

The Economic Impact of Merthyr Valley Homes

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1 Background and Introduction

This short research note details the economic impact of Merthyr Valley Homes (MVH), a mutual housing association based in the Gellideg area of the town. We estimate the economic value to Wales of MVH organisational activities in a single year, here the financial year 2021-22.

This report is part of a larger project supported by Cardiff University and the ESRC Impact Acceleration Account entitled *Low Carbon Community, Low Carbon Economy: Building Re-localised, Sustainable and Prosperous Communities*. This project aims to help communities (including ‘institutional communities’ like MVH) understand and improve their socio-economic and environmental baselines, impacts and opportunities when facing our challenging future¹.

We are able, through our modelling framework, to assess how the ‘onsite’ organisational activity – some £21m of income and around 220 full-time-equivalent employees – has ‘multiplier’ implications, supporting output, value added, income and employment across the region. These impacts arise from both the organisational procurement spend, and through the wages paid to employees, which add to household income and economic demand, and hence support further supply-chain economic activity and employment. Here we estimate the economic impact of MVH on Wales, and provide short commentary Merthyr Tydfil-level impact (which we do not model formally).

The following Section outlines the methodological basis of our analysis, using the *Input-Output Tables for Wales* constructed by Cardiff Business School. Our Input-Output modelling methodology used is commonly used for such analysis, and uses extensive ‘bespoke’ Welsh data, collated and standardised to a pre-pandemic 2019 baseline. The methodology adopted for the report has been widely used in Wales to assess the economic impact of industrial sectors, companies, major events, and tourism infrastructure, meaning that the results presented here will be comparable with those presented in other studies². Section Three details the results of this economic impact analysis.

¹ More information on this project is available from the current author

² See <https://www.cardiff.ac.uk/research/explore/research-units/welsh-economy-research-unit> for a selection

2 Methodology & Data

2.1 The Input Output Methodology

Measuring the *direct* economic contribution of a single organisation, company or activity is not, *per se*, a difficult task. However, there are many issues to consider when estimating the overall economic impact, particularly at small spatial scales. The methodology used to estimate contribution across the economy is Input-Output based.

This method accounts for supply chain impacts (e.g. as a business demands goods from its suppliers, who then must also expand output and make demands on their own suppliers); and income effects, where wages are spent with the economy, be this national, regional or local. Input-Output (I-O) approaches are usually accompanied by a discussion of these ‘multiplier’ impacts relating to indirect impacts on employment, income, or output³.

Whilst I-O is a widely accepted method it has several drawbacks. Firstly, it does not account for any crowding out or displacement effects; for example if (in this case) MVH uses scarce resources or labour that would have been employed elsewhere. Secondly, whilst we can be accurate in our presentation of first-round ‘Tier 1’ purchases, further rounds of supply chain impacts (including use of imports to Wales and use of labour) are assumed to follow the Welsh-average case, rather than the behaviours of MVH suppliers specifically (as is the spending by MVH employees’ households consequent on their wages).

Thirdly, whilst the Input Output Tables for Wales present 64 industrial sectors for analysis, we assume that *within* each sector, MVH spending and activity follows a ‘Wales-typical’ pattern: we cannot, for example model the differential impacts of refitting a bathroom compared to refitting a kitchen. Whilst in practice these within-sector differences are likely to have a minimal impact on aggregate results they should not be forgotten.

Despite the above issues, I-O is the most useful tool for examining economic impacts at smaller spatial scales, particularly as in this case bespoke I-O tables exist for Wales, and we have detailed information from MVH covering its operational spend.

³ For a full discussion see Miller, R. E., & Blair, P. D. (2009). *Input-output analysis: foundations and extensions*. Cambridge university press.

2.2 Data

Merthyr Valley Homes provided the research team with a detailed set of data covering its financial and operational activities including;

- An accounting of income by source
- Expenditure by detailed commodity and type of service, including sub-contract and recharges
- Geographic location of supply (*where available; estimated by the research team where not*)
- Estimates of employment, by full time, part time and temporary staff
- Estimates of wage spend including NI and pensions.

These data on 'direct' activities inform our input to the I-O modelling process. A number of steps are required before we can undertake this step;

- VAT is removed from the purchases (as this does not accrue to Wales, immediately at least)
- Purchases from outside the region are removed
- Items reported as outgoings but which do not comprise an economic demand are removed – for example depreciation of assets, and various capitalisations
- Pensions, NI and taxed are deducted from reported gross wage spend to as these do not represent disposable household income that has multiplier impacts.

Following this process, we estimate that of a total of around £21m current outgoings (including wages)⁴, MVH spent around £6.7m on Welsh goods and services, and with over £5m of wage-related additional disposable income also adding to regional demand⁵. This economic demand produces multiplier impacts described in the next Section.

⁴ Split roughly equally between wages and non-wage outgoings

⁵ This total comprises wages after Employer's and Employee's NI and pension payments are removed. Households will, of course spend some of this income on non-Welsh goods and services which the modelling also discounts.

3 Results

3.1 The Economic Impact of Merthyr Valley Homes

The turnover of MVH in 2021-22 was almost £22m, and with the organisation employing around 220 FTEs. This direct activity resulted in another (almost) £10m of output created in the supply chain with 'induced' wage effects adding another £4.4m. Total economic impact, in terms of output/turnover, thus totalled £36.2m)

Figure 1 The Economic Impact of MVH

| | Output/Turnover (£m) | Gross Value Added (£m) | Employment (FTEs) |
|--------------------------------|-----------------------------|-------------------------------|--------------------------|
| MVH Direct | 21.9 | 11.5 | 220 |
| Indirect (supply chain) | 9.9 | 5.3 | 103 |
| Induced (wage effects) | 4.4 | 2.5 | 39 |
| Total Economic Impact | 36.2 | 19.3 | 362 |
| <i>Multiplier</i> | <i>1.65</i> | <i>1.68</i> | <i>1.64</i> |

We estimate that this economic activity was associated with over £19m of gross value added (GVA) in the Welsh economy, £11.5m on site and £7.8m elsewhere. Meanwhile the supply chain and wage effects of MVH activity supported an estimated 140+ jobs across the rest of the regional economy, bringing the total for supported employment to over 360.

The implied level of GVA per FTE job supported by MVH, £53,300, was broadly in line with the Cardiff City-Region average of £51,100 (for 2020)⁶, but significantly ahead of Merthyr Tydfil UA (which was £43,500)⁷.

We additionally estimate that MVH expenditure supported around £8.5m of disposable income, within the mutual and more widely across Wales.

⁶

<https://www.ons.gov.uk/economy/economicoutputandproductivity/productivitymeasures/datasets/subregionalproductivitylabourproductivitygvaaperhourworkedandgvaaperfilledjobindicesbycityregion>

⁷

<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/labourproductivity/datasets/subregionalproductivitylabourproductivityindicesbylocalauthoritydistrict>

3.2 Economic Impact by Industry

Looking in more detail at the offsite economic impacts, our modelling suggests that economic impacts occur across all sectors of the economy (especially for induced household spend). However, key expenditures include the hiring of subcontracted tradespeople for housing maintenance and upgrade etc., with further rounds of employment also supported along the supply chain; and demand for professional services (such as architects, legal & financial); and for non-construction property-related services, including groundspeople, wardens etc.

These economic and employment impacts are reported for broad sectors in Figure 2 – and are of course in addition to the direct employment of tradespeople, officers and specialists directly at MVH.

Figure 2 The Offsite Sectoral Economic Impact of MVH Expenditure

| Sector Impacts | Output/Turnover (£m) | Gross Value Added (£m) | Employment (FTEs) |
|---|-----------------------------|-------------------------------|--------------------------|
| Primary & Manufacturing | 1.4 | 0.5 | 7 |
| Repair, Energy & Construction | 4.4 | 1.9 | 30 |
| Private Services | 7.4 | 4.6 | 84 |
| Public Services, Community & Other | 1.1 | 0.8 | 21 |
| Total offsite | 14.3 | 7.8 | 142 |

3.3 Assessing the Very Local Impacts

Our Input-Output methodology does not allow us to formally estimate the level of gross value added or employment supported locally in Merthyr (town or CBC). However, as a deeply embedded and mutually-constituted organisation, MVH has worked hard to develop its local supply chain. We note that there are significant concentrations of local spend, including;

- Materials for property repairs, with over £1m sourced from local suppliers
- Well over £0.5m of contracts with local firms for reactive repairs and call outs
- A range of specialist services provided from within the town, including for uniforms, plant hire, scaffolding and gardening

- Donations and support to a variety of local charities, non-profit membership groups and tenants for social and educational uses.

Whilst the economic impacts of these contracts and expenditures is hard to quantify at this spatial scale, the role of MVH as a key local ‘anchor’ institution – supporting Merthyr’s SMEs and social enterprises – should not be underplayed.

4 Conclusion

This short research note has demonstrated the economic significance of Merthyr Valley Homes, not just onsite, but in its supply chains, and more widely as employees spend their wages in the regional (and local) economy. Also notable of course is the fact that MVH is a mutual organisation, with a strong set of values that drives a desire to support local incomes, businesses and social enterprises through its procurement, and to help support local prosperity more generally.

These values also inform a recognition that such prosperity must be inclusive, sustainable, nature-friendly and climate-responsible – as must its own actions, policies and strategies. In this spirit a future research note will report on the greenhouse gas emissions baseline of Merthyr Valley Homes; an analysis that will help drive a strategy for net-zero which is itself nature-friendly and inclusive.