

Hon. Tim Pallas
Treasurer
Level 4
1 Treasury place
East Melbourne 3002

CC: Minister Lisa Neville
Minister Lily D'Ambrosio

24th November 2015

Dear Treasurer,

Re: A strong 2016-2017 Victorian budget for our environment.

Environment Victoria has high expectations that the Andrews Government will be environmental leaders lead and act quickly, decisively and strongly to reduce global warming, support renewable energy, restore nature and rapidly accelerate the state's energy and water efficiency.

Our 72,000 Victorian supporters, and the people who we work with across Victoria hope that the Andrews government will be one that is remembered by future generations as a government that took a leadership approach to these critical issues.

Protecting and restoring our environment will also be good for the state's economy and social welfare. Detailed modelling commissioned by The Future Economy Group identifies responding to climate change and resource scarcity and restoring natural capital as key drivers of economic growth and employment for the 21st century.

Your second State Budget provides a key opportunity to support a forward-looking, comprehensive policy agenda that addresses the environmental, social and economic challenges the state faces. A progressive and funded policy agenda presents a generational political leadership opportunity for Victoria on the national and international stage.

The context for the 2016-2017 Victorian Budget

Earlier this year Environment Victoria described the first Andrews government State budget as a good foundation for stronger environmental decision-making in the government's future budgets and plans.

We have been encouraged by the consistent expression of leadership ambition by Ministers and the Premier on renewable energy, energy efficiency, climate change and managing our rivers and water resources since coming to government in November 2014.

Last year Environment Victoria made a 4 year budget submission outlining our priorities for the environment for the full first term of the Andrews Government. This year's budget submission provides our suggested priorities for funding and focus in the next Victorian budget.



Now that a number of environmental policy development processes to deliver election promises are coming to their conclusion, the 2016-17 Victorian budget needs to commit resources to deliver these promises in full.

Key environmental priorities for the 2016-17 Victorian Budget

1. Delivery of Election commitments

Environment Victoria is anticipating significant investment in the 2016-17 State Budget to deliver on ALP election commitments and policy development processes that Environment Victoria has been participating in including:

- Funding for a comprehensive Energy Efficiency and Productivity Strategy for Victoria being developed by the Energy Minister
- Funding for an ambitious Renewable Energy strategy for the state, also being developed by the Energy Minister
- Funding for the implementation of the Riparian Action Plan being developed by the Environment Minister to protect our riversides from the damaging impact of livestock grazing.

Further detail on what we expect these processes to deliver is outlined later in the 'Six Steps' reports attached to this submission.

2. Ensuring environmental levies are spent on protecting the environment

Victorians have been paying environmental levies that have not always been spent in a timely manner on environmental programs. In its four years in office the Coalition Government underspent levies that were raised for the express purpose of delivering environmental programs. This pattern of underspending of environmental levies was repeated in the first year of the Andrews Government while a priority statement was being developed for the Sustainability Fund.

To provide an example, in 2014-2015 the Sustainability Fund accumulated \$119 million, bringing its total to \$403 million at June 2015. Expenditure this financial year from the Sustainability Fund totals just \$41.3 million. Now that a new priority statement is being finalised, we expect to see spending on environmental programs increase in line with the amounts levied.

The 2015-16 Budget should outline a schedule for the expenditure of the existing funds and future income streams for the environment. Below we identify a number of projects and initiatives worthy of funding from both the Sustainability Fund and the Environmental Contribution levy (ECL). Because of the historical underspend of these funds by previous Victorian governments there is now a need to accelerate program expenditure. Additionally, institutional reforms to ensure environmentally related funds or levies are spent appropriately and in a timely manner should be initiated.

3. Deliver a leadership agenda for environmental protection and restoration.

As mentioned Environment Victoria is encouraged by the Andrews Government's leadership aspirations on the environment. To assist in fleshing ideas for a policy agenda to deliver on this ambition Environment Victoria has recently completed three reports which are attached to this Budget submission



- i. **Six Steps to Climate Leadership: The path to a cleaner, healthier and more prosperous Victoria** - Global warming is no longer a remote phenomenon: it is happening now, and it is harming Victorian communities. Victoria is currently responsible for far more carbon pollution per capita than most comparable societies. Globally, annual investment in renewable energy has exceeded \$USD 200 billion for the past five years and outpaced investment in fossil fuels. Victoria can be part of this global clean energy boom.
- ii. **Six steps to Efficiency Leadership: The path to energy and water efficient homes and businesses** - Improving residential energy and water efficiency delivers a ‘win-win-win’ outcome for Victoria’s people, economy, and environment. Environment Victoria’s *Roadmap to 2025: Overcoming the barriers to energy and water efficient housing* will unlock billions of dollars of investment in improving our building stock, and support between 7,000 and 13,000 jobs (gross) over the 10-year program and an estimated 8,500 ongoing jobs. An average Victorian household would save around \$1,000 a year on their energy bills, while the government could save \$2.5 billion from its energy concessions budget over 20 years.
- iii. **Six steps to Water Leadership: Preserving our most precious resource for the future** - The Victorian natural environment needs urgent action. Many of our rivers are highly degraded, and Victoria has lost at least two thirds of its wetlands since European settlement. To date, audits of high-cost Victorian water infrastructure projects have identified failures to deliver expected water savings or value for money to taxpayers.¹²

The actions outlined in each of these reports are summarised in the included fact sheets and detailed more fully in each of the reports.

4. Other specific matters for the 2016-17 Victorian Budget

Alcoa electricity subsidy: We were surprised to read recent media speculation that Alcoa may be seeking an extension to their electricity subsidy beyond 2016³. In 2010 when Alcoa renegotiated their electricity contracts the Energy Minister stated publicly that there would be no subsidy beyond 2016⁴. We would be shocked if the State Government was to enter into a new agreement with Alcoa that used tax-payers funds to reduce their energy bills and in so doing entrenched Alcoa’s reliance on electricity supplied from the dirtiest power stations in the country instead of moving to cleaner energy sources.

Advanced Lignite Demonstration Program: In 2012, the Victorian and Federal Governments announced a \$90 million grant program for coal projects called the Advanced Lignite Demonstration Program (ALDP). \$75 million was subsequently granted for 3 coal projects in the Latrobe Valley, all of which aimed to establish a brown coal export industry.

Environment Victoria has opposed the ALDP as it uses tax-payers funds to advance polluting projects in an industry which has for decades over-promised and under-delivered when it comes to new technologies.

¹ <https://www.ombudsman.vic.gov.au/Publications/Parliamentary-Reports/Investigation-into-the-Foodbowl-Modernisation-Proj>

² <http://www.theage.com.au/victoria/concerns-raised-over-11b-irrigation-project-in-northern-victoria-20151105-gkrsnm.html>

³ <http://www.heraldsun.com.au/business/in-the-black/daniel-andrews-caught-in-latrobe-valley-power-struggle/news-story/bad48e84ec3ff09f0775b37d762f3f8e>

⁴ <http://www.theage.com.au/environment/alcoa-deal-locks-in-jobs--and-emissions-20100301-pdl8.html>



We were heartened that one of the grants- a \$25 million grant to Shanghai Electric- was withdrawn recently by the Andrews Government.⁵ It is our strong view that this \$25m should be reserved for a grants program for non-coal based industry development and transition planning in the Latrobe Valley. Over the past 15 years hundreds of millions of dollars have been granted to coal projects in the Valley. None of these projects has materialised. It is time to try something different in the region and start planning for the retirement of the Valley's oldest power stations.

The \$25 million recovered from Shanghai Electric could be added to the ALP's New Energy Fund and reserved for Latrobe Valley or Gippsland-based projects, or alternatively the Andrews Government could establish a Latrobe Valley Transition Committee and use this funding for a first round of grants for economic diversification of the Latrobe Valley.

5. Other environmental issues that need a policy agenda and budgetary support in this term of government

Environment Victoria has strong expectations that by 2018 the Victorian government will have:

- Provided funding for the development of a set of 'environmental accounts' for Victoria so that our natural capital can be valued and investment decisions made in future state budgets
- Rebuilt the public service (Parks Victoria) and increased funding to Victoria's national parks and protected areas
- Established the Great Forest National Park and made significant progress towards ending native forest logging across Victoria.
- Completed and implemented an overarching Biodiversity Strategy
- Strengthened protections of native vegetation and threatened plants and animals.
- Protected marine and coastal environments

We are committed to working productively with the Andrews government over the years ahead, and look forward to seeing these important environmental priorities incorporated into the next Victorian budget and beyond. We would welcome further discussions with you on these or any other matters.

Yours sincerely

A handwritten signature in black ink, appearing to read "Mark Wakeham".

Mark Wakeham
CEO Environment Victoria



