



Salaries & Remuneration
Commission

R e w a r d i n g p r o d u c t i v i t y

ALLOWANCES POLICY GUIDELINE FOR THE PUBLIC SERVICE

The Policy Guideline is issued in discharge of the Salaries and Remuneration Commission mandate under Article 230(4) of the Constitution of Kenya, 2010, and in line with the principles provided in Article 230(5) of the constitution, and Section 12 of SRC Act, 2011.

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Rewarding Productivity

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DEFINITION OF TERMS

Allowance: Is any periodic or one-off amount that is payable to public officers over and above basic salary.

Public Office: An office in the national government, a county government or the public service, if the remuneration and benefits of the office are payable directly from the Consolidated Fund or directly out of money provided by parliament.

Public Officer: Any State officer or any person, other than a State officer, who holds a public office.

State Office: An office designated as a State office under Article 260 of the Constitution of Kenya.

State Officer: A person holding a State office as defined in Article 260 of the Constitution of Kenya.

Public Service: The collectivity of all individuals, other than State officers, performing a function within a State organ.

Public Service Institutions: Institutions established by the government and that exist to provide public services to its citizens.

ALLOWANCES POLICY GUIDELINE FOR THE PUBLIC SERVICE

1.0 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 the national and county governments 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.

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

These policy guideline is issued pursuant to SRC's mandate as set out in Article 230(4) of the constitution, and in line with the principles provided in Article 230(5) of the constitution, and Section 12 of SRC Act, 2011.

1.1 Background

The absence of clear and comprehensive policy guidelines to facilitate effective management and administration of allowances in the public service has led to proliferation of allowances, distortions in remuneration, unfairness in pay, lack of transparency, accountability and inequity.

Pursuant to the provisions of Articles 230(5) and 41(2)(a) of the constitution, in 2019, SRC undertook a *Study on Allowances Payable in the public service*. The study identified 247 different allowances paid to public officers, which account for 48 per cent of the total wage bill. The findings of the report of the study were presented at the National Wage Bill Conference convened from 26 to 28 November 2019. The 8th Summit Resolutions on the National Wage Bill Conference, 2019, resolved, among other things, that *an overarching policy framework be developed for streamlining*

the management of allowances to improve transparency, accountability, equity and fairness in payment of allowances and to ensure affordability and fiscal sustainability of the wage bill.

Based on the National Wage Bill Conference resolution, the Commission undertook to develop policy guideline on allowances for the public service. SRC has identified the following ten (10) strategic areas to be addressed through these policy guidelines:

- (i) Increase in public service wage bill within an environment of fiscal and revenue constraints;
- (ii) Disparity in rates of allowances paid;
- (iii) Proportion of allowances in relation to basic pay;
- (iv) Allowances paid for factors that are already compensated for through the basic salary;
- (v) Proliferation of allowances in number and amounts;
- (vi) Varying nomenclature of allowances;
- (vii) Facilitative allowances that have taken a remunerative dimension;
- (viii) Unclear and varied justification for payment of some allowances;
- (ix) Redundant allowances; and
- (x) Disparity in definition of pensionable salary.

1.2 Rationale for the Policy Guideline

The absence of a clear and comprehensive policy framework to guide management and administration of allowances in the public service has led to proliferation of allowances and different justification, eligibility criteria, rates and modes of payment. This has led to lack of transparency, inequity and unfairness in coverage, multiplicity and high proportions of allowances to basic salaries and consequently disparities in the gross pay paid to public officers.

The rationale for development and operationalisation of this policy guideline is, therefore, to streamline the management of allowances to improve transparency, accountability, equity and fairness of pay, pursuant to SRC's mandate, as set out in Article 230(4) of the constitution, and in line with the principles provided in Article 230(5) of the constitution. Further, the policy guideline will address challenges associated with high administrative and management cost of processing allowances, and payment of allowances that lead to distortions in remuneration and violation of the principle of 'equal pay for work of equal value'.

1.3 Objectives of the Policy Guideline

The overarching objective of the policy guideline is to provide a structured approach for streamlining management and administration of allowances so as to improve transparency, accountability, equity and fairness, thereby, ensuring that the total public compensation bill is affordable and fiscally sustainable.

The specific objectives of the policy guideline are:

- (i) To support realisation of an affordable and fiscally sustainable remuneration and benefits regime that is aligned to the tenets of national development;
- (ii) To promote the principles of transparency, fairness, and equity in the determination of allowances;
- (iii) To provide standard classification/categorisation of allowances in the public service;
- (iv) To harmonise and rationalise allowances across the public service;
- (v) To institutionalise procedures for determination of allowances in the public service; and
- (vi) To institutionalise a synchronised mechanism for review of allowances that allows consistency in principles and application, and supports retention and attraction of requisite skills.

1.4 Stakeholder Engagement Process

The policy guidelines were developed through a consultative and participatory process with public participation being undertaken as required under Articles 10 and 232 of the constitution. The Commission received and considered feedback from various stakeholders covering both the national and county governments and the public.

1.5 Scope of Application

The policy guideline shall be applicable to all public service institutions both at the national and county government levels in the setting and review of allowances for both State officers and other public officers. Public service institutions shall be expected to comply with the policy guideline pursuant to Article 259(11) of the constitution.

2.0 Policy Guidelines

The Policy Guidelines are issued in discharge of SRC's mandate under Article 230(4) of the constitution and in line with the principles provided in Article 230(5) of the constitution, and

Section 12 of SRC Act, 2011. The purpose of the policy guidelines is to provide a structured approach for streamlining management and administration of allowances in the public service.

Notwithstanding the need to enhance equity and fairness through streamlining of allowances; the Commission shall take into account existing contractual obligations, relevant laws and regulations. Allowances that are currently obtaining shall, therefore, continue to be paid until the Commission issues a further advisory.

The Commission developed 'Allowances Policy Guideline for the Public Service', taking into account constitutional principles and Section 12 of SRC Act, 2011. To achieve transparency, accountability, equity and fairness in payment of allowances to ensure affordability and fiscal sustainability of the wage bill in the public service, the following policy guidelines shall apply:

2.1 Affordability and Fiscal Sustainability

The current public service wage bill consumes a larger percentage of revenue than the target set in the Public Finance Management Act, 2012, and a larger percentage of Gross Domestic Product (GDP) compared to the average for developing countries.

The public service wage bill in Kenya has been growing over time from Ksh 558 billion in the financial year (FY) 2013/14 to Ksh 827 billion in FY 2019/20, within an environment of revenue and financing constraints. The country's wage bill to total revenue was 49.5 per cent in FY 2019/20, while the wage bill to ordinary revenue was 51.7 per cent in the same period, as shown in **Table 1**.

Table 1: Affordability and sustainability ratios

Indicators	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	Target (%)
Total Wage Bill (Ksh billion)	558	615	664	733	795	827	893	
Wage Bill to GDP	9.6	9.2	8.7	8.3	7.9	8.3	7.9	7
Wage Bill to Total Revenue	50.4	49.9	46.7	49.9	50.3	49.5	48	35
Wage Bill to Ordinary Revenue	54.1	53.3	50.8	53.5	48.1	51.7	56	35

This trend is attributable to expansion of services to the public and higher pay to employees. Expansion of public service coverage will continue in the context of achieving the Big Four Agenda and other sustainable development goals, therefore, the wage bill will continue to grow in absolute terms. This provision seeks to ensure that the country has adequate resources for development and service delivery.

Article 230(5) of the constitution mandates SRC to ensure that the public service compensation bill is affordable and fiscally sustainable. In this regard:

1. Allowances in the public service shall be set, regularly reviewed and advised by SRC, while taking into account the principles of affordability and fiscal sustainability.

To operationalise this:

- (a) Public service institutions shall be required to furnish the Commission with all allowances payable in their institutions for review, setting and advice, to ensure fiscal sustainability and affordability;
- (b) The Commission shall set, regularly review and advise on allowances payable in the public service, pursuant to Article 230(4) of the constitution.

2.2 Ratio of Allowances to Gross Salary

The proportion of allowances to the gross salary, as per the 2019 SRC 'Report on Streamlining Allowances Payable in the Public Service,' ranges from 43 to 259 per cent, leading to a lower percentage of basic salary to gross salary in the public service. A high percentage of allowances to the gross salary and the wide range in percentage to gross salary leads to distortions in remuneration and inequity and unfairness in pay. Further, similar allowances are paid as a percentage of basic salary, while others are paid in absolute amounts, resulting in additional distortions in remuneration. In this regard:

2. There shall be streamlining of allowances to progressively 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; and
3. Allowances shall be paid in absolute amounts and not as a percentage of the basic or gross salary, unless where explicitly advised by SRC.

To operationalise this:

- (a) Public service institutions shall be required to furnish the Commission with all allowances payable in their institutions for review, setting and advice.
- (b) The Commission shall issue an advisory on streamlining of allowances to progressively attain the desired proportion of basic salary to gross salary to be no less than 60 per cent; and
- (c) The Commission shall issue an advisory on conversion of the allowances that are currently paid as a percentage of the basic salary into absolute amounts, while ensuring consistency across the public service.

2.3 Double Compensation

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. Article 230(5) of the constitution sets transparency and fairness as one of the principles in determining remuneration and benefits for State officers and other public officers, while Section 12(1) of SRC Act, 2011, establishes equal remuneration to persons for work of equal value. In this regard:

- 4.** Gross remuneration package should not distort the relative worth of a job, thus, allowances shall not be paid for purposes that are already compensated for in the basic salary.

To operationalise this:

- (a) Public service institutions shall furnish the Commission with all allowances payable in their institutions for review, setting and advice to ensure that the remuneration package does not distort the relative worth of the job; and
- (b) The Commission shall identify and streamline allowances that are already compensated in the relative worth of jobs.

2.4 Transparency, Fairness and Equity

To ensure that management of allowances is transparent, fair and equitable across the public service, and to create predictability in remuneration and benefits, the following shall apply:

- 5.** The ability to pay higher allowances by any public service institution shall not be sufficient justification for the increase in allowances, if it means that one group of public service employees will earn a gross remuneration package that is out of step with those of comparable groups of public officers; and
- 6.** Disparities in allowances will be progressively harmonised, taking into account the relative worth of jobs, the need to facilitate attraction and retention of requisite skills in different sectors in the public service, as well as affordability and fiscal sustainability.

To operationalise this:

- (a) The Commission shall ensure that public service institutions are advised on a gross remuneration package that is not out of step with those of comparable groups.
- (b) Allowances will be progressively harmonised, taking into account the relative worth of jobs, the need to facilitate attraction and retention of requisite skills in different sectors in the public service, equity and fairness in pay, affordability and fiscal sustainability.

2.5 Categorisation of Allowances

Standardisation and categorisation of allowances payable in the public service provides a control framework for paying allowances. Further, it removes inconsistency and enhances standardised payment of allowances across the public service. In this regard:

7. Allowances shall be categorised as follows:

- (a) **House Allowance:** This is an allowance provided to public officers to cater for accommodation or rent in addition to the wages or salary of the employee pursuant to the Employment Act 2007 Section 31(1). However, as per Section 31(2), this does not apply to an employee whose contract of service:
 - (i) contains a provision that consolidates as part of the basic wage or salary of the employee, an element intended to be used by the employee as rent or which is otherwise intended to enable the employee to provide himself with housing accommodation; or
 - (ii) is the subject matter of or is otherwise covered by a collective bargaining agreement, which provides for consolidation of wages as provided in (i) above.
- (b) **Commuter Allowance:** This is an allowance paid to public officers not provided with official transport, to cater for their transportation to and from their place of work;
- (c) **Job-Related Allowances:** Job-related allowances are paid to enhance salary. They account for the greatest proportion of allowances in the Kenyan public service. This category of allowances is expected to fall off once the relative worth of a job is appropriately determined;
- (d) **Task-Related Allowances:** These allowances are paid for a temporary period to public officers and shall, therefore, be paid only to employees appointed to carry out assignments outside the scope of their responsibilities; and
- (e) **Labour Market Adjustment Allowances:** These allowances are paid to respond to certain labour market trends and conditions so as to attract and retain scarce, distinct and specialised requisite skills in specific public service institutions.

To operationalise this:

- (a) Public service institutions are required to classify all allowances into the five categories above and submit the list to the Commission for review and advice; and
- (b) The Commission shall set, review and advice on the allowances that constitute the five categories outlining the purpose, eligibility criteria, rate, and scope.

2.6 Facilitative Allowances

Facilitative allowances are paid to employees to enable them meet expenses related to the execution of their duties. In this regard:

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8. Officers working out of their duty station will be entitled to a facilitative allowance at rates as set and advised by SRC. The rates shall be standardised across the public service, subject to affordability and fiscal sustainability.

To operationalise this:

- (a) The Commission shall set, review and advice on rates, clearly outlining the purpose, eligibility criteria, rate, and scope of facilitative allowances; and
- (b) Public service institutions shall put in place control mechanisms to ensure prudent management of public resources in line with Article 201 of the constitution and the Public Finance Management Act, 2012.

2.7 Streamlining of Allowances

The justification and eligibility criteria for some allowances vary across the public service institutions leading to disparity. Further, the purpose for which some allowances are paid are similar and/or redundant.

9. To avoid duplication, redundancy, disparities and varied eligibility criteria, allowances payable in the public service shall be streamlined as follows:
 - (a) Allowances that are paid for similar purposes, but have different names shall be **merged and renamed**;
 - (b) Allowances whose rationale for payment is still valid, but whose rates are not commensurate with the intended purpose shall be **restructured**;
 - (c) Allowances whose current form remains relevant shall be **retained**; and
 - (d) Allowances whose rationale for payment is redundant and or overlaps with that of the basic salary shall be **abolished** taking into account existing Collective Bargaining Agreements, any contractual obligations and being cognizant of existing legal provisions.

To operationalise this:

- (a) Public service institutions shall furnish the Commission with all allowances payable in their institutions identifying allowances that fall into the following categories; **retention, restructuring, merging and renaming** and **abolition**; and
- (b) The Commission shall set, review and advice on allowances to be **retained, restructured,**

merged and renamed and abolished;

2.8 Pensionable Pay

The definition of pensionable salary varies from one public service institution to another. A number of schemes factor some allowances in the computation of pension resulting in different quanta being used to calculate pension. This has been a major cause of the disparate scheme funding levels.

- 10.** In this regard allowances payable to public officers shall not be used for purposes of computing pension and gratuity.

To operationalise this:

The Commission shall develop a Pension Policy Guideline that will provide guidance on pensionable pay and employer contribution levels in the public service.

3.0 Transitional Clause on Operationalisation of the Allowances Policy Guideline

To operationalise the implementation of these policy guidelines, the following transitional clauses shall apply:

- (a) Public service institutions shall submit to the Commission all allowances payable and await setting, review and advice by SRC; and
- (b) Allowances that are currently obtaining shall continue to be paid until the Commission issues an advisory to public service institutions on the allowances.

4.0 Requirements to be submitted to the Commission

The Commission shall require all public service institutions to provide information as per the **checklist** in **Table 2** and as per the **template** in **Table 3**.

Table 2: Checklist for Document/Information to be submitted

No.	Document/information	Status (Mark '√' to denote presence and 'x' to denote absence of required information or document)
1	A copy of the current salary structure including allowances	
2	Payroll data for the institution for the month of October 2021	
3	List of all allowances paid in the institution	
4	The allowances be mapped in the categories stated in Policy Guideline 7 in the Allowances Policy Guideline	
5	The allowances further be mapped as per their classification in the allowances streamlining categories as specified in Policy Guideline 9 in the Allowances Policy Guideline.	
6	The purpose/justification for each allowance/benefit paid in (3)	
7	The monthly rates by grade and job group for each allowance and benefit paid in (3)	
8	Total annual cost for each allowance	
9	Approving letter/circular/policy/guideline/manual (attach) for each allowance in (3)	
10	List of allowances that are a proportion of the basic salary and the proportion percentages	

Table 3: Format for submission of Document/Information on allowances

Allowance	Purpose/Justification	Categorisation as per Policy Guideline 7 in the Allowances Policy Guideline	Streamlining category as specified in Policy Guideline 9 in the Allowances Policy Guideline	Monthly Rates by Grade or Job Group	Total Annual Cost	Approving letter/circular/policy/guideline/manual (copy attach)

5.0 Implementation Road Map of the Allowances Policy Guideline

Table 4: Implementation Road Map for Allowances Policy Guideline for the Public Service

No	Activity	Actor	Start Date	End Date
1.	Launching of Allowances Policy Guideline	SRC		7 October 2021
2.	Issuance of the Policy Guidelines	SRC		7 October 2021
3.	Sensitisation of Stakeholders on the Policy Guidelines	SRC	18 October 2021	29 October 2021
4.	Submission of data on allowances in individual public institutions	All public institutions	1 November 2021	30 November 2021
5.	Development of the Allowances Manual	SRC	1 November 2021	11 February 2022
6.	Review of allowances in all public institutions in line with the policy guidelines	SRC	1 December 2021	31 March 2022
7.	Configuration of the Integrated Payroll and Personnel Database (IPPD) and other institution specific payrolls (where applicable)	IPPD and institutions with other systems	1 March 2022	31 March 2022
8.	Issuance of advice on allowances to individual public service institutions for implementation	SRC	1 April 2022	29 April 2022
9.	Compliance checks	SRC	1 July 2022	

Note: Public service institutions will be expected to observe timelines set out in these policy guidelines, taking into account that the various stages of the process are interdependent.