Regulatory challenges and impacts on hospitality: a case study of Scotland's self-catering sector

Fiona Campbell & Masood Khodadadi

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Regulatory challenges and impacts on hospitality: a case study of Scotland’s self-catering sector

Fiona Campbell and Masood Khodadadi

This study explores how Scottish Government regulations impact self-catering businesses post-short term let legislation. Survey findings highlight adverse effects including reduced competitiveness and increased costs. Guided by ‘Better Regulation’ principles, it identifies unintended consequences, urging policymakers to collaborate and adopt a data-driven approach. The research calls for legislative review to improve regulatory outcomes, contributing to broader discussions on tourism regulation and enhancing transparency in Scotland’s self-catering sector.

1. Introduction

Self-catering properties are crucial for Scotland’s local economies, especially in rural areas, supporting tourism and businesses. However, the rise of short-term rentals has led to regulatory challenges globally. The Scottish Government has introduced a licensing regime via The Civic Government (Scotland) Act 1982 (Licensing of Short-Term Lets) Order 2022 (Scottish Government, 2023a) and The Town and Country Planning (Short-Term Let Control Areas) (Scotland) Amendment Regulations 2022 (Scottish Government, 2023b). From 1 October 2023, a licence is required to offer a short-term let, including holiday cottages, B&Bs, guest houses, rooms within a home, and unconventional accommodation such as pods and yurts. This licence is a legal obligation, even for occasional lets. Operating without a short-term let licence is a criminal offence. Local authorities can also designate Planning Control Areas, where planning permission is required as part of the licence for self-catering units. Governments aim for ‘Better Regulation’, but these efforts often adversely affect legitimate self-catering businesses. The Association of Scotland’s Self-Caterers (ASSC) conducted a survey on Short-Term Let (STL) regulations, aligning with the government’s New Deal for Business initiative (Scottish Government, 2023c,d). While the Scottish Government seeks to alleviate regulatory burdens, the practical implementation of these measures prompts further scrutiny. The self-catering industry contributes significantly to Scotland’s economy, representing a wide array of properties. With over 1,700 members, the ASSC plays a pivotal role in shaping the future of Scotland’s tourism economy, ensuring a thriving self-catering sector. This paper aims to explore the impacts of STL regulations on self-catering businesses and provide evidence-based recommendations for policymakers.

CONTACT Masood Khodadadi Masood.Khodadadi@uws.ac.uk

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1.1. Research contribution, originality, and implications

This study explores the impact of Scotland’s Short-Term Let (STL) regulations on the self-catering industry, highlighting unintended consequences of the current approach. By examining stakeholder feedback, it reveals challenges to business operations, public perception, and financial stability, underscoring the need for more balanced regulation. The research focuses on the Scottish context, offering insights for fostering a thriving self-catering sector while ensuring public safety. It examines principles of proportionality, consistency, accountability, transparency, and targeting in short-term rental markets, providing a framework for assessing regulatory impacts in tourism. This contributes to designing regulations that support industry growth without compromising public welfare.

2. Methodology

The study employed a mixed-methods approach to evaluate the impact of Scotland’s Short-Term Let (STL) regulations on the self-catering industry, combining both qualitative and quantitative data. This approach was chosen to provide a comprehensive understanding of the regulations’ effects and to capture diverse business experiences (Creswell, 2022).

2.1. Survey instrument and data collection

The research utilised an online survey administered by the Association of Scotland’s Self-Caterers (ASSC) from April 11th to 16th, 2024. The survey included 39 questions, both quantitative and qualitative, designed to assess the effects of the STL regulations, specifically focusing on the Civic Government (Scotland) Act 1982 ( Licensing of Short-Term Lets) Order 2022 and The Town and Country Planning (Short-Term Let Control Areas) (Scotland) Amendment Regulations 2022. These questions explored various aspects, including financial impacts, administrative burdens, and business confidence. The survey also contained compelling case studies produced by business owners, illustrating the real-world impact of these regulations on small business owners across Scotland. Respondents were asked about the location and type of their properties, the number of units and bed spaces they manage, and the overall impact of the STL regulations on their business operations. They provided detailed information on the costs associated with obtaining STL licences and planning permissions and evaluated whether the STL regulations met policy objectives, such as improving health and safety, addressing anti-social behaviour, and returning housing stock to residential use. Additionally, the survey addressed the administrative impact on public services such as Police Scotland and the Scottish Fire and Rescue Service. Participants shared their views on the effectiveness of the current regulatory framework and proposed potential amendments, including the benefits of a national scheme, greater consistency across local authority licensing schemes, and a simple, cost-effective self-certification registration scheme with mandatory health and safety compliance. The survey garnered 531 responses, representing 7,045 bed spaces and over 2,000 properties (Table 1).

Table 1. Survey Data Overview.

<table>
<thead>
<tr>
<th>Category</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Survey Platform</td>
<td>SurveyMonkey</td>
</tr>
<tr>
<td>Survey Duration</td>
<td>April 11th to April 16th, 2024</td>
</tr>
<tr>
<td>Number of Respondents</td>
<td>531</td>
</tr>
<tr>
<td>Percentage of ASSC Members</td>
<td>70%</td>
</tr>
<tr>
<td>Location of Respondents</td>
<td>50% in rural locations or on islands; 50% manage only 1 property (70% manage 1-2 properties)</td>
</tr>
<tr>
<td>Types of Operators</td>
<td>92% self-catering operators; additional representation from other short-term let types</td>
</tr>
<tr>
<td>Regions Represented</td>
<td>Majority in Highlands or Edinburgh</td>
</tr>
<tr>
<td>Total Bed Spaces Represented</td>
<td>7,045</td>
</tr>
<tr>
<td>Total Properties Represented</td>
<td>Over 2,000</td>
</tr>
</tbody>
</table>
2.2. Sampling procedure

To ensure a representative sample, the survey was distributed via various channels, including newsletters, social media, and through partners such as the Scottish Tourism Alliance and Destination Management and Marketing Organisations. This multi-channel distribution aimed to reach a broad audience within the self-catering sector, encompassing both ASSC members and the wider community. The survey garnered 531 responses, with 70% from ASSC members, and included substantial representation from rural and island areas (Table 1).

2.3. Data analysis

Data were analysed using descriptive statistics and thematic analysis. Descriptive statistics quantified responses and identified key trends, while thematic analysis explored qualitative insights from open-ended questions and case studies. This mixed-methods approach provided a nuanced understanding of the regulations’ impact on the self-catering industry.

3. Findings and analysis

The Scottish Government’s Short-Term Let (STL) regulations have had a profound impact on self-catering businesses in Scotland, with quantitative survey data revealing extensive negative outcomes. These findings raise questions about the appropriateness of the regulatory framework and its unintended consequences, particularly in a sector that plays a crucial role in Scotland’s tourism economy (Table 2).

3.1. Operational and financial impacts

The survey showed that over three-quarters of respondents reported a negative or extremely negative impact on their business operations due to STL regulations. This high percentage is alarming, indicating significant operational hurdles created by the new regulations. These regulations stifle innovation, with 86% of respondents feeling less inclined to innovate under the current framework, Table 2.

<table>
<thead>
<tr>
<th>Key Findings</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Negative Impact on Business Operations</td>
<td>77%</td>
</tr>
<tr>
<td>Stifled Innovation</td>
<td>86%</td>
</tr>
<tr>
<td>Reduced Competitiveness</td>
<td>72%</td>
</tr>
<tr>
<td>Adversely Impacted Public Perception</td>
<td>64%</td>
</tr>
<tr>
<td>Damaged Business Certainty and Confidence</td>
<td>82%</td>
</tr>
<tr>
<td>Alignment with Better Regulation Principles</td>
<td>Most businesses believe regulations do not align with principles of proportionality, consistency, accountability, transparency, and targeting</td>
</tr>
<tr>
<td>Inconsistency in Licensing Fees</td>
<td>Some paying £2,500 for one property; need for fairness and cost recovery adjustments up to £9,000 for licensing applications; £1,000 to £4,500 for planning permissions or certificates of lawfulness</td>
</tr>
<tr>
<td>Cost of Compliance</td>
<td>82% describe it as ‘detrimental’ or ‘significantly detrimental’; 12% as ‘devastating’</td>
</tr>
<tr>
<td>Financial Burden on Businesses</td>
<td>92% report significant burden; 82% believe it impacts relevant authorities</td>
</tr>
<tr>
<td>Administrative Burden</td>
<td>46% believe it has not been met</td>
</tr>
<tr>
<td>Effectiveness in Improving Health and Safety</td>
<td>70% believe the policy has failed</td>
</tr>
<tr>
<td>Addressing Anti-Social Behaviour and Amenity</td>
<td>88% do not believe regulations have increased residential housing stock</td>
</tr>
<tr>
<td>Impact on Housing Stock</td>
<td>92% advocate for a simple, cost-effective self-certification registration scheme with mandatory health and safety compliance</td>
</tr>
<tr>
<td>Preferred Alternative</td>
<td>92%</td>
</tr>
</tbody>
</table>

Table 2. Summary of Key Findings.
aligning with Sigala’s (2017) findings on restrictive regulations limiting sector innovation. Additionally, 72% reported that STL regulations reduced their competitiveness, potentially disadvantaging the Scottish tourism industry in a broader context. Business confidence has also been severely impacted, with 82% stating that STL regulations undermined their market confidence and future business prospects, mirroring Dogru et al.’s (2020) findings on regulatory uncertainty creating instability.

The qualitative data support these quantitative findings, revealing widespread criticism of STL regulations and their implementation. Many respondents described the regulations as chaotic, with different councils interpreting and applying them variably. This inconsistency and the perceived cumbersome bureaucratic approach have significantly strained the self-catering industry, resulting in decreased accommodation availability, locals being priced out of the market, and reduced visitor numbers, all affecting local economies and tourism-dependent businesses. These outcomes echo Yeon et al.’s (2022) discussion on the unintended consequences of regulatory frameworks hindering economic growth and community stability.

3.2. Public perception and administrative burden

Nearly two-thirds (64%) of businesses noted that STL regulations adversely affected the public perception of their business, potentially leading to reduced bookings and financial stress. This aligns with Guttentag’s (2015) work on regulatory frameworks impacting public views of traditional accommodation providers. The survey also revealed substantial discrepancies in licensing fees across Scotland, raising fairness concerns, with some businesses paying significantly more for the same licensing, contributing to unpredictability and injustice in the regulatory environment. Compliance costs are another issue, with businesses reporting expenses of up to £9,000 for licensing applications and planning permission costs ranging from over £1,000 to £4,500. These financial burdens pose substantial obstacles for small businesses and sole proprietors, leading to detrimental financial outcomes. The qualitative data further highlight significant administrative challenges introduced by STL regulations, with 92% of businesses indicating substantial administrative burdens for both them and relevant authorities. This burden has led to delays in processing licences and compliance checks, complicating business operations and contributing to frustration among business owners.

3.3. Regional disparities and need for national framework

Operators express frustration with planning requirements, particularly the need for Certificates of Lawfulness for established businesses, creating confusion and uncertainty, potentially deterring new market entrants and stifling growth. Respondents strongly prefer a national scheme to replace the current fragmented system of 32 different local authority schemes. A unified national scheme is seen as a way to establish consistent standards, reduce administrative burdens, and ensure fair competition, aligning with OECD (2012) on the benefits of uniform regulatory frameworks improving compliance and reducing costs. A national scheme could also lead to more efficient resource allocation for enforcement and compliance, streamlining the process for both operators and authorities.

3.4. Impact on public services

The administrative burden also extends to public services such as Police Scotland and the Scottish Fire and Rescue Service, which are already under-resourced. The additional workload from STL regulation enforcement diverts resources from essential functions, potentially compromising public safety and emergency response times, echoing Van de Walle’s (2016) concerns about administrative burdens on public services. This diversion of resources means that these critical services may struggle to respond effectively to emergencies, impacting their ability to ensure public safety and
welfare. Furthermore, the increased administrative demands can lead to longer response times and reduced efficiency in handling incidents, ultimately eroding public trust in these essential services. This strain on public services highlights the need for regulatory frameworks that balance enforcement with the capacity of public agencies, ensuring that the primary functions of these services are not compromised by the additional regulatory responsibilities.

4. Implications for business owners and authorities and recommendations for policymakers

The findings suggest that STL regulations are imposing substantial financial, administrative, and operational burdens on business owners, leading to widespread dissatisfaction. The cost of compliance, combined with the complexities of navigating the regulatory landscape, has created an environment where business owners feel constrained and unable to operate efficiently. Moreover, these burdens have had a ripple effect on public authorities responsible for overseeing and enforcing the regulations. The increased workload and lack of resources have led to delays in processing licences and compliance checks, further complicating the process for business owners and creating additional challenges for authorities. Given the significant impact on both businesses and public authorities, there is a clear need for a review of the current regulatory framework. A more streamlined approach, potentially through a national scheme with consistent standards, could address many of these concerns, offering a more efficient and fairer regulatory environment for all stakeholders involved.

Policymakers need to align regulations with their intended objectives and collaborate with industry stakeholders to prevent unintended adverse effects. Regulations on short-term lets, whether national or local, should be based on robust data, recognising rural tourism’s role in societal health and local economies. They must align with Better Regulation principles (Baldwin, 2010), ensuring proportionality, consistency, accountability, transparency, and targeting. Given the survey findings, there’s a need for a comprehensive review of legislation on short-term lets. This review should incorporate the Scottish Government’s New Deal for Business recommendations (Scottish Government, 2023c,d), supporting streamlined and effective regulation. Policymakers should engage with businesses and follow the priorities set by the Regulation Improvement Advisory Group to avoid undue regulatory burdens. To improve transparency and understanding of regulations, the survey results should be integrated into ongoing information-gathering efforts under the New Deal for Business framework. Considering the ongoing recovery from the Covid-19 pandemic and the current cost of living pressures, the Scottish Government should support the tourism sector to help revive the economy and ensure Scotland’s hospitality remains attractive to both domestic and international visitors.

5. Conclusion

This study highlights significant concerns and negative impacts of Scotland’s Short-Term Let (STL) regulations. Operators express frustration with licensing processes and fear damage to the sector, including job losses and reduced economic contribution. Regional disparities compound worries, particularly in remote areas. The heavy regulatory burden has led to business closures and reduced bookings. The study suggests current regulations fail to meet their objectives and calls for a thorough review guided by Better Regulation principles. This research contributes to the ongoing debate about balanced regulation, offering evidence-based insights for legislative improvements.

Disclosure statement

No potential conflict of interest was reported by the author(s).
ORCID

Masood Khodadadi http://orcid.org/0000-0002-5122-6443

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