

Minister for Children, Young People and The Promise
Ministear airson Clann, Daoine Òga is An Gealladh
Natalie Don-Innes MSP
Natalie Don-Innes BPA

T: 0300 244 4000
E: scottish.ministers@gov.scot

Douglas Ross MSP
Convener
Education, Children and Young People Committee
The Scottish Parliament,
Edinburgh,
EH99 1SP

ecyp.committee@parliament.scot

20 February 2025

Dear Convener

Early learning and childcare: guidance on setting sustainable rates for 2025-26

I am writing to inform the Committee of the publication of [Guidance for setting sustainable rates for the delivery of funded early learning and childcare \(ELC\) in 2025-26](#) by the Scottish Government and COSLA on 20 February 2025. The guidance explains how the additional £9.7 million we are making available to fund the real Living Wage uplift from April 2025 will be distributed to providers, building on our recurring £16 million investment in 2024-25.

As in 2024-25, the additional real Living Wage funding will be distributed to providers 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

The Scottish Government and COSLA have agreed that local authorities will pass the additional £9.7 million to funded providers through a minimum 3.75% uplift to all 2024-25 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 2025. Staffing costs account for, on average, 75% of the total sustainable rate.

Local authorities will set the remainder of sustainable rates, covering non-staffing costs (estimated to account for, on average, 25% 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 2025-26 are confirmed after April 2025,

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local authorities should ensure that any real Living Wage uplifts are backdated to 1 April 2025.

Reforms to the sustainable rates-setting process

The guidance also progresses reforms to the sustainable rates-setting process recommended by the [Scottish Government and COSLA's 2023 Sustainable Rates Review](#), including:

- bringing rates paid to childminders in line with other types of provision;
- setting a higher rate for two year old provision, recognising the different staffing ratio requirements for this age group; and
- setting a separate payment rate for the free meal commitment to improve clarity and transparency for funded providers.

Local authorities are expected to make progress towards reflecting the changes outlined in the guidance during 2025-26, ahead of fully embedding this within the rates-setting process from 2026-27 onwards.

The joint Scottish Government and COSLA Sustainable Rates Review highlighted that robust and reliable data on costs across different types of funded provider is critical to underpinning wider and longer term improvements to the rate-setting process. We have appointed the Diffley Partnership to undertake a new cost collection exercise in spring 2025 and I will provide a further update on this in due course.

Impact of changes to employer National Insurance Contributions

I am keenly aware of the level of concern in the sector about the impacts of the UK Government's changes to employer National Insurance Contributions. As you will be aware, the Cabinet Secretary for Local Government and Finance confirmed to Parliament recently that the Scottish Government will pass on in full the 60% of funding that has been made available by the UK Government to partially mitigate the impact of these changes on public services, which equates to £144 million for local government in 2025-26.

The Scottish Government and COSLA continue to make a robust case for additional funding to fully shield all Scotland's public services – including those delivered in the private and third sectors such as funded ELC – from these costs. We welcomed the support of a number of childcare representative organisations when we wrote to the Chancellor about this issue on 3 January 2025. However, I am mindful of the urgent need to confirm the distribution of the additional £9.7 million real Living Wage funding for 2025-26. The Scottish Government and COSLA are therefore publishing the Sustainable Rates guidance now to provide clarity to local authorities and providers.

Funded ELC providers play a critical role in the successful delivery of the 1140 entitlement. I am hugely grateful to providers across Scotland for enabling children and families to access high quality funded ELC 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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