Accident towing fees in the Melbourne Controlled Area

Fee benchmarking and productivity review

June 2018

Level 13, 333 Collins Street
Melbourne VIC 3000
Australia

301010-01628-

www.**advisian**.com

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WorleyParsons Group

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Rev	Description	Author	Review	Advisian Approval	Date
Final report		 Tim Bryant, Bernard Lai	 Tim Bryant	 Flavio Romano	July 2018

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1 Introduction

The Essential Services Commission (the Commission) is required to periodically review and make recommendations to the Minister for Roads on regulation of accident towing fees in the 'Melbourne Controlled Area' (metropolitan Melbourne and the Mornington Peninsula). To inform its 2018 review the Commission asked Advisian to undertake a benchmarking exercise of accident towing fees in the Melbourne Controlled Area and to review the productivity of the accident towing industry.

The provision of accident towing services is regulated in Victoria under the *Accident Towing Services Act 2007* (the Act). Accident towing operators and drivers are required to be licensed by the industry regulator, VicRoads. In the Melbourne Controlled Area, the allocation of accident towing jobs to licensed operators is controlled through an accident allocation scheme administered by VicRoads. The Melbourne Controlled Area is divided into over 40 zones containing one or more accident towing operator depots. When a vehicle has been in an accident and needs to be towed, the towing job is assigned to a depot within that zone based on an allocation system designed to evenly share towing jobs across licences within the zone.

As the accident allocation scheme effectively grants a monopoly right to an operator to perform an accident tow, fees for providing accident towing services are regulated. The Minister for Roads is responsible for determining fees and must seek a recommendation from the Commission before doing so.

The Act provides for the Minister to determine the fees towing operators may charge for the following services:

- accident towing
- storage of accident damaged vehicles
- basic salvage (using a tow truck to move a vehicle to a safe position from which it can be towed).

The Minister has previously determined fees for accident towing and storage, but has not determined fees for basic salvage.

The Commission reviews and makes recommendations on accident towing fees approximately every four years. In the interim years between fee reviews, fees are adjusted annually in line with the Melbourne transport consumer price index minus a productivity adjustment factor (currently set at 0.5 per cent).

The scope of the Commission's periodic reviews includes:

- reviewing whether previously determined fees remain appropriate
- reviewing whether any unregulated fees should be regulated (e.g. basic salvage)
- reviewing the productivity adjustment figure applied to annual fee indexation.

To inform the Commission's review, the remainder of this report is structured as follows:

- Chapter 2 provides an overview of current regulated accident towing and storage fees in the Melbourne Controlled Area
- Chapter 3 benchmarks the current accident towing and storage fees against regulated fees for accident towing and storage in other jurisdictions, as well as market based fees for comparable services
- Chapter 4 reviews the productivity of the accident towing industry in relation to the productivity adjustment figure applied to annual indexation of regulated accident towing fees.

2 Accident towing fees in the Melbourne Controlled Area

This chapter provides a brief overview of the structure and level of current (2017-18) accident towing and storage fees and summarises changes in fees since 2012-13.

2.1 Current fees and structure

The current accident towing and storage fees as applicable in the Melbourne Controlled Area in 2017-18 are summarised in Table 1. Towing fees include a base fee covering the first 8 kilometres of tow truck travel (including from the depot to the accident site), a per kilometre charge applicable after the first 8 kilometres and an 'after hours surcharge' for tows occurring outside business hours (defined as 8am to 5pm weekdays excluding public holidays).

Table 1: Accident towing and storage fees, 2017-18

Service description	2017-18 fees (including GST)
Accident towing	
Base fee Includes: ▪ First 8km of tow truck travel (including the distance from depot to accident scene); ▪ removal of all debris (including any spills); ▪ cleaning the tow truck; ▪ waiting time at the accident scene; ▪ phone calls; ▪ release of stored vehicle; ▪ unpaid tows; and ▪ administration such as photos and documentation.	$216.20
Additional distance fee (after 8km)	$3.40 per km
After hours surcharge: 5pm to 8am Monday to Friday 5pm Friday to 8am Monday (all weekend) Public holidays (midnight to midnight)	$73.80
Storage of accident damaged vehicles	
Storage of car under cover	$16.60 per day
Storage of car in locked yard	$11.20 per day
Storage of motorcycle under cover	$5.50 per day
Storage of motorcycle in locked yard	$3.50 per day

Using this fee structure, Table 2 shows accident towing fees for a number of scenarios involving different towing distances during and outside business hours. An average accident towing fee of $292 is also calculated based on historical data which indicates the average tow truck distance is 18km[1] and 57 per cent of accident tows occur outside business hours.[2]

[1] Essential Services Commission 2015, Accident towing regulation — Draft report, September, p. 88

Table 2: Accident towing fees, 2017-18

Tow truck distance travelled	During business hours	Outside business hours
5km	$216	$290
15km	$240	$314
25km	$274	$348
35km	$308	$382
Fee for average tow characteristics in Melbourne Controlled Area		
18km (average tow truck distance)	$250	$324
Average fee ▪ 18km tow truck distance ▪ 57% accidents occurring outside business hours	**$292** ($250 x 43% + $324 x 57%)	

2.2 Changes in fees in recent years

The Commission's previous review of accident towing fees concluded the existing fees at the time (2012-13) remained appropriate and should continue to be adjusted by the annual adjustment mechanism. The changes in fees since 2012-13 are summarised in Table 3, including fees that will apply in 2018-19 upon application of the adjustment mechanism on 1 July 2018.

From 2012-13 to 2017-18, accident towing and storage fees grew at a compound annual growth rate of 1.9 per cent. The average fee for an accident tow rose from $266 to $292, while the per day storage fee for cars stored under cover rose from $15.10 to $16.60.

[2] VicRoads data, Advisian analysis

Table 3: Towing and storage fees 2012-13 to 2018-19

Year	Annual adjustment	Base fee	Distance Fee	After hours surcharge	Average fee[1]	Storage fee per day (car undercover)
2012-13	1.2%	$196.90	$3.10	$67.20	$266	$15.10
2013-14	2.8%	$202.40	$3.20	$69.10	$274	$15.50
2014-15	2.4%	$207.30	$3.30	$70.80	$281	$15.90
2015-16	0.0%	$207.30	$3.30	$70.80	$281	$15.90
2016-17	0.0%	$207.30	$3.30	$70.80	$281	$15.90
2017-18	4.3%	$216.20	$3.40	$73.80	$292	$16.60
2018-19	*2.4%*	*$221.40*	*$3.50*	*$75.60*	*$299*	*$17.00*

[1] Average towing fee assuming 18km and 57 per cent of accidents occurring outside business hours

3 Fee benchmarking

To inform the Commission's review of whether or not regulated accident towing and storage fees in the Melbourne Controlled Area remain appropriate this chapter compares the 2017-18 fees against two types of benchmarks:

1. regulated accident towing and storage fees in other jurisdictions

2. unregulated trade towing and storage fees in competitive markets.

These can be useful benchmarks for appropriate accident towing fees in the Melbourne Controlled Area to the extent that fees in these markets are efficient and services and underlying costs are comparable. Each type of benchmark has advantages and disadvantages in this respect as explained below.

Regulated accident towing and storage services in other Australian capital city jurisdictions are likely to have very similar characteristics and underlying costs to services in the Melbourne Controlled Area, thus providing a useful comparison. However, there will be a number of factors unique to each jurisdiction that will influence the costs and fees of towing service providers such as regulatory settings, traffic conditions and land value. Most notably, fees for accident towing in the other jurisdictions are set by regulators who face challenges in determining appropriate prices given uncertainty and incomplete information about the efficient costs of providing services. For this reason regulated fees are more likely to diverge from efficient costs than fees determined in a competitive market.

Trade towing refers to general towing services that are not the immediate result of a road accident. This includes towing of vehicles that are broken down, parked illegally in clearways or other areas, or that require towing from a storage yard to another location (secondary tow). Fees for trade towing services are not regulated in Victoria. Consumers requiring their broken down vehicle to be towed can shop around to compare fees of different towing service providers. Similarly, organisations such as VicRoads who require regular clearway towing services can negotiate contracts with service providers through competitive procurement processes. The competitive characteristics of the trade towing market are therefore more likely to result in towing fees that reflect the efficient cost of providing services, thus providing a useful benchmark for appropriate accident towing fees. However, there are differences between accident towing and trade towing services that will mean their underlying costs differ to a certain extent. Accident towing operators are subject to regulations that may impact their costs relative to trade towing operations. For example, accident towing operators in the Melbourne Controlled Area are required to attend the accident site within 30 minutes of being allocated a tow under the accident allocation scheme, meaning they may have to have more trucks on standby to meet this requirement and have less efficient truck utilisation as a result. Additionally, accident tows can be more time consuming if operators have to wait for police to attend the accident scene before towing the vehicle.

These characteristics of the benchmarks presented in this chapter are important context in the assessment of whether or not accident towing fees in the Melbourne Controlled Area remain appropriate.

3.1 Regulatory arrangements in other jurisdictions

Accident towing and storage fees are regulated in NSW, Queensland and South Australia. Regulatory frameworks, the scope of fee regulation, fee reviews and annual fee adjustment mechanisms vary from jurisdiction to jurisdiction, as summarised in Table 4. Notable differences across jurisdictions include:

- **Allocation of towing jobs** – both the Melbourne Controlled Area and South Australia have allocation schemes that assign towing jobs to operators, with regulated fees being fixed amounts. In metropolitan Sydney and Queensland, accident tows are not allocated – licensed operators are able to compete for accident towing jobs provided they do not charge fees above regulated maximums.
- **The scope of fee regulation** – typically covers accident tows and a per day storage fee, with the exception of Queensland, where the maximum fee includes three days storage and storage fees are not regulated thereafter. South Australia has the broadest scope of fee regulation, covering hourly rates for work required beyond 30 minutes (which can include salvage) and commissions on smash repairs.
- **Formal fee reviews** – typically occur every four to five years, except for in Queensland where there is no formal review period.
- **Annual fee indexation** – the use of a transport specific index with a productivity adjustment is unique to the Melbourne Controlled Area. Annual adjustments in other jurisdictions typically reference a broader All Groups CPI or general indexation policy and do not include a productivity adjustment.

Table 4: Accident towing fee regulation in other jurisdictions

	Melbourne Controlled Area	Sydney metropolitan area	Queensland	South Australia
Legislation and regulations	Accident Towing Services Act 2007 Accident Towing Regulations 2008	Tow Truck Industry Act 1998 Tow Truck Industry Regulation 2008	Tow Truck Act 1973 Tow Truck Regulation 2009	Motor Vehicles Act 1959 Prices Act 1948 Motor Vehicles Regulation 2000
Allocation of towing jobs	Allocation scheme	Licensed operators compete for towing jobs	Licensed operators compete for towing jobs	Allocation scheme
Regulated fees	Set fees for: ▪ accident tows ▪ storage per day	Maximum fees for: ▪ accident tows ▪ storage per day	Maximum fees for: ▪ accident tows (includes 3 days storage)	Set fees for: ▪ accident tows ▪ storage per day ▪ hourly rate for work beyond 30 minutes ▪ Commissions on smash repairs
Fee reviews	Every four years Last fee review 2013, last regulation review 2015	Every four years Last fee review 2014, effective 1 July 2016	No formal review period	August 2015, and reviewed at 5 year intervals
Annual fee adjustments	CPI (Melbourne, Transport) *less* a productivity factor of 0.5 per cent	CPI (All groups, Australia)	Qld Government indexation policy[1]	All groups CPI[2]

1 indexation policy of 3.5 per cent per annum indexation since June 2012 will change to CPI-based indexation from 2019-20

2 Fee adjustments based on recommendations by the Registrar of Motor Vehicles typically reflecting CPI changes.

3.2 Accident tow fee benchmarking

Our approach to benchmarking the 2017-18 regulated fees for accident tows in the Melbourne Controlled Area includes three comparator types:

- regulated accident towing fees in metropolitan Sydney, Queensland and South Australia
- market based trade towing fees in metropolitan Melbourne
- recently regulated fees for private property tows in Queensland.

We considered these comparators to be the most relevant to inform the Commission's review of the appropriateness of current accident towing fees in the Melbourne Controlled Area. While regulated accident towing fees in Sydney, Queensland and South Australia are not market based fees (and therefore are more likely to depart from efficient costs), they are likely to have the most similar services and underlying cost structures to Melbourne Controlled Area accident towing. Conversely, market based trade towing fees are more likely to reflect efficient costs but involve slightly different services and underlying costs. In conjunction with each fee comparison we provide commentary on the relevance of these differences to the Commission's assessment of Melbourne Controlled Area accident tow fees in the following sections.

3.2.1 Regulated accident tow fees

Regulated accident towing fees in Melbourne and South Australia are prescribed such that all operators charge the precise regulated fee, whereas in Sydney and Queensland regulated fees are maximum fees, giving operators the option to charge lower amounts. The comparisons presented for Sydney and Queensland are based on the regulated maximums.

The structure of accident towing fees across the four jurisdictions is broadly similar, comprising a base fee including a certain travel distance plus a rate per kilometre thereafter. However, there are differences in the scope of services included in the base fee, the basis on which the distance fee is calculated and whether or not additional fees are charged outside business hours. Table 5 summarises fees and inclusions across the four jurisdictions. The following differences in fee inclusions are notable:

- Melbourne and Sydney base fees include all waiting and working time at the accident scene, while waiting and/or working time inclusions are limited in the Queensland and South Australia.
- Salvage is not included in the base fee in Melbourne or Queensland, while Sydney and South Australia include some allowance
- Queensland is the only jurisdiction to include storage within the base fee (3 days)
- The initial distance included in the base fee varies from eight kilometres in Melbourne to 50 kilometres in Queensland.
- The measurement of distance in Melbourne and South Australia is from the towing operator's depot (i.e. includes travel to the accident scene), whereas in Sydney and Queensland it is measured from the accident scene.

Table 5: Accident towing fees in other jurisdictions, 2017-18

	Melbourne Controlled Area	Sydney metropolitan area	Queensland	South Australia
Base fee				
Business hours	$216.20 (8am to 5pm)	$261.80 (8am to 5pm)	$348.95	$345.00 (7:30am to 5pm)
After hours surcharge	$73.80	$52.36	-	$57.00
Base fee inclusions				
Initial distance	First 8km tow truck travel (measured from depot)	Tow truck travel from depot plus first 10km towing	Tow truck travel from depot plus first 50km towing	First 20km tow truck travel (measured from depot)
Waiting & working time	All waiting and working time	All waiting and working time	All waiting time, first 60 mins working time	First 30 mins waiting and working time
Salvage	*Not included*	All basic salvage, first 30 mins other salvage	*Not included*	Included in 30 mins waiting & working time
Storage	*Not included*	*Not included*	3 days	*Not included*
Distance fee				
Distance fee (per km)	$3.40 after 8km*	$5.69 after 10km*	$6.90 after 50km*	$3.00 after 20km*
After hours surcharge	-	$1.14 after 10km*	-	$1.00 after 20km*
*** Distance measured from**	Operator depot to tow destination	Accident site to tow destination	Accident site to tow destination	Operator depot to tow destination

To benchmark the Melbourne Controlled Area accident towing fees against regulated fees in other jurisdictions on comparable terms, a comparator fee can be estimated based on the characteristics of an average tow in the Melbourne Controlled Area. As outlined in section 2.1, the average tow

truck travel distance (from depot to accident scene to destination) in the Melbourne Controlled Area is approximately 18 kilometres and 57 per cent of accidents occur outside business hours. These figures can be applied to calculate comparison accident tow fees in other jurisdictions in conjunction with adjustments to account for some of the differences in fee structures across jurisdictions, including:

- a slightly lower proportion of accidents occurring outside business hours in South Australia given slightly longer business hours
- an additional working/waiting time charge for South Australia for work beyond the 30 minute cap in the base fee
- subtracting $75 off the base fee for Queensland to account for three days storage being included in the base fee
- distance measurements in Sydney and Queensland not including tow truck travel from the depot to the accident scene.

Comparator fees with the above adjustments accounted for are summarised in Table 6. More detail on the calculations can be found in Appendix A. It should be noted this comparison assumes no salvage is required. Salvage is not included in regulated fees for the Melbourne Controlled Area or Queensland. Some salvage is included in the base fee in Sydney (all basic salvage or 30 minutes for non-basic salvage) and South Australia (within total 30 minutes waiting/working time allowance). As we do not have sufficient information about salvage requirements and fees for typical accidents we have not made any salvage adjustments to the comparator fees. This may result in the comparator fees for Sydney and South Australia being overestimated in Table 6.

Based on this comparison, fees for a typical accident tow in the Melbourne Controlled Area are similar to fees in metropolitan Sydney and slightly higher than in Queensland, while fees in South Australia appear significantly higher than all other jurisdictions.

Table 6: Comparator accident tow fees across jurisdictions based on average Melbourne Controlled Area accident tow characteristics

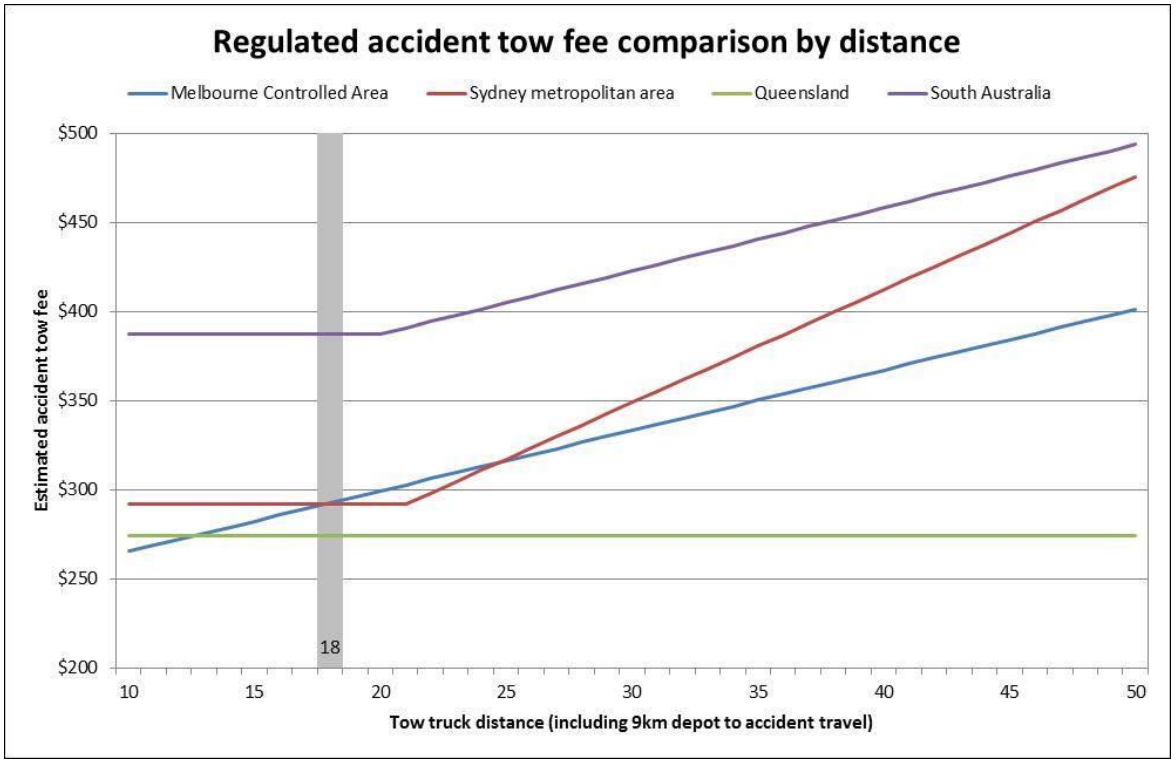
Typical tow parameters	Melbourne Controlled Area	Sydney metropol-itan area	Queensland	South Australia
Tow truck distance including depot to accident (km)	18	18	18	18
Accident to destination distance (km)[3]	11	11	11	11
Relevant distance measurement (km)	18	11	11	18
Distance included in base fee (km)	8	10	50	20
Percentage of accidents outside business hours	57%	57%	57%	55%
Working and waiting time (mins)[4]	43.1	43.1	43.1	43.1
Working and waiting time included in base fee(mins)	All	All	60	30
Hourly rate for additional charge	-	-	-	$49.00
Additional working and waiting time charge	$0.00	$0.00	$0.00	$10.73
Base fee storage allowance (to subtract)	$0.00	$0.00	$75.00	$0.00
Comparator fee for average Melbourne Controlled Area accident tow	**$292.40**	**$299.09**	**$273.95**	**$387.23**
Melbourne Controlled Area fee relative to other jurisdictions	**-**	**2 per cent lower**	**7 per cent higher**	**24 per cent lower**

[3] The Commission's 2015 review of accident towing regulation estimated a proximity based allocation scheme – where accident tows are allocated to the depot nearest the accident – could reduce the tow truck distance from 18 kilometres to 11 kilometres (*Essential Services Commission 2015, Accident towing regulation — Final Report, December, p. 86*). This suggests the average accident to destination distance is up to 11 kilometres.
[4] VicRoads clearance time data, Advisian analysis.

It is also worth noting the comparison with Queensland is complicated by the inclusion of three days storage in the Queensland base fee. For the purposes of a like-for-like comparison in Table 6, a value of $75 ($25 per day) is subtracted from the Queensland fee to estimate the value of an accident excluding storage. However, given Queensland customers do not have the option to subtract storage value from the base fee, the Queensland accident towing charge in Table 6 is theoretical for customers who do not require storage. In reality these particular customers would be charged $348.95, which is 19 per cent higher than the fee for an equivalent customer in the Melbourne Controlled Area.

While the above fee comparison is based on the average characteristics of a Melbourne Controlled Area accident tow, the results of the comparison are somewhat sensitive to the assumed tow truck distance travelled. Figure 1 shows how the comparison changes by tow truck distance travelled, with the comparator distance of 18 kilometres shaded grey. The reasons for the different outcomes by distance arise from: (1) the amount of travel included in the base fee; and (2) the magnitude of the per kilometre rate charged beyond the included travel. For example, the Queensland base fee includes the greatest distance allowance of all travel from the depot to the accident plus up to 50 kilometres to the tow destination. This means fees in Queensland become relatively cheaper the greater the distance travelled. In Sydney, the higher distance charge of $5.69 per kilometre results in Sydney's accident towing fees becoming more expensive than in the Melbourne Controlled Area for tow truck travel greater than 20 kilometres.

Figure 1: Comparison of regulated accident towing fees by tow truck distance



As noted previously, this comparison of regulated fees needs to be qualified by the fact that regulated fees are more likely to deviate from efficient costs than market based fees subject to competitive dynamics. This is primarily due to the regulated fees being determined by regulators with incomplete information. Nevertheless, to the extent that regulated accident towing fees in Sydney and Queensland reflect efficient costs, and that there is reasonable consistency in regulatory and market based factors across these jurisdictions, the 2017-18 level of regulated accident towing fees for a typical accident towing job the Melbourne Controlled Area is likely to be reasonable.

3.2.2 Market prices for trade tow fees

Trade towing includes towing services that are not the immediate result of an accident. In most cases trade towing fees are not regulated. Trade towing that is time sensitive – i.e. when a request for a vehicle to be towed needs to be acted upon immediately, such as clearway or breakdown tows – is likely to be more comparable to accident towing. Some trade towing operators differentiate pricing based on whether is time sensitive or not. The comparator prices gathered for this exercise therefore focus on fees for time sensitive towing services in cases where operators' fees make this distinction.

We have gathered information on competitive trade towing fees in the Melbourne Controlled Area to benchmark regulated accident towing fees against. We found three trade towing operators who make their fees publicly available. We also found one internet based platform connecting consumers with towing operators in the Melbourne Controlled Area with a fee calculator providing quotes based on tow origin and destination. We obtained four fee estimates from this platform based on comparator accident towing fee characteristics from and to different locations across metropolitan Melbourne.

Similar to accident towing fees, the trade towing operators who publish their fee structures have a base fee that includes a certain distance plus a per kilometre rate beyond the included distance. However, distance measurements for their fees are based on the distance the vehicle is towed (no charge is levied for the tow truck travelling to the vehicle's location). As noted previously, the average accident tow in the Melbourne Controlled Area is 18 kilometres including travel from the operator's depot to the accident site. Based on information from the Commission's 2015 accident towing regulation review, we have estimated the average distance accident damaged vehicles are towed as being approximately 11 kilometres.[5]

To benchmark regulated accident towing fees in the Melbourne Controlled Area against trade towing fees, we have estimated trade tow fees for a 'comparison tow'. The comparison tow is based on parameters designed to be similar to the characteristics of the average accident tow – that is, 57 per cent of tows attract an 'after hours' surcharge (if applicable in a given trade towing fee structure), and an average tow distance of 11 kilometres. As shown in Table 7, the surveyed comparison trade tow fees range from $101 to $183, with a median fee of $157.

[5] Essential Services Commission 2015, Accident towing regulation — Final Report, December, p. 86

Table 7: Surveyed trade tow fees for comparison tow

Comparison tow parameters	Value assumed
Tow distance (accident to tow destination)	11km
Percentage of tows attracting after-hours surcharge	57.2%
Surveyed trade tow fees	
Range	$101 - $183
Average	$149
Median	$157

The comparator regulated accident towing fee in the Melbourne Controlled Area is $292 (with 18 kilometres of tow truck travel including 11 kilometres from accident to tow destination). This suggests a premium of $135 on top of the median trade towing fee of $157. This premium needs to be considered in the context of the additional scope of services accident towing fees cover. While the comparison trade tow reflects similar characteristics in terms of the time of day the tow is undertaken and the towing distance, it is important to consider that accident towing fees need to incorporate waiting time at the accident scene (e.g. waiting for police to arrive), working time (e.g. removal of debris) and administrative activities related to meeting regulatory requirements (e.g. taking photos and processing documentation). In considering whether regulated accident towing fees remain appropriate, the Commission may therefore wish to consider whether the $135 premium on accident towing fees over trade towing fees is an appropriate amount for the additional services covered by accident towing fees.

To aid this consideration, we make some observations from the Independent Pricing and Regulatory Tribunal's (IPART's) 2014 review of tow truck fees and licensing in NSW. In this review, IPART estimated the differences in time required for accident tows compared to trade tows. Based on surveys of towing operators IPART estimated that accident tows in the Sydney metropolitan area take an average of 2 hours and 15 minutes, compared to 1 hour for trade tows – a difference of 1 hour and 15 minutes.[6] In the same review, IPART estimated the efficient hourly cost of accident towing services to be approximately $100 per hour in 2014.[7]

For the Melbourne Controlled Area, if we assume accident towing involves approximately 1.25 hours' worth of services additional to accident towing services, this would imply a rate of $108 per hour for the additional services ($135 for the additional 1.25 hours required). This rate (2017-18 dollars) is comparable with IPART's estimate of efficient accident towing operator costs ($100 in 2014), which would support the proposition that Melbourne Controlled Area accident towing fees are efficient and comparable with those expected to result in a competitive market.

[6] IPART Review of tow truck fees and licensing in NSW – Final Report, December 2014, p. 69
[7] Ibid., p. 67

We note, however, that accident clearance time data supplied by VicRoads suggests accident tows in the Melbourne Controlled Area may take less time than the IPART estimate. Our analysis of the VicRoads data indicates on average it takes approximately 74 minutes from the time a tow is allocated to a tow until the time that tow truck is available again for more allocations. If this estimate is accurate, it would invalidate the use of the IPART figures for the purpose of assessing the $135 premium on accident towing fees over trade towing fees in Melbourne. We suggest therefore, there would be merit in the Commission further consulting with stakeholders to better understand the nature and extent of additional work involved in accident tows compared to trade tows in the Melbourne Controlled Area. Specifically, this could involve the Commission asking operators how long accident towing jobs take them on average (to test the validity of the VicRoads clearance data). It would also be useful to ask towing operators who undertake both accident and trade towing to estimate the amount of time and resources accident tows typically require compared to trade tows. This could provide the Commission with useful information to assess the reasonableness of the approximately $135 premium on accident towing fees estimated above.

3.2.3 Regulated private property towing (Queensland)

In Queensland, new legislation recently came into effect in April 2018 to regulate towing and storage costs for private property towing. Private property towing involves the removal of vehicles parked on private property where the vehicles may be trespassing or parked in contravention of parking conditions. In such cases, while the vehicle owner is liable for towing charges, towing is arranged between the private property owner and towing operator without requiring the vehicle owner's consent.

The Queensland Government commissioned an independent review into private property towing following complaints about excessive towing and storage fees. It revealed 74 per cent of complaints involved towing fee charges in excess of $500.

The independent review recommended private property towing fees be capped at a maximum of $250, and storage fees capped at $25 per day – these recommendations were accepted by the Queensland Government. The maximum towing fee recommendation was based on the review's consideration of regulated accident towing fees in Queensland and other jurisdictions as well as determinations made by the Queensland Civil and Administrative Tribunal (QCAT) on the reasonableness of fees under 'anti-hooning laws'.

This comparison is included for completeness, however, it is likely to be a less useful benchmark than those presented in the previous two sections given it was not determined through a competitive market and private property towing is not likely to be as time sensitive as accident towing.

3.3 Storage fee benchmarking

We have benchmarked storage fees for accident damaged vehicles in the Melbourne Controlled Area against regulated storage fees in other jurisdictions, market based storage fees offered by trade towing operators, storage fees charged by VicRoads and councils for impounded vehicles, and recently regulated storage fees associated with private property tows in Queensland.

3.3.1 Regulated accident damaged vehicle storage fees

Storage fees for accident damaged vehicles are regulated in the Melbourne Controlled Area, metropolitan and outer Sydney and South Australia. As discussed previously, in Queensland three days of storage is included within the regulated base accident towing fee but storage fees are not determined in isolation or regulated beyond the three day period.

Table 8 compares storage fees across jurisdictions with explicitly regulated fees for accident damaged vehicles. The structure of fees differs across jurisdictions as follows:

- In Melbourne and South Australia, storage fees depend on whether or not the vehicle is stored under cover
- In Melbourne and Sydney, cars and motorcycles attract different storage fees, while in South Australia only car storage fees are determined
- Sydney is the only jurisdiction where storage fees depend on location (outer areas attract lower storage fees than metropolitan areas).

Storage fees in the Melbourne Controlled Area are notably lower than those of metropolitan Sydney and South Australia, and comparable to those of outer Sydney. We note that storage costs are likely to be driven by industrial land values that can vary significantly within and between capital cities. It is therefore likely that market-based benchmarks within the Metropolitan Controlled Area provide a far more useful benchmark of efficient storage fees.

Table 8: Comparison of regulated storage fees per day for accident damaged vehicles

Per day storage fee for:	Melbourne Controlled Area	Sydney (metropolitan)	Sydney (outer)	South Australia
Car under cover	$16.60	$25.30	$15.40	$25.00
Car in locked yard	$11.20	$25.30	$15.40	$15.00
Motorcycle under cover	$5.50	$13.20	$7.70	-
Motorcycle in locked yard	$3.50	$13.20	$7.70	-

3.3.2 Regulated private property towing storage fees (Queensland)

As noted in section 3.2.3, the Queensland Government recently regulated storage fees charged in association with private property tows. Storage fees are capped at a maximum of $25 per day. This maximum rate was set based on benchmarking against regulated storage fees for accident damaged vehicles in other jurisdictions (including Victoria), QCAT determinations and casual parking rates across Brisbane and the Gold Coast.

Table 9: Qld regulated storage fees for vehicles stored after private property tows – includes benchmarks

Independent review in August 2017 – Qld Government	Storage per day
Fee recommended and supported by Qld Government (April 2018)	**$25**
Competitive market benchmarks used to inform the recommendation:	
QCAT : Impounded vehicles	$10
Casual parking - Brisbane	$55-$80
Casual parking - Fortitude Valley	$31-$41
Casual parking - Inner city suburbs	$15-$50
Casual parking - Gold Coast	$8-$20
Casual parking - Brisbane airport	$10-$70

3.3.3 Market based storage fees for trade towing

Two trade towing operators were found to advertise storage fees for towed vehicles on their website, both of which quote a rate of $25 per day for cars but do not specify fees for undercover versus locked yards or for motorcycles.

3.3.4 Impounded vehicle storage fees

VicRoads, City of Melbourne Council and City of Port Phillip Council quote on their websites storage fees associated with impounded vehicles that have been towed due to being unregistered, abandoned or illegally parked in clearways or other tow away zones. As Table 10 shows, these fees range from $15.20 per day to $18.50 per day for storage in metropolitan areas: an impound yard located Collingwood and an auction yard located in Blackburn.

Table 10: Storage fees for impounded vehicles in Melbourne

Organisation	Storage fee	Storage location
VicRoads	$15.20	Collingwood
City of Melbourne	$17.60	Blackburn (auction yard)[(a)]
City of Port Phillip	$18.50	Collingwood

Note: (a) The primary storage location is in Collingwood, but no storage fee is published.

3.4 Accident towing and storage fee benchmarking conclusions

Accident towing fees

Based on benchmarking against regulated accident towing fees in other jurisdictions and market based trade towing fees in Melbourne, there does not appear to be any clear indication that the 2017-18 Melbourne Controlled regulated fees diverge significantly from efficient costs. However, we suggest there would be merit in the Commission undertaking further consultation with accident towing operators to test this observation.

Regulated accident towing fees in the Melbourne Controlled Area are similar to those of metropolitan Sydney and Queensland, and significantly lower than those of South Australia. Compared to market based trade towing fees, accident towing fees in the Melbourne Controlled Area are approximately $135 higher for a typical accident tow distance. We expect accident towing fees to be higher given the additional scope of services they cover such as waiting time at the accident scene, cleaning of debris and the need to meet regulatory requirements such as arriving at the scene within 30 minutes.

The estimated premium on accident towing fees appears to be reasonable based on estimates by IPART that accident tows involve approximately 1.25 hours more time than trade tows, and IPART's 2014 estimate of efficient costs for accident towing of $100 per hour. However, whether this estimate is also applicable to the Melbourne Controlled Area is uncertain. Our analysis of VicRoads data indicates allocated accident tows in the Melbourne Controlled Area are completed in 74 minutes. If this is correct it would suggest the IPART data is not applicable in assessing the premium on accident towing fees over trade towing fees in the Melbourne Controlled Area

We therefore suggest there would be merit in the Commission seeking information from towing operators who undertake both accident and trade towing to better understand the differences in time and resources required for accident and trade towing in the Melbourne Controlled Area. This will enable the Commission to assess whether the higher cost of accident towing fees is appropriate.

Storage fees

Regulated storage fees for accident damaged vehicles in the Melbourne Controlled Area ($11.20 for cars in locked yards and $16.60 for cars stored under cover) appear to be low relative to most relevant benchmarks. The benchmarks presented in this chapter range from around $15 to $25 per day. Market based storage fees offered by trade towing operators are at the top end of that range and are the benchmark most likely to be reflective of efficient costs. This suggests there may be merit in the Commission giving more detailed consideration of the appropriateness of storage fees for accident damaged vehicles in the Melbourne Controlled Area.

4 The productivity adjustment

While the Commission has the opportunity to recommend changes to accident towing, storage and salvage fees through its four-yearly reviews, annual adjustments are applied to fees on 1 July of the interim years. The purpose of annual fee adjustments is to enable firms to recover general increases in costs that may arise from year to year while also providing an incentive for firms to achieve productivity gains. Annual adjustments can also enable smoother price adjustments for consumers than if fees were changed less frequently via periodic reviews.

The annual adjustment mechanism applied to regulated accident towing fees is in the form of a 'CPI minus X' formula specified in the Act, where:

- 'CPI' is the percentage change in the Melbourne transport consumer price index (using the March quarter values of the prior two financial years)
- 'X' is a productivity adjustment figure (currently set at 0.5 per cent and reviewed by the Commission every four years).

That is, new fees are calculated as:

$A \times (B/C - X)$

where –

- 'A' is the fee for the previous financial year
- 'B' is the most recent March quarter value of the Melbourne transport CPI
- 'C' is the March quarter value of the Melbourne transport CPI for the previous year
- 'X' is the productivity adjustment figure.

The Act also places a 'zero floor' on the CPI minus X adjustment, meaning fees remain unchanged in a given year if application of the CPI minus X formula would reduce fees.

The Commission is required to review the productivity adjustment figure in its four-yearly reviews and make a recommendation to the Minister as to what value should be set until the next review. The Act specifies that in the absence of a recommendation by the Commission the figure is to be 0.5 per cent.

The inclusion of the productivity adjustment in the accident towing fee adjustment mechanism aims to mimic outcomes of competitive markets where firms naturally have incentives to achieve productivity gains to increase their market share, and those gains are shared with consumers in the form of lower prices and/or improved service quality.

This chapter presents our review of the productivity adjustment figure to inform the Commission's assessment of what value should be set for the next four years. Our approach, as presented in this chapter, is to:

- discuss the purpose of the productivity adjustment factor and the importance of considering the index from which it is subtracted

- assess historic productivity trends related to the accident towing industry and discuss whether opportunities for accident towing productivity gains are likely to exist over the next four years
- compare different measures of productivity
- summarise these findings and how they may assist the Commission in recommending a productivity adjustment figure.

4.1 The purpose of 'X' given 'CPI'

Productivity is defined as the rate of change of a measure of output relative to a measure of inputs. A productivity gain is therefore a reflection of a firm either: (1) producing more output with the same inputs; or (2) the same output with fewer inputs.

In a 'CPI minus X' approach to price adjustments, the purpose of the 'CPI' component is to allow for price changes to incorporate increases in firms' input costs that arise from year to year. The purpose of subtracting the 'X' component from 'CPI' is to promote an incentive for firms to achieve productivity gains. That is, to maintain profitability levels from year to year, firms must reduce their costs and/or increase their revenue relative to changes in the 'CPI' component.

Therefore, in the price adjustment mechanism for regulated fees charged by accident towing firms:

- movements in the 'CPI' component should ideally be a good proxy for changes in accident towing firms' costs; and
- 'X' should reflect a reasonable expectation of the ability of accident towing firms to reduce their costs and/or increase their revenue relative to changes those costs.

Since the purpose of subtracting 'X' is to incentivise accident towing operators to outperform changes in their costs, it is important to understand the definition of 'CPI' and how well it is likely to reflect changes in accident towing operators' costs. In this case, the Act specifies 'CPI' to be the Melbourne transport CPI as published by the Australian Bureau of Statistics (ABS), and the changes in it are based on changes in March quarter values from year to year. Importantly, however, the Act also places a 'zero floor' on the adjustment mechanism for accident towing fees. As a consequence of this the 'CPI' component of the adjustment mechanism is actually *the Melbourne transport CPI excluding downward movements*.

4.1.1 Overview of the Melbourne transport CPI

The Melbourne transport CPI measures changes in the purchase price of a basket of goods and services in the transport sector. It is one group within the more commonly known 'all groups CPI' and contributes approximately 12 per cent to the Melbourne all groups CPI (according to March 2018 values).

The Melbourne transport CPI is a relatively volatile index as can be seen in Figure 2 showing historic quarterly movements in this index and the All groups CPI.

Figure 2: Comparison of Melbourne transport and All groups consumer price indexes

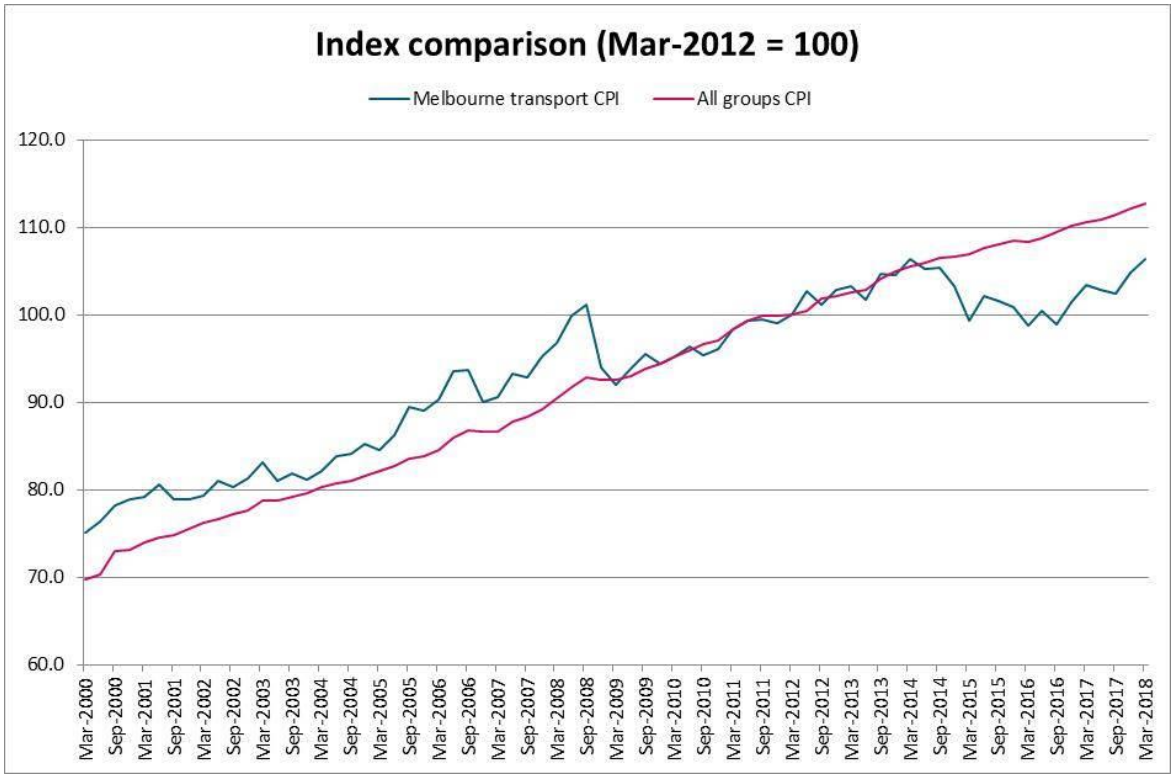


Table 11 shows the expenditure classes comprising the Melbourne transport CPI, the contribution each expenditure class makes to the total index (according to March 2018 values) and examples of goods or services in each expenditure class.

Table 11: Melbourne transport CPI expenditure classes

Expenditure class	Contribution to Melbourne transport CPI (March 2018)	Example purchase items
Motor vehicles	25.6%	New cars and motor cycle, including long term hire/lease, stamp duty on car transfers
Spare parts and accessories for motor vehicles	6.3%	Tyres, inner tubes, spark plugs, batteries, shock absorbers, filters, pumps
Automotive fuel	28.5%	Unleaded petrol, premium unleaded, ethanol blended, diesel and LPG
Maintenance and repair of motor vehicles	19.0%	Services for maintenance and repair (including labour and materials)
Other services in respect of motor vehicles	13.9%	Motor vehicle registration, roadworthiness tests, driver licence fees, parking fees, driving lessons, tolls
Urban transport fares	6.9%	Bus, train, ferry, tram, taxi and ride-booking fares

Movements in this index appear to be a reasonable proxy for changes in the input costs of accident towing operators. Although, the index is likely to better reflect the cost of providing accident tows more so than the cost of storing accident damaged vehicles. If storage costs have risen faster than accident tow costs this may explain the benchmarking finding in Chapter 3 that regulated storage fees for the Melbourne Controlled Area are lower than market based prices quoted by trade towing operators.

It is also worth noting that because the Melbourne transport CPI reflects changes in the purchase prices of goods and services it implicitly captures changes in the productivity of producers providing those goods and services. For example, if providers of maintenance and repairs found more efficient ways to service motor vehicles (including tow trucks), this efficiency in tow truck maintenance would flow through to accident towing fees through the 'CPI' component of the adjustment mechanism. It would not count as a productivity improvement for accident towing operators, who would have to find other efficiencies to achieve the 'X' productivity gain.

4.1.2 The implications of the 'zero floor' on fee adjustments

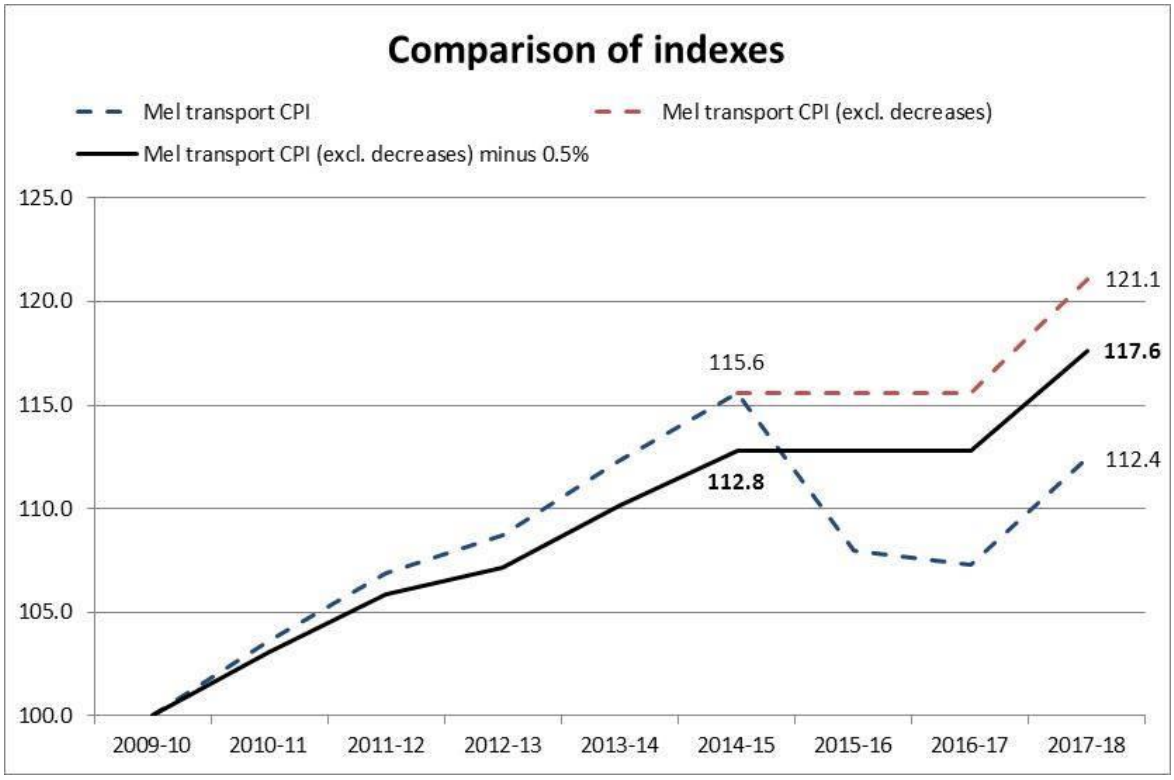
The 'zero floor' provision in the Act means that accident towing fees are never adjusted downwards even if the Melbourne transport CPI falls. However, fees are always adjusted upwards if the Melbourne transport CPI rises by more than the productivity adjustment figure. In effect, accident towing fees are protected from decreases in the index but incorporate all increases in the index (less the productivity adjustment factor). The implications of fee adjustments being protected from downward movements can be significant given a volatile index like the Melbourne transport CPI as decreases in the index can occur frequently.

Assuming the Melbourne transport CPI is a reasonable proxy for accident towing firms' costs, when the Melbourne transport CPI is rising, accident towing firms need to achieve productivity gains equal to the productivity adjustment figure (0.5 per cent) to maintain profitability levels. However, if the index falls firms can much more easily maintain profitability levels as they do not need to pass on falls in the index (cost savings) to consumers through lower fees.

This point is illustrated in Figure 3 which charts movements in the Melbourne transport CPI against the accident towing fee adjustment mechanism from 2009-10 to 2017-18. The implications of the 'zero floor' provision can be seen by contrasting outcomes over two periods of time:

- From 2009-10 until 2014-15, the index increased every year, rising 15.6 per cent over the five year period. During this time accident towing fees were required to outperform this by 0.5 per cent each year and so rose by 12.8 per cent.
- Falls in the index in 2015-16 and 2016-17 led to a freeze in accident towing fees, followed by an increase in 2017-18 when the index rose again. So from 2014-15 to 2017-18, the Melbourne transport CPI decreased by 2.7 per cent, while accident towing fees rose by 4.3 per cent.

Figure 3: Accident towing fee adjustments versus Melbourne transport CPI movements



In effect, the 'zero floor' provision in the Act complicates the definition of the 'CPI' component of the 'CPI minus X' adjustment mechanism. This in turn complicates the question of what the value of X should be.

In effect, the zero floor provision rewards towing operators (rather than consumers) for the productivity performance of upstream producers. Appendix B provides further detailed analysis of this matter by contrasting the outcomes of the adjustment mechanism specified in the Act against the intended outcomes of the adjustment mechanism first proposed by the Commission in its 2009 review of accident towing fees.

4.1.3 The challenging question for the Commission

Given the definition of the adjustment mechanism in the Act and its implications outlined above, the relevant question for the Commission's review of the productivity adjustment figure is:

By how much should changes in accident towing fees outperform changes in the Melbourne transport CPI excluding downward changes in the index?

Assuming the Melbourne transport CPI is a reasonable proxy for accident towing firms' costs, then during periods when the index is increasing the value of the productivity adjustment factor should be simply an expectation of accident towing firms' ability to outperform changes in their costs. However, during periods when the Melbourne transport CPI decreases, we would expect accident towing firms to more easily outperform the 'CPI' definition in the Act. As we cannot reliably predict the likelihood of future upward or downward movements in the Melbourne transport CPI, the

question of by precisely how much firms should be expected to outperform the 'CPI' definition is challenging.

Nevertheless, to help the Commission form a view we examine the potential for towing operators to achieve productivity gains, and assess potentially relevant productivity benchmarks in the remainder of this chapter.

4.2 Expectations of opportunities for productivity gains

The application of a productivity adjustment factor in the adjustment mechanism was recommended by the Commission in its 2010 review of accident towing fees. In making the recommendation the Commission pointed to previous efficiency gains achieved by towing operators through:

- consolidation of depots
- an increasing number of accident allocations per truck
- greater use of existing resources to engage in other services such as trade towing (enabling more efficient recovery of fixed costs).

The Commission noted that a productivity adjustment factor of 0.5 per cent reflected its expectation of what might be reasonable for towing operators to achieve going forward, providing an incentive for the industry to continue to find productivity improvements and ensuring those improvements are shared with customers in the form of lower fees.

We have assessed the reasonableness of ongoing opportunities for accident towing operators to achieve productivity gains in two ways:

Firstly, we have analysed an indicator of historic productivity achievement of the towing industry based on data published by the Australian Taxation Office (ATO), and compared this against the achievement of other transport industries. This enables us to consider whether or not (based on recent historic trends) the towing industry is likely to have similar opportunities for productivity gains as other towing operators.

Secondly, we have analysed the historic performance of the Melbourne Controlled Area accident towing industry with respect to a partial measure of productivity – the number of accident tows per licensed tow truck. This analysis enables us to quantify productivity gains of the accident towing industry specifically (according to this partial measure), and provides some insight as to whether opportunities for productivity gains can be expected to continue over the next four year period.

4.2.1 Recent productivity of the towing industry compared to other transport industries

Small business performance benchmarks published annually by the Australian Taxation Office (ATO) provide some insight into towing industry productivity relative to other transport industries. The ATO publishes small business performance benchmarks for a number of industries within the Transport, Postal and Warehousing Division, including towing services, courier services, delivery services and road freight transport services.

Based on information reported on tax returns and activity statements, the ATO performance benchmarks include a measure of business' total expenses as a proportion of annual turnover. The ATO has published this measure for 2012-13 to 2015-16 for a sub-set of industries within the Transport, Postal and Warehousing Division, including towing services. The measure is reported as the median value for firms with low, medium and high turnover ranges within each industry as show in Table 12 to Table 14. The final row of each column represents the average total expenses to turnover ratio weighted by the turnover range of the industry.

Table 12: ATO key benchmark: total expenses / turnover for (low turnover range)

Industry	2012-13	2013-14	2014-15	2015-16	Turnover range
Towing services	0.69	0.68	0.66	0.65	$50k - $200k
Courier services	0.47	0.46	0.48	0.47	$50k - $150k
Delivery services	0.5	0.51	0.51	0.47	$50k - $90k
Road freight transport services	0.63	0.64	0.64	0.64	$50k - $200k
Weighted average of reported industries	0.59	0.59	0.59	0.57	

Table 13: ATO key benchmark: total expenses / turnover (medium turnover range)

Industry	2012-13	2013-14	2014-15	2015-16	Turnover range
Towing services	0.75	0.77	0.78	0.76	$200k - $500k
Courier services	0.64	0.64	0.64	0.63	$150k - $300k
Delivery services	0.59	0.58	0.58	0.58	$90k - $210k
Road freight transport services	0.76	0.76	0.76	0.76	$200k - $600k
Weighted average of reported industries	0.69	0.69	0.69	0.68	

Table 14: ATO key benchmark: total expenses / turnover (high turnover range)

Industry	2012-13	2013-14	2014-15	2015-16	Turnover range
Towing services	0.87	0.87	0.87	0.86	>$500k
Courier services	0.81	0.81	0.82	0.82	>$300k
Delivery services	0.78	0.78	0.79	0.77	>$210k
Road freight transport services	0.88	0.89	0.88	0.88	>$600k
Weighted average of reported industries	0.84	0.84	0.84	0.83	

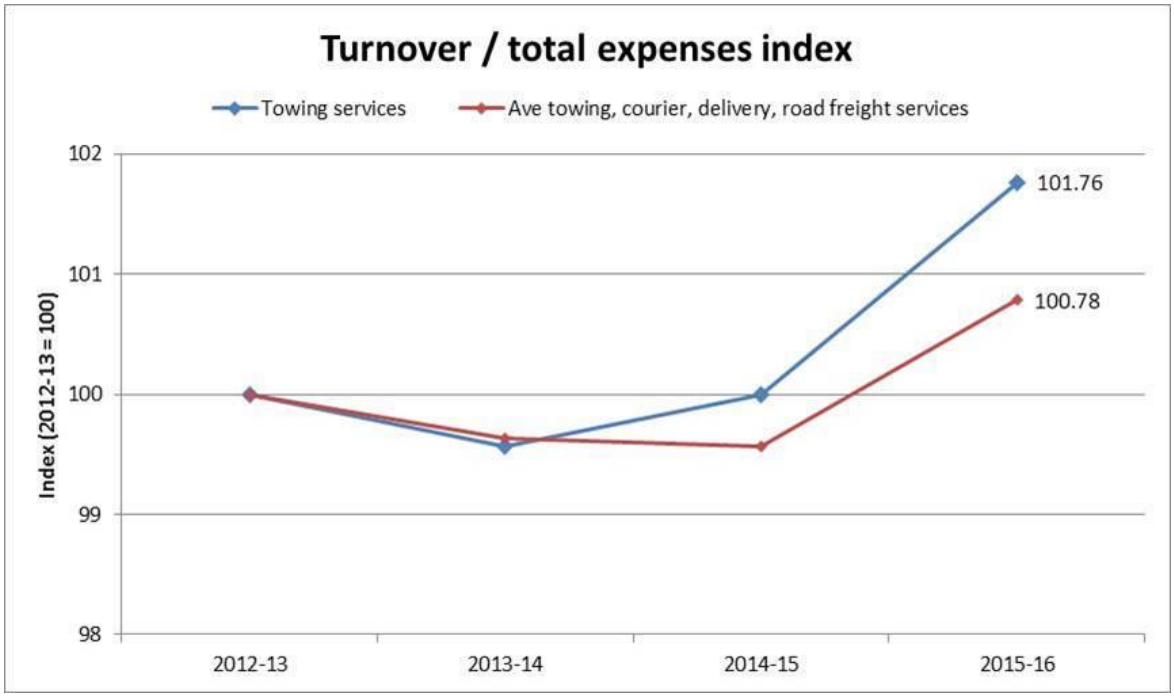
The ATO performance benchmarks can provide an indication of the productivity achieved by the towing industry compared to the other reported transport industries. Productivity is defined as the change in a measure of outputs relative to the change in a measure of inputs. The inverse of the ATO's performance benchmark (turnover / total expenses) can therefore provide an indicator of productivity, where turnover is proxy for output and total expenses is a proxy for input.

Using an average of the low, medium and high turnover figures above, Figure 4 charts the change in this measure (turnover / total expenses) from 2012-13 to 2015-16 for the towing industry and the average of all of the transport industries reported.[8] It suggests that over this three-year period:

- The towing, courier, delivery and road freight transport services firms collectively increased their turnover relative to their expenses by 0.78 per cent (0.26 per cent per annum)
- The towing services industry outperformed the average of the reported industries according to this measure, increasing turnover by 1.76 per cent relative to total expenses (0.58 per cent per annum).

[8] Shown as an index, calculated using the average of the low, medium and high turnover figures for each industry.

Figure 4: Change in ratio of turnover to expenses for towing firms and other transport firms



The fact that towing services firms appear to have achieved higher turnover relative to expenses in recent years, and outperformed the average of the broader transport industry, lends support to the application of a productivity adjustment figure over the last accident towing fee review period.

This finding is qualified by the fact that these figures are derived from the business activity statements of towing firms across Australia (not just the Melbourne Controlled Area) and incorporate trade towing operation as well as accident towing.

The limited historic period for which the data are available limits the extent to which we can draw conclusions about potential future opportunities for productivity gains. It is also notable that the gains achieved over the period are predominantly attributable to a single year, 2015-16. Nevertheless, the finding is potentially a relevant factor in the Commission's overall consideration of the appropriate productivity adjustment figure going forward.

4.2.2 Recent productivity of the Melbourne Controlled Area accident towing industry

As previously noted, productivity is the change in a measure of outputs relative to the change in a measure of inputs. A partial measure of productivity that is specific to accident towing operators in the Melbourne Controlled Area is the change in the annual number of accident tows per licensed tow truck. This measure was also used to inform the Commission's 2013 review of the productivity adjustment factor.

This is a partial measure because the input measure captures a single input – number of tow trucks. The output measure – number of accident tows – also only captures part of accident towing business' outputs as these businesses can also derive revenue from trade towing, storage and

other services they may offer. Nevertheless, it is a useful measure to understand whether or not accident towing operators have recently achieved productivity gains.

Based on data supplied by VicRoads, Table 15 indicates significant productivity gains were achieved, according to this measure, over the five years from 2012 to 2017 – equivalent to 5.3 per cent compound annual growth. This outcome is a result of both growth in the number of accident tows (2.0 per cent per annum) and a decline in the number of licensed tow trucks from 252 to 215. In other words, the productivity gain is a function of more accident tows being performed with fewer tow trucks. The outcome assumes the level of service quality has been maintained in servicing accident tows (e.g. timely arrival at accident scenes).

Table 15: Accidents per licensed tow truck – 2012 and 2017

	2012	2017	Compound annual growth rate
No. accident allocations (output measure)	45,312	50,143	2.0%
No. licenced tow trucks (input measure)	252	215	-3.1%
Accident tows per truck (productivity measure)	180	233	5.3%

It should be noted that there is some uncertainty as to the reliability of the 'number of licensed tow trucks' figures above. The figures come from VicRoads data recording tow truck numbers at single points in time (31 March 2013 used for 2012 and 31 March 2018 used for 2017). These were the only two estimates available for the study. The Commission's 2013 review also noted there was some uncertainty about the reliability of VicRoads' estimate of the number of tow trucks.[9]

The estimate of the number of licensed tow trucks has a significant impact on the productivity measure so the above results should be interpreted with due caution. If, for example, there had been no change in the number of licenced tow trucks from 2012 to 2017, the productivity gain would simply be equal to the growth in the number of accident allocations (2.0 per cent per annum) – that is, more accident tows were performed with the same number of tow trucks.

Despite the noted shortcomings of this measure, it adds further support to the proposition that opportunities have continued to exist for productivity gains the accident towing industry – at least in the form of revenue growth from higher in accident tow volumes, which can enable greater utilisation of tow trucks.

[9] NERA Economic Consulting, Benchmarking Accident Towing Fees and Options for Annual Adjustment, April 2013, p. 34

Further, it is highly likely that the increasing trend in accident tow volumes will continue given traffic growth forecasts.[10] Provided accident towing operators can maintain service quality levels (e.g. arriving at accident locations within 30 minutes), an increasing number of accident allocations is likely to continue to be a source of opportunity for productivity gains through improved tow truck utilisation.

4.3 Comparison of productivity measures and indicators

We provide a brief comparison of a number of different productivity measures in this section, ranging from a specific measure to accident towing in the Melbourne Controlled Area (accident allocations per tow truck) to measures covering a broader range of industries within the transport sector. These are provided largely for context and to demonstrate the wide range of productivity estimates that can come from different measurements.

Importantly, none of these productivity measures are directly comparable to the 'X' in the 'CPI minus X' formula for accident towing fee adjustments. This is primarily because they use different definitions of inputs and outputs to measure productivity. As discussed in section 4.1, the productivity adjustment figure recommended by the Commission needs to take account of the nature of the 'CPI' from which it is being subtracted.

In the previous sections we outlined two different measures of productivity:

- change in turnover relative to total expenses (based on ATO performance benchmark data)
- change in accident tow volumes relative to change in number of licensed tow trucks

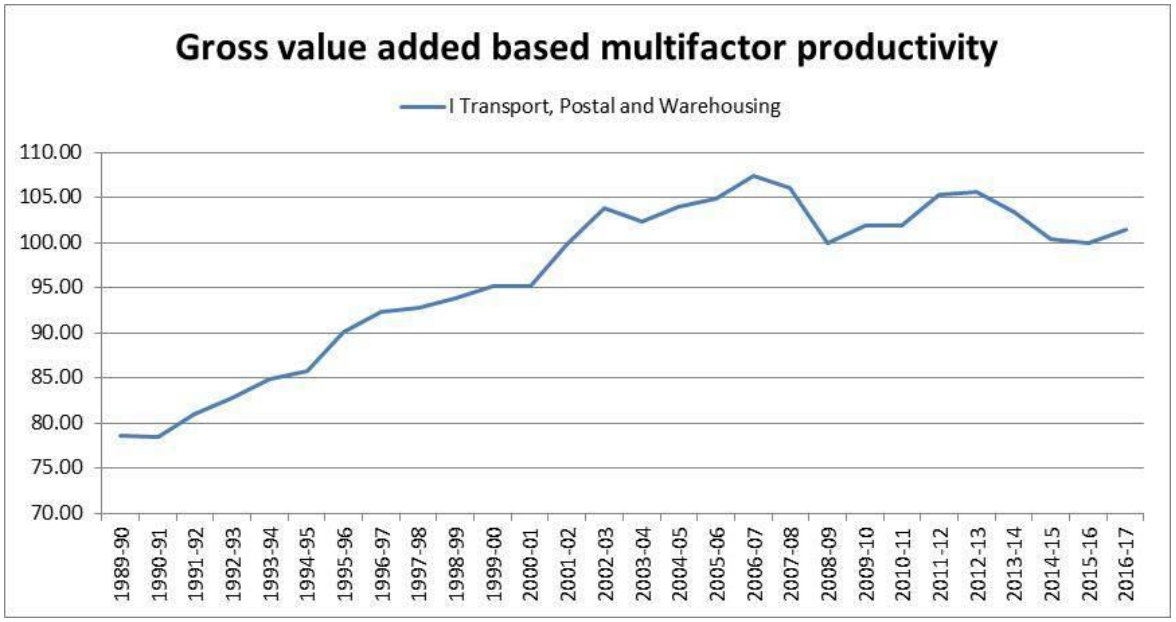
Another measure of productivity was analysed by NERA Economic Consulting in its advice to the Commission for its 2013 review of accident towing fees – multifactor productivity for the Transport, Postal and Warehousing Division as published by the Australian Bureau of Statistics (ABS). The NERA Economic Consulting report considered the ABS estimates of multifactor productivity for this division to be a reasonable proxy for the productivity for transport in Melbourne and the road freight industry, within which the accident towing industry falls.[11]

The ABS keeps historic records of this measure over a relatively long period of time, as shown in Figure 5. It can be seen that while productivity gains were consistently achieved by the division through the 1990s and into the early 2000s, productivity has been relatively volatile according to this measure in more recent years and has declined overall since the mid 2000s. It is unclear how well this measure of productivity reflects that of the accident towing industry in the Melbourne Controlled Area. However, we note it relates to a division covering a much broader range of industries than the productivity measures analysed in the previous sections.

[10] Infrastructure Victoria forecasts 3.5 million additional trips per day in Melbourne in 2030, with car trips accounting for 70 per cent of all journeys – *Infrastructure Victoria, April 2018, Five-year focus, Immediate actions to tackle congestion*

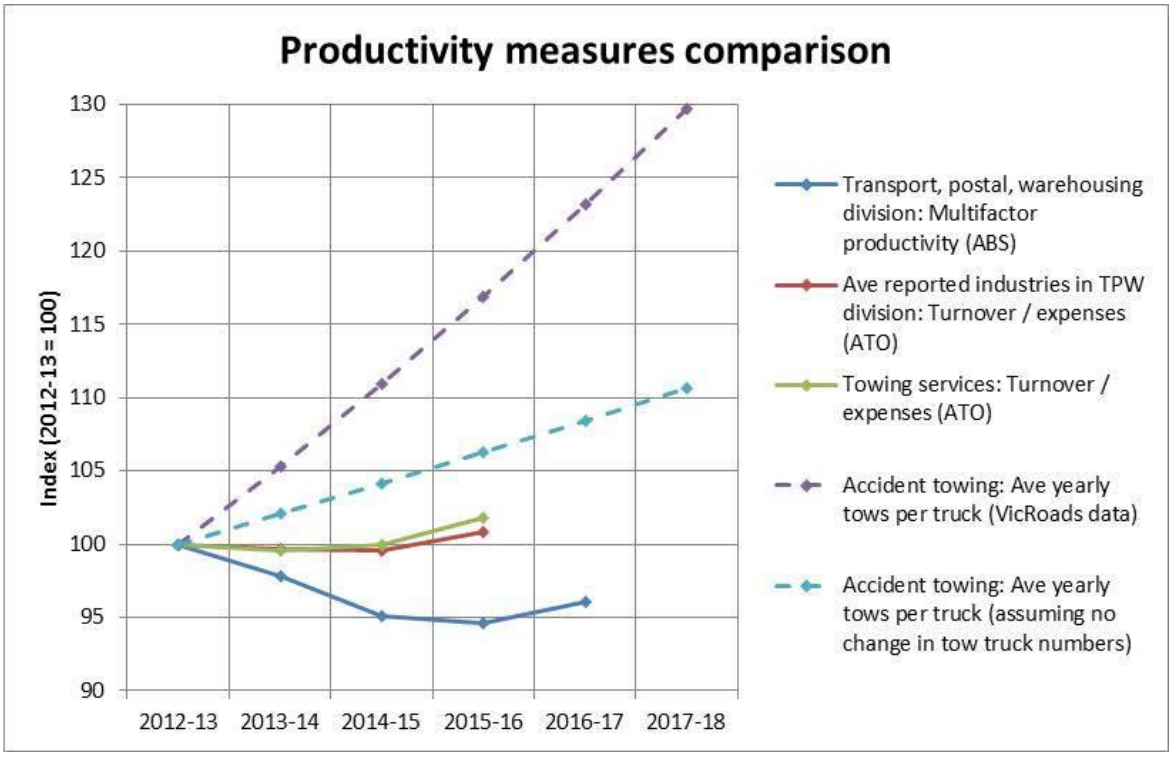
[11] NERA Economic Consulting, Benchmarking Accident Towing Fees and Options for Annual Adjustment, April 2013, p. 35

Figure 5: Historic trend in multifactor productivity for the Transport, Postal and Warehousing Division



Different measures of productivity, along with different levels of industry aggregation, can result in a wide range of productivity estimates. Figure 6 demonstrates this by showing a combined summary of the productivity measures analysed in this chapter using a common index over recent years.

Figure 6: Comparison of productivity measures



A further summary of each productivity measure is provided in Table 16, including the industries each measure includes, the measurement period and resulting productivity value.

Table 16: Summary of productivity measures analysed

Productivity measure	Industries included	Measurement period	Compound annual productivity growth	Source
Gross value added based multifactor productivity	Transport, postal & warehousing division (Australia)	2012-13 to 2016-17	-1.00%	ABS publication
Business turnover / total expenses	Towing, courier, delivery & road freight services (Australia)	2012-13 to 2015-16	0.26%	Analysis of ATO performance benchmarks
Business turnover / total expenses	Towing services (Australia)	2012-13 to 2015-16	0.58%	Analysis of ATO performance benchmarks
Annual accident tows per licensed tow truck	Accident towing (Melbourne Controlled Area)	2012 to 2017	5.34%	Analysis of VicRoads data
Annual accident tows per licensed tow truck*	Accident towing (Melbourne Controlled Area)	2012 to 2017	2.05%	Sensitivity test on VicRoads data*

** Assumes no change in the number of licensed tow trucks from 2012 to 2017*

None of the historical values of productivity measures in Table 16 can be directly translated into a recommendation for a suitable value of the productivity adjustment factor in the accident towing fee adjustment mechanism. This is primarily because each productivity measurement has a different way of measuring the change in inputs – none of which reflect the change in 'CPI' definition in the accident towing fee adjustment mechanism (being the Melbourne transport CPI excluding downward adjustments).

Arguably, assuming the Melbourne transport CPI is a good proxy for the costs of accident towing operators, the measure 'business turnover / total expenses' for towing services is possibly the most closely related measure to the productivity adjustment figure in the accident towing fee adjustment mechanism. This is because the input measure – total expenses – would most closely reflect the Melbourne transport CPI. However, this should be interpreted with appropriate consideration of the data on which it is based – covering the broader towing industry over a limited number of recent years reported by the ATO.

4.4 Summary and conclusions

The productivity adjustment applied in the annual adjustment mechanism for accident towing fees provides an incentive for accident towing operators to operate efficiently. The value of the productivity adjustment figure should reflect reasonable expectations of the potential for productivity gains of the accident towing industry operating in the Melbourne Controlled Area over the next four years.

It is important to note that achievement of 'productivity gains' in this context means outperformance of the relevant index as defined in the Act – the Melbourne transport CPI excluding downward adjustments. That is, to maintain profitability levels, operators must increase their revenue or decrease their costs relative to this 'CPI' definition.

The protection against downward fee adjustments makes the question of by how much accident towing operators should outperform the index challenging. In periods where the Melbourne transport CPI falls, it should be much easier for accident towing operators to outperform the 'CPI' definition as they can retain the associated decreases in their costs. Given this protection it seems reasonable that a productivity adjustment factor should apply to strengthen the incentive for firms to operate efficiently.

Our analysis of recent productivity indicators suggests the accident towing industry has achieved productivity gains in recent years, as supported by the following findings:

- Analysis of ATO performance benchmark data indicates the towing industry (including trade towing and firms throughout Australia) increased turnover relative to total expenses by 0.58 per cent per annum over the 2012-13 to 2015-16 period. On this measure, the towing industry outperformed the collective performance of the towing, courier, delivery and road freight transport industries (0.26 per cent compound annual growth).
- Analysis of VicRoads data indicates accident allocations grew by 2.0 per cent per annum between 2012 and 2017, while the number of tow trucks declined by 3.1 per cent.

Further, we expect an ongoing future source of potential productivity gains will be through continued increasing numbers of accident allocations in the Melbourne Controlled Area, enabling opportunities for improved tow truck utilisation. The historically increasing number of accident allocations is likely to be closely linked with traffic growth, which is forecast to continue as Melbourne's population and travel demand grows.[12]

Based on the available evidence we suggest it is reasonable to expect accident towing operators will have opportunities to achieve productivity gains over the next four years, and that applying productivity adjustment is reasonable given the protection of accident towing fees from downward adjustments. We leave the question of what the precise value of the productivity adjustment figure should be as a matter for the Commission's consideration and judgement.

[12] Infrastructure Victoria forecasts 3.5 million additional trips per day in Melbourne in 2030, with car trips accounting for 70 per cent of all journeys – *Infrastructure Victoria, April 2018, Five-year focus, Immediate actions to tackle congestion*

Appendix A Regulated fee comparison

Calculation / assumptions for comparator tow	Value	Source
Percentage of accidents outside 8am-5pm weekdays	57.2%	Analysis of VicRoads data
Percentage of accidents outside 7:30am-5pm weekdays (SA business hours)	55.3%	Analysis of VicRoads data
Total mins to service accident tow (allocation to completion)	74	Analysis of VicRoads data
Tow truck distance (including depot to accident)	18	ESC Review of accident towing regulation, Draft report, September 2015, pg 88
Accident to destination distance (km)	11	Assumption[13]
Average travel speed (km/hr)	35	Assumption
Tow truck travel time (mins)	31	Calculated from above
Working and waiting time (mins)	43	Calculated from above

[13] The Commission's 2015 review of accident towing regulation estimated a proximity based allocation scheme – where accident tows are allocated to the depot nearest the accident – could reduce the tow truck distance from 18 kilometres to 11 kilometres (*Essential Services Commission 2015, Accident towing regulation — Final Report, December, p. 86*). This suggests the average accident to destination distance is up to 11 kilometres.

Typical tow parameters	Melbourne Controlled Area	Sydney metropol-itan area	Queensland	South Australia
Tow truck distance (km)	18	18	18	18
Accident to destination distance (km)	11	11	11	11
Percentage of accidents outside business hours	57.2%	57.2%	57.2%	55.3%
Working and waiting time (mins)	43.1	43.1	43.1	43.1
Base fee charges				
Base fee (business hours)	$216.20	$261.80	$348.95	$345.00
Base fee (after hours surcharge)	$73.80	$52.36	-	$57.00
Weighted average base fee charge	$258.40	$291.74	$348.95	$376.50
Additional time charges				
Waiting/working time included in base fee	All	All	60	30
Additional waiting/working time charged for typical job (mins)	0.0	0.0	0.0	13.1
Hourly rate for additional time charged	-	-	-	$49.00
Additional charge for typical tow	$0.00	$0.00	$0.00	$10.73
Subtraction of storage fee allowance				
Assumed storage fee per day	-	-	$25.00	-
Days storage included in base fee	0	0	3	0
Storage to subtract from base fee	$0.00	$0.00	$75.00	$0.00
Distance charges				
Distance fee per km (business hours)	$3.40	$5.69	$6.90	$3.00
Distance fee per km (after hours)	$0.00	$1.14	$0.00	$1.00
Average distance fee per km	$3.40	$6.34	$6.90	$3.55
Distance measured from	Depot	Accident	Accident	Depot
Relevant distance (km)	18	11	11	18
Included km in base fee	8	10	50	20
Average distance charged for (km)	10	0	0	0
Distance charge for typical accident tow	$34.00	$0.00	$0.00	$0.00
Comparator fee for typical accident tow	$292.40	$298.09	$273.95	$387.23
Melbourne Controlled Area relative to other jurisdictions	-	-2%	7%	-24%

Appendix B Observations on the annual adjustment mechanism

Observations on the annual adjustment mechanism

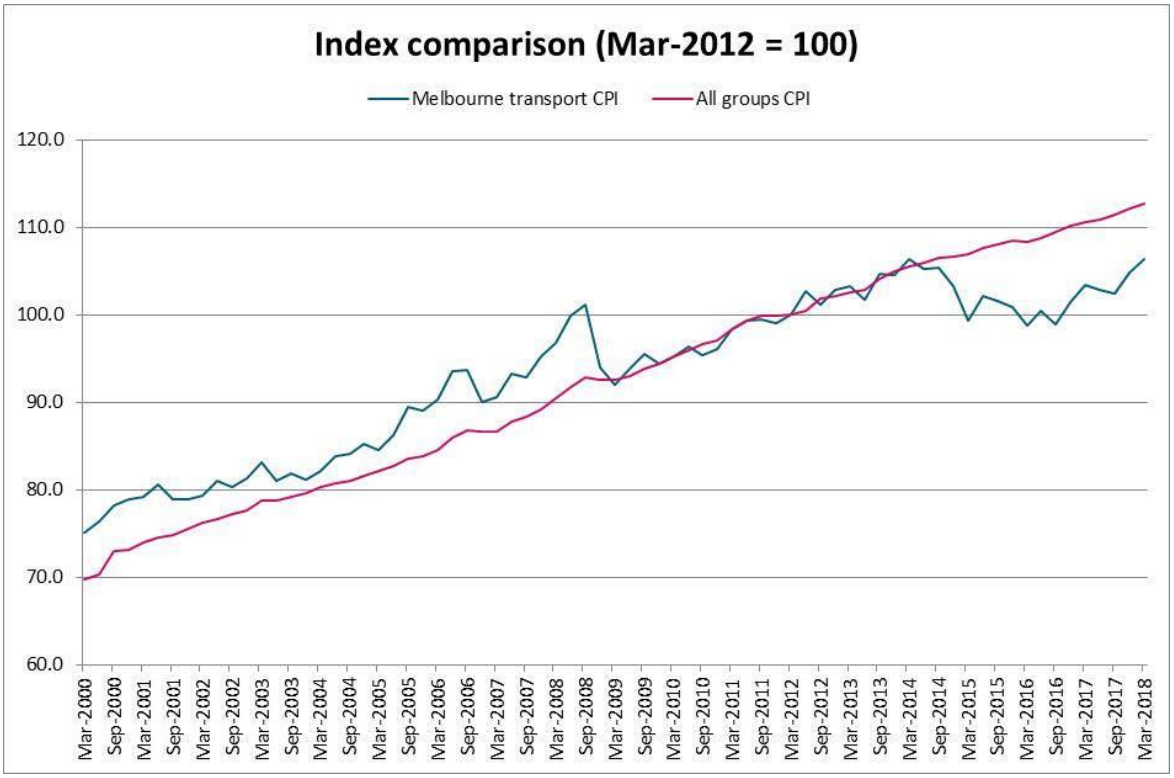
The annual adjustment mechanism for accident towing fees was included in the Act following a recommendation by the Commission in its 2010 report on accident towing and storage fees. However, there are differences between the mechanism specified in the Act and the Commission's recommendations that have led to the trajectory of accident towing fees taking a different course to what they would have under the Commission's recommended model.[14]

In its 2010 review, the Commission recommended the use of the Melbourne transport CPI in the adjustment mechanism as it considered this index to be a suitable proxy for the change in costs faced by the towing industry. The Commission also recommended the productivity adjustment factor be set at 0.5 per cent as it considered this reflected reasonable expectations of productivity improvements achievable by the industry – noting the factor was within the range of productivity benchmarks in other regulated industries, and that accident towing operators had recently achieved numerous efficiency gains through consolidation of depots and improved utilisation of tow trucks.

In recommending the use of the Melbourne transport CPI, the Commission highlighted concerns over the historic volatility of this index and the potential for volatility to have undesirable impacts on annual towing fee adjustments. As Figure 7 demonstrates by comparing the Melbourne transport CPI with the all groups CPI, the Melbourne transport CPI has continued to show volatility since Commission's 2010 review, particularly in the past four years.

[14] Moreover, the Commission recommended the adjustment mechanism be applied administratively rather than being legislated for in the Act *(Essential Services Commission, Review of Accident Towing and Storage Fees: Final Report – Volume 2: Detailed Reasons and Methodology, June 2010, p. 40)*

Figure 7: Index comparison

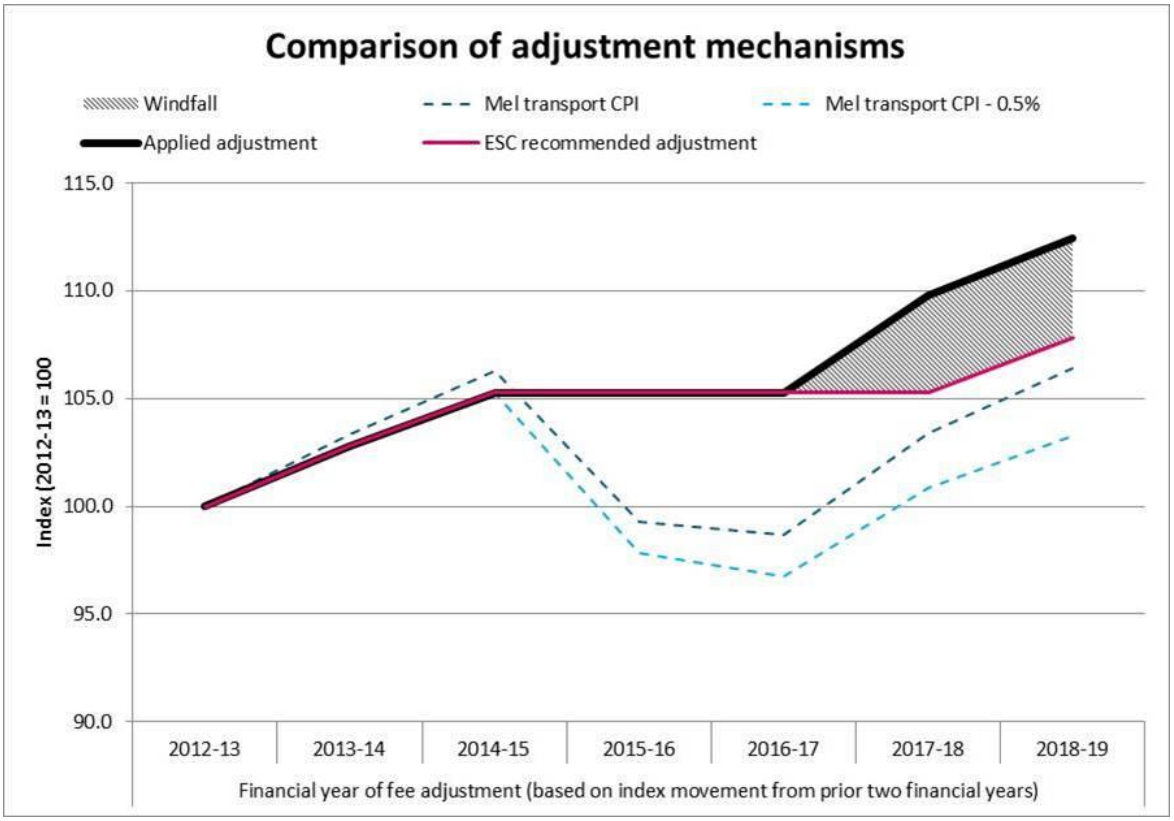


To address the volatility concern and provide for smoothing of annual adjustments the Commission recommended the adjustment mechanism incorporate a 'zero floor' – that is, fees should remain unchanged in a given year if the application of the CPI minus X formula would result in a fee reduction. To balance this protection against fee reductions, the Commission also recommended that in years after a zero floor is applied fees should not begin to rise again until the Melbourne transport CPI returned to its previous level.

However, the Act does not include the latter part of the Commission's recommendation – it incorporates the zero floor provision but in subsequent years fees can immediately rise again with rises in the Melbourne transport CPI, even if the index has not returned to previous levels. This definition of 'CPI' in the Act therefore effectively provides potential for sustained windfall gains in accident towing fees against movements in the index, as fees can incorporate rises in the index but do not incorporate its falls.

Indeed, as Figure 8 highlights, a windfall gain in accident towing fees relative to the Melbourne transport CPI occurred following falls in the index of 7.1 per cent and 1.1 per cent in the March 2015 and 2016 quarters, respectively. Accident towing fees remained frozen in 2015-16 and 2016-17 as a result. Then when the index subsequently rose by 4.8 per cent and 2.9 per cent in the March 2017 and 2018 quarters, accident towing fees were increased despite the index not yet returning to its previous levels. This resulted in accident towing fees outpacing the Melbourne transport CPI over the four year period.

Figure 8: Gain in accident towing fee adjustments above ESC's 2010 recommendation



Under the Commission's recommended adjustment mechanism, the average accident towing fee would have been $11.62 cheaper in 2017-18 ($280.79 instead of $292.40 based on average tow characteristics). This difference amounts to a windfall gain in revenue for the accident towing industry of approximately $600,000 per year based on recent accident towing demand.[15] That is not to necessarily say the 2017-18 accident towing fees are too high, rather it highlights the potential impacts of nuances in the adjustment mechanism.

The above analysis highlights there are some discrepancies between the aims of the adjustment mechanism recommended by the Commission in 2010 and the application of the adjustment mechanism specified in the Act – a result of the definition of 'CPI' in the Act.

The Commission's recommended adjustment mechanism aimed to:

- provide for accident towing fee adjustments to follow a cost index broadly representative of costs in the accident towing industry
- provide an incentive for the accident towing industry to outperform the index via a productivity adjustment factor

[15] Based on 51,793 accident tows – equivalent to the number of Melbourne Controlled Area accident tows in the 2017 calendar year

- limit volatility in fee adjustments by freezing fees if the adjustment formula would decrease fees, and only increasing fees once the index exceeded its previous level.

Despite the Commission's intention for the accident towing industry to outperform the Melbourne transport CPI, the application of the adjustment mechanism specified in the Act has resulted in accident towing fees rising by 9.8 per cent from 2012-13 to 2017-18, compared to a 3.4 per cent rise in the Melbourne transport CPI. This is predominantly a result of the Act not incorporating the Commission's recommendation for fee adjustments to remain frozen until the Transport CPI recovers.

It can also be seen, however, that even had the Commission's recommendation been adopted in full, accident towing fees would have risen by 5.3 per cent over the 2012-13 to 2017-18 period, still outpacing the Melbourne transport CPI rise of 3.4 per cent. In other words, despite the intended incentive for the accident towing industry to outperform the Melbourne transport CPI, accident towing fees would still have risen faster than the index under the Commission's recommendation. The reason for this is due to the condition upon which the resumption of fee increases depends under the Commission's recommendation. The Commission's recommendation was for fees to begin rising again once *the Melbourne transport CPI* returns to its previous level. This gives a different outcome than if the condition were to be based on recovery of *the Melbourne transport CPI minus the 0.5 per cent productivity adjustment*. After falls in the Melbourne transport CPI in the March 2015 and 2016 quarters (resulting in a price freeze in 2015-16 and 2016-17), the Melbourne Transport CPI recovered to its previous levels in the March 2018 quarter – meaning prices could rise again in 2018-19 under the Commission's recommended approach. However, if the condition was intended for recovery of the *Melbourne transport CPI minus 0.5 per cent*, this condition is still yet to be satisfied so prices would remain frozen into 2018-19. This can be seen in Figure 8 above, where the light blue dotted line representing the Melbourne transport CPI remains below its 2014-15 level.

With regards to the Commission's aim to limit volatility in accident towing fees, it is worth noting that further smoothing could be achieved with a minor adjustment to the CPI minus X formula. Currently the CPI component of the formula uses the March quarter values of the prior two financial years. That is, new fees are calculated as:

A x (B/C – X)

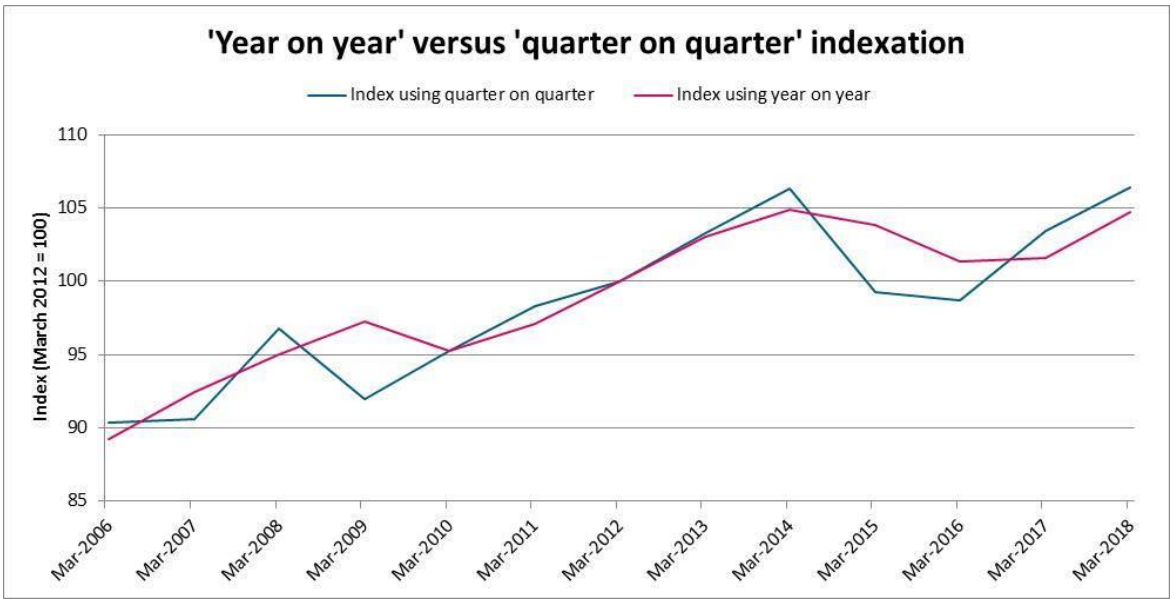
where –

- 'A' is the fee for the previous financial year
- 'B' is the most recent **March quarter value** of the Melbourne Transport CPI
- 'C' is the **March quarter value** of the Melbourne Transport CPI for the previous year
- 'X' is the productivity adjustment factor.

An alternative approach to using the March quarter values in this formula could be to use values equal to **the average of the four quarters to March**. This would be a 'year on year' calculation rather than a 'quarter on quarter' calculation. As the Melbourne transport CPI has demonstrated

relatively high levels of volatility especially from quarter to quarter, the year on year approach would provide for smoother fee adjustments, as can be seen in Figure 9. Less volatility would also dampen the potential for the zero floor provision to result in windfall gains in accident towing fees compared to the index.

Figure 9: Comparison of indexation using 'year on year' versus 'quarter on quarter' calculation



This analysis highlights the importance of the definition of the 'CPI' component of the adjustment mechanism and its impact on the trajectory of prices.