Employment
Singapore

Client Alert

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Reduction of the Foreign Worker Ratio in the Services Sector: How will this affect your organization?

On 18 February 2019, it was announced in the Singapore Budget 2019 that the foreign worker ratio in the services sector will be lowered. The reason for this change is to reduce Singapore's dependence on foreign labour in the services sector. The ratio for the other sectors (construction, manufacturing, marine shipyard and process) will not be changed.

Accordingly, employers will need to be even more mindful of the number of foreigners they hire compared to locals. The tightening of foreign labour in favour of a local Singaporean core has been in place since 2014 and we do not foresee any change in policy anytime soon. As such, employers may wish to explore the methods we have suggested below to ensure that their population of foreign labour does not become disproportionately large.

Analysis

The government will tighten the foreign workforce quota in the services sector [1] by reducing the Dependency Ratio Ceiling ("**DRC**")[2] and S Pass Sub-DRC in two steps as follows:

	Current	1 January, 2020	1 January, 2021
DRC	40%	38%	35%
S Pass Sub-DRC	15%	13%	10%

The significance of this DRC or sub-DRC reduction is that employers will not be able to renew the S Passes and Work Permits of foreign workers in the event the number of S Passes and Work Permit holders at the employer has exceeded the revised DRC or sub-DRC. Nevertheless, in the event the number of S Passes and Work Permit holders at the employers has exceeded the revised DRC or sub-DRC, employers can still retain such foreign labour up until their S Passes or Work Permits expire to avoid any disruptions to existing operations.

Suggested methods to manage the impact of the changes

In view of this impending change, employers are advised to review the number of foreigners who are currently employed on S Passes and Work Permits to ensure that they

[1] A company can be considered to be under the services sector if it has registered any of the following as its principal business activity:

- Financial, insurance, real estate and business services;
- Transport, storage and communications services;
- Commerce (retail and wholesale trade);
- Community, social and personal services (excluding domestic workers);
- Hotels; or
- Restaurants, coffee shops, food courts and other approved food establishments (excluding food stalls or hawker stalls).

[2] The DRC is the maximum ratio of foreign workers to the total workforce that a company in a given sector can employ.

fall within the new DRC and S Pass sub-DRC. Some measures that can be taken by employers are:

- to renew the S Passes and Work Permits early (e.g. S Passes can be renewed as early as 6 months prior to expiry) before the changes to DRC or sub-DRC come into effect;
- consider locals or foreigners who qualify for Employment Passes to replace existing S Pass or Work Permit holders; and
- hire more locals to increase the number of foreigners on S Passes and Work Permits as per the new quota.

To check the quota entitlement when the new DRC for the services sector takes effect on 1 January 2020 and 1 January 2021, a dedicated quota calculator will be made available on the Ministry of Manpower website at a later date.

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