



Office of Hon Dr Nick Smith

MP for Nelson

Minister for the Environment

Minister for Climate Change Issues

Minister for ACC

3rd March 2009

Dear Board Member,

You will be aware of my concern about the significant deterioration in ACC's financial position from my meeting with the Board on 11 December last year. I have subsequently been briefed on the issues facing ACC and have come to the conclusion that a significant change in strategic direction is required.

I am therefore writing to all Board members to advise that I am considering using my powers under Section 36 of the Crown Entities Act 2004 to achieve a reconfiguration of the Board's skills and I ask Board members to consider their position. I will consider issues of continuity and experience when making decisions on a mix of possible new appointments and possible retention of existing members.

A factor I have taken into account in coming to the view that a significant change in direction is required is the latest PricewaterhouseCoopers valuation of ACC liabilities. Over the past five years these liabilities have more than doubled from \$9.3 billion to \$21.9 billion. Although the recent economic downturn has contributed to this deterioration, the underlying reason has been the significant increases in ACC's annual expenditure on claims rising from \$1.9 billion in 2004/05 to the forecasted \$3.2 billion in 2008/09.

I am advised that these increased costs and the deterioration in liabilities will flow into increases in levies of 71% for employers, 186% for earners and 129% for motor vehicle owners by 2013/14 under current legislation and policy. These increases are unacceptable to the new Government. It is my view that changes in ACC's strategic direction, governance, legislation and administration will be needed to avoid these potential increases.

Other factors that I have considered in seeking change is the quite inadequate Briefing for the Incoming Minister (BIM) that did not highlight the seriousness of the financial issues facing ACC, and the failure of the Corporation to achieve six out of the seven Key Performance Indicators critical to cost control.

It is these factors that have led me to consider reconfiguring the Board to ensure that it has the best mix of skills and experience to make the significant changes required. I would appreciate your response to such a proposal by 10am Monday 9 March so that I can resolve the Board's configuration for the future as quickly as possible.

Yours sincerely,

Hon Dr Nick Smith
Minister for ACC