

VACC Submission on behalf of TOD
to:
Tow Truck Review
Essential Services Commission

June 2013



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Tow Truck Review
Essential Services Commission
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Executive summary

VACC's Towing Operators Division (TOD) represents over 90% of Melbourne's towing businesses in the Accident Allocation area.

Our concerns in regard to the February 2013 *Draft Periodic Review of Accident Towing & Storage Fees 2013* recommendation to retain existing towing fee levels include:

- the real loss of income for the Victorian towing industry resulting from this recommendation
- placing at risk, the long term viability of the towing industry

VACC, in representing the Victorian towing industry, contend that a corresponding increase in passenger vehicle numbers and projected congestion growth negates purported towing service demand increases. Furthermore, towing revenue will be reduced by supporting an hourly charge of \$65 (including GST) for salvage.

Introduction

In representing the Victorian towing industry, VACC welcomes the opportunity to discuss the Essential Services Commission (ESC) *Draft Periodic Review of Accident Towing & Storage Fees 2013*. VACC aims to increase awareness of issues impacting towing operators and to ensure the continued sustainability of the regulated Accident Allocation System which benefits the community and industry.

While VACC appreciates the ESC's commitment to the industry, VACC also encourages the Commission to re-examine the position of VACC's Towing Operators Division (TOD). This division represents over 90% of the towing businesses in the Melbourne allocation area.

The Commission is, no doubt, aware of the importance of incorporating industry stakeholder views to ensure policy changes promote long term industry viability and that this essential and valuable service to all Victorians is not compromised.

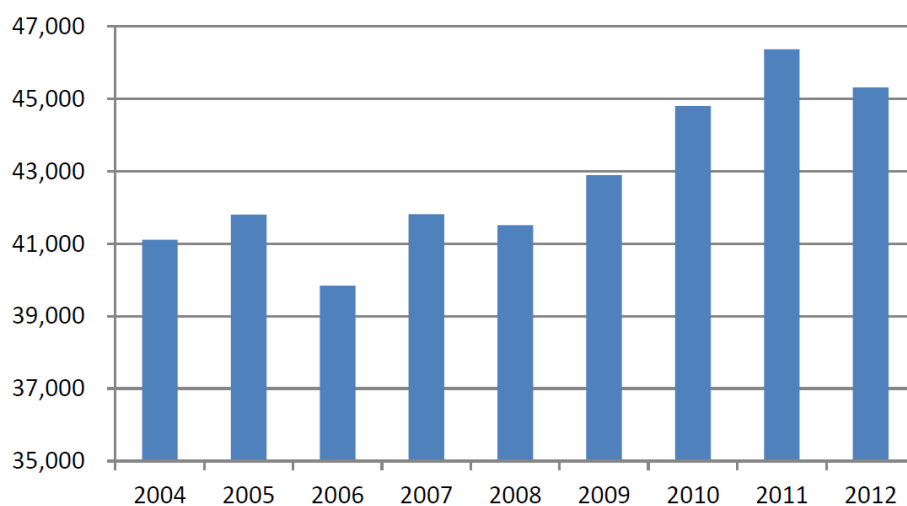
VACC

VACC is Victoria's peak industry body representing the interests of its 5,500 members in over 20 retail automotive sectors who employ over 50,000 Victorians.

Demand for accident towing services

The Commission asserts the Victorian towing industry is currently financially viable due to increased demand for towing services through an increase number of accident allocations, 2011-2012. Allocations are reported to show an upward trend since 2008. (Refer to Figure 1)

Figure 1 Allocations of accident towing services in the Melbourne Controlled Area



Source: VicRoads.

However, there is not a consistent upward trend over the whole period. Having pointed out the Commission's assertion of an increase in the towing industry's financial viability the VACC would argue that the financial viability has not increased. There has been an increase in traffic volume on Melbourne's roads (table 1&2), thus an increase in accident allocation numbers. There are more accidents on the roads but the towing operators have the same number of trucks, the same number of towing licences and the same number of Depots. This indicates significant improvements in efficiencies. To remain viable, towing businesses need to continue their efficiency gains. However, as business conditions become more difficult and equipment costs and overheads increase, towing operators absorb these

increases but the base tow rate remains the same. Towing operators are finding it more difficult to improve efficiencies further.

Table One No of registered passenger vehicles in Melbourne

statistical division 205 (as per map below)	year	Registered Motor Vehicles (at 31 March)- Passenger vehicles (Number)
Melbourne	2004	2,090,981
Melbourne	2005	2,135,415
Melbourne	2006	2,190,513
Melbourne	2007	2,234,302
Melbourne	2008	2,293,314
Melbourne	2009	2,338,369
Melbourne	2010	2,400,370

Source ABS 1379.0.55.001 - National Regional Profile, 2006 to 2010

Map of Melbourne where passenger motor vehicles are registered. This essentially covers the total allocation area available to the Melbourne towing industry¹

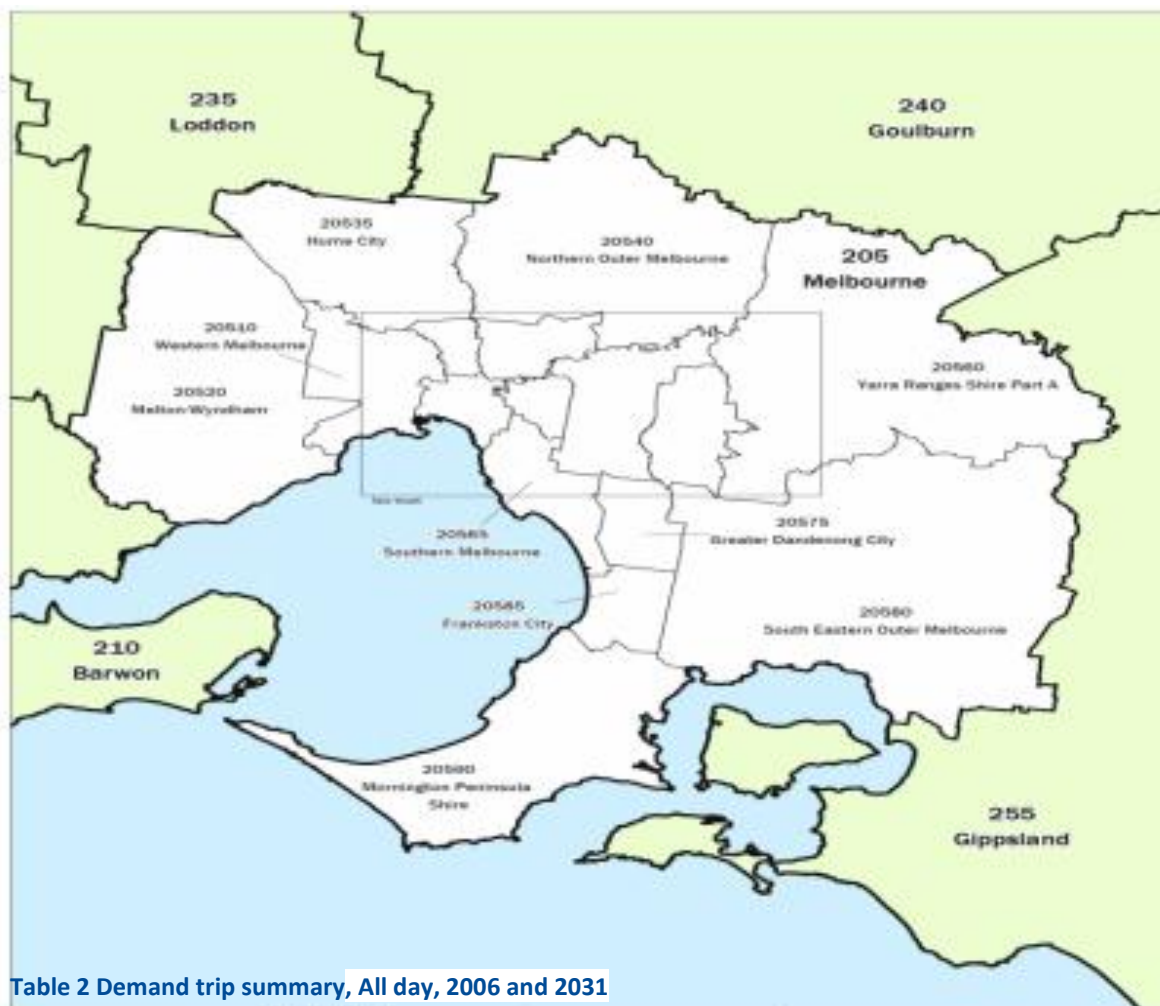


Table 2 Demand trip summary, All day, 2006 and 2031



¹ Source ABS

Road Name	Location	2006 Volume	Predicted Growth	Predicted Volume 2031
Western Ring Road	South of Deer Park Bypass	113,000	33%	150,700
Princes Hwy West	West of Western Ring Road	141,000	38%	194,300
Geelong Road	East of Francis Street	42,000	91%	80,200
Calder Freeway	West of Western Ring Road	87,000	47%	128,100
West Gate Freeway	West Gate Bridge	165,000	41%	235,000
Monash Freeway	East of Toorak Road	150,000	42%	213,500

Source: EWLNA (Veitch Lister) ²

Assessing Towing Operator's Income

A smash towing business has become an unviable business model as it doesn't guarantee enough income to cover ALL operating costs; the value of a towing licence no longer lies in the exclusive provision of a smash tow service.

Towing operators must diversify and undertake extra work to remain viable.

There are 46 active Depots in the Melbourne Allocation Area and most, if not all, of these businesses have an association with or own panel shops. A towing operators' income is derived from several sources including, but not limited to:

- Trade towing
- Clearway towing
- Roadside assistance
- Retrieving stolen vehicles
- Providing smash work to their own or affiliated panel shops

Providing smash work to these panel shops can be in the form of:

- Providing repair work to un insured customers via third party assistance

Unfortunately, towing operators owning or who have commercial relationships with panel shops have seen work from this source decline over recent years. Also, an insurance company will usually promote its preferred smash repairer network or assessment centre at first contact with the smash customer.

² <http://www.transport.vic.gov.au/research/research-and-policy-development-publications/investing-in-transport-report/investing-in-transport-chapter-4-melbournes-roads-more-traffic,-more-congestion>

Recommendation

The ESC review process should only consider the income and costs associated with providing a smash tow to the Melbourne community, and not consider a towing operator's income derived from other separate businesses outside the smash towing sector. Operating a separate business that offers different services has little relevance when assessing a tow operator's income or their viability and sustainability in the future. The allocated costs of running a tow truck according to the ESC Report are 39% to smash tows. The VACC have yet to determine the exact figure which is relevant to smash work and will investigate that issue for the next review.

What constitutes a base fee?

VACC agrees a base fee definition is important in towing fee assessments. Currently the base fee is \$196.90 (including GST).

Yet the Commission expects other expenses to be included in the base fee without any increase to the base fee i.e.

- Out of storage fees
- Cleaning of tools and equipment

Recommendations

- Add out of storage fees and tool & equipment cleaning costs to base fee
- Base fee inclusions should be defined in the Act.
- Increasing the base fee would be justified for these services by 8.8% (Benchmark model).

Salvage

During stakeholder discussions, VACC presented 50 different types of salvage tasks and outlined the difficulties and therefore varying cost pressures associated with each salvage job. A standard hourly salvage rate is not a viable fee for most salvage cases.

At the time, the Commission agreed that salvage is a difficult task and cost variable process.

However, despite this understanding, the Commission concluded salvage work is a simple process and a towing operator should be paid \$65 (including GST) per hour to perform this work.

Even industry stakeholder Suncorp, concurs with current industry practice that in regard to appropriate fee charges, existing industry fees are representative of the difficulties associated with salvage work:

'In Suncorp's experience, since the introduction of compulsory photographs for salvage, the prices being charged are, on the whole, reasonable and reflective of the work done.'

28 March 2013 Submission to ESC

Recommendation

Consider a range of salvage fees that reflect the varying cost pressures of each salvage task, and do not regulate at a set fee or hourly rate, continue with fair and reasonable as defined. All towing operators have expressed the difficulties in establishing costs for salvage as each salvage task is so varied and in some cases very difficult, it is a case by case scenario. VACC members estimate the average rate of salvage to be around \$134.00. In any definition this is a reasonable charge for salvage and the current rule should continue.

However, as noted above, each salvage job is an individually unique task; we do not recommend a fixed rate be applied by the ESC.

Storage Fees

It has been asserted there are no CBD towing operators; however a towing depot exists in City Road, South Bank, in close proximity to the Crown Casino.

The costs of maintaining a towing operation in South Bank is significant and to store a vehicle for \$15.10 (including GST) per day, under cover, does not take these costs into account. Businesses who offer *parking* services in Metropolitan Melbourne and incur similar types of costs, charge much more for vehicle parking.

Often a smash tow customer has limited choice as to where their vehicle is stored, but storage costs will still apply to a stored vehicle.

Recommendation

Storage fees should reflect actual storage fee costs incurred by towing operators. Increase storage fees by 8.8% (Benchmark model).

Non-commercial tows

A non-commercial tow contributes around 10% of all tows a smash tow operator collects from their allocation area. Situations that encompass a non-commercial tow include:

- Driving to locate a smash tow and finding the vehicle is not there; usually it has been driven off from the accident site and the Accident Allocation Centre has not been informed
- A non-licenced business has collected the vehicle
- The vehicle is uninsured and a customer does not want to pay for the tow

While the Uncollected Goods Act has been simplified, this does not mean towing operators recover all fees associated with these unpaid tows. Currently a proportion of the base fee incorporates non-commercial tows. This needs further clarification.

Below is a breakdown of the losses incurred on non-commercial tows: based on the last year of allocation figures there were 107 allocations per licence (average), we can make the following argument for a non-commercial fee increase in the base fee.

- | | |
|-------------------------------|---|
| • Base Fee | \$196.10 |
| • Storage (average 39 days*) | \$588.90 |
| • Administration fee | \$50.00 |
| • Average recovery value | \$200.00 (800 Kilo – 1.2 Tonne scrap metal) |

$\$196.10 + \$588.9 + \$50 = \835.00 . This shows that 10.7 jobs per year are not paid for which totals $\$8934.50 - \$2140.00 (10.7 \times \$200.00) = \6794.50 out of pocket for non-commercial tows.

*Vehicle initially towed, 1 day. The next 10 days contacting/negotiating with owner or driver. Notice of disposal letter sent to owner informing them that their vehicle will be disposed of in 28 days. After 28 days disposing of vehicle, total 39 days.

Recommendation

As the towing industry is fully regulated in Melbourne, an operator must pick up an allocated smash tow. Therefore a non-commercial tow should be clearly defined in the base tow fee and the base tow fee should take into account the income loss of \$2649.85 which

calculates the 39% costs associated with smash tow. Therefore the base fee for bad debt should be increased from \$1461.00 to \$2649.85 on annual costs of a single truck, this rate currently is about \$15.15 per tow, and new rate should be \$27.45 per tow (96.5 paid tows per year).

Towing service sector performance benchmarks

Table 3 Performance benchmark ratios for Towing Services³

Key benchmark ratio	Annual turnover range		
	\$50,000 - \$200,000	\$200,000 - \$500,000	More than \$500,000
Income tax return			
Total expenses/turnover	60% - 75%	74% - 83%	81% - 90%
Average total expenses	67%	78%	86%
Activity statement			
Non-capital purchases/total sales	46% - 59%	45% - 60%	47% - 62%

Operating costs in the towing sector are high.

As Table 3 shows, the expenses ratio to turnover in the towing services sector is high; the higher the turnover range, the higher the expenses/turnover ratio.

Towing Fee benchmarks

The Commission, NERA Economic Consulting, and Pitcher Partners evaluated fee price benchmarks and compared these to other jurisdictions.

Pitcher Partners rightly omitted clearway towing and trade towing from their benchmark analysis.

Conversely, the Commission claim clear way towing and trade towing are meaningful smash tow benchmarking comparisons. However, towing operators who provide clearway towing and, in most cases, trade towing, are not subject to the regulatory responsibilities demanded of smash tow operators or the associated costs in meeting these obligations.

A smash tow operator working in an allocation area must be licenced and, as per ESC Draft Report, a licence costs \$400,000. Towing operators with long term licences have observed

³ Source: ATO Towing Services Key Performance benchmarks

the value of the licences increase, but a return on that investment is still necessary to retain a viable business.

A licence is a significant proportion of the overall costs of running a smash tow business and hence can't be likened to clearway towing or trade towing.

Furthermore, trade towing is very competitive and costs are driven down by competition or, in some cases, by rogue operators who do not incur the costs of:

- 1) A smash tow licence or
- 2) A modern, well-equipped tow truck and professional staff.

Pitcher Partners' 2010 Report highlights another key advantage that trade and clearway towing have over accident towing:

'The comparisons to trade towing and clearway towing are not adjusted for the fact that operators in those markets have the opportunity to carry more than one vehicle at a time which cannot be done for accident towing. Thus, it may be that the comparisons are not useful.'

While NSW doesn't have an allocation system, the number of tows required, operating costs and regulated fees in both Melbourne (while less) and NSW are similar. Because of this, tow fee cost comparisons can be made between the two states.

According to NERA Economic Consulting, a typical tow includes:

- 30 minutes waiting time at accident scene
- 15 kilometres travel from accident scene to depot
- And 3 days storage

Note: All prices include GST

Table 4 Metro NSW and Melbourne towing fee comparison

	Metro NSW	Melbourne
Base Tow Fee (Business Hours)	\$264.00	\$196.90
Per Kilometre	\$6.4 (after 10K's)	\$3.10 (after 8K's)
Storage Fees	\$19.8 (after 3 days)	\$15.10 (from day 1)
	Metro NSW	Melbourne
Kilometres	\$32.00 for 5K's	\$21.7 per 7 k's
Base Tow Fee (Business Hours)	\$264.00	\$196.90
Storage	\$0.00	\$45.30
Typical Tow (Business Hours)	\$296.00	\$263.90
Non Business Hours	\$317.00	\$264.10 (12.2% less)
Kilometres	\$32.00 for 5K's	\$21.70 per 7 k's
Storage	\$0.00	\$45.30
After hours total	\$349.00	\$331.10 (5.4% less)

However, NERA Economic Consulting does not consider the 15 kilometres of travel to the accident scene from the depot which would add 15 chargeable kilometres:

	Metro NSW	Melbourne
Extra 15 Kilometres	\$96.00	\$46.50
New base tow fee (Business Hours)	\$392.00	\$310.60 (26.2% less)
Non Business Hours	\$445.00	\$377.60 (17.8% less)

These figures show Melbourne metropolitan towing operators are significantly disadvantaged compared to Sydney metropolitan operators. According to Greg Preston from MTA NSW, the insurance companies in NSW have contracts with towing operators to tow their Insured and the contracts are with over 50% of operators which equates to over 80% of all tow jobs in the market. So the NSW towing operators rely on volume as opposed to the Melbourne allocation area which average 8.62 jobs per month.

A benchmark comparison can also be made between essential services that actually attend an accident scene. While allowing for service task and man power differences, when the base towing fee is compared with organisations offering similar essential community services, the fee difference is stark:

Table 3 Comparison of essential community services operating in Victoria

Ambulance Victoria ⁴			Melbourne Fire Brigade (MFB) ⁵	VicRoads Accident towing charges
General \$990.41	Work Cover \$1,056.71	TAC \$1020.99	MFB will receive funding from TAC of \$2,274,081 for attendance at road accident events.	\$196.90 (Includes GST) \$3.10 (additional per km fee if beyond first 8 km) After hours surcharge \$67.20 ⁶
Metro emergency ambulance attendance & transport fee (patient is attended to and taken to hospital) Metro emergency attendance fee only is \$298.86 (General) Note: calculated km includes travelling from base to pick up address and from destination address back to base)			2011/2012 MFB attended 909 call-outs for assistance at road accidents, which equates to \$2500 per call-out. <i>In the same period , however if call outs are based on the number of times a person is extricated from a vehicle and transported to hospital, this results in 312 incidents and the charge per call would be \$7,290 per call out.</i>	<ul style="list-style-type: none"> • The first 8 kilometres travel by tow truck (from the depot) • Fee also includes an allowance for removal of all debris (including spills), cleaning the tow truck, waiting time at the accident scene, phone calls, unpaid tows and administration such as photos and documentation

Another notable benchmark is VicRoads' fees charged for heavy vehicle escort services;

'These services have a broadly similar cost base to accident towing, ie, labour, fuel, vehicle maintenance and certification, and therefore provide a good benchmark for prices and price adjustments for accident towing fees.

In Victoria, VicRoads provides escort services for over-size loads. The current fee for FY2013 is \$191.10 (incl. GST) per hour with a minimum of 2 hours on weekdays and 3 hours on weekends. The charges increase approximately according to the rate of change in the CPI each year.

The \$191.10 fee charged by VicRoads for escort services appears to in line with the accident towing base fee of \$197. This assumes that the accident towing base fee typically covers around 30 minutes for working time at the accident scene, and another 30 minutes to tow the vehicle back to the depot and stored in the yard. (NERA Economic Consulting)

Based on NERA Economic Consulting the hourly charge for a smash tow operator should be \$191.10 (including GST) with a minimum of 2 hours. The towing industry would accept that as an hourly charge.

⁴ <http://www.ambulance.vic.gov.au/>

⁵ MFB Management accountant Chris Lagaris via email June 2013

⁶ 5pm to 8am Monday to Friday, 5pm Friday to 8am Monday, Midnight to midnight on public holidays VicRoads website

It is clear that current, regulated fees are unsustainable:

‘Since the last review, operational costs have risen by over 10-15% but CPI is 2.4%. Wages and salaries by most towing operators are paid as a percentage of the turnover the truck creates.’ Sheen Towing Group

Cost of Business model

VACC asked members to provide their actual costing for running a tow truck for a year and allocating 39% of those costing’s to smash tow work and the following is the result:

<u>2012-2013 TOD Member</u>	<u>2009-2010 ESC Report</u>	<u>% Difference in Costs</u>
\$73389	\$55094	33.20% increase in costs
\$77080	\$55094	39.90% increase in costs
\$147373	\$55094	167.49% increase in costs
\$65098	\$55094	18.15% increase in costs
\$70719	\$55094	28.36% increase in costs
\$98103	\$55094	78.06% increase in costs

Other statistics to come out of member’s information are:

- Average tow time from allocation 1.75 hours including salvage
- Cost per smash attendance \$272.13
- Hourly cost per truck \$181.42
- Wage costs per hour per truck \$59.75
- Direct cost per hour per truck \$73.76
- Overhead cost per hour per truck \$47.92

NOTE: None of the costs above include a profit margin.

Although the cost of running a tow truck varies significantly the overriding issue is that running costs have increased. Yet the ESC has recommended keeping fees as they are for the next 3 years with annual adjustment the only increase.

Recommendation

The base fee should be increased by at least 18.15% to cover some of the cost changes since the last review.

VACC's Conclusion and Recommendations

VACC's TOD Committee is committed to continued transparency within the Victorian towing industry and contend:

- A corresponding increase in vehicle numbers negates purported towing service demand increases
- Towing revenue will be reduced by supporting an hourly charge of \$65 (including GST) for salvage

Assessing Towing Operator's Income

- The ESC review process should only consider the income and costs associated with providing a smash tow to the Melbourne community, and not consider a towing operator's income derived from other separate businesses outside the smash towing sector. Operating a separate business that offers different services has little relevance when assessing a tow operator's income or their viability and sustainability in the future. The allocated costs of running a tow truck according to the ESC Report are 39% to smash tows. The VACC have yet to determine the exact figure which is relevant to smash work and will investigate that issue for the next review.

Base Fee

- Add out of storage fees and tool & equipment cleaning costs to base fee
- Base fee inclusions should be defined in the Act.
- Increasing the base fee would be justified for these services by 8.8% (Benchmark model).

Salvage tasks

- Consider a range of salvage fees that reflect the varying cost pressures of each salvage task, and do not regulate at a set fee or hourly rate, continue with fair and reasonable as defined. All towing operators have expressed the difficulties in establishing costs for salvage as each salvage task is so varied and in some cases very

difficult, it is a case by case scenario. VACC members estimate that the average rate of salvage to be around \$134.00. In any definition this is a reasonable charge for salvage and the current rule should continue.

However, as noted above, each salvage job is an individually unique task; we do not recommend a fixed rate be applied by the ESC.

Storage Fees

- Storage fees should reflect actual storage fee costs incurred by towing operators. Increase storage fees by 8.8% (Benchmark model)

Non Commercial Tows

- As the towing industry is fully regulated in Melbourne, an operator must pick up an allocated smash tow. Therefore a non-commercial tow should be clearly defined in the base tow fee and the base tow fee should take into account the income loss of \$2649.85 which calculates the 39% costs associated with smash tow. Therefore the base fee for bad debt should be increased from \$1461.00 to \$2649.85 on annual costs of a single truck, this rate currently is about \$15.15per tow, and new rate should be \$27.45 per tow (96.5 paid tows per year).

VACC recommends

- Increase extra kilometres travelled by 8.8% (Benchmark scenario)
- Further examination of VicRoads' Pilot fees

The cost pressure of running a smash tow business has increased markedly and the VACC recommends an increase for towing operators across the board and keeping salvage as a fair and reasonable charge, which is enforceable by law.

Adopting these VACC recommendations would remove current fee ambiguities within the towing industry and increase fee transparency for towing operators, insurance companies and towing service users.

Base Fee and inclusions

- Out of storage fees
- Cleaning of tools & equipment
- The first 8 kilometres travel by tow truck
- An allowance for removal of all debris (including any spills)
- Cleaning the tow truck
- Waiting time at the scene
- Phone Calls
- Non Commercial Tows
- Administration such as photos and documentation

New Charges (Benchmark Model)	8.8%	18.15%
New Base Rate including current-non-commercial tow component	\$214.25*	\$232.65*
New non-commercial tow component \$27.45-\$15.15	\$12.30	\$12.30
Total new base rate	\$226.55	\$244.95
Additional Kilometres	\$3.35	\$3.65
After Hours Surcharge	\$73.10	\$79.40
Car- under cover	\$16.40	\$17.85
Car – locked yard	\$11.00	\$11.95
Motorcycle – under cover	\$5.55	\$6.00
Motorcycle – in locked yard	\$3.50	\$3.80

*Rounded up or down to the nearest 5 cents



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14 June 2013

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Dear Gary

FINAL REPORT – TOWING FEES

Please find enclosed a copy of our Final Report regarding your submissions to the Essential Services Commission (“ESC”). Further to the draft report issued by the ESC we note some minor adjustments to our final report:

- The correction of two incorrect figures on page 5 of the draft. Please note that whilst the absolute figures do not change the percentages have been adjusted. This does not change the nature of the argument from a jurisdictional comparison.
- We have added Information to the 2nd paragraph on page 5 to explain that the additional waiting and working fee at relates to salvage has not been included in the comparison of the base fee. We note that the ESC report also refers to the fact that the SA base fee covers the use of specialised equipment which is correct.
- While we have information at the bottom of page 4 that clarifies the basis of inter-jurisdictional comparisons, the ESC comments on our comparison of other jurisdictions against Melbourne (not being on an ‘apples for apples’ basis).

We have added a paragraph at the top of page 7 that again notes that our jurisdictional comparisons were only provided to enable a further understanding of the cost of towing in each jurisdiction. That being, an 8 km tow in other jurisdictions would cost ‘X’ amount: i.e. if a car was towed in 8 km in NSW then you would pay \$264 and the same distance tow would cost \$242.20 in VIC.

We also make the following comments in relation to the ESC draft report:

- We consider that the position taken by the ESC in Section D(1) under the sub-heading Competitive Towing Fees, The Controlled Area Fee – is best summarised as saying that the Commission was obviously dismissive of our analysis because they could not access the base data that was provided by your members on a confidential basis.
- They also quote a non-evidence based comment made by Suncorp Group to the previous review which in essence seems to be quoting an opinion, rather than something that is based on evidence as our analysis was, notwithstanding that it was provided confidentially.
- Under Section D(2) the Cost Index, the Commission initially proposes that that AWOTE as proposed by us, is not as good a labour index as WPI. In this regard we have no problem with the WPI as a labour index.
- When dealing with the comparisons over time, the Commission talks about only being able to measure the gap over a three year interval because the Commission undertakes their reviews every three years and resets costs at that time.

This argument does not address the accrued shortfall that occurs due to the use of a different index basis. While a reset should re-start the process, any discrepancy in the indexation regime will lead to a further accrued shortfall over the next three year cycle. Each three year deficiency will lead to an accumulated shortfall over a longer period that remains unaddressed unless the indexation regime is improved.

- It is our opinion that the objective of indexation should be to reflect actual cost movements. The components of the index should logically therefore reflect in percentage terms, as nearly as possible, the mix of significant costs in the running of the actual tow truck business. We are therefore still of the view that a labour based index as well as the CPI in proportion to the relationship of wage costs to other costs is conceptually a more soundly based index. The objective of this discussion is to neither advantage nor disadvantage your members but to reflect the movements in their actual costs.

If you would like to further discuss any of the comments we have made above please do not hesitate to contact either Mark Burton (03) 8610 5290 or Matthew Wilson (03) 8610 5245.

Yours sincerely



I D STEWART
Executive Director



PITCHER PARTNERS
ACCOUNTANTS • AUDITORS • ADVISORS

Pitcher the Difference

Report to assist the VACC with their Submission to the Essential Services Commission Issues Paper – “Periodic Review of Accident Towing and Storage Fees”

June 2013

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1. Executive Summary

Key summary points:

- Inter-jurisdictional and market based benchmarking outside the Controlled Area indicate that the regulated base fee is too low.
- The indexation methodology could be improved to enable a portion of the base fee to track alongside a relevant labour index.

We therefore recommend:

- That fees for allocated towing be increased based on the benchmark data.
- That a portion of the base fee be indexed by Average Weekly Ordinary time earnings so that indexation more appropriately tracks cost movements over the longer term.

2. Background

In February 2013 the Essential Services Commission (“the Commission”) released an Issues Paper entitled “Periodic Review of Accident Towing and Storage Fees”. The Commission has invited submissions from stakeholders. The Victorian Automobile Chamber of Commerce (“VACC”) represents the towing industry in Victoria.

VACC has requested Pitcher Partners to provide a limited review that compares the:

- Melbourne regulated Base Towing and Storage fees and charges to the New South Wales, South Australian and Queensland regulated fees and charges; (Refer to Section 3 below)
- Melbourne regulated Base Towing fee to a limited sample of data derived from towing operations for greater Melbourne and major regional Victorian cities that fall outside the Controlled area; (Refer to Section 4 below)
- Impact of the current indexation methodology with an indexation methodology that applies both a CPI and a Labour index; (Refer to Section 5 below).

The Commission’s Issues Paper notes that stakeholder submissions will;

- Provide comments for the Commission to consider,
- Provide the basis for subsequent meetings with stakeholders and
- Will help to inform a draft report to the Minister.

Prior to the draft report stakeholders will have another opportunity to make further submissions regarding the Commission's draft report to the Minister.

The following aspects of the Commission report are noted for the context of reading the following sections:

- The purpose of the Commission's report is to consider a methodology to apply in setting the relevant fees and charges for the regulated services. These two methodologies are:
 - Cost of service regulation that would involve a survey of towing operators' costs.
 - Benchmarking.
- The Commission's preliminary view is that a cost of service approach is unlikely to be the best approach and subject to consideration of stakeholder's views, the Commission intends to explore the application of benchmarking in assessing accident towing fees and charges.

Based upon this context, our report provides benchmarking information for the VACC to consider in their submission to the Commission's report.

3. Jurisdictional benchmarking

We have conducted an exercise that compares the Melbourne regulated Base Towing fee to the regulated base towing fees in New South Wales, South Australia and Queensland. In order to compare between jurisdictions we have assumed that:

- The base fee relates to a standard vehicle tow.
- The vehicle is required to be stored for 3 days; fees stated below are inclusive of applicable storage charges for the 3 day period.
- The fee includes GST.
- All fees are current as at 1 July 2012.
- When comparing another jurisdiction to Melbourne's fees, we have used the minimum number of kilometres relevant to that jurisdiction's base fee. This is done to derive a base fee that is able to be compared across jurisdictions.
- When comparing Melbourne to another jurisdiction's fees we have used the number of kilometres included in the Melbourne's Base Fee (Up to 8 kilometres). This is done to derive a base fee from other jurisdictions that is able to be compared against Melbourne's Base Fee.

We note the following:

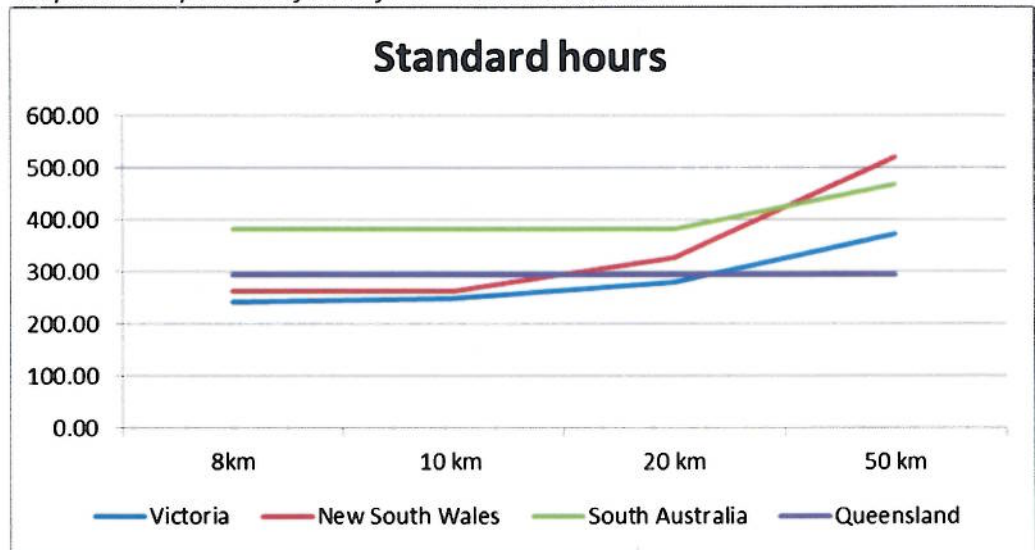
In comparing New South Wales, South Australia and Queensland to the Melbourne Base Fee:

- i. New South Wales, based on a towing distance of 10 km, has a fee of \$264.00 and is 6% higher than Melbourne that has a comparative fee of \$248.40.
- ii. South Australia, based on a towing distance of 20 km, has a fee of \$383.00 and is 37% higher than Melbourne that has a comparative fee of \$279.40.
- iii. Queensland, based on a towing distance of 50 km, has a fee of \$293.80 and is 21% lower than Melbourne that has a comparative fee of \$372.40.

As Graph 1 highlights, for all distances up to 50 kilometres, Melbourne’s Base Fee is significantly less than South Australia. For the purposes of clarification, while the South Australian Base Fee includes an allowance for specialised equipment, an additional fee for waiting and working time of \$46 per hour (or part thereof) and an additional \$33 per hour (or part thereof) where more than one person is required for salvage is not included for the purposes of this comparison.

As the towing distance increases, Melbourne’s base fee falls progressively behind that of New South Wales. And in comparison to Queensland, it is only after 24 kilometres that the Base Fee in Melbourne becomes more than the Queensland base fee.

Graph 1: Comparison of base fees – Standard Hours



When considering Melbourne’s Base Fee (\$242.20) to New South Wales, South Australia and Queensland, assuming a distance of 8 kilometres for comparative purposes:

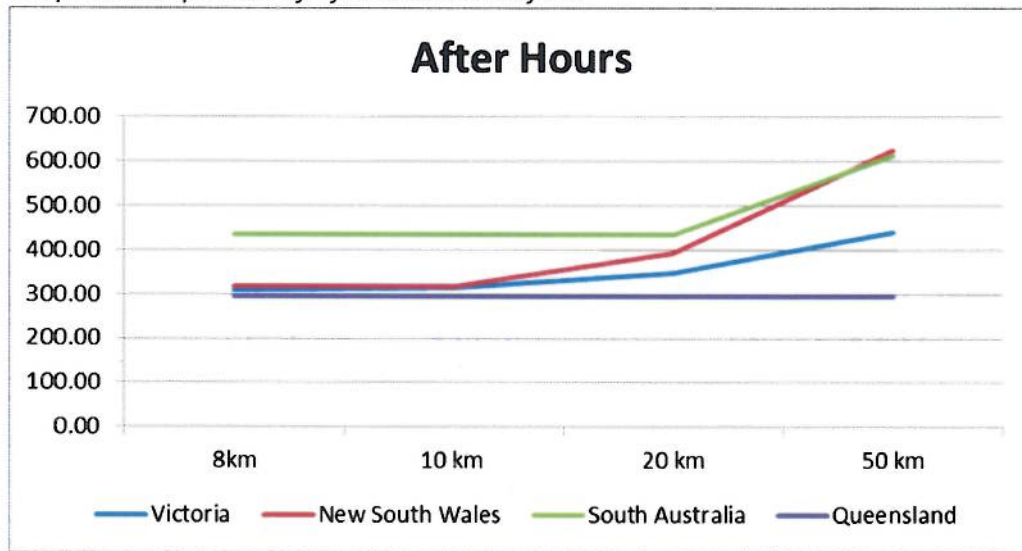
- i. The New South Wales base fee is \$264.00 or 9% higher than Melbourne.
- ii. The South Australian base fee is \$383.00 or 58% higher than Melbourne.
- iii. The Queensland base fee is \$293.80 or 21% higher than Melbourne.

If we then consider the base fees including an adjustment for afterhours rates we note that when comparing Melbourne’s Base Fee to New South Wales, South Australia and Queensland, assuming a distance of 8 kilometres for comparative purposes:

- i. The New South Wales base fee is \$316.80 or 2% higher than Melbourne.
- ii. The South Australian base fee is \$435.00 or 41% higher than Melbourne.
- iii. The Queensland base fee is \$293.80 or 5% lower than Melbourne.

Graph 2 compares the after-hours base fee for each jurisdiction across distances of 8 km, 10 km, 20 km and 50 kilometres. As this graph highlights, both New South Wales and South Australia become progressively higher than Melbourne’s base after hours fee, while Queensland’s base after hours fee remains below the other States.

Graph 2: Comparison of After Hours base fees



It should be noted that any comparison with Queensland should be considered in the context that the Queensland base fee is constant up to 50 kilometres. Given the number and distribution of depots within the Controlled Area it is likely that the majority of accident towing in Melbourne would be significantly less than 50 kilometres.

Furthermore any consideration of both the comparative of Melbourne’s Base Fee versus other jurisdictions and other jurisdictions against Melbourne’s Base Fee has been undertaken only to enable an understanding of the cost of towing in each jurisdiction.

4. Price comparison – Outside Melbourne Controlled Area

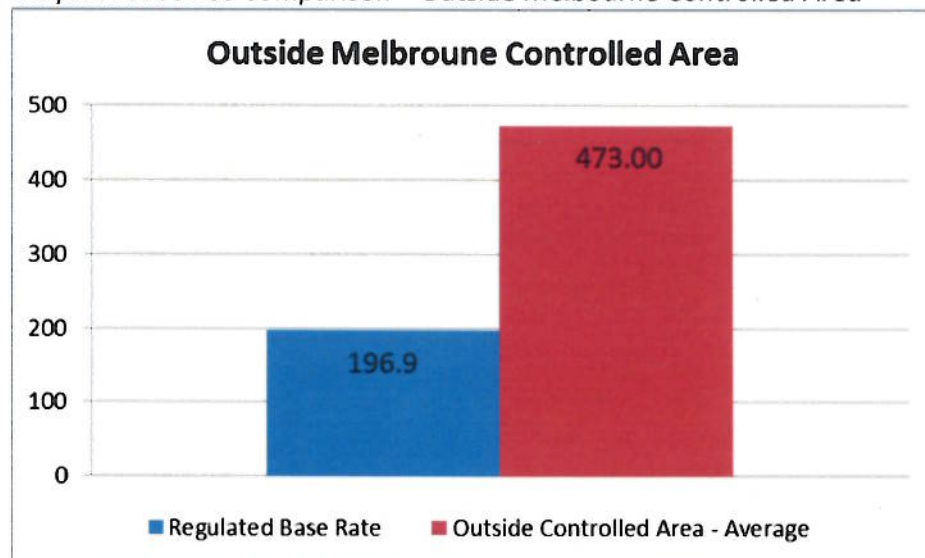
We have conducted an exercise that compares the Melbourne Base Fee to similar towing fees in Victoria that are outside the Melbourne Controlled area¹.

Graph 3 highlights that on average the fee’s charged to Insurance companies in a competitive market place for a similar towing operation to those within the Melbourne Controlled Area were 240% higher.

This would tend to indicate that the regulated fee in the Melbourne Controlled Area is below the market benchmark.

It is acknowledged that the level of demand, operational cost structures and levels of competition would be different in regions outside the Melbourne Controlled Area. However the level of differential is so significant that it is unlikely to be attributed to these factors alone.

Graph 3: Base Fee Comparison – Outside Melbourne Controlled Area



¹ A number of companies provided invoices that reflected a towing job provided to a range of Insurance Companies for towing services; the job was for a standard, within-hours tow that was for less than 8 kilometres.



5. Indexation Methodology Comparison

“The current annual fee adjustment formula uses the CPI (Melbourne, Transport) cost index to adjust prices”. A productivity factor of 0.5 is applied to the movement in the index to derive the adjustment factor.

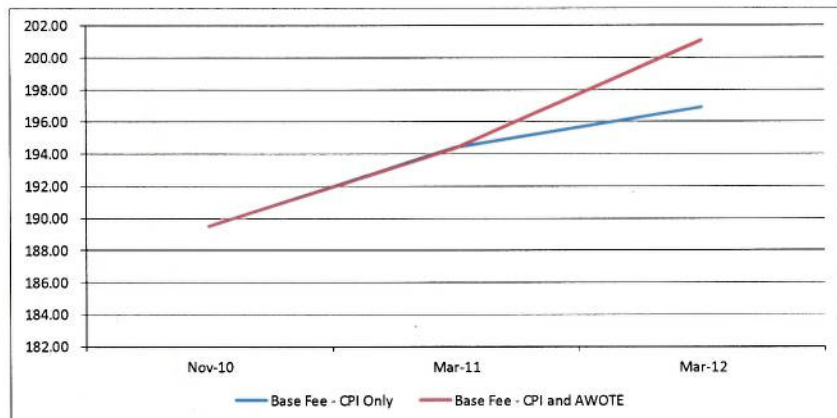
We noted in our last submission for the VACC² that there was merit in creating an index that would allow the fees to be adjusted to reflect a labour component such as the AWOTE Index³.

To determine whether a gap has occurred between the two indexation methodologies we compared the indexed Base Fee over the short term and a notional Base Fee indexed over the longer term. This is to identify any gap that may have occurred or may occur in the future as a result of decisions over indexation methodologies.

In comparing the movement of the Base Fee adjusted only by CPI versus an index that includes AWOTE we see that since the last review, the towing fees are 2.09% worse off as a result of the labour index outpacing CPI in the period from March 2011 through to March 2012.

Graph 4: Base Rate Indexation over the short term: Cumulative 2.09%

Short Term Trend	Nov-10	Mar-11	Mar-12
Base Fee - CPI Only	189.50	194.45	196.92
Base Fee - CPI and AWOTE	189.50	194.37	201.05



If we consider what the gap would have been over the previous ten years the cumulative impact would be that a Base Fee adjusted only by CPI would trail an index, that included a weighting to reflect labour, by 12.0%.

² Pitcher Partner Report: “VACC – Proposed Towing & Storage Fees”, comments on the Essential Services Commission Report entitled “Review of Accident Towing and Storage Fees: Draft Report, March 2010”.

³ Table 11: Full Time Adult Ordinary Time Earnings; Victoria – Series Id: A2828148L

Graph 5: Indexation Gap over the long term: Cumulative 12.0%

Long Term Trend	Mar-02	Mar-03	Mar-04	Mar-05	Mar-06	Mar-07	Mar-08	Mar-09	Mar-10	Mar-11	Mar-12
Base Fee - CPI Only	100.00	104.41	102.58	105.04	111.81	111.47	118.57	112.06	115.61	118.63	120.14
Base Fee - CPI and AWOTE	100.00	104.67	107.03	111.06	115.31	115.67	121.15	122.13	126.64	129.90	134.56

