Director's Quarterly *update*

Deloitte Singapore
Issue 4, April 2016

Through the eyes of the board

Unleashing valuable new perspectives in the boardroom

Independent board members: a valuable resource

What you need to know about IFRS 16 Leases

Bringing Singapore together through partnerships

Rise of the digital workforce

Deloitte.

Contents

Welcome	5
Unleashing valuable new perspectives in the boardroom	6
Independent board members: a valuable resource	12
What you need to know about IFRS 16 Leases	18
Bringing Singapore together through partnerships	24
Rise of the digital workforce	30

The Director's Quarterly is an e-publication aimed at exploring the challenges of practicing corporate oversight and governance in a world of change, and helping directors increase the relevance of the role they play and the work they do to ensure that their companies continue to create value for their stakeholders. There are no easy answers, but through this e-publication we hope to promote a dialogue in the critical areas of corporate governance among industry bodies, companies and their boards of directors.

Welcome

Shariq Barmaky
Audit & Technical
Partner, Deloitte Singapore

The demands placed on board of directors continue to grow. While the ongoing volatility of the global business environment alone creates many challenges – from the effect of disruptive technologies to the changing regulatory environment – there are also a growing array of additional demands as Singapore embarks on its journey towards becoming a Smart Nation.

In this edition, we look at the value of embedding diversity of thought – as well as diversity of people – as a healthy way to challenge the status quo and help directors view issues through a new lens. We also take a look at how independent board members can bring a different and wider range of perspectives to private and family-owned businesses.

With the change in the leasing accounting standard, we will explain how the new IFRS 16 Leases accounting standard will impact businesses and the potential issues to look out for to reduce implementation costs and compliance risk.

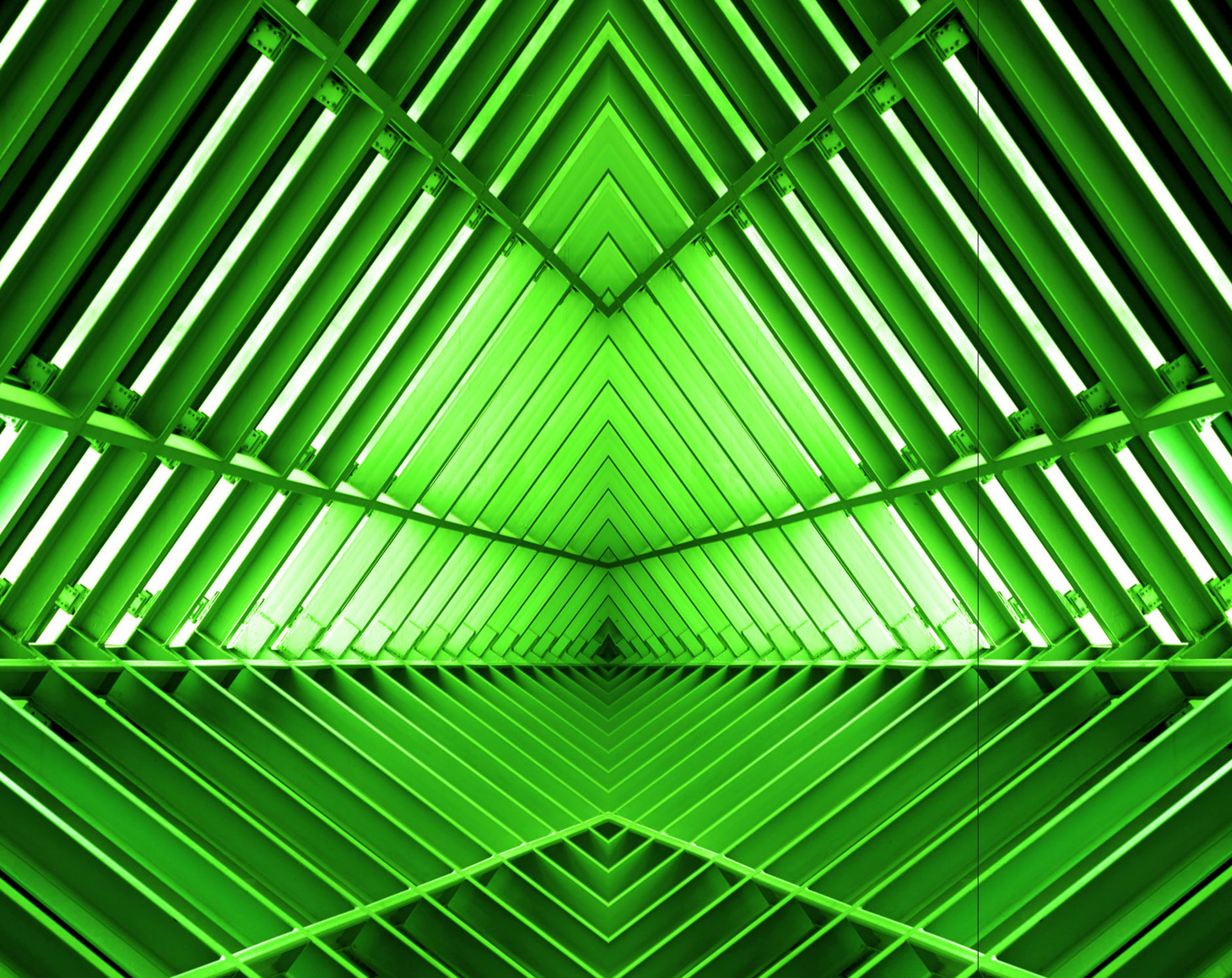
Finally, we look at how the 2016 Budget can help lay the foundations beyond SG50 for possibly challenging years to come, and how Singapore's workforce while an ageing one, can become an ageless one through lifelong learning and remaining relevant.

We hope these articles will stimulate discussions at your board and help you find better ways to successfully navigate the complexity of today's business environment. For more information on Deloitte's Centre of Corporate Governance, please click **here**.

We welcome your thoughts on any of the pieces or suggestions on future topics at **enquiries@deloitte.com.**

Kind regards

Shariq



Unleashing valuable new perspectives in the boardroom

"Many people think of chemistry as comfortable communication arising from serendipity. Yet the true source of chemistry results more from the mix of personalities in a group and the ways in which they interact. Thus in contemplating diversity, when evaluating current effectiveness or future needs, board members might well consider the personalities of existing and prospective directors."

It is not uncommon for the topic of diversity to enter into boardroom and management discussions these days, and that is good news. Yet, there remains a gap between talking about diversity in its many facets and embedding diversity into boardroom thinking, ideas, actions and composition.

With the growing number of challenges and risks boards face, it's the latter that is critical to help answer that nagging question in the heads of many board members: "What are we missing?" It doesn't matter which industry or geographic region they're in, or how profitable or successful the organisation they represent. The question stays fixed in the minds of board members, especially amid rising shareholder activism.

Answering that question, however, can be difficult if directors do not have the benefit of diverse viewpoints and perspectives, some of which may be driven by their organisation's customer and employee base.

Embedding diversity of thought – as well as diversity of people – is a healthy way to challenge the status quo and help directors view issues through a new lens.

Granted, introducing diverse ideas to the boardroom is not always comfortable. There's value in the added perspective as it enriches the conversation and provides board members with a fresh point of view.

We find it useful to address the question of "what's missing" by examining boardroom diversity in the context of three fundamental elements: people, processes and technology. Refreshing the board composition is one way to bring diverse people and their perspectives to issues that existing directors might not see as they wrestle with such challenges as cyber security, business model disruption, reputational risk and others. Recent efforts to broaden board composition have addressed diversity, but the improvements are narrowly focused on gender and ethnicity, and the gains relatively small.

While organisations may not intentionally seek conformity in the director recruitment process, lack of diverse thinking can inadvertently limit board members' effectiveness in serving their organisation and stakeholders.

It is important to understand how new members will strengthen the board's ability to advise management, oversee risk and address shareholder interests. Broadening the definition of board-ready talent to include business unit heads, regional leaders, academics, entrepreneurs, government leaders and other non-C-suite executives can create a wider pool of very talented candidates.

Seeking skill sets and experiences that connect to the trends shaping business, such as technology, social tools, globalisation, corporate social responsibility or others, can help the board bring in diversity of thought to discussions.

Generational diversity can also bring to a board another important voice. Generation X and Millennial consumers, talent and shareholders have different attitudes, priorities and expectations than previous generations. What better way for organisations to understand the strategic importance of what these generations expect and offer than to recruit from these demographic groups for their boards?

By all means, the experience that older directors offer should not be underestimated.

Rather, there is a great, and largely untapped, opportunity for boards to seek younger directors to gain perspectives of a generation that is redefining technology, consumer preferences, business strategy, business models and even business risk.

If adding younger directors to the board is not feasible, then consider other ways to gain perspectives of those who will likely have a significant impact on the future direction of many companies.

Business chemistry – how a person tends to process information, interact with others and reach decisions – can also affect board dynamics as much as other composition considerations. Analysing business chemistry can provide insights about individuals and teams based on observable business behaviours.

Understanding which attributes are prominent among board members may help identify what behaviour may be missing from the mix with the aim of bringing more balance to the board in terms of personality types. In that way, the board might then have a productive combination of goal-oriented sceptics, consensus-seeking diplomats and healthy risk-takers, for example.

Creating a diverse board in numbers only is not the end game. Rather, one of the ultimate goals of diversity in the boardroom is to inject new perspectives into board conversations to drive innovation and value for the business.

To do that effectively requires strong onboarding and integration processes. While many boards have comprehensive onboarding programs, some may not have effective outreach mechanisms to invite and unleash valuable new perspectives.

Barriers to integration can emerge when a new director is the sole voice on an issue, the only director without ties to other board members, or from an underrepresented group or function. It's important to create an environment that encourages innovative thinking, especially one that welcomes new perspectives from directors who may have been brought in for that purpose.

Creating fertile ground for diverse thinking often falls to the chairman or lead director. In some cases, we have seen chairmen and lead directors make extensive outreach to a recently elected board member as a way of ensuring that the new perspective is considered.

Boards can get lulled into a false sense of holding fast to traditional processes because they are unwilling to consider new technologies, data gathering methods or approaches to governance. To keep current with the marketplace, board members should consider monitoring social media to understand how the company is viewed and measured.

Boardroom dashboards that analyse internal and external data, along with analytical and brand monitoring tools to help strengthen risk-sensing capabilities, are being introduced to boardrooms to help provide effective oversight. To benefit from technology enhancements, boards should be willing to step back and review traditional practices to help ensure they reflect the current business environment.

Ultimately, a well-functioning board is built on trust among its members. Embracing diversity of thought and investing in new processes and tools could understandably be a significant effort for many organisations. However, those that initiate the process today may realise the value of more dynamic boardroom discussions, a clearer understanding of the changes underway in their business environments, and how to plan and capitalise on the people, processes and technology that can create shareholder value.

Independent board members: a valuable resource

"A key benefit of having independent board members is their different and diverse perspectives, as well as their ability to augment the business owner's own knowledge and expertise with their own different backgrounds and experience."

Entrepreneurs are typically strong-willed people, and for many the thought of having to answer to similarly strong-willed independent board members about the decisions they make for their businesses is not particularly appealing. They may also believe the cost, time, and effort required for a board with independent members could be put to better use elsewhere in their businesses.

Despite that, a growing number of privately-owned companies have opted to have boards with independent board members, believing that the perspectives and insights that they can bring to the company far outweigh any constraints. While some companies choose to include independent board members on their board of directors, most appoint them to a board of advisors.

Benefits of a board

Being the CEO of a private company or family-owned business can be a lonely position, and they can benefit from having a group of people with whom they can share ideas and perspectives. Independent board members may also bring a different and wider range of perspectives to the CEO than are typically found in a privately-held and family-owned business.

However, independent board members should be much more than just a sounding board for the CEO.

> Independent board members could bring knowledge and expertise in areas where the CEO's and management team's knowledge may be lacking, such as internal controls, finance, human resources, marketing, tax, and other areas. Independent board members may also have important industry expertise and first-hand experience gained from working with other organisations facing difficult challenges, such as a cyber attack or managing a crisis.

A board also helps private companies build trust with other organisations, since a board extends the accountability for the company beyond just the CEO. For this reason, some lenders require private companies to have boards as a condition for extending financing; many lenders are likely to look more favorably on private companies with a more robust governance structure. Similarly, a board may be a signal to customers and suppliers that they are doing business with a reputable organisation that will be sustainable over the longer-term.

As a private company grows, the owner's role will change, as will its management processes. In smaller start-up companies, owners usually take a hands-on role. Processes throughout the organisation are informal; since the owner is involved in most activities, he or she has a first-hand knowledge of almost every aspect of the business. As the company grows, new people are added to the team and the owner's role becomes more of a manager, and the need for more formal processes, knowledge sharing and delegation increases. Experienced board members can guide CEOs as their role changes and new processes are implemented, and can also offer assistance in developing a shorter- and longer-term strategic direction for the company.

Independent boards can also help family-owned businesses manage one of their biggest challenges: succession. This is one area many family-owned businesses avoid addressing since it involves a complicated mix of family and business concerns. Owners want to do what is best for the business while also treating all family members fairly and avoiding family infighting. Family members may have conflicting expectations about the roles they feel they should play in the family and the business, which they may perceive as a right. The presence of a board simplifies the succession process.

When the board is responsible for identifying a successor, it removes many of the personal issues from the process; the successor will be selected based on merit, rather than family position. The owner, meanwhile, can address family issues without them becoming mixed with succession.

Types of boards

While in many respects the responsibilities of a board of advisors and a board of directors are similar, there are some distinct differences. As its name suggests, a board of advisors acts as a sounding board for management, and while it may provide input into a variety of issues, the CEO may choose to either accept or ignore any of the board's suggestions.

A board of directors has a fiduciary responsibility to the company, and is required to consider the greater good of it and all of its stakeholders — as well as its progress towards strategic goals. The board, therefore, will provide oversight of management and will make sure management is keeping the best interests of the company in mind. A board of directors' decisions are usually binding on the company's management. However, since the board is responsible to the company's shareholders, the shareholders — either the sole owner or the group of owners — have the authority to dismiss the board.

Role, responsibilities and structure of the board

As with boards of public companies, the role of a private company board is one of oversight. Many of the specific responsibilities of a private company board are also essentially the same as those of a public company board, including but not limited to, oversight of strategy, reviewing the company's financial performance, ensuring that risks to the company are identified and mitigated appropriately, ensuring that a succession plan is in place for the CEO, etc.

Because their roles and responsibilities are similar, private company boards should adopt leading practices of public company boards. However, a private company board will often need to adapt or scale some of those practices to suit the company's specific circumstances; most private companies, for example, won't have an internal audit department so a private company board's responsibilities with respect to an internal audit function may differ.

Similarly, since private companies are usually much smaller than public companies, their boards will also likely have fewer members and may not need the same number and diversity of board level committees as a public company board.

Often, independent board members are asked to provide their expertise and experience to augment management's skills and knowledge in certain areas. In doing so, they should act as advisors to management, but should not manage activities themselves. Because of their smaller size, however, the board may not have deep expertise in every area where it's needed. A common practice is to invite outside experts to address the board on matters where the board members could benefit.

Transparency and reporting

Most private companies don't have the same requirements to disclose financial and other company related information as do public companies. However, transparency is just as important for private companies.

It is particularly important in the case of family businesses, which should have the same level of transparency with the family stakeholders as a public company has with its shareholders. Transparency can help reduce misconceptions and conflicts among family members.

Private companies should consider publicly disclosing information about their activities and governance practices that provide them with a competitive advantage — for example, if those activities will lead to better financing conditions, better arrangements with suppliers, increase in their customer base, etc.

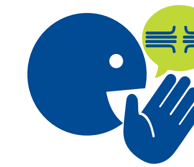
They may also want to disclose information about their ethical practices and sustainability activities since these issues are important to private company stakeholders and the disclosures can help the company enhance its reputation.

Qualities of board members

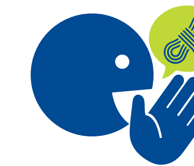
Since the owner's close friends and associates will share many of the business owner's viewpoints and experiences, companies should look outside that circle when recruiting independent board members. That's because a key benefit of having independent board members is their different and diverse perspectives, as well as their ability to augment the business owner's own knowledge and expertise with their own different backgrounds and experience.

As with all boards, education is important since board members will need to keep pace with the business's needs as it evolves, its industry changes, and new challenges arise. The board and each of its members should be evaluated every year to ensure that they continue to meet expectations, and that their skills keep pace with the changes and growth of the organisation.

Private company governance structures:

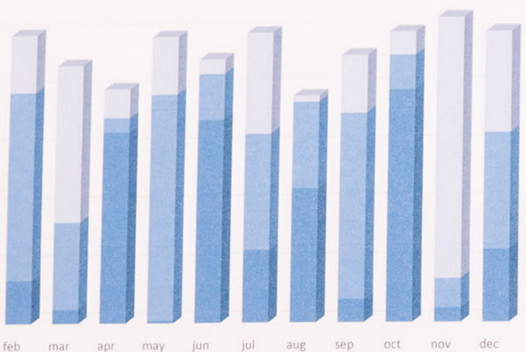


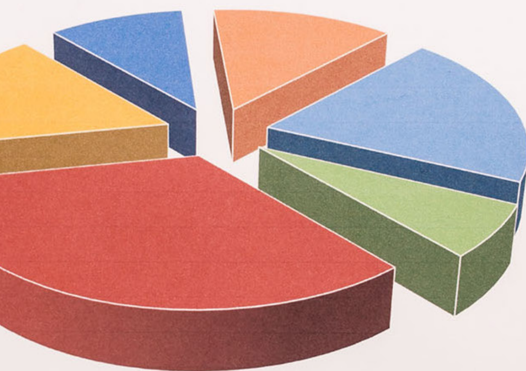
Board of Advisors – Advises the CEO and management team. Members of the board may include the owner and members of his/her family, and/or company employees, and/or people who are independent of the company. The ratio of independent board members to employees to family members will vary depending on the circumstances of the company and the owner's comfort level in working with independents. The suggestions and recommendations of the board are provided as advice to the owner and management team and are not binding.



Board of Directors – The role and membership of a board of directors are similar to that of a board of advisors, however the decisions of a board of directors are binding.

Family Council – A family council normally works in conjunction with the company's board. The council's role is to oversee the family interests in the business. It also provides a forum where family matters can be discussed away from non-family members of the board of advisors or board of directors. Members of the council are restricted to the owner's family, though there may be ex-officio (non-voting) members, such as legal counsel, to advise on specific issues. The protocols of a family council are usually set out in a family charter, which provides a family vision and mission statement and ground rules for council meetings.





What you need to know about IFRS 16 Leases

By Shariq Barmaky, Audit & Technical Partner, Ghamazy Rashid, Technical Director and Lim Hoon Loo, Technical Manager

"The new rules have a large impact on lessees, while it is more or less the same for lessors. The silver lining is that companies' earnings before taxes, depreciation and amortisation (Ebitda) would appear better. With the new rules, they're on the balance sheet. Analysts and investors won't have to do their own calculations, based on the footnotes. It's more transparent."

Shariq Barmaky, Audit & Technical Partner, Deloitte Singapore

After years of deliberation, extensive consultation, and lively debate, the International Accounting Standards Boards (IASB) has issued a new leasing standard – IFRS 16 Leases – in January 2016.

IFRS 16 Leases is the result of a joint project initiated by the IASB together with the U.S. national standard-setter, the Financial Accounting Standards Board (FASB). It is to address concerns raised by users of financial statements in respect to the reduced comparability between financial statements due to the very different accounting applied to operating and finance leases and limitations in the information provided on operating leases and on entities' exposure to risks arising from lease arrangements.

The two boards have reached the same conclusions in many areas of lease accounting, such as definition of a lease, recognition of leases on balance sheet and measurement of liabilities. However, there are different conclusions reached relating to the recognition and presentation of leases expenses and reporting of cash flows. The new approach to lessee accounting requires a lessee to recognise assets and liabilities for the rights and obligations created by leases (with some limited exceptions) and disclosures on leases are enhanced.

Key updates

IFRS 16 replaces IAS 17 Leases and its associated interpretative guidance. The Standard applies to all leases, except for specific items covered by other standards. The Standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less with no purchase options or the underlying asset has a low value when new.

A lessee is generally required to present right-of-use asset and lease liabilities separately in the statement of financial position with some exceptions. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. The Standard also provides guidance on sale and leaseback transactions applicable to both the seller-lessee and buyer-lessor.

IFRS 16 applies a control model to the identification of leases, distinguishing between leases and service contracts on the basis of whether there is an identified asset controlled by the customer. Control is conveyed where the customer has (a) the right to direct the identified asset's use and (b) to obtain substantially all the economic benefits from that use. The Standard provides detailed guidance on whether conditions for control are met.

Significant changes to lessee accounting are introduced, with the distinction between operating and finance leases removed and assets and liabilities recognised in respect of all leases (subject to limited exceptions for short-term leases and leases of low value assets).

Upon lease commencement a lessee recognises a right-of-use asset and a lease liability. The right-of-use asset is initially measured at the amount of the lease liability plus any initial direct costs incurred by the lessee. Adjustments may also be required for lease incentives, payments at or prior to commencement and restoration obligations or similar. The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the lessee shall use its incremental borrowing rate.

A lessee is required to remeasure the lease liability in the following circumstances:

- a change in the amount expected to be payable under a residual value guarantee;
- a change in future lease payments to reflect a change in an index or rate used to determine those payments;
- a change in the lease term resulting from a change in non-cancellable period of the lease; or
- a change in the assessment of an option to purchase underlying asset

A lessee is required to recognise the amount of remeasurement of the lease liability as an adjustment to the right-of-use asset unless the carrying amount of the right-of-use asset is reduced to zero. In this case, a lessee will recognise any remaining amount in profit or loss.

A lessee may elect to account for lease payments as an expense on a straight-line basis over the lease term or another systematic basis for the following two types of leases :

i) leases without purchase option and with a lease term of 12 months or less – this election is made by class of underlying asset; and

ii) leases where the underlying asset has a low value when new (such as personal computers or small items of office furniture) – this election can be made on a lease-by-lease basis.

Lessees should consider the effect on existing debt covenants, whether performance metrics need to be modified and analysts educated and implications on terms of new and existing lease contracts.

Entities need to consider the impact of the changes introduced by the Standard on, for example, IT systems and internal controls. System modifications and enhancements may be necessary to track leases individually and/ or at portfolio level; and perform calculations necessary to determine lease term and payments.

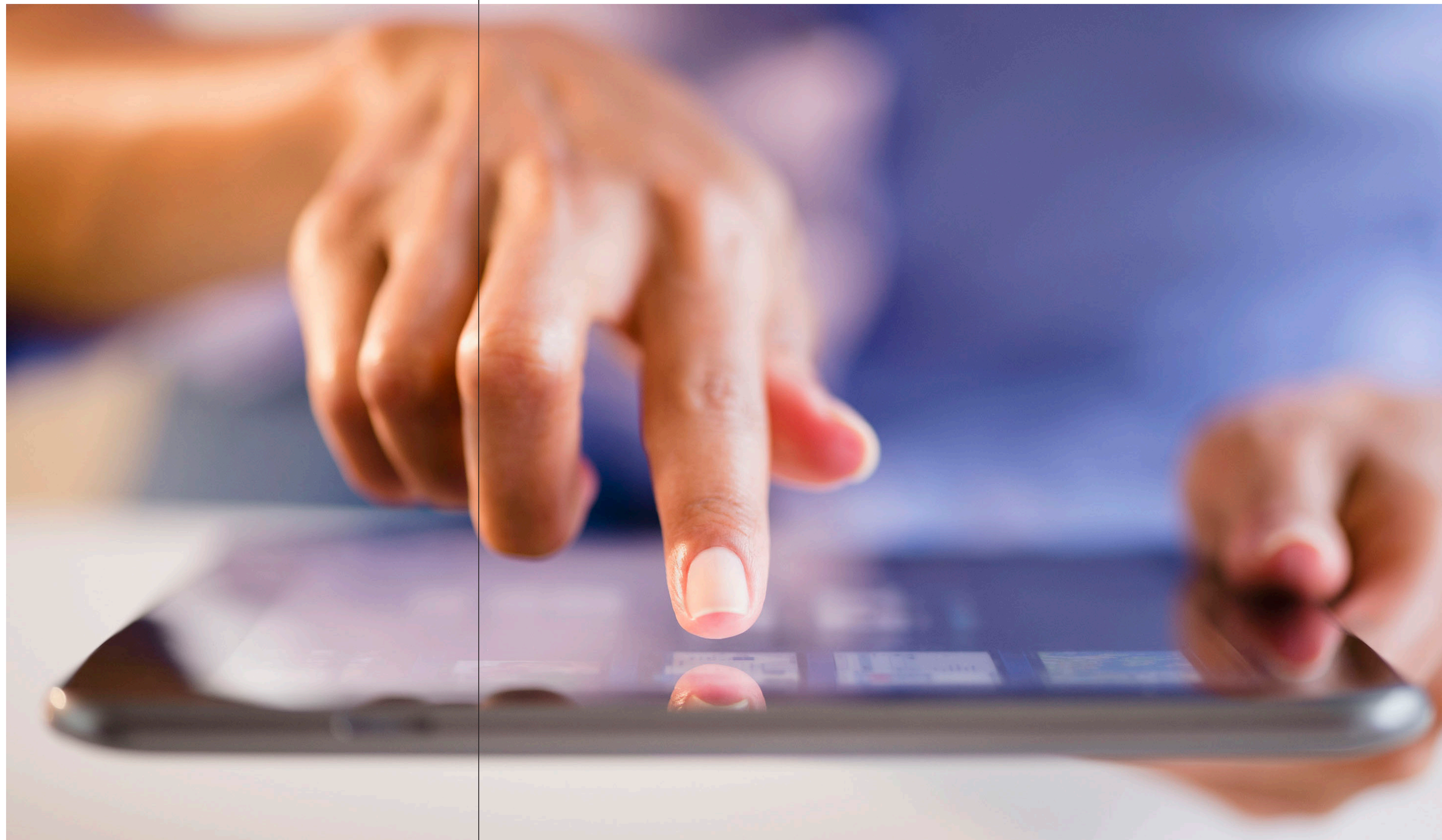
In addition, the Standard significantly expands the current disclosure requirements about leases to enable users to assess the effect that leases have.

Effective date and transition

IFRS 16 applies to annual reporting periods beginning on or after January 1, 2019, with early application permitted if IFRS 15 Revenue from Contract with Customers has also been applied.

As a practical expedient, an entity is not required to reassess whether a pre-existing contract is, or contains, a lease at the date of initial application.

A lessee shall either apply apply IFRS 16 with full retrospective effect or alternatively not restate comparative information but recognise the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application.



Bringing Singapore together through partnerships

By Ong Siok Peng, Tax Principal, James Walton, Clients & Markets Principal and Chua Kong Ping, Tax Senior Manager

"Unlike most Singapore Budgets, there was very little focus on the overall tax base, sin taxes and changes in the tax burden for individuals and families. It was very much a Budget focused on infrastructure and societal development – all about schemes for productivity and community support to build a solid base for the next 20 years or so for Singapore's future."

Low Hwee Chua, Head of Tax Services, Deloitte Singapore and Southeast Asia

After the bold initiatives of the SG50 Jubilee Budget and with economic uncertainty in the air, many predicted that this year was going to see a less ambitious agenda. However, Minister for Finance Heng Swee Keat – giving his first Budget speech – still spoke in bold terms of not allowing pessimism to take hold and become a self-fulfilling prophecy, as he laid out a well-balanced Budget that continues the recent focus on restructuring the economy for greater value creation. He appears to have achieved the Holy Grail for all Finance Ministers – increasing spending with no significant tax increases and a Budget surplus, all within the constraints of slow economic growth.

Small and medium enterprises (SMEs) were clearly the beneficiaries of this year's Budget, with easier access to funding and higher corporate tax rebates. However, more could have been done – for example, by increasing the cap for the tax rebate specifically for SMEs.

One of the most interesting facets, and one that shows an insight into the Government's current thinking, was the decision not to lift cooling measures for the property market in an effort to keep property prices stable.

The measures, in place since 2010, have seen private home prices fall 8.4% after reaching their peak in 2013 and many experts supported this decision for the time being. However, this was a double whammy for property developers as manpower costs will increase due to the non-deferment of the previously announced increase in foreign worker levies for the construction industry.

Focus on economic transformation

The three key structural issues facing the Singapore economy are well-documented and remain unchanged – increasing competition from neighbouring countries and China; rapid technological advances disrupting traditional business models and potentially displacing Singaporean workers; and an increasingly aging population.

Singapore's 2016 Budget took further steps towards a long-term transformation of the economy while still addressing some of the short-term pressures through increasing corporate income tax rebates, extension of the Special Employment Credit and deferment of the foreign worker levies for the marine and process sectors.

Tackling these three key structural issues during potential cyclical economic weakness, will be difficult, but some of the measures offer great potential. For example, SMEs are still being actively encouraged to 'step up, scale up and go out':

- Attempts to make grant application easier through the Business Grants Portal will encourage SMEs to 'step up' – a wide range of schemes administered by various Government agencies will now be under one roof and organised to be more enterprise-centric.
- Through the S$4.5bn Industry Transformation Programme, SMEs will have increased opportunities to 'scale up': the Automation Support Package (S$400mn) in particular will help with grants and investment allowances – it goes beyond the support offered by the Productivity and Innovation Credit (PIC) scheme but is subject to approval (and hence scrutiny) by the authorities; meanwhile the enhancement of the mergers and acquisitions scheme – effectively doubling allowances – should allow SMEs to take advantage of possible low valuations in the downturn. Following on from 2015 Budget enhancements to the scheme, this shows the Government is serious on helping local acquisitive players to grow.
- International Enterprise Singapore (IE Singapore) will continue to support SMEs venturing into new markets via existing programs, and the extension of the Double Tax Deduction for Internationalisation will support them as they 'go out'.

The National Trade Platform (NTP) was one of the most talked-about initiatives in the Budget. This one-stop system should encourage data sharing amongst businesses and the Government with the goal of streamlining the processes and cutting costs for SMEs in key sectors like logistics and trade-finance – replacing TradeNet (for customs purposes) and TradeXchange (for data sharing).

However, many experts advise that the experience in other countries has been one of slow uptake and that some incentives are often required to get companies on-board – especially with concerns over confidentiality and security of the information that they must provide.

Other countries in ASEAN and across the world are also working on improving and integrating trading systems – the aim is to simplify movements of goods cross-border. But to achieve this, the systems need to balance country requirements, security in the supply chain and differing practices across countries and trading blocs. The Government suggests that the NTP system, which will cost S$100mn to develop, could save S$600mn per year in time costs for businesses.

Meanwhile, the very real threat of disruptive innovation through technological change is addressed through a number of measures including more funding for the National Robotics Programme; a top-up of the National Research Fund; and the TechSkills Accelerator which will help with skill development and job placement to allow Singaporeans fill the pressing human capital needs of the Information and Communications Technology sector.

The creation of the new Jurong Innovation District – labelled by many commentators as Singapore's Silicon Valley – will help bring together innovation, research and production in a campus-style environment that will focus more on the long-term benefits of value creation and growth.

Focus on community support

The increasing aging population continues to be a threat on the horizon for a country with a limited social 'safety net' – the extension for another three years of the Special Employment Credit, which encourages companies to hire older workers, and the first payout under the Silver Support Scheme which was introduced in the 2015 Budget to be made in July 2016 (primarily to retirees) will also help build on the Pioneer Generation packages of 2015.

In this vein, the Budget continued the strong focus on social policies from previous Budgets with further incentives for contributing to population growth in the form of the Child Development Account First Step grant, as well as initiatives such as KidSTART and Goods and Services Tax (GST) vouchers to support both youths and the elderly, as well as low-income workers. Persons with disabilities also saw increased support from the Budget with further developments to come from the Ministry of Culture, Community and Youth.

For tax advisors, it was an uneventful Budget – with more focus on the expenditure than the revenues. The Finance Minister honoured the word of his predecessor, Deputy Prime Minister Tharman Shanmugaratnam in not increasing GST, surprisingly did not increase 'sin taxes' and only tinkered with personal income tax relief caps and corporate tax rebates.

Rounding up the business tax announcements were extensions and enhancements to incentives for the finance, insurance and maritime sectors – most of which were widely anticipated.

There were some interesting measures around tax deductions for volunteerism in companies to help build the social fabric of a 'caring' and 'resilient' society but it was surprising that the Finance Minister did not make any announcements in his speech on Singapore's adoption of the Base Erosion and Profit Shifting (BEPS) minimum standards proposed by the OECD. Groups operating internationally will hope for more clarity soon on Singapore's approach.

Spending landscape

With the Government projecting S$14.7bn contribution from the investment returns of Singapore's reserves (Net Investment Returns Contribution – Temasek's contribution is becoming more and more important) – now easily the largest source of income for the Government – and a 19.3% expected increase in revenue from vehicle taxes and Certificate of Entitlement, the headline will be of a Budget offering a surplus balance of S$3.4bn, versus last year's S$4.9bn deficit (although this was much better than the S$6.7bn deficit originally forecasted).

However, there is a feeling that the Government may be leaving 'something in the tank' for the coming years in case any off-budget measures are required should the economy takes a turn for the worse.

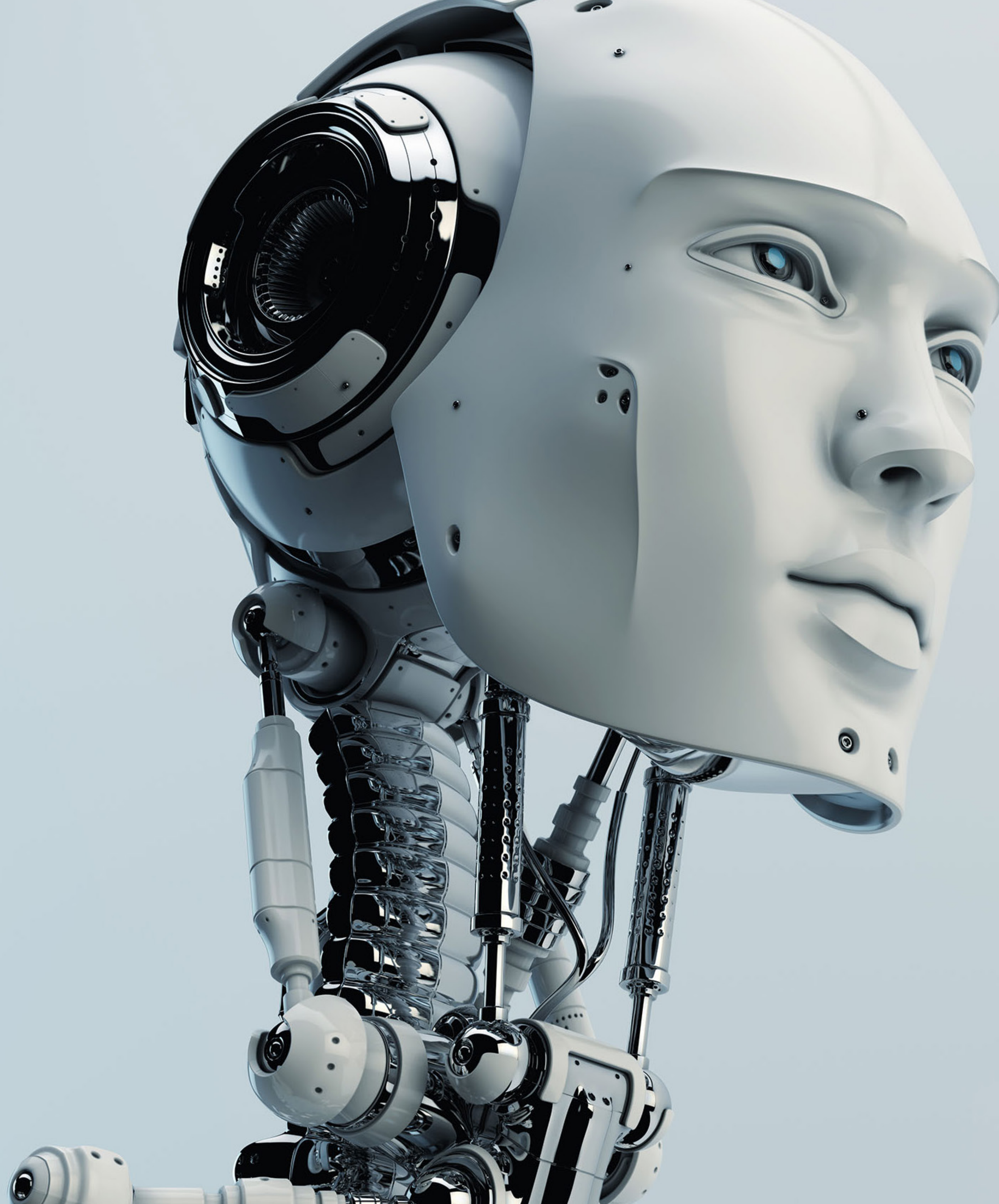
The slight increase in spending on public infrastructure projects and some smaller construction projects may help mitigate some of the concerns of a prolonged downturn or slide into recession, as will the continued support for the Wage Credit Scheme up until 2017, but there is still a feeling that we are entering the unknown.

The Finance Minister was at pains to stress that "we have no instruction manual for our future… Together, we must be prepared to change" and that Singapore does not find itself in the same situation as 2009, when expenditure and income policies were clearly targeted at countering the recession. There is a sense that the Government feels that this current downturn can probably be 'ridden out' and that the bigger threats are still down the road given the latent structural issues. This Budget was all about schemes for productivity and community support and is clearly set out to build a solid base for the next 20 years or so for Singapore's future.

It is probable that another reason for the somewhat cautious expenditure this year may be the current sitting of the Committee for the Future Economy –there will likely be large scale recommendations when that Committee publishes its recommendations later this year, and we can expect that many of those will require and receive funding support through the 2017 Budget.

Overall, this was a prudent but well-targeted Budget: the Minister's theme of partnership to transform Singapore is in the right direction, as he painted a picture of stakeholders working together to grow Singapore's economy and building resilience in the fabric of our society.

Businesses, workers and the Government must work hand-in-hand to grow our enterprises; our corporates, communities, people and the Government must work together to strengthen our nation and this Budget can help lay the foundations beyond SG50 for possibly challenging years to come.



Rise of the digital workforce

By Lee Chew Chiat, Public Sector Industry Leader

"As the Singapore workforce ages, it needs to become ageless as well to stay relevant in a changing landscape."

Lee Chew Chiat, Public Sector Industry Leader at Deloitte Southeast Asia

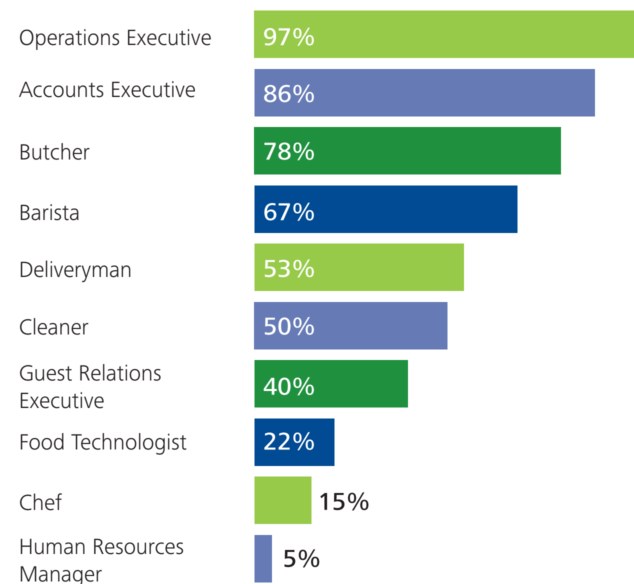
It is often said that Singapore has only one precious and very scarce resource: its people. Every individual – regardless of age – has something meaningful to contribute to our economy and society at large, and must be empowered to do so. With an ageing population where one in five residents will be above the age of 65 by 2030, Singapore will need to find ways not only to ensure that it does not leave the vulnerable segment of older workers behind, but also to leverage their cumulative wealth of knowledge and experience.

This is easier said than done. With highly intelligent robots encroaching into the domains that once exclusively belonged to humans, many jobs in the food and beverage (F&B) sector that exist today may be gone tomorrow. These robots do not simply make an employee more efficient, but have the potential to completely replace them. The impact of this trend must not be taken lightly. For starters, Singapore has some 2,500 restaurants, and this does not even include the other players in the value chain.

Indeed, the robots are already at our shores. At TungLok's central kitchen located in Tai Seng Street, for instance, robots are tossing kung pao chicken in woks, mimicking the stir-frying action of a chef. Meanwhile, drone waiters, navigating with the use of infra-red sensors, whizz above the head of diners charted by a computer programme in Timbre Group's restaurants.

And lower-skilled jobs such as butchers, dishwashers and cashiers are not the only ones at risk of automation. As technology advances, we will see an expansion of the range of tasks that can be automated with machines by breaking down "cognitive" activities into smaller, well-defined tasks. Correspondingly, in a recent study conducted by Deloitte Southeast Asia on Singapore's F&B sector, a number of fairly high-skilled jobs such as executive and assistant roles within the finance, marketing, administration and operations functions also face high probabilities of automation.

Probabilities of automation for selected jobs in the F&B sector



Source: Deloitte research, Oct 2015

It does seem like a Luddite's nightmare of job displacement is coming true. This is especially worrying for older workers aged 50 years and above in Singapore, with about 63 per cent employed in low-skilled jobs, who are the most likely to be affected by such a disruption as a significant proportion of jobs in the F&B sector are low-skilled. Currently, this age group faces the greatest risk of downtime, with a 61 per cent re-entry rate into employment within a 12-month period of job redundancy as compared to a re-entry rate of 77 per cent for those below 30 years old. Furthermore, the older workers account for a significant proportion – close to a third – of job redundancies in Singapore.

Silver Lining

The reality is that technology can, and will, be used to eliminate jobs. Understandably, this process is easier for some activities than others, but studies have shown that even tasks that seem difficult to automate can still be transformed by machines. With cognitive intelligence, decision-making can be automated with the use of diagnostic and analytical support tools, and humans will only be needed in the last mile to make judgements. This will enable organisations to do more with fewer employees – and in some situations, fully replace jobs with automation.

But the silver lining is that technology will also create new jobs, giving us the possibility to redesign work, create growth opportunities, and greater value for businesses. As Singapore continues to accelerate towards its Smart Nation vision, technology is likely to continue to impact work, workers, and organisations in profound ways. The resulting job displacement will be inevitable, and thus it is essential to adopt a pre-emptive approach towards improving the long-term employability of workers and, in particular, that of older workers.

Rather than looking for a new job only after being made redundant, individual workers should seek to understand their job profiles and job automation probabilities, benchmark themselves against other occupations, and move towards more secure and rewarding jobs. With rising life expectancies, there is also a need to plan for longer working lives while meeting their needs for self-fulfilment and social inclusion.

More importantly, governments and businesses alike should actively work to identify vulnerable individuals based on their job automation probabilities, and to equip them with the necessary tools and skills to succeed in new roles.

Reshaping the future workforce

Perhaps then, the right question for us to be asking at this point in time is not whether Singapore's older workers will still have jobs, but whether they will have the appropriate set of skills to perform the better, higher value-added jobs in tandem with the changes.

When the inevitable disappearance of some jobs occurs, a mismatch of skillsets with job requirements is likely to be the main reason for long employment downtimes amongst older workers.

Identifying a possible future career and then attaining the relevant skills to become competent in the role can take a significant amount of time, and any effort that we can take towards reducing this time period will translate into a more productive workforce, and reduced financial and psychological stress for the individual worker.

A number of measures have already been put in place by the government to enhance the employability of older workers in Singapore, such as the WorkPro scheme, to help employers adopt progressive workplace age management practices, facilitate job redesign and improve work-place practices, as well as to encourage employers to recruit and retain back-to-work locals and mature workers to meet their manpower needs.

These initiatives are steps in the right direction. Nevertheless, their efficacy could be enhanced with a deeper knowledge of the older workforce, who face the highest risk of job replacement with the encroachment of technology and automation.

For a start, these schemes can be enhanced with a more targeted approach. SkillsFuture initiatives, for example, could be especially useful for older workers whose jobs are at a high risk of automation, and the predictive model can go some way in helping to identify these individuals. In addition, the knowledge of job automation probabilities can help government agencies plan tertiary education curriculums to prepare the future workforce for tomorrow's challenges.

Knowing which segments of the workforce to target also means that initiatives can be customised for fit. Older workers, for instance, have different learning needs and may require different delivery methods. As we move into an era where individuals are working beyond the minimum retirement age, formal qualifications to recognise the skills of adult workers that are acquired through work and experience will also be necessary. This move will be valuable for older workers whose initial qualifications may be deemed outdated.

In fact, in the wake of longer working lives and the rise in employment among older workers, it is timely to pay more attention to demand-side issues and implement appropriate measures to strengthen the employability of older workers. With the knowledge of the factors driving or hindering mobility of individuals in their late 50s – who will be most at risk of long-term unemployment, more focus can be been placed on improving the employability of older workers and facilitating greater labour mobility as a way of promoting employment at an older age.

Focus on the "Heartware"

Efforts should also be made to encourage businesses in Singapore to promote longer working lives and invest in training of workers even after they reach the age of 50.

Richer life experiences aside, there may be a good business case for retaining and training older employees: with lower turnover costs and fewer absences from work, they could prove to be more cost-effective than their younger counterparts in the long haul.

Ultimately, beyond all the hardware, Singaporeans must focus on the "heartware" – the culture, mindsets and attitudes of the government, businesses and society at large towards lifelong learning and lifelong employability. Singapore's workforce may be an ageing one, but it will need to become an ageless one in order to remain relevant in the changing competitive landscape. Indeed, with longer working lives, governments and organisations will need to look towards the future in preparation for the next generation because where, when and how people obtain an education, enter the workforce, and upgrade their skills will evolve constantly. This transition will be complex, maybe even difficult, but the real silver lining is that it has already begun.

Issue 3: In our third issue, we examined the importance of having organisations develop new approaches to managing talent that integrates closely with its human resource strategies in order to compete in this "new world of work". We also explored why companies should increase their focus on stakeholder engagement strategies, tax policy issues in the face of a weakened global economy and the impact that digital technologies have on businesses. If you would like to view our third issue, please click **here** to download the publication.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. Please see www.deloitte.com/sg/about for a more detailed description of DTTL and its member firms.

Deloitte provides audit, consulting, financial advisory, risk management, tax and related services to public and private clients spanning multiple industries. With a globally connected network of member firms in more than 150 countries, Deloitte brings world-class capabilities and high-quality service to clients, delivering the insights they need to address their most complex business challenges. Deloitte's more than 225,000 professionals are committed to making an impact that matters. Deloitte serves 4 out of 5 Fortune Global 500® companies.

About Deloitte Southeast Asia
Deloitte Southeast Asia Ltd – a member firm of Deloitte Touche Tohmatsu Limited comprising Deloitte practices operating in Brunei, Cambodia, Guam, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam – was established to deliver measurable value to the particular demands of increasingly intra-regional and fast growing companies and enterprises.

Comprising 270 partners and over 7,300 professionals in 25 office locations, the subsidiaries and affiliates of Deloitte Southeast Asia Ltd combine their technical expertise and deep industry knowledge to deliver consistent high quality services to companies in the region.

All services are provided through the individual country practices, their subsidiaries and affiliates which are separate and independent legal entities.

About Deloitte Singapore
In Singapore, services are provided by Deloitte & Touche LLP and its subsidiaries and affiliates.

Deloitte & Touche LLP (Unique entity number: T08LL0721A) is an accounting limited liability partnership registered in Singapore under the Limited Liability Partnerships Act (Chapter 163A).

© 2016 Deloitte & Touche LLP