Bank of England alert over £36bn toxic loans

Small firms could fail to repay lifelines, new governor told

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Andrew Bailey will be offered ideas for easing the debt burden on companies

Bank of England governor Andrew Bailey has been alerted that £36bn of emergency Covid-19 loans to small businesses are at risk of turning toxic and could impede any recovery — as data this week will lay bare the damage inflicted on the economy from the coronavirus.

The warning over the "unsustainable" debts weighing down businesses comes in a report out tomorrow and is intended to kick-start a debate about ways to support 250,000 struggling companies.

The report, overseen by Aviva chairman Sir Adrian Montague under the auspices of industry lobby group TheCityUK, forecasts an explosion in lending through three government-backed initiatives — the bounce back loan scheme (BBLS), the coronavirus business interruption loan scheme (CBILS) and the scheme for larger businesses, CLBILS — to £123bn by the second quarter of next year, from £27bn now.

It estimates that between £32bn and £36bn of that lending will be "unsustainable", as loan repayments could impede companies from growing, and by next March it could contribute to a possible total of £107bn of corporate loans, which includes debt taken on before the crisis.

Healthy businesses are regarded as vital to any economic recovery. Data on Friday is set to show that GDP contracted by an unprecedented 18% in April, after March's 5.8% decline. Thomas Pugh, UK economist at Capital Economics, said the data would "tell us how deep the bottom of the recession was". Economists at Investec forecast a decline of 31%.

TheCityUK report, seen exclusively by The Sunday Times, is by the Recapitalisation Group created at the behest of the Bank. It outlines a series of ideas to reduce the debt burden on companies, including exchanging troubled CBILS for preference shares, or swapping BBLS for contingent tax instruments, which might operate in a similar way to student loans and be repaid only when certain payment thresholds are reached.

The Recapitalisation Group aims to find a solution through the private sector, but it appears to acknowledge state support will be needed. Treasury officials are weighing plans to get more pension fund money into private businesses by changing the rules on allocation of defined contribution scheme funds. Pension funds are restricted in investing in private equity and venture capital funds because of high fees, but proposals could allow greater exposure to private companies.

Speedo family's plea for help rejected

The retail empire owned by one of Britain's biggest taxpayers has failed to secure emergency funding from a Bank of England scheme that has helped foreign companies that have paid no corporation tax.

Pentland Group, which owns brands such as Speedo and Berghaus as well as a majority stake in JD Sports, has not been able to secure funds from the covid corporate financing facility, a source said.

The facility, which allows big companies to sell debt directly to the Bank, has been criticised for lending to companies such as German chemicals giant BASF, which has borrowed £1bn despite paying no corporation tax and employing just 834 people in Britain.

Stephen Rubin and his family, Pentland's owners, paid £143.9m in tax last year, placing them second on The Sunday Times Tax List.

The company had a corporation tax bill of £47.3m in 2018 plus payroll taxes of £78.4m. Pentland declined to comment.