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*From the
Minister of State*

PS/Norman Tebbit MP

Mike Pattison Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

23 July 1981

Dear Mike

You wrote to Jonathan Hudson enclosing a letter to the Prime Minister from Dr David Clark MP about the closure of North East Audio Limited, South Shields. As you know it has been agreed that Mr Tebbit should be present at the meeting in view of the NEB's substantial involvement in the company.

I attach a background brief and speaking notes on the closure of the NEB's regional role, together with a note on the South Tyneside area.

Yours sincerely

Peter Mason

PETER MASON
Private Secretary



Brief for the Prime Minister's Meeting with Dr David Clark MP,
Friday 24 July 1981

NORTH EAST AUDIO LIMITED (NEAL)

Line to take

1 I understand that the decision to appoint a Receiver was taken by North East Audio & bankers following two independent ^{which concluded} reports that the company was not viable in the long term.

2 The NEB made strenuous efforts to interest other UK electronics companies in taking on North East Audio's operations ^{the} as a going concern and in providing funding needed to make it viable in the long term. However they received no firm expressions of interest. In the circumstances and in the light of the two consultants reports the NEB themselves did not feel that further investment of taxpayers' money would be justified.

3 (If further NEB investment is suggested). The NEB are required to operate commercially and to make investments only when they foresee an adequate rate of return within a reasonable period. We have recognised the importance of the NEB in the regions by giving them an investment role in industrial undertakings in the English Assisted Areas. But they cannot continue to prop up loss making companies with taxpayers money where they have no long term future.

NEB's Regional Role

4 The Guidelines that we issued in August 1980 gave the NEB a clear regional role and we regard this as a high priority. The Board are continuing to seek viable investment opportunities in the Northern Region: in particular through their Anglo-American Venture Fund which they have established to develop advanced technology businesses in the English Assisted Areas.

5 The NEB is of course only one of the public bodies operating in the region. Its role is not as broad as that of the Scottish or Welsh Development Agencies which also carry out factory building and small business activities which in England are done separately by the English Industrial Estates Corporation, Cosira and the Department of Industry's Small Firms Counselling Service. The Northern Region has benefitted more than any other from investments by the EIEC, and since we came into office more than £175 million has been paid in regional development grants, a third of the total RDGs for Great Britain. Regional aid to the Northern region in 1979-80 alone amounted to £48 per head, more than in other parts of the country.

6 (Effect of NEB/NRDC Merger): We do not intend that there should be any immediate change in the functions which the two organisations perform. The NEB's regional role is important and will continue.



Brief for the Prime Minister's Meeting with Dr David Clark MP,
Friday 24 July 1981

NORTH EAST AUDIO LIMITED (NEAL)

Background

Dr Clark has asked to see the Prime Minister about the recent closure of North East Audio in South Shields, with the loss of 120 jobs.

2 The company was formed in 1972 specialising in the production of specialised audio and electronic recording equipment for professional and semi-professional use eg by broadcasters and for monitoring. In 1977 it acquired Ferrograph Ltd at South Shields which was then under threat of closure by its parent company Wilmot Breeden Ltd. Ferrograph was a long-established company producing a similar range of products including certain specialised defence items for GCHQ Cheltenham and for overseas buyers through MOD.

3 To enable NEAL to raise the finance to acquire Ferrograph the NEB invested £439,000 in the company for 49% of the equity. The balance of the shares remained with the NEAL management (20%) and ICFC (31%). NEAL made a small profit in 1978 and 1979 but it became clear that the company had a number of major weaknesses which would have to be remedied if it was to have a long-term future. In particular its product range was too broad while the management, although technically strong, lacked adequate sales and production experience. From mid 1979 accordingly the NEB with the assistance of the MOD sought to find an industrial buyer which could provide the necessary management capability. However, although all the major electronics companies were approached none showed any firm interest in taking NEAL on as a going concern.

4 Meanwhile NEAL ran into increasing liquidity problems. The NEB, therefore, commissioned a report by Price Waterhouse which concluded that there was no short term solution to the company's financial difficulties and that the existing management was inadequate. The NEB then reviewed the position with ICFC and NEAL's bankers (Barclays) and engaged a firm of management services consultants, Bamford Hall to assist NEAL's management while the company's future was assessed. They too concluded that the company has no long term future. In the circumstances the NEB concluded that they would not be justified in providing further funds. And in the absence of any buyer willing to take on the company Barclays decided to appoint a receiver at the end of April.



Confidential

(5 In reviewing NEAL's future the NEB kept in close touch with the MOD. Although the MOD expressed regret at the possibility of closure they did not feel that there were compelling defence reasons for keeping it in operation (there are alternative UK suppliers of NEAL's equipment).

6 [redacted] Although NEAL's problems stem mainly from its own management and financial weaknesses, virtually all companies in this specialised audio products sector are currently in difficulty. These generally small businesses have been dependent on narrow markets for electronic products of more sophisticated design with higher performance than is needed by the mass domestic market and their growth had been based on a traditionally high ratio of exports (up to 60%). For the last two years, exports have been cut back by the strength of sterling and this year cash flow problems at the worst time of the year (sales reach an annual peak in the autumn) have been aggravated by the suspension of VAT repayments on exports due to the Civil Service dispute. The general problems in this sector may have contributed to the failure to sell the North East Audio as a going concern.

NEB Regional Role

7 The NEB operates in the North East through its Northern Region Board in Newcastle. This was strengthened in December 1979 by the appointment of prominent local businessmen under the Chairmanship of Mr Paul Nicholson (Chairman, Vaux Breweries) and by the rationalisation of the executive organisation. Nevertheless the NEB have consistently found difficulty in identifying suitable projects in the area and with the closure of NEAL their total investment in the area has fallen to £1 million in 4 companies. The NEB, are, however, making a major effort to identify new opportunities especially through their £2 million Anglo-American Venture Fund established in November 1980 to develop new advanced technology business in the English Assisted Areas, including seeking out opportunities for the manufacture of high technology products already launched successfully in the USA. Investment opportunities are identified by Anglo-American Venture Management (based in Manchester) jointly owned by the NEB and the Californian Venture Capitalist Mr Jack Melchor.

NEAL - Regional Selective Assistance

8 The company received a loan of £10,000 under Section 7 of the Industry Act 1972, to assist its establishment in Newcastle and a further loan of £6000 was made available in 1974. Finally in March 1978 the company was offered an interest relief grant of £139,740 to assist the purchase of Ferrograph. NEAL then moved to the ex-Ferrograph factory at South Shields increasing its own employment from 17 to 149. The company subsequently had difficulty in making prompt repayments of the Industry Act Loans advanced but they were finally repaid in full in 1980. Three of the four payments, amounting to £115,080, on account of the Interest Relief Grant offer have been advanced to the company, the last payment being made in June 1980. In April 1981 the company applied for the final Interest Relief Grant payment of £24,660; at that time it employed 117 people. Payment was not made because of the uncertainty over the company's future.



ANNEX

BACKGROUND NOTE ON SOUTH TYNESIDE

1. INTRODUCTION

South Tyneside is part of the Tyne and Wear Metropolitan County, which is one of the 6 Metropolitan counties in the United Kingdom. The area has a population of 160,500 which is approximately 14% of the total for Tyne and Wear. The area was unaffected by the Assisted Area changes announced in July 1979 and remained an SDA.

2. INDUSTRIAL STRUCTURE

	EMPLOYEES IN EMPLOYMENT 1977 CENSUS OF EMP	
Primary Industries	7,845	= 4.9%
Manufacturing Industry	66,971	= 41.9%
Construction Industry	13,070	= 8.0%
Service Industry	73,630	= 45.6%
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	161,516	100%
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3. PRINCIPAL EMPLOYERS

Principal employers include A Reyrolle & Co Ltd, Hebburn, Electrical Switchgear; Swan Hunter Shipyards, Hebburn and South Shields; Filtrona Ltd, Jarrow, Filter Tips; Plessey-Telecommunications Ltd, South Shields, Telegraph and Telephone Apparatus; and Middle Docks and Engineering Co Ltd, South Shields, Shiprepairing and Engineering.

4. UNEMPLOYMENT AND REDUNDANCIES

The South Tyne area has a current (June 1981) unemployment rate of 17.2% (19.7% males) compared with the Northern Region rate of 16.0% (19.1% males) and the Great Britain rate of 10.9% (13.3% males). More detailed figures are as follows:-

	Males	%	Females	%	Total	%
June 1981	22,749	19.7	8,358	12.8	31,107	17.2
May 1981	21,550	18.7	7,248	11.1	28,808	15.9
June 1980	16,483	14.3	6,882	10.9	23,365	12.9



REDUNDANCIES

On South Tyneside intended redundancies notified by employers to Department of Employment in the 12 months to June 1981 numbered 7,452 of which 4,771 were males. (Some of these intended redundancies were/may be subsequently cancelled). However, from the beginning of January 1981 to the end of March 1981, 1,853 redundancies have actually taken place. Some of the more significant notified redundancies were:-

	<u>M</u>	<u>T</u>	<u>Date Notified</u>
Royal Ordnance Factory Birtley	(200 UK	222 274	Dec 80 Mar 81
Dunlop (Hydraulic Hose) Gateshead	(UK 19	322 20	Feb 81 May 81
NEI Reyrolle Ltd Hebburn	664	800	Jan 81
British Shipbuilders South Shields	UK	440	Apr 81

5. NEW FIRMS

Since 1966, 77 new firms have opened up on South Tyneside, 20 of them have since closed. The remaining 57 currently employ 3,334 people (3,246 males).

6. SELECTIVE FINANCIAL ASSISTANCE

Up to end of May 1981 assistance under the Industry Act 1972 (Section 7) (excluding assistance to the Shipbuilding industry) has been offered for 153 projects* involving a total amount of £18.3m estimated to provide 8,474 additional jobs with 8,282 jobs safeguarded.

*Project costs £176.5m

In addition assistance under Section 8 has been offered for 49 projects involving a total amount of £3.7m with associated project costs of £20.2m.

7. FACTORIES AND LAND

Since 1966 83 factories totalling 630,000 sq ft have been approved for South Tyneside. At present there are 14 advance factories complete and available totalling 86,302 sq ft (16 factories with a total area of 99,200 sq ft were let in 1980). In addition there are 8 factories totalling 28,000 sq ft under construction. A further 20,000 sq ft of factory space has been announced for Tyneside, the number and size of units has yet to be determined.

South Tyne

At present there are 14 advance factories complete and available totalling 86,302 sq ft.

Factories complete and available

Jarrow	1 x 15,000
S Shields	1 x 15,000
	1 x 5,000
	5 x 6,146
	2 x 6,286
Team Valley	2 x 1,500
	2 x 2,500



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23 JUL 1981

Unemployment Statistics

Further to your request to Stephen Clark I am forwarding information which I hope will assist in your meeting with the Prime Minister.

1. Adult Unemployment - as at 29.6.81

	Male		Female		Both	
	No.	%	No.	%	No.	%
South Shields	5,799	25.6	2,032	12.8	7,831	20.4
South Tyneside	10,015	23.1	3,644	14.7	13,659	20.1

2. Youth Unemployment - as at 26.6.81

	Male	Female	Both
South Tyneside Careers Offices	1,144	1,090	2,234
Numbers in Special Measures: (primarily YOP and Community Industry)			1,326
Numbers registered available for work			3,560

Clive Laing, Principal Careers Officer, points out that with 5th formers now leaving school at the end of May these figures represent the peak. However the numbers likely to go into the special measures this year will increase from 2,700 placements in 1980 to 3,500, and the Careers Service are under enormous pressure to meet a Christmas guarantee as opposed to an Easter guarantee.

3. Comparison of Adult Unemployment with May 1979

May 1979

	Male		Female		Both	
	No.	%	No.	%	No.	%
South Shields	3,802	16.3	1,306	8.4	5,108	13.2
South Tyneside	6,565	14.9	2,292	9.7	8,857	13.1