

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

CC: Minister Lily D'Ambrosio
Minister Lisa Neville

14 March 2017

Dear Treasurer,

Re: A strong 2017-2018 Victorian budget for our environment and climate.

The Andrews government was elected in 2014 with a promise to make Victoria a leader on climate change and environmental protection. The intervening two years has seen some good progress made on delivering these promises, but the 2017-2018 state budget provides you with an important opportunity to consolidate the government's record and to build towards the healthy environment and safe climate that will support Victoria's future prosperity.

The context for the 2017-2018 Victorian Budget

In 2015, Environment Victoria made a four year budget submission outlining our priorities for the environment for the full first term of the Andrews Government. This short submission is intended to outline key priorities for 2017-2018 in the context of progress made by the government since coming to office. 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 in the past two years.

While a number of important processes have either now been completed or are in the implementation phase, unfortunately other processes have been delayed, such as the Renewable Energy Action Plan, the Energy Efficiency and Productivity Strategy and the declaration of the Great Forest National Park. We hope to see all these processes completed, funded and being implemented as soon as possible. With just over 18 months remaining in this term of Parliament, the 2017-2018 budget will play a key role in enabling these reforms to match the government's rhetoric of leadership and ambition.

Key environmental priorities for the 2017-18 Victorian Budget

1. Rebuilding a comprehensive climate change agenda

The urgency of acting to halt global warming grows each year. Records continue to be broken, yet greenhouse gas emissions remain largely unchanged for the past 10 years. We are running out of time to make the necessary cuts to climate pollution. Fortunately, the energy revolution is making possible an accelerated phase-out of coal-fired power stations, which are responsible for half of Victoria's emissions, and bringing in billions of dollars worth of investment in new renewable energy and other clean energy technologies (such as batteries), creating jobs across the state.



With the passage of the Climate Change Act and the release of Victoria's Climate Change Framework and Adaptation Plan, it is now time to rapidly roll out the programs that will deliver meaningful cuts to Victoria's emissions and prepare us for the impacts of climate change.

This budget submission outlines a range of specific priorities for reducing emissions from the stationary energy sector – the likely source of most early abatement opportunities. Options for reducing emissions in other sectors, such as transport, industrial processes and agriculture, also need to be developed.

Victoria remains very vulnerable to the impacts of climate change, such as drought, heatwaves, bushfires and sea-level rise. Early investment in climate adaptation planning will help each sector of the Victorian economy to become more resilient to these impacts. Provisions in the new Climate Change Act require system-based adaptation planning, and the development of these plans needs to be adequately resourced.

As outlined in our budget submission last year, Environment Victoria is anticipating significant investment in the state budget to deliver on ALP election commitments and policy development processes that Environment Victoria has been participating in but which have been delayed, including:

- Funding for a comprehensive Energy Efficiency and Productivity Strategy for Victoria being developed by the Energy Minister
- Funding for an ambitious Renewable Energy Action Plan for the state, also being developed by the Energy Minister, including funds to commence auctions for renewable energy projects in the first half of 2017, with further auctions scheduled for late 2017 and early 2018.

While some elements of these strategies have already been announced, the Budget needs to ensure the full packages can be delivered. In particular, we urge you to bring forward as much of the Victorian Renewable Energy Target auctions as is possible in this term of government, to accelerate the roll-out of large scale renewable energy and the associated job and investment creation.

Further priority areas related to climate and coal include:

- Setting strong emissions reduction targets for 2025 and 2030 will be the cornerstone of effective climate policy in Victoria. These targets are required by law to be announced in 2018.
- Government should provide support to help organisations develop ambitious climate pledges, which are now required of councils and companies within key sectors of the economy under the Climate Change Act. While pledges are not due until 2020, the provision of resources now will allow for the preparation of more ambitious plans for each organisation.
- To ensure taxpayers are protected from significant future liabilities, mine rehabilitation bonds for the Latrobe Valley coal mines should be increased to match the likely full cost of rehabilitation works.
- The government's promised Coal Policy should rule out any further uses of brown coal. Over the past decade Environment Victoria has watched as a succession of proposed coal projects have failed in the Latrobe Valley. A continued focus on using coal reduces the effort that goes into true economic diversification for the region.
- The \$30 million promised to Coal Energy Australia under the Advanced Lignite Demonstration Program should be re-directed to the Latrobe Valley Authority to provide transition support to the community.

2. An action plan for smart and sustainable homes, cities and communities



Improving residential energy and water efficiency delivers a ‘win-win-win’ outcome for Victoria’s people, economy, and environment. In the face of rising electricity and gas prices and spiraling energy hardship and disconnection rates, cutting waste by improving efficiency is an effective way to maintain affordability, particularly for low-income and disadvantaged households. Efficiency and demand management (including battery storage) also serve to moderate spikes in energy demand, thus delaying or avoiding investment in additional supply infrastructure – a key driver of rising wholesale electricity prices.

Improving energy efficiency and cutting energy waste is both a cheap (often cost negative) and necessary element of efforts to achieve climate targets.

Environment Victoria has welcomed recent funding initiatives supporting efficiency retrofits for vulnerable groups including in the Latrobe Valley. However, we also look forward to the forthcoming *Energy Efficiency and Productivity Strategy* mapping out a comprehensive agenda for driving broad-scale improvement across our entire building stock. As outlined in the One Million Homes *Roadmap to 2025*¹, an effective strategy needs to combine targeted assistance for our most vulnerable households, complemented by improved standards at the point of sale and lease, and better access to information and affordable finance to leverage private investment in the rest of our housing stock.

Implementing the *Roadmap to 2025* to bring Victoria’s pre-2005 housing stock up to an average 5-star efficiency performance would unlock billions of dollars of investment and support between 7,000 and 13,000 jobs (gross) over a 10-year program as well as 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.²

There are also excellent opportunities for improving water, electricity and gas efficiency by large commercial and industrial users. These could be captured by reinstating the EPA’s *Environment and Resource Efficiency Plans* (EREP) program, which was closed by the Coalition government in 2013 despite helping industry participants save a total of \$90 million per year in reduced running costs.

Finally, Environment Victoria welcomes the current review of electricity and gas retail markets in Victoria. We urge the government to ensure that resulting market reforms serve to further drive investment in efficiency and demand management, so as to capitalise on the significant contribution they can make to energy affordability, reliability and security objectives.

Further specific funding and policy priorities include:

- Introduce minimum energy efficiency standards for rental properties as an outcome of the current review of the *Residential Tenancies Act*;
- Extend access to Environmental Upgrade Agreements to residential buildings;
- Explore opportunities for requiring owners corporations to invest in energy efficiency upgrades (eg. of common areas or facilities), coupled with access to financing mechanisms such as Environmental Upgrade Agreements;
- Provide proactive contribution to the review of the National Construction Code with a view to delivering a step-change improvement in new build performance by 2020;

¹ One Million Homes (2015) *Roadmap to 2025: Overcoming the barriers to energy and water efficient housing*, One Million Homes Alliance, <http://environmentvictoria.org.au/2015/08/31/roadmap-2025/>

² ATA (2012) 2.5 billion reasons to invest in efficiency, a report prepared by the Alternative Technology Association for the One Million Homes Alliance



- Use the current review of electricity and gas retail markets to drive greater investment in efficiency and demand management. One option is to re-frame the Essential Services Commission objective to replace ‘price’ with ‘cost’, so as to create an obligation on system managers and regulators to minimise overall cost of energy supply services to consumers by encouraging efficiency;
- Explore opportunities for ensuring the clean energy revolution is accessible to all, including low-income households, renters and apartment dwellers. These include fair pricing for grid connection, regulatory changes to support micro-grids and enable Virtual Net Metering, and incentives to drive the uptake of demand management technologies such as battery storage.

Other priorities for sustainable communities include:

- The expiry of Metro Trains’ contract at the end of this year provides an opportunity to make our public transport greener. Much like the solar farm being built to supply Melbourne’s trams with clean energy, Metro Trains, or any other successful bidder for the rail contract, should be required to use renewable energy (or to purchase an amount of renewable energy equivalent to their consumption).
- Reducing waste across Victoria: The Andrews Government needs to deliver on its election commitment to ban all electronic waste from landfill and ensuring it is re-used and recycled as much as possible; new jobs and investment would also be created by banning organic material from landfill and expanding Extended Producer Responsibility schemes.
- Implementing the recommendations of the Future Economy Group’s Plan for Victoria, and including measures of natural capital (and developing a set of environmental accounts) in all future state budgets.

3. Protecting and restoring Victoria’s natural environment

Victoria’s natural environment, in particular our waterways, remains under stress. 75% of our wetlands have disappeared; native fish numbers have dropped by 90%; 70% of our forests have been cleared – these trajectories are not improving under current policies.

The development and roll-out of the Biodiversity Plan will also need budgetary commitments to ensure successful implementation. The associated review of the *Flora and Fauna Guarantee Act* needs to provide a sound legislative basis for significant improvements in how Victoria’s biodiversity and threatened species are protected from a range of threats. Specifically, amendments to the *Flora and Fauna Guarantee Act* should:

- Put an end to exemptions and special treatment for government departments or certain industries;
- Give the Minister stronger powers to intervene when important species or habitats are under threat;
- Create stronger enforcement provisions, with more significant penalties and better monitoring;
- Set clear targets and timelines to help guide investment and programs to protect threatened species;
- Allow third parties to initiate legal action to protect threatened species.

These reforms will require a budgetary allocation for development and implementation.

We have welcomed the government’s response to the review of the Environment Protection Authority, which included a funding plan to implement the first 18 months of proposed reforms. As the government has acknowledged, this is a once-in-a-generation reform of Victoria’s key environmental watchdog: every effort must be made to ensure this is successful – the details around each recommendation cannot be diluted. While the full suite of reforms will take several years, priority areas for rapid change should include:



- Better enforcement and increased penalties for breaches of the Act;
- Introducing a general duty to not pollute;
- More focus on climate change, including greater consideration of greenhouse gas emissions in Works Approval processes and starting to regulate major point sources of CO₂.

Other priorities for the natural environment include:

- The government should declare the Great Forest National Park in this term of Parliament.
- The sources of funding for implementing the Water Plan should be diversified – water projects are currently funded through the Environmental Contribution, which is a very valuable but limited pool. One option could be to increase the contribution rural water corporations make to grow the fund.
- Investing in urban waterways:
 - The forthcoming review of the Central Region Sustainable Water Strategy should address environmental water shortfalls in the regions rivers;
 - The Yarra River Action Plan will need appropriate financial commitment for successful implementation. This should be used as a blueprint to develop similar plans for other urban waterways, such as the Barwon, Werribee and Maribyrnong Rivers.
- The government should establish a transition fund for northern Victoria to assist economic diversification in the face of reduced water availability due to climate change and environmental water recovery.
- In line with VAGO recommendations, there needs to be improved management and increased funding for Ramsar-listed wetland sites.
- Marine and coastal environments should be given greater protection through the review of the Marine and Coastal Act.

Funding environmental programs

- Victorians have been paying environmental levies that have not always been spent in a timely manner on environmental programs. From 2010-2014, 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.
- Now that a new priority statement has been finalised, and with important policy development processes now needing implementation, we expect to see spending on environmental programs increase in line with the amounts levied, and extra expenditure of past accumulated levies. Last year there was increased expenditure which was welcome, but there remains a large balance of unspent funds in the Sustainability Fund.
- The DELWP Annual Report for 2015-16 indicates that the Sustainability Fund currently holds \$466 million, after expenditure of just \$23 million in that financial year.
- In particular, we expect the Sustainability Fund to be accessed to support the full delivery of the Biodiversity Plan and the roll-out of diverse programs for energy and resource efficiency and climate mitigation and adaptation.
- The 2017-18 Budget should outline a schedule for the expenditure of the existing funds and future income streams for the environment. 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.



We are committed to continuing to work productively with the Andrews government and we 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

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