

Consumer spending in the foundational economy

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Summary

The foundational economy provides essential goods and services, which are primarily, though not exclusively, delivered at a local level. Because of this, it is thought to have considerable potential to regenerate the areas where the local economy is relatively weak, such as in the south Wales valleys. However, any successful growth of the local foundational economy - especially parts most reliant on consumer spending - is also dependent on the spending power of the resident population.

This report examines household expenditure in three communities in the south Wales valleys: Treherbert in Rhondda Cynon Taf, Treharris in Merthyr Tydfil and Cwmafan in Neath Port Talbot. It explores where some of the barriers to and opportunities for re-directing household spending to stimulate the local foundational economy lie.

All three communities have a core of foundational goods and services, especially in the "overlooked" part of the foundational economy of retail, hair and beauty, takeaways, eating out and recreation and leisure. Some communities also have key amenities such as post offices, pharmacists and laundrettes. Locally, a significant amount of household expenditure is spent on the "overlooked" economy. However, spending power also leaks out and there is competition for household disposable income from nationally-owned stores, online vendors and places beyond the three communities as well as other local businesses.

Each community has a relatively small local population - all have below 7,000 inhabitants. The households which are most likely to spend in the foundational economy tend to have lower levels of disposable income but spend a higher proportion of their income locally, although the value of this expenditure is lower. Households with higher levels of disposable income, including the outward-commuting population, are less likely to spend locally with their disposable income is absorbed elsewhere. Together, these factors work to limit the size of local market. While Covid 19 has affected spending habits amongst all households, including those who normally commute out, it is impossible to know if these are temporary or permanent changes.

There is a perception of a lack of choice and some higher prices in parts of the local foundational economy, particularly in food and drink and eating out. High prices penalise households which are unable to travel elsewhere to buy essential goods, often low-income households. There is also a particular lack of choice for households with a higher level of disposable income who want more niche goods and services. However, it is unclear whether there is sufficient demand to stimulate new or additional goods and services or if these are opportunities that have not been spotted or responded to by local businesses.

One of the strengths of the local foundational economy is loyalty to the locality and to foundational businesses amongst customers. Strong relationships and good customer service work to retain and secure local spending. Building on place loyalty and the unique selling point of the communities offers some scope to develop further their core of foundational goods and services.

1. Introduction

The foundational economy has become a popular part of policy discussions in Wales. The foundational economy is the provision of everyday essentials, including water, electricity and digital connections, health care and education, as well as consumer goods and services such as food and drink, eating out and hair and beauty.

The foundational economy meets vital population needs. Because of this, foundational businesses tend to be spread more evenly geographically and are at less risk of relocating elsewhere than other parts of the economy. The foundational economy is therefore seen to offer particularly good prospects for areas that experience additional economic challenges, including the south Wales valleys. As a result, developing the foundational economy has featured extensively in the plans of the Welsh Government's Valleys Taskforce.

There are, however, some important questions about its potential. Amongst them are arbitrary exclusion of other parts of the economy which are integral to the provision of foundational goods and services, including manufacturing, whose supplies are often a key part of the supply chain of almost all foundational goods and services). Another concern is the low pay and poor conditions found in some foundational economic activities.

For places with relatively weak local economies, there are further questions. These are, first, whether local businesses have the capacity and potential for future growth, without which the benefits of the foundational economy will not be realised. Secondly, whether there is sufficient consumer demand to support an expansion of the 'overlooked' foundational economy. This is especially pertinent for places where household disposable incomes are below average and which therefore have reduced spending power. It is also relevant to how competition from other businesses including national chains and online providers divert spending power from the locality.

Given these concerns, the Bevan Foundation was keen to explore the scope to develop the foundational economy in the south Wales valleys, including identifying if there are any pre-conditions needed to realise its potential. We began in-depth work with three different valleys communities in November 2019. The first output looked at the capacity and potential of local businesses. This report sets out our findings in respect of household expenditure patterns and the implications for the local foundational economy. Some foundational sectors are dependent in large part on consumer spending, therefore exploring expenditure patterns can help understand the extent to which it is a pre-condition for the growth of the foundational economy.

Our work – and these findings – has been affected by the Covid-19 outbreak. We were fortunate to have a limited window in which to speak to people in person, however we were also reliant survey work and virtual discussions. We are very grateful to those participants who shared their thoughts, experiences and views with us.

2. What we did

This report draws on the findings and insights of group and one to one discussion sessions and survey work conducted in three communities in the south Wales valleys, and a workshop with key stakeholders and third sector partners between September and November 2020. It also draws on desk research undertaken between December 2020 and January 2021.

The three communities are Cwmafan in Neath Port Talbot, Treharris in Merthyr Tydfil and Treherbert in Rhondda Cynon Taf. They were selected in consultation with the relevant local authorities and partners as places with significant economic challenges from, for example, nearby larger towns or from the decline of major employers.

We recognise that the three communities are not necessarily representative of the rest of the south Wales valleys, which vary enormously in history, geography, assets and prospects. However, there are some conclusions that can be drawn that are very likely to apply to many other parts of the south Wales valleys (and indeed more widely in Wales).

To ensure we engaged with as many households as possible we used a mixed methods approach. Initially we promoted the project through various social media channels, including establishing community groups and using targeted adverts. We built a database of organisations active in each community, harder to reach groups or those without a strong social media presence and contacted them through targeted emails and telephone calls. We also worked with local partners and stakeholders to publicise the project through their networks.

We invited all households to complete an online survey which asked questions about their whole household's spending patterns both inside and outside their immediate locality and in parts of the foundational economy. We defined an immediate locality as one encompassing an electoral ward. This was important as understanding of what is "local" varied greatly. For example, some Cwmafan residents class Port Talbot as 'town' and may see it as local spending unless we specified 'Cwmafan'. We asked about household composition, spending patterns, and factors affecting local spending in the foundational economy. A full breakdown of the survey is included in Appendix 1. Alongside the survey we also offered the option of participating in group or one-to-one discussions. We also had a small window of time before local lockdowns in all three areas to spend time in the communities gaining socially-distanced face-to-face insights.

We offered a modest financial incentive to participants, which not only encouraged responses but also created 'feel good' stories for social media and raised awareness of the project. We also held a workshop with partners and stakeholders to identify how money 'leaks out' of each locality and to reflect on our findings.

In total, 300 residents across the three communities responded to the survey. We conducted thirty face-to-face group discussions, eight virtual one-to-one discussions and two virtual stakeholder discussion groups. The response was undoubtedly affected by the Covid-19 pandemic, as we were not able to spend as much time on the ground as desired.

3. Household expenditure

Understanding household expenditure patterns can reveal a great deal about the relative spending power of households within a given area. It can also point towards barriers and opportunities to re-direct or tap into this spending power for the benefit of the foundational economy.

The average household size has been gradually decreasing. The latest estimates put the average household size for Wales at 2.26 persons.¹ Just under two thirds of households that responded to our survey were two-person households. Single person households accounted for approximately a third of survey respondents (Treharris 29%, Treherbert 39% and Cwmafan 34%). Four-person households accounted for a relatively small proportion of respondents (Treherbert at 7% and Cwmafan 9%), although there were more four-person households in Treharris (19%). A full breakdown of the make-up of households that responded to our survey is included in Appendix 2.

All three areas have relatively small populations. At the last census, Treherbert and Treharris each had around 2,500 households, with Cwmafan having slightly more at 2,800 households. All three communities have populations of under 7,000 inhabitants².

On an all-Wales basis the main items of household expenditure are on:

- transport (15% of total household expenditure),
- recreation and culture (14%),
- housing, fuel and power (12%),
- food and non-alcoholic drinks (11%),
- restaurants and hotels (9%).³

This illustrates the extent to which a large proportion of household expenditure is on foundational goods and services – more than 60% of household spending is on some type of foundational activity and more than a third (35%) is on ‘overlooked’ elements.

Not all of this spending is on goods and services provided locally. Some, such as on fuel and power and on food, are provided by large national or international businesses, which may have little connections with localities (or even Wales) themselves. The capacity for household expenditure to stimulate local economies or deliver a multiplier effect is therefore more limited and depends not only on the overall value of consumption but on the ownership and location of businesses.

A significant proportion of expenditure is on goods and services provided locally, particularly “overlooked” sectors such as recreation and culture, restaurants and hotels, hair and beauty and some elements of food and drink. Therefore, understanding where there is scope to capture household spending to retain and increase local wealth is key to understanding the potential to grow and strengthen the foundational economy at a local level.

It is important to note that household expenditure patterns vary considerably between different groups of people. For example, the proportion of expenditure on housing amongst people on the lowest incomes is almost double the national average, accounting for one fifth of total household expenditure⁴. Similarly, a larger share of low-income households’ expenditure goes on food, this being the second largest item of

spending. Conversely, lower income households spend less on recreation, transport and restaurants and hotel expenditure than average.

The three communities all have estimated net annual household incomes after housing costs in the bottom half of household incomes in Wales,⁵ although they are by no means the areas with the lowest income. Of the three, net household income was lowest in Treherbert at £21,600 in financial year ending 2018, whilst that for Treharris was £23,000. Cwmafan had the highest net household income at £24,300, close to the median for Wales. This suggests that households in these communities are likely to have a higher proportion of their expenditure on housing and food, and a lower proportion on recreation and leisure.

3.1. Local spending

It is important to understand the impact spending money locally has on a local economy including its foundational economy. Money that is spent on local goods and services but that leaks out will not strengthen a local economy as much as money that stays in local circulation for longer. Money which is retained within a local economy increases the impact of that expenditure. For example, the expenditure on a haircut may then be recycled by the hairdressing business into expenditure on a local restaurant, who in turn may recycle the income into expenditure on a local food supplier. The *New Economics Foundation* has calculated that local spending can generate five times its original value if it is circulated in the local economy.⁶

To explore this, the *New Economics Foundation* devised the concept of the 'leaky bucket'. It visualises a local economy as being like a large bucket. Money flows in through a number of sources such as, earnings, pensions and benefits, grants and investment. The ways money can leak out are varied; from supermarket purchases and online spends to supply of utilities by international firms and by commuting residents spending elsewhere. Recognising how these leaks manifest themselves and exploring ways to plug them can help build an understanding and inform interventions for more robust local economies that retain wealth.⁷

Understanding local spending is critical to get a sense of where the opportunities exist in the foundational economy in smaller communities. They lie in two places: the essential, predictable and regular spend on items such as housing, heating and transport. And discretionary, flexible, less predictable spending such as some food and drink, leisure and recreation, hair and beauty and eating out.

In surveying each area, respondents were asked about their household's spending over the last month. They were asked if their household had spent £25 or more inside their immediate community, inside the wider county borough area or somewhere else on food and non-alcoholic drink, recreation and leisure, eating out, health and beauty and clothing and footwear. There was a degree of variation to how respondents defined 'local'. For example, while some Treherbert residents considered Treorchy to be "local" – being around one mile down the road – this view was not shared universally. What is seen as 'local' varies from place to place and person to person. A sense of identity of each

place was to some extent bound up with what was viewed 'local' or part of the community.

By far the most common item of household expenditure that respondents had made in the past month in the context of the survey questions was on food and non-alcoholic drink. The least common was on recreation and leisure. This would have been in large part due to Covid-19 restrictions and associated closure or reluctance to participate in "normal" recreation and leisure activities. While restrictions had eased somewhat during the window of time in which the survey was undertaken, they had by no means returned to pre-pandemic levels.

3.2. Local amenities

The use of local amenities was highlighted in discussion group sessions as being key spending and service opportunities. The chemist and laundrette in Cwmafan were also referred to by a number of survey respondents and discussion participants as specific features of the current "offer" of the everyday economy in the area. Post offices were another significant factor both as providing essential services such as banking and spending opportunities. This highlights the role of essential amenities within the local everyday economy, as well as their capacity to retain and bring in footfall to a local high street that may otherwise go elsewhere.

I also use the local Post Office, laundrette and chemist regularly.

I use the Post Office for banking otherwise I'd have to go to Natwest in Ponty.

I use the local co-op to buy the paper. I also draw my pension at the Post Office

Conversely, the lack of key amenities such as banks and post offices meant that some people were less inclined to visit their immediate locality. Some participants told us that neighbouring areas had more appeal because of this. For example, Treherbert respondents pointed towards the banking facilities in nearby Treorchy which resulted in them spending money in Treorchy whilst there. Linked to this, a number of Treherbert businesses told us they thought the loss of banking facilities was a reason for passing trade decreasing in Treherbert. The closure of the Post Office in Treharris was seen as a big loss by some respondents. One resident from Quakers Yard said:

Living in Quakers Yard I find Treharris is out of my way and especially as the Post Office is now closed I rarely have a need to go there.

This illustrates how important key amenities such as these are in shaping the wider choices that households make about where to buy essential goods and services. Incidental or discretionary spending stimulated through footfall as a result of use of banking, post offices and other amenities appears to be an important factor in capturing or diverting some household spending to or away from each locality.

3.3. Food and drink

The item most commonly bought in the local economy by survey respondents was food and non-alcoholic drink. There are no large supermarkets within the immediate area of any of the three communities, so residents' expenditure on food and drink was predominantly in local convenience stores. In Cwmafan the local Co-op is well used, as is the Co-op on Fox Street in Treharris and the Spar in Treherbert.

The proportion of households telling us that they had spent £25 or more in the past month on food and drink in the immediate area was broadly consistent across the three communities: 80% of respondents from Treherbert, 81% of respondents from Treharris and 78% of respondents from Cwmafan had done so.

The majority of households spending £25 or more across the three communities had at least one person of working age in them. Most households that had spent £25 or more on food and drink in Treherbert and Treharris were 'mixed' households (i.e. persons of working age, pensionable age and under 16) whereas in Cwmafan households were more likely to be person(s) of working age. In contrast, the survey indicated that only a small proportion of households made up of people aged 65 and over had spent more than £25 on food and drink in the immediate locality.

Around half of the households we surveyed told us they had spent £25 or more on food and drink within the wider county borough area of Merthyr Tydfil, Rhondda Cynon Taf and Neath Port Talbot.

Proximity and relative convenience appear to be significant factors in decisions on where to buy food and drink in the local area, with some residents referring to "topping up" on their weekly shop:

I go local if I run out of things.

Some also referenced quality and freshness of local shops:

I get things like bread, sweets, cat food etc in the little shop in Quakers Yard because it is always fresh. They get a delivery every day.

However, the extent to which local spending necessarily reflects "choice" is another matter. Some residents mentioned a trade-off between cost and convenience, with perceptions of convenience partly reflecting alternatives available. For Cwmafan particularly, Port Talbot's close proximity and other places including Swansea and Maesteg have a considerable pull. Indeed, many locals refer to Port Talbot simply as 'town' and others told us about other places in the region where they tend to spend most money:

We do all our weekly shopping in Port Talbot. We prefer to do one big weekly shop, so we wouldn't look to shop in Cwmavon.

We do all our weekly shopping in Maesteg or Bridgend.

Swansea is the biggest draw for where we spend our money.

The trade-off between convenience, affordability and accessibility appeared to be factors in the relative balance between local and non-local spending on food and drink. For some respondents, perceptions of the costliness of local shops operated as a “push” factor which made them go elsewhere, albeit still relatively nearby:

The co-op is the main shop but it is not good with prices - it has a monopoly but it is convenient.

I shop in Lidl, Treorchy as I cannot afford the prices in Treherbert shops. I have one wage coming in.

3.4. Recreation and leisure

Only around 10% of survey respondents told us they had spent money on recreation or leisure locally in the past month. The pandemic was undoubtedly a factor in this, because some recreation and leisure facilities were closed in local and national lockdowns. In addition, some people were unwilling to use leisure and recreation facilities even when permitted to do. Additional factors are the lower proportion of household expenditure by lower-income households on recreation and leisure, coupled with the limited range of recreation and leisure facilities available locally.

The impact of the pandemic was illustrated by several respondents:

Because of lockdown we haven't really spent on recreation and leisure.

There are very few leisure activities running at the moment, my daughter normally does gymnastics but it's stopped. There's the pubs but it's not wise to go due to Covid.

Not all leisure and recreation activity requires expenditure. Some facilities such as public libraries are free, and a lot of outdoor recreation is available at no cost. One respondent alluded to the freely accessible local landscape as an asset for their particular hobbies:

I use lots of outdoor space for running and cycling which is fantastic in this area and doesn't cost.

The pandemic notwithstanding, the general availability of recreation and leisure facilities was also an issue mentioned by respondents. Some described their perception that budget cuts and a lack of investment had affected the availability and quality of local recreation and leisure facilities. This was particularly common amongst respondents from Treherbert:

There are no longer any leisure and recreation facilities in our area. The council demolished our swimming pool despite local people requesting it stay open. Our library closed down as well as our youth club and boys and girls club.

What recreation and leisure is available in Treherbert? The swimming pool is demolished, pubs closed due to lockdown, what recreation is there?

3.5. Eating out

Survey participants were asked about their eating out habits, either locally or elsewhere. Responses to this question were certainly affected by the Covid-19 restrictions. At the time of the survey, pubs, restaurants and cafes were open, albeit with distancing measures in place. Many participants distinguished between how they “normally” ate out and recent changes in their habits as a result of the pandemic. Amongst survey respondents in both Treharris and Treherbert around a third had spent £25 or more in the previous month on eating out. Amongst Cwmafan respondents, the proportion was slightly lower at 23%.

Choice and cost were the two overriding factors in respondents’ ability and desire to eat out. For some families on a low income, eating out was just not an option. This was underlined by one local councillor who referred to their ward as a “ward of two halves”, with some households having good levels of disposable incomes, and others having very limited financial resources. One respondent contrasted the range of choice of places to eat in Cwmafan with their family’s inability to eat at any of them because it was a luxury they simply could not afford:

There are five pubs in the area where we could go for food but we do not have the money to spend on luxuries

We don’t really go out to eat or do any recreation activities.

For those respondents who indicated that they did sometimes eat out, the vast majority indicated they used local takeaways, pubs that serve food, and fast-food outlets. All expenditure on takeaways was “hyper-local” within the immediate ward area or a neighbouring ward. Fast food national chain expenditure – especially amongst Treharris and Cwmafan respondents - took place in nearby larger settlements of Port Talbot and Merthyr Tydfil.

I spent recently at Extra Kebab at Pontrhydyfen.

I’ve eaten out at KFC Port Talbot.

In each of the communities some respondents referred to local pubs that served food. Some of these respondents saw eating out locally as a way to support local businesses. One Treherbert resident told us:

To support the smaller businesses we have been buying food from the Baglan or the Gelli. That has been important for us.

However, choice was also a consideration for many respondents. Almost half of survey respondents from Cwmafan and two thirds of respondents from Treherbert and Treharris indicated they would like more choice for eating out:

I would love to see more choice and businesses in Treherbert, especially places to eat / coffee shops.

Choice is a massive issue. I am vegan so I don't have the choice.

I think we need more choice on where to spend our money, a nice sit-down restaurant would be nice other than a pub.

There appears to be scope for growing some elements of the “eat out” part of the foundational economy. Most people saw this as a discretionary “nice to have” or “luxury” form of expenditure rather than a regular or essential one. The market may be more limited for this reason. Households on low incomes or with low disposable incomes cannot afford to eat out either, or do so rarely. Therefore, this part of the foundational economy would rely on increased spending power amongst the local population or additional visitors and footfall in order to sustain itself. Some respondents told us that part of the experience of eating out included going somewhere else for a day out. Developing some elements of the discretionary foundational economy is therefore bound up with the wider offer and appeal of particular places, their capacity to attract additional footfall and increasing disposable incomes.

3.6. Health and Beauty

Around a third of survey respondents in Treharris and Treherbert and a third of survey respondents in Cwmafan told us they had spent £25 or more on health and beauty in the past month. They referred to use of local barbers, hairdressers and beauticians.

Almost all of the people we spoke to in our virtual discussion sessions said they had their hair cut locally and some identified that it was one of the easiest ways for them to “spend local”. It also appears to be a foundational spend built on local relationships, reflecting perhaps the nature of the industry itself and the importance of customer care and a good rapport:

I always go to the local hairdresser. I now go to a mobile hairdresser because it is convenient. I use local shops a lot in Cwmafan from breakfast, take away, food items and hair and beauty.

I have been going to Sarah's to get my hair cut as I have built up a relationship with her.

Businesses in the health and beauty sector are more likely to be independently owned rather than part of a larger, national chain. Indeed, in each of the three communities, all the businesses in this sector appear to be independently owned. Reflecting on the New Economics Foundation's work on the local multiplier effect, this could have important implications for the local everyday economy.

However, we also observed that the consumer demand appeared well served already by existing businesses. Some respondents suggested that some sectors were at 'saturation point':

We also need more variety. At the moment it is all cake shops, before that it was fast food, before that hairdressers. There is no variety.

Given this, there may be a ceiling to further openings in the hairdressing and beauty sector, which may have already been reached in each of the three communities. However, given the ownership of this sector tends to be independent, with capacity to generate more local benefits, it is not insignificant. Many people appear to prioritise health and beauty after other essentials such as housing and food, making it a fairly predictable and consistent spend. As such, rather than encouraging new openings, the priority may be better located in supporting existing businesses in the sector to grow, diversify and offer additional services and remain within the locality.

3.7. Clothing and footwear

Survey and focus group participants were asked about their household's expenditure on clothing and footwear. This is partly because some clothing and footwear can be considered part of the foundational economy. It was also to understand more about how online shopping and the development of large retail outlets have affected spending on these items.

In regards to spending £25 or more in the past month on clothing and footwear, the numbers of households who had was relatively low and was even lower amongst households made up of people aged 65 and above. In Treherbert, 14% of survey respondents had spent £25 or more in the past month on clothing and footwear with no households made up of people of pensionable age having done so. Amongst Treharris respondents, 13% had spent £25 or more in the past month on clothing and footwear with just 2% of households made up of people aged 65 and over having done so. Amongst Cwmafan respondents, only 9% had made such a spend, with just one household made up of people aged 65 and over having done so.

The vast majority of respondents purchasing clothing and footwear had done so outside the locality. This reflects the limited or non-existent outlets for clothing and footwear. Respondents commented on the difficulty buying such items locally, including first time mothers in respect of baby clothes and retired people mentioning footwear and walking shoes.

It would be good to have better shops including clothes shops

I suppose on clothing there could be more choice because there's nothing at the moment

We don't have any clothing shops here.

For clothing and footwear we shop at McArthur Glen.

Much more expenditure occurred elsewhere in the county borough. The highest proportion of households purchasing clothing and footwear in the county borough was in Treharris (34%), followed by Treherbert (25%), reflecting the location of clothing outlets at the Cyfarthfa retail park and in Pontypridd respectively. In Cwmafan the figure was much lower (13%).

At least as many households in all three communities had bought clothing or footwear online – 40% in Cwmafan, 34% in Treharris and 30% in Treherbert. Of those households who told us they shopped online, Amazon, eBay and Asda were some of the go-to online outlets used. Online retail purchases that participants told us about mentioned price difference and convenience as factors in their purchases:

Personally for me it is children's clothing which I normally purchase online. That is because there is nowhere suitable to buy them locally. Even if there was it would be based on convenience; the ability to compare prices online and deals etc. It is much easier on the internet.

For clothing and footwear we buy online but also buy in Swansea

Other survey participants illustrated how they viewed spending on clothing and footwear as one-off and irregular. For some, as in the case of school uniforms, it is an unavoidable one-off but essential expense that has a direct effect on household finances:

The cost of school uniform, shoes, coat etc has outweighed anything I have spent within the last month. Local shops should be cheaper to encourage people to buy there.

This demonstrates that spending on essential items such as these can generate significant sums for local businesses, however they can also dent the finances of individual households, especially if they are on low incomes.

There were some indications that there is interest in local clothing and footwear outlets, so there may be potential for clothing and footwear businesses to develop especially in Treherbert or Treharris. However, they would need to compete with online and larger and national retailers in relative proximity to Cwmafan and Treharris particularly. They would also require sufficient footfall to ensure viability, especially as clothing and footwear purchases are more irregular compared to some other forms of expenditure. Promoting click and collect, advertising on a variety of online forums, running promotional days or voucher schemes or highlighting the ability to try before you buy offer potential tools to stimulate spending in this part of the overlooked economy.

4. The impact of Covid-19

Our survey work and discussion sessions from September until November 2020 coincided with some local and national lockdown measures in place across the three communities. A two week 'fire break' national lockdown was in place from 23rd October to 9th November. Prior to that, both Treharris and Treherbert had been in local lockdown measures as a result of high rates of Covid-19 in the Rhondda Cynon Taf and Merthyr Tydfil county boroughs. The impact of the pandemic on people's spending habits was significant and formed a backdrop to many of the responses we received.

Furlough, reductions in hours, redundancy, insufficient support and family circumstances all meant that some households had seen their incomes shrink as a result of the pandemic:

Covid has really messed things up.

Lockdown has massively affected the way we spend money.

Conversely, for those who had continued working, seen an increase in business or had experienced reduced costs such as commuting costs, disposable household income had either stayed the same or increased:

I've had more money to spend locally since the pandemic.

This difference of experience reflects findings from our survey of businesses, which found that the Covid-19 outbreak has resulted in the complete loss of business for some owners, while others have kept going or even experienced something of a boom.⁸

The pandemic also affected time people wanted to spend in the physical premises where they spend money. We saw this across age groups but it was most pronounced amongst older people and carers:

I am elderly and with Covid have hardly left the house so other than getting food delivered I get very little locally.

If I didn't shop for the basics for this lady I probably wouldn't go outside of Treharris.

4.1. Increased local spending

Many respondents reflected on changes in their household's expenditure caused by the pandemic, associated with two factors. The first was the ability of those to spend more locally who otherwise would not have had the option. People who normally worked away elsewhere and were either home working or furloughed reflected this. One respondent observed that a section of the commuting population has a higher level of disposable income:

I can support local shops now. It's funny because those who have the most money to spend are those that usually commute out so don't have the opportunity to.

I can shop during my break whereas before the shops would be closed by the time I come home.

We both work full time so normally we cannot support these services. Yet we are the ones that are earning so it is nice we can use and support local businesses

Increased time spent at home had also altered spending habits. For some, it had triggered new forms of local spending, while for others it had increased and re-enforced pre-existing local spending:

I try to use local services if I can, especially since lockdown like the market in the community centre or the local deli – especially now I am working from home.

The restrictions put in place had also changed behaviour and perceptions of what was safe and what was within respondents "comfort zones". Some could not or would not travel very far to shop. For businesses with premises that were able to comply with regulations and reassure customers, this worked in their favour:

I've been going to the rugby club. I feel safe, plenty of room, everyone is sensible and it's just around the corner.

While for some the pandemic diverted expenditure to the local area, for others, it diverted more away through online shopping with national chains. One Treharris resident told us:

I don't feel comfortable shopping in supermarkets which is why we click and collect. It forces me to use local shops for last minute items.

This particular comment illustrated the complexity of whether expenditure in the local foundational economy was a positive choice or whether it was something households did out of necessity, due to factors of time, convenience and cost. We saw examples of both in the survey and discussion session work we undertook.

Under normal circumstances you can't put a fag packet between Cwmafan and Port Talbot. The main road leads straight to the shopping centre acting like a magnet drawing people away. Covid caused a change of practice, if maybe temporary.

4.2. Decreased or unchanged local spending

We also saw examples of where household expenditure in the immediate locality had not changed or had even decreased due to Covid-19, demonstrating the complexity of such unprecedented circumstances. For people wishing to limit their time spent in physical premises regardless of size, it changed behaviour. For example, for some households it resulted in then doing a bigger food shop in one go, out of area:

I try to stock up when I can now because I try to limit the amount of times I go out, which means that I probably have used local services a little less than I normally would by buying from the supermarket in one go.

The pandemic had also limited the ability for people to socialise which had an impact on local expenditure in the hospitality sector.

Usually I would socialise locally but not since lockdown. I am supposed to be going out Friday but I am 50/50. The way we socialise has changed so drastically.

I'm so sociable having physical contact and meeting new people, take that away I don't see what I can get out of going to a pub at the moment.

We would normally eat out locally regularly but have stopped at present due to the virus.

While there were some parts of the local foundational economy that had adapted to the virus, for example switching to home deliveries, there were many that did or could not. It remains to be seen whether the changes in behaviour brought about by the pandemic will return to 'normal' in the future. Habits may revert back – those currently not spending locally may simply start again post-pandemic and vice versa.

One more positive outcome has been people realising and re-evaluating the importance of local businesses or services. Some participants described having built up relationships with local businesses in the foundational economy:

You see their eyes light up when you say see you next week. I feel like I cannot abandon them when I stop working from home.

It's opened our eyes and given people the opportunity to meet the needs of the community. The responsiveness to say start selling masks is important, it builds the relationship between people and businesses.

There are therefore two conflicting trends. On the one hand, there has been an increase in the number of people choosing to spend locally due to greater working from home. On the other, some households have opted to spend elsewhere, including online, in order to reduce their contact with others. While it is unclear whether these patterns continue post-pandemic, it will be important for the relationships built between residents and local businesses in the foundational economy in the pandemic to continue to be cultivated.

5. Barriers and opportunities

Understanding consumer spending is important if the everyday economy is to flourish. A significant portion of the everyday economy depends on disposable consumer spending. Therefore, identifying where barriers exist or where there is scope to build on current opportunities can help inform interventions to support the development of the foundational economy, including in smaller places.

5.1. Variations in spending power

In our survey work some households on very low incomes with almost no disposable income participated. We also heard from households that had levels of disposable income that meant they could afford “luxuries” and unplanned, incidental spends. For households with low incomes and limited disposable spending power, every penny counts. This can be the difference between spending in the local everyday economy or not.

I cannot afford anything but the basics because I have suffered a stroke, recovered from cancer and now heart disease. Yet I am too healthy to get government financial support.

I like to take out a certain amount of cash per week as I live on a pension and live to that amount.

Nearly everyone we engaged with, across household type and with differing levels of disposable income, recognised the importance of the local everyday economy, but capacity to spend within it varied. One respondent told us that despite being on furlough and finding money a worry they tried to use local services, even if it meant spending a little bit more. The same respondent told us it helped that they know a lot of the businesses within the local everyday economy and have a strong relationship with them. This suggests local loyalty is there to be tapped into but competes with concerns about affordability and low disposable incomes.

Established relationships between residents and businesses could help to capture some expenditure. Saving schemes such as the ability to place a certain amount of money aside each month with a particular shop is one way to spread the cost of planned purchases. This was an initiative already in place for seasonal spending described by one Treherbert resident:

My mother has a Christmas Club with the gift shop which really helps spread the cost of things when every penny counts.

Developing similar relationship-based or loyalty initiatives in other parts of the foundational economy is something that may merit further consideration.

5.2. Local Prices

A recurring theme amongst some respondents was that local spending opportunities in the foundational economy were perceived to be more expensive than some national and online outlets. The flip side to this is the capacity for larger firms to undercut smaller ones by offering items at cheaper prices through economies of scale. Costs and pricing are fundamental to a household's decisions around how it spends its money, regardless of desire to spend in the local economy. One Cwmafan resident told us:

I have tried to shop local to help businesses but local shops could be cheaper to encourage people to buy there.

I use Asda in Port Talbot and get my nappies there too as it's cheaper.

Some participants told us they were unable to get to larger stores to make use of discounts and lower prices, which essentially steered them to shop more locally. While an inability to travel out of area may add some additional spend to the local foundational economy, it is not a desirable way to grow it and points to the impact low incomes and local pricing has on household expenditure choices. For some respondents though, this was less of a consideration and demonstrated the variation in importance of pricing for different households:

I wouldn't go further just to save 10p - I am not like that

Varying prices between different retailers highlights that while the foundational economy may be located locally it is not necessarily locally owned or determined. For example, pricing in the local Spar and Co-ops in each of the communities will be dictated by national headquarters rather than at a local level. Local spending in retailers that are not locally-owned is unlikely to generate the same multiplier effect as, for example, a local independent hairdresser. However, growing the foundational economy in communities such as Treharris, Treherbert and Cwmafan is much more likely to be successful where more households have more disposable income to spend in the first instance.

5.3. Choice and convenience

One of the biggest barriers to households spending more in the local foundational economy is lack of opportunity. When asked what would make respondents spend more locally on food and drink, recreation and leisure and eating out, choice was the most frequent response. Almost half of respondents from Cwmafan and two thirds of both Treharris and Treherbert respondents indicated that choice and variety were important for them. Having more choice was also identified more frequently by respondents than cheaper prices, better parking, better transport or better quality. The lack of local choice was one of the factors that encouraged households to purchase essential goods and services elsewhere. For those households unable to travel outside the locality – often those on low incomes – this lack of choice effectively penalises them.

A recurring reflection from participants on the wider everyday economy in their locality was the proliferation in recent years of similar businesses such as hairdressers or

takeaways. Linked to this is the issue of the communities not being seen as places suitable other than for meeting immediate, incidental or occasional needs. Some participants reflected on the need for a wider “draw” to ensure the level of footfall needed to help diversify the local foundational economy:

We need more variety. Shops in Treharris tend to come in waves of fast food, then hair dressers and now cake shops. If there were more shops to choose from I would visit more often.

People now seek to do their shopping online or in one central area such as retail parks. This also makes the goods a little cheaper and you can have a half-day out in the process. Treharris has very little to attract consumers and this needs to be addressed.

We do all of our weekly shopping in McArthur Glen and can also have something to eat.

The choice and convenience of larger communities or out of town retail parks was clearly a factor in spending decisions:

There needs to be a bigger convenience shop [in Cwmafan]. I couldn't do a full shop at the Co-op.

Each community also has a significant outward commuting population – some of it with a higher level of disposable income. For those at work when local everyday economy outlets are open, this presents a barrier. While this had altered to a degree during the Covid-19 pandemic there is no guarantee it will continue when restrictions are eased. Lack of choice around more ‘niche’ goods and services was highlighted by some participants, and indicating the variation of spending power of different households;

I would love to see a local farmers & artisan market selling quality fresh organic produce along with creative stalls / children's clothes / coffee stall, food to bring a vibrant feel to the village.

I would like more fresh food available for sale - meat, fish, vegetables, fruit whole grains, also more fresh bread and cakes, etc.

Our research also found that in the past, Treharris businesses would operate late night Saturday openings where people had the ability to use them until 9pm⁹. The late-night opening would have needed a degree of cooperation between local businesses. Such practices could inspire new forms of collaboration to help reach into the higher levels of disposable income of the working age population in particular. The re-establishment of a chambers of trade in Treherbert and Treharris offer scope for this. Other more informal collaborations between businesses could bring similar benefits. Some survey respondents outlined their personal preferences and habits in relation to working away elsewhere:

Longer opening hours as shops are shut when I come home from work.

All shops in Treherbert are closed except supermarkets by the time we leave or come home from work.

Another is opening hours. We cannot support them if they are closed. There is a café that shuts at 2. I'm only half way through my working day. I still haven't been there because of that reason.

Whilst some businesses need to close early for a variety of reasons, more flexibility around hours or customer access to goods and services (i.e. home delivery) give foundational businesses opportunities to divert more local spending. It also allows them to offer an alternative to the national chains that have such a hold on many household's spending habits and choices and where a significant proportion of local foundational household expenditure leaks out.

5.4. Transport and location

Our discussions revealed that access to transport had a significant effect on spending patterns.

Access to a vehicle was key. One Treherbert participant told us they spent as much as £40-50 a week on food essentials in the village because they did not drive. One Cwmafan resident told us that the cost of public transport was a prohibitive factor in them having the ability to shop elsewhere:

I spent a lot of money in the village as I don't drive so I cannot go anywhere. Public transport is too expensive.

Transport and the built environment discouraged some people from spending in the immediate essential economy. This appeared to be particularly the case in Treherbert. The geography of the Rhondda valley was highlighted by some respondents as "encouraging traffic in and out - not necessarily within". Residents told us that the steep mountain sides and fairly narrow valley bottom encouraged them to spend their money elsewhere:

We tend to do our food shop and leisure activities outside the valley. We live up the top and it's more convenient to drive out over the Rhigos than to battle through the valley

It is easier for us to travel out of the valley than through it.

Large chains were also identified by respondents as better meeting specific needs than local outlets. One parent told us about the ease of parking at a large supermarket and why it was important to them in terms of their caring responsibilities:

For me the difficulty is about parking. I don't mind shopping locally but driving through the narrow streets and looking for a spot when you can easily park up ... is difficult, especially when you have a family. You think about those things. I have a child with autism, so you risk assess things in your own mind. Can I just run in but still see them ok?

Meeting people's needs in built environments more than 100 years old can be a challenge. Simple changes in design and public space can make all the difference. More or better parking options alongside more delivery services by local retailers, or a central drop off and pick-up point businesses and residents can use, could help influence residents' spending behaviour. This as reflected in one comment from a Cwmafan resident:

Cwmafan is a dispersed village. We holiday regularly in St Just in West Penwith, similar size to Cwmafan, but it has a square that focusses shops, pubs etc. Not sure how but a 'centre' to Cwm may help.

5.5. Local identity and loyalty

In each community, there is clearly pride and sense of loyalty that existed prior to the pandemic, and residents who identify strongly with where they live and with the businesses within their community:

Cwmavon is a lovely village with great community spirit.

I believe our village is fantastic. All current businesses are doing their best and I try and support them as often as I can.

We've made a conscious decision as a family to support local businesses.

We saw some examples of where more time spent at home as a result of the Covid-19 pandemic had fostered a renewed sense of community identity. It is difficult to know how widespread it is but was came up independently across each of the three communities:

It is strange because before lockdown, as we both work full time, we didn't feel part of the community. I have used local businesses so much I worry about their future now as we return to normal. I feel as if I cannot abandon them anymore.

However, we also heard mixed views about the capacity for change amongst residents. Some retired households we spoke to particularly appeared to have had resigned themselves to the status quo. Perhaps inevitably, some look back to the days when the place they live had a larger pool of local employment that supported a wider variety of services:

I think we've got to accept that Cwmavon is what it is. I don't think you can improve it. The local shops are too expensive or struggle for business.

Associated with this, some respondents felt there was little to attract business investment from outside the area. Of the three areas, Treharris had experienced the most recent regeneration efforts yet it was not to have achieved a range of business opportunities - one resident said they wanted to see the local authority use its powers to support more diversity in the local economy:

The council or landlords can address this when renting properties and approving planning permission for new shops.

We heard concerns about the number of empty properties that created some negative perceptions of the areas. With many high streets already struggling and the pre-existing problem of vacant units, there is a real risk this issue will be exacerbated further by the Covid-19 pandemic. One solution in the Merthyr Tydfil county borough has been to turn some units into residential properties and to develop a “meanwhile” approach to bring units back into other forms of productive use. Turning properties into residential use is not always welcomed though:

We need a wider variety of shops up here rather than turning outlet premises into residential buildings, they should be kept as shops and maybe even subsidised for start-ups to support potential new businesses.

The issue of the support provided by the public sector to these smaller communities also arose. One business owner told us that their local authority had encouraged them to open in a larger settlement rather than in their community. While the help and support they received was good, they felt their business was too small to take on the cost of larger premises that were away from their customer base.

Building on a sense of loyalty to an area or local aspirations for further development can be important tools in tapping into existing consumer spending power for parts of the foundational economy;

Would love to see Treharris a more vibrant community bringing people from other areas to enjoy our hospitality and surroundings.

I believe our village is fantastic. All current businesses are doing their best and I try and support them as often as I can. It would be great to have a Cwmavon/ Bryn/ Oakwood business directory as this would encourage people to keep local.

At the time of writing, Neath Port Talbot Council had developed a “NPT buy local” facility – encouraging free registration to all local businesses - and launched a #NPTBuyLocal campaign.¹⁰

Capitalising on attachment, loyalty and perceptions of each place will also require engaging and responding to more negative perceptions. Some stakeholders were relaxed about this issue and told us there would always be more pessimistic views, which they accepted. In their view, they felt the way forward was building coalitions amongst residents and stakeholders who want to work to bring about change, with broad wider buy-in amongst the local community important but not essential.

6. Conclusion

The foundational economy is said to have the potential to regenerate areas that are viewed as being economically disadvantaged. However, there are factors that can help or hinder its development. These includes the power of consumer spending and capacity to effectively re-direct it towards local foundational goods and services. While spending on some parts of foundational economy are beyond the scope of this report, such as energy, utilities and housing, our research shows there is a significant amount of consumer spending especially in the overlooked economy of eating out, some food and drink, hair and beauty and recreation and leisure in each of the three communities.

Those households that appear to spend a greater proportion of their disposable income in parts of the local foundational economy are those on lower incomes. Ability to travel out of area is a key factor in spending behaviour. Those households who are unable to travel are more likely to spend in parts of the foundational economy, and to spend a larger proportion of their disposable incomes, but the value of this expenditure is relatively low. Conversely, those groups with higher levels of disposable incomes and spending power – the commuting population particularly – are the groups least likely to spend in the local foundational economy. Their spending power is more easily diverted elsewhere and further afield. Relatedly, competition for household disposable incomes is fierce. Local foundational providers compete with national chains, online goods and services, the pull of larger settlements and other local businesses.

Convenience, choice and price are all important factors in household decisions about where and how they spent in the foundational economy. Each community has a core of foundational goods and services including convenience stores, hair and beauty services, places to eat and takeaways. For some parts, such as hair, beauty and takeaways, some communities perceive a saturation point where further openings could not be sustained by the local customer base. For some of food and drink and eating out, choice and pricing are key considerations amongst respondents, suggesting further scope to enhance to local foundational offer.

The availability of amenities such as banking services and post offices are also important factors in the wider draw and appeal of the three communities and associated with this, their foundational offer. Those with amenities have capacity to create more “incidental spending” in other parts of the local foundational economy. For those that have lost amenities, there is a perception is has driven a loss of footfall and has diverted household disposable incomes away from the local foundational economy.

Covid-19 has also had an impact on household expenditure. Some commuters have used the foundational economy more in working from home and for some there has been also a renewed appreciation of the local foundational economy. It remains to be seen if this will “stick”. Building on the loyalty to place and local businesses in each community could help embed and diversity more local foundational spending power by enhancing the identity and unique selling point that makes every community different and distinct.

Appendix 1 – Household survey

1. In the last month has your household spent more than £25 in (xxx) on the following?

	Yes	No
Food and drink		
Recreation and leisure		
Eating out		
Health and beauty		
Clothing and footwear		

2. In the last month has your household spent more than £25 outside (xxx) on the following?

	No	Elsewhere in borough	Port Talbot/Nelson/Ponty	Swansea/Cardiff	Online	Other
Food and drink						
Recreation and leisure						
Eating out						
Health and beauty						
Clothing / footwear						

3. What, if anything, would make you spend more money in (xxx) on the following?

	Choice	Cheaper prices	Better parking	Better transport	Better quality
Food and drink					
Recreation and leisure					
Eating out					

Other? Please tell us more

4. How many are there in your household?

	0	1	2	3	4	5+
16-64						
65+						
Under 16						

5. *Is there anything else you would like to tell us?*
6. *To thank you for your time we are running a prize draw to be drawn on 28th October 2020 where you could win £25. If you would like to take part, we need your name, address, telephone number and email address*
7. *Would you be willing for us to contact you separately?*
 - a. *Yes*
 - b. *No*
8. *Would you like to receive our fortnightly newsletter where we keep you up to date with the project?*
 - a. *Yes*
 - b. *No*

Appendix 2 – Breakdown of survey data

Household composition

A breakdown of the data of household composition in each community

Single person households

- Treharris = 29% (17% working age, 12% pensionable age),
- Treherbert = 39% (26% working age, 13% pensionable age),
- Cwmafan = 34% (23% working age, 11% pensionable age),

Two person households

- Treharris = 65% (41% working age, 5% pensionable age, 19% under 16),
- Treherbert = 71% (45% working age, 11% pensionable age, 15% under 16),
- Cwmafan = 59% (34% working age, 11% pensionable age, 14% under 16),

Three person households

- Treharris = 24% (15% working age, 9% under 16)
- Treherbert = 18% (15% working age, 3% under 16)
- Cwmafan = 24% (19% working age, 5% under 16)

Four person households

- Treharris = 19% (all working age)
- Treherbert = 7% (all working age)
- Cwmafan = 9% (8% working age, 1% under 16)

Five or more person households

- Treharris = 3% (all working age)
- Treherbert = 3% (1% working age, 2% under 16)
- Cwmafan = 3% (2% working age, 1% under 16)

Household spending on food and drink

A breakdown of those households who responded to spending £25 or more on food and drink in the immediate locality:

Treherbert (80%)

- 35% of households with person(s) of working age
- 7% of households with person(s) of pensionable age
- 38% of households with person(s) of working, pensionable age and under 16)

Treharris (81%)

- 28% of households with person(s) of working age
- 4% of households with person(s) of pensionable age
- 49% of households with person(s) of working, pensionable age and under 16)

Cwmafan 78%)

- 37% of households with person(s) of working age
- 8% of households with person(s) of pensionable age
- 33% of households with person(s) of working, pensionable age and under 16)

Household spending on clothing and footwear

A breakdown of those households who spent £25 or more on clothing or footwear in the immediate locality:

- Treherbert = 14%
 - 3% of household with person(s) of working age
 - 11% of household with person(s) of working, pensionable age and under 16
 - 0% of household with person(s) of pensionable age
- Treharris = 13%
 - 4% of household with person(s) of working age
 - 8% of household with person(s) of working, pensionable age and under 16
 - 2% of household with person(s) of pensionable age
- Cwmafan = 9%
 - 4% of household with person(s) of working age
 - 5% of household with person(s) of working, pensionable age and under 16
 - 1% of household with person(s) of pensionable age

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