



**Salaries & Remuneration  
Commission**

*Rewarding productivity*

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**NAIROBI**

Dear CPA Makori

**REQUEST FOR WRITTEN SUBMISSIONS ON THE DRAFT PUBLIC SECTOR REMUNERATION AND BENEFITS POLICY (2021)**

The Salaries and Remuneration Commission (SRC) is established under Article 230 of the Constitution of Kenya, 2010. Article 230 (4) of the Constitution gives the Commission powers and functions to set and regularly review the remuneration and benefits of State officers; and to advise the national and county governments on the remuneration and benefits of other public officers.

Article 230 (5) of the Constitution and Section 12 (1) of the SRC Act, 2011 specifies remuneration and benefits principles upon which SRC reviews and sets remuneration and benefits for state officers and advises on remuneration and benefits for other public officers at the national and county governments. The constitution and legal provisions, therefore, give SRC authority to develop the Public Sector Remuneration and Benefits (PSRB) policy to operationalize the remuneration and benefits principles.

The draft policy is a revision of the 2015 PSRB policy and in fulfilment of the 8<sup>th</sup> Summit Resolutions of the National Wage Bill Conference. Subsequently, pursuant to Articles 10 and 232 of the Constitution of Kenya 2010, the Commission is seeking views on the draft Policy from stakeholders.

The Commission is therefore, inviting your institution to provide written submissions on the enclosed draft Public Sector Remuneration and Benefits Policy, 2021. The Policy can also be accessed on the SRC website through the following link: <https://src.go.ke/resource-centre/policies-guideline/> The submissions should be addressed to the Commission Secretary, and sent through the following email address: [remuneration@src.go.ke](mailto:remuneration@src.go.ke), so as to be received by **Monday, 14<sup>th</sup> June 2021**.

The Commission appreciates your continued support as it executes its mandate.

Yours



**Mrs. Anne R. Gitau, MBS**

**COMMISSION SECRETARY/CEO**



**Salaries & Remuneration  
Commission**

*Rewarding productivity*

**PUBLIC SECTOR REMUNERATION AND BENEFITS POLICY**

**2021**

**May 2021**



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## ABBREVIATIONS AND ACRONYMS

|          |                                                    |
|----------|----------------------------------------------------|
| CASBs    | County Assembly Service Boards                     |
| CBA      | Collective Bargaining Agreements                   |
| CBN      | Collective Bargaining Negotiation                  |
| COK      | Constitution of Kenya                              |
| COLA     | Cost-of-Living Adjustment                          |
| CPSB     | County Public Service Board                        |
| FY       | Financial Year                                     |
| GDP      | Gross Domestic Product                             |
| GHRIS    | Government Human Resource Information System       |
| HRM      | Human Resource Management                          |
| HRMIS    | Human Resource Management Information System       |
| IFMIS    | Integrated Financial Management Information System |
| IPPD     | Integrated Personnel Payroll Database              |
| JSC      | Judicial Service Commission                        |
| MDAs     | Ministries, Departments and Agencies               |
| MOH      | Ministry of Health                                 |
| MPS&G    | Ministry of Public Service and Gender              |
| NPSC     | National Police Service Commission                 |
| NT&P     | National Treasury and Planning                     |
| PARLSCOM | Parliamentary Service Commission                   |
| PFM      | Public Finance Management                          |
| PSC      | Public Service Commission                          |
| PSRB     | Public Service Remuneration and Benefits           |
| PSSS     | Public Service Superannuation Scheme               |
| SCAC     | State Corporations Advisory Committee              |
| SRC      | Salaries and Remuneration Commission               |
| TSC      | Teachers Service Commission                        |

## GLOSSARY OF TERMS

**Benefits** generally refer to in-kind compensation, such as housing, leave, transportation, medical treatment, etc.

**Cost of living adjustment (COLA)** refers to periodic increase in wages or salaries, to cushion against loss in purchasing power of money due to inflation.

**Pay** constitutes all remuneration, allowances and other benefits paid to an employee. However, in this document, pay and remuneration are used interchangeably.

**Public Sector** refers to institutions that are predominantly funded from public resources, including the exchequer account(s) of the Government of Kenya. The public sector encompasses institutions owned or predominantly controlled by the national and county governments, including commercial and service State corporations.

**Public Service** refers to the institutions and organisations in the Public Sector that have been established to support the functioning of both National and county governments.

**Public sector employers** refer to Ministries, Departments, Agencies, county governments, constitutional commissions, independent offices, and state corporations.

**Remuneration** comprises monetary payments in form of salaries and allowances. However, in common language, remuneration and salary are used interchangeably.

**State officer** is defined in the Constitution of Kenya 2010 as those occupying the following offices: the President, Deputy President, Cabinet Secretary, Member of Parliament, Judges and Magistrates, member of a commission to which Chapter Fifteen applies, holder of an independent office to which Chapter Fifteen applies, member of a county assembly, governor or deputy governor of a county, or other member of the executive committee of a county government, Attorney-General, Director of Public Prosecutions, Secretary to the Cabinet, Principal Secretary, Chief of the Kenya Defence Forces, commander of a service of the Kenya Defence Forces, Director-General of the National Intelligence Service, Inspector-General and Deputy Inspectors-General of the National Police Service, or an office established and designated as a State office by national legislation (COK, 2010, p.297-298).

**Public officer**, as used in this document, refers to employees in the public sector who are not in the category of a State officer, as defined above.

**Wage Bill** comprises: (a) the regular payroll expenditures such as: basic salary, house allowance, and all other allowances payable to public servants; and (b) other personnel-related expenditures, which are not paid on a regular basis, such as fees, commissions and honoraria, refund of medical expenses, and other compensation for benefits, which may be paid in-kind.

**SRC and Commission:** For the purpose of this policy, 'SRC' and 'Commission' are used interchangeably and mean the same thing.

# 1

## BACKGROUND

### 1.1 Preamble

The Salaries and Remuneration Commission (SRC) is established by Article 230 of the Constitution of Kenya, 2010, and is mandated to set and regularly review the remuneration and benefits of State officers, and to advise on the remuneration and benefits of all other public officers. The advice of the Commission is a mandatory prerequisite in the determination of remuneration and benefits for all public officers, as provided through the legal interpretation of Article 259(11) of the constitution.

In discharging its mandate, SRC is guided by the constitutional principles set out in Article 230(5) of the constitution, and Section 12 of SRC Act, 2011.

- 1) The constitutional principles are:
  - a) The need to ensure that the total public compensation bill is fiscally sustainable;
  - b) The need to ensure that the public services are able to attract and retain the skills required to execute their functions;
  - c) The need to recognise productivity and performance; and
  - d) Transparency and fairness.
- 2) Statutory requirement: Equal remuneration to persons for work of equal value as required by Section 12 of SRC Act, 2011.

### 1.2 Rationale and objective

This policy is a revision of the 2015 Public Sector Remuneration and Benefits (PSRB) Policy. The Policy elaborates the principles that govern determination of remuneration and benefits, together with presenting the Policy objectives on public sector remuneration.

Thus, the overall objective of the PSRB Policy 2021 (hereby also referred as Policy) is to enhance affordability and fiscal sustainability of the public sector wage bill, and in tandem, attract and retain requisite skills, achieve transparency, recognise performance and productivity, and enhance fairness and equity of the public service remuneration and benefits system.

### 1.3 Scope

The PSRB policy 2021 is applicable to all public and state officers and public sector institutions at both the national and county governments.

All public sector institutions shall be expected to comply with advisories issued by SRC, pursuant to the legal interpretation of Article 259(11) of the constitution.

### 1.4 Policy development process.

Preparation of this Policy has entailed the following steps:

1. Collection and review of a wide range of relevant data and documents on public sector management issues and policies, and relevant international knowledge and good practices.

This includes the following: The Kenya Vision 2030 A globally competitive and prosperous Kenya; Constitution of Kenya, 2010; SRC Act, 2011; Pay policy for the Public Service; A Report on the Study of Public Private Sector Wage Differentials in Kenya; Public Sector Remuneration and Benefits Policy (2015); draft Allowances and Benefits Implementation guidelines for the public sector; draft Remuneration Guidelines for the public sector; draft Framework for performance and productivity measurement;

- a) Consultations by way of key informants interviews and discussions with representatives of public sector employers and public sector management, and other Human Resources Management (HRM) oversight institutions, including Public Service Commission (PSC), Teachers Service Commission (TSC), National Police Service Commission (NPSC), State Corporations Advisory Committee (SCAC), Parliamentary Service Commission (PARLSCOM), Judicial Service Commission (JSC), Ministry of Public Service and Gender (MPS&G), County Public Service Boards (CPSBs) and County Assemblies Service Boards (CASBs);
- b) Development of a framework paper that contains comprehensive background information and analysis of problems and issues, which inform the objectives and measures laid out in this Policy; and finally
- c) Preparation of this Policy.

### **1.5 Legal Framework**

SRC is established under Article 230 of the constitution. Article 230(4) of the constitution gives SRC powers and functions to set and regularly review the remuneration and benefits of State officers; and to advise the national and county governments on the remuneration and benefits of other public officers.

Article 230(5) of the constitution, and Section 12(1) of SRC Act, 2011, specifies remuneration and benefits principles upon which SRC reviews and sets remuneration and benefits for State officers and advises on remuneration and benefits for other State officers at the national and county governments. The constitution and legal provisions, therefore, give SRC authority to develop the PSRB Policy to operationalise the remuneration and benefits principles.



## 2 SITUATION ANALYSIS

### 2.1 Introduction

The effective management of the public sector wage bill is imperative for the achievement of the national development goals. More effort is required to address the challenges related to the size and trajectory of the wage bill; remuneration structures; allowances and non-salary benefits; labour relations; rewarding of performance and productivity; collective bargaining and labour relations; attraction and retention of requisite skills; pension and other post-employment benefits; annual salary adjustments; equity and fairness.

Over the years, the environment for policy-making and implementation of public sector remuneration and benefits policies, has improved and stabilised. This includes; improved wage bill to revenue and to GDP ratios, enhanced equity and fairness, high employee retention rate, increased knowledge on the provisions of the Public Finance Management (PFM) Act 2012 and the law with regard to wage bill management; improved negotiating environment for partners in labour relations; and commitment of public service management institutions to improved performance and productivity of public service employees.

### 2.2 The Problem

The government's pursuit of the objectives and principles that underlie the constitutional and statutory provisions for determination of public sector remuneration and benefits has scope for improvement to achieve an efficient employee compensation system.

An efficient employees' compensation system has the following generally accepted attributes:

- a) **Affordable by the employer:** The employer can meet the payroll costs on a regular basis and the costs are commensurate with production, rather than being disruptive;
- b) **Certainty to the employees:** The remuneration and benefits that the employees regularly expect from the employer at specified times are clear;
- c) **Competitive in the labour market:** The system enables the employer to attract and retain personnel with required competencies;
- d) **Satisfying to the employees:** The employees take the remuneration and benefits to be commensurate with their roles, functions and responsibilities. Therefore, an employee's pay should at least cover the cost of living, measured as the median value of goods and services for a nuclear family;
- e) **Motivates productivity and performance by the employees:** The remuneration and benefits system has rewards and sanctions for meeting or exceeding employer expectations of productivity and performance in a given time period;
- f) **Fairness and equity in the perception of the employees:** The employees have information that makes them believe that the employer does not practice discrimination in remuneration and benefits awards;
- g) **Cost of living adjustment:** The employees are cushioned against loss of purchasing power arising from erosion in the real value of their remuneration and benefits packages;
- h) **Opportunities for professional development and career progression:** The employees

benefit from opportunities for personal development, including enhanced competencies and promotions;

- i) **Adequacy of post-employment benefits:** The employees have a degree of confidence that they can still afford a decent life following exit from employment; and
- j) **Aligned to the employers' (organisational) strategy:** A remuneration and benefits sub-system is integral to an organisation's human capital management strategy. Since human capital is the most defining feature of an organisation's strategy, the remuneration and benefits policy must always be aligned to the organisation's strategy.

A critical review of the current public service remuneration and benefits system has identified policy gaps and issues to be addressed, in pursuit of the remuneration and benefits principles as set out in the constitution and the SRC Act.

### 2.3 Policy gaps and issues

The policy gaps and issues to be addressed by this Policy, as briefly described below, fall under the following themes:

- a) Size and trajectory of the wage bill;
- b) Equity and fairness;
- c) Allowances and non-salary benefits;
- d) Performance and productivity management;
- e) Collective bargaining and labour relations;
- f) Attracting and retaining requisite skills;
- g) Affordable annual salary adjustments;
- h) Pension and other post-employment benefits;
- i) Compliance with SRC advisories and guidelines; and
- j) Mitigating political economy risks inherent in the management of public sector remuneration and benefits.

#### 2.3.1 Size and trajectory of the wage bill

The public sector wage bill, as a proportion of the Gross Domestic Product (GDP) and ordinary revenue, has appreciably improved since 2014. The wage bill to GDP ratio improved from 9.6 per cent to GDP in the financial year (FY) 2014/2015 to 8.3 per cent in FY 2019/2020 while wage bill to ordinary revenue improved from 54.1 per cent in FY 2014/2015 to 51.7 per cent in FY 2019/2020. However, this is still below the target of 7.5 percent to GDP and 35 percent to ordinary revenue. The projected decline in GDP and revenue growth as a result of the Covid-19 pandemic in the short term will negatively impact on these wage bill ratios.

Steady and sustainable progress towards the goal of a wage bill that is affordable, fiscally sustainable and consistent with adequate public investment for growth will be achieved only if:

- a) There is strategic and effective planning and budgeting for public sector employment. The current strong demand for increased staff for service delivery beyond what is consistent

with an affordable and sustainable wage bill is likely to persist well beyond the medium term. Therefore, strategic prioritisation of new recruitment into the public service, at both levels of government, will be critical; and

- b) Public sector employers exercise effective establishment and payroll controls.

Affordability and fiscal sustainability of the public sector wage bill shall be achieved through a collaborative effort of all public sector employers and other stakeholders with a view to guiding and controlling adjustments to numbers and remuneration and benefits of public sector employees at both organizational and individual levels.

### **2.3.2 Equity and fairness**

The Kenya public service remuneration and benefits system operates with multiple structures, which to a large degree underlie the disparities in remuneration and benefits among employees of matching competencies and workload across the public sector. In 2013, SRC established a unified remuneration and benefits structure for State officers in the three arms of government at both the national and county levels. However, across the public sector there are divergent remuneration and benefits structures for public officers outside the State officers' category.

These include:

- a) Structures differ across the three arms of government and State corporations;
- b) In county governments, there exists three remuneration and benefits structures arising from employees engaged from the defunct local authorities, those seconded from the national government, and those recruited by county governments; and
- c) Disharmony in remuneration and benefits structures arising from the proliferation of allowances and other non-salary benefits, resulting in inequities in gross pay.

Pursuant to Section 11(e) of SRC Act, 2011, SRC set a four-year review cycle of remuneration and benefits in the public sector. To inform the remuneration review cycles, SRC undertakes job evaluation to establish the relative worth of jobs in the public sector and salary surveys to determine the monetary worth of jobs in the public sector.

In this regard:

The Commission shall endeavour to establish and maintain equity and fairness in remuneration and benefits in the public sector by establishing the worth of every job together with establishing a framework for harmonisation of remuneration and benefits.

### **2.3.3 Allowances and non-salary benefits**

Review of allowances in the public sector has been done progressively to address inequities, unfairness and distortions in remuneration and benefits. In 2019, SRC undertook a *Study on Allowances Payable in the Public Service*. The study identified 247 allowances paid to public officers and which account for 48 per cent of the total wage bill. SRC has identified policy issues and challenges in public sector allowances and benefits in the following respects:

- a) Uncontrolled awards and adjustments in allowances and benefits exacerbate the challenge of affordability and fiscal sustainability within an environment of fiscal and revenue constraints;

- b) The proportion of allowances to the gross salary ranges from 43 per cent to 259 per cent across sub-sectors in the public sector. A high percentage of allowances to the gross salary and the wide range in percentage to gross salary leads to distortions in remuneration, inequity and unfairness in pay;
- c) Distortions and unpredictability in the pay package arising from some allowances being paid as a percentage of basic salary, while others are paid in absolute amounts;
- d) Payment of allowances for purposes that are already compensated for in the relative worth of a job and/or whose purpose overlaps with that of the basic salary, results in double compensation;
- e) Absence of standardisation and categorisation of allowances payable in the public sector obscures clarity and hinders flexibility in purpose for paying allowances for varying circumstances;
- f) Allowances meant to facilitate staff to deliver services have taken a remunerative dimension. This has resulted in motivation for arbitrage opportunities by public officers by increasing the frequency for payment and application, against the principles of prudent management of public resources in line with Article 201 of the constitution and PFM Act, 2012.
- g) Varying justification and eligibility criteria for some allowances and benefits across the public sector institutions, leading to inequality. In some instances, the purpose for which some allowances and benefits are paid are similar and/or redundant; and
- h) There are varying definitions of pensionable salary among public sector institutions. As a result, the salary used to calculate pension has been a major source of disparity in the scheme funding levels since some schemes factor in some allowances in determination of pensionable remuneration.

SRC shall develop and issue an Allowances and Benefits Policy and Implementation Guidelines for the public sector.

#### **2.3.4 Implementing performance and productivity management**

Measurement of performance and productivity in the public sector has evolved despite strong resistance and implementation challenges. SRC is required to recognise and reward performance and productivity in pay determination. However, currently public sector performance management systems are fragmented and not focused on productivity. A performance contracting system is common in public sector institutions, but there is no effective implementation in most of the institutions. Due to technical challenges entailed in design and implementation of a robust performance management system, the systems in use are often underdeveloped.

They do not:

- a) Encompass productivity assessments;
- b) Cater for all categories of employees; and
- c) Link reward to performance and productivity.

There are also challenges in harmonising performance and productivity management systems

and practice across the public sector organisations. In the latter context, it is noteworthy that the MPSY&GA has embarked on the formulation of a national integrated performance management policy.

To overcome the complexities and challenges associated with the institutionalisation of performance and productivity management, SRC will develop a framework for rewarding performance and productivity to operationalize the principle of recognising and rewarding productivity and performance.

### **2.3.5 Collective bargaining and labour relations**

To bring some order in the public service labour relations environment, in 2012, SRC issued guidelines and a framework on the determination and review of remuneration in the public sector. Further, in 2019, SRC issued revised guidelines on collective bargaining in the public sector, which outlines principles to be followed in Collective Bargaining Negotiations (CBNs). Prior to the establishment of SRC, collective bargaining negotiations in the public sector were fragmented, and involved trade unions, public sector employers and the government. Labour unrests by unionised public sector employees were frequent. It has been estimated that Kenya lost an average of 3.5 million workdays per year in 2010-2018 due to labour unrests, translating to an aggregate loss of Ksh. 48.5 billion in forgone output.

Still, there are significant challenges in CBNs, including:

- a) Pressure from trade unions and interested parties to review remuneration and benefits outside constitutional and statutory principles of pay determination;
- b) Labour unrests pushing employers and SRC to negotiate under unfavourable conditions of extreme pressure;
- c) Lack of, delay or inadequate information from public sector employers to enable SRC provide advice;
- d) Lack of capacity from employers to effectively negotiate with trade unions;
- e) Collusion between trade unions and institutions' management staff during negotiations;
- f) Where a trade union and employer negotiate and agree outside the advisory provided by SRC; and
- g) Political interference, where pronouncements are made on remunerative issues before SRC has advised.

The commission shall ensure that collective bargaining agreements and revision of remuneration and benefits in the public sector are in line with the remuneration and benefits principles.

### **2.3.6 Attracting and retaining requisite skills**

Remuneration relativities and differentials between the public and private sector have significant implications on talent mobility in the labour market. The government has progressively improved its remuneration and benefits structures to attract and retain requisite skills. A study commissioned by SRC in 2018 shows that there is retention of 95 per cent of employees within the public sector. In a salary survey conducted by SRC in 2020, only 1 per cent of employees



changing jobs exited the public sector.

There is evidence that, with exception of highly technical and professional jobs where the government has to compete with the private sector, the public sector has become the employer of choice in Kenya. Therefore, the policy challenge is to ensure that the public sector remains an employer of choice and continues to attract and retain highly technical and professional skills.

The other policy challenge is to ensure that there are no significant wage differentials between the public and private sectors to act as incentives for volatility in labour mobility and distribution, which may mis-allocate skills to sectors where productivity of the skills may be sub-optimal.

In this regard:

The Commission shall ensure that remuneration in the public sector enables attraction and retention of requisite skills and that there are no significant wage differentials within the public sector and between the public and private sectors to act as incentives against volatility in labour mobility and distribution, which may mis-allocate skills to sectors where productivity of the skills may be sub-optimal.

### **2.3.7 Affordable annual salary adjustments**

An efficient remuneration and benefits system encompasses a cost-of-living adjustment (COLA) element, so that employees are cushioned from loss of purchasing power arising from erosion in the real value of their remuneration and benefits packages. This is a common practice globally in the public sector.

Kenya's public sector employees receive salary increments that mitigate the adverse impact of inflationary loss of purchasing power, in the following three ways:

- a) Annual notch increment and promotions built into salary structures and schemes of service;
- b) Negotiated COLA for public employees covered by CBAs; and
- c) Salary structures that reflect both job evaluation and labour market trends.

These adjustments present the following policy gaps:

- a) Negotiated pay increases with trade unions does not take into account the notch increment resulting in pay increase above COLA and above pay increment for other employees in the same institution; and
- b) Pay review is not linked to performance and productivity.

In this regard:

To ensure affordability of annual salary adjustments, SRC shall issue remuneration guidelines for the public sector.

### **2.3.8 Pension and other post-employment benefits**

The rapid growth of the Kenya public sector pension bill has been a fiscal concern for more than

a decade. In 2012, with the enactment of the Public Service Superannuation Scheme (PSSS) Act, 2012, the government moved to shift from the "Pay as We Go" (unfunded) scheme to a contributory scheme for a section of employees in the public sector.

The absence of a policy framework to guide management and structuring of retirement benefits in the public sector has led to a rising pension bill and disparities in pension benefits.

Among the common factors underlying the rising pension bill and inequity are:

- a) Non-contributory retirement benefits schemes;
- b) Varying scheme designs, where some public sector institutions operate Defined Benefit (DB) Schemes, while others operate Defined Contribution Schemes;
- c) Benefits provided under the various retirement benefits arrangements are disparate with some public officers receiving enhanced benefits, which provide for both pension and non-pension benefits;
- d) Levels of contributions vary from one State agency to another;
- e) The definition of pensionable emoluments and salary differs across the public sector and is based on the rules of the respective retirement benefits schemes. Some institutions include, allowances in the calculation of pension, while others base pension on basic salary alone;
- f) The eligibility criteria are State-agency specific, thus creating disparities in benefits access; and
- g) The pension formula (accrual rate) used to calculate pension for public officers under DB schemes differ.

In this regard:

The Commission shall collaborate with the National Treasury and Planning (NT&P) and other stakeholders in implementation of the Eighth Summit resolutions on the development of a National Pension Policy. In particular, SRC shall review and harmonise all laws, regulations and policies governing post-employment benefits in the public sector (i.e. pensions, provident funds, gratuities, etc.). SRC shall also lead in the development of a retirement benefits policy for the public sector to address the consolidation and harmonisation of the public sector pension schemes in the national and county governments.

### **2.3.9 Compliance with SRC advisories and guidelines**

Article 230(4) of the constitution, and SRC Act, 2011, mandates SRC to inquire into and advice on the salaries and remuneration to be paid out of public funds, and keep under review all matters relating to the salaries and remuneration of public officers. Regular compliance checks have enabled SRC to build partnerships and synergies with stakeholders, while improving implementation of advisories on remuneration and benefits. However, SRC has experienced less than full compliance by public sector employer institutions with its advisories and guidelines on remuneration and benefits.

Public sector employers have an obligation to ensure compliance with SRC advisories and guidelines. Therefore, SRC shall enhance compliance of its advisories and guidelines by public service employers by conducting regular compliance checks.

In this regards:

The Commission shall ensure enhanced compliance by public sector employers with advisories and guidelines issued by SRC.

#### **2.3.10 Mitigating political economy risks inherent in the management of public sector remuneration and benefits**

Many stakeholders in the public sector remuneration and benefits policy decisions (including employers, employees, trade unions, political leaders, media and the public) are inclined to introduce a game of winners and losers in their advocacy and assessment of the policy decisions taken by SRC. It is in the latter context that stakeholders often invoke political power influence in pursuit of comparatively undeserved and unfair remuneration and benefits.

Further, some stakeholders have persistently expressed their discomfort with the harmonisation, regulatory and wage bill control functions performed by SRC. These political economy dynamics pose risks to smooth, timely and sustained implementation of the PSRB Policy. It is therefore important that there is mitigation of these risks. An important plank in that mitigation is alignment of the PSRB Policy decisions with higher national development goals. This is implied in the first constitutional principle on determination of remuneration and benefits, that is, ensuring affordability and fiscal sustainability of the wage bill.

In this regard:

PSRB Policy decisions will be aligned to the national development strategy in order to mitigate risks inherent in political economy dynamics that undermine the implementation and sustaining of PSRB Policy.

### 3 PUBLIC SECTOR REMUNERATION AND BENEFITS POLICY OBJECTIVES

#### 3.1 Introduction

The Policy objectives presented here derive from the issues that can be addressed in the short to medium term. The objectives are guided and driven primarily by the principles for determination of public sector remuneration and benefits as stipulated in Article 230 and SRC Act, 2011. Thus, in the implementation of this Policy, public sector institutions will observe the following seven key principles in both formulation of all decisions and proposals, and determination of remuneration and benefits:

- a) **Affordability and sustainability of the public sector wage bill:** This principle ensures that aggregate remuneration and benefits are within the planned public sector resource envelope in both short and long-term perspective. To ensure compliance with this principle, SRC must ensure that remuneration and benefits awards across the entire public sector do not exceed what is stated in the PFM Act and Regulations. Then, the wage bill is kept in check and its future fiscal sustainability is planned;
- b) **Attraction and retention of requisite skills:** This principle underscore competitiveness of the remuneration and benefits for the job competencies and responsibilities in the public sector. Accordingly, the public sector can compete with the private sector and other sectors to attract and retain personnel with the requisite competencies;
- c) **Recognising productivity and performance:** The principle underscores the need to ensure that there are incentives for individual workers or teams of workers to actively pursue improvements in their productivity and performance at the place of work. Such incentives will provide rewards for public workers who perform beyond the set productivity and/or performance targets;
- d) **Transparency:** The principle entails ensuring that information relating to remuneration and benefits is openly communicated to all employees;
- e) **Fairness:** The principle requires that compensation be meted out in an objective, justifiable and impartial manner. Then, employees perceive there is equal pay for work of equal value;
- f) **Equity:** The principle requires that pay differentials objectively reflect the relative worth of jobs as assessed through job evaluation; and
- g) **Alignment to the national development strategy:** The principle underscores the nexus of wage determination, competitiveness for investment, economic growth and employment creation.

To achieve the above principles, the following policy objectives shall apply:

#### 3.2 Policy Objectives

##### 3.2.1 Policy Objective 1: Affordable and fiscally sustainable wage bill

A key principle of remuneration specified in Article 230(5) of the constitution is affordability and fiscal sustainability of the wage bill. Consequently, any setting or reviewing of remuneration and benefits shall be subject to affordability and fiscal sustainability. This will be achieved through a

collaborative effort of all public sector employing institutions. This Policy will guide and control adjustments to public sector employees' remuneration and benefits.

To achieve affordability and fiscal sustainability of public wage bill, the following medium term policy targets will guide remuneration and benefits awards:

- a) Any proposal in respect to remuneration in the public sector shall be accompanied with an analysis of its likely affordability and fiscal sustainability impact;
- b) Any proposal in respect to remuneration and benefits in the public sector together with its affordability and fiscal sustainability impact analysis shall be reviewed by SRC in line with constitutional principles;
- c) The foregoing provisions prohibit public sector employers and trade unions or other such representatives of the subsets of the public sector concluding CBNs on remuneration and benefits without first obtaining advice from SRC; and
- d) Ability of the economy to sustain increased labour costs shall be considered in determining the level and timing of any awards on remuneration and benefits.

To achieve affordability and fiscal sustainability of the public sector wage bill, the following medium term policy targets will guide remuneration and benefits awards:

- a) National wage-bill-to-GDP ratio of not more than 7.5 per cent;
- b) National wage-bill-to-total-domestic-revenue ratio of not more than 35 per cent or as stipulated in the PFM Act and Regulations from time to time; and
- c) A county government's wage bill will not exceed 35 per cent of the total revenue or as stipulated in the PFM Act and Regulations from time to time.

In pursuit of the above policy targets, public sector institutions are required to:

- a) Comply with the PFM Act, 2012, stipulation that public expenditure on personnel emoluments should not exceed 35 per cent of the revenue;
- b) Comply with SRC advisories on remuneration and benefits for State officers and other public officers;
- c) Operate with optimal staffing levels and ceilings on personnel emoluments;
- d) Limit recruitment of new employees to those in priority areas for improvements in essential public services, and where attraction and retention has evidently been a problem; and
- e) Maintain clean payrolls through which only regularly recruited employees will receive their remuneration and benefits.

In furtherance of the above policy measures, SRC will collaborate with NT&P and MPSY&GA in the institutionalisation of the following controls:

- a) Entrench a unified payroll numbering system for public officers;
- b) Regular payroll audit for public sector institutions;
- c) Regular audit of Human Resource (HR) practices in the public sector in line with Article 234(d) of the constitution. This should incorporate employees' qualifications, staffing levels, competencies and job-matching in the institutions;
- d) Full automation and integration of payroll systems, Human Resource Management Information System (HRMIS) and financial system, that is, Integrated Personnel Payroll



Database (IPPD) to Government Human Resource Information System (GHRIS) and Integrated Financial Management Information System (IFMIS); and

- e) Strengthen collection and storage of payroll data so that HR and payroll data is consolidated and consistent for sound decision-making on wage bill management, HRM and budget planning.

### **3.2.2 Policy Objective 2: Equity and fairness in remuneration and benefits**

To realise and sustain compliance with the constitutional and statutory principles stipulated for policy decisions on remuneration and benefits, it is incumbent for SRC and all stakeholders to take measures to eliminate any disparities and discriminatory features in the remuneration regime. Employees on the same levels of competence, assigned tasks and responsibilities, and performance on the job at any place and level of the public sector, should benefit from equitable remuneration and benefits taking into consideration the relative worth of the job and relevant salary market trends.

The Commission shall endeavour to establish and maintain equity and fairness in remuneration and benefits in the public sector as guided by the constitution and its policies including; the Job Evaluation Guidelines, Remuneration Guidelines for the Public Sector, establishing the relative worth of every job and establishing a framework for harmonisation of remuneration and benefits.

In this respect:

- 1) Job evaluation shall continue to be the process by which SRC will pursue the following objectives:
  - a) A consistent framework for determination of relative worth of jobs;
  - b) Reducing and ultimately eradicating distortions in public sector remuneration and benefits system, so that in the course of time, the principles of equity, and "equal pay for work of equal value" can be a reality for public sector officers;
  - c) A participatory job evaluation process that ensures every public sector employer proactively contributes to the smooth and successful conduct of a job evaluation process.
- 2) Pay disparities arising from the different salary structures shall be harmonised taking into consideration; affordability, fiscal sustainability, salary market trends and labour laws;
- 3) Ability to pay higher remuneration by any public sector institution shall not be regarded as necessary and sufficient condition for increase in remuneration if it means that one group of public sector workers will earn a remuneration, which is out of step with those of comparable groups of workers in the sector; and
- 4) Salaries of public sector employees shall reflect the relative value of their jobs and the compression ratios and salary ranges shall not be wide.

### **3.2.3 Policy Objective 3: Streamlined and harmonised allowances**

Allowances and Benefits Policy for the public sector will seek to achieve transparency, accountability, equity and fairness in payment of allowances and benefits and to ensure affordability and fiscal sustainability of wage bill in the public sector.

In this regard, the following policy statements shall apply:

- a) Allowances and benefits in the public sector shall be set and regularly reviewed and

- advised by SRC, while taking into account the principles of affordability and fiscal sustainability;
- b) There shall be a consolidation of allowances to achieve a proportion of basic salary to gross salary that is no less than 60 per cent, while taking into account the impact on pension;
  - c) Allowances and benefits shall be paid in absolute amounts and not as a percentage of the basic or gross salary;
  - d) The total remuneration package shall not exceed the relative worth of a job. Thus, allowances and benefits shall not be paid for purposes that are already compensated for in the basic salary;
  - e) The ability to pay higher allowances and benefits by any public sector institution shall not be regarded as a sufficient condition for the increase in allowances and benefits. Thus, no one group of public sector employees will earn a gross remuneration package which is out of step with those of comparable groups of public officers;
  - f) Allowances shall be categorised into clusters;
  - g) Facilitative allowance shall be paid to officers working out of their duty station at rates set and advised by SRC. The rates shall be standardised across the public sector;
  - h) To avoid duplication, redundancy, disparities and varied eligibility criteria, remunerative allowances payable in the public sector shall be harmonised and streamlined;
  - i) Allowances and benefits payable to public officers shall not be used for purposes of computing pension and gratuity. In this regard: (a) for State officers: Pensionable salary and emoluments shall be defined as 60 per cent of the monthly gross remuneration package, as set by SRC; and (b) for other public officers: Pensionable salary and emoluments shall be defined as basic salary, excluding any allowance or benefit.
  - j) SRC will periodically review allowances and benefits in the public sector, taking into account constitutional principles, policy statements, and cognisant of existing legal provisions, existing CBAs and contractual obligations; and
  - k) Every public sector employer is required to fully disclose to SRC all non-salary remuneration and benefits enjoyed by its employees.

The Commission shall develop and issue an Allowances and Benefits Policy and Implementation Guidelines for the public sector that shall expound on the policy statements.

#### **3.2.4 Policy Objective 4: Framework for rewarding performance and productivity**

The Kenya Vision 2030 seeks to achieve a globally competitive middle-income country offering high quality of life by the year 2030. In particular, the achievement of the key Economic Pillar of the Vision 2030 will be dependent on Kenya's ability to achieve rapid and sustainable productivity growth. Public service productivity is important, given its role in provision of goods and services and its substantial contribution to overall GDP.

The ability, motivation and productivity of public sector workers are key determinants of the capability of the government to implement national goals, strategies and policies. Consequently, remuneration in the public sector and any reviews of such remuneration shall take into account individual employee performance, institutional and sectoral productivity, and performance of the

national economy as prime elements.

To operationalise the principle of recognising performance and productivity and to overcome the complexities and challenges associated with institutionalization of performance and productivity management;

- a) The Commission shall initiate and embed performance and productivity in remuneration of public sector employees;
- b) The Commission, in conjunction with other key stakeholders, shall collaborate in capacity building of public sector institutions on productivity and performance;
- c) The Commission shall determine eligibility criteria for productivity or performance based incentive;
- d) The Commission shall advise all public sector institutions on incentives to reward productivity and performance based on computed performance and productivity achievements; and
- e) Public sector institutions shall be expected to entrench a culture of recognising productivity and performance.

The Commission shall develop and issue a framework and guidelines for recognizing and rewarding performance and productivity in the public sector.

### **3.2.5 Policy Objective 5: Streamlined collective bargaining negotiations**

Collective bargaining agreements and revision of salaries in the public sector shall be in compliance with the constitutional and statutory principles of remuneration and benefits determination. Government will pursue improved collective bargaining processes and thereby improved labour relations with the representatives of public service employees.

In this regard:

- a) The Commission shall issue Collective Bargaining Negotiations Guidelines for the public sector from time to time;
- b) The Commission shall issue Remuneration Guidelines for the Public sector;
- c) To ensure effective coordination, timely completion and satisfactory outcomes from CBNs, and promote a predictable and stable labour relations environment, SRC shall collaborate with the MPS&G and other stakeholders to establish a framework and standing sectoral CBN committees to represent both national and county governments as employers in collective bargaining.
- d) Public sector employing institutions are required to exercise diligence by observing the remuneration and benefits determination principles and CBN guidelines issued by SRC; and
- e) No public sector employer will enter into a CBA until an advisory is issued by SRC. To enable SRC to issue the advisory, the employer will fulfil the requirements as stated in the CBN guidelines issued by SRC from time to time.

### **3.2.6 Policy Objective 6: Attract and retain employees with requisite skills**

The Commission shall ensure that there are minimal wage differentials between the public and private sectors to act as incentives for volatility in labour mobility and distribution, which may mis-allocate skills to sectors where productivity of the skills may be sub-optimal.

This Policy objective will be pursued so that every public sector employers can attract and retain requisite skills to execute their functions.

In this regard:

- a) The Commission shall ensure that there are minimal wage differentials between the public and private sectors to act as incentives for volatility in labour mobility and distribution;
- b) The Commission will sustain the competitiveness of the public sector remuneration and benefits regime through job evaluation and salary market surveys, in accordance with Section 11 of SRC Act, 2011; and
- c) The Commission will, with due diligence, avail differentiated pay for public sector employees with requisite skills.

### **3.2.7 Policy Objective 7: Affordable salary adjustments**

Article 230(5) of the Constitution, and Section 12(1) of SRC Act, 2011, specifies principles upon which SRC sets and regularly reviews remuneration and benefits of all State officers, and advises on remuneration and benefits for other public officers at the national and county governments.

In this regard:

- (i) The Commission shall issue advisories on the review and implementation of periodic salary adjustments in line with the constitutional principles and the SRC Act;
- (ii) Employees may be cushioned against cost of living through notch increases within the pay structures advised by the commission, subject to affordability and fiscal sustainability.
- (iii) Employees whose remuneration adjustments are within a CBA will have their annual salary adjustment in the CBA. Therefore, the general notch increment shall be deducted from any COLA consideration in the CBA to guard against double compensation and disparity in pay.

The SRC shall from time to time issue remuneration guidelines for the public sector. The guidelines shall provide compensation parameters to be considered while advising on salary review proposals by public service institutions.

### **3.2.8 Policy Objective 8: Affordable and harmonised post-employment benefits**

In pursuit of transparency, equity and fairness, and to ensure affordability and fiscal sustainability of the pension and other post-employment benefits bill, SRC shall review and harmonise all laws, regulations and policies governing post-employment benefits in the public sector (i.e. pensions, provident funds, gratuities, etc.). The SRC shall also develop a Public Sector Retirement Benefits Policy. The reviews shall be aligned to the principles of pay determination in the public sector.

To this end, SRC shall:

- a) Review the retirement and post-employment laws, regulations and pension laws to bring them into harmony with constitutional provisions. This shall result in an

overarching policy on post-employment benefits.; and

- b) Review and harmonise the current gratuity provisions and where cost-effectively feasible abolish and replace existing gratuity with contributory pension arrangements that apply equitably to all employees in the public sector.

### **3.2.9 Policy Objective 9: Enhanced compliance with advisories and guidelines**

To enhance compliance by public sector employers with advisories and guidelines issued by SRC:

- a) The Commission shall, pursuant to Section 13 of SRC Act, 2011, conduct regular compliance checks to ensure that public sector institutions comply with these regulations and the advisories;
- b) Employing institutions will be required to provide information as per Article 13(2)(a) of SRC Act, 2011;
- c) Employing institutions will be required to address findings from the compliance checks;
- d) The Commission will develop and implement an annual programme of consultations with stakeholders to disseminate its advisories, circulars and guidelines and to receive feedback from stakeholders on areas for further improvement;
- e) The Commission will regularly update and upload advisories, circulars and guidelines on its website and other communication channels for easy accessibility by stakeholders; and
- f) The Commission will mainstream alternative dispute resolution mechanisms on areas pertaining to its mandate.

### **3.2.10 Policy Objective 10: PSRB Policy decisions aligned with the national development strategy**

The PSRB Policy decisions will be aligned to the prevailing national development strategy to mitigate risks inherent in political economy dynamics that undermine the implementation and sustenance of the PSRB Policy and to affirm the value proposition in the institution of SRC.

In this regard, SRC shall:

- a) Maintain close monitoring of the wage bill vis-à-vis revenue growth and GDP, and feedback implications to the NT&P and the public sector institutions;
- b) Provide wage bill projections to the NT&P as part of the annual budget process;
- c) Convene regular consultations with public sector institutions on planning and budgeting for remuneration and benefits; and
- d) Collaborate with public sector employers in the implementation of an efficient and effective integrated public sector HRMIS.



## **4 IMPLEMENTATION FRAMEWORK**

### **4.1 Introduction**

This section highlights the collaborative framework for implementing the PSRB Policy. A wide variety of existing structures and agencies, both political and administrative in national and county governments, will be involved in implementing the Policy.

### **4.2 Collaborative framework**

There will be collaboration with all stakeholders, including public sector employees, employers and the Kenyan public, for ownership and effective implementation of the Policy. It is important to demonstrate to the national political leadership, the public sector employees, the NT&P and the public that the PSRB Policy is aligned to the national development strategy. It is, therefore, critical that public sector institutions endorse and actively support the implementation of this Policy.

The Commission will spearhead and coordinate collaboration efforts with stakeholders to:

- a) Ensure the Policy implementation by stakeholders is sustained well beyond the short term. Among the initiatives to be undertaken will be stakeholders' fora, media and social media engagements, webinars, production of information, education and communication (IEC) materials, among other communication initiatives;
- b) Identify and agree on the shared responsibilities and coordinated actions for smooth, timely and effective implementation of the Policy; and
- c) Review progress and identify issues and challenges in the implementation of the PSRB Policy 2021.

### **4.3 Mitigate the medium to long term risks inherent in political economy dynamics**

In the short and medium term, the risks to the PSRB Policy implementation are mitigated by:

- a) The commitment of the national and county governments to the constitutional and statutory mandate and operating principles stipulated for SRC;
- b) Alignment of the PSRB Policy, 2021, to the national macroeconomic and fiscal trajectory; and
- c) Ensuring that key stakeholders, including the national and county governments, legislature, judiciary, Constitution Commissions and Independent Offices, State corporations, private sector, media, professional bodies, civil societies organisations, non-governmental organisations, community-based organisations, faith-based organisations, opinion leaders, trade unions, diplomatic community, donor community, development partners, United Nations agencies, universities, research and tertiary institutions, disciplined forces, and the public, share the aspirations underpinned in the mandate of SRC, and the Policy goals.

However, there is a need to mitigate risks with a long-term perspective. In this regard, SRC will lead and coordinate strategic initiatives under the following themes:

- a) Sustain the national wage bill dialogue; and
- b) Legislate measures to institutionalise pillars of the Policy.

#### **4.3.1 Sustain the national wage bill dialogue**

The views shared at the National Wage Bill Conference, 2019, and in the past National Wage Bill dialogue, shows that generally the national and county governments, legislature, judiciary, Constitution Commissions and Independent Offices, State corporations, private sector, media, professional bodies, civil societies organisations, non-governmental organisations, community-based organisations, faith-based organisations, opinion leaders, trade unions, diplomatic community, donor community, development partners, United Nations agencies, universities, research and tertiary institutions, disciplined forces, and the public, share the aspirations underpinned in the mandate of SRC, and the Policy goals.

In pursuant of SRC mandate and provisions of the constitution, the Commission will seek to address the concerns raised by stakeholders by organising fora through which Kenyans would contribute towards sustainable management of wage bill and development of a national policy on sustainable management of the public wage bill. In addition, continuous debate on the public wage bill will enhance public awareness of wage bill management.

In this regard,

- a) The Commission shall organise continuous debates, awareness and sensitisation sessions through several media, social media and communication platforms, on the public sector wage bill; and
- b) The Commission shall periodically organise a national wage bill conference.

#### **4.3.2 Legislate measures to institutionalise pillars of the Policy**

There shall be several measures that shall be undertaken to support the implementation of the Policy. Several guidelines shall be developed and issued to the public sector to operationalise various aspects of the PRSB Policy, 2021.

In this regard, SRC shall develop and issue:

- a) Remuneration Guidelines for the Public Sector;
- b) Allowances and Benefits Policy and Implementation Guidelines for the public sector;
- c) A Framework and Guidelines for Recognising and Rewarding Performance and Productivity in the Public Sector;
- d) Guidelines on Collective Bargaining in the public service; and
- e) A Public Sector Retirement Benefits Policy.

Legislation will enable effective implementation, minimise the risks of excessive litigation and enable enforcement of compliance with the major policy measures. Specifically, the legislative measures shall include:

- a) Providing for criminal sanction for any public officer who awards any remuneration and/or benefits without the explicit and written advice of SRC;
- b) Providing for personal liability by a public officer for awarding remuneration and/or benefits without SRC's advice and recovery of such remuneration or benefit from the beneficiary;
- c) Providing for compliance with the remuneration guidelines issued by SRC from time to time;

- d) Establishment of a Multi-Agency Standing Committee to negotiate with trade unions on behalf of the public sector organisations at both national and county government levels. This will ensure effective coordination, timely completion and satisfactory outcomes from CBNs, and promote a predictable and stable labour relations environment;
- e) Providing for job evaluation more specifically to clarify responsibility of SRC, and the role of the employer in the process and the requisite procedures;
- f) Providing for the role of SRC in CBNs and procedure for obtaining SRC's advice in CBNs;
- g) Providing for recognition and measurement of performance and productivity in the public service, and linkage of the award of annual or other adjustments to an employee's remuneration and benefits to performance and productivity;
- h) Providing mechanisms for submission of requisite data and documentation to SRC;
- i) Providing definitions of various terms used in relation to remuneration and benefits in the public sector, including pension and other post-employment benefits; and
- j) Providing guidance by SRC on sustainability of the wage bill, including the number of staff, being a factor of sustainability.

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