funding the Future

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As the [FT reports this morning](#):

Chancellor Rishi Sunak is set to rebuff City of London calls for a new state-owned body that would refinance tens of billions of pounds of coronavirus loans issued to UK companies.

A task force called the Recapitalisation Group, led by trade body TheCityUK and advisory firm EY, has asked the government to create a new state agency to handle the expected mountain of unserviceable debt accumulated by companies through state-backed loan schemes.

Politicians and economists such as Sajid Javid, Paul Myners and Jim O'Neill have also called on the state to intervene in order to support companies that have taken on extra debt because of the pandemic.

I support this idea, but think it does not go far enough. Nor is it bold enough. As I [have explained already this morning](#), we need a National Wealth Service. The aim would not be to negatively help recover debt, as the City plan seems to be, but to positively build growth on the foundations of new economic relationships and strategic shareholdings within the UK economy, as I suggest.

Sunak is going the absolute wrong way about this. As the FT also note:

The Treasury has dismissed the ideas around recapitalisation of bad loans, according to several people briefed on the situation. It believes banks should deal with the cost and reputational risk of chasing borrowers that default.

One official said that the public wrongly assumed that private sector debt must have “ballooned” during the crisis. “The chancellor is not convinced that this issue is a pressing one as of today.”

In other words, what the Treasury is saying is that they believe that the public is much more concerned about the level of government debt, of which they know almost nothing (the calculation of which the ONS, despite some assurances that they will do so, have yet to be able to explain to me) than they are about saving their employers and

jobs. I really do not believe that.

As the FT notes:

The government's lending schemes have provided nearly £53bn to some 1.2m companies through three programmes: £35.5bn of bounce back loans - that include a 100 per cent guarantee for small business loans; £13.7bn through the coronavirus business interruption loan scheme (CBILS) - which includes an 80 per cent guarantee on loans of up to £5m; and £3.5bn through the large business interruption scheme. This offers a partial guarantee on loans up to £200m.

Many banks are worried about a potential wave of defaults, meaning that - despite the state guarantees - they could end up pursuing thousands of struggling companies through the courts.

The Office for Budget Responsibility, the fiscal watchdog, said that about £33bn would need to be written off the value of state-backed loans in its worst-case scenario.

Let's put that in context: the OBR thinks more than 60% of these loans might not be recovered, and since most will be to some degree that means that many more than 60% of the borrowers will be forced into liquidation in the attempt to secure repayment that cannot be made.

That is the scale of the problem facing the UK economy now.

And despite this the government is insisting on repayment, which will be an action that will literally destroy much of the UK economy.

As recipes for economic suicide go this is a good one. What we have is a Conservative government apparently planning to force banks to act on its behalf to force a majority of UK businesses to close as a result of the debts that they are unable to repay the government, incurred because of coronavirus which was beyond their control, when it is within the power of the government to turn those debts into capital stakes in the companies in question that might not just let them, and the jobs that they provide, survive, but might also allow them to prosper in a way that is for the long term benefit of the country in which we could all share through ownership stakes managed for the State through a National Wealth Service.

It's not rocket science to work out which is the better option here. Indeed, which is the only option here. But apparently the Treasury can't spot the choice it has to make as yet. I think a U-turn will be forthcoming. Just give it time.