Salaries & Remuneration Commission

Rewarding productivity

QUARTERLY WAGE BILL BULLETIN

3rd Quarter FY 2021/2022

(January – March)

Research and Compliance Department

April 2022

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LIST OF ACRONYMS AND ABBREVIATIONS

ASAL	Arid and Semi-Arid Land
BPS	Budget Policy Statement
CBA	Collective Bargaining Agreement
CBN	Collective Bargaining Negotiation
CCIOs	Constitutional Commissions and Independent Offices
COG	Council of Governors
CPI	Consumer Price Index
CRA	Commission for Revenue Allocation
DRC	Democratic Republic of the Congo
EAC	East African Community
EACC	Ethics and Anti-Corruption Commission
EFAB	Equalization Fund Advisory Board
EPRA	Energy and Petroleum Regulatory Authority
FY	Financial Year
GDP	Gross Domestic Product
ILO	International Labour Organization
KES	Kenya Shillings
KICD	Kenya Institute for Curriculum Development
KNBS	Kenya National Bureau of Statistics
OAG	Office of the Auditor General
OCoB	Office of the Controller of Budget
PE	Personal Emoluments
PFM	Public Finance Management
PSC	Public Service Commission
SRC	Salaries and Remuneration Commission
TARDA	Tana and Athi Rivers Development Authority
US	United States

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1 INTRODUCTION

This wage bulletin covers the third quarter period of Financial Year (FY) 2021/2022. The period (January - March 2022) under was characterized by a reduction in COVID-19 infections, lifting of mandatory wearing of masks and the onset of campaigns ahead of the August 9th elections.

Socio-Economic Occurrences

The following socio-economic occurrences took place during the quarter:

(i) The International Labor Organization (ILO) projected that global unemployment would remain above pre-COVID-19 levels until 2023. The 2022 level of global unemployment is estimated at 207 million, compared to 186 million in 2019. Further, the global labour force participation rate in 2022 is projected to be 59.3 per cent lower than 60.5 per cent recorded in 2019;

(ii) The Democratic Republic of the Congo (DRC) joined the East African Community (EAC) and was expected to sign the Treaty of Accession before 14 April 2022 to become the 7th Partner State. This is expected to yield a larger pool of employment opportunities, expanded market for goods and services and increased investment opportunities for the EAC citizens;

(iii) Kenya's economy bounced back as Covid-19 restrictions relaxed. The economy grew by 9.9 per cent in real Gross Domestic Product (GDP) in the 3rd quarter after growing by an impressive 10.1 per cent in the 2nd quarter;

(iv) Key sectors that drove economic growth during this quarter were education, accommodation and food serving activities, transportation and storage, manufacturing and insurance activities. This is as a result of the lifting of nationwide curfew in the last quarter;

(v) Energy and Petroleum Regulatory Authority (EPRA) revised fuel prices in all the three months in the quarter. The prices remained the same in February as in January, but increased for petrol and diesel in the month of March. The upward revision was attributed to supply chain disruptions and high oil prices occasioned by the Russia-Ukraine conflict, and it resulted in increased production and transport costs, thus higher cost of living. **Figure 1** shows the monthly prices for petrol, diesel and kerosene during the period under review.

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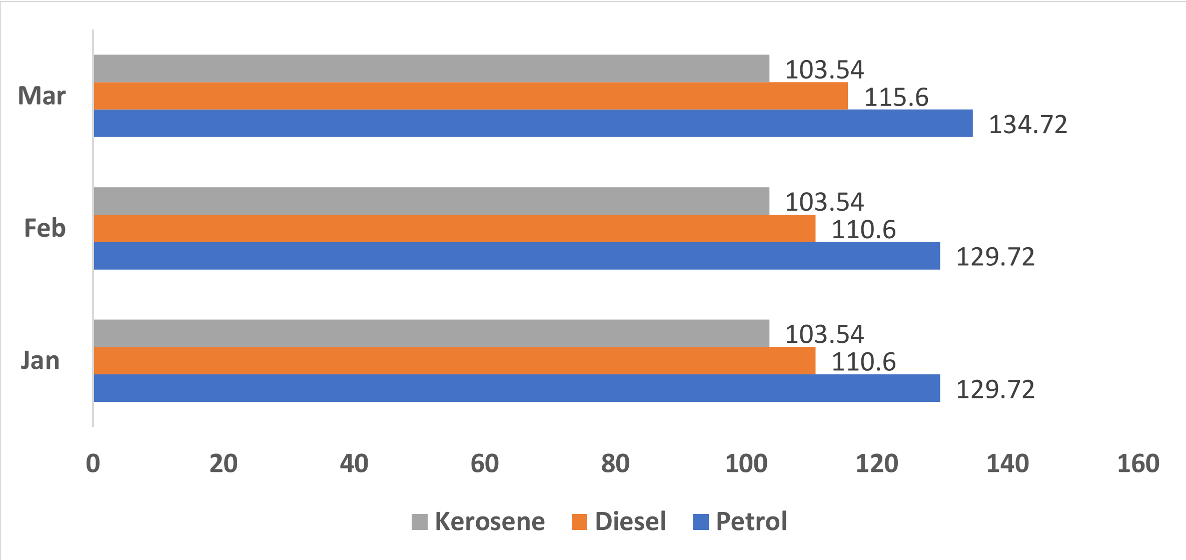
Figure 1: Fuel Retail Prices (KES.) (Jan – Mar 2022)



Source of Data: Energy and Petroleum Regulatory Authority (EPRA)

(vi) The 338 Kilometre road construction and fibre optic cable project linking Kenya and South Sudan is ongoing with one of the government's major infrastructural intervention geared towards regional integration with the North. This will open up trade, investment and employment opportunities and enhance transport and communication between Kenya and the neighbouring northern countries. Further, it will enhance exploration of petroleum deposits within the Lake Turkana basin;

(vii) 2,350 Households in Kenya benefitted from World Vision's cash transfer programme. 225,705 Beneficiary households from 23 Arid and Semi -Arid Land (ASAL) counties were incorporated into the state's cash transfer program. The programs continue to contribute immensely in hunger alleviation and improvement of the livelihoods of the beneficiaries;

(viii) The government gave a 40 per cent discount on farm inputs to coffee farmers. 82,650 Farmers in 32 coffee growing counties will benefit from the newly launched National Coffee Farm Inputs Stimulus Package E-subsidy. This is expected to support revival of abandoned coffee farms, yield improved productivity and exports, and foster stabilized financial benefits in the coffee sector; and

(ix) PSC deployed 3,267 graduate interns to public institutions. This will contribute to enhancement of the country's human capital while building capacity of the young graduates.

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2 KEY COMMISSION ACTIVITIES DURING THE 3RD QUARTER FY2021/2022

Key Commission activities during the period under review included:

(i) Allowances data analysis for public officers by the Allowances and Benefits Project Team at the Kenya Institute for Curriculum Development (KICD);

(ii) Signing of Memoranda of Understanding with the Ethics and Anti-Corruption Commission (EACC) and ongoing technical discussion with The National Treasury, Office of the Controller of Budget (OCoB), Commission for Revenue Allocation (CRA) and Kenya National Bureau of Statistics (KNBS);

(iii) Participation of SRC Commissioners in monitoring and evaluation exercise by a joint team from the Public Service Commission, Salaries and Remuneration Commission (SRC), National Treasury and Ministry of Foreign Affairs at the Kenya High Commissions based in New York, New Delhi, Geneva and Addis Ababa;

(iv) Continuation in enhancing the Commission's capacity to deliver its mandate through recruitment of new staff in various directorates and departments; and

(v) Preparation for participation in the 10th Anniversary of the Constitutional Commissions and Independent Offices (CCIOs) scheduled for 13th April 2022 at the Kenyatta International Convention Centre (KICC).

3 COMMISSION ADVICE DURING 3RD QUARTER FY2021/2022

During the period under review, the Commission received 34 requests with a cost implication of KES. 60.18 Million from public service organizations. The requests touched on Salary reviews (4 requests), Collective Bargaining Negotiations (26 requests) and Allowances and Benefits (26 requests).

Out of these, the Commission granted one approval on Club Membership for Chief Executive Officer of Tana and Athi Rivers Development Authority (TARDA) amounting to KES. 350,000. This represented 0.6 per cent of the total amount requested during this period.

Table 1 shows the approved advisories as a share of the requests placed by the public institutions from Q1 of FY 2020/2021 to Q3 of FY 2021/2022.

Table 1: Approved advisories as a share of the request received in FY 2020/2021 and FY 2021/2022

FY	Qtr	Cost of Requests by Public Institutions (KES)	Cost of Commission Advice - (Amount Approved) (KES)	Approved advice as a share of the Request received (%)
2020/21	Q1	2,388,919,379	0	0.0 %
	Q2	816,488,707	485,384,368	59.4 %
	Q3	4,584,025,636	4,532,804,961	98.9 %
	Q4	62,347,637,843	914,715,571	1.5 %
Sub-Total		**70,137,071,565**	**5,932,904,900**	**8.46** %
2021/22	Q1	680,881,013.00	194,163,863.00	28.5 %
	Q2	18,090,117,623.50	1,281,498,141.50	7.1 %
	Q3	*60,179,320*	*350,000*	*0.6* %
Sub-Total		**18,831,177,957**	**1,476,012,005**	**7.84** %
Grand Total		**88,968,249,522**	**7,408,916,905**	**8.33** %

Source: SRC 2022, Internal Data

Cumulatively, the cost implication of the advice/approvals granted by the Commission during the FY 2020/2021 was 8.46 per cent, while in the current financial year, the cumulative cost implication stands at 8.33 per cent as at the end of the third quarter.

Tables 2 (a) & (b) shows the quarterly trend of the cost implications for the first three quarters of the FY 2021/2022, and the breakdown of the cumulative cost implications of the requests received from public institutions and the Commission's advisories broken down into the CBAs, Allowances and Benefits, Salaries, New Institution advices (on applicable salary) and Bonus reviewed respectively.

Table 2 (a): Quarterly Trend of Cost of Public Institution Requests and Commission's Advice in FY 2021/2022

Requests	Quarter 1 (July-Sep 2021)			Quarter 2 (Sep-Dec 2021)			Quarter 3 (Jan-Mar 2022)		
	Requests (KES)	Advice (KES)	Advice as % of Request	Requests (KES)	Advice (KES)	Advice as % of Request	Requests (KES)	Advice (KES)	Advice as % of Request
CBA's Reviewed	178,677,648	0	0 %	16,815,268,102	453,892,676	2.70 %	18,568,000	0	0 %
Allowances and Benefits Reviewed	308,065,025	23,353,400	7.58 %	645,920,162	241,164,562	37.34 %	39,600,000	350,000	0.88 %
Salary Reviewed	0	0	0 %	628,929,360	586,440,904	93.24 %	2,011,320	0	0 %
New Institution advice (on applicable salary)	194,138,340	170,810,463	87.98 %	0	0	0 %	0	0	0 %
Bonus Reviewed	0	0	0	0	0	0 %	0	0	0 %
Total	**680,881,013**	**194,163,863**	**28.52 %**	**18,090,117,624**	**1,281,498,142**	**7.08 %**	**60,179,320**	**350,000**	**0.58 %**

Source: SRC 2022, Internal Data

Table 2 (b): Cumulative Cost of Public Institution Requests and Commission's Advice for FY 2020/2021 and FY 2021/2022 (up to Q3)

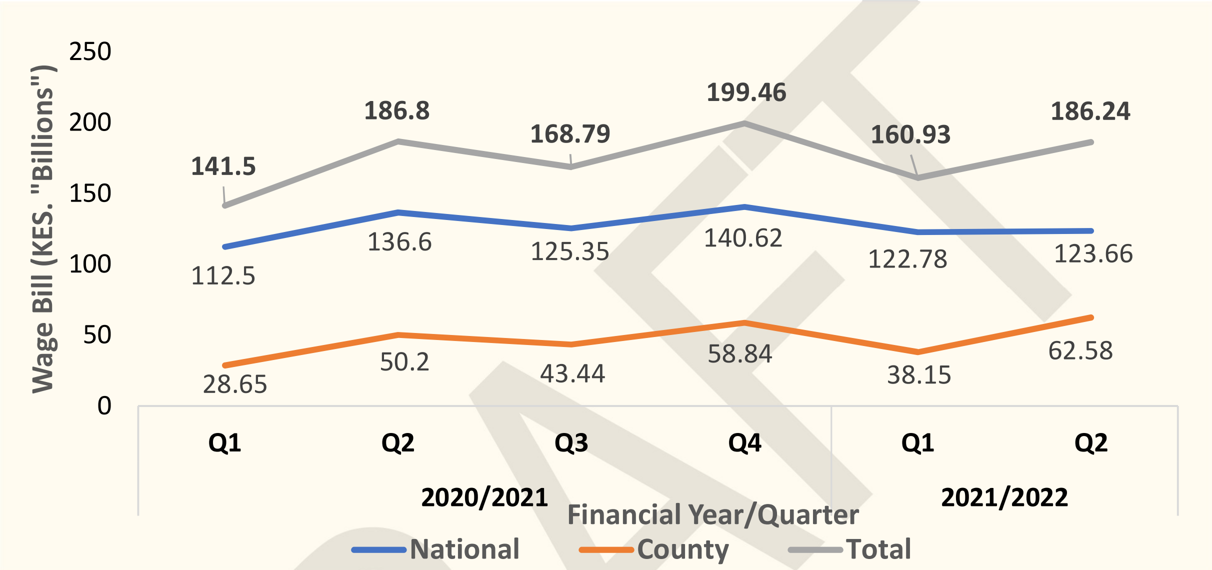
Requests	Cumulative for FY 2020/2021 (whole year)			Cumulative for FY 2021/2022 (Upto Q3)		
	Requests (KES)	Advice (KES)	Advice as % of Request	Requests (KES)	Advice (KES)	Advice as % of Request
CBA's Reviewed	63,640,790,980	1,040,492,900	1.63 %	17,012,513,750	453,892,676	2.67 %
Allowances and Benefits Reviewed	5,026,644,400	4,547,100,000	90.46 %	993,585,187	264,867,962	26.66 %
Salary Reviewed	1,337,827,575	345,312,000	25.81 %	630,940,680	586,440,904	92.95 %
New Institution advice (on applicable salary)	0	0	0 %	194,138,340	170,810,463	87.98 %
Bonus Reviewed	131,808,610	0	0 %	0	0	0 %
Total	**70,137,071,565**	**5,932,904,900**	**8.46 %**	**18,831,177,957**	**1,476,012,005**	**7.84 %**

Source: Internal data (SRC)

4 PUBLIC WAGE BILL TRENDS

The Commission is mandated by the constitution to regularly review and advice on the public sector wage bill. Figure 2 shows the National and County Governments' quarterly wage bill trends for the period FY2020/2021 to FY2021/2022.

Figure 2: Quarterly wage bill data (FY2020/2021 – FY2021/2022 (Q3)



Source: Office of the Controller of Budget (OCOB 2021 and 2022)

From Figure 2, the wage bills for both national and county governments have been fluctuating from Q1 of FY 2020/2021 to Q2 of the current financial year. In the FY 2020/2021, the national government's wage bill in Q1 was at KES. 112.5 Billion, and increased by 24 per cent to KES. 123.66 Billion in Q2 of FY 2021/2022. On the other hand, the county government's wage bill increased by 10 per cent from KES. 28.65 Billion in Q1 of FY 2020/2021 to KES. 62.58 Billion in Q2 of the current FY2021/2022.

Although both national and county government wage bill series exhibit a slump in Q1 of the current financial year, the total wage bill data exhibit an overall upward trend with a net increase of 32 per cent from KES. 141.5 Billion in Q1 of FY 2020/2021 to KES. 186.24 in Q2 of the current financial year, 2021/2022. On a broader perspective, the total annual public wage bill has been on a steady growth path in the past years rising from KES. 622.3 Billion in FY 2015/2016 to KES. 930.5 Billion in FY 2020/2021 , and is projected to reach KES. 958.5 Billion in FY 2021/2022. Table 3 shows the trends of the total wage bill and other economic indicators, the wage bill ratios and growth rates over the period 2015/2016 to 2021/2022 (projected).

Table 3: Public Wage Bill, Nominal GDP, Ordinary Revenue, Recurrent Expenditure and Employment Trends and Ratios

Economic Indicators (KES. Millions)	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21*	2021/22+
	2016	*2017*	*2018*	*2019*	*2020*	*2021*	*2022*
Compensation of Employees/Total Wage bill	622,269	670,762	784,526	851,683	903,425	930,500	958,500
GDP Real/Constant Price	7,594,064	7,883,816	8,327,604	8,742,413	8,714,771	9,228,942	9,764,221
Inflation Rates	6.3	8	8	5.3	5.4	5.1	5
GDP Nominal/Current Price	7,594,064	8,483,396	9,340,307	10,255,654	10,752,992	11,387,419	12,047,889
Total Ordinary Revenue	1,254,790	1,439,570	1,522,276	1,713,967	1,796,189	1,892,647	2,063,100
Total Revenue (Including Grants)	1,512,828	1,661,785	1,804,762	2,042,969	2,138,793	2,239,111	2,344,135
Total Recurrent Expenditure	1,564,286	1,657,215	2,083,678	2,375,053	2,339,114	2,740,849	3,211,581
Employment ("000")							
Total Public Sector Employees	774.7	833.1	842.9	865.2	884.6	919.1	954.9
Ratios (Per Cent)							
Wage bill to Nominal GDP *(Benchmark Target: 7.5%)*	8.19	7.91	8.40	8.30	8.40	8.17	7.96
Wage bill to Ordinary Revenue	49.59	46.59	51.54	49.69	50.30	49.16	46.46
Wage bill to Total Revenue *(PFM Target: 35%)*	41.13	40.36	43.47	41.69	42.24	41.56	40.89
Wage bill to Recurrent Expenditure *(PFM Target: 30%)*	39.78	40.48	37.65	35.86	38.62	33.95	29.85
Growth (Per Cent)							
Growth in Wage Bill		7.79	16.96	8.56	6.08	3.00	3.01
Growth in Real GDP		3.82	5.63	4.98	-0.32	5.90	5.80
Growth in Ordinary Revenue		14.73	5.75	12.59	4.80	5.37	9.01
Growth in Total Revenue		9.85	8.60	13.20	4.69	4.69	4.69
Growth in Recurrent Expenditure		5.94	25.73	13.98	-1.51	17.17	17.17
Growth in Employment		7.54	1.18	2.65	2.24	3.90	3.90

**implies provisional/estimates; +implies projections*

Source of data: KNBS, BPS

Notes:

- *The Total Revenue for FY2020/21 and FY2021/22, Recurrent Expenditure for FY2021/22 and Public Sector Employees for FY2021/22 have been projected at the same growth rate as the previous years.*
- *The GDP values (both Real and Nominal) for FY2020/21 and FY2021/22 have been projected by 5.9 per cent and 5.8 per cent respectively as per 2022 Budget Policy Statement (BPS)*
- *The Inflation Rate for FY2021/22 has been estimated at 5 per cent as per CBK projections.*

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The Wage Bill to Nominal GDP ratio recorded a minimum at 7.91 per cent in the FY2016/2017and maximum at 8.4 per cent in FY2017/2018 and FY2019/2020. However, the ratio is projected to decrease to 8.17 per cent in FY2020/2021 and further to 7.96 per cent in FY2021/2022 approaching 7.5 per cent in line with average for developing Countries, and approximately, 7 per cent, which is the internationally desirable level.

The wage bill to Ordinary Revenue ratio has been fluctuating between 46 per cent in FY2016/2017 and 51 per cent in 2017/2018, and is projected to reduce to a lowest of 46.46 per cent in FY2021/2022. On the other hand, the Wage Bill to Total Revenue ratio has been oscillating between 40 per cent in 2016/2017 and 43 per cent in 2017/2018, and is projected to decrease from 42.24 per cent in FY2019/2020, to 41.56 per cent in FY2020/2021 and further to 40.89 per cent in FY2021/2022. This implies that the ratio is expected to remain above 40 per cent in FY2020/2021 and FY2021/2022, significantly above 35 per cent which is the recommended ratio by the Public Finance Management (PFM) Act (2012) and PFM Regulations (2015).

The wage bill to Recurrent Expenditure ratio has remained above 35 per cent over the last five years, where the lowest and highest ratios were recorded in FY2018/2019 (35.86 per cent) and FY2016/2017 (40.48 per cent) respectively. The ratio is projected to reduce from 38.62 in FY2019/2020 to 33.95 per cent in FY2020/2021 and further to 29.85 per cent in FY2021/2022, below the PFM Act 2012 recommended limit of 30 per cent.

The number of public service employees rose from 774,700 in 2015/2016 to 919,100 in FY 2020/2021. On average, the public service labor force grew by 3.9 per cent in FY 2020/2021, and is projected to grow by the same rate to 954,900 in FY2021/2022.

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5 ECONOMIC INDICATORS THAT AFFECT WAGE BILL SUSTAINABILITY

This section presents the macroeconomic indicators that have an effect on the public service wage bill. In particular, this section focuses on Consumer Price Index (CPI), Inflation, Forex Exchange and Personal Emoluments (PE).

5.1 Consumer Price Index, Inflation Rate

Consumer Price Index (CPI) is a measure of aggregate price level in an economy. It examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food, and medical care. Changes in the CPI are used to assess price changes associated with the cost of living. On the other hand, Inflation is a sustained increase in the general price of goods in an economy over time.

CPI increased from 118.3 points in December 2021 to 118.6 points in January 2022, while the overall rate of inflation dropped from 5.7 per cent to 5.4 per cent over the same period. During the period under review, the CPI increased steadily from 118.6 in January to 120.1 in March 2022. Comparing to the same period in the last financial year, the CPI had grown from 112.6 in January to 113.8 in March 2021.

On the other hand, the quarterly average inflation during the period was 5.4 per cent, lower than 5.8 per cent recorded during the same period in the previous financial year, as shown in Table 4.

Table 4: Consumer Price Index and Inflation rate

		FY 2020/2021				FY 2021/2022			
Quarter	**Months**	**Kenya CPI**	**Q. Av. CPI**	**M-on-M inflation**	**Q. Av. Inflation**	**Kenya CPI**	**Q. Av. CPI**	**M-on-M inflation**	**Q. Av. Inflation**
Qtr 1	July	108.4	108.5	4.4	4.3	115.4	115.7	6.6	6.7
	August	108.6		4.4		115.7		6.6	
	September	108.6		4.2		116.1		6.9	
Qtr 2	October	109.6	110.7	4.8	5.2	116.7	117.4	6.5	6.0
	November	110.8		5.3		117.2		5.8	
	December	111.9		5.6		118.3		5.7	
Qtr 3	January	112.6	113.3	5.7	5.8	118.6	119.3	5.4	5.4
	February	113.4		5.8		119.1		5.1	
	March	113.8		5.9		120.1		5.6	

Q. Av.: Quarterly Average M-on-M: Month-on-Month
Data Source: Kenya National Bureau of Statistics (KNBS) and Central Bank of Kenya 2021 and 2022

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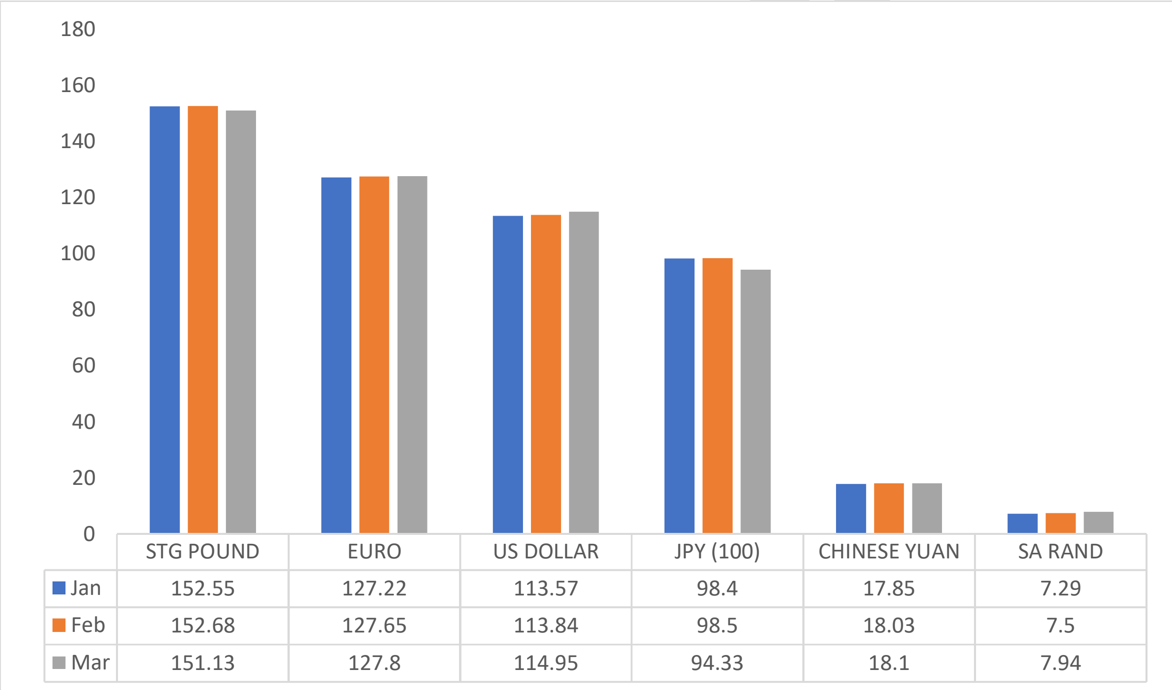
5.2 Forex Exchange Rates

During the period under review, the Kenyan Shilling was observed to be strongest against the Sterling Pound and the Japanese Yen, during the month of March, and weakest against the US Dollar, the Euro, Chinese Yuan and South African Rand during the same month. In January, the rate of exchange against the Sterling Pound was KES. 152.55, which increased to KES. 152.68 in February and later dropped to KES. 151.13 in March. On the other hand, the US Dollar was exchanged at the rate of KES. 113.57 in January, KES. 113.84 in February and KES. 114.95 in March as shown in Figure 3.

Figure 3: Monthly average forex exchange rates



	STG POUND	EURO	US DOLLAR	JPY (100)	CHINESE YUAN	SA RAND
Jan	152.55	127.22	113.57	98.4	17.85	7.29
Feb	152.68	127.65	113.84	98.5	18.03	7.5
Mar	151.13	127.8	114.95	94.33	18.1	7.94

Source of Data: Central Bank of Kenya (2022)

5.3 Personnel Emoluments for the County Government

The PFM Act, 2012 together with the PFM Regulations, 2015 set a threshold of not more than 35 per cent of the compensation to employees (Personal Emoluments) to government revenue.

Table 5 shows the County Governments' quarterly expenditure trends for FY 2020/2021 and FY 2021/2022.

Table 5: County Government Expenditure in FY 2020/2021 and FY 2021/2022

Expenditure	FY 2020/2021			FY 2021/2022			
	Q1	Q2	Q3	Q1	Q2	FIRST HALF	Q3*
Development	2.3	22.89	23.26	3.55	22.38	25.93	21.66*
Operations and maintenance	35.87	73.84	63.22	11.14	31.72	42.86	47.75*
Personnel Emoluments	28.65	50.12	38.34	38.15	62.58	90.73	61.49*
Total	**66.82**	**146.65**	**124.82**	**52.84**	**147.54**	**159.52**	**130.9***
PE as a % of Total	*42.88*	*34.18*	*30.72*	*72.20*	*42.42*	*56.88*	46.97 *

Data Source: Office of Controller of Budget (OCOB, 2021 & 2022)

County government expenditure on Personnel Emoluments (PE) in Q3 of FY 2021/2022 was estimated at KES. 61.49 Billion. This represents a decrease of 1.74 per cent from Q2 where the expenditure on PE was KES. 62.58 Billion.

In a similar period in FY 2020/2021, the PE was KES. 38.34 Billion, implying that the amount has increased by 60.38 per cent this year. Like in Q1 and Q2, the PE to Total Revenue ratio in Q3 for FY 2021/2022 (46.97 per cent), lies above the recommended 35 per cent. As such, the County governments should embrace appropriate measures to bring down the ratio to at most 35 per cent, in order to ensure sustainability and compliance with the PFM regulations.

6 EMPLOYEES IN THE PUBLIC SECTOR

KNBS (2021) puts Kenya's total workforce at 12 Million, of whom 10 Million are in the informal sector. The other 2 Million make up the formal sector, which is comprised of the government civil service, staff of parastatals and the private sector employees.

In FY 2021/2022, the total number of civil servants is estimated at 954,900 representing about 47.6 per cent of formal sector employees in the country. This number is anticipated to increase in the medium term to long term as the economy improves and demand for public goods and services go up. However, the Commission is cognizant of the fact that the number of employees in the public sector is directly proportional to the wage bill, and therefore is determined to set and advise on desired levels of salaries and wages for the public servants in a manner that guarantees fiscal sustainability of the wage bill and compliance with the existing remuneration and benefits regulations.

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7 CONCLUSION

During the period under review, the Commission continued to receive and review various submissions by public service institutions.

The following observations are made for the period under review:

(i) Increased economic activities due to the lifting of most Covid-19 restrictions;
(ii) High cost of living as a result of increased fuel prices and the Russia-Ukraine conflict;
(iii) Onset of heightened political activities and campaigns ahead of the August 2022 general elections;
(iv) Expansion of the EAC economic hub with the inclusion of DRC Congo as a member State;
(v) The wage bills for both national and county governments in FY2021/2022 increased in Q3 as compared to Q2. However, comparing with Q3 in FY2020/2021, the County wage bill increased significantly while the national wage bill decreased;
(vi) The rate of inflation decreased from Q2 to Q3, the CPI as well as the rate of exchange for Kenya Shilling against the US dollar increased;
(vii) County PE continue to account for more than the recommended 35% of the total county government revenue; and
(viii) In a broader perspective, the wage bill to Nominal GDP and to Total Revenue ratios have remained above the recommended ratios of 7.5 per cent and 35 per cent respectively, and are projected to remain so in the FY2020/2021 and FY2021/2022.

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