



Accident towing fees review 2021

Final report

1 April 2022



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Overview and recommendations

This final report outlines the basis for our recommendations to the Minister for Roads on accident towing, storage and salvage fees in the Melbourne controlled area. Our assessment is primarily based on our benchmarking analysis, Department of Transport data and stakeholder feedback.

We recommend:

- the current regulated accident towing fees are appropriate and will be increased in line with current indexation arrangements (Melbourne Transport consumer price index minus the productivity adjustment factor)
- the current regulated storage fees for the Melbourne controlled area are appropriate and will be increased in line with current indexation arrangements (Melbourne Transport consumer price index minus the productivity adjustment factor)
- the default productivity adjustment factor of 0.5 per cent should be applied
- the Minister for Roads should not make a determination on basic salvage fees under section 211 of the Accident Towing Services Act 2007.

In making our recommendations, we have had regard to the Accident Towing Services Act 2007 objective (see appendix B, section 4), which is to promote the safe, efficient and timely provision of accident towing services and other related services. After reviewing accident towing fees in other jurisdictions and those applicable for competitive (unregulated) trade towing services, along with industry and market demand and supply characteristics we found no substantive evidence to suggest the current level of regulated accident towing fees are having an adverse impact on the safe, efficient or timely provision of these services. Our recommendations reflect this.

We review accident towing fees for regular vehicles within the Melbourne controlled area

Accident towing is the towing of damaged vehicles from road accident scenes. Any towing services that are not the immediate result of a road accident are referred to as ‘trade towing’ (this includes clearway towing, impound towing, breakdown towing and other general trade towing). There is also a distinction between the towing of regular vehicles and heavy vehicles, the latter having a gross vehicle mass of four tonnes or more and whose fees are not regulated.

Every four years, we conduct a review which recommends to the Minister for Roads:

- whether accident towing and storage fees are appropriate
- how and if they should be adjusted
- whether the fees for related services (such as salvage) should be regulated.

The minister may only make a determination on these fees after receiving our recommendations and a report from the Secretary to the Department of Transport.

Victoria is separated into three separate geographic areas for accident towing. The scope of our review concerns regular vehicles within the Melbourne controlled area only.¹ We do not have legislative authority to assess heavy vehicle fees, licence boundaries, the accident allocation scheme or accident towing fees outside the Melbourne controlled area.

We used a benchmarking approach to recommend fees

We considered the following methodologies for our Accident towing fees review 2021:

- a **cost-of-service approach**, where we review existing fees based on the estimated costs of efficiently providing that service
- a **benchmarking approach**, where we review existing fees based on comparisons to fees charged for similar services in other Australian states and for non-regulated towing services in Victoria.

Both of these approaches could be supplemented and cross-checked with data on service quality and any changes in the values of licence transfers.

We decided to use a benchmarking approach to assess accident towing and storage fees. Along with our benchmarking analysis, our views were informed by Department of Transport data and stakeholder feedback, which provided the basis for the recommendations in this report.

We largely excluded 2019–20 and 2020–21 data from our analysis due to the coronavirus pandemic.²

We may consider adopting a cost-of-service approach in future, though it has some drawbacks. The data derived using such an approach would require adjustments from average costs to efficient costs, that would be imprecise and may not ultimately provide any greater accuracy than benchmarking. Considerable work would also need to be undertaken to establish what costs should be included, how they are gathered and verified and how regulated costs are ring-fenced or allocated between regulated and unregulated services. We have compiled a list of cost items that could be necessary in developing a suitable methodology (see appendix C). If a survey was used to collect this data, then it would need to be based on a reasonable sample size that was representative of the different scale and types of accident towing operators.

¹ As per section 46 of the Accident Towing Services Act 2007, the Secretary of the Department of Transport may declare an area to be a controlled area. The Melbourne controlled area was declared in Gary Liddle 2010, *Declaration of controlled area*, Victoria Government Gazette, No. S 461 Tuesday 9 November 2010.

² Note, we used published fees as at 1 October 2021 for our benchmarking analysis.

We would most likely use our statutory information gathering powers to obtain this cost data. In deciding whether to pursue a cost-of-service approach, we would have regard to the trade-offs of administrative burden for the parties to gather, collate and provide the information and the possible regulatory outcomes that might result from the use of such information by the commission. These costs are particularly relevant for small and medium sized businesses. To this end, the beneficial outcomes derived from using the data need to outweigh the costs on industry of obtaining and providing the information.

We recommend regulated accident towing fees remain appropriate

Stakeholders have mixed views on the level of regulated accident towing fees for the Melbourne controlled area. While the Insurance Council of Australia believes they should remain unchanged, the Victorian Automotive Chamber of Commerce (VACC) does not regard them as appropriate for maintaining a safe, efficient and timely accident towing service.

As a result, the VACC proposed fees be set for a shorter timeframe (of 12–18 months), but we cannot make an interim fee recommendation, as we are not able to modify the parameters of our reviews under section 212A of the Accident Towing Services Act 2007.³

Regulated accident towing fees for the Melbourne controlled area are in line with regulated fees in Sydney, Queensland and Adelaide.⁴ They are also higher than trade towing fees, but this is likely to be appropriate as there are expected to be additional costs required to provide accident towing services.⁵

None of the information we received, suggested current fees were resulting in services which were not safe and timely.

As a result, based on our benchmarking analysis we conclude regulated accident towing fees for the Melbourne controlled area are appropriate and will be increased in line with current indexation arrangements.

³ Under section 212B of the Accident Towing Services Act 2007, the Minister for Roads can direct the commission to undertake an additional review. As part of such a direction, the minister could specify the timeframe of a recommendation that is to be made.

⁴ Maximum fees are regulated for most areas of Queensland, including Brisbane.

⁵ Towing operators are likely to incur additional cost due to the extra time it may take to complete accident towing jobs compared with trade towing jobs. This extra time may include:

- waiting at an accident site (for example, waiting for police to clear the site and declare it safe to move a vehicle),
- photographing and documenting an accident (if necessary)
- working at the site (as accident towing operators are responsible for clearing the site of debris).

We recommend regulated storage fees remain appropriate

Stakeholders have a range of views on regulated storage fees for the Melbourne controlled area. The VACC argues they are not appropriate, while the Insurance Council of Australia contends they are, but would like minimum service standards and additional requirements to address inappropriate charging.

Regulated storage fees for the Melbourne controlled area are similar to regulated fees in Sydney, Queensland and Adelaide. They are also consistent with benchmarks based on land rental values, storage utilisation and storage fees associated with trade towing and impounding of vehicles.

Based on our benchmarking analysis we conclude regulated storage fees for the Melbourne controlled area are appropriate and will be increased in line with current indexation arrangements

We recommend the default productivity adjustment factor be applied

Each year, regulated accident towing and storage fees in the Melbourne controlled area are amended by an 'annual adjustment mechanism', based on changes in the Melbourne Transport consumer price index minus a productivity adjustment factor of 0.5 per cent.

The purpose of the productivity adjustment factor is to provide stronger incentives for tow truck operators to introduce efficiencies over time. We are required to recommend a value if we find the 'default' 0.5 per cent is not appropriate.⁶

The VACC argues there should not be a productivity adjustment factor. While we cannot modify the parameters of our reviews, we could consider a productivity adjustment factor with a value set to zero (which is in effect the same as no productivity adjustment factor).

Depending on the measures used, Australian Bureau of Statistics data shows productivity growth has historically ranged from -1.3 to 1.3 per cent. While this does not provide conclusive evidence on the exact level of productivity growth that has occurred, we note the legislated default productivity adjustment factor of 0.5 per cent falls within this range. Furthermore, accident towing industry data shows productivity growth in the industry is likely increasing.

As a result, we did not find sufficient evidence to recommend amending the productivity adjustment factor from the legislated default 0.5 per cent.

⁶ Section 212H(1) of the Accident Towing Services Act 2007 specifies that the productivity adjustment factor is 0.5 per cent, unless we recommend a different amount.

We do not recommend basic salvage services be subject to determination

We do not recommend basic salvage services be subject to a fee determination. No substantive evidence was received of customers being charged excessive salvage fees that would justify recommending this service be regulated.

Stakeholders have opposing views on salvage fee regulation. The Insurance Council of Australia argued basic salvage fees should be regulated, while the VACC contended they should be unregulated, as the requirements for salvage services vary widely.

We received limited feedback on the transparency of salvage fees.

The Insurance Council of Australia raised concern about cleaning fees due to the coronavirus pandemic. However, we can only investigate such matters under a written notice from the Minister for Roads.⁷

Recommendation 1: The current regulated accident towing fees are appropriate and will be increased in line with current indexation arrangements (Melbourne Transport consumer price index minus the productivity adjustment factor).

Recommendation 2: The current regulated storage fees are appropriate and will be increased in line with current indexation arrangements (Melbourne Transport consumer price index minus the productivity adjustment factor).

Recommendation 3: The default productivity adjustment factor of 0.5 per cent should be applied.

Recommendation 4: Basic salvage services should not be subject to a determination under section 211 of the Accident Towing Services Act 2007.

⁷ See section 212A(1)(d) of the Accident Towing Services Act 2007.

1. Introduction

Accident towing is the towing of damaged vehicles from road accident scenes.

The Minister for Roads regulates accident towing fees but may only make a determination after receiving a recommendation from the commission and a separate report from the Secretary to the Department of Transport.

Every four years, we conduct a review on:

- whether accident towing and storage fees are appropriate
- how they should be adjusted
- whether the fees for related services (such as salvage) should be regulated.

Of the three separate geographic areas for accident towing in Victoria, our review is limited by legislation to regular vehicles within Melbourne only (see figure 1).

This chapter provides an overview of the accident towing industry and our role in reviewing fees and making recommendations to the Minister for Roads.

Appendix A summarises our most recent reviews.

1.1. What is accident towing?

Accident towing means the towing of damaged vehicles from road accident scenes.⁸ There are three main participants who provide accident towing services:

- **depots** – a premise from which accident tow trucks operate
- **operators** – a person or corporation that owns or operates a tow truck business
- **drivers** – a person who drives a tow truck to the accident scene and performs the towing job.

Operators and drivers provide customers accident towing services. This is made-up of three distinct services:

- **towing** – towing of a damaged vehicle from a road accident scene to the location requested by the vehicle driver or owner
- **storage** – storing a damaged vehicle in a secure location at the tow truck operator's depot to await repair or towing to another location

⁸ Definitions as per section 3 of the Accident Towing Services Act 2007 (see glossary).

- **salvage** – moving a damaged vehicle into a position where it can be safely towed without assistance.

Salvage is required where a damaged vehicle is not on a road or is embedded in a building or object (that is not another vehicle), is overturned or on its side. For some accident scenes, additional equipment or another vehicle may be required as part of this service.

Any towing services that are not the immediate result of a road accident are referred to as **trade towing**. This can include:

- clearway towing
- impound towing,
- breakdown towing
- other general trade towing (for example, the towing of a vehicle from a depot to a smash repairer).

Trade towing is not regulated in Victoria due to the competitive nature of the sector and the ability of consumers to make informed choices relating to trade towing services.⁹

1.2. How is accident towing regulated?

Accident towing services in Victoria are regulated under the Accident Towing Services Act 2007 (see appendix B). It requires accident towing operators and drivers who are performing accident towing services to be licensed by the industry regulator, the Department of Transport (previously undertaken by VicRoads).¹⁰

The regulation of accident towing varies across Victoria. The Department of Transport issues licences to operators and drivers to perform accident towing services which are subject to geographical restrictions on where an accident tow can be performed.¹¹ Victoria is separated into three separate geographic areas for accident towing:

⁹ Victoria Legislative Assembly 2007, Parliamentary debates, 19 April, p. 1153 (Tim Pallas, Minister for Roads and Ports).

¹⁰ VicRoads 2019, Annual report 2018–19, p.12

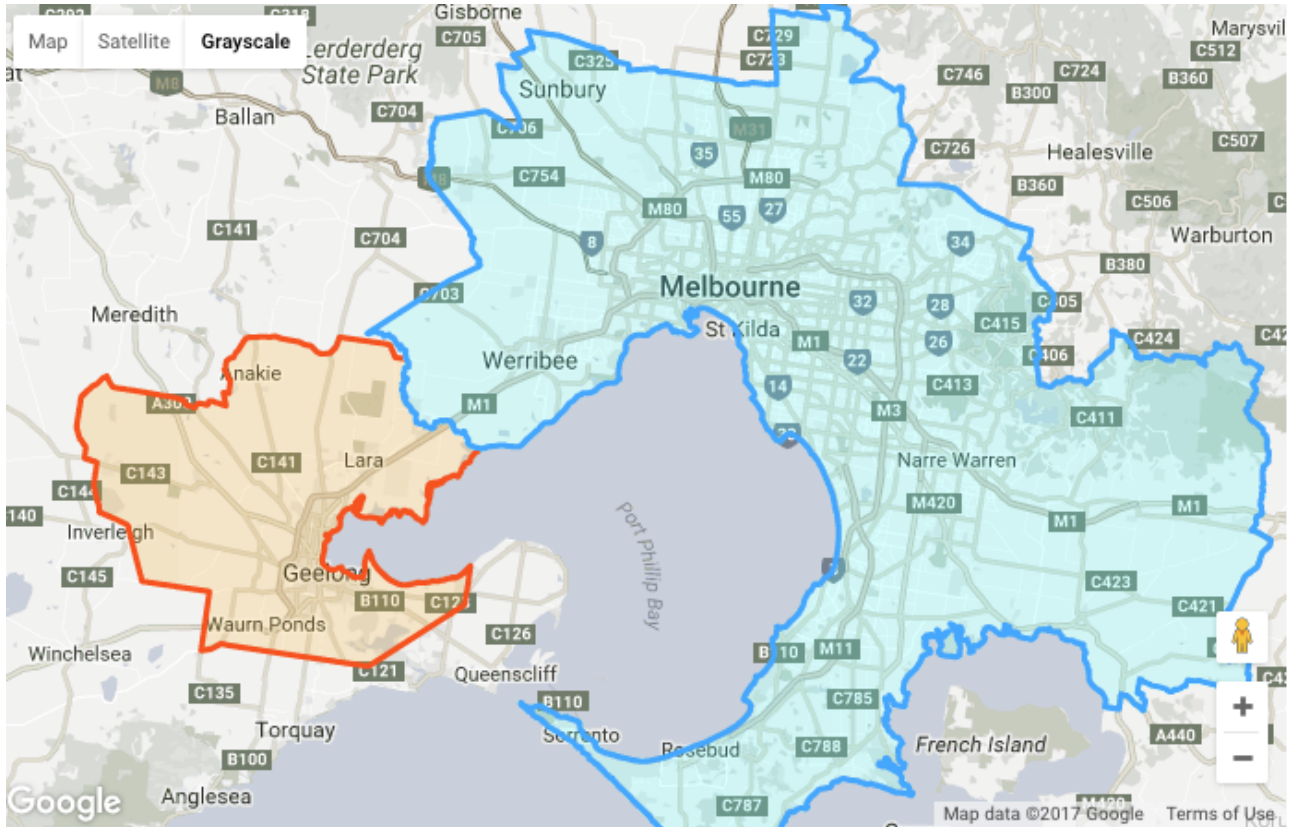
On 3 April 2019, it was announced that VicRoads and Public Transport Victoria would transition to the Department of Transport as of 1 July 2019, to become one transport agency delivering integrated planning, delivery and management of transport in Victoria.

¹¹ Licences are transferable – that is, they can be purchased or leased from an existing licence holder, subject to approval by the Department of Transport.

- the Melbourne controlled area (metropolitan Melbourne and the Mornington Peninsula)¹²
- the Self-management area of Geelong (Geelong and surrounding areas)
- the remainder of Victoria.

Figure 1 displays a map of the Melbourne controlled area and the Self-management area of Geelong boundaries.

Figure 1 Victoria accident towing zones



- Melbourne controlled area
- Self-management area of Geelong

Source: VicRoads 2013, Accident towing allocation map, accessed at <https://www.vicroads.vic.gov.au/business-and-industry/tow-truck-industry/accident-towing-allocation-map> on 28 April 2021.

Road accidents within the Melbourne controlled area are assigned to tow truck drivers via an accident allocation scheme administered by the Department of Transport. The Royal Automobile Club of Victoria (RACV) is contracted by the Department to operate the call centre that allocates accident towing jobs to operators.

¹² As per section 46 of the Accident Towing Services Act 2007, the Secretary of the Department of Transport may declare an area to be a controlled area. The Melbourne controlled area was declared in Gary Liddle 2010, *Declaration of controlled area*, Victoria Government Gazette, No. S 461 Tuesday 9 November 2010.

The accident allocation scheme has been designed to ensure accidents are responded to within 30 minutes and that jobs are shared evenly between tow truck operators.

The scheme functions on a roster basis, with each new job in a given zone of the Melbourne controlled area, allocated to the licence that has received the least allocations during a particular month.

Further information on licences, allocations, response times and the general performance of the tow truck industry is included in appendix G.

In the Self-management area of Geelong, the accident allocation scheme, run by the Geelong Taxi Network, operates in a similar way to the Melbourne controlled area.

There is no formal allocation system for the remainder of Victoria, with tow truck drivers able to attend any accident scene they are called to.

For regulatory purposes, there is also a distinction between regular vehicles, with a gross vehicle mass of less than four tonnes and heavy vehicles, with a gross vehicle mass of four tonnes or more. The accident allocation schemes for Melbourne and Geelong are for regular vehicles only.

1.3. Who sets and regulates accident towing fees?

Accident towing and storage fees in the Melbourne controlled area for regular vehicles are regulated by the Minister for Roads, as per section 211 of the Accident Towing Services Act 2007.

Accident towing and storage fees for regular and heavy vehicles in other areas of Victoria are not subject to regulation, but there is a requirement that fees be reasonable.¹³

The minister also has the power under the Accident Towing Services Act 2007 to determine a regulated fee for basic salvage services in the Melbourne controlled area (as yet, the minister has made no such determination).

The minister may only make a determination of accident towing, storage and salvage fees after receiving a recommendation from the commission and a report from the Secretary to the Department of Transport.¹⁴

The minister last made a determination of fees in the Melbourne controlled area in July 2019.¹⁵

¹³ Accident Towing Services Act 2007, section 212(1)(b). In addition, s. 212(2) specifies factors that the court must consider when determining what is a 'reasonable' charge for the provision of accident towing services.

¹⁴ Accident Towing Services Act 2007, section 212(1).

¹⁵ The Hon Jaala Pulford MP 2019, *Determination of charges for the towing and storage of accident-damaged motor vehicles under section 211*, Victoria Government Gazette, No. S 280 Monday 1 July 2019.

1.4. What is our regulatory role?

Our role is to make recommendations to the Minister for Roads on the regulated accident towing and storage fees for regular vehicles in the Melbourne controlled area only.

The Accident Towing Services Act 2007 obligates the commission to review accident towing charges every four years and make recommendations to the minister about:¹⁶

- whether previously determined accident towing or storage services fees remain appropriate
- if existing unregulated storage and salvage accident towing services should become regulated and, if so, what regulated fees should apply
- a figure for the productivity adjustment factor contained in the annual adjustment mechanism, which is applied to regulated fees every year (see section 5.1 for further explanation)
- any other matter relating to accident towing services, the storage of accident damaged vehicles or salvage that the minister specifies in writing.¹⁷

See appendix B for a full description of our role under the Accident Towing Services Act 2007.

The current regulated fees for accident towing and storage services continue to apply until the minister makes a new fee determination, which may occur in response to our recommendations.

The current regulated fees in the Melbourne controlled area are outlined in table 1.

The commission recommends that these fees continue to apply and should only be increased in line with current indexation arrangements.

¹⁶ Accident Towing Services Act 2007, section 212A(1).

¹⁷ The minister has not specified any additional matters for us to consider in our Accident towing fees review 2021.

Table 1 Regulated fees and charges for 2020–21

Fee or charge description	Charge (\$ incl. GST)
Towing fees	
Base fee (including first 8km travel by tow truck)	227.40
Additional fee per kilometre beyond 8km	3.60
After hours surcharge*	77.60
Storage fees (charge per day)	
Car – under cover	25.70
Car – in car yard	17.40
Motorcycle – under cover	8.50
Motorcycle – in locked yard	5.40

* Applies 5pm to 8am Monday to Friday, 5pm Friday to 8am Monday, and public holidays.

1.5. What was outside the scope of our review?

Our focus in this review was on accident towing, storage and salvage pricing matters within the Melbourne controlled area only.

The Accident Towing Services Act 2007 limited the scope of our review and therefore recommendations we could make to the minister. Out of scope activities included:

- fees for heavy vehicle and trade towing
- issues with licence boundaries
- the functioning of the allocation system for accident towing jobs
- accident towing, storage and salvage fees in areas outside the Melbourne controlled area.

There were also matters related to accident towing in the Melbourne controlled area that are beyond the scope of this review, such as secondary towing.

2. Our approach

We have used a benchmarking approach to assess accident towing fees, based on comparisons with fees charged in other Australian states and other related towing services.

We considered using a cost-of-service approach, in which the cost of providing accident towing services could be estimated from a mix of survey data and publicly available information. However, we found this less compelling than benchmarking to comparative towing services.

Our views have been informed by benchmarks, Department of Transport data and stakeholder feedback, which provided the basis for the draft recommendations of this report.

We largely excluded 2019–20 and 2020–21 data from our analysis due to the coronavirus pandemic.

This chapter outlines the basis on which we assess and make recommendations on accident towing fees (in chapters 3, 4, 5 and 6). It also sets out the main sources of information and views we have relied upon and our treatment of data for which the coronavirus pandemic is likely to have had an impact.

2.1. We used a benchmarking approach

Our legislated objective is to promote the safe, efficient and timely provision of accident towing services and other related services. We considered the following methodologies to identify the efficient prices for our Accident towing fees review 2021:

- a **cost-of-service approach**, where we review existing fees based on the estimated costs of efficiently providing that service
- a **benchmarking approach**, where we review existing fees based on comparisons to fees charged for similar services in other Australian states and for non-regulated towing services in Victoria.

Both of these approaches could be supplemented and cross-checked by data on service quality and any changes in the values of licence transfers (see appendix G).

We have also sought to identify any evidence that the current fee levels are not resulting in the safe, efficient and timely provision of accident towing services and other related services.

We last used a cost-of-service approach in our Accident towing fee review 2009 in which we issued an industry wide survey to collect information on tow truck operators' costs and revenues. Since then, we have used a benchmarking approach, for which we have engaged consultants to provide expert advice.

We received stakeholder support for each approach

Stakeholders provided us with different views on the most suitable approach for our review. In particular, the Insurance Council of Australia regarded benchmarking to be an appropriate approach for assessing towing fees.¹⁸

In contrast, the Victorian Automotive Chamber of Commerce (VACC) advocated a cost-of service approach:

VACC strongly argues that cost of service should be the basis for the fee review, as significant time has passed with benchmarking alone being relied upon. A benchmarking approach essentially operates to verify that historical cost-of-service approaches are still providing relevant prices. Over time, benchmarking will likely become less reliable as the original pricing basis becomes more out of date and less reflective of current industry cost structures.¹⁹

The VACC also contended a number of larger, well-established tow-truck operators would hold sufficient data to separate, or 'ring-fence', the costs of their regulated services from their unregulated services. This data, they argued, would have been available, if the commission had sought it from tow-truck operators and the VACC.²⁰

Advantages and disadvantages in using a benchmarking approach

In our view, a benchmarking approach is fit-for-purpose and a sound and reliable basis of assessment for our Accident towing fees review 2021. Using benchmarks reduces the need to rely on firm specific costs to set fees. It means we do not have to assess every costing line item for prudence and efficiency.

Importantly, regulated fees levels can be benchmarked against unregulated trade towing fees. This is significant because towing operators provide both accident and trade towing services using the same trucks, depots and storage yards. Further, trade towing services are provided in a contestable, competitive market with generally more sophisticated customers (insurers and government agencies). We consider fees in contestable markets will better reflect efficient costs.

¹⁸ Insurance Council of Australia, 'Essential Services Commission (ESC): Accident towing fees review 2021', 6 August 2021, p. 1

¹⁹ Victorian Automotive Chamber of Commerce, 'VACC's submission to the Essential Services Commission's accident towing fees review 2021', 6 August 2021, p. 10

²⁰ Victorian Automotive Chamber of Commerce, 'VACC's submission to the Essential Services Commission's accident towing fees review 2021 – Draft report', 11 February 2022, p. 6

Benchmarking does have its limitations. In particular, the benchmark fees we obtained, needed to be adjusted to reflect the differences between Australian states and the types of towing (for example, accident towing in comparison with various trade towing services).

This required making some assumptions about the extent of these differences. The need to make assumptions means the benchmarks did not strictly reflect the efficient costs for all accident towing jobs.

In our Accident towing fees review 2018, we indicated we would consider developing a cost methodology in consultation with industry and key stakeholders such as the VACC. While this work was stalled by the coronavirus pandemic, we are open to possibly using a cost-of-service approach in the future (see below). We would do this, if evidence emerges that benchmarking against other Australian states' regulated fees and competitive trade towing is no longer appropriate to set prices that promote safe, efficient and timely provision of accident towing services.

Coronavirus pandemic impact on approaches

While it may be appropriate to develop a cost-of-service approach in the future, it was not viable for our Accident towing fees review 2021. It is highly likely any data collected using such an approach would have been compromised by the impacts of the coronavirus pandemic.

As noted below, we observed the likely impacts of the coronavirus pandemic in much of the data we collected for our review. We were also unable to distinguish between the impacts of the coronavirus pandemic and any other underlying factors. Any recommendations that stemmed from such an approach would have been based on data that did not adequately reflect the prospects for the accident towing market.

2.2. We are open to developing a cost-of-service approach in the future

We may consider adopting a cost-of-service methodology in the future. If we did, it would likely be in addition to, rather than in place of benchmarking.

A cost-of-service approach has some drawbacks, which would need to be addressed, if we were to consider it in future. In particular, the data derived using such an approach, though timely and up-to-date, would reflect tow truck operators' average costs rather than the efficient costs of providing accident towing services. This would necessitate adjustments, which would likely be imprecise and may not ultimately provide any greater accuracy (than benchmarking).

Considerable work also would need to be undertaken to establish what costs should be included, how they are gathered and verified and how regulated costs are ring-fenced or allocated between regulated and unregulated services. The VACC's proposed cost-of-service methodology provides a good starting point for this work. We have also compiled a list of cost items that could be necessary in developing a suitable methodology (see appendix C). If as part of this work, a survey

was used to collect the data, then it would need to be based on a reasonable sample size that was representative of the different scale and types of accident towing operators.

We would most likely use our statutory information gathering powers to obtain this cost data. In deciding whether to pursue a cost-of-service approach, we would have regard to the trade-offs of administrative burden for the parties to gather, collate and provide the information and the possible regulatory outcomes that might result from the use of such information by the commission. These costs are particularly relevant for small and medium sized businesses. To this end, the beneficial outcomes derived from using the data need to outweigh the costs on industry of obtaining and providing the information.

The viability of any methodology developed, would need to be tested with all types of tow-truck operators and not just the larger, well-established operators which the VACC may identify as holding sufficient, ring-fenced data.

2.3. Benchmarks, Department of Transport data and stakeholder feedback have informed our analysis

We engaged Marsden Jacob Associates, an economics consultancy with expertise in the transport sector, to review the relevant benchmarks for Melbourne accident towing and storage fees.

They provided expert advice on the data sources used to assess past productivity changes in the accident towing industry. Marsden Jacob's report is published separately to this final report, on our website.

We have been provided data and information from the Department of Transport and stakeholders which have informed our views and provided the basis for the recommendations of this report.

We released a consultation paper on 6 July 2021 seeking stakeholders' views on the accident towing, storage and salvage pricing matters relevant for our Accident towing fees review 2021. We also released a draft report on 22 December 2021, seeking further stakeholder views on our draft recommendations and assessment. Given release of the draft report coincided with the summer holidays, we allowed an extended seven-and-a-half-week period for stakeholders to provide submissions.

We received seven submissions (available on our website) including:

- three submissions by members of the public
- two submissions from the VACC – the peak body that represents the interests of its members across multiple automotive sectors, including accident and trade towing
- two submissions from the Insurance Council of Australia – the peak body for the Australian general insurance industry.

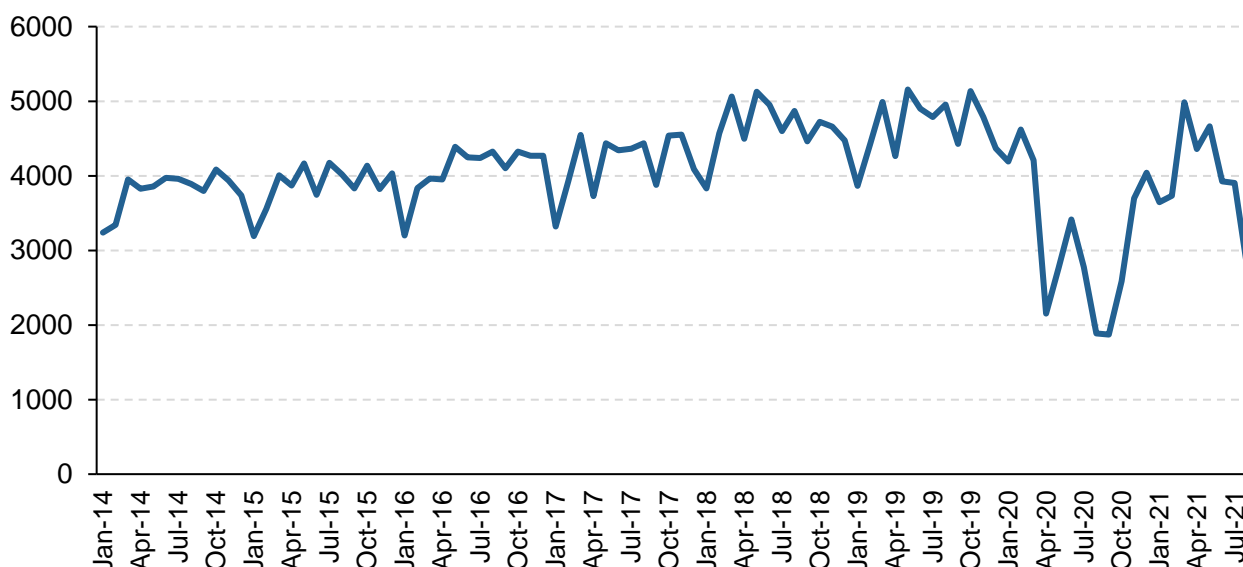
We held several meetings with the VACC and the Insurance Council of Australia, to discuss their submissions and views. We also heard from individual insurers at a meeting with the Insurance Council of Australia, who provided us with separate data and information.

2.4. Our analysis largely excludes 2019-20 and 2020-21 due to coronavirus pandemic

We have observed some significant changes during 2019–20 and 2020–21 in much of the data we received from the Department of Transport (as shown in figure 2). This is likely due, in large part, to the impacts of the coronavirus pandemic.

However, at the present time we are unable to ascertain whether these fluctuations are outliers from which the regular pattern of allocations will resume, or whether they are indication of a new long-term trend.

Figure 2 Monthly accident towing allocations 2014 – 2021



Source: Department of Transport

We therefore decided to largely exclude data from 2019–2020 and 2020–2021 from our analysis.²¹ We reported data from these years in our draft report, but it has not informed our conclusions or recommendations.

²¹ Note, we used published fees as at 1 October 2021 for our benchmarking analysis

3. Regulated accident towing fees

Regulated accident towing fees for the Melbourne controlled area are in line with regulated fees in Sydney, Queensland and Adelaide.

Regulated accident towing fees are higher than trade towing fees, which is considered appropriate given the expected additional costs required to provide accident towing services.

Based on our benchmarking analysis we conclude the current regulated accident towing fees for the Melbourne controlled area are appropriate.

We are required under section 212A(1)(a) of the Accident Towing Services Act 2007 to recommend to the Minister for Roads whether any amount the minister has previously determined for accident towing fees is appropriate.

Recommendation 1: The current regulated accident towing fees are appropriate and should only be increased in line with current indexation arrangements (Melbourne Transport consumer price index minus the productivity adjustment factor).

In this chapter, we outline the basis for our assessment of regulated accident towing fees. Our recommendation is supported by:

- regulated fees for accident towing are broadly consistent with regulated fees in other Australian states, when we adjust for different regulatory settings
- regulated fees for accident towing appear broadly consistent with fees for unregulated benchmarks, namely trade towing, when we consider the additional cost required for an accident towing job compared to a trade towing job.

3.1. Stakeholders have mixed views on current accident towing fees

The Insurance Council of Australia stated that accident towing fees ‘...remain appropriate and do not need to be increased.’²²

²² Insurance Council of Australia, ‘Essential Services Commission (ESC): Accident towing fees review 2021’, 6 August 2021, p. 1

In contrast, the Victorian Automotive Chamber of Commerce (VACC) was of the opposite view, noting current accident towing fees are not appropriate for maintaining a safe, efficient and timely accident towing service.²³

As a result, it proposed fees be set for a shorter timeframe (of 12–18 months):

Given the uncertainty around the industry, and the lack of consultation, the ESC should issue an interim fee recommendation.²⁴

We cannot make an interim fee recommendation, as we are not able to modify the parameters of our reviews under section 212A of the Accident Towing Services Act 2007.²⁵

We note the VACC's concerns regarding consultation however, we received their submissions and met with them several times (as outlined in section 2.3) which we consider was appropriate to inform our review.²⁶ We have carefully considered and responded to the VACC's views, even if we have not necessarily agreed with them.

One stakeholder queried whether the base fee and after-hour surcharges should be combined into one fee. In their view, given Melbourne (as with many metropolitan areas) is a 24-hour city a separate surcharge on after-hours should no longer be applicable. They suggested adjusting the base fee according to the percentage of accident tows that occur at night or after-hours accidents.²⁷

However, this could reduce the fees received by operators (and thus potentially affect driver remuneration) who provide services outside normal hours and thus could affect the timeliness of services during those periods. We have not recommended any change to the current after-hours surcharge. Nevertheless, our calculation of a weighted average fee for a 'standard tow' is based on the percentage of accident tows that occur during and after hours.

²³ Victorian Automotive Chamber of Commerce, 'VACC's submission to the Essential Services Commission's accident towing fees review 2021', 6 August 2021, p. 10

²⁴ Victorian Automotive Chamber of Commerce, 'VACC's submission to the Essential Services Commission's accident towing fees review 2021 – Draft report', 11 February 2022, pp.5-6

²⁵ Under section 212B of the Accident Towing Services Act 2007, the Minister for Roads can direct the commission to undertake an additional review. As part of such a direction, the minister could specify the timeframe of a recommendation that is to be made.

²⁶ All our interaction with stakeholders has been in accordance with our charter of consultation and regulatory practice. See Essential Services Commission, Stakeholder engagement framework: Charter of consultation and regulatory practice, 2018, available at: <https://www.esc.vic.gov.au/about-us/how-we-regulate/stakeholder-engagement-framework>

²⁷ Anonymous 2, submission received 7 July 2021

3. Regulated accident towing fees

3.2. We considered a range of jurisdictions and trade towing benchmarks

For accident towing, we considered a range of benchmarks including:

- Regulated fees in three other jurisdictions: New South Wales (Sydney), Queensland and South Australia (Adelaide).²⁸
- Trade towing services: This includes breakdown tows, abandoned or derelict vehicle tows and clearway tows.

In the case of regulated fees in other jurisdictions, Marsden Jacob estimated a standard fee for each state, as the stated fees are not directly comparable. For example, regulated towing fees have a base fee for a set number of kilometres and an additional surcharge for each kilometre beyond the base level. The standard fee for each state was then estimated based on a standard travel distance.²⁹

In the case of abandoned or derelict vehicles, the towing fees are not always published by councils and were estimated, where relevant, based on a vehicle release, less an estimated storage fee, less an estimated administration fee. A similar approach was applied to clearway fees where relevant.

Further information on the benchmarking analysis in this chapter is included in appendix D.

3.3. Benchmarks indicate current accident towing fees are appropriate

We examined a range of towing benchmarks that indicated regulated accident towing fees are appropriate. In particular, the current regulated fees appear to provide adequate compensation for the additional work required for accident towing jobs, when compared with trade towing jobs. Therefore, we conclude the current regulated accident towing fees should enable accident towing services to be provided in a safe, efficient and timely manner.

²⁸ Maximum fees are regulated for most areas of Queensland, including Brisbane.

²⁹ The relevant assumptions used to calculate a 'standard' accident tow are:

- 28 kilometres total travel distance, with 19 kilometres as the total distance of the tow
- the average speed of an accident tow truck in the Melbourne controlled area is 40 kilometres per hour
- an average tow time of 76.6 minutes
- the exclusion of storage fees
- the exclusion of salvage fees
- 46 per cent of accidents occur during business hours (8am to 5pm) and 54 per cent after hours.

Regulated accident towing fees across Australia are broadly consistent with fees in the Melbourne controlled area

Estimated regulated accident towing fees in Melbourne appear to be relatively consistent with those charged in Sydney and Queensland once adjustments are made to account for different regulatory settings between jurisdictions (see table 2).

Sydney's fees include a time allowance for salvage operations which is not included in Melbourne's fees. In addition, Sydney's fees have not been adjusted for comparative purposes to reflect the fact that Melbourne tow truck operators have a relatively higher degree of certainty in relation to accident towing jobs through the allocation scheme.

It is more difficult to make comparisons with Queensland's fees as they cover both regional and metropolitan areas for that state. Melbourne's fees only cover a metropolitan area.

Table 2 Estimated standard accident towing fees by jurisdiction 2021-22

	Melbourne controlled area	Sydney	Adelaide	Queensland
Business hours	\$299.40	\$344.30	\$447.00	\$303.00
After hours	\$377.00	\$413.16	\$543.00	\$303.00
Weighted average	\$341.29	\$381.47	\$496.36	\$303.00

Source: Marsden Jacob 2021, *Accident towing and storage fees in the Melbourne Controlled Area*, November, p.17.

Accident towing fees are higher than trade towing fees

A potential limitation of the state regulated benchmarks is that they may be less reflective of the underlying efficient costs compared to fees set in a contestable market.

We have therefore compared accident towing fees with trade towing fees which are often set via competitive tender processes. Trade towing services are unregulated in Victoria.

Table 3 shows Marsden Jacob's estimated standard fees for both accident towing and trade towing jobs in the Melbourne controlled area. Breakdown towing fees are much less than the standard fees for an accident tow. Clearway towing fees and the fees for abandoned or derelict vehicles are higher than the breakdown towing, but less than accident towing fees.

Clearway towing fees across Melbourne councils are estimated to be in the range of \$200 to \$300 per tow, compared to the estimated average of \$341 for accident tows in the Melbourne control area. We note a significant difference between the lower-bound and upper-bound for clearway towing fees which is likely due to the administration component of these fees. Where we were unable to verify, we had to estimate this administration component, which may account for at least some (but unlikely all) of the differences in fees.

3. Regulated accident towing fees

Abandoned or derelict vehicle fees are less time sensitive than clearway towing but also provide a useful benchmark. These fees are on average, below the current accident towing fees for the Melbourne control area. As with clearway towing, comparisons against these fees are somewhat limited by our estimates of the administration component.

Table 3 Standard tow fees in the Melbourne controlled area 2021–2022

Type of towing service	Standard towing fees	Range
Accident	\$341	
Breakdown (online quotes)	\$154	\$135 - \$165
Abandoned or derelict vehicles		
Average	\$273	\$140 - \$383
Inner Melbourne	\$291	\$260 - \$344
Outer Melbourne	\$265	\$140 - \$408
Clearway		
Average		\$200 - \$300
Councils adopting Department of Transport fees		\$131 - \$231
Councils adopting own fee		\$218 - \$318

Source. Marsden Jacob 2021, *Accident towing and storage fees in the Melbourne Controlled Area*, November, p.25
See also Table 12 and Table 13 in Appendix D.

The fees for all types of trade towing are lower than accident towing fees. This is, in our view, to be expected as operators likely incur an additional cost in undertaking accident towing jobs compared to trade towing jobs.³⁰

Marsden Jacob estimated a benchmark proxy for the additional cost required to perform accident towing jobs by calculating the difference between accident towing fees and the (regulated) recovery fees for stolen vehicles in Sydney. For comparison, they also estimated the difference between accident towing fees and the (unregulated) clearway and abandoned and derelict vehicles

³⁰ Towing operators are likely to incur additional cost due to the extra time it may take to complete accident towing jobs compared with trade towing jobs. This extra time may include:

- waiting at an accident site (for example, waiting for police to clear the site and declare it safe to move a vehicle),
- photographing and documenting an accident (if necessary)
- working at the site (as accident towing operators are responsible for clearing the site of debris).

in Melbourne. An adjustment was also made to account for the different working and waiting in Sydney compared to Melbourne.³¹

Using this approach, table 4 shows the additional cost required for accident towing in comparison to each type of towing. Marsden Jacob estimated the additional cost to be 22 per cent for Sydney benchmark fees, compared with 12 per cent to 41 per cent for Melbourne clearway and abandoned and derelict vehicle tows. This suggests that it is appropriate for current accident towing fees to be higher than trade towing fees in Melbourne.

Table 4 Additional cost required to perform accident towing jobs

Benchmark comparison	Additional cost as percentage of accident tow fees
Sydney accident towing fees compared to Sydney recovery towing fees (for stolen vehicles)	22%
Melbourne accident towing fees compared to Melbourne average benchmark abandoned (and derelict) vehicle towing fees	20%
Melbourne accident towing fees compared to Melbourne <u>lower</u> -bound benchmark clearway vehicle towing fees	41%
Melbourne accident towing fees compared to <u>upper</u> -bound benchmark clearway vehicle towing fees	12%

Source: Essential Services Commission analysis of data in:

- IPART 2014, *Review of tow truck fees and licensing in NSW: Transport – Final Report*, December
- Marsden Jacob 2021, *Accident towing fees: benchmarking and productivity review*, November

Trade towing benchmarks are appropriate despite some stakeholder disagreement

The VACC did not agree with our use of trade towing benchmarks, arguing trade towing is ‘qualitatively different’ to accident towing and therefore not comparable. They also noted cross-subsidies between trade towing and accident towing are not fair and should be avoided.³²

In our view, trade towing benchmarks provide an appropriate basis for comparison with accident towing fees. While trade towing and accident towing are different services, they are not so

³¹ Sydney’s time to perform an accident are sourced from IPART 2014, *Review of tow truck fees and licensing in NSW: Transport – Final Report*, December, p. 69. Melbourne’s time for working and waiting are sourced from the Marsden Jacob benchmarking analysis. The benchmarks are also based on the assumptions used to calculate a ‘standard’ accident tow that apply in table 2 and table 3.

³² Victorian Automotive Chamber of Commerce, ‘VACC’s submission to the Essential Services Commission’s accident towing fees review 2021 – Draft report’, 11 February 2022, pp.6-7

dissimilar that they cannot be compared, particularly given operators use many of the same inputs, such as tow trucks, depots and storage yards, in providing each service.

We do not refer to trade towing as a basis for including cross-subsidies in accident towing fees. If any cross-subsidies could be readily identified, then we would recommend they be excluded. We refer to trade towing as basis for comparison, which is appropriate, given as noted above, these services are provided in a contestable market which will better reflect efficient costs.

Despite their opposition to trade towing benchmarks, the VACC suggested we consider police impound towing costs, which reportedly range from \$900 to \$1200 per tow.³³ We were not able to access confidential data on these costs for this review. However, we will seek to obtain this data for future reviews. As with clearway towing, we would seek to identify administration and any other component (such as the fine itself) that might account for some of the differences with accident towing fees.

Accident towing fees should adjust for fuel price impacts (via annual adjustment mechanism)

We note fuel prices have increased recently due to the conflict in Europe. It is likely these increases will be reflected in the Melbourne Transport consumer price index – the principal component of the annual adjustment mechanism that is applied to accident towing fees each year. Automotive fuel contributes 30 per cent to this index.³⁴

The Australian Bureau of Statistics will release the applicable (March quarter) Melbourne Transport consumer price index after we are required to provide our recommendations to the Minister for Roads. However, any increase in the index will apply to accident towing fees via the annual adjustment mechanism. Therefore, towing operators should be compensated through increased towing fees on account of higher fuel prices.

3.4. We recommend regulated accident towing fees not be changed

Based on our benchmarking analysis and a lack of evidence suggesting otherwise, we conclude current fees enable towing services to be delivered in a safe, efficient or timely manner in the

³³ Ibid

³⁴ See Australian Bureau of Statistics, 'Annual weight update of the CPI and Living Cost Indexes', 17 December 2021, Table 2.

Melbourne controlled area.³⁵ We therefore recommend current accident towing fees are not changed beyond the annual adjustment mechanism.

³⁵ There appears to have been some improvement in safety and timeliness, with service quality measures in Appendix G indicating a reduction in both the time to complete accident tows and the number of complaints. However, the data used to compile these measures is not reported in a consistent and complete way. As such, we do not consider this to be sufficient evidence to draw firm conclusions.

3. Regulated accident towing fees

4. Regulated storage fees

Regulated storage fees for the Melbourne controlled area are similar to regulated fees in Sydney, Queensland and Adelaide.

Regulated storage fees are consistent with benchmarks based on land rental values and storage utilisation.

Regulated storage fees are in line with storage fees associated with trade towing and impounding of vehicles.

Based on our benchmarking analysis we conclude regulated storage fees for the Melbourne controlled area are appropriate.

We are required under section 212A(1)(a) of the Accident Towing Services Act 2007 to recommend to the Minister for Roads whether any amount the minister has previously determined for storage fees is appropriate.

Recommendation 2: The current regulated storage fees are appropriate and will be increased in line with current indexation arrangements (Melbourne Transport consumer price index minus the productivity adjustment factor).

In this chapter, we set out our assessment of the regulated storage fees associated with accident towing. Our recommendation is supported by the following:

- regulated storage fees are consistent with, or slightly higher than, regulated storage fees in other jurisdictions
- a benchmark fee based on land rental values and utilisation rates is similar to current regulated storage fees
- regulated storage fees are consistent with unregulated storage fees associated with trade towing and impounding of vehicles.

4.1. Stakeholders have a range of views on appropriate storage fees

In the Insurance Council of Australia's (ICA) view, storage fees are appropriate and do not need to be increased. However, it would like additional requirements to address any inappropriate charging for under cover storage:

While a separate rate for under cover storage is appropriate, the ICA proposes that, to apply this higher under cover rate, holding yards and vehicle storage operators should be required

to provide some evidence or proof that the vehicle has been stored under cover. This evidence could be provided simply and easily in the form of photos.³⁶

The Insurance Council of Australia also advocates minimum service standards for vehicle storage. This would include introducing a requirement for storage operators to inform owners of the whereabouts of their vehicles. In their view, this would address potential time lags and consequent storage fees that owners may incur at present, while they attempt to trace the location of their vehicles.³⁷

The Insurance Council of Australia suggests we use their proposals as the basis for an additional recommendation to the Minister for Roads.³⁸ However, this is beyond the scope of our review and we cannot modify the parameters of our reviews under section 212A of the Accident Towing Services Act 2007. Instead, the Insurance Council of Australia should consider raising these issues directly with the minister or the Department of Transport.

One stakeholder felt accident towing fees were too high for those who only have third party insurance. If such people were in an accident and hospitalised, then in this stakeholder's view, the associated storage fees could be significant by the time they had organised alternative locations for their vehicles.³⁹ It is unclear how prevalent this issue is, but in any event, addressing it is out of scope for this review.

The Victorian Automotive Chamber of Commerce (VACC) did not regard current storage fees as being appropriate. It predicted that if a cost-of-service approach were used, it would likely show that accident towing and storage fees should be increased.⁴⁰

4.2. Our benchmarks indicate current storage fees are appropriate

The benchmarks we have examined suggest regulated storage fees for the Melbourne controlled area are appropriate. These benchmarks include regulated storage fees in other jurisdictions, unregulated trade towing storage fees and land rental values.

Further information on the benchmarking analysis in this chapter is included in appendix E.

³⁶ Insurance Council of Australia, 'Essential Services Commission (ESC): Accident towing fees review 2021', 6 August 2021, p. 1

³⁷ Ibid, pp.1-2

³⁸ Insurance Council of Australia, 'Essential Services Commission (ESC): Accident towing fees review 2021', 11 February 2021

³⁹ Paul Gioia, submission received 7 July 2021

⁴⁰ Victorian Automotive Chamber of Commerce, 'VACC's submission to the Essential Services Commission's accident towing fees review 2021', 6 August 2021, p.13

Regulated storage fees across Australia are broadly consistent with fees in the Melbourne controlled area

Regulated storage fees in the Melbourne controlled area are in line with regulated storage fees in other jurisdictions. As shown in table 5, Melbourne's storage fees for 2021-22 are lower than Sydney and Queensland but similar to Adelaide. The difference in Melbourne's and Sydney's fees is likely due to higher commercial warehouse rental rates for land in Sydney.⁴¹

Table 5 Regulated storage fees per day by jurisdiction 2021-22

Storage fees	Melbourne controlled area	Sydney	Adelaide	Queensland
Car – under cover	\$25.70	\$30.80	\$26.00	\$26.45
Car – in locked yard	\$17.40	\$30.80	\$15.00	\$26.45
Motorcycle – under cover	\$8.50	\$16.50	Not applicable	Not applicable
Motorcycle – in locked yard	\$5.40	\$16.50	Not applicable	Not applicable

Source: Adapted from Table 3 and Table 9 in Marsden Jacob 2021, *Accident towing and storage fees in the Melbourne Controlled Area*, November, pp.13-15, p.27

Regulated storage fees accord with estimated rental values and utilisation rates

Regulated storage fees in the Melbourne controlled area are similar to benchmarks based on land rental values and storage utilisation.

Marsden Jacob derived the benchmarks by converting land rental values (for land located less than and greater than 10km from the Melbourne CBD) into an estimated storage fee⁴² at a 40 per cent and 45 per cent level of storage utilisation.⁴³ As shown in table 6, benchmarks of between \$17.69 and \$20.00 were derived for each level of storage utilisation. These are similar to the current regulated storage fees which vary between \$17.40 and \$25.70.

⁴¹ Marsden Jacob analysed the rental values of commercial properties in both Sydney and Melbourne in areas which are known to contain towing depots or holding yards. Rental values in Sydney are substantially higher than Melbourne for an equivalent area.

⁴² Land rental values were converted to storage fees using the same proportions as applied by the Independent Pricing and Regulatory Tribunal (IPART) of NSW in its 2014 review of tow truck fees and licensing. See IPART 2014, *Review of tow truck fees and licensing in NSW: Transport – Final Report*, December, p.96

⁴³ Ibid. p.94

Although not specified in the IPART report, we interpret storage utilisation to be the level which a storage facility is able to hold and store vehicles.

Marsden Jacob chose a 40 per cent and 45 per cent level of storage utilisation, as IPART considered these levels to be reasonable for inner and outer metropolitan Sydney (as they were levels achieved by the more efficient storage providers).

4. Regulated storage fees

Table 6 Benchmark storage fees (per day) by location and storage utilisation (as at 1 October 2021)

	40% utilisation	45% utilisation
10 km or less from CBD	\$23.73	\$20.99
Greater than 10 km from CBD	\$17.77	\$15.72
Total average	\$20.00	\$17.69

Source: Marsden Jacob 2021, *Accident towing and storage fees in the Melbourne Controlled Area*, November, p.29

Benchmarks show similarities and differences with trade towing storage fees

Altogether, we found less alignment between regulated storage fees and trade towing benchmarks. As shown in table 7, the average and outer Melbourne storage fees charged by local councils for abandoned (or derelict) vehicles are much higher than the current regulated accident towing storage fees of \$17.40 (in a locked yard). However, it should be noted these are not necessarily the fees received by storage yards as they include any additional administration charges imposed by the relevant council. However, the fees charged by local councils for clearway tows are very similar to regulated storage fees.

We attribute the higher benchmarks for abandoned (or derelict) vehicles largely to much higher storage fees charged by councils in outer Melbourne. Whereas inner Melbourne council fees are lower and at similar levels to regulated storage fees. We regard this result as counterintuitive, as land rental rates in outer Melbourne could normally be expected to be lower than for inner Melbourne.

Despite some mixed results, we consider regulated storage fees to broadly correspond with trade towing storage fee rates.

Table 7 Daily trade towing storage fees 2021–2022

Daily storage fees (vehicle)	
Abandoned or derelict vehicles	
Average (all)	\$28.68
Inner Melbourne	\$16.12
Outer Melbourne	\$37.64
Clearway towing	
Average (all)	\$16.92
Councils adopting Department of Transport fee	\$15.20
Councils adopting own fee	\$17.35

Source: Marsden Jacob 2021 *Accident towing and storage fees in the Melbourne Controlled Area*, November, p.32

4.3. We recommend regulated storage fees do not change

Based on our benchmarking analysis, we conclude regulated storage fees for the Melbourne controlled area are appropriate. We therefore recommend current storage fees are not changed beyond the annual adjustment mechanism.

5. Productivity adjustment

Each year, regulated accident towing and storage fees in the Melbourne controlled area are amended by an 'annual adjustment mechanism', based on changes in Melbourne Transport consumer price index (CPI) minus a productivity adjustment factor of 0.5 per cent.

The purpose of the productivity adjustment factor is to provide stronger incentives for tow truck operators to introduce efficiencies over time. We are required to recommend a value if we find 0.5 per cent is not appropriate.

We note the legislated productivity adjustment factor of 0.5 per cent falls within the range of many of the measures we examined.

We did not find sufficient evidence to recommend a different productivity adjustment factor.

We are required under section 212A(1)(c) of the Accident Towing Services Act 2007 to make a recommendation to the Minister for Roads on a figure for the productivity adjustment factor to apply to fees for regulated services. Section 212H of the Act specifies that the productivity adjustment factor is 0.5 per cent unless we recommend a different amount. We have not previously recommended a different amount.

Recommendation 3: The default productivity adjustment factor of 0.5 per cent should be applied.

This chapter outlines the purpose of the productivity adjustment factor, summarises stakeholder views, explores how productivity has been changing in the accident towing industry in Melbourne and explains the reasoning for our recommendation.

5.1. Regulated fees are adjusted each year by a set formula

Each year, regulated accident towing and storage fees in the Melbourne controlled area are amended by an 'annual adjustment mechanism' to account for changes in costs and productivity in the sector. The formula for this adjustment is set out in section 212H of the Accident Towing Services Act 2007:

$$A \times \left(\frac{B}{C} - D \right)$$

where –

A is the regulated fee for the previous year,

B is the most recent March quarter value of Melbourne Transport consumer price index (or CPI),⁴⁴

C is the previous year March quarter value of Melbourne Transport consumer price index,

D is the productivity adjustment factor, set at 0.005 (unless we recommend a different value).

What we are required to do

Our role is to determine whether a 0.005 (0.5 per cent) productivity adjustment factor is appropriate. If we find that it is not appropriate, we are required to make a recommendation on what value the productivity adjustment factor should be.⁴⁵

How the formula for adjusting regulated fees works

The formula for adjusting regulated fees is a form of a 'CPI minus X' price regulation. It is intended to increase fees in line with changes to costs, while providing an incentive for businesses to continue to improve their efficiency.

For the Melbourne accident towing industry, the CPI measure is the Melbourne Transport consumer price index. This means accident towing and storage fees will increase in response to transport related price rises in Melbourne, such as fuel and vehicle maintenance.

The purpose of the productivity adjustment factor is to provide stronger incentives for tow truck operators to improve. For a 0.5 per cent productivity adjustment factor, tow truck operators must improve their productivity by at least 0.5 per cent to recover the price increases associated with accident towing.

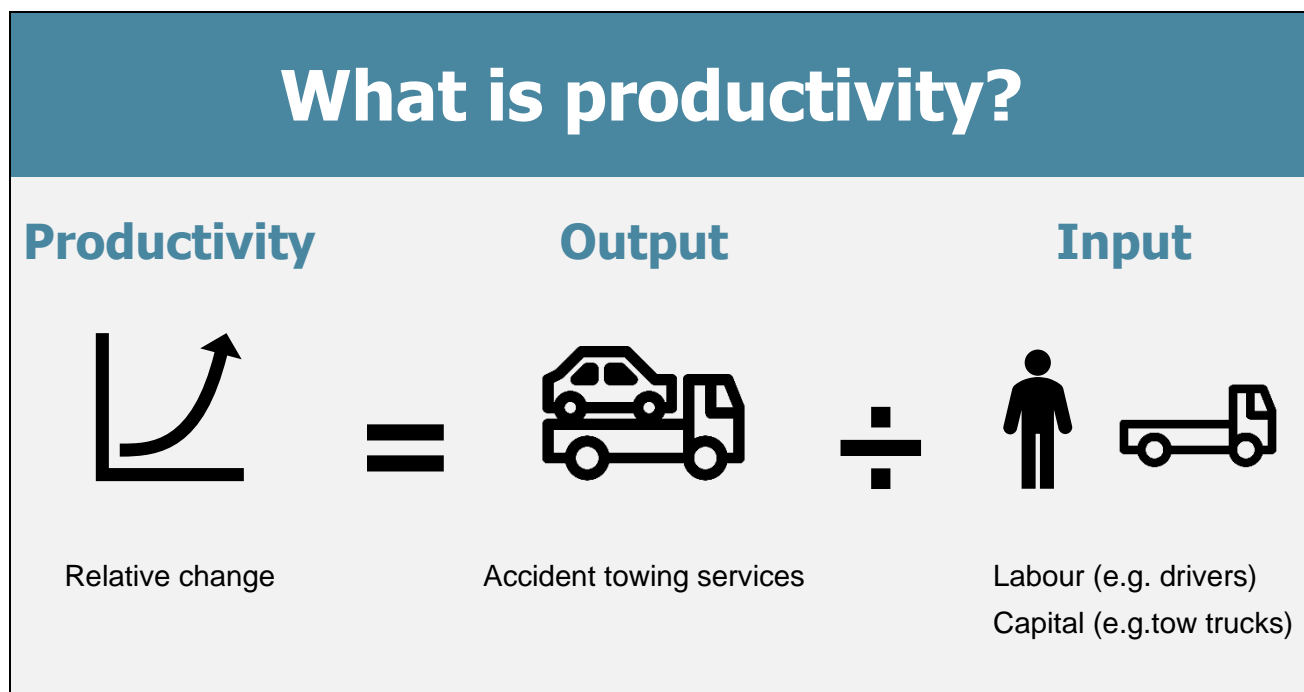
What it means to improve productivity

Productivity growth measures how inputs change relative to outputs (as represented in figure 3). For example, this could mean how the cost of tow trucks (a capital input) and drivers (a labour input) are changing relative to the amount of revenue tow truck operators receive from accident allocations (an output). In this case, productivity would improve when the cost of tow truck operators' inputs decrease, while increasing or maintaining the same amount of revenue.

⁴⁴ The Melbourne Transport consumer price index is available at Australian Bureau of Statistics, 6401.0 – Consumer Price Index, Australia, Table 9.

⁴⁵ Under section 212H of the Accident Towing Services Act 2007, the productivity adjustment factor is 0.5 per cent unless we recommend a different amount. We have not previously recommended a different amount.

Figure 3 Productivity illustration



In practical terms, tow truck operators may improve their productivity by:

- consolidating their operations into fewer depots
- increasing the ratio of accident towing licences to tow trucks, so to service a greater number of accident allocations with each tow truck
- using existing resources to engage in other services, such as trade towing.

Accident towing and storage fees cannot decrease

The annual adjustment mechanism includes a condition that the formula does not apply if, in a given year, it results in a negative value.⁴⁶ Instead, accident towing and storage fees remain unchanged for the year in question. We refer to this as the ‘zero-price floor’ on price changes.

There is also no ‘catch-up’ condition included in the formula. This means accident towing and storage fees increase again (after a year in which they were unchanged), once the formula results in a positive value. They do not pause, to allow prices to reach parity or to ‘catch-up’.

Table 8 compares the change in the formula to the actual increase in regulated fees. It shows the zero-price floor stopped fees from falling on three occasions between 2014–15 and 2020–21. This and the lack of a ‘catch-up’ condition means the growth in accident towing and storage fees outpaced the growth in costs minus productivity over this period. As a result, tow truck operators

⁴⁶ As per Section 212H(3) of the Accident Towing Services Act

have been able to retain the benefits of improving productivity instead of sharing those gains with consumers (through lower prices).

Table 8 Annual changes in Melbourne Transport consumer price index minus productivity and regulated fees, 2014–15 to 2020–21

	2014–15	2015–16	2016–17	2017–18	2018–19	2019–20	2020–21
Melbourne Transport CPI minus productivity	2.40%	-7.10%	-1.10%	4.30%	2.40%	-0.70%	2.70%
Increase in fees	2.40%	0.00%	0.00%	4.30%	2.40%	0.00%	2.70%

CPI means consumer price index.

This only includes fee increases related to the annual adjustment mechanism. In 2018–19, regulated storage fees increased by 47 per cent, following our recommendation in the Accident towing fees review 2018: Final report, that storage fees be increased.

Using the base fee as an example, table 9 shows how much tow truck operators have retained from the zero-price floor. It compares the base fee in place for a given year, with the base fee that would have prevailed had they been adjusted solely by the consumer price index. That is, for all values of the consumer price index, positive or negative.

There was a large negative consumer price index value in 2015–16, which resulted in a base fee that was over \$13.50 more than it would have been, were it not for the zero-price floor. This difference remained in 2020–21, even with some increases in the consumer price index, because the annual adjustment mechanism does not include a ‘catch-up’ condition to account for previous decreases. Should the consumer price index be positive from here on, we estimate the difference between regulated fees and what fees would have been, will continue until 2033–34.

Table 9 Comparison of base fees due to zero-price floor, 2015–16 to 2020–21

	2015–16	2016–17	2017–18	2018–19	2019–20	2020–21
Base fee	\$207.30	\$207.30	\$216.20	\$221.40	\$221.40	\$227.40
CPI adjusted fee	\$193.60	\$192.40	\$201.60	\$207.50	\$207.10	\$213.80
Difference	\$13.70	\$14.90	\$14.60	\$13.90	\$14.30	\$13.60

CPI means consumer price index.

Base fee adjusted by the Melbourne Transport consumer price index minus the productivity factor. No adjustment was made in years in which the annual adjustment mechanism resulted in a negative value.

The ‘CPI adjusted fee’ is the base fee adjusted by the Melbourne Transport consumer price index regardless of whether the value is positive or negative.

All values have been rounded to the nearest 10 cents, as per section 212H(2) of the Accident Towing Services Act 2007.

5. Productivity adjustment

5.2. Stakeholder views on the productivity adjustment factor

Three stakeholders discussed issues related to the productivity adjustment factor.

The Victorian Automotive Chamber of Commerce argues no productivity adjustment factor be applied

The Victorian Automotive Chamber of Commerce (VACC) contends a productivity adjustment factor is not appropriate. In their view, the accident towing industry cannot achieve productivity improvements because:

- the number of accident allocations is declining and is not in the control of tow truck operators
- regulatory barriers prevent tow truck operators from making capital productivity improvements
- rising congestion is increasing the cost of each tow
- operational and compliance costs are increasing.⁴⁷

For these reasons, the VACC does not consider a productivity adjustment to be justified, noting the Independent Pricing and Regulatory Tribunal (IPART) of NSW in its 2014 review of tow truck fees and licensing⁴⁸ considered the consumer price index alone to be the best approach.⁴⁹ With the consumer price index IPART referred to, being the 'headline' consumer price index (All groups Australia), rather than Melbourne Transport consumer price index (or Sydney Transport consumer price index, which could be an equivalent measure for NSW).

We cannot modify the parameters of our reviews to consider whether the productivity adjustment factor should be applied. We are required under section 212H (1) of the Accident Towing Services Act 2007 to make a recommendation on the value of the productivity adjustment factor (which as noted above, is set at 0.005 unless we recommend a different value). However, we could consider recommending the value be set to zero, which would have the same effect as the VACC's contention.

A zero productivity factor is different from a previous VACC submission (to our consultation paper) for a negative productivity factor value. This was based on recent changes in the Australian Bureau of Statistics' multifactor productivity measure for the transport, postal and warehousing division.

⁴⁷ Victorian Automotive Chamber of Commerce 2021, *VACC's submission to the Essential Services Commission's accident towing fees review 2021*, August, p 11-12.

Victorian Automotive Chamber of Commerce, 'VACC's submission to the Essential Services Commission's accident towing fees review 2021 – Draft report', 11 February 2022, pp.7-8

⁴⁸ See IPART 2014, *Review of tow truck fees and licensing in NSW: Transport – Final Report*, December

⁴⁹ Victorian Automotive Chamber of Commerce, 'VACC's submission to the Essential Services Commission's accident towing fees review 2021 – Draft report', 11 February 2022, pp.7-8

This showed an average annual decrease in productivity of 1.7 per cent between 2017–18 and 2019–20.⁵⁰

On this basis, the VACC contended the productivity adjustment factor be negative 0.5 per cent. In effect, the VACC argued the productivity adjustment factor should increase regulated fees above the rise in the Melbourne Transport consumer price index each year by 0.5 per cent.⁵¹

Other stakeholders

While the other stakeholders do not directly refer to productivity adjustment, they include general comments on the level of fees and costs:

- In the Insurance Council of Australia’s view, the current level of accident towing and storage fees are appropriate.⁵²
- One stakeholder notes that fees appear to be increasing faster than costs.⁵³

5.3. Productivity benchmarks show productivity has increased

Further information on the productivity analysis in this chapter is included in appendix F.

How we measured productivity

Ideally, the measures we use to inform our productivity adjustment factor recommendation would include all inputs and outputs that apply exactly to the accident towing industry. However, a ‘perfect’ set of information, that is wholly representative of the accident towing industry is not available.

Given the available data, we considered the following possible approaches to measure productivity in the accident towing industry:

- **multifactor productivity** and partial productivity measures published by the Australian Bureau of Statistics
- **partial productivity** measures derived from data relevant to the accident towing industry.

⁵⁰ Victorian Automotive Chamber of Commerce 2021, *VACC’s submission to the Essential Services Commission’s accident towing fees review 2021*, August, p.12.

⁵¹ If the productivity adjustment factor were to be –0.5 as the VACC recommends, then it would result in a formula calculation of CPI **minus** –0.5 per cent, which is equivalent to CPI **plus** 0.5 per cent.

⁵² Insurance Council of Australia, ‘Essential Services Commission (ESC): Accident towing fees review 2021’, 6 August 2021, p. 1

⁵³ Anonymous 2, submission received 7 July 2021

These approaches may show what the historical growth in various productivity measures has been and, in doing so, provide an indication of what productivity may be in the future.

Table 10 shows a range of results for the different productivity measures that we considered. Each measure has advantages and disadvantages. While one measure alone does not capture the Melbourne accident towing industry exactly, together they may provide a better view on how productivity growth has changed in the accident towing industry.

Table 10 Productivity growth, 2008–09 to 2018–19

Measure	Time periods considered	Productivity growth per year (%)
Multifactor productivity using ABS transport, postal and warehousing sector	3, 5 and 10 years	-0.7 to 0.3
Labour productivity growth using ABS transport, postal and warehousing sector	3, 5 and 10 years	-0.6 to 1.3
Capital productivity growth using ABS transport, postal and warehousing sector	3, 5 and 10 years	-1.3 to -0.6
Industry measures – tow truck utilisation and number of tows per licence	2, 3 and 5 years	4.2 to 7.3

ABS means Australian Bureau of Statistics

See appendix F for more detail on these measures. Growth rates are based on a compound annual growth rate.

2-year period is 2016–17 to 2018–19

3-year period is 2015–16 to 2018–19

5-year period is 2013–14 to 2018–19

10-year period is 2008–09 to 2018–19

Australia Bureau of Statistics productivity measures are indicative

Marsden Jacob considered how data published by the Australian Bureau of Statistics for the transport, postal and warehousing division could be used to measure productivity growth in the accident towing industry. This involved analysing multifactor and partial productivity measures over three-year, five-year and ten-year time periods.

The multifactor productivity measures capture all relevant input and outputs for the transport, postal and warehousing sector. For all time periods, this produced a range of results from -0.7 to 0.3 per cent. This differs from the VACC’s submission (-1.7 per cent) as we have examined short, medium, and long-term time periods between 2008–09 and 2018–19 instead of an annual increase between 2017–18 and 2019–20.

The partial productivity measures capture either labour productivity or capital productivity separately, providing an indication of what inputs may be driving overall productivity growth. For all time periods, labour productivity growth ranges from -0.6 per cent to 1.3 per cent and capital productivity growth ranges from -1.3 per cent to -0.6 per cent.

While the Australian Bureau of Statistics data provides a useful indication of what productivity growth has been in the transport sector more broadly, it has some limitations for our purposes. First, the measures are Australia-wide and may not be capturing what is occurring in Melbourne. Second, productivity trends in the transport, postal and warehousing industry may not be the same as for the accident towing industry.

Melbourne accident towing data shows productivity has increased

To provide further insight into productivity growth in the accident towing industry in Melbourne, Marsden Jacob identified three partial measures of productivity that could be calculated from Department of Transport data originally sourced from tow truck operators:

- the number of accident tows per licensed truck
- the number of accident tows per licence
- the time to perform an accident tow.⁵⁴

This data is specific to the accident towing industry, unlike the data published by the Australian Bureau of Statistics which is for the broader transport, postal and warehousing industry. However, as they are partial measures of productivity, the results could be driven by other inputs. Further, the output does not include storage services or other business activities that might affect productivity (such as trade towing).

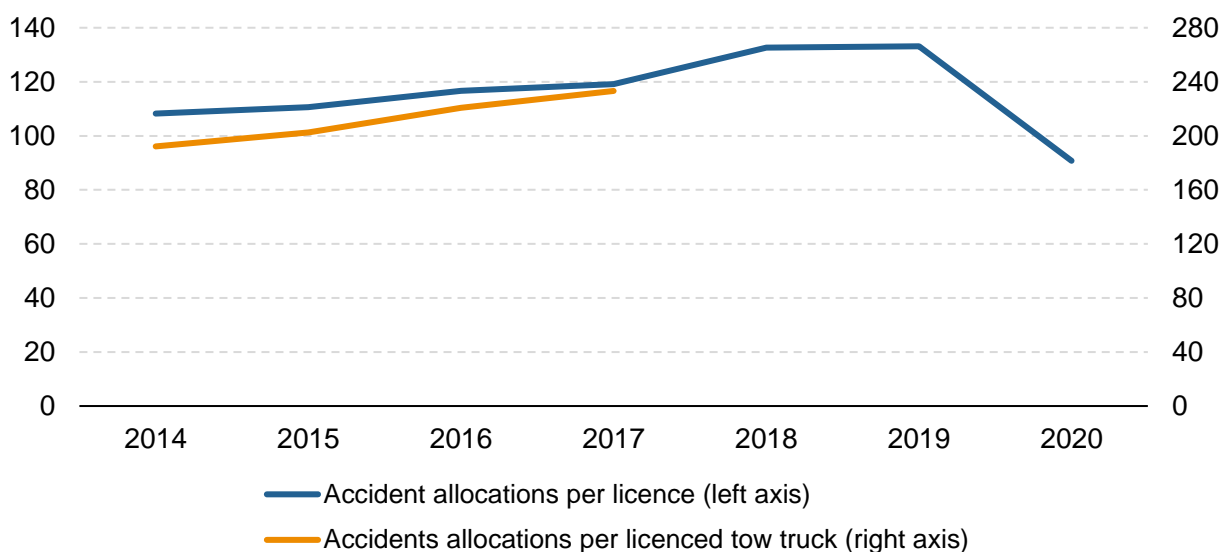
Accident tows per trucks and licences

The Department of Transport collects data that can be used to calculate the number of tows per licence and the number of accident tows per licensed tow truck. These two measures are different as some tow trucks use multiple licences.⁵⁵

⁵⁴ These partial productivity measures are also considered in our examination of the general performance of the accident towing industry, outlined in Appendix G.

⁵⁵ Some licences are not attached to specific tow trucks, allowing tow truck operators to flexibly manage their assets. Examining the number of licensed tow trucks would therefore be more useful than the number of tows per licence. However, the Department of Transport has not been able to provide updated data on the number of licensed tow trucks for this report.

Figure 4 Number of accident allocations per licence and licensed tow truck



Source: Department of Transport. Due to data availability issues, the number of licensed tow trucks can only be measured up to 2017.

Figure 4 shows the number of accident tows per licensed truck and licence increased between 2014 and 2017. The number accident tows per licence continued to increase from 2017 to 2019. Marsden Jacob calculated productivity growth for various two-year, three-year and five-year time periods (excluding 2020). This produced a range of growth rates between 4.2 per cent and 7.3 per cent.

Average time to perform accident tows

We received data from the Department of Transport on the duration of all accident tows between 2017 and 2020. This includes the time to travel to an accident, the wait and work time at the accident scene and the time to transport a vehicle to its destination.

Table 11 shows that the average time to complete an accident tow fell by 5.3 per cent per year between 2017 and 2019. It is worth noting this improvement occurred as the number of accident allocations and, in turn, demand for tow truck operators' services, increased.

Table 11 Average time to complete an accident tow, minutes

	2017	2018	2019	2020
Average accident tow time	83.6	78.2	75.0	70.4

Source: Department of Transport. The data excludes values less than 20 minutes and more than 600 minutes.

5.4. We recommend the default productivity adjustment factor be applied

Our recommendation is that the default productivity adjustment factor of 0.5 per cent remains appropriate.

The productivity adjustment factor strengthens incentives to improve efficiency

We consider the objective of the productivity adjustment factor is to strengthen incentives for tow truck operators to improve efficiency. This is important given the operation of the zero-price floor within the regulatory framework. Between 2014–15 and 2020–21, the zero-price floor was activated three times. On these occasions, even though prices of other services may have fallen, particularly those related to accident towing, tow truck operators continued to receive the same prices (accident towing fees) for providing accident towing services.

We considered stakeholder views

The VACC contended a productivity adjustment factor is not appropriate as they argued allocations have fallen, regulatory barriers prevent capital productivity improvements and operational and compliance costs of accident towing activities are increasing.⁵⁶ They also noted the annual multifactor productivity growth of the transport, postal and warehousing sector was –1.7 per cent between 2017–18 and 2019–20.⁵⁷

We note that:

- Accident allocations were increasing prior to the coronavirus pandemic and while they fell in response to restrictions due to the coronavirus pandemic it is not yet known how this will affect long-term trends.
- Despite the evidence for increasing congestion, data shows the time taken to complete accident towing activities has decreased in recent years.
- Relying on one measure of productivity provides a narrow view of the productivity growth that has occurred in the industry.

⁵⁶ Victorian Automotive Chamber of Commerce 2021, *VACC's submission to the Essential Services Commission's accident towing fees review 2021*, August, p 11-12.

⁵⁷ Ibid

The data shows a 0.5 per cent adjustment remains appropriate

We analysed a broad range of possible measures of productivity growth in the accident towing industry. This includes transport productivity data published by the Australian Bureau of Statistics and analysis of data sourced from the Melbourne accident towing industry.

The Australian Bureau of Statistics data shows productivity growth has historically ranged between -1.3 per cent and 1.3 per cent. While this does not provide conclusive evidence on the exact level of productivity growth that has occurred, we note the legislated productivity adjustment factor of 0.5 per cent falls within this range. Furthermore, the accident towing industry data shows productivity growth in the accident towing industry is likely increasing.

As a result, we do not find there is sufficient evidence to recommend a different productivity adjustment factor.

Scope to reconsider 'default' value of productivity adjustment factor

We did not find sufficient evidence to recommend a specific value for the productivity adjustment factor. We were only able to consider whether the legislated or 'default' value fell within the range of measures available. If the default was a different value, but still between our range of measures (-1.3 per cent to 1.3 per cent), it is possible our recommendation would have aligned with this value instead. For example, if the default value had been 0.2, it is possible our recommendation would be that a 0.2 per cent productivity adjustment factor remained appropriate instead.

Given the evidence available, the default value has had some bearing on the productivity adjustment factor we were ultimately able to recommend. We note the default value could be a matter for further consideration, although we were not permitted to do so in our Accident towing fees review 2021 (as noted above, we cannot modify the parameters of our reviews under section 212H (1) of the Accident Towing Services Act 2007).

Irrespective of the default value or our recommendation, the Minister for Roads might consider, through legislative change, reviewing the application of a productivity adjustment factor, or possibly specifying a reduced default productivity adjustment factor. This may be particularly pertinent, given the coronavirus pandemic and potentially higher operational costs in the near future. However, we note that any increases in operational costs (such as fuel and maintenance and repair of motor vehicles) would likely already be reflected in increases in the Melbourne Transport

consumer price index or will be in coming months.⁵⁸ This will flow through to accident towing fees via the annual indexation arrangements.

⁵⁸ See Australian Bureau of Statistics, 'Annual weight update of the CPI and Living Cost Indexes, 17 December 2021, Table 2. Automotive fuel contributes 30 per cent to this index, while maintenance and repair maintenance of motor vehicles contributes around 17 per cent.

6. Salvage Fees

We do not recommend basic salvage services be subject to a fee determination. We have not received detailed feedback that indicates customers are being charged excessive salvage fees that would justify regulation.

We received opposing views on salvage fee regulation. The Insurance Council of Australia argues basic salvage fees should be regulated, while the Victorian Automotive Chamber of Commerce contends they should be unregulated as the requirements for salvage services vary widely.

The Insurance Council of Australia raised concern about cleaning fees due to the coronavirus pandemic. We can only investigate such matters under a written notice from the Minister for Roads.

Fees for basic salvage services in the Melbourne controlled area are not currently regulated under section 211 of the Accident Towing Services Act. Instead, basic salvage fees must be a 'reasonable charge for the provision of that service'.⁵⁹ We are required under section 212A(1)(b) of the Act to make a recommendation to the Minister for Roads on whether existing accident towing, storage or salvage services that are unregulated should be regulated and, if so, what regulated fees should apply.⁶⁰

Recommendation 4: Basic salvage services should not be subject to a determination under section 211 of the Accident Towing Services Act 2007.

This chapter summarises stakeholders' views in relation to basic salvage services and other unregulated services and explains the basis for our recommendation.

We did not recommend basic salvage services be regulated in the Accident towing fee review 2018. Unlike previous reviews, we did not receive any detailed feedback that suggested customers were being charged excessive salvage fees. The focus of most stakeholders' feedback at the time, related to the transparency rather than the magnitude of salvage fees. We noted transparency

⁵⁹ Accident Towing Services Act 2007, s. 212(1)(b).

⁶⁰ Salvage is the moving of an accident-damaged motor vehicle to a place on a road or road-related area or into an upright position (or both) so that it may be towed by a tow truck without assistance. Salvage may involve the use of additional tow trucks or equipment.

could also be addressed through enforcement of the Accident Towing Services Regulations, which includes requirements that tow truck drivers must take photographs of salvage operations.

6.1. We received mixed views on salvage fee regulation and transparency

The Victorian Automotive Chamber of Commerce (VACC) argued basic salvage fees should stay unregulated, noting the requirements for salvage services vary widely.⁶¹

The Insurance Council of Australia supported salvage fee regulation, noting:

...salvage towing fees are intrinsically linked to accident towing and therefore by extension should be regulated. Further a regulated salvage fee will provide greater transparency for consumers and a more appropriate level of protection from potentially unreasonable and excessive salvage fees.⁶²

The Insurance Council of Australia did not nominate a price level for regulated salvage services, nor did they consider any possible factors in setting such a price.⁶³

Individual insurers provided comments to us about transparency of salvage fees outside of the Melbourne controlled area.⁶⁴ The VACC stated that the fees for basic salvage services are 'transparent and reasonable' (in the Melbourne controlled area) and that in its view, the requirements for tow truck drivers to take photographs of salvage operations provided 'protection against excessive charging'.⁶⁵

6.2. We do not recommend basic salvage services be regulated

While regulation might address the potential for operators to levy excessive fees, we have recommended basic salvage services not be subject to a fee determination. We have not received detailed feedback that indicates customers are being charged excessive salvage fees that would justify more direct price regulation of salvage fees and the potential complexity associated with addressing the variability of these jobs.

⁶¹ Victorian Automotive Chamber of Commerce 2021, *Submission to the Essential Services Commission's accident towing fees review 2021*, 6 August, p. 14.

⁶² Insurance Council of Australia 2021, *Essential Services Commission (ESC): Accident towing fees review 2021*, 6 August, p. 2.

⁶³ Ibid.

⁶⁴ As noted in section 2.3, we heard the views of individual insurers at a meeting with the Insurance Council of Australia. Salvage fees outside the Melbourne controlled area are out of scope for our review.

⁶⁵ Victorian Automotive Chamber of Commerce 2021, *Submission to the Essential Services Commission's accident towing fees review 2021*, 6 August, p. 14.

It is possible the requirements that tow truck drivers take photographs has had the desired effect of making salvage transparent to customers. However, we do not have any data to verify if this is the case or not.

6.3. We are unable to investigate non-regulated services

The Insurance Council of Australia raised concern about an extra 'sanitisation' fee for vehicle cleaning it has observed some tow truck operators charging insurers, due to the coronavirus pandemic.⁶⁶

Services such as cleaning are outside of the scope of unregulated services that the commission has the power to consider under the Accident Towing Services Act 2007.⁶⁷ We would only be able to investigate under a written notice from the Minister for Roads.⁶⁸ The Insurance Council of Australia indicated they accepted and understood this. We therefore make no conclusions about this issue. Rather, we advise stakeholders consult with the Department of Transport, should this issue be of concern.

⁶⁶ Insurance Council of Australia 2021, *Essential Services Commission (ESC): Accident towing fees review 2021*, 6 August.

⁶⁷ Under section 212A(1)(b) of the Accident Towing Services Act 2007 we are only required to consider if any unregulated accident towing service, unregulated storage service and unregulated salvage service should be subject to determination.

⁶⁸ See section 212A(1)(d) of the Accident Towing Services Act 2007.

Glossary

Term	Definition
accident allocation scheme	A roster-based system for allocating accident towing jobs between tow truck licence holders. Separate schemes operate in the Melbourne controlled area and the Self-management area of Geelong.
accident towing	The towing and storage of accident-damaged motor vehicles from road accident scenes. Accident towing and storage fees are regulated within the Melbourne controlled area.
breakdown towing	The towing of vehicles as part of the roadside assistance service offered by car insurance providers and car dealerships. Breakdown towing fees are not regulated.
clearway towing	The towing of vehicles illegally parked in designated clearway zones during specified times, under contract with the responsible authority. Clearway towing fees are not regulated.
Department of Transport	The accident towing industry regulator. The Department of Transport is the Victorian Government agency responsible for administering the Accident Towing Services Act 2007.
depot	Premises from which accident tow trucks operate. A single depot may be shared by multiple accident towing service businesses.
driver	A person who drives a tow truck to accident scenes and performs the tow. Under the Accident Towing Services Act 2007, drivers must be accredited by the Department of Transport.
heavy vehicle	A vehicle with a gross vehicle mass of more than four tonnes.
impound towing	The towing of vehicles that are either abandoned, derelict or otherwise causing obstruction, as arranged by the local council. Impound towing fees are not regulated.

Term	Definition
Insurance Council of Australia	The peak body for the Australian general insurance industry.
Melbourne controlled area	A declared area consisting of the Melbourne metropolitan area and the Mornington Peninsula. Accident towing and storage fees are regulated within the Melbourne controlled area.
operator	A person who owns or operates a tow truck business. Under the Accident Towing Services Act 2007, operators must be accredited by the Department of Transport.
regular vehicle	A vehicle with a gross vehicle mass of less than four tonnes.
road accident	<p>An impact or collision of one or more motor vehicles—</p> <ul style="list-style-type: none"> (a) on a road or road related area, or (b) not on a road or road related area, if immediately before the impact or collision one or more of the vehicles involved in the impact or collision had been travelling on a road or road related area. <p>(Definition as per section 3 of the Accident Towing Services Act 2007)</p>
road accident scene	<p>An area within a 2 kilometre radius of a road accident.</p> <p>(Definition as per section 3 of the Accident Towing Services Act 2007)</p>

Term	Definition
salvage	<p>Salvage, in the case of an accident damaged motor vehicle that, as a result of the accident—</p> <ul style="list-style-type: none"> (a) is in a location that is not a road or road related area (b) is embedded in a building or in an object that is not a motor vehicle (c) is overturned or on its side— <p>means the moving of the motor vehicle to a place on a road or road-related area or into an upright position or both so that it may be towed by a tow truck without assistance.</p> <p>(Definition as per section 3 of the Accident Towing Services Act 2007)</p> <p>Salvage may involve the use of additional tow trucks or equipment. Specific salvage fees are not regulated, but fees are required to be ‘reasonable’.</p>
secondary tow	<p>Occurs when an accident-damaged vehicle is towed from the accident scene and delivered to the destination listed on the authority to tow docket and then is subsequently towed to another destination. Secondary tow fees are not regulated.</p>
Self-management area of Geelong	<p>A declared area consisting of Geelong and surrounding areas. Tow truck drivers may only attend an accident scene after receiving an allocation through the self-managed allocation scheme. Accident towing and storage fees are not regulated beyond a requirement to be ‘reasonable’.</p>
storage	<p>Occurs when an accident-damaged vehicle is transported to the tow truck operator’s depot and stored in a secure location to await repair or towing to another location.</p>
trade towing	<p>General towing and storage services that are not the immediate result of a road accident, including any tows following the delivery of an accident-damaged vehicle to the location specified on the authority to tow docket. Examples include breakdown, clearway, impound and secondary tows. Trade towing fees are not regulated.</p>
unregulated area	<p>For regular vehicle accident tows, refers to areas of Victoria excluding the Melbourne controlled area and the Self-management area of Geelong.</p>

Term	Definition
VACC	Victorian Automotive Chamber of Commerce. The peak body that represents the interests of its members across multiple automotive sectors, including accident and trade towing.

Appendix A: Summary of previous commission reviews

This appendix briefly outlines our most recent reviews related to the accident towing industry:

- In 2015, we reviewed the economic regulation of Victorian accident towing services, in response to terms of reference issued by the Minister for Finance.
- In 2018, we reviewed the fees for accident towing, storage and salvage services and made some recommendations to the Minister for Roads.

Our 2015 review of Victorian accident towing and storage economic regulation

In January 2014, the Minister for Finance issued terms of reference under section 41 of the Essential Services Commission Act 2001, requesting that we review the economic regulation of accident towing and storage services in Victoria. The review covered both regular and heavy vehicle accident towing Victoria wide (not just the Melbourne controlled area). The terms of reference required us to consider three key matters:

- the regulation of fees
- the allocation of accident towing jobs (that is, whether jobs are allocated or whether operators are free to compete for towing jobs)
- the necessity for, and location of, boundaries that set up different regulatory approaches (for example, the Melbourne controlled area and the Self-management area of Geelong).

As this was a review of the broad economic regulation of accident towing and storage in Victoria, we did not review regulated fees and did not make a recommendation on the appropriateness of fees to the Minister for Roads.

Our final 19 recommendations from this review were aimed at three broad areas:

- improving the processes by which accident tows are allocated to tow truck operators where such allocation schemes exist, to best promote consumers' interests
- ensuring that fees for accident towing services are fair and reasonable for consumers, regardless of whether accidents occur in the controlled area, self-managed area or in the rest of Victoria

- ensuring that consumers are appropriately informed of their rights and responsibilities following an accident.⁶⁹

We provided our final report and recommendations to the Minister for Finance in January 2016. No legislative changes have been made in response to this review.

Accident towing fees review 2018

We completed a review of accident towing, storage and salvage services in December 2018 and made recommendations to the Minister for Roads on the matters outlined in section 212A of the Accident Towing Services Act 2007. Our reviews are recommendatory only. The minister decides whether accident towing and storage fees change, or new fees are introduced. Currently regulated fees continue to be adjusted annually for inflation (minus a productivity adjustment factor) in accordance with section 212H of the Accident Towing Services Act 2007.

We recommended no changes to accident towing fees

We recommended the current level of regulated accident towing fees (as escalated each year by the annual adjustment mechanism) were appropriate and should not be changed.⁷⁰

In our review, we used fees for contestable trade towing services as a benchmark for the regulated fees. We found that regulated fees were relatively consistent with benchmark trade towing fees, as well as with regulated accident towing fees in other jurisdictions.

We decided to review fees based on a benchmarking approach. This was partly due to the difficulty and time required to obtain the required cost information to undertake a cost-of-service approach.

A benchmarking approach relies less on receiving information from accident towing operators and can provide a good indication of the fees charged in contestable markets. Relying on industry own cost data to set fees creates an incentive for the sector to inflate its costs. While we relied on a benchmarking approach, we noted we may consider a cost-of-service approach in the future.

We recommended storage fees be increased

We concluded the current regulated storage fees (as escalated each year by the annual adjustment mechanism) were not appropriate and too low.⁷¹ To reach this conclusion, we compared regulated storage fees against benchmarks of storage fees for unregulated storage

⁶⁹ Essential Services Commission 2015, *Accident towing regulation: Final report*, December, p. xvii

⁷⁰ Essential Services Commission 2018, *Review of accident towing and storage fees: Final report*, 10 December, pp. 6-8

⁷¹ *Ibid*, pp. 9-12

services in Melbourne (trade towing and impounding of vehicles) and regulated storage fees for accident-damaged vehicles in other jurisdictions.

We recommended an increase in regulated storage fees that reflected the benchmark fees we analysed in our review. We considered a fee of \$25.00 per day for 'under cover' vehicle storage to be appropriate, an \$8.00 increase from \$17.00 per day fee. Based on common cost drivers for this increase – mainly property leasing costs – we recommended all other regulated storage fees (that is, under-cover and locked-yard storage for vehicles and motorcycles) be increased by the same proportion (that is, 47 per cent).

We recommended no changes to the productivity adjustment factor

We recommended that the productivity adjustment of 0.5 per cent continue to apply under the annual adjustment mechanism.⁷²

Our analysis of publicly available data and VicRoads data indicated some productivity increases in the towing industry since our Accident towing fees review 2013.⁷³ While we considered there might have been scope for accident towing operators to further improve their productivity, the measures we analysed did not appear to provide conclusive evidence as to the appropriate level of the productivity adjustment factor. For this reason, we concluded there was no significant reason to depart from the default value of 0.5 per cent.

We did not recommend a regulated salvage fee

We recommended that fees for basic salvage services should not be subject to a determination under section 211 of the Accident Towing Services Act 2007.⁷⁴

While there may be merit in regulating basic salvage fees and we had recommended this in previous reviews, we did not consider the justification for regulation to be as strong as it was in the past. In coming to this recommendation, we considered that:

- The government had not adopted our prior recommendations to directly regulate fees, preferring instead to require that fees be reasonable, and specifying the factors that a court must consider when deciding on reasonableness.⁷⁵

⁷² Ibid, pp. 13-17

⁷³ The publicly available data we analysed included productivity and turnover measures published by the Australian Tax Office and Australian Bureau of Statistics.

⁷⁴ Essential Services Commission 2018, *Review of accident towing and storage fees: Final report*, 10 December, pp. 18- 20

⁷⁵ Accident Towing Services Act 2007, section 212I(2) specifies factors that the court must consider when determining what is a 'reasonable' charge for the provision of accident towing services (See Appendix B)

- We had not received detailed feedback or evidence during this review that indicates that customers were being charged excessive salvage fees that would justify more direct price regulation.
- Where stakeholders raised concerns, they mainly related to the transparency of the services provided when charged a salvage fee.

To the extent that there are issues related to the transparency of salvage fees, we noted these should be directed to VicRoads (now the Department of Transport). We informed VicRoads of the issues raised by stakeholders at each stage of our consultation process.

Appendix B: Legislative framework

The following are the relevant sections of the Accident Towing Services Act 2007.

Section number	Section detail
s. 3(1)	<p>Definitions</p> <p>In this Act –</p> <p>accident damaged motor vehicle means a motor vehicle that has been damaged as the result of a road accident;</p> <p>...</p> <p>accident towing service means the service of operating tow trucks for the following purposes –</p> <ul style="list-style-type: none">(a) the purpose of towing accident damaged motor vehicles, where the towing of the accident damaged motor vehicle takes place between the time when the road accident in which the motor vehicle is damaged occurs and the time when the motor vehicle is first delivered to the place specified in the authority to tow;(b) the purpose of clearing road accident scenes; <p>...</p> <p>road accident means an impact or collision of one or more motor vehicles –</p> <ul style="list-style-type: none">(a) on a road or road related area; or(b) not on a road or road related area, if immediately before the impact or collision one or more of the vehicles involved in the impact or collision had been travelling on a road or road related area; <p>road accident scene means an area within a 2 kilometre radius of a road accident;</p> <p>...</p> <p>salvage, in the case of an accident damaged motor vehicle that, as a result of the accident –</p> <ul style="list-style-type: none">(a) is in a location that is not a road or a road related area; or(b) is embedded in a building or in an object that is not a motor vehicle; or(c) is overturned or on its side – <p>means the moving of the motor vehicle to a place on a road or road related area or into an upright position or both so that it may be towed by a tow truck without assistance;</p> <p>...</p> <p>tow, in relation to any motor vehicle, includes –</p> <ul style="list-style-type: none">(a) lifting and towing the motor vehicle;(b) lifting and carrying the motor vehicle;

Section number	Section detail
	<p>(c) lifting the motor vehicle for the purpose of towing the motor vehicle – but does not include salvage of the motor vehicle;</p> <p>tow truck means –</p> <p>(a) any motor vehicle –</p> <ul style="list-style-type: none"> (i) that is equipped with a crane, winch, ramp or other lifting device; and (ii) that is used or intended to be used for the towing of motor vehicles; or <p>(b) a motor vehicle to which is attached, temporarily or otherwise a trailer or device that is –</p> <ul style="list-style-type: none"> (i) equipped with a winch or ramp or other lifting device; and (ii) that is used or intended to be used for the towing of motor vehicles; <p>...</p>
s. 4	<p>Objective</p> <p>The objective of this Act is to –</p> <p>(a) promote the safe, efficient and timely provision of accident towing services and other related services;</p> <p>(b) ensure that persons who are providing accident towing services –</p> <ul style="list-style-type: none"> (i) are of appropriate character; and (ii) are technically competent to provide the services; and (iii) when providing the services, act with integrity and in a manner that is safe, timely, efficient and law abiding, and in particular, that regard is had for vulnerable persons.
s. 211	<p>Minister to determine charges for accident towing services and other services</p> <p>The minister may from time to time determine the amounts that may be charged by the providers of the following –</p> <p>(a) accident towing services;</p> <p>(b) the service of storing accident damaged motor vehicles;</p> <p>(c) basic salvage services – for the provision of those services.</p>

Section number	Section detail
s. 212 (1)	<p>Determinations of charges</p> <p>The minister must not make a determination under section 211 unless he or she –</p> <ul style="list-style-type: none"> (a) has received a recommendation from the commission under division 2 on the matter; and (b) has received a report from the secretary.
s. 212 (2)	<p>A determination of the minister under section 211 –</p> <ul style="list-style-type: none"> (a) may be of general or of specially limited application; and (b) may differ according to differences in time, place or circumstance.
s. 212 (3)	<p>A determination under section 211 takes effect when it is published in the Government gazette, or, if a later day is specified in the determination, on that day.</p>
s. 212 (4)	<p>A determination under section 211 may be amended or revoked and the provisions of this section apply to any such amendment or revocation of a determination in the same manner as that in which they apply to the making of the determination.</p>
s. 212A (1)	<p>Periodic review of charges</p> <p>The commission must, at the time specified in subsection (3), conduct and complete a review and make a recommendation to the minister as to all of the following –</p> <ul style="list-style-type: none"> (a) whether or not any amount determined by the minister under section 211 is appropriate; (b) in relation to accident towing services, services relating to the storage of accident damaged vehicles and salvage services for which no amount has been determined under section 211 – <ul style="list-style-type: none"> (i) whether or not that service should be subject to a determination under that section; and (ii) if the commission considers that the service should be subject to a determination, what that determination should be; (c) a figure for the productivity adjustment of those services that are or are to be subject to a determination under section 211; (d) any other matter relating to accident towing services, the storage of accident damaged vehicles or salvage that the minister specifies in writing.

Section number	Section detail
s. 212A (2)	The minister must consult with the minister administering the Essential Services Commission Act 2001 before specifying a matter for review under subsection (1)(d).
s. 212A (3)	The commission must conduct and complete a review and make a recommendation to the minister under this section – <ul style="list-style-type: none"> (a) not later than 30 June 2014; and (b) before the expiry of each subsequent period of 4 years commencing from the date that the last review commenced.
s. 212B (1)	Additional review at minister’s direction The minister may at any time, by written direction, require the commission to conduct and complete a review and make a recommendation to the minister as to whether or not an amount determined under section 211 is appropriate.
s. 212B (2)	The minister must consult with the minister administering the Essential Services Commission Act 2001 before requiring the commission to conduct a review and make a recommendation under subsection (1).
s. 212B (3)	A written direction under this section must specify terms of reference for the review.
s. 212B (4)	The minister may – <ul style="list-style-type: none"> (a) specify a period within which a recommendation is to be made to the minister under subsection (1); (b) require the commission to make a draft copy of the recommendation publicly available or available to specified persons or bodies during the review; (c) require the commission to consider specified matters; (d) give the commission specific directions in respect of the conduct of the review; (e) specify objectives that the commission is to have in performing its functions and exercising its powers in relation to the review.
s. 212B (5)	If the minister has directed a matter to the commission for review under subsection (1), the minister may, by written notice given to the commission, withdraw or amend the direction at any time before the minister has received the recommendation from the commission.

Section number	Section detail
s. 212B (6)	The minister must cause notice of a direction given to the commission under this section to be published on an Internet site maintained by the department.
s. 212C (1)	<p>Conduct of review</p> <p>Subject to this Act and any directions under section 212B, the commission may conduct a review under this division in any manner the commission considers appropriate.</p>
s. 212C (2)	In conducting a review, the commission is not bound by the rules of evidence and may inform itself on any matter in any way it thinks fit.
s. 212C (3)	The commission may receive written submissions or statements.
s. 212C (4)	<p>If the commission holds a public hearing –</p> <p>(a) the commission has a discretion as to whether any person may appear before the commission in person or be represented by another person;</p> <p>(b) the commission may determine that the hearing, or part of the hearing, be held in private if it is satisfied that –</p> <p>(i) it would be in the public interest; or</p> <p>(ii) the evidence is of a confidential or commercially sensitive nature.</p>
s. 212C (5)	<p>In conducting a review, the commission –</p> <p>(a) may consult with any person that it considers appropriate;</p> <p>(b) may hold public seminars and hold workshops;</p> <p>(c) may establish working groups and task forces.</p>
s. 212D	<p>Objectives not to apply</p> <p>Except to the extent (if any) that the minister otherwise determines, the objectives of the commission under the Essential Services Commission Act 2001 or any other Act do not apply to the functions and powers of the commission under this division.</p>

Section number	Section detail
s. 212H (1)	<p>Charges to be adjusted for CPI</p> <p>Subject to subsection (2), an amount of a charge determined under section 211 must be varied, in respect of each financial year, in accordance with the formula –</p> $A \times \left(\frac{B}{C} - D \right)$ <p>where –</p> <p>‘A’ is the amount of the charge for the financial year immediately preceding the relevant year;</p> <p>‘B’ is the transport group consumer price index for Melbourne in original terms for the reference period in which falls the March quarter of the financial year immediately preceding the relevant year last published by the Australian Bureau of Statistics before the relevant year;</p> <p>‘C’ is the transport group consumer price index for Melbourne in original terms for the corresponding reference period one year earlier than the reference period referred to in B last published by the Australian Bureau of Statistics before the relevant year;</p> <p>‘D’ is the productivity adjustment figure specified in the recommendation under section 212A most recently made by the commission or, if the commission has not made a recommendation under section 212A that relates to the relevant year, ‘D’ is 0.005.</p>
s. 212H (2)	<p>If it is necessary for the purposes of this section to calculate an amount that consists of or includes a fraction of a whole dollar, the amount is taken to be calculated in accordance with this section if the calculation is made to the nearest whole 10 cents.</p>
s. 212H (3)	<p>If the variation under subsection (1) of the amount of a charge would reduce the amount of that charge, the amount of the charge must not be varied under subsection (1).</p>
s. 212H (4)	<p>If the amount of a charge is varied under subsection (1), the secretary must publish a notice in the Government gazette specifying –</p> <ul style="list-style-type: none"> (a) the service to which the charge relates; and (b) the amount of the charge as varied; and (c) the data from which the charge as varied applies.
s. 212H (5)	<p>In this section, relevant year means the financial year for which the adjusted amount is being varied.</p>

Section number	Section detail
s. 212I	Offence to charge unreasonable sum or sum different to charge determined under section 211
s. 212I(1)	<p>A person must not charge an amount for the provision of an accident towing service, for the storage of an accident damaged motor vehicle or for the provision of salvage services unless –</p> <ul style="list-style-type: none"> (a) if a determination for the service has been made under section 211, the charge is determined in accordance with that determination; or (b) if no determination for the service has been made under section 211, the charge is a reasonable charge for the provision of that service. <p>Penalty: 30 penalty units.</p>
s. 212I(2)	<p>Without limiting the factors the court may consider in determining what is a reasonable charge for the provision of an accident towing service for the purposes of subsection (1)(b), the court must consider those of the following factors that are relevant –</p> <ul style="list-style-type: none"> (a) the nature of the service provided; (b) the day on which the service is provided; (c) the time at which the service is provided; (d) any administration costs incurred in the provision of the service; (e) the amount that would be charged for the provision of a similar service that is not an accident towing service; (f) the amount that would be charged for the same or similar service by any other person providing accident towing services in the same or similar area.
s. 212I(3)	<p>In any proceedings against a person for an offence under subsection (1), if the offence is proved, the court may order that person to refund any amount paid in excess of the amount that may be charged under subsection (1).</p>

Appendix C: Developing a future cost-of-service approach

This section provides an overview of the data and inputs that might be required for a cost-of-service approach to be used as a basis for assessing accident towing and storage fees.

What data might be required for a cost-of-service approach?

A cost-of-service review would require a wide range of information about accident towing operators' costs, revenue and business structure. The following provides an example of key inputs that would likely be required. This is not intended to be exhaustive, as the inputs may vary due to the requirements of different models or methodologies.

We expect that common cost items that could be required are:

- labour costs – drivers, dispatch, repair, administration, and other staff related expenses including training⁷⁶
- vehicle costs – vehicle replacement costs, parts, repairs and maintenance, fuel, tyres, washing and other vehicle related costs including the economic life of the vehicle
- licence & regulatory costs – vehicle registration, accreditation, TAC premiums, WorkSafe and other licence and regulatory costs (this should not include the value of an accident towing licence)
- insurance – comprehensive motor vehicle insurance, other vehicle insurance, business insurance and other insurance costs
- premises (including vehicle storage)
- cost of capital (profit margin for owners and cost of finance)
- other costs, such as rent, bad debts and utilities.

In addition to costs, information about accident towing operators' revenue would also be necessary. This could include:

- revenue from all business activities
- number of accident allocations
- revenue by regulated fees, for example base fee, additional kilometres, storage fees etc.
- salvage job information, such as gross revenue and number of jobs

⁷⁶ Given labour contract arrangements have developed over time, it would be important to ascertain whether staff are paid different hourly rates when working, on 'standby', or are 'on call' (but not necessarily working).

- revenue from other services, such as cleaning fees.

Given the differences between businesses that operate in the sector, it would be important to consider how to make the data comparable. This would require general information, such as:

- number of licences and tow trucks
- relationship to depots
- number of zones the business has licences for
- number and proportion of accident tows versus non-accident tows
- other services provided by the business
- number of kilometres travelled each year by each tow truck
- time taken to attend each accident and then transport accident vehicle to the next destination.

What data collection processes could be required?

The data could be collected via a range of sources, including:

- Department of Transport data
- publicly available data on costs (for example, fuel costs, capital costs)
- a survey of tow truck operators
- audits of cost and operational data from tow truck operators.

It is important any data collection process to be supported by sufficient checks and verification, to ensure the information provided is accurate and unbiased.

An example that demonstrates the importance of verifying data, relates to towing businesses that provide both accident and non-accident towing services. In such cases, the total cost of running the towing businesses would need to be separated into accident and non-accident towing, so that the cost of operating just accident towing services could be calculated.

In our Accident towing fees review 2009, we conducted a survey that included a question about the proportion of time taken on accident, trade towing and idle activities. If a similar survey question were to be asked again, it could be complemented by an audit of transaction information for a sample of tow truck businesses. This would give greater confidence that costs are appropriately and robustly allocated between the accident and non-accident sides of each surveyed business.

If the data were collected via a survey, it would need to be based on a reasonable sample size that was representative of the different scale and types of accident towing operators. Given their

relatively small number, this could potentially be most, if not all, of the 91 accident towing operators in the Melbourne controlled area.⁷⁷

With a small population of operators, non-responses could have a significant impact and skew the data collected via a survey. This issue would be avoided, if the commission were instead to collect the data using its statutory information gathering powers. Decisions to pursue a cost of service approach and using these powers to collect data would likely impose additional legal requirements and compliance costs on accident towing operators, which would need to be evaluated, in relation to the additional quality of the information that might be obtained and the regulatory fee outcomes that may result.

The cost-of-service survey we used for our Accident towing fees review 2009 is provided below as an example of the types of questions that could be included in a future survey.

Our previous cost-of-service survey – Accident towing fees review 2009

General information	
1.	How many accident towing licences do you hold?
1.1.	In the Controlled Area?
1.2.	Outside the Controlled Area?
2.	How many tow trucks do you operate?
3.	How many of your trucks perform both accident and trade towing?
4.	Do you operate licences from more than one depot?
4.1.	If so, from how many depots do you operate a licence?
5.	Does your business share this depot/s with other accident towing operators?
5.1.	If so, how many?
6.	Do you hold licences to operate in more than one accident towing zone?
6.1.	If so, how many zones do you operate a licence in?

⁷⁷ Number of accident towing operators as at 2020. See table 22 in appendix G for a breakdown of accident towing operator and licence numbers.

Costs

7. What was your gross expenditure for all business activities?

8. What percentage of your gross expenditure relates to:

8.1. Entirely to accident towing?

8.2. Entirely to other?

8.3. Part accident towing / part other?

9. What proportion of shared costs should be attributed to accident towing?

10. How many staff do you employ?

10.1. Drivers?

10.2. Dispatch?

10.3. Repairers?

10.4. Administration?

10.5. Other?

11. What was your total staff expenses?

11.1. Drivers?

11.2. Dispatch?

11.3. Repairers?

11.4. Administration?

11.5. Other?

12. What was the value of the following cost items?

12.1. Other (eg. payroll tax)?

12.2. Uniform?

12.3. Licence fees?

12.4. Training?

13. Does your business incur any costs for tasks, other than towing, at an accident scene?

13.1. Staff time?

13.2. Other?

14. Estimated time taken to complete an additional tasks at accident scenes?
15. How often do you replace your tow trucks?
16. In what year did you purchase your last tow truck?
17. What price did you pay for your last tow truck?
18. Do you incur any of the following costs associated with a new vehicle purchase? If so, what is their value?
 - 18.1. Financing?
 - 18.2. Leasing?
 - 18.3. Setup costs?
 - 18.4. Other?
19. How often do you service your vehicles (per vehicle per year)?
20. Do your staff members undertake repairs/maintenance on your trucks?
21. What was your business' expenditure on vehicle parts for the 2007-08 financial year?
22. What is the typical cost of (external) repairs/maintenance?
23. What was the value of the following cost items?
 - 23.1. Motor vehicle fuel?
 - 23.2. Tyres?
 - 23.3. Washing?
24. Do you use the same truck for accident and trade towing? If yes, what proportion of the time would you use the truck for each of the following?
 - 24.1. Accident towing?
 - 24.2. Trade towing?
 - 24.3. Idle?

25. Did you purchase your accident towing licence? If so, what did you pay for it?

26. Did you incur any of the following costs associated with purchasing an accident towing licence?

26.1. Financing?

26.2. Other?

27. What was the value of the following cost items?

27.1. Vehicle registration?

27.2. Accreditation?

27.3. TAC?

27.4. WorkSafe/OH&S?

27.5. Other?

28. What was the value of the following insurance cost items?

28.1. Motor vehicle?

28.2. Other vehicle?

28.3. Business insurance

28.4. Other?

29. What is the size of your depot?

30. Does your business own its depot? If so, what was the value of the following cost items?

30.1. Financing costs?

30.2. Land tax?

30.3. Council rates?

30.4. Other?

31. If not, what was the value of the following cost items?

31.1. Rent?

31.2. Other?

32. What cost does your business incur in relation to dispatch systems?

33. What was the value of the following cost items?

- 33.1. Security?
- 33.2. Telephone expenses?
- 33.3. Electricity?
- 33.4. Bank fees & charges?
- 33.5. Accountant/professional fees?
- 33.6. Other?

34. How many accident towing jobs did your business fail to receive payment for?

35. What was the total value of these unpaid accident towing fees?

36. Was your business able to dispose of the damaged vehicle?

37. If so, what proceeds did your business receive from the sale?

Revenue

38. What was your gross revenue for all business activities?

39. How many accident allocations did your business receive?

- 39.1. Ordinary hours?
- 39.2. After hours?

40. What was your business' gross revenue from the following?

- 40.1. Accident towing fees?
- 40.2. Additional kilometres?
- 40.3. Storage fees?
- 40.4. Total?

41. What percentage of accident towing allocations received does your business reject?

42. What is your primary reason for rejecting accident towing allocations?

43. Do you undertake salvage services at accident scenes?

44. Do you think the definition of salvage is well understood?

45. How many salvage jobs did your business perform in the 2007-08 financial year?

46. For how many of these did your business also perform the accident towing work?

47. What was your gross revenue from salvage?

48. How do you calculate salvage fees?

49. Do you perform additional services for which you do not receive compensation or payment? If so, please specify.

50. Does your business offer any of the following additional services?

- 50.1. Smash repair?
- 50.2. Trade towing?
- 50.3. Maintenance and servicing?
- 50.4. Fuel retailing?
- 50.5. Electrical services?
- 50.6. Tyre retailing?
- 50.7. Other?

51. Does your business have a relationship other than ownership with any of the following additional services?

- 51.1. Smash repair?
- 51.2. Trade towing?
- 51.3. Maintenance and servicing?
- 51.4. Fuel retailing?
- 51.5. Electrical services?
- 51.6. Tyre retailing?
- 51.7. Other?

52. Does accident towing directly generate other revenue for your business?

53. If so, what proportion of jobs would directly generate additional revenue?

54. What was your gross revenue from providing, or relationships with providers of, the following additional services?

- 54.1. Smash repair?
- 54.2. Trade towing?
- 54.3. Maintenance and servicing?
- 54.4. Fuel retailing?
- 54.5. Electrical services?
- 54.6. Tyre retailing?
- 54.7. Other?

55. What was your gross expenditure from providing, or relationships with providers of, the following additional services?

- 55.1. Smash repair?
- 55.2. Trade towing?
- 55.3. Maintenance and servicing?
- 55.4. Fuel retailing?
- 55.5. Electrical services?
- 55.6. Tyre retailing?
- 55.7. Other?

56. How many jobs did you receive revenue from in providing, or relationships with providers of, the following additional services?

- 56.1. Smash repair?
- 56.2. Trade towing?
- 56.3. Maintenance and servicing?
- 56.4. Fuel retailing?
- 56.5. Electrical services?
- 56.6. Tyre retailing?
- 56.7. Other?

57. For how many of these jobs did you also perform accident towing work?

- 57.1. Smash repair?
- 57.2. Trade towing?
- 57.3. Maintenance and servicing?
- 57.4. Fuel retailing?
- 57.5. Electrical services?
- 57.6. Tyre retailing?
- 57.7. Other?

Appendix D: Regulated accident towing fees benchmarking analysis

We have used trade towing benchmarks due to their similarity to accident towing

Trade towing refers to general towing services that are not the immediate result of a road accident. This can include clearway towing (where vehicles are illegally parked in designated clearway zones), removal of vehicles which have been abandoned and breakdown towing. Trade towing services are unregulated in Victoria.

We consider clearway and abandoned vehicle towing are useful benchmarks for accident towing services, as they broadly require the same inputs (such as a tow truck, driver and fuel) and require similar standby capacity. Most accident towing operators supplement their accident towing jobs with trade towing work.

The main difference between accident towing and trade towing is that accident towing jobs generally take longer to complete. This may be due to, for example, the complications involved in towing accident-damaged vehicles and waiting for police to allow the removal of the vehicle.

Accident towing regulations are likely to result in the costs of providing these services exceeding the costs of providing trade towing services. For example, accident towing operators are required to attend an accident site within 30 minutes of receiving an allocation.⁷⁸ This means they will need to have tow trucks on standby to meet this requirement which in turn impacts tow truck utilisation rates.

Trade towing jobs that are more time sensitive (such as clearway towing) are the most comparable to accident towing jobs. The cost of towing of abandoned vehicles is also a useful measure as these towing charges have likely been determined through a competitive tender process.

Breakdown towing is less comparable than the other forms of trade towing as breakdown tows are often less time sensitive compared to other types of trade tows.⁷⁹ For a towing operator, many trade tows can be managed around other tows – therefore the vehicle can be moved when best suits the operator (particularly if trucks are already otherwise engaged). While these tows may be quite competitive (as a vehicle owner is able to get several different quotes and is not locked into

⁷⁸ Accident Towing Services Regulations 2019, regulation 37.

⁷⁹ Marsden Jacob 2021, *Accident towing and storage fees in the Melbourne Controlled Area*, November, p. 25

using one operator), it is likely a vehicle owner would select an operator based on a range of factors (such as convenient timing) other than just the fees they are charged.

Marsden Jacob's benchmarking analysis is based on towing fees for clearway, abandoned vehicles and breakdown towing.

Breakdown and general trade towing benchmarks

Tow truck operators compete for the general towing of vehicles – as customers are able to seek quotes from several operators to obtain the most appropriate service for their requirements (for example, the cheapest service, or convenience).

The cost of the trade tows will depend on the type of tow required and will be impacted by a range of factors which include the type of vehicle, distance and destination of the tow and the time and day.

Marsden Jacob obtained quotes from tow truck operators in the Melbourne area which indicated that the current market price for general trade tows similar in conditions to a standard accident tow was between \$135 and \$165. However, some types of general trade tows are much less time sensitive than accident tows (as the vehicle can be moved to ensure that traffic flow is not interrupted) and, therefore, are not a useful benchmark when assessing accident towing fees.

Abandoned or derelict towing fees benchmarks

Local councils are responsible for clearing vehicles which have been deemed to be abandoned, are derelict or causing obstruction. To do so, they generally have a contract with a tow truck company or operator who will be responsible for the tow. These contracts are typically put out to commercial tender by the relevant councils.

In many councils within the Melbourne metropolitan area, an agreed 'release fee' for abandoned or derelict vehicles is included in the annual budget. This release fee will generally include:

- a towing fee component, and
- an administrative charge component.

Marsden Jacob's estimate of towing fees for most metropolitan Melbourne councils is shown in table 12. Where information was not available on the towing fee and/or administration component, Marsden Jacob has estimated this based on the release fee less the administration fee (which is derived based on other councils if unavailable).

The estimated average towing fees for abandoned or derelict vehicles is \$272.89 across all councils, with an average fee of \$290.54 for inner Melbourne councils and an average fee of \$264.74 for outer Melbourne councils.

Table 12 Abandoned or derelict towing fees for councils within Melbourne (as at 1 October 2021)

Municipality	Published release fee	Estimated towing fee
Banyule City Council (O)	\$547.00	\$343.13
Bayside City Council (I)	\$549.00	\$344.39
City of Boroondara (I)	\$449.00	\$281.66
City of Darebin (O)	\$365.00	\$140.00
Hobsons Bay City Council (O)	\$650.00	\$407.74
City of Kingston (O)	\$432.00	\$181.60
Knox City Council (O)	\$552.00	\$248.00
Manningham City Council (O)	\$183.80	\$178.70
Maribyrnong City Council (O)	\$495.00	\$310.51
City of Melbourne (I)	\$591.00	\$292.00
City of Monash (O)	\$350.00	\$219.55
City of Moonee Valley (O)	\$611.00	\$383.28
Moreland City Council (O)	\$450.90	\$282.85
Nillumbik Shire Council (O)	\$209.00	\$175.00
City of Port Phillip (I)	\$455.00	\$260.33
City of Stonnington (I)	\$450.00	\$282.28
City of Whitehorse (O)	\$530.00	\$332.47
City of Whittlesea (O)	\$380.65	\$238.78
City of Yarra (I)	\$450.50	\$282.60
Average (all)	\$457.94	\$272.89
Inner Melbourne	\$490.75	\$290.54
Outer Melbourne	\$442.80	\$264.74

Source: Marsden Jacob 2021, *Accident towing and storage fees in the Melbourne Controlled Area*, November, pp.21-22

Clearway towing fees benchmarks

Clearway towing refers to the towing of a vehicle parked in a clearway during the posted restricted hours and is marked as a tow-away zone.

Since December 2020, as part of the Department of Transport's 'Clearways Management Project', all clearways on major roads within 20-kilometres of the Melbourne CBD are tow-away zones.

Clearway towing is mainly operated by the Department of Transport in Melbourne and clearway zones in most councils have a release fee which has been negotiated by the Department of Transport. Four councils have negotiated a different release fee.

In order to retrieve a towed car, the owner must pay a release fee, which will generally include:

- the cost of the tow
- an administration fee
- some storage costs

A summary of towing fees for most metropolitan Melbourne councils is shown in table 13. We have estimated the average towing fees for clearway towing to be between \$200.26 and \$300.26 per tow, with an average fee of between \$217.68 and \$317.68 for 4 inner-city councils.

The administration component of clearway towing is difficult to estimate as, unlike the abandoned or derelict vehicle fees, no councils publish an administration fee. Therefore, we assumed the administration fee to be either \$100 or \$200 per tow. This appears to be a reasonable range given the estimates of administration fees for abandoned or derelict vehicle fees.

Table 13 Melbourne councils' clearway towing fees (as at 1 October 2021)

	Clearway towing fee (per tow)	Estimated towing fee at \$100 administration fee (per tow)	Estimated towing fee at \$200 administration fee (per tow)
Councils adopting Department of Transport fees	\$361.00	\$230.60	\$130.60
City of Melbourne	\$444.00	\$308.80	\$208.80
City of Port Phillip	\$450.00	\$310.00	\$210.00
City of Stonnington	\$465.00	\$333.20	\$233.20
City of Yarra	\$450.50	\$318.70	\$218.70
Average fees	\$434.10	\$300.26	\$200.26
Average fees for 4 inner-city councils adopting own fee	\$452.38	\$317.68	\$217.68

Source: Marsden Jacob 2021, *Accident towing and storage fees in the Melbourne Controlled Area*, November, p.23

Regulated fees across Australia are consistent with fees in the Melbourne controlled area

While there are similarities between the accident towing services provided across Australia, there are also differences due to the regulation that applies in each jurisdiction. Table 14 presents a simple comparison of accident towing fees for 2021-22.

Table 14 Accident towing fees across different jurisdictions in Australia, 2021-22

	Melbourne controlled area	New South Wales (metro)	Adelaide	Queensland
Base fee	\$227.40	\$284.90	\$369.00	\$382.50
Distance fee (\$/km)	\$3.60 (after 8km)	\$6.60 (after 10km)	\$3.00 (after 20km)	\$7.60 (after 50km)
Business hours	8am to 5pm	8am to 5pm	7.30am to 5pm	Not applicable
After-hours surcharge	\$77.60 added to the base fee	20% surcharge added to total fee	\$429.00 as base fee and \$4.00/km	Not applicable

Source: Adapted from Table 3 in Marsden Jacob 2021, *Accident towing and storage fees in the Melbourne Controlled Area*, November, pp.13-15

In order to accurately benchmark a 'standard' accident tow fee across jurisdictions, we made several assumptions and adjustments. In particular, we assumed a total travel distance of 28 kilometres (of which 19 kilometres is that total distance of the tow) and a total tow time of 76.6 minutes, of which 42 minutes is travel time and 34.6 minutes is 'waiting and working' time at the scene.⁸⁰

We made the following adjustments to calculate fees for a 'standard' accident tow:⁸¹

- The Queensland base fee includes an allowance for three days storage, so a cost of \$26.45 per day was subtracted from the fee for a simple average tow to remove storage revenue⁸²
- Accident towing jobs in Sydney and Queensland do not begin measuring distance until the vehicle is picked up from the accident scene. In comparison, distance of jobs in Melbourne and Adelaide are measured from the depot where the tow truck driver accepts the job. Additional distance fees were applied after taking into account kilometres included in the base fee for total travel distance (Melbourne and Adelaide) or the total tow distance (Sydney and Queensland).

⁸⁰ Marsden Jacob 2021, *Accident towing fees: benchmarking and productivity review*, November, p.18.

⁸¹ Marsden Jacob 2021, *Accident towing fees: benchmarking and productivity review*, November, p. 15-17.

⁸² This is the regulated fee for storage of a vehicle at a private holding yard for a standard tow.

- Additional working and waiting time beyond 30 minutes is not included in regulated fees in Adelaide so an assumption of the average working and waiting time for an accident towing job (an additional 4.6 minutes of charged time) is added to the fee for an average tow.⁸³
- the business hours are longer in Adelaide, so the fee for an average tow has been adjusted using the assumption that 51 per cent of jobs occur outside of business hours (rather than 54 per cent assumed for other jurisdictions).

Based on these adjustments, we estimated the fees for a ‘standard’ tow at different time periods for each jurisdiction, which are shown in table 15.

Table 15 Estimated standard accident towing fees by jurisdiction 2021-22

	Melbourne controlled area	Sydney	Adelaide	Queensland
Business hours	\$299.40	\$344.30	\$447.00	\$303.00
After hours	\$377.00	\$413.16	\$543.00	\$303.00
Weighted average	\$341.29	\$381.47	\$496.36	\$303.00

Source: Marsden Jacob 2021, *Accident towing and storage fees in the Melbourne Controlled Area*, November, p.17.

We consider the adjustments outlined above make benchmarks across jurisdictions more comparable. However, there were limits to the adjustments we could make. For example, we did not make an adjustment for salvage, which is included within the base fee in Sydney (for the first 30 minutes). Marsden Jacob did not have sufficient information on salvage requirements in these jurisdictions to estimate the necessary adjustment. Therefore, as salvage is a separate charge in Melbourne, we would expect accident towing fees in Melbourne to be lower than in Sydney.

We also note that there are some difficulties in standardising the distances travelled. Accident towing jobs in Adelaide and Queensland will likely be longer on average, than those in Melbourne or Sydney, as reflected by the longer distances included in the base fees for these jurisdictions.

⁸³ Marsden Jacob 2021, *Accident towing fees: benchmarking and productivity review*, November, p.16.

Appendix E: Regulated storage fees benchmarking analysis

We have used storage fees for trade towing as benchmarks

In addition to accident-damaged vehicles, tow truck operators provide other storage services in relation to:

- Clearway towing, where a tow truck removes a vehicle parked in a clearway during restricted hours.
- Impounding of abandoned or derelict vehicles, which is the responsibility of local councils in some circumstances. Vehicles may be impounded when they are abandoned, derelict or otherwise causing obstruction. Councils generally outsource the towing and storage of vehicles and pay a competitively negotiated rate.
- Other trade towing jobs, when storage is requested by a customer (for example, where customers seek storage for their broken-down vehicle). Customers can compare fees across different trade towing operators and decide where they will store their vehicle.

Storage services are effectively the same regardless of the type of towing services provided, with similar facilities used to store towed vehicles. Storage for trade towing, clearway and impound jobs are all unregulated services and operators in these markets publish their storage fees. We consider that the similarity of these services means they are useful benchmarks for comparison with the fees for storage of accident-damaged vehicles.

Land prices and associated rental prices are a major driver of the cost of storage fees. Marsden Jacob's benchmarking analysis develops benchmark storage fees based on land rental rates.

Unlike Melbourne and Adelaide, Sydney and Queensland do not have undercover storage fees

We compared the regulated storage fees in the Melbourne controlled area with those in Sydney, Adelaide and Queensland. While we were able to make like-for-like comparisons for each of the storage services provided in Melbourne and Adelaide, this was not possible for some services in Sydney and Queensland. This is because the same fee is charged for storage in Sydney and Queensland regardless of whether the vehicle is held under cover or in a locked yard that is not under cover. Whereas Melbourne and Adelaide have different fees for undercover and locked yard storage. We therefore referred only to locked yard fees, when comparing Sydney and Queensland fees.

Regulated storage fees accord with estimated rental values and utilisation rates in Melbourne and Sydney

Marsden Jacob analysis of rental values for commercial properties in both Sydney and Melbourne (in terms of rent per square metre) in areas which have storage or towing depots found that Sydney's rental values are much higher than Melbourne for an equivalent area. Additionally, rentals are lower for areas located greater than 10 kilometres from the Central Business Districts (CBD), especially in Sydney.

Marsden Jacob found the average rental values for Melbourne were \$121.53 less than 10 kilometres from the CBD and \$91 greater than 10 kilometres from the CBD. For Sydney the average rental values in the equivalent areas were \$243.71 and \$138.70.

Marsden Jacob converted the land rental values to an estimated storage fee using the same proportion of storage fee to land value applied by the Independent Pricing and Regulatory Tribunal (IPART) of NSW in its 2014 review of tow truck fees and licensing.⁸⁴ One limitation of this approach is that IPART estimated a recommended maximum storage fee based on what it considered the more efficient storage operators who had storage utilisation rates of 40 to 45 per cent. No assessment has been made as to whether these are a reasonable and appropriate storage utilisation rates for the Melbourne control area.

The resulting estimated storage benchmarks for Melbourne and Sydney are listed in table 16. As expected, these show Sydney's storage fees are higher than Melbourne's based on comparative land values. In particular, the storage fees for Sydney that apply under this approach are \$31.96 on average compared to \$18.85 in Melbourne. This is similar to the difference between storage fees for a car in a locked yard but not under cover – Sydney with a storage fee of \$30.80 and Melbourne with a fee of \$17.40.

⁸⁴ IPART 2014, *Review of tow truck fees and licensing in NSW: Transport – Final Report*, December, p.96

Table 16 Melbourne and Sydney benchmark storage fees (per day) by location and storage utilisation (as at 1 October 2021)

	40% utilisation	45% utilisation	Average
Melbourne			
10 km or less from CBD	\$23.73	\$20.99	
Greater than 10 km from CBD	\$17.77	\$15.72	
Total average	\$20.00	\$17.69	\$18.85
Sydney			
10 km or less from CBD	\$47.59	\$42.09	
Greater than 10 km from CBD	\$27.08	\$23.95	
Total average	\$33.92	\$30.00	\$31.96

Source: Marsden Jacob 2021, *Accident towing and storage fees in the Melbourne Controlled Area*, November, p.29

Benchmarks show similarities and differences with abandoned or derelict vehicle towing fees

We analysed the fees for abandoned or derelict vehicle towing storage services and found they varied greatly by local council. Local councils negotiate contracts with towing companies to provide these services and outline the fees they will pass on in their annual budgets. Most councils publish a ‘release fee’ for impounded vehicles that covers all costs involved in retrieving a vehicle, although some councils publish a separate storage fee.

Table 17 shows that the average of \$28.68 per day is impacted by some councils with large storage costs in the outer Melbourne area. The average fee is therefore higher than the regulated storage charges of \$17.40 (locked yard not covered) and \$25.70 (car under cover) per day associated with accident tows in Melbourne. However, inner Melbourne councils have an average rate of \$16.12 which is similar to the lower accident storage charge of \$17.40 (locked yard not covered) per day.

Table 17 Published daily storage fee for abandoned or derelict vehicles (as at 1 October 2021)

Municipality	Location of Council	Storage fee per day
City of Boroondara	Inner Melbourne	\$11.20
City of Darebin	Outer Melbourne	\$43.00
City of Kingston	Outer Melbourne	\$28.50
Knox City Council	Outer Melbourne	\$63.20
Manningham City Council	Outer Melbourne	\$29.50
Maribyrnong City Council	Outer Melbourne	\$51.00
City of Melbourne	Inner Melbourne	\$17.60
City of Monash	Outer Melbourne	\$33.30
Moreland City Council	Outer Melbourne	\$15.00
City of Port Phillip	Inner Melbourne	\$20.00
City of Stonnington	Inner Melbourne	\$15.90
City of Yarra	Inner Melbourne	\$15.90
Average (all)		\$28.68
Inner Melbourne		\$16.12
Outer Melbourne		\$37.64

Source: Marsden Jacob 2021, *Accident towing and storage fees in the Melbourne Controlled Area*, November, p.29

Regulated storage fees in line with clearway towing storage fees

Since December 2020, as part of the Department of Transport's 'Clearways Management Project', all clearways on major roads within 20-kilometres of the Melbourne CBD are tow-away zones. Clearway towing is mainly operated by the Department of Transport in Melbourne and clearway zones in most councils have a storage fee which has been negotiated by the Department of Transport. Four councils have negotiated a different daily storage fee.

Table 18 Published daily storage fees for vehicles towed from a clearway (as at 1 October 2021)

Municipality	Daily storage fee
Councils adopting VicRoads fees	\$15.20
City of Melbourne	\$17.60
City of Port Philip	\$20.00
City of Stonnington	\$15.90
City of Yarra	\$15.90
Average (all)	\$16.92
Average (four non-VicRoads councils)	\$17.35

Source: Marsden Jacob 2021, *Accident towing and storage fees in the Melbourne Controlled Area*, November, p.30

As shown in table 18, the average fee is \$16.92 per day which is lower than the regulated storage charges associated with accident tows in Melbourne. The four Melbourne councils which have negotiated a different daily storage fee from that of the Department of Transport have an average rate of \$17.35, similar to the storage charge of \$17.40 (car uncovered) per day.

Appendix F: Productivity analysis

Our consultant, Marsden Jacob, provided expert advice on how to assess productivity changes in the Melbourne accident towing industry and we have drawn on this advice in making our decisions. Productivity is the comparison of changes in inputs (such as, costs of operating the business) to changes in outputs (such as, revenue or turnover).

Based on Marsden Jacob's advice, we analysed several data sources, including:

- Multifactor and partial productivity published by the Australian Bureau of Statistics for the transport, postal and warehousing division.
- Partial productivity measures based on industry data provided by the Department of Transport. This includes the number of accident tows per licensed tow truck, the number of accident tows per licence and the time taken to complete an accident tow.
- Estimates based on data published by the Australian Taxation Office.

None of the data sources we analysed are wholly representative of the accident towing industry. This means there is no direct measure of the productivity adjustment factor (which is an estimate of future productivity changes). Nevertheless, the measures we considered may show how productivity has changed between 2008–09 and 2018–19.⁸⁵ These measures indicate productivity in the Melbourne accident towing industry has improved over this period.

Australian Bureau of Statistics productivity data is indicative

We assessed multifactor and partial productivity measures derived from data published by the Australian Bureau of Statistics. Multifactor productivity measures capture all relevant input and outputs for the transport, postal and warehousing sector, while partial productivity measures only capture a single input (in this case, either labour or capital productivity).

Marsden Jacob calculated three productivity growth rates for each measure, to consider how productivity changes over short, medium, and long-term periods between 2008–09 and 2018–19. The measures were calculated in two ways:

- quality adjusted hours worked, which measures hours work and changes in quality, such as education achievement and experience
- hours work, which measures hours worked only.

⁸⁵ The analysis in this chapter excludes 2020 due to the coronavirus pandemic.

Table 19 shows a range of estimates that the Australian Bureau of Statistics data produced. The results indicate that historical productivity growth is somewhere between -0.7 per cent and 0.9 per cent.

Table 19 Australian Bureau of Statistics productivity measures

Productivity measure	2015–16 to 2018–19	2013–14 to 2018–19	2008–09 to 2018–19
Gross value added based multifactor productivity – quality adjusted hours worked basis	-0.05%	-0.74%	-0.02%
Gross output based multifactor productivity – Quality adjusted hours worked basis	-0.02%	-0.33%	-0.01%
Gross value added based multifactor productivity – Hours worked basis	0.27%	-0.43%	0.25%
Gross output based multifactor productivity – Hours worked basis	0.12%	-0.19%	0.11%
Labour productivity – Quality adjusted hours worked basis	0.33%	-0.60%	0.81%
Labour productivity - Hours worked basis	0.89%	-0.07%	1.29%
Capital productivity	-0.56%	-0.92%	-1.25%

Source: Marsden Jacob 2021, *Accident towing and storage fees in the Melbourne Controlled Area*, November, p.37, p.39

The productivity growth rates are based on a compound annual growth rate.

These measures have some limitations for our purposes. While this data is commonly used to measure productivity, the transport, postal and warehousing division represents a broader industry than the Melbourne accident towing industry. The data is also a national index and may not be reflective of productivity growth in the Melbourne transport sector.⁸⁶

Industry data indicates productivity has increased

Given the limitations of the Australian Bureau of Statistics data, we considered further measures based on data more relevant to the sector. These were:

- accident tows per licensed truck
- accident tows per towing licence
- time to perform accident towing tasks (including travel and wait times).

⁸⁶ Marsden Jacob 2021, *Accident towing and storage fees in the Melbourne Controlled Area*, November, pp. 36-37.

While this data is more relevant to the accident towing industry than the data published by the Australian Bureau of Statistics, it may not be representative of overall productivity growth. As they are partial measures, it means changes in the measures could be driven by inputs not included in the data (such as information and scheduling systems). Further, the output component only captures revenue from accident towing activities and does not include other potential revenue sources, such as trade towing and storage services.⁸⁷

Average tows per tow truck and per licence indicates productivity improved between 2014 and 2019

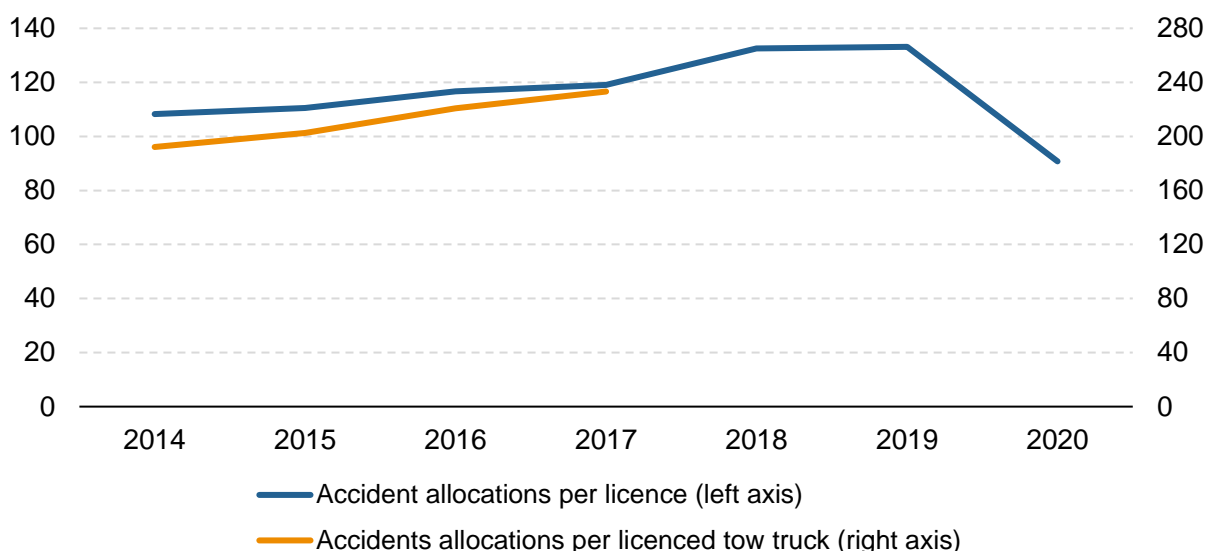
Between 2012 and 2017, the number of licensed tow trucks fell from 252 to 212. Over the same period, the number of accident allocations increased, resulting in an increasing rate of tow truck utilisation. The Department of Transport was unable to provide updated data for this report, so we were unable to assess how this has changed since 2017. However, we do have data that shows the average number of accident tows per licence.⁸⁸

Figure 5 compares the number of tows per licensed tow truck and number of tows per licence. It shows that the measures both increase between 2014 and 2017. Between 2017 and 2019, the number of tows per licence continued to increase.

⁸⁷ Ibid p 39-40.

⁸⁸ Some tow trucks use multiple licences. This means that tow truck utilisation would be better measured by the number of tows per licensed tow truck. However, given data availability, the number of tows per licence can be used to show how efficiently tow truck operators are using their licences.

Figure 5 The average number of accident allocations per licensed tow truck and licences



Source: Department of Transport

For these measures, Marsden Jacob calculated productivity growth rates for two-year, three-year and five-year time periods from 2014 to 2019. Table 20 shows that growth ranges between 6.7 per cent and 7.3 per cent between 2014 and 2017.

Table 20 Annual growth in accident tows per licensed tow trucks

Partial productivity measure	2014 to 2017	2015 to 2017
Average accident tows per licensed truck	7.3%	6.7%

Source: Marsden Jacob 2021, *Accident towing and storage fees in the Melbourne Controlled Area*, p 43.

The productivity growth rates are based on the compound annual growth rate for each period. Data only available to 2017.

Table 21 shows that the number of tows per licence ranges between 4.2 per cent and 5.7 per cent between 2014 and 2019.

Table 21 Annual growth in accident tows per licence

Partial productivity measure	2017 to 2019	2016 to 2019	2014 to 2019
Average accident tows per towing licence	5.7%	4.5%	4.2%

Source: Marsden Jacob 2021, *Accident towing and storage fees in the Melbourne Controlled Area*, p 43.

The productivity growth rates are based on the compound annual growth rate for each period.

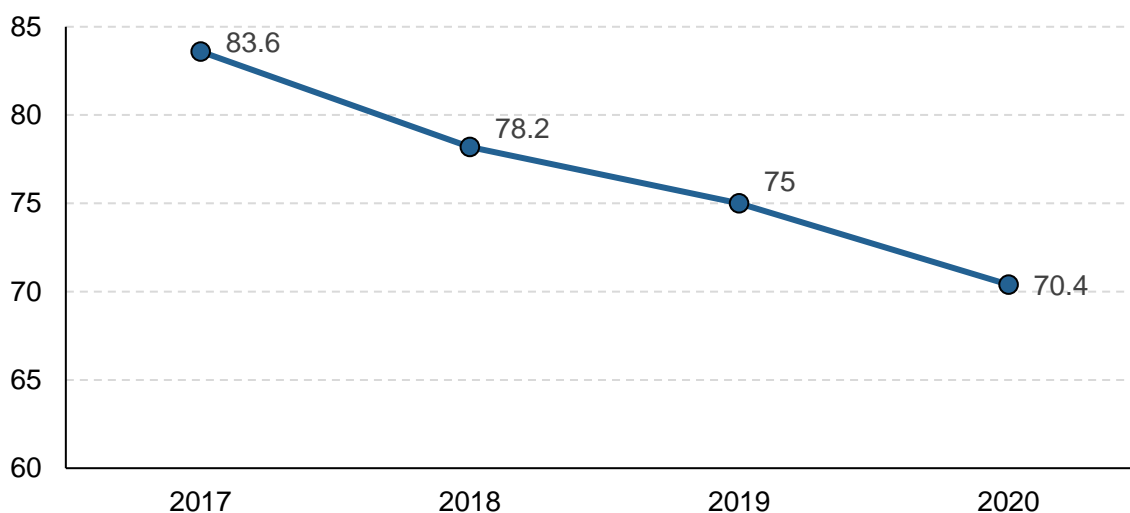
Average time to perform accident tows has improved

Using data provided by the Department of Transport, Marsden Jacob estimated the average time to perform accident tows between 2017 and 2020. This is based on the difference between when a dispatch call is made to a depot and when the tow truck finishes transporting a vehicle to its destination. It includes the:

- travel time from the location where the call is received to the location of the accident
- wait and work time at the accident scene to move the vehicle onto the tow truck
- travel time from the accident scene to the vehicle's destination (for example, a storage yard).⁸⁹

As shown in figure 6, between 2017 and 2019, the average travel time fell from 83.6 minutes to 75 minutes. This represents a 5.3 per cent annual improvement in time productivity. We also consider that this is indicative of an improvement in service quality.

Figure 6 Average time to complete accident tows, minutes



Source: Department of Transport, Marsden Jacob 2021, *Accident towing fees: benchmarking and productivity review*, p 42.

We excluded values less than 20 minutes and greater than 600 minutes as we considered data entries beyond this range were not valid.

⁸⁹ Marsden Jacob 2021, *Accident towing fees: benchmarking and productivity review*, p 41.

Estimates based on Australian Tax Office data

We considered how data published by the Australian Tax Office could be used to estimate productivity growth. The Australian Tax Office produces national performance benchmarks for many industries, including the towing industry.

Marsden Jacob used this information to calculate two types of measures:

- Ratio of total expenses to turnover – a measure of profitability in the accident towing industry.
- Expenses index compared to the consumer price index – Marsden Jacob constructed an index that measured expenses per tow and compared the index to changes in Melbourne Transport consumer price index.⁹⁰

We have not used Australian Tax Office estimates for our analysis or conclusions

While the Australian Tax Office benchmarks and our expenses index may provide some insights into productivity, they are not strictly productivity measures in themselves. We have therefore excluded them from our analysis and they have not informed our conclusions.

We have considered similar measures in previous reviews and Marsden Jacob included them to provide an illustration of the type of information in relation to productivity, that could be derived from alternative sources (that is, other than from the Australian Bureau of Statistics and the Department of Transport).

⁹⁰ Marsden Jacob 2021, *Accident towing and storage fees in the Melbourne Controlled Area*, November, pp. 43-47

Appendix G: Accident towing industry performance

In this appendix, we outline our analysis of publicly available data, as well as data provided to us by the Department of Transport, to examine the general performance of the accident towing industry. This may, in part, indicate whether existing regulated fees are too low or too high.

We found regulated fees are not likely to have negatively affected the finances of operators in the accident towing industry. This is based on an examination of industry performance between 2015 and 2019 in which:

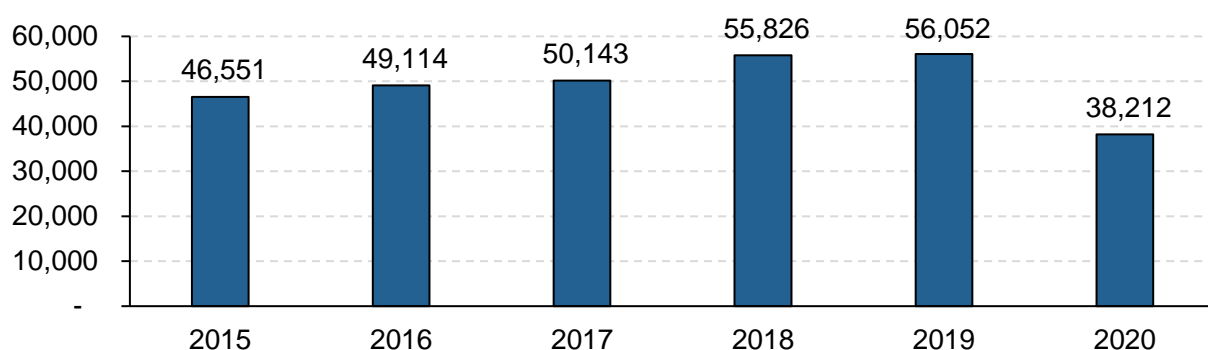
- demand for accident towing work increased while supply remained relatively unchanged
- revenue for accident towing work increased at a faster rate than costs, as estimated through the Melbourne Transport consumer price index
- quality of service levels has not significantly changed.⁹¹

Demand and supply for accident towing has changed since 2015

Demand for accident towing has increased as shown by allocation numbers

Figure 7 shows that the number of accident allocations has steadily increased since 2015. Between 2015 and 2019, the average annual increase in accident tows was 4.8 per cent. Despite the fall in accident tows in 2020 (due to the coronavirus pandemic), there were more accident tows in three-year period following our last review of accident towing and storage fees (2018 to 2020) than there were in the three-year period before our last report (2015 to 2017).

Figure 7 Accident allocations in the Melbourne controlled area, 2015 to 2020



Source: Department of Transport

⁹¹ We have excluded 2020 from our examination because of the coronavirus pandemic. See chapter 2 for more detail on our approach.

Supply of licences did not change, but operator numbers have declined

While accident allocations increased between 2015 and 2019, the number of accident towing licences in operation has remained constant at 421. As such, the number of annual allocations per accident towing licence has increased since 2015. Table 22 shows there has been a consolidation in the number of accident towing operators, from 107 to 91. Between 2015 and 2019, the average number of tows per operator increased by 8.2 per cent per year.

Table 22 Number of annual accident allocations per accident towing operator and licence in the Melbourne controlled area, 2015 to 2020

	2015	2016	2017	2018	2019	2020
Number of operators	107	104	101	97	94	91
Number of licences	421	421	421	421	421	421
Number of tows per operator	435	472	496	576	596	420
Number of tows per licence	111	117	119	133	133	91

Source: Department of Transport

Costs increased for accident towing services (as approximated by the Melbourne Transport consumer price index) at a lower rate than revenue (as outlined below). There were also some changes in the sizes of accident towing depots, with fewer depots with less than six licences in 2020 than in 2015 (see table 23). However, the number of licences held by each depot has remained relatively stable since 2018.

Table 23 Number of licences held by each Melbourne controlled area depot, 2015 to 2020

Licences per depot	2015	2016	2017	2018	2019	2020
5 or fewer	21	18	17	15	16	16
6 to 10	11	14	15	15	16	16
11 to 15	7	9	8	9	8	8
16 to 20	4	2	3	3	3	3
21 or more	3	3	3	3	3	3
Total depots	46	46	46	45	46	46

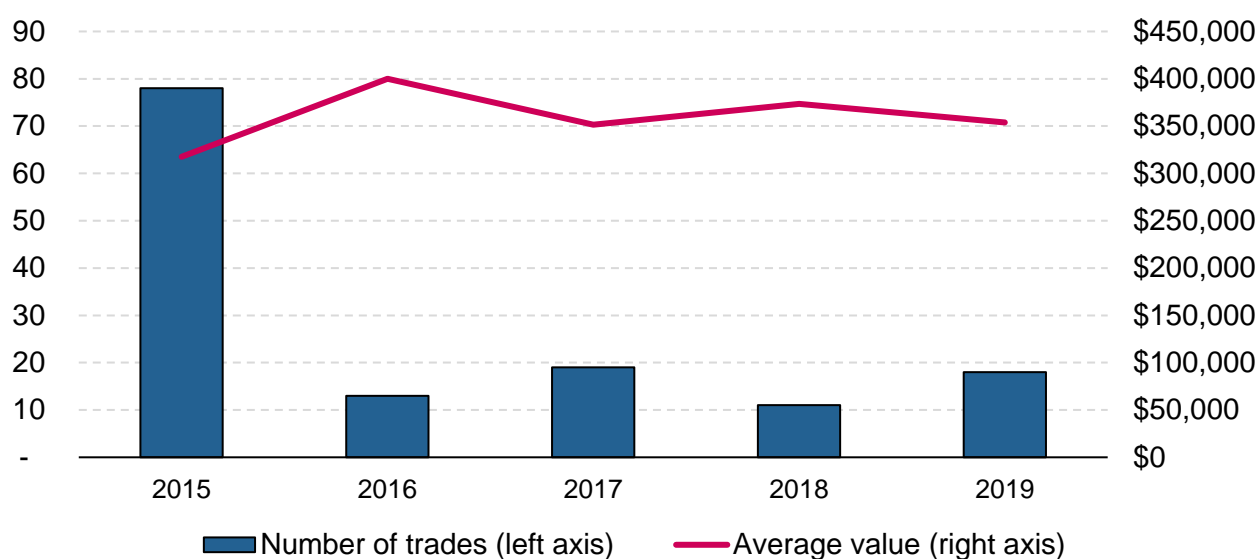
Source: Department of Transport

There was little change to the structure of the industry based on the number of licences transferred over time. Figure 8 shows the number of licence trades ranged between 11 and 19 from 2016 to 2019. Stakeholders previously stated the large number of trades in 2015 was due to existing licence holders transferring licences between their different business names for administrative purposes.

Figure 8 also shows that average transfer price for licences has remain relatively stable over time. However, the value of an accident towing licence can be difficult to assess for a variety of reasons:

- **Licences are not readily traded** – Accident towing licence holders require the Department of Transport’s approval to transfer a licence. In addition, licences can only be traded between registered and accredited tow truck operators.
- **Expected profit streams differ between allocation zones** – Each accident towing licence is associated to a particular geographic zone, which will have a different number of expected accident allocations each year.
- **Reliability of the Department of Transport licence sale data** – Not every licence transfer has a specified price in the data we have sourced from the Department of Transport, so the dataset is not a complete picture of the licence transfer values. It is also unclear whether the reported licence transfer values include other items in the sale, such as vehicles, equipment, goodwill, or other assets included with the purchase.
- **Licences provide access to unregulated revenue sources** – Licence values may also be influenced by the financial viability of services that are unregulated. For example, we previously identified that licence values are partly driven by the ability to secure smash repair work from accidents.

Figure 8 The average value and number of licences traded, 2015 to 2019



Source: Department of Transport. All licence trades are self-reported and are not verified by the Department of Transport. We have removed outliers that we suspect have not been entered correctly. 2020 has been removed due to insufficient data.

Growth in accident towing revenue has outpaced growth in costs

As regulated fees and accident allocations have both been growing since 2015, total revenue for accident towing services has increased over this period. At the same time, the costs in the industry (measured by the Melbourne Transport consumer price index) have been volatile from year-to-year and increasing at a slower rate than fees and revenue.

Revenue grew in response to rises in regulated fees and accident allocations

Table 24 shows revenue for accident towing services increased each year between 2015 and 2019. This was driven by increases in both regulated accident towing and storage fees (as shown in table 25) and the number of allocations. As outlined above, this occurred as the industry consolidated, increasing the revenue per accident tow over this period. Overall, we estimate accident towing revenue increased by 7.3 per cent per year between 2015 and 2019.

Table 24 Estimated revenue in the Melbourne Controlled Area, 2015 to 2020

	2015	2016	2017	2018	2019	2020
Estimated revenue	16,722,609	17,643,320	18,379,516	21,132,262	22,153,096	15,774,449
Estimated revenue per tow truck licence	39,721	41,908	43,657	50,195	52,620	37,469
Annual increase	3.42%	5.51%	4.17%	14.98%	4.83%	-28.79%

Source: Commission analysis using Department of Transport data. This assumes that the average accident tow includes 28km travel distance, three days storage and a 54 per cent weighting on jobs undertaken in non-business hours.

Table 25 Percentage change in regulated fees, 2014–15 to 2020–21

	2014–15	2015–16	2016–17	2017–18	2018–19	2019–20	2020–21
Increase in regulated fees	2.40%	0.00%	0.00%	4.30%	2.40%	0.00%	2.70%

Storage fees also increased by 47 per cent in 2019–20 following our recommendation that they were too low.

Costs, as approximated by Melbourne’s transport consumer price index, increased between 2015 and 2019

We considered industry cost changes as approximated by the Melbourne Transport consumer price index published by the Australian Bureau of Statistics.

Table 26 lists changes in the Melbourne Transport consumer price index, alongside its component cost indices. This includes motor vehicles (including accessories and other services), automotive fuel, urban transport fares and maintenance and repair of vehicles. We also considered changes in the Melbourne wage price index, which estimates changes in labour costs.

Between 2015 and 2019, most cost indices have increased. The only fall in prices over this time was in the motor vehicle component. While the cost indices are volatile from year-to-year, they increased over the long-term. Between 2015 to 2019, the increases in each component ranged from –0.1 per cent to 3.6 per cent. This is lower than the growth in our estimated average revenue, which increased by 7.3 per cent per year.

Table 26 Annual percentage changes in the Melbourne Transport consumer price index components

	2015	2016	2017	2018	2019	2020	2015 to 2019 per year
Transport	-3.87%	-1.09%	3.49%	4.29%	1.21%	-2.85%	1.95%
Private Motoring	-3.12%	-1.21%	3.48%	4.31%	1.04%	-3.05%	1.88%
Motor vehicles	-1.09%	-0.05%	-1.10%	-1.17%	2.04%	1.03%	-0.08%
Spare parts and accessories for motor vehicles	3.91%	-0.35%	1.53%	1.58%	1.51%	2.32%	1.07%
Automotive fuel	-14.26%	-6.06%	11.19%	11.97%	-1.51%	-11.37%	3.60%
Maintenance and repair of motor vehicles	3.90%	1.95%	0.91%	1.65%	2.99%	4.37%	1.87%
Other services in respect of motor vehicles	5.50%	1.74%	1.94%	3.75%	1.76%	-1.82%	2.29%
Urban transport fees	-15.79%	1.39%	3.95%	4.00%	3.29%	0.66%	3.15%
Wage price index	2.38%	2.06%	1.97%	2.31%	2.55%	1.51%	2.22%

Source: Australian Bureau of Statistics, CPI table 9 and WPI, table 3b. The changes have been calculated by comparing the sum of all index values in each calendar year. The wage price index used is the 'quarterly index; total hourly rates of pay excluding bonuses; Victoria; Private; All'

Both revenue and costs fell in 2020

In 2020, accident allocations fell by 31 per cent, resulting in a similar sized decrease in estimated accident towing revenue for tow truck operators. At the same time, costs, as measured by Melbourne Transport consumer price index, fell by 2.85 per cent. As stated in chapter 2 of this report, our analysis excludes 2020 due to the coronavirus pandemic. It is highly likely the changes in 2020 were driven by restrictions during the coronavirus pandemic and we are unable to ascertain to what degree these market changes will continue into the long term. As part of our next review, we will be able to consider any long-term changes in the market which will inform future recommendations on the appropriate level of accident towing and storage fees.

Service quality measures have improved since 2015

The service quality measures we compiled, indicate the industry's performance is improving. However, this data is not reported in a consistent and complete way. As such, we cannot conclude

whether improvement in the measures reflects actual changes in industry performance or issues with the data quality.

Based on available data, we examined two measures of service quality:

- time to complete accident tows.
- the number of complaints.

Response times are not collected

Tow truck drivers are subject to a requirement to take reasonable steps to arrive at an accident scene within 30 minutes of accepting an accident allocation. We are unable to assess whether the achievement of this requirement has improved over time, as data on response times is not regularly collected for this indicator. This data should be collected as tow truck drivers are required to notify the call centre that allocates accident towing jobs, when they have arrived at an accident scene.⁹² It would verify one of the aims of the accident allocation scheme and zone boundaries, namely to ensure accidents are responded to within the 30 minute time limit.

Total accident tow times improved from 2017 to 2019

Although response times are not collected, the total time for an accident tow can be calculated from available data. The Department of Transport was able to provide data that shows the time the dispatch centre contacts depots to allocate an accident and the time a tow truck finishes transporting a vehicle to its destination. This means, the 'total accident tow time' includes:

- travel time from the location where the call is received to the location of the accident
- wait and work time at the accident scene to move the vehicle onto the tow truck
- travel time from the accident scene to the vehicle's destination (for example, a storage yard).

As illustrated in table 27, our analysis of the available data shows the average time to complete an accident tow fell from 83.6 minutes in 2017 to 75 minutes in 2019.

Table 27 Average time to complete an accident tow, minutes

	2017	2018	2019	2020
Average accident tow time	83.6	78.2	75.0	70.4

Source: Department of Transport. The data excludes values less than 20 minutes and more than 600 minutes.

⁹² As per clause 37(8) of the Accident Towing Services Regulations 2019.

Complaint numbers fluctuated over time but are lower in 2019 than 2015

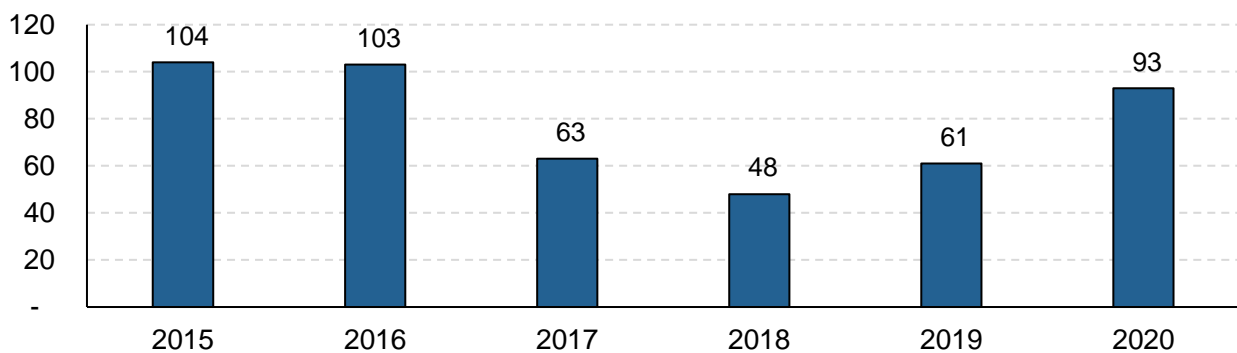
The Department of Transport provided us data on the number and type of investigated complaints received in relation to accident towing operators. Trends in the number of complaints (in total or on a specific topic) may indicate service levels are increasing or decreasing in the industry.

We understand the Department of Transport does not record the number of complaints in relation to simple matters that are resolved without requiring an investigation. For example, if resolution is reached by contacting an operator to inform them that they cannot charge a particular fee.

Therefore, the complaints data presented in this section does not reflect the total number of complaints in relation to the accident towing industry. However, we consider changes in the number of 'investigation-worthy' complaints may indicate changes in service levels over time.

Figure 9 shows the number of investigated complaints decreased from 104 in 2015 to 48 in 2018 and then increasing to 93 in 2020.

Figure 9 **Number of complaints**



Source: Department of Transport