

The Treasury is planning creative destruction and the k...

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The [FT has reported](#) this morning that:

The UK government is planning to launch a permanent replacement for the £65bn Covid loans programme with new state-backed guarantees to support lending by banks to a broad range of small to medium-sized business.

They added:

Under plans still being finalised by Treasury officials, the new loan scheme could carry a guarantee of up to 80 per cent for loans of up to £10m for businesses that are deemed viable but unable to obtain finance from their lender, according to industry and Whitehall figures.

I am, however hoping that the interest rate noted in this paragraph is wrong, because it most certainly feels it:

Banks will be allowed to set the interest rate for the new loans, although the rate is likely to be capped at about 15 per cent, with bankers concerned that any artificially low state-mandated rate would in effect wipe out all other small-business lending.

I have three thoughts. First, that this is not post Covid funding, even if it is portrayed that way. This will be post-Brexit funding. Maybe their fear of a financial collapse explains the extraordinarily high interest rate cap.

Second, this scheme reintroduces the 80% cap, and will inevitably as a result deny access to the scheme to the companies most in need, who will not be able to cover the 20%, come what may. The scheme might as well in that case be seen as part of a cull of what the banks see to be zombie companies, in the process delivering the Schumpeterian creative destruction the Treasury no doubt desires whilst simultaneously giving the banks a subsidy on the safe bets.

Third, as I have said for a long time, this is the wrong approach. Companies worth saving do not need loans now. They need equity. That is what the government should

be supplying. Take stakes of not less than 25.1% to have some control. Appoint directors, including one from the workforce. Require real business plans, and monitoring. Hold the stakes in a National Wealth Service. Build for the future, and give the votes of confidence that equity provides rather than the kisses of death that extra debt burdens create in the corporate sector.

The trouble is, of course, that the Tories and the Treasury are a lethal combination. Neither understand business. And it's showing.