

Review of accident towing and storage fees 2018

Essential Services Commission

May 2018



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ABOUT VACC

The Victorian Automobile Chamber of Commerce (VACC) is Victoria's peak automotive industry association, representing the interests of more than 5,000 members in over 20 retail automotive sectors that employ over 50,000 Victorians.

VACC members range from new and used vehicle dealers (passenger, truck, commercial, motorcycles, recreational and farm machinery), repairers (mechanical, electrical, body and repair specialists, i.e. tow operators, radiators and engines), vehicle servicing (service stations, vehicle washing, rental, windscreens), parts and component wholesale/retail and distribution and aftermarket manufacture (i.e. specialist vehicle, parts or component modification and/or manufacture), and automotive dismantlers and recyclers.

In addition to VACC, its sister organisations – the Motor Trade Associations, represent the automotive industry for their respective states.

In respect to our towing operator division members, 95% of all Melbourne controlled area operators are VACC members.

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EXECUTIVE SUMMARY

Increased costs since the last review

Since 2013, the average leasing cost of premises where accident towing operators are located has increased from an average of \$90 per sq m to about \$120 per sq m for inner Melbourne and \$100 per sq m for outer Melbourne areas. As a result, storage fees are insufficient to recover the leasing costs let alone the administrative costs and loss of storage fee revenue arising from uncollected vehicles.

Increased traffic congestion across the Melbourne Controlled area has been well documented over the past several years and is likely to worsen with major infrastructure projects such as the Metro tunnel and the removal of 50 railway crossings. This has increased the average time of undertaking an accident tow. The VACC recommends that the ESC undertake a survey of accident towing operators to ascertain the average time it takes to undertake an accident tow.

Benchmarking

The VACC strongly recommends that the ESC adopt the New South Wales Independent Pricing and Regulatory Tribunal (IPART) methodology used in its *“Review of tow truck fees and licensing in NSW 2014”* for the setting of accident towing and storage fees.

IPART used a whole of business approach rather than allocating a share of the total towing costs to accident towing. This is in stark contrast to the ESC approach of estimating the towing costs that are attributable to accident towing vis-a-vis other forms of towing.

IPART benchmarked other types of towing and modelled the hourly cost of towing activities with different combinations of accident and trade tows, different business models and with different input costs. Importantly, IPART recognised the extent of utilisation of a tow truck affects the hourly cost and the amount that an operator must charge to recover their costs.

Further information needs to be collected to put benchmarked prices into perspective; namely the towing segment, the type of business model (owner-operator without business premises, operator with business premises including the size of the premises); whether the operator undertakes multiple tows with the same tow truck (e.g. dealerships, trade towing between body shops) size of tow truck fleet and average tow truck utilisation rates.

Storage Fees

In respect to storage fees, IPART assessed the cost of land and also took into consideration the utilisation of storage spaces for accident damaged motor vehicles. As a result, the difference in the daily rate for covered storage is currently \$6 and 40 percent more in Sydney than in Melbourne.

The ESC has not previously undertaken an assessment of land costs in respect to storage or the utilisation rate for storage space. The VACC would recommend that the leasing cost on a sq m basis should be used rather than historical land sale values. The leasing cost together with outgoings provides a more accurate reflection of the current costs associated with providing storage. The VACC provides detailed cost analysis that shows the storages rates need to be increased significantly to recover leasing costs, administrative costs associated with storage, storage fee losses from uncollected vehicles and a reasonable rate of return.

The VACC recommends that the ESC give consideration to adopting separate storage fees for inner and outer Melbourne suburbs as adopted in Sydney but retaining the covered and uncovered charges. On our calculations, the daily storage fees should be increased as follows:

- Inner Melbourne: covered storage \$29.48, uncovered storage \$17.81
- Outer Melbourne covered storage \$25.89, uncovered storage \$14.21

Motorcycle storage should be half of the aforementioned daily rates.

Productivity Adjustment Factor

There are several fundamental limitations with the productivity adjustment factor as prescribed in section 212H of the *Accident Towing Services Act 2007*. Firstly, accident towing in the Melbourne Controlled area is not a competitive market. The number of tow truck licences has been capped at 421 licences for almost forty years and each accident towing operator is limited to the allocation zone it has been given by VicRoads.

Secondly, the productivity adjustment factor needs to include the productivity gains and losses that have occurred across other key towing services that are provided by accident towing operators; specifically, the trade towing sector. Any increase or decrease in trade towing activities affects tow truck utilisation rates and the hourly cost to provide towing services.

Thirdly, accident towing is subject to greater regulatory barriers compared with the transport sector and this denies accident towing operators with the ability to improve processes and practices to reduce the hourly cost of accident towing. Specifically, the regulations prevent electronic authorisation to two documentation and double-tows.

The VACC also considers it is bit rich that Victorian Government regulatory fees are automatically subject to annual CPI increases without any requirement to deliver productivity improvements.

In view of these regulatory restrictions, the VACC strongly recommends that the productivity adjustment factor for accident towing and storage fees be removed from the CPI (Melbourne Transport) annual adjustment mechanism.

Basic Salvage

The ESC has dealt with this issue in its 2009 and 2013 reviews and recommended basic salvage charges should be regulated each time yet the responsible Minister has not adopted its recommendations.

Previous reviews have shown that the extent of excessive charging is minimal. In view of this, the VACC remains opposed to prescriptive price regulation unless the ESC can provide an evidence-based case that the transaction costs of challenging occasional disputes outweighs the benefits of the current regulatory regime.

1. Have there been any significant changes in the accident towing industry since our last review?

As the ESC is aware, accident towing operators also undertake trade towing, and while a considerable amount of trade towing has been mostly contracted, insurance companies have begun to contract secondary tows (from the depot to the smash repairer). For example, RACV has contracted a single towing company to undertake secondary tows from accident towing depots within the Melbourne Controlled area. As a result, the accident-towing market-share of trade towing has further declined. RACV has contracted Nationwide Towing for its breakdown towing for many years. Most trade towing (break-down, trade, clearance and stolen vehicles) is contracted to mostly non-accident towing operators. This has a significant impact on tow truck utilisation and the hourly cost for providing accident towing services.

2. How have the costs of accident towing operators changed since our last review? Can any significant cost changes be supported with material illustrating these changes?

The leasing cost of industrial buildings and land is usually valued on a per sq m basis and includes outgoings (council rates and water rates). In 2014, our survey of industrial areas where accident towing operators are located revealed an average leasing cost of \$90 per sq m across the Melbourne Controlled area. Our survey of industrial areas reveals an average leasing cost of \$120 per sq m for inner Melbourne and \$100 per sq m for outer Melbourne areas. As a result, storage fees are insufficient to recover the leasing costs let alone the administrative costs and loss of storage fee revenue arising from uncollected vehicles. We provide detailed cost analysis of the temporary storage of accident damaged vehicles in Question 5.

Increased traffic congestion across the Melbourne Controlled area has been well documented over the past several years and is likely to worsen with major infrastructure projects such as the Metro tunnel and the removal of 50 railway crossings. While accident towing operators have been able to meet the 30 minute response time, some of our members are already experiencing difficulties in arriving at the road accident scene within this prescribed time. The average time to conduct an accident tow that the ESC relied upon in past periodic reviews needs to be reviewed in light of the changes to Melbourne's traffic conditions. In view of this, the VACC recommends that the ESC should survey accident towing operators to ascertain the average time it takes them to complete an accident tow.

3. What are your views on our proposal to continue our benchmarking approach to review accident towing and storage fees?

The VACC strongly recommends that the ESC adopt the New South Wales Independent Pricing and Regulatory Tribunal (IPART) methodology used in its *“Review of tow truck fees and licensing in NSW 2014”* for the setting of accident towing and storage fees.

IPART’s methodology combined a cost of service approach supported by benchmarking.

IPART used a whole of business approach rather than allocating a share of the total towing costs to accident towing. This is in stark contrast to the ESC approach of estimating the towing costs attributable to accident towing vis-a-vis other forms of towing.

IPART benchmarked other types of towing and modelled the hourly cost of towing activities with different combinations of accident and trade tows, different business models and with different input costs. Importantly, IPART recognised the extent of utilisation of a tow truck affects the hourly cost and the amount that an operator must charge to recover their costs.

IPART undertook benchmarking with a survey of accident and non-accident towing services. Similar to the ESC benchmarking, the survey revealed a wide range of towing prices. However, unlike the ESC, IPART recognised that the extreme low and high ends reflected different business models and associated costs in the towing industry.

The previous benchmarking study simply collected prices from trade/breakdown towing operators and provided a wide range of prices. To understand the reasons for the wide range of prices, further information should have been collected to put the prices into perspective; namely the towing segment, the type of business model (owner-operator without business premises, operator with business premises including the size of the premises); whether the operator undertakes multiple tows with the same tow truck (e.g. dealerships, trade towing between body shops) size of tow truck fleet and average tow truck utilisation rates.

With this information, it is possible to understand the wide range of towing prices offered in the market and to also calculate the average hourly rate for different segments and business models.

4. Do you agree with the benchmarks we have previously used for the Melbourne accident towing industry? If not, what benchmarks would be more appropriate?

The VACC has no issue with benchmarking accident and non-accident towing in other markets. However, there is little to be gained from benchmarking unless the differences in pricing are clearly understood. To simply state the differences in fees between jurisdictions can be explained by the differences in cost structures, number of towing jobs per tow truck, opportunities for non-accident towing services, and regulatory and price setting arrangements is stating the obvious.

The ESC could also benchmark long-term car parking fees (e.g. storage centres) for the purposes of determining storage fees. However, if this is undertaken, the utilisation of car parking in these centres needs to be also collected to enable appropriate cost and revenue analysis.

5. Are the current accident towing and storage fees appropriate? If not, do you consider they should increase or decrease?

Storage fees have never reflected the actual costs associated with providing temporary storage of accident damaged motor vehicles. Property price increases over the past several years have further exacerbated the operating losses incurred by accident towing operators in providing temporary storage.

The storage fees need to take into account:

- leasing costs (including outgoings);
- administrative costs;
- storage fee losses from uncollected vehicles; and,
- a reasonable return.

IPART undertook analysis of storage costs in different areas of Sydney using data on land values from NSW Land and Property on small industrial sites and also benchmarked outdoor long-term parking. In addition, IPART took into account the utilisation of storage yards. IPART recommended a maximum storage fee of \$23 per day for inner-metro areas and \$12 per day for outer-metro areas; and half of this rate for the storage of motorcycles. These storage fees clearly took into account the different leasing costs across the Sydney metropolitan area.

TEMPORARY STORAGE FOR TOWING INDUSTRY - ACTUAL COSTS

IPART provided little background information and detail on its analysis and conclusions. In view of this, we provide the following information to assist the ESC to better understand the actual costs associated with providing temporary storage.

LOCATION & SIZE OF TOW TRUCK DEPOTS

Most tow truck operators, with the exception of several operators in inner –Melbourne, are located in industrial zone estates that provide suitable premises for their operations.

In 2014, the VACC mapped and measured each accident tow truck depot to determine the size of the premises and the building/yard configurations. Land Victoria's Land and Survey Spatial Information mapping (LASSI) was used in conjunction with Google satellite maps to undertake land measurements. There have been minimal depot changes since 2014 so these results are still relevant.

The key findings of this study revealed:

- the size of tow truck premises ranged from 450 to 9,900 sq m;
- an average depot size of 1,317 sq m;
- 19 or 49 percent of depots provided covered and uncovered car storage facilities;
- the uncovered areas in these premises accounted for 10% to 90% of the total area of the premises, with most accounting for about 50% of the total area.

INDUSTRIAL PREMISES – DEMAND AND SUPPLY CONSTRAINTS

Market conditions for industrial zones and regulation greatly restrict the ability of the accident towing operator to obtain the optimal size building and yard to meet their business operation and storage needs. As a result, many accident towing operators are more likely to have premises with some surplus space, and for some operators in inner Melbourne, barely enough space to provide adequate storage to support their average accident towing allocations.

The development and redevelopment of industrial estates generally involves factories without a yard (mostly buildings with 60% office and 40% factory space) other than large industrial sites > 20,000 sq m that are too large for accident towing operator storage needs. There are very few premises in industrial zones that have a building and yard, other than in well-established industrial estates. As a result, there are limited choices and limited supply of premises with a building and a yard.

As the ESC is aware, inner-Melbourne suburbs have fewer industrial zones, and local councils have become reluctant to approve an accident towing depot in other zones within their municipality.

Accident towing operators must work within an allocation zone determined by VicRoads and must obtain approval under the regulations from VicRoads to move a depot or transfer licences to depot located in another allocation zone. The probability of the latter occurring is extremely low for inner Melbourne allocation zones as VicRoads will not approve a transfer if the additional licences would result in a reduction in the number of allocations to other licensees in the area.

MOTOR VEHICLE STORAGE SPACE REQUIREMENTS

Most motor vehicles require about 15 sq m of space (to ensure accessibility at the front, rear and both sides of the vehicle for staff and also owners to safely retrieve personal belongings) and a minimum of 10 sq m of common road area to enable operators to maneuver a motor vehicle into and out of a designated parking bay. Accordingly, 25 sq m is required for each motor vehicle space.

Due to the monthly fluctuation in accident tows, the towing operator needs to ensure that they have appropriate storage capacity to meet peak periods of towing activity and to also factor in motor vehicles that stay at the depot longer than 7 days (such as uncollected motor vehicles). A sample of authorisation to tow documents were reviewed at a depot that revealed about 80 percent of accident tows require storage at the depot, with the average vehicle in storage for 6 days and 15 percent of vehicles remaining in storage for more than 7 days.

In view of this, operators need to plan to have sufficient storage capacity not just for the expected number of tows that translate into storage but also for peak periods and for vehicles that remain in storage for greater than 7 days.

For example, a tow operator that receives 500 allocations per annum would store 400 damaged vehicles per annum and require on a weekly basis, spaces for at least 10 motor vehicles (250 sq m), 4 additional spaces for peak periods of towing (100 sq m) and 4 spaces (100 sq m) for uncollected vehicles that tend to be in storage for more than 30 days. As a result, a minimum of 450 sq m would be required in this example.

WHAT COSTS SHOULD BE INCLUDED IN STORAGE?

For the purposes of allocating expenses, the leasing costs of the office, repair and maintenance workshop, loading bays for tow trucks and on-site parking lots for drivers, administrative staff and visitors as well as the common driveways at the front of the premises should be allocated to the base fee for undertaking an accident tow or any other towing activity such as secondary, trade and breakdown towing.

There are four cost components to providing temporary storage:

- The leasing costs for the covered area within the building that is set aside for car storage and all of the other outside area that is potentially used for temporary car storage is appropriate for cost allocation to the storage of damaged motor vehicles.
- Administrative support that is directly related to providing services associated with the storage of damaged motor vehicles.
- Bad debts related solely to outstanding storage fees.
- A reasonable rate of return. IPART used an operating profit margin of 10% based on ABS industry data.

LEASING COSTS PER SQ M

A survey of industrial zones across the areas where accident towing depots are located was conducted in 2014 and found an average lease cost of \$90 per sq m (including outgoings). A recent survey has found the average lease cost (including outgoings) has increased to \$120 per sq m for inner Melbourne and \$100 per sq m for outer Melbourne. For yards, the cost per sq m is estimated at \$55 per sq m for inner Melbourne and \$35 per sq m for outer Melbourne.

ADMINISTRATIVE COSTS

Accident towing operators provide a service to owners and insurers with the storage of accident damaged motor vehicles. Unlike the car parking industry that relies on automated ticketing, accident motor vehicle storage at a depot requires by regulation to be staffed.

The VACC has estimated about 30 minutes is required per stored vehicle to assist owners retrieve personal belongings, organise arrangements for a secondary tow with the owner/insurer, clean-up hazardous materials and prepare in accordance with regulation periodic written statements for the owner/insurer of outstanding storage fees and the preparation of paperwork for the disposal of uncollected vehicles. These tasks are discussed in detail on the following pages.

The average administrative cost is \$35 per vehicle stored.¹

In this case, \$70,000 salary ÷ 1672 hours = \$41.86 x 1.120 (salary on-costs) = \$46.88 x 1.5 (overheads) = \$70.32 hourly rate.

Many owners come to the depot after the accident to retrieve personal belongings. Depot staff provide assistance to owners to ensure that they do not injure themselves where the vehicle has been badly damaged (broken glass and sharp protrusions), and to also ensure that owners do not steal valuables from other damaged motor vehicles that still have personal belongings waiting to be collected. This usually takes on average about 15 minutes per vehicle.

Depot staff are also in contact by phone/email with the owner or the insurer to discuss arrangements for the vehicle to be towed to a smash repairer or an auction house where the damaged motor vehicle is written-off.

Depending on the size of storage capacity, other vehicles need to be moved when a vehicle that has been in storage for more than 7 days has become blocked by recently towed vehicles and cannot be retrieved without first moving other vehicles. Some operators use forklifts to maneuver vehicles.

Some motor vehicles continue to leak chemicals and fuel after they have been put into storage and appropriate clean-up of these hazardous substances is required from an occupational health and safety perspective as well as a public liability perspective for owners that come to the depot to collect personal belongings.

A significant administrative cost is related to the regulation of storage. Section 151 of the *Accident Towing Services Act 2007* requires the licence holder to provide the owner within 10 business days after the vehicle has been towed to the depot, written notice of the amount of storage charges owing, the daily storage rate and that the charges are continuing to accumulate. A subsequent written notice must be sent to the owner with the same information before the expiry of each period of 20 business days.

IPART did not include this as an administrative cost as it would appear that the NSW Tow Truck Act and Regulations do not require periodic written statements to the owner/insurer of the outstanding storage charges.

Most accident towing businesses prepare written notices after 3 days, 7 days and a final reminder after 30 days to expedite the process for the disposal of uncollected damaged vehicles and to recover some of the outstanding debt owed by the owner. Part 4.2 The Australian Consumer Law & Fair Trading Act 2012 specifically requires for vehicles valued less than \$1,000, the licence holder must provide written notice to the owner of its intention to dispose of the vehicle. After giving written

¹ This is based on the Department of Treasury & Finance's Victorian Guide to Regulation for determining the hourly cost of labour.

notice, the accident towing operator must retain the vehicle for a further 28 days. If the accident towing operator cannot contact the owner despite making attempts to notify them in writing, the operator has to wait 60 days before disposing of the vehicle.

For vehicles worth more than \$1,000, the accident towing operator must obtain a written search result from the Personal Properties Securities Register (PPSR) website by quoting the vehicle's chassis number and vehicle identification number (VIN). Depending on the outcome of the PPSR search result, the accident towing operator must give written notice of the intention to dispose of the vehicle to:

- the person who left the vehicle;
- anyone who has registered an interest in the vehicle on the PPSR;
- anyone else the accident towing operator is aware of who has (or claims to have) a proprietary or security interest in the vehicle; and,
- the owner or registered operator of the vehicle.

The accident towing operator can apply to VicRoads for a registered operator's details for a fee. The application must in the form of a statutory declaration, and must include:

- the accident towing operator's business name, address and ABN;
- the vehicle's last registration number (if available) and VIN;
- if the accident towing operator has given written notice of the intention to dispose of the vehicle to anyone, a copy of that notice;
- if the accident towing operator has applied to a court or VCAT, a copy of the application; and,
- If the accident towing operator has obtained a PPSR search result, a copy of that search.

After giving written notice of the intention to dispose, the accident towing operator must retain the vehicle for 28 days, after which the vehicle can be disposed if the person who left the vehicle has not collected the vehicle within the 28 days. If the accident towing operator cannot contact the owner despite making attempts to notify them in writing, the operator has to wait 180 days before disposing of the vehicle.

An accident towing operator cannot keep high-value uncollected vehicles for its own use. It can only dispose of them by public auction or private sale.

If the accident towing operator sells the vehicle at public auction, the auction must be advertised at least 7 days in advance or held over a period of least seven days (on-line auction). A public auction would be rarely used as a means of sale other than for a prestige vehicle.

If the accident towing operator sells the vehicle by private sale, it must:

- Give written notice to all of the people required;
- Reasonably believe that the best price could only be achieved by private sale; and,
- Take reasonable care to ensure that the vehicle is sold for the best price that can reasonably be obtained under the circumstances at the time of sale.

As can be seen, there is a reasonable amount of paperwork notifying owners of the outstanding storage charges and a considerable amount of paperwork that needs to be completed for uncollected vehicles that ultimately need to be disposed. This is part of the administrative support for damaged vehicle storage and this cost should be included in storage fees.

It is inappropriate from a policy perspective, for the estimated 20 percent of accident damaged vehicles that are towed to another destination (home or smash repairer) to have to incur the regulatory paperwork costs associated with Section 151 of the *Accident Towing Services Act 2007* and Part 4.2 The Australian Consumer Law & Fair Trading Act 2012.

There are several reasons for the risk management efforts exercised by accident towing operators in this process. Many accident towing operators do not have ample storage capacity and they need damaged vehicles in storage to be towed out of the yard to create space for incoming damaged vehicles on a weekly basis.

Secondly, accident towing operators seek to recover some of their costs through the disposal process for bad debts. Badly damaged vehicles are invariably sent to the wreckers and sold for about \$200. This does not recoup the outstanding debt that might be about \$300 for the tow and \$450 for one month of storage. This represents a loss of \$550 per vehicle. Where the wrecker is more than 30 minutes from the accident towing depot, the cost of the tow would almost outweigh the proceeds of the sale of the damaged vehicle to the wrecker. As a result, it is common to find uncollected damaged vehicles that have been legally disposed to the accident towing operator still in storage up to one year later. However, for accident towing operators whose storage capacity is limited, they will need to incur this additional loss to ensure there is adequate storage space for incoming accident damaged vehicles requiring temporary storage.

These costs should be incorporated into the storage fee and not the base fee. Owners/insurers that only receive towing services should not incur the associated administrative costs of storage.

BAD DEBTS ASSOCIATED TO OUTSTANDING STORAGE FEES

About 2% of stored vehicles result in owner abandonment of the vehicle and a bad debt. These vehicles have in excess of 30 days of storage fees and invariably the storage fees comprises most of the outstanding monies. This cost needs to be taken into consideration in calculating the storage fee. For a depot with 10 licences and about 1,200 accident allocations, 944 vehicles (80%) will return to the depot for temporary storage and 19 or 2% on average will be uncollected and disposed. 19 disposed vehicles with a loss of \$450 per vehicle in storage fees represents a total loss of \$8,550. This represents about 10% of total storage revenue.

STORAGE REQUIREMENTS

An accident towing operator needs at least twice as much storage as its weekly allocations. For example, if the depot receives an average of 18 allocations per week it will need at least 37 car spaces to cater for vehicles that are stored for longer than 7 days.

The additional storage space is required for above average weekly allocations, vehicles stored from 7 to 30 days and uncollected vehicles in storage for more than 30 days.

Based on sampled depot invoices, 83% of vehicles remain in storage less than 7 days, 15% of vehicles are stored from 7 to 30 days and 2% of vehicles (mostly uncollected) remain in storage for more than 30 days.

With this data, we can calculate the average storage requirements at a depot. We use a depot with 10 tow truck licences to demonstrate the storage requirements.

Storage requirements

10 licences x 118 allocations per annum	1,180 towing allocations
80%* or 944 of the 1,180 tows are placed in temporary storage at the depot.	
Avg weekly storage requirements is 18 vehicle spaces (944 vehicles ÷ 52 weeks) x 25 sq m	450 sq m
Weekly contingency for above average storage (20%)	90 sq m
Subtotal space required	540 sq m
Storage space used by vehicles stored from 7 to 30 days - 15% of vehicles (3 vehicles or 75 sq x 3 weeks)	225 sq m
2% of vehicles stored for 30 - 60 days	19 vehicles
or 1.6 vehicles (monthly average) x by 25 sq m = 40 sq m x 4 weeks	160 sq m
Total storage requirements	925 sq m or 37 vehicle spaces

*NB: A conservative estimate is applied and the figure may be as low as 50%

STORAGE UTILISATION RATES

The 37 vehicle spaces could generate 13,505 car parking days (37*365 days). Accident damaged vehicles are temporarily stored at the depot for 6 days on average. Accordingly, the allocated storage delivers 5,664 car parking days (944 vehicles x 6 days). This provides 42 percent utilisation of the 37 vehicle spaces. This is relatively close to the 45 percent utilisation rate determined by IPART.

This has a significant impact on cost of providing temporary storage. Using the current covered daily storage fee of \$15.09 ex GST, 100% utilisation would deliver \$203,790 per annum. However, with 42 percent utilisation, only \$85,470 revenue is possible. This revenue does not recoup the annual leasing costs @\$100 sq m (\$92,500) or @\$120 sq m (\$111,000) let alone the administrative costs, storage revenue losses from uncollected vehicles and a profit margin as discussed in the next section.

The depot needs to keep its projected storage requirements available at all times to meet its allocation entitlements. Accordingly, accident towing operators are unable to generate income from alternative sources for this storage and the low utilisation rate needs to be factored into the cost of providing temporary storage.

STORAGE COST ANALYSIS

Using the leasing cost data provided earlier it is now possible to calculate the covered and uncovered storage costs for inner and outer Melbourne using the same example.

Covered Storage Costs - Average Leasing cost of \$120 sq m

Leasing cost 925 sq m x 120 sq m	\$111,000
Administrative Cost \$35 x 944 vehicles	\$33,040
Subtotal	\$144,040
10% profit margin	\$14,404
Subtotal	\$158,444
Add storage losses on 2% of uncollected vehicles	\$8,550
Total	\$166,994

The total cost of \$166,994 ÷ 5,664 car storage days = **\$29.48 daily storage cost**

Covered Storage Costs - Average Leasing cost of \$100 sq m

Leasing cost 925 sq m x 100 sq m	\$92,500
Administrative Cost \$35 x 944 vehicles	\$33,040
Subtotal	\$125,540
10% profit margin	\$12,554
Subtotal	\$138,094
Add storage losses on 2% of uncollected vehicles	\$8,550
Total	\$146,664

The total cost of \$146,664 ÷ 5,664 car storage days = **\$25.89 daily storage cost**

Uncovered Storage Costs -Average Leasing cost of \$55 sq m

Leasing cost 925 sq m x 55 sq m	\$50,875
Administrative Cost \$35 x 944 vehicles	\$33,040
Subtotal	\$83,915
10% profit margin	\$8,391
Subtotal	\$92,306
Add storage losses on 2% of uncollected vehicles	\$8,550
Total	\$100,856

The total cost of \$100,856 ÷ 5,664 car storage days = **\$17.81 daily storage cost**

Uncovered storage Costs - Average Leasing cost of \$35 sq m

Leasing cost 925 sq m x 35 sq m	\$32,375
Administrative Cost \$35 x 944 vehicles	\$33,040
Subtotal	\$65,415
10% profit margin	\$6,541
Subtotal	\$71,956
Add storage losses on 2% of uncollected vehicles	\$8,550
Total	\$80,506

The total cost of \$80,506 ÷ 5,664 car storage days = **\$14.21 daily storage cost**

MOTORCYCLES

IPART recommended the daily storage fee for motorcycles to be half of the daily storage fee for motor vehicles. This would seem appropriate given that motorcycles take up less storage space. While 12.5 sq m (half of 25 sq m) may seem excessive, the vehicle removing the motorcycle still needs at least 10 sq m of common road space to undertake this task. The administrative costs, profit margin and storage losses for uncollected vehicles should also be borne by owners of motorcycles.

Accordingly, VACC recommends the daily storage fee should be half of the daily storage for cars.

CONCLUSIONS

For covered storage @\$120 per sq m accident towing operators achieve a 52% cost recovery with the current storage fee. The \$166,994 in costs outweigh the current revenue of \$85,470. For covered storage @\$100 per sq m, the cost recovery is 58%. The \$146,664 in costs outweigh the current revenue of \$85,470.

For uncovered storage @\$55 per sq m, accident towing operators achieve a 57% cost recovery with the current storage fee. The \$100,856 in costs outweigh the current revenue of \$57,659. For uncovered storage @\$35 per sq m, the cost recovery is 72%. The \$80,506 in costs also outweigh the current revenue of \$57,659.

It is clear that accident towing operators in inner Melbourne that are dependent solely on providing covered storage incur the greatest cost impact with the lowest cost recovery.

The daily storage costs are higher than the current NSW daily storage charges. This is primarily due to the apparent absence in NSW of the requirement to provide owners/insurers with periodic written statements for outstanding storage charges. In addition, since IPART's 2014 review, industrial property prices have increased beyond the \$120 per sq m yet the storage fees have remained at the recommended level of \$23 for inner Sydney. This is probably due to the slow implementation of IPART's recommendations. In which case, the daily storage fee should be greater than \$23 in Sydney.

6. What are your views on our proposal to review the productivity adjustment factor using the same methodology as the last review?

There are several fundamental limitations with the productivity adjustment factor as prescribed in section 212H of the *Accident Towing Services Act 2007*. Firstly, the ESC stated in its 2013 report that the "*productivity adjustment is intended to reflect the productivity incentives of competitive markets in the regulated fees.*" As the ESC is well aware, the Melbourne Controlled area is not a competitive market. The number of tow truck licences has been capped at 421 licences for almost

forty years and each accident towing operator is limited to the allocation zone it has been given by VicRoads.

Secondly, the productivity adjustment factor needs to include the productivity gains and losses that have occurred across other key towing services that are provided by accident towing operators; specifically, the trade towing sector. Any increase or decrease in trade towing activities affects tow truck utilisation rates and the hourly cost to provide towing services.

Thirdly, accident towing is subject to greater regulatory barriers compared with the transport sector and this by implication denies accident towing operators with the ability to improve processes and practices to reduce the hourly cost of accident towing.

Similar to the ESC, IPART considered various options for the annual adjustment mechanism, including the Victorian approach of using CPI-X and concluded that the CPI provided a reasonable estimate of the annual cost changes in the industry that took into account both changes in input costs and productivity.

In past periodic reviews, the ESC has used a simple but crude method to determine the productivity adjustment factor using the average change in revenue per tow truck after adjusting for increases in regulated fees.

A productivity adjustment factor needs to take into account the productivity of the accident towing industry that includes the average change in revenue that includes both accident and trade towing revenues per tow truck. This would provide a more accurate measurement of tow truck utilisation taking into account increases and decreases of accident and trade towing revenues.

Accident towing operators do not receive an equal share in the growth of accidents in the Melbourne Controlled area. Almost half of the 46 depots receive below average allocations. About 20 depots consistently receive below the average number of tows relative to their entitlements. This is due to the lower number of accident tows in their allocation zone. 12 of these depots receive up to 30 percent less than the average allocation and these depots account for 155 or 37% of tow truck licences.

Without robust data on trade towing revenue per tow truck, it is difficult to assess whether tow truck utilisation has increased or decreased. Any reduction in non-accident towing revenue will increase the hourly operating costs for accident towing.

7. Have there been any changes in the rate of productivity improvement in the industry since the last review?

Most of the productivity improvement in the accident towing industry prior to the previous review occurred as a result of depot consolidation. This was primarily due to the lower tow truck utilisation rate brought about by the affects of the deregulation of trade towing. The relatively flat growth in accident tows has not offset the loss of trade towing work despite the past two years where there has been an uptick in accident tows.

The type of productivity gains that the transport sector have experienced over the past decade such as the use of GPS tracking to monitor movement of trucks, fuel efficiency and driver behaviour, electronic communication systems, and technical improvements to the application of trucks has been denied to the accident towing sector due to the regulatory environment that it operates under.

The Accident Towing Act and Regulations are outdated and impede the adoption of the aforementioned technologies that have become common in the transport sector as well as the trade towing segment. The Accident Allocation Centre allocates towing jobs by telephone with no electronic communication or use of GPS. The authority to tow document that the tow truck driver and the owner/driver of the damaged motor vehicle are required to complete must be hand-written in triplicate carbon copy.

The traditional hook tow truck was only capable of towing one motor vehicle. Notwithstanding that most accident towing operators have replaced these tow trucks with flatbed tilt-tray trucks that are capable of loading one vehicle onto the truck and towing another vehicle from behind the truck, the Act and Regulations prohibit double-tows. As low as 50% percent of accident damaged vehicles are towed back to the operator's depot for temporary storage pending the insurer or owner's decision as to which smash repairer will undertake the repair of the vehicle. The regulations also require the approval of the transfer of licences to another depot and/or the relocation of the depot. The allocation rules impede the transfer of resources across the Melbourne Controlled area.

These regulatory impediments affect the business culture of the accident towing industry by stamping out innovative ideas and practices, and making operators less competitive in other segments of the towing industry. Most accident towing operators have lost significant market share of non-accident towing to the deregulated trade towing sector that operates without any of the regulatory constraints and impediments to the adoption of innovative processes and practices.

Even secondary tows (from the depot to the smash repairer or auction house) have become less common to be undertaken by the accident towing operator due to some insurers contracting a single tow operator to undertake these tows.

There is significant scope for productivity improvements that would help to lower the cost of accident towing that would benefit accident towing businesses and flow on to end users (insurers and motor vehicle owners) with lower accident towing fees. But until the Act and Regulations are amended there is very little opportunity to deliver productivity gains in the accident towing industry.

In view of these regulatory restrictions, the VACC strongly recommends that the productivity adjustment factor for accident towing and storage fees be removed from the CPI (Melbourne Transport) annual adjustment mechanism.

8. Should fees for basic salvage services be regulated? If so, what is an appropriate regulated price for basic salvage services?

The ESC has dealt with this issue in its 2009 and 2013 reviews and recommended basic salvage charges should be regulated each time yet the responsible Minister has not adopted its recommendations.

The ESC did not demonstrate the extent of excessive charging. It would seem based on the information provided by insurers that it occurs only occasionally. As noted in the 2013 report, *“the Suncorp Group stated prices being charged for salvage are, on the whole, reasonable and reflective of the work done. However, at times it has to challenge and negotiate charges it believes are excessive”*.

It would seem unreasonable to impose a regulated average fee that could potentially disadvantage most accident towing operators to address what appears to be a minor problem other than the occasional dispute.

The regulatory requirement to take photographs of the salvage operation provides the owner/insurer with the necessary evidence of the scale of the salvage work, and the likely time involved. This, combined with section 212I of the *Accident Towing Services Act 2007* that salvage charges are required to be reasonable, makes accident towing operators accountable, and ensures that excessive charging does not occur on a frequent basis.

Under section 212I, the factors that are relevant for determining what is reasonable charge include:

- the nature of the service provided;
- the day on which the service is provided;
- the time at the which the service is provided;
- any administration costs incurred in the provision of the service;
- the amount that would be charged for the provision of a similar service that is not an accident towing service; and
- 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.

The last dot point provides insurers with the leverage to firmly negotiate with an accident towing operator.

Given the variability in the nature of salvage operations, an average salvage fee would result in the under-recovery of costs for some operators and over-cost recovery for other operators. It is difficult to comprehend how this is a good outcome for accident towing operators and owners/insurers.

The VACC remains opposed to prescriptive price regulation unless the ESC can provide an evidence-based case that the transaction costs of challenging occasional disputes outweighs the benefits of the current regulatory regime.

9. Are there any unregulated storage or salvage services that should be subject to a regulated price?

The VACC is not aware of any other storage or salvage services that should be subject to a regulated price.