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Scotland's accommodation sector – A qualitative case study of business experiences



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SRUC-E1-1: Novel insights on Scotland's rural and island economies (NISRIE)

Deliverable D1.3i: Annual sectoral case study report



Project Background

- The Scottish Government funds a [five-year \(2022-2027\) programme of strategic research through the Rural and Environment Science and Analytical Services \(RESAS\) Division](#) to advance the evidence base through the Environment, Natural Resources and Agriculture (ENRA) Research Portfolio.
- **Rural Futures** is one of five themes within the strategic research programme. Within Rural Futures, three research topics are focused on issues relating to: the **rural economy, rural communities, and land reform**. There are two projects within each topic led by Scotland's Rural College (SRUC) and the James Hutton Institute (JHI). Within the rural economy topic, the two projects are:
 - [Novel insights on Scotland's rural and island economies \(NISRIE\)](#).
 - Informing a socially and spatially just future for the Scottish rural economy: pinpointing opportunities, assets and support needs.
- The first project, **NISRIE**, is led by SRUC and aims to provide new data insights on a range of themes, including: (i) rural enterprises and workforce from analysis of secondary data, and through qualitative case studies; (ii) emerging concepts and best practice relating to community wealth building; (iii) impacts of agricultural policy evolution in a just transition; (iv) the contribution of regional food economies; (v) new experimental concepts on economic peripherality; and (vi) assessment of challenges regarding economic infrastructure (affordable housing, transport and digital connectivity). This report is an output of the NISRIE project.
- We aim to provide a more robust evidence base to support local, regional and national policy making. The project is closely linked to SRUC's rural communities' project: Reimagined Policy Futures: Shaping sustainable, inclusive, and just rural and island communities in Scotland ([ReRIC](#)). Through our [Rural Exchange](#) we will produce accessible evidence, including written publications, open datasets, podcasts, blogs and other online material available to all.



Rural & Environmental Science and Analytical Services



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Highlights

What were we trying to find out?

- This research explores **recent, current and future challenges and opportunities facing accommodation businesses**, a sector which has a vital role to play in the economic and social vibrancy of many rural and island communities across Scotland. The research provides a picture of the recent **‘real life experiences’ of these businesses** in a period which has seen the UK leave the EU, the Covid-19 pandemic and the cost of living crisis, in addition to other legislative and policy developments.

What did we do?

- The NISRIE team undertook in-depth, online qualitative interviews with a number of owners/managers from accommodation businesses in rural and island communities, and individuals from business representative organisations from the tourism sector. The sample included a range of ownership structures and business types in a geographical spread of locations across rural and island Scotland.

What did we learn?

- Accommodation businesses in rural and island communities have been greatly affected by the **“triple crises” of Brexit, the Covid-19 pandemic and the current high cost of living**, which have all brought individual challenges but have **compounded one another** for the sector. Brexit and Covid-19 are reported to have exacerbated long-standing **labour recruitment and retention challenges** in the sector (particularly for larger businesses) – particularly as skilled overseas workers left the UK or chose not to come, and positions have not been taken up by local workers.
- Recently, businesses are also having to deal with **higher wage costs** due to the labour market becoming more competitive. Further, recently **domestic and international visitor numbers have been much reduced** as a result of the cost of living crisis and depleted household savings, alongside Covid-19 lockdowns and travel and social mixing restrictions.
- Some businesses had been **forced to close or downsize** (or at least open for shorter hours, fewer days, reduced accommodation capacity); some had **chosen to close** perhaps as the owner was **approaching retirement** anyway; and some business owner/managers had experienced **increased stress and mental health** concerns as a result of the challenges of the last few years.
- The ongoing cost of living crisis has lengthened the difficult period for accommodation businesses, with some owners reporting customers returning less frequently, for shorter stays and/or staying self-catering and eating in more often during their stay (with associated knock on impacts for other local businesses such as restaurants and pubs). Notably, visitors still expect high levels of service but are very conscious of what they are paying.

- **Financial support** available from both public and private sources has **helped many businesses survive**. Additionally, many have either chosen, or been forced out of necessity, to **diversify their business offering to increase resilience** through this challenging period - for example offering accommodation for key workers rather than tourists - or **to delay investment in the business** (including to 'green' businesses).
- These **changes have been time- and resource-intensive**, particularly for the smallest micro businesses and sole traders. The perception of interviewees was that there is: (a) a lack of understanding amongst policymakers of the specific **characteristics of, and challenges faced, by rural and island businesses**; and (b) **insufficient joined up thinking** across Government policy and legislative developments that created a complex and rapidly changing situation for businesses that were difficult to deal with.
- Interviewees reported several other challenges that rural and island accommodation businesses had experienced recently, including:
 - The lack of **affordable housing available locally** for workers, partly due to the number of properties that had been turned into accommodation for visitors - exacerbated further by the high proportion of people working in the sector and reliant on low and seasonally variable wages.
 - **Poor public and private transport infrastructure** for both workers and visitors (including ferries, electric vehicle charging points and road networks).
 - Unreliable digital connectivity.
 - The **seasonality of operations and the higher cost of energy** making it harder to stay open just for locals during the winter (even though socially this is important for many older residents).
 - The 'one-size-fits-all' approach to legislation.
- At the same time, interviewees also mentioned a number of opportunities, including: (i) the qualities of their rural and island locations giving options in terms of **offering premium and unique experiences** (ii) the growth in importance of **agritourism and health and wellbeing related experiences**; and (iii) and the **strength of links between businesses and their communities**.
- Some business owners/managers rely on formal sources of business support (such as from the local authority) but **many relied on contacts in their local community and friends/family for help when they needed it**, or they simply troubleshooted the problem themselves. Financial and other support was available during the Covid-19 pandemic, and relating to Brexit, and this was helpful, but blanket **rules which do not take account of business size, location and other circumstances meant that access for some was challenging**. It was acknowledged that there is support available, but it was sometimes confusing and hard for businesses to know where to find it.

What do we recommend?

- On the basis of the evidence from the interviews, we would suggest the following issues be considered by policymakers seeking to support businesses across rural and island communities in Scotland:
 - Improving the recruitment and retention of skilled labour.
 - Addressing the long-standing issue of a shortage of housing supply and its unaffordability.
 - Ensuring reliable, **good quality transport infrastructure** (public and private, on land, sea and by air) and **digital connectivity**.
 - Improving understanding of the circumstances, challenges and opportunities of rural and island businesses.
 - **Engaging rural and island accommodation businesses** in designing new legislation and policies from the outset and on a continuous basis is critical to achieving their buy-in.
 - Ensuring **policies and legislation are much more joined-up** to ensure clarity and reduce complexity for businesses.
 - Supporting businesses to achieve **greater environmental sustainability** and to demonstrate their 'green' credentials.
 - Ensuring policies and legislation, where possible, are **flexible enough to recognise different circumstances**.
 - Monitoring the ongoing impacts of the cost of living crisis, including higher energy prices, for businesses.
 - **Facilitating the growth of new tourism activities**, including health and wellbeing type experiences, and of the sustainable growth of local economies, including through the community wealth building or circular economy legislation.
 - Recognising the **role of rural and island businesses in their wider communities**, beyond simply creating income and jobs and encouraging supportive business networks to form.



Table of Contents

Project Background	i
Highlights	ii
What were we trying to find out?.....	ii
What did we do?	ii
What did we learn?	ii
What do we recommend?	iv
1 Introduction	1
2 Methodological approach	1
3 The size and scale of Scotland’s tourism sector	2
4 Qualitative data about the accommodation sector	5
4.1 The “triple crises” of Brexit, the Covid-19 pandemic and the cost of living crisis – the need for resilience and adaptability	5
4.1.1 Brexit	5
4.1.2 Covid-19	6
4.1.3 Cost of living crisis.....	9
4.2 Looking ahead: Key challenges and opportunities facing rural and island accommodation businesses	11
4.2.1 Challenges	11
4.2.2 Opportunities	16
4.2.3 Business support for rural and island accommodation businesses	19
4.3 What key things need to change in future to better support rural and island accommodation businesses?	22
5 Key Findings and Recommendations.....	24
6 Policy Recommendations.....	26

1 Introduction

1. This report describes the key findings from qualitative interviews undertaken with business owners/managers operating in the accommodation sector across rural and island Scotland and representatives of business support organisations from the tourism sector. Interviews focused on asking these individuals about recent (i.e. over the last few years since the Brexit referendum, in the run up to the UK leaving the EU, and the Covid-19 pandemic), current (i.e. at the time of the interviews in late 2022/early 2023) and future challenges and opportunities facing a sector which has a vital role to play in the economic and social vibrancy of many rural and island communities across Scotland.
2. This qualitative work is designed to complement the quantitative analysis of secondary data sources which is also taking place in the [NISRIE project](#) and to provide a picture of the recent 'real life experiences' of businesses operating in key sectors.

2 Methodological approach

3. The Scottish Government requested insights into the recent experiences of rural and island businesses operating in economic sectors that are important to the Scottish economy and particularly to rural and island communities. Existing quantitative evidence suggested that the impacts from Brexit, the Covid-19 pandemic, and the current cost of living crisis were being particularly keenly felt in the tourism sector, which plays an important role in rural and island economies. This sector was therefore chosen as a focus of this qualitative work of the [NISRIE project](#).
4. Members of the research team undertook in-depth, online qualitative interviews with a small number of individual business owners/managers in rural and island locations, and individuals from business representative organisations operating across the sector. The businesses were chosen to ensure that a range of ownership structures and business types, in an appropriate geographical spread of locations across rural and island Scotland, were represented.
5. Ethical approval for the interviews was obtained from SRUC's Social Science Ethics Committee and from RESAS through their Social Research Approval process. All interviewees were sent an information sheet and consent form in advance of the conversation and interviews were recorded (with permission) for subsequent transcription and thematic analysis. The interviews were undertaken in late 2022/early 2023.
6. The interviews followed a common structure in terms of topics to be covered, and interviewers endeavoured to cover the same questions in the same order in each conversation. However, as one of the strengths of semi-structured interviews, interviewees were given the flexibility to discuss some issues in more detail if they were of particular interest and/or relevance to their business and/or organisation. No

interviewees or their businesses/organisations are referred to by name in this report to maintain anonymity and confidentiality.

7. The issues discussed in each interview included:
 - The key challenges arising for the sector/business as a result of Brexit, the Covid-19 pandemic and the current cost of living crisis, and ways in which the sector/business has responded.
 - How the sector/business uses digital technology and how reliability, speed, etc. impact on how businesses operate.
 - How wider structural factors such as access to housing and transport impact on the business/sector.
 - How important environmental and/or social considerations are to the business/sector (e.g. any changes implemented to business strategy to enhance positive social/environmental impacts).
 - How these challenges/opportunities impact on individual business owners, their families and the wider communities in which businesses are situated; any ways in which the impacts differ across different demographic groups (e.g. women, workers from overseas, etc.).
 - The extent and type of business support accessed by businesses and their experiences of accessing it.
 - What lessons can be learned from experiences over the last 2-3 years
 - Identifying one or two key policy messages for the Scottish Government and/or another agency or organisation.
8. Taking a thematic analysis approach based around these issues, this report discusses the key findings from the interviews with businesses and business representative organisations in the accommodation sector. Before reporting the interview findings in [Section 4](#), [Section 3](#) first presents some contextual information on the size and scale of the tourism sector in Scotland, of which accommodation activities form a part. [Section 5](#) summarises the key findings and [Section 6](#) draws out some emerging policy suggestions based on the evidence collected from interviewees.

3 The size and scale of Scotland's tourism sector

9. The tourism sector is a critical part of Scotland's economy, with some claims that "*tourism's value to the economy is disproportionately greater in our rural and island communities*"¹. The latest insights on tourism in Scotland are summarised in a report

¹ Lennon and Greenwood (2022) The challenges facing Scotland's 'lucrative' tourism sector in 2023. The Herald 31/12/22 Available at: https://www.heraldscotland.com/business_hq/23212034.challenges-facing-scotlands-lucrative-tourism-sector-2023/

by VisitScotland published in November 2020². It was noted that in 2018-2019 (i.e. pre Covid-19) the total expenditure of overnight and day trips in Scotland was £11.6 billion- Scotland's best ever year for overnight tourism. International visitors (including from USA, Germany, France and the Netherlands) contributed £2.5 billion of that amount. In total, tourist spending generated £6 billion to Scotland's overall GDP (5%). VisitScotland report that results from their 2015/16³ survey that a key motivation for visiting Scotland for half of visitors was the scenery and landscape.

10. The Scottish Government's growth sector statistics⁴ highlight that pre-Covid, in 2019, 229,000 people were employed in tourism in Scotland (roughly 1 in 12 jobs), and they were employed across almost 15,000 businesses (about 8% of all registered businesses in Scotland). Around 23% of Scottish tourism businesses are located in rural areas in 2023 and Argyll and Bute, and Highland were reported to have the highest tourism sector business densities (i.e. a proportion of the total business base) in 2017⁵.
11. Whilst the number of registered tourism businesses has grown in recent years, there was a 40,000 reduction (13% decline) in employment between 2019 and 2020 as the effects of Covid-19 lockdown took effect. In 2022 Scottish Government data shows there were still 20,000 fewer (9% lower) employees in the sector than pre-pandemic in 2019. It is recognised that some local authorities have greater employment reliance from the tourism sector, for example Argyll and Bute (15% of total employment in 2017), Highland (13%), and Perth and Kinross (13%), and the Orkney and Shetland Islands⁶.
12. Data presented in the SPICE briefing on Scottish Tourism and COVID-19 (O'Connor, 2021⁷) shows that between March and September 2020, there was an 8.4% decrease in jobs in Scotland's accommodation and food services sector; this sector in Scotland was the worst impacted amongst the four nations of the UK, with GDP levels in December 2020 over 60% lower than in February 2020. While in absolute terms, the largest number of jobs in tourism is in Scotland's cities, the parts of Scotland most exposed to the Covid-19 related declines were predominantly rural, and particularly those local authority areas mentioned above which had high proportions of people employed in the sector.

² VisitScotland (2020) *Key Facts on Tourism in Scotland 2019*, Insight Department, published November. Available online here: [Latest Statistics Research | VisitScotland.org](https://www.visitscotland.org/binaries/content/assets/dot-org/pdf/research-insights/scotland-visitor-survey-2015-2016-motivations-to-visit-extract.pdf)

³ <https://www.visitscotland.org/binaries/content/assets/dot-org/pdf/research-insights/scotland-visitor-survey-2015-2016-motivations-to-visit-extract.pdf>

⁴ [Growth sector statistics - gov.scot \(www.gov.scot\)](https://www.gov.scot/binaries/content/assets/gov-scot/publications/growth-sector-statistics-2019-2020.pdf)

⁵ Tourism Leadership Group (2018) *Tourism in Scotland: The Economic Contribution of the Sector* [Tourism in Scotland: the economic contribution of the sector - gov.scot \(www.gov.scot\)](https://www.gov.scot/binaries/content/assets/gov-scot/publications/tourism-in-scotland-the-economic-contribution-of-the-sector-2018.pdf)

⁶ Tourism Leadership Group (2018) *Tourism in Scotland: The Economic Contribution of the Sector* [Tourism in Scotland: the economic contribution of the sector - gov.scot \(www.gov.scot\)](https://www.gov.scot/binaries/content/assets/gov-scot/publications/tourism-in-scotland-the-economic-contribution-of-the-sector-2018.pdf)

⁷ [Scottish Tourism and COVID-19 | Scottish Parliament](https://www.scottish.parliament.uk/Assets/Document/Scottish-Tourism-and-COVID-19)

13. Data from VisitScotland^{8,9} further demonstrates the impact of the Covid-19 pandemic on the sector, with reduced visitor numbers already seen in early 2020 before lockdown started in Scotland. Data collected by the Moffat Centre for Travel and Tourism at Glasgow Caledonian University¹⁰, estimated that overall visitor numbers to Scottish attractions fell by almost 34 million in 2020, a fall of 63.2%, with 153 sites closed for a full 12 month period.
14. Findings from the Scottish Accommodation Occupancy Survey (2022¹¹) demonstrate that occupancy levels across all sectors in Scotland have seen a steady rise due to a gradual recovery within the industry following Covid lockdown periods. On average, Scottish hotels, guesthouses and B&Bs, and self-catering accommodation, experienced 15%, 13% and 12% increases in occupancy levels respectively between 2021 and 2022. Revenue per available room within serviced accommodation was also to have significantly increased. Other trends highlighted by this survey include an increase in international guests and increases in stock availability as some businesses have begun trading again. Some independent guesthouses/B&Bs, however, reported a continued lull in business due to the extended effect of Covid-19, closures of tourist attractions in certain areas and the increasing popularity of Airbnb.
15. Resilience analysis of the accommodation and food services sector undertaken as part of work in Topics B4 (Food supply and security) and B5 (Food and Drink Improvement) in the Strategic Research Programme 2022-27¹² has explored the significant impacts of the Covid-19 pandemic on this sector. Using input-output data (and focusing particularly on the food and drink supply chain), this work found that between the fourth quarter of 2019 and the second quarter of 2020, the overall gross value added (GVA) in the sector as a whole declined by just over 80% as a result of the pandemic, compared to 22% for the whole of Scotland (see also Watts 2022¹³). This substantial decline also had significant knock-on impacts on other linked sectors.

⁸ [Impact of COVID-19 on Scotland's Tourism Industry | VisitScotland.org](https://www.visitscotland.org/research-insights/about-our-industry/accommodation#2022)

⁹ [Impact of COVID-19 on our international tourism | VisitScotland.org](https://www.visitscotland.org/research-insights/about-our-industry/accommodation#2022)

¹⁰ [Staycationers urged to help Scottish visitor attractions recover from COVID-19 crisis | Glasgow Caledonian University | Scotland, UK \(gcu.ac.uk\)](https://www.gcu.ac.uk/news-stories/staycationers-urged-to-help-scottish-visitor-attractions-recover-from-covid-19-crisis)

¹¹ <https://www.visitscotland.org/research-insights/about-our-industry/accommodation#2022>

¹² For more information, please see: [Frontiers | A resilience analysis of the contraction of the accommodation and food service sector on the Scottish food industry \(frontiersin.org\)](https://www.frontiersin.org/articles/10.3389/fpsyg.2022.884111/full).

¹³ Watts, D. (2022) Intense pressures remain as Scottish hospitality returns to the global stage. The Herald.

4 Qualitative data about the accommodation sector

4.1 The “triple crises” of Brexit, the Covid-19 pandemic and the cost of living crisis – the need for resilience and adaptability

16. All interviewees discussed the numerous challenges faced in the accommodation sector in recent years due to the “triple crises” (as one interviewee referred to it) of Brexit, the Covid-19 pandemic and the cost of living crisis. This section reports the evidence gathered from interviewees relating to each in turn, although as interviewees described, it is not possible to easily disentangle their impacts, as each ‘event’ resulted in challenges that have compounded one another leading to a long period of uncertainty for businesses.

4.1.1 Brexit

17. Starting with Brexit, perhaps the most important challenge discussed by interviewees related to the supply of labour. Many accommodation businesses relied heavily on labour from elsewhere in the EU. Brexit resulted in two related challenges – first, that workers from the EU left the UK in advance of the UK leaving the EU, and second, fewer people travelled to the UK from the EU to join the labour force in the run up to, and after, the UK left. Not only did this result in a reduction in labour supply, but it also led to a reduction in skill levels for the sector as these EU workers often brought a range of skills to the sector - such as foreign language abilities - that are usually not available amongst the domestic workforce available to undertake this work. One interviewee from a tourism sector organisation reported that she knew of many businesses that were finding the absence of language skills amongst domestic workers who have come into the sector a key challenge.

18. There was a sense amongst interviewees that larger accommodation businesses have been more significantly affected than smaller businesses by the labour challenges resulting from Brexit, with the latter in general tending to rely more often on local labour and/or family labour. For some small accommodation providers, there was sometimes a conscious decision to employ local people:

“I prefer to have local people serving food to guests, I think this helps provide visitors with local knowledge and information when they ask questions in the dining room”.

19. One of our interviewees reported that, anecdotally, she knew of friends operating hotel businesses on the west coast of Scotland who were only able to open part of the day, or only open a small number of rooms with guests having to pre-order their meals, as they had seen such a reduction in staff numbers because of Brexit. She reported how all of these limitations in the service provided negatively affect the visitor experience.

20. It was argued by one interviewee that the challenges brought by Brexit for recruitment in hospitality are compounded for businesses operating agriculture-based hospitality, i.e. agritourism, as both sectors have been historically reliant on

EU labour¹⁴. Even where the shortage of labour post-Brexit has not directly impacted businesses, it has often indirectly affected both the availability of labour in the wider workforce, as well as driven competitiveness in sourcing and paying for labour. Alongside the rising cost of living, this has seen many rural businesses (across all sectors) face drastically increased wage costs in recent years.

21. It is worth noting that one interviewee reflected on the long-standing challenge of accessing labour in the tourism sector in Scotland, and she argued that Brexit had accelerated the need to tackle this pre-existing challenge. She reported that the sector has always experienced challenges in terms of attracting and retaining labour due to the shift nature of the work, low average pay levels, sometimes poor working conditions and lack of diversity and inclusivity amongst the workforce. She noted that getting quality staff is critical, and staff that really want to work in the sector as: *“being able to deliver that front of house experience, it’s not for everybody”*.
22. More positively, she argued that the labour challenges relating to Brexit, and subsequently to the Covid-19 pandemic, have sped up the introduction of sector-wide initiatives to encourage young people into the sector and to upskill them. Some of these initiatives extend back to school age children to prepare them for a career in the sector throughout their school journey, for example, through emphasising the importance of language skills.
23. The second key challenge resulting from Brexit relates to the disruptive impacts on supply chains which extended into the EU, in particular relating to increased and/or changed paperwork requirements, currency-related issues, etc. As well as impacting on businesses and their suppliers, these factors also impacted on visitors with changes in exchange rates potentially discouraging people from the EU from visiting the UK, sometimes combined with a general sense of uncertainty relating to Brexit.

4.1.2 Covid-19

24. Moving now to focus on the impacts of the Covid-19 pandemic on the sector, the second part of the *“triple crises”*, perhaps the most direct impact was in terms of businesses being forced to close overnight as lockdowns and associated travel restrictions were imposed, stopping international tourism, and for some time periods, domestic tourism as well. While these restrictions had an immediate impact on visitor numbers and business cashflows in March 2020. In fact, one interviewee reported that she felt that the number of overseas visitors had been declining for a period of a couple of months before this point, when uncertainty increased and people anticipated the lockdowns that were to come, and cancelled bookings.

¹⁴ It is worth highlighting [a recent BBC News article](#) from June 2023, however, which discusses the differences between tourism and agriculture businesses, with the latter benefiting from the UK Government’s seasonal worker visa scheme which gives them access to European workers. However, this is currently only guaranteed until 2024.

25. One interviewee reported that she was aware of some businesses with workers from overseas that saw many of these workers leave as it became clear what the responses to the Covid-19 pandemic were going to be in terms of restrictions on international travel for example. She commented that the Covid-19 pandemic caused many businesses to stop trading altogether:

“People retired from the sector very similar to other sectors within the economy. I think, you know, perhaps it also shone a light on maybe, some businesses who weren't robust enough to survive. So perhaps they didn't have the right business models, perhaps, and you know there was an element of potentially survival of the fittest.

So you know where you've set up to be able to, where you're resilient enough to be able to weather that storm, and certainly unfortunately some businesses weren't able to weather that storm, whether it was the challenges of just the significant amount of debt that businesses built up during that time, the loans that they had to take, just to get them through, you know that period where they they've had to keep the buildings open, keep the lights on, but obviously with no income coming in, but having to still pay for all of that.

So, a huge amount of debt being racked up there and then that has a knock-on impact in terms of the level of cash that people then have to be able to invest in their businesses as well. So that has been a real challenge not being able to invest in the way that they would want to, because of the debt that they are left over with and therefore the quality of experience that they can then offer to their visitors becomes something quite different. So, all those bedrooms that you wanted to refurbish in your hotel, you know, have no longer been able to be done because actually you're just trying to get the revenue coming in the door...”

26. Over and above the reduction in visitor numbers, an interviewee commented on the additional challenge that faced many accommodation providers (particularly hotels) in terms of a complete pause of all events, such as conferences, weddings, Christmas parties, etc. during the Covid-19 pandemic. For some businesses, this has been a long-term challenge prolonged by the cost of living crisis.
27. Several interviewees reflected on the support packages that were put in place to help businesses forced to close as a result of Covid-19. Three interviewees, all of whom were involved in supporting other accommodation businesses as well as operating their own, highlighted the huge variability of financial support available throughout the Covid-19 pandemic for rural hospitality businesses, through public schemes as well as from insurers, but which, in their view, were based on arbitrary and unreliable metrics. Anecdotally, some businesses saw others making more from Covid-19 support grants than their businesses would usually turnover pre-Covid.
28. One island-based hotelier reported that she was able to reorient her business quickly after the Covid-19 lockdowns were imposed to ensure its survival, by providing accommodation and food for essential workers visiting the island. This meant that

her business was only closed for a short time, although the income she generated from providing key worker accommodation did not come close to the income she would have generated during a 'normal' season.

29. In a similar way, smaller businesses with multiple components to the business (e.g. a small hotel with a food and drink importing side-line, or an agritourism business that is actively farming alongside other diversified enterprises) noted the resilience gained throughout Covid-19 restrictions from being able to 'dial up' or 'dial down' the different types of enterprises. Some enterprises were initiated or scaled up (during or prior to Covid-19) out of economic necessity for business survival, or to adapt to Covid-19-safe activities (e.g. outdoor farm tours). One business was able to micromanage orders of purchased inputs such as food, laundry and labour to suit bookings and control costs, which they emphasised was less of an option for larger businesses.
30. However, this diversity of income streams was also seen as a weakness (particularly from farm-based businesses) as it meant that the business had to keep up to speed with a wide range of different changes in legislation across different sectors and activities, taking up significant time and resources. For the farm-based business, examples of this legislation included changes to post-Brexit subsidy payments, short-term let legislation, the (now delayed) deposit return scheme, employment legislation and Covid-19 support packages, in addition to social and travel restrictions as a result of Covid-19. Several interviewees felt this burden was underestimated by Government, particularly its impact on smaller and rural or island businesses, and that the challenges were exacerbated by a lack of joined up thinking across areas of policy development, and a lack of understanding about the structure and role of rural businesses.
31. In a related point, one interviewee, who operated a business themselves and also worked with a local body representing and supporting tourism businesses, noted that long-Covid and burnout had been prevalent among hoteliers throughout and since Covid-19, resulting in significant and long-term illness. Another interviewee mentioned the cumulative impacts of recent multiple challenges (including Covid-19 and the cost of living) on their mental health, stating that they were now on antidepressants. Reiterating the point made by the previous interviewee, they also emphasised that, in their view, policymakers underestimated the impact of running a business amid the crises and many changes in legislation, sometimes as a one-person 'team', with little support in some areas (for example for a farmhouse bed & breakfast) from industry bodies or organisations.
32. Another interviewee also commented on the mental health and wellbeing impacts for business owners of the last few years:

"The impact on business owners... over the last few years has been significant... I can't even express the impact that the last few years have had on some business owners and their health and wellbeing. Their mental health has been, you know off the scale, in some places, and it's been very traumatic obviously for them... seeing

businesses which have been their life's work in some case destroyed in front of their eyes, is you know, heart wrenching. It's been a very, very difficult time, and I still think it's a difficult time... because we've had Brexit, we've had Covid, we've got the current economic crisis with the cost of doing business, cost of living crisis.

But on top of that we've had a whole barrage of new legislation and policy from government as well. That's all hitting at the same time, which is more cost, confusion, complexity for businesses to deal with a time when you know they're still trying to recover and come out the end of what has been an incredibly difficult period. And so for many it, you know, it's still the case I mean, obviously the short term let legislation, particularly impacts the small accommodation sector..."

33. In terms of the impacts of Covid-19 on visitor numbers, some interviewees reported seeing an upturn in domestic visitors once Covid-19 restrictions were lifted in 2021-2, as people chose to holiday in the UK/Scotland rather than travel internationally, but this was of course accompanied by much smaller numbers of international tourists. The businesses interviewed noted that there has been a notable fall in German, Austrian, Dutch and American tourists, which previously represented a significant share of Scottish tourism. One business estimated that pre-Covid-19, around 60% of visitors were international. This decrease was largely attributed to Covid-19 restrictions on travel, although for one business which provided pet-friendly accommodation, uncertainty about travel limitations for animals post-Brexit also played a role. Most businesses interviewed, however, anticipated a much tougher year in 2023 as domestic travellers once again preferred to travel abroad, although they noted some uncertainty with this, not least due to the rising prices of overseas holidays for UK travellers.

4.1.3 Cost of living crisis

34. The third element of the “triple crises” is the cost of living crisis. As well as the short-term impact on bookings and demonstrating the compounded impacts of the three issues, one interviewee highlighted the long-term impact of honouring bookings cancelled due to the Covid-19 pandemic in 2020 in subsequent years but felt unable to increase prices in line with her increasing costs, which resulted in a decline in her profit margin. Moreover, not only was this business owner experiencing higher costs, she noted that bookings have also been down recently as a result of people reducing their spending on holidays due to the cost of living crisis.
35. Other interviewees reported further negative impacts on their business from the cost of living crisis – or what one interviewee termed, the *cost of doing business* crisis. For many businesses, this was particularly evident in terms of increased costs, with the prices of staple goods required for their accommodation business, such as food and drink, toilet rolls, etc. increasing. Operating costs for many had also increased, especially in terms of labour costs, as there is more competition in the labour market and people are having to pay more to attract and retain staff.

36. One respondent noted that they had no choice in their business but to pass on the increased costs to visitors but had also noted that the biggest hit was actually on their own personal allowance and expenses. They were also having to work harder on marketing their business and balancing out offering discounts and special rates to draw in business while still making a margin at a time of increased costs. Another business owner commented on how the increase in costs had come about at a time when many businesses had large debts as a result of the Covid-19 pandemic. While 2022 was a reasonably good year with international visitors returning and revenues up for many accommodation businesses, their profits had really been hit hard and eroded over the last few years. This creates uncertainty and concerns for businesses about how and when they can reinvest in their business and undertake refurbishments, for example to reduce their climate impact and increase their environmental sustainability.
37. One interviewee particularly focused on the negative impacts of the rising price of energy for their business, which meant that they have had to revisit their prices to ensure they can cover costs but also remain competitive. The interviewee commented that they believed energy costs had gone up to 8-10 times what they were in 2022. A large part of this was down to the cost of maintaining the hot tubs they provide with their accommodation pods. She commented that they had considered installing small-scale wind or solar energy systems at the time of setting up the business, but the cost had been prohibitive at the time (and they commented that this was still the case now).
38. In relation to the impact of the cost of living crisis on bookings, interviewees reported seeing a reduction in bookings, either in the overall quantity, the frequency of repeat customers, and/or people preferring to book shorter stays (e.g. a weekend rather than week, for a self-catering business). One interviewee, providing luxury accommodation, felt that their middle-to-high income market of customers often celebrating special life events (e.g. honeymoons, birthdays etc.) would be more resilient than other sectors, but also felt that the current financial uncertainty was more of a barrier than the actual lack of capital for stays among consumers.
39. For another interviewee, the reduction in events bookings during Covid-19 was being prolonged by the cost of living crisis as many people and businesses cut back on organising parties and other celebrations, at Christmas for example. She had observed her customers coming less frequently (i.e. for fewer weekends away per year) due to the cost of living crisis, and also spending less when they do visit, so there was an impact for her business as well as for other local businesses servicing the visitor market. For example, visitors coming to self-catering accommodation would only eat out once during their week away rather than multiple times, or people might choose not to buy an extra bottle of wine with their meal when eating out or choose not to visit the hotel spa during their stay. She went on to comment that visitors are still expecting the same quality of service, but are very conscious of the cost they are paying:

“... visitors still expect there to be high levels of quality and high levels of experience, but they're very conscious of the cost that they're paying. So it is about value, but value for money and they still want a really good experience and therefore you have the challenge of actually being able to deliver on that, because one of the biggest challenges we've got because of the workforce challenges is that businesses are still continuing to operate sort of suboptimal. They've still got reduced opening hours and got reduced services and that is having a, you know, a significant impact as well.”

40. For one relatively newly established business, the owners reflected that the last 2-3 years had been an especially steep learning curve in terms of the amount of hard work required to run a business in this sector, and the breadth of the skillset you need, from maintaining hot tubs to ensuring you do regular social media posts with good photographs on multiple platforms. For one of our interviewees, this meant drawing in a number of different family members to provide all the skills, expertise and time required. For another interviewee, the challenges of the last few years have meant:

“...that businesses have had to be resilient and look at how they could do things differently to reduce their costs, to be more efficient and therefore how they could use things like technology, for example, to help them do that.”

4.2 Looking ahead: Key challenges and opportunities facing rural and island accommodation businesses

4.2.1 Challenges

41. Interviewees mentioned a number of challenges which are currently facing rural and island accommodation businesses and were likely to remain challenges in future. For all interviewees, recruiting locally based staff was argued to be vital to keep their business operating, but a major challenge. They noted that local people often did not want to work in hospitality, but they are needed due to the absence of overseas workers in the sector as a result of Brexit. Some owners also reported having a preference for local workers to be able to provide visitors with local information if they asked, and also to maximise the economic value going to the wider rural community and its businesses.
42. A key challenge for recruiting local workers cited by all interviewees was the issue of the lack of local affordable housing. Staff who are not local need to find local accommodation in order to stay on island or in the rural location - as do young people who wish to stay locally but in their own accommodation rather than living with family. However, local housing shortages - particularly as a result of high levels of second/holiday home ownership and properties being converted to Airbnb accommodation - mean that finding suitable and affordable housing in many rural and island communities is virtually impossible. This includes property both to rent or

buy, especially as social housing provision in many rural areas and islands is limited and full (often with a waiting list).

43. Interviewees reported that in many rural and island communities a high proportion of homes have been transformed into Airbnbs or into holiday homes that are only occupied by the owning family for a small number of weeks per year or during the main tourism season by visitors who spend varying amounts of money locally. These patterns have a huge impact on island communities and local services (including pubs, shops, etc.), both during the winter when many homes are empty and during the summer when there is an influx of visitors that may be hard to manage, particularly in terms of the impact on local services. One interviewee running an island-based accommodation business, commented that the island population can change from 650-700 people during the winter to 3,500 during the summer which puts a huge stress on infrastructure. This interviewee also noted the example of a local building company that was not able to recruit new workers to fill vacancies due to the local housing shortage and so was having to turn down work.
44. Some interviewees felt that the 'one-size-fits-all' approach to rules for Airbnbs and other short-term lets had been detrimental to some local people as it did not recognise that there are many varying circumstances. For example, in some instances single Airbnbs are owned by local people (as opposed to investors outwith the area), in addition to accommodation within residential homes (e.g. spare bedrooms). One interviewee argued that some self-catering, short-term lets were traditional houses that were too small to be suitable for full time housing for local people anyway, or spare room lets in people's homes, and that these letting arrangements provided local people with a much needed income stream and resilience during difficult times.
45. One of the main challenges of running a hospitality business on an island, and indeed in many rural locations, is that it may not be possible for the business to operate all year round. As one interviewee explained, the aim in the winter months when there are few if any visitors is "*not to lose money*". For some businesses, with enough money behind them, the winter months may offer a time to refurbish rooms.
46. On the other hand, one interviewee reported that some businesses will stay open as part of a "*moral obligation*" to provide a service to locals (for example by serving lunch on some days or keeping the bar open on some nights). Apart from the provision of food, this offered an important social meeting opportunity for local residents, particularly older people. However, for this individual, opening on a limited basis has been made harder recently due to the rising cost of energy for businesses to cover, and the cost of living crisis which has made people more "*frightened to spend their money*". She also noted that these more recent challenges compound longer-term challenges that businesses on islands have always faced in terms of higher costs for basic items, such as food, and demographic change (in particular the declining and ageing population), which has meant the demand for her business from locals has been reducing, particularly during the quieter winter months.

47. One interviewee noted how the seasonality of work created a challenge for the long-term sustainability of businesses. Reliance on seasonal employment and associated fluctuations and volatility of income provides a challenge for people to obtain mortgages. So anyone wanting to purchase a house locally was reluctant to take on any employment opportunities that are not full-time, year-round. One business owner explained that they had specifically employed a young, local couple on a year-round basis so that they were able to stay in the area, and train to take over the business one day on the owner's retiral.
48. Two interviewees noted the lack of public transport options in their rural communities meaning that young people from further away were unable to travel to work in their businesses, unless they were able to run a car themselves. Where a bus did run, it was expensive and unreliable and did not run late enough for workers to travel home after an evening shift, nor early enough for someone working an early breakfast or cleaning shift. The cost of fuel and running a vehicle was prohibitive for many young people working in the accommodation sector and reliant on relatively low wages. One agritourism owner was keen and willing to build a small number of houses for workers in a less productive area of the farm but said they would not be granted planning permission to do so.
49. Transport limitations also impact on visitors, with one interviewee commenting that:

"The connectivity of being able to get visitors to our remote and island places as well... and making that easy for people is really important".

One business owner reported that they sometimes have enquiries from people who do not drive:

"They ask, what's the best way to get to us on public transport? And we say well it's not really that great... We are three miles from the nearest bus route. People don't realise quite how far we are away from the nearest village and bus route. Guests get the train up and then they have to get a bus or taxi to here. We have a local taxi service in the village, he's very good, but if it wasn't for him, they would be struggling to get here. And then the other side of the transport issue is the state of the roads in X... we were talking about this yesterday. We actually had a woman arrived here last year and we went out to greet her and she said 'Ohh what a state of that farm track we came up'. We thought she was talking about the small unadopted road that comes up past the house. No, no. She was talking about the road from the A9. We thought it was the farm road, but she was talking about the public road."

50. This business owner felt strongly that investment in the transport infrastructure would make a significant difference to the business, in particular investment in expanding the public transport network (which has been reduced in recent years) and more regular and sustainable repairs to roads.:
51. Also in terms of transport infrastructure, one interviewee commented on the need for rural and island areas to have good electric vehicle charging infrastructure, as without this, visitors would potentially be discouraged from coming. She commented

that she was aware of a number of accommodation providers who had taken advantage of recent funding schemes to install charging points at their properties for visitors.

52. Also relating to transport, the issue of reliance on ferries was mentioned by several interviewees. One interviewee commented that she understood that weather-related disruptions were always going to occur, but what has been particularly frustrating from a business point of view recently is the high proportion of timetable changes and cancellations that have been due to mechanical or maintenance issues. Her accommodation business has a policy of not charging visitors who are unable to get to the island as a result of a ferry cancellation (as she believes people would not take the risk and make the booking in the first place) but this has resulted in a significant amount of lost revenue for the business, especially during the winter months when ferry cancellations are most common (and revenue particularly low and expenditure on energy for heating particularly high).
53. Another interviewee commented that she felt that the negative press around the ferry situation recently was having knock-on impacts on visitors who were being discouraged from visiting islands due to worries about reliability and cost of the services. She went on:

“What we’re hearing as well, is that now tour operators who are bringing in international visitors, who are curating itineraries for Scotland are looking at, potentially not for this year but for next year certainly, now changing itineraries to potentially not take in our islands because the reliability of our ferry network is just not there and they cannot run businesses with itineraries that take them to the ferries and then they potentially can’t get there. So, you know, huge implications.”

54. Several interviewees also commented on digital connectivity and how important it is to their business (and indeed to the majority of accommodation businesses) but how it often is not fast or reliable enough for their needs. One of our interviewees, who operates a pod- and chalet-based ‘premium’ accommodation business in the Highlands, reported that digital connectivity is absolutely critical to their business for bookings and also for guests. She said that the speed and quality of service they get from their satellite broadband provider (a local company) does:

“...**just** the job probably... it doesn’t do much more than that. Yeah, it’s not superfast or anything but it does the job and its useable.” [emphasis added]

She further commented that if they were in the nearest town (less than 10 miles away), for the same money they would probably get three times the broadband speed and would also have a choice of provider which is not the case in their location.

55. Another interviewee also commented on digital connectivity:

“Generally-speaking, I think the speed and reliability nowadays... is absolutely critical for businesses. ... Something that the sector, I mean Visit Scotland and

Business Gateway have been pushing significantly, is being online bookable and you know having your digital footprint out there, it's so important from a marketing perspective but from an operational perspective as well is absolutely critical, but also from the visitors' experience point of view as well, visitors nowadays. Yes, there are visitors who want to escape from it all, but perhaps want to be off grid and don't want to have that connectivity there. But actually you know for a very high percentage of them it's really critical and very important that they have got access to social media that they can be planning their journeys, and you know, around Scotland or all the things that they want to do.

And I say that that sort of online bookability is absolutely critical and it's still surprising how many businesses are still not there, and how much of an emphasis that is still for someone like Visit Scotland to drive home with businesses and provide that support and education around being just digitally connected and the importance of that. So, I would say it's hugely important."

56. She went on to note how she believed that the Covid-19 pandemic has accelerated the need for fast, reliable digital connectivity across all businesses, including as a means of enabling them to still connect locally, regionally and nationally, during lockdowns. She also noted the importance of digital connectivity from a data point of view, capturing information through technology and having that digital capability, which can help to support businesses' productivity.
57. At the same time, this interviewee also commented on the challenges for businesses of improving their digital presence, particularly when the last few years have been so difficult and owners have had to focus on simply keeping their business afloat, rather than doing any future horizon scanning. She noted that they have perhaps struggled to have time to think about what they need to be doing, or how they can future proof their business.
58. She made a distinction between new start-up businesses who might find undertaking this horizon scanning easier than established businesses, particularly those that are run by older owners who have perhaps always done things in certain ways and may be reluctant to change (for time or money reasons perhaps), or who may not have the skills to change their methods of doing things.
59. When asked about environmental considerations and how they are impacting on businesses, one interviewee commented on the issue of visitor management which is a particular challenge in ensuring the sustainability of rural and island locations. There is a need to ensure that visitors to places are socially and environmentally responsible. In some places that has led to discussions about local infrastructure and whether additional rangers are required in national parks to manage the flow of people for example, or to talk to visitors to 'educate' them when they come to visit, or additional funding is required to invest in infrastructure such as toilets or car parking.
60. Several interviewees reflected on the ongoing impacts of the cost of living crisis, and in particular the high costs of energy, for their businesses, and how they anticipated

that this would be challenge for their business at least for this year, and likely next year as well.

61. Other concerns and challenges discussed include the impact of the deposit return scheme (now delayed until October 2025), for those businesses sourcing outside artisanal produce but also supporting local artisan producers, particularly given the remoteness of the locations concerned. Another issue mentioned was the impact of high (and increasing) rural land prices on the ability of young people to live and operate (agricultural and non-agricultural) businesses in rural areas.
62. A number of interviewees discussed the current developments regarding the short term lets legislation in Scotland. For one interviewee, the variability in implementation costs for different businesses was akin to the variable impacts of the schemes introduced for businesses during Covid-19. In particular, the huge variation in fees was noted for businesses, both between local authorities as well as across enterprises with different legal definitions. For one interviewee, this change in legislation would bring a further crisis on top of Brexit, Covid-19 and the cost of living crisis for many businesses, although she noted that the picture across the sector is quite variable:

“But actually, now with the short term let legislation and the impact that that's having, it's just more than some people can take, and a lot of businesses are closing or we're hearing reports of businesses either decided to close, or considering closing, because actually you know they're at the end of their tether and they just can't take anymore. So from a personal point of view, you know there's been tremendous implications because the cost implications and the administrative implications of short term lets could be quite challenging for people and it's, you know, another mountain to climb for some. So yes, they've been tremendous impact - personal impacts - on people. I mean, yes, many people are still recovering it has to be fair to say though, that it is pretty patchy, though. There are businesses who are doing very well - they have recovered well, and their visitor numbers have come back. I think particularly some businesses where when we saw the influx of international visitors come back, perhaps rebound, you know, they were doing particularly well and we're seeing the spend from international visitors was quite encouraging. So there are there are those who are doing well, but there are still those who are recovering.”

4.2.2 Opportunities

63. Whilst the challenges described here were clearly significant for interviewees, a number of opportunities were also noted for accommodation businesses during the interviews. One interviewee explained that, in her view, businesses can realise these opportunities but only if they do a combination of things, including knowing their customers and providing a quality and differentiated product for them, investing in their staff and ensuring that their business remains flexible and resilient so that it can respond to both challenges and opportunities as they arise. But she acknowledged that doing these things recently has been challenging as a result of the difficult times

that businesses have faced and in a competitive labour market where labour costs are high.

64. One island-based business owner noted that her island location brought many opportunities. She noted that Scotland's islands are diverse and unique in terms of their characteristics, which bring new permanent residents as well as large numbers of tourists. For this interviewee, the economy on the island where she runs her business has sometimes been described as a "bubble" as it has strong businesses and, to some extent at least, it has been protected from previous recessions on the mainland. Another mentioned the critical role that rural and island businesses play in bringing direct employment opportunities to their communities but also in supporting the broader resilience of these areas, including through their local knowledge, networks and recommendations.
65. Another business owner valued the role of digital tools and technology in easing both their own time and administration burden, as well as the guest experience, and for providing greater insight into their business (e.g. to provide a better grasp on finances through use of Xero). She felt that further training or knowledge of this amongst rural businesses could optimise the performance of businesses as well as positively support the wellbeing of business owners.
66. Several interviewees commented on the opportunities that exist for business diversification as a result of changing consumer preferences. One interviewee felt that there are huge opportunities for growth in agri-tourism type activities. For example, her business had branched out into farm tours and food tastings during Covid-19 and she felt that the mental health opportunities and benefits of agritourism are as yet underestimated and not well understood.
67. One of our interviewees officially opened a new accommodation business (in partnership with a family member) in early 2022, providing pod- and chalet-based accommodation with hot tubs in a rural location in the Highlands. The business is aiming to provide a "premium experience" for those looking to have a few quiet, relaxing days away in a rural location next to farmland, with the potential to see wildlife, rather than those looking for an activity-filled holiday. The interviewee regarded this as a growing part of the tourism market representing a real opportunity for rural and island locations.
68. This same business had also seen a real opportunity in terms of providing local products in the welcome packs for guests, and going further, in always using local suppliers and tradespeople such as joiners (described by them as being from within a 10 mile radius) for any work required in the business. To them, supporting other local businesses is a key part of their business model. Another interviewee also commented on this by reflecting on the importance of the community wealth building agenda which is encouraging communities and businesses to increasingly look at how they can use local suppliers. This is particularly the case for food and drink in restaurants, cafes, etc. or breakfasts in B&Bs, where offering local products is:

“a massive selling point and really taps into that sort of local sustainability piece”.

69. For one interviewee, the challenges of the last few years have meant that businesses have had to demonstrate resilience and to try and change and do things differently and:

“reinvent themselves in some cases or change the way they do things to really take advantage of the situation or put them in a better position to weather the storm”.

The latter is in some part a response to changed visitor expectations which, she argued, represent opportunities for rural businesses. She argued that visitors are now, perhaps more than ever, looking to experience Scotland’s natural beauty and landscapes rather than its cities, and:

“get out to those coastal, more remote, more rural locations.”

Moreover, she noted that some rural locations were very effectively marketing themselves as:

“‘staycation propositions’, you know, come and spend a few weeks here and work from here”.

70. One interviewee also highlighted that, for her, one of the key things to emerge from the experience of the Covid-19 pandemic was:

“this collaboration piece, and community, sense of community.”

She added that the Covid-19 pandemic has:

“driven people to either get involved more locally and be more in touch with their local networks, local business networks, but also on a national scale as well, making those connections on a national scale.”

She went on to say that there is now an opportunity to build on this positive outcome of the pandemic to accelerate it even further. For visitors, coming to stay in their accommodation and:

“having a thriving community around them is so important, whether that’s in terms of having somewhere locally to eat, to go to the pub, going to a local shop, or to a visitor attraction or doing some activities, that kind of interconnectedness and that network, it’s really brought home how important it is to work together with the people around about you.”

71. This interviewee noted the example of [SCOTO – Scottish Community Tourism](#) – which has been established as a community tourism network recognising the importance of communities in delivering tourism and being part of the tourism offer. She also reiterated the point made by other interviewees about the need for affordable housing so that people can stay locally and contribute to the maintenance of thriving communities, as well as provide the workforce for local businesses. It is worth noting that the issue of providing affordable housing for the local labour market

in rural areas is one which has been taken up by the [Tourism and Hospitality Industry Leadership Group](#).

72. Finally, several interviewees praised the amount of support and loyalty shown to small Scottish tourism businesses by customers, particularly during and following Covid-19 lockdowns (relating to understanding about bookings and refunds for example). It was felt that this was a positive to build on after the pandemic to further maximise opportunities going forward, although another felt that this loyalty was short-lived as following a peak in 2021, domestic bookings had fallen back since as many people prefer to travel abroad once again.

4.2.3 Business support for rural and island accommodation businesses

73. Interviewees were asked to describe their experiences of accessing business support. Two interviewees noted that they had never accessed formal business support and instead usually found someone locally who could provide informal advice to solve the problem, or simply solved the problem themselves. This was the case, for example, in terms of digital support and advice where one interviewee with an island-based accommodation business said she could always find someone on the island who could offer technical support if she needed it to solve a connectivity challenge (she noted she had found people through the island's community council for example). She had, however, accessed some formal (and sometime compulsory) training courses (for example on first aid) through the local authority.

The same interviewee also noted that individuals needed a:

“particularly strong mentality and different expectations and approaches”

to own and manage a business on an island as it is different to managing a business on the mainland:

“it's not for everyone, and you certainly don't do it expecting to make money... There is always a need for innovative solutions to meet the challenges faced”.

More negatively, she did note that, in her view, often local people are more reluctant to consider and accept change than those who have moved in from elsewhere.

74. Another business owner reported that they had relied heavily on family members to support the business launch, but they had not relied on any formal sources of support, other than some fairly limited help with setting up the website. In fact, it seemed that this owner had made a conscious decision not to access support:

“It was a challenge. That was something I wanted to do myself.”

75. Some respondents emphasised the wide variety of support available to businesses through Covid-19, both from the public sector and the private sector (including insurance companies). One interviewee reported that they were fortunate in being able to tick all the right boxes to receive Covid-19 support which did save the business. They commented that they would never have considered applying for such funding before, and that other businesses were not so lucky. The same interviewee

also worked with a local business support organisation and felt that accessing public funding was often linked with expanding businesses, which might seem logical during times of economic growth, but was problematic during period of economic crisis where many businesses found it a challenge to continue existing let alone to be thinking about growing. Another respondent praised the support received from the Economic Development team at their local council, which provided marketing and other support which saved her business as they were able to significantly increase their reach on social media. She felt that more resources should be channelled to such funds to support other areas and local businesses.

76. Another interviewee commented on the need for more support for businesses to understand and respond appropriately to the new short term lets legislation. He highlighted the inequalities in costs and impacts of the new legislation on businesses, but the blanket rules approach taken across different types and scale of businesses (e.g. across different kinds of accommodation provision, including where this is a room in someone's home for example) was particularly unhelpful.
77. One interviewee had been heavily involved in the development of Scotland's current Tourism Strategy – [Scotland Outlook 2030](#) – which was initially launched just before the pandemic in March 2020. She described how creating the Strategy involved discussions with multiple stakeholders including businesses and representative organisations from different geographies across Scotland. The same stakeholder engagement happened during Covid-19 to inform the work of the sector's emergency response during and after the pandemic. This work focused on international marketing for the sector to attract back overseas visitors and also work to attract specific domestic groups, such as carers for 'respite' breaks.
78. She went on to say that now there is a tourism and hospitality sector Industry Leadership Group which is championing Scotland Outlook 2030 and will help to discuss and address the challenges and opportunities facing the sector going forward. A key pillar of the Scotland Outlook 2030 Strategy is ensuring that the sector has a workforce of an appropriate size and with key skills; this has been a long-standing challenge for the sector. The Strategy also emphasises the three elements of environmental, social and economic sustainability and how as a sector, tourism activities can deliver benefits to all of these. Moreover, the Strategy is also focused on 'spreading the benefits of tourism geographically' so that it's not just about key hotspots such as Edinburgh and Skye, but also about the visitors are 'spread' to other places such as the South of Scotland where visitor numbers have traditionally been lower.
79. One interviewee noted the general trends across the sector in terms of businesses – mainly bigger businesses – beginning to look at their carbon footprints and putting carbon calculators in place. She noted that, overall, while some support has been made available to businesses and their staff to help them improve and demonstrate their environmental activities, more is needed. She noted some tour operators, for example, are beginning to provide customers with information on the climate

implications of a particular tour. Visit Scotland is also looking into how carbon baselines can be established for individual businesses and destinations. She also commented on the awards that are available to businesses to demonstrate their environmental credentials, including Green Tourism awards, Keep Scotland Beautiful and others. Some of this education and upskilling work took place during Covid-19 through online training programmes that hospitality sector staff could access while they were furloughed, but this need will only become more important in future.

80. One interview commented on the “*cluttered landscape*” from a national perspective in terms of business development and skills training, so her sectoral support organisation recognises the important role it has to play in terms of making it clearer and easier for businesses to access relevant and appropriate support when they need it. Another interviewee agreed, commenting on the: “*plethora of support out there*”, including from banks in terms of business planning and modelling, local authorities and enterprise companies or skills agencies, and Visit Scotland who can help with aspects such as quality, marketing and digital skills. She went on to comment that:

“I think as an industry we still have an issue with businesses knowing where to go for the right help. I mean we get a lot of issues raised around ‘oh, there’s no business support on this’. There’s actually huge amounts of business support available, but its knowing where to go to get it. I mean, we’re very lucky in the tourism and hospitality sector because we have a national agency VisitScotland, who represent the sector and can provide a lot of support. But the enterprise agencies can provide a lot of support as well and ‘Find My Business Support’ is [...] a portal for all businesses to access help from the public sector. [...] I think there’s a lot more that can be done from the public sector in terms of making that visible to businesses across the board.

At a very micro level within a community, within a destination is you know tap into your local DMO as your starting point for information. If you haven’t got a DMO, your local authority for you, so there is a challenge for all of us in terms of ‘How do we simplify and make it easy to know where people go to?’.

Because the challenge we have with public agency support, for example - with their reducing local authorities as well with - you know, the cuts that they’re taking to budgets, whereas previously, we may have been able to offer umm, you know, sector specific support and sign post it tourism or hospitality, that’s in many cases, that’s no longer the case it has to be support for the whole sector and therefore sometimes businesses feel well that’s not for me.

Digital would be a good example of that in that, you know, with budgets being cut is maybe, ah, you know, it’s no longer possible to be able to offer tourism and hospitality specific support on digital, but actually there’s a whole wealth of stuff out there, which is, you know, available to all businesses, all small businesses, regardless of who you are. And it’s been able to access that and know where to go. So, I think there is a challenge on all of us how we make that more accessible, how

we can signpost it better - actually there's a bit of an onus on businesses themselves to be actively looking at where those supports could be.”

4.3 What key things need to change in future to better support rural and island accommodation businesses?

81. Finally, interviewees were asked to identify one or two key actions that they felt were particularly important for the Scottish Government, or indeed other organisations, to take to support rural and island accommodation businesses. One interviewee simply commented that:

“Policymakers need to better understand the challenges, needs and opportunities facing rural and island businesses, no matter which sector they are operating in... we are too often forgotten about.”

82. For this individual, her island-based business employed the equivalent of 15FTE staff across two hotels and she argued that the existence of her business in terms of the services it provides to locals and visitors, jobs, etc. was part of the reason why people move to the island. In short, the impact of the business goes way beyond simply counting the number of jobs or the overnight stays; its fundamentally linked with the movement of people to, and retention of people on, the island.
83. For one business, there was a strong feeling that a clear priority for Scottish Government should be improving public transport and the quality of the road network to make their business more accessible to more people. This business also highlighted the concerns created by the cost of living crisis and particularly the huge increase in the cost of energy for their business which means that their profit margins in future will be much reduced. It has also made them question a decision made recently to invest in new equipment for the business, and certainly to put off any further investment they had been thinking about until prices settle down. The owners also commented on the impact of the cost of living crisis on households who may choose to spend less on ‘premium’ weekends away. They had responded by giving out offers and discounts to encourage people to still come and stay. While they understood that the price of energy is affected by a number of factors, some of which are out of the control of Scottish Government, they also acknowledged the role of Government in doing all they can to support businesses that find themselves in very difficult situations due to energy costs.
84. Interviewees also mentioned the labour supply issue for the sector and how critical this is moving forward. Attracting and retaining skilled people has been a long-standing challenge for the tourism sector generally in Scotland and one interviewee in particular felt strongly that this should be the focus of Government support going forward. She also acknowledged the work already underway to help the sector through the skills training programmes which are already running. The people that work in the sector are critical to the sustainability of businesses as they deliver the

quality products and services – but at good value for money - that visitors are increasingly looking for. This was supported and echoed by several other interviewees, who also emphasised that they are often one- or two-person core teams, without wider specialist support in the area of legislation for example, which makes things difficult when there are frequent changes across multiple areas of legislation.

85. Another argued that certain policies were implemented with ignorance of the context in which businesses are operating, the potential implications of the policies, a lack of consultation, anecdotal evidence and poor data, and with an agenda driven by politics or other external influences, such as pressure groups. As such they felt various new legislations were unhelpful and potentially inappropriate, simplistic knee-jerk responses to complex problems.
86. Several interviewees also highlighted the crucial importance of local and national support groups and sector organisations, both in providing advice and financial support, but also lobbying on behalf of their areas or businesses, particularly at a government level. Some interviewees again placed value on local authority economic development services emphasising that the support they provided during Covid-19 should be continued and expanded to all areas of the country.
87. One interviewee placed significant importance on the Government's role in encouraging businesses to collaborate, in ensuring that the engagement with the business sector that was evident during Covid-19 is maintained, and in Government departments working together across policy domains. She commented that:

“I think the experiences over the last few years, what we've clearly seen is that by collaborating and working together in partnership, you can get things done and you can be successful in things. You can pre-empt things and you can respond to things. Now that we move out of that - there is a danger of a risk of that collaborative approach not being sustained. And I think one of the most important things we've seen - you know over the last couple of years - is the importance of policy being coordinated across government, I mean, and to be honest, government ministers would probably be the first to say that actually we do probably operate in silos. Now government are very clear that they want to reset their relationship with businesses and ensure that they are engaged with businesses when they're having policy discussions and they're formulating new legislation and things like that.”

88. She emphasised the need for coordination and for industry input from the start of policy/legislative change discussions, including in terms of short-term lets, visitor levies, the (now delayed) deposit return scheme, etc. There is a need for Government to make it clear how a policy will benefit businesses – otherwise many of the recent/current policy changes are simply seen as negative for businesses and likely to result in additional cost or complexity (even if that would not be the case in reality) - and to ensure that it does so by engaging them from the outset. She commented that positioning any changes as being about how businesses can be helped to thrive and grow and to be the best they can is likely to generate more

support and buy-in. She summed up her point as being about “*changing ways of working*” with a much stronger emphasis placed on working with businesses (wherever they are located) to support them to thrive and grow.

5 Key Findings and Recommendations

89. This report has described the qualitative data obtained by the research team through interviews with rural and island business owners operating in the accommodation sector and with representatives of sector support organisations for tourism businesses. This final section of the report provides a short summary of the key findings and the recommendations which can be distilled from the evidence collected.
90. For accommodation businesses in rural and island Scotland, Brexit, the Covid-19 pandemic and the cost of living crisis (the ‘triple crises’), plus recent legislative changes (in particular for short term lets) have resulted in a number of challenges which have compounded one another to mean businesses have experienced a difficult operating period. Some businesses with lower savings to rely on or that had older owner managers have not survived the crises, either because they went out of business or because owners have chosen this time to cease trading.
91. A key challenge for the accommodation sector has been the ability to recruit and retain appropriately skilled labour as EU workers have left and fewer have come to the UK/Scotland. This, however, is a long-standing challenge that the sector has faced. While some (usually smaller) businesses may choose to employ local workers, this has not been possible for other (usually larger businesses) who have not been able to recruit enough workers (either because the supply of workers was too low, or they could not keep up with wage demands) and have had to reduce their service, for example, by operating fewer rooms or with reduced opening days/hours.
92. Lockdowns imposed at the height of the Covid-19 pandemic severely impacted the accommodation sector in rural and island communities in Scotland, reducing (or stopping entirely) the number of overnight stays, and also stopping events. Financial support through public and private schemes saved some businesses, however it was noted that these were sometimes based on arbitrary and unreliable metrics. While some businesses were able to sustain an income through diversification, immense time and resources were required to keep up with changes in legislation (particularly for the smallest businesses with just one or two staff, or just the owner him/herself), exacerbated by a lack of joined up policy development. Strains to peoples’ mental and physical health during this period led to burnout in some cases.
93. The cost of living crisis has also had a significant impact on rural and island accommodation businesses in Scotland. Inflated operating, energy and labour costs have altered profit margins and led to businesses either having to absorb these additional costs (at a time when their resources have been depleted due to Brexit and Covid-19 impacts) or pass these on to their customers. Businesses experienced

difficulties in retaining and paying staff as well as keeping up with essential repairs and upgrades. More time and effort were needed to market businesses and ensure competitiveness in the face of uncertainty. The cost of living crisis has resulted in further reductions in the number of bookings for events, long-term stays, and (particularly) non-self-catering accommodation. Business owners have often needed to draw on family members to provide skills and expertise to keep costs low while still providing a quality service.

94. Participants identified the recruitment of skilled local staff, lack of affordable housing, blanket short-term letting legislation, seasonality of tourism and accommodation businesses, lack of public and sustainable transport infrastructure, and the reliance on ferries as key challenges facing rural and island businesses in Scotland. Other issues like the impact of the deposit return scheme, poor digital connectivity, lack of business skills, and environmental considerations were also noted. However, they also highlighted some of the key opportunities which are particular to rural and island locations. These locations are diverse and unique and often have high quality landscapes and scenery and therefore attract large numbers of tourists. Economies on islands can sometimes be protected from recessions and issues on the mainland. More generally these areas typically have strong and thriving community structures, immense local knowledge, unique local products, mental health benefits for visitors, a loyal customer base, and opportunities to provide a premium and unique experience catering to multiple demographics.
95. In terms of business support, there were some participants who had not accessed formal business support but had sought and received informal support from local networks. Individual business owners regularly trouble-shot issues themselves. Support available to businesses throughout the Covid-19 pandemic was sometimes helpful but blanket rules meant that some businesses found accessing it challenging. Local council economic development teams have provided successful support to some businesses. Other owners relied heavily on their family and friends for support. Praise was given to groups and resources looking into the future of the tourism and hospitality sector as these are helpful to engage lesser-known areas or businesses, and to help those struggling with day to day challenges to think more strategically about the future of their business. Whether accessed or not, it was acknowledged that there is a plethora of support available to rural and island businesses, but more can be done to raise awareness and understanding about, and signpost to, these opportunities.
96. Participants identified several key actions to better support rural and island accommodation businesses. These are summarised in the final section of the report, [Section 6](#), below.

6 Policy Recommendations

97. Based on the evidence collected through the interviews and summarised in this report, we would suggest the following issues be considered by policymakers seeking to support businesses across rural and island communities in Scotland:

- **Skilled labour recruitment** in the accommodation sector is a long-standing issue, which has been exacerbated by crises the of recent years. While initiatives are in place to support the tourism sector to recruit new young people and domestic workers, this challenge remains. There needs to be sustained action by Government, sector bodies and businesses themselves to encourage the sector to recruit the skilled workers it needs to maintain Scotland's strong reputation as an important tourist destination.
- **Access to local affordable housing** is critical for rural and island businesses operating across all sectors. Without this, they cannot retain and attract staff. Again this has been a long-standing challenge for most rural and island communities, and it has implications across all aspects of rural and island life.
- **Ensuring reliable, good quality transport infrastructure is critical.** This might include investment in public transport networks (such as buses and trains), ferries and electric vehicle infrastructure.
- **Fast, reliable digital connectivity** is also critical for accommodation businesses which are increasingly relying on this for bookings and for guests while they stay. Again this should be a priority for public and private sector investment in rural and island communities.
- Policymakers and those seeking to inform and influence policy development need to have **a much better understanding of the particular circumstances, challenges and opportunities of rural and island businesses**, recognising that these will also differ across rural and island locations. This includes a better understanding of how they operate, their size and structure, how they plan, who they rely on for support, and how they may operate during a crisis – all of which might be different to urban businesses. This understanding is critical to ensuring that support and advice can be tailored accordingly to facilitate businesses to thrive, and that flexibility can be offered in challenging times for businesses to reorient to ensure they remain sustainable.
- **Engaging rural and island accommodation businesses** in designing new legislation and policies from the outset and on a continuous basis is critical to achieving their buy-in.
- There is a need for **Government to be much more joined up** to ensure clarity and reduced complexity for businesses in terms of policy and legislative changes. The frequent legislative changes over the last few years relating to Brexit and Covid-19, and more recently relating to short term lets, the deposit return scheme, etc. had been hard for businesses to follow, particularly for sole traders, who would benefit from more holistic advice and support.

- As Scotland seeks to meet its ambitious net zero targets there will be increasing requirements for businesses to demonstrate how they are being more sustainable and reducing their negative environmental impacts. **More support will be required to support businesses to achieve greater sustainability** and to demonstrate to visitors as well as locals how they are doing so, again recognising that there will be differences in how this is done depending on business size, sector, ownership structure, etc.
- Where possible, **legislation and policies need to be flexible enough to recognise different circumstances**, for example, in relation to different kinds of accommodation provision (e.g. letting out a room in a private home, in comparison to an Airbnb property). The former may provide a much needed alternative income source in a challenging time and will not affect local accommodation provision, whereas the latter may bring more negative impacts for the local community.
- While, at the time of writing (summer 2023), the impacts of the cost of living crisis seem to be abating slightly, there is a **role for Government to monitor how and how far high labour, energy and other costs are impacting on businesses**, particularly in rural and island locations where costs are usually higher than in urban locations. While governments may not be well placed to directly affect price levels, they have a role to play in ensuring that businesses are supported appropriately through particularly challenging periods.
- While many business owners do not rely heavily on formal support by choice, some do and access to it needs to be easy and uncomplicated. Opportunities for better signposting may be worth exploring. There may be **role for Government in facilitating the growth of new tourism activities** in support of the accommodation sector (such as agri tourism, food tourism and health and wellbeing-related experiences), though individual innovation and entrepreneurship is critical here.
- Finally, policymakers need to recognise the important role that rural and island businesses – again across all sectors – play in the sustainability of their local communities. Tourism businesses can be particularly important here in providing social spaces for local residents as well as for visitors. Supportive networks between businesses, perhaps facilitated by support providers and sector associations, are also important in sustaining and growing local economies, for example, providing local products in visitor welcome packs, employing local tradespeople, etc. These actions can be facilitated by Government policies and legislation, through an emphasis placed on community wealth building and the growth of the circular economy, for example.

ENDS

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Novel Insights into Scotland's
Rural and Island Economies

<https://www.nisrie.scot/>



Our data, charts, maps and reports are available through our Rural Exchange website: <https://www.ruralexchange.scot/>



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