

14D. CONTINGENCY RESERVE

NATURE OF OUTLAYS

The Contingency Reserve is an allowance, included in aggregate outlays figuring, to reflect anticipated events which cannot be assigned to individual programmes at budget time. The Reserve is an estimating device used to ensure that the budget and forward estimates are based on the best information available at the time of the budget. It is not a policy reserve.

While the Reserve ensures that aggregate estimates are as close as possible to expected outcomes, it has no legal status and is not appropriated in the budget. Instead, allowances that are included in the Reserve can only be drawn upon once they have been appropriated by Parliament.

1997-98 AND FORWARD ESTIMATES

		1996-97 Estimate	1997-98 Budget	1998-99 Estimate	1999-00 Estimate	2000-01 Estimate
14D Contingency Reserve	\$m	-155.3	-1247.2	1188.6	2071.1	3036.9
	%		na	na	74.2	46.6
TOTAL	\$m	-155.3	-1247.2	1188.6	2071.1	3036.9
	%		na	na	74.2	46.6

The Contingency Reserve makes allowance in the budget and forward estimates for anticipated events including the following:

- **An allowance in the forward years for changes to forecasts of wage cost parameters.**
- **The established tendency for budget estimates of spending on existing government policy in the forward years to be revised upward.**
 - Forward year estimates, particularly for demand driven appropriations, tend to be conservative and underestimate the growth in outlays. Experience suggests that revision of the forward estimates amounts to around 0.75 per cent outlays in the first year, increasing in each following year.
- **Expected running costs carryovers from 1997-98 into 1998-99.**
 - Departments and agencies have flexibility, under the running costs arrangements, to carry forward funds from the budget year to the following. The estimated running costs outcome for 1996-97 has been adjusted to take account of carryovers into 1997-98. A negative allowance of around 2 per cent of the aggregate running costs budget has been included in the Contingency Reserve in 1997-98 to represent the effect of the expected carryover on total outlays into 1998-99.
- **Commercial-in-confidence items which cannot be disclosed separately.**
- **The effect of economic parameter revisions for the budget and forward estimates received too late to be included in programme estimates.**

- **An allowance for any flow-on effect to unemployment and related payments resulting from the Government's commitment to maintain the single rate of pension at 25 per cent of Male Total Average Weekly Earnings.**
- **The established tendency for estimates of some programme expenditure to be overstated in the budget year.**
 - A small negative allowance has therefore been included.
- **The proposed forward year expenditure for new policy relating to the Federation Fund Trust Account.**
 - The expected expenditure from the trust account totals \$1 billion with \$600 million in outlays expected between 1998-99 and 2000-01 and the balance in the following two years. The Fund will be used to finance a number of major projects of national significance. Refer to *Budget Paper No. 2* for more details. The measure is shown against the Prime Minister and Cabinet portfolio, and is classified against the Contingency Reserve function until the actual type of expenditure is known.