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Convener
Education, Children and Young People
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16 March 2026

Dear Convener,

Early learning and childcare: guidance on setting sustainable rates for 2026-27

I am writing to inform the Committee of the publication of [2026-27 Sustainable Rates Guidance](#) by the Scottish Government and COSLA on 16 March 2026. The guidance explains how the additional £13.4 million we are making available to fund the real Living Wage uplift for workers delivering funded ELC from April 2026 will be distributed to providers by local authorities. This builds on £25.7 million of recurring funding for real Living Wage uplifts since 2024–25, demonstrating a consistent commitment to improving pay to strengthen workforce recruitment and retention.

As in 2025-26, the additional real Living Wage funding will be distributed to providers by local authorities through the sustainable rates-setting process. The payment of sustainable rates to funded providers in the private, third and childminding sectors is vital to supporting the financial sustainability of ELC providers and fulfilling our shared commitment to delivering Fair Work policies. It is also a key aspect of Funding Follows the Child.

Additional funding for the real Living Wage uplift in 2026-27

The Scottish Government and COSLA have agreed that local authorities will pass the additional £13.4 million to funded providers through a minimum 5.2% uplift to all 2025-26 sustainable rates (including rates for childminders). This reflects the estimated increase in the average staff cost element of the sustainable rate required to meet the real Living Wage uplift from April 2026.

Local authorities will set the remainder of sustainable rates, covering non-staffing costs (estimated to account for, on average, 23% of the sustainable rate) in line with the wider rates guidance. The overall rates set must also be affordable for local authorities in terms of the budgets available. Where sustainable rates for 2026-27 are confirmed after April 2026,

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local authorities should ensure that any real Living Wage uplifts are backdated to 1 April 2026.

Real Living Wage Monitoring

In line with Audit Scotland's recommendation that the Scottish Government work with local authorities to monitor payment of the real Living Wage (rLW) for funded ELC providers, we have collaborated with local authorities and CoSLA to develop and implement a proportionate and consistent approach to monitoring compliance.

The Care Inspectorate, via their Annual Returns, have asked registered childcare services about staff pay and the Scottish Social Services Council (SSSC) have utilised their annual 'Have Your Say' survey of all registered care staff to do the same. We will receive this information later in 2026 and will consider next steps based on what the data tells us.

Information for eligible staff who believe they are not receiving the rLW is now available on the Scottish Government [website](#). This guidance sets out the steps individuals can take if they have concerns about their pay. Taken together, these measures establish clear routes for workers to raise concerns and strengthen accountability among funded providers.

I am proud that Scotland remains the only part of the United Kingdom to provide additional funding to enable payment of the real Living Wage to workers delivering funded ELC. Funded ELC providers and their staff play a critical role in the successful delivery of the 1140 entitlement. I am hugely grateful to all the committed, creative and talented workers across Scotland who enable children and families to access high quality funded ELC every day and I will continue to advocate for their interests at every opportunity.

Yours sincerely,

Natalie Don-Innes MSP
Minister for Children, Young People and The Promise

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Funding Follows the Child and the National Standard for Early Learning and Childcare Providers

Guidance for setting sustainable rates for the delivery of funded early learning and childcare (ELC) in 2026-27

March 2026

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Summary of 2026-27 sustainable rates setting process

- This guidance sets out the approach for local authorities to set sustainable rates for the delivery of funded early learning and childcare (ELC) for 2026-27. It replaces all previous iterations of the sustainable rates setting guidance.
- The Scottish Government is providing local authorities with additional funding of £11 million in 2026-27 to support local authorities to set sustainable rates that enable childcare workers delivering funded ELC in private and third sector services to be paid at least the new real Living Wage rate of £13.45 per hour from April 2026. The Scottish Government is also adding an additional £20 million to the Local Government Settlement in 2026-27, which local authorities can use to fund the real Living Wage increase across adult social care, children's social care, and for workers delivering funded ELC in private and third sector childcare services.
- Local authorities will pass this additional funding to funded providers through a minimum 5.2% uplift to all 2025-26 sustainable rates. The uplift reflects the estimated increase in the average staff cost element of the sustainable rate required to meet the real Living Wage uplift from April 2026. It is estimated that staffing costs account for, on average, 77% of the provider's total costs (which we apply to 77% of the sustainable rate).
- The minimum 5.2% uplift will also be applied to all sustainable rates paid to childminders delivering funded ELC.
- The remainder of the sustainable rate, covering non-staffing costs (estimated to account for, on average, 23% of the sustainable rate) will be set in-line with the requirements of this guidance. The overall rates set must also be affordable for local authorities in terms of the budgets available. Given the challenging financial position for local authorities, it is recognised that not all will be able to provide an uplift beyond the 5.2%.
- Where sustainable rates for 2026-27 are confirmed after April 2026 local authorities should ensure that any payments to funded providers to support delivery of the real Living Wage uplift are backdated to 1 April 2026.
- This updated guidance reflects the recommendations of the Scottish Government and COSLA Sustainable Rates Review – in particular to introduce greater standardisation in the rate setting process and to build on the progress made by local authorities in 2025-26.
- Full implementation of these changes required more robust and reliable data to improve the sustainable rate setting process.
- To address this, and to improve the data available to inform funded ELC rates-setting by local authorities, the Scottish Government contracted the Diffley Partnership to undertake a new national ELC Costs Survey during 2025.
- The Diffley Partnership's report and supporting data tables are due to be published by the Scottish Government shortly.
- The Scottish Government and COSLA recognise that it is important that both local and national government take time to consider the ELC Costs Survey report and supporting data carefully in partnership with childcare providers and sector

representative organisations. Next steps on the continued implementation of the joint Sustainable Rates Review will be considered by the Sustainable Rates Review Implementation Working Group and set out in due course.

- Local authorities are asked to continue to embed the changes outlined in the 2025-26 guidance within the rate setting process from 2026-27 onwards, including:
 - bringing rates paid to childminders in line with other types of provision;
 - a higher rate for 2 year old provision, recognising the different staffing ratio requirements for this age group; and
 - a separate payment rate for each free meal (to support delivery of the free meal commitment) to improve clarity and transparency for funded providers (and not to provide this as a “top-up” to the sustainable rate).

Introduction

1. The payment of sustainable rates to funded providers in the private, third and childminding sectors is vital to supporting financial sustainability, and is a key aspect of Funding Follows the Child.
2. This updated guidance, which replaces previous versions of the sustainable rates guidance, sets out the process for local authorities to set sustainable rates for 2026-27.
3. The guidance has also been updated to reflect the recommendations of the joint [Scottish Government and COSLA Sustainable Rates Review](#) (the “Sustainable Rates Review”) in particular to introduce greater standardisation in the rates setting process.

Background

4. The Scottish Government and COSLA have issued joint guidance for local authorities to support them to set sustainable rates for private, third sector and childminding providers to deliver funded ELC. Four iterations of this guidance have been published to date:
 - April 2019 – original guidance to support local authorities to set sustainable rates from August 2020.
 - May 2022 – interim guidance, to complement the original 2019 guidance, for local authorities to set rates in recognition of the challenges of ensuring a sustainable rate given the impacts of the COVID-19 pandemic and the costs crisis.
 - March 2024 – updated guidance setting out how the commitment for childcare workers delivering funded ELC in private and third sector services to be paid at least £12 per hour from April 2024 would be delivered through the sustainable rates setting process in 2024-25.
 - February 2025 – updated guidance incorporating further changes to support standardisation of rate-setting process, to support delivery of the recommendations of the joint Scottish Government and COSLA Sustainable Rates Review, and setting out the approach to uplifting rates to fund payment of the real Living Wage in 2025-26.
5. In December 2023 the Scottish Government and COSLA published the [Sustainable Rates Review](#). This Review set out a wide ranging programme of reform to strengthen the process for setting sustainable rates.
6. This included updating the sustainable rates guidance, in particular to move towards greater standardisation; and working with local government and funded providers to consider options for obtaining more robust and reliable cost data to ensure a full understanding of the costs of providing funded ELC in different settings.

7. A key principle of the sustainable rates setting process is that it should be evidence-based, taking account of the cost of providing ELC in a local area based on parameters which are clear and transparent. To support this, and deliver the recommendation from the Sustainable Rates Review, the Diffley Partnership were contracted by the Scottish Government to undertake the ELC Costs Survey, with evidence collected during 2025 from providers. The independent report and supporting data tables will be published by the Scottish Government shortly.
8. In 2026-27, the Scottish Government will provide a further £11 million to support local authorities to set sustainable rates that enable staff delivering ELC in private and third sector commissioned services to continue to be paid at least the real Living Wage. The commitment will also be delivered in a fair and sustainable way for childminders delivering funded ELC. The Scottish Government is also adding an additional £20 million to the Local Government Settlement in 2026-27, which local authorities can use to fund the real Living Wage increase across adult social care, children's social care, and for workers delivering funded ELC in private and third sector childcare services.
9. This funding is in addition to £25.7 million of recurring funding to support the real Living Wage uplifts since 2024-25.
10. The Scottish Government and COSLA recognise that local authority consideration of sustainable rates is a key aspect of overall local authority budget-setting ahead of the financial year, and as such local engagement and consideration for 2026-27 will already have taken place in many areas.

Sustainable rates setting for 2026-27

11. This guidance sets out the process for local authorities to set sustainable rates for private, third sector and childminding providers delivering funded ELC in 2026-27. It replaces previous versions of the sustainable rates guidance.
12. It is designed to support local authorities to pass on the additional funding to funded providers to enable payment of the real Living Wage uplift from April 2026 as part of the annual sustainable rate setting process and in line with the approach agreed by the Scottish Government and COSLA for 2026-27.
13. [Section 2 \(The National Standard for all Early Learning and Childcare Providers\)](#) of the [Funding Follows the Child Operating Guidance](#) sets out how settings can meet the Fair Work criterion in the National Standard and the ELC real Living Wage commitment. The real Living Wage commitment requirements are also included in Annex A of this guidance.

The Guidance builds on the 2025-26 guidance to implement the recommendations of the Sustainable Rates Review.

14. Local authorities are asked to continue to embed the changes, to deliver the Sustainable Rates Review recommendations, outlined in the 2025-26 guidance within the rate setting process from 2026-27 onwards, including:
 - bringing rates paid to childminders in line with other types of provision;

- a higher rate for 2 year old provision, recognising the different staffing ratio requirements for this age group; and
- a separate payment rate for each free meal (to support delivery of the free meal commitment) to improve clarity and transparency for funded providers (and not to provide this as a “top-up” to the sustainable rate).

Next Steps

15. The ELC Costs Survey provides a detailed and complex set of new information to inform sustainable rates setting. The Scottish Government and COSLA recognise that it is important that both local and national government take time to consider the ELC Costs Survey report and supporting data carefully in partnership with childcare providers and sector representative organisations.
16. To support long term reform the Scottish Government and COSLA will also ask the Sustainable Rates Review Implementation Working Group, to consider any specific issues raised in the research, which could inform their future programme of work.
17. New sustainable rates guidance will be published in early 2027 to reflect arrangements for 2027-28.

Section 1: Characteristics of a sustainable rate

18. It is the responsibility of the local authority to set sustainable rates for the delivery of the funded ELC hours in their area each year.
19. In the context of this guidance the 'rate' is the sum of money paid to a funded provider in the private and third sector and to childminders for each hour of funded ELC they deliver to eligible children in particular age groups.
20. It is for private and third sector providers, including childminders, to determine whether the rates set are suitable for their business and whether they wish to enter into a contract on this basis.
21. The rate paid to funded providers for each age group should be sustainable and should meet the following criteria:
 - the rate will support delivery of a high quality ELC experience for all children;
 - it will be a rate that reflects the cost of delivery, including the delivery of national policy objectives;
 - the rate will allow for investment in the setting – staff, resources and physical environment; and
 - it will enable payment of the real Living Wage for those childcare workers delivering the funded entitlement.
22. As highlighted above, the sustainable funding rates should cover the cost of running the service and allow for future investment and development. This differs from rates which only reflect short-term operational costs.
23. From a local authority perspective, the rates must be sustainable for authorities in terms of the budgets available. Local authorities will also need to consider the following points when setting sustainable rates:
 - rates do not have a detrimental effect on the local authority's ability to continue to pay for the service in the long-term;
 - the wider package of 'in-kind benefits', which are separate to the sustainable rate, that are available to the funded provider as part of their contract with the local authority; and
 - rates do not need to be cross-subsidised by parents and carers through charges for non-funded hours.

Section 2: Principles for the sustainable rates setting process

24. The following principles should be applied when setting sustainable rates:
- Local authorities and funded providers should approach the sustainable rates setting process with a focus on a high-quality ELC experience for children and their families.
 - The rates should be evidence-based, taking account of the cost of providing ELC in a local area based on parameters which are clear and transparent.
 - Local authorities and funded providers should work together to be as transparent and open as commercially reasonable when discussing rates and costs.
 - In the context of this guidance a 'sustainable rate', as set out in paragraph 21 should be read and understood by all parties before rate setting exercises are undertaken.
 - Local authorities should clearly set out what is included (and not included) in the support package in addition to the hourly rate.
 - Inflationary and real Living Wage increases should be reviewed annually, to understand any changes to these and their impact on costs.
 - The sustainable rate setting process should consider return on investment or surplus, whilst recognising that funded hours will generally not represent all the hours a private, third sector, or childminding provider delivers.

Section 3: Reform of the sustainable rates setting process

25. This guidance further progresses the reforms to the sustainable rates setting process set out in the Sustainable Rates Review.
26. This Review set out a series of actions to update the Sustainable Rates Guidance in order to:
 - Enhance guidance on the approach to rates-setting, in order to provide a more standardised approach and minimise any unwarranted variation between the rates set by local authorities (recognising that a certain level of variation is expected), including how frequently they are set.
 - Further develop guidance around the rates payable for eligible 2 year olds to help ensure these rates are sustainable and are reflective of the costs of delivery.
 - Further develop the guidance in relation to meal rates, to help ensure these are set sustainably and are reflective of costs.
 - Set clearer expectations around engagement and communications for both local authorities and funded providers in the private, third and childminding sectors regarding the rates setting process – including ensuring that providers have greater certainty and clarity on rates to support their financial planning.
 - Ensure the guidance adequately supports local authorities when setting sustainable rates for, and engaging with, childminders.
27. These changes were initially set out in the 2025-26 Sustainable Rates guidance. Local authorities were expected to make progress towards reflecting them in the rates setting process during 2025-26, ahead of fully embedding within rate setting from 2026-27 onwards.
28. Whilst some of the actions to reform the sustainable rates setting process will take time to fully implement, the Scottish Government and COSLA recognise the importance of continuing to introduce changes quickly where possible.
29. The Sustainable Rates Review recommended that further evidence on how local authorities are supporting funded providers to meet the needs of children with Additional Support Needs is collected. This work is being progressed through the ASN Short-Life Working Group. The ELC Costs Survey will provide further evidence on the impact on the costs of delivery and sustainability of having a larger proportion of children with ASN, and consideration will be given as to how this can be reflected as part of the wider work on ASN.
30. The Scottish Government and COSLA recognise that it will be important to ensure regular and clear communications to the sector as this work progresses, and that where some aspects of reform require longer timescales we are clear on the reasons for this.

Section 4: A framework for a more standardised approach to rates setting

31. The Sustainable Rates Review recommended a more standardised and simplified approach to rates setting. This is with the aim of minimising any unwarranted variation between the rates set by local authorities (recognising that a certain level of variation is expected in order to reflect differences in local circumstances and costs), including how frequently they are set.
32. This guidance sets out an approach to standardisation which is intended to simplify the rates setting process for local authorities, and to give clarity and greater certainty to funded providers.
33. Whilst there will be greater standardisation and consistency in the approach to rate setting, this is balanced with the need for local authorities to retain discretion and ownership of determining the final rates. This will allow local authorities to, in particular, reflect local circumstances in the final rates being set.
34. A key aspect of standardisation is a more centralised approach to cost collection and analysis, that local authorities can draw on to inform future local rates setting.
35. Local authorities are expected to fully embed the changes outlined in the 2025-26 guidance within the rate setting process from 2026-27 onwards, as set out below.

Timing of rate setting

36. Local authorities are encouraged to build on the trend of recent years towards earlier rate setting, to support financial planning by funded providers. An increasing number of local authorities have moved to setting rates from April to align with wider budget setting processes and when the new real Living Wage rate is expected to be paid from each year.

Communication and engagement

37. Local authorities are encouraged to provide clear and timely communications to funded providers with regards to the rate setting process to ensure that providers have greater certainty and clarity on rates to support their financial planning.
38. This should include setting out the local timeline for decisions regarding the rate setting process, and highlighting the opportunities for provider engagement.
39. Consideration should also be given as to where the approach to communication and engagement needs to be adjusted for different types of providers, in particular childminders.

Approach to setting rates for childminders delivering funded ELC

40. Currently, in the majority of local authorities, childminders receive the same rate as private and third sector funded providers. However, in a small number of authorities, childminders receive a lower rate than private and third sector funded providers.
41. In the minority of areas where rates for childminding provision are currently set lower than other types of setting, local authorities are expected to bring rates for childminding provision in line with other types of provision from 2026-27.
42. In addition the Sustainable Rates Review identified some specific challenges for childminders regarding rate setting and delivery of funded ELC. This includes the need for an adequately supported, blended model of provision in all local authorities; the term time model of paying sustainable rates can be problematic for some childminders; and childminders are often unable to attend meetings or respond to communications during the day.
43. To support childminders local authorities are encouraged to incorporate good practice in commissioning funded ELC from childminders. This includes:
 - making payments on a monthly basis;
 - supporting blended placements where there is demand from parents and carers for this delivery model;
 - providing parents and carers with information on the availability of childminders in the same way that they do for other ELC provision, and;
 - seeking childminders' input on the scheduling of events and meetings to maximise their involvement.

Setting sustainable rates for delivering funded ELC to eligible 2 year olds

44. The cost of delivering funded ELC to [eligible 2 year olds](#) is higher than for 3-5 year olds, reflecting the differences in staff ratio requirements, however evidence on the extent of variation has been limited to date. In addition to staffing, other cost drivers that account for higher costs for 2 year olds include: consumables cost with younger children typically requiring nappies, wipes, and more frequent cleaning, adding to operational costs; space and layout constraints, with physical limitations preventing settings them from maximising staff efficiency, especially when caring for younger children; and more specifically specialist support, with greater intensity of care required for 2 year olds, including personal care and supervision, which can require additional staff beyond mandated ratios.
45. The majority of local authorities pay higher rates for 2 year olds, and local authorities have made significant progress in this area. For example, in 2020-21, 16 local authorities paid a higher rate to settings delivering funded childcare services for eligible 2 year olds. That number has increased to 30 local authorities in 2025-26 who now pay a higher rate for settings providing childcare for eligible 2 year olds.
46. In the minority of areas where a higher rate for 2 year old provision is not currently set, local authorities are expected to set a higher rate for 2 year old

provision from 2026-27, recognising the higher costs involved in delivery to this age group.

Section 5: Evidence to support sustainable rates setting

47. Collecting robust and reliable data on costs across different types of funded providers is critical to underpinning wider improvements to the rate-setting process, including updates to the sustainable rates setting guidance. It will also lay the foundation for any further future work in this area, and long-term sustainable rates setting.
48. To support this the Scottish Government contracted an external delivery partner, the Diffley Partnership, to undertake a new ELC Costs Survey during 2025. This data collection builds on previous exercises, including the 2016 and 2022 cost reviews (both undertaken by Ipsos Mori), and seeks to provide an up to date picture of costs, address previous evidence gaps in the rates-setting process, and reflect providers views on delivering funded ELC.
49. The Costs of Delivering Funded Early Learning and Childcare (ELC) in Private, Third Sector and Childminding Settings report and supporting data tables, which has been undertaken independently by the Diffley Partnership, are due to be published by the Scottish Government shortly.
50. It is important to acknowledge the complexity of the new information that will be provided in the ELC Costs Survey, which includes new data not previously available to support sustainable rates setting.
51. The Scottish Government and COSLA also recognise that it is important that both local and national government take time to consider the ELC Costs Survey report and supporting data carefully in partnership with childcare providers and sector representative organisations. Next steps on the continued implementation of the joint Sustainable Rates Review will be considered by the Sustainable Rates Review Implementation Working Group, with any significant changes to be agreed through COSLA's governance processes and by Ministers.
52. In 2026-27 in particular, it is recognised that local authorities' ability to take account of findings from the ELC Costs Survey as part of local rate setting is limited due to the need to set local budgets ahead of the new financial year and as such local engagement and consideration for 2026-27 will already have taken place in many areas.

Local intelligence and provider engagement

53. The local rate setting process should reflect consideration of local childcare market conditions and ongoing consultation and engagement with local funded providers. Local authorities are encouraged to keep funded providers updated on timelines for information gathering and decision making, and to prioritise ongoing engagement with funded providers so that there is a local forum to discuss and resolve issues on an ongoing basis.

54. This local intelligence can complement the outputs from national cost collection exercises, and will remain a key aspect of the sustainable rate setting process from 2026-27 onwards.
55. For example, local authorities may wish to review local data on childcare prices, if available, to compare against the cost information available to them. It is assumed that providers set their prices with reference to their underlying costs of delivery plus an adjustment for profit / surplus. Changes in prices could give an indication of movements in cost pressures for providers; and could provide a local benchmark to inform sustainable rates.

Next steps on the ELC Costs Survey

56. As highlighted it is important that both local and national government take time to consider the ELC Costs Survey report and supporting data carefully in partnership with childcare providers and sector representative organisations.
57. Alongside this the Scottish Government and COSLA will ask the Sustainable Rates Review Implementation Working Group, to consider any specific issues raised in the research, which could inform their future programme of work.
58. New sustainable rates guidance will be published in early 2027 to support rates setting from 2027-28 onwards.

Section 6: Approach to setting sustainable rates for 2026-27

59. There are two elements to the sustainable rate setting process in 2026-27 that local authorities are expected to reflect:
- **Staffing costs** - required minimum uplifts to all sustainable rates to reflect the estimated average increase in staffing costs required to enable delivery of the new real Living Wage rate of £13.45 per hour from April 2026 (it is estimated that staffing costs account for, on average, 77% of the sustainable rate); and
 - **Non-staffing costs** - the remainder of the sustainable rate for 2026-27 is set in line with this guidance, and should reflect the characteristics of a sustainable rate as set out in Section 1 of this guidance (non-staffing costs are assumed to account for, on average, 23% of the sustainable rate).
60. The process for setting sustainable rates in 2026-27 is summarised in Box 1 with further details set out in the sections below.

Box 1: Key steps for setting sustainable rates for 2026-27

- Apply a minimum 5.2% uplift to all 2025-26 rates to reflect the estimated increase in the average staff cost element of the sustainable rate required to meet the real Living Wage uplift from April 2026. This reflects staffing costs accounting for, on average, 77% of sustainable rates.
- Apply the minimum 5.2% uplift to the sustainable rate paid to all childminders delivering funded ELC.
- Set the remainder of the sustainable rate in-line with this guidance (non-staffing costs are estimated to account for, on average, 23% of the sustainable rate). The overall rate must be affordable for local authorities in terms of the budgets available. Given the challenging financial position for local authorities, it is recognised that not all will be able to provide an uplift beyond the 5.2%.
- If sustainable rates for 2026-27 are set after April 2026, backdate any payments that reflect the increased real Living Wage to 1 April 2026.
- Confirm the funding to be provided, in addition to the sustainable rate, to support delivery of the free meal commitment.
- Include a transparent breakdown as to each element of the increase, including the uplift for staffing costs, in sustainable rates communications to funded providers.

Delivering the real Living Wage uplift in 2026-27

61. An additional £11 million of in year funding will be made available to local authorities in 2026-27. This is to support local authorities to increase the sustainable rates paid to funded providers in the private and third sector to meet the estimated costs of the real Living Wage uplift to £13.45 per hour from April 2026. The Scottish Government is also adding an additional £20 million to the Local Government Settlement in 2026-27, which local authorities can use to fund

the real Living Wage increase across adult social care, children's social care, and for workers delivering funded ELC in private and third sector childcare services.

62. Moving to £13.45 per hour from April 2026 represents an increase in the staff costs associated with those workers who were receiving the previous real Living Wage rate of £12.60 per hour. Local authorities will apply at least a 5.2% increase to all of their 2025-26 sustainable rates in 2026-27 in order to fund this increased pressure on the average staffing costs element of sustainable rates. More detail on the methodology used to calculate the required minimum uplift is at **Annex B**.
63. The commitment will also be applied in a fair and sustainable way for childminders, with the minimum 5.2% uplift to 2025-26 rates also being applied to all sustainable rates paid to childminders delivering funded ELC in 2026-27.
64. Local authorities are expected to be transparent as to how this increased funding to reflect the new real Living Wage is included in their sustainable rate(s) for 2026-27.
65. As part of the move towards more standardisation in rates setting and to support financial planning by funded providers, more local authorities are setting rates earlier in the financial year. Where sustainable rates for 2026-27 are confirmed after April 2026 local authorities should ensure that any payments to funded providers to support delivery of the uplifted real Living Wage rate are backdated to 1 April 2026.

Key considerations in setting overall sustainable rates for 2026-27

66. The minimum uplift only reflects the estimated increase in the average staffing cost element of the sustainable rate required to meet the real Living Wage uplift from April 2026.
67. In addition to the minimum uplifts to cover the estimated additional staffing costs, the final sustainable rate(s) for 2026-27 should also reflect other, non-staffing, cost elements and the requirements for the sustainable rate set out in this guidance. This includes providing scope for reinvestment (reflecting a measure of profit in a private sector setting or surplus in a third sector organisation).
68. The overall rates set must also be affordable for local authorities in terms of the budgets available. Given the challenging financial position for local authorities, it is recognised that not all will be able to provide an uplift beyond the 5.2%.

Section 7: Payments for delivery of the free meal commitment

69. In line with [Funding Follows the Child and the National Standard](#), every child attending a funded ELC session – which is any session that includes funded hours, regardless of whether they are mixed with ‘paid for’ hours – will be provided with a free meal.
70. The free meal can be served as a breakfast, lunch or dinner and is to be consistent with [Setting the Table](#); the nutritional guidance and food standards for early years childcare providers in Scotland.
71. Funding to deliver the free meal commitment will be additional to the sustainable rate for funded providers.
72. Local authorities must ensure that they are transparent as to the funding being provided to private, third sector and childminding funded providers for the delivery of the free meal commitment.
73. Local authorities have provided the payment for the free meal commitment either as a standalone rate or as a “top-up” to the hourly rate. However, the Sustainable Rates Review highlighted concerns regarding difficulties from the different approaches being taken by local authorities to these payments. In particular when a meal payment was added as a “top-up” to the sustainable-rate, some providers outlined that the full costs of meal provision would not always be fully reflected.
74. To address this, as set out in the 2025-26 Sustainable Rates guidance, local authorities are asked to set a separate payment rate for the free meal commitment from 2026-27 to improve clarity and transparency for funded providers (and to not provide as a “top-up” to the hourly rate).
75. The Sustainable Rates Review also found that some funded providers were concerned over meal costs, stating that the amounts received for meals either did not currently meet the costs of delivering meals or had not increased in line with inflation (with food inflation running significantly above average inflation at points in recent years). Specific concerns were highlighted regarding the costs of delivering meals in remote and island services.

Section 8: Local authority funded provider support package

76. Along with the sustainable rate, local authorities provide a range of benefits to funded providers. Additional benefits, over and above the funded rate, should be clearly outlined at the time of application to become a funded provider.
77. As set out in Section 3 of the [Funding Follows the Child Operating Guidance](#), the type of support provided by local authorities to funded providers could include (but is not limited to):
- training programme resources;
 - support for workforce planning;
 - marketing and recruitment support;
 - funding for staff to undertake relevant qualifications;
 - grant funding for specific resources;
 - buildings support; and
 - regular contact through local authority ELC meetings.
78. The range of benefits that a funded provider receives will be different depending on the type of provision, location of the provider and needs of the children attending. The Operating Guidance states that:
- “it is for local authorities to decide the best package to ensure high quality ELC provision is offered to children and families, based on their own local circumstances. However, local authorities should ensure that settings have a clear and consistent understanding of the level of support they can expect.”
79. A local authority should outline the support package available, and its monetary value (where available), to funded providers, including at the time of application. Where this support package has been considered in the sustainable rates setting process, this should also be clearly outlined to funded providers. This support package is in addition to the sustainable rate set by the local authority. The local authority should clarify what elements of the support package are guaranteed and which are optional or dependent on need or availability. Mandatory, statutory requirements and costs should not be included in this.
80. This will ensure transparency around both the sustainable rate and support package to funded providers.

Section 9: Monitoring delivery

81. The Scottish Government is committed to collecting and publishing data on sustainable rates annually. The reports are available on the [Scottish Government website](#). On occasion, as part the sustainable rates data collection reports, information will also be collected and published on the general support packages made available by local authorities to funded providers.
82. As part of their role in delivering the Funding Follows the Child approach, local authorities are responsible for assessing and monitoring compliance with the National Standard in all funded providers, including local authority settings, as part of their contract management arrangements and in their role as guarantors of quality. Further information on this role is set out in [Section 3 of the Funding Follows the Child \(FFtC\) Operating Guidance](#).
83. This includes monitoring payment of the real Living Wage pay commitment by private and third sector providers delivering funded ELC. In line with Audit Scotland's recommendation to monitor payment of the real Living Wage for funded ELC providers, the Scottish Government has been working with local authorities to establish a means of monitoring payment of the real Living Wage.
84. This includes gathering data through the Care Inspectorate's Annual Return and the SSSC Have Your Say survey. Information on what individuals should do if they are not in receipt of the real Living Wage has been made available on the Scottish Government website. This offers a clear route for staff to raise concerns if they are not receiving the real Living Wage, where their employer is expected to be paying it.
85. As set out in the [Funding Follows the Child Operating Guidance](#), whilst it is for local authorities to decide how to fulfil their responsibility to assess and monitor compliance with the National Standard, it is important that the process is transparent and proportionate. It is also important that local authorities – as part of the commitment to simplify the process for, and reduce the burden on, providers to deliver the funded entitlement – share practice in order to encourage consistency of approach.

Next steps

86. The Scottish Government will provide local authorities with a further £11 million in 2026-27 to support sustainable rates to be set that enable staff delivering ELC in private and third sector commissioned services to continue to be paid at least the real Living Wage. The Scottish Government is also adding an additional £20 million to the Local Government Settlement in 2026-27, which local authorities can use to fund the real Living Wage increase across adult social care, children's social care, and for workers delivering funded ELC in private and third sector childcare services.
87. This is in addition to £25.7 million of recurring funding to support the real Living Wage uplifts since 2024-25.
88. Funded providers will then receive the funding to enable them to deliver the real Living Wage increase through the sustainable rates setting process in 2026-27 in line with the approach set out in this guidance (and summarised in Box 1).
89. The Scottish Government will shortly publish the latest annual sustainable rates report. This will set out information on the rates set by local authorities in 2025-26.
90. The Improvement Service will continue to provide a range of support, as set out in Sustainable Rates Review, to local authorities with the sustainable rate setting process.
91. The Diffley Partnership's ELC Costs Survey report and supporting data tables are due to be published by the Scottish Government in March 2026.
92. The Scottish Government and COSLA recognise that it is important that both local and national government take time to consider the ELC Costs Survey report and supporting data carefully in partnership with childcare providers and sector representative organisations. Next steps on the continued implementation of the joint Sustainable Rates Review will be considered by the Sustainable Rates Review Implementation Working Group and set out in due course.
93. A further update to the Sustainable Rates setting guidance will be published in early 2027 to support rate setting from 2027-28 onwards.
94. There will also be regular and clear communications to the sector as this work progresses to ensure that providers are aware of developments and where they can input to the process.

Annex A: Requirements for ELC real Living Wage commitment

1. The most recent update to the Funding Follows the Child Operating Guidance was published in August 2025 . [Section 2 \(The National Standard for all Early Learning and Childcare Providers\)](#) of the guidance sets out how settings can meet the Fair Work criterion of the National Standard and the real Living Wage commitment.
2. The Operating Guidance sets out that the key points to note on implementing the real Living Wage commitment are:
 - The real Living Wage should not be confused with the National Minimum Wage (including the “[national Living Wage](#)” which, from April 2024 applies to those aged 21 and over) which is the legal minimum an employer must pay an employee and is set by the UK Government.
 - The real Living Wage is a voluntary wage rate of pay which is estimated at a level based on the cost of living. These figures are calculated annually and are generally announced in November each year.
 - Employers who pay the real Living Wage can, if they wish, seek to become Living Wage accredited through Living Wage Scotland. Some providers who deliver ELC in Scotland are Living Wage accredited employers, however, it is important to note that whilst the Scottish Government encourages more providers to become [Living Wage accredited](#), it is not a requirement for becoming a funded provider.
 - The commitment covers all ELC staff providing direct care to children who are receiving funded hours, regardless of age and qualification and of the setting in which they are employed.
 - In line with the requirements for Living Wage accreditation, apprentices do not have to receive the real Living Wage – this is in recognition that, particularly in the earlier stages, apprentices may spend more time training than working. However, it is good practice to ensure pay rises over the course of the apprenticeship.
 - In line with the Fair Work criteria (set out in [Section 2 of the Funding Follows the Child Operating Guidance](#)), employers must demonstrate a fair and equal pay policy.
3. [Section 5 of the of Operating Guidance](#) includes a set of Frequently Asked Questions regarding implementation of the ELC real Living Wage commitment.

Annex B: Methodology for estimating the minimum uplift to sustainable rates to reflect costs of the new real Living Wage rate from April 2026

Overview

1. All funded providers in the private and third sector will receive additional funding to increase staff pay to at least the new real Living Wage rate of £13.45 per hour from April 2026 via minimum uplifts that are applied to all of their current (2025-26) sustainable rate(s). The commitment will also be applied in a fair and sustainable way for childminders who deliver funded ELC.
2. The size of this uplift has been calculated to reflect the estimated average increase in the staff cost element of the sustainable rate required to meet the increase in the real Living Wage from £12.60 per hour to £13.45 per hour.
3. Sustainable rates (for 2025-26) should have been set, in line with the [2025-26 Sustainable Rates Guidance](#), at a level to allow funded providers in the private and third sector to pay at least the real Living Wage of £12.60 per hour to staff delivering funded ELC.
4. Moving to £13.45 per hour from April 2026 represents a 6.7% increase in the staff costs associated with those workers who were receiving the previous real Living Wage rate of £12.60 per hour. Local authorities will apply at least a 5.2% increase to all of their 2025-26 sustainable rates in 2026-27 in order to fund this increased pressure on the average staffing costs element of sustainable rates.
5. It is important to note that staff within these services will likely be on a range of salaries, with some above or below the real Living Wage rate of £12.60 per hour in 2025-26. The minimum uplift approach therefore uplifts the total staff cost element (not just the element of staffing costs covering those on the real Living Wage) of the average sustainable rate by 6.7%.
6. Applying the uplift to the overall staff cost element is expected to provide scope to funded providers to maintain existing pay differentials within their settings.

Estimates for 2026-27

7. It is estimated that total staff costs account for, on average, 77% of total operating costs in day care of children services.
8. For the purposes of estimating the size of the minimum uplift it is assumed that staffing costs represent between 77% of the sustainable rate that these funded providers receive.
9. Uprating the total staff cost element (77%) of the sustainable rates by 6.7% (to reflect the increase in the real Living Wage) results in an increase in the overall rate of 5.2%

10. In order to support payment of the increased real Living Wage all funded providers in the private, and third sector will therefore receive a minimum uplift of 5.2% to all of the sustainable rate(s) they received in 2025-26.
11. As set out in the guidance, the commitment will also be applied in a fair and sustainable way for childminders, with the minimum 5.2% uplift to 2025-26 rates also being applied to the sustainable rates paid to all childminders delivering funded ELC in 2026-27.
12. Local authorities are responsible for determining the overall sustainable rate for 2026-27 in line with this guidance. The overall sustainable rate(s) for 2026-27 should, in addition to the minimum 5.2% uplift to enable payment of at least the new real Living Wage, be set in line with this guidance. These other, non-staffing cost elements, are assumed to account for, on average, 23% of the sustainable rate.